Niels Christensen, VP, Investor Relations

- Thank you operator. Good afternoon everyone, and thank you for joining us.
- Earlier today, Unisys released its fourth quarter and full year 2011 financial results. With us this afternoon to discuss our results are Ed Coleman, our CEO, and Janet Haugen, our CFO.
- Before we begin, I want to cover 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 afternoon 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. These have been provided in an effort to give investors additional information. The non-GAAP measures have been reconciled to the related GAAP measures and we have provided reconciliation charts at the end of the presentation.
- 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 I’d like to turn the call over to Ed.

Ed Coleman, CEO

- Thanks, Niels. Hello, everyone. Thank you for joining us today to discuss our fourth-quarter and full-year 2011 financial results.
- We made continued progress toward our financial and strategic goals during the year despite softness in our U.S. Federal business. I am pleased with the work we’re doing and the progress we’re making in enhancing the company’s financial profile.
- In 2011, we completed our third consecutive year of profitability and positive free cash flow, an important milestone for the company.
- Turning to page 4 … a little over a year ago we outlined our three-year financial goals for Unisys, building on the company’s more streamlined, cost-competitive business foundation.
- Our overall financial objective is to be a company that is consistently and predictably profitable and known for our financial strength. Specifically, we want to:
  - grow our IT outsourcing and systems integration revenue at market rates, adjusted for the loss of the TSA business, while maintaining stable revenue in our technology business particularly within our flagship ClearPath business;
  - consistently achieve an 8 to 10 percent services operating profit margin;
  - improve our annual pretax profit to $350 million in 2013, excluding any change in pension income or expense from 2010 levels;
  - and reduce our outstanding debt by 75 percent, or $625 million, from September 30, 2010 levels.
- In the first year of executing on this plan, we’ve made tangible progress toward these financial objectives.
- In terms of our top-line goals … while the decline in our important U.S. Federal business had a negative impact on our overall revenue growth in 2011, we were encouraged by growth in other revenue focus areas.
Outside the U.S. Federal market, we grew our IT outsourcing revenue by 9 percent in 2011 – our second consecutive year of growth in this business. Our non-Federal systems integration revenue, while essentially flat in 2011 following declines in prior years, grew in each of the last two quarters of the year.

In our technology business, for the second year in a row we were able to maintain stable revenue in our ClearPath business. Overall technology revenue declined in 2011 due to lower sales of third-party equipment.

In terms of our margin goals, we reported a services operating profit margin of 6.9 percent in 2011, up from 2010 but below our targeted 8 to 10 percent range primarily due to the impact of the lower U.S. Federal revenue. Outside of that business, our services operating margin increased from 2010 levels and was within our targeted margin range.

Against our pretax profit goal -- which I mentioned earlier was to achieve $350 million of pretax profit in 2013 excluding any change in pension income or expense from 2010 levels -- we made significant progress in 2011. Our pretax profit in 2011, excluding the $85 million debt reduction charges and $34 million of pension expense, was $326 million.

Finally, we also made major progress in 2011 toward our debt reduction goal.

In 2011 we reduced our debt by $464 million, or 56 percent, to $360 million at year end. Our cash position, net of debt, increased by more than $350 million during the year.

Since September of 2010, we have reduced our debt by a total of $478 million, getting us about 76 percent of the way toward our 2013 goal and cutting our annualized interest expense by more than $60 million.

Today we are announcing further steps toward our debt reduction goal. We are calling an additional $65.5 million of senior notes. This action will further cut our annualized interest expense by about $9 million and get us about 87 percent of the way to our 2013 goal.

Moving to page 5 … as we work toward our three-year financial objectives, we also remain focused on continuing to strengthen our competitive position and market differentiation.

From a marketplace perspective, our goal is for Unisys to be recognized as an industry leader in our areas of strength – a company that differentiates itself through the quality of our solution portfolio and our passion for service excellence.

Here, too, we’ve made much progress as a company, building a strong foundation for competitive differentiation as shown in this slide.

We have identified and narrowed our focus around our core areas of strength – namely, security; data center transformation and outsourcing, which includes our technology business; end user outsourcing; and application modernization.

Based on these strengths, we have defined our market position: Unisys competes as a mission-critical IT solutions provider that delivers practical innovations and continuously improved service delivery for our clients.

We have streamlined our cost structure and narrowed our geographic footprint, which has enabled Unisys to be a more cost-competitive company.

We have enhanced our solutions and services portfolio with innovative new functionality in areas such as cloud computing, mobile computing, social computing, and cyber security. We are using this strengthened portfolio to differentiate Unisys in the market and help clients such as California State University, the U.S. Coast Guard, McDonald’s, Hertz, and Rio de Janeiro’s water utility CEDAE find more secure, cost-effective ways to operate and serve their customers and constituents.

In our technology business, we continue to do exciting work to enhance and expand the leading-edge capabilities of our ClearPath platform – investing in innovative new features and functionality such as enterprise-class virtualization, integrated specialty appliances, and mobile device support. This has enabled us to stabilize our ClearPath revenue while opening up this platform to potential new markets.

Turning to page 6 … as a result of all this work, Unisys today is being recognized for our increasing market leadership in our key areas of strength.

For example, in the growth market of end user outsourcing, in 2011 once again Gartner placed Unisys in the Leaders Quadrant for North America help desk outsourcing. Unisys was also ranked as a “Strong Performer” in 2011 in the Forrester Wave report for global IT infrastructure outsourcing.

Our client satisfaction ratings and service quality continue to improve and we’re pleased to see the degree to which our clients are willing to recommend Unisys to new prospects.
• These are all positive indicators of a more focused, cost-efficient, competitive Unisys … and while we have more work to do, we are pleased with the progress we’ve made.

• Turning to page 7 … we enter 2012 a much stronger company. We are confident in our strategy and are focused on continuing progress toward our financial and strategic objectives.

• Looking at the market, we continue to see exciting growth opportunities for Unisys. Organizations need to reduce costs and operate more efficiently while addressing major disruptive technologies – such as cloud computing, mobile computing, social computing, big data and smart computing, IT appliances and cybersecurity – that are changing the way people live and work, and the way businesses and governments operate.

• These are challenges that Unisys, with our mission-critical capabilities and portfolio, is well suited to tackle.

• In our U.S. Federal business, we expect the market to remain challenging but we are focused on improving our results in this important part of our business. Even with the ongoing uncertainty in this market, we see opportunities to help government agencies modernize their mission-critical systems and use new IT delivery models, such as cloud, to reduce costs and serve their constituents more cost effectively.

• As we move into 2012, we will continue efforts to drive profitable revenue growth and will be making needed investments in building our sales channels and investing in our software-based industry solutions with good growth potential.

• We will also continue to invest in enhancing our sales effectiveness and refreshing our sales force by bringing in the kind of talent we need to represent and sell our enhanced portfolio of solutions and services. In 2011 we refreshed about 27 percent of our global sales force, in line with our plan, and are focused on continuing this work in 2012.

• Even with these investments, we look to at least maintain our 2011 pretax profitability, excluding debt reduction charges and changes in pension income and expense from 2010 levels, as we drive toward our 2013 targets.

• Thanks again for joining us today. Now, here’s Janet to take you through our results in more detail, and then we will be happy to take your questions.

Janet Haugen, CFO

• Thanks, Ed. Hello, everyone.

• We closed out 2011 with good services orders, continued progress against our top line goals led by revenue growth from IT Outsourcing and Systems Integration outside of our US Federal business, stable ClearPath revenues, and solid cash flow performance.

• We made continued progress in reducing our debt … and are extending that progress in 2012.

• This afternoon, I will provide more details on our fourth-quarter results as well as more details on our full-year 2011 financial results.

• I will also update you on capital and pension funding expectations for 2012.

• To start our financial review, please turn to page 9 for an overview of services order trends in the quarter.

• Services orders rose by low double digits, year over year, and represented our highest quarterly orders in two years. This increase was primarily attributable to higher orders in ITO and Systems Integration.

• In terms of geographic trends, we saw services order growth in North America and Latin America. And within North America, we saw order growth in our US Federal business. Orders were flat in Europe and down in Asia Pacific.

• Internationally, our services orders were flat on a constant currency basis.

• Services orders grew by low double digits in all of our industry verticals.

• We closed 2011 with $5.5 billion in services backlog, which was up about 4 percent sequentially from September 30 and down 4 percent from December 31, 2010. Currency had a 1 percent negative impact on the year-over-year comparison.

• Approximately $680 million of the December 31, 2011 services backlog is anticipated to convert into first quarter 2012 services revenue. Over the past 12 quarters, we have typically had between 86 to 93 percent of our quarterly services revenue in our opening backlog. The balance of our services revenue comes from sell-and-bill business during the quarter.

• For the full year, approximately $2.25 billion or 41 percent of our overall 2011 services backlog is expected to convert into 2012 services revenue.

• Page 10 for highlights on our financial results in the fourth quarter.
• At the top line, we reported total revenue of $985 million. And I will discuss revenue further shortly. Currency had an insignificant impact on our 4th quarter year-over-year revenue comparison.

• We reported operating income of $121.6 million in the quarter which was down from the year-ago quarter’s operating income of $134.6 million. Lower gross profit margin on our services revenue more than offset a 10 percent reduction in operating expenses and resulted in an operating profit margin of 12.3 percent versus 12.9 percent a year ago.

• Interest expense was significantly lower due to lower average outstanding debt.

• And pretax income from continuing operations was $111.3 million and up 8 percent from $103.2 million in the year ago quarter.

• At the tax line, we had a $12.4 million tax provision in the quarter compared with a $6.1 million tax provision in the year-ago quarter. As I have said previously, 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 $98.3 million in net income from continuing operations in the quarter, down slightly from $95.2 million in the year ago quarter.

• Moving to EBITDA, excluding the impact of the debt reduction charges and non-cash pension expense, Unisys generated adjusted EBITDA of $182.7 million for the quarter versus $187.0 million in the fourth quarter of 2010.

• The fourth quarter 2011 diluted earnings per common share from continuing operations was $1.94 versus $2.20 in the fourth quarter of 2010. The diluted EPS calculation reflected an average share count of 50.8 million shares for 4th quarter 2011 and 43.3 million for 4th quarter 2010. The increased share count primarily reflected the effect of the mandatory convertible preferred stock issuance in February 2011.

• Excluding the impact of the debt reduction charges, our 4th quarter 2011 non-GAAP diluted EPS was $2.08 compared to $2.21 in the fourth quarter of 2010.

• Moving to our fourth-quarter revenue.

• On page 11, you see revenue declined 6 percent year over year. Half of this decline was attributable to our US Federal business. And the balance of the decrease was attributable to a decline in Other Technology revenue – specifically, low margin sales of third party technology products.

• Services revenue, which represented 85 percent of our 4th quarter 2011 revenue, declined 3 percent year over year due to lower revenue from our US Federal business. Excluding US Federal, services revenue increased driven primarily from growth in ITO and Systems Integration. This growth represented the second consecutive quarter of growth for Systems Integration and ITO has shown quarterly year-over-year growth for each of the quarters in the last two years.

• Within Technology, our ClearPath revenue was flat year over year. Overall Technology revenue declined due to lower sales of third party technology.

• Turning to page 12 for more detail on our 4Q services revenue and margins, Services gross profit margin decreased year over year to 20.0 percent from 21.9 percent in the fourth quarter of 2010 partly due to fourth quarter 2011 severance costs as we further reduced our services cost base in the quarter.

• Services operating margin was 7.6 percent, a decline of 40 basis points year over year primarily due to the increased severance.

• Excluding the impact of the US Federal business, services operating margins increased and were within our targeted range of 8 to 10 percent.

• Revenue declined year over year across our services portfolio except infrastructure services. Outside of our US Federal business, ITO revenue was up 7 percent and Systems Integration grew by 2 percent.

• Moving on to Technology Revenue and margins on page 13, Technology revenue in the fourth quarter decreased year over year driven by lower sales of third party equipment.

• Our Enterprise Class Software and Servers business reported a 7 percent decline in revenue in the fourth quarter – with ClearPath revenue flat and declines in sales of our X86 servers and storage.

• We reported a Technology gross margin of 65.9 percent in the quarter, up from 56.5 percent a year ago due to the higher proportion of ClearPath sales in the overall Technology revenue. Our Technology operating margin improved by 760 basis points to 37.7 percent compared with 30.1 percent in the fourth quarter of 2010.

• Page 14 provides more details on the performance of our US Federal government business over the past eight quarters.
As you can see, our overall U.S. Federal revenue declined 18 percent in the fourth quarter of 2011 to $162 million. Approximately 60 percent of the decline related to the end of the TSA contract which ended in November 2010.

Civilian agencies represented 47 percent of our overall U.S. federal government revenue for the year.

Revenue from the U.S. Department of Defense and various Intelligence agencies represents about 29 percent of our full year U.S. Federal government revenue.

And with the end of the TSA contract, revenue from Homeland Security agencies has declined significantly. Revenue from Homeland Security agencies represented about 24 percent of our U.S. Federal government revenue in both the fourth quarter and for 2011 overall.

Page 15 shows our fourth-quarter revenue by geography and industry.

Our North America revenue represented 42 percent of our revenue in the quarter and declined 4 percent as a result of lower U.S. Federal revenue. Excluding U.S. Federal, our North American revenue grew 9 percent.

International revenue declined 7 percent in the quarter due to lower revenue in Europe and Latin America. On a constant currency basis, international revenue declined 8 percent.

From an industry perspective, Public Sector remained our largest revenue source and grew outside of the US Federal market.

Revenue from Commercial industry customers represented 35 percent of our fourth quarter 2011 revenue and rose slightly year over year.

Revenue from our Financial customers was about 21 percent of our overall revenue and declined in the quarter.

Please move to page 16 which summarizes our financial results for the full year of 2011.

At the top line, we reported revenue of $3.85 billion in 2011, which was down 4 percent year-over-year. Currency had a 3 percentage point positive impact on revenue in 2011 versus 2010.

Based on today’s rates, we anticipate currency will have about a 1 to 2 percentage-point negative impact on revenue in the first quarter of 2012 and about the same impact on the full year.

Our gross profit margin declined 110 basis points in 2011 versus 2010.

Operating expenses declined 5 percent year over year.

Our 2011 pension expense increased $37 million reflecting a swing from pension income of about $3 million in 2010 to $34 million in pension expense in 2011.

We reported an operating profit of $324.6 million, or 8.4 percent of revenue, compared with operating profit of $375.7 million, or 9.3 percent of revenue, in 2010.

Other expense for 2011 at $55.5 million, which included $85.2 million in debt reduction charges and the net benefit of approximately $17 million from favorable foreign currency movements.

In 2010, other expense was $51 million of which $20 million resulted from the Venezuelan devaluation and another approximately $20 million for the negative impact of currency movement.

We benefited from the $38.7 million reduction in interest expense year over year due to lower average debt; we reported pretax income from continuing operations of $206.0 million compared to $222.9 million in 2010.

In 2011, we made significant progress against our pretax profit goal, which is to achieve $350 million of pretax profit in 2013 excluding any change in pension income or expense from 2010 levels. Our 2011 pretax profit, excluding the $85 million debt reduction charges and $34.3 million of pension expense, was $325.5 million.

After taxes, we reported net income from continuing operations of $206.0 million compared with $158.9 million in 2010.

For 2011, we reported diluted earnings per share from continuing operations of $2.71 compared to $3.67 in 2010. The diluted EPS calculation used an average share count of 49.5 million shares in 2011 and 43.3 million shares in 2010. The increase primarily reflected the effect of the mandatory convertible preferred stock issuance in February of 2011.

Excluding the impact of the debt reduction charges, our non-GAAP diluted earnings per share improved to $4.43 per share versus $3.72 in 2010.

Now I’ll briefly cover details on our full-year 2011 revenue and margins by portfolio.
In summary, as you can see on page 17, overall revenue was down 4 percent for the year due to lower US Federal revenue.

Currency had a 3 percentage point favorable impact.

Excluding US federal, our overall revenue grew by 1 percent and our services revenue rose 3 percent driven by growth in ITO and Infrastructure Services. Systems Integration revenue was flat.

Within Technology, which represented 13 percent of Unisys revenue, our ClearPath revenue was flat. Overall Technology revenue declined due to lower sales of third party technology.

Page 18 shows our services revenue by portfolio.

For full year we saw year-over-year revenue declines across our services portfolio with the exception of our Infrastructure services business which grew by 3 percent.

Outside of US Federal, ITO was up 9 percent and Systems Integration revenue was essentially flat.

Despite the lower revenue, services margins remained essentially flat as a percentage of revenue.

Services gross margin was 20.0 percent in 2011 versus 20.1 percent in 2010. Our services operating margin of 6.9 percent was up 20 basis points from the prior year reflecting continued good control of operating expenses.

Turning to page 19, Overall Technology revenue was down 11 percent for the year despite flat ClearPath revenue. As I noted earlier, lower sales of third party equipment in Other Technology caused most of this decline.

Gross profit margins rose by 190 basis points year over year to 56.9 percent in 2011 due to the higher relative mix of ClearPath sales in the overall technology revenue. The operating margin of 21.5 percent was up 40 basis points.

Within Enterprise Class Software and Servers, our flagship ClearPath revenue was flat in 2011 while X86 servers and storage revenue declined.

The Other Technology business declined 45 percent year over year driven by lower third party equipment sales.

Page 20 outlines our full year revenue profile by geography and industry.

North America revenue, including our U.S. Federal government business, represented 42 percent of our revenue for the year and declined 9 percent in 2011. Outside U.S. Federal, our North America revenue grew 3 percent.

International revenue was flat year over year – down 6 percent in constant currency. Asia Pacific saw modest growth of 3 percent for the year while Latin America was flat and Europe declined 2 percent.

Looking at revenue by our customers’ industry, our largest industry remained the public sector, which includes our U.S. federal government business as well as revenue from other government agencies worldwide. Public Sector represented 44 percent of our 2011 revenue. Public Sector revenue outside the US Federal market grew 6 percent in 2011.

Revenue from our Commercial customers declined 1 percent for the year and represented 34 percent of our 2011 revenue.

Financial services revenue was down 2 percent year over year and represented 22 percent of our 2011 revenue.

Please turn to Page 21 for an overview of our cash flow performance in the quarter and full year.

We generated $159 million of cash from operations in the fourth quarter of 2011, compared to $187 million a year ago.

As part of our ongoing focus on the cash requirements of our business model, capital expenditures were $33 million in the fourth quarter of 2011, down from $41 million a year ago.

We generated $126 million of free cash flow in the fourth quarter. This compares to free cash flow of $146 million in the fourth quarter of 2010.

Overall for 2011, we generated $317 million of cash from operations compared to $337 million in cash from operations during 2010.

For the full year of 2011, capital expenditures of $134 million were down $69 million from 2010. For 2012, we anticipate capital expenditures in the range of $150 to $200 million.

Free cash flow was $183 million for the full year 2011 compared to free cash flow of $134 million for 2010.

Depreciation and amortization was $45 million in the quarter and $195 million for the full year of 2011. For 2012, we expect D&A of about $170 million.
Turning to page 22 which highlights the improvements we have made in the company’s capital structure, you can see that we continued to build net cash and our cash balance at December 31 was almost double our debt balance of $360 million.

We ended 2011 with a cash balance of $715 million, a decrease of $113 million year over year which reflects the use of our cash for our ongoing debt reduction efforts.

Turning to page 23 … for an update on our balance sheet and capital structure.

During 2011 reduced debt by $464 million and have eliminated debt with maturities before October 2014.

Today, we announced that we are calling for the redemption of the remaining $25.5 million of our 14.25% senior secured notes due in 2015 and $40.0 million of the 12.5% senior notes due in 2016. These transactions, when complete, will reduce our debt to about $295 million and bring us to within $85 million of our 2013 debt reduction target. A debt redemption charge of approximately $7 million will be recorded in the first quarter of 2012 and annual interest expense will decline by approximately $9 million as a result.

Turning to page 24, I would now like to provide an update on our worldwide pension plans, funding position, and expected cash funding levels.

The discount rate used to present value the US pension obligation at December 31, 2011 was 4.96 percent. This rate is lower than the December 31, 2010 discount rate of 5.68 percent reflective of the change in interest rates from last year end. The lower discount rate has increased the present value of our US pension plan liabilities at year-end 2011.

Taking into account the increase in pension liabilities and decrease in pension assets, we ended 2011 in an underfunded position in our US plans of $1.6 billion which was approximately $630 million above the level at year-end 2010.

A change of 25 basis points in the US discount rate causes an approximate $127 million change in the pension obligation.

The underfunded position of the international plans at December 31, 2011 increased by approximately $60 million from the prior year-end. For the major international plans, a change of 25 basis points in the discount rate causes an approximate $95 million change in the pension obligation.

From a cash funding perspective, we contributed $83 million of cash in 2011 primarily to our international pension plans. We made no contributions to our U.S. qualified defined benefit pension plan in 2011.

As I have said previously, we plan to contribute approximately $140 million in 2012 into the US plan. We anticipate contributing another $100 million into our other plans for a total 2012 contribution of $240 million.

You will see the impact of this flow through cash from operations.

We expect approximately $102 million in pension expense in 2012, compared with a pension expense of about $34 million in 2011. The change from 2011 to 2012 is principally due to a lower discount rate and a lower expected rate of return on plan assets in the company’s US qualified defined benefit pension plan.

In 2012, a significant element in comparing our year-over-year performance will be the change in pension expense. Accordingly, we will provide non-GAAP earnings to isolate the impact of these non-cash expenses from the operational performance of the company.

In closing, we made progress during the quarter and the full year in driving toward our three-year financial goals we have outlined. 2011 has been the third consecutive year of profitability and positive free cash flow generation for the company.

As we move through 2012, we will remain focused on making progress towards the longer-term financial goals that Ed discussed earlier. In particular:

Against our debt reduction goal, we will start 20 with further reductions with today’s announcement to call $65.5 million of debt.

Against our pretax profit goal, in 2012, we will continue to invest in building our sales channels and in our software-based industry solutions with growth potential. We will also invest in enhancing our sales effectiveness and refreshing our sales force. Even with these investments, we look to at least maintain our 2011 pretax profitability, excluding the debt reduction charges and the changes in pension income and expense from 2010 levels, as we take further steps toward our 2013 target.

Thank you for your time.