NYSE:UIS Q3 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Good day and welcome to the Unisys Corporation third quarter 2026 earnings conference call. All participants will be in a 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 tone phone. To withdraw your question, please press star then two. Please note this event is being recorded. I would now like to turn the conference over to Daniel Ferry, Vice President of Corporate Development and Investor Relations. Please go ahead.

Daniel Ferry | Vice President of Corporate Development and Investor Relations:

Thank you, operator. Good morning, everyone. Thank you for joining us. Yesterday afternoon, Unisys released its third quarter 2026 financial results. Joining me to discuss those results are Mike Thomson, our CEO and President, and Dan McCann, our Chief Financial Officer. As a reminder, today's call contains estimates and other forward-looking statements within the meaning of securities laws. We caution listeners These statements are subject to risks and uncertainties that could cause actual results to differ materially. These items can be found in the forward-looking statement section of yesterday's earnings release furnished on Form 8K in our most recent Form 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 and adjusted EBITDA. These measures exclude certain unusual and non-recurring items such as post-retirement expense, cost reduction activities, and other expenses that the company believes are not indicative of ongoing operations. We believe these measures provide a more complete understanding of our financial performance, but they are not intended to be a substitute Reconciliations for non-GAAP measures are provided in the slides for today's call and are available on our investor website. With that, I'd like to turn the call over to Mike.

Mike Thomson | Chief Executive Officer and President:

Thank you, Dan. Good morning, everyone, and thank you for joining us to discuss the company's third quarter 2026 results. The year continues to move in the right direction, with the third quarter building on a solid first half. Revenue and non-debt profit both finished above the expectations we shared in July, driven by both Technology Solutions and Services, or TSNS, and ClearPath. Given our results to date and our fourth quarter expectations, we're once again raising our full-year total company revenue guidance to negative 3% to negative 1.5% in constant currency, an improvement from negative 5% to negative 3.5%. This marks the second increase of our revenue guidance this year. ClearPath remains on track to achieve the higher $425 million annual revenue expectation we provided in July, and our efficiency initiatives continue to deliver positive results, keeping us on track for the full year profit and free cash flow expectations we provided at the beginning of the year. New business signings remain strong. up 78% year over year and 15% sequentially, building on a positive second quarter. We continue delivering our AI-infused solutions to clients, building on AI skills across our workforce, and broadening our platforms with a growing repository of AI-based automations that help clients adopt quickly and shorten the time to value. That includes our ClearPath ecosystem, where we're advancing our tooling to make it easier for our clients to connect ClearPath data to their enterprise AI workloads. These investments turn current demand into lasting higher value client relationships. As we've discussed for several quarters, AI is changing how IT services are delivered and priced. Science continued adoption of AI affects our business in a few ways. From a revenue perspective, we

experienced pricing headwinds on same scope renewal work, but at the same time, AI has opened up new markets and opportunities for us to pursue. Opportunities like field services for data centers, data readiness and governance, and the orchestration of agentic AI, including autonomous workflow execution, model routing and hosting, and data and tool integration, as well as token economics. On the delivery side of the equation and across nearly every part of our portfolio, AI is transforming the way we deliver. In addition to strong new business signings, this was also our largest renewal quarter so far this year, and clients did more than extend existing solutions. Many added scope, new service areas, and in some cases, new geographies, which are testaments to the quality of our service delivery and the breadth of our portfolio. We signed roughly $1.4 billion of TSNS renewals in 2025 and expect about half of that in 2026. This will put us at approximately $2 billion across the two years, at which point we'll have been through the majority of our contracted base. In many of those renewals, we offset AI-related deflation with added scope, which helped protect the economics of the relationship. With most of that behind us, The pricing reset that came with AI driven efficiency is largely complete and new business is now building on a refreshed base. We have better visibility into our run rate and a clearer path back to growth. The headwinds tied to the historical client losses begin to lap in the back half of next year and absent those we'd be growing above market this year. Turning to the details of the third quarter, Revenue grew 2.5% year-over-year, or 0.6% in constant currency, ahead of the expectations we gave last quarter, with TS&S also up 2.6% or 0.9% in constant currency. Growth in new business with existing clients more than offset lower volumes from previously identified client attrition. We again saw higher hardware volume, including components tied to our Device Lifecycle Management, or DLM, and an uptick in project work in our non-ClearPath ECS business. Clients continue to move forward with project-related AI initiatives, even as budgets remain carefully managed. Non-GAAP operating profit improved by 180 basis points year over year, reflecting the results of ongoing investments in technology, our workforce, and higher value solutions. Total contract value signed in the quarter was $594 million, up 43% year-over-year and 41% sequentially. New business TCV was $221 million, up 78% year-over-year, 15% sequentially, and 61% year-to-date. In DWS and CA&I, new business signings grew by double digits both sequentially and year-over-year and were margin accretive. New business is a measure that will ultimately return those segments to revenue growth and stronger profitability. The S&S renewal TCV was $275 million, up 40% sequentially and up 20% year over year against a difficult comparison since 2025 was our largest renewal year. Win rates on follow-on work with existing clients also remains above our historical levels consistent with what we have seen throughout the year. Several of these quarter wins illustrate improved win rates and new business. Heineken, a global beverage company we already support in the Americas, selected us through a competitive global sourcing process to run its end-user service desk worldwide. We will deliver a single standardized service desk across its operating companies, more than doubling the number we serve today under one governance and delivery model. The win spans both of our core businesses since we also extended our existing cloud and infrastructure agreement with them. Heineken chose us for our service management maturity, our AI enabled and conversational AI capabilities, and our willingness to work within its preferred technology ecosystem rather than requiring proprietary tools. A US state agency that we've served for more than eight years renewed ahead of expiration. We run its data centers and public cloud environments, manage identity and access, and support its modernization work so the renewal reflects the breadth of what we do for this client, not just a single service. The client's decision was based on our service delivery excellence and client satisfaction. We saw a similar pattern with our major U.S. defense contractor, which renewed a broad IT outsourcing engagement spanning our DWS and CA&I segments. We won the competitive bid by positioning ourselves as a trusted advisor through executing measurable operational improvements and consistent delivery execution. The renewal also expands our role. We are extending operating hours and business continuity services. In Mexico, a leading global bank we've supported for more than 17 years signed a three-year managed services renewal covering field services across its nationwide network of 600 branches and 4,000 ATMs. We provide remote support, dedicated onsite teams in major cities, dispatch-based support, asset control, and smart locker services. And we do it using the client's own tools and processes rather than requiring our own. We maintain overall pricing with standard cost of living adjustments, adjusted scope as the client's branch footprint changed, and added reporting and analytics that give the client better visibility today and lay the groundwork for automation and AI. The renewal reflects our ability to adapt as our client's operating model and regulatory requirements evolve. In Asia Pacific, a global

travel technology provider added two additional airports to the onsite engineering work we began earlier this year. That work grew out of our long-standing support for one of the client's technologies businesses. And it now includes dedicated engineers who keep passenger processing equipment running in the airports we serve. It's a clear example of our land that expands strategy. Second expansion in consecutive quarters built on our airport technology expertise and regional presence. Our qualified new business pipeline has now grown sequentially for three consecutive quarters. Thank you for joining us today. are still being scrutinized. But within our client base, project work and AI-related initiatives continue to progress. As we noted last quarter, memory-driven hardware costs are still weighing on the client's budgets and continue to steer IT leaders toward our device lifecycle management services. The hardware itself carries lower margins, but DLM is how we earn the lifecycle, manage services, and service desk the work that follows. We believe our model is also structurally less exposed than many of our peers to the discretionary project layer that is most effective when budgets tighten. Most of what we do is contracted managed services on operating budgets for systems that must run every day, and approximately half of our revenue is generated outside the U.S. For example, our clients cannot defer spend associated with passenger boarding or state revenue processing systems because they want to buy GPUs or memory that's core. As a capital flow into AI infrastructure, that infrastructure still must be installed, cooled, maintained, and very few providers have the global footprint to do that at scale. On AI, we continue to move from capability to client outcomes. and the common thread in our platforms for delivery, leveraging the library of reusable assets and repeatable methods that carry from one client to the next. Argentic Service Desk delivered through our service experience accelerator platform continued to expand its live client base in the quarter with launches at a UK construction and infrastructure client, a global industrial holding group and a manufacturing client. The platform is also moving beyond IT At a global commercial real estate services client, we replaced a legacy tool with ServiceNow HR service delivery and built AI enabled onboarding workflows. At a global quick service restaurant client, coordinated agents diagnose root cause and orchestrate resolution across support towers, often before the restaurant staff reports the issue. Because the platform adopts each user's existing permissions, and enforces them before the AI reasons autonomous resolution can expand across functions without running into data governance limits, which matters to our regulated industry clients. As AI absorbs routine level one issues, we're also upskilling our service desk teams towards knowledge-based roles where the output is judgment, decisions and system improvement. AI is embedded across our solution, so most of its contributions today is indirect Through delivery efficiency and the value of the solutions themselves, alongside a small number of direct AI-driven offerings. Our approach is consultative. We use AI and the client's own data to solve specific problems as an orchestrator and a future state service provider. We remain model agnostic by design. Buyers concerned about sovereignty, data leakage, or IP protection are steered towards open weight models in private environments. while more complex problems go to frontier models and our role is to help clients achieve the desired outcome by orchestrating the right combination of model and infrastructure based on our depth in operating hybrid infrastructure. Our go to market is also increasingly partner influenced and relationship led. We're engaging with clients earlier in our rapid value assessments that we discussed last quarter which provides valuable insight into our skills and early return on their AI investment and opens the door for new business. Opportunities that originate with our alliance partners also continue to take increasing share of the pipeline. In data center field services, a growing focus for us, we announced a partnership in August with Refroid Technologies. It combines their direct to chip and immersion cooling, coolant distribution and load bank technologies with our global field services for deployment, commissioning, Validation, Workforce Enablement, and Lifecycle Support. In AI infrastructure, the constraint is increasingly the skilled expertise to deploy and maintain it, and this partnership builds on the momentum we described last quarter. We're also adding skills and capacities such as liquid cooling to our field service teams to support data center build-out and break-fix. The work extends beyond cooling to rack and stack installation, cabling, network and storage equipment, and ongoing maintenance following the build-out. In security, we integrated Microsoft Security Co-Pilot into our managed detection and response solutions, delivering through our global security operations center alongside Defender and Sentinel. AI agents now automate phishing triage, threat intelligence analysis, and Incident Investigation with a full audit trail. As Agentic AI widens the attack surface, we treat zero-trust identity and post-quantum readiness as foundational to our other offerings. ClearPath revenue was $84 million for the quarter, up 2% year-over-year and down 1% in constant currency, ahead of

the approximately $80 million we expected. We are reaffirming our expectations for full year ClearPath revenue of $425 million, and we continue to expect average annual ClearPath revenue of approximately $400 million in 2027 and 2028. We hosted our ClearPath client conference in London in September, where we demonstrated the next generation of development and AI capabilities, and the response was overwhelmingly positive. Building on the core operating systems release and AI developer toolkit we introduced earlier this year, which eased the integration of ClearPath data with third-party AI applications, we're positioning ClearPath as a data backbone for AI. We're enabling AI at the AD Suite layer, which we believe will lead to growth in MIPS and workloads, and ePortal 13 reaches general availability later in November. We continue to see increased usage of the ClearPath ecosystem and AI continues to act as a tailwind to consumption and rising interest in our digital sovereignty reinforces the value of the platform's control and resiliency characteristics. Third party recognition continues to broaden. Nelson Hall again named us a leader in its 2026 NEET evaluation for AI enabled cloud infrastructure managed services citing our intelligent operation and agentic AI innovation as our Unisys intelligence accelerator platform. In digital workplace powered by our service experience accelerator platform, ISG named us a leader across five regions in its 2026 future of work study. Everest Group named us a leader and a star performer in its 2026 digital workplace services peak matrix for North America and Avasant named us a leader for the fifth consecutive year with its highest rating for future proofing. As we kick off the fourth quarter, we continue to receive recognition from ISG for our agentic and generative AI services. And the XLA Institute awarded us a level four performance, which is the highest level awarded in its inaugural experience management maturity assessment. None of this happens without our people. We continue to invest in enhancing AI skills across the company and aligning those skills with demand. Recently, we were named to Business Insider's 2027 list of America's most innovative businesses. We were also named to Times 2026 list of India's best employers, and for the first time ever, the Wall Street Journal's 2026, America's top 100 most loved workplaces, which reflects the strength of our global workforce and the focus on innovation. That strength also evident in our trailing 12-month attrition rate of 11.9%, reflecting the positive culture at Unisys. With that, I'll turn the call over to Deb to discuss our financial performance in more detail.

Dan McCann | Chief Financial Officer:

Thank you, Mike, and good morning, everyone. As a reminder, my discussion today will reference the supplemental slides on our website. I will discuss the total revenue growth both as reported and in constant currency, and Segment Growth in Constant Currency Only. I will also provide information on Technology Solutions and Services, or TS&S, to allow investors to assess the progress we are making outside of ClearPath, where software license revenue and profit recognition are tied to renewal timing and can be uneven between quarters. As a reminder, ClearPath revenue constitutes about two-thirds of the enterprise computing segment. As Mike discussed, The third quarter came in ahead of the outlook we provided last quarter and it was accompanied by another quarter of strong new business signings. Revenue exceeded our expectations led by TS&S and non-GAAP operating profit margin of 7.2% was above the approximate 4% we guided. We took another meaningful step toward removing our U.S. pension with the annuity purchase we completed in the quarter. Together with the visibility we have into the fourth quarter, These results support the increase to our full-year revenue guidance and our reaffirmed profit guidance. Looking at our results in more detail, you can see on slide 7 that third quarter revenue was $472 million, an increase of 2.5% year-over-year as reported, and 0.6% in constant currency. This was more than $20 million above the outlook we provided last quarter, driven primarily by TS&F, which generated $387 million of revenue, an increase of 2.6% compared to the prior year or 0.9% in constant currency. The increase was primarily driven by new business with existing clients partially offset by lower volume from known client attrition. That compares to the $370 million we expected. ClearPass revenue for the quarter was $84 million, slightly ahead of the $80 million expectation We outlined last quarter. On a year-to-date basis, total revenue for the company was up 0.5% as reported or down 3.1% in constant currency. And TSNS revenue was up 2.6% as reported or down 1.1% in constant currency. Staying on slide seven, I will now discuss third quarter revenue by segment in constant currency terms. Digital workplace solutions revenue of $130 million increased 1.7%. primarily driven by new

business and higher hardware revenue, partially offset by the client attrition we have discussed in prior quarters. Hardware, including components associated with our device lifecycle management offering, or DLM, can carry lower margins when Unisys procures the devices, but DLM increases the stickiness of client relationships and provides an entry point for expanding into higher value services. Cloud applications and infrastructure solutions revenue was $180 million, a year-over-year decline of 1.2%. The rate of decline has improved by more than 5.5 points compared to the third quarter of last year. The decline reflects client attrition partially offset by new business and higher volumes with existing clients. Enterprise Computing Solutions revenue was $141 million, up 2.7% year-over-year. ClearPath revenue of $84 million was slightly above our expectations. Specialized Services and Next Generation Compute Solutions, or SS&C, which make up the remainder of the segment, generated $56 million of revenue and was up 8.6% year-over-year. The increase was primarily driven by higher specialized project work in business process solutions. Year-to-date, we have signed $1.3 billion of TCV, up 22%, including $571 million of new business TCV, an increase of 61% compared to the first nine months of last year. Trailing 12-month book-to-bill is 1.2 times for the total company and 1.3 times for TS&S. We exited the quarter with backlog of $2.92 billion, up 3% year-over-year, primarily driven by CA&I, whose backlog was up double digits. Moving to slide nine, third quarter gross profit was $126 million and gross margin was 26.7% up 120 basis points from 25.5% last year. The improvement was primarily driven by the mix embedded in the ClearPath license renewals, partially offset by higher cost reduction charges. TSNS gross profit was $64 million and gross margin was 16.6% down 200 basis points year over year primarily driven by higher cost reduction charges. During the third quarter gross profit margin and TSNS gross profit margin benefited by approximately 50 and 70 basis points respectively from a first quarter transaction within the company's UK business process outsourcing consolidated joint venture. As we disclosed earlier, we will see the same size dollar benefit in the fourth quarter as this transaction is expected to generate gross profit benefit of approximately $3 million quarterly and $12 million for the full year 2026. On a year-to-date basis, gross margin for the total company is 25.7%, relatively flat year-over-year, and TS&S gross margin is 18.5% of 50 basis points from 18% last year. Turning to segment gross profit, DWS gross margin was 9.5% compared to 16.2% in the prior year. The decline reflects known client attrition, hardware mix, and continued implementation and delivery costs on the transition of a large new client we signed in the first quarter, which I discussed last quarter. We view these investments as foundational to future expansion and to demonstrating agentic service desk at scale. CA&I gross margin was 20.6%, up 100 basis points year over year, primarily driven by delivery improvements. ECS gross margin was 55.5%, up more than 900 basis points from 46.2% last year, primarily driven by the mix embedded in the ClearPath license renewals. Within the segment, ClearPath gross margin was 73.1% compared to 56.6% last year, as we had a higher mix of software licenses versus hardware this year compared to the prior year. Moving to slide 10, third quarter GAAP operating profit was $24 million compared to a GAAP operating loss of $34 million in the prior year period, which included a $55 million non-cash goodwill impairment charge. Non-GAAP operating profit was $34 million, a margin of 7.2%, up 180 basis points from 5.4% in the prior year and well above the approximate 4% outlook we provided last quarter driven by higher ClearPath margins. Year-to-date non-GAAP operating profit margin is 5.7% compared to 5.3% last year. Third quarter net loss is $201 million, translating to a diluted loss of $2.76 per share. On an adjusted basis, net loss is $8.5 million, or a diluted loss per share of 12 cents. The third quarter included a non-cash pension settlement expense of $151 million net of tax related to the annuity purchase. As we have previously discussed, this is an important element of our pension removal strategy. Turning to slide 11, adjusted EBITDA was $60 million in the quarter, a margin of 12.7% up 220 basis points from 10.5% last year. Year to date, adjusted EBITDA is $160 million, or 11.5% of revenue, compared to 10.9% in the prior year period. Capital expenditures totaled approximately $22 million in the quarter and $66 million year to date. As a reminder, about half of our annual capital expenditures are relatively fixed levels of solution development for our ClearPath ecosystem. Cash used for operations was $36 million and free cash flow was negative $58 million compared to positive $20 million in the prior year period, which included the receipt of a one-time $25 million legal settlement. The decline also reflects the semi-annual interest payment of $37 million on our 2031 senior secured notes, which as a reminder now falls in the first and third quarters. and the timing of ClearPath renewals and the associated collections. In the third quarter, we made cash contributions of $30 million to our global pension plans and $0.6 million to post-retirement benefit plans. Pre-pension and post-retirement free

cash flow was negative $27 million compared to positive $51 million last year and adjusted free cash flow was negative $19 million compared to positive $30 million. Moving to slide 12, our cash balance is $264 million as of September 30th compared to $414 million at year end. Our cash balances are impacted by the timing of interest and pension and post-retirement payments, as well as cash collections related to ClearPath. Also, as we have said before, with the fourth quarter being our largest ClearPath quarter, the timing of renewals late in the quarter could move cash between the fourth quarter and first quarter of 2027. Our liquidity remains solid. Our $125 million asset-based revolver remains undrawn, and we have no meaningful debt maturities before 2031. At year end, our global pension deficit was approximately $450 million. Based on market conditions and our year-to-date pension contributions, we estimate that as of September 30th, our global pension deficit has improved by approximately $30 to $40 million from year end. Our net leverage ratio, including the year-end pension deficit, is approximately 3.2 times compared to 3.7 times a year ago. I will now provide an update on our global pension plans. During the quarter, we completed an annuity purchase that transferred approximately $200 million of projected U.S.-defined benefit pension liabilities and a similar amount of plan assets to a third-party insurer. This transaction resulted in the non-cash settlement expense I mentioned, which reflects accelerating accumulated actuarial losses associated with the participants' transfers and is excluded from our non-GAAP results. Although annuity purchases do not materially impact the deficit, they reduce our gross pension liabilities and ongoing maintenance costs and allow us to remove those liabilities at a lower cost than at full plan termination. Because the annuity purchases are funded with plan assets, They do not impact company cash. Including this transaction, we have reduced approximately $520 million of U.S. qualified defined benefit plan liabilities since July 2025 toward our approximate $600 million target and we expect to complete an additional pension transaction in the first half of 2027 to substantially achieve this objective. Each year end, we provide more detailed estimated projections for our pension deficit and expected global cash pension contributions relative to our quarterly updates. These projections change based on factors including funding regulations and actuarial assumptions. We expect approximately $9 million of global pension contributions in the fourth quarter resulting in total 2026 contributions of approximately $97 million. We estimate that our aggregated expected cash contributions in 2027 remain essentially unchanged from our year-end projections. As we have discussed, the actions we took in 2025 to increase fixed income allocations in our U.S. plans substantially removed the volatility from our expected U.S. contributions, and because plan assets now move in step with plan liabilities, changes in interest rates have a minimal impact on our U.S. contributions and deficits. With continued operational and financial execution, we expect to be positioned for the potential full removal of our U.S. defined benefit pension plans in the next three to four years, after which U.S. pension contributions would cease. Turning to slide 14, I will now discuss our full-year financial guidance and additional color. We are increasing our full-year revenue guidance to a decline of 3% to 1.5% in constant currency, from the decline of 5% to 3.5% we reaffirmed last quarter. Based on September 30th foreign exchange rates, this equates to reported revenue decline of negative 0.4% to positive 1.1%. Guidance assumes TSNS revenue constant currency decline of 3% to 1% and a full year clear path revenue of approximately $425 million unchanged from last quarter. We also continue to expect average annual ClearPath revenue of approximately $400 million in 2027 and 2028. Our 2026 revised guidance implies fourth quarter total company revenue of approximately $570 million, which assumes approximately $205 million of ClearPath revenue. We are reiterating our full year non-GAAP operating profit margin guidance of 9 to 11%. implying fourth quarter non-GAAP operating margin in the mid to high teens due to the concentration of ClearPass revenue we expect. Our expectation for full year free cash flow is unchanged at approximately negative $25 million, which translates to approximately $75 million of pre-pension and post-retirement free cash flow. This assumes approximate payments of $85 million in capital expenditures, $70 million in cash taxes, $70 million of net interest payments, 45 million dollars in aggregate legal environmental and restructuring payments and approximately 100 million dollars of pension and post-retirement contributions. We are focused on continuing to increase our operational efficiency and profitability to maximize our underlying cash generation for investment and capital return. I will now pass it back to Mike for a few additional remarks.

Mike Thomson | Chief Executive Officer and President:

Thanks Deb. To reiterate, we're pleased with our results this quarter, which reflects steady execution of our strategy. As we look ahead, our priorities are consistent with what we've outlined in prior quarters, working through the TSNS renewal cycle, which is largely behind us, expanding within our client base, and investing where we think demand is heading, in agentic services, AI infrastructure, and the ClearPath ecosystem. Thank you for participating in today's call. Operator, you may now open up the line for questions.

Operator | Conference Call Operator:

We will now begin the question and answer session. To ask a question, you may press star then one on your touch tone phone. If you are using a speakerphone, please pick up your handset before pressing any keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. The first question today comes from Rod Bourgeois with Deep Dive Equity Research. Please go ahead.

Rod Bourgeois | Analyst, Deep Dive Equity Research:

Thank you. Yeah, so I want to start with the growth in TS&S. It's nice to see that that growth got back to slightly positive year over year. The question I have is, at what point should we expect TS&S to really be able to sustain that steadily positive growth? and can you speak to the main enablers of that growth and also the challenges that you still see there?

Matt Desort | Analyst, William Blair:

Thanks.

Mike Thomson | Chief Executive Officer and President:

Hey, Rod. Thanks for the question. Much appreciated. Yeah, we were really pleased with the quarter and the growth that we saw on the quarter. I think consistent with what we have been saying historically, There's a couple factors really at play for, I'll say, ongoing kind of growth inflection point in that business. In general, you know, obviously we got to see, since we're talking growth rates, how we close out the year. We will certainly give an update on that when we get into Q4 and give guidance for next year. So, you know, part of that is really about closing the deals in the fourth quarter and and how that's going to inflect on growth. The two, I would say, prevailing things that we've talked about historically is really lapping the attrition from client losses from exiting in the end of 25 or early in 26, right? We had mentioned that those ultimately lap in the back half of next year. So that's kind of a point of contention there as far as Lapping those existing ones. And then, you know, ultimately, you know, we're talking about the refresh base, right? And I think that's probably the better underlying contribution to how that reset comes into play. And, you know, when I think about that reset base, we had a very high significant reset and we're basically through that, right? So we had a huge reset over last year as far as renewals are concerned. We did about 1.4 billion in TSNS. We had roughly another 600 million anticipated this year. So that base behind us, we've basically come through that cycle and the lapping of those clients are kind of the barriers to that growth. As I mentioned in my prepared remarks You know, as you've seen this quarter, if not for that, we'd be growing right now at above market. So we like what we're seeing in the backlog. We like what we're seeing from a TCV perspective in that business. And we like the conversations that we're having with clients. We've talked about the increased book to bill already. and we've talked about the backlog growth consecutively. So feel good about the trajectory. Got a couple of things that we have to overcome which will roll off in the back half of next year and then we've got to execute Q4 closing of New Deal. So those are the primary reasons.

Rod Bourgeois | Analyst, Deep Dive Equity Research:

Okay, great. And I'd like to just follow up to dive deeper into the DWS margin decline. What I want to ask about is how much of the DWS margin challenge is due to intentional investments like in the next generation data center work and the agentic help desk and so on. How much of the margin challenge is due to those intentional investments versus headwinds from things like client attrition and the hardware mix and so on? Can you help us demarcate between What's intentional and what's a margin challenge that you have to sort through?

Mike Thomson | Chief Executive Officer and President:

Yeah, I don't know that I could give the actual percentage mix of those elements, Rob, but what I will say is obviously the client attrition we've talked about and that runoff continues to kind of decline in its impact. I would say the larger portion would be the combination of mixed We've talked about the investment in the deployment of our agentic service desk, right? And the fact that we will be about 40% through our client base by the end of this year in delivery. So it gives you a sense of, you know, how that's being rolled out and the investment there. There's investment in staffing and training. That's aligned to our AI First strategy. So that's certainly intentional and we've gotten really pretty deep in the associate base with that training. So we feel really good about where we are. And I would say, you know, the lion's share of that is behind us as well. And then, of course, as we deploy These agentic service desks at scale, we continue through transition of large new logos. And so, you know, there's always learnings from that that we continue to invest in because we think it's really foundational to that expansion. Look, the thing I would say to you that's the most encouraging in my mind is that forward-looking indicator on the DWS new business. TCV is up 183% year-over-year in the quarter, and that's margin accretive. So that's really what's going to rebuild that segment's revenue and profitability and, again, feel really good about that. And so as we have a mix here, especially in DWS where our device lifecycle management is kind of the flagship that's carrying our services to these clients, depending on the proportional hardware or third party components of that, that's dilutive to our margin percent but accretive to margin dollars. And we see that as the gateway to our other services. So again, feel really good about the direction of where we're going. The timing is really predicated on kind of the roll off of of those are traded clients and then the deployment of that service desk to our entire base.

Rod Bourgeois | Analyst, Deep Dive Equity Research:

That's helpful detail. Hey, can you tell us a new business in DWS being margin accretive? Why is it margin accretive? Is it that it's a low hardware mix or are there other factors?

Mike Thomson | Chief Executive Officer and President:

No, look, I think the hardware mix that we're looking at is going to be fairly consistent between the current year and what we're expecting in next year. It's our services portion of that hardware mix that is becoming more accretive. Understood. Thank you.

Rod Bourgeois | Analyst, Deep Dive Equity Research:

Thanks, Rob.

Operator | Conference Call Operator:

The next question comes from Matt Desort with William Blair. Please go ahead.

Matt Desort | Analyst, William Blair:

Hi team, this is Matt on for Maggie Nolan. Thanks for taking our questions. Congrats on the quarter. New TCD signings obviously remain impressive. I think they accelerated in the corner. Just how should investors think about The composition of that new work that you're signing and the cadence that you expect that to convert to revenue over the next 12 months or how we should think about that timing and then the margin composition of that TCB as well would be helpful. Thanks.

Mike Thomson | Chief Executive Officer and President:

Great. Thanks, Matt, for the question. Appreciate the time. So look, we're very pleased with the TCB signings, as you noted. Our new business, TCB, up almost or over 78% for the year, 15% quarter over quarter, so really strong. I think it's probably indicative, too, of what we're seeing in the market. We continue now to start to see, I think it's really a byproduct of educated consumers. The value that the AI is now bringing is being much more focused in areas of business improvement as opposed to, hey, we're going to try to replace our entire stack with an agentic AI component. So I really think it is ongoing and indicative of how we should continue to see the market recovery from a services perspective, and we fully expect to win our share of that. I think when you think about the conversion of that TCV to revenue for the second part of your question, there's typically kind of an integration period or an installation period for this. Figure that's like a three to six month transition to get us into revenue recognition, which is again why we think about the back half of next year as being that catalyst for that inflection point and then ultimately the margin anticipated on that new business, as I mentioned on the tail end of Rod's question, the services that we're performing are higher margin services, if you will. So we expect that, again, as we get to normal run rates. So there's a difference between the time it takes for revenue accretion and then run rate margin, right? So typically you've got a shorter time to get to revenue that three to six month period and starting to get to run rates. And then over the course of that deal, most of our work as you know is managed services in say three year contracts when we're talking about TSNS. normally you're in the 12 to 18 month by the time you're at run rate margin profile on those accounts so you know there's a little staggering of those two but net net for the for the contracts we're signing we expect margin accretion based on the type of work that we're doing.

Matt Desort | Analyst, William Blair:

Got it that's that's helpful and then can I ask about the Fourth quarter clear path forward expectations. I guess how much of the 205 million, if any, is already signed? And I guess what's your level of confidence in these renewals versus 90 days ago? And then, you know, what's assumed in that 205 across pricing, consumption, and then just split across software and services?

Mike Thomson | Chief Executive Officer and President:

Okay, I'll give you some of that, some of which is kind of difficult to get to, I think. Well, first off, it's not software and services. It's all software when we talk about that component piece of the 205. That's the licensing component traditionally is what we're talking about. There are some services elements to that, but that comes in over time, not up front as far as the revenue recognition is concerned. The confidence level we have in the ClearPass signings and the visibility is extremely high. This is very consistent with what we do every year, as Deb mentioned in her prepared remarks. So clear visibility into it. Most of these deals, you know, actually are tied to calendar year end. So when we think about this, it's not unusual that they come in

in, you know, frankly, in December. We do try when we're negotiating these to change that trajectory for future renewals because it's always difficult to have something back loaded at the back end of the year, especially when we talk about the cash collection. Most of the cash collection is within 90 days of the signing of the contract, sometimes shorter than that. So we like to sign those earlier in the quarter so that we get the cash in year as well. Very little concern about if they're signing. It's really when they sign, right? These are mission critical systems that go dark upon non-renewal, right? So very high degree of confidence as it pertains to the P&L component of that. And then the only mix would be whether or not it slides later into the quarter and then that cash pushes into Q1 as opposed to being recognized in Q4. So I think I picked off all of those questions, but if I missed one, please feel free to reiterate.

Matt Desort | Analyst, William Blair:

No, thanks. I'll get back in the queue. Thanks, guys. Great. Thank you, Matt.

Operator | Conference Call Operator:

As a reminder, if you would like to ask a question, please press star then one to join the question queue. The next question comes from Anya Soderstrom with Sudoti. Please go ahead.

Anya Soderstrom | Analyst, Sudoti:

Thank you for taking my questions and congrats on the next quarter. I'm just curious with the cash flow target for 2026, how dependent, what does that assume in terms of the clear path renewals? You're saying some of that might happen late in the and the cash collection might not happen until next year. So how should we think about that in terms of cash flow?

Mike Thomson | Chief Executive Officer and President:

Deb, you want to take that one?

Dan McCann | Chief Financial Officer:

Yeah, so thank you, Anya. Yeah, I mean, our assumption is that we do get the majority of the cash from those signings in Q4. And so as Mike mentioned, you know, that's the revenue. We're very, you know, have a high degree of confidence. Sometimes the cash, depending on when it signs, but we are assuming, you know, that that cash comes in in Q4. because it typically does, right? And so, but there is that risk. But we would, but that's, you know, to still get it. So we are, you know, saying we're still on track for that negative 25 million.

Anya Soderstrom | Analyst, Sudoti:

Okay, thank you. And then how should we think about the cash flow for 2027?

Dan McCann | Chief Financial Officer:

Yeah, we're not, you know, right now going to give 227 guidance on that. But, you know, they're, Yeah, so really not much to say on 2027 at this point. Yeah, we'll do that obviously.

Mike Thomson | Chief Executive Officer and President:

We'll do Q4 and we close out. We'll give guidance for the year and Deb will do her normal walk of all the expectations of cash going into 2027. Right.

Anya Soderstrom | Analyst, Sudoti:

Okay, thank you. And then, have you seen any sort of changes in sort of the sentiment to demand picture given the high interest rates, or does that not really affect your demand picture?

Mike Thomson | Chief Executive Officer and President:

Yeah, look, I mean, obviously interest rates have been bouncing around. Expectation is that they're going to increase, and clearly that could have an impact on client demand, right, from availability for CapEx. But just as a reminder, the work that we do for our clients is non-discretionary work for the most part, right? And We don't see that as having a tremendous impact on the primary work we do for our clients. You think about our makeup. It's about 80% of our backlog or our revenue is coming from our backlog, which is on longer-term managed services contracts. The impact that that has is largely on project work. and the funding for discretionary project work, which is limited to our application to our clients right now. So it's not a huge factor from our perspective in our concepts. And if you think about the knock-on impact that it would have had historically to pensions, we mitigated that over a year ago when we aligned our pension investment strategy to rates, right? So the rate component of that movement has been mitigated from a contributions point of view. So not tremendously influential in kind of how we're dealing with the demand from our clients.

Anya Soderstrom | Analyst, Sudoti:

Okay, thank you.

Operator | Conference Call Operator:

That was all for me.

Matt Desort | Analyst, William Blair:

Great. Thanks, Anya.

Operator | Conference Call Operator:

Anya. Once again, to ask a question, please press star, then one. The next question comes from Matthew Galinka with Maxim. Please go ahead.

Matthew Galinka | Analyst, Maxim:

Hey, good morning. Thanks for taking my question. I was just hoping you could maybe expand a little bit on the pipeline you're seeing for data center field services. How has that kind of evolved to this point in the year? And maybe as a follow up, if you could give any maybe early indication of how midterm You know, elections and maybe change of control in some states might impact how you see that pipeline converting.

Mike Thomson | Chief Executive Officer and President:

Thank you. Hey Matt, thanks for the question and joining the call. And they're great questions. Look, I think obviously we've talked a lot about this. We think this is a real opportunity for us in a multitude of ways. I discussed in my prepared remarks our partnership with Reefroid Technologies, which is really about a different avenue for us getting into the build side of these data centers, to kind of follow where some of those dollars are going. We also have some white label relationships where we're the installation arm in relation to that. So we're looking at a whole different set of point of entry into that business, right, from an infrastructure management point of view. You know, clearly working through some of our alliance partners, specifically the hyperscalers, which are, you know, highly engaged in this. So I would say I like how the discussions are developing and it's kind of a new motion for us to get after different entry points into the build side of this. We're usually Coming in on the run side or the break-fix side. And it's a whole different construct of how we go to market and who we go to market with. So the orchestration there has been a little new motion for us. But again, I like where it's developing. And you're seeing us now have conversations with, again, kind of the hypervisor side, the building communities, some of the manufacturing components, and then our traditional kind of OEM touch points. So going pretty well. As far as the election is concerned, look, I mean, we're agnostic really to, you know, the elements of who's kind of in office per se, but, you know, the market likes stability and I think our clients would like stability and the fact that There's a lot more balance, per se, in the legislative component of the makeup of the Congress. Probably sets us on a pretty defined path. Clearly, data center bills was a component piece of that election. But our view is that is going to shift, right? So if state A decides that they have a negative perception of that build and state B decides they want to We think the build is going to continue. It's just a matter of kind of what state it resides in and or whether or not it's in the U.S. or remote. But as you know, we've got a global footprint and we're prepared to support this type of work effort regardless of where it ultimately gets built. So, you know, from our point of view, the investment continues to happen and it might just be a geography switch. Very helpful.

Matthew Galinka | Analyst, Maxim:

Thank you.

Mike Thomson | Chief Executive Officer and President:

Thanks, Matt.

Operator | Conference Call Operator:

This concludes our question and answer session and concludes our conference call today. Thank you for attending today's presentation. You may now disconnect.