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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Unisys Third Quarter 2023 Financial Results and Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Michaela Pewarski, Unisys Investor Relations. Please go ahead.

Michaela M. Pewarski

Vice President-Investor Relations, Unisys Corp.

Thank you, operator. Good morning, everyone. Thank you for joining us. Yesterday afternoon, Unisys released its third quarter financial results. I'm joined this morning to discuss those results by Peter Altabef, our Chair and CEO; Deb McCann; our CFO; and Mike Thomson, our President and COO, who will participate in the Q&A session.

As a reminder, certain statements in today's conference call contain estimates and other forward-looking statements within the meaning of the securities laws. We wish to caution listeners of this call that the current expectations, assumptions and beliefs forming the basis of our forward-looking statements include many factors that are beyond our ability to control estimate precisely. This could cause results to differ materially from our expectations. These items can also be found in the forward-looking statements section of today's earnings release, furnished on Form 8-K and in our most recent Forms 10-K and 10-Q as filed with the SEC. We do not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

We will also be referring to certain non-GAAP financial measures such as non-GAAP operating profit or adjusted EBITDA that exclude certain items such as post-retirement expense and cost reduction activities and other expenses the company believes are not indicative of its ongoing operations as they may be unusual or non-recurring. We believe that these measures provide a more complete understanding of our financial performance; however, these non-GAAP measures are not intended to be a substitute for GAAP and non-GAAP measures have been reconciled to the related GAAP measures and we have provided reconciliations within the presentation. The slides accompanying today's presentation are available on our website.

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

Peter A. Altabef

Chair & Chief Executive Officer, Unisys Corp.

Thank you, Michaela. Good morning, and thank you for joining us to discuss Unisys's third quarter 2023 results. We had another quarter of solid revenue and profit results, allowing us to raise guidance across all our guided metrics. Notably, this was our third consecutive quarter of year-over-year growth in our Ex-L&S Solutions revenue. During the quarter, revenue from expansion and new scope with existing clients contributed to the growth of our Cloud, Applications & Infrastructure Solutions and Digital Workplace Solutions segments. Within our Enterprise Computing Solutions segment, client consumption trends and good support volume generated upside in License & Support revenue.

New scope and new logo TCV increased 22% sequentially during the quarter with approximately 60% of these signings in Next-Generation Solutions, demonstrating gains with existing clients and within the market in higher value areas. While total third quarter signings were impacted by lower newer levels due to timing, overall, we have already signed 60% more TCV in the month of October than we did in the entire third quarter, and we expect the fourth quarter to be our highest TCV quarter in 2023.

Our pipeline is robust, up 18% from a year ago with our Next-Generation pipeline up 50% year-over-year. Our sales strategy, partner ecosystem, and analyst and advisor recognition are driving higher value opportunities that are supporting our expansion into faster-growing areas of the IT services market.

Looking at our top-line performance, third quarter revenue increased 0.7% year-over-year as reported and declined 1.4% in constant currency. Excluding License & Support or Ex-L&S, we had another solid quarter, growing revenue by 6.2% year-over-year or 4.1% in constant currency. Our Ex-L&S Solutions primarily consist of Digital Workplace Solutions segment, our Cloud, Applications & Infrastructure Solutions segment, as well as our Specialized Services & Next-Gen Compute Solutions within our ECS segment. In all three of these areas, we achieved mid- to high-single-digit growth.

Revenue from License & Support was $67 million in the third quarter, was significantly better than the $50 million third quarter expectation we had discussed on our last call. Outperformance was primarily due to additional consumption and support revenue, with some existing clients. As a reminder, the vast majority of L&S revenue is from license sales and support services related to our ClearPath Forward operating system. Our technology powers a range of mission-critical set functions such as travel reservations, financial transactions and mortgage processing, and digitalization in these areas has led to consumption growth at many of our largest clients.

Turning to contract signings. Aggregate new logo and new scope TCV was up 22% sequentially with a 60% Next-Generation Solutions mix. As a reminder, new scope represents the purchase of additional offerings by existing clients, while new logo signings are with new clients. The growth and mix of these signings demonstrates increased client and prospect willingness to partner with Unisys further up the value chain. Total company TCV declined 31% sequentially, driven by lower renewals in the quarter. However, this was a timing issue with some third quarter renewals slipping just outside the quarter. Our renewal rate remains strong at 96% year-to-date.

In our Ex-L&S Solutions, TCV was down 30% sequentially, again, due to renewal timing. Expansion TCV in our Ex-L&S Solutions also declined modestly on a sequential basis after a strong first half of expansion signings. While renewals were low in the third quarter, we continue to expect a strong back-half of renewal bookings. We have already closed multiple large multiyear renewals in October in both our L&S and Ex-L&S Solutions. We also expect new logo TCV to be a strong driver in the fourth quarter, with October signings already more than double the new logo TCV signed in the third quarter, and with several larger opportunities, we're working to convert before year-end.

Turning back to the third quarter, I want to discuss some notable new scope contracts we signed in our Next-Generation Solutions. In our CA&I segment, we signed a Next-Generation new scope contract with one of the most populous states in the United States. As part of this new scope, we will develop and manage a platform to help the state's Health and Human Services Department manage assistance programs that distribute crucial benefits to hundreds of thousands of recipients each month.

We signed another new scope Next-Generation Solution engagement during the quarter with a prominent paint and coatings client. As part of this engagement, Unisys will transition the client to the cloud, optimize its cloud environment, and implement a managed security operation center.

Moving to pipeline, our qualified Ex-L&S pipeline is robust and high quality, up 18% versus a year ago and with 47% of pipeline TCV in Next-Generation offerings, up 37%. Looking at some of the solutions contributing to our pipeline in more detail, in DWS, we're bringing new ideas and innovation to the market and our focus is on experience, which is resonating with clients, prospects and industry experts who advise them. Our portfolio is well-aligned to market demand. Companies are settling into new workplace models and reprioritizing technology investments that improve the employee experience.

Within our Modern Workplace portfolio, inside DWS, we are seeing significant interest in DSS, our device-as-a-service solution. Our DSS Solution is differentiated in that it can integrate with our XMO deployment, persona mapping, onboarding automation, and smart PC refresh solutions, all to provide next-level insights into device performance and security. Clients are particularly interested in the potential cost savings from using DSS to optimize device CapEx.

This solution puts Unisys at the center of our clients' workplace technologies and gives us an intimate understanding of their workplace technology stack. We're optimistic that it will help us expand wallet share with our existing clients and provide us with more opportunities to deliver value to the large number of end users we already serve.

In our CA&I segment, we are building out six core platforms to increase standardization in our solutions development. These are multi-cloud, data, artificial intelligence, applications, security and industry. Aligning our talent around these platforms is key to expanding our Next-Generation Solutions and penetrating the larger high-value contracts in the areas like FinOps, hybrid infrastructure and digital transformation, which require complex solution orchestration.

In our applications layer, we have a number of specialized projects in the pipeline, requiring our combination of public sector expertise and engineering capabilities. For example, there are several opportunities to help state and local governments with complex challenges, such as management of licensing and permitting processes or identity and access. We've had good success in these high-value areas already this year.

For example, in the third quarter, we signed a new logo contract with a city in Texas. In partnership with Clariti, we will build a digital platform to help the city better manage commercial and residential development applications. And we'll provide managed services for the span of the five-year contract. We're in the process of building out an ecosystem of specialized public sector software partners where we can provide complementary implementation and managed services, but also develop standardized yet variable application layers.

Across all our business units, we're seeing strong interest in AI, including generative AI and services related to supporting enterprise AI adoption. But beyond understanding use cases for generative AI, our clients want help with strategies for planning and measuring their AI investments. For example, one of our third quarter wins was a new scope with one of the world's largest quick service restaurant chains that turned to Unisys to help map its strategy for evaluating and observing the performance of new technologies for its customer-facing mobile ordering platform. Across the company, we are collaborating extensively with clients to approach generative AI adoption in areas like content generation, knowledge access, security, fraud detection, and applications development.

We are also infusing generative AI into Unisys Industry Solutions. We're particularly excited about the launch of Unisys Logistics Optimization, an industry solution that we believe has the potential to advance the multibillion-dollar cargo logistics market. This cutting-edge solution enables faster and smarter business decisions that help airlines, freight forwarders and ground handlers optimize capacity, route and warehouse processes. The Solution marries AI, Advanced Analytics, and the power of quantum computing, enabling near real-time decision-making. The solution incorporates proprietary optimized tools and pre-trained models tailored for the cargo industry as well as quantum-annealing capabilities.

Ahead of our launch, we showcased our capabilities at a large industry conference and market reception has been positive with both existing air cargo clients and new prospects. We're also seeing interest from global logistics providers and freight forwarders. Our teams are already on the ground actively scoping and deploying our first full-scale pilot with a large air cargo client in Asia, which we expect to go live sometime in the first quarter. We believe Unisys Logistics Optimization will serve as a proof point of the significant value our ECS segment can help clients unlock with Unisys Industry Solutions that combine quantum, data, AI, and industry expertise.

Finally, just as we're partnering with clients on their AI journeys and infusing AI into our industry solutions, we are focused on accelerating internal adoption across our own delivery and SG&A functions. For instance, within our HR department, we are leveraging talent marketplace and talent mobility AI platforms to speed sourcing and recruitment. These platforms leverage industry-leading AI, machine learning, and natural language processing capabilities to improve talent mapping, visibility and workforce planning, which has significantly reduced certain talent acquisition costs. Our HR teams are also beginning to adopt generative AI for job postings and high-impact talent marketing campaigns.

Before turning the call over to Deb, I want to touch on some of our initiatives to attract and retain talent and to provide an inclusive environment, where associates can grow in their careers. In 2023, we have increased our investment in the learning and development of our associates, bolstered our learning library with new courses, and launching custom learning modules, leadership events, tech talks and training boot camps, all to upskill our talent.

We believe our talent initiatives are making Unisys a more attractive place to work, which is evidenced by our lower attrition rates and recognition from third-party organizations. Our trailing 12-month voluntary attrition rate of 13.3% is down significantly from 18.9% a year ago. During the quarter, we won four prestigious HR awards, recognizing our excellence in diversity hiring, talent growth, talent acquisition, and leadership.

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

Debra McCann

Executive Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Peter, and good morning, everyone. My discussion today will refer to slides in our third quarter earnings presentation posted on our Investor website. My commentary today will discuss financials as reported except for segment revenue growth rates, which we discuss in constant currency. I will also provide information both including and excluding L&S Solutions to allow investors to isolate the portion of ECS that includes uneven revenue based on license renewal timing to evaluate the progress we are making in the business outside of that area.

As Peter highlighted, we had another solid quarter of results in both our L&S and Ex-L&S Solutions. Looking at our results in more detail, as you can see on slide 6, third quarter revenue was $465 million, an increase of 0.7% year-over-year or a 1.4% decline in constant currency. A constant currency decline was driven by the timing of license renewals in our ECS segment, which was better than expected at the beginning of the quarter. Year-to-date, revenue was $1.46 billion, up 2.5% year-on-year, or 3.1% in constant currency.

Excluding License & Support, third quarter revenue was $398 million, up 6.2% year-over-year or 4.1% in constant currency. Year-to-date, Ex-L&S revenue is up 4.3% or 5.1% in constant currency. We are pleased with the growth we have been able to achieve in light of the uncertain macroeconomic backdrop and believe our Ex-L&S performance is evidence that our strategy is working.

I will now provide third quarter detail by segment with revenue growth in constant currency terms. DWS segment revenue was $141 million in the third quarter, up 6.2% year-over-year. The majority of growth came from expansion with existing clients and revenue from recent new logo wins. CA&I Segment revenue was $134 million, up 8.7% year-over-year. CA&I revenue also benefited from expansion as well as new scope with existing clients such as California State University, where we are delivering cloud security innovation as part of the contract win Peter discussed on our second quarter call. Additionally, the prior-year CA&I period included a non-recurring $5.5 million revenue impact.

Third quarter ECS revenue was $122 million, a year-over-year decline of 14.2%. Within ECS, our Next-Gen Specialized Services & Next-Gen Compute Solutions revenue growth was 5.2% year-over-year, which was primarily due to expanded application services at large clients in Asia Pacific and Latin America. The remainder of our ECS Solutions, our License and Support, where revenue declined 25.3% in constant currency versus the third quarter of 2022. As Peter mentioned, this was down year-over-year due to the timing of license renewals, but better than expected due to higher consumption and support revenue at our existing clients. This upside is not related to early contract renewals, so it does not impact our future L&S revenue expectations.

Third quarter backlog was $2.4 billion versus $2.7 billion at the end of second quarter, with the decline driven by the shift of some larger Ex-L&S renewals into the beginning of the fourth quarter. We expect backlog to rebound nicely next quarter, given our October contract signings and the opportunities we are working to convert before year-end.

Moving to slide 7, gross margin was 20.5% for the total company and 14% in our Ex-L&S Solutions. The third quarter included a revenue reversal related to a contract we previously exited. This will not impact our segment results but will impact total company and Ex-L&S financials and is not adjusted out of any non-GAAP measures. This adjustment impacted third quarter gross margin by 160 basis points and Ex-L&S gross margin by 200 basis points. Adjusting for this reduction, Ex-L&S gross margin would have been flat sequentially at approximately 16%.

Touching briefly on third quarter's segment level gross margins, DWS gross margin was 14.8%, a 30-basis point decline year-over-year due to mix and 110-basis-point sequential improvement driven by labor and delivery efficiencies. Our DWS segment has a particularly compelling multiyear margin expansion opportunity from increasing Modern Workplace penetration with our existing clients.

Many of our most exciting DWS pipeline opportunities have meaningful Modern Workplace components and our qualified Modern Workplace pipeline has more than tripled over the last 12 months. We have also identified several opportunities to capture incremental DWS gross margin by enhancing automation or building proprietary capabilities for certain delivery functions that we carry out using third-party technology.

Third quarter CA&I gross margin was 15.3% versus 5.6% a year ago. We are continuing to unlock efficiencies by managing our contingent labor, enhancing automation and capturing other non-labor savings. Additionally, the prior-year CA&I gross margin included adjustments associated with the contract. For the full year, we continue to expect more than 250 basis points of aggregate margin improvement in our CA&I and DWS segments. Third quarter ECS gross margin was 50.2% compared to 58.7% a year ago due to lower software renewals.

Moving to slide 8, third quarter non-GAAP operating margin was 0.1% compared to 3.1% in the prior year. Adjusted EBITDA was $37 million or 8% of revenue, compared to 11.4% of revenue in the third quarter of 2022. Year-over-year margin declines were largely the result of lower L&S revenue, as operating expenses were relatively unchanged. Year-to-date, non-GAAP operating margin was 5.3% compared to 3.3% last year, and we have generated $186 million in adjusted EBITDA, reflecting a 12.7% adjusted EBITDA margin. This is an improvement from prior-year period despite the lower L&S renewal levels in 2023.

Third quarter GAAP net loss of $50 million, which included a $4 million tax valuation allowance or expense, compared to a loss of $40 million a year ago, which included a $10 million valuation allowance reversal or a benefit. Excluding $11 million of retirement expense and $17 million of cost reduction and other expenses, net of tax, our non-GAAP net loss was $22 million or a loss of $0.33 per share.

Touching briefly on our labor cost initiatives, as Peter mentioned, investing in our talent is resulting in more productive associates and lower attrition levels. We are also continuing to optimize our workforce and labor markets as part of our broader talent management strategy. At the end of the third quarter, 61% of our associate base is in lower cost markets, excluding field services. This is up from 59% a year ago.

We believe we are in the early innings of a multiyear margin expansion journey. As we head into 2024, we will begin to see the full benefit of delivery and labor efficiencies captured in the third and now the fourth quarter. We also expect SG&A reductions to begin to contribute to profitability growth. As a reminder, we are targeting SG&A reductions that translate to bringing SG&A down to 16% to 17% of revenue by 2026, with savings coming primarily from real estate, technology costs and in G&A functions outside of sales and marketing.

Turning to free cash flow on slide 9, third quarter free cash flow was negative $26 million and negative $9 million for the first nine months. This is significantly higher than the first nine months of 2022, which were impacted by timing of technology collections. We now expect full-year 2023 free cash flow to be in the vicinity of negative $25 million to negative $30 million compared to our prior expectation of negative $75 million. The improved outlook reflects upside from Ex-L&S revenue and gross profit as well as significantly higher L&S revenue due to client consumption and the extended contract signed in October, half of which we expect to collect in the fourth quarter.

As a reminder, L&S collections could shift around year-end based on the timing of renewal signings in the quarter. Pre-pension free cash flow, which we define as free cash flow prior to post-retirement contributions, was negative $16 million in the second quarter and positive $33 million year-to-date, which is a significant improvement over the first nine months of 2022 when pre-pension free cash flow was negative $53 million.

As you can see on slide 10, cash balances were $385 million as of September 30. This compares to $392 million at the end of 2022. Our net leverage ratio, including all defined benefit plans, was 2 times as of the quarter-end. Our balance sheet and liquidity positions are strong with no near-term maturities and our $145 million ABL facility remains undrawn.

I will now briefly touch on expected cash contributions to our US-qualified defined benefit plans. As a reminder, once a year, at year-end, we provide detailed projections for 10-year cash contributions to these plans, which change based on financial market conditions, funding regulations and actuarial assumptions. Based upon market conditions as of September 30, we estimate contributions for the 10-year period from 2023 through 2032 are approximately $80 million to $100 million higher than our year-end projections as of December 31, 2022.

For the first five years, from 2023 to 2027, contributions are estimated to increase by $20 million, and we continue to expect no cash contributions to our US plans in 2023 and 2024. $60 million to $80 million of the increase is spread over the last five years of the period from 2028 to 2032. It is possible that additional contributions could occur in 2033, estimated to be approximately $40 million.

As we discussed at our June Investor Day, expected cash contributions are most sensitive to asset returns and estimated cash contribution, especially in these later years, are expected to continue to fluctuate based on market performance in each quarter while the earlier years should move to a lesser degree.

In managing the business and liquidity needs, we place a greater emphasis on our estimates of cash contributions we have to make in the next five years, though we closely monitor trends in later years of our projections. We remain confident that our strategy and long-term targets will allow us to meet our global pension obligations while investing in the future of our Next-Generation Solutions.

I will now discuss the changes we are making to our full-year guidance ranges, which you can find on slide 11. Given our year-to-date revenue performance, we are raising our revenue growth guidance range and now expect to achieve full-year constant currency revenue growth of 0% to 1.5%. This compares to our prior guidance range of negative 7% to negative 3%.

Our updated guidance reflects expectations for Ex-L&S revenue growth of 3% to 4.5%, compared to prior guidance of negative 1% into positive 4% and assumes full-year L&S revenue of approximately $420 million, which is significantly above our initial guidance of $350 million. More than half of the $70 million increase to our 2023 L&S outlook is related to higher consumption and support by existing clients, which has no impact on future L&S revenue.

Additional upside is related to a multiyear license and support renewal signed in October with a client that has had historically renewed annually. The multiyear contract is larger than the future revenue we anticipated with this client, driven by consumption, which will lessen the impact on future year revenue. We are also seeing good trends in workloads at many other ClearPath Forward clients. For these reasons, we continue to expect $360 million of L&S revenue per year on average for the three- and five-year periods beginning in 2024.

We are also raising our full-year profitability guidance and now expect a 2023 non-GAAP operating margin of 5% to 6%, compared to prior guidance of 2% to 4%. And we expect an adjusted EBITDA margin of 12.5% to 13.5%, compared to prior guidance of 9.5% to 11.5%. Improved profitability guidance reflects the flow-through from high margin L&S revenue and the solid growth in our EX-L&S Solutions.

I am pleased with the performance we have delivered this year across all of our segments, and activity across our Next-Generation Solutions is strong. By exceeding our guidance ranges, not only in our License and Support solutions, but in the remainder of the business, we are demonstrating that our strategy is sound.

I will now turn it back to Peter.

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

Thank you, Deb. Operator, you may now open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster. The first question comes from Rod Bourgeois with DeepDive Equity Research. Please go ahead.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

Okay. Thank you, operator. Yeah, hey. So, I want to ask a question about the connection between TCV and your revenue outlook. You're upping your revenue guidance despite the optically weak TCV this quarter. Others in the industry have been posting strong TCV but actually reducing their revenue outlook. So, can you say a bit more about your revenue progression despite the recent lull that you've had in TCV? Thanks.

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

A

Yeah, Rod, thanks. This is Peter. That's a really great question, and I think it gives insight, if I answer it correctly, on a number of fronts. So, first, for us, TCV is not directly related to current year revenue. So, our increasing of guidance is not so much because, we believe that we're going to have a good fourth quarter in TCV. In fact, we've already had a good fourth quarter. October alone had more TCV than any of the three quarters in this year.

But a lot – it will take time for – renewal TCV does not necessarily change the revenue picture and new business and new scope TCV really doesn't kick in immediately. So, there isn't too much of a direct connection between the fact that we expect to have a really strong TCV quarter in the fourth quarter and already have and the fact that we're raising guidance.

So, the raising guidance is really what we have seen over the course of the year and particularly what we saw in the third quarter. So, we feel obviously good about our position versus our older guidance, and we thought it was appropriate to increase it now. I hope that helps to put the context into the question, Rod.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

Yeah, for sure. That's helpful. And then, you talked in your commentary about the increased client consumption volumes in your L&S segment. And I just wanted to get – you shared a little color on, but I'd like more color on what drove the increase in client consumption and then what's the outlook for those consumption levels going forward?

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

A

Yeah, so let me start with that and then turn it over to Deb for a little more color on that. It's really interesting. So, some of the increase in revenue, both, for this year – from what we originally thought would be in this year, is clients wanting to accelerate or sign, long-term contracts. And as you know, in L&S, unlike most of our other business, we take that into revenue when we sign it, pretty quickly, depending on the terms of the contract. So, some of what's going on is, in fact, people just deciding I want a long-term contract now or a longer renewal.

But some of it is actually, what we talked about increased consumption. And Deb mentioned that in her comments. What we're seeing in probably three quarters of our largest clients in L&S is, a ramping up of usage. And, I think what we're seeing with the advent of AI and the advent of big data is, we have some really incredible data sources for our clients, and they're taking advantage of that. And so we feel really good about that. Interestingly, we don't think that the increase in that kind of revenue this year will detriment our revenue going forward. We just think that's an increase. So, we feel pretty good about that really across the board. Deb?

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah, I really don't have more to add. I think that – I think you covered it.

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

A

Maybe one thing I would add, Rod. Hey, and good to hear from you, it's Mike. Look, it's been a recurring theme from our perspective of increased volumes in, really, all of the client contracts. We see increases versus decreases. I think you're aware already we have pretty good downside protection on the decrease side, right? It's not volumes down. It's really volumes up. And I think Peter's spot on, right?

The data analysis, the creation of these large models are really driving further increases in consumption. And again, very, very little risk on – on kind of downside there. It's really all upside. And, this whole concept, even market-wise, where you're seeing a lot more kind of repatriation to, legacy environments, I think it just creates this ends well of a lot of that activity, increasing the volume and usage. So, pretty good trends from our point of view.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah. And I'll just add one thing to the – your prior question, Rod, about increasing guidance. I think, the L&S is one portion, but what we're happy to see this quarter, is we're looking at the year as, the Ex-L&S portion is really at the high end of the range we had originally laid out. So, we're happy with the performance there as well. I think it's just an important point to note when thinking through the full-year guidance change.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

Yeah, Deb, and thanks for that clarification. And maybe a little more on the Ex-L&S. Could you share more about what you're experiencing in the employee experience market? I'm wondering how you're feeling, if you're feeling better about that market even in recent months due to the ongoing work-from-home experience that's out there and also AI-related opportunities. Can you just share a little more about the employee experience market?

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

A

Hey, Rod, it's Mike again. Yeah, look, I think we're feeling stronger and stronger in relation to that market. I've had the luxury of spending a lot of time with our clients, both prospective and existing, as we continue to deploy our solutions. I think Peter mentioned during the call that a whole series of things that we think are very distinctive in that case. But I will tell you, the dialogues we're having, it's no longer a commodity discussion, right? We're really talking about productivity, we're talking about value. We're talking about time to value. The whole concept of personas and how they impact security and deployment and procurement and smart refresh.

I mean, it is – it is absolutely real, and it's absolutely the gist of all of the discussions that we're having, both on a renewal basis, even converting some legacy to a – what we'll say, is experience, and certainly, on – on all of the new prospective. In fact, it's interesting we're seeing a lot more combined view of experience, right? It's not just experience in the employee experience from a digital perspective. It's also the experience on the cloud, infrastructure and the data side, right, when you talk about the AI components there. They're so intertwined that most of our discussions with new clients actually end up being cross-sell opportunities for us and multiple elements of both of those business units. So, we're very pleased with the way it's progressing.

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

A

Yeah. And Rod, just to add to what Mike has said with – and I agree with everything he said, it's an interesting space, Digital Workplace. There are some companies that kind of go hot and cold in terms of their focus on that space. We've never lost focus on that space. And, if you go to our website and look at our Awards section on our website, you will see current in-year awards that we've received around digital workplace from ISG, from Gartner, from NelsonHall, from Avasant, from IDC, from Everest. This has been a push for us for a long time. We're happy to see some others focus a little more on the space. We think it's good for the industry. We think it's worthy for clients. But as I said, we have established a really strong position, and we intend to keep moving forward.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Q

Thank you, guys.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Thanks, Rod.

Operator: The next question comes from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

Hey, guys. Good morning and nice to see that Ex-L&S organic growth. Just wanted to drill down a little bit into this October bookings activity, it seems like a lot. And, I was just wondering if there's any read-through there relative to the macro and, perhaps all of a sudden, clients wanting to sign for next year or was it really, truly kind of just more a company-specific timing with this kind of huge ramp-up in award activity? And I have a follow-up.

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

A

Hey Joe, it's Mike. How are you doing? Thanks for the question. Look, I think, one of the things that we've learned over the course of the year is that the sales cycle for kind of this – the – I'll say the experience offering is about as long as our legacy sales cycles were. They're running about a year. And so if you dial back a year and what we've done from a market-facing perspective, the continual work we're doing on the advisor side, Peter just mentioned a whole bunch of those, we're getting invited to a ton more deals in regards to that. They see the value of the solutions that we've got.

And I think what you're seeing is really just the output of the timing of the negotiation of those sales cycles, right? So, sitting at about a year, the fourth quarter is kind of where they're at, right? We're seeing strong activity already. Deb mentioned the signings that we already had in October. Peter talked about those being, greater than – from a TCV perspective, the prior three quarters individually, right, just the first month of October.

And we feel really good about the pipeline. It's grown throughout the year. It's grown in the areas that we wanted to grow in. We're seeing the Next-Gen Solutions grow in that pipeline, and I think it's just the natural duration of time it's taken to get these into production. So, really happy with the progress we're seeing there. Really happy with how the market's reacting to the offerings. And again, that's the basis for the raise in the guidance.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

Great. That's good color. Thanks, Mike. Sounds like good progress and you're seeing the results. And then, just back on L&S and just maybe a quick two-parter there, on the consumption volumes, how did those margins look versus kind of the base license sales? And then, I know, Deb, I think you said that you're seeing larger contract renewals over longer periods of time. What does that do maybe to evening out or making perhaps maybe more lumpy the license sale part of that segment? Thanks a lot.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah. So, the margin on the consumption is similar to our overall L&S business. So, that's the answer to that. As far as the, the – some clients coming to us, saying instead of a one-year deal renewal, over multiyear, that's just, and – we recognize the revenue upfront. And if there's also more consumption built into that, it kind of lessens the impact of the outer year. So, it's not – in the past, we've seen where a client just renews early for their four-year deal. Instead of next year, it's this year. And so, then this year takes away from next year. And it's different than that when these happen, when it's just the client wanting to lengthen the deal.

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

A

Yeah, I would say, Joe, just to expand on that a little bit, for at least three or four deals over the course of the last 12 months, we've seen extensions of those deals, right? So, for us, it's really solidifying the use of the ClearPath Forward operating system, right? And the work that we're doing from an application development on top of that system, the managed service component of that system.

So, it's really strong belief, and I think the efforts that we've put in over the course of the last four or five years to really future-proof that operating system and the fact that folks are signing from three to five years or five to seven years and extending those deals, I think, is a real testament to A, the security and processing power of those systems, and B, their support in continued utilization of those systems.

So we're not really seeing an impact to the overall contract price for the longer duration, right? It's not like we're sitting here discounting these significantly because, they're going for a longer duration. It's been pretty consistent and we've been pretty consistently getting increases in pricing upon renewals. So, again, pretty happy with what's going on in that space.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

Great, guys. It sounds like those platforms are perhaps becoming even more strategic than the work, though. Great. Thanks very much, guys.

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

A

You're welcome, Joe, and this is Peter. Just to follow on in your last comment, I think that's true. With the current environment, the advent of new technologies, and here, I'm not just talking about artificial intelligence or generative AI. I'm really talking about the beginning of the quantum era, and then, using both of those. Historically, you haven't heard a lot of talk on this call about our Enterprise Computing Solutions segment outside of ClearPath Forward, and that's for a good reason.

That represents – it still represents the vast majority of the revenue of that team. It is very high margin, it is very high cash flow. We're very proud of it. But that team, which differentiates itself from – from most of the rest of the company, because it's steeped in Unisys proprietary technology and IP, not that the others don't have that, but that ECS team has more of it proportionally is kind of having a moment.

When you think about the importance of engineering, when you think about the importance of, thinking about quantum, thinking about AI, putting it together, we recently announced a new solution called Unisys Logistics Optimization. We issued a press release about that. I made a reference to it in my opening remarks. It's in pilot with a client today. We're very excited about it.

That exists because of kind of the combination of our engineering talent, our knowledge of quantum, our knowledge of AI, and really the deep industry knowledge we have in specific industries, which travel and transportation and logistics is one. So, we expect to talk more about ECS going forward. It's very nice that it happens to be the highest margin and highest cash flow piece of the business. But I think that whole team is having a moment for a good reason.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Q

That's great. Looking forward to more on that subject as we move forward. Thanks, Peter.

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

A

Thanks, Joe.

Operator: The next question comes from Arun Seshadri with BNP Paribas. Please go ahead.

Arun Seshadri
Analyst, BNP Paribas SA

Q

Hello, everyone. Thanks for taking my questions.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Hi, Arun.

Arun Seshadri
Analyst, BNP Paribas SA

Q

And yeah, and great performance and good to see. Just wanted to specifically drill down on L&S, is there any way you could sort of give us, in the prior guidance of $350 million for the year, what was the, I guess, the quarterly outperformance or what is your expected or – I guess, what is the quarterly outperformance in Q3 and the first half of the year? And then, I think, typically, around this time of each year, you develop a better view into L&S performance for the following year. I don't know if you could broadly share directionality versus the $420 million expected this year. Do you expect to revert back to something kind of in the mid- to high-300s? That would be very helpful. Thank you.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yes. So, as far as the outperformance – a big portion, about $17 million was in Q3 with that higher consumption. And then, for us going forward, that extended contract with one of the ones in October. So, having visibility into that is what allowed us to feel comfortable in raising that. As far as for – for future years for L&S, we don't see – we're kind of staying consistent with what we talked about in Investor Day. So, it won't change that as far as our expectations for the outer years of L&S. I think it's – did that answer your question?

Arun Seshadri
Analyst, BNP Paribas SA

Q

Yeah, yeah, partially, Deb. I mean, so the Q3 performance in L&S revenue was something just inside of $70 million. So, that $70 million, you would have said would have been closed – sorry, go ahead.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

It's $17 million, 1-7, in Q3, and then a big portion in Q4, in that October signing that we talked about was [indiscernible] (00:49:06).

Arun Seshadri
Analyst, BNP Paribas SA

Q

Got it. Got it. So, the first half was pretty much in line and then $17 million outperformance in Q3, and then, the remainder of the outperformance in Q4. Appreciate it.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah.

Arun Seshadri
Analyst, BNP Paribas SA

Q

And then, as far as – so – so – the – your comments, we can take as to say that the – that the 2024 for L&S would be, I guess, at this point, at least somewhat similar to your broader overall guidance of $350 million to, $350 million plus. Is that what you meant for 2024?

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah. So, at Investor Day, we had said approximately $360 million, and so we're – it's consistent with that. And when we come out – when we report our Q4, we'll give more precise guidance for 2024 and going forward. But as of now, it does not change our view that we laid out at Investor Day of about $360 million.

Arun Seshadri
Analyst, BNP Paribas SA

Q

Got it. Thank you. And then, the one question that I had from – from somebody's prior question was on the consumption, did you talk about consumption as a percent of total L&S revenue? What it has run in prior years?

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah, I mean, I think it's just – we haven't talked, given that number, but it's really just a part of the overall, the – it's not different, right? The consumption is part of what the L&S deals are based on. And so it's really just, at some point throughout the year, clients may consume a lot more than they originally planned. So, there's a true up. And in some cases, when they're renewing deals, they add more. But it's a lot of the basis of this, the overall – the actual deal we're signing. So, it's not that – it's a percentage of it. It is – it is the – what they're purchasing in a way. Is it that – anything to add on that, Mike? Does that clarify it, Arun?

Arun Seshadri
Analyst, BNP Paribas SA

Q

Yeah, that does. Thank you, Deb. That's all for me. I'll step back in line.

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

All right. Thanks so much.

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

A

Thanks, Arun.

Operator: [Operator Instructions] The next question comes from Anja Soderstrom with Sidoti. Please go ahead.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Hi. Thank you for taking my questions. Can I just a follow-up on the – you're mentioning the strong growth in the – in the TCV in October, what's – what's driving that? Is that an outlier or is that a new trend, you think?

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

A

Well, as I said earlier – and it's Peter, by way, thank you very much for the question. I'll start and then turn it over to Mike. I think as we – as we think about the year and the progression of the year, there have been a couple of things that have, kind of become apparent. And one of them, as Mike said, is just the time it takes to close these deals. And so, we had been hopeful that some of these might have closed earlier in the year, especially around the new logo side or new scope, which is selling new things to existing clients, and we really – that – that – it looks like it is stacking up for a very strong fourth quarter on new logo and new scope.

On the renewal side, it was just, put simply, a matter of when it happened. So, it did not happen as strongly as we thought in the third quarter but we don't control all of those things, and we had a lot of that signing in October. So, I wouldn't make too much of the timing within the year. I think we expect by the time the year is over to have a good year around new logo, new scope renewals. I think we'll have a good year across the board. And that gives us – as Deb said in her remarks, we think that's a nice proof point toward kind of the long-term discussion we had with you, folks, in June. And, Mike, any thoughts on that?

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

A

Yeah, look, I think we've been talking all year about the increase in our qualified pipeline, right? And this is kind of the natural progression of increase in the quality of that pipeline, increasing the size of that pipeline, increasing it year-over-year from a Next-Gen perspective. Ultimately the expectation is that translates to bookings, right, and higher TCV. So, I won't – I certainly won't say it's an outlier. And, it's a little early to say it's a new trend, right, because it's kind of a natural progression of conversion of pipeline. Hopefully, on the three quarters from now, we're seeing that trend continue in that direction. But again, we're very pleased with kind of the progress that we're making and what we're seeing this quarter.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Okay. Thank you. And in terms of the new logo acquisition, is that picking up for you or [ph] you know that (00:54:05)?

Debra McCann
Executive Vice President & Chief Financial Officer, Unisys Corp.

A

Yeah, I think we're seeing, some of the – what we're expecting in Q4. We are, anticipating an uptick in that. And then, as we lay out for next year, we'll give a sense of that. But we are seeing, to Mike's point, a lot of the momentum of this marketing, go-to-market strategy and investments that we've been making, are starting to take hold.

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

A

Yeah, Anja, thank you very much for your question.

Anja Soderstrom
Analyst, Sidoti & Co. LLC

Q

Thank you. That was all for me.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Peter Altabef for any closing remarks.

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

Thanks very much, operator. And I really do want to thank all of the participants of this call, both the folks listening, the people asking the questions, and then Mike and Deb, especially. This has been an interesting year. In the beginning of January, I think, very few people in our industry would think that the year would unfold as it has, both from the standpoint of technology and the standpoint of how, global events are affecting our industry.

I'm really, really proud of the way the people of Unisys have risen to the occasion. And we look forward to continuing the calls with you. You may have noticed that our website gets better and better, and that's not just us saying that. We received four very significant awards from Transform within the last month. So, I hope you take advantage of all of the information we have on our IR site and really throughout the website. Until the next time we do these. Thank you very much.

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