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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Unisys Corporation Fourth Quarter and Full Year 2024 Financial Results 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 fourth quarter and full year 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 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 call are available on our investor website. With that, I'd like to turn the call over to Peter.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thank you, Michaela. Good morning, everyone, and thank you for joining us to discuss the company's fourth quarter and full year 2024 results. Our fourth quarter results were solid, with 10% sequential revenue growth, both as reported and in constant currency, and our non-GAAP operating margin was a strong 11.6%.

Full-year non-GAAP operating profit was $176 million, representing an 8.8% margin, up 180 basis points year-over-year and above the top end of our upwardly revised guidance range.

We exceeded our initial free cash flow outlook and are delivering on our goal to improve cash conversion with lower aggregate legal, environmental and cost reduction payments.

Pre-pension free cash flow nearly doubled to $82 million in 2024. Our 2025 outlook continues to advance us toward our long-term goal of expansion in pre-pension free cash flow with approximately $100 million expected in 2025.

Our outlook reflects continued execution of our ongoing strategy to improve revenue growth and profitability of our Ex-L&S solutions and enhance our high margin L&S revenue, streamline corporate costs and improve cash conversion.

With the growth and margin of our new business signings in 2024 and our investments to improve delivery and optimize our workforce, we expect to provide an underpinning for another step up in Ex-L&S profitability in 2025.

We are also raising our L&S revenue expectations to approximately $390 million in 2025 and $400 million in 2026 at an average expected gross margin of approximately 70%. This $395 million average L&S revenue for 2025 and 2026 is a $25 million annual revenue increase to our previous expectation of $370 million on average for the next two years.

This is the latest in a string of positive revisions that reflect the success of our ClearPath Forward 2050 strategy and further support the longevity and inherent value of our L&S solutions.

Our optimism stems from our clients' long-term commitments to an expanding use of our platforms, which is also accompanied by a strong flow of demand for support in modernizing and optimizing the surrounding IP estate.

Looking at clients signings fourth quarter new business TCV was approximately $220 million, our strongest quarter of the year and up 24% compared to the prior year period.

Full year new business TCV was approximately $790 million, up 29% compared to 2023. New logo TCV more than doubled year-over-year, both in the fourth quarter and on a full year basis. We believe the substantial improvement in new logo conversion marks a positive evolution in our ability to expand our client base.

This means we will have a higher baseline potential for new scope and expansion in 2025 and we already have follow-on opportunities in the pipeline or being qualified with our 2024 new logos. Our new business success in 2024 provides underlying confidence in an inflection in Ex-L&S revenue growth in 2025.

As margin accretive signings increase as a proportion of our DWS and CA&I revenue, we expect a multiyear tailwind to our Ex-L&S gross margin.

Our fourth quarter signings include several notable examples. In DWS, we signed a significant field services expansion with one of the largest global OEMs related to high-end enterprise storage systems in the United States, Canada and Latin America.

We expect this engagement will increase the volume of higher value, higher margin field services we provide for this large client, enhancing segment profitability and beginning to offset some of the volume declines in lower margin field services we experienced in 2024.

In a separate field services new business win, Unisys was chosen by one of the largest global quick service restaurants to provide network deployment and ongoing support for more than 10,000 US restaurant locations and new restaurant openings.

These sizable wins with global blue chip clients are a testament to our leadership and innovation in the digital workplace market. In CA&I, we signed a fourth quarter new logo contract with a public sector utility, expanding our footprint in Latin America.

Unisys will provide a range of security managed services to our client's each subsidiaries, including extended detection and response and continuous threat exposure management.

In ECS, we had several fourth quarter wins in specialized services to support modernization and continued use of our L&S platforms.

In travel and transportation, we won a large managed services contract expansion with a leading international cruise line, a client of over 40 years. Unisys will refresh, expand and manage the client's mission critical reservation system infrastructure and take over administration of databases that maintain reservation, excursions, promotions and travel agent interface data.

We also secured long-term L&S renewals during the quarter, including with travel and transportation clients in Spain and Asia Pacific. In the public sector, Unisys secured a significant L&S renewal with a client in Europe, which included infrastructure and application services for a law enforcement system that runs on our software.

In several cases, our ability to provide modernization services from both ECS and CA&I was a consideration for clients demonstrating our ClearPath Forward 2050 strategy at work.

The wins we have shared with you throughout this past year illustrate the evolution of client perception in our solutions. We see similar trends with independent analysts and advisors that influence client IT decisions.

Most recently in the fourth quarter, we improved to a leader position in a major IDC report on Worldwide Digital Workplace Services and received new leader acknowledgments from Avasant for generative AI Services and from Everest for both mid-market digital workplace services and analytics and AI services.

We were also recognized as a leader in eight areas of multi-cloud services by ISG. In reports published during 2024, we have received 16 leader designations, six of which are new from highly reputable firms, including Avasant, IDC, ISG, Everest and NelsonHall.

In DWS, we received numerous leader designations for our global digital workplace offerings, as well as recognition in the future of work, end user computing and the ServiceNow ecosystem.

In CA&I, we were awarded leader rankings in cloud services as well as designation for our solutions in areas such as security, data center services, Microsoft services, cognitive and self-healing IT infrastructure and artificial intelligence.

These recognitions are important validations of our investments in innovation, sales and marketing and help us get invited to more opportunities.

I'll now discuss four key 2025 priorities that will position us to capitalize on market demand. Artificial intelligence, application services, ClearPath Forward 2050 and go-to-market.

We expect artificial intelligence to accelerate in 2025 and we are continuing to invest in our AI-enabled solutions and the services to build a strong IT foundation to support adoption. This foundation requires orchestrated operations across multi-cloud environments, data and application layers, and devices that deliver intelligent end user experience to access knowledge.

In CA&I, we are infusing AI into cloud services and development to increase automation and delivery, speed and efficiency. We are also developing specialized AI agents for clients that train on client specific data to automate specialized tasks.

In DWS, we're investing in our generative AI enabled technology framework called Service Experience Accelerator, which is the foundation of our next generation of ServiceDesk. We believe this accelerator has the potential to disrupt the digital workplace market by addressing client data, security and cost considerations.

The platform significantly reduces client costs and deploys in the client's environment to provide client control over the use and security of their data. We're also expanding our liquid cooling expertise within field services to support power-intensive AI workloads of the future. These AI-related investments compound on the strong foundation made in 2024 to support our growth plans.

Over the past year, we streamlined and modernized our field service dispatch and ticketing systems and bolstered our Salesforce and ServiceNow relationships, which allow us to onboard clients and scale delivery at a faster pace. We have also secured several framework agreements that are not reflected in our reported TCV or backlog.

A second priority in 2025 is application services, where we are centralizing our capabilities and sharpening industry focus. Effective January 1, 2025, we executed a realignment to fast track those efforts by consolidating most of our operations that are currently reported in All Other, into our ECS and CA&I segments.

These solutions are largely concentrated in Europe and Asia Pacific and broadly consist of application services for public sector clients, which will move into CA&I and business process (sic) [processing] services in the financial and public sectors, which will move into ECS. Our IPSL check processing joint venture will continue to be reported within All Other.

We have also moved ECS client application services into CA&I. This centralizes our application development capabilities into one application factory, having a deeper industry focus and connection to all of our clients, including the ECS client base. This will enhance cross-selling, standardize development and foster innovation within a central pool of application talent, which we can leverage to more effectively deliver faster and better solutions for our clients.

A scaled application factory also elevates our position within the fast-growing application arena and will allow us to pursue larger engagements.

A third priority is focused on supporting our ClearPath Forward 2050 strategy. In the fourth quarter, we went live with a major new ClearPath Forward release that delivers performance, scalability and security enhancements.

The release also includes new capabilities to prepare clients for post-quantum cryptography challenges, including PQC compliant encryption prescription data.

We're continuing to elevate our presence in air cargo to our industry solution portfolio. In the fourth quarter, we went live with an enhanced version of Unisys Logistics Optimization for cargo capacity planning and rolled out initial multi-modal routing capabilities.

We also enhanced our cargo core offering with functionality for compliance with new customs regulations and fully onboarded one of the largest global air cargo carriers into our Cargo Portal.

A fourth priority for 2025 is advancing our go-to market by investing in innovation through thought leadership, industry expertise and our alliance partners. We are expanding both our team of client technology officers with key clients and our industry vertical teams where we see the largest opportunities for growth.

Finally, we are intensifying our efforts to strengthen and expand our partner ecosystem, including relationships with key existing hyperscaler, OEM and enterprise software partnerships, as well as with new partners that ensure we can deliver and incorporate a diverse set of emerging technology into our client's environment.

Before turning the call over to Deb, I want to briefly touch on our workforce initiatives. In 2024, we focused on career growth and cost-effective talent management by evolving career pathing and early career development programs, and launching a new talent mobility platform.

We also continue to promote a positive workplace, resulting in finishing the year with low trailing-12-months voluntary attrition of 11.8% compared to 12.4% a year ago.

In 2025, we will increase our focus on talent transformation initiatives based around three key objectives. Our first objective is optimization of our internal labor. This includes initiative increasing campus hiring, talent rotation and upskilling and redeploying associates.

Our second objective is increasing utilization to enhance productivity and minimize external hiring. And our third objective is cost reduction, which includes initiatives related to contractor use and scaling capacity at key delivery centers in lower cost, domestic and international labor markets.

With that, I'll turn the call over to Deb to discuss our 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 the supplemental slides posted on our website. I will discuss total revenue growth, both as reported and in constant currency and segment 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 for revenue and profit recognition is tied to license renewal timing, which can be uneven between quarters and years.

As Peter mentioned, we are pleased with the improvement in our non-GAAP operating margin and the strong year-over-year free cash flow growth we were able to achieve.

The operational improvements we've made in our segments are leading to sustained Ex-L&S gross margin expansion, which is being enhanced by stronger L&S performance as clients continue to commit to an increased usage of our operating system.

The resolution of several legal matters in 2024 eliminates the future headwind to cash from legal cost related to these matters. We also continue to expect higher conversion in 2025 and 2026 as environmental and cost reduction payments decline.

Looking at our results in more detail, you can see on slide 4 that fourth quarter revenue was $545 million, down 2.2% year-over-year as reported, and 1.5% in constant currency.

During the quarter, L&S revenue came in stronger than our already increased expectations, while Ex-L&S revenue declined 4.7% as reported and 4.8% in constant currency. For the full year, revenue was $2 billion, down 0.3% on both a reported and constant currency basis and within our guidance range.

Excluding License and Support, full year, revenue was $1.58 billion, down 0.6% year-over-year, both as reported and in constant currency caused by certain headwinds that we view as temporary. We remain optimistic about the strong levels of new business we have signed and the growth prospects for both DWS and CA&I in 2025.

I will now discuss our segment revenue, which you can find on slide 6, in constant currency terms. Digital Workplace Solutions revenue declined 8.2% year-over-year to $128 million in the fourth quarter. For the full year, DWS revenue was down 4.2% to $524 million.

Both the fourth quarter and full year declines were driven by lower hardware and isolated lower margin field services volume. We expect that during the year, DWS will positively inflect as recent new business signings ramp, including increased higher end field services volume.

We also expect growth in technology and services revenue related to a stronger PC refresh cycle in 2025, including advisory, device subscription services and modern device management.

The segment's new business signings were up more than 40% in 2024, with favorable margins and strong contribution from new logos. We expect these signings to contribute to segment growth in 2025.

Cloud Applications and Infrastructure Solutions revenue declined 5.2% year-over-year to $132 million in the fourth quarter. For the full year, CA&I revenue was down 0.8% to $527 million. The decline in the fourth quarter was driven by lower third-party technology revenue and volume with certain clients related to the timing of project uptake, which can be uneven.

We anticipate improving project volumes in 2025 as clients continue to adopt and optimize hybrid, multi-cloud strategies and modernize their data and application layers to support AI.

Our combination of physical infrastructure, cloud and application expertise, positions us for growth in both high value project work and recurring services to secure and intelligently manage hybrid IT estates that are becoming increasingly complex.

As we signed DWS, our CA&I new business signings also increased more than 40% in 2024, and we expect our central application factory to expand our opportunity in high growth areas of the market.

Enterprise Computing Solutions revenue was up 6.2% year-over-year to $209 million in the fourth quarter. For the full year, ECS revenue was up 1.3% to $651 million.

During the quarter, L&S Solutions revenue grew 8.4% to $152 million and $432 million for the full year. This exceeded our expectation of $415 million, which we had increased from $375 million in the third quarter. The $17 million of fourth quarter upside was driven by increased client consumption on our platform as we continue to see expanding usage at many of our larger clients.

Specialized services and next generation compute solutions within ECS grew 1.3% in the fourth quarter and 2.3% for the year, led by growth within financial services clients. This quarter we are beginning to provide TCV disclosures in absolute dollar terms, which we believe brings our disclosure more in line with the broader IT services peers.

Fourth quarter total contract value was $752 million, including $218 million from new business signings and $534 million from renewals. Full year TCV was $1.9 billion with new business TCV of $791 million. Trailing-12-months book-to-bill was 1.0x for the total company and 0.9x for our Ex-L&S Solutions. And we exited the year with backlog of $2.8 billion compared to $3 billion a year ago.

The modest declines in backlog and book-to-bill were the result of renewal timing with lower aggregate TCV up for renewal in 2024 with additional impact from movement in FX. 2025 is expected to be a higher renewal TCV year benefiting backlog and book-to-bill throughout the year. This also provides a good opportunity to secure expansion and new scope that clients may seek to integrate when renewing existing contracts.

Moving to slide 7. Fourth quarter gross profit was $175 million, a 32.1% margin, compared to 32.5% in the prior year period. Fourth quarter Ex-L&S gross margin was 15.7%, down from 16.5% in the prior year. Contraction in both the total company and Ex-L&S gross margin during the fourth quarter were primarily driven by incremental cost reduction charges during the quarter.

For the full year, gross profit increased more than $30 million to $586 million, a gross margin of 29.2%, which included delivery improvement in our Ex-L&S Solutions. Full year Ex-L&S gross profit was $278 million, a 17.6% gross margin compared to 15.1% last year, an increase of 250 basis points, which includes a onetime benefit from a previously exited contract.

I will now touch briefly on segment gross profit, which you will find on slide 8. DWS segment gross margin was 15.9% in the fourth quarter, up 60 basis points year-over-year. Full year DWS gross margin expanded 170 basis points to 15.7%. These gains are the consequence of technology investments we are making to modernize our delivery capabilities and boost employee productivity. We are also benefiting from our strengthening leadership position in the market relative to our peers and an increased focus on value-based pricing.

CA&I segment gross margins of 15.4% in the fourth quarter, down 90 basis points year-over-year. For the full year, CA&I gross margin was 16.5%, up 110 basis points year-over-year. Our workforce optimization efforts, such as increased automation and expanded campus hiring, continue to drive positive outcomes.

Looking ahead, we anticipate greater benefits from automation, AI and labor efficiency as we scale key delivery centers. We also expect our new central application factory, industry sales leads and increased EPS cross-selling to accelerate the mix shift to higher margin solutions at CA&I.

ECS segment gross margin was 64.7% in the fourth quarter, down 270 basis points year-over-year. Full year ECS gross margin was 60.2%, down 100 basis points year-over-year.

The fourth quarter and full year margin decline was primarily driven by a slightly higher mix of hardware and our L&S deals within the period.

Moving to slide 9, fourth quarter non-GAAP operating profit margin was 11.6%, compared to 11.5% in the prior period. Fourth quarter adjusted EBITDA was $91 million, a margin of 16.8%. For the full year, non-GAAP operating profit (sic) [profit margin] was 8.8%, compared to 7% in 2023, exceeding the top end of our guidance range of 6.5% to 8.5%, which was raised during the third quarter earnings call.

The year-over-year improvement in guidance fee was driven by a combination of an enhanced margin profile in our Ex-L&S Solutions, upside in our L&S Solutions and SG&A efficiencies.

Full year adjusted EBITDA was $292 million, representing an adjusted EBITDA margin of 14.5% compared to 14.2% in 2023. We remain focused on streamlining corporate functions, rationalizing real estate and centralizing IT, while also investing in go-to market.

Fourth quarter net income of $30 million and $24 million on an adjusted basis, translating to diluted earnings of $0.41 or $0.33 on an adjusted basis. The fourth quarter included a $40 million benefit related to a favorable settlement of a lawsuit we had brought to protect our intellectual property and confidential information.

For the full year, GAAP net loss was $193 million or a diluted loss per share of $2.79, and includes a negative $130 million settlement charge related to our first quarter pension annuity purchase. On an adjusted basis, net income for the full year was $32 million or diluted earnings per share of $0.45.

Turning to slide 11, capital expenditures totaled approximately $21 million in the fourth quarter and $80 million for the full year, relatively flat on a year-over-year basis.

As a reminder, a significant portion of capital expenditure relates to research and development for our L&S platform and we are maintaining a capital-light strategy in our Ex-L&S Solutions.

Pre-pension free cash flow, which is free cash flow prior to pension and postretirement contributions was $82 million in 2024, up from $44 million in 2023. We generated $56 million of free cash flow in the fourth quarter, bringing our full year free cash flow to $55 million compared to negative $5 million last year.

This was driven by lower international pension contributions and net legal payments as well as Ex-L&S profit improvement. This put us ahead of the upwardly revised expectations of $30 million for the full year, primarily due to high fourth quarter L&S revenue and $15 million of the previously mentioned $40 million legal settlement received in the fourth quarter. The remaining $25 million is due to us in mid-2025 and is assumed in our 2025 outlook.

Moving to slide 12. Cash balances were $377 million at year end, compared to $388 million at the end of 2023. Our net leverage ratio, including all defined benefit pension plans, was 3.0x at year end, relatively flat on a year-over-year basis.

As a reminder, we strengthened our liquidity position by obtaining a two-year extension on our ABL facility, which has capacity of $125 million with an accordion feature up to $155 million and matures at the end of October 2027. Our ABL remains undrawn and its maturity is aligned with our $485 million senior secured notes that come due in November 2027.

I will now provide an update on our global pension plans, beginning with slide 13. Each year we provide more detailed estimated projections for expected global cash pension contributions and GAAP deficits relative to our quarterly update. These projections change based on factors such as financial market conditions, funding regulations and actuarial assumptions.

Our global GAAP pension deficit, which can be seen on slide 13, was approximately $750 million at year-end 2024, compared to approximately $700 million at the end of 2023.

On slide 14, you can see a detailed projection of our expected cash contributions. Volatility and contributions is lower in the first five years of the projection and informs our near-term liquidity needs. For the five-year period beginning in 2025 through 2029, contributions are expected to total $585 million, $10 million higher than our projections at the beginning of 2024.

Turning to slide 15, I will now discuss our financial guidance for the full year. We expect total company revenue growth of positive 0.5% to positive 2.5% in constant currency which, based on January 31, 2025 foreign exchange rates, equates to reported revenue growth of negative 1.9% to positive 0.1%.

Our growth range assumes Ex-L&S constant currency revenue growth of approximately 1% to 5% and License and Support revenue of approximately $390 million.

As a reminder, the timing and exact amount of L&S revenue can be difficult to forecast with precision, given it is dependent on renewal, timing and size, which can change based on client budgeting decisions, consumption levels and duration preferences, among other factors.

We expect non-GAAP operating profit margin to be between 6.5% and 8.5% for the full year. Our profit guidance reflects the decline in L&S profit contribution due to renewal, timing and coming off a strong 2024. We expect this to be partially offset by approximately 150 basis points of improvement in aggregate DWS and CA&I gross margins and a reduction in SG&A.

For the full year, we expect to generate approximately $100 million of pre-pension free cash flow and slightly positive free cash flow after funding our pension contributions, allowing us to preserve our strong cash balance.

Our pre-pension free cash flow outlook reflects significant improvement in cash conversion as environmental, legal, restructuring and other payments are expected to be a net positive $10 million, which includes a one-time collection of the remaining $25 million owed to us as part of the favorable legal settlement negotiated in the fourth quarter.

We have settled several matters contributing to our elevated levels of legal payments in prior quarters and also expect lower cost reduction and other payments this year. Our cash outlook assumes capital expenditures of approximately $95 million, cash taxes of approximately $60 million, and net interest payments of about $15 million. Cash interest does not include any assumption of refinancing.

However, we are monitoring credit market conditions along with our banking partners to be prepared to opportunistically take advantage of any favorable opening to refinance in 2025.

Looking specifically at the first quarter, Ex-L&S revenue is expected to be approximately $370 million, which includes more than $10 million of expected FX impact relative to the prior year end, equating to a low single-digit decline year-over-year in constant currency.

The majority of the constant currency Ex-L&S decline is due to a benefit in the prior year related to the favorable settlement of a previously exited contract. We also expect a slight decline in Ex-L&S revenue from our iPSL joint venture, which had zero margin and is reported within All Other.

Based on renewal timing, first quarter L&S revenue is expected to be approximately $70 million compared to $93 million in the prior year. First quarter is expected to be our lowest L&S quarter of the year. Full year L&S revenue is expected to be back half weighted with a split of approximately 40% in the first half and approximately 60% in the back half.

Given the cadence of L&S renewal timing and the impact of FX, this translates to a total company reported revenue decline of approximately 10% or 7% in constant currency and a low-single digit non-GAAP operating margin.

While we do not provide financial guidance or cash flow color beyond the current year, I wanted to touch on the potential path that we see for achieving improved pre-pension free cash flow in light of the expected increase in pension obligations next year.

We expect much of the incremental cash flow to come from increasing gross profit in our Ex-L&S Solutions, where we are targeting approximately 150 basis points of annual gross margin expansion resulting from delivery optimization and accretive new business momentum.

We have demonstrated our ability to deliver gross profit improvements these past few years and expect that we will continue to do so. We also anticipate some incremental L&S gross profit in 2026 based on our expectation of $400 million in L&S revenue.

In addition, we expect further improvements in SG&A. As a reminder, we also expect an approximate $30 million reimbursement of environmental costs in 2026.

An increase in interest payments, assuming a refinancing in 2026 would largely be offset by a further reduction in our baseline environmental restructuring and other payments. This pathway should lead us to the pre-pension free cash flow needed to fund our future pension contributions and organic investments for profitable growth.

With that, I will turn the call back to Peter.

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

Before we open the call to our Q&A session, I want to thank you for all of your attention to our company. For several years, I have been joined by both Deb and Mike Thomson, our President and Chief Operating Officer in the Q&A session of our earnings calls.

We announced in December 2024 that effective April 1, 2025, Mike will become our CEO and I will continue as Chair of the Unisys Board of Directors. Thank you also for your support of Mike.

Given that change, I am asking Mike to take the lead on this Q&A session and working with Deb on the earnings calls going forward.

Operator, please open the call to comments and questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Rod Bourgeois with DeepDive Equity Research. Please go ahead.

Rod Bourgeois
Analyst, DeepDive Equity Research

Q

Great, great. And thanks. So, want to just give my kudos to Peter and to Mike for this transition, you guys are both a class acts and I wish you guys the best.

Just to jump into the first question here. Given the low growth exit rate in the Ex-L&S business, as you exit 2024, you've got a pretty significant growth rebound expected during 2025. And I know some of that is coming from the strong new TCV bookings that you've had.

But can you give us some more visibility into how you're looking at that growth trajectory in Ex-L&S, I mean, how much of your confidence in that growth inflection point is coming out of work that's already booked in the backlog where you have visibility into the ramp-up?

Because I'm also wondering if you have any assumption that these weak client volumes are going to come back, or is all of the assumption based on what you're seeing in the backlog? Thank you.

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

A

Hey, Rod. Thanks for the question. And your opening comment there, much appreciated and obviously, thanks for the following, the company, et cetera. Your viewpoints here are always insightful and we appreciate the time following us.

Your question has a couple parts to it, so I'll try to break it down into those. I think in general, as you know, from an industry perspective, we did fairly well in relation to the peers in 2024, but clearly we were behind in our expectations in Ex-L&S in revenue growth. You are exactly right that we're looking at that inflection in 2025. We're calling for, as Deb alluded to, 1% to 5% growth in Ex-L&S on constant currency basis.

And I think that comes from really probably three component pieces. And I'll break those down to give you a little bit more color.

The first, as you've alluded to at the end of your question, was in relation to backlog conversion. Clearly, we had very strong new business signings in both CA&I and DWS from new business TCV perspective, both of which were roughly 40% increases. I think we called 29% year-over-year in new business signings.

So, we've got this, I'll say, lapping component of new business that we've signed in the back half of 2024 that we're going to see the benefit of in 2025.

And a reminder that those new business signings are also kind of our new solution components, which are higher margin elements to that. So that's number one. Number two, when you look at what happened in 2024, specifically with kind of the low volume components of our field services work, specifically PC oriented, you're seeing from an industry perspective, we're all expecting an uptick in that PC refresh cycle.

So, I think those volumes will start to come back. And moreover, we – and as we announced earlier and in some of Peter's earlier commentary, we've accelerated with one of our large OEM global partners, a field services component on higher margin storage work. So, not only are we lapping year-over-year the PC volume decline, but we're also picking up additional field services work at a higher margin profile as well.

So, I think what we saw at the end of 2024 was kind of a little bit of a renewal in the work effort from volume-based projects starting to come back. So, we'll see that pick up. We see the margin inflection on the PC refresh and our DSS offerings that we think are going to be pretty strong in 2025 and the pickup in the type of work that we're doing.

Much of that is in backlog already. And if it's not in backlog, if we look at just in general our pipeline and visibility to deals we expect to close in 2025, those deals are in a much more mature stage where we're little over 20% more into our later stage process when you talk about closing out our go-to-market contracts.

So, a lot of it is visibility of backlog, a lot of it is later stage work and a lot of it is lapping just what I would say, our quarterly or back half of the year lower volumes that we expect to recover in 2025. So, hopefully, Rod, that gives you the type of color that you're looking for and kind of where that inflection confidence is coming from.

Rod Bourgeois
Analyst, DeepDive Equity Research

Q

Yeah, super helpful commentary there. And so, my follow-up is really about your ability to continue to drive the improvement in pre-pension free cash flow, the reversal in the environmental legal and restructuring bucket, which had been very large in 2023. The reversal there is super encouraging and I appreciate the color that you guys have provided on that already.

So, now I want to focus on the margin levers that you have. And what I'm hearing is you have gross margin levers and you're also continuing to do work on the SG&A front, although there are some investments in SG&A as well.

So, just to clarify, you clearly are citing gross margin improvement from here. Are you also expecting SG&A benefit to your overall operating margin?

And then just the specific thing within gross margin, can you give us a sense for how much of the gross margin improvement confidence is coming from cost takeout and productivity versus pricing and mix shift?

Because it does sound like you're – you have opportunities on the productivity side but also on the mix shift and on the pricing side. And can you give us a sense of the balance of those two buckets in your gross margin trajectory? Thank you.

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

A

Yeah, sure. And again, thanks, Rod, for the question and the clarity here. So, you're really right on all accounts here, right. So, if we just talk about the gross margin, I'll stay on the operations side for a minute and then I'll flip over to SG&A and maybe ask Deb to comment on the SG&A component as well.

But if you think about the gross margin improvement in the business, you're seeing what we're calling in 2025 has two components. It has the L&S step-up in top line. That is also an increase in gross margin as that top line pull through.

And you'll note that when Deb gave the commentary around the L&S gross margin for 2024, with a higher mix of hardware components in that and in general was sitting at probably the low-to-mid 60% gross margin rates.

Here we've got a step-up in both top line primarily based on consumption. And so, this 2050 [ph] L&S (00:46:38) program has been helpful in driving additional gross margin dollars.

We're also talked about that being in the approximately 70% range. So, there is a pickup to your point on the top line from an L&S perspective.

If I shift to Ex-L&S, we've got really two things at play. One, as you've just alluded to, there is a top line benefit to gross margin because we're selling our solutions at a higher margin from the start and they're more value solutions, right.

So, it's not – the whole point of our strategy shift was to kind of move up that stack and we're seeing some of the benefit of that coming through.

And we see this continued work force modernization. So, Peter alluded to that in his opening remarks and gave three elements of that as it pertains to the shifting of the workforce, the upskilling and right scaling of the workforce, as well as the efficiency and utilization play.

So, I would think from an operational perspective, we're calling for about a point-and-a-half on the aggregate in Ex-L&S margin improvement.

And I would say, if I look at that proportionately, it's probably about a half-a-point or so pull through top line and a point from efficiency in the workforce, right. And it's also just the efficiency in how we're delivering our solutions, Rod, when you talk about the [indiscernible] (00:48:10) of AI and AI ops and orchestration, etcetera, right, that just being able to deliver that in a more efficient way is where a good chunk of that comes from.

You're right in that we're also expecting continued improvements in SG&A as well. Deb mentioned a couple of components of that. And Deb, I'll ask that if you want to weigh in here on the SG&A component for 2025?

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

A

Great. Thank you. And thanks, Rod, for your question. We definitely are making progress executing what we had laid out at Investor Day in 2023.

Our SG&A initiatives, we're streamlining corporate functions, rationalizing real estate and centralizing technology and we've made a lot of progress with that.

To your point you made we are also reinvesting some back into our go-to market and our portfolio. But we still will see a portion of our operating profit improvement in 2025 will be from that continued SG&A reduction and progress we're making.

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

A

And I would say, Rod, just to close that out, I mean, obviously, our focus is on pre-pension cash flow and kind of continual step-up in that. You've seen that number almost double in 2024.

Deb talked about that being in $100-million-ish range in 2025. And the path to the $150-million-ish range in 2026 which gets the comfort level that the contributions that need to be made in those out years are covered and we're not tapping into our cash balances to do that. So, I think that's kind of the name of the game here.

Rod Bourgeois
Analyst, DeepDive Equity Research

Q

Great. Thank you, guys. And thank you to Peter. You will you will be missed. Talk to you guys later.

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

A

Thanks, Rod.

Operator: Thanks very much. The next question comes from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

Hey, everyone. Good morning. Nice to see progress in the business. And yes, big congratulations to Peter and the team for everything they've accomplished over the last few years.

And with Mike at the helm, I'm looking forward to more progress in the business moving forward. So, maybe we could just drill down on L&S a little bit more. It's obviously a big lever moving forward. We did see a step-up in the guide after Q3. You exceeded that. And then we have another step-up here.

Can you drill down a little bit on where that uptick is coming from? Is the broad based? Is it function of the new release software AI? Is it verticals? Any color there would be appreciated. And I have a quick follow-up.

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

A

Sure. And thanks for the question, Joe. And I agree with you and Rod, Peter will certainly be missed and looking forward to continuing the great legacy he has left us here. So appreciate the opening comments there.

Look, I think you know, Joe, this pretty well, this business has continued to outperform. We continue to see clients over the broad base signed contracts for longer durations continue to invest in the IP estate around the L&S platform in general.

I think interestingly enough, when you think about what's going on, obviously, in the world today and you think about the AI component of that and you look at this business, I don't think it's really any different, right.

The value in the AI is really about the large language models and the data. And when you think about our L&S operating system, it's got tremendous amounts of data that is secure and usable from that perspective.

So, when you look at the work that we're doing and the planning process around ClearPath Forward 2050, it's really about the ecosystem around the L&S platform.

And I think what we've seen over the course of the last couple years and we expect to see prospectively, which is why we've raised our color guidance there up in both 2025 and in 2026 for an average of roughly $25 million per annum of an increase in those years on a top line basis, it's because we're getting that strength from our clients in their increased consumption and their willingness to sign longer term deals, right.

They're coming to us wanting to extend the life of the deal and also giving us work in the application space that sit on top of that platform to help modernize that infrastructure. So, this has not been new, right? I think we've seen this trend of overperformance from this business probably over the course of the last two years.

And then, as you know, we have a pretty deep line of sight into the clients that utilize this platform and work with them fairly exclusively in how we can continue to modernize. And we're seeing that take up rate. So, we're pretty excited about the longevity of this business. We think it fits in really nicely to what you would consider a modernization story.

And as you know, it's the most secure operating system on the planet when you talk about according to [indiscernible] (00:54:14) and the value that that brings. So you've got this tremendous dataset that can be utilized in a modernized way. So, we're seeing really, I'll say, strong client support of that, and that's given us confidence to increase our color there.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

That's great. Thanks, Mike. And then maybe on the operation side a bit. I know Peter discussed this, I guess the repositioning or restructuring and application services and the software factory. Is there anything special to note there on timing this occurring now. I know you've done a lot of repositioning internally over the last few years with this. Did something new pop up on the road map or with just kind of planned, but there were other things to do first. Just some more color there would be appreciated. Thanks a lot.

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

A

Yeah, great question. And thanks, Joe, again, for your continually following the story here and being spot on with these.

Look, the applications factory as we're calling it is nothing new. You're right when we did our first premise of what the future strategy of the company would look like, this was under consideration then, right? But we had so much to do in order to kind of get the new strategy in place. We had a lot of change going on and it just wasn't the time from an adoption perspective.

So, we kind of left these areas sit in there, I'll say legacy, business ownership. Some of it was in ECS, some of it was in BPS, which is in our – was in our other segments. We kind of let it mature a little bit there, but was always intentional to bring this together, to get the leverage that we wanted out of this business.

We're just at a point where we're mature enough. I think in both our leadership, our structure, our solution development and wanting to get deeper into the industry verticals where it made sense to do it now. So, there's really no magic bullet as to why, other than it's the maturity of our solutions and of our management team and of our strategy that allowed us to do it effective January.

Now, we will be putting out an 8-K shortly that relates to the kind of restatement of those segment data so that everyone has the ability to model. We'll put two years out by quarter. That'll be probably filed after we file the K, which we expect to be a little later this week. And that will give the kind of movement out of ECS into CA&I and out of All Other into CA&I and give a good viewpoint.

But look, we know that apps modernization, in general, is a fast-moving element of the industry and the segment, and we want to take advantage of that. So, we're putting some, I'll say, more wood behind the bat. We're bringing these teams together. It's giving us a good geography base, especially in EMEA, to grow from, which we've seen some good growth over the course of the last year.

And so, we think it's the right time to do it, but there's no like triggering event, if you will. It's kind of always been in the hopper and this is just the time we thought was the most advantage to us to pull it together and take advantage of the growth that we're seeing in new business.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

That's great. Thanks for that color, Mike, and congrats to the team. Best of luck to everybody.

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

A

Great. Thank you, Joe.

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

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Yes, hi. Thanks for sneaking me in here. Congrats again to Peter and Mike on the recent announcements and appreciate the continuity by your leadership of the board, Peter.

Just very quickly for me, just a couple of things. First, I think you've kind of talked about the higher renewal TCV year in 2025 versus 2024. Is there any way you can quantify, I guess, how much higher of a TCV renewal year 2025 is relative to 2024?

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

A

Yeah, I don't know that I have the percentage that I can give you, Arun. But there's really two reasons for that. One is just the timing of the renewal cycle, right. And that does ebb and flow a little bit.

The other was there were a couple deals that we expected to renew at the tail end of 2024 that got pushed into 2025. So, when I look at it from that perspective, I would say 2025 is probably a little bit more of a normalized renewal cycle if there is such a thing.

So, not really a percentage that I would give you. I guess the thing I can tell you is if I look at kind of backlog conversion, the expectation is the backlog conversion of revenue in 2025 is going to be fairly consistent to what it was in 2024. And we're expecting that that renewal cycle to be stronger in 2025, both for just the due dates on when they come up to bid. And I guess secondarily, the rollover of a couple things that we expected to have happened in 2024 that got pushed into 2025.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Got it. Thank you for that Mike. And I assume that's also the push from 2024 to 2025 for some of those renewals is basically what impacted the book-to-bill? Is there some kind of connection there as well?

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

A

Yeah, you're exactly right, Arun. And thanks for calling that out. I should have done it as well. Yeah, we were certainly expecting a higher book-to-bill in 2024. And it was in relation to these expected closings.

But as you know, tail end of the year, you've got these closings. They push out a week or two and they change fiscal years. So, I think you'll see a higher number than normal in 2025 based on that, right, from a book-to-bill perspective and the increase in backlog and TCV.

But if you're looking at the two years combined, it's normalized and aligned to what was in our strategy from inception.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Appreciate it. One more from me, and that is in terms of the – it was really great to see the L&S revenue transition here and the continued with prior guidance versus prior guidance.

But can you talk about sort of just to get a sense for how broad that is across of your – across your L&S base? Is there any way you could sort talk about how many customers, I guess, accounted for this pretty significant improvement from the beginning of the year to the end of the year in terms of your expectations for the overall L&S evolution?

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

A

Yeah, look, I would say in general and maybe tying this back in to Joe's question, the favorable, I'll say market conditions that we're seeing is across the whole base, right. It's not like it's a specific client.

Now, as you know, these L&S renewals come up. These are three to five or seven-year deals, right? So, when they come up for renewal, it's more a timing on the renewal schedule, which is why we break it out and it's lumpy.

But I would say in general, we've seen increased consumption and we've seen increased desire to extend contracts, right. And that's across the base, not a one-off or a one project oriented thing. And it's been pretty consistent over the last couple of years in that manner.

So, it's not some anomaly, in our opinion, of a one-off thing. And there's a reason why we have ClearPath 2050 as our mantra here, right. We have seen and continue to see the increase in consumption and the insight from our clients that there's a long tail here and they like this platform. It works well for them in the business and they've seen our ability to modernize around it. So, it's really been pretty, pretty favorable experience from our perspective.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Thank you, Mike. And then one last thing maybe for Deb, just in terms of the free cash flow guide. I just want to make sure that the 2025 guidance includes the remainder, I guess, the $25 million remaining and the legal settlement that was announced in Q4.

And then on a sort of a longer timeframe, I think we saw in 2025 there was a small reduction in pension funding requirements relative to your expectations going into the year. Any other possibilities like this in 2025 that could impact 2026 and beyond in terms of reducing the front end of the pension cash obligations? Thank you.

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

A

Right. So, just to clarify, in the – our $100 million of pre-pension free cash flow color that we gave, that does include the $25 million expected from that settlement. So that's your first question.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.

Q

Got it.

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

A

And second, I think from a pension perspective, I'm not sure, we did have a slight uptick in the contributions for this next five years, which is what we typically focus on since that's the less volatile, more of the volatility out in the later years and also that's what we really focus on to look at our liquidity needs that are near term at that five years.

So, slight uptick there but we feel like you we're still on a path to be able to fund those with our pre-pension free cash flow.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.
Q

Great. Thank you, Deb.

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

Just remember when we do that pension analysis annually, right, you get the full analysis done, the actuarial viewpoint, there is typically very little movement in that first 18 months on the contribution side.

When you see a movement in that, it typically comes in later in those contributions schedule as they pertain to actuarial assumptions. So, I expect that the next several years of those contributions are pretty much locked and loaded.

And if we do see any movement up or down, it would be probably two years and beyond when we look at that. So, that's Deb's point on the short-term liquidity component of it.

Arun Seshadri
Analyst, BNP Paribas Securities Corp.
Q

Thank you, both.

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

You're Welcome. Thanks a lot.

Operator: [Operator Instructions] The next question comes from Anja Soderstrom with Sidoti. Please go ahead.

Anja Soderstrom
Analyst, Sidoti & Co. LLC
Q

Hi. And thank you for taking my questions and also want to thank Peter for his time and look forward to continue working with Mike.

Most of my questions have been addressed already, but I'm just curious with the much stronger L&S expected in 2026? How is that going to impact your cash flow expectations?

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

Hi, Anja. It's good to hear from you thank you for the question. Deb, why don't you, why don't you field that one?

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

Okay, great. No, we – it will help. So as far as that kind of expected potential bridge to 2026, that is an element of it. So, that Ex-L&S going from what we're expecting to be $390 million in 2025 going to $400 million in 2026. And it is at that higher margin approximate 70% that we laid out.

And so, given that it does contribute a decent amount to getting to that bridge, in addition to a bigger component is the Ex-L&S gross margin improvement, which we kind of proven that we've been able to continue to increase that approximately 150 basis points, particularly you're looking – particularly CA&I and DWS, which we're calling for again in 2025. And then also you can expect that continue in 2026.

So that's a bigger piece of it, that gross profit from Ex-L&S. But that L&S bump of that $10 million more of revenue will also be a contributor to it along with SG&A improvements, as I mentioned, and then continued improvement in cash conversion.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Okay. Thank you. And then in terms of demand in the commercial vertical, is there any industry that's worth calling out either on the negative side or the positive side?

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

A

Yeah, I wouldn't say that there's any industry I would call out, certainly on the negative side, I don't really have anything call out there.

We have, as you know, really focused in public sector diving a little deeper into higher ed. We have a pretty strong presence in travel and transportation and, obviously, in financial services.

So, we're pretty, as you know, Anja pretty evenly distributed amongst those various industries as far as our businesses is concerned. And we're fairly evenly distributed from a geography perspective as well.

So I think we have a really nice of diversity both in geography and segment that kind of insulate one another from any specific anomalies.

And again, we've got a clearly a focus area in public sector. And as a reminder from that perspective, you're talking state and local business domestically and internationally, clearly foreign countries, etcetera, that make up our public sector.

So, nothing I would call out in particular other than to say that they've all been at least where we're playing, all been performing pretty well as of late.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Okay. Thank you. That was all for me.

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

A

Great. Thanks, Anja.

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.

I'll do quick closing remarks, but then I'll let Mike actually do the final closing remarks. I really want to appreciate and thank each of you. Joe, Arun and Anja, thank you for your remarks following Rod's. Thanks for your support and it's encouraging and totally expected that you are supportive of Mike in the new role. He will be terrific in this role and I can tell you he has the support of both our board of directors and our entire leadership team. With that, over to you, Mike.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

Great. Thank you. And I would like to acknowledge Peter here as well. Thank you, Peter, so much for your leadership in the company.

And as a reminder to the folks on the phone here, Peter is staying on as Chair of the Board. So, we're lucky to keep him with us for an extended period here on the board side of the equation. So thanks, Peter, for your guidance.

Look, I'll just wrap up by saying, number one, thanks for taking the additional time. I know we went over, but it's always good to get to questions and get the color out.

You know we continually try to give more and more transparency in our remarks and in our content. And by that, I would also remind you all to visit unisys.com, Investor Relations website. There is a ton of information that we've talked about here and additional information, again, from a quarterly perspective and an annual perspective, exceeded our upward guidance as far as profitability is concerned, met our revenue guidance, improved our operating and free cash flow and hopefully gave you some good color into what we're expecting in 2025 which is the continual improvement of the margin component of this business as well as seeing growth in that Ex-L&S business as well, driving additional profitability and cash flow, right. So, that's what we're focused on.

I know that you'll see the continuity in the strategy and the team and looking forward to our next call. So thanks a lot for your time and attention and looking forward to Q1. Thanks.

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