

# NYSE:UIS Q2 2025 Earnings Call Transcript

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## Operator:

Good day and welcome to the Unisys Corporation second quarter 2025 earnings conference call. All participants will be in listen only mode. Should you need assistance please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then one on a touch phone phone. To withdraw your question please press star and then two. Please note this event is being recorded. I would now like to turn the conference over to Michaela Pruosky. Please go ahead.

## Michaela Pruosky | VP, Investor Relations:

Thank you operator. Good morning everyone. Thank you for joining us. Yesterday afternoon Unisys released its second quarter 2025 financial results. Joining me to discuss those results are Mike Thompson our CEO and president and Deb McCann our CFO. As a reminder today's call contains estimates and other forward-looking statements within the meaning of the securities laws. We caution listeners that current expectations assumptions and beliefs forming the basis of these statements include factors beyond our ability to control or precisely estimate. This could cause results to differ materially from expectations. These items can be found in the forward-looking statement section of yesterday's earnings release furnished on form 8k and in our most recent forms 10k and 10q filed with the SEC. We do not assume any obligation to review or revise any forward-looking statements in light of future events. We will also refer to certain non-GAAP financial measures such as non-GAAP operating profit or adjusted EBITDA that excludes certain items such as post-retirement expense, 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 these measures provide a more complete understanding of our financial performance however they are not intended to be a substitute for GAAP. Reconciliation for non-GAAP measures are provided within the presentation. Slides for today's call are available on our investor website and with that I'd like to turn call over to Mike.

## Mike Thompson | CEO and President:

Thank you Michaela and good morning everyone. Thank you for joining us to discuss the company's second quarter 2025 financial results. Before I discuss the quarter I want to briefly touch on the meaningful steps we've taken to accelerate our path to removing our U.S. qualified defined benefit pension plans. In June we issued 700 million dollars of senior secured notes, refinanced our existing debt and used 200 million dollars of proceeds and 50 million dollars of existing cash to make a 250 million dollar discretionary pension contribution which reduced our U.S. deficit dollar for dollar. We then shifted our asset allocation within the plans to primarily fixed income securities that match asset and liability movement essentially removing market and interest rate volatility in our U.S. contributions. We believe removing significant pension volatility simplifies our story and improves our ability to attract new investors. The actions we've taken are accretive to cash flows over the next five years and the reduction in our five-year contribution exceeds the interest expense on incremental borrowings. Our discretionary contribution will also allow us to continue to remove liabilities through additional annuity purchases both lowering the cost of future premiums and full plan removal as well as accelerating the timeline for full removal. These steps reflect our commitment to enhancing long-term shareholder value while protecting financial flexibility and allowing for continued investment supporting innovation and growth. We discussed the financial stability of our investments and we focused all of these actions in more detail and provided updated projections for our contributions and deficit

during a July 24th webcast that's available on our investor website. Turning now to our results, second quarter reported revenue increased 12% on a sequential basis and 10% in our XL&S solutions in part due to some acceleration of revenue expected in the third quarter. Total company revenue was also up 1% year over year as reported and in constant currency. This exceeds the expectations we shared last quarter. We again benefited from our strong 2024 new business signings and saw a sequential improvement in project work, business process solution volumes and revenue related to the PC cycle. Second quarter L&S revenue was also stronger than anticipated driven by both increased consumption and some accelerated integrated system purchases. We were pleased with the growth in the digital workplace segment which had faced some headwinds in recent quarters from volume declines in lower margin field services. Those declines have stabilized and we continue to see increases in higher value infrastructure field services such as enterprise storage and network services. We expect increases in those volumes in the second half to drive year over year growth as we lap PC service volumes declines especially in the fourth quarter. While some of the items we benefited from in the second quarter are expected to moderate in the third quarter, we have a clear line of sight to achieving the full year XL&S targets implied in our revised revenue guidance and we are raising our outlook for full year profitability. We're pleased with the results this quarter especially in light of continued headwinds in the industry stemming from the ongoing macroeconomic and geopolitical uncertainty. As we look to the second half, our updated guidance does embed some incremental impact from elongated decision making and slower ramp up of implementations or transitions. While this is shifting some XL&S revenue out of the current year, we're not seeing any impact to the total expected revenue generation over the life of these contracts or any contraction in our ability to expand these relationships in the future. We are encouraged by the recent progress on trade negotiations and why we're not building improved client sentiment into our outlook these trade resolutions should reduce uncertainty and help expedite client investment decisions. Looking at client signings, we saw a slight increase in sequential total contract value or TCB based on higher renewal levels offsetting a decline in new business signings which is coming off a strong first quarter. Importantly, our first half new business TCB was up 15% compared to the made up a larger portion of our new business signings during the quarter. As a reminder, this work is generally shorter duration with lower absolute contract value but moves to revenue recognition more quickly. Improved project levels are not attributable to a single factor. Some clients are shifting budget towards Windows 11 upgrades and refreshes. Others are moving forward on overdue work they de-prioritized for AI pilots and some are simply resumed project flows that had been paused during renewal negotiations on their larger long-term services contracts. We're also converting follow-up opportunities on new logos we added in 2024 and we continue to have a good pipeline behind those. As we've said before, the precise timing of renewals and new business signings can be uneven and we did see some signings shift out of the second quarter due to typical complexities in negotiating large long-term contracts. We expect contract signings on most of these by the end of the quarter which would lead to improved new business TCB in the back half of the year. I want to share a few client wins from the second quarter that help illustrate how we're expanding within the key clients across our segments. In digital workplace solutions, we're expanding IT support to three hospitals recently acquired by a U.S. -for-profit hospital system. Under our existing scope, we provide IT support for around 200,000 end users including frontline healthcare providers and support integration of several acquisitions each year. In cloud application and infrastructure solutions, we're expanding data center management services with a global financial institution adding two additional data centers in Asia Pacific to support increasing transaction volumes in their card services business. We also extended our existing agreement for data center management and the network services we provide in 58 countries globally. In enterprise computing solutions, we'll be leading a project to upgrade core banking systems to the next generation of ClearPath forward systems. This is a large-scale transformation including new data center, adopting networking standards, and building a new architecture designed for reuse and scalability all crucial to maintaining service and 24-hour support for roughly 50 million customers checking and savings accounts. Shifting the discussion to our solution portfolio, we continue to invest in innovation and operationalizing AI to scale our delivery. We see an outsized benefit from AI as it begins to shift our delivery from a labor augmented by technology model to one that is led by technology and augmented by labor. AI gives us the ability to scale delivery and shrink the size advantage historically held by larger competitors which makes it easier to penetrate the market with differentiated solutions. In digital workplace solutions, our device

subscription service or DSS provides an early example of how we can combine AI with unique data sets, domain expertise, and specialized services to attract some of the largest organizations to Unisys. Similar momentum is building within our service experience accelerator or SEA, the technology framework powering our next generation service desk. SEA harnesses generative and agentic AI, service data analytics, and intelligent workflow automation to provide highly automated omni-channel service desk within a client's trusted network. SEA is resonating with clients and prospects in part because of its differentiated knowledge management capabilities which enhances the accuracy and efficiency of issue resolution. One of the biggest impediments to AI adoption is the cost and challenge of building and maintaining quality training data for AI models which is leading to hallucinations and pressuring business cases for deployment. SEA uses our custom developed machine learning models along with LLMs to automate the cleansing of low quality or outdated information, identifying knowledge gaps and self-generating content in response to new issues, increasing the efficiency and effectiveness of virtual agents. SEA is in production for several clients and while it's early days we're seeing -to-end automation resolution increase from an average of 15 to 40 percent, translating to a better client experience while lowering the cost of high quality delivery. We're currently pursuing multiple patents for the IP related to these differentiated capabilities. In field services, we are continuing to scale our specialized capabilities in high value infrastructure services including high-end storage, networking and liquid cooling. We have a robust pipeline in these higher margin opportunities and expect demand for these services to grow alongside the underlying demand for data center and private cloud capacity. In cloud applications and infrastructure solutions, we're leveraging our centralized application capabilities and hybrid multi-cloud capabilities to execute transformations at scale for some of the largest global enterprises and governmental agencies. We recently shared two client stories that highlight the transformations we've led for two of our premier clients Omnicom and Benjamin Moore. I encourage you to take a look at the videos and marketing materials on our website to hear more about our impact directly from the CIOs of those organizations. We have a robust pipeline in cloud services and are continuing to enhance our cloud managed services and our data center managed services which we collectively refer to as intelligent operations. This unified foundation is our framework for delivering seamlessly integrated AI ops to manage hybrid infrastructure environments and leverages -in-class partner technology coupled with Unisys accelerators. The result is a highly automated intelligence driven delivery model that enhances performance and resilience while driving efficiency and cost optimization at scale. Cyber security continues to be an area of focus and urgency for our clients and we continue to evolve our offerings for SOC transformation, cyber recovery, continuous threat exposure management, digital identity and management, managed detection and response and secure network access services. In ECS we're advancing our clear path forward 2050 strategy to expand our proprietary ecosystem to enable the modernization of hybrid infrastructure and applications and unlock valuable data residing on our platforms as well as increasing the speed of deploying security encryption algorithms to respond to dynamic threats. We recently migrated several clients to the newest version of our ePortal which connects the structured data on our platforms to front-end applications to power insights throughout the enterprise. Our clear path forward strategy enables us to maximize value by integrating our platform evolution while delivering features and capabilities specifically requested by clients and provides cross-selling opportunities. Alongside solution development we continue to advance our alliance partner strategy. One element is going deeper into a smaller set of alliance partners to forge a more impactful and mutually beneficial relationship. Some of our larger alliance partners are starting to view solutions such as DSS and specialized field services as additive capabilities our partners can provide to their clients and they're bringing us into some of their pipeline opportunities. Last month we received three prestigious awards at Dell Tech World signaling our growth influence with one of our largest alliance partners. This included being named Dell's 2025 global alliance growth partner of the year. We are also expanding our access to addressable markets by adding partners that increase the range of solutions we can offer to better help clients leverage their existing technology or provide them lower cost alternatives. ITSM partnerships with EasyVista and FreshWorks are one example that we discussed last quarter and in the second quarter we expanded our DSS offering into Apple devices and are exploring expansion into peripheral devices beyond PCs. We're continuing to see increased awareness and recognition with both industry analysts and advisors. In Q2 we appeared in seven major industry reports and received new and improved rankings in state and local and higher education digital services. We were named a leader in new report on attack surface

management, retained our designation as a leader in data center security and innovator in application services and improved our position in applied AI services. In digital workplace we received best service improvement initiatives award from the help desk institute and finally I'm especially proud that Newsweek recently named us one of the to fostering a dynamic empowered workforce which is apparent in our very low trailing 12-month attrition rate of 11.7%. With that I'll turn the call over to Deb to discuss our results in more detail.

## **Deb McCann | CFO:**

Thank you Mike and good morning everyone. As a reminder my discussion today will reference slides from the supplemental presentation posted on our website. I will discuss total revenue growth both as reported and in constant currency and segment growth in constant currency only. I will also provide information excluding license and support revenue for XL&S to allow investors to assess the progress we are making outside the portion of ECS where revenue and profit recognition is tied to license renewal timing, which can be uneven between quarters. We are pleased with the sequential improvement we were able to achieve on both the top and bottom lines allowing us to raise our non-GAAP operating margin guidance and pre-pension pre-cash flow expectations. For top line, we tempered our growth outlook to reflect macroeconomic related uncertainty impacting the broader industry as well as some shift in timing of backlog conversion. At the same time, many of our most innovative solutions support the type of efficiency goals being broadly prioritized and are resonating with clients. Looking at our results in more detail, you can see on slide 4 that second quarter revenue was \$483 million, an increase of .1% year over year or .0% in constant currency. Excluding license and support, second quarter revenue was \$396 million, essentially flat year over year and in constant currency. We exceeded the sequential growth we expected starting the quarter with revenue up .5% in constant currency and .5% in XL&S solutions. We continue to expect a stronger back half with a higher weighting of license and support renewals and improvement in our XL&S solutions. We have visibility into more upfront revenue and project work associated with certain signings primarily in the fourth quarter, though some of this is subject to final deal terms that could impact revenue recognition. Our updated revenue guidance range accounts for some of this revenue to be recognized over time. I will now discuss our segment revenue which you can find on slide 4 in constant currency terms. Digital workplace solutions revenue was \$138 million, a .6% increase compared to the prior year period. Year to date, revenue was down .4% year over year due to the higher volumes of PC-related services in the prior year period, but we are pleased with the segment's 13% sequential growth in the second quarter. Growth was driven by 2024 new business and ramping volumes in high-end storage field services while PC-related services have stabilized and project work related to Windows 11 upgrades has begun to materialize. The quarter also benefited from some accelerated PC hardware revenue which we expect to result in a slight sequential decline in third quarter segment revenue. Cloud applications and infrastructure solutions revenue was \$185 million in the second quarter, a .9% decline compared to the prior year period. This segment has our highest public sector exposure where client sentiment remains somewhat muted due to funding and geopolitical concerns. We saw some lower volumes at clients where projects ended and new investments are being approached cautiously. However, the segment revenue grew 2% sequentially and we expect year over year growth to inflect positively in the fourth quarter. We are encouraged by the strength of CA&I pipeline growth with many of our new opportunities coming from public sector clients including in higher education which could be a sign of easing pressures. These opportunities span projects and multi-year contracts in cloud transformation, data center management, application services and security. Enterprise computing solutions revenue was \$140 million in the second quarter, an increase of .2% compared to the prior year period. Within the segment, L&S revenue was \$88 million up .7% year over year in constant currency. This exceeded the \$70 million we had expected for the quarter largely due to some acceleration of revenue we expected in third quarter which included integrated system sales. Increased client consumption provided additional benefit extending the favorable trend from recent quarters. Specialized services and next generation compute solutions revenue grew .3% on some higher volumes and project work in business process solutions some of which we expect to moderate in the back half. Prelling 12-month book to bill is 1.0 times for both the total company and our

XL&S solutions which is relatively flat sequentially. We exited the quarter with a backlog of \$2.9 billion up 5% year over year. As we mentioned previously, 2025 is a higher renewal year with much of that TCB concentrated in the fourth quarter. So we expect this to be a low point of the year for both backlog and book to bill. Moving to slide 6, second quarter gross profit was \$130 million, a .9% gross margin compared to .2% last year. XL&S gross profit was \$70 million and XL&S gross margin was .6% down 110 basis points on a year over year basis. We discussed gross margins on a gap basis and higher restructuring items in the second quarter were fully responsible for compression in XL&S gross margin in the quarter. Excluding the restructuring charges XL&S gross margin would be relatively flat compared to the prior year. I will now touch briefly on segment gross profit. DWS gross margin was .9% in the quarter, up 70 basis points year over year and up 270 basis points from the first quarter. This was driven by delivery improvements, especially in field services where we have made significant investments to modernize our platform and are benefiting from the ramp up of higher margin infrastructure volumes. The ANI gross margin was .8% in the second quarter of 10 basis points year over year. We continue to focus on workforce optimization initiatives, achieving synergies within our recently centralized application capabilities and are increasing our use of automation and AI. These initiatives have helped us maintain profitability despite some of the revenue headwinds in the segment. ECS gross margin was .5% in the second quarter, up slightly from .3% in the prior year. Moving to slide 7, second quarter non-GAAP operating profit margin was 7.6%, up from .1% in the prior period, driven by higher L&S revenue as well as improved operational efficiency. Operating expenses in the second quarter declined .2% year over year and are down 10% in the first half, driven by savings of the ongoing execution of our SG&A reduction initiatives, which are nearing the later stages and should give us close to a full year benefit in 2026. Second quarter adjusted EBITDA was \$61 million and adjusted EBITDA margin was 12.7%, representing a 50 basis point margin expansion year over year. Second quarter net income was negative \$20 million, translating to diluted loss of \$0.28 per share. Adjusted net income was \$14 million for the quarter or diluted earnings per share of \$0.19. Going forward, we expect increased volatility in GAAP net income and earnings per share due to foreign exchange gains and losses. This is due to actions we have taken to unwind currency hedges on intercompany loans. This will not impact adjusted net income. These hedges have historically offset currency impact in our income statement, but cause volatility in our cash balances. This change in hedging strategy reflects our priority to reduce cash volatility to support the execution of our pension strategy. Turning to slide 8, capital expenditures totaled approximately \$20 million in the second quarter and \$40 million year to date relatively flat year over year. As a reminder, a significant portion of capital expenditure relates to relatively steady levels of solution development for our L&S platforms while we maintain a capital light strategy in our XL&S solutions. Free pension, free cash flow in the second quarter, which is free cash flow prior to pension and post retirement contributions, was negative \$58 million driven by some fluctuations in working capital that we expect to reverse in the third quarter. Free cash flow was negative \$337 million in the second quarter compared to negative \$19 million in the prior year period. This reflects the \$250 million discretionary contribution that we made to our U.S. qualified defined benefit plans in June, as well as approximately \$28 million of our previously communicated 2025 contributions. Moving to slide 9, cash balances were \$301 million as of June 30th compared to \$377 million at year end, reflecting our use of \$50 million cash on hand as part of our \$250 million discretionary pension contribution. \$200 million of that contribution was proceeds from our upsized senior notes issuance of \$700 million, which was also used to extinguish our existing \$485 million of senior secured notes. This transaction has shored up our solid liquidity position by extending our largest maturity to 2031 and renewing our \$125 million asset backed revolver, which remains undrawn. These actions are net leverage neutral and including all pension obligations, our net leverage ratio is 3.4 times, relatively stable on a year over year basis. The \$301 million cash balance and our free cash flow does not include the \$25 million legal settlement proceeds received on July 1st. I will now provide an update on our detailed estimated projections for expected global cash pension contributions and gap deficit relative to our quarterly updates. These projections change based on factors including funding regulations and actuarial assumptions. We estimate that as of June 30th, our global pension deficit is approximately \$500 million down from \$750 million at year end. We expect to make \$55 million of additional planned contributions to our global pensions in 2025, which includes both U.S. and international. As Mike discussed, we shifted the investment strategy within our U.S. plans to remove substantially all contribution volatility. Going forward, we expect the aggregate of our planned contributions through 2029 to move less

than 3%, although there could be some movement between years. You can find updated annual forecasts to the expected contributions to our global pensions for the next five years on slide 16. Turning to slide 10, I will now discuss our financial guidance for the full year. We are updating our total company revenue growth guidance range to negative 1% to positive 1% in constant currency. Based on foreign exchange rates as of the end of the second quarter, this equates to reported revenue growth of negative .5% to positive 1.5%, an increase compared to our expectation last quarter. As Mike mentioned, we have a resilient base of diverse and recurring revenue, though there are some modest headwinds that have continued to impact XL&S constant currency growth. Our guidance now assumes XL&S constant currency to be relatively flat on a -over-year basis, though still positive on a reported basis at quarter-end currency exchange rates. We are increasing our assumption for L&S revenue by \$20 million to approximately \$430 million for the full year. This reflects continued strength in client consumption as well as higher levels of hardware. We continue to expect approximately \$400 million of L&S revenue in 2026. As a reminder, the timing and exact amount of L&S revenue can be difficult to forecast with precision for a given quarter, as it depends on the renewal timing and size, which can change based on client budgeting decisions, consumption levels, and duration preferences, among other factors. We are pleased to be raising our full year non-GAP operating profit margin guidance range to 8% to 9% from a prior range of .5% to 8.5%, reflecting the higher L&S mix and improved operational efficiency. We also expect to execute one or more annuity purchase transactions this year to remove up to \$400 million of U.S. pension liabilities subject to market conditions. This would result in a settlement loss of up to \$290 million impacting GapNet income and earnings per share. This is a non-cash expense of accumulated other losses associated with the pensioners being transferred to a third party, which requires accelerating that portion of amortizing pension expense. For 2025, we now expect approximately \$110 million of pre-pension, pre-cash flow. Our cash outlook assumes most of the incremental L&S revenue will be collected in the first quarter of 2026. We also now expect net interest payments totaling \$3 million, reflecting a shift of our .5-inch payment into January as a result of our recent refinancing. Additionally, we continue to expect capital expenditures of approximately \$95 million, cash taxes of approximately \$70 million, and a net positive \$10 million inflow from environmental, legal, restructuring, and other payments. This is inclusive of the \$25 million one-time payment we received in July related to our favorable legal settlement negotiated in the fourth quarter of last year. We will also make approximately \$55 million of additional pension contributions in the second half, or \$27 million per quarter. Looking specifically at the third quarter, we expect approximately \$390 million of -L&S revenue, coming off a stronger than expected sequential comparison. Based on renewal timing, third quarter L&S revenue is expected to be \$95 million. For total company, we expect a -over-year reported revenue decline in the low single digits and non-GAAP operating margin to be in the mid-single digits. While our guidance implies a strong inflection in the fourth quarter growth, we have a high level of visibility into a very strong increase in L&S revenue and profit. And in -L&S, the vast majority of 2025 revenue is already in backlog. New business is continuing to ramp, and we expect increased services volumes and upfront components on our back-off signings. All of these factors will contribute to what we expect to be a strong positive inflection in fourth quarter revenue growth. Operator, you may now open the line for questions.

### **Operator:**

Thank you. We will now begin the question and answer session. To ask a question, you may press star and then one on your touch phone. If you are using a speaker phone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star and then two to remove yourself from the question queue. The first question we have is from Rod Bourgeois of Deep Dive Equity Research. Please go ahead.

### **Rod Bourgeois | Analyst, Deep Dive Equity Research:**

Rod Bourgeois Okay, guys, and thank you for the detailed update on top of the call that you did recently on the pension front, which was also very helpful. I want to start just by asking if you can break down the components of the change in your new revenue guidance for 2025. If you can just break down the specifics here, that would be helpful.

### **Mike Thompson | CEO and President:**

Mike Hey, Rod. It's Mike. Thanks for the question. I appreciate it and appreciate you joining the previous call as well. Very helpful to have your questions embedded into our dialogue here. So appreciate that. Look, I think in general, the tempering of that guidance was largely related to the macros, right? Just budget uncertainty. As you know, we're pretty heavily weighted in CA and I in public sector and pushing in public sector and higher ed and that's the area where we're seeing some of that, I'll say, muting of contract decisions. Deb mentioned in her prepared remarks, which I think is important to note, that we're continuing to see increased pipeline. So we hope that that pressure is easing and that we'll see some of the relief from this kind of buildup that we've seen over the last, I don't know, 18 to 24 months in general. I think we all feel from an industry perspective that there's a little bit of a backlog there. Certainly some of the discussions recently on the trade elements, et cetera, getting certainty back into the market, we think will really ease that. But that's the primary issue from a macro point of view. Tied to that, I would say there's a component piece related to backlog conversion, right? So we sign a contract and there's a transition period and that transition period can also be a little muted, right, from converting that backlog. How many countries we bring on, what services we bring on first, et cetera. So I think some of that, I'll say, hesitancy in the market, we're also seeing in a little bit of our backlog conversion. But importantly, I'll note that that has no bearing on the overall contract value that we're going to see or the term on that contract. So we expect it all to come in in the same manner that we signed it. It's really just how quickly it ramps. And then lastly, as we looked at things in the queue, there's a revenue recognition component of contracts that we're currently negotiating, which again, we feel like they're kind of an in-call perspective from our point of view. Those contracts have elements to them that could be upfront or overtime from a revenue recognition perspective. So we thought it important to at least have our guidance reflect the overtime view of those particular contracts as opposed to an upfront view. And so those are really the three primary reasons why we tempered that guidance. But the flip side of that is increasing our profitability and increasing our pre-pension free cash flow value. We feel really good about the continued strength we're seeing in L&S and the pull through there. And again, those other elements in our view are timing elements, not realization elements.

### **Rod Bourgeois | Analyst, Deep Dive Equity Research:**

Okay, great. And it sounds like there's some green shoots happening in the DWS segment. There had been some struggles in that business in recent quarters on volumes. And it sounds like there's some turn there. Can you elaborate also on the DWS volumes and also your progress in ramping the high-performance compute business as well? Thanks.

### **Mike Thompson | CEO and President:**

Yeah, thanks again, Rob, for the questions. You're exactly right. I mean, we've had several quarters of kind of pressure on the traditional field service or PC work in that business. We've seen those volumes from a PC service perspective kind of level off. And we're encouraged that we're seeing some of this PC refresh continue to come in. The conversion to Windows 11, I think, is helping that. So that's one byproduct of the, I'll say, the traditional component of that. And we continue to see increases on the field service's high-end storage and network services. So that volume we're seeing continually ramped. Again, we think that that's aligned to not only what we've got in the pipeline for contracts we've signed, but aligned to what we're seeing

from an industry perspective as we continue to build out these data centers from supporting of AI and the like. So there's a lot more high-end type field services work. And we're really well positioned to take advantage of that, largely because of a lot of work we've done over the last 18 to 24 months getting our field service technicians trained up to handle a lot of that high-end storage. And then lastly, the back part of your question in relation to high-end compute, our L&S business obviously continues to outperform. We've outperformed in 2023, 2024, again here in 2025. And we're not really calling down anything from the future year. So is still being projected at 400 million. So we're seeing advanced consumption in that business. We continue to have good pricing power in that business. We continue to modernize our CPF infrastructure or clear path forward infrastructure, really to support that enhanced data analytics and use of the data on our platform. So that continues to be really strong from our perspective. You should expect, Rod, that we're going to do similar to the investor education session that we did in Q2 in relation to pension and capital structure. We're going to do one for clear path forward to just try to help educate the investor community more on really the strength of business. Because L&S margins are 70 percent and again, continues to outperform.

**Rod Bourgeois | Analyst, Deep Dive Equity Research:**

Very helpful. Thank you.

**Mike Thompson | CEO and President:**

Thanks, Rod.

**Operator:**

The next question we have is from Anya Soderstrom of the DOTI. Please go ahead.

**Anya Soderstrom | Analyst, DOTI:**

Hi, and thank you for taking my questions. So you actually answered one that I had about the L&S and the growth for next year and the implications for the margins and cash flow. It seems like you still expect that to be around 400.

**Mike Thompson | CEO and President:**

Yes, Anya, that's correct. We're still calling for that to be 400. But again, if history is indicative of the future, we hope that that will continue, right? Outperform 23, 24, and 25. And again, the consumption is the story there.

**Anya Soderstrom | Analyst, DOTI:**

Okay, so most of the upsides you've seen this year has come from then increased consumption and not really pull-ins from next year.

**Mike Thompson | CEO and President:**

Yeah, that's correct. And again, I think that's been a very consistent trend. And again, I think it's consistent in the sense that there's this data layer, right? When we talk about the application of AI and utilization of this data set. Well, we have this tremendous, long-standing data set embedded in our platforms that we're seeing this continued use or additional use from the ClearPath Forward ecosystem. And don't forget too that those ecosystems as they get refreshed are more than just a production environment, right? Typically, there is a test environment, a development environment. We talked about a little bit of a pull forward in relation to an integrated system that was shipped in Q2 that we thought would have been shipped in Q3. That is a hardware, software component, integrated package. So there's a little bit of improvement in Q2 that came from Q3. But again, we've taken those elements up. I think, Deb, keep me honest here, but I think we originally started the year at 390 and now we're calling 430. Correct. So the increase in that is really all consumption-based, even though there is a little shift quarter to quarter.

**Deb McCann | CFO:**

Yeah. And also at Investor Day, we were saying more around that 360 average per year. And we've clearly outperformed, as you've said.

**Anya Soderstrom | Analyst, DOTI:**

Okay. Thank you. And also, what's your ability to add new logos in this kind of environment?

**Mike Thompson | CEO and President:**

Look, we're pretty happy with the pipeline that we're seeing from a new logo perspective. We've talked a little bit about the muted aspect of people actually getting to the point of signing the contract. But we're really happy with the pipeline. I mean, remember, our new business is up 15% this year versus first half last year. So we feel really good about what's in that pipeline and really good about the new logo. Our DWS offerings, we talk about DSS, we talk about intelligent operations or service experience accelerator, all resonating in the market, all real value propositions from a client perspective. These are complex, long-term contracts, three to five years in general. And they're multi-BU from our perspective, usually have a component of CA&I and DWS in them. And they just take a good amount of time to work through the logistics. But we're seeing, again, a strong pipeline in the areas where we think we're differentiated. And we're still bullish on our growth and new logo for the year.

**Anya Soderstrom | Analyst, DOTI:**

Okay. Thank you, Alex. Back in the queue.

**Mike Thompson | CEO and President:**

Thanks,

**Operator:**

Anya. Ladies and gentlemen, just a final reminder, if you wish to ask a question, you may press star and then one. We will pause in a moment to see if we have any further questions. At this time, we have no further questions. And that concludes the Q&A session. I would like to turn the conference back over to Mark Thompson for any closing remarks.

**Mike Thompson | CEO and President:**

Thank you, operator. Before we wrap up, I want to emphasize three key points we hope you took away from today's call. First, we're increasing our profitability outlook as a result of continued upsides in our L&S solutions and successful implementation of operational efficiency initiatives, including AI adoption. Second, while we're not immune to some of the macro uncertainty weighing on the industry growth, the impacts are primarily timing and we've got a clear line of sight to achieving our full year objectives. And finally, the steps we've taken to transform our capital structure have removed substantially all volatility in our U.S. pension contributions. And they provide a more defined path for reducing leverage and ultimately removing our U.S. qualified pension obligations in the next three to five years. So thank you for spending time with us today and the great questions. And we look forward to speaking with you again next quarter. With that, operator, you can close out the call.

**Operator:**

Thank you. Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.