

Mossberg's Investor Digest

Best Idea Profile:

Unisys (NYSE:UIS)

DESCRIPTION:

Unisys Corporation provides information technology services, software and technology to commercial and government agency clients in more than 80 countries. The U.S. Federal government represents 15% of revenues. In the Services segment, it helps clients improve their competitiveness, security and cost efficiency. In the Technology segment, it designs and develops servers and other products to reduce costs and improve the efficiency of its clients' data centers. Its three major technologies include: ClearPath, a mission-critical operating platform; Forward!, which extends the Unisys brand to the Linux and Windows environments; and Stealth, which is cyber security software for networks, mobile and the Cloud. Unisys is based in Pennsylvania and employs 23,000 people.

KEY INVESTMENT CONSIDERATIONS:

Mission Critical Services – Critical IT processes, from back office to front office, are being automated at an accelerating rate. This vastly more demanding IT environment increases the need to use “always on, always up” cross-platform and cross-network security that Unisys offers. Management states the difference today is that “size, scope, speed of change and security threats are too complex to manage defensively or reactively.”

Long History – Unisys was one of the pioneers in large-scale computing. The company's predecessors, Burroughs and Sperry, were big guns of the mainframe era that merged in 1986 to form Unisys. As mainframe began its long decline, Unisys was able to transform itself into a services and solutions provider. Its current chief executive came on in 2008 and began a three-year turnaround in operations, improving Unisys' cash and profitability. Unisys has now recorded five consecutive years of profitability and free cash flow and reduced its debt by \$1 billion.

Pension Liability Overhang – Unisys' pension liability has been clouding investors' view for some time, and although the concerns are real, there are also signs of improvement. Unisys reported \$93.5 million in pension expense in 2013, compared with pension expense of \$108.2 million in 2012. In the past year the net deficit in the defined benefit plans has improved by \$918 million. This is attributable to good asset returns, higher discount rates employed, and \$147 million in contribution. The real upside for investors is if interest

rates continue to move up, the stock actually provides a measure of hedge on rising interest rates.

Growth of Technology Segment – In 2014 and beyond, much of the company's growth will come from its technology business, as this is where it has been investing its efforts in product and in marketing. Forward! is a product that can help organizations that are looking to migrate from expensive UNIX systems. This system just became available in December. The Stealth family of cyber security, using advanced encryption and data cloaking to render critical data essentially invisible, has the opportunity to capitalize on the growing awareness of high-profile data breaches that appear to be increasing in frequency.

Services Business Still a Target for Improvement – Management is targeting an 8% to 10% operating profit margin in its services business, by growing higher-margin services, and instituting cost efficiencies.

VALUATION:

Under a share repurchase authorization of up to \$50 million common or preferred stock through December 2014, \$11.7 million in purchases were made in 2013. This should provide support to the stock as operations continue to improve. The company is continuing to invest in its core businesses and has high-growth potential in its technology business.

Unisys (NYSE:UIS)	
Investment Data (as of 3/26/14)	
Recent Price	\$29.64
52-Week Range	\$15.68 - \$36.05
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	44.2 M
Average Trading Volume (3 mos)	714 k
Market Capitalization	\$1.3 B
Cash	\$640 M
Long-term Debt	\$210 M
Enterprise Value (EV)	\$935 M
Book Value	\$(21.59)
TTM Revenue	\$3.5 B
P/ Revenue	0.4 x
TTM EPS	\$2.08
P/ EPS	14.3 x
TTM EBITDA	\$266 M
EV/ EBITDA	3.5 x

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