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Unisys Corp. (UIS)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Unisys Corporation First Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please also note today's event is being recorded. At this time, I'd like to turn the conference call over to Courtney Holben, Vice President of Investor Relations. Ma'am, please go ahead.

Courtney Holben

Vice President-Investor Relations, Unisys Corp.

Thank you, operator. Good morning everyone. This is Courtney Holben, Vice President of Investor Relations. Thank you for joining us. Yesterday afternoon, Unisys released its first quarter 2022 financial results. I'm joined this morning to discuss those results by Peter Altabef, our Chair 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 morning to guide our discussion as well as other information relating to our first 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 have 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 post-retirement 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 net income and non-GAAP diluted earnings per share, free cash flow and adjusted free cash flow, EBITDA and adjusted EBITDA, and constant currency. For more information regarding these metrics and related adjustments, please see our earnings release and our Form 10-Q.

From time-to-time, Unisys may provide specific guidance or color regarding its expected future financial performance. Such information is effective only on the date given. Unisys generally will not update, reaffirm or otherwise comment on any such information 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 expectation. 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 from the Unisys investor website.

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

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Good morning everyone and thank you for joining us to discuss our first quarter results. Our strategy is gaining traction. Clients and prospects are responding positively to our expanded and enhanced solution portfolio, demonstrated by increased ACV and pipeline year-over-year. First quarter financial results were impacted by anticipated ECS renewal timing and the exiting of non-strategic DWS contracts in 2021 but were largely in-line with our expectations. Broad market knowledge of our higher value offerings is growing and we expect our marketing and sales efforts to further increase awareness and differentiation.

While there is still work to be done to achieve our goals for the year, we are encouraged by the significant increase in new business signed in the first quarter and are excited by the prospects for the business. Mike will provide detail on our financial performance but first I'll give some insight into the business.

Starting with Digital Workplace Solutions or DWS, we expanded and enhanced this business significantly in 2021 to offer higher growth and higher margin user experience-based solutions. We are winning contracts with new clients looking to transform the digital workplace with DWS ACV growing 65% year-over-year in the quarter. While our financial results in the quarter were impacted by non-strategic contracts exited in 2021 given the robust industry demand for DWS, we believe there is significant opportunity with new clients.

During the quarter, we continued to upgrade our solutions to better meet client needs. We have matured our experience model office or XMO offering and now have multiple clients under management with several others in implementation stages. We are also integrating increased automation into our offerings, including within Experience-as-a-Service and PowerSuite. For instance, in our PowerSuite collaboration, security and governance tool, we are automating end-user compliance to eliminate the need for interaction with IT support. This will improve user productivity while ensuring compliance with changing global governance needs and unique regional requirements.

We have also enhanced our analytics solution which helps clients assess their user experience progress and helps us improve our productivity and ultimately our margin. As I mentioned, broad market knowledge of our higher value offerings is growing. Industry analysts such as Gartner, IDC, Everest, ISG and HFS are recognizing our Digital Workplace Solutions transformation and we were recently named as an innovator by Amazon in their multi-sourcing service integration. During the first quarter, we were also nominated as finalists in six Service Desk Institute Award categories and we were the winner in two; in both cases the most of any provider. Additionally, our global service desk was recently certified to the Help Desk Institute's IT Support Center Certification Program, which validates the maturity of our advanced capabilities.

Client receptivity to our DWS portfolio has been highlighted by multiple, recent contracts for our full suite of solutions which include modern device management, proactive experience, seamless collaboration, intelligent workplace services and Workplace-as-a-Service. For example, during the first quarter we signed an expansive new logo DWS contract with a global technology company that engineers consumer products and goods. As an example of success with cross-selling, during the quarter we signed a contract with a major Latin American financial institution that was already an ECS client to provide a wide range of secure digital workplace solutions as well as cloud and infrastructure solutions.

And that client win is a good segue to discussing our Cloud & Infrastructure Solutions business in which we drove year-over-year revenue growth during the first quarter. C&I revenues grew 7% year-over-year and Cloud revenue specifically grew 43% year-over-year. C&I ACV also grew significantly in the quarter and was up 75% year-over-year. As with DWS, we believe that there is significantly more opportunity to grow our Cloud & Infrastructure business. During 2022, we are focusing our capability development efforts in this segment on enhanced cloud-native application development, cloud security and artificial intelligence/machine learning operations. During the first quarter, we refined our DevSecOps framework, aligning the application's lifecycle capabilities across Unisys and also aligning with hyperscaler-based microservices. We also now have our IT service ops automation development engine in place as well as our service intelligence platform. And we are leveraging data analysis to help our clients detect and analyze problems in their IT environment. As an example, during the quarter, we signed a contract with a global marketing and communications company to migrate the client's largest European data center to the public cloud, supporting that client strategy of increasing operational efficiency, security and agility.

Turning to Enterprise Computing Solutions or ECS, our goal has been to grow revenue through expanding the ECS ecosystem while maintaining license revenue stability. During the quarter, we took steps to help clients modernize their ClearPath Forward operating systems by releasing a new version of our agile business suite development environment with increased platform interoperability. We also are expanding some of our key industry solutions to address the diverse workflow-centric needs of our clients. For instance, in travel and transportation, we launched the development of expanded data analytics capabilities within our cargo solution that we referenced on our last call.

During the first quarter, we signed a renewed and expanded contract with a provider of information technology services to the air travel and tourism industry in Asia. We also signed a new scope contract with one of the UK's largest financial services organizations to deploy new servers which double their infrastructure and strengthen their digital resiliency. As we look across the company, our client wins indicate that the transformation of our solution portfolio and go-to-market approach undertaken during 2021 is gaining traction and leading revenue indicators grew significantly during the first quarter.

Total company ACV grew 43% year-over-year, supported by the growth I noted in ACV for DWS and C&I. Total company TCV was also up 5% year-over-year in the quarter. Although given clients increasing preference for shorter duration contracts, we are providing more detail on ACV. Total company pipeline grew 31% year-over-year and was up 24% sequentially. DWS pipeline increased 14% year-over-year and 29% sequentially. Within that, the pipeline of targeted end-user experience solutions more than doubled sequentially and year-over-year.

C&I pipeline grew 40% year-over-year and 28% sequentially. Within that, cloud-specific pipeline more than doubled year-over-year and increased 43% since year-end. We are pricing new contracts to offset anticipated cost increases related to the competitive labor market and the weighted average expected gross margin associated with contracts signed in the first quarter was higher than the prior-year period.

We see more upside for our go-to market activities. Broad market awareness of our expanded and enhanced solution portfolio is growing. We are increasing our third-party advisor and industry analyst team to help generate advocacy and increase the quality and size of our pipeline. We are also expanding our direct and indirect sales teams to generate new clients, accelerate our market penetration and grow pipeline and the ACV. We are deploying an account-based marketing strategy to target our highest value prospects with a focus on closing contracts with new logo clients. We have activated targeted cross-selling campaigns across our existing client base to increase revenue from this group. We're also driving increased awareness through a digital advertising campaign focused on our DWS and C&I business that launched in the fourth quarter of last year. Further to this end, our new branding strategy effort is underway. Once this is rolled out which is expected to be in the second-half of this year, it will differentiate Unisys in the market and increase brand awareness.

Turning to workforce management, as we all know the market for talent is highly competitive. Our voluntary attrition in the first quarter on a last 12-month basis was 18.6%, a slight increase from corresponding pre-pandemic levels of 17.2%. Our talent attraction and retention initiatives are helping address the competitive nature of the market and we expect voluntary attrition to stabilize over 2022. Our focus on creating opportunities for our associates through internal mobility and upskilling programs resulted in a 30% internal fill rate for the first quarter above our goal of 28% for the year. We are also leveraging referral-based hiring which increased to 22% in the first quarter, continuing the positive trends of increasing every year since 2019. With respect to wage inflation, we continue actively reviewing our workforce and focusing compensation adjustments on the capabilities and roles that have been identified as critical in achieving our short- and long-term strategic goals.

Turning to ESG, our increased focus began to be recognized in 2020 when ISS upgraded us to Prime status. During the first quarter of this year, we received an upgrade from MSCI to an A rating, and this month, we were upgraded to a Gold rating by EcoVadis, putting us in the 94th percentile of companies ranked. We also met and exceeded our 2026 objective for a 75% reduction in greenhouse gas emissions, achieving this objective five years early with an 80% [ph] projection (00:15:57). We are now turning to our net-zero goal on which we will provide more color next quarter.

In conclusion, we are seeing positive receptivity to our solutions. We have more work to do to increase awareness and we believe our marketing and sales initiatives will be important in accomplishing this objective.

With that, I'll turn the call over to Mike to discuss our financial results, although first I would like to take this opportunity to thank him for all of his contributions to the company in his role as CFO, as this will be his final earnings call in that position. As we previously announced, we have now hired a new CFO effective May 2 and Mike will transition to his new role as President and COO. I am confident that the leadership, deep company expertise, commitment to excellence and collaborative spirit Mike has demonstrated as CFO will position him for success as he takes on his new role. And I look forward to working with him in this new capacity.

We are also excited to welcome Debra McCann as Chief Financial Officer to succeed Mike. Deb will join us next week from Dun & Bradstreet, where she most recently served as Treasurer and Senior Vice President of Investor Relations and Corporate FP&A. Deb brings significant experience in providing financial guidance to complex public and global multibillion-dollar organizations across a variety of industries including technology, services, data and telecommunications. I know she is looking forward to working closely with our investor community as we continue to advance our company.

With that, over to you, Mike.

Michael M. Thomson

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Peter, and good morning, everyone. In my discussion today, I'll refer to both GAAP and non-GAAP results. As a reminder, reconciliations of these metrics are available in our earnings materials.

As Peter highlighted, our strategy for 2022 is beginning to gain traction. We are encouraged by this significant year-over-year increase in new business signings in the quarter and we expect momentum to accelerate in the second-half of the year as a result of our marketing and selling initiatives that are designed to increase awareness and differentiations of our expanded and enhanced solution portfolio. We expect our focus on our go-to-market efforts to translate into improved revenue growth and profitability over the course of 2022 and into 2023. Our reported financial results are generally in-line with our expectations for the quarter and we believe that the excitement felt internally and externally about our solutions and our strategy is beginning to manifest itself into positive momentum. This momentum is not necessarily reflected in the year-over-year compares as revenue and profitability in the quarter were impacted by a few known headwinds specifically the anticipated ClearPath Forward contract renewal timing and the DWS private-label field service contracts that we exited in 2021. Neither of these elements impacts our long-term strategic objectives. That being said, I'll highlight the impact as I walk through our financial results.

Starting with revenue, which we had indicated on our last quarterly call, was expected to be down low double-digits year-over-year and ended up being down 12.4% year-over-year, roughly in-line with this expectation. On a constant currency basis, revenue declined 10.3% year-over-year, which was better than consensus estimates which do not explicitly account for currency ECS revenue was slightly better than internal expectations for the quarter at $121 million due to a contract that was signed for a longer duration than originally expected. As a reminder, ECS revenue was lower year-over-year due to fewer contracts being scheduled for renewal in the first quarter as opposed to renewal rates themselves which remain over 95%. The renewal schedule for the rest of the year is expected to result in revenue for Q2 through Q4 being down approximately $10 million in the aggregate year-over-year.

With respect to DWS, now that our base portfolio of integrated experience offerings is established, we are moving into the next phase of our transformation with an emphasis on increasing market awareness to grow our market share through new business signings and increasing wallet share by expanding solutions we bring to our existing clients. In addition, we'll continue enriching our solutions as well as the delivery of insight to enhance our clients' productivity. Throughout the remainder of this year, we will also continue to feel the impact of the roll off of the non-strategic contracts that we exited in 2021 which had an impact on revenue of $26 million in the first quarter and will impact the remainder of the year by $56 million; $24 million of which we expect in the second quarter. New business has begun growing but that growth did not yet offset the full impact of the fully mature field service work exiting. The resulting DWS revenue in the quarter was $125 million, which was down $18 million year-over-year and was one of the key drivers of the total company's revenue decline. Excluding the impact of these field service contracts, DWS revenue grew 7% year-over-year. We are encouraged that we recently signed multiple new logo contracts which include the full suite of DWS solutions indicating that our portfolio is aligned to the market demand and that prospective clients are seeing us as a full-service end-to-end provider. This also serves as a proof point of our strategy and our ability to move up the value chain and start to shift our top line mix to higher growth and higher margin offerings.

While we are encouraged at this early stage of our transformation, we remind you that the core of this business is based on longer-term contracts that relate to our heritage field service business. So, the opportunity to convert the existing base is directionally tied to renewal schedules that occur over the next several years. Excluding both the DWS contracts, we exited and the ECS impact, the total company revenue grew 3% year-over-year and was driven by continued momentum in our cloud business. Similar to DWS, we continue to enhance our cloud capabilities and expand our efforts to increase awareness and differentiation with industry analysts and third-party advisors as to those capabilities. We're beginning to see expanded opportunities to compete and grow our pipeline.

The year-over-year revenue growth for our C&I segment was 7%. The segment revenue was $129 million in the quarter which now represents more than one quarter of the total company revenue. The growth in C&I was driven by cloud revenue growth within the segment of 43% year-over-year, highlighting the demand for our solutions. We believe we'll continue to penetrate this highly competitive market. As we look to the rest of 2022, we expect to see improving revenue trends as we move beyond the headwinds of the exited contracts and the new business begins to benefit more significantly from the go-to-market initiatives currently in progress. As highlighted on our last call, we expect full-year ECS revenue to be down high single-digits or low double-digits year-over-year due to the anticipated renewal schedule. Our first-half, second-half ECS license revenue split is still expected to be approximately 35% and 65% in the front-half and back-half of 2022 and approximately 15% of full-year ECS segment revenue is expected to be earned in the second quarter. Supporting these overall revenue expectations are the ACV and pipeline detail Peter provided as well as our backlog. The total company backlog as of March 31 was down slightly at $2.9 billion versus $3 billion at year-end. As we have noted, clients continued to prefer shorter-term contracts and this impacted the aggregate amount of backlog. Had the contract duration be consistent year-over-year, backlog would have been flat versus our year-end level. We're also expecting backlog to increase over the course of 2022 for the same reasons that I noted with respect to revenue. In addition, the type of solutions that we're shifting towards are less capital-intensive and have shorter implementation timeframes which we believe will lead to quicker conversion of backlog to revenue than we've seen in the past. Of the $2.9 billion in backlog, we expect approximately $370 million will convert into revenue in the second quarter of 2022. Factoring all this in, we expect slight year-over-year decline in the second quarter of total company revenue, likely in the low single-digits with accelerated revenue growth in the second-half of the year. While this inherently means that there's more work to be done to achieve our full-year goals, we're still expecting to be at the low-end of our 2022 revenue guidance of 5% to 7% year-over-year growth.

Moving to profitability, the ECS and DWS revenue results I just highlighted also flowed through to profitability in the quarter with ECS being the primary driver. First quarter ECS gross margins decreased 940 basis points year-over-year and DWS gross margins decreased 60 basis points year-over-year. As a reminder, ECS costs are relatively fixed both year-to-year and throughout the year given that the key components of cost are labor to support the platform and the amortization of software development costs. So the timing of license renewals can have a significant impact on profitability which was the case in the first quarter. Looking forward, we expect similar ECS cost of revenue in 2022 as in 2021, and we expect this to be relatively evenly split across the remaining quarters in 2022; each of which are expected to be approximately $10 million higher than in Q1.

In C&I, we took charges associated with three contracts in the quarter that are expected to be one-time in nature and resulted in gross margin for the segment being down 280 basis points year-over-year. Excluding the impact of these, C&I gross margins increased 240 basis points year-over-year. We expect C&I margin to increase in the second quarter and in subsequent quarters in 2022 as we move beyond the impact of the charges taken in the quarter and we are starting to recognize the benefit of some of the optimization work that we began last year. As a reminder, our optimization work is ongoing and primarily focused on increasing standardization and adding automation across our solutions, which is expected to improve efficiency and scalability over time. Segment gross profit margins flowed through to total company non-GAAP operating profit margin which was negative 3.2% and to adjusted EBITDA margin which was 7.7%. While the C&I charges arose during the quarter, we had noted on the last earnings call that in addition to the ECS license impact, we're anticipating an overall drag on operating profit as we continue investing in our go-to-market initiatives required to support our strategy as well as investing to retain and attract top talent within the context of a highly competitive labor market. We have recently had some successes in engaging with clients to revisit pricing in cases where labor and other macro factors are contributing to pricing pressure. And we're seeing increased receptivity of clients acknowledging those macroeconomic conditions to offset those internal cost increases. We're expecting profitability to improve in DWS and C&I in the coming quarters of the year. Given the ECS renewal schedule, we expected this to translate to total company non-GAAP operating profit margin and adjusted EBITDA margin being down approximately 450 to 550 basis points year-over-year in the second quarter. We then expect these two metrics to be up year-over-year in the third and fourth quarter.

Based on these expectations, we're reaffirming our full-year non-GAAP operating profit margin guidance of 9.5% to 10.5% and adjusted EBITDA margin guidance of 18% to 19%. And as with revenue, we currently expect to be towards the low-end of these ranges as our net loss of $57.3 million or $0.85 per diluted share improved versus a net loss of $157.8 million or $2.45 per diluted share in the prior-year period as a result of significantly lower pension expense this year. The revenue and profitability items we have discussed resulted in non-GAAP net loss of $27.3 million or $0.41 per diluted share versus non-GAAP net income of $29.8 million or $0.46 per diluted share in the prior-year period.

We continue to execute on our capital-light strategy and our focus on integrating best-in-class offerings to enhance our solutions and optimize development cost. CapEx in the quarter was $19 million, which was $9 million or 32% lower year-over-year. The lower CapEx benefited cash flow. We continued to improve with free cash flow this quarter being $19 million better year-over-year. As a reminder, we expected approximately $10 million to $15 million in remaining cash payments, associated with actions taken in the optimization program we completed in 2021. $4 million of this fell into the first quarter and the remaining amounts are expected to fall roughly evenly over the remaining quarters of this year. Our net leverage remains low and we have a healthy cash balance. Excluding the deficit for our US-qualified defined benefit pension plans for which we do not expect to make additional contributions, our net leverage is 0.9 times and our cash balance is at $491 million as of the end of the quarter, approximately double our working capital need.

Stepping back on many of our year-over-year comparisons on financial reporting metrics were challenging this quarter, we don't believe that this tells the full picture of the progress we're making with our expanded and enhanced solution portfolio. We're excited about the traction we have already seen in relation to our strategy and we're highly focused on converting the momentum we're seeing into improved revenue and profitability over the remainder of the year.

Before I turn the call back over to Peter, I'd just like to thank all of our investors and stakeholders for their engagement over the last several years. I've enjoyed our discussions and look forward to remaining connected from my new role. With that, I'll turn the call back over to Peter. Peter?

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

Thank you, Mike. With that operator, can we please open the call for questions?

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time we'll begin the question-and-answer session. [Operator Instructions] And our first question today comes from Rod Bourgeois from DeepDive Equity Research. Please go ahead with your question.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

Great. Thank you. Hey. So, you had previously conveyed that your ClearPath Forward license renewals would be soft and they were, and that definitely weighed on revenues and margins but not really a surprise there. So going into the report, knowing those timing factors, we were most interested in hearing about your sales and marketing progress and your bookings results. So I don't want to read too much into the bookings ACV growth of 43% but I also don't want to miss what's underneath that year-over-year bookings growth and also what drove the big jump in your sales pipeline just seemingly over the last three months. So can you characterize the composition of the increased ACV and also of the recently increased pipeline? Specifically, it would be helpful to know if there were an abnormal amount of large deals that drove the ACV and pipeline increases, or if your improved revenue and bookings pattern is a function of a pretty diverse set of deals. Can you just characterize what's happening in the composition there?

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

A

Yeah, Rod. This is Peter. Thanks for the question and I guess let me try to take it in order. With respect to the revenue, you're exactly right. So, the revenue number was not actually a surprise. If we actually look at what we had forecasted which was kind of low-teens in terms of year-on-year decline, we came in at 12.4%. And when you look at the currency situation, that the currency went against us, our revenue actually beat the expectations of our analysts as a whole. So we really think on the revenue side, we came in kind of as expected. And that's true, by the way, with respect to the ClearPath Forward portion of revenue. So, the ClearPath's portion of revenue and the ClearPath Forward drove the year-on-year declines in revenue, was actually slightly higher than what we anticipated. So there were no surprises. [ph] This wasn't higher very much (00:34:35). But that's why we really don't have a surprise on the revenue side.

With respect to the sales side, I guess I'll cover profit now. You didn't raise it. But we did have some surprises on the profit side and those were negative surprises. Those were largely driven by three contracts in our Cloud & Infrastructure space that – where we had software development glitches. Two of those three were dependent pretty much solely on sub-contractors, and we're taking the one-time write-offs now. We'll deal with those sub-contractors later. One of those was frankly not a sub-contractor issue. It was [indiscernible] (00:35:24) but it was one specific contract. It shouldn't be a surprise to anybody on this call that we devoted substantial resources in the fourth quarter of last year to acquire CompuGain. And that acquisition of CompuGain was meant to do a lot of things. To significantly increase the application capabilities of our cloud and application – or Cloud & Infrastructure team which is it's doing and also in the future to decrease the reliance on sub-contractors in application development. So we think that the things – the three contracts that bid us in the first quarter, obviously when you take a write-off like we did, that is intended to be the entirety of our expected losses on those contracts. The acquisition of CompuGain was to kind of put us in a materially different position going forward on those software development-type efforts.

With respect to the specific question, Rod you asked, which is about what is the insight behind the 43% increase in ACV, the 5% increase in TCV and how does that really look when we get into the pipeline for DWS and C&I? Let me review some of what I mentioned in my opening comments and then provide some more color.

So, let's look at DWS first. So DWS, and by the way on the ACV versus TCV, as we're giving a lot more detail in ACV, we actually have been mentioning that for a while, that's not a change on this call. We think the ACV number is simply more useful. Again, our ACV went up 43% for the year; the TCV went up 5% for the year. But just to give you an example; the ACV as a percentage of TCV for the quarter was 65% and we're expecting for the year about a 50%. So the average length of contracts in our industry is going down. That's true for us as well. It's becoming more, if you will, of a SaaS type of world, although not necessarily the SaaS contracts that you would see in a license situation. And as that happens, the ACV numbers and the TCV numbers begin to converge. And so we are giving a lot of detail on ACV but that's the reason why.

When we look at DWS, the ACV increase year-on-year was 65%. That's really good. And when we look at the pipeline, we see that the year-on-year increase of the pipeline for DWS was 14% increase in the qualified pipeline. All the numbers I'm giving you are qualified pipeline numbers; and the sequential increase was 29%.

Now, when we look underneath that number Rod to the experience or, if you will, the higher margin, newer offerings, the pipeline has increased year-on-year and sequentially more than 100%. So that's exactly what we want. Will it take a little while to get the majority of our revenues into the next-generation of DWS? Yes, it will. We have a pretty large built-in base of older DWS work. We simply do. We're not embarrassed about that. We're not afraid of it. We're trying as hard as we can to convert it to the new stuff. But I will tell you interestingly what we're learning is we're having a better time of selling the newer, next-generation experience services to new clients than existing clients. That is not what we expect. We expected the existing clients to convert more seamlessly. And some of those existing clients are with us honestly because of the pricing and they do not want to change from that barebones pricing. That's not typical of the market. It's kind of typical of that client base, so we're having much more success in the market. That means that the sales and revenue growth is growing a little more slowly than we want it and that challenges sales and revenue growth for the year. But we think that all of the indications are we're moving in the right direction. So, that's the DWS side of that.

On the C&I side of it, again for the quarter ACV increased 75% and now let's look at the qualified pipeline for that. The qualified pipeline we have now in C&I is a 40% increase year-on-year. It's a 28% increase sequentially. And once again, if you will, the next generation of that team which is the Cloud piece of Cloud & Infrastructure, that pipeline both year-on-year and sequentially is more than 100% larger. And again it's the same dynamics. We still have a substantial portion of that Cloud & Infrastructure business in traditional infrastructure. And we are evolving that team to be more cloud-based. That evolution was helped by the acquisition of CompuGain and it's helped by more new signings which are heavily weighted in that cloud space. So, it's a journey and it's a journey that we're on and I think we're excited about that journey.

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

A

Hey, Rod. It's Mike and Peter just gave a pretty detailed answer there and I think you probably got most pieces of your question. I would like to just address specifically one other element. No real abnormal deals in the mix. I think the size of the deals are as expected and consistent with what we thought. Peter gave you a good rundown on the mix. And I guess the point I would call out is similar to his in that it's in the things that we are really looking forward to. We're seeing the experience play. We're seeing clients take the full suite of our offerings in the DWS side. It's in the application development world within C&I. So we're certainly encouraged by that. We have a lot of work left to do. We're still in some of the early stages in regards to the work with third-party advisors and industry analysts and growing that pipeline. So we're certainly not saying that we're on the downhill slide on all of this. There's a lot of work left to be done there but certainly encouraged by both the number of deals, the size of the deals and the type of work that we're doing, solidifying the strategy and the mix shift that we've been looking for. So hopefully that gives you a good sense.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

No. That's really helpful. Thanks for that color. And can I just – as a quick follow-up. Are you pursuing and winning sole-source deals or are most of these deals in your pipeline competitive bids?

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

A

Right. So it kind of depends on the size, Rod. I would say that a pretty large proportion of our signings right now are expansion, extensions and in that world they tend to be sole-source. When you look at the new logos, smaller new logo deals can be sole-source. When you look at larger deals, the majority of the larger deals are competitively bid.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

Got it. Got it. And then just a final clarification that I'm getting questions on. Given – so I wanted just to clarify the revenue tracking to the lower-end of the guidance range for the year, is that due to DWS' traditional client softness or due to the weaker-than-expected license renewals early in the year or both?

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

A

Yeah. Look, I think when we gave that guidance Rod we obviously knew about the DWS exiting contracts and we knew about the renewal schedule. So, in my mind, it's a little more indicative of the point Peter made around the existing client base and their conversion appetite. Because when you're converting or you're taking that client on that journey, it's a quicker transition than new logo. And so the selling motion on the new logo is a little longer. We're still in some of the earlier stages on the marketing and selling campaign. So, that's taking a little longer than we expected. And so you can't recover that aspect of new logos that you didn't sign in Q1 in Q2, Q3 and Q4. You just don't have enough time to convert it to in-year revenue. So, it's good news, bad news. Good news obviously we're seeing it in the pipeline; TCV, the ACV, so the future looks aligned to where we thought it would be. The bad news is you have a little bit of bad in-year revenue impact because the duration of the transition time.

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

A

Yeah. And Rod, just to follow up on Mike's comment which is exactly right. I mean The Wall Street Journal just came out and The Washington Post with the contraction of the economy in the first quarter in the US. And I do want to look at our mix of business. Obviously for us to thrive, we have got to sign new revenue, new logos, new expansion. So, everybody in our business has to do that. But when you look at our revenue profile which is slide 9 of the deck that you guys have, 80% of our revenue is in recurring services or technology. So we're not a recession-proof business. Nobody is. But having 80% of our revenue in recurring services and technology is not a terrible thing when you have some questions as to the economy's health.

Operator: And ladies and gentlemen, our next question comes from Jon Tanwanteng from CJS Securities. Please go ahead with your question.

Jon E Tanwanteng
Analyst, CJS Securities, Inc.

Q

Hi, guys. Thanks for taking my questions. My first one is I was wondering actually how much of the guidance, I mean going towards the lower range [indiscernible] (00:46:21) because you noted that it was a pretty big headwind in Q1. So, what are expectations for the rest of the year and how much of that is showing up in the guidance?

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

A

Yeah, Jon. Hey. Good question. Look, I – as you know our guidance is annual guidance. And the softness in Q1, as you also know was expected primarily due to the two elements we noted on the headwinds. So I think the tamping down or the looking at the lower-end of that guidance range is much more indicative of just the selling cycle; the selling motion, our continued traction, and the fact that it's probably more new logo-driven than conversion of base and it just takes a little longer to get that in your revenue.

You sign one of these contracts, new logo on the back-half of the year, you really did no new logo revenue in-year for that contract or very little by the time you get through transition. And so I think again as Peter noted, the change here and the reason for shooting at the lower end of that guidance range is really the mix shift of how our new offerings are being digested. And it seems like the new logo aspect of that is a bigger portion than we thought it would be. And the conversion aspect, we have to tie that into contract renewals as opposed to kind of mid-contract conversion. So that's really where we're at.

Jon E Tanwanteng
Analyst, CJS Securities, Inc.

Q

Understood. Thanks, Mike. Second, just in terms of the backlog I know you have expectations for that increase in the second-half of the year. Should we continue to expect that to be pressured by shorter durations? I think Peter you mentioned the transition effect is probably the prime reason for that. If that's the case, does it make more sense to give a one-year backlog number as opposed to ACV or total backlog?

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

A

Yeah, Jon. It's funny you say that. That's something we've been chatting about internally as well. So we may have something along that line in subsequent quarter. You're exactly right in the construct of the length of the deal, the duration of the deal. Certainly, that causes pressure in both TCV number in total as well as the backlog component which is really why we emphasize the ACV and have been emphasizing ACV for a couple of quarters now. We've kind of seen this trend. And interestingly enough the statistic that Peter just threw out about this, 65% in the quarter and roughly 50% for the year, it starts to feel a lot more like a SaaS-type business. I mean you take out the technology component that is always a little bit lumpy but the rest of it starts to feel a lot more like that. The duration certainly is mimicking that style. So certainly something we're considering, Jon and maybe we can chat offline and get some more thoughts from you on that and bake that into our logic as well.

Jon E Tanwanteng
Analyst, CJS Securities, Inc.
Q

Okay. Got it. And then the last one for me, just any kind of change in the competitive environment at all? I know a lot of your competitors had Eastern Europe operations. Obviously, the macro maybe forcing your people to become more aggressive, just any thoughts on what you're seeing out there?

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

Yeah. That's a great question, John. And it's not a simple question. So I'll try to divide it in a few places: On Eastern Europe, we did not and obviously do not have any associates in either Russia or Ukraine. We don't have any Russian-based clients. We don't have any Ukrainian-based clients. So for us it was not really a question of leaving Russia because we were never there in the first place.

That said, we have a facility of scale in Budapest in Hungary. And that – and I will tell you one of the things that we have geared up is our recruiting in that Budapest facility. As you may know there were something about 120,000 IT professionals in Ukraine at the time of the beginning of the invasion. Some of them have stayed. Some of them are leaving. So, we are looking at them from all – for all sorts of reasons to bring them onboard and join our company. That's probably the largest effect that that has had. Obviously, our teams have been engaged in assisting the refugees as well.

With respect to kind of the broader market in Europe, we're seeing that market kind of play out a bit as expected. So I would not say that we're yet seeing any significant effect in Europe from the invasion.

Operator: And our next question comes from Matthew...

Jon E Tanwanteng
Analyst, CJS Securities, Inc.
Q

[indiscernible] (00:51:28)

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

If I missed the back-half of that question, I apologize. But was there more to it because I'm happy to discuss anything you want on those subjects?

Operator: Ladies and gentlemen, our next question comes from Matthew Galinko from Maxim Group. Please go ahead with your question.

Matthew Galinko
Analyst, Maxim Group LLC
Q

Hello. Good morning. Thanks for taking my question. I guess for the deal you referenced that went across – I think it started with an ECS customer that took on C&I and DWS, did the scope of that contract start off broad or was that something you were able to pick up along the way?

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

Well, the scope of that contract started – that relationship as I mentioned has been an ECS relationship. It's a good relationship. Part of what we have been doing as a company and this really started in 2020 when we readjusted our balance sheet, was really to invest both organically and inorganically in what we consider kind of the next-generation of digital workplace, services or solutions; and the next – like for us, the next generation of cloud solutions. So again starting in 2020 and picking up dramatically in 2021, we have been doing what I would consider moving to the front-end of the DWS world and really catching up in the cloud world to be frank. And I think we're doing both of those very smartly. So I think we've kind of caught up in the cloud world and where we need to be. And I believe we're at the forefront of DWS. So in both of those areas, we think we are very competitive and we think we bring a lot of value for our clients. And one of the things we're doing is taking those solutions to our existing clients; in this case that was an existing ECS client. And so we said, hey, we got a bunch more stuff, and we were able to have good discussions about how those would add value to that client. And then we added the DWS and the C&I to the existing ECS relationship. It's a great example – and it's a large-scale Latin American financial institution. It's a great example of kind of adding or we call it cross-selling but really taking an ECS or a DWS and a C&I client and really bringing to them opportunities from the other parts of the company.

Matthew Galinko
Analyst, Maxim Group LLC

Q

Thanks. That's helpful. And I guess a follow-up to that cross-selling topic. I guess is that or as you think of the opportunity to take existing customers and sort of extract more wallet value or bring more solutions, do you see that as the lower-hanging fruit to cross-sell as opposed to bring existing kind of legacy DWS clients to higher value solutions?

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

A

Yeah. I'll take that just for a minute and then let Mike follow-through because it's kind of critical to Mike's new role which starts on Monday.

But at a big level one of the things, again we moved last year, during COVID we were also evolving the company pretty significantly. So not only did we invest in these new solutions but we also changed the operating dynamics of the company. And one of the things we did was to create a commercial organization that really had one face to the client, so it was not a DWS lead and a C&I lead and an ECS lead but one-client executive and that one-client executive was really charged with selling the entirety of what we have.

So we talk about cross-selling. I used the term first but the reality is it's Unisys selling. It's selling everything that we have. And we do think that that is an important part of our future. It takes a little while to get done I will tell you. It's not something that happens immediately when you explain it to our team but I think we're making progress on it. And I think in Mike's new role, he's going to make more progress on it. Mike?

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

A

Yeah. And Matt thanks for the question. Look, I guess the shorter answer is it's clearly easier from a perspective of the door is ajar. You're already doing work in there. We have wonderful NPS score, so they already like what we're doing. And I don't want to come across callous. It's not just cross-selling. It's really just getting our head up and looking at opportunities to bring richer solutions to help our clients succeed. And it happens to come from another business unit or segment embedded in our offering. So it's certainly something that we're looking at. And frankly the amount or penetration that we currently have in that vein, it's roughly about 30%. So 30% of our C&I

clients have some level of DWS component to it and vice versa, and that's pretty consistent across the board. So there's a pretty good opportunity to do that.

And then if you couple that, Matt, with the acquisitions that we've done, so you've got three acquisitions that we've completed, well, they all have client bases, and if you recall they weren't really duplicative of our client base. So it opens up opportunities in that regard as well and clearly the ability to have that dialogue is a lot easier than it is on a new logo. So hopefully I gave you a little more color.

Operator: And our next question comes from Joe Vafi from Canaccord Genuity. Please go ahead with your question.

Q

Good morning. This is [indiscernible] (00:57:31) on for Joe. Thanks for taking our question here. You mentioned that you were able to price deals to accommodate the cost pressures. How much room do you think you have there if these pressures intensify considerably as the year progresses? Thank you.

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

A

Yeah. I think that's a great question and I think that was the second half of Jon's question that I never got to, so thanks very much for talking about it. Our – I think that our guidance was about 9.5% to 10.5% for the year. I think you heard Mike kind of say we were pointing more toward the lower part of that and the higher part of that and that's really the reason.

So as we look at wage inflation, as we look at the battle for talent, I think we're doing a good job of limiting attrition. You see our last 12 month's attrition is at 18.6%. And when you compare that to the industry, based off the data I have, that is kind of – the industry is actually kind of emerging at somewhere around 19% to 21%. So we're a little below industry average there. But it's clearly – it's 1.5% higher than it was pre-pandemic. So that's adding to costs too. It's not just inflation. It's the training and the acquisition costs.

So I think we're all being a little careful on the margins. I think you're seeing that industry-wide and kind of saying that the increase in margins might be a little at the lower end of expectations. And I think that's one of reasons you're seeing us and others do that. So we still expect healthy margins. Those are good numbers for us because and they're good numbers for us historically. But I think we're being a little cautious on the margin side. I hope that helps.

Q

Yes. Thank you.

Operator: And ladies and gentlemen with that we'll be concluding today's question-and-answer session. I'd like to turn the floor back over to management for any closing remarks.

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

Yeah. So this is Peter again. I would like to thank everybody. I know the call ran a little longer than expected today and I want to thank everybody for staying on the call. We obviously have a lot to tell and that telling is not going to end with the end of this call. So we look forward to after-on discussions with both analysts and shareholders or prospective shareholders. I think you'll continue to find us very, very welcoming to discuss the company. We have a lot to talk about and we're proud of the progress we have made.

I also want to say, as I did in my opening remarks, my real appreciation for Mike in his role as CFO and my great expectation of the job he's going to do in COO; and then again to welcome Deb McCann to that CFO position going forward. With that, thanks very much for staying on the call.

Operator: Ladies and gentlemen with that we'll end today's conference call. We thank you for joining today's presentation. You may now disconnect your lines.