1Q21 Financial Release
CEO/CFO Statements
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Management Discussion Section

Operator

Good day and welcome to the Unisys Corporation First Quarter 2021 Earnings Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Courtney Holben, Vice President of Investor Relations. Please go ahead.

Courtney Holben

Vice President-Investor Relation, Unisys Corp.

Thank you, operator. Good afternoon, everyone. This is Courtney Holben, Vice President of Investor Relations. Thank you for joining us. Earlier today, Unisys released its first quarter 2021 financial results. I am joined this afternoon 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 afternoon 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'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 operation 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, debt exchange and extinguishment, and cost reduction and other expense.

Management believes each of these items can distort the visibility of trends associated with the company's ongoing performance.

Management also believes that the evaluation of the company's financial performance can be enhanced by use of supplemental presentation of its results that exclude the impact of these items in order to enhance consistency and comparativeness with prior or future period results. The following measures are often provided and utilized by the company's management, analysts, and investors to enhance comparability of year-over-year results, as well as to compare results to other companies in our industry: non-GAAP operating profit, non-GAAP diluted earnings per share, free cash flow and adjusted free cash flow, EBITDA and adjusted EBITDA, and constant currency. 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 expectations. These factors are discussed more fully in the earnings release and in the company's SEC filings. Copies of those SEC reports are available from the SEC and along with the other materials I mentioned earlier on the Unisys investor website.

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

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Good afternoon, everyone, and thank you for joining us to discuss our first quarter results. At our Investor Day in January 2021, we laid out goals related to further strengthening our balance sheet, transforming our organizational structure, improving margins and cash flow, enhancing and expanding our solution portfolio, growing revenue, and enhancing our associates' experience. During the first quarter, we made progress on each of these. I will provide some detail on the organization, our solutions, and our associates' experience and Mike will discuss the rest of these points, including the significant improvement to profitability and cash flow that we made during the quarter.

In the first quarter of 2021, we transitioned to our new segment structure which targets Digital Workplace Services or DWS, Cloud & Infrastructure or C&I, and ClearPath Forward or CPF. This was a key step to implementing the strategy we developed in 2020 and laid out in our Investor Day. We are now running the business and reporting our financials on this basis.

We have also built out the leadership team of these businesses and the company overall. We hired Leon Gilbert, our new head of DWS in February and brought on Gene Chao, our new head of ClearPath Forward in April. Wendy Reynolds-Dobbs joined as our new DEI leader in March and she will also co-lead our ESG efforts.

Dwayne Allen, our new Chief Technology Officer, joined us in April and will partner with our business unit leaders to innovate new solutions that expand and enhance our portfolio. Finally, last week, Maureen Sweeny, our new Chief Revenue Officer, came onboard. Maureen will work across our businesses to leverage capabilities, identify key opportunities, and help drive growth. More information on each of these leaders is available on our website.

With the significant strengthening of our balance sheet last year, we now have the levers to fully execute on our strategy. These new leaders and the team already in place are doing just that. As we discussed at our Investor Day, our plan over the next three years is to grow margin, cash flow, and revenue. We expect to achieve this in part through our DWS transformation, including expansion and enhancement of our offering portfolio and shifting to experience-based solutions. Additionally, we expect to continue our momentum in C&I with a focus on higher margin cloud offerings. Within CPF, we are targeting growth in CPF services, which is the highest margin services in the company.

Supporting all of this are improvements to operational efficiency. While we will maintain a focus on revenue margin and cash flow at all times as we execute on the strategy, we have expected to see earlier progress with margin and cash flow. These metrics are already benefiting from efficiency improvements and reduced pension contributions have further improved cash flow. We expect our DWS transformation and growth in Cloud and CPF services to drive further profitability and cash flow improvements as well as increasing revenue growth rates in 2022 and 2023.

Within DWS during the quarter, we improved efficiency and margin by reducing our total cost of labor and with automation and artificial intelligence. As of the beginning of April, we have moved all of our service desk clients onto our AI-enabled cloud-based InteliServe contact center platform. We expanded our solution management and experience-based talent and offerings within DWS, which will help drive revenue growth.

In the quarter, we signed a contract with a global publishing company in EMEA for service desk support, field services, and asset management in which we will automate and streamline global user support to help improve the user experience for our clients' associates.

Within C&I, we are helping clients in their journey to private, public, and hybrid clouds, with a particular emphasis in the public and highly regulated sectors. This is higher margin business than our legacy infrastructure work, and we have begun to see the benefits of this in our improved segment profitability.

We are also pursuing increased cloud operations management and monitoring, as well as development and monetization of clients' cloud-based applications. These represent opportunities for additional profitability improvement and revenue growth. As an example, we are migrating a significant US state government IT services agency to the Oracle, Microsoft Azure, and AWS clouds as part of an initiative to modernize services to citizens at a lower cost and improve reliability, cybersecurity, and cost effectiveness of key state administrative operations. During the first quarter of 2021, we signed seven contracts for additional work associated with these transformation efforts and have several more opportunities in the pipeline with this client.

Similarly, during the quarter, we also signed a new scope contract with California State University or CSU, the nation's largest higher education system. As part of this new contract, Unisys will be providing financial, security, and cloud operations to offer the client greater agility to execute digital cloud strategies that better serve the campuses and improve the student experience for nearly 500,000 students.

For ClearPath Forward, we have a slightly different approach than with DWS and C&I. ClearPath Forward is already operating at attractive margins with license and ClearPath Forward services, representing the highest margin revenue in the company. So our strategy here is focused more on growing CPF services revenue while maintaining the stability we have seen in the ClearPath Forward license base. To do this, we are implementing a coordinated strategy to better leverage our technology solutions while utilizing our deep client relationships to identify areas where those clients can benefit from additional ClearPath Forward services.

Specifically, we're targeting growth in both managed services and application services revenue. As contracts renew, we're also aligning maintenance pricing to market. As an example of our expanding relationship with [ph] our – and (10:47) existing ClearPath Forward clients to provide new ClearPath Forward application services. During the first quarter, we began work on a new scope contract with a European national government agency that manages processing and payment for public pensions for about 2 million people. Unisys is now also providing ClearPath Forward consulting services to make their ClearPath Forward system more scalable and more interoperable with other systems.

Within the framework of our new business unit structure and based on the strategies I just described, we're evolving our solutions portfolio in very specific areas to complement our current capabilities and enhance our margin profile and future revenue growth. This evolution will be the result of build, acquire, and partner activities. In cases where it's most efficient to do so, our enhanced balance sheet gives us the flexibility to pursue inorganic opportunities in a way we have not been able to in the past. As we consider such opportunities within DWS, we initially expect to focus on relatively small-scale companies that have solutions that would further enhance our experience-based strategy.

Within C&I, we will look for opportunities that help us scale the business and leverage our solutions more broadly. As we drive all of these operational strategies forward, we are also aiming to enhance the experience of our associates. In addition to being the right thing to do to support our people and to make Unisys a place they are increasingly proud to call home, we believe that this can also help us achieve a number of other important goals including accelerating recruiting, bolstering retention, and being a more attractive partner and supplier for our clients.

We're actively working to create new opportunities to enhance diversity, equity, and inclusion in our workplace and throughout our team. Likewise, our continuing efforts related to ESG are important to our clients, associates, partners, and investors the like. And we will continue to develop and target ESG opportunities which Unisys has been doing in quantifiable ways since 2006.

In conclusion, we're making progress towards the goals we laid out at the beginning of this year, some shorter term and some longer term. There's an excitement at the company as we do so. And I'd like to thank our associates for their ongoing enthusiasm and efforts to help us drive the business forward.

With that, I'll turn it over to Mike to discuss our financial results. Mike?

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Thank you, Peter, and good afternoon everyone. In my discussion today, I'll refer to both GAAP and non-GAAP results. As a reminder, reconciliations of these metrics are available on our earnings materials. As Peter highlighted, we made significant progress on both our strategic and financial goals during the first quarter. Peter discussed a number of items on the strategic front, and so I'll focus more on the financial accomplishments, including margin and cash flow improvements, positioning the company for improved revenue growth, and strengthening our balance sheet.

Starting first with margins, we saw significant improvements year-over-year in the quarter. Non-GAAP operating profit increased 75% year-over-year to $51 million and non-GAAP operating profit margin increased 440 basis points year-over-year to 10%. Gross margin improved in each of DWS, C&I, and ClearPath Forward. DWS gross profit increased 157% year-over-year to $19 million, with DWS gross margins up 860 basis points to 13%. C&I gross profit increased from a negative $3 million in the prior year period to a positive $12 million with C&I gross margin up 1,240 basis points to 10%. ClearPath Forward gross profit was up 3% year-over-year to $103 million with ClearPath Forward gross margins up 290 basis points year-over-year to 61%. The margin improvements were driven in part by progress against our previously outlined goals for efficiency improvements in 2021.

We noted on our last call that we were targeting between $130 million and $160 million in run rate savings exiting 2021, and we have completed a significant portion of the actions required to achieve this with a total of approximately $100 million of run rate savings in place as of the end of the first quarter. We took additional charges related to these efforts in the first quarter of $8 million. And we expect less than $10 million of additional charges throughout the remainder of the year to complete this program. The improvements to non-GAAP operating profit also flowed through to adjusted EBITDA, which increased 30% year-over-year to $94 million. Adjusted EBITDA margin increased 440 basis points year-over-year to 18%. And non-GAAP EPS increased significantly to $0.46 from $0.02 in the prior year period. This margin expansion also contributed to significant year-over-year improvements in cash flow.

Cash used in operations improved $335 million year-over-year to $43 million and adjusted free cash flow improved $52 million to a negative $24 million. A large portion of the improvement to operating cash flow and free cash flow was attributable to reduced pension contributions. CapEx was roughly flat year-over-year at $28 million. And as a reminder, it is typical for us to start the year with a negative cash flow given the timing of our cash generation and usage. We expect the momentum with cash flow to continue over the year. Our expected CapEx spend for the year is between $120 million and $130 million. And we anticipate cash taxes to be approximately $45 million to $55 million.

Additionally, as we noted at our Investor Day in January, working capital is currently at a run rate use of approximately $20 million to $30 million, which we expect to improve over time. As a result of all this, we expect free cash flow positivity for the full year 2021. We had expected profitability to be the key driver of improvement in the first quarter as we were anticipating a modest year-over-year revenue decline. The total company revenue is down $5.6 million or 1.1% year-over-year, driven by a decline of approximately $16 million in Field Services, Travel and Transportation, and BPO processing activities.

Cloud & Infrastructure revenue remained strong, increasing 19% year-over-year to $123 million and the cloud aspect of this business increased 31% year-over-year. Additionally, C&I revenue in US and Canada grew 24% year-over-year.

ClearPath Forward continues to demonstrate stability and opportunities for growth. ClearPath Forward revenue was down 2% year-over-year, largely driven by currency and the divestiture of some low margin third-party contracts, which contributed to the improvement in ClearPath Forward gross profit and margin that I mentioned earlier.

The decline in Field Services that I noted contributed to the 12% year-over-year revenue decline in DWS, which was also in part due to the fact that this segment has a large base of legacy solutions which have lower growth than the experience-based solutions to which we are transitioning. Peter highlighted a number of the key steps that we took in the quarter to progress our DWS transformation and we expect over time to continue to see improved performance out of this segment.

Overall, our first quarter results were in line with or slightly ahead of our internal expectations and beat consensus on all key metrics. Looking to the rest of the year, we would remind you that we expect ClearPath Forward license revenue to be split 55% and 45% between the first and second half of the year, with the third quarter expected to be the lightest of the year, and the fourth quarter expected to be the strongest. This quarterly revenue timing will also impact profitability as ClearPath Forward costs are distributed relatively evenly throughout the year.

As a result of this, our first quarter results and our expectations for the remainder of the year, we're reaffirming our guidance ranges for the full year of 0% to 2% year-over-year revenue growth, non-GAAP operating profit margin of 9% to 10% and adjusted EBITDA margin of 17.25% to 18.25%.

Total company backlog, which now includes license revenue given our new segment structure, was $3.4 billion as of the end of the first quarter relative to $3.6 billion as of the end of the year. Of the $3.4 billion, we expect $380 million to convert to revenue in the second quarter. The company's legacy BPO businesses and the ClearPath Forward renewal schedules were the largest contributors to the sequential decline in backlog.

Additionally, the weighted average length of contracts signed during the first quarter of 2021 has been shorter than the weighted average length of contracts signed in 2020, which means that the backlog is expected to convert to revenue more quickly which is positive for near-term growth. We expect revenue and backlog to improve over the course of the year as we continue to implement our strategy to enhance our solutions portfolio with a particular focus on DWS in the short-term which enables a gradual move up the revenue and margin stack. We're currently building out our segment go-to-market materials that support our strategy and we expect that new material will be in the market this quarter.

Additionally, we expect an increase in demand for cloud transformation and increased opportunities in managed services, application development, and application modernization in both C&I and ClearPath Forward to further drive improvement in revenue and backlog.

Turning to the balance sheet, we continue to make significant progress on our pension obligations. As we disclosed during the first quarter, the signing of the American Rescue Plan Act in March has resulted in changes to our pension contribution requirements. Based on our current calculations, we are not required to make any additional contributions to the US qualified defined-benefit pension plans in the future. As a result, we no longer expect to make the $200 million voluntary contributions we've previously discussed, leaving us with even stronger expectations for liquidity and near-term cash flow than we had at year end. We may in the future elect to make voluntary contributions in order to implement additional derisking opportunities or strategies.

As we've discussed, we've been targeting a reduction in gross pension liabilities of $1.2 billion. The domestic portion of this program has been completed with approximately $550 million of liabilities removed. The final two actions to achieve our $1.2 billion target relate to transferring $650 million of gross pension liabilities from two of our international plans to multiemployer collective foundations.

Our work to complete these transactions was done at the end of the first quarter and we expect to receive final approvals and complete these transactions in the second quarter instead of the first, at which point we will have achieved our goal of removing $1.2 billion of gross pension liabilities.

As a reminder, we are required to recognize noncash settlement charges for each plan, as we remove these liabilities. The amount of the charge related to the second quarter activity will be approximately $215 million.

Before I turn the call back to Peter, I'd like to thank the Unisys team for their ongoing efforts to help implement our new strategy and continue our company's transformation. We're off to an exciting start in 2021 with strong profitability and cash flow, and we look forward to continuing to drive results over the remainder of the year.

With that, I'll turn the call back over to Peter. Peter?

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thank you, Mike, very much. And with that, we'll open up the call to a discussion as well as questions.
So, Cole, if you would open up the call and let's get to it.

Question And Answer Section

Operator

Certainly. And we will now begin the question-and-answer session. And our first question today will come from Jon Tanwanteng with CJS Securities. Please go ahead.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Hi. Good afternoon, guys. Thanks for taking my questions and nice quarter. Just want to clarify couple of points. Mike, did you say you expect backlog to grow from here as in sequentially or is that just over the course of the year at some point?

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

Yeah. We're looking – Jon, hey. Thanks for the question. We're looking for growth in the second quarter both in the quarter and year-to-date, and we're looking for backlog growth for the full year as well. So, I guess the answer would be both in the quarter and year, Jon.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Got it. That's great to hear. And I was just wondering how sustainable the margin − the operating margin is in your services business as we go through the year. Are there any changes to the profile as you get through different projects or as much revenue level fluctuate? Any color on that would be helpful.

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

Yeah. Look, as you know, Jon, the services margin aspect of our businesses is pretty solid, right? So what would valid – what would [ph] bounces it (25:39) around a little bit is the technology aspect of that. So, as I noted in my prepared remarks, in the third quarter, we'll have a lighter tech quarter. But as far as the services margins go, we feel pretty strongly that they're very sustainable. I think you've seen from us over the last three quarters, consistent improvement in that and a big step-up in this quarter, and we expect to maintain and continue to grow those services margins along the lines as what we discussed in January at the Investor Day.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Got it. And you usually give kind of like a ballpark percentage of revenue that you expect in technology per quarter perhaps. Did you have that kind of clarity at this point in time?

Michael M. Thomson

Senior Vice President & Chief Financial Officer, Unisys Corp.

Yeah. So, what we're calling for was 55% in the first half and 45% in the second half, Jon, with Q3 being the lowest quarter, Q4 being the highest from – and again, it's 55%, 45%, and pretty flat for the year from a technology licensing perspective, just for modeling purposes.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Okay. Got it. And then, finally, just high level, you benefited from the stimulus bill with the pensions. Is there any benefit for you coming in the potential infrastructure bill? I know there's funding going to a variety of end markets that you serve. I'm wondering if you have any insight as to whether would that flow to you guys at all.

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

Yeah. Maybe I'll take that for a minute. And Jon, I want to add my thanks to Mike, and thanks for recognizing the quarter. We feel very good about the results we had this quarter and we're on track of course for this year, as well as the plan that we rolled out in January.

This infrastructure bill is at least in its current form is defining infrastructure in a much broader way than in prior bills of [indiscernible] (27:40). So, cybersecurity, broadband access are all front and center in this bill as active integral parts. Given our focus in the United States on the public sector, which we define as state and local, anything other than federal, we see opportunities around cybersecurity, around increased evolution to new platforms for state and local that we think that the infrastructure bill, if passed in a fulsome way, would help us given our public sector visibility.

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

...Jon, I know you didn't ask this aspect of it and Peter gave the infrastructure piece of it, but just wanted to maybe throw in the tax piece of it as well in case that's on your mind or on the mind of some of the other analysts here.

We do not expect any negative issues in regards to any of the discussions from a tax perspective. As you know, we've got quite a bit of DTAs. We have about $1 billion worth of DTAs that'll shelter about $3.5 billion of income. So, we're not expecting really any fallout from any of the items being discussed whether it's the corporate tax rate, the GILTI tax rate or the dialogue on the [ph] B taxes (29:09). So, I think we're – really no change in regard to that as well.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Got it. That's good to know. Maybe one final one, if I could. The well-publicized supply chain issues on just on technology and semiconductors and all of that. Is that limiting your ability to deliver the hardware associated with your services at all or is that not much of an issue – as much of an issue as it might have been just given migration to cloud and offloading that capacity?

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

Yeah. That's exactly right, Jon. It is not as much of an issue for us. Obviously, certain sectors like the automobile sector are being hit very directly. We have not seen significant availability issues in the hardware that we're providing to clients, some but nothing significant.

Operator

Your next question is from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Hey, guys. Good afternoon. Good results. Just kind of looking at some of the segment performance in the quarter and kind of thinking about the strategy moving forward, and clearly C&I is doing well and looks like it's kind of the emerging growth driver of the new segment reporting. And so, how do you see kind of ROI on sales and marketing expense relative to the three segments now, and where are you prioritizing that? And then I have a follow-up. Thanks.

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

Yeah. So, Joe, I'll probably take that to start, and thanks very much for the congratulations again. We feel very – when we go back to our January strategy, the bulk of the revenue growth we expect will come from DWS, from Cloud & Infrastructure, and from the Services segment of ClearPath Forward.

I will tell you that we feel very good about all three of those a few months into this. So, you see some reduction in digital workplace services revenue year-to-year. We expect DWS revenue to pick up and we expect it to be positive for the full-year. In fact, we expect all three of those to be positive for the full-year. Again, relatively modest revenue, but we expect to pick up the losses from DWS. We expect the pipeline for DWS to increase markedly over the course of the year. We have visibility of some large deal that will come out in the third and fourth quarter. We feel very good about our positioning for those. So I would tell you that piece of our strategy which is that we really expect over time to have a larger and larger share of DWS very much in play.

On Cloud & Infrastructure, we had a little bit of a head start in that compared to DWS. So, Leon Gilbert, who is leading the DWS team, joined us in February. Mike Morrison, who is leading Cloud & Infrastructure, has been here for several years. And I think you're seeing a little more maturity in the Cloud & Infrastructure particularly those cloud numbers of course this quarter.

On ClearPath Forward, I would tell you, again, new leader who I mentioned, Gene Chao, started in March for us; very, very interesting perspective on the CPF business. We have a good view from January about where to take the Services revenue. And I think Gene is looking very hard at opportunities to increase the software revenue on ClearPath Forward. Early days on that, but really like the vitality that he's bringing to that entire segment for us. So, we really feel that we're on track go with where we expected to be at this point.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Got it. Thanks, Peter. And then if we think about kind of some of the ongoing restructurings and what that means to margin combined with, I guess, it's kind of fair to say there's $200 million that kind of "got freed up" relative to the Congressional American Rescue Plan Act. As we think about that cash deployment back in the business, feels like M&A may be the right place, but would love to hear your thoughts.

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

Well, first of all, it is not burning a hole in our pocket. We do not feel any urgency to spend it because we have it. You're right, with the passage of the act, as Mike laid out, we no longer expect to make the $200 million of contributions, and we're very grateful for that. So, we really feel like, as I said in my comments, we can really act in all levers now. We have looked hard at the businesses that will change the most for us and that is DWS and the cloud piece of Cloud & Infrastructure over time. Some of the work we did last year with McKinsey and then with AlixPartners really kind of looked at how that businesses – or those two have to evolve over the next few years.

We've been very specific in terms of that analysis. We actually have created bundles of offerings in both DWS and Cloud. And we're looking at how we get to complete those bundles over the next couple of years. That is a classic build, buy, partner analysis. And I can tell you that we expect to do all three. With respect to the buy analysis, if we look at current pricing and the multiples of the different kinds of businesses, I would tell you the pricing for DWS businesses is a little less aggressive than the pricing for some Cloud businesses right now. That would be very consistent with our strategy. We're seeing some of the players in the industry deemphasizing that a little bit. We intend to rush into that void. It's a very good business for us.

So I think you'll see us focus in DWS on specific acquisitions, probably smaller acquisitions that really will fill specific niche solutions for us. But we think those solutions will have a multiplier effect on our ability to grow revenues and market share in DWS. So, given that multiplier effect, we think we're in a very good shape to be an efficient acquirer.

Situation is a little different in Cloud and that the asking prices are a little higher. And again, it's a little more mature in terms of our next-generation offerings in Cloud. But we do expect over time to make some Cloud acquisitions. Those will largely be for filling in scale where we believe that we have subscale in some of our offerings or some of our geography or some of our advisory services. So, I think that's the way we'll approach the Cloud acquisitions.

Joseph Vafi
Analyst, Canaccord Genuity LLC

Great. Thanks, Peter. Yeah. That makes sense. I could see Unisys really kind of becoming a big scale player in what you call DWS as perhaps that opportunity is one that others aren't focused on as much. So, thanks much for the color. Great results.

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

Thank you, Joe.

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

Great. Thanks, Joe.

Operator

And our next question will come from Matthew Galinko with Sidoti. Please go ahead.

Matthew Galinko
Analyst, Sidoti & Company, LLC

Hey. Thanks for taking my question. Maybe just as a follow-up to the question around supply chain and component shortages. I realized we're still in the early days of that. But I'm curious if there's any macro push towards – or extra macro push towards cloud migration from existing customers and whether that could be any catalyst for you in any segment. Thanks.

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

Yeah. Why don't I take that first, Mike, and then hand it over to you for your perspective as well, if you don't mind?

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

Sure.

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

And it's one of several, right? So, it's hard to imagine people need more push to the cloud at this point, right? So, COVID-19 already accelerated people who really did not want to bear the cost or the people involved in managing their own data centers. So, that was a push. The work-from-home effort that came along with COVID also acted to push people more toward the cloud.

The advances in what we're doing around Digital Workplace Services, which is making the employees of our clients at least as productive anywhere they are, a lot of our DWS work ultimately revolves around having capabilities for the client, which has to be available anywhere with very, very low latency around the world, and that largely means putting it into the cloud. So, I think you've had a bunch of reasons why people were accelerating to the cloud already.

Supply chain issues, I think do it in two ways. First, obviously, you're not as concerned about the availability of servers, et cetera. And secondly is around security. There is obviously managing a secure environment that is being hosted by AWS or Azure or Google or someone else. You still need to manage it very carefully, and we obviously do for our clients. But there's a second element of that which is kind of the core supply chain of are you buying hardware that has the right provenance and how do you determine the right provenance of the hardware you buy and of the software that needs to run it in a networked environment? So, I think what you're finding here is a willingness to let the big cloud public providers do that work. And especially mid-sized companies not have to worry about that provenance. So, I do agree that over time that's an added element especially around the security side of that.

Mike, your thoughts, please?

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

Yeah. And Matt, thanks for the question. Look, I think, Peter, you covered the main elements there. Maybe the only other component that we didn't cover is just the cost of the materials themselves, right? We're seeing supply chain increases there from availability cost. Peter talked about security and the complexity. So, look, Matt, I mean, you know from our perspective, we've been pursuing a capital light strategy for probably three or four years now. And this really just plays into that when we're having discussions with clients that we're thinking about the cloud three, five years out. Now, those discussions are around one year out now or certainly in the near-term. So I think all of the things that Peter mentioned in the prelude here are really just another catalyst to get folks on the cloud adoption or the digitization path. And as you know, that fits very nicely into our strategy and our business plan.

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

Yeah. And I would just add exactly to what Mike just said. Back in 2016, we decided that we were going to cut our – one of the things that makes Unisys distinctive is this area that we would have security built into all our solutions. Obviously, ClearPath Forward is the most secure operating environment. Stealth is a part of that security environment for us, both internally as well as with clients directly. But it even goes beyond that. We really focused on making sure our clients have the most secure environment they have or they can have.

As you are seeing ransomware become a pandemic, a plague, whatever word you want to use, in the IT world, it's hard to overstate where ransomware is going. It's affecting local governments. It's affecting state governments. It's affecting private organizations around the world. And so, again, when you have a – where does the buck stop? Having more of your environment in the public cloud doesn't protect you 100% from ransomware. We know that ransomware can affect data wherever it is. But it does allow individual companies to really focus on making sure that within the scope of their control they have the best possible most secure systems, they have backup, they have resiliency, and they can really handle a ransomware attack.

So, I think, again, in the bigger cybersecurity claim and specifically about what Unisys brings to the table, I think you are seeing – folks say, I'm going to put this in the cloud. I'm going to focus my ransomware capabilities on what I am retaining, as well as making sure I have it protected in the cloud. That helps us, and you're seeing some of that in the cloud growth that we showed this quarter.

Matthew Galinko
Analyst, Sidoti & Company, LLC

Great. Well, thanks for the comprehensive answer. Nice quarter.

Operator

And our next questions will come from Rod Bourgeois with DeepDive Equity Research. Please go ahead.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Oh, hey, guys. Hey. Very nice progress on profitability. And I should also say that I'm liking the three new reporting segments. It seems to lay out your trends in a clear way. And for me, it just ties your financials better to how I look at Unisys in the marketplace. So, nice work on the story there.

Yeah. I have a question about the growth revival plan in the Digital Workplace business. You mentioned rolling out some new material there and so on. Can you give us some flavor on the DWS messages that you're taking to the market to revive its growth? And clearly, there's a plan to move to the end user experience value proposition. Can you just talk about the messages that you're rolling out in the actual market?

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

Yes. It's a great question, Rod, and thanks for being supportive of the segment. I agree with you. It's one of those things Mike and I talked about it for a long time last year. And it's one of those things then when you finally do it, it's kind of obvious, right? But it wasn't obvious until you made the decision. But having done it, it really looks pretty obvious. And I do believe it gives investors more clarity into how to look at the company, especially as we become more normal, as the pension obligation is further and further kind of in the rearview mirror.

With respect to DWS, as I mentioned earlier, to Joe's question, it's a very important part of our future. We are – one of the things you're seeing in the margin uplift is the efficiencies and economies that we have gotten that really show up this quarter, but have not been a this quarter thing. We've been planning for those for a long time. And certainly, a lot of the work we did last year was in preparation for the kind of numbers you're seeing.

With respect to the revenue side of that house, as I said, we have really a very detailed map of exactly what capabilities – now, the market is changing and things a year from now are not going be the same as they are now, but we do think we have a lot of industry understanding of the marketplace. We do expect to be a full leader in the marketplace, both [ph] in effective (45:58) of size as well as in geographic reach, and as well as capabilities. So we feel very bullish about that space.

I believe, as I mentioned also to Joe's question, you will begin to see us take a leader role in acquisitions in DWS probably before we do it cloud. Just because we are so focused on exactly what we need to grow revenues over time. And there is a very good pipeline for DWS opportunities out there. So, we think our timing is very fortuitous, but we're bullish about space.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Got it. And…

Michael M. Thomson
Senior Vice President & Chief Financial Officer, Unisys Corp.
Yeah. Rod…

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Yeah. Sure.

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

...I was just going to add a couple little elements there, Rod, and thanks so much for the question. You know how we feel about the space. And as Peter mentioned, we've got people exiting this space and we think it's really an opportunity for us to be a dominant player there. But maybe specifically to your question, we're talking about this messaging in the context of not only the EUS to EUX transition which we've talked about quite a bit, but it's really about the holistic view of where our clients can be a year from now, three years from now and us being able to take them on that journey. And it's about the deepening of our solutions, whether that's in UCaaS or VDI or UEMtype areas. But this is an area that we think is really ripe for the taking and as you heard us say in the January Investor Day materials, we want to be the dominant player in this space and we're putting a lot of focus on that.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Got it, very helpful. Hey, and a more general question about demand trends, are you seeing an uptick in add-on work at your existing accounts, particularly as we get through some of the COVID crisis challenges? Are you just seeing a general uptick in add-ons? And I know you mentioned that the duration was down in the backlog. Could additional add-on work be part of that or is that a different dynamic that's driving the lower duration in the backlog?

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

Well, it depends on whether you're talking absolute dollars or percentage of revenue. In terms of absolute dollars, no, we don't expect it to be declining in absolute dollars. In percentage of revenue terms, we do, because we expect the growth coming from areas other than Field Services.

Well, I'll take that as a start and then, again, let Mike finish. Absolutely, it is. When you're talking, for instance, about the segment of ours that had the most growth this quarter which was Cloud & Infrastructure and specifically cloud in Cloud & Infrastructure, a lot of that work came from existing clients. Some of them were migrating from private clouds to public clouds. Some of them were setting up very vigorous hybrid clouds, but not all of it was new logo. So, very much so those deep relationships that we think got stronger during COVID-19 are playing out very specifically in what you call add-on or extension work.

And again, even in DWS, to go back to that question, Rod, the fact that we have such a strong base in what we would call end user services is a big advantage to us. Not all of the end user experience work has to come from new engagements. It can come from that installed base of clients. So, when we think about seamless collaboration in UCaaS, workplace as a service intelligent workplace, modern device management, all of the things that are really integral to end user experience, those are things that we're doing in some way when you're talking about end user services but not to the same extent as where the market is going and where we are going. So we do think this idea of extending existing relationships is very much an integral part of our future.

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

Yeah, Rod. And I would echo that and really just say specifically within public sector within our Cloud & Infrastructure business, we've seen quite a bit of that add-on work as you call it. And in fact, a lot of the contracts that we're getting are really unsolicited opportunities, right? And that's the beauty of the long-term relationships that we've got with blue chip clients and you're there, you're walking the halls, and they need other work done.

So, from our perspective, the more wholesome our solutions can be, the more of that, we think, we'll get, right? And that's really been a core tenet to our strategy really for a couple years now. That's not necessarily new here but as we expand our – and deepen our solutions, we think there's a lot more of that, right? Because they're paying others for it at this point so it's a good opportunity for us to expand our wallet with existing clients as well.

Rod Bourgeois
Analyst, DeepDive Equity Research, LLC

Good stuff. Thanks, guys.

Operator

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Peter for any closing remarks.

Peter A. Altabef

Chairman & Chief Executive Officer, Unisys Corp.

Thanks very much, Alyssa. I'd like to thank everyone for joining us. I'd like to thank, Mike, for both his presentation and commentary. One item that I referred to in my remarks which I would recommend to you again for those of you who were not able to join us on our Investor Day in January, we have a full set of the slides as well as of the transcripts and the audio from that. I hope that you will find that useful. We didn't spend a lot of time today talking about the new business unit structure that we have put in place as of January with our business units. Obviously, we will start reporting on them as of the end of the first quarter. But we really laid out the strategy, the rationale and the effect we think that business unit approach will have on the company in our Investor Day presentations and we would recommend them to you.

With that, I want to again thank you. Courtney Holben and our Investor Relations team, Mike and I and the rest of the leadership team stand ready to continue the dialogue with you whenever appropriate. So thank you, guys very much.

Cole, thanks very much. I'd like to thank Courtney and Mike for joining me on the call today. We really appreciate the level of questions we've gotten. We think those help explain what's going on in the business beyond our prepared remarks.

We also think that what helps explain the business is the refreshed Investor Relations website that we have put up, which actually went up after the investor call in February. So, we hope that you spent some time on that. We think you'll find that helpful and increasingly transparent, which is one of our goals. We also are available to you by phone and obviously through Zoom calls, and at some point in the year, through in-person meetings as well which we also look forward to. So, I'd like to thank everybody and on behalf of Mike and Courtney, look forward to visiting with you again next quarter.

Operator

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