



**3Q16 Financial Release  
CEO/CFO Statements  
October 25, 2016**

**Courtney Holben, IRO**

Thank you, operator. Good afternoon, everyone. This is Courtney Holben, Vice President of Investor Relations, speaking. Thank you for joining us. Earlier today, Unisys released the third quarter 2016 financial results. I'm joined this afternoon to discuss those results by Peter Altabef, our President and CEO; Janet Haugen, our CFO, who as we previously announced, will be retiring at the end of this month; and Inder Singh, our Chief Marketing and Strategy Officer, who will step into the role of CFO on November 1 after Janet's departure.

Before we begin, I'd like to cover a few details. First, today's conference call and the Q&A session are being webcast via the Unisys Investor website. Second, you can find the earnings press release and the presentation slides that we will be using this afternoon to guide our discussion on our Investor website. Third, today's presentation, which is complementary to the earnings press release, includes some non-GAAP financial measures. The non-GAAP measures have been reconciled to the related GAAP measures, and we've provided reconciliations within the presentation.

Although appropriate under Generally Accepted Accounting Principles, the company's results reflect charges that the company believes are not indicative of its ongoing operations and that can make its profitability and liquidity results difficult to compare to prior periods, anticipated future periods, or to its competitors' results. These items consist of pension and cost reduction and other expenses.

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 expenses; non-GAAP operating profit; non-GAAP diluted earnings per share; free cash flow and adjusted free cash flow; EBITDA and adjusted EBITDA; and constant currency.

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

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

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

**Peter Altabef, CEO**

Thank you, Courtney, and thank you all for joining us today to discuss our third quarter financial performance and the progress we are making to enhance the company's competitive positioning and financial performance.

Over the course of the third quarter, we saw a number of positive trends for the business and there were also a few areas where we still need to make progress. Slide 4 in the presentation highlights some of the major takeaways from the quarter. Q3 was a strong quarter in terms of sales activity. We ended the third quarter with our Services backlog at \$4.1 billion, up 7 percent sequentially, driven by some key contract wins. We also continue to execute on our vertical go-to-market approach, which I will discuss shortly.

The progress we have made on the cost cutting front, along with our ongoing shift to a more asset-lite business model has reduced our capital expenditure needs and led to significant improvement in our cash flow. This resulted in an \$87 million increase in operating cash flow in the third quarter, \$106 million increase in free cash flow and \$105 million increase in adjusted free cash flow, all on a year-over-year basis. This was our second consecutive quarter of positive free cash flow and our fourth consecutive quarter of positive operating cash flow and adjusted free cash flow.

Improving the performance of our Services business has been a top priority, and we are making ongoing efforts to improve the margins of that business. This quarter, Services gross margin was down 60 basis points year-over-year, with nearly two-thirds of this attributable to some favorable contracts in 2015 within the Federal business. Excluding the impact of these contracts and ongoing investments in additional solutions capabilities, gross margin for the remaining Services business would have been up this quarter on a year-over-year basis.

Services operating profit margin came in at 2.6 percent, which was down year-over-year, also due to the factors that impacted gross margins that I've just mentioned, as well as including investments in additional solutions capabilities at the SG&A level. Although down year-on-year, Services operating margin was up 50 basis points sequentially with the Q3 being the most profitable quarter this year for our Services business at the operating profit level. We believe that we are evolving that business to position it to expand in profitability.

We continue to see stability in our Technology business. In the third quarter, Technology revenues were better than we anticipated, being roughly flat year-over-year. Likewise, higher revenues have helped drive robust operating margins of 32 percent in this business, relative to 21 percent in Q3 of 2015.

Lastly, we continue to focus on improving our overall revenue trends. This quarter, all sectors were relatively stable on a year-over-year basis in terms of revenue, with the exception of Financial Services, which was down year-over-year due in large part to a weaker, as expected, technology quarter than the year-ago period.

Based on all of this, we are reaffirming our full-year guidance for revenues, non-GAAP operating profit margin, and adjusted free cash flow. And Janet will go through the detailed numbers shortly.

Turning to slide 5, I'd like to highlight in a bit more detail, some of the positive trends we saw this quarter with respect to sales. On a year-to-date basis, our total contract value, or TCV, which represents the estimated total contractual revenue related to signed contracts, was up 22 percent versus the comparable period in the prior year. Additionally, Services backlog ended the quarter up 7 percent, as I mentioned, against the second quarter of this year. In terms of new business pipeline, which includes both new logos and new scope work for the year-to-date period, we saw growth of 6.5 percent relative to the comparable period last year.

With that backdrop, I'll now discuss in more detail some of the trends we've seen in each sector over the last quarter along with some key accomplishments, highlighting our continued focus in our vertical go-to-market strategy, and the traction we began to see with it.

In our Federal business, which represented 20 percent of our total revenues, we continue to see stability and have demonstrated a solid track record over the last two years. Growth this quarter was modest. The Federal services backlog, however, has shown good growth, since the beginning of the year, which indicates forward momentum going into the next government spending cycle. One example of an important win within the Federal business for us this quarter was a re-compete for a contract with the U.S. Customs and Border

Protection agency to modernize that agency's technology for identifying people and vehicles entering into and exiting the United States.

Our Public Sector accounted for 27 percent of total revenue this quarter. Revenue for this sector was relatively flat on a year-over-year basis; however, we saw a number of positive achievement. As an example of how we are developing a product for service offering for one government agency, and then finding ways to deploy a similar solution more broadly, this quarter we announced the launch of Digital Investigator, which is a crime investigation system, enabling law enforcement agencies to share critical crime investigation information across applications and agency boundaries.

While we initially developed this offering with the United Kingdom police agencies under the name of HOLMES, which we spoke about on last quarter's call, we have now developed the version that can be sold widely around the world.

We also saw a number of significant wins this quarter within the Public Sector. A notable example was the contract design with the Philippines Statistics Authority to design and operate Phase 2 of its Civil Registration System modernization project. This contract was a renewal that required significant innovation. Under the 12-year contract, which is the largest contract we entered into this quarter, Unisys will deliver digital government services to modernize the Civil Registry System and manage the end-to-end process to originate, authenticate, secure and issue civil registry documents such as birth certificates to citizens.

Our Commercial sector represented 32 percent of our total revenue this quarter. Revenue for this sector was down 2 percent this quarter compared to the same period last year. We've seen positive signs related to this business in the third quarter, including a contract with TravelSky, which is the leading provider of information technology solutions for China's aviation and travel industry, to provide expanded capacity for their reservation and distribution systems. This work will build on the momentum of our recent success with TravelSky towards migrating their passenger sales and service applications to our AirCore next-generation passenger system, and fits within our travel and transportation industry initiative.

Our Financial Services sector contributed 21 percent of our total revenue this quarter. That sector saw revenue decline 27 percent year-over-year, driven largely by expected declines in the Technology portion of the business, due to a tough compare with the third quarter of 2015. That quarter, we had the benefit of a large contract. Despite the decline this quarter, we saw a number of positive developments. As we recently announced, our Appointment Manager, or AM, solution for financial services institutions is now integrated with Stealth, and available via the Microsoft Azure public cloud. AM is used by banks and building societies and the new cloud delivery level enables pay-for-use billing, and immediate access and availability of the solution, allowing for greater agility at a reduced cost.

Within Financial Services, we announced a number of key wins in the quarter, including growing our relationship with Prudential Plc., a British multi-national life insurance and financial services company headquartered in London. In addition to Prudential's use of our ClearPath Forward technology to support its life and pensions business, Unisys is now also providing a fast, automated disaster recovery solution to ensure uninterrupted service.

I would like to provide an update on some of the progress we're making in EMEA, which has continued to be challenged from a revenue and profitability standpoint. Excluding EMEA, operating margin for the rest of the company would have been up year-over-year during the quarter. As expected, revenue in this region has continued to decline, as we have consciously exited various countries and contracts, consistent with the strategy we have previously laid out.

I mentioned our new leadership team in EMEA in our last quarterly call. And that team, led by Tom Higgins, who joined us in February, has made significant strides. As part of our move to a new operating model in Europe, we reorganized our business toward a regionalized hub model supported by regional client services

and delivery teams across EMEA. In conjunction with this, we announced the divestiture of our Italian SAP practice last week. The SAP practice in Italy was not leverageable with our new operating model due to client preferences to be served in country, unlike our SAP practice in Spain, which is leverageable with our global operations. Our core Italian business remains unchanged. Secondly, we have started negotiations for a new social plan in France as part of a series of contemplated actions in the region to improve profitability.

Turning now to our focus on security, we're continuing to build leading security protocols into all of our offerings, not just those specifically targeted as security offerings. But with respect to our dedicated security offerings, we have some significant advancements. We see industry recognition for Unisys Stealth as a leading-edge technology continue to grow.

One recent example of this was an ethical hacking competition, in which roughly a 100 contestants, including skilled professionals from the FBI, the Army National Guard and other intelligence community experts, with advisors from the NSA acting as coaches, attempted to access Stealth's protected data residing on a work station connected to a public network. The Stealth protected data was untouched throughout the contest, which indicates the effectiveness of the product's use of micro-segmentation and encryption to protect critical data.

Although revenue generated by Stealth is still small, we continue to be encouraged about its prospects based on positive proof points for its value proposition such as this event and the certifications we announced last quarter. Additional examples of positive proof points for the quarter include growth in the number of corporate clients using Stealth by 34 percent year over year, Stealth revenue up 84 percent year over year, and the qualified pipeline for Stealth increasing 10 times versus the third quarter of 2015.

Stealth is only one of our security offerings and we continue to focus on security not only as a core part of our business, but in specific security-related offerings. With respect to some of those, I'll refer you to our press releases issued last week.

Finally, we recently announced a new release of our ClearPath Forward software. This new release makes it easier and more efficient for IT organizations to secure critical computing infrastructure, modernize their environment, and transform their data centers into engines for digital business. The release has more than 30 new security features.

With that, I'll turn over this next section to Janet Haugen, our CFO. Janet.

### **Janet Haugen, CFO**

Thanks, Peter. Hello, everyone, and thanks for joining us today. In my comments today, I will provide comparisons on a GAAP and non-GAAP basis. The non-GAAP results exclude pension and cost reduction charges. Please turn to slide seven for a discussion of our third quarter 2016 financial results, which was a good cash flow quarter for us.

Revenue tracked in-line with expectations based on our full-year guidance. We reported revenue of \$683 million in the quarter, which was down 7.6 percent on a reported basis year over year or down 6 percent on a constant-currency basis.

Third quarter 2016 non-GAAP operating profit margin was 6.7 percent, down 50 basis points year over year. As Peter mentioned, the decline is coming from the Services business where operating margin percent was down year over year but up sequentially. Technology margins increased year over year.

Diluted loss per share was \$0.56 versus a diluted loss per share of \$0.19 in the prior year period. Non-GAAP diluted earnings per share was \$0.41 relative to \$0.67 a year ago. Shares used to calculate third quarter and year-to-date GAAP and non-GAAP diluted earnings per share are shown in Schedule B in the appendix to the presentation accompanying our comments today.

Moving to cash flow. The third quarter was highlighted by continued improvement in cash flow generated by the company. In the third quarter of 2016, we generated \$43 million of operating cash flow in the quarter compared to an operating cash usage of \$44 million in the same period last year. And operating cash flow also improved sequentially.

Adjusted free cash flow, which is the free cash flow generated from the business excluding the impact of cash payments for our cost reduction program and for pension funding increased \$105 million to \$69 million in 3Q 2016 compared to a usage of \$36 million in 3Q 2015. Adjusted free cash flow also improved sequentially.

Turning to slide eight. Our year-to-date trends highlight the progress we have made throughout the year in terms of improving profitability and cash flow. As we anticipated, revenue is down on a year-to-date basis. However, operating profit margin is up 380 basis points relative to the year-to-date period last year. Non-GAAP operating profit margin is up to 7.0 percent for the year-to-date period, which is a 340 basis point increase relative to the same period last year. Operating cash flow of \$101 million was generated compared to an operating cash flow usage of \$109 million during the same year-to-date period last year. Lastly, adjusted free cash flow for the year-to-date period this year is up to \$161 million, representing a significant improvement from the adjusted cash flow usage of \$123 million for the same period last year.

Turning to slide nine for an overview of our revenue in the third quarter of 2016. This chart shows a breakdown of revenue based on segment, geography, sector and revenue type. I will talk about the segment trend shortly, but one thing I will highlight here is that as expected, Technology in this quarter accounted for a smaller portion of revenue than last quarter. As a result, our revenue from recurring services represents a higher portion of third quarter 2016 revenue.

Additionally, as Peter discussed, we are seeing traction with our vertical go-to-market strategy such as improvement in our contract signings with TCV or total contract value up year over year and Services backlog up sequentially. Of the \$4.1 billion we had in Services backlog as of the end of the third quarter, approximately \$538 million is expected to convert into fourth quarter 2016 Services revenue.

Turning now to revenue by geographic region and sector on slide 10, as we look at the breakdown by geographic region, year-over-year U.S and Canada revenue was down 3 percent, which includes flat revenue from our U.S. Federal Group. Asia-Pacific was roughly flat year-over-year on a reported basis, but down slightly when measured on a constant-currency basis.

Revenue from EMEA declined 15 percent or 9 percent on a constant-currency basis. This was mostly driven by declines in Services as the tech revenue for EMEA was roughly flat. As we have mentioned on earlier calls, we have been repositioning our EMEA business. And as Peter mentioned, we recently announced the divestiture of our SAP services practice in Italy, which had approximately \$8.5 million in annual revenue and 70 employees. This divestiture is expected to close in the fourth quarter. Latin America was down 17 percent driven by lower Technology revenue in that region along with a slight decline in Services revenue.

On the sector breakdown, all sectors with the exception of Financial Services were relatively stable this quarter on a year-over-year basis. Financial Services saw a revenue decline of 27 percent this quarter on lower Technology revenue coming from software license renewal. Additionally, we had lower Cloud and Infrastructure Services revenue year over year within our Financial Services sector.

Moving on to our segment results, please turn to slide 11. Services revenue declined 8 percent in the third quarter, largely attributable to lower Cloud and Infrastructure revenue within our Financial Services sector and Public Sector.

Services gross margins at 16.7 percent was consistent with the second quarter of 2016 despite the lower Services revenue in the quarter. Year over year, Services gross margin was down 60 basis points. As Peter mentioned, this was largely attributable to the Federal business, which was helped in the third quarter of 2015 by some higher margin project.

Additionally, we continue to invest in solutions capability, which impacts both the growth and operating margin line. Excluding these two impacts, Services gross margin would have been up year over year for the quarter. Services operating margins, although impacted on a year-over-year comparison by the growth in portfolio operating expense investments, increased 50 basis points sequentially, representing the strongest quarter this year.

Our Technology business had another nice ClearPath Forward quarter yielding good year-to-date performance. As I discussed at the end of the second quarter, we expect 2016 to have a different seasonal pattern than recent years. We anticipate first half 2016 Technology revenue to be slightly higher than the second half of 2016.

Slide 12 highlights the significant improvement we saw this quarter in cash flow. As a result of continued cost-cutting measures and our focus on contract renewal and extension profitability, we generated operating cash flow of \$43 million, significantly improved over a cash flow usage of \$44 million in the third quarter last year. This marks the fourth consecutive quarter of positive operating cash flow.

We also reduced our spending on capital expenditures for the quarter and for the full year. And as we've discussed previously, we've been transitioning to a more asset-lite business model, which contributed to lower CapEx again this quarter. This decline in CapEx coupled with the higher operating cash flow led the company to generating \$6 million of free cash flow versus a usage of \$101 million in the third quarter of 2015.

For the full year, we currently anticipate CapEx around \$160 million to \$175 million. Additionally, we generated \$69 million of adjusted free cash flow, which is an increase of \$105 million relative to the prior period. And we ended the third quarter of 2016 with \$443 million in cash.

I'll now give a brief update on our cost reduction program. Please turn to slide 13. As we've discussed previously, in April of last year, we announced a multi-year cost reduction program designed to create a more competitive cost structure and to rebalance our global skill set. This program was established with a goal of achieving \$200 million of annualized run rate cost savings exiting 2016.

Earlier in the year, we expanded the cost savings opportunity to include the possibility of an additional \$30 million of annualized cost savings exiting 2017 while staying within our estimated charge of \$300 million. Through September 30, we have achieved \$185 million against our \$200 million goal in annualized savings exiting 2016. And we are on track to hit the \$200 million.

In the third quarter of 2016, we began to take action towards realizing the additional \$30 million of annualized savings opportunity exiting 2017. Our third quarter 2016 results include a \$31.9 million pre-tax cost reduction charge, of which, approximately \$20 million relates to a portion of the additional 2017 savings opportunity.

Including the third quarter cost reduction charge, we have recognized \$188 million of the estimated \$300 million in cost reduction charges since the beginning of the program. We anticipate \$15 million to \$20 million of cost reduction charges in the fourth quarter of 2016. The majority of the remaining charges, we anticipate will be in 2017.

From a cash perspective, the cost reduction plan was estimated to require a \$280 million cash usage. Through September 30th, we've used \$121 million. We anticipate approximately \$20 million of cash used in the fourth quarter of 2016. The remainder is currently estimated at requiring \$80 million to \$90 million of cash usage in 2017, \$30 million to \$35 million in 2018, and \$15 million to \$20 million in 2019.

Looking at some of our key year-to-date trends, we can see that these efforts are having a significant impact on our financial performance with non-GAAP operating profit margin up 340 basis points year to date relative to the corresponding year-to-date period last year. Additionally, year-to-date adjusted free cash flow is up \$284 million versus the corresponding year-to-date period last year.

For an update on our pension liabilities, please turn to slide 14. This chart has been updated to reflect the delay in adoption of the new mortality table by the IRS. This had the impact of lowering required cash contributions for 2018. This is not a permanent elimination of those contributions, but rather distribute them over several years after 2018 to create a slightly smoother trend. There are numerous factors that could impact required contributions in the future, both positively and negatively. The largest influences on our pension obligations continued to be asset returns and interest rate.

Slide 15, as we discussed last quarter, highlights our tax attributes as of December 31, 2015. This information is also found in our tax footnote in our 2015 annual financial statement. Before valuation reserves, we have \$2.1 billion in deferred tax assets. Under GAAP, most of these tax attributes are fully reserved, as you can see on slide 15, resulting in net deferred tax assets of \$114 million on the December 31, 2015 balance sheet. If Unisys generates future taxable income in jurisdictions where we have net operating loss carry-forwards and other favorable tax benefits, and depending on the timing of that taxable income, the gross value of up to \$2.1 billion could be available to reduce or eliminate the related income tax.

As we look at the remainder of this year, we are reaffirming our full-year guidance for 2016 on revenue at \$2.775 billion to \$2.875 billion; on non-GAAP operating profit margin at 7 percent to 8 percent, although guiding towards the low end of that range consistent with our commentary at the end of the second quarter; and on adjusted free cash flow, at \$160 million to \$200 million.

With that, I will turn the call back to Peter.