Niels Christensen, VP, Investor Relations

- Thank you operator. Good morning everyone, and thank you for joining us.
- About an hour ago, Unisys released its fourth quarter and full year 2009 financial results. With us this morning to discuss our results are Ed Coleman, our CEO, and Janet Haugen, our CFO.
- Before we begin, I want to cover just a few housekeeping details.
- First, today’s conference call and the Q&A session are being webcast via the Unisys investor website.
- Second, you can find the earnings press release and the presentation slides that we will be using this morning to guide our discussion on our investor website. These materials are available for viewing as well as downloading and printing.
- Third, today’s presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. Certain financial comparisons made in this call will be with and without the impact of cost reduction charges taken during 2008. We also make certain comparisons between periods on a constant currency basis or excluding the impact of foreign exchange. In the presentation we have provided a reconciliation on a U.S. GAAP basis compared with our results excluding the impact of the cost reduction charges and an explanation of the basis for constant currency calculations.
- Finally, I’d like to remind you that all forward-looking statements made during this conference call are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. These factors are discussed more fully in the earnings release and in the company’s SEC filings. Copies of these SEC reports are available from the SEC and from the Unisys investor website.
- Now here’s Ed.

Ed Coleman, CEO

- Thanks, Niels. Hello, everyone. Thank you for joining us today for our fourth-quarter and full-year 2009 earnings call.
- As we begin our discussion this morning, please turn to Slide 1 for highlights of our results.
- We came into 2009 with a clear plan and goal to turn around the business, achieve profitability, and generate free cash flow.
- The economic environment over the past year made it more critical that we move quickly and with urgency to execute on our business priorities, reduce costs, and strengthen our balance sheet.
- As you can see in our results, our people rose to the challenge. Despite lower revenue in 2009 as we narrowed our focus and worked through the downturn, we reported three consecutive quarters of significantly improved profitability and cash flow.
- For the fourth quarter, we delivered an operating profit margin of 10.8 percent and net income of $115 million versus a year-ago loss. We also generated $163 million of free cash flow in the quarter, which was up more than $100 million year over year.
- As Janet will show you when she goes through the results in detail, our services business doubled its operating profit margin in the fourth quarter despite lower revenue.
- And our technology business grew revenue 19% in the fourth quarter, driven by strong sales of ClearPath systems. We are focused on delivering continued product innovation and value to our ClearPath client base, and it was good to see this result in the quarter.
- For the full year of 2009, we reported an operating profit margin of 7.5% and net income of $189 million, compared to a year-ago loss of $130 million.
- Equally important, we generated $196 million of free cash flow in 2009 – a $236 million year-over-year improvement – and our cash balance at year-end 2009 improved by more than $100 million.
• Our services business more than doubled its operating margin in 2009 to 6.2%, which was a significant improvement but below our target of an 8 to 10% services operating margin. Consistently reaching this target remains an important goal for our company.

• In our technology business, ClearPath revenue was basically flat in 2009, and remained a major contributor to our profitability for the year.

• At the top line, while we’d like to see our revenue growing, our primary focus over the past twelve to fifteen months has been enhancing our profitability and cash flow by making sure we’re targeting the right opportunities in the right markets, and not just chasing growth for growth’s sake.

• But despite the economic turmoil, our outsourcing business, which is our largest services offering, has had two consecutive quarters of strong order growth.

• As a result of the work we’ve done, we feel we are in a much better position today than twelve months ago to compete and pursue growth opportunities in our targeted market areas.

• So we are pleased with our results for the fourth quarter and for 2009 overall … but we recognize it is only a start. We have a lot more work to do, both at the bottom line and the top line, and we will need to do that work in what continues to be a challenging and extremely competitive business environment.

• In 2010 we will continue to focus on executing on our stated business priorities.

• If you’ve been following our earlier calls, you know that we have four priorities in our turnaround program. Those priorities, which you can see on Slide 2, are to:
  o Concentrate our resources on fewer markets and offerings;
  o Create clear, differentiated value propositions in our chosen markets;
  o Drive gross margin improvement through a highly utilized, cost-competitive services labor pool; and
  o Simplify the organization and significantly reduce expenses.

• We made good progress across these priority areas over the past year … and I’d just like to briefly note some of the major accomplishments.

• In the area of concentrating our resources … we have focused our resources around four large, growing markets where Unisys has core strength. Those four growth markets are security; data center transformation including our server business; end user outsourcing; and applications modernization.

• We are also narrowing our focus by divesting selected operations that fall outside of our focus areas.

• During 2009 we made a number of smaller divestitures, some involving specific country operations where we lacked the scale to compete cost-effectively.

• Earlier this week we also completed the sale of our check and cash automation equipment and related U.S. maintenance business to a private equity firm.

• We are currently in the process of closing the sale of our U.S. health information management business to Molina Healthcare for approximately $135 million in cash.

• In the second area of increasing our differentiation … we did a lot of good work over the past year to strengthen our portfolio of differentiated offerings across the four focus areas I just mentioned.

• In security, for instance, we announced our Secure Cloud solutions and continued to enhance our biometric-based security solutions. In data center and end user outsourcing, we announced improved Remote Infrastructure Management offerings, and an enhanced set of End-User Productivity Services. In our server business, we introduced new features and price-performance for our ClearPath family, including enhancements that broaden our capability to modernize many legacy applications running on ClearPath.

• Recognizing the critical importance of service quality, we also continued to expand the list of ISO and ITIL certifications we have earned for our services portfolio and global service locations, to help ensure our clients receive a consistently high level of service from Unisys around the world. We believe the scope of our global certifications is among the strongest in the industry … and we will continue this focus on service excellence in 2010.

• Our refreshed portfolio is helping us win major new service contracts across our areas of strength. Major wins in 2009 included business with such organizations as Unilever, Henkel, the European Union, Travelsky, the U.S. Department of Agriculture, FEMA, the Commonwealth of Pennsylvania, and the city of Santa Clara, California.
• We have a lot of work yet to do in terms of sharpening our market focus and differentiation, but with the work we’ve done to date, we are in a stronger position to pursue opportunities for profitable growth in our chosen market areas.

• In the area of improving the cost-efficiency of our services delivery … as you may recall, our stated goal has been to lower our annualized cost of services delivery by $250 million.

• Against that goal, to date we’ve taken actions to reduce cost of services delivery by about $220 million. We saw benefits from this effort throughout 2009 and in our fourth-quarter services gross margins, which were up 130 basis points year over year.

• But a lot more work is needed to deliver our services more cost efficiently. For instance, in the area of low-cost labor, we’ve been able to increase our use of lower-cost labor to about 20% of our workforce at year-end 2009 from about 16% when I joined the company in the fourth quarter of 2008.

• But we are competing with IT service firms that have 35 to 40% of their workforce in low-cost labor pools. Some of those competitors don’t have the level of federal and public sector business that we do, but to be competitive, we must continue to grow our use of lower-cost labor as a percentage of total labor … and this will continue to get a lot of focus in the year ahead.

• Finally, in terms of reducing overhead … we’ve made a great deal of progress in simplifying our operations and reducing SG&A expenses over the past year, as you can see in our operating margins.

• Our stated goal has been to reduce our annualized SG&A expenses by about $250 million. We have achieved about $240 million of those savings to date.

• At the same time, however, as the economic environment has continued to pressure our revenue, it’s critical that we continue to find ways to reduce overhead expenses and operate more cost-effectively.

• Turning to Slide 3 … as we look ahead to 2010, our priorities, as I said earlier, remain the same.

• Our goal is to become a consistently and predictably profitable company that generates free cash flow and delivers outstanding customer service and profitable growth in our targeted markets.

• To get there, we must continue to focus. We must continue to strengthen our offerings and differentiation to drive profitable growth in our chosen markets.

• We must continue to enhance the cost-efficiency of our labor model, simplify our operations and reduce overhead.

• We must continue strengthening our balance sheet and reducing debt.

• We are expecting another tough year ahead, particularly in the first half, as we work through an uncertain spending environment.

• So we are keeping up our sense of urgency and are focused on execution.

• Thank you again for joining us this morning. Now, here’s Janet to take you through our results.

Janet Haugen, CFO

• Thanks, Ed. Hello, everyone.

• We closed out 2009 with a strong fourth quarter that demonstrated our continued discipline in enhancing our cost efficiency and optimizing cash at all levels of the company.

• And as Ed mentioned, we also made good initial progress in strengthening our balance sheet and capital structure … and we are focused on continuing that progress in 2010.

• This morning I will provide more details on our fourth-quarter and full-year 2009 financial results.

• I will also update you on our capital structure and pension funding expectations for 2010.

• To start our financial review, please turn to Slide 4 for an overview of order trends in the quarter.

• Global economic conditions and competitive pressures remained challenging in the fourth quarter, although we did see some positive indicators.

• While service orders declined in the mid single digits year over year, we saw growth in outsourcing orders for the second consecutive quarter. Outsourcing order growth was more than offset by double-digit declines in orders for shorter-term systems integration and consulting projects.

• In terms of geographic trends, we saw double-digit order growth in our U.S. commercial business. Orders for our U.S. federal government business declined largely due to reductions from our TSA and GSA FAME contracts.
Internationally, we saw order declines on a constant currency basis across all of our overseas markets in Europe, Latin America, and Asia Pacific.

We closed 2009 with $6.5 billion in services backlog, which was up 1 percent sequentially since September 30, 2009 and up 7 percent from December 31, 2008 due principally to currency movements.

Slide 5 highlights our financial results in the fourth quarter.

At the top line, we reported revenue of $1.21 billion in the quarter, which was down 5% year over year. Currency had a 5 percentage-point positive impact on our revenue in the quarter. Based on today’s rates, we anticipate a 6 - 7 percentage-point positive impact on revenue in the first quarter of 2010.

We reported operating income of $130.2 million in the quarter compared to a year-ago operating loss. And our operating profit margin improved to 10.8 percent versus an operating loss of 3.7 percent a year ago.

Our results for the fourth quarter of 2008 included net cost-reduction charges of $99.0 million related to workforce reductions, facility consolidations, and asset write-downs related to portfolio exits. Excluding these charges, our operating profit in the fourth quarter of 2009 increased by $79 million and our operating margin percentage was 680 basis points higher.

At the tax line, we had a $16.8 million tax benefit in the quarter compared with a $19.3 million tax benefit in the year-ago quarter. As a reminder, our tax provision continues to be highly variable from quarter to quarter depending on the geographic distribution of our income.

At the bottom line after taxes, we reported $114.5 million net income in the quarter, which was a $172.5 million improvement from the year-ago $58 million net loss.

Slide 6 shows our fourth-quarter revenue by geography.

Our U.S. revenue declined 14% in the quarter and represented 41% of our revenue in the quarter. Within the U.S., we saw revenue declines in both our federal government and commercial businesses.

International revenue grew 1% in the quarter. On a constant currency basis, international revenue declined 8%, with slight declines in Europe and double-digit declines in other international markets.

Slide 7 shows more detail on our fourth-quarter revenue.

Outsourcing revenue, our largest business, declined 4% in the quarter driven by double-digit declines in our business process outsourcing revenue. Systems integration and consulting revenue declined 14%.

Enterprise server revenue grew 29% in the quarter as we benefited from seasonally strong ClearPath sales, which were up more than 40% over the year ago period.

Infrastructure services, core maintenance, and specialized technology revenue all declined by double-digits in the quarter.

Slide 8 summarizes our financial results for the full year of 2009.

At the top line, we reported revenue of $4.60 billion in 2009, which was down 12% from 2008. On a constant currency basis, 2009 revenue was down 8%.

Our gross profit was up slightly year-over-year on lower revenue. As a percentage of revenue, our gross profit margin improved 320 basis points in 2009 versus 2008.

Operating expenses, including SG&A expenses and R&D, declined 27% year over year.

After expenses, we reported an operating profit of $346 million, or 7.5% of revenue, compared with operating profit of $40.7 million, or slightly less than 1% of revenue, in 2008.

Our full-year 2008 results included a total of $103.1 million of net charges related to cost reduction actions. Excluding those charges, our full-year 2009 operating profit improved by more than $200 million and our operating profit margin percentage increased by 480 basis points.

After taxes, we reported net income of $189 million compared with a net loss of $130 million in 2008.

Now I’ll briefly cover details on our full-year 2009 revenue.

Slide 9 shows our full-year revenue by geography.

Our U.S. revenue declined 6% in 2009 and represented 46% of our revenue for the year.

International revenue declined 17 percent – 10 percent in constant currency – and represented 54% of revenue in 2009.

Slide 10 shows our 2009 revenue by business offering.
• As you can see, all of our business offerings were affected by the challenging economic conditions last year as well as the impact of our decision to de-emphasize those areas of the business that are outside our areas of strength. In addition, we continued to face secular decline in certain businesses and declining volumes in some of our BPO’s.

• Outsourcing revenue declined 10 percent in 2009 to $1.8 billion in revenue. BPO revenue declined by double digits in the year while ITO revenue declined by low single digits.

• Systems integration and consulting declined 9 percent to slightly under $1.4 billion in revenue. Infrastructure services revenue declined 23% as we continued to de-emphasize the lower margin aspects of that business.

• In the technology business, our full-year revenue was down 11 percent despite the 19% technology revenue growth in the fourth quarter.

• Enterprise servers declined 9% in 2009. Within enterprise servers, our ClearPath revenue declined low single digits for the full year of 2009.

• Core maintenance declined 17% for the full year.

• Specialized equipment revenue declined 15%.

• Slide 11 provides some additional detail on our outsourcing business.

• Within outsourcing, we have two types of offerings – information technology outsourcing, or ITO, and business process outsourcing, or BPO. ITO involves the management of the data center, server and end-user environments. BPO involves the management of specific business processes such as check and mortgage processing. The majority of our BPO business is in the financial services industry.

• ITO represents approximately 70 percent of our overall outsourcing mix in 2009, up 5 points from the level in 2008. Although ITO revenue declined during 2009, revenue in the fourth quarter of 2009 was flat on a year-over-year basis, up slightly on a constant currency basis.

• BPO represents 30 percent of our outsourcing revenue mix in 2009 which is down 5 points from 2008. The decline in BPO revenue was driven by the slowdown in the financial services market and reduced transaction volumes. Our BPO revenue is impacted more significantly by currency fluctuations in 2009 than the company as a whole since our two largest BPO processing utilities are based in the United Kingdom.

• Slide 12 shows our 2009 revenue by industry.

• The company’s largest industry is the public sector, which includes our U.S. federal government business as well as revenue from other government agencies worldwide.

• In 2009 our public sector business represented 45% of our revenue and grew 4% to $2.1 billion. This growth was driven by our U.S. federal government business, which I’ll discuss in a moment, as well as strong Technology sales into other Public Sector clients.

• Our other industries declined in 2009, primarily reflecting the weak commercial business environment. Our financial services industry, representing 24 percent of revenue, saw the most significant decline at 25 percent … while our other commercial businesses declined 19 percent.

• Slide 13 provides more detail on the performance of our federal government business in 2009.


• Civilian represents our single largest revenue base within the U.S. federal government, accounting for about 42 percent of our overall U.S. federal government revenue.

• Revenue from Homeland Security agencies represents about 32 percent of our overall U.S. federal government revenue.

• Revenue from agencies within the U.S. Department of Defense represent about 26 percent of overall Federal government revenue.

• As you can see in the slide, our overall U.S. federal revenue grew 8 percent in 2009 to $927 million. From a quarterly perspective, revenue was fairly stable during the first two quarters of 2009 but declined in the third quarter due largely to a reduction in TSA revenue. The year-over-year decline in U.S. federal revenue during the fourth quarter was primarily attributable to reduced revenue on the TSA and GSA FAME contracts.

• In late September 2009, TSA awarded the recompete of the technology infrastructure contract Unisys had been performing to a competitor. Unisys protested the award at the Government Accountability Office. On January 21, 2010, the GAO ruled in our
favor and recommended that TSA redo the competition. We continue to support and operate the TSA’s technology infrastructure and will work with the agency as it responds to the GAO recommendations.

- We ended 2009 with about $429 million of U.S. federal services backlog, which was down 13% compared to the prior-year-end.

- Turning now to margins, **Slide 14** shows a comparison of our segment margins in the fourth quarter and for full year 2009 compared to prior-year periods.

- Despite lower services revenue for the fourth quarter and full year, we were able to significantly improve services gross and operating profit margins based on actions we’ve taken to enhance the cost-efficiency of services delivery and reduce SG&A expenses.

- Margins in our technology business can vary substantially from quarter to quarter depending on specific deal closure. As you can see, driven by the strong fourth quarter ClearPath sales as well as progress in reducing costs, we reported substantial increases in our technology gross and operating margins in the quarter and for the full year.

- **Slide 15** shows the progress we made in 2009 reducing selling, general and administrative costs.

- We reduced SG&A expenses by $268 million, or 28 percent, compared to 2008 levels. About 4 percentage points of this reduction was due to foreign currency fluctuations.

- Our 2008 SG&A expenses included approximately $49 million in cost reduction charges.

- Excluding the impact of currency fluctuations and the 2008 cost reduction charges, 2009 SG&A expenses were reduced by 20 percent on a year-over-year basis.

- Looking ahead, we continue to look for cost-reduction opportunities and will continue to exercise tight controls over expenses given the uncertain business environment.

- Please turn to **Slide 16** for an overview of our cash flow performance in the quarter and full year.

- Driven by our significantly higher profit performance in the quarter, we generated $215 million of cash from operations in the fourth quarter of 2009, up from $138 million a year ago.

- Overall for 2009, we generated $397 million of cash flow from operations, which was up 56% from $255 million in 2008.

- As part of our ongoing focus on cash requirements of our business model, capital expenditures were $52 million in the fourth quarter of 2009, down from $80 million a year ago. For the full year of 2009, capital expenditures were $201 million, down from $295 million for 2008.

- After capital expenditures, we generated $163 million of free cash flow in the fourth quarter and $196 million for the full year of 2009. This compared to free cash flow of $58 million in the fourth quarter of 2008 and free cash usage of $40 million for the full year of 2008.

- We will continue to tightly manage capital expenditures in the year ahead. For full year 2010, we anticipate capital expenditures of $200 to $225 million.

- Depreciation and amortization was $97 million in the quarter and $353 million for the full year of 2009. For year 2010, we expect D&A of around $300 million.

- Cash on hand increased by $104 million year over year. We ended 2009 with $648 million of cash on hand.

- Additionally, our $648 million cash on hand at year-end 2009 excludes $87 million of cash used to collateralize letters of credit during the year. This cash collateral is reflected in “Other Long-Term Assets” on the balance sheet.

- At December 31, 2009, the company had sold $100 million of receivables under our U.S. trade accounts receivable facility, compared to $140 million of sold receivables at year-end 2008.

- Based on a new accounting rule adopted on January 1, 2010, our U.S. accounts receivable facility will no longer meet the requirements to be treated as a sale of receivables, but rather will be accounted for as a secured borrowing.

- This accounting change will impact our operational cash flow comparisons in the first quarter of 2010 and going forward based on the level of receivables sold. There will be no P&L impact.

- Turning to **Slide 17** … I’d like to give a brief update on our progress in strengthening our balance sheet and capital structure.

- As you know, in 2009 we completed the debt exchange process, which enabled us to address pending debt maturities in March 2010 and reduce our overall debt.

- With respect to the remaining $65 million of March 2010 notes, we have pre-funded the payments of these notes earlier this week.
• As part of our turnaround and renewed focus, we also continue to explore potential selected divestitures to focus the business on the areas of strength that Ed has outlined.

• As Ed mentioned, we closed a number of small divestitures in 2009 … and earlier this week we closed the sale of our check and cash automation equipment and related U.S. maintenance business.

• We are also in the process of completing the sale of our health information management business for $135 million in cash. The HIM business represented about $110 million of revenue in 2009 and has about 900 employees. We expect that transaction to close in the first half of 2010.

• We expect to use proceeds from these pending divestitures to help strengthen our capital structure.

• Turning to Slide 18, I would now like to provide an update on our worldwide pension plans, funding position, and expected cash funding levels.

• Driven by the strong recovery in the financial markets in 2009, the assets in our U.S. pension plan – which is the largest of our worldwide pension plans – returned approximately 26% last year.

• However, as a result of swings in the interest rate environment, the discount rate used to calculate liabilities for our U.S. pension plan has declined to 6.11% from 6.75%. The lower discount rate has increased our pension plan liabilities at year-end 2009.

• Taking into account the increase in both pension assets and pension liabilities, we ended 2009 in an underfunded position in our US plans of approximately $1 billion compared with an underfunded position of about $1.2 billion at year-end 2008.

• From a cash funding perspective, we were not required to make cash contributions to our U.S. qualified defined benefit pension plan in 2009. We contributed $94 million of cash to our international pension plans last year.

• For 2010, there is no cash contribution required for our U.S. qualified defined benefit pension plan, and we anticipate contributing approximately $115 million of cash primarily to our international pension plans.

• Based on current legislation and our underfunded position at year-end 2009, we expect to be required to make cash contributions of up to approximately $30 million to our U.S. qualified defined benefit pension plan in 2011. This estimate could change depending on asset returns in 2010 and/or legislative changes being considered in Washington.

• In terms of P&L pension expense … based on year-end 2009 calculations and discount rates, we expect approximately zero in pension expense in 2010, compared with pension income of about $24 million in 2009.

• Lastly, a comment on our Venezuelan operations.

• As you may know, effective January 11, 2010, the Venezuelan government devalued its currency by 50%. As a result, we expect to record a foreign exchange loss in the first quarter in Other Income/Expense. Based on the current exchange rate, the pretax loss associated with the devaluation is expected to be approximately $20 million.

• In closing, we had a strong fourth quarter and a year of significantly improved profitability and cash flow in 2009.

• However, we have more to do to accomplish the objectives of our turnaround program, and the global business environment remains uncertain.

• This makes it critical that we continue our tight cost discipline and emphasis on cash … and we will maintain that focus in the year ahead.

• Thank you for your time.