08-May-2024

Unisys Corp. (UIS)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Unisys Corporation First Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Michaela Pewarski, Vice President of Investor Relations. Please go ahead.

Michaela M. Pewarski
Vice President-Investor Relations, Unisys Corp.

Thank you, operator. Good morning, everyone. Thank you for joining us. Yesterday afternoon, Unisys released its first quarter financial results. I'm joined this morning to discuss those results by Peter Altabef, our Chair and CEO; Deb McCann, our CFO; and Mike Thomson, our President and COO, who will participate in the Q&A session. As a reminder, certain statements in today's conference call contain estimates and other forward-looking statements within the meaning of the securities laws. We caution listeners that the current expectations, assumptions and beliefs forming the basis for forward-looking statements include many factors that are beyond our ability to control or estimate precisely. This could cause results to differ materially from our expectations.

These items can also be found in the Forward-Looking Statements section of today's earnings release, furnished on Form 8-K and in our most recent Forms 10-K and 10-Q as filed with the SEC. We do not, by including this statement, assume any obligation to review or revise any particular forward-looking statements referenced herein in light of future events.

We will also be referring to certain non-GAAP financial measures such as non-GAAP operating profit or adjusted EBITDA that exclude certain items such as post-retirement expense, cost reduction activities and other expenses the company believes are not indicative of its ongoing operations as they may be unusual or non-recurring. We believe these measures provide a more complete understanding of our financial performance. However, they are not intended to be a substitute for GAAP. The non-GAAP measures have been reconciled to the related GAAP measures and we have provided reconciliations within the presentation. The slides accompanying today's presentation are available on our investor website.

And with that, I turn the call over to Peter.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thank you, Michaela. Good morning and thank you all for joining us to discuss the company's first quarter results. We had a solid start to the year with revenue and profits slightly ahead of expectations keeping us on track to meet our full year financial guidance and we are continuing to make progress towards our long-term cash flow objectives. Growing Ex-L&S Solutions and expanding our Ex-L&S gross margin are important elements of our strategy to enhance profitability and cash generation. We showed improvement on both fronts during this quarter.

Ex-L&S revenue grew 4% year-over-year and we expect growth to accelerate in the second half of the year as revenue ramps from Ex-L&S new business signed over the past several quarters and based on the accelerated cadence of project work in our pipeline. First quarter Ex-L&S gross margin expanded year-over-year as we continued to deliver on additional efficiencies while making near-term investments to achieve future delivery cost savings.

During the quarter, we saw continued momentum in new logo and next generation client signings, which is a positive signal of growing market demand for our solutions and bodes well for future Ex-L&S revenue growth and profitability. We also believe we have the potential to accelerate growth through offerings that expand our addressable markets such as Unisys Logistics Optimization.

In addition to improving Ex-L&S performance, increasing operational efficiency is another important element of enhancing our free cash flow. During the quarter, we continue to streamline our general and administrative costs and we are working towards a meaningful reduction in SG&A as a percentage of revenue over the next few years. Beginning next year, we also anticipate improving free cash flow conversion, in part as legal and environmental payments are expected to decline.

Looking more closely at first quarter client signings, total company TCV declined 1% and Ex-L&S TCV declined 20% year-on-year, primarily due to timing of the renewal schedule, given we had significantly more TCV up for renewal last year. Ex-L&S new business TCV which excludes renewals, was down 2% year-over-year, but with a favorable mix of projects that will contribute to revenue this year, particularly in the second half of this year. New logo TCV more than doubled in the first quarter on both the year-over-year and sequential basis.

New logos are expected to contribute more meaningfully to our 2024 new business signings. Adding new clients to our base is an important component for sustaining faster growth in the second half of the year and in future years by expanding our access to addressable IT spend and opportunities for expansion, new scope and cross-selling. Within our go-to-market processes, we are continuing to see efficiency gains in lead generation, scoping and proposals.

I'll now discuss a few examples of Ex-L&S new business wins we secured in the first quarter. In EMEA, we signed a large new logo contract integrating multiple segment offerings and including modern workplace and digital platforms and application solutions. This contract with a prominent UK infrastructure and construction company includes services such as device and experience management, service desk security and hybrid cloud. We also signed a new logo contract in the United States with a global B2B data storage provider for Digital Workplace Solutions. Our new client was seeking to consolidate multiple vendors to streamline operations and attain cost savings. This contract includes significant opportunity to expand its initial scope supporting internal employees, to services to support our clients' customers.

In CA&I, we signed an expansion with a large state government in the United States. We already provide digital identity and access management solutions for many of our clients' citizen facing services. This contract expands the offering to our clients' internal employees facilitating secure access to government records from any location.

Within ECS, we had application modernization wins with two existing clients in the financial sector. This included a contract with one of the largest global financial services companies in Latin America for the modernization of a loan servicing application running on our systems. We were also selected by one of the largest banks in EMEA to modernize a part of their core banking application layer. While this project is relatively small in scale, Unisys was selected over an incumbent and the win demonstrates the potential for our services to expand into our clients' application layers that surround our ECS platforms.

Turning now to an analysis of our pipeline. Total company pipeline grew 6% sequentially in the first quarter and 8% in Ex-L&S Solutions. Our clients are facing growing IT complexity, evolving cyber risks and pressure to adopt AI and deliver cost efficiencies and our solutions are well aligned to these goals.

Moving to a discussion of pipeline in our segments. In Digital Workplace Solutions, our pipeline was up 10% from the fourth quarter. We are continuing to see strong client interest in solutions that drive efficiencies such as device subscription services, where our pipeline grew more than 50% sequentially. Our device subscription services now typically include higher margin, modern workplace services related to managing device performance and technology stacks and leverage service data and analytics to optimize spend. We also saw a sequential increase in DWS pipeline related to field services, where we see an opportunity to drive incremental margin by increasing utilization rates as well as upsell and cross-sell opportunities. We're remaining committed to excellence in field services, while some of our competitors may be deprioritizing these solutions, we see an opportunity to gain share and increase margins in a consolidating market.

Managing servers and devices places us at the heart of an organization's IT operations and employee experience and it opens the door to numerous higher margin ancillary services aligned with our modern workplace portfolio.

In our Cloud, Applications & Infrastructure segment, our pipeline increased 6% sequentially. We're seeing clients continue to shift workloads into multi-cloud environments and new IT infrastructure as increasingly critical to the success of the broader enterprise. Our pipelines with public sector and financial clients both had double-digit sequential growth in the first quarter and we are having more strategic discussions with banking, education and state and local government clients about their IT road maps and AI adoption strategies. Clients in these sectors require technology service partners that not only offer a range of modern digital capabilities, but that have deep expertise within the systems they are transforming, the highly regulated environments in which they operate and the evolving security threats they face.

Our Specialized Services and Next-Gen Compute pipeline within the ECS segment was up 7% sequentially, with momentum strongest in specialized managed services that address technology skill gaps. In the first quarter, we continue to innovate in the travel and transportation market including within our suite of cargo industry solutions by improving the user interface in our cargo management system and adding functionality allowing airlines to advertise on our cargo portal reservation system, which now includes a marketplace used by freight forwarders to search and compare routes and pricing and by airlines to list their available routes and capacity.

During the quarter, we signed a new logo airline to our Cargo Portal. Our decades of innovating for the cargo industry and deep client relationships give us an advantage in scaling emerging offerings such as Unisys Logistics Optimization, our quantum and AI-infused industry solution for optimizing cargo capacity, inventory and routing. We're actively building out our go-to-market channels for this advanced industry solution and have already on-boarded sales and marketing leaders with deep industry expertise.

We will provide Unisys Logistics Optimization in several ways, including as a service in the cloud as well as natively integrated into AI ready servers sold by one of our largest alliance partners. We're encouraged by the value proposition Unisys Logistics Optimization can deliver for our clients. More broadly, artificial intelligence, including generative AI, continues to be front and center in most of our client conversations. Clients across our commercial, financial and public sectors are continuing to face pressures to formulate adoption strategies and detailed road maps. We have a wide portfolio of AI initiatives prioritizing projects that matter most to our clients, as well as capabilities to accelerate our own efficiency, effectiveness and performance.

During the quarter, we increased our data, AI and industry solution marketing and thought leadership to research, blogs, conference presentations and event panels to build awareness for our AI capabilities with clients, prospective clients, industry analysts and advisors and campus talent. One result of these efforts was our inclusion in Avasant's new RadarView for applied AI services.

Internally, we're continuing to invest in upskilling our global associates and expanding our adoption of AI capabilities across our company. At the end of the first quarter, 96% of associates had completed persona-based AI training. Providing all our associates with AI training, regardless of role is an example of our ongoing commitment to developing our associates. Our trailing 12-month voluntary attrition was 12.1% in the first quarter, down 430 basis points year-over-year.

In the first quarter, we launched an enhanced career pathing framework, which will provide more mobility and development opportunities for our associates while increasing visibility into our talent bench for better internal fulfillment. We also enhanced our early career program for attracting, training and retaining associates. This program strengthens demand planning, campus hiring, onboarding and training processes. We believe Unisys can provide our associates with a wealth of experiences and training and that supporting career development is a central tenet in our approach.

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

Debra McCann

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Peter, and good morning, everyone. Our discussion today will reference slides from the supplemental presentation posted on our website. I'll refer to revenue as reported and in constant currency, but with segment revenue growth discussed in constant currency only. I will also provide information Excluding License and Support revenue or Ex-L&S to allow investors to assess progress we are making outside the portion of ECS where revenue and profit recognition is tied to license renewal timing, which can be uneven year-to-year and between quarters.

As Peter discussed, the company has come a long way in transforming our portfolio building market awareness for our digital capabilities and opening up new addressable markets with innovations such as Unisys Logistics Optimization. Our profitability is moving in the right direction as well. We are maintaining our strong L&S gross margins, while improving Ex-L&S gross margins through delivery, efficiency and solution mix. We are also streamlining SG&A and working towards lower legal and environmental costs and payments beginning next year, which will improve free cash flow conversion going forward. Continuing to improve and execute in these areas will increase our ability to achieve enhanced cash flow generation.

Looking at our results in more detail, you can see on slide 4 of our presentation, total company revenue of $488 million was down 5.5% year-over-year and 7.1% in constant currency due to the expected cadence of L&S renewals over time. First quarter Ex-L&S revenue was $395 million, an increase of 4% and 3% in constant currency. As a reminder, components of Ex-L&S Solutions, are our Digital Workplace Solutions and our Cloud, Applications & Infrastructure segments in addition to Specialized Services and Next-Gen Compute Solutions within ECS and business process solutions reported within all other.

DWS revenue was $132 million or flat to the prior period. The fourth quarter of 2023 had a particularly high concentration of new business signings. We expect this segment to grow in the second half of the year as those contracts in our first quarter new logo signings begin to generate revenue. CA&I revenue was $129 million, an increase of 2.3%. Growth was led by our more modern, higher margin solutions, including application development, particularly in the US and Canada and within the public sector including higher education, where we have deep expertise.

ECS revenue was $147 million down 24.4% due to the timing of L&S renewals. This was better than we expected due to the slightly higher License and Support revenue than planned. Specialized Services and Next-Gen Compute solutions, which are our Ex-L&S Solutions in the ECS segment, grew 2.3%, led by specialized managed service growth with clients in Latin America. L&S revenue was $93 million in the quarter, which compares to the $75 million we had anticipated. Upside was due to a first quarter renewal signing that we had expected in the second quarter. Our full year guidance continues to assume $375 million of License and Support revenue, but with a more even distribution across quarters. Total company TCV declined 1% year-over-year, driven by a 20% decline in our Ex-L&S solutions largely due to renewal timing. This year, we have less TCV up for renewal. If we sign the renewals we expect to close this year, renewals will still be a headwind of nearly 30 percentage points to total TCV.

As Peter discussed, when excluding renewals, our new business TCV trends were solid. We signed a similar amount of new business TCV as we did in the first quarter of 2023 due to good momentum with new logos and more than 60% year-over-year growth in next-generation solutions new business TCV. We exited the quarter with a backlog of $2.8 billion, roughly flat year-over-year. Backlog declined approximately $200 million on a sequential basis, largely due to the seasonal nature of project work and the growing mix of next-generation solutions in our CA&I segment, which are generally shorter duration contracts. Trailing 12 months book to bill was 1.1 times for both the total company and for our Ex-L&S Solutions.

Moving to slide 5, first quarter gross profit was $136 million, representing a 27.9% gross margin. This compared to 30.8% in the prior year, with the decline resulting from lower L&S gross profit due to license renewal timing. This was partially offset by improved gross margin in our Ex-L&S Solutions. Ex-L&S gross profit was 18% compared to 13.8% a year ago, or an increase of 420 basis points. The improvement was primarily due to delivery cost savings and margin accretion from new business contracts. The quarter included a 140 basis point one-time benefit related to the resolution of a contractual dispute with a former client, for which we previously recognized a revenue reversal in the third quarter of 2023. This benefit impacts total company and Ex-L&S revenue and gross profit, but does not flow through segment results. DWS gross margin was 14.4% in the first quarter, a 250 basis point year-over-year improvement, reflecting results from ongoing cost initiatives. We continue to see significant long-term gross margin opportunity in the segment related to workforce management initiatives, incremental margins we are attaining on new business and utilization improvement in traditional solutions.

CA&I gross margin was 16.6% in the first quarter, an expansion of 360 basis points year-over-year. In CA&I, we have achieved significant savings on labor costs by leveraging internal and early career hires to backfill open roles and improve our labor pyramid. We have also continued to focus on building our standardized variable solution architectures, increasing automation and reducing contractor costs.

ECS gross margin was 57.8% in the first quarter, which compares to 66.7% in the prior year. The decline was fully attributable to lower L&S revenue compared to the first quarter of 2023. As a reminder, our L&S cost base will be fairly consistent in the short and medium term but the license portion of renewals is recognized in full upon renewal signings, which leads to fluctuations in our ECS gross margin. Lower gross profit from L&S Solutions was partially offset by a slight increase in gross margin from our SS&C solutions, primarily due to better labor utilization, our new business specialized managed service contracts.

Moving to slide 6, our first quarter non-GAAP operating profit margin was 7.1% or 5.7% after adjusting for the onetime benefit due to the resolution of a contractual dispute with a former client. This is above the expectation we provided on our prior call of a low-single digit margin in the first quarter. Much of this is due to L&S revenue and profit from higher License and Support revenue from the early contract signing I mentioned previously.

First quarter adjusted EBITDA was $65 million, representing an adjusted EBITDA margin of 13.4% compared to 19% in the prior-year period. The year-over-year, non-GAAP operating margin and adjusted EBITDA margin declines were due to the impact of License and Support renewal timing. GAAP operating expenses increased year-over-year, which included an increase in cost reduction and certain legal expenses which we adjust for in our non-GAAP operating margin. We are continuing to streamline our corporate operation and took several actions during the quarter to outsource certain corporate functions, consolidate real estate and centralize IT.

We had a net loss in the first quarter of $150 million or diluted loss per share of $2.18. This was almost exclusively due to a $132 million non-cash settlement loss we incurred related to a group annuity contract purchased in one of our US qualified, defined benefit plans. This transaction removed approximately $200 million in pension liabilities for a similar amount of plan assets. This compares to a net loss of $175 million in the first quarter of 2023, which included a non-cash settlement loss of $183 million related to a similar pension plan annuity purchase.

Neither annuity purchase had any impact on the company's cash balances. These annuity purchases are expected to reduce the volatility in our GAAP pension deficit and our projected future cash contributions. They also reduce the future costs of a full risk transfer of our US qualified defined benefit pension plans should we choose to do so as they lower the annuity purchase premium that is based on total liabilities. Looking ahead, we do not anticipate any additional annuity purchases for the remainder of 2024. First quarter adjusted net income was $3 million or $0.04 per share, compared to $35 million in the prior-year period or $0.51 per share.

Turning to slide 7, capital expenditures totaled approximately $20 million in the first quarter, relatively flat on a year-over-year basis. As a reminder, we have a capital-light strategy which is focused on limiting the capital intensity of the business and a portion of our capital expenditure are related to research and development for our technology platforms. First quarter free cash flow was $4 million, up from negative $8 million in the prior-year period. The improvement was mainly due to working capital dynamics, as well as lower international pension contributions, which are primarily based on pre-negotiated funding plans. Excluding environmental, certain legal and restructuring and other payments as well as post-retirement contributions. Our adjusted free cash flow was $17 million in the first quarter, similar to the $20 million of adjusted free cash flow in the prior-year period.

Moving to slide 8, our quarter end cash balances are $383 million compared to $388 million at year-end. Our net leverage ratio is 0.5 times, up slightly from 0.4 times at year-end. Including all defined benefit pension plans, our net leverage ratio is 3.3 times compared to 2.9 times at the end of 2023. The modest increase in net leverage was due to the impact of L&S renewal timing, resulting in a decline in our last 12 months adjusted EBITDA. Our liquidity is strong with no borrowings against our revolver and no major debt maturities until our $485 million senior secured notes come due in November 2027.

I will now provide an update on our global pension plans. Each year-end, we provide detailed estimated projections for our expected global pension cash contributions and GAAP deficit, which change based on factors such as financial market conditions, funding regulations and actuarial assumptions. Quarterly updates, as with this update, do not have the same level of detail. Based on market conditions, we estimate that cash contributions to our global pension plans for the five-year period beginning in 2024 are approximately $485 million, essentially unchanged from our 2023 year-end projections. Based on recent asset returns and discount rates, we estimate as of March 31, 2024, our global pension deficit has not changed materially from year-end 2023.

Turning to slide 9, I will now discuss our financial guidance ranges. We are reiterating our full year financial guidance ranges. We continue to expect total company revenue growth of negative 1.5% to positive 1.5% in constant currency and non-GAAP operating profit margin of 5.5% to 7.5%. Our revenue guidance range assumes growth in our Ex-L&S Solutions of approximately 1.5% to 5%, and L&S revenue of approximately $375 million. We also continue to expect approximately $10 million of positive free cash flow for the full year, which embeds the following assumptions. We expect capital expenditures of $90 million to $100 million for the full year in line with our Capex light strategy.

Net interest payments are expected to be approximately $20 million for the full year, and post-retirement contributions primarily in our international pension plans of approximately $20 million. We also continue to anticipate cash payments for environmental, certain legal matters and restructuring and other payments of $75 million to $80 million in total. Our elevated legal payments in 2023 and now 2024 are primarily related to a matter in which Unisys is the plaintiff and payments for certain legal matters are expected to decline beginning next year.

We also expect to see declines in environmental payments in the coming years, during which we also expect an approximate $30 million partial reimbursement of certain costs once cleanup work has been approved and finalized. Lastly, cash taxes are expected to be approximately $50 million for the year. On slide 10, you will find an overview of the potential economic benefit of our tax assets. The majority of our tax assets are in the United States and EMEA. Utilization of these tax assets this year and in future years is expected to limit the increase in our cash taxes, thereby improving our free cash flow conversion as we improve profitability in these geographies.

Looking at the second quarter, we expect relatively flat total company year-over-year revenue growth, which assumes License and Support revenue of approximately $90 million and Ex-L&S revenue of $385 million to $390 million. For our Ex-L&S Solutions, this implies the second quarter year-over-year decline of approximately 2%. The slight dip we expect exclusive to the second quarter is largely due to a stronger back half weighting in expected third-party components and project work. This means that our full year guidance ranges implies stronger Ex-L&S growth in the second half of the year. The pipeline in shorter cycle deals is solid and we have good visibility into a pickup in both DWS and CA&I revenues beginning later this quarter with the fourth quarter typically a seasonally strong quarter as budgets accelerate into year-end.

It is also important to note that 2023 included lower level of new logo signings, which are an important component of revenue growth. We have already signed meaningful new logo TCV in the first quarter, which are primarily larger managed service contracts that will largely begin to generate revenue in the third quarter. Finally, we expect the second quarter non-GAAP operating profit in the low-single digits, which is expected to be our lowest quarter of non-GAAP operating profit.

Thank you. I will now turn the call over to Peter for any closing remarks.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

Thank you, Deb. While we have shared a lot of information with you today, there are three important points I want to emphasize. First, we're continuing to improve performance of our Ex-L&S Solutions and the momentum in our new logo signings is an important sign that recognition for our portfolio is growing in the market. Second, we have a number of opportunities to accelerate our growth by building on the success we're achieving with higher margin solutions such as application development and modernization in CA&I and ECS, intelligent device refresh in DWS, and with newer quantum and AI-infused industry solutions such as Unisys Logistics Optimization. And third, we're on track to achieve our long-term targets and we're continuing to progress toward enhancing our free cash flow generation, especially as we expect to see declining environmental and legal payments and improved profitability in markets where we have significant tax assets.

With that, operator, you may open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Rod Bourgeois with DeepDive Equity Research.

Rod Bourgeois
Analyst, DeepDive Equity Research
Q

All right, guys. Good to connect here. Hey, it's encouraging to hear the update and the emphasis on lowering your environmental and legal costs. I wanted to see if you could elaborate on the potential magnitude of your plans to reduce those costs, especially as you move into 2025.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.
A

Yeah. Rod, this is Peter. Thanks very much for the question and thanks for attending the call. Deb kind of quantified both in part. On the legal side, I would say by far the most significant legal expense we've had is an ongoing lawsuit where we are the plaintiff and that is around IP defense work. And the trial date is not currently set, but we expect that in 2024. So we expect that those legal expenses, which do represent the predominant amount of our outside legal expenses, will basically tail off after 2024. So that's going to increase, the remaining cash allowance that we have going forward.

And then really two things on environmental, we have one environmental cleanup situation where the majority of our current and expected costs are being incurred in 2023 and 2024. So again, from a cash flow standpoint, we expect that not to be the case starting in 2025. And as Deb mentioned, it's actually going to reverse because we expect that we'll receive a partial reimbursement for that and the expenses that we're paying up to about $30 million. We're not sure exactly when that will happen, but we're thinking that may happen in 2026. So hope that helps, Rod.

Rod Bourgeois
Analyst, DeepDive Equity Research

Q

Yeah. Definitely helpful. And then I want to go back to L&S and the consumption volume in L&S climbed last year, are you seeing follow through on that trend in heightened L&S volumes? And I wonder if that contributed some upside to your expectations in the quarter that you just reported?

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. Rod, this is another great question. I'll defer to Mike on that one, but in general, you can – we have really been encouraged by L&S. As you will recall, we had more L&S revenue than we expected last year. We have a slight increase in L&S revenue this quarter versus expectations most of that was due to the timing of an L&S transaction but in addition, we have this consumption issue. So, Mike, thought about that, please.

Michael M. Thomson
President & Chief Operating Officer, Unisys Corp.

A

Sure. Thanks, Peter, and Rod, good to talk to you. As you know, I think over the course of the last several years, we've seen kind of increased consumption and just as a reminder, typically when we see early renewal, it's a byproduct of consumption, right, so the client is ultimately trying to extend their contractual life because the consumption is higher than anticipated. I would say, Rod, just in general, for our larger clients, we've seen fairly consistent increase for consumption basis and I can't think of a client over the course, at least of the last couple of years, that upon renewal, where we actually saw reductions in that. So I think it's been pretty consistent. I think it's pretty consistent in what's going on in the world today with just larger data elements out there and that having a knock-on impact to consumption, but again, fairly consistent over the last couple of years and the primary reason for early renewal.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. And just to follow-up on Mike's comment.

[indiscernible] (00:36:26)

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Just to follow-up on Mike's comment. Thanks, Deb. The last year, as I said, our L&S revenue was higher than expected and as we thought about that consumption question that you're asking, Rod, one of the things we did was take another hard look at the three years beginning this year where we had expected an average L&S revenue of about $360 million. We increased that to $370 million as an average for the three-year period, even in the face of a higher revenue number last year than we expected. For 2024, we're currently expecting about $375 million, so a little bit above the three-year average, but all of that is frankly very encouraging. Deb, I'm sorry I spoke over you.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

No, I was going to say similarly that we're still holding to that because Q1 was mostly a timing thing and we're holding to that $375 million for the year and the $370 million three-year average. That's all I can say.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Thanks.

Rod Bourgeois
Analyst, DeepDive Equity Research

Q

Thank you, guys.

Operator: Thank you. And the next question comes from Arun Seshadri with BNP Paribas.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Yes. Hi. Thanks for taking my questions. Just so, I guess, in terms of being able to quantify how much the legal and environmental payments would decline, I guess at this point, you're not willing to do that, but do you think it's more than a half reduction of that expense over the next couple of years.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

So this is Peter, if you're talking about external legal expense, obviously we have our own internal legal function and also talking about environmental. Deb, I don't know if we can quantify that. I would expect it, by the way, to be less than half. But, Deb, you may or may not be in a position to quantify that more than I just did.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Right. I think that's probably about right. We haven't given the exact quantification just because there are still some uncertain things, but that's probably in the ballpark.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Got it. Thanks.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

And one of the reasons we're bringing – yeah, one of the reasons, is a great question, one of the reasons we're bringing it up is because as we look at cash flow and as cash flow changes over time, one of the – if you will, things that we've had to deal with is that lawsuit where we're the plaintiff as well as those environmental costs. And so as those things fall away and decrease very significantly that just increases our cash flow without increasing revenue or business or without other cost initiatives, we're planning to do all three of those things. But losing that cash flow drain because of the lawsuit and because of environmental is almost automatic.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Got it. Thank you for that, Peter. And then just in terms of the two add-backs for adjusted EBITDA for this quarter, the other expense and net adjustment and the cost reduction, I think together they represented something like $24-million-or-so, is that how should we see that trend for the balance of the year?

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Deb, do you want to speak to that?

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Sure. So for the EBITDA add-backs, I think it's the Q1, I think is a little higher for the cost reduction. I don't think that should continue to be that high. And then for the other expense as well, there was something more of a one-time. So I think those are a little elevated but, we haven't given out those exact numbers, but I would say those two are higher than you would expect for the remainder of the year.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Got it. Thank you. And then, broadly in terms of the business itself, the Ex-L&S TCV was, I think, excluding renewals down about 2% and you're expecting more back half weighting in project revenue. So would you say that broadly speaking, what would you say is affecting it? Is it just a broader slowdown you think in terms of just customers taking a little bit longer or is it just all mechanical and related to renewals and just opportunities to actually convert – to convert into managed services? Just want to understand if there's any sort of change in sort of trend line you're seeing or this is all just mechanical and it's just the signings the lack of signings in 2023 and just the timing of managed services ramp in 2024. Thank you.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. That's a great question. Let me take the beginning of that and then turn it over to Mike for the second half of that question. We're really happy with the new business signings as well as the new business pipeline. So new business for us is extensions, it's expansions or new scope of existing clients and it's also new logo. And last year we did well on the expansion, extension and new scope work with existing clients, but one of the things we are very, very focused on is making sure that new logo component of that picks up and increasingly becomes a bigger part of our new business mix. That happened to do fairly well in the first quarter and we expect that to continue over the course of the year. So the negative 2% is really not significant one way or the other and largely due to timing. But the more important number is more than doubling, at least we think the more important number is the more than doubling of new logos. And we expect to have a very strong full year this year on new logos compared to last year. That, we think is a really good harbinger for our ability to, if you will, land and expand and create more and increasing revenue over time. Mike, over to you for more detail on that.

Michael M. Thomson
President & Chief Operating Officer, Unisys Corp.

A

Great. Thanks, Peter, and Arun, thanks for the for the question. I think Peter answered it pretty well, but I'll maybe just add a little bit of color there. For starters, not necessarily any negative trends that we're seeing, I do think you're right, Arun, that there is this – a little bit of a pause from a market perspective. I think you're seeing that in the industry certainly what we're seeing in general but I think it's a little bit more to do with the mechanics of the deal signing. The pipeline is extremely encouraging. As we've talked about, we have increased significantly our new logo signings year-on-year and sequential. We expect that new logo signing to continue to enhance throughout the year and that has kind of a knock-on impact, right, because the new logos being added give us another opportunity to expand and pick up the new scope. And we traditionally see that after our new logo signings so first it's the transition time to get to revenue, typically, if they're taking on work for incumbents, it's a three to six month to get to transition into revenue, which is why we're expecting some of the back half revenue improvements for the new logo signings that we had at the tail-end of last year. But again, very encouraged with market reception and looking forward to an accelerated back half, both in signings and picking up some growth in the business.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.
Q

Thanks very much.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.
A

Thank you.

Operator: Thank you. [Operator Instructions] And the next question comes from Anja Soderstrom with Sidoti.

Anja Soderstrom
Analyst, Sidoti & Co. LLC
Q

Hi. Thanks. Thank you for taking my questions. Some of them have been addressed already, but have you – given any sort of targets for the gross margins for the new businesses, the workforce solutions and the CA&I?

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.
A

Yeah, thanks, this is Peter. Great question again, I'll defer actually to Deb on this one, after I do a little start to that. When we rolled out our multiyear plan last year, one of the things that we stressed and you just hit on it is really an expansion of gross margin and that's really going to come in two ways. One is where we expect the gross margin dollars to expand because we expect growth in, if you will, in Ex-L&S business and the second, because we expect that business to become more profitable. We're very encouraged by what we saw this quarter with that business becoming more profitable, specifically on the majority of that business, which is in DWS and within CA&I.

The second element of that, which is also important, and it's a little bit like the decreasing amount that we expect on the external legal fees and on the environmental. Some of this stuff is again built into our model, which we showed last year, but relatively automatic and that what I mean by that is as that business grows, it has more profit dollars, and as that business becomes more profitable so there are more profit dollars per revenue, the majority of that revenue is in the US and Canada and in EMEA, at least historically. In fact, we have 77% of our revenue in those two areas. And as you look at our tax situation and Deb referred to our tax asset, we have very significant net loss carryforwards in both the US and Canada and in certain countries in EMEA. That is also detailed in a chart in the materials that we provided you. So not only do we expect that profitability of the business increase, but as we think about modeling and we do not expect to pay typical, if you will, cash taxes on that increased profit because of the value of our NOLs and so we think that again, it's relatively automatic because those NOLs exist, so we expect that to help us as well in the model going forward.

Deb, any further comments on that?

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

No, I just think, I think, Anja, you had asked also about the target, have we given an explicit gross margin target? I think you had maybe mentioned, I think we haven't given specifically by the segments, but we did say overall Ex-L&S about 150 to 200 basis points this year is what we're saying. And I think you're seeing the progress of that with, this quarter DWS margin up 250 basis points and CA&I at 360 basis points. So all of the cost actions we're taking within those businesses are definitely taking hold and we're showing progress.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Okay. Thank you.

Michael M. Thomson
President & Chief Operating Officer, Unisys Corp.

A

Hey, Anja, if I could just to tie on to Deb's point, if you recall from Investor Day, we had talked about a targeted gross margin in our next-gen solution being in the 25% range. And so, I think if you're looking from a modeling perspective, of course, we have internal targets for all of our solutions as we take them to market. But I think that's probably, A, we've already given it, and B, fairly consistent in that range at approximately 25% gross margin on the next-gen solutions, consistent with what we talked about in Investor Day.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Okay. Thank you. That was all from me.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

A

Thank you, Anja.

Operator: Thank you. And this concludes our question-and-answer session. I would like to turn the conference back over to Peter Altabef for any closing comments.

Peter A. Altabef
Chair & Chief Executive Officer, Unisys Corp.

Thanks very much, operator. And I'd like to thank everybody for joining us. As I hope that Deb and Mike and I made clear in both the opening remarks that Deb and I gave and as well as the Q&A responses. We are – we thought this was a good quarter. We're slightly ahead of expectations on revenue and profit. We're making very substantial headway in new logo TCV and we are reaffirming our guidance for the year. You'll find more information about the company on our investor website. We actively encourage questions from our investor base. We had a shareholder meeting that was taped a little while ago and that is available as well for your review. For those of you who are not able to do it, I did a company report during that of 2023 performance.

So with that, I want to thank everyone for joining us and look forward to the next call.

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