06-Aug-2024

# Unisys Corp. (UIS)

## Q2 2024 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to the Unisys Corporation Second Quarter 2024 Financial Results and Conference Call. All participants will be in 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 second 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 our 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 statement 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.

With that, I'd like to turn the call over to Peter.

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### Peter A. Altabef

*Chair & Chief Executive Officer, Unisys Corp.*

Thank you, Michaela. Good morning and thank you for joining us to discuss the company's second quarter results. It was another solid quarter for the company and we remain on track to achieve our full-year guidance ranges for both revenue growth and profitability. The second quarter adds to our track record of executing the strategy we presented at our June 2023 Investor Day. The impact of our portfolio transformation and initiatives in sales and marketing, delivery and associated development are becoming increasingly evident in our signings, pipeline quality and delivery efficiency.

In the first-half of the year, we have signed more than three times the new logo TCV signed in all of last year, a positive signal of awareness and demand for our solutions in the market. Second quarter also demonstrates a clear positive trajectory on our Ex-L&S gross margin, where expansion has been substantial and broad-based. Our first-half Ex-L&S gross margin of 18.4% is a 350-basis point improvement over the prior year that gives us a pathway to a non-GAAP operating margin above the midpoint of our guidance. We are well-positioned to accelerate our progress next year when the new logos we have signed in the first-half of this year and our signing in the third quarter will begin generating margin-accretive revenue. In addition, we anticipate new scope and expansion opportunities with these clients in the coming quarters. For next year, we also expect continued delivery efficiencies, lower legal and environmental payments and increasing benefit from our SG&A initiatives, all of which will benefit cash generation.

Looking more closely at second quarter client signings, total company TCV increased 25% sequentially and 19% year-over-year. Excluding License and Support, TCV was up 35% from last quarter and up 10% year-over-year. The strength in Ex-L&S signings is a result of continued new business momentum. We signed 17% more new business than the prior quarter and 64% more new business than the prior-year period. New business growth was driven by a more than doubling of new logo TCV on both a sequential and year-over-year basis. Growth in new business signings was strong in both our CA&I and DWS segments.

In DWS, many of our new business signings have a combination of traditional and Modern Workplace solutions, validating our belief that focusing on excellence in the mission-critical capabilities clients need is a pathway to securing more revenue at attractive blended margins.

In CA&I, clients are turning to Unisys for our end-to-end expertise in transforming, running and securely increasingly complex IT estates across multiple cloud environments. We're also seeing a much higher mix of cross-segment solutions in our new business signings, proving the strength in our strategy to provide integrated mission-critical offerings. For example, we were engaged by one of the world's largest private trading groups to provide IT support to their approximately 55,000 employees, managed their hybrid infrastructure across data centers and cloud environments and provide security and network managed services.

We also had a large new logo signing with a public sector client in Australia, including both DWS and CA&I Solutions. As part of this agreement, Unisys will help this government agency integrate new technologies and support its approximately 6,000 end users with solutions and services in communications and collaboration, security and compliance. So far in the third quarter, we have seen continued momentum in our new business signings with both existing clients and new logos.

Turning to a discussion of our pipeline, we exited the quarter with a robust pipeline and our opportunities are better aligned to our portfolio as a result of an increased emphasis on pipeline quality, which has led to improved new business win rates this year. New business pipeline with existing clients, which consists of new scope and expansion, is up 7% sequentially. Our overall pipeline declined 7% quarter-over-quarter, driven by a combination of the timing of our Ex-L&S renewal schedule, strong conversion of new logo opportunities and some normal pipeline fluctuation. In the third quarter, we're seeing a good inflow of new opportunities and are pleased with the size, solution mix, margin profile and winnability of our pipeline.

In Digital Workplace Solutions, we had strong growth in new scope opportunities in Modern Workplace solutions such as unified endpoint management and device subscription services, which typically includes intelligent PC refresh that optimizes hardware spend within an OpEx model. During the quarter, we also signed several framework agreements for DWS field services, which put in place contractual terms to serve future demand with speed and agility and will create future pipeline as that demand materializes.

In Cloud, Applications & Infrastructure Solutions, we continue to see increasing demand in our higher margin digital platforms and application solutions in both the public sector and in public and private higher education. Many of these clients will need to invest to adopt emerging technologies, modernize administrative functions and provide a digital experience for residents, students and employees. We have built specialized public sector software partnerships with Unisys providing implementation and customization on the front-end and typically providing a recurring managed service on the back-end. This model has been successful with our partner, Clarity, which provides permitting and licensing software. We also have four new public sector software and technology partners in areas such as health and human services.

In child welfare information systems, we have already built a pipeline of more than $100 million in opportunities to modernize these platforms for several large US states. In specialized services and next-gen compute within our ECS segment, new business pipeline grew more than 20% sequentially driven by growth in financial services and the public sector, including a number of new application expansion opportunities.

Clients in every sector and region are continuing to focus on AI, both generative and traditional and there is broad interest in AI-enabled solutions with enhanced services. First, we're seeing new opportunities in AI-related consulting across our business. For example, we are working with a global food processing client to enhance their data inputs and engineering to increase the value of an AI application already in production. As another example, we're advising a technology, media and telecom client to leverage multiple large language models to enable dynamic ad generation for target audiences. The second area of AI-related growth is in data services, which is the fuel of artificial intelligence. We're seeing growing demand for services and solutions relating to migrating, transforming and managing data within a cohesive data layer as well as delivering actionable data insights. For example, Unisys will leverage generative AI and machine learning to help one of the world's premier quick-service restaurants analyze service data. We will utilize inputs from all restaurant technology, including point-of-sale, ordering kiosks, visual displays and automated kitchen equipment to identify and prioritize process, technology and behavior changes to improve restaurant operations.

A third area of opportunity is providing managed services, supporting maintenance and optimization of AI platforms and application. This includes multi-cloud application and security managed services, AI ops and data center management. For example, Unisys is providing field services to help a client in the technology sector with the relocation of their data centers in North America. Finally, there is delivery of AI-enabled solutions, which are beginning to take shape through AI-enabled platforms and applications, infusing AI into existing solutions and through tools and accelerators to speed, model tuning and AI development. For instance, within a digital transformation project with a leading provider of automated test equipment, we were able to modernize 90 enterprise applications in half the time by infusing AI into every facet of the project, including co-generation, design, development and testing.

I now want to spend a few minutes discussing innovation within our segments, specifically Enterprise Computing Solutions. More than half of ECS revenue and profit is license and support, which is primarily related to our ClearPath Forward operating systems for secure, high-volume transaction processing in sectors such as financial services, health and life sciences, public sector and travel and transportation. Our systems are typically embedded within complex client IT environments consisting of hybrid infrastructure, data and application layers. While this makes our technology relatively sticky, it is also dynamic and we devote capital engineering resources to continually strengthen our platforms. For example, we rolled out a new generation of our software this quarter to increase transaction speed and security. The remainder of ECS revenue and profit consists of our Specialized Services and Next-Generation Compute Solutions or SS&C, which include specialized services supporting the use of our platforms and our portfolio of industry applications and services, including in areas such as cargo management, retail banking and mortgage processing. Our expertise positions us to meet growing demand for application expansion services by providing engineering and integration capabilities needed to modernize application layers by infusing new digital capabilities. In the second quarter, we enhanced our application expansion services by partnering with a leading provider of retail banking point solutions. Unisys will custom engineer our partner's digital products for clients in Europe and Latin America to enable digital retail banking experiences for their customers.

We also continue to see a compelling opportunity to leverage our expertise to develop new industry solutions that utilize AI and hybrid computing platform capabilities such as quantum annealing. Our next-generation SS&C industry solutions within ECS are accessible on multiple platforms, including public and private clouds. Unisys Logistics Optimization is now in production at our first client. We have also rolled out a design portal we developed to speed prototyping, market validation and testing of new features. Finally, our OEM partner, Dell, has a validated design integrating Unisys Logistics Optimization into their AI-ready server.

We are also continuing to advance our productivity and workforce management foundation where we made important progress during the quarter. Our AI-powered HR talent marketplace is now available globally to all associates and is already increasing internal mobility. We are redesigning our drive architectures to provide associates with a clearer path to continued investment. These initiatives will enhance our workforce management capabilities while providing associates with better access to the multitude of opportunities that are being created by our new business signings.

During the quarter, we published our 2023 Sustainability Report, which outlines our progress and milestones achieved in our ongoing commitment to sustainability. This includes our approach to real estate and energy consumption, business continuity, ethical and responsible use of AI and the well-being of our associates. Our trailing 12-month voluntary attrition remains very low at 12%, which compares to 14.4% a year ago and we believe reflects our ongoing commitment to fostering a workplace with opportunities to develop and advance.

With that, I will turn the call over to Deb to discuss our second quarter financials in more detail.

**Debra McCann**

*Executive Vice President & Chief Financial Officer, Unisys Corp.*

Thank you, Peter, and good morning, everyone. As a reminder, my discussion today will reference slides from the supplemental presentation posted on our website. I will refer to revenue growth as reported and in constant currency and segment revenue growth in constant currency only. I will also provide information Excluding License and Support revenue or Ex-L&S, to allow investors to assess the 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, we are pleased with our financial results and our momentum in new business signings, which are up 25% year-over-year for the first-half. New business strength has continued so far in the third quarter and we are well-positioned to benefit from growing demand for AI-enabled solutions and the services and solutions that support AI workloads. The expansion in our Ex-L&S gross margin gives us a line-of-sight to a non-GAAP operating margin above the midpoint of our guidance range and we are executing our delivery and SG&A initiatives, which contribute to profitability. Also in 2025 and 2026, our cash conversion is expected to improve as environmental, legal and restructuring payments declined compared to 2023.

Looking at our results in more detail, you can see on slide 4 that second quarter revenue was $478 million, an increase of 0.3% year-over-year and 0.5% in constant currency. Second quarter Ex-L&S revenue was slightly better than anticipated at $396 million flat year-end in constant currency, which was slightly better than expected, driven by the performance of our DWS segment. Year-to-date, total company revenue is $966 million, down 2.7% year-over-year and down 3.5% in constant currency due to License and Support renewal timing. Excluding License and Support, our revenue was up 2% and up 1.5% in constant currency in the first-half.

I will now discuss our segment results referring to constant currency growth rates for revenue. Digital Workplace Solutions revenue was $132 million, a 2.2% decline compared to the prior-year period. The decline was more modest than anticipated at the start of the quarter due to higher discretionary volume. We remain confident in the second-half growth trajectory in DWS. DWS new business TCV in the first-half was up more than 60% compared to the first-half of 2023, with a much higher ratio of recurring managed services in our new logo signings. We are confident the segment will generate sequential growth in the back-half as these new logos begin generating revenue, which will also benefit 2025 given their long-term nature.

CA&I revenue was $134 million, an increase of 1.3% compared to the prior-year period, driven by growth in Hybrid Infrastructure & Infrastructure-as-a Service across all regions and particularly in the United States and Canada. ECS revenue was $138 million, an increase of 2.5%, including 3.3% constant currency growth in assets and fee solutions, which was driven by specialized services growth with clients in the financial sector. License and Support revenue within the ECS segment was $82 million, an increase of 2.1% in constant currency. This was below the $90 million we had expected due to a shift in the timing of a renewal from the second to the third quarter. This renewal has since closed and will be recognized in our third quarter revenue. We continue to expect $375 million of L&S revenue for the full-year and $370 million of average annual L&S revenue for the three-year period of 2024 through 2026.

It is important to remember that the timing and exact amount of L&S revenue can be difficult to forecast with precision given that it's dependent on the timing of renewal signing, which can vary depending on client budgeting and the pace of decision-making related to contract structure and duration among other factors. We exited the quarter with a backlog of $2.8 billion, up 4% year-over-year, and relatively flat on a sequential basis. Year-over-year backlog growth was driven by more than 15% increase in Digital Workplace and mid single-digit growth in our CA&I and ECS segments. Trailing 12-month book-to-bill was 1.1 times for the total company and 1.2 times for our Ex-L&S solutions.

Moving to slide 5, second quarter gross profit was $130 million, representing a 27.2% gross margin compared to 24.3% in the prior-year period. Expansion was primarily driven by delivery improvements and an increase in revenue from higher-margin solutions in new business signings. Ex-L&S gross profit margin was 18.7% compared to 16% in the prior-year period, or an increase of 270 basis points. This was also 70 basis points higher than our first quarter Ex-L&S gross margin. Year-to-date, total company gross margin is 27.5%, compared to 27.7% in the prior year and Ex-L&S gross margin is 18.4% compared to 14.9% in the prior-year first-half. While Ex-L&S margin improvement will not have a linear trajectory, we are pleased with the progress we have made and are well-positioned to achieve the top end of 150 to 200 basis points of annual expansion we are targeting through 2026.

DWS segment gross margin was 16.2% in the second quarter, a 260 basis point year-over-year increase, reflecting improvements in delivery. As part of our efficiency strategy in DWS, we have increased focus on upskilling lower cost talent and aligned variable compensation of delivery leaders to delivery improvement. We continue to see meaningful, incremental opportunity from the mix of higher-margin solutions in new business signings, improving utilization rates and adopting new technologies, efficiency models and analytics.

CA&I segment gross margin was 17.8% in the second quarter, an increase of 90 basis points year-over-year. In CA&I, we also have benefited from accelerating new business with a more favorable margin mix. We have also achieved significant labor efficiency through a strong focus on increasing internal mobility and a new campus hiring program. We believe these initiatives can provide further benefit and see incremental margin opportunity from optimizing our use of low-cost labor markets for CA&I shared services.

ECS segment gross margin was 55.9% in the second quarter, which compares to 54.1% in the prior year. The 180 basis points of year-over-year expansion were primarily driven by the timing of software license renewals and managed services growth. 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 signing, leading to fluctuations in ECS gross margin based on renewal levels.

Moving to slide 6, our second quarter non-GAAP operating profit margin was 6.1%, up from 3.4% in the prior-year period. This was above the expectation we provided last quarter of low single-digits due to the improvement achieved in Ex-L&S solutions. Operating expenses also declined on a sequential and year-over-year basis, primarily due to a decline in certain legal expenses as well as some benefit from our SG&A initiatives. We continue to enact the plan laid out on Investor Day to streamline corporate operations, rationalize our real estate costs and centralize IT. Second quarter adjusted EBITDA was $58 million, representing an adjusted EBITDA margin of 12.2%, compared to 10.5% in the prior-year period.

First-half non-GAAP operating margin was 6.6% compared to 7.7% in the prior year and first-half adjusted EBITDA margin was 12.8%, compared to 15% in the prior year, primarily due to lower levels of L&S revenue in the first-half of the year. We had a net loss in the second quarter of $12 million or a diluted loss per share of $0.17. This compares to a net loss of $40 million or negative $0.59 in the second quarter of 2023. On an adjusted basis, net income was $11 million, or $0.16 per share compared to a loss of $6 million, or negative $0.09 per share in the prior year. Year-to-date, adjusted net income is $13.7 million, or earnings per share of $0.19 compared to adjusted net income of $28.6 million, or $0.42 per share in the prior year. Lower net income was again largely due to the timing impact of L&S renewals.

Turning to slide 7, capital expenditures totaled approximately $21 million in the second quarter, up $3 million on a year-over-year basis. As a reminder, a portion of our capital expenditures is related to research and development of our L&S platform and we have a capital-light strategy focused on limiting capital intensity of the remainder of the business. Second quarter free cash flow was negative $19 million compared to positive $25 million in the prior-year period due to the timing of L&S collections. On a year-to-date basis, free cash flow is negative $15 million compared to positive $17 million in the prior-year period, with the variance largely driven by the timing of collections and other fluctuations in working capital. Excluding environmental, certain legal and restructuring and other payments as well as post-retirement contributions, our adjusted free cash flow was negative $8 million in the second quarter and positive $9 million year-to-date. We still expect to generate approximately $10 million of free cash flow for the full-year and more favorable working capital dynamics in the back-half.

Moving to slide 8, our cash balances were $345 million as of June 30, compared to $388 million at year-end. The variance in our cash balances is primarily due to the timing of our quarterly free cash flow and the negative FX impact. Given our cash flow outlook, we expect cash balances to increase from these levels by year-end. Our net leverage ratio is 0.6 times, up slightly from 0.5 times at the end of the first quarter. Including all defined benefit pension plans, our net leverage ratio is 3.3 times, flat sequentially. Our liquidity is strong with no borrowings against our revolver and no major debt maturities until our $485 million senior secured notes become 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. We also provide quarterly updates, which are estimated and do not have the same level of detail. Based on asset returns and market conditions, we estimate that as of June 30, 2024, our cash contributions to our global pension plans for the five-year period beginning in 2024 and our global pension deficit are both essentially unchanged from year-end.

Turning to slide 9, I will now discuss our full-year financial guidance and then provide color for our third quarter expectations. For the full-year, we continue to expect total company revenue growth of negative 1.5% to positive 1.5% in constant currency, which based on recent FX rates, now equates to reported revenue of negative 1.7% to positive 1.3%. This guidance continues to assume L&S revenue of $375 million and Ex-L&S constant currency growth of 1.5% to 5%.

Non-GAAP operating profit margin is expected to be between 5.5% and 7.5%. As I mentioned earlier, the strong margin expansion we have achieved in Ex-L&S Solutions gives us a line-of-sight to exceed the midpoint of the range. Assumptions behind our $10 million of free cash flow are essentially unchanged with capital expenditures expected to be between $85 million and $95 million. Net interest payments of approximately $20 million, international cash pension contributions of approximately $20 million, and cash payments for environmental, certain legal matters, restructuring and other of approximately $75 million to $80 million in total.

Elevated legal payments in 2023 and 2024 are primarily related to a matter in which Unisys is the plaintiff. Payments for certain legal matters are expected to decline 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 $55 million for the year.

Looking at the third quarter, we expect total company revenue to grow mid to-high-single digits on a constant currency year-over-year basis, which equates to approximately $485 million to $490 million of reported revenue. This assumes approximately $90 million of License and Support revenue and low single-digit constant currency growth in Ex-L&S revenue. We expect the Ex-L&S revenue to show sequential growth in the fourth quarter as well, driven by revenue generation from our recent new business signings. We also expect third quarter non-GAAP operating profit margins in the mid single-digits. I am excited about the momentum in new business signings and our continued progress in improving profitability, which will drive higher free cash flow.

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 covered much information today, I want to emphasize three important takeaways. First, the momentum in new business we achieved in the first quarter is continuing in the second quarter and is a positive indicator of demand for our solution portfolio, and we have exciting opportunities in all our segments to drive new business signings growth. Second, we believe we have additional gross margin opportunities from delivery efficiency initiatives and accretive new business signings. And, third, we expect higher profit and cash generation in the second-half of the year as we benefit from first-half new logo signings, results from SG&A initiatives and improved working capital dynamics.

Operator, please open the line for question.

# QUESTION AND ANSWER SECTION

**Operator**: We will now begin the question-and-answer session. [Operator Instructions] At this time we will pause momentarily to assemble our roster. The first question comes from Rod Bourgeois with DeepDive Equity Research. Please go ahead.

### Rod Bourgeois

*Analyst, DeepDive Equity Research*

Q

Yes. Thank you. So, my first question is about the margin. It's further encouraging to see the progress in the Ex-L&S margin improvement there. And it sounds like you're getting margin benefits from productivity improvement efforts but also from positive mix shift. So, my question is, is the positive mix shift point correct that that's a enduring margin lever? And then to what extent do you see that positive margin mix shift a continuing factor? Or is that just some unique dynamic that's happening this year? Or do you see that as more lasting?

### Peter A. Altabef

*Chair & Chief Executive Officer, Unisys Corp.*

A

Yeah, Rod. Thanks very much for the question. This is Peter. I'm actually going to turn that question over to Mike in a second.

It's really interesting. Yes, to all of your questions. Mix shift is happening and mix shift is positive. One of the interesting dynamics we're seeing, though is the strength in what we call our traditional business as opposed to our next-generation business because you're seeing margin improvement in our numbers across all of Ex-L&S and that improvement includes traditional business. So, as we become more efficient in the traditional business, you're seeing that be a more of a positive for us. So, yes, the shift is continuing, but it's actually less important than it used to be because of the profitability increase of the traditional business. But I'll hand it over to Mike for a little more description.

### Michael M. Thomson

*President & Chief Operating Officer, Unisys Corp.*

A

Great. Thanks, Peter. And hey, Rod, thanks for the question. Look, I think you're both onto something there, right? It's really a combination of things, Rod, and I think very consistent with what we talked about at Investor Day and continue to see in the market, right? Our pricing power remains strong in our new solutions. The margin profile on those solutions are in-line with what we expected back in our 2023 Investor Day and continue that way. We've seen continual improvement in the margin profile on the delivery of our traditional business and I think just really consistent solid performance across the board.

And Deb mentioned a little bit too around our talent marketplace and what we're trying to do with our associate base. So, I really feel like those three components; the mix shift component, the delivery component, as well as what we're seeing from pricing power and our solutions being taken in the marketplace have all really contributed pretty equally across the board. And again, I think it's really just solid performance and kind of keeping our head down and making sure we're delivering as we said we would.

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**Rod Bourgeois**
*Analyst, DeepDive Equity Research*

Q

Great. And so follow-up, I mean, as you head into 2025, the environmental and legal costs need to drop. It sounds like you're underscoring that you're on track to make progress there. I think last quarter you had indicated that the environmental and legal costs could drop by 50% or more. And you also have a refund on the environmental side that seems like it's likely. Is your outlook on a 50% or more drop in environmental, legal, is that outlook still intact or is there kind of an updated view on that?

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

A

Yeah. So, Rod, thanks for that. I'll give the specific percentage to Deb. But in broad strokes, the answer is nothing has really changed. I want to keep everybody's attention on the legal side. The biggest expense we have had is a suit where we are the plaintiff. So, that is a suit that we feel good about. And we obviously expect to have rewards from that, if you will. On the environmental side, we're keeping a very close track on that and nothing has changed of any substance.

Deb, over to you.

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

A

Hi. Thanks, Rod, for the question. Yes. Peter's right. Everything is still on track for that. And as we've discussed before, it is an important element of our improvement in our free cash flow conversion rate. And so we're keeping an eye on those things but nothing's changed. And as we mentioned last time, estimate about half from what they were in 2023 is still accurate.

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**Rod Bourgeois**
*Analyst, DeepDive Equity Research*

Q

Okay. And if I could just ask one more follow-up. You mentioned the AI and machine learning work you're doing for a restaurant client. And I wanted to see if you could speak to the potential scale of that opportunity. It sounds like an interesting use case that's actually moving beyond the ideal pilot stage. Especially in the AI world, we're seeing a lot of ideas and pilots, but it's been pretty light on things actually moving into production and that sounds like an interesting use case. Is it moving to more of a production stage and what could be the potential scale of that?

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

Yeah. So the answer is yes. It is moving toward more of a production stage. It is for a very significant client in that space. We're very excited about it. Still relatively early days in terms of seeing how far it could expand and what it would mean for us, so early days on that. But the quality of the client, the quality of the work we're doing absolutely is an indicator of the things we could do on a broader base. But we're very excited about this client and the specifics.

Mike, anything further you want to add to that situation?

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

No, I look, I think you've covered it, too, Peter, in some of your prepared remarks earlier, when we talk about this is an interesting play rather when we talk about data, right? In this particular case, the data telemetry from kiosk machines and kiosk and digital boards and the cooking equipment, et cetera, this particular opportunity is a full North America opportunity. So, scale can be pretty substantial but early days. Lots to do. But really like to see the progress we're making from an innovation perspective there.

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

And this client is a global client. So, that is a North American opportunity right now. But it could change.

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**Rod Bourgeois**
*Analyst, DeepDive Equity Research*
Q

Got it.

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

And Rod, this is Deb. I just want to jump in to make sure it was clear that the half of the environmental, legal, other is by 2026, so similar to our other targets we laid out just to make sure that's clear that that's not this year.

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**Rod Bourgeois**
*Analyst, DeepDive Equity Research*
Q

Got it. Thank you.

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

Thanks, Rod.

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**Operator**: The next question comes from Joe Vafi with Canaccord Genuity. Please go ahead.

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**Pallav Saini**
*Analyst, Canaccord Genuity LLC*
Q

Good morning. This is Pallav signing on for Joe. Thanks for taking our questions. The first question is kind of a follow-up on the AI question. Peter, can you share what percentage of your new business signings currently have a GenAI component to them? And I know you said it's a bit early, but is there a way to frame this opportunity from a revenue perspective over time? And then I have a follow-up.

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

A

I think it's a great question. And it's a question being asked of us and many of companies similarly situated with us. I can only give you kind of our approach and the way we have thought about AI. First of all, as you noticed in my comments, GenAI is important but it's not the only AI, right? So, it's kind of weird to talk about traditional AI because the question is, wow, how can AI be traditional? But the reality is things like machine learning and deep learning have been around for 20 years. And when we talk about AI initiatives and when we track those inside the company, we're looking at GenAI but we're also looking at traditional AI. And so when I speak of AI, I really – I'm including both of them because the advances in what we call traditional AI have been very significant and really helped the end results of what our clients are looking for as well.

In terms of our approach, I can tell you that we have established some company-wide AI initiatives. Those initiatives really work to core solutions that we're infusing AI into. Some of those already have AI, many of them do, as well as efficiency models from how we develop code to how we run organizations like marketing, finance and legal. So, we're really looking at AI. I hate to say it because it seems trite. It's like oxygen. I mean, AI is infused and will continually be infused throughout the company. And while there are some AI, if you will, specifically led engagements like the one for the restaurant I just talked about, we're doing more than AI work for them. And Mike talked about the data-rich environment there and what we're doing in data analysis. But, in most cases, we're simply putting AI and infusing it into all of our solutions. So, I can't answer the question and I don't think I'll ever be able to answer the question of what revenue is generated by generative AI because unlike, let's say, a specific technology company that is charging extra on top of their ordinary cost for generative AI. That's not our approach. Our approach is really to charge for our services and those services include AI and generative AI. That's really the way we're approaching it. I hope that helps.

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**Pallav Saini**
*Analyst, Canaccord Genuity LLC*

Q

That's helpful. Thanks, Peter. And just a modeling question. Can you remind us the cadence of your renewal schedule for next year? Is it a more first-half weighted or back-half weighted? Thank you.

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

A

Yeah. That's a great question. And Deb, I'm going to turn that one over to you. So, that is a – I guess what the question is really renewal about L&S but I'm not sure whether. Is it...

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**Pallav Saini**
*Analyst, Canaccord Genuity LLC*

Q

Yes.

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

A

Yeah. Okay. Deb?

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**Pallav Saini**
*Analyst, Canaccord Genuity LLC*

Q

Thanks.

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

A

Right. Hi. As far as next year, we haven't really laid that out. We're still modeling that, so we don't have – I can always offline. We're, on another call, laid that out. But for right now, I don't think we've really laid out the exact timing. We have laid out that $370 million per year over the next few years is what we expect but we haven't laid out the quarter, so I'm not allowed to – I can't give that to you.

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**Pallav Saini**
*Analyst, Canaccord Genuity LLC*

Q

Fine. Okay. Thanks.

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

A

Thanks for the questions.

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**Operator**: The next question comes from Arun Seshadri with BNP Paribas. Please go ahead.

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**Arun Seshadri**
*Analyst, BNP Paribas Securities Corp.*

Q

Hello, everyone. Thanks for taking my questions. Just, first I just wanted to talk a little bit about gross margin. Nice to see the improvement there. Is there any way to sort of talk about your proportion of overall cost of goods sold? Is it like in terms of fixed versus variable and are there any one-timers in this quarter at all? I know that Q1 had a contract settlement benefit, so just wanted to understand if this is sort of like a run rate – sort of a run rate performance?

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

A

Yeah. It's a great question. I'll turn it over to Deb in a second. Fixed versus variable is always a function of time, right? There's really almost no cost that is fixed forever, even real estate costs and you've seen us actually drive real estate costs down over several years. So, more a function of time. I can tell you that from a leadership standpoint and management standpoint, the shorter the time you can get costs from fixed to variable, the more flexible you will be and I think we've done a very good job of that. A lot of the work we have done, obviously people costs are the majority of our total costs. And the changes we have made, which I alluded to in my remarks around the way we are creating really a fulsome, vibrant marketplace inside the company, as jobs change and as jobs need new technologies, one of the things we are really encouraging our team to do is to get training and we made that training available to the entire company in new technologies. We'd much rather have somebody evolve who is already an associate than someone who has to come into the company laterally. So, that's an example of really kind of speeding up, if you will, the movement from a fixed to a variable compensation model.

Deb, any further questions or more specifics on that?

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

A

No. I'll answer his question on the timing for gross margin is that really in Q2 from a year-over-year basis, there are no big callouts as far as one-times. You're right that in Q1 there was that year-over-year one-time, but not necessarily in Q2. But as a reminder, we've said before, the Ex-L&S gross margin improvement is not always going to be linear because there are, quarter-to-quarter, some one-times. And we're still holding to what we had laid out at Investor Day, that 150 to 200 basis point improvement a year in Ex-L&S gross margin. So, hopefully that answers your question.

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

A

Right. I think it does. And Mike, you have been one of the leading architects in the company working with Ruchi Kulhari and our HR team around obviously to get back to the – one of the points that people cost is our largest type of expense. Do you want to give a little background on the work we're doing on that? Because it really does point to the future and point to us to being a more efficient organization in kind of so many ways.

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

A

Yeah. Thanks, Peter. And Arun, thanks for the question. Maybe the one piece I wanted to touch on was embedded in your question is, is this a run rate. And Deb mentioned it already. We talked about 1.5 to 2 points of improvement in gross margin. Well, that's coming through the efforts that Peter just mentioned in our talent marketplace. The delivery component of that continues to be refined, enhanced opportunities for our associates to continue to be, I'll say, brought forward to them. Peter talked about the low attrition rate, the cultural aspect of what we're doing, opportunities to move vertically up the chain is really important to us. The training efforts that we're putting in, the refresher program and the talent acquisition at the junior level and training and holding on to those associates, I mean we've really took a kind of a grassroots level to kind of rethink our gross margin profile and think about it through the lens of the, I'll say, the happiness of the associate and what that drives to our clients as well as their skill set. So, it really has been – I'll say we're not at the culmination yet of this. We're still kind of early on and which is why we're still talking around having another 1.5 to 2 points of improvement over the course of the next two years consecutively. So, we're seeing really good progress on track for what we said we were going to do at Investor Day and have a good line-of-sight to continued improvement, so speaking to your run rate portion of that question.

**Arun Seshadri**
*Analyst, BNP Paribas Securities Corp.*

Q

Great. Thank you very much.

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

A

Thank you very much for the question. You're welcome. Thanks.

**Arun Seshadri**
*Analyst, BNP Paribas Securities Corp.*

Q

I have one more quick thing to ask. I think you said your L&S revenue, I guess this quarter, the somewhat deceleration on a year-over-year basis versus Q1 was generally as expected. Can you talk about the pipeline?

And I guess when you look broadly into the second-half of the year, despite the pipeline reduction, you still sound like you're pretty confident around a pickup in Ex-L&S revenue. Just talk about the drivers for that? Thank you.

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

A

So, was the first part of the question related to L&S or Ex-L&S? I just want to make sure I got the question right.

**Arun Seshadri**
*Analyst, BNP Paribas Securities Corp.*

Q

All of it was Ex-L&S.

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

A

Got it. Yeah. So, you are seeing from us, when we think about Ex-L&S there are a couple of components to that. The base component is just like the L&S business. Ex-L&S has what we will call a renewal segment to it, right? And just like the L&S business, we have very, very high renewal rates and very successful on renewal rates. So, when we talk about the advancement of the company, you see us talk about Ex-L&S and then you see us talk about new business Ex-L&S because that is really beyond the renewal rates. So, new business has three parts to it. One is expansion and new scope within existing clients and the other is new logo. So, when we talk about new business, it's all three of those components and all of them are above renewals. We think that's one of the best ways we can describe the growth and momentum in the company.

On the new logo side , we expect continued increase in new logos in the second-half even compared to the first-half, and the first-half, as you have seen from our numbers, is a dramatic improvement over last year. So, if that is an indication of our competitiveness in the marketplace, we're ramping that up quite significantly. And I think that is a culmination of not only the maturity of our solutions, but also informing people about the solutions. It's the marketing and communications. It's the new website, it's the new branding. All of those things have kind of taken about a year to fully mature but they're mature. And so that's why we're seeing I think the ramp-up in new logo. In terms of the rest of the business on the expansion and new scope side, that depends on specific clients and specific client timing. I can tell you we've been very successful in terms of our win rates as well as in terms of marching forward as those clients in their mission-specific environments require. So, we feel very good about the momentum, as Mike said, not only in the cost efficiencies but in the demand drivers and growth of the company.

Mike, anything further on that?

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

A

Yeah. Maybe just one or two points. So, you talked about the pipeline movement. I think Peter mentioned even earlier that the quality of the pipeline we think is better. And I think that is a real byproduct of the marketing efforts, the digital campaigns that we got going out. We're getting a lot more inbound, very specific to our solutions and our offerings, right? So the alignment of that is really strong. And when I think about the maturity of the pipeline, a lot of our pipeline is in what we call the more mature aspect, which is we're in negotiation phase, right, as opposed to the very early on prospecting. So, we again feel really good about our coverage ratio, feel good about our win rates and really feel good about how that front-end lead gen is really driving higher quality pipeline and hence higher win rates. So, feeling pretty bullish on that right now.

**Arun Seshadri**
*Analyst, BNP Paribas Securities Corp.*

Q

Thank you.

**Operator**: The next question comes from Anja Soderstrom with Sidoti. Please go ahead.

**Anja Soderstrom**
*Analyst, Sidoti & Co. LLC*

Q

[Technical Difficulty] (00:54:01) Was that an existing client that expanded with – helped by the AI new use cases or was that a new logo for you?

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

A

So, Anja, thanks for the question. That is a new logo. We have, very occasionally, worked with that client over the years on a kind of a project-by-project basis in various parts of the world. But we really, in terms of this effort and working with that client, it's really a new logo for us and one we're very excited about.

**Anja Soderstrom**
*Analyst, Sidoti & Co. LLC*

Q

Okay. Thank you. And then you mentioned that you're rather competitive. Can you just talk a bit about a competitive environment, if that changed recently and also your pricing power?

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

A

Well, yeah. So, I think we have been able to maintain our estimated gross margins for both – for new work, whether that is expansion renewal or new logo or new scope. Our competitors vary. It's a busy market with a lot of competitors. But as I alluded to in the prior answer, we're kind of creating own identity. I think we are differentiating ourselves and we're doing that successfully. And the success we're having around new scope as well as the other elements of new business, I think we're kind of charting our own path and I think that has been very successful and I think the market is understanding it. So, we're cognizant of other players but at this point we're really kind of marching ahead to our own drumbeat. And I think so far that's working pretty well.

**Anja Soderstrom**
*Analyst, Sidoti & Co. LLC*

Q

Okay. Thank you. And also – I think it seems like it's moving in the right direction for you. But how do you perceive the macro environment and the customer sentiment and is there any specific cost in terms of verticals?

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

A

Well, so when you look at verticals, as well geography, we are pretty diversified. So, when we look at revenue by, if you will, customer segment, whether its commercial or whether it's public or whether it's financial services, you see us relatively evenly spaced between those three. And then from a geographic standpoint, again you tend to see about 45%-ish in the US and Canada and about 55% in the rest of the world. So, I think one of the advantages of our company is our diversification. And then from our solutions, again our ECS and CA&I and DWS segments are all about the same size. So, what we tend to do is take advantage of that diversification, and where we see specific areas of opportunity, whether that's by geography, whether that's by solution, whether that's by client vertical, we tend to rush more resources into those areas. So, that goes back Anja to an earlier question about fixed versus variable cost. We're really quite able, in the way we have organized the company with our go-to-market to be able to see like you where can we rush in? And that go-to-market increasingly covers all of our solutions in all geographies. So, it gives us a little more variability. So, I think everybody on this call is aware. There are some geographies that are moving ahead more smartly than others. There are some industry verticals that are moving ahead faster than others. And our approach is we're in all of those and to take advantage of this.

Mike, any other thought on that?

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

A

Yeah. Look – hey, Anja, thanks for the question. The only thing I would say, a part of your comment there I think was in regards to the macros and what we're seeing in the market. I'm not really seeing huge movement yet. I mean, I think we're all kind of waiting a little bit for this uptick to come but it's been pretty consistent. Maybe getting a little better, a little less pressure. But the companies that we are dealing with are still very cost conscious. Peter really talked about our ability from a defensive perspective to make sure we've got diversity, not only in geography but in the markets we serve. That has served us well in the past and continues to serve us well. We have a very high renewal rate, as we talked about and a very high recurring base, right? So, I think we've been protected nicely in that regard and starting to see the market turn a little bit. And I think as evidenced by the tremendous first-half we've been having on new logo. And as we've indicated a couple of times during this call, we expect that momentum to continue in the back-half.

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**Anja Soderstrom**
*Analyst, Sidoti & Co. LLC*

Q

Okay. Thank you. And one last question in regards to the CapEx spend. What are you investing in? And do you expect that to be the same level into the coming years or come down or increase? And how should we think about the CapEx spend?

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

A

Yeah. Anja, that's a great question. I'm going to turn over to Deb in just a second. Historically, we have I think been a proponent, at least going back to your question about the sector and the industry, we have a relatively CapEx-light approach. So, we don't think it's necessarily beneficial for the company to take on a great deal of CapEx in terms of deals. We don't think that that makes sense for most of our clients.

And so you actually see us declining CapEx over the last several years to the current ratio. And we had a $3-million uptick this quarter, not a significant uptick and that will change from quarter-to-quarter. We do a significant amount of CapEx investment in what we call our L&S business. That is not at all a static business even though from a revenue standpoint, it's relatively – we're saying over the next three years, we expect about $375 million a year in it . But we do a lot of work to make that happen. And then obviously outside of that, you have specific investments in new technologies and occasionally for clients.

So, Deb, do you have any specific comments to give to Anja on the level of CapEx and kind of what – we've talked about what we're seeing this year compared to last year, perhaps a view to next year?

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

Yeah. So, we typically say Anja about 4% to 5% of revenue is where we've been running in CapEx. So, as revenue goes up, the CapEx will rise slightly due to customer-related – client-related CapEx. But that's typically where we are this year and where we expect to continue.

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

And if I could, Anja, just – just on – oops, sorry, I was just going to say, just a tad bit of color on that. We've been continuing to build out our partner ecosystem as well. That's one of the ways we kind of maintain, I'll say, the innovation component of our solution offerings. So, Deb is spot-on as is Peter. We've kind of gotten to a fairly normalized level of CapEx spend and the variation in that CapEx spend is largely due to certain of our solutions and can be variable.

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**Anja Soderstrom**
*Analyst, Sidoti & Co. LLC*
Q

Okay. Thank you. That's all from me.

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

Anja, thanks very much for the questions.

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**Operator**: The next question comes from [indiscernible] (01:01:59) with Jefferies. Please go ahead.

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Q

Hey, guys. Just quickly wanted to follow up on the total pipeline. Obviously, we saw a decline sequentially. It sounds like that's more of a timing nuance than anything. So, could you just give us some color as to how you see that trending in the back-half of the year when looking across the renewal calendar that you have?

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

Yeah. It's a great question. As I pointed out in my comments, the total pipeline is down a little bit. Frankly, we expected that given the success we have had in the new logo signings but it's important to replace it. The other thing I would point out and I think Mike alluded to this in one of the earlier questions. Our win rates for new logo signings have gone up significantly. And so that adds to the quality of that pipeline.

But Mike, do you want to talk specifically about how you see the pipeline refreshing over the next six months and the next year?

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

Sure. Great question. Again, when I look at the coverage of our pipeline, yes, it's down slightly. But we had such a high renewal of session really in Q4 of last year and that drove some of that pipeline down. But the prospecting that we're seeing come through that pipeline, normally that's like a two to three quarter refresh cycle. We do have some really interesting opportunities that we expect to be replenishing that with over the back-half of this year. But again as we continue to expand our win rates and close more deals, you don't need as larger pipeline in order to do that. And we have more coverage than we need to do what we need to accomplish for this year. So, we're pretty comfortable with where we're at and really focused on the quality of that pipeline, the conversion rate of that pipeline and the win rates. So, I think you should think about on the back-half of a high renewal quarter that you've got a quarter or two to replenish that pipeline. But I think you'll see a fairly consistent level of overall pipeline for us, pretty much around where we're at. I expect it to come off slightly. But again the coverage ratio that we look for, we're well in-line with.

Q

Okay. Great.

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

A

Thanks for your question.

Q

And just one last one for me. On the pension, it seems like the estimates mostly unchanged from your comments. But can you just give us high-level thoughts on how those may fluctuate if we do, under a rate-cutting environment, in the back-half of the year?

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

A

Yeah.

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

A

Yeah. And also a very good question. Deb, over to you.

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

A

Okay. Great. So, I think the – from an interest rate perspective because the contributions are on a 25-year average number, it doesn't impact that so much. And so I think the real impact is as interest rates come lower, if there's benefit on the asset returns for the fixed income assets we have within the portfolio, that's where we'll really see most likely some benefit if the markets move in that way. So – but we are very diversified in the assets we have. And so, as you've seen over the past few quarters, not too much volatility. And so we think that that will continue. And I think...

Q

That's very clear. Thank you so much.

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

A

...and just to kind of put a – to summarize. I think, to your point, regarding pension, I think what we're really happy about is just the progress we're making on Ex-L&S margin, which will be improving our operating profit, our EBITDA, our SG&A initiatives that we're working on as well as some of those cash flow items we talked about declining over the next few years. So, what's good is we feel really good about where we're going as far as being able to meet those obligations and meet the goals that we laid out on Investor Day.

Q

Great. Thank you so much.

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

A

Thanks, [indiscernible] (01:06:25)

**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**
*Chair & Chief Executive Officer, Unisys Corp.*

Well, thanks everyone, for being on the call. As you can see from our published earnings release, as well as the quality of this call, the numbers I think speak for themselves. The company is excited about the progress we're making. We're frankly thankful for the engagement of you on this call and we have a continuing information session. So, the information that we're posting on the IR site continues to be dynamic and we refer you to it and the information about our solutions and our interaction with customers is also dynamic. So, a lot of the work we have done on the website is not only for the benefit of clients and prospects and third-party advisors but frankly also for you. And so we hope you take advantage of that. And we continue to be eager to engage in conversations with you as time goes on.

So, thanks very much. On behalf of Deb and Mike, I appreciate greatly you being on the call. Thank you, operator.

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