2021 Unisys Investor Event

Transcript

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Management Discussion Section

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Good morning. So, I'm Courtney Holben, Vice President, Investor Relations. And I'd like to welcome you to our 2021 Unisys' Investor Event.

I'm joined this morning by Peter Altabef, our Chairman and CEO; Eric Hutto, President and COO; and Mike Thomson, Senior Vice President and CFO. On behalf of the entire Unisys' team, I'd like to thank you for joining us today. It's a very exciting time at Unisys and we're looking forward to discussing some of our recent progress, as well as opportunities for the future with you this morning.

I'll start by providing a brief overview of the agenda and then I'll turn it over to Peter, Eric and Mike, to walk you through the rest of the presentation. First, just in terms of logistics for the call today, the presentation that we're using will be displayed on the Zoom window during the discussion and is also available on the Unisys' investor website, where a replay of this event will also be available. I'm also excited to note that we're planning to go live with the new IR website next week, and we think the new design will really significantly enhance your experience. So, we're looking forward to that. And as always, we'll continue to use that website for important announcements and information going forward. So, we encourage you all to visit it frequently.

Turning to slide 2. You can see the agenda for today's event. Following my introduction, I'll turn it over to Peter, who will provide some CEO perspectives on the business and our strategy. Eric will then take us into more detail on how we're operationalizing our strategy. And that should take us to about 10:20 Eastern Time at which point we'll take a short break. We'll then resume and Mike will provide us with a financial overview and we'll conclude with a Q&A session.

As you can see on the agenda, we've left a good portion of the time for questions and we'll look forward to a robust discussion at that point. And I will ask that you'll hold your questions until that designated portion of the session.

Turning to slide 3, I won't go through the disclaimer here, but we'd ask that you review it in the version that's posted to the Web at your convenience.

So with that, I'll turn the presentation over to Peter. Peter?

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thank you, Courtney. And I'd like to thank everyone for joining us. This is an Investor Day that is intended to both provide information to those of you familiar with Unisys' story and to those of you who have just really become part of the Unisys' journey. We thank everybody for joining us, and we really are looking forward to it. As Courtney mentioned, we have put a substantial amount of time for Q&A. We hope everyone takes advantage of that. And on behalf of Eric, and Mike, and Courtney and I, we're really looking forward to not only the presentation part of this, but the Q&A part.

As we think about the presentation session and what you'll hear from me and Eric and Mike, I'd like to characterize it as a little bit of the why, the how, and the what. So, I will focus really on why our offerings are what they are? Why we chose these markets? Why we are focusing in particular submarkets in the markets we chose? So really the why.

Eric will go through the how. So, having chosen these markets, how are we successful? How are we going to be increasingly successful? How do we organize? How do we execute in that strategy? And then Mike is going to talk about the what. So, what is the operational and more specifically, the financial rewards that we intended to provide to our shareholders, to our clients, to our associates? So what is, if you will, the effect of having picked this approach and executed this approach? And that's really what you'll hear from the three of us.

So let's turn to the next page if we could, please. Think about some of the key messages that I hope you will hear from us over the course of the day. The first of those, which you'll hear from me a little bit from Eric and then, again, from Mike, is about our capital structure and financial position. Our net leverage has improved substantially over the last 12 months. And that is the result of work that really started back in 2017. So, you will hear about our capital structure changing. You'll hear about the way we have decreased our net leverage. You'll hear about the work we have done to really put the pension issue which has been top of mind for a long time substantially on the back burner.

And so, we'll talk about capital structure and financial position. Bottom line is we feel very good about where we are today. The next three items are really the bulk of what you'll hear from Eric. And for me, about why we chose the markets we chose and how we expect to thrive in those markets? Bottom line here is as we think about the company going forward, we are really focusing on higher growth, really submarkets. And those submarkets are not only higher, but they're higher margin and so we'll talk about not only why we pick those but how we intend to maximize our success there.

Part of the story about picking them, however, is in every case there are markets or submarkets where we currently have industry leadership and where we expect to capitalize on that leadership, a solutions approach. [Technical Difficulty] (00:06:20) our clients and prospects with solutions, those solutions are not – they're not uniform, in the sense, that it's not our way or the highway. Those solutions always take into effect where our clients are on the journey. They always provide choices. They always look at what can maximize the opportunity for the client. But within those solutions, we have frameworks; we have intellectual property kind of spread throughout. We think that framework and intellectual property approach will maximize our ability to create leverage and maximize our ability to scale.

And then finally, if we look at the existing business, we have been on a journey of increasing the profitability of that existing business. That journey is not over. In fact, the things we have done through 2020, we think will allow us to actually accelerate the profitability maximization within the existing businesses.

And then finally, I call that ClearPath Forward. Many of you who have followed us are familiar with that story. We have taken a pretty major step starting the beginning of this year. Eric we'll talk about that. We're really consolidating the services, the maintenance, the warranty, the R&D into one business unit on ClearPath Forward. We're very excited about that. We're very excited about both the opportunity to grow revenue there and the opportunity to create efficiencies.

So, we can turn to the next page and talk a little bit about how we got here. The slide is titled 2020 Transformational Journey. All of the items on this slide took place in 2020, but it wouldn't be a full description of these items without talking about where they came from because in every case, the journey started before 2020.

So when we think about the white items there, the announcement of the federal sale and the closing of the federal sale, obviously that work started earlier than February of 2020. We were very focused, however, to get that closing done relatively quickly. And you can see within a little over a month of the announcement, we had actually closed that sale. Why were we focused on doing that? Well, because it was important to us to be able to have the capitalization changes that were achieved by that sale for us to launch the strategy project that came next.

I'd like to say we were prescient and we knew that between March 16 and March 18 everybody in the world was going to figure out COVID-19, the market was going to do what the market did. We didn't have any idea about any of that. I'm sorry. But we got lucky. And so we were able to close that really in the very beginning of that COVID-19 effect on the market.

We started the strategy project the very next day. That had been the plan for a while. Now that we had the capitalization necessary, we engaged McKinsey & Company, and it was really a partnership. It was a partnership of where we thought our strategy was going into that effort, what McKinsey thought the art of the possible ones and by August 13, we had concluded that strategy, and we really had – I would tell you the result of that was not to create anything new. We didn't go from a company that was making shoes to a company that was making tires, but it did really, really tighten our view of the very specific markets we wanted to double down on, and the specific submarkets we wanted to double down on. And you'll hear about that particularly from Eric.

Starting at the end of August, so just about a week-and-a-half later, we launched the [ph] operationalizational (00:10:28) part of that strategy, excuse me. And there we continue to use McKinsey to go a little deeper in identifying the exact steps on the strategy we needed to take. We also brought in AlixPartners to help us with what the company needed to look like, how we needed to organize in order to maximize the execution of that strategy.

That work started on August 31. We announced the organizational redesign on December 1, and made that organizational redesign effective on January 1, so about 12 days ago. In between the launching of that effort and the organizational announcement, you'll see we closed $485 million of senior debt at much better terms than the debt that it had replaced. We extended our ABL through 2025. Obviously, those efforts had been under work substantially before October.

And then we really put into place some work about reducing the pension liabilities which we'll talk about on the next slide. Mike will dig in deeper. But that work really started to bear fruit in the fourth quarter and is extending through the first quarter now. That work started years ago.

So if we turn to the next slide, we'll see where we are on the capital structure. As you see here, the three items I just want to turn your attention to, the first is, is really the dramatic reduction in the pension contributions we have to make as a company. Again, Mike will get into this in more detail. To give you my perspective of it, it changes the focus and it changes the time that the leadership team has to spend on the pension. Eric and I, with the exception of Mike and Shalabh Gupta, our Treasurer, Eric and I are not spending our waking hours worried about the pension anymore. We're not spending our time figuring out how are we going to get the cash flow and put all of that cash flow into the pension. That's just gone. And so, we are really focused with our strategy and with the execution of our strategy on building the business. That's a big deal for us.

As I mentioned on the earlier slide, while the reduction in pension contribution is now behind us, in terms of the US pension, the continuing work on reducing the liability and the total liability of the pension is ongoing. You've seen press releases recently about that. Between the third quarter and fourth quarter of last year and the first quarter of this year, we've planned to reduce the liability associated with our pensions by about $1 billion. And Mike is going to talk about that.

And finally, from a liquidity standpoint, I mentioned our net leverage position has increased dramatically and it has. Our cash on-hand is much stronger than it has been on the past. That allows us to consider, if we have compelling acquisitions to do these acquisitions, to enhance our strategy and speed up our strategy. We are simply in a much stronger position. That's an overview of our capital structure. We can turn to the next page.

Thanks, [ph] Jeff (00:14:03). If I wanted to discuss or Mike or Eric kind of what we're doing on one very simple slide with how we're going to market? This would probably be the simplest slide we could come up with. And what this slide really refers to are the three main business units that we have at the company, the markets those business units are attacking, and the specific submarkets that we're focused on. So when we think about the first Digital Workplace Services, you'll hear Eric and me talk about that market. The submarket that we're really focused on is called end user experience.

And the best way for me to describe end user experience is to think about the employees or the associates at a company and think about how historically they have been approached by the Chief Information Officer and the IT department. Historically, the job of the IT department was to give those employees enough hardware and software and applications, so they could do their job. And you minimized the cost of doing that and then you moved on. That, historically, had been the way people have looked at Digital Workplace Services.

With the advent of end user experience, which is actually pretty new, only in the last few years, that idea of the employee has been turned on its head. And so now, companies are looking at the employee and looking at their job as not nearly to give hardware and applications to the employee, but looking at the employee's perspective and saying, how do we maximize the productivity of that employee? How do we enhance that employee's satisfaction with being with the company? Because that employee now takes center stage and it is really a view of looking at that employee and going outward. That emphasis on end user experience has opened up the dialogue from something that used to be really kind of controlled by the IT department to something where the finance department, the operations teams, the manufacturing and delivery teams, the HR teams are all really now looking at this and saying, how do we engineer this to create a more productive company by creating more productive employees? That's what end user experience is about and that is why we're so excited about that space.

Looking at the second space, here, we're talking about Cloud & Infrastructure. And here, our emphasis is on the growth area of that, which is Cloud. But as you'll hear from Eric and I, that's a big space. And the question is, well what distinguishes Unisys and what submarkets are we really doubling down. And we are doubling down in some very specific submarkets. One of which you will hear about is the public market, which we define for Unisys as state and local in the US, and then governments around the world, so excluding US federal, as a result of the sale of our US federal division early last year.

And then finally, when we get to the ClearPath Forward ecosystem, we've already talked about the fact that we are really putting that together in, we think, a very powerful way. And as you see in the materials we're going to discuss over the course of the next several hours, we think there are some very significant growth areas there, in particular, the services aspect of a ClearPath Forward.

Now, finally, underneath all of that, you see driving successful outcomes securely. And I will tell you that our delivery capability, our focus on not what we do but our focus on making sure that what we are doing creates successful outcomes for our clients. And then finally, doing that securely, whether that is through Stealth(core), whether that's through Stealth(identity), two really outstanding pieces of, if you will, IP that we have and that we provide to our clients or through security generally to make sure that every time we work with our clients, we're providing them best-in-class security. We're giving them security options, because they all don't look at security the same way.

But when you work with Unisys, you can expect you're going to get a very secure environment. That is topical today in the response to the SolarWinds crisis. It is not topical for Unisys. We started emphasizing that security journey when Mike and Eric and I joined the company in 2015. And we actually didn't create anew in 2015. One of the things we did, one of the reasons we chose to emphasize security in 2015 was because that was part of the DNA of the company even before 2015. So this is something we are absolutely committed to doing.

If we turn to the next slide, I'm going to go through each of these slides fairly quickly, because Eric is going to talk about each of these business units in more detail. But just to give you a kind of top-of-mind view of these and why did we pick these specific markets and submarkets. When you look at Digital Workplace Services, you can see a dramatic difference between the growth of end user experience versus the very modest flat growth of the rest of the market. We are doubling down in end user experience, and I've already described what end user experience is like from the standpoint of the client and the employee experience.

End user experience is not only growing much faster than the rest of the end market, but it is a higher-margin business than the rest of the end market. And we are considered a leader in DWS. We're one of the top 10 players globally. We've been recognized by all of the major industry analysts.

One other item I want to point out when we talk about DWS is not only our success there, not only our positioning and recognition, not only the fact that we're focusing on this area that is higher growth and higher margin, but something you would not expect. And what you would not expect is that many of our traditional competitors are leaving this market. They're walking away from it. They're not emphasizing it. They're not investing in it. They're just kind of not interested in this market. And that might seem counterintuitive at exactly the time that you have an opportunity like end user experience, which is higher margin and higher growth than this market has [indiscernible] (00:21:17), but they're walking away.

And they're not walking away because they think this market is deteriorating, it's getting better. They're walking away because, from their perspective, there's an even better market next door. So they're simply marshalling their resources to go next door. I will tell you from the standpoint of Unisys and our size and scale and expertise, we're really happy with this market. We will do end user experience all day long. And we'll do it, we'll be successful at it. We'll increase our revenues and we'll increase our margins. So we have chosen to double down in this market even while some of our competitors are leaving.

So why are they leaving it and where are they going to? Let's take a look at the next slide. Well, it's pretty obvious, they're going to cloud. As you can see, it's a much bigger mark. It's growing faster. It even has higher margins than the DWS market.

So what does that mean for Unisys? Well it means that we're doubling down in DWS. Thank you very much, we'll take it. It also means that when we look at the cloud market, we're being very, very prescriptive about where we're going to focus. We have some real assets here too. Just like our IP platform in DWS, which is a teleserve, we have an IP-led platform here called CloudForte. That platform is, that it helps us by leveraging and scaling with IP. But it is also an open platform. So we're using third parties and we really have created an ecosystem around our cloud business.

That said, everybody is here and everybody's investing. So where are we going to put our focus. We're going to put our focus in very select areas, including the public space and highly regulated areas that are next door or adjacent to the public space. So why focus on the public space in particular. Well, you can see to the left, as we've defined the public market which excludes US federal, it's a substantial market at $17 billion, it's growing fast. Eric is going to talk about why we are positioned well there, but I'll just give you a little heads up. A great deal of our growth in the last two years in public has been in the cloud space. And similarly or reverse, a great deal of our cloud growth has been in the public space. We have over 240 existing agencies around the world that we work for. That is a very, very good start at building out a cloud world for public space.

If we go to the next slide, I mentioned briefly that we're changing our operation – organization around ClearPath Forward. We are really putting it all together, whether that's R&D, delivery, go-to market. We think that's a very, very powerful approach. Eric will give you more details. I really want to focus on only two points here. The first point is how big is the market? Well, clearly, ClearPath Forward is us. So it is, if you will, our market. From a license and maintenance revenue standpoint, you see that number, we already have almost 90% of the license and maintenance part of that market. We expect with things like ClearPath Forward for the public cloud on Azure we can expand that over time. But we already have the dominant position in that.

Looking at the services market, however, it's a different story. Now that's not a big growth market. We expect 1% to 3% CAGR over the next three years in the services market. But interestingly, we only have 13% of that market. So a lot of that market is held by clients that are doing their own monetization, their own maintenance of their applications, their own work in creating new applications on top of our platforms. Or, they have given that mostly to smaller third-party companies. So we see significant growth on the services side, not because the market is necessarily growing that much, but because when we have 13% of it and we should be able to increase that percentage significantly.

So as we go to my final page, what does all this mean for Unisys as a company? It means that, we have significant growth opportunities in front of us. It means that those growth opportunities come with higher margins and that over time, and we've given you our thoughts about where this company could be exiting 2023, we think that means, we can have significant revenue growth and a significant increase in our non-GAAP operating profit margin.

So with that, I'm going to turn the call over to Eric to really dig deeper into how we organize? How we operationalize? And how we really attack the markets that we're focused on. Eric, over to you.

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

Thank you, Peter and happy New Year everyone. As we close out 2020 and I'm sure most of us are happy to do so, I would be remorse not to appreciate our associates and our clients. Our associates showed courage, adaptability and resolve to ensure the company remains stable and our clients received all the services they needed during the pandemic. At the same time, our clients were willing to work closely with us to keep all parties safe and healthy and they adjusted their policy procedures just to help us get our services delivered in a more remote environment. I think it's a tremendous teamwork by all.

As Peter covered the work we're doing around our direction, our structure which is inclusive of really governance, policy, procedures, tools et cetera, and our skills. And if you subscribe to the fact that strategy will drive the structure which drives the skills, that's really our mindset through the work we did throughout the year in 2020. The work was essential. And it was necessary as the pandemic highlighted complexity and inefficiencies around organization. And also our clients told us they experienced the same.

So, the business unit model is the right one. That was the work that McKinsey helped us get clarity on. AlixPartners helped us think through. And it provides further focus a more cost-effective operating model and the ability to scale. With the new structure we bring all the disparate teams that were doing great work from across many functions and departments into one business unit with a single leader and defined objectives, all measured largely on that business unit success. So, obviously they'll be very focused on getting the results we need over the next few years.

In my almost six years with this company, I know we're in the most exciting time to be at the company. We have stability. We have the financial strength. We have a highly engaged and talented associate base. Our offerings are relevant and our clients collaborate with us to succeed. So, as much work as we've done to improve our results, we have more headroom and the work we have done recently provides validation and clarity of that potential. So, let's take a deeper look.

As we move to look at the businesses that Peter discussed, really while we look at Digital Workplace Services, Cloud & Infrastructure and ClearPath Forward, we'll also look at the underlying operating model and enablement of those businesses to be successful, that's really the bottom half of the slide. You see out to the right our Business Platforms & Services, or BPS, that business unit is comprised of all of our BPO offerings and application services not related to our internal IP. Our core offerings for BPO include check processing, mortgage processing, and other related transactions that are important to citizens like having access to marriage licenses, death certificates, birth certificates, et cetera. So, really focus on helping companies and [indiscernible] (00:29:26) governments service more effectively their citizens or clients.

Just to set the stage as to what is in the business unit, I want to take a moment to describe that change. As I mentioned, the pandemic highlighted complexity of our operating model and other things that as we operated in a non-remote, highly remote environment. We had teams across multiple departments that were necessary to get things out the door to be responsive to clients to get through to the results we needed. So we've taken all of that, the messaging, the new solution development, the sales strategy, all of that is now gathered into one team. All that talent exists under one group. So they have the ability to define their markets. They set the commercial terms and pricing for our go-to-market teams to execute against. They create and develop the solutions and they create the value prop.

They manage all of their services directly. So the service centers required for DWS or for Cloud are all within that business unit. Now just for also for clarity, our go-to-market engine, our teams remain in a central commercial team. They're local to clients and markets where we want to focus. And so this includes our sales executives, client account teams and advisors. And they're really focused on driving all of that value that these business units are creating the solutions to the market.

So as we discuss the business units over the next few slides, I just wanted you to have that context as I discuss speed to market, the new solutions in selling motion. And so again it's across the bottom. We'll also get into our key enablers that drive the effectiveness, the efficiencies and the alignment. And it represents our ability to operationalize the strategy and deliver our objectives.

We remain focused on a non-linear revenue model approach. So what we really want to be able to do is add a lot of revenue with a fraction of costs. And the work we are and continue to do around automating our services affords us the profitability and allows more investment in talent solutions.

Let's move to the next page. So beginning with Digital Workplace Services, while we're recognized, Peter mentioned, we're recognized and well-established in this market by industry analysts and clients, but it's evolving at a much faster pace due to the pandemic.

So what companies thought would take two to three years to get done in a digital transformation really got done in 12 months, the majority of it. So the expectations are very different and we're evolving to address this new timeline. This particular area is viewed by many clients as the enabler of a wider digital transformation, this focus on the experience. Talent wants choices around engagement and services. They want more personalization.

On the other side, companies want productivity and results. So we've got to bridge this because sometimes they work against each other. Intelligent collaboration is essential. We cannot accomplish it with more tools and technologies. That's just more expense without value creation. If you think about Unisys as we entered into the pandemic, we went from tens of offices around the world to 17,000 home offices around the world, all of which had to be operationalized and secure, each with its own needs and talent challenges. It needed different equipment. And our clients went through this as well.

SaaS models during this pandemic have just exploded. So the adoption of Microsoft Teams to Zoom to the VMware Workspace ONE and just to name a few, that's going to continue. This remote worker environment is going to drive more of that adoption. But at the same time, it's really not just having the tool, it's how do we sequence it. That's that experience that Peter was mentioning. It's really about the sequencing of that environment and how we combine them so that people can be higher productive and actually drive up satisfaction for the associate base in their work environments.

Virtual agents, today largely they'll turn around and answer their – [ph] Jeff can you go (00:33:13) back a slide. I think it's important for – to think about the things that we're doing to deliver payroll questions with virtual answers. Well, these virtual agents are going to move all across the organization. They're going to become the support that we need to onboard, to off board and to drive well-being for our associates. So again, I think as you think about some of the core technologies, they've really become enterprise-wide enabled, which is why I think a lot of our clients are really focused on this digital workplace experience and how does it really accelerate the transformation across the enterprise.

When we win in this market, we do so because we partner and orchestrate the best solutions to deliver outcomes. You're going to hear that a lot throughout the day. We are outcome based. We don't sell products and services. We don't sell anything. We solve the business problems relevant to our clients to keep them healthy and growing. And that's where our value becomes. We're recognized as a leader. As I mentioned, we have the credibility and we have the end-to-end global reach to really – to do all the things that they needed to do in the space, but also [ph] at the time (00:34:20) be nimble enough to change and adapt, as the pandemic has shown us, is absolute must as we go forward.

We do not start with the company and the design, its requirements down to the end user. If you do it that way, that kind of inside out approach, you get a lot of the frustration and friction in a lot of our associates and our clients tell us their experiences with their end users in the design. So, we really think about it as outside in. We start with the associate, the end users that are out there and we move ourselves back to what's the best answer for them.

Now, we can move to next slide, [ph] Jeff (00:34:53). Okay. So, as I mentioned, it's about outcomes, it's about the experiences, it's about a personalization approach, balanced with affordability, productivity and security. That's that bridging we have to do. You also look at trends that are outside in the marketplace. So, gig workers or freelancers, if you will, they're accelerating in part due to the high employment. People are getting very creative how they find work and make money. And most studies saw this trend might reach mass in another 10 to 15 years, but the pandemic, like many other things, accelerated this. So, our decisions are evolving to address these challenges.

On this slide, you can see five bundles that we have the capabilities across and we have the capabilities across all five. We continue to innovate and strengthen the capabilities within. Just for reference, a bundle means we have combined multiple capabilities to deliver greater value faster to our clients, rather than small projects that deliver part of the solution, but not an outcome. Unisys has long been known for its support in endpoint management. We do a lot of that work today, and in a moment, I'll talk about a couple of clients that we do that work with today and the results we're getting.

And we are expanding into UCaaS or seamless collaboration that will address various workspaces. I mean, certainly, we all are dealing with a variety of challenges around all of the associates being remote, how we drive that productivity, what are the tools they need. From a consumer orientation, we're all used to just going to the Apple Store and downloading whatever we want.

Well, you think about enterprises and if they're going to have to have that same kind of effect, they're going to have to have a catalog of services and applications and productivity tools that may be greater than what they had before everyone was working remote. Our advisors will help them think through that and they do today and we're going to continue to expand our advisory capabilities because that's where we help really understand the business problem, a path as to getting to the outcome they're looking for, making intelligent choices along the way.

Peter mentioned that we meet our clients where they are. We recognize that a lot of clients have invested already in tools or software or applications and infrastructure, then we need to be able to help them maximize that return. Certainly, during the pandemic and the difficulties that most companies have experienced financially, budgets aren't increasing, they're not going to get bigger. And so, again, we have to get a little creative on how we expand that.

And that's where I think the artificial intelligence, the RPA, the things that we have been doing in our solutions, it's got to create an experience advantage, not a cost advantage. So, we've been using virtual reality capabilities or smart glasses in our field services team now for probably the last 18 months. It's helping us drive efficiency. It's helping us drive satisfaction with not just our associates but our clients. Those are the things that have to move again to an experience advantage, not just drive down costs.

Partnering is not new to us at Unisys. We have great relationships with many; Dell Technologies, ServiceNow, Microsoft, AWS, Oracle, Zoom, just to name a few. But orchestrating those solutions with the best of Unisys IP and their IP is way more effective and increased responsiveness to emerging opportunities and to clients, and it's expected. We can't possibly know everything, but we certainly know what we're very good at, we play that role, and then we expand with our partners to fill in gaps so that again we can deliver a complete business outcome to the clients.

Let's move to the next slide and talk about our competitors. So, as we were going through this study, obviously, there's more competitors than you see on this page and you could probably categorize those competitors in many ways, but as we really boiled it down, we looked at them in three big categories; legacy; OEM, as you can see, original equipment manufacturers; and emerging.

Now, if you think about the advantages of our legacy players, yes, they have scale, they probably have significant more revenue than we do or locations, but that represents its own challenges. Again, in a very quick shift the pandemic has taken us from, it's not about the service, it's about an experience. You end up with a lot of infrastructure costs and a lot of labor arbitrage that had benefit when it was a EUS focused, but not necessarily a benefit when you're looking at an experience focused.

So, again, as Peter mentioned, many are exiting for various reasons, maybe they see shinier objects elsewhere, but a lot of them are just realizing that their size also brings a cost to transform. It's lengthy and expensive. If you think about the pandemic, it's forced a lot of us to evaluate our book of business as we make choices. But again, we're operating from a position of strength, we're well recognized, we're already along the journey of those five bundles we just looked at [ph] in maturity (00:39:37) of them. And with a little interest in partnering and possibly acquisition, we fill out the full breadth of those bundles.

OEM players really bring to the market a product or a technology and they really have to partner with others to perform the integration or orchestration for more advanced services. They don't address the total experience and they're not end-to-end, but they are part of it. They won't deliver the business outcomes, results that clients demand during this time.

Now, the emerging players are really more – you can look at them as a concern, right? They're usually quicker, they're innovative, they're aggressive in selling because they're small and they have to be. But clearly, they lack the scale and the references that are required to win some of the larger deals. So, I think they're limited in where they can play in the market. And our approach to this group is to monitor, we keep track of them, we learn and we consider partnering or acquiring.

So, to recap, we're known and recognized in the market. We understand what the value is in the market. We focus on the outcomes. We have the global reach to serve the largest businesses, public sectors or foreign governments in the world.

I just want to take a moment and bring this to life. So, when you think about some of the clients we have, one of our clients – you can actually find it on our website under our client stories – Nutreco is a large producer of animal nutrition, fish feed, processed meat products, et cetera. This is one where you see the power of the businesses coming together. They have DWS, they have CIS, they have application support. And you can look at the things that we did in statistics. We've automated, we saved 275 hours of labor in just 60 days, onboarding process went from 38 hours to 8 hours, offboarding process from 8 hours to 6 hours. [ph] You can say, well, (00:41:22) why does that matter? It's an experience issue, right? We've got to be able to onboard talent a lot faster. [ph] All clients do (00:41:30). Even us. And so, you want them to get in and not be frustrated, not take 10 days to get a client device so they can be productive. All these things are about an experience.

So, we really measured the process and the frustration points with the client. And that's why we target and we really double down on driving out that friction and that frustration. In order to get a lot of the things deployed faster, we deployed a no code platform. That was a change for them. But it gives us the ability to create applications and code a lot faster with a lot less people. It also helps us enhance change management. And you're going to hear that throughout the day. That's one of the things that we really are very good at because we have the domain expertise, we understand the complexity of operating in these particular environments, whether you're a manufacturer, you're a government or state agency. That understanding of the difficulty and complexity in the change allows us to bring a lot of our clients along in a pace that they can adjust and adapt to and they're comfortable with.

And lastly, we talk about all of the things that are out there that allow people to serve themselves. We pretty much put in all the self-service tools. You think about the ways that we deliver the services, really driving toward almost a zero-touch delivery. So, that's – that is a lot of the work we did with Nutreco and they're seeing the benefits of it, mostly automated, 71% of all of their tasks that could be automated.

And another client is a leader in radiation medicine. They really had a lot of legacy debt, but they also recognized they're in the pandemic that while they're a leader in radiation medicine and obviously very important essential services, they needed to modernize and they also needed to improve the end user experience. They need to be able to bring that self-service catalog to all of their remote workers. And so, they really began to look at unified endpoint management.

We helped integrate all of their PCs, all of their mobile devices under a single set of policies. That gave them better compliance, but also drove a lot of less administration costs. And then, we developed a light-touch migration for a lot of home-based users during the pandemic. It really enabled them to do a lot of important upgrades that despite the lockdown had to be done in order to maintain the highest level of security. So, those are just a couple of examples of clients and where we have taken what we just talked about, we brought into life and we're actually driving in the market today.

Let's move to our Cloud business. So, as Peter said, big market can be crowded, just depending on where you are in the conversation. And our value is in complex or highly regulated environments. And that affords us to be able to bring in our domain expertise and advisors. That's where our knowledge of really more about change management, about what will that organization have to go through to adopt and adapt to the new solution so they actually get the results. Outside of that type of environment, it really is a quick race to the bottom in terms of profitability, just due to the lack of interest in transformation or modernization of their applications. That's not our value prop.

Hybrid crowd, they bring the agility, but that's usually not where the conversation starts. Take for example, most state governments right now are struggling to meet experience expectations of its citizens, stay within budget, and those budgets are probably tighter and smaller and not going to be looking to grow most likely, and sometimes just keeping their lights on and not getting hacked. So, they have very basic simple priorities, but citizens' demands and expectations of a digital experience haven't stopped.

So, we focus on understanding that change. We understand what has to happen to get multiple agencies. Most states have over 40 agencies that are used to having their own IT, their own teams. What we have been very good at is bringing them together to a dot and [ph] excerpt their (00:45:18) consumption model. That drives a tremendous amount of efficiency. They begin to be able to consume IT services and resources only when they need it, so that obviously helps improve their budget position and they can take that budget and now turn it toward the citizens. They can turn it toward the people that are expecting a different experience and that's where they can focus.

So, again, how we win is well-recognized IP-led solutions. We'll talk about that in the next slide around our capabilities. But outcome-based approach, strong track record, and we're pragmatic in our engagement with clients. Not everyone is at the same point in the journey. We have to meet them where they are. We have to make sure that we're not only maximizing their investment they've already made, but we're also bringing the value of the things that they need in order to close gaps that might bring risk or really prohibit them getting the business outcomes. So, that's where our advisory team shine and a key reason we win in the market.

Let's go to the next slide. So, as I finish that last slide, we talked about advisory and that's where we shine, and it truly is. If I were to attribute one thing besides just I think our sophisticated platforms and tools that we have around cloud, in CloudForte and et cetera, I really would attribute it to our advisory team. And just a real knowledge we have of what it takes to operate a state government, operate a manufacturer, to operate in complex environments, right, that may have a specific amount of technical debt and or legacy applications that they're dealing with.

We're going to continue expand that. Clients want the roadmap. They want the journey laid out. They want to know when they're going to arrive at that destination. And of course, where they are now and where they want to get to requires the ability to migrate, modernize, optimize, ensure it's seamless. Those are all the things you see under our offerings that if you think about pre-implementation, implementation, managed services, et cetera, that's really [ph] what that's (00:47:14) designed to help do. And all with a nimbleness designed in order to change on short notice, as we all had to do during the pandemic.

So, in order to do this, we have to be organized around our offerings. We have to stay true to our core capabilities and assess where it makes sense to partner for affordability and ability deliver the outcome. Again, not new to us because of our size. We partner a lot. And I think that our partners are good teammates. When we get in front of our clients, and we're very selective about our key partners, we operate as one team. And our clients value that. We bring the best of both – of all sides into the conversation. The ability to integrate our IP such as CloudForte with external is how we'll deliver at speed and scale. Again, we play our role. We collaborate to get the best answer for the client.

So, our values is again focus in the complex, highly regulated environments, like pharmaceuticals, healthcare, public sector to name a few. And this is what I believe gives us the ability to stay true to our strengths and not get lost in that large cloud market where everybody is just scrambling around trying to compete for everything. Remember, from a scale perspective, if you're a cloud provider, you actually are the cloud. Scale is important to you because it's a massive amount of investment to build out a full public cloud and you need consumption and you need a lot of volume on top of it to make it work. That's not our race. We want to make sure that our clients understand the strengths and weaknesses of all that hybrid cloud options and that they can maintain control of it, it's secure and they have visibility to how it's actually returning on investments that they thought they would get from making that decision.

So, let's move to the competitors. So, really we have two main categories here, really grouped into legacy and emerging. Legacy players, again, you can see some here, they're very big, they're trying to do it all. We believe, as we study them and when we watch them, and either acquisition they're trying to make and things they're doing, they may just be spreading too thin and driving toward that consumption with their partners, right? That's where a lot of benefits can come from a partner as you get obviously incentives if you're driving a ton of a consumption to their particular cloud.

We win due to our extensive knowledge of the sectors or the business. That's really down at the bottom. Two things; sector knowledge and security expertise. When you work with over 240 government agencies, you learn a lot. You learn a lot about all government agencies, what are they thinking, how they process, the governance model they put in place, what their citizens are wanting.

We bring that global knowledge into individual conversations, because people want to know what people are doing in China or Australia or Germany, here in the US, and likewise people in Europe and Asia-Pacific, Latin America want to know what people in the US are doing. That collective knowledge, coupled with our security approach, which is essentially a zero-trust mindset, into each solution and allows them to get very predictable, reliable outcomes and that are very much oriented toward the business problem that they were having.

So, again, thinking about legacy and where they're at and thinking about emerging players, they'll bring that innovation and that quickness. And just like we're going to do in DWS, we'll monitor, we'll assess their impact, where they're making headway and we'd either partner or maybe potentially look at acquisitions.

So, again, as I did with DWS, let's just talk about a couple of clients where we're doing a lot of this work. California State University has been a client for a while. This is really about agility. So, when you think about creating the operating model now that allows us to adjust with them. Certainly, the pandemic changed their approach. They had a business objective. They wanted to enhance student learning, experience, and provide technologies critical to their success and really driving through to graduation targets they were looking for and successive outcomes of graduation through 2025.

Well, that got kind of thrown on hold during the pandemic, not that they lost sight of their objective, but now that technology is critical to success, really got accelerated into the year. So, again, the foundation of that experience was they had to get workloads to the public cloud. So, AWS in this example. Well, we can talk about the cost efficiency and the demands from the campus, all that demand and people onsite all changed, right? They didn't have a way to forecast and predict that demand to really assess what they needed to do in CapEx. And that was difficult. So, it really resulted in a lot of overengineering in the architecture.

And so, what we were able to do was to come in with our solution set, help them migrate to a hybrid cloud, understand those choices. And now they're able to scale their compute costs to match the actual demand, which is significantly reduced, right? Not as many people were onsite in those classrooms and labs, et cetera. So, now they have a much better match of the consumption to the expense to the demand.

If you think about – obviously, we are very strong in the state, US state local business. A couple of big things I would talk about. Virginia was a big contract that we won recently. They had a lot of things they were looking for. They wanted the governance, the compliance, the agility, obviously reduction in costs to create more of their budget to be spent and more meaningful things for their citizens. So, we had to get the workloads between private and public. A lot of that was driven honestly by compliance with a signed legislation that dictates the need to deliver those services to the agencies via cloud infrastructure. It's very consistent theme across many of the states and regulated industries.

So, clearly, we were able to bring in and look at AWS, Azure, Oracle, all of those various cloud solutions all managed by CloudForte. So, having that common platform, that common transparency, their consumption models were all becoming very easy to understand. And they didn't focus on what the technologies were. They were able to really get the use of our taxpayers' dollars to be much more meaningful to them. And so – and they also drove down their investment technologies as they actually understood more of the architecture required to deliver that outcome.

So, when I think about – again, we also got VDI, so now we kind of cross over into our DWS space and we've brought VDI via the cloud Azure in order to support the work-from-home situation. A lot of states aren't bringing people back to these offices for a while, so it allowed for consistent governance, management. It really set them up to take the ability to make everybody productive quicker as they operate the states and deliver to citizens continuously.

Let's move to our ClearPath Forward business. And really, as Peter said, this business is just sound. I'm excited about bringing all of it under one roof. We now can see all of our clients that have been benefiting from our strength and our operating systems. We're very predictable, reliable, we're very secure. As you can see on here, we're still the only operating system that hasn't had data extracted from it according to recent studies. We're very proud of that. But it really is a high-volume, high-transaction, really solid industrialized operating environment.

But having all of our clients in one place and all of the things we do with our clients related to ClearPath Forward – again, the operating systems, the applications, core banking systems that we have, Aircore, logistics, the things that we do with our travel and transportation space, having all of that in one place with services and support, we really can see the whole business. We can really see where we can become better in our productivity, where we can become better in the experience we're delivering. It also affords us the opportunity to see where we can cross-sell.

So, if you think about a lot of our clients that are ClearPath Forward clients, they have yet to consume our Digital Workplace Services, they've yet to consume our Cloud & Infrastructure skillsets. And so, that's one of the things that this team will really be focused on, it's cross-selling. But also even within their own capabilities, we have services to grow. Managed services, as you can see, modernization, we can help our clients get the most from that investment, our ClearPath Forward environment.

We've shown our clients in recent years that we continue to innovate. I'm going to get into that in the next slide. Stay relevant and remain highly secure and industrialized. As with other business units, our advisory skills are essential to help our clients understand the benefits and services they can receive from the broader things that we can do in this family of offerings and to take advantage of their investment.

So, let's move to the next slide and really talk about the hard work that a lot of our engineers, our products and platform team has really been doing to ensure that this stays relevant. So, that's just a given with clients. But innovation is essential to the expansion of our business with them. Our ClearPath Forward team has not stood still. You can see here that, if you look back, we were – if you know even further back than this, people might say, well, we were mainframe. Well, we don't even use that word anymore, because we're not. We had to have a hardware associated with this solution. We don't have that anymore.

So, really, the work that's really been done in the last I think two years to advance us to a software-based architecture and really right now it's moving to the cloud, Azure, the things that Peter mentioned earlier, we really are relevant. People can integrate their applications with CPF. They can transition the mission-critical workloads that they're running on CPF to the public cloud. They can do this with contemporary tools and interfaces.

So, to me, I would just leave you with, the business is not legacy. It's not technical debt and it's not a mainframe. We have and are demonstrating our value. Our focus on services will help clients take advantage of the modern solutions that we've now created. And certainly, our job right now, and we've been doing these through innovation workshops throughout this client base, is to make sure that they fully understand that we are cloud capable. We can operate in various environments and that we have services to help them manage some of the legacy applications they may have in other areas and we can help them get the most out of a relationship that has more to offer than just the core platform itself.

So, let's move to the next slide. So, again, as we think about what we want to execute on here, it really comes down to two things. It's our services growth and it's margin expansion. So, within services, I mentioned – we talked about cloud migration enablement and the ability to do that. Obviously, I think this creates opportunities to cross-sell DWS and our other Cloud & Infrastructure capabilities.

Managed services, just being able to walk in now and seeing that client holistically all in one place really viewing all that we do gives us a chance to operate all their business critical systems, the applications, the infrastructure to drive peak performance. So, we really should become that trusted advisor and provider of all services on their behalf. That allows them to focus on other things that are more important in their business results.

We remain focus on innovation initiatives. Again, I talked about those innovation workshops. Our approach really – and I'm going to talk about a little bit more in our go-to-market as we think about go-to-market – is really to not wait for clients and we haven't been wait for our clients to come to us. We really need to understand the business problems. And we need to be more engaged than ever in a remote environment. And we need to stay focused on driving the relevancy of our solutions to deliver those outcomes.

Margin expansion is really a combination of reimagining our R&D approach. Looking at our frameworks and tools, I think some of the benefit of having outside people kind of look at what we were doing is the awareness of how other people are reimagining the same space, right, their R&D and what they're thinking about and how they're going about getting things to market faster. And so, we're reimagining that. We see some real benefit to doing that. And we think we'll get the results from it and profitability.

We also need to maintain our discipline around pricing. One of the things is just do we always know what our value is? Clearly, we'll remain competitive. We're not talking about going up and raising a bunch of prices with people. That's not the point. The point is what is the value [ph] to be on standard (00:59:47) value and ensuring that we maintain the discipline to hold that value each day as we work with our clients to solve their problems. I think those two things are the focus and they'll help us really get the most out of this business as we go forward.

So, again, just want to bring this to life with a client experience. Recently, we were able to win additional business with one of our ClearPath Forward clients here in the state. It's really an agency that was focused on unemployment insurance. Now, during the pandemic, you can imagine how important this was. The way that they were able to serve unemployment is largely different when you don't have all of that ability to get in and really see things, the way that they were able to do it, people coming into offices or locations. So, they run all of that unemployment insurance application on ClearPath Forward. They always renewed with us. I mean, again, a very loyal client [indiscernible] (01:00:40) technology about every five years. That was great, but it was a couple of million dollars with the value.

But as we went to looking at the renewal, they really asked us to address some of the challenges they were now facing. Obviously, COVID-19 was one of them. It highlighted the need for greater agility. It gave us – in developing and deploying new applications to deliver benefits to citizens, they had to find a different way to get those benefits to people. Skills were becoming an issue. Key personnel, both operations and applications were approaching retirement, and a public cloud mandate, as we talked about earlier, to reduce capital cost. So, again, just thinking through this, our investments and our software series, our public cloud or services, we were really well positioned to kind of rethink that quickly with them.

All of that solutioning, that advising that kind of coming together, the art of the possible, really resulted in a $7 million, five-year deal that allowed us to not just take our software, but it brought forth that cloud transition, those many services I just mentioned that we want to drive into more of our clients. It also gave us the ability to do more operational services and, of course, application modernization services support. Those things, all brought together, created the value and expanded the relationship. It really does show a good example of our choice strategy and how our investment and our services, having all of that now capability discussing that with clients all under one roof I think gives us way more opportunity to grow and expand.

And just another example of where we take our platform and we were looking at omni-channel experience with a large building society in the UK, really 36 branches, 430,000 members, but they knew they had to change the experience. They absolutely had to give their clients something different. They were historically tied to a branch system. Well, people aren't going to branches anymore. So, we really focused again on what's the journey, what's the roadmap, help them think through their digital transformation, help them understand how clients think, the behaviors they'll go through and how they – and when they can assess products or services that will meet that expectation.

So, our Elevate platform was put into play. We're working through that with them now. But it'll enable them to reinvent themselves digitally. It'll enable them to engage with their clients in a much more omni-channel approach, which again, as I mentioned earlier, people want choices in how they're engaged and what kind of services they get. They want to personalize. We're vendor-agnostic on this and we've integrated with third parties to help our existing core banking systems and provide the fastest path to the digital transformation. So, again, combination of what's available in the marketplace, our IP and our advisory skills really help solve this problem and get them on a path to meeting their objectives.

Let's go to the next slide and let's start talking about some of those key enablers I talked about earlier. So, our go-to market approach. Before the pandemic even started, one of the things – we talk a lot with our industry analysts and they give us lots of advice [ph] and they get us (01:03:41) thinking about what's coming and things we should be considering. And one of those things was digital sales platform. If you think about the pandemic, you had to deliver all these services touchless, we couldn't be onsite as much, we really had to accelerate how we do that. I started thinking about and the team did touchless selling. So, what if we can't come back and people just aren't comfortable or they're just not going back to their buildings and we can't actually meet in person? How do we engage them? How do we connect our value? Give them the transparency, give them the ability to price our services and then connect the marketplaces so that we kind of fulfill this digital ecosystem.

So, digital sales platform was something we started in January. It's up and running. It affords us the ability to price all of our services in a fraction of the time. We can even give our clients access and they can price our services on their own. And the choices they make – one of the things you hear from a lot of our clients is they just don't understand service provider, they just don't – they don't know what we do when we price and the choices they're making and how that affects pricing, this will dynamically change the price as they make those choices. If they want unlimited liability, the price changes. They want to cap the liability, price goes down. If they want more onshore versus offshore, every decision they make now, they can see the effect on price. And that's the transparency we're looking for.

So, again, we see this as – some of those sales process will still remain as is and it will be done through Zoom. Some of it may move to this more digital approach where people want more control and they want to be able to take the driver – take the steering wheel, if you will. And we're going to be able to provide both models. So, very excited about that. Lot more to come on it, but already in play.

And I'll just give you an idea of what it's done for us. If you think about a pursuit team and getting a proposal out in pricing, that might have taken a week or two and 10 to 12, 14 people all involved, so shark attacks, proposal riders and all that, we were able to get pricing done, run pricing done in roughly a few hours with a few people. So, that avoids a lot of mistakes. We don't have a lot of people making adjustments and not contemplating what else should've been adjusted. This system does all that. And then it audits it on the back before we submit to allow us to make sure that we covered all of our bases, we checked everything off and things make sense.

Existing client relationship expansion, we've got a lot we can do with our client base. One of the things I've been focused on is, as I've been at the company, is are people buying more things from us. Now, that begins to be a testament toward the value bringing and the confidence they have in your total company's capabilities. We have not gotten all the progress we wanted to add. We measure it. We monitor it. And as we go forward with these businesses, they are partially incented in that area, too, to make sure that we are driving the collective value of Unisys into the client base, not just one thing. And that's where I think our centralized commercial organization where all of our go-to market resources will really be a benefit.

If you think about the pandemic, I made a comment that, obviously, a lot of companies' revenues were slowing, people weren't spending, clients were kind of hovering to see what's going to happen with the pandemic, ensure that they were making good decisions and could weather the storm in however long this lasted. It gave us the ability to have a bit of an offseason. And what I mean by that is that it gave us some time to really rethink our messaging, our learning, agendas, what was important and how we actually do that.

And one of the things that we've moved to was a new platform, MindTickle, that allowed us to enhance our sales training [ph] that not just provide the content and provide that (01:07:21). We got into live boot camps, three-day boot camps so that people could really engage across the globe into a discussion of Cloud Forte, InteliServe, our digital workplace platform, really understand what it does, the value it brings, and how to talk about that value with clients.

And then, through the investment we made in MindTickle and some other platforms, we've brought that even a little bit further to roleplaying. So, it's not just good enough to go through that boot camp. We want to know that you got it. And we've been doing that all year. Just thousands of people have been through a tons of boot camps. And again, we're doing it more digitally and we're actually measuring the effectiveness of those boot camps and making the adjustments.

We've rethought our coverage model. As we continue to do, we qualify really hard our pipeline. It's just important that we are disciplined in the places that we know we can win, and those type of – as I talked about those complex highly regulated environments, if we don't see that in an opportunity, then we just simply need to move on to the next one. There's simply no chance to win. It's not in our sweet spot and it'll just simply be a low-margin opportunity. And that's not what we're doing.

So as we shift into these capabilities, as we move, as Peter said, into these higher margin opportunities in services and solutions, we really want to begin to see that pipeline grow in that space. And one of the things I'm very proud of is a few years ago, we really got the mindset shifted of don't wait for an RFP to come out. Don't wait for your client to say, I need help. Go out, know their business, understand what they're talking about, what they're focused on and bring them unsolicited ideas. Bring them the ideas before they ask for it, those unsolicited proposals, as I look at the pandemic and the way that we had to change our engagement model on selling, that's roughly 70% of our pipeline today. It's from that activity.

So, again, highly engaged, very curious, hardworking, thinking teams out there that are not waiting for the business to come to them, but really understanding the challenges that the pandemic brought and again solving that problem. One of our themes throughout the year was – I don't want you to – don't sell, solve. Right now our clients can't afford to be sold to. What they can afford is solving real issues that the pandemic has created and keeping them healthy and stable just like we've focused on being healthy and stable so that we can come out of this year, all of us, stronger and being prepared to really start the reinitialize a lot of initiatives that take the companies forward. So a lot of work in our go-to market, I'm very excited about our digital capabilities, very excited about our new approach to learning and validating that learning. And we'll look forward to seeing how that helps us drive our pipeline toward the things that we wanted to be in over the next year and a half.

Let's go to the next slide. So, another key enabler is obviously our digitization and industrialization of not just delivery, but how we operate. And again, if you think about the digital sales platform, that's one of those elements that helps us think through how we operate the business and conduct our business. But as you know, we've been really automating and driving a lot of that automation into our own services. We've really been focused on driving out, again, that labor cost so that we can do the same revenue or more revenue with a fraction of the people. I think our labor costs are at as a percent of revenue. I think we discussed that in our third quarter it was at the lowest it's been since I've been at the company.

And in fact, I think in a year of a pandemic when things were so unpredictable and we knew revenue would be softer, I think all of the work we actually did before the pandemic allowed us to actually accelerate that. And if you look at some of the key measurements that we track, really, our third and fourth quarter, we're almost double what we were doing in the first two quarters in terms of some of those automation from total work effort and hours to total automation executions, the number of things that we've automated are – it's just been phenomenal what the teams were able to repurpose and accelerate and think through as we got into the year.

We've – as part of our new structure and operating model, as again the business units now owning all of their service centers and their delivery capabilities and really being accountable for the quality of that experience, we also have a global delivery team as a Services team that again manages a lot of the leverageable things that all the businesses will need. And that's your ServiceNow platform, your ITSM, your asset management configuration, and client analytics. So, one of the things that we want to move away from and we are starting to think through is we don't want to just collect data and provide data.

We don't necessarily just always collect insights, which we do for our clients, but we really want to be able to understand that data we're collecting, these issues, these tickets, if you will, what are they really and how can we then turn around and automate execution and resolve that versus we're dispatching an engineer at times sometimes for some of these activities or the client has to go do something. That's the next step in this, and that's what our GDS group or Global Delivery Services team really starts to focus on. We've got to bring value, and they really look at it again from the client perspective and what the clients are going through. They're very close to our client executives. They're very close to the client delivery executives to really understand, well, what are these services and how they are perceived in value?

In addition to that, we've made a few moves here that are really going to help strengthen the company's ability to be transparent and see things quicker, more dynamic real-time data coming at us so that we can make our operating decisions. And also assess the operating decisions we made and whether they're getting the results we want. And so we have a new ERP system in motion right now. We put in a new platform to help us understand our labor, our hiring, where it's hiring. A lot of the things that we used to see maybe at the end of a month we're now seeing daily.

We can see how that stuff is changing and so – or the policies we put in place or the operating disability we put in place. Are they really generating the trends we're looking for and getting us to where we want to be? A lot of that is – a lot of the work that's done here. So, again, more interactive, more dynamic platforms really give us faster visibility and help us turn where maybe some of those decisions were quite on mark. We won't be perfect, but – in all of our decisions, but now we have the ability to make sure that those decisions don't become bigger as a detriment to the company. We really can't assess it. So excited about the work we're doing here. We have been very focused on digitizing our own company to be able to operate with higher profitability and at speed and still be able to deliver the outcomes that every client looks for.

Now, the next topic and if you can see down at the bottom is workforce management. So let's move to that because this is to me at the heart of any solutions company is your talent. The associates we have, the things that they're able to do. And you can imagine though being a global business with roughly 17,000 people, we may not always know the talent and the real skills and experience that each talent brings to us at any one time. And so if you're looking for a resource to work on a particular project in Germany, you may not know that we have that resource, experienced skills in Latin America. So we hired a very talented leader to come in and build a team. This is all she does and what she knows. This is her expertise. She has made a huge difference in the time that she's arrived in her team.

And the platform that I just mentioned about how we look at labor is part of the investment we made to automate this to take it away from a lot of people looking at a lot of different things disparately and now really we see it all real time in one place. And that's visible down all the way to the senior leadership team; it's visible to the operators, the decisions. And so I give you a good example. We hire a lot of people every year and we move out a lot of people every year. And that is no different than a lot of companies, but that's expensive. That's a churn. There's a cost of doing that. As we look at – as she stood up the workforce management, the team came together. We really integrated in with talent acquisition in our HR group. We started to see that we could fulfill a lot of reqs with talent we already have. So, we can avoid the new hire – the addition of labor. We can avoid contractors, which diminish margins.

So, just a data point, as we looked at the last quarter, about 29% of all of our open needs. Now, this is reqs that we opened for new clients that we signed or new business that we sold were filled internally. That's huge. If you think about the average number of new hires a month, we'd cut that in half and we have. So again, just utilizing the talent and experience we have, it has some advantages. One, besides just the productivity that we get with that talent and the profitability, it gives our associates a greater work experience, a greater opportunity to gain new skills and experience to progress their careers. So, again, a lot of work being done here, essential to what we're going to be doing. If you think about those advisory skills and the things that we're doing there, this is going to become one of those things that's important.

So, let's move to the last slide now and I'd just wrap up. Covered a lot in about 50 minutes, a lot of things that we went there with a lot of businesses and our go-to market, our enablers, but let me just say this. We're focused. We've simplified our operating structure for speed and results. We know the key enablers and we're well into operationalizing them. We're focused on the outcomes and our clients tell us they appreciate that. They appreciate not being sold, but solving the problems that make them more successful. And we recognized the orchestration of our IP with our partners to deliver the whole – a lot higher value to the clients.

But we opened the year with a Global Leadership meeting in Orlando in January. And our theme was Alignment. The work we've done with our outside partners to help us think through things, the internal team and how we've come together during this pandemic and reimagined how we could service our clients has really strengthened that Alignment. And it's also our talent is poised to drive great results.

So, with that, thank you. And I'll turn the meeting back to Courtney.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thank you, Eric and thank you Peter as well. We're now going to take just a short break till 10:30 Eastern Time. And then we will reconvene and Mike will take us through our financial overview.

[Break] (01:17:47-01:27:31)

Welcome back, everybody. We'll now resume the discussion and we'll do so with a financial overview that Mike Thomson, our CFO, will take us through. So, Mike, over to you.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Great. Thank you, Courtney, and good morning, everyone. Let me start by saying I'm really happy to have the opportunity to illustrate how we intend to continue to drive value to our clients, associates, and our shareholders. You heard from Peter as to why we've emphasized the markets in which we want to compete, and Eric gave you a great detailed walk on what we deliver, how we've won in the past, and how we'll continue to win in those markets. And I'll share with you what we expect the impact of our strategy will be on our financials over the next couple of years.

[ph] Jeff (01:28:28), if you can move to the next slide, please. Before we talk about the financial themes, I just want to take a moment to reflect on the key objectives that we've presented in the 2017 Investor Day. What we're hearing today is really not that much different than what we've talked about in the past. Our four primary financial objectives at that time were revenue growth and improved profitability and cash flow as well as active management of the pension exposure. Since this management team has arrived in 2015 you've seen us do just that. We've increased revenue, profitability, and cash. And we've mitigated the liquidity concerns derived as a result of required US pension contributions.

But as you heard today, that's not the end of the story. It's really just the end of the chapter. Today, we had similar themes, but we've raised the bar on all of those metrics. Our strong balance sheet provides us the financial flexibility to invest more deeply in our business and to achieve significant margin upside, which we think will continue to unlock shareholder value. The strategy you've heard positions us to continue to grow EBITDA and free cash flow through additive participation in attractive end markets that have higher growth and higher margin opportunities, and relative to the industry generate additional margin from our ClearPath Forward franchise with increased participation in our Services ecosystem as well as expanded cloud opportunities. Our plan is to continue with the momentum we've established over the past several years and of course continue our investment approach and our capital-light strategy aimed at reducing CapEx spend to ensure we maintain a strong capital position and continue to accelerate our free cash flow generation.

Next slide, [ph] Jeff (01:30:12). I won't spend a lot of time on this slide as this is something that most of you have seen before.

This slide represents our pre-COVID activity and I'll be discussing our 2020 activity on the following slide. You can see we've achieved a consistent stabilization of our revenue trajectory and, on average, about 4 points of non-GAAP adjusted revenue improvement per year. We've improved from a negative 10% decline in 2015 to 6% growth in 2019. We've also achieved meaningful improvement in our margins with almost 300 basis points of non-GAAP operating profit margin expansion. We've done that by stabilizing the ClearPath Forward base, growing our cloud business specifically in the public sector and achieving targeted growth in DWS and other businesses during that same period.

Next slide, [ph] Jeff (01:31:12). In 2020, we've shown ourselves to be extremely resilient during significant economic downturn and market disruptions. Although, we're in a quiet period now close for the year, I think I can say with confidence that we really took some ground in 2020. We've effectively eliminated all material future cash contributions to the US pension plans, we've reduced our net leverage ratio, and we significantly reduce the volatility remaining in the pension exposure.

We streamlined our operations, as Eric has talked about. We've sharpened our delivery focus and laid the foundation for scalable growth. So even through – though 2020 has been challenging, it's also been incredibly transformational from our perspective. We've been able to maintain our financial position while improving our underlying business model. We've obtained strong multiple for the sale of our Federal business. We gained financial independence from the removal of the pension overhang. We've recapitalized our business under more favorable financial terms, and we've enhanced both our client and associate experiences.

We've invested it in modernizing our tools, again, as Eric has illustrated. And you heard today that we've actually deepened our strategic focus as well. We've successfully removed about $60 million of the stranded cost that was created from the sale of the Federal business. We've improved the operational efficiencies and accelerated our shift to digital. We quickly aligned our service offerings to react to market disruptions and the remote workplace environments we see today. And lastly, we aligned our operating model to better serve ourselves and execute against our new strategic objectives. And sure, not only did we weather the storm, but we significantly strengthened the overall company.

Next slide please. Let me quickly recap the financial expectations and the results from our previous Investor Day. Three years ago, we laid out the following long-term objectives; 2% to 4% revenue growth; 9% to12% non-GAAP operating profit margin; 3% to 5% Services growth; and improved Services margin. Pre-pandemic, we had already met or exceeded all of those targets. We've grown revenue by 6%, improved our operating margin to 9%. We achieved 7% revenue growth in the Services business while improving operating margins. We look at these markers in the light of the fact that 2018 and 2019 were the first years in 15 years that we've achieved the revenue growth.

And two, we achieved this improvement in the company's trajectory with a pension overhang that required significant cash contributions that meaningfully restricted our ability to fully invest in the business.

In 2020, we've significantly reduced our pension deficit and more importantly, eliminated the need for US contributions for the next four years. When you add that to the resilience that we've shown during the pandemic, it's safe to say that we've more than accomplished the objectives we set out to do in 2017. So, where are we going? You heard from Peter and Eric that the overall IT landscape has changed. Being an IT pure play is not enough to win. Our clients are more sophisticated buyers they want business and operational outcomes just as we do. And they're not just looking for low-cost commodity pricing at least the customers that we're looking for are not.

Next slide, [ph] Jeff (01:34:46), I think while we've illustrated, so far, you have a good sense of how the industry is evolving, how we're adapting our offerings, our go-to-market strategy to become a dominant player in the markets that we serve. I think that's an interesting statement, right? Because five years ago, we were really talking about becoming relevant again and now, we're talking about being a dominant player in the markets we serve. Our overall strategy is centered around providing better outcomes for our clients, not just selling them services and products. We believe we can create more shareholder value by delivering on that mission.

As Eric noted, we've aligned our operating model to support four business units. Three of these business units will directly align to our new three core external segments. The alignment requires resources and investments to be aligned in order for us to be successful. We've also heard loud and clear from this group that the commingling of services and technology made it difficult for you to understand how our respective businesses were performing. So, to that end, effective January 1, we'll be changing our external reporting segments and restating our historic segment results from our legacy services and technology view to the new business unit view we've been discussing here today.

Our new external reporting segments will be Digital Workplace Services, Cloud & Infrastructure, and ClearPath Forward. Our BPS business does not require or meet the requirements considered under US GAAP to be considered a segment, but we'll still be providing color on that business unit as well. We believe reporting in this manner will provide you more transparency into our financial results relative to our guidance and ultimately to our strategy and everything that we've laid out here today. Further, US GAAP requires that we restate those historical financials. And to that point, we expect early in the first half of 2021 that we will file an 8-K with multiple years of historic data so that you're in opportunity to model our business more effectively.

Next slide, please. With that framework in mind, let me touch on revenue and margin expansion. First, from a revenue growth perspective, we feel that we're very well positioned. We've stabilized our ClearPath Forward business by addressing our clients' modern platform needs and making it run with our purpose-built expensive hardware. We continue to help our clients transform their ClearPath Forward environments into cloud and drive increased participation in our proprietary ecosystem.

As Eric mentioned, we believe by organizing the entire ClearPath Forward ecosystem together that it will create opportunity to expand our wallet share and also help us grow our ClearPath Forward service revenue within the managed service and application services portion of the ClearPath Forward franchise. And in turn, the application of this approach, we believe will expand the use of our IP and drive additional volume in our ClearPath Forward licensing, which as you would suspect, is the highest margin portion of our business. And we expect the franchise to grow profitably.

In DWS, we're going to focus on higher growth and more differentiated end of the market by focusing on end-user experience and productivity. We strongly believe that the shift from EUS to EUX is the place to be and we plan to help to shape this transition. It's been very public that many of our competitors are exiting or deprioritizing their focus in this space. We think this creates a unique opportunity for us to selectively capitalize on expanding our market share by converting their clients to our differentiated DWS solutions.

In cloud as you know, we're very well-positioned in the public sector in both state and local within the US and foreign governments globally. We have deep strategic relationships. We've got the right industry experience, strong references as evidenced by our NPS, as well as the right strategic partnerships with leading cloud platform providers to be very successful in this space. We continue to leverage our strong cloud value proposition embedded in

ClearPath – in CloudForte and help our clients lead their cloud transformations. We believe that recent industry disruptions have accelerated public cloud sector clients to adopt cloud, both for economic purposes and frankly, just for the ability to continue to conserve their constituency in a digital world.

Next slide, please. Turning the focus here to margin. Our margin expansion, we expect to see meaningful margin growth over the next three years, primarily from three sources. First, as I mentioned, ClearPath Forward services, which are the highest margin services in our portfolio and as I just noted in the revenue growth comments, ClearPath Forward services where we expect to see most growth within the ClearPath Forward franchise. This expansion and growth of profitability will be at the company level as well as within the ClearPath Forward segment. But as software margins will ultimately be a smaller percentage of the total margin profile, the segment will slightly decline.

Second is the improvement of our operational efficiency that will help us continue to drive down cost of delivery and improve DWS and C&I and gross margins. And just as a point of reference there, currently lower than the industry averages, so we think we have some real opportunity there. We also realized the benefits of the 2020 cost actions that we've already implemented. And including that with reduced external spend and streamline our back office support costs, we expect to see margin expansion there as well. The last component of the margin expansion will come from the revenue mix shift within DWS and C&I to higher-margin more differentiated solutions. And I think based on what we've illustrated here today we have a real plan to get there.

Next slide, [ph] Jeff (01:40:45). We expect to continue to create meaningful value through our disciplined capital approach. Our priority is to increase the investment in our business but to have that investment self-funded, which means we'll continue to optimize our CapEx and OpEx investments and we'll continue with our capital-light strategy. We'll be reallocating some of our historic CapEx spend and we're targeting approximately $130 million to $160 million of cost saving as part of our new enhanced strategy with the reinvest plan of 20% to 30% of such savings. So let me unpack those a little bit for you. First, our strategy entails shifting our solutions to more orchestrated integration and combining our IP with the innovation from our strategic partners' ecosystems. We believe this will reduce our overall capital needs and produce a richer set of offerings and outcomes for our clients. We will, of course, be continuing to invest in our IP. But much of the heavy lift to modernize our internally build software has already been accomplished.

Second, as I mentioned, we're targeting $130 million to $160 million of incremental cost savings. These cost savings will come from several aspects of the business. The first of which is the workforce optimization that Eric was referencing in his material. This optimization is geared to increase our associate utilization, improve our labor mix, and in some cases rebalance the labor pyramid. We expect to spend between $40 million and $70 million to achieve this level of savings and again plan to reinvest 20% to 30% of those savings back into the business.

The second aspect is to deepen our supply chain efficiencies by optimizing third-party spend due to productivity enhancements and consolidating vendors while rationalizing our hardware and software needs. We're also continuing our facilities consolidation. And exiting some scaled facilities, rebalancing our footprint, capitalizing on the increased adoption of remote work, as well as continuing to streamline the back office support functions.

Next slide, please. As I think most of you know, our value – valuation work on pension is done annually. And the latest valuation completed was done at year-end 2019. You can see on this slide that we had approximately [indiscernible] (01:43:11) of required US pension contributions coming into 2025 or into 2020 through 2025, an average of over $200 million per year. Pro forma for the contribution, we intend to make in 2021, we're expecting a remaining single payment due in 2025. At that point, we will have made all currently required cash contributions to the US pension plans.

From our perspective, this puts the pension contribution wall in the rearview mirror. But why is this important? Well, a couple of reasons. One and obviously the most important of which is we have the ability to reinvest cash generated from the business back into the business. That investment can take many forms, M&A, R&D, strategic hires, or perhaps even just a pursuit of more capital-intensive deals. Two, it strengthens our liquidity position and enhances our ability to improve our credit ratings. And three, it allows us to further de-risk the balance sheet, which I'll talk to more specifically on the next slide.

[ph] Jeff (01:44:15), can you move there, please? Based on the current actuarial assumptions, the remaining pension deficit should be eliminated over time by asset returns and it should not require additional cash contributions from the

company. The goal has always been to reach a point where there are sufficient assets in the plan and that the return on those assets satisfies the remaining deficit over time, thereby considering the plan for refunding. As a point of reference, required cash contributions are actuarially recalculated based on year-end market conditions and demographics, and that process is currently in place for 2020. All of those numbers will be updated in conjunction with our year-end earnings which will be happening next month.

The de-risking of our plan can be aided by both asset management and liability removal. Our two primary focuses in the areas of asset management are clearly asset returns and interest rate mitigation. We've created a comprehensive glide path to accomplish this. First, you should know our glide path changes our asset mix as our funding level increases. Our asset allocation will continue to be more weighted to fixed income instruments, which minimizes equity volatility and allows us to more easily match these fixed income instruments with future pension maturities. This strategy, combined with our equity and fixed income hedging strategy, minimizes the exposure for additional future contributions from reoccurring.

The interest rates being at historic lows, one would expect that future rates will rise from zero to something north of zero, which will increase the discount rate and therefore reduce our overall pension liability and deficit. The higher the funding status, the more aggressive we can be in our liability reduction program. As you've seen over the last 30 days, in fact, we had a press release yesterday that we've executed over half of our current liability removal target and all of the US current liability target. Our bulk lump sum offering and our annuity buyout are completed, and we've removed approximately $550 million of gross pension liability from our US pension plans. And we've also removed over 20% of the total plan participants. That'll reduce approximately $35 million worth of PBGC premiums and administrative costs over the next five years. The international liability reductions that we've been speaking about are still in progress and are still contemplated to be completed by the end of the first quarter.

Next slide, [ph] Jeff (01:46:48). We continue to look to optimize our use of cash to improve our future cash flow generation. We continue to implement our capital-light strategy and a disciplined capital allocation approach, and we expect our CapEx range will be in the 5% to 7% range. We have a target to become working capital neutral, for those of you follow the story, we've been running at a working capital use of about $30 million. So over the course of the timeframe reflected here, we're expecting to get to working capital neutrality.

Eric mentioned a little bit about our ERP implementation, part of that implementation is help with invoice generation and receivable management, operational efficiencies and tighter vendor and supplier management, and we think that'll be enough to get us there. Consistent with our historic practice, we expect to pay cash taxes in the range of 2% to 5% of non-US revenue. As a reminder, as we continue to grow the US business, we'll be doing so on a tax-free basis. We have approximately $1.3 billion worth of deferred tax assets to shelter approximately $3.6 billion of US income. From an interest payment standpoint, we'll net settle the remaining value of the convertible notes that are due in March. So the only interest expense that we'll have on our balance sheet is the 6.875% related to our new $485 million Senior Secured Notes, which by the way was redone at about 4 points better than our previous Senior Secured Notes offer.

Next slide [ph] Jeff (01:48:27). I think we've discussed all the component pieces on this slide, but the make-up of our enterprise value calculation is something that we get asked about quite a bit. So we it'd be helpful to put our model on the page for you to digest. First, I'd point you to the significant improvements in pension deficit and the net leverage ratio. Again, I think the numbers here speak for themselves. But as to the net leverage ratio, you can see the way we calculate it and see that we include the pension deficit as part of our deposition. Based on what we've just discussed; however, I would posit to you that, if the US pension deficit doesn't carry with it any traditional debt attributes i.e., interest expense or ongoing payment streams or even mature principal payments. You could look at the last column on this graph and say, the pro forma net leverage excluding that US pension deficit and see that the term is significantly more. And clearly, excluding this from the US pension, our enterprise value implies even more significant upside relative to peers.

Next slide, [ph] Jeff (01:49:36). Now, I think for this slide, we've all been waiting for. You can see here the expectations we're setting for the next several years for both the total company and the specific financial expectations for the three core lines of business, as well as for BPS. Let me share a few key metrics with you. DWS, C&I and ClearPath Forward combined, constitute about 80% of Unisys revenues. DWS, which is roughly 30% of our revenue, has been growing at about 1% over the last two years.

By the end of 2023 we expect it to be growing at 10% to 13% and have gross margins between 13% and 15%. And although we're only showing through 2023, we expect there is still substantial upside in this business beyond the timeframe that's noted here in the model.

For C&I which is about 20% of our business, it's been growing in healthy double digits albeit from a smaller base. Exiting 2023, we expect that growth rate to still be at a healthy 9% to 12%. More importantly, we expect the adjusted gross margins to be in the 19% to 22% range and we expect the inversion of that mix between cloud and traditional IPO to happen over this timeframe.

ClearPath Forward which is nearly 30% of our revenue today has been stabilizing. Recall when I joined the company here this was at a double-digit decline. It's moved to a low-single-digit decline more recently. And now with a stable base, a modernized platform, we expect to increase our Services value proposition and we expect the franchise to grow at low single digits while remaining with the healthy margins of approximately 60%.

Other as represented here primarily represents our legacy BPO business and non-Unisys industry applications. It makes up about 20% of our business. We expect a modest decrease in revenue largely due to volume decreases at our check-processing joint venture, partially offset by recovery of pandemic impacted volumes. Margin improvement will come through increased volumes and higher margin contracts and by the application of holistic approach to managing these disparate arrangements with a single team.

For the overall company, we expect to exit 2023 top line between 6% and 8% and we expect to achieve operating profit margin between 11% and 13%. This represents a compelling financial upside relative to where we've been and where we're at today. We're confident that we build a strong platform to drive revenue growth and margin expansion. We're also confident that we have the financial flexibility to invest in the business that we have the right strategy and perhaps as importantly we have execution plan to achieve the result that you've seen here.

So, with that, Courtney, I'll turn it back to you to initiate the Q&A.

Question And Answer Section

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thank you, Mike. We'll now begin the Q&A and we'll open up that function in the Zoom panel. So, if you'd like to submit a question please do so by typing the question into that Q&A function at the bottom of the screen in the Zoom control bar. We'll do our best to get through as many of your questions as possible in the time that we have allotted. And it looks like we have one question coming in already. So Peter, I think there's probably will be a good question for you. So I ask you to kick things off on this one. Why are you changing your strategy and how far into the process are you at this point?

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

Thanks Courtney, very much. And thanks for the question. Well I think as you heard the three presentations, I hope that the message that you received about our strategy is we went through a strategy refresh in 2020. We brought in McKinsey. We ultimately brought in AlixPartners to help on some of the execution of that, was actually the first time we had brought in a strategist firm to do strategy in this company since 2003. So one could say it was past due. But what came out of that strategy, again as I mentioned, was not a wholesale change of our direction. We did not go – as I gave the example for making shoes to making tires, 80% of our revenue is in DWS, Cloud & Infrastructure and ClearPath Forward, which are the three focused areas for the company going forward as you can see from Mike's chart.

But what we did do was take a good look at that revenue, and we subdivided into areas that we thought we had competitive advantage, and areas where we thought the market was growing faster in higher margins. And where we had overlapped between that competitive advantage and then higher margin, higher growth work, that's where we're doubling down.

So I would say it was more of a refinement than anything else. When we think about the timing, as I mentioned earlier in the presentation, we have been very transparent to this company, when we kicked off the execution piece, which started if you go back to my slide on August 31. By the first week of September, Eric and I were sending out company-wide e-mails talking about that process, literally days after we started. And by December 1, we had told everybody how this was all going to work through the organization, effective January 1. So, we really feel like this is now where we are as a company. And we feel very enthusiastic about our ability to execute. Really, good question. Thank you.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. So next we will go to Jon Tanwanteng from CJS. Jon, we will enable your microphone if you can just take yourself up and unmute.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Hi. Can you hear me?

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

We can.

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

We can.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Great. And thank you so much for doing this. It was really great and it's so refreshing to hear the focus move away from the pension finally. My first question is Peter and Mike you have a growth rate target exiting 2023. But could you just shed some light on where that you're expecting in 2021 and 2022 in terms of growth and margins? Is it going to be a linear progression to get to that target, may be a little bit lumpier as we're recover in 2021? Just help me understand what's in between here and then and kind of how we get there.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Peter, I'll take that if you don't mind and you can certainly add color if you'd like after. Jon, great question and good to hear from you, I guess for starters, I would say it would be probably pretty linear as it pertains to margin. We are expecting to see that margin improvement happening earlier in the process and be continuous somewhat throughout the process as we've indicated here. And you're spot on, on the top line. I mean, we still have some COVID hangover so we are expecting a slower jump off on the top line. But after we get that behind us, we do expect in the latter two years of what we presented today to see pretty constant revenue growth. And we are expecting growth in all three years, as represented here.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Okay. Great. And maybe just a follow-up to that, on the margin, Mike, you've noted a lot of cost-cutting efforts. I think it was $130 million to $160 million you stated in there. What is included in there in terms of what you've already done?

I noticed in the notes that says you didn't include the real estate, how much will that add and kind of what were the components of the things that you haven't already announced I guess?

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Great question, Jon. I don't think that the $130 million to $160 million does not really have a lot of duplicative cost save in it from what we've already been talking about. I did note real estate, but the real estate reductions that we've talked about in the past, which is the $20 million to $30 million that had already been underpinned. So, we're looking at additional cost save in excess of that under this plan. We do expect that there will be a charge taken in the fourth quarter of this year, which will start to represent some of that plan. I expect that to be in the $30-ish million range related to the $130 million to $160 million that you've talked about now. And as I've noted on that slide, the total cash charge is that we're expecting to encounter for that $130 million to $160 million of save was between $40 million and $70 million. And so, roughly a little over half of that coming in the fourth quarter of this year as far as a P&L charge is concerned. I would expect the remaining portion of that to come in next year. And then subsequent to that, the cash outlay for that $40 million to $70 million will largely be felt throughout the year of 2021.

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

All right. And just...

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Great. Thanks.

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

...just to be clear, next year, Mike, means 2021.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yes. Sorry, Peter. That's correct. I've not converted yet.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Got it. I'll jump back in queue. Thank you.

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

All right. Thank you very much, Jon.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thanks, Jon. So I'll take another question that was submitted here. We've got a couple of questions related to Stealth. So, I'll read one of them. I think it's reflective of the ones that we've received. Can you please give an update as to Stealth performance, why was there limited discussion of it today/how relevant is it to go-forward strategy?

2021 Unisys Investor Event

Transcript

January 12, 2021

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

So, I'm going to let Eric take most of that. I would say that I mentioned Stealth as part of our really distinguishing undergirding of all of our offerings with respect to security. That includes – we really have two strains, if you will, of Stealth, Stealth core, which is the micro-segmentation piece; Stealth identity, which is a bio-identity piece. And we have actually done substantial work on both of those. So let me turn over to Eric and kind of fill in a little bit more of the detail of it.

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

Thank you, Peter. One, it is absolutely part of our strategy and thinking going forward because security in general is absolutely everything we're doing. If you think about maybe where we started years ago on the journey of this particular product, as Peter mentioned, I think it's subtle, but let's just remind we are a solutions company. So we're not selling a product or service. We've got to solve a business problem. I think what we've really learned about Stealth is, its highly viable, it's very effective. But to try to take it to market direct as a stand-alone point solution was difficult, right?

As we learned through some of our conversations with McKinsey and teams, that's a crowded space and there's are lot of people doing that. We saw the value in it as we think about our cloud business. And Peter said, we – it's growing faster and it's been a lot of our wins is we're able to orient that IP into that solution set and differentiate ourselves in the marketplace. So I think what you're beginning to see with Stealth is it's very important. It's critical. It fits nicely into securing all of these businesses. And that does help differentiate us. It's not an afterthought. Ours is bolt-in and already integrated.

If you go to a lot of competitors, they've got a solution, but then they've got to go find a security partner. And then you've got the integration bolt-on of that. So we're a lot more seamless. If you think about our IP and then oriented ourselves to business outcomes, you really find us how to use this for Stealth core and Stealth identity. Even in the COVID-19 testing market where we're applying that technology to help create an end-to-end solution so that companies can get back to work. They can get people into facility safe. We're in flight where the pilot on that right now. And we're expecting it to be again a differentiator in how we use our IP to solve a business problem.

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

Yeah. The only thing I would add to what Eric said, I agree completely, is when we put on the solution hat, we are more cognizant that while we believe greatly in the value of Stealth and it has absolutely helped us significantly on those cloud sales. There are already clients that have already put in their identity security. They've already put in their micro-segmentation of purchase. And so, we have to have the flexibility of saying, okay, well, you don't need Stealth because you've already got something else. Stealth may work better, but it's not worth pulling the stuff out and putting in Stealth. So, our solutioning is more flexible now. And we're contemplating, allowing clients to make choices. So, as I said, it is not my way or the highway with respect to our product.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thank you. So, now I'll go over to Rod Bourgeois from DeepDive. Rod, we'll enable your microphone and you can just go ahead and unmute yourself.

Rod Bourgeois
Head of Research, DeepDive Equity Research, LLC

All right. Great. Hey. Thank you, guys, for this material here. I want to talk about your ability to convert more of your improving earnings into cash flow. And you cited on one of the slides the CapEx load at 5% to 7% of revenues.

So, my question is could you substantially reduce that CapEx load? And if there is a way to reduce the CapEx load that's substantial, could you do that without sacrificing your growth opportunities or at least your main growth opportunities that are key to your strategy?

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

Yeah. Rod, thank you for the question. Mike, I'm going to let you take the majority of that. The one piece I want to add, and Mike alluded to it in his presentation, when you look at our margins around ClearPath Forward, there is a significant CapEx portion that simply has to feed the development of continued ClearPath Forward innovation. That comes with the territory of receiving those margins. So, as we look at CapEx, we almost create, if you will, a split between a traditional more solutions company. What kind of CapEx does that require? Are we in the ballpark for that? And then, what is the CapEx required for ClearPath Forward? Your question stands Rod, which is, okay, how do we see that evolving over time? How do we see that making its way into more capital – excuse me, more cash flow? But we do have a little bit of a dichotomy in the way, we have a business from.

Mike, over to you, please.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Great. Hey, Rod. Good to hear from you. Look – and great question. And as you know and I think most folks on the call here that follow us know, if you go back three years or so, our CapEx spend was about north of $200 million, maybe closer to $220 million in some of those years. We're closing this year out at $140 million. So I think we've made really significant progress in doing that.

Peter is exactly right. When we look at CapEx and if you look at against just pure services companies, 2.5% to 3.5% is typically the bogey that you'd be looking to and here we are at 5% to 7%. But we really look at that. And if you break down our CapEx into the three components, you've got CapEx related to gross PP&E. You've got CapEx related to the Services business in the sense of outsourcing assets. And you've got CapEx related to capitalized software development, which is what really Peter was referring to as well. When you look at the different industry software developers, what they spend on R&D on average is about 28%, right? So I think our blended rate of 5% to 7% is really the tale of two cities here.

You've got CapEx embedded in our software development efforts, which is significantly below frankly, some of software development industry standards. And you've got – if you look at just our Services component, we're running about 3%, which is about in line with Services industry. So, I think for that perspective, we feel pretty good about that range. There's always room for improvement, Rod, as you know and I think as we've exhibited over the last couple years. And we'll continue to look for opportunities to do that. I'll just point back too to something Eric mentioned during his prepared remarks earlier today.

We've done a lot of heavy lifting over the last 12 to 24 months in regards to modernizing the ClearPath Forward franchise. And we've also done work to bring our Stealth product up from a UX-UI perspective. So I think a lot of the heavy lift that we've put in that is embedded in that $140 million that we're closing the year out, we don't necessarily think we need to have that same level of spend, but we always have to keep this IP current and forward-looking. So, that's how we look at it. We do think there are some continued opportunity there. Will it be the magnitude of what we've done in the last three years? Probably not, but we will continue to take some ground.

Rod Bourgeois
Head of Research, DeepDive Equity Research, LLC

Great. And if I can ask a follow-up related to cash, I want to ask about your thinking on whether your cash should be used for acquisitions and/or buybacks. You did mention acquisitions in the presentation. So, I guess I'm especially interested in hearing your thoughts about the potential at some point to have some share buybacks. Especially given your low EV-to-EBITDA multiple compared to some of your peers, combined with the fact that you're expressing a lot of confidence in getting your EBITDA, your earnings power higher. So, the question is, is there a consideration for buybacks at some point?

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

So, I'll probably take the first shot at that, Rod, and then let Mike follow up as well. With respect to our use of cash, I just want to say it's really nice to say that, right?

I mean, this is a long way from where this company has been in the past. Now, we actually have cash that we can deploy. So as we think about it, obviously, Mike has already talked a bit about the savings program we have underway and that we intend to reinvest 20% to 30% of that cash in the operations of the business, in creating the next-generation of these solutions organically. I can tell you that Eric is in the middle of that work and has – we have, as part of the effort with McKinsey and AlixPartners, we really laid out what we expected do organically in terms of continuing to develop those solutions.

With respect to the second piece, which is mergers and acquisitions, again, that is not a conversation we were in a position to have in the past. I will tell you this cash is not burning a hole in our pocket. So, we are not out there saying, oh, we got to spend it as fast as we can. That's not what we're about. We do have a business development function and we are looking at how do we accelerate what we would otherwise have to do organically in terms of developing and filling out those next-generation solutions. So, these are more in the nature of tuck-in acquisitions, if you will. The marketplace is pretty active right now in looking at tuck-in acquisitions and the availability of that.

So, I do think, going back to your question, about you've got this cash you're turning into a cash flow positive organization, what do you do with this cash? Right now, our current view is that we think between internal investments and some limited M&A activity, we think, we have a more compelling use for that cash than we would have in a buyback. Now, will that will that change over time, will that evolve over time? It very well may. So, we're not ruling out buyback activity in the future. Right now, it's not at the top of our list, but never say never. Mike?

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Honestly, Peter, I think you've answered the question really, fully and almost verbatim as how I would answer it. I would just say, Rod, we're not at the majority level from where we want to be to institute a buyback program. And when you do something like that, you really don't get the benefit of a one-time thing, right? You want to make that be a stable portion of what you're doing. And so, right now, we think we're better served, the shareholders are better served with us investing into the business and creating long-term value and growth that way, as opposed to just moving into a buyback. But clearly, we give it thought. We look at those policies on a pretty regular basis. And depending on where we land outside of the framework that we've been talking about today, we'll always keep that as a point of discussion.

Rod Bourgeois
Head of Research, DeepDive Equity Research, LLC

Thank you, guys. I'll ask my follow-ups later. Thanks.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Great. Thanks, Rod.

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

Thanks, Rod.

2021 Unisys Investor Event

Transcript

January 12, 2021

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thanks, Rod. So, I'll go back to one of the questions that was submitted here. And, Peter, perhaps, you can give some perspective on this first and then, Mike, you can probably add to it as well. So, the question is, what are the risks to your 2023 financial plans and where might some of those projections have positive surprises? What would drive those?

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

Well, I actually will also ask Eric to join in that conversation. So, as I think about the revenue and the growth numbers that you saw in the last slide that Mike put up, the first thing I would say is it requires us to be pretty aggressive in building the DWS and the Cloud & Infrastructure businesses. It requires us to move aggressively into the – to expand our existing presence in EUX, which we are doing, and to be successful particularly in the public and related cloud areas which we are being successful in right now.

So, I would say to you, in terms of risk on the revenue side, yes, there's also – there's always a risk on that. Our competitors are not standing still. We think we have momentum that is actually going to get us to where we are – our expectations for 2023. When we talk about the adjusted gross profit margins, again, if you go back to the slide that Mike showed, I think the key item there in terms of a risk and reward is the DWS profit margins, and Mike alluded to that as well. We currently have a significant base and that base is under market in terms of profitability. So, we have to do really two things there. We have to increase the profitability of the base business and we have to ensure that the new business we're signing hits the profit targets and allow us to get to the numbers that you see.

Do I think that we're going to do that? Yes. Is there some risk that we don't get there? There is. I think there is as much opportunity that we do better than that. So – and clearly when you take this beyond 2023, as we continue to kind of work out of some of those long-term contracts, these could be – we have some contracts that are 5,10 or 14 years – so, as you kind of work out of those contracts, I actually think you will see more upside in our gross margin around DWS in particular.

So, that's the way I would weigh the pros and negatives. Before we get to Mike, from an operational standpoint, Eric, obviously, from a go-to-market, from a sales standpoint, how would you think about that question?

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

Look, I think it comes down to two components that will make us a profitable growth company. One is the talent. It's always going to be about your talent, where do you find the design thinkers, where do you find the creativity to solve your clients' business problems to deliver outcomes pragmatically and timely. And so, we have a great base of talent. We need more. So, as Mike talked through how we're rethinking investment, I wouldn't say that as we entered into 2020 we thought about it, may be as we did over the past several years, as a cost-cutting activity. And we don't see that going forward.

What we're really saying to ourselves, look, we've got a pretty good foundation. We're seeing our [ph] personnel labor driving down – (02:15:02) holding our revenue. We're more variable as revenue fluctuates and sustain profitability. That's to be more predictable for everybody quarter-to-quarter. But it's going to come down to that talent, repurposing the skills that we have, finding new talent that we need. And then, you've got to couple that with relevant offerings. Now, [ph] I'd tell you this (02:15:21) company's heritage is it's pretty good at developing and solving things or bringing things to market that are relevant. But the pandemic's accelerating that. Right?

And so, I think our new structure gives us some nimbleness. Our talent is more curious. We're more focused about what we're trying to solve. And I think that all that is what I think will drive our results into 2023. But the risk of that is the talent. The risk is you take your eye off the market, you're not listening, and your solutions don't really hit the mark. I think to me, Peter, operationally, that's where my head is every day; talent, relevant.

2021 Unisys Investor Event

Transcript

January 12, 2021

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

Yeah. Thank you, Eric. Mike?

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. Maybe I'll just dovetail into that as well. And I think, obviously, both of you hit some really relevant points. I think maybe looking at the upside perspective, I do think that there can be – there is a better opportunity for upside on the margin. I agree with Peter in that regard. I think we've got a very clear line of sight and I think we've got a plan that's very well thought out and we're starting the execution of that plan and I think that there's a little bit more control in that side of the equation.

Clearly, from a topside perspective or a topline perspective, there's always risk in every plan in regards to topline, how your win rates come about, what comes up for bid. I think we have a good line of sight to RFPs that will be coming up for bid over the course of the next 24 to 36 months. And clearly, that weighs in here and what our win rates would look like.

I think the DWS topline, to Peter's earlier point, is an important one for us. Our ability – to me, it's speed. It's how quickly we can get our constituency up to snuff with everything that we want to sell. We want to enhance our portfolio there. And to drive that topline revenue number, we're expecting 10% to 13% coming from a 1% base, that's a pretty significant jump in topline in a very short period of time. Again, I think we feel strongly.

And maybe I'll just mention as a point of reference here, from our expectations and what we do in guidance when we come out next month with earnings and setting the table for 2021, when we do that, I'll just remind this group that we've met or exceeded every guided metric that we've put out since we've reinstituted guidance with the exception of what's gone on here in the pandemic. So, I think from our perspective, we're very thoughtful about what we put out. We want to make sure that it's a stretch. But we feel like we've got an opportunity to meet it. And I think you'll see that same level of transparency from us on a go-forward basis.

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

I agree, Mike. I mean – and just in terms of the DWS pipeline alone, we have line of sight to about $13 billion of contracts that are coming out for renewal in the marketplace in the next three years. So, we do believe that the market is there for us to get significant growth.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. So, I see that Joe Vafi from Canaccord has a question. So, we'll go to that next. And, Joe, we've enabled your microphone. If you can just go ahead and take yourself off of mute.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Great. Thanks, Courtney. Can you hear me?

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

I can hear.

2021 Unisys Investor Event

Transcript

January 12, 2021

Joseph Vafi
Analyst, Canaccord Genuity LLC

Great. Happy New Year, guys. Great results – great presentation and just great execution here in 2020. Just a few I think I'll lob in here. Number one, is there any – I mean, with the new segment reporting, is there any implications on think about relative to strategic alternatives or anything like that relative to the new segments? And kind of related to that on ClearPath Forward, kind of more separated clearly now than perhaps it was in the past. Are there any operational implications relative to the other segments with ClearPath being kind of re-segmented?

And then, secondly, I thought I'd also kind of lob one in on larger contracts moving forward. I know, Peter, you mentioned something about potentially with a better balance sheet, going after more large deals that may have a little more capital intensity to them. [ph] Just want to frame (02:19:53) what you see the ROI being on those longer-term deals? I know you like them. I think the ROI is good, but kind of a perspective there on what that long-term ROI looks like even if there are a little bit upfront on the cash side? Thanks, guys.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Peter...

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

Mike...

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

...do you want me to jump in on that?

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

Yes.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

So, I guess, first, Joe, thanks for the question. Good to hear from you as well. As far as the strategic alignment is concerned, I don't really foresee any issues in regards to it. In fact, I would say our focus is actually tighter under the [ph] beam (02:20:35) structure, right? So, when we're looking at our investment portfolio, we've talked a little bit here about M&A, we've talked about how we're proportioning investments. I think if anything what we've done with this strategy is enhanced our focus, which really helps us from a strategic alignment perspective.

We fully expect that there will be plenty of intersegment activity. When you think about Cloud, you cannot have DWS without cloud and we know that we'll have that interaction between the two. We've talked recently about our ClearPath Forward franchise and its ability to run workloads in the cloud. So, there is definitely going to be intersegment work. I think we've really thought through that from a structural perspective; how that will work, how it will support one another. So, I'm not expecting really any slipups in that regard as far as strategic alignment is concerned. And I think that addresses a little bit of your ClearPath Forward question as well.

So, I'm just going to jump perhaps to the larger contract view and the ROI. Look, it's been no surprise and shouldn't be to this group, for the last couple of years, we've been concerned about cash. We've had, as I mentioned, $800-plus million worth of US pension contributions to be done over that four- to five-year window. So, we were very selective about how we were using our cash. And I think the points that Peter has mentioned and that I mentioned in my prepared remarks were there's no barrier to that any longer. If we see a deal that meets our ROI requirements, long term or short term, we've got the financial freedom to pursue it.

And so, where we would have maybe paused on that last year or the year prior, we've given the message to our folks that if it meets our criteria, we go after it. We're not having any hesitancy at all in regards to that financial structure. So, I won't say it's as much about there's a different ROI profile and we have an ROI profile for engagements that we pursue and it was really the upfront capital expenditure that was the barrier to pursuit and that barrier is gone. So, it's more about opening up more deals that we're looking at.

And frankly, based on our improved balance sheet, we're going to get invited to more RFPs because of our financial stability that may have precluded us from being invited in the past. Some state and local and foreign governments have certain level of equity profiles that are required in order to participate in the RFP. So, we do think that will actually bring in more RFPs that we can participate in.

Hopefully, Joe, I've captured your three points there.

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

And Mike, if I could just – if I just add three small points on top of that and then ask Eric to comment as well. The first is with respect to, if you will, the segment interoperability and the handle we have on it, Joe, another area in addition to the obvious that there's going to be some overlap because DWS is dependent in part on the cloud capabilities, we have taken that security/Stealth expertise and we are housing that security/Stealth expertise in the Cloud & Infrastructure business for obvious reasons. But as we – as Eric has mentioned and Mike has mentioned, security and Stealth runs across the gamut of our business. So, that team will be servicing the DWS team, it'll be servicing the ClearPath Forward team, which also uses Stealth and also the BPS team as well. So, that's the first point I would make.

The second point I would make is I'm not above peer pressure. It's okay. And when we create these segments, I mean, you see it from Mike's last slide, it's really obvious that we are not running our DWS and our Cloud & Infrastructure teams at market margins. There is room to enhance. And in part under the old structure, the ClearPath Forward revenue and profit kind of shielded a little bit looking at that with a laser focus. Now, obviously, we saw it internally, but even internally, because the operating teams were different, the numbers looked different. So, in terms of peer pressure, the pressure is on DWS and Cloud & Infrastructure and to some extent the BPS team as well to take those margins up and to do them significantly. And you see that in Mike's expectations.

And then, finally, the third thing I would say, and again Eric can speak to this, when you talk about availability of capital to put into deals, I want to go back to the same comment I made about M&A, right? Just because we have it, it doesn't mean it's burning a hole in our pocket. It doesn't mean we're going to rush to use it. But there are some deals. I think about some of our public deals that we signed in 2017 and 2018 that were somewhat capital-intensive. What's happened in those deals when you think about the ROI and we think about the performance, once you establish yourself in a state and local environment, in a foreign or non-US environment, whether it's at the federal state or local level outside the US, more so in the public space than in some of the commercial spaces, you really have an opportunity to land and expand. I think Eric is going to talk about some examples in the public space where we've landed and expanded. So, a deal that looks a little capital-intensive as a percent of revenue going into it, that capital gets spread out over more and more revenue as you expand in that environment over time.

And I really think that's all I'll say on that. And, Eric, over to you.

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

Sure. Let's kind of start with the flow, in our new structure, really, the business units' role in our growth is really assessing the market, knowing where we can play and win, and thinking through the value messaging, right, the value prop, then – and also building a very relevant solution to solve the business problems. Now, one of the reasons we didn't give all those business units their sales executives and all those individual go-to-market people is because that's leverageable, number one. And number two, that organization is highly incented to sell it all, to bring it all to bear against the client. And I think that kind of tension in the system is going to be good for us. But it's really about focus. So, now the business units don't have to worry about, well, how's my salespeople doing, how is the pipeline growing. They're focused on value solutions to get the market and their go-to-market engine really is focused on understanding that value, understanding how those solutions solve business problems and taking those use cases into their clients and into prospects. So, I think that's a good model for us and it gives us the ability to cover more ground, cover more conversations with fewer resources.

And when you think about the deals, talking about these larger deals, look, our deals are highly qualified now. There was a time, if I go back in my tenure here, where we had a much bigger pipeline but it had a lot of stuff in there. One, it was never going to make money for us; and two, we just didn't have the ability to win unless we were willing to drop price. So, as Mike said, we have hurdle rates. We have a very disciplined way that we look at deals and we choose to pursue. And we also need to know that we're operating in places where our value resonates, again, those highly complex, highly regulated environments. So, we know what good looks like now. All that learning and all that sales [ph] advance we've done (02:28:33) and how to qualify I think is beginning to really pay dividends. And you'll see that really in our value win rates over the last few years, even in this last year.

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

Thank you, Eric. Joe, I hope that helps to answer the question.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Yes. Thanks, guys. Thank you very much.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Thanks, Joe.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thanks, Joe. So, another question that is kind of dovetailing in with some of the points that you've all hit on related to the business units. So maybe, Eric, I'll ask you to expand on this a little bit from an operational perspective. And, Mike, maybe then you can speak to it in terms of reporting. The question is how big a change internally is the new business unit structure, and can you review the major differences with how the organization had previously been structured? Was there a lack of ownership of results lower in the organization previously?

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

Yeah. It's a very good question. Obviously with any change, there's things you work through. I think what we did was very smart. We brought in the experts. I mean, if you think about what AlixPartners and McKinseys do, they do this with clients everywhere all the time. And so they had a very good discipline as to when to communicate, how often to communicate, what you should be communicating, and we executed that to a T.

So I think internally, Peter and I were out and front every month updating our associates based around the globe. We were making sure they were very clear on decisions that we have been making along the way so that there wasn't this big announcement at the end and a lot to absorb. It was really put out there in place and so they could gradually build and see it and where we were going. And we were very transparent.

So I think that helps us with the change and get it accepted. A lot of the feedback and you always have some people who are nervous and there's some anxiety along the way, but a lot of the feedback is we love it. We've taken people who were important to client's success but too far away from the client, and we've moved them closer to the client. Now, they're part of those client conversations, and that's energizing to our teams. So I think again a lot of that structural change is really going to benefit our clients and benefit our associates and how we're trying to deliver the outcomes.

When I think about the previous structure, just to give you that compare, the business units today now own their P&L, and they own all their services. They own a lot of the things they need to go get things to market other than their go-to market engine. Before that, we were really run by regions. So each region owned the P&L. Now, there's reasons for that, right? As we were going through, I think, the last several years, we needed to see which regions were contributing, which markets and really see where our problems were. And I think that brought us some transparency. I think now is the time to flip it.

We're not – if you focus on regions, one of your downsides could be that people just sell whatever it takes to grow their region. They're really more interested in their spot, in their part of the world. And that's not what we want as a business, right? We want to scale and become a dominant player in cloud, a dominant player in DWS. And so therefore, you take the pressure off of people looking inward going, well, what does this mean to Germany? What does this mean to Sydney? And now they're really focused on how do I get more cloud business? How do I get more DWS business?

So, again, I think that's a little bit of contrast/compare. So now we're business unit-led, P&Ls are owned by them, go-to-market engine is still locally close to clients and prospects to actually deliver versus a region-run P&L-oriented let me grow my area.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. And maybe I'll dovetail on that a little bit as well, Eric. I think you'll see a more – you'll see more change externally than you will have seen internally. As Peter mentioned, we clearly had all of this data. And I think any time you're in a matrixed organization, there has to be a primary access. And to Eric's point, our legacy access would have been regional.

Having this embedded and having the philosophy of we're creating solutions. Those solutions can be used horizontally, right? And I think part of the problem that this company had when Peter joined and Eric and I joined in 2015 is we were building solutions for individual client engagements and not leveraging those solutions globally.

And I think having the matrix be more horizontal, that gives us the opportunity, by line of business, to really leverage those more fully as opposed to indigenous in a region. And I think the transparency that you'll see from an external perspective, having our segments aligned to specifically these internal P&Ls is going to be some good, healthy tension across the board.

And I just – I feel like it is the right move. It is the right time to do it. It's a deeper focus on our strategy. It'll enable us to continue to look at other operational metrics that may support both business and external view, streamlines our pipeline. So, I'm really looking forward to, I guess, just continued transparency. I think you could all appreciate certainly over the course of our tenure that we are always looking to enhance and increase our transparency with you all, so that you have a good expectation of where we're going and how we're going to get there. And I think this is a step towards doing that in a deeper and more meaningful way.

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

And Mike, just there was a third part of this question. And one was about results. Right? Was there a lack of results or ownership of results lower in the organization? I'm a huge believer that it all starts at the top. So, if you have an environment where people aren't being accountable that do not understand the results, well, that starts with leadership. So, we've been addressing that. Right? That's why we have these global leadership kickoff meetings.

We'll get real clarity as to what we need to change. And most of our solutions companies [indiscernible] (02:34:58) run its talent in its behaviors. And so, as we identify them, we understand why those behaviors are occurring, what's incenting them. Maybe it's a comp plan change is necessary, we've been looking at that through our chain to make sure that we're really driving the belief system here and getting our behaviors in motion.

I wouldn't say it was lower in the organization. I think you've got to look at accountability can be anywhere in organization. Do we have some of that? Yes. Are we addressing it? Absolutely. But I got to tell you, over my time here, I think our associates are high in accountability. In fact, in our social engagements, it's one of the things they say is our strength, we're highly accountable to each other. I think the simplicity and having less matrix now, you take away the temptation to point the finger over there because that happens a lot. Right?

Well, I didn't get it from that person, in that department, kind of gone. You kind of now, I'll own it. And you got to reach over and tap your teammate on the shoulder and say, hey, can you get that to me. So, again, I just want to make sure we address that last part.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thanks, Eric, and thanks, everybody, on that one. I see that Matt Galinko from Sidoti has a question. And so Matt, we have enabled your microphone. You can go ahead and take yourself off of mute.

Matthew Galinko
Analyst, Sidoti & Company, LLC

All right. Great. Can you hear me?

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

Yes, Matt.

Matthew Galinko
Analyst, Sidoti & Company, LLC

All right. Thanks. Well, I appreciate you taking my question, nice presentation. Just wanted to clarify, on the ClearPath Forward cloud strategy, how does revenue work in that model? And how does that differ from your traditional license maintenance structure? I guess I'll start at there.

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

Mike, why don't you take that?

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. I'll take the front end of that. Hey, Matt, how are you? Look, I don't think the license revenue component is really any different in regards to the cloud structure. That is more predicated on how our clients want to buy their license. As Eric mentioned in his presentation, this is industrial strength stuff. And the clients that we have are usually governments or large financial institutions, et cetera. Cash typically is not a concern for them. And they typically don't want to consume it necessarily on a SaaS model. They prefer the up-front cash and higher discount.

So, in regards to the license revenue, the expectation is that it would still be on an up-front basis. I think what the cloud component brings to this, as they embed on some cloud opportunities, are running in the cloud and we've talked about having our services drive more of that work effort into our IP is that those loads would be larger. And there can be [indiscernible] (02:37:04) increase in regards to running larger loads. So that could be the impact on the licensing, but the revenue recognition would likely still be on an up-front basis, unless, of course, the client prefers the SaaS model.

We certainly would offer – we do offer SaaS model to that client base today. And if that's how they wanted to go, we would gladly accommodate. But to-date, we've not really seen that as the behavior from the client side.

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

And keep in mind, Matt, that as we talked about some of the services revenue associated with ClearPath Forward, we have clients that have literally hundreds of applications that sit on top of ClearPath Forward. So as you're moving ClearPath Forward itself into the public cloud, let's say, Azure, then there's going to be an impetus not only to take those applications and obviously have them in the cloud, but to modernize those applications to create the most effectiveness and efficiencies when you run them in a cloud.

So we really think there are very significant services opportunities for us working with our clients as we're moving that into a cloud environment, really enhancing the services revenue for us in that cloud environment as well. And those revenues, if I understand your question, those would be reflected in the ClearPath Forward segment, because, again, we're putting all things ClearPath Forward into that segment.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. And, Matt, just one touch on that as well, that's services revenue, right? That's not license revenue. So it's not an upfront revenue recognition there that's either going to be proportional performance time and material, those types of contracts. So that should bring a little more, I'll call it, stability to that segment, right? So, historically, our tech discussions have always been, hey, it's lumpy based on when contracts are signed. The fact that that franchise is expanded has a larger portion of services revenue associated with it. That should help normalize some of the lumpiness that comes out of the contract signing.

Matthew Galinko
Analyst, Sidoti & Company, LLC

Great. Thank you. And maybe one follow-up question. Just from the – through the lens that you're sort of a security focused organization whether Stealth or ClearPath Forward, obviously, there was a major cybersecurity incident that came to life last month. I guess, twofold question, A, does that cause you to reevaluate your internal practices and two, does that create any catalyst in any of the individual products or service deliveries to – whether through public or some of the private engagements or other opportunities there?

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

So, Matt, that's a great question. Let me answer that, I think, in three ways. The company that was identified at the heart of that issue was not an active provider to us. So we were not one of the companies that considered that company an active client in any material way. So we avoided, if you will, some of the brunt of that issue. That's number one.

Number two, it does highlight, as Eric talked about earlier, the ClearPath Forward operating system, which was not affected by that incident at all is the only operating system that has never had data forcibly extracted from it. So to the extent that our clients are looking at their choices as they have several operating systems that they're currently using, certainly this has strengthened in some of those clients minds, the reason they're using ClearPath and opportunities to use it more.

And then thirdly, in terms of the things we have done internally as you look at, if you will, the – you have a big bang, if you will, from that event and then you have ripples that come out of that event. Obviously, we have looked at those internally to the extent we were affected by any of those ripples. And we are taking corrective action. And we are clearly working with our clients, some of whom have had more direct impact because they were clients of some of the companies that were more closely impacted in this. So, it is something we have been focused on very, very intently since that broke.

Eric, anything further to add on that?

Eric Hutto
President and Chief Operating Officer, Unisys Corp.

Well, I think, from our client account teams, I mean, obviously, when these events happen, be it the SolarWinds event or any others, obviously, our client executives, when we're running infrastructure, we're very knowledgeable of the infrastructure, the tools they have, the monitoring. And so, we always engage in the right conversation. But again, as I encourage us throughout these events, you're there to look at the risk, identify the vulnerability, really help the client think through whether this should or shouldn't be an event they have to address without sell them into anything, just solve through it. And ultimately what happens is we end up with project work. We get a fair amount of security project work and advisors go in and they help them think through their existing assets and things that they may have to do to fill gaps. And I think we've seen that throughout these events that I won't say every client, but a fair amount of clients do engage us, because they do know we are very focused on security and how we think about it. And it does allude to project revenue for us.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Right. Thank you, everybody. And I apologize because we are getting down to the final moments here. And we do have a lot of great questions here. We've been doing our best to get through all of them. I would suggest, perhaps, one final one, Mike, to you and you can keep it relatively short since we're tight on time. But we did have a couple questions clarifying around cash flow. So, obviously, you hit the assumptions that go into it on your cash flow perspective slide. Perhaps you could just also add to that, how are expectations around EBITDA line up to what we provided with respect to revenue and non-GAAP operating profit margins, so that folks have all the tools there to form a perspective around free cash flow?

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. That's a great question and thank you for that. Look, I guess, quickly and I'm looking at some of the Q&A here as well. There was a question around D&A and the component it has on EBITDA. So, from a modeling purpose, we've talked about that being on an absolute dollar roughly $150 million per annum. So, you can use that from a modeling perspective.

From an EBITDA point or just really a flow-through, we've given you the kind of increase to margin and we expect that, the bulk of that will flow through right to EBITDA. And I would say, as we talked about that the incident of adjusted operating profit being pretty a straight line throughout this model that we've presented here will be consistent on how I'd model EBITDA as well.

I think for most of you that follow the story, we've talked about the interest expense. And you know what that value is, I've just given you the D&A model and the flow-through to income, which is really the basis for the starting point here from an EBITDA perspective.

So, I would mirror what we've talked about on operating profit. And I would remind you all that next month when we do our earnings call, we'll be establishing guidance for 2021 and we'll certainly give more explicit color on 2021. And probably, blow out a little bit of this model more for you as well. And I would also remind you that we will, in the first half of 2021, be filing an 8-K to restate our historic segment results for multiple years. So you'll have a good baseline at that point as well to support your modeling efforts.

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Courtney Holben
Vice President-Investor Relation, Unisys Corp.

Great. Thanks, Mike. So, with that, we'll wrap up the Q&A. Thank you everybody who submitted and asked questions. And Peter and I will turn it back over to you for some closing remarks.

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

Well, thanks, Courtney. I do want to thank Courtney, I want to thank Eric and Mike and especially those of you who have spent the time and effort to be with us on this call. Those of you who are new to the story, I hope this was interesting to you. Those of you who have been experienced about the story, I also hope this is something that you have waited a while to hear. And we're really happy to tell the story.

As Courtney mentioned in the beginning of this session, we are refreshing our IR website. We expect to have that up and running by early next week. So I hope that you spend a little time on that new website. I think you'll find it even more helpful and transparent than the old one. And we have historically worked really hard to be transparent with that website.

And then, finally, Courtney and Matt Varnell, our two Christian IR team, are available to you all the time. And we really encourage you to have those conversations. And then Eric and Mike and I are also available to you. So, we're excited about telling the story. We're excited about where the company is going. And we want to thank you for being with us today.

So, with that, Courtney, I think we're about finish with the call. And so, whatever closing things you need to do, we will do.

Courtney Holben
Vice President-Investor Relation, Unisys Corp.

No. Great. That's I think everything, Peter. I'll just conclude by thanking you all again for your time today and your support and your interest in Unisys. And we will look forward to continuing the dialogue with all of you. Take care.

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

Thank you all.

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.

Great, thank you.