2Q19 Financial Release
CEO/CFO Statements
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Courtney Holben, IRO

Thank you, operator. Good afternoon, everyone. This is Courtney Holben, Vice President of Investor Relations. Thank you for joining us. Earlier today, Unisys released its second quarter 2019 financial results. I'm joined this afternoon to discuss those results by Peter Altabef, our Chairman, President and CEO; and Mike Thomson, our CFO.

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 the presentation slides that we will be using this afternoon to guide our discussion as well as other information relating to our second quarter performance on our Investor 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've provided reconciliations within the presentation. Although appropriate under Generally Accepted Accounting Principles, the company's results reflect charges that the company believes are not indicative of its ongoing operations and that can make its profitability and liquidity results difficult to compare to prior periods, anticipated future periods or to its competitors' results. These items consist of pension and cost reduction and other expense.

Management believes each of these items can distort the visibility of trends associated with the company's ongoing performance. Management also believes that the evaluation of the company's financial performance can be enhanced by use of supplemental presentation of its results that exclude the impact of these items in order to enhance consistency and comparativeness with prior or future period results. The following measures are often provided and utilized by the company's management, analysts and investors to enhance comparability of year-over-year results as well as to compare results to other companies in our industry: non-GAAP operating profit, non-GAAP diluted earnings per share, free cash flow and adjusted free cash flow, EBITDA and adjusted EBITDA, and constant currency.

In addition, this quarter, we will be continuing to report non-GAAP adjusted revenue and related measures as a result of certain revenue and related measures related to reimbursement from the company's check processing JV partners for restructuring expenses included as part of the company's restructuring program. For more information regarding these adjustments, please see our earnings release and our Form 10-Q for the quarter.

From time to time, Unisys may provide specific guidance regarding its expected future financial performance. Such guidance is effective only on the date given. Unisys generally will not update, reaffirm or otherwise comment on any prior guidance except as Unisys deems necessary and then only in a manner that complies with Regulation FD.

And finally, I'd like to remind you that all forward-looking statements made during this conference call are subject to various risks and uncertainties that could cause the actual results to differ materially from our expectations. These factors are discussed more fully in the earnings release and in the company's SEC filings. Copies of those SEC reports are available from the SEC and along with other materials I mentioned earlier on the Unisys Investor website.

And now, I'd like to turn the call over to Peter.

Peter Altabef, CEO

Thank you, Courtney, and thank you all for joining us to review our second quarter financial results. The second quarter represents one of our strongest recent quarters. Many of our key metrics improved year-over-year or ahead of internal expectations and we beat consensus where estimates were available. As we've discussed on previous calls, our focus on security has resulted in numerous large contract signings in recent years, including notable wins in our U.S. Federal sector.

These new contracts continue to drive revenue growth for us and our focus on cost management helped drive improved profitability and cash flow. More specifically, revenue grew at the highest quarterly rate in over 20 years. This was supported by continued strength in our U.S. Federal sector, which was a key driver of results in the second quarter. We expect this sector to continue to contribute to the success of the company among the coming quarters and I'll spend more time on this shortly.

We also saw the highest non-GAAP adjusted services revenue growth rate since 2003. This marks the fifth consecutive quarter of revenue growth for the Services segment. Services' non-GAAP adjusted operating profit margin was the highest it has been since 2014. Again, this was supported by our U.S. Federal sector where Services operating margins remain above the company average. Total company non-GAAP adjusted operating profit margin expanded as did adjusted EBITDA margin. Mike will provide more detail on our financial results shortly but first, I'll provide some more insight into the business.

At the segment level, as I noted, we saw a strong continued growth in Services revenue. Much of Stealth and Security have been differentiating our offerings in the market. Our new Services offerings such as InteliServe and CloudForte continue to complement our industry go-to-market efforts.

As we discussed on the last call, during the second quarter, we launched Unisys CloudForte for hybrid cloud environments and in the second quarter, Unisys won a contract to provide support to a U.S. defense agency to maintain shared, mission critical IT services for select Department of Defense agencies. Under this contract, Unisys will leverage its CloudForte solutions for a number of enterprise services.

We also signed an expanded contract with a major global bank headquartered in the Middle East. The bank's digital banking system has been supported by Unisys applications and the Elevate ecosystem, and they have used Stealth to provide extra security around the critical area of payments. We are now using CloudForte to help them transmission their systems to the cloud. InteliServe is still in early stages of adoption with clients, but it is already allowing us to bid contracts at more attractive margin profiles than otherwise would be possible.

We're also very pleased to see our Services operating profit margin reach the level that it did this quarter. Increasing the efficiency of our Services delivery engine remains a top priority for us and we're working to further integrate intelligent operations, automation, and emerging technologies to help with those efforts. Our land and expand strategy within Services also aims to enhance margins. We saw a number of examples this quarter of newer clients enter into contracts with us for additional or expanded application services or project-based work.

Moving to our Technology segment, second quarter revenue was higher than we expected as we signed a number of ClearPath Forward renewals earlier than anticipated. ClearPath Forward revenue occurs in both our Technology and Services segments, and we have the opportunity to increase the revenue from our ClearPath Forward install base through expanding the services we provide to these clients.

As an example of this, a leading Central American financial institution has been a client of ClearPath Forward and in the second quarter, signed a contract to expand the ClearPath Forward services we provide to help modernize their infrastructure capabilities in support of their core applications. We're now providing on-demand services, supporting the bank's core modernization designed to provide greater flexibility, speed and services to the bank's customers. And finally, during the second quarter, we hosted our first CIO Forum which offered a view into many of our offerings. We found this forum to be successful and expect to continue hosting these in the future.

Security continues to be a critical element in our strategy. Security for Unisys does not just mean our stand-alone solutions such as Stealth or TrustCheck. Rather, security is an inherent part of much of the work we do across the company, including in our border security work and in Services, like identification processing for countries around the world.

We're also working to incorporate our specific security solutions such as Stealth more broadly into our Services offerings. As we have done so, we have seen it become one of our differentiating factors relative to competitors and it has helped drive a number of recent contract wins.

With respect to Stealth specifically, we continue to evolve our offerings now including Stealth dynamic isolation. We recently hosted a webinar on security, which included a demonstration of this new Stealth capability. We would encourage you to view the replay of this which you can find on our Investor Relations website. The key highlight of the demo is that Stealth can now isolate a suspected rogue user or compromised endpoint in seconds from the point suspicious behavior is identified.

In the second quarter, Unisys won a strategic opportunity for a U.S. defense agency's virtual data center. This significant win will see worldwide deployment of Unisys Stealth across several U.S. Department of Defense organizations. Stealth was selected due to increased operational readiness requirements for the rapid provisioning and hosting of multiple discrete mission on plays and networks. Stealth will provide U.S. and coalition war fighters necessary cybersecurity capabilities as outlined in the U.S. National Defense Strategy.

I'll now provide some color on the various sectors, starting with U.S. Federal, which continues to be one of the key drivers of strong financial results. Non-GAAP adjusted revenue for this sector was up 33% year-over-year to $184 million. As with our growth for the company overall, the growth for our U.S. Federal sector was all organic. The revenue growth we saw in this sector in the second quarter was driven largely by new business transitions. Total funded backlog for this sector was up 36% year-over-year in the quarter and we expect U.S. Federal to see revenue growth approximately in the high teens for the full year of 2019.

In our Public sector, our recent large wins with state governments continue to contribute to the revenue growth for the company. In the second quarter, non-GAAP adjusted revenue for our Public sector was up 5.8% year-over-year and we expect these contracts with state governments to continue to transition towards their run-rate profitability.

In our Commercial sector, non-GAAP adjusted revenue was stable year-over-year, with Services revenue up but a difficult year-over-year compare within Technology. In the second quarter, Unisys signed an agreement with India's flag carrier, Air India, for the Unisys Digistics integrated logistics software suite. Unisys is helping Air India create a connected and automated cargo ecosystem for consistent and accurate data management to help improve cash flow for the airline while creating greater transparency around shipment status for the airline's cargo clients. The solutions we are providing are expanded under the new contract to feature three additional Digistics modules on a software-as-a-service basis to streamline freight management and improve operational efficiencies.

Financial Services had a strong quarter. Non-GAAP adjusted revenue grew 16% year-over-year. A significant portion of this growth was attributable to Technology and a large ClearPath Forward contract that was renewed in the quarter. We also saw a growth in Services revenue, including from new business contracts that have been ramping up.

In conclusion, we're excited about our revenue momentum, that it continues, and that our profitability has strengthened in the quarter. Driving efficiency and maintaining cost discipline remain top priorities for us, especially in light of the impact on cash flow, which is a critical area of focus for us.

Mike will now provide more detail on our financial performance. Mike?

Mike Thomson, CFO

Thank you, Peter. Good afternoon, everyone, and thank you for joining us today to discuss our second quarter results. In my comments, I'll discuss both GAAP and non-GAAP results and provide color for our key business drivers. Reconciliations of GAAP to non-GAAP measures can be found within our earnings presentation.

We're very pleased with the progress we have made in our financial results during the second quarter. Please turn to slide 4, which shows some of the key metrics, each of which exceeded consensus estimates where they were available. You can see the improvements that Peter mentioned earlier.

As we've discussed on recent calls, our focus on security continues to differentiate us in the market along with our new cloud offerings and digital workspace services which have driven increased contract signings in recent periods. This helped to continue to drive revenue growth and strong results overall for the quarter.

We have also discussed our sharp focus on reducing our cost of delivery. We've implemented additional cost-cutting actions during recent periods as we've discussed and we have worked hard to manage expenses. As a result of these efforts, we are starting to see improvements in profitability which flow through the cash flow, resulting in the company being free cash flow positive for the quarter.

With respect to specific results, non-GAAP revenue grew 12% year-over-year to $747.3 million in the second quarter or 15.5% on a constant currency basis. We have seen levels of growth in recent quarters that the company has not experienced in many years and the second quarter represents the highest quarterly growth rate we've seen in over 20 years.

Non-GAAP operating profit margin expanded 370 basis points year-over-year to 12%, reflecting a solid growth quarter for both Services and Technology businesses, with strong margins coming out of our U.S. Federal sector as well. Although there were no consensus estimates for non-GAAP operating profit margin available this quarter, the metric exceeded our internal expectations.

Adjusted EBITDA was up 29.8% year-over-year and adjusted EBITDA margin expanded 240 basis points year-over-year to 17.2%. Non-GAAP EPS was up 123% year-over-year to $0.87. Please turn to slide 5 for more detail on our segment results.

As we've discussed, it was a strong quarter for both Services and Technology segments. Second quarter Services non-GAAP adjusted revenue growth of 10.3% year-over-year was the strongest we've seen since 2003. While we continue to see the transitional impact of new business signings, we saw improved Services margins overall in the second quarter. The Services GAAP adjusted gross profit margin was up 40 basis points year-over-year at 16.9% and Services non-GAAP adjusted operating profit margin was 5.1%, the highest we've seen since 2014. This represented year-over-year expansion of 190 basis points.

We maintain our focus on continuing to expand our margins over the longer term, including through the use of third-party labor where efficient, further implementing automation, exiting operations in countries where there are structural impediments to profitability and continued right-shoring of labor. Some of these actions may require restructuring charges but would roughly be consistent with the size and scope of the restructuring we announced in Q4 of last year.

Services backlog ended the quarter at $4.3 billion, which we view as a solid level that supports our near-term revenue growth expectations. Although we've seen significant growth in this metric in recent periods, we have consistently noted that such growth and backlog levels were not necessarily sustainable nor were they expected or necessary to meet our growth goals.

Our Services renewal schedule in the second quarter was lighter than it was in the prior year period, and, as a result, Services backlog was down 6.8% year-over-year. However, based on our visibility into the rest of the year at this point, including a renewal schedule that is more weighted to the second half of 2019, this does not impact our near-term expectations for revenue. Of the $4.3 billion of Services backlog, we expect approximately $600 million to convert to Services revenue in the third quarter of this year.

With respect to Technology, we had a strong renewal quarter for ClearPath Forward, with several contracts being signed sooner than expected. This resulted in higher revenue for the segment than we had anticipated going into the quarter. As we have frequently discussed, while we have good visibility into renewals coming into the year, there can be variability in terms of the exact timing of the renewal within the year.

Profitability for the Technology segment was up year-over-year, in part, as a result of higher software revenue. Technology gross profit margin was up 640 basis points year-over-year to 73.5%. Technology operating profit margin was up 870 basis points year-over-year to 53.8%. As we look at the rest of the year, we're still expecting 2019 Technology revenue to be consistent with last year's non-GAAP adjusted Technology revenue.

Given our first half results, this would imply a first half second half revenue split of approximately 48% and 52%. We expect the second half Technology revenue split to be approximately 55% and 45% between the third and fourth quarters based on anticipated timing of scheduled renewals.

With respect to our current expectations around Technology, and considering our performance in the second quarter, Street estimates look a bit high for the third quarter margin so we wanted to provide some additional color.

Given the timing and mix of technology revenue for the rest of the year, we expect total company non-GAAP adjusted gross profit margin for the third quarter to be approximately 300 basis points to 325 basis points lower in the third quarter than it was in the second quarter, and we expect total company adjusted EBITDA margin for the third quarter to be approximately 350 basis points to 375 basis points lower than it was in the second quarter. I'll now turn to slide 6, which provides more detail on EBITDA and cash flow.

We've already discussed adjusted EBITDA, which benefited from the same trends that drove non-GAAP operating profit this quarter. We're very pleased to see the company produce positive free cash flow in the second quarter. The positive profitability results achieved this quarter helped drive operating cash flow to $50.9 million, up $62.6 million year-over-year relative to a use of cash of $11.7 million in the prior year period. This was also supported by the timing of collections on Technology contracts.

Free cash flow for the quarter was $11.3 million, up $67.9 million year-over-year from a use of cash of $56.6 million in the prior year period. Adjusted free cash flow was up $52.9 million year-over-year to $48.3 million versus the use of cash of $4.6 million in the prior year period. Lower year-over-year CapEx helped drive improvements in free cash flow and adjusted free cash flow. CapEx for the quarter was $39.6 million versus $44.9 million in the prior year period. As we previously discussed, our CapEx target is between 5.5% and 6.5% of revenue. Our current expectation is to be at the high-end of that range for 2019, as we expect our full year CapEx to be approximately $180 million as a result of slightly higher spending than initially anticipated on certain new contracts.

Additionally, we've sought out opportunities for third-party financing of CapEx where available to help mitigate the impact on cash. As a result of this, we expect full year cash usage for CapEx to be lower than our original expectations of $170 million despite the higher CapEx expectation overall.

We've consistently discussed that security has become one of our key differentiators as we go-to-market and we wanted to provide a little bit more insight into this. In the second quarter, approximately 20% of total revenue was security-related. In that number, we are including specific security solutions such as Stealth, Managed Security Services, work such as border security or identification processing, and revenue from clients whose mission is security-driven and where the majority of the work we provide is security-related. This by no means covers all instances in which security is relevant at Unisys, but it allows us to look at a discrete subset of our overall business for insight into the most tangible way security is driving results.

With respect to our pension obligations, we continue to actively assess potential options for proactively managing these obligations, including potential capital market alternatives. In the interim, as we did last quarter, we wanted to provide some informal color as it pertains to pension asset market values and how they've changed since year-end. The slides in the appendix of our earnings presentation have not been updated to reflect these changes as we only formally update those slides once a year. It's important to keep in mind that movements in the Fed Funds rate or the 10-year Treasury note do not necessarily translate into impacts on our GAAP deficit as we use a basket of high-rated corporate bonds to calculate our discount rate.

In addition, the movement of interest rates has very little impact on our contribution schedule as those rates are averaged over a 25-year period. This is why we focus more on asset returns as they can have a more meaningful impact on the contribution schedule from period to period. Keeping these considerations in mind, adjusting for asset returns and interest rates based on market conditions on June 30, 2019, the improvement in cash required for contributions remains similar to what we reported at the end of the first quarter at over $225 million improvement versus the year-end numbers. Now, let's turn the discussion to our GAAP underfunded liability. Unlike with pension contributions, both interest rates and asset returns can have a meaningful impact on deficit calculations in any given period. Since the beginning of the year, we have seen interest rates decrease but we've had asset returns strong enough to offset that. As a result, although we do not officially update our calculations until year-end, we've seen a limited change in the pension deficit relative to our year-end position based on conditions as of June 30, 2019.

As a rough approximation for purposes of debt deficit calculation for our U.S. pension plans, a 3% incremental return on U.S. assets offsets the impact on the GAAP pension deficit calculation of a 25-basis point reduction in interest rates. Similarly, for purposes of our deficit calculation, for the bulk of our non-U.S. pension plans, a 4.5% incremental return on non-U.S. assets offsets the same 25-basis point rate reduction. So, we remind you to consider both asset returns and interest rates as you observe market trends.

Overall, we're pleased with our first half results with strong revenue growth and improved profitability. Given these results and our expectations for the rest of the year, we're reaffirming guidance for the full year 2019 on all metrics previously provided. As a reminder, we increased our non-GAAP adjusted revenue guidance in the first quarter and our increased guidance range remains positive 2% to positive 5% year-over-year growth or $2.82 billion to $2.9 billion.

For non-GAAP operating profit margin, we're reaffirming our range of 8.25% to 9.25% and for adjusted EBITDA margin, we're reaffirming our range of 14.4% to 16.0%. As we look to the remainder of the year, we maintain our sharp focus on cost controls and operational efficiency. We also plan to continue our active approach to managing the pension obligations and look forward to discussing more on this front in the coming quarters.

Question & Answer Section

Q – Jon Tanwanteng – CJS Securities, Inc.: Good afternoon. Thanks for taking my questions. Really nice quarter for both segments there. You guys reaffirmed your full year guidance and I get you pulled in some renewals on the Technology side but did you also pull in some Services business as well?

A – Mike Thomson – Unisys Corp.: Yeah. Jon, Services was up across the board, U.S. Federal certainly helped, and as we've mentioned, our Services margins for that business tend to be a little higher than the remaining piece of the business. So, we had a growth across the board there in our Enterprise Solutions as well as our Federal segment, both of which supported growth from Services.

Q – Jon Tanwanteng – CJS Securities, Inc.: Okay, but from a timing perspective, nothing pulled in. Maybe give us a little bit more color on how you expect the revenue margin to trend in the Services segment as we go through the year. Do you expect that to trend higher as these large public contracts trend towards profitability? What's the additional color that you can provide?

A – Mike Thomson – Unisys Corp.: Yeah. Sure, Jon, so thanks. As we talked about last quarter and as we'll continue to see throughout the remainder of the year, our expectation is the Services margins will improve. We talked about the transitional business and the impact it had in Q1. We've seen a significant decline in that in Q2 and our outlook looks like that will continue to decline through the remainder of the year. So, we expect to see margins improve from the perspective of that transitional business coming to regular run-rate profitability numbers, and as I mentioned, we've had some strong signings in the Federal space and those Services margins tend to come online a lot sooner because they don't have quite the transitional impact. So, we're looking for favorable growth in those businesses.

Q – Jon Tanwanteng – CJS Securities, Inc.: Okay, got it. So, the sequential decline that you're expecting on a consolidated basis is purely coming from the Technology segment. Is that correct?

A – Mike Thomson – Unisys Corp.: Yeah, because as we talked about earlier in the year, we were looking at a 30%, 70% split on the Technology side and now, we're looking at 48%, 52% split on the first half, second half and then we've given you the split for the third quarter and fourth quarter. So really, it's more a shift in the Technology revenue as a pull forward, and, as we've mentioned, we've got good visibility into the overall pipeline from a Technology renewal perspective. But sometimes, these deals signed at the end of the quarter or the beginning of the next quarter, they're a little choppy from that perspective.

Q – Jon Tanwanteng – CJS Securities, Inc.: Great. Thanks for the color. What is the reason that the COGS in the Technology segment were so low? You've mentioned a higher mix of software. Is that expected to be sustained as we go through the year at similar revenue levels?

A – Mike Thomson – Unisys Corp.: Yeah, so we had some higher volume in the quarter. That was a good driver there from a COGS perspective. It's actually more volume-based than it was anything else.

Q – Jon Tanwanteng – CJS Securities, Inc.: Okay, got it, but at similar revenues or volumes going forward, should you be expecting COGS to be around the same?

A – Mike Thomson – Unisys Corp.: Yeah, we are expecting COGS to be probably a little improved and that's going to be part of why the Services margin is improving over the year. So, I would expect to see our COGS improve in the back two quarters of the year.

Q – Jon Tanwanteng – CJS Securities, Inc.: Okay. I got it. I meant specifically on the Technology side.

A – Mike Thomson – Unisys Corp.: Yeah, so we'll have a little bit of a mix in Q3 from a Tech perspective and I think the COGS will actually worsen a little bit in Q3 for the Tech business specifically, largely due to some third-party components of a couple deals that we have in the pipeline.

Q – Jon Tanwanteng – CJS Securities, Inc.: Okay, great. Thank you. And then finally, just the difference between the Services businesses that you're selling now that has Stealth enabled or doesn't, what is the average margin uplift that you're able to get when you include Stealth in the new signings and what percentage of your new contracts do actually have Stealth enabled?

A – Peter Altabef – Unisys Corp.: So, while Mike is thinking about the financial answer to that, let me give you some color on that. When we insert Stealth specifically into deals, it is largely to distinguish ourselves in the deals. We do get higher margins for the Stealth component, but it doesn't necessarily increase our margins for the entire deal other than the Stealth component. It makes it more likely for us to win those deals. So, I think that's one way to look at it. We're not looking to drive margins up for the entirety. In some cases, Stealth represents 5% or 10% of the revenue of a deal and so are looking for higher margins on the Stealth component.

Now, when we look at Services in general and we look at the security number we gave you, this is the first time we've actually given a percentage of our business related to security, and it's a work in progress. You can see how we define security. There is some security work that's not included in that number because we just can't capture it yet, but at 20% of the revenue with the company, that's a significant number for us and certainly, it's the first time we've given that number and there's a reason for that. We want everybody to understand how much of the company is now security-focused.

With respect to the profitability of that business, if you look at that security business and you look at the Services component, because that has got more Services in it than, let's say, the mix of the rest of the company because of the lack of ClearPath Forward in that number, you're going to see that the gross margin on our Services security work is higher than the gross margin of our non-security Services work. So, we do get more profitability when we're doing Services. Is that fair, Mike?

A – Mike Thomson – Unisys Corp.: Yeah, that's fair. And Jon, I wouldn't say that the margins on that work is as high as the margins on ClearPath Forward, but to Peter's point, the Security revenue that we referenced has both Services and Tech in it and the Tech portion of it is under 5% of total Security revenue in general. So, although there is a revenue uplift related to Security or Stealth specifically in those deals, it's probably in the 6% to 7% range from an uplift perspective.

Q – Jon Tanwanteng – CJS Securities, Inc.: Got it. That's very helpful. Thank you. And then just finally, you said that lower CapEx, some $170 million. Did you give a specific number or just lower than that?

A – Mike Thomson – Unisys Corp.: Actually, what we said was higher CapEx. It's in the high end of the 5.5% to 6.5% range. We're expecting it to be $180 million or around $180 million is the number. And what I was saying lower was we did some financing for CapEx, so the impact on cash would have been lower.

Q – Ishfaque Faruk – Sidoti & Co. LLC.: Hi, guys. Congrats on the wonderful quarter. A couple of questions for me. Mike, you mentioned ClearPath renewal schedules being one of the main drivers for Technology revenue growth. Have you guys seen any Stealth revenue in the second quarter or was it ClearPath Forward-driven?

A – Mike Thomson – Unisys Corp.: Well, clearly, we've got Stealth revenue in the quarter but the Technology segment in general is largely ClearPath Forward, and what we were talking about was a pull-forward of deals that frankly we had originally thought were going to come in Q3 and Q4 that pulled forward into Q2. So, we're not changing our feel on total Technology revenue for the year. We think it will be flat year-on-year in total and it's really just a shift, Ishfaque, into Q2 from some of the later quarters in the year.

A – Peter Altabef – Unisys Corp.: And, Ishfaque, this is Peter and again, thanks for the question and I'm looking forward to your follow-up questions as well. But keep in mind, that we get both Technology and Services revenue from Stealth. If we look year-on-year for the full year of 2018 versus the full year of 2019, we expect total Stealth revenue, Services and Technology. It's an expectation because obviously we're only halfway through the year, but for the full year, we expect that to more than double. So, we continue to see progress on Stealth.

Q –Rod Bourgeois – DeepDive Equity Research, LLC.: Hey there, so I want to talk about if you can provide some more color on the performance in the Federal business and then I want to ask do you see opportunities to apply some of the learnings in the Federal business and the growth that you're driving there? Can you apply some of those learnings to the other segments to get similar juice out of the other businesses as well?

A – Peter Altabef – Unisys Corp.: Yeah, Rod, so this is Peter. Thanks again for dialing in and thanks for asking the question. Mike will probably provide some additional answers, but let me just take the lead on that to start with. 33% year-on-year growth is a good number for us and it's coming from all elements of our Federal business. So, when we think of Federal business, Federal really was the start for us and this idea of very focused industries. Within Federal, we break-down our business to civilian, Defense and intel, and Homeland and critical infrastructure.

All three of those groups saw a significant growth year-on-year and when we look at the total revenue represented by those groups, Homeland and critical infrastructure is 44% of that revenue, civilian is 35%, and Defense and intel is 20%. Of the three segments, Defense and intel grew the fastest, so it's making up a bit for lost ground, if you will. We consider all three to be strong areas of growth for us. With respect to learnings and some of the goodness from our approach in that area, I would actually say those learnings go both ways. I mentioned two of our offerings in my remarks: InteliServe and CloudForte. Interestingly, InteliServe was started in the Enterprise Solutions part of our business, which is the non-U.S. Federal part, whereas CloudForte was started in the U.S. Federal business. And so, we're absolutely taking the benefit of that CloudForte initiative and moving that into the rest of the company.

We're also taking the benefit of InteliServe and moving that into the Federal part of the company and some of the big wins that we have received this year, a couple of the very largest actually, are InteliServe-based, which came from the Enterprise Solutions, and have now migrated into Federal. So, one of the things we deliver is we're not proud about where these ideas originate and we try to cross-pollinate as quickly as we can.

A – Mike Thomson – Unisys Corp.: And, Rod, maybe I'll just add, but just from a perspective of this crosspollination, the work that we're doing in Public sector is very much applicable to some of the work we're doing in the Federal space and we also see from a quals perspective that there's a lot of crossover there. Some of the deals that we're talking about are using Federal quals and vice versa because the work that we're actually performing is very similar for state and local as it might be for U.S. Federal in some cases. Obviously, outside of the U.S, security work that we're doing in other countries has applicability as well.

Q –Rod Bourgeois – DeepDive Equity Research, LLC.: Okay, and, hey, a related question, the webinar/demo that you did on Stealth recently, that was very helpful. I'm wondering are you seeing traction with Stealth in the commercial market or is there a different sort of receptivity in the commercial market versus the government sector?

A – Peter Altabef – Unisys Corp.: We're seeing increased awareness in both markets. I will tell you the commercial market is just different because it's just broader geographically and it's obviously broader by industry. So, one of the things you saw from us in the second quarter was an announcement that we are working with Dell Technologies, and, effective the end of June of this year, Stealth is now available as part of the cyber vault suite of offerings from Dell. And so, we can put Stealth directly into, for instance, Dell servers as you buy the servers as part of cyber vault. And obviously, while Dell sells to the federal government, the majority of their sales are outside the federal government.

So that's an example, Rod, of the way we're going about expanding the distribution pipe. I think when we get to the non-federal part of the world, when you have a product or a solution like Stealth, one of the things we are focusing on as a company is how do we get it out beyond our own sales force? It's pretty straightforward. We will subcontract with some other large federal players, but our own sales force can cover a lot of the U.S. Federal market. It's not the case outside, so partnering up with companies like Dell, like Cylance, like LogRhythm is very important for our security offerings, including Stealth.

Q –Rod Bourgeois – DeepDive Equity Research, LLC.: That's helpful. Hey, in past quarters, you've disclosed at certain points the amount of margin dilution that's occurring on new large deals that are in these transitional stages. Is there an update on what that margin dilution impact is as of the latest quarter?

A – Mike Thomson – Unisys Corp.: Yeah, so I think we disclosed last quarter it was 180 bps drag. We're looking at it being about 160 bps this quarter and I think we mentioned last quarter that we expect as the year unfolds, that this continues to decline so that by the end of Q4, we're probably not having this discussion around transitional business impact.

Q –Rod Bourgeois – DeepDive Equity Research, LLC.: All right. Nice progression there. Thanks, guys, very much.

Q –Bill Smith – Wm Smith & Co.: Hi, Peter and Mike and Courtney. Congratulations on a tremendous quarter and the progress that you've made over the years. I'm just wondering with the improved performance and the numbers that you just announced, is there an opportunity to do something with the high cost debt that you have in terms of maybe restructuring or discussing that? I think things are a little bit different today than when you first put that debt on, so is there an opportunity there?

A – Mike Thomson – Unisys Corp.: Yeah, hey, Bill. It's Mike. Thanks for the question, for sure. I think we mentioned even last quarter that we're kind of all ears as it pertains to the capital markets. Just from a perspective of when those terms come due, you're talking about a make-whole provision that post-April 1 of next year, that make-whole provision gets cut in half and the economics around doing some kind of refinancing become a lot more feasible and a lot more economically sound. But clearly, it's something that we're looking at from a capital structure perspective and we'll continue to look at opportunities to do better.

As you mentioned, the market right now is pretty hot and the rates are obviously lower than the coupon that we currently have, so certainly something we're looking forward to.

Q –Bill Smith – Wm Smith & Co.: And just to remind me, is it 10.5%? I don't have it in front of me right now, but something around you paid.

A – Mike Thomson – Unisys Corp.: It's 10.75.

Q –Doug Thomas – JET Equity Partners.: Good afternoon. Congratulations on a terrific quarter. It's good to see Unisys get its mojo back. I guess I'm going to start, it's nice to have early contract signings, and, Peter, I just wondered maybe if you could – it seems like the company has some very good visibility, particularly on the government side and I'm wondering could you sort of walk through the budget that's been recently passed that gives you some sense of certainty, I would think, at least over the next two years. But where do you see in terms of some of the larger opportunities on the government side? The funding must be, it seems like it must be, in place so that you have an opportunity to see some pretty substantial growth across the board.

A – Peter Altabef – Unisys Corp.: Yeah. Doug, that's a great question and I'm going to try to unpack it a little bit because there's a lot in your question.

The first is about visibility. We do have pretty good visibility, but we could also be wrong. This quarter is a good example of us being wrong. In the ClearPath Forward business, we gave quarterly or first half, second half breakdown as to when we thought the revenue was going to come in. We think we have a pretty good idea of the ClearPath Forward license revenue at a minimum, which is the Technology segment and we got it wrong because we got more of that revenue in the first half than we were expecting to get so we'll get less in the second half. So, you can see the different numbers there. I don't want to take too much credit for us being able to see into the future because we do get it wrong.

With respect to government, however, it's a little different. We have had such a powerful set of signings. I think the TCV we signed over the last 18 months is $1.9 billion from government. And so, that business is signed, and the thing about the government from a reporting side, is unlike the non-government sector, where you have some question as to exactly when you report revenue because the time of transition tends to vary based off implementation, in the U.S. Federal market, there's little variation on implementation time. You get revenue pretty quickly after you sign a deal and you kind of know when it's going to come in.

So, I would say to your question we have more visibility in terms of the revenue around government because of that and because of this backlog of signings. When the backlog increased by 36% year-over-year, we have a pretty good view of what's going to happen the rest of the year. We still expect to sign new business in the rest of the year. Again, it's a competitive market. We might win all of it. We might win some of it. We're likely to win some of it, but not none of it. So, there is variability, but we feel pretty good. You noticed that last quarter, we suggested full year growth in the government of between the mid and high teens for the year, and you heard me say today approximately high teens. So, that is an inching up of our expectation for revenue for government for the full year.

In terms of the budget, which is not quite passed yet, but it is close to being passed hopefully, I think it will help us in the sense that it will provide stability. It'll provide the ability of our clients to come make multi-year commitments. We see that as only an upside. We are expanding, as I noted to Rod Bourgeois' question, the Defense and intel part of our business is now the fastest growth part of Federal and, depending on exactly how that works, I think there's going to be a little more freedom in the Defense budget to expand faster than it would if it were under some of the prior existing caps. That's good for us.

But the bottom line is to be able to put up 33% year-on-year growth all organic and all of our activities are organic, as you know, we haven't done an acquisition in many years, we're taking market share. That's not a question of incrementally gaining some budget dollars and we're very proud of taking market share. We think we're doing it with real quality solutions that are showing value to the government. So, we think the budget's upside, but we think we are performing pretty well right now in the marketplace.

Q –Doug Thomas – JET Equity Partners.: And then while I've got you, Peter, you mentioned hosting a CIO event and I'm just wondering maybe if you could for a moment talk about that event, how it came together, who showed up, how much of it was commercial versus government so forth and just what message you tried to get across and how it went over.

A – Peter Altabef – Unisys Corp.: Yeah, so Vishal Gupta, who is our Chief Technology Officer and who leads the technology organization for us, was really the host of that event. We had it in Washington, DC and we did invite clients from around the world. We had clients in U.S. and Canada. We had clients from EMEA. We had clients from Latin America. We were really thrilled with the turnout. It was, if you will, a prototype. We expect that to expand over time and one of the initiatives that Eric Hutto, who leads our Enterprise Solutions team, has been working on for a while, is as we've done, if you will, an analysis of our business, when we do more than one line of Services or one line of Technology for a client, when we are broader than a one-trick pony at our client, the business gets stickier. Obviously revenue grows up, the profitability goes up, and part of the profitability going up is you don't have to participate in RFPs. The client doesn't have to do all of the expense of those. You get additional business and you can share the value of not having all of that cost. So, the idea behind the CIO Forum was really to bring in CIOs, some of whom only really buy one type of thing from us and show them a much broader portfolio of the company's offering.

So, you might be a ClearPath Forward client and we're going to show you InteliServe and we're going to show you CloudForte. You might be a Financial Services client but not using Elevate. That was the idea behind the forum. I think it was successful. We got very good ratings, if you will, from the participants and good feedback. But again, it's the first time we did it. I consider it a beta and then we're going to expand it as we go forward.

Q –Doug Thomas – JET Equity Partners.: Terrific, okay. And then, Mike, I had a quick question for you. You mentioned in passing ,and I'm not sure I remember you guys talking about this much in the past, but when you talk about exiting certain geographies or certain countries, and I don't know if you said additional business lines or customers and that you'd be taking obviously charges for that, or we could expect that you might possibly be taking charges for that, could you talk a little bit more about what to expect in that regard and what's going on?

A – Mike Thomson – Unisys Corp.: Sure, Doug, so if you recall, back in 2015, early 2016, we put up some significant restructuring charges and we exited some countries in regard to that where it was just kind of upside down from a pyramid perspective. So, we went through that program. We pretty much finalized that program by the end of 2018 or end of 2017, and in the end of 2018, we put up an additional restructuring charge of approximately $28 million. I guess the line of sight I would give you is that we're always looking for opportunities to continue to expand our margin, and as automation kicks in in certain regions and/or we have the ability to right-shore or we have the ability to maybe optimize and use some third-party services to optimize some of our resources, then that may free up the need to have to be in a specific country.

I did not reference leaving any type of business unit or any type of service offering. It was more country-based and predominantly, when we talk about that, we're talking about it through the lens of EMEA, which is, as you know, a pretty difficult environment, and also from a pyramid perspective and a staffing perspective, very costly when you have to take restructuring charges. So, we're always going to be opportunistic to try to expand and improve our margins and where we see continual options to do that, we'll take advantage of those.

Peter Altabef, CEO

Thanks very much, operator. I want to thank everyone for joining the call. One of the things we started a little over a year ago was a series of webinars led by different company leaders to really describe their areas of the company, whether that was looking at our sales effort, looking at some of the Enterprise Solutions teams, looking at U.S. Federal, looking at our Technology group.

We've been a little overeager to time those webinars out and kind of take them down, and we think, given the interest that several have discussed, we're actually going to put those back up. By tomorrow, you will be able to have access again to, for instance, PV Puvvada, talk about our strategy on U.S. Federal. We think that's still very relevant and so we'll have that back up by tomorrow and we'll have some of the others up as well. So, I would encourage those of you who have kind of a greater interest in some of our segments based off performance that we've talked about today will be able to get access and really a much deeper dive based off those webinars.

I want to thank everyone for joining. I want to thank the teams at Unisys for the performance not only this quarter, but to get the company to this point in time. We would benefit in the quarter as we discussed from an acceleration of some of the ClearPath Forward contracts, but I think as you look through our numbers, you'll see a lot of other things to like as well.

With that, I want to thank everyone and remind people of all the data we have on our investor relations site. Thanks very much.