Niels Christensen, IRO

Thank you, operator. Good afternoon everyone, and thank you for joining us.

Earlier today, Unisys released its first quarter 2012 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, Chairman & CEO

Thanks, Niels. Hello, everyone and thank you for joining us today to discuss our first-quarter 2012 financial results.

We reported increased profits on higher revenue for the first quarter. Janet will go through the numbers in detail, but please see Page 4 of the presentation for highlights.

We reported diluted earnings per share of 30 cents compared to a diluted net loss of 95 cents in the first quarter of 2011. Excluding debt reduction charges and pension expense in both years, our non-GAAP earnings per share increased to 97 cents from a non-GAAP loss of 4 cents a year ago.

Revenue grew 2 percent year-over-year overall and 3 percent in our services business. This was the second quarter in the past three that we have grown our top line. We’ve done this despite continued weakness in our U.S. Federal business, where conditions remain challenging.

Margins improved in our services business, although we still have work to do to get to our goal of a consistent 8 to 10 percent operating profit margin. Our technology business delivered strong margins in the quarter on 5 percent lower revenue as we benefitted from a richer mix of enterprise software.

We also continued to make progress in reducing debt during the quarter, retiring an additional $66 million of high-coupon notes. Since September 2010, we have cut our outstanding debt by more than $540 million, or nearly two thirds … and we are now 87 percent of the way toward our year-end 2013 debt reduction goal. These actions have reduced our annualized interest expense by $69 million.

Moving to Page 5 … from a demand perspective, we were encouraged by the interest we saw from customers for our enhanced services and solutions portfolio.

Services orders grew double digits for the second straight quarter, driven by major signings by both new and existing clients. We saw particular order strength for our end user and data center outsourcing solutions.

To drive profitable growth, we continue to enhance our portfolio and delivery capabilities to help organizations address major disruptive trends occurring in the marketplace.

These trends – such as mobility, cloud computing, and social computing – are changing the way people work, play and go about their lives. New technologies have freed people from the constraints of time and geography and enabled them to access and share information in a 24/7, always-on, connected global economy.
For companies and government agencies, however, these trends create significant challenges. For example, how to support and manage mobile end users who are increasingly using their own devices in the workplace. How to secure critical data from sophisticated hackers and cyber thieves. How to manage, store and use all the information being created to better know and serve customers. And how to manage all these new demands and requirements while also reducing costs.

All of these trends create growth opportunities that we believe Unisys – with our systems integration expertise, our security skills, our outsourcing capabilities, our mission-critical technology – is well positioned to capitalize on.

As we look to the market, we see an opportunity for Unisys to differentiate ourselves as the company that provides services and solutions to help organizations operate more safely and securely in an ever more connected world.

We deliver these solutions through project-based systems integration engagements or through an outsourced, managed services environment. We also provide the technology that supports secure, mission-critical environments.

In the area of IT outsourcing, for example, during the first quarter we closed significant new business with the American Red Cross to provide end user and data center managed services to make sure their 20,000 workers are well supported and connected in order to achieve their critical mission.

In systems integration, during the quarter Unisys was selected to lead a consortium to design and build a sophisticated, end-to-end security environment for the new international ITER experimental fusion facility being constructed in France. Our solution will span perimeter and surveillance security, identity and access management, and command and control systems.

In China, TravelSky – the leading provider of IT solutions to the country’s air travel and tourism industry – is using Unisys Secure Private Cloud solution to provide a secure, connected environment to handle transaction loads driven by the country’s growing aviation sector.

In India, we’re proud that our client, the Delhi International Airport, was recently judged the world’s most improved airport and the number one airport in the country by the prestigious SKYTRAX-World Airport awards. The awards cited significantly enhanced passenger service since the opening of the airport’s Terminal 3 a couple of years ago. Unisys served as master systems integrator for that project, integrating systems from 12 different companies to create a secure, connected experience for air travelers.

In the U.S. Federal government, we are helping agencies such as the General Services Administration, the Department of Energy, NOAA, the USDA, and the Customs and Border Protection use new tools such as the cloud and mobile technology to collaborate and deliver services securely and more efficiently.

We continue to enhance our portfolio with innovative new services and solutions that help our clients make use of these new technologies to grow, reduce costs and improve service to their customers and constituents. Please look for a number of new solutions coming in the second quarter and the remainder of the year.

In our technology business, clients rely on our ClearPath server family for its security, performance, scalability and reliability to run some of the world’s most demanding, mission-critical environments. We are rolling out an exciting long-term vision for our ClearPath platform that builds on these strengths while opening up the family to new uses and markets.

To sell our enhanced portfolio to the market, we continue to refresh our sales team and increase our sales effectiveness. We are also exploring new sales channels to broaden the available market for our portfolio of services and solutions.

As we enhance our portfolio and sales and delivery resources, we are focused on continuously improving client satisfaction and service delivery.

As I’ve said in the past, I firmly believe that the only long-term differentiation in a services and solutions business is the quality of services and solutions as perceived by the customer. We are committed to providing consistently high levels of service and client satisfaction, and there’s no better reflection of success in this regard than getting new and repeat work from existing clients, such as we saw during the first quarter with major contract extensions and renewals with clients such as the Internal Revenue Service, the National Statistics Office in the Philippines and Bancolombia in Latin America.

Before closing, let me comment briefly on the most challenging part of our business right now, which continues to be our U.S. Federal government business.

Our U.S. Federal revenue declined 20 percent in the quarter. As I said in the past, we think this will continue to be a challenging business for us in 2012 as we adjust to structural changes occurring in the budget environment in Washington.

However, we believe the work we are doing on our portfolio positions Unisys to capitalize on these changes over the long term by helping agencies innovate while reducing costs. We are confident that we are taking the right steps and are focused on improving results in this part of our business.
in summary, despite challenges in the Federal business, this was an improved first quarter and a good start to the year for Unisys. While we have more work to do, I am pleased with our results and the progress we are making toward our financial and strategic goals.

We are focused on continuing this progress in the quarters ahead. So please stay tuned as we continue to strengthen the competitive and financial profile of Unisys.

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.

Page 7 highlights our financial results in the first quarter.

At the top line, we reported total revenue of $928.4 million in the quarter, which was up 2 percent year-over-year.

Currency had no appreciable impact on our revenue in the quarter. Based on today’s rates, we anticipate currency to have about a 3 to 4 percentage-point negative impact on revenue comparisons in the second quarter of 2012.

We reported an operating profit of $64.4 million in the quarter which was $22.5 million or 54 percent higher than the year-ago quarter’s operating profit of $41.9 million. A year-over-year increase of 150 basis points in our gross margin and lower operating expenses resulted in an operating profit margin of 6.9 percent, up from 4.6 percent a year ago.

The significant debt reductions we made last year were evident in the $16.6 million decrease in interest expense from $25.9 million in the first quarter of 2011 to $9.3 million in the first quarter 2012.

Other expense for the first quarter of 2012 was $13.2 million which included a $7.2 million charge related to the March debt reduction and $7.0 million of negative foreign currency impact.

In the first quarter of 2011, other expense was $23.8 million which included a $31.8 million charge related to debt reduction and a $7.6 million favorable foreign currency impact.

For the first quarter of 2012 our US GAAP pension expense increased $16.7 million to $25.7 million versus $9.0 million in the first quarter of 2011. Within the income statement, pension expense is allocated to the cost of revenue, SG&A, and R&D on the same basis as the salaries of active employees. Pension expense is not included in the services or technology segment results. We expect approximately $103 million in pension expense in 2012, compared with pension expense of about $34 million in 2011.

For the first quarter 2012, we had pre-tax income of $41.9 million compared to a loss of $7.8 million in the first quarter of 2011. Before pension expense and debt reduction charges, our pre-tax income more than doubled to $74.8 million versus $33.0 million of pretax income last year.

At the tax line, we had a $22.0 million tax provision in the quarter on $42 million in pretax income compared with a $28 million tax provision on a pretax loss of $8 million 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.

We reported net income of $13.4 million in the quarter, versus a net loss of $40.8 million in the year ago quarter.

Excluding the impact of the debt reduction charges and pension expense, Unisys generated adjusted EBITDA of $123.4 million for the quarter versus $108.7 million in the first quarter of 2011.

Our diluted earnings per common share improved to 30 cents per share from a loss of 95 cents per share in the year ago quarter. The diluted EPS calculation reflected an average share count of 44.1 million shares for the first quarter 2012 and 42.8 million for first quarter 2011.

Excluding the impact of the debt reduction charges and pension expense, our first quarter 2012 non-GAAP diluted EPS was 97 cents per share compared to a loss of 4 cents in the first quarter of 2011.

Moving to our first-quarter revenue please turn to Page 8. Services revenue, which represented 89 percent of our revenue in the first quarter of 2012, grew 3 percent year-over-year. Currency had a 1 percentage point negative impact on services revenue in the quarter so growth was 4 percent on a constant currency basis.

Excluding our US Federal business, services revenue grew by 7 percent.

Technology, which accounted for 11 percent of our revenue, decreased 5 percent year-over-year.

On Page 9, you can see services revenue and margins.

Services gross profit margin increased 90 basis points year-over-year to 18.9 percent from 18.0 percent in the first quarter of 2011. This reflected improved gross profit margins in Systems Integration, ITO, BPO and Infrastructure Services.
Our services operating margin rose by 100 basis points year-over-year to 5.0 percent.

Systems integration and consulting revenue rose 8 percent year-over-year driven by Public Sector activity. While this represented year over year systems integration revenue growth in two of the last three quarters, we still have more work to do to reach our goal of consistently growing this business at market rates.

Within Outsourcing, ITO revenue was flat versus the first quarter of 2011. We are encouraged by the strong ITO order growth we have seen in the last two quarters and our goal remains to grow at market rates in this business.

Moving on to Technology revenue and margins on Page 10, while ClearPath revenue declined year-over-year we remain committed to our annual goal of maintaining stable ClearPath revenue. Sales of Other Technology, which includes third party equipment, declined by $2 million or 14 percent.

Due to a richer mix of enterprise software in the first quarter, we reported a technology gross margin of 62.2 percent, up approximately 11 percentage points from the prior year. Our technology operating margin improved by almost 15 percentage points to 25.6 percent compared with 10.9 percent in the first quarter of 2011.

Turning to Page 11 which provides more detail on our U.S. federal government revenue over the past five quarters.


In the first quarter of 2012 Civilian agencies represented our single largest revenue base within the U.S. federal government, accounting for about 49 percent of our overall U.S. federal government revenue.

For the first quarter of 2012, revenue from agencies within the U.S. Department of Defense and various Intelligence agencies represented about 23 percent of overall Federal government revenue.

Revenue from Homeland Security agencies represented about 28 percent of our overall U.S. federal government revenue in the first quarter of 2012.

Compared to the year-ago quarter, our overall U.S. federal revenue declined $32 million or approximately 20 percent to $125 million in the first quarter of 2012. This decline resulted from delayed technology transactions and lower funding on some services contracts, as well as the loss of some services contracts.

We ended the first quarter of 2012 with about $330 million of U.S. federal services backlog, which was essentially flat with the first quarter of 2011.

Page 12 shows our first-quarter revenue by geography and industry.

Our North America revenue represented 42 percent of our revenue in the quarter and rose 5 percent in the quarter. Within North America, our revenue from the U.S. federal government represented 13 percent of the total Unisys revenue in the first quarter. Excluding the US Federal Government business, our North America revenue rose by 23 percent.

International revenue declined 1 percent in the quarter. On a constant currency basis, international revenue was flat.

From an industry perspective, Public Sector remained our largest single industry revenue source. The 3 percent decline in Public Sector revenue year-over-year was driven solely by the decline in our US Federal government revenue. All other Public Sector business was up 8 percent compared to the first quarter of 2011.

Revenue from Commercial industry customers represented 36 percent of our first quarter revenue while the Financial Sector was 22 percent. Our Commercial revenue grew by 10 percent while revenue from our Financial Services customers was down slightly.

For some comments on orders, please turn to Page 13.

For the second consecutive quarter we saw double-digit year-over-year orders growth in our services segment. IT Outsourcing orders grew by double digits but we also saw increases in Infrastructure services, Business Process Outsourcing and Core Maintenance.

From a geographic perspective, we saw year-over-year services order growth in our North American, Latin American and Asia Pacific regions during the first quarter. Orders in our European region declined in comparison to the first quarter of 2011.

We ended the first quarter with $5.4 billion in services backlog, which was down 1 percent sequentially from December 31, 2011. Year over year, services backlog was down 6 percent versus March 31, 2011. Currency had a 2 percentage point negative impact on the year-over-year comparison.

Approximately $700 million of the March 31, 2012 services backlog is anticipated to convert into second quarter 2012 services revenue. Over the past 13 quarters, we 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.

Moving to cash, please turn to Page 14 for an overview of our cash flow performance in the quarter.

Unisys 1Q12 Financial Release April 24, 2012 4
We generated $33 million of cash from operations in the first quarter of 2012 compared to $28 million in the year-ago quarter.

We contributed $68 million in cash to our defined benefit pension plans in the first quarter of 2012 versus $22 million in the first quarter of 2011. For the full year, we continue to anticipate contributing approximately $240 million of cash to these plans. The contributions are reflected in cash flow from operations.

Capital expenditures were $30 million in the first quarter of 2012, down $13 million from the first quarter of 2011. We continue to expect full year capital expenditures in the range of $150 to $200 million.

Our free cash flow was $3 million in the first quarter of 2012 versus a usage of $15 million for the same period last year. Our free cash flow before the pension cash contributions was $71 million for the first quarter of 2012 versus $7 million in the first quarter of 2011.

Depreciation and amortization was $42 million in the quarter down from $53 million in the first quarter of 2011.

Our cash balance was $655 million at March 31, 2012 compared to $715 million at December 31, 2011. The decline in cash was principally related to debt reductions.

We are pleased with the continued progress we have made toward our debt reduction goal. And in the quarter, we reduced our high coupon long-term debt by $66 million.

This will further reduce interest expense by approximately $9 million annually.

Page 15 illustrates the improvements we have made over the past 14 quarters in reducing the company’s leverage. We ended the first quarter of 2012 with net cash of $359 million versus $214 million at the end of the same quarter last year. Our first quarter 2012 net cash position is slightly higher than where we ended 2011.

As previously stated, our December 31, 2013 goal is to have reduced debt to approximately $210 million, and we have about $85 million to go.

As indicated previously, we have made some changes to our geographical presence as we have evaluated opportunities to rationalize our geographic footprint. On March 30, 2012 we completed the sale of our interest in our South African joint venture. Going forward we will serve this market through a distributor. This sale resulted in a gain of $11.3 million which was included as a reduction to our SG&A expenses.

In light of the significant increase in cash contributions related to our US pension plan, I would like to provide an estimate of future funding requirements related to our worldwide defined benefit pension plans over the next few years based on the assumptions and market conditions at December 31, 2011.

Turning to Page 16, based on these assumptions, the estimated worldwide contributions of $240 million for 2012, would increase in 2013 to approximately $270 million. Then contributions would begin to decrease, declining to approximately $225 million in 2014, $190 million in 2015, $165 million in 2016 and $145 million in 2017. Clearly, the discount rates and asset returns will not remain constant at the December 31, 2011 levels so these are estimates and will likely change at the end of this year and future years. We wanted to provide this view, although subject to many variables, as we thought the context might be useful as it relates to potential future defined benefit pension funding requirements.

As a reminder, the vast majority of these cash contributions relate to plans that have been frozen and as such are not adding new beneficiaries or accruing additional benefit obligations. Based on the assumptions we mentioned earlier, as we make cash contributions over time the pension deficit will decline.

As we move through 2012, we will remain focused on driving towards our longer-term financial goals.

Thank you for your time.