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Unisys Corp. (UIS)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Unisys Fourth Quarter and Full Year 2022 Financial Results Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there'll be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded. I'll now like to turn the conference over to Michaela Pewarski, Vice President of Investor Relations. Please go ahead.

Michaela M. Pewarski

Vice President-Investor Relations, Unisys Corp.

Thank you, operator. Good morning, everyone. This is Michaela Pewarski, Vice President of Investor Relations. Thank you for joining us. Yesterday afternoon, Unisys released its fourth quarter and full year 2022 financial results. I'm joined this morning to discuss those results by Peter Altabef, our Chair and CEO; Deb McCann, our CFO; and Mike Thomson, our COO, who will participate in the Q&A session.

Before we begin, I'd like to cover a few details. First, today's conference call and the Q&A session are being webcast via the Unisys Investor website. Second, you can find the earnings press release and presentation slides that we'll be using this morning to guide our discussion, as well as other information relating to our fourth quarter and full year performance on our Investor Relations website, which we encourage you to visit. Third, today's presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. The non-GAAP measures have been reconciled to the related GAAP measures, and we have provided reconciliations within the presentation.

I would also like to remind you that all forward-looking statements made during this conference call, including any references to guidance or color regarding expected future financial performance, are subject to various risks and uncertainties that could cause actual results to differ materially from our expectations. These factors are discussed more fully in the earnings release and the company's SEC filings. Copies of those SEC reports are available from the SEC and along with other materials I mentioned earlier on Unisys Investor website. Unisys

does not assume any obligation to update the information presented on this call, except as Unisys deems necessary and then only in a manner that complies with Regulation FD.

With that, I'd like to turn the call over to Peter.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thank you, Michaela. Good morning and thank you for joining us to discuss Unisys fourth quarter and full year 2022 results. We had a solid finish to the year, allowing us to hold the revenue flat on a constant currency basis during a year impacted by macroeconomic and geopolitical uncertainties. And we closed the year above the midpoint of the revenue and profit guidance ranges we provided our third quarter call. We believe the fourth quarter is evidence that our approach is working. Our high growth and higher margin solutions are gaining momentum. This is especially evident when viewing our performance, excluding license and support or L&S, which fluctuates based on the timing of license renewals. To provide investors with increased transparency into the business, we will discuss ex-L&S revenue growth on a quarterly basis. This will be helpful when looking ahead to our 2023 expected performance, which on the surface will show declines in total company revenue, profit margin and EBITDA margin due to the [ph] life (00:03:51) L&S renewal schedule we discussed last quarter.

Overshadowing the underlying improvement we expect to achieve in our ex-L&S solutions. As we start 2023, we believe the new Unisys brand is resonating with our clients, prospects, third-party advisors and industry analysts and our pipeline and TCV trends highlight our strengthening position. Deb will provide detailed commentary on our financial results overall and by segment, and an update on our US qualified defined benefit plans and other global defined benefit plans.

But first, I will discuss our focus areas and provide an update on several important initiatives, setting the stage for what we believe will be future growth and margin improvement over the coming years. I'll first discuss our key focus areas, including Modern Workplace, Digital Platforms and Applications or DP&A and Specialized Services and Compute or SS&C which we have discussed previously. Our key focus areas also include [ph] certain (00:05:02) Micro-Market Solutions, a subset of our business process solutions which are highly specialized industry offerings. Going forward we will refer to these areas, which are both higher growth and higher margin offerings as our Next-Gen Solutions. Although Next-Gen Solutions are currently a smaller part of our business, we see an opportunity to generate sustainable growth and margin expansion and drive these solutions to become a larger part of our business and focus of our global sales efforts.

The first Next-Gen solution we're covering is Modern Workplace, consisting of our proactive, experience-based solutions within our Digital Workplace Solutions or DWS. The Digital Workplace has only become more complex as hybrid work models have accelerated. Our Modern Workplace offerings transform technology support to solutions such as hybrid virtual desktop, advanced services, employee experience, communication and collaboration platform management and device subscription. Modern Workplace is delivered through the integration of managed services, proprietary Unisys IP and third-party offerings and leverages advanced technology such as artificial intelligence and machine learning. We expanded our modern workplace solutions by enhancing our unified communications and unified endpoint management capabilities. We now have an end-to-end portfolio of Next-Gen Experience Solutions, which we believe is a market-leading portfolio. In the fourth quarter, Modern Workplace total contract value, or TCV, and annual contract value, or ACV, each more than doubled versus fourth quarter of 2021.

The second Next-Gen Solution we'll discuss is Digital Platforms and Applications, or DP&A, which consists of our higher growth and higher margin CA&I solutions, expanding modern application migration and development, data

analytics, cloud management, hybrid infrastructure and cybersecurity. Clients are investing in these solutions to improve the efficiency and flexibility of their operations and significantly accelerate the pace of product and experience innovation they are able to deliver to their customers, which is becoming table stakes to compete in the digital age. In the fourth quarter, DP&A TCV and ACV each more than doubled versus fourth quarter of 2021.

The third Next-Gen Solution we'll discuss is Specialized Services and Next-Gen Compute, or SS&C, which includes highly specialized industry solutions to help analyze and optimize workflows or diversify compute capacity with serverless edge and quantum computing capabilities. Our SS&C industry solutions address an opportunity to advance our industry-specific innovations such as in cargo management, where we have deep expertise. In the fourth quarter, SS&C TCV grew approximately 45% year-over-year, and ACV grew approximately 65% versus the prior year period.

Overall, our Next-Gen Solutions are building momentum in the marketplace, creating pipeline opportunities with new clients, and leading to successful cross-selling with existing clients. In the aggregate, fourth quarter Next-Gen Solutions TCV grew more than 80% and ACV more than doubled year-over-year.

But [indiscernible] (00:08:52) before discussing the pipeline in more detail, I want to take a moment to address the 2023 headwinds caused by the renewal schedule we expect in L&S, which we discussed last quarter and which Deb will provide more detail on in a few moments. Changes in timing or term of renewals from client to client can lead to fluctuations in L&S revenue and consumption-based pricing elements also play a role. We expect to see that in 2023. However, our ECS business has certain attributes.

First, our relationships in L&S are very sticky. Our technology provides mission-critical capabilities for our clients as the operating and computing environment for some of the most vital transaction processing of numerous global financial travel, transportation, healthcare, commercial and government clients. Among the clients contributing more than 90% of L&S revenue, client retention is approximately 95%. And these clients have typically had multi-decade relationships with Unisys.

Second, we usually have good visibility into client renewal plans, replacing our technology when that does happen, often it involves a highly complex multi-year migration and utilizes support from our teams. Third, revenue from clients transitioning away, again, where that happens, typically declines over an extended period or may stabilize for an extended time at a lower level due to migration challenges, cost overruns, or the need to maintain business continuity. The client may even reverse its decision if it finds that costs outweigh benefits.

Lastly, we continually make investments in our L&S products and platforms to increase Unisys's value through innovation. In addition, we are investing in our SS&C industry and compute solutions, which we believe will further incentivize L&S clients to partner with Unisys.

Turning to the progress we are seeing in our sales efforts. Our total book-to-bill ratio for 2022 calculated as trailing 12-month TCV divided by revenue, expanded to 1.1 times, up from 0.8 times a year ago, and our backlog increased by \$230 million sequentially to \$2.92 billion from \$2.69 billion in the third quarter.

Importantly, we signed contracts with three of our five largest DWS clients in the fourth quarter, recommitting to their partnership with Unisys and turning to us to deliver an elevated experience for their employees. We also extended several CA&I contracts during the quarter. In one case, a large client who relies on Unisys for both DWS and CA&I solutions significantly expanded the scope of the CA&I solutions we provide to them. This client began their multiyear Unisys relationship as a traditional DWS client many years ago. And the win is a strong

example of our opportunity to cross-sell and upsell solutions that span IT functions and consolidate IT transformation for a global organization with tens of thousands of employees.

From a pipeline perspective, we're entering 2023 from a better position than a year ago. Overall, our pipeline expanded during the fourth quarter on a year-over-year basis, growing approximately 15% from prior year levels with single-digit sequential decline due to our high sales conversion in the quarter. Our Next-Generation Solutions grew its pipeline by more than 35%. Please note that when we discuss the pipeline, we mean qualified pipeline, which are deals that have already been prospected and vetted.

In summary, there is positive momentum in our leading indicators such as TCV, ACV, book-to-bill, backlog and pipeline. On the cost side, workforce planning initiatives we discussed in prior quarters have gained momentum. Our focus on increasing our low-cost footprint, expanding the foundation of our labor pyramid and continuing to invest in associate development, has driven improvement in our cost of workforce. For the full year, workforce costs as a percent of revenue decreased 50 basis points to 53.7% from 54.2% in 2021.

In addition, our continued focus on building an open and inclusive environment resulted in an increase in associate engagement in 2022, as measured through our annual engagement survey. Initiatives for increase diverse recruitment and overall retention had positive results. At year-end, excluding field services and our IPSL sales joint venture, women accounted for more than 36% of our global associates, a slight uptick from 35% at the end of 2021. And nearly 30% of our US workforce, again, excluding field services, is from underrepresented ethnic groups, up to from 25% at the end of 2021.

In the coming year, in addition to continuing to mature our workforce transformation and DEI programs, we are increasing our focus on the associate experience by cultivating a winning culture through targeted initiatives that enable associates to contribute to the success of the company through innovation, recognition and continued career development opportunities.

From a sales and marketing perspective, we have also implemented a number of strategic growth initiatives in 2022, some of which are already contributing to our improvement in lead pipeline win rates and to our growing list of industry recognition. We introduced a new sales leadership structure in 2022, which has brought increased rigor and process around contract negotiation, pricing and client relationship management. Another key ingredient for growth is our partner ecosystem, which we expanded and strengthened during the year. Significant partnership activity occurred within DWS, where we made strides with Microsoft during the fourth quarter, obtaining the modern work, adoption and change management specialization, and with ServiceNow, where we became an elite partner.

In addition, we are increasing our engagement with industry analysts in 2022, an example of which was the Analyst and Adviser Day we held in June, bringing together leaders across our company to share our most exciting solution innovations and client case studies. Enlisting our industry thought leaders is increasing awareness of our transformation and we received recognition from our DWS and CA&I offerings throughout the year from prominent organizations such as Gartner and ISG.

Finally, we had a successful November launch of the new Unisys brand, which you can experience through our website and social channels, as well as today's supplemental earnings materials. This is the most significant brand transformation for the company since 1986. Our new brand is all about progress. It's about Unisys being a catalyst that pushes people and organizations to break through to their next innovation. Our brand embodies our entrepreneurial spirit and the aspirations for what we know this company can achieve for itself and its clients.

We believe this platform will influence consideration in the market and be a catalyst for our own growth by influencing the key sales metrics I discussed earlier such as leads, pipeline, wins, and revenue growth. Through year-end, we have already seen a 27% increase in visitors to our website, and those who click on our ads are staying on the site 61% longer. The new Unisys brand is propelling our start to the year, which we expect to be a year of progress, building upon our fourth quarter results.

Finally, we're encouraged by the positive trends in our TCV and pipeline and the growth in our Next-Gen Solutions.

With that, I'll turn the call over to Deb to discuss our financial results in more detail.

Debra McCann

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Peter, and good morning, everyone. In my discussion today, I will refer to both GAAP and non-GAAP results. As a reminder, reconciliations of these metrics are available in our supplemental earnings material posted on our Investor Relations site.

First, I want to emphasize that Peter's discussion of Next-Gen Solutions and ex- License and Support, or L&S performance, has been introduced in an effort to address feedback we have received from our stakeholders to provide increased visibility into the business.

Going forward, Peter will continue to discuss our Next-Gen Solutions given they are areas of strategic and sales focus that we believe will drive future revenue growth and margin expansion. We will mostly provide leading indicators of the TCV, ACV and pipeline for these Next-Gen Solutions. We are also providing ex-L&S revenue to allow investors isolate the impact of license renewals, which tend to be lumpy, and related support services, and evaluate the progress we are making in the business outside of this area. My commentary will continue to focus primarily on our reportable segments of Digital Workplace Solutions; Cloud, Applications & Infrastructure; and Enterprise Compute (sic) [Computing] (00:18:39) Solutions.

Our segments are aligned with how we operate the business, organize our teams, and deliver our solutions. As Peter discussed, while 2022 was a challenging year, we were pleased with the year-end performance in each of our segments. Our go-to-market and labor efficiency initiatives are beginning to show in our results. We are also exiting the year energized by the recent rebrand and a strong quarter of TCV and ACV.

For the full year 2022, company revenue totaled \$1.98 billion, a 0.1% increase on a constant currency basis in line with guidance we provided last quarter and a 3.6% decline on a reported basis. We saw strong performance in Modern Workplace and Digital Platforms and Applications, offset by lower license renewals and the contracts we exited in 2021. Excluding L&S revenue, constant currency revenue growth for 2022 was 0.6%. In the fourth quarter, revenue increased 3.3% year-over-year and 7% on a constant currency basis driven by strength in our acquired application development solutions, as well as a strong license renewal quarter within ECS, particularly in the travel and financial sectors. Excluding L&S, constant currency revenue growth in the quarter was 3.1%.

Now, for some segment detail. Please note that as I speak about the segments, I will be discussing revenue in constant currency.

Digital Workplace Solutions or DWS revenue in the fourth quarter declined 3%. Full year DWS revenue declined 7.3%. The segment was impacted by our exiting several nonstrategic accounts in 2021. Excluding these effects, which are now behind us, revenue increased 6.1% in the fourth quarter and 8.4% for the year. Throughout the

year, we continue to see strong demand for our Modern Workplace solutions, demonstrated by the TCV improvements Peter discussed.

Our Cloud, Applications & Infrastructure Solutions segment grew 11.6% for the quarter and 9.4% for the full year, driven by strong demand for our acquired application development solutions.

Enterprise Computing Solutions, which includes License and Support and SS&C increased 16.8% during the fourth quarter. For the full year, the ECS segment revenue grew 0.1%. The strong fourth quarter growth was driven by higher levels of License and Support renewal. As Peter mentioned, we normally have good visibility to our anticipated license renewal schedule, though precise quarterly revenue levels can be more difficult to predict. This is due to factors such as client decisions to renew early for budgeting reasons or to revise payment or consumption terms or contract length during renewal negotiations. L&S revenue was \$170 million in the fourth quarter and \$468 million for the full year.

During the year, several ClearPath Forward clients we had expected to renew in 2023 or 2024 chose to execute renewals in 2022 for varying reasons, such as the timing of government funding, anticipation of geopolitical risks, or appetite for long-term budget certainty. Early renewals are not uncommon, but contributed approximately \$60 million of L&S revenue in 2022 that had been expected in either 2023 or 2024.

This timing dynamic is a driver of the 25% year-over-year decline we expect in 2023, as we discussed last quarter. As Peter mentioned, we had a multiyear view into the majority of our L&S revenue. And in 2023, we expect it to be approximately \$350 million, split 55% and 45% between the first and second half of the year, with 30% to 35% of L&S full year revenue expected in the first quarter. As we said last quarter, we expect a cadence of low single-digit growth in 2024 and low double-digit growth in 2025. As a reminder, renewals are partially dependent on when clients choose to renew, and these estimates should be viewed as approximate.

Moving to total contract value or TCV, growth in our book-to-bill was driven by strong fourth quarter TCV growth of 55% year-over-year. For the full year, TCV grew 28%. ACV was similarly strong, growing 58% during the fourth quarter and 36% for the full year. The strength across our TCV and the quality of opportunities in our pipeline support our full year 2023 revenue guidance of negative 3% to negative 7%. Looking at the first quarter, we expect high single-digit growth year-over-year due to strong L&S revenue compared to the prior-year quarter. Excluding the estimated 2023 L&S revenue we provided, the expected performance of our ex-L&S Solutions is in the range of a decline of 1% to growth of 4%.

Turning to our profitability, we saw a strong sequential margin improvement in the fourth quarter, largely the result of higher license renewal levels and improvements from our labor cost initiatives. Fourth quarter gross margin expanded by 370 basis points year-over-year to 34.1%, our best quarterly result in 2022 as the first three quarters were impacted by lower renewal levels in L&S and nonrecurring charges in CA&I. Our full year gross margin was 26.7%.

As Peter discussed, we are effectively managing labor costs across the company to drive incremental improvements on the margin. We also saw an easing of wage inflation in many markets during the back half of the year and successfully addressed challenge areas in specific geographies or skill sets through targeted marketing campaigns, yielding quality candidates and higher conversion rates.

Now looking at gross margin by segment, DWS fourth quarter gross margin expanded 110 basis points year-over-year to 15.1%, largely driven by labor cost savings from efforts to drive productivity. We achieved 14% DWS gross margin for the full year, and we anticipate productivity improvements to continue in 2023.

CA&I margin in the fourth quarter was 19%, driven by improved delivery efficiency and a nonrecurring benefit from the sale of surplus IP addresses. Full year CA&I gross margin contracted by 60 basis points, driven by charges on a small number of public sector accounts taken in the first three quarters. These charges were due primarily to contracts with third-party application development work being performed. Due to our acquired application development solutions, we have less reliance on third-party contractors for this type of work so these charges are substantially behind us.

In ECS, gross margin was 73.3% for the quarter and 64.5% for the year, driven by license renewal levels in each period.

For the total company, fourth quarter non-GAAP operating margin was 20.2%, an 850-basis-point expansion versus the prior-year period. And fourth quarter adjusted EBITDA margin was 26.7%. For the full year, our non-GAAP operating margin was 8%, and adjusted EBITDA margin was 16.5%. The full year margin compression was driven by an increase in marketing related to the new Unisys brand, the exit of certain contracts, and CA&I contract charges.

We reported fourth quarter GAAP net income of \$8.5 million, representing \$0.12 in earnings per diluted share. Excluding cost reduction and other expenses, which totaled \$74.3 million net of taxes, non-GAAP net income was \$82.8 million in the fourth quarter, representing a \$1.22 of earnings per diluted share versus \$0.51 in fourth quarter 2021. For the full year, we reported a GAAP loss of \$106 million or a loss of \$1.57 per diluted share, while non-GAAP net income totaled \$74.8 million or \$1.10 per diluted share.

In 2023, we expect a non-GAAP operating margin of 2% to 4% and adjusted EBITDA margin of 9.5% to 11.5%, reflecting a year-over-year margin compression due to lower L&S revenue, partially offset by improvement in DWS and CA&I combined gross margins of approximately 250 basis points, driven by growth in Next-Gen Solutions and delivery efficiency initiatives. Given the expected strong first quarter of L&S license renewals, we expect a first quarter non-GAAP operating margin at or above the top end of the guidance range. Please note the timing of contract signings are uncertain and can shift quarter-to-quarter.

Regarding charges we expect during the first quarter, we anticipate the closing of a noncash annuity transfer of retirees within our US qualified defined benefit plans funded by plan assets, which will reduce both plan assets and liabilities as we continue our strategy of opportunistically reducing overall liabilities. We expect to complete this transaction in the first quarter, resulting in an approximate \$200 million noncash charge in the quarter.

2022 capital expenditures were \$85.9 million versus prior year of \$100.2 million as we continue to execute our CapEx-light strategy and saw a decreased CapEx demand due to contract delays in the first half of the year, we expect a similar amount of capital expenditures in 2023. Cash taxes were approximately \$49 million for the full year and are also expected to be approximately \$50 million in 2023.

Free cash flow was negative \$73 million for the year, primarily due to technology collections in L&S that slipped out of the year and working capital changes. Adjusted free cash flow, which excludes cash paid for post-retirement funding and cost reduction and other payments, was \$27 million. We expect capital expenditures, interest, tax, and pension payments to be in line with 2022 and a benefit from technology payments that shifted from 2022 into 2023. This benefit will roughly offset the negative free cash flow impact expected from lower L&S revenue. While we don't give formal free cash flow guidance, we expect 2023 free cash flow to be in line or slightly improved from the 2022 free cash flow.

We continue to maintain a strong balance sheet, ending the year with cash and cash equivalents of \$392 million. We have ample liquidity and expect to end 2023 with global cash balances sufficient to support the business. Additionally, our net leverage ratio, including all defined benefit pension plan net deficits was 2.1 times as of year-end.

I will now provide an update to our defined benefit pension plan. Despite challenging asset returns during the year, our global GAAP pension deficit improved over the full year by \$210 million to \$543 million. This improvement, in large part, is due to higher discount rates, which reduced the present value of the liabilities. The deficit related to our US qualified defined benefit pension plans improved by \$143 million during 2022, ending the year in a deficit position of \$366 million.

During each year, Unisys reports its estimated 10-year cash contributions to its global pension plans, including the US qualified defined benefit pension plans. In addition to updating all actuarial assumptions at the end of each year, contributions to the US qualified defined benefit pension plans are subject to very specific and complex IRS funding rules.

Despite the improvement in the GAAP deficit, these funding rules have resulted in expected cash contributions of about \$650 million for the US qualified defined benefit pension plans over the next 10 years compared with zero dollars projected at the end of 2021. This is down approximately 20% from the interim projection provided with the Q3 earnings discussion, primarily due to updated year-end actuarial assumptions and positive asset returns during the fourth quarter. Currently, no cash contributions for these pension plans are expected for 2023 and 2024.

This increase of \$650 million in cash contribution requirements to our US qualified defined benefit plans since year-end 2021 is primarily-driven by two factors. First, the funding rules by which our contributions are determined use discount rates that are based on a 25-year average, causing our contribution requirements to be less sensitive to changes in market interest rates than our GAAP deficit. The second factor is the accelerated use of pre-funding balances due to negative asset returns during 2022.

Pre-funding balances were established when we contributed approximately \$800 million into our US defined benefit pension plans in 2020 after the sale of our Federal business. When established and through the end of 2021, these balances were expected to be utilized to fund future minimum contribution requirements in lieu of cash contributions. However, with the negative asset returns in 2022, these balances have been reduced and will not be adequate to fully fund all future minimum contribution requirements. Please note that the future funding requirements are likely to change based on, among other items, market conditions and changes in discount rates. Although some volatility will continue, the volatility in our forecasted contributions is expected to be significantly lower going forward since 25-year average discount rates used for funding purposes are now similar to market-based discount rates.

Going forward, if rates continue to rise, contributions could move to a market rate-based methodology, and the liabilities for funding purposes will move in line with the GAAP liabilities. Alternatively, in a declining rate environment, we may benefit from funding relief by continuing to use discount rates based on 25-year averages. However, even if rates were to decline to levels from a year ago, our extended outlook for contributions will not revert to zero, since the accelerated use of the pre-funding balances makes them no longer available to apply towards future minimum required contributions.

Once again, it is important to remember that all of these expectations reflect a snapshot in time based on rates, expected asset returns, and other assumptions as of year-end. Contributions to the other global plans are

typically less volatile than those resulting from the US qualified plan rules and are expected to remain between \$30 million and \$40 million annually.

In conclusion, our Next-Gen Solutions are expanding and the new Unisys brand is propelling us forward, reflecting the transformation underway across the company. Although 2023 will be challenged from an L&S perspective, we are optimistic that it will be a year of progress.

And with that, I'll turn it back to Peter for some closing remarks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thank you, Deb. With that, I would note that for the Q&A section, in addition to Deb, we're joined today by Chief Operating Officer, Mike Thompson. The three of us will be pleased to respond to any questions you may have.

Operator, would you please open the call for questions?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Rod Bourgeois with DeepDive Equity Research. You may now go ahead.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Q

Okay. Great, guys. Hey, I want to ask some – first, some more color on your Next-Generation Solutions segment. It would be great to get your sort of updated view on what's key to your strategy in each of those Next-Generation segments? And you've just been through a rebranding effort and you made a lot of go-to-market changes over the last year or so. And I'd also like kind of an update on how you see benefits or even further challenges occurring in light of the rebranding and other go-to-market changes that you've put in place. Thanks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. Rod, thanks for the question. I think I'll start with – a bit on the branding, and then turn it over to Mike Thompson to talk about the Next-Generation Solutions. It's relatively early days on the branding. We launched that just about, I think, the week after Thanksgiving of last year. But I have to tell you, we have been really encouraged by the response. And some of that is data. As you can see from my remarks, the number of people coming to the site has increased. The number – the time people have spent in the site, once they get engaged, has increased dramatically.

But anecdotally – and at this point, you're only going to have anecdotal comment on the bigger effect of that new brand – I've talked to clients, I've talked to prospects, I've talked to – both prospective clients, as well as prospective associates, just people in the industry in general who have kind of spontaneously come up to me and said, this is really terrific stuff. So, I do think that it is being well-received. And I think long term, it's going to have a lot of benefit for us.

We don't think of marketing and communications as separate from the rest of the company. So, when we talk about metrics, we're really talking about what happens to our TCV, what happens to our ACV, what happens to our pipeline. It really is just part of the, is the company advancing? We do think about branding and that – and those efforts with some additional metrics, such as we measure awareness of our TPAs. We measure awareness of the marketplace. We measure the number of articles and pieces being written about us. But we're really encouraged by how that has started.

With respect to the Next-Gen Solutions, I'm going to turn it over to Mike and see – and ask him to fill out your question.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Great. Hey, Rod. How are you? Thanks for the question. I guess I'll start with what we're planning to do, an industry – or an Analyst Day in June, and we will give a much deeper explanation because, frankly, I could fill the rest of the timeslot here talking about the strategy in all of the Next-Gen Solutions. So, I'll start with just giving some highlights on kind of where we're at and where we're going. And, again, I'll leave the teaser for the June meeting where we'll get into real depth in each one of those areas.

I would say, Rod, that right now, we're pleasantly surprised and pleased. Surprised may be not so much the right word, but pleased with the penetration that we're getting with the Next-Gen Solutions. When you think about our DWS primary offering there and the experience-based solution, it is being very well-received in the market. We're getting tremendous amount of commentary from clients, prospective clients, certainly industry analysts.

I think the tie-in of data and experience is critical to our strategy there, right? So, it's the combination of both health of the technical equipment, as well as the insight of the people using the equipment. And that's tied through both unified communications, as well as endpoint management and service desk and field services. So, the combination that we're able to pull together from a data point of view, experience in all of those elements really gives us insight into our clients' environment, and that is really, I think, starting to resonate from a client perspective.

So, all ahead full on that front from DWS, and, again, really happy with the results we're seeing today.

CA&I, just to touch on that one for a minute or two, is really about the application layer. And I guess, to some degree, I would say within ECS, it's about the application layer, too. A very deep focus, especially post our acquisition of CompuGain with the skills that we've added in the application development tier and the apps transformation layer. That is, as you know, a huge area of growth within CA&I. And it's a level where we are not necessarily cannibalizing our own work, right? And when you talk about infrastructure and you're moving infrastructure to the cloud, there is some level of cannibalizing that work. That's not true in the apps layer, right? You can do that conversion and manage that application layer and really drive traffic to the cloud.

So, those are, I would say, the two primary areas within DWS and CA&I that we're really emphasizing within the strategy. And, again, the same holds true within ECS, that application layer above the operating system, the transformation and modernization of that application layer, and then the managed service element of that. So, I think pretty consistent amongst all three of those segments, and very specific from a strategic point of view, how we want to approach the market.

So, hopefully, Rod, that gives you a little more color. But, again, we'll get into some real specifics in the June timeframe.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Q

That's helpful. And just a follow-up related to that, you've given us a helpful update on the L&S component of your ECS business. But I also just wanted to ask, are there other efforts going on in that ECS business? And I'm wondering, to what extent you see opportunities to maybe add new logo wins in the ECS segment? Does it kind of supplement what you're seeing on the L&S renewal side?

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Yeah. Look, another great question, Rod. So, we do see opportunity for new logo win in that space. Not all – I mean, really, when we talk about SS&C, it's our kind of next-generation compute element there, right? So, there's definitely opportunity for different types of compute. Peter mentioned some of those: edge, server-less, quantum, et cetera. Certainly, those would come with new logo opportunities.

So, really, we're looking at both expansion opportunities within SS&C to bring on new scope outside of the traditional L&S element of that. We also are, as you know, trying to cross penetrate those clients with both DWS and CA&I opportunities. So, there's real big expansion opportunities there. And there are certainly new logo opportunities in the construct of SS&C. One of the things that's pretty interesting right now for us, and Peter mentioned in his prepared remarks, is in the cargo space. We think we have some real expertise in that arena and some opportunities to really expand our footprint there.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Q

Got it. And then just a final – in the last several quarters, we've talked a lot about labor cost, talent availability, attrition, and so on. I mean, are you – can you just give us an update on the trend that you're seeing, particularly just on the overall labor cost side? Is it – is there continuing to be some attenuation there on the labor front in terms of the costs?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. Well, so, when it comes to labor, Rod – and thank you for the questions, both to Mike and to me. When it comes to the labor, there's really two elements to that: one is the cost, and one is the cost at a certain level of attrition. So, it's a little bit of a [indiscernible] (00:42:48) – a supply-demand equation. When we look at our attrition label – our attrition rate, we actually see, as I mentioned, attrition going down. It went down 0.9% points. So – and it's now at 18%, which, for our business – remember, that's a mix of not only people doing application development, but people doing support desk and people doing BPO activities where attrition historically can be higher. So, we think 18% is very manageable and is not unusual. As I said, it's pretty much back to pre-COVID levels.

Now, at that rate, we are focused on specific areas where there is still, what I would call, an imbalance between demand and supply. Central Europe is one of those places where there's continued to be an imbalance. In the rest of our sectors, we tend to see everything calming down a little bit. It is very different from this quarter last year when there was really a very, very hot market. We think that there's still significant demand for labor, but it is – it's moving back to ordinary course. It's not there yet, but it's moving back there.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Yeah. Rod, I would say, too, we had about a 50 bp increase – I'm sorry, decrease in our labor costs, which is favorable, especially given the market conditions that we're in. And as you know, we're going to continue to work on our workforce, right, whether it's [ph] upscaling (00:44:24) or increasing our low-cost footprint, expanding the foundation of our pyramid. And just, frankly, working smarter, utilizing the experience framework that we're using for clients, right?

So, there's plenty to do still in regards to just shaping that workforce and continuing to work to expand the margin on the traditional base, as well as in the Next-Gen Solutions. So, we feel pretty good about our trajectory there.

Rod Bourgeois

Analyst, DeepDive Equity Research, LLC

Q

Nice. Thank you, guys.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

Thanks, Rod.

Operator: Our next question will come from Joseph Vafi with Canaccord. You may now go ahead.

Joseph Vafi

Analyst, Canaccord Genuity LLC

Q

Hey, guys. Good morning. Thanks for all the color. As usual, maybe we talk a little bit about go-to-market expense – sales and marketing investment and expenses in some of your focus areas, Peter, that you mentioned versus maybe the non-focus areas; and maybe how you look at that to maintain perhaps the non-focus area, but obviously we want to grow the focus areas faster. And then you could wrap in a little commentary on what you're seeing on the macro, especially perhaps on the non-focus area business, renewals, and the potential to grow those over the next couple of years. Thanks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. Joe, thanks very much for the question. Let me take a start at it, and then actually turn it over both to Mike and to Deb.

When we think about investing in marketing and communications in specific, we talked about that brand launch in November and the fact that that is – we think that's paying dividends. It's kind of a different world. I mean, we've talked about the advent of the cloud and the advent of digital, in particular, as how that has decreased the start-up costs for starting a new business. Well, it's also decreased the cost of how do you really get brand awareness out there. I mean, it is – our approach is almost completely digital, depending on – if you've been in some of the major airports, you will see our advertisement, whether that's digital or not. It's on a screen, so I guess that it is. And so while we have talked about that and we think that is actually making a meaningful difference, it is not a huge expense.

Now, in my remarks and in Deb's remarks, particularly around SG&A costs, Deb did talk about some marginal increase in our SG&A. That marginal increase is really associated primarily with that marketing communications

and with some of the changes we've made to our sales force and sales process, which I'm going to ask Mike to talk about in a minute. But it is marginal. But we think that for the marginal cost, it is actually very, very beneficial for us.

Mike, turn it over to you on the sales side.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Yeah. Thanks, Joe. Look, I think for us, as Peter mentioned, marketing and sales go hand in hand, and it goes deeper than just the advertising, right? It's the communications to the industry analyst. It's the local connection to third-party advisors. It's the go-to-market storytelling. It's the creation of all the pre-sales material. So, for all of that, we are really in a position of go-to-market, right? So we've talked for a year now around getting all that ready. It's ready, it's done, we're out in the market with it; the connection points are there. We've spent a lot of time on stratification of the client portfolio to make sure we're really addressing both existing clients for whitespace growth and for new clients to increase our ultimate market share there.

So, real tight connection there, very specific to targeted clients and very specific to the types of solutions that we're trying to bring to market. So all of that, I think, has really paid off well. And I think Peter is right, we're really in the precipice of that as far as the – we just launched a brand at the end of last year and we're starting to see some real traction there.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

But the one thing I will add, and Deb is our kind of chief on this, we are very, very focused on SG&A costs. And so while our SG&A, as we defined it, is up a little bit primarily because of that marketing and because of the sales efforts, every company defines SG&A differently. There's just no consistency. So, we can't compare against other companies, which are both higher and lower, but it's [ph] not (00:49:20) clear it's apples-to-apples. So we tend to compare against ourselves. And I can tell you that Deb is making sure that we are spending that money, where we get bang for the buck. Deb, anything further on that?

Debra McCann

Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah – no. I think that summarizes it.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Hey Joe, maybe just the second point you raised around the focus and you used the term non-focus, right? So we – we really don't use non-focus in our vernacular. Remember, those areas are gateways to our Next-Gen Solutions. And specifically, if you look at CA&I as an example, there's an infrastructure component that would fall into your categorization of non-focus. But clearly, that is a segment that is still growing, that is a segment that's growing for us, and that is a segment that ultimately is a pathway to next-gen DP&A work, right? So we don't look at those areas as hey, we're not focusing on them. And we clearly are; we're still signing new contracts in those areas because we see them as being a progression to where we ultimately want to take our client journeys to.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

And that's one of the reasons, Joe, you're seeing us in this call, even externally changed the nomenclature a bit. So rather than refer to focus areas, we're referring to Next-Gen Solutions because the implication is that those areas are not – the other areas are not a focus. As Mike says, we – we – those other areas, whether it's field services, whether it's infrastructure, whether it's traditional licensing, none of those areas are growing dramatically or shrinking in the industry or in the market. Our long-term plan on those in the aggregate is actually to slightly increase the revenue. So it's not [ph] as if that – and put the word as (00:51:11) slightly. We do expect the majority of our revenue increase to come from what we're calling the Next-Gen Solutions. And that's why you see us focus on those in the call.

Joseph Vafi*Analyst, Canaccord Genuity LLC*

Q

Sure, [indiscernible] (00:51:25) and yeah, your nomenclature is definitely better than mine, guys. What about maybe just – maybe the macro – maybe some commentary on what you're seeing on the macro front from clients on the pace of deals, renewals, et cetera. Thanks a lot.

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

A

Yeah. So – so Joe, I guess two – two elements I would comment on from a macro perspective. There is still this hesitancy, I think in – from a macroeconomic perspective, we've talked about clients either re-upping for one year, not doing full – not doing full renewals or taking on piecemeal work, waiting for budgets, et cetera. I would say it's loosening slightly. We're seeing more interest as we've alluded in our growth in our pipeline, our backlog, our TCV and ACV, especially in the Next-Gen Solutions.

So in those areas, I think it's a little more reverting to a sense – a little sense of normalcy. But macro-wise, I think there's still a slight hesitancy, a little delay on some of the contract signings. We're seeing things push a quarter in some cases. The good news is they are signing and the good news is they are signing the Next-Gen Solution at the margin profile that we want. So we do have some pricing power in that regard, it's holding in in the market. But there is in my mind a little bit of a lag in the actual sign.

Joseph Vafi*Analyst, Canaccord Genuity LLC*

Q

Thanks a lot for the color, guys.

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

A

Thank you, Joe.

Operator: Our next question will come from Matthew Galinko with Maxim Group. You may now go ahead.

Matthew Galinko*Analyst, Maxim Group LLC*

Q

Hey, good morning. Thanks for taking my question. Peter, I think you touched on L&S renewals and retention, and I think you offered some scenarios of customers migrating away slowly, maybe [ph] stalling (00:53:31) projects, some returning. So I guess I have two questions around that. The first being, are you seeing any changes to that retention rate, looking, maybe trailing over the last year? How is that different today than it was a

year ago, two years ago? And secondly, is there anything you're doing on the engagement side or evolving the platform side that is impacting in process migrations away?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Okay. Well, first of all, both great questions, Matt. On the retention side around L&S in particular, it's interesting because what we see historically and what we saw again in 2022 is the renewal timing can vary, right? In some years, clients in general accelerate, in some years they decelerate. For us in 2022, as Deb mentioned, we had some renewals of existing relationships that actually occurred before we expected them. So as we try to think about how we're doing on a retention rate standpoint, what we've kind of decided is the better data to give is what we call retention rather than renewal. And so we're really measuring who were those L&S customers in the past and who are they now.

And that's why you saw a data point that I provided, which is if you look at 90% of that L&S revenue, we have a 95%-plus retention rate in those customers and that they're still customers of ours. We think that's the most appropriate way. I mean, at the end of the day, what we're trying to say is, our view is that that business gets very sticky. That doesn't mean that that business will not over time decrease in overall revenue, it could increase from client-to-client, but we think that it is very sticky and although we don't always have a good view of that from quarter-to-quarter and even sometimes from year-to-year, [ph] we duly think we (00:55:35) have a fairly good view over time and we're obviously going to elaborate on that in the June Investor Day.

So I guess that's the way I would I would answer the first question. As to the second question, I guess I'll defer over to Mike.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

Yes. So I'm sorry, Matt. What was the second part of that, Peter?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

I thought it was primarily renewal.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

Matt, what was the second part of your question?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

What are we doing to make sure that we're – that we're [indiscernible] (00:56:03) relevant to all the joints. I think you touched on that [indiscernible] (00:56:07).

Matthew Galinko

Analyst, Maxim Group LLC

And I think also just put – to put a finer point on it, is it measurable the – the work that you're doing on that front, on retention or specifically on advancing ClearPath Forward? Are those having measurable impact in improving retention of existing customers?

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Yeah. So I would say, yes, it is measurable, we spend – so these – first off, these – these renewal cycles go in the context of years and we spend years at the arms and elbows of these clients, right? So we know exactly what they're working for and working on. And we spend a lot of time with the roadmap. So when we talk about, Peter mentioned the investment that we continue to do in L&S, that is modernizing the ClearPath Forward ecosystem, right? That's enabling it in the cloud through Microsoft Azure.

That's everything in a roadmap for what our clients are asking for and we're usually two, three years out with our clients as to where they're going with their business and what they need from our platform, and that's where our investments are ultimately put into. So, it's – I would say it's worked – very – in a joint manner with our clients. So – so the expectation is renewal because we're actually building out the platform continuously to satisfy their specific needs.

Matthew Galinko

Analyst, Maxim Group LLC

Q

Great. Thank you.

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

A

Thanks, Matt.

Operator: [Operator Instructions] I will now turn it over to Michaela for additional questions.

Michaela M. Pewarski

Vice President-Investor Relations, Unisys Corp.

A

I've got some additional questions submitted here from Jon Tanwanteng from CSJ (sic) [CJS] (00:58:14). The first question is do you expect backlog to continue growing and our margins and your backlog where you want them to be?

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

Yeah. So, John, I'll take that. And thanks for sending that in via email here. The short answer is yes. We do expect to see the backlog continue to grow. As we talked about on the call today, we saw the sequential increase in backlog. It had about \$230 million and the book-to-bill up from 0.8x to 1.1x. And so our expectations are that backlog will continue to grow in 2023.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

A

Yeah, the only thing I would add and I defer also to Deb on this one, I agree, it's a good question, Jon. One of the – one of the interesting things about backlog is the duration for which that backlog exists. We continue to see a – what I would call a slight, but there is still a decrease in the average contract term of the deals we're signing. So that's why we really focus on not only giving the TCV number but also the ACV number because over time, while not to a 1:1 conversion, which would imply like one year term average, the average is still above that. There is a decrease in the amount of the average tenure. And so, again, so a backlog dollar today might have more of an impact on current annual revenues than a backlog dollar from a few years ago. Deb, any thoughts on that?

Debra McCann

Executive Vice President & Chief Financial Officer, Unisys Corp.

Yeah, I think [indiscernible] (00:59:53).

A

Michael M. Thomson

President & Chief Operating Officer, Unisys Corp.

Yeah. So one other point I'll mention then, Jon, is you're talking about the margin profile in the backlog. And we are seeing, as I mentioned earlier, the Next-Gen Solutions, we are able to get the margin profile that we're looking for in those. And then maybe just one follow-on point of Peter's commentary, when we talk about – we were talking about the length of the contract shortening slightly, remember, we're also doing a lot more project work, right? And so if we're doing smaller bits of work and project-related work, it goes to revenue immediately. And so the flow through backlog is just different.

So I think some of the clients that we're targeting, some of the work that we're doing and the slight decrease in contract terms may have impact on backlog and TCV. But conversely, we should see ACV strong and we should not have the impact on revenue because it's coming to revenue in a quicker fashion.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Right. And just to back that up, the ACV increase in the fourth quarter year-on-year was 58% and for the full year was 36%.

A

Michaela M. Pewarski

Vice President-Investor Relations, Unisys Corp.

And the second question is, Deb, can you break up the underlying expectations for each segment in the guidance?

A

Debra McCann

Executive Vice President & Chief Financial Officer, Unisys Corp.

Sure. Yeah so I think we'll definitely get more detail on that in June as part of that segment. I think for now, [ph] we'll continue to focus (01:01:21) on the revenue side. Our guidance, it's important to note that excluding L&S, [indiscernible] (01:01:28) renewal signing [indiscernible] (01:01:31) DWS and CA&I [indiscernible] (01:01:34) negative one to positive four, so a midpoint of about 1.5%. So we do expect those areas to grow. [indiscernible] (01:01:44) I talked about on the margin side, we expect DWS and CA&I combined gross margins improvement of about 250 basis points. So, underlying the guidance is – that – that – that should give you a good sense of the ex-L&S segment. [ph] I hope I've answered (01:02:04) the question and I'll turn it back to the operator.

A

Operator: Well, this concludes our question-and-answer session. I'd like to turn the conference back over to Peter Altabef for any closing remarks.

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thanks, operator. And I want to thank Michaela, I want to thank Deb and Mike for working with me on the questions, which were as always, really insightful and we really appreciate the involvement of our investor analyst group. So thank you for asking the questions. I do hope and I say this almost every time that we have a lot of

information on the website in addition to what obviously we just talked about. It's true, but – but it's not just information now on the website that is – that is added and modern, it's the website itself.

So since the last call, the website has been completely redone in terms of the new look and feel for Unisys, every slide, every view, and so we would love it if you guys would spend some time on it as our clients and perspective clients are. And just kind of live it and any feedback or any thoughts on that are always appreciated. So with that, I want to thank everyone for participating and look forward to continuing the dialogue with each of you. Thanks very much.

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

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