



3Q14 Financial Release
CEO/CFO Statements
October 21, 2014

Niels Christensen, IRO

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

Earlier today, Unisys released its third-quarter 2014 financial results. With us this afternoon to discuss our results are Ed Coleman, our CEO, and Janet Haugen, our CFO.

Before we begin, I want to cover a few details.

First, today's conference call and the Q&A session are being webcast via the Unisys Investor website.

Second, you can find the earnings press release and the presentation slides that we will be using this afternoon to guide our discussion on our Investor website.

Third, today's presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. These have been provided in an effort to give investors additional information. The non-GAAP measures have been reconciled to the related GAAP measures and we have provided reconciliations within the presentation.

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

Now I'd like to turn the call over to Ed.

Ed Coleman, CEO

Thanks, Niels. Hello, everyone, and thank you for joining us today to discuss our third-quarter 2014 financial results.

Please turn to Slide 4 for an overview of the quarter.

This was a strong quarter for the company. We grew our revenue 11 percent and more than tripled our pre-tax profit over the year-ago period.

At the bottom line, we reported third-quarter 2014 net income of \$47.8 million, or 95 cents per diluted share. This compared to a year-ago net loss of \$11.6 million, or a loss of 26 cents per diluted share.

Both our Technology and Services businesses grew in the quarter.

Our Services revenue grew 6 percent led by growth in our strategic focus areas of IT Outsourcing and Systems Integration.

After a slow first half of the year, our Technology business delivered a very strong third quarter – growing revenue 66 percent on significantly higher sales of our ClearPath Enterprise Software and Servers. Our ClearPath revenue doubled over the year-ago quarter. Through nine months, our Technology revenue is up 2 percent over the first nine months of 2013.

We've made great progress over the past few years in stabilizing our ClearPath business while investing in new technologies and enhancements to our flagship server line. Among other innovations, we have transitioned the ClearPath line to an all Intel x86 chipset and increased our clients' ability to run open Windows and Linux workloads alongside their legacy applications in a fabric-based environment.

Today, we believe that with ClearPath that we have the most secure, open, modern enterprise server platform in the industry – a platform that large organizations around the world choose to run their most mission-critical applications.

For example, TravelSky – the leading provider of IT solutions to China's air travel and tourism industry – recently upgraded the ClearPath systems that run its mission-critical IT infrastructure, giving the company the expanded processing capacity it needs to keep pace with China's rapidly growing aviation market.

Moving to Slide 5 ... in addition to the investments we've made in ClearPath, we have laid the foundation for growth in our Technology business by investing in exciting new products such as Stealth and *Forward!*

We see strong potential for our Stealth software in the rapidly growing cybersecurity market. With its ability to conceal sensitive data and end points using advanced data cloaking and encryption technology, Stealth provides an innovative new approach to securing businesses and government agencies from increasingly sophisticated hackers.

Because Stealth takes such a radically different approach to security compared to traditional firewall- and perimeter-based approaches, the sales cycle for this disruptive technology has been longer than we anticipated. However, interest in Stealth continues to grow. We now have 30 customers and adoption accelerated in the third quarter. Current Stealth customers include government agencies, manufacturers, financial services companies, and critical infrastructure providers that are using Stealth to enhance security, reduce costs, and increase their flexibility by using software rather than hardware to segment their networks.

With our new *Forward!* computing platform, we believe we have another compelling product with strong growth potential. *Forward!* uses advanced fabric-based technology as well as our secure partitioning technology – all within an Intel x86-based architecture – to provide organizations with a more flexible, lower-cost alternative for running Linux and Microsoft applications in a secure, reliable, and highly available mission-critical environment.

During the third quarter, we continued to strengthen the capabilities of the *Forward!* platform to position this breakthrough technology for growing markets.

Last week we announced that we have signed an agreement with SAP that enables us to integrate SAP HANA real-time analytics software on the *Forward!* platform for bundled solutions for banking, government, airlines, healthcare and communications services providers.

A second agreement with SAP enables us to provide managed cloud services for the SAP HANA system. The managed services solution, which is initially targeted at the U.S. federal government, will allow clients to access SAP HANA analytics services on a subscription, on-demand basis through a Unisys- or partner-managed datacenter. Unisys is one of the first SAP partners to deliver a hosted implementation of SAP HANA for the federal government market.

We also recently announced an agreement with NetApp to integrate NetApp storage systems on *Forward!* in a converged infrastructure solution targeted at organizations that need the flexibility and cost benefits of virtualization technologies along with the predictable performance, security and availability of partitioned systems.

Both *Forward!* and Stealth continue to gain market recognition for their innovation. Gartner included *Forward!* in the "Advantage" quadrant of its recently published "2014 IT Market Clock for Server Virtualization." Stealth won the People's Choice award in the American Business Awards – the second award that Stealth has received in 2014.

And to help us reach new customers in new markets for our Technology products, we continue to make progress in building a new reseller channel. We now have more than 75 value-added resellers in our channel network.

ClearPath, *Forward!* and Stealth, as well as Choreographer (our provisioning and orchestration software), and Edge, our IT Service Management solution, can be implemented as individual products. But when combined, they provide the foundation for what we see as the future of the datacenter: the all Intel x86 software defined datacenter.

In this datacenter environment, all servers would be based on x86, be they ClearPath, *Forward!* or commodity servers, eliminating the need for proprietary Unix servers. Workloads, from the most mission-critical workloads to commodity workloads, can be provisioned using Choreographer, secured with Stealth and managed with our Edge ITSM service. And all of this can be applied either within the client's physical datacenter, or utilizing a public cloud environment. The result is a more flexible, agile and responsive datacenter environment at a lower cost.

Moving to Slide 6 ... in our Services business, we have also made progress in driving growth opportunities for higher-margin services that leverage Unisys intellectual property and our leadership position in end-user computing services.

Our services and solutions are designed to help our clients design, build and manage a truly modern mission-critical IT operation. From providing a seamless user experience and personalized support across multiple channels and devices ... to delivering certified, ITIL-based capabilities via an as-a-service model, we've built a powerful portfolio of offerings that we believe are well positioned in growing markets.

In the area of end-user services, we recently won a five-year contract worth up to \$93 million to provide an integrated service desk to U.S. Army personnel who need help desk or other end-user IT support services. This is a new contract for Unisys and significantly expands the services we provide to the Department of Defense. A key differentiator for Unisys in winning this business was our Edge IT Service Management solution.

As we noted on our last call, Unisys has been named as a leader in the Forrester Wave Report on North America ITSM implementation service providers. Edge uses advanced data analytics capabilities to automate and streamline the management and delivery of IT services throughout the enterprise. Because Edge is based on an on-demand, subscription-based model, organizations can dramatically cut the time and capital expenditures needed to deploy advanced ITSM solutions.

We won additional Edge clients in the third quarter, and overall, more than 170 clients now use Unisys ITSM offerings to manage delivery of IT services needed to support their employees across their organizations.

As an example of how we are leveraging Unisys intellectual property to target growth opportunities, we recently won significant contracts to provide more than 40 separate police forces across the United Kingdom with our next-generation, software-as-a-service-based, serious crime investigation solution known as Holmes. Holmes uses sophisticated data analytics capabilities to help police agencies conduct criminal investigations and respond more quickly to incidents.

We were also pleased to be included in influential industry analyst reports in the third quarter.

Gartner rated Unisys a "Leader" in its Magic Quadrant for End User Outsourcing in North America. And in the area of cloud computing, we were rated a "Major Player" in IDC's MarketScape for Cloud Professional Services.

In summary, this was a strong third quarter for the company. I am pleased with our results and the performance of both our Services and Technology businesses.

Thank you again, and now I'd like to turn the call over to Janet for more details on the quarter.

Janet Haugen, CFO

Thanks, Ed, and hello, everyone.

The third quarter saw improved sequential and year-over-year revenue performance across both our Technology and Services businesses. After a challenging first half of the year, our third-quarter performance has resulted in flat year-to-date revenue and stable gross and operating margins compared to the same period last year.

Please turn to Slide 8 for a discussion of our third-quarter 2014 results.

We reported revenue of \$883 million in the quarter, which was up 11 percent year-over-year; up 10 percent on a constant currency basis.

Technology revenue in the third quarter of 2014 was up significantly compared to the year-ago period principally reflecting higher sales of our ClearPath systems. For the year-to-date, overall Technology revenue is up 2 percent versus 2013.

Because of quarterly variability, the Technology business' performance continues to be best measured on an annual basis. Our goal for the Technology business remains year-over-year growth in revenue for 2014. This requires a strong fourth quarter performance and we have a good pipeline of opportunities to help us achieve this outcome.

Within the Services segment, we saw growth in our Systems Integration and Outsourcing businesses.

Based on today's rates, we anticipate currency to have a 2.5 percentage point unfavorable impact on revenue in the fourth quarter of 2014 when compared to the fourth quarter of 2013.

Our gross profit margin rose to 26.6 percent in the third quarter of 2014 from 21.7 percent in the third quarter of 2013 as a result of higher year-over-year revenue in the Technology business.

Operating expenses rose by approximately 7 percent year-over-year in the third quarter of 2014. This increase largely reflected the incremental investments we continued to make in growth programs like Stealth, *Forward!*, our reseller channel initiatives, and our cloud-based solutions. During the third quarter of 2014 the incremental spending on these growth programs was approximately \$7 million. For the year-to-date, the incremental spending on these growth programs was approximately \$19 million. For the full-year 2014, we expect our incremental investments in these programs will be at the low end of the \$35 to \$70 million range we discussed at the start of the year.

Third-quarter 2014 pension expense was \$18 million compared to \$23 million in the third quarter of 2013. Pension expense is not included in the segment results. We expect approximately \$75 million of pension expense in 2014, compared with pension expense of about \$94 million in 2013.

At the tax line, we had a \$26 million tax provision in the quarter on \$78 million in pre-tax income compared with a \$27 million tax provision in the year-ago quarter on pre-tax income of \$24 million. As I have said previously, our effective tax rate varies significantly quarter to quarter based on the geographic distribution of our income.

We reported net income of \$48 million in the quarter, versus a net loss of \$12 million in the year-ago quarter. Excluding the impact of pension expense in both years, we reported non-GAAP net income of \$66 million for the third quarter of 2014 compared to non-GAAP net income of \$11 million in the prior-year period.

In the third quarter of 2014, we reported earnings per diluted share of 95 cents compared to a loss per diluted share of 26 cents in the year-ago quarter. Excluding the impact of pension expense in both quarters, we reported non-GAAP earnings per diluted share of \$1.30 for the third-quarter 2014 compared to 25 cents in the prior-year period.

Moving to discuss our third-quarter revenue in more detail, please turn to Slide 9. As noted earlier, Services revenue, which represented 86 percent of our revenue in the third quarter of 2014, rose 6 percent year-over-year; up 4 percent in constant currency.

Technology revenue, which accounted for 14 percent of our total revenue, increased 66 percent year-over-year or 65 percent in constant currency.

On Slide 10, you can see Services revenue and margins.

We were pleased to see growth in our Systems Integration, IT Outsourcing and Business Process Outsourcing businesses. This growth more than offset the declines in our Infrastructure Services and Core Maintenance businesses which were down by 20 percent and 2 percent, respectively. For the first nine months of 2014, our Services revenue is down 1 percent compared to the same period in 2013.

Within our Systems Integration and IT Outsourcing businesses, the third quarter included a number of in-quarter sell-and-bill transactions that helped drive growth. As we have stated previously, sell-and-bill revenue typically represents between 10 and 15 percent of our overall Services revenue in any quarter. In the third quarter of 2014, this type of revenue accounted for approximately 17 percent of Services revenue.

As we have mentioned before, our Infrastructure Services business, which provides warranty and support services for our customers' IT infrastructure, is not a strategic growth area and the decline in that business reflects lower volumes on some existing contracts and the conclusion of other contracts that we did not renew.

Services gross profit margin decreased 160 basis points year-over-year to 19.5 percent from 21.1 percent in the third quarter of 2013. This decline was due to mix within Systems Integration and IT Outsourcing as well as the impact of lower volume within our Infrastructure Services business. This lower gross margin was partially offset by effective management of operating expenses. As a result, the Services operating margin of 6.9 percent in the third quarter of 2014 was down 80 basis points year-over-year.

Moving on to Technology revenue and margins on Slide 11. Enterprise Class Software and Server revenue in the third quarter of 2014 rose 97 percent year-over-year due principally to higher ClearPath volume while sales of Other Technology, all of which is third party product, decreased by \$5 million to \$12 million. Year-to-date Enterprise Class Software and Servers revenue is 6 percent higher than for the same period in 2013.

The higher ClearPath volume in the third quarter of 2014 drove the improvement in the Technology gross profit margins from 35.3 percent a year ago to 61.5 percent. As we have mentioned before, the profitability of the ClearPath business is sensitive to revenue volumes because of the relatively high proportion of fixed costs associated with this business. Our Technology operating margin improved to 25.5 percent in the third quarter of 2014 from a negative 11.0 percent in the

third quarter of 2013. For the nine months ended September 30, 2014, the gross margin of our Technology business is up 510 basis points higher than for the same period in 2013. Operating expenses are up year-over-year due to spending on our new initiatives and as a result, operating margins are only 50 basis points higher.

While *Stealth* and *Forward!* are not yet contributing materially to revenue, as Ed mentioned, we are seeing progress with both in the marketplace.

Slide 12 shows our third-quarter revenue by geography and industry.

Our North America revenue, which represented 44 percent of our revenue in the third quarter, rose 11 percent with higher Technology sales and improved Services revenue driving the growth.

International revenue rose 11 percent in the quarter; up 8 percent on a constant currency basis.

Revenue in our European region was up 2 percent in the third quarter on an as reported basis and down 2 percent in constant currency.

The Asia Pacific revenue increased by 35 percent as reported; 31 percent on a constant currency basis. This improvement was primarily attributable to strong sell-and-bill Services revenue.

In Latin America, revenue rose 13 percent from the third quarter of 2013 and was up 14 percent on a constant currency basis.

From an industry perspective, Public Sector, which reported a 16 percent year-over-year increase in revenue, remained our largest industry revenue source, representing 42 percent of total revenue.

Revenue from Commercial industry customers represented 36 percent of our third-quarter revenue while the Financial Sector accounted for 22 percent of revenue. Revenue from the Commercial and Financial sectors during the third quarter rose by 9 and 8 percent, respectively, versus the third quarter of 2013.

Slide 13 provides more detail on our U.S. Federal government revenue over the past seven quarters.

While up slightly on a sequential basis, our overall U.S. Federal revenue of \$119 million declined approximately 7 percent when compared to the year-ago quarter as the government's fiscal year-end impact was not as significant for us in 2014 as it was last year. Revenue from the U.S. federal government represents 13 percent of our overall revenue during the third quarter of 2014.

In the third quarter of 2014, revenue from Civilian agencies represented about 44 percent of our overall U.S. Federal government revenue while Homeland Security agencies and Defense and Intelligence agencies represented about 29 percent and 27 percent of revenue, respectively.

We ended the third quarter of 2014 with about \$366 million of U.S. Federal services backlog, which was up 3 percent versus the third quarter of 2013 and up 36 percent sequentially.

As Ed mentioned, Unisys was awarded the \$93 million, five-year U.S. Army Enterprise Service Desk contract in the third quarter and this represents a significant expansion of the services Unisys provides to the Department of Defense.

Other recent wins include contracts to provide cloud-hosting services to the Consumer Financial Protection Bureau, to modernize systems the U.S. Department of Justice uses to provide grants to state and local law enforcement organizations, as well as the selection of Unisys as one of approximately 40 vendors for the NASA \$20 billion SEWP V IDIQ contract.

I also wanted to provide an update on the protested July 2013 award to Unisys of the Border Enforcement and Management Systems contract by Customs and Border Protection. This was re-awarded to Unisys in September. However, this contract award, valued at up to \$460 million over five years, was again protested by the incumbent services provider. We expect the protest will be concluded during the fourth quarter and remain confident that Unisys will ultimately be awarded the business.

While the U.S. federal environment is still challenging, we are encouraged by our recent wins and the increased level of proposal activity. We are optimistic about our opportunity to return this business to growth.

For some comments on Services orders, please turn to Slide 14.

In the third quarter, our Services orders declined year-over-year driven by a significant decline in Infrastructure Services orders which more than offset orders growth in our other Services businesses.

We ended the third quarter with \$4.4 billion in Services backlog down from \$4.8 billion at September 30, 2013.

Of the \$4.4 billion in Services backlog at September 30, 2014, approximately \$630 million is anticipated to convert into fourth-quarter 2014 Services revenue. During the past several years, the amount of revenue in backlog at the start of the quarter has typically ranged between 85 and 90 percent of our quarterly Services revenue for the full quarter while the sell-and-bill revenue has accounted for the remaining 10 to 15 percent.

We have a strong pipeline of sell-and-bill opportunities in the fourth quarter.

Moving to cash, please turn to Slide 15 for an overview of our cash flow performance in the quarter.

We reported \$8 million of cash used for operations in the third quarter of 2014 compared to \$16 million in cash generated from operations during the year-ago quarter. Higher pension contributions and working capital requirements contributed to the year-over-year decline.

Capital expenditures were \$54 million in the third quarter of 2014, versus \$39 million in the third quarter of 2013. The increase in capital expenditures largely reflected increased investments in the company's IT Outsourcing assets. We expect full-year capital expenditures of approximately \$200 million.

We contributed \$58 million in cash to our defined benefit pension plans in the third quarter of 2014 versus \$40 million in the third quarter of 2013. Year-to-date, we have contributed \$161 million. For the full year, we expect to contribute approximately \$188 million -- down \$47 million from our prior estimates -- due to the recent passage of the "Highway and Transportation Funding Act of 2014" in the United States, which has changed the level of required U.S. pension funding. I will address this change in more detail in a moment.

We had free cash usage of \$62 million in the third quarter of 2014 versus free cash usage of \$23 million for the same period last year. In the third quarter of 2014, we had year-over-year increases of \$18 million in required pension contributions and \$15 million in capital expenditures. Before pension contributions in the third quarter of 2014, our free cash usage was \$4 million versus \$17 million in free cash flow on the same basis during the third quarter of 2013.

Excluding the impact of pension expense, Unisys generated adjusted EBITDA of \$139 million in the third quarter of 2014 versus \$86 million in the prior-year period.

Our debt balance was \$215 million at September 30, 2014, up from the \$210 million a year ago. The slight increase in debt reflects the addition of capital leases in support of our IT Outsourcing business.

During the third quarter, we negotiated an extension of our revolving credit facility by two years. The facility now expires in June 2018. There were no significant changes to the amount or terms under the facility.

Our cash balance of \$477 million at September 30, 2014 was below the prior year but remains more than double the amount of our debt.

As we have discussed previously, in December 2012, our Board of Directors authorized the purchase of up to \$50 million of the Company's common or preferred stock through December 2014. During the third quarter of 2014, Unisys returned approximately \$16 million to shareholders through the repurchase of common shares under this authorization.

Since September 30, 2014, we have purchased about 267 thousand additional shares of common stock for approximately \$6 million, raising our total repurchases for 2014 to approximately \$36 million.

As of October 21st, today, approximately \$3 million remains available under the Board authorization for repurchases during the rest of the year.

Now moving on to pension funding. As I mentioned earlier, with the recent legislative changes in the U.S., we expect a significant change in the timing of the required cash contributions related to our U.S. pension plan.

The Highway and Transportation Funding Act of 2014 provides pension plan sponsors like Unisys funding relief by stabilizing interest rates used to determine the required cash funding contributions to defined benefit plans in the U.S. We estimate the overall reduction in required contributions in the U.S. during the five years of 2014 through 2018 will total approximately \$277 million.

Turning to Slide 16, our revised estimates for minimum cash funding of our U.S. defined benefit pension plan in 2014 decreased from approximately \$126 million to approximately \$80 million. The estimated required contribution in 2015 declines from \$132 million to \$44 million. As highlighted on this slide, there are further reductions to the estimated required contributions through 2018. In 2019 and beyond, the funding requirements increase relative to our prior estimates. The timing and long-term impact of this change is apparent on Slide 17.

All funding estimates are based on expected asset returns and discount rate assumptions as calculated at December 31, 2013 except for the discount rate used for the U.S. qualified defined benefit pension plan which has been updated for our estimate of the impact of recent U.S. legislation. These are likely to change for 2015 and beyond based on -- among other items -- market conditions, published IRS discount rates, and changes in currency rates.

It is important to note that this legislative change does not have any direct impact on the discount rates used for U.S. GAAP reporting, so the plan liability Unisys reports on its balance sheet will not change as a result of this legislation.

One change which will likely impact the U.S. GAAP liability at year-end 2014 is the anticipated update of the mortality tables from the Society of Actuaries. While the final update is expected by the end of October, a review by our actuary of the draft version, which was issued earlier this year, suggests that the anticipated change will increase the liability in our U.S. plans by approximately 3 percent.

Let me conclude by saying that the third quarter reflected solid execution by the company. We remain focused on executing against our strategy and closing our opportunities in the fourth quarter to end the year with strong performance for our shareholders, our customers, and our employees.

Thank you for your time.