Unisys credit problems

Business

Unisys Credit Problems due Unisys Credit Problems The scenario in which Unisys finds itself is one where it might be forced to fall short of providing its services to its main client, the U. S government. Unisys has been enjoying large lucrative contracts from the government to provide IT services. This is in danger since the company will soon find it difficult to raise the finance required to meet the same. This has been caused due to the economic meltdown which has caused instability in the value of bonds, letters of credit and foreign exchange derivatives. The amount in bonds that is in the market which Unisys has invested will contribute to a greater loss if the company were to use them to remain liquid and be able to fund its operations with the ultimate consequence being a rights issue to finance the deficit. This situation has forced the company to rethink its position on the revolving credit facility which it operates with various funding institutions to the tune of $275 million. The idea is not to renew it and avoid the escalating interests due to such. This presents the company with the challenge of how it will be able to finance its operations and come out of the financial crisis.

The management theory available for use by the firm is that what has to be done for the business to remain a float must be done. The company’s management will therefore review the available options and make crucial decisions on which ones are relevant so as to implement the most effective ones.

The alternatives available at the disposal of Unisys are numerous but not with serious economic consequences. It seemingly must repay the debt of $300 million by the time of expiry of the revolving credit facility. Unisys can seek funding through issuing additional shares in the market (Malz, 2011). This might not be popular with investors since the market is already volatile and most people, especially companies in the debt market such as Bloomberg realize that Unisys has the most expensive borrowing costs compared to other IT companies such as Affiliated Computer and IBM.

The other possibility for Unisys is to cut down on employment expenses by laying-off employees so as to reduce operating expenses (Harvard business review on crisis management, 2000). This will only aggravate the problem as most firms would be interested to know what the situation is like to warrant such a decision. It might also result into low productivity due to reduced manpower. The uncertainty that will be accompanied by such a move would cause distrust amongst many clients, possible clients and financers thereby generating unnecessary external pressure on the company.

Unisys may also explore the possibility of getting into a merger or being acquired by another solvent IT company (Malz, 2011). Most companies would be ready and willing to acquire the operations of the company due to the superior contract relationship it enjoys with the government. The IT companies or company acquiring it would provide the services to the government and therefore benefit from the growth opportunity represented by the government projects. IBM, DELL and HP seem to be more solvent and will be able to pay off the debts owed by Unisys while the operation to realize more profits continues.

Therefore, if Unisys was to continue its operation amidst this great financial crisis, it will have to obtain a reinvestment through issuing more shares and continue using the credit facility from financing institutions. The issue of cutting down on employment may make it lose the contract since the government is interested in creating jobs. The best bet however, would be to go into acquisition so as to benefit from the solvency of another firm and be able to offset the debt.

References

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Malz, A. M. (2011). Financial risk management models, history, and institutions. Hoboken, N. J.: Wiley.