SERVICES REPRESENT 40%
- SYSTEMS 35%
- & PERIPHERALS 25%

OF THE BIZ TODAY WILL DEAL WITH PRIMARILY
MY COMMENTS OF COURSE

MR. KILGORE WILL GIVE YOU A TOTAL FINANCIAL OVERVIEW INCLUDING THE FINANCIAL SUCS. AS WELL AS THE COMPUTER BUSINESS.

THE SVS BIZ IS MADE UP OF PROFESSIONAL SYS & DATA SVS.

EACH OF THESE BIZ SEGMENTS
IN TURN BREAKS DOWN INTO SUBSEGMENTS

THIS 1ST CHART WILL GIVE YOU SOME PERSPECTIVE ON THE RELATIVE SIZE OF DATA SERVICES AS WELL AS THE ELEMENTS OF PROFESSIONAL SERVICES
PROFESSIONAL SERVICES

- EDUCATION
- CONSULTING &
- MAINTENANCE SERVICES

EACH OF THE INDIVIDUAL SEGMENTS IS PROFITABLE

WITH EDUCATION SVS HAVING MADE A SIGNIFICANT TURNAROUND FROM '73 TO '74

IN 1975 PROFESSIONAL SVS REPRESENT 20%

OF CDC'S COMPUTER BIZ

THEY ARE CASH GENERATORS FOR THE CORP

& HAVE GROWN AT AN AVERAGE ANNUAL RATE OF 24% SINCE 1970

NEXT YRS GROWTH IS PROJECTED MORE CONSERVATIVELY AT 11%

IT IS IMPORTANT TO REMEMBER

THAT VIABILITY OF THESE BUSINESSES

- EXCEPT PERHAPS THAT OF EDUCATION -

WAS ESTABLISHED BY UNBUNDLING

WHICH BECAME A MARKETPLACE PRACTICE IN 1970

IT ALSO PROBABLY ISN'T NECESSARY TO REMIND YOU

OF THE LEAD ROLE CONTROL DATA HAS PLAYED

IN BRINGING ABOUT UNBUNDLING.
SO THE TANGIBLE RESULTS OF OUR WELL-KNOWN STRATEGY CONCEIVED OVER TEN YEARS AGO ARE VERY MUCH EVIDENT IN THE NUMBERS I AM GIVING YOU.

SERVICES = DATA SERVICES

THE REMAINDER OF OUR SVS BIZ IS DATA SVS

DATA SVS REPRESENT 19% OF CD'S COMPUTER BIZ

NORMALLY WE TEND TO LUMP ALL OUR DATA SVS TOGETHER

IN PRESENTATIONS LIKE THIS!

HOWEVER, IT WILL BE HELPFUL IF WE LOOK AT DATA SVS BY ITS SEGMENTS

THAT WAY,

I THINK I CAN GIVE YOU A BETTER FEEL FOR ITS

- STATUS
- PROJECTIONS &
- SOME ANTICIPATED ACTIONS ON OUR PART

(CHART 2)

NETWORK DATA SVS REPRESENT 56% OF OUR TOTAL DATA SVS BIZ

INCLUDED IN THIS BIZ SEGMENT

ARE THE WORLDWIDE TIMESHARING BIZ OF CYBERNET & SBC

AS WELL AS THE REMOTE BATCH SVS OF CYBERNET
A FEW HIGHLIGHTS OF THE OPERATING STATEMENT ARE:

- REVENUE GROWTH CONTINUES STRONG -
  - IT WAS 22% 1973 TO 1974
  - AND IS MORE CONSERVATIVELY PROJECTED AT 18%
    1974 TO 1975

- IN 1975 NEW MARKETS ARE BEING OPENED IN CANADA & EUROPE. WE HAVE

- IN ADDITION ENLARGED MARKETING PROGRAMS IN THE U.S.

- DEVELOPMENT WILL CONTINUE IN TERMS OF NETWORK SOFTWARE IMPROVEMENTS

- AS WELL AS APPLICATIONS PROGRAMS

- MOST APPLICATIONS PROGRAMS ARE NOT DEVELOPED INTERNALLY

- BUT RATHER ARE LICENSED OFF-THE-SHELF PROGRAMS

- PRODUCED BY OTHERS

- THE EXTENT OF APPLICATIONS AVAILABLE IN CYBERNET & SBC IS SUCH THAT WE GET EXCELLENT LEVERAGE OFF THEM

- AS WE ENTER NEW GEOGRAPHIC MARKETS
NETWORK SERVICES HAVE A PRETAX RETURN AT THE PRESENT TIME OF ABOUT 10% ON REVENUES & ABOUT 18% ON ASSETS.

LOCAL BATCH DATA SERVICES ARE THE TRADITIONAL BIZ WHICH WERE THE FORE-RUNNER OF TODAY'S NETWORK SERVICES COMPANIES.

THEY INVOLVED CUSTOMIZED PROGRAMS RATHER THAN STANDARD-APPLICATIONS.

THEY INVOLVED LOCAL OVER-THE-COUNTER DELIVERY RATHER THAN NETWORKS.

THEY NORMALLY INVOLVED LARGE DATA PREPARATION STAFFS.

THEY ALSO INVOLVED LOSSES ...

THEY STILL DO BUT THEY HAVE PROVIDED THE BASE FROM WHICH TO MOVE INTO NETWORK SERVICES.

WE HAVE THREE PRINCIPAL VESTIGES OF THIS BIZ (CHART 4).

ONE IS OUR OPERATION IN MEXICO.

ONE IS THE OPERATION IN BRAZIL.

THE 3RD & LARGEST IS THE DPS DIVISION OF SBC.
Together they represented 23% of 1974 data SVS revenues.

They operated at a loss in 1974.

This will also be true in 1975.

In 1975 we will replace both the Mexican & Brazilian equip.

With Cyber equipment.

We are already offering Cybernet SVS via satellite into Brazil.

They DPS Biz of SBC.

Has been undergoing a transformation for the past five years.

In 1969 SBC had over a hundred million dollars of this kind of biz.

Operating at a loss.

The biz has been gradually transformed.

The customized biz greatly reduced.

New package programs are being introduced.

& Timesharing has grown to replace lost DPS revenues.

Over time we will cease to report this biz segment.

It will be approximately 2 yrs.
BEFORE MEXICO & BRAZIL ARE MOVED OVER, THE TRANSFORMATION OF DPS WILL TAKE SOME SPECIFIC COMMENTS ON THE OPERATING RESULTS.

REVENUE - ESSENTIALLY NO GROWTH '75 OVER '74.

GROSS PROFIT - SOME IMPROVEMENT '75 OVER '74.

 THIS REFLECTS PRIMARILY AN IMPROVED SITUATION IN BRAZIL & SOME FURTHER CONSOLIDATIONS IN DPS.

EXPENSE - WILL BE DOWN IN '75 FROM LAST YEAR.

THE MOST SIGNIFICANT DIFFERENCES AGAIN BEING THE SBC CONSOLIDATION & BRAZIL.

NET PROFIT - THE '75 LOSS ON THIS BIZ WILL BE LESS THAN HALF THAT OF 1974.

APPLICATION DATA SVS ARE INDUSTRY SPECIFIC DEDICATED DATA SVS.

THEY RELATE TO SPECIFIC INDUSTRY APPLICATION NEEDS.

THEY INVOLVE FOR THE MOST PART NETWORKS.

THEY GENERALLY INVOLVE LONG PERIODS OF BUILDING UP A SVS BASE BEFORE PROFITABILITY IS REACHED.
BUT THEY BECOME QUITE PROFITABLE

FOR THOSE OF YOU WHO HAVE SEEN

THE LEVELS OF SERVICES STRATEGIC RATIONALE

OF CONTROL DATA'S MISSION

YOU WILL RECOGNIZE THIS BIZ SEGMENT

AS THE "APPLICATION SERVICES" LEVEL OF SERVICE

(CHART 5) DIGRESSION TO "LEVELS OF SERVICE" CHART

INCLUDED IN THIS SEGMENT ARE ACTION DATA SVS

- A SERVICE TO FINANCE COMPANIES

- BROKERAGE TRANSACTIONS SERVICES INC.,

- AND ARB WITH ITS SERVICE FOR TV & RADIO
  BROADCASTING

(CHART 6)

I WON'T COVER THESE BIZ'S IN ANY DETAIL

BUT RATHER SUMMARIZE THEM WITH A FEW REMARKS

ON THE FINANCIAL STATUS AND OUTLOOK

REVENUE - GROWTH CONTINUES IN THESE SVS

EVEN THOUGH THEY ARE RELATIVELY MATURE

A GROWTH OF 17% IS PLANNED FOR 1975

NET PROFIT - RATES WILL ALSO IMPROVE
THE RETURN ON REVENUES IS 13% IN 1975

COMPARSED TO 8.5% IN 1974

THE 1975 RETURN ON ASSETS IS PLANNED AT 41%.

DEVELOPMENTAL_DATA_SERVICES

THIS FOURTH CATEGORY COVERS THOSE BUSINESSES WHICH BECOME A PART OF THE PREVIOUS CATEGORY

- APPLICATIONS DATA SERVICES -

OR THEY WILL DISAPPEAR

THEY REPRESENT 6.5% OF OUR DATA SERVICES BIZ

INCLUDED ARE:

- INSURANCE INDUSTRY SVS
- AIRLINES RESERVATION SVS
- TICKETrON
- A HOSPITAL ADMINISTRATIVE SVS
- AUTOMATED WAGERING SERVICE

(CHART 7)

IN SOME INSTANCES

WE HAVE BEEN WORKING FOR SEVERAL YRS

TO DEVELOP THE SERVICE ↓

SOME OF THEM ARE NEW ↓

ALL-OF-THEM ARE CASH CONSUMERS AND LOSS GENERATORS

AT THE PRESENT TIME
SOME OF THEM HAVE NOT MADE THE CUT AS WE
AND HAVE BEEN OR WILL BE TERMINATED.
I WILL NOT TAKE TIME TO DISCUSS EACH OF THESE
DEVELOPMENTAL SVS TODAY
BUT SINCE I HAVE SPOKEN TO MANY OF YOU BEFORE
ABOUT TICKETRON.
I WILL SPEND A MOMENT ON THAT
'74 WAS THE BEST YR EVER FOR TICKETRON
TICKETRON HAS OPERATED "ON PLAN"
WITH REGARD TO
- REVENUE
- EXPENSE &
- NET
LOSSES WERE REDUCED TO LESS THAN ONE-HALF
OF THOSE EXPERIENCED IN 1973
TICKETRON WAS THOROUGHLY REAPPRAISED LAST YR
BOTH IN ITS INTERNAL AND ITS EXTERNAL ASPECTS
WE REASSESS OUR MARKETS
WE HAVE RE-AFFIRMED THE NEED FOR THE
TICKETRON SVS
- TODAY AND FOR THE FUTURE.
WE LOOKED HARD INTERNALLY AT HOW WE DELIVER
THE SERVICES
AND HOW MUCH IT COSTS
PLANS CALL FOR PHASING IN A NEW TERMINAL FOR USE IN TICKETRON OUTLETS BEGINNING IN '75. THE NEW TERMINAL RELIEVES THE NECESSARY COMPUTING WORK DONE AT THE CENTRAL SITE BY APPROXIMATELY 50%. THE SIGNIFICANCE OF THIS IS THAT THE SEAT INVENTORY HANDLING CAPABILITY WILL BE INCREASED FROM 60 - 80% OVER TODAY'S CAPACITY. SINCE ADDITIONAL INVENTORY IS AVAILABLE TO US THIS ABILITY TO TAKE ON ADDITIONAL SEATS WITHOUT ADDING COMPUTER CAPACITY IS AN IMPORTANT FACTOR IN FUTURE PROFITABILITY IN TOTAL FOR DEVELOPMENTAL DATA SERVICES. THESE ARE THE OPERATING HIGHLIGHTS.

REVENUE

YEAR-TO-YEAR REVENUE COMPARISONS ARE NOT VERY MEANINGFUL WITH THE START-UP/SHUT-DOWN ASPECT OF THE INDIVIDUAL BUSINESSES. THOSE BUSINESSES WE ARE CONTINUING HOWEVER REFLECT A GROWTH OF 18%.
THE '75 PLAN CALLS FOR A DRAMATIC IMPROVEMENT

THE NET LINE -

REFLECTING THE DISCONTINUANCES ALREADY DISCUSSED

AS WELL AS IMPROVEMENT IN THE OPERATIONS

WE ARE CONTINUING

- WILL BE LESS THAN HALF THE LOSS OF '74

THE OUTLOOK IS FOR CONTINUED IMPROVEMENT THROUGHOUT '75 AND '76

THE EVALUATION OF THESE BIZ'S

IS THAT OVER THE LONG TERM THEY CAN BECOME PROFIT PRODUCERS

EQUAL TO OR BETTER THAN CURRENT APPLICATIONS SERVICES

IF THAT EVALUATION CHANGES

THEY WILL BE CUT

SERVICES -- SUMMARY -(CHART 1 AGAIN)

IN TOTAL THEN

SERVICES CONTINUE TO GROW IN REVENUES & PROFITS

'74 SAW A 24% INCREASE OVER '73

'75 IS PLANNED FOR A GROWTH OF 15%
I will cover our Systems Biz in 3 segments: (Chart 8)

- Instruments & Controls
- Aerospace & Military Products &
- EDP Systems

First let me cover Instruments & Controls.

This includes a small Instrument Biz ↓

The Power Utility Supervisory Control Systems & Water Waste Control Systems ↓

& The Kerotest Company which manufactures valves ↓

These Biz's in total are profitable ↓

On the other hand, within this segment some product lines are of marginal importance ↑

to our short or long term strategy

Could be sold off if we can get the right price

At present Instruments & Controls are around 9% ↓

Of our systems Biz ↑

They are growing at a 10% rate ↓

They are profitable

And improving in profitability ↓
AEROSPACE & MILITARY PRODUCTS

THIS BIZ SEGMENT IS GROWING NICELY.

GROWTH RATE OVER THE PAST SEVERAL YRS
HAS BEEN AN AVERAGE OF 17%.

NEXT YR WE ARE PLANNING ON A MORE CONSERVATIVE
GROWTH RATE OF ABOUT 7%.

BACKLOGS ARE AT AN ALL TIME HIGH
ENTERED 1ST QTR 75 WITH 80%
OF THE PLANNED REVENUE IN BACKLOG
& WE EXPECT THEM TO BE AT A HIGH LEVEL STARTING NEXT QTR.

ONE IMPORTANT ASPECT OF THIS BIZ
IS THAT DEFENSE SPENDING IS UP
TO 19% OF OUR SYST'S REVENUE.

ON THE OTHER HAND

IS THAT THE TECHNOLOGY THROTTLE-OFF TO OUR OTHER
SYST'S AND SERVICES

AEROSPACE REVENUES ARE 19% OF OUR SYST'S BIZ.
WE WILL KEEP IT AT APPROX. THAT RATIO.

WITH EXPECTATIONS THAT COULD LEAD TO TROUBLE
IN 76 AND BEYOND

SO THE ONLY MAJOR PROBLEM
IS TO NOT LET THE BIZ BUILD UP NOW TOO
RAPIDLY.

ACKNOWLEDGES THAT A
SOME SPACE REVENUES ARE 19% OF OUR SYST'S BIZ.
WE WILL KEEP IT AT APPROX. THAT RATIO.

WITH EXPECTATIONS THAT COULD LEAD TO TROUBLE
IN 76 AND BEYOND

SO THE ONLY MAJOR PROBLEM
IS TO NOT LET THE BIZ BUILD UP NOW TOO
RAPIDLY.

ACKNOWLEDGES THAT A
AMONG RECENT ITEMS IN THIS RESPECT
ARE SOME ADVANCED TERMINALS
WHICH WILL BE USED IN EDUCATION SYS
& ONE FUTURE SMALL COMPUTER PRODUCT LINE
EDP SYSTEMS

THE PICTURE IN EACH OF THE BIZ SEGMENTS
WE HAVE SEEN THUS FAR
IS SHOWING BOTH SUSTAINED GROWTH
& IMPROVEMENT IN MARGINS
THE EDP SYSTEMS PICTURE
IS SOMewhat MORE CLOUDED
WHILE OVERALL THE BIZ IS A MUCH MORE SOLID
BASIS

THAN IN PRIOR YEARS
THIS YEAR AS WELL AS LAST YEAR RESULTS
SHORT-TERM RESULTS ARE BEING NEGATIVELY
IMPACTED
BY THE LARGE PROGRAMS WHICH HAVE RECEIVED
SOME PUBLICITY
& BY THE CHANGE-OVER TO THE NEW PRODUCT LINE
I WILL TOUCH ON THESE MAJOR FACTORS
AS WE GO THRU THE OPERATING HIGHLIGHTS FOR
SYSTEMS
BEFORE DOING THAT HOWEVER

I WANT TO MAKE A COMMENT OR TWO REGARDING
COMPUTER SYSTS IN GENERAL

DEVELOPMENTS OVER THE PAST YEAR

ARE SUCH THAT WE NOW HAVE THE POSSIBILITY
TO PURSUE OUR TRADITIONAL LARGE COMPUTER
SYSTEMS MARKET

WITHOUT THE BURDEN OF MAINTAINING SO MANY
OPTIONS

THESE DEVELOPMENTS INCLUDE:
- THE SUCCESSFUL DELIVERY OF TWO STAR
  MACHINES
- THE MARKET INTRODUCTION OF THE CYBER
  170 FAMILY
- IMPROVED ACCEPTABILITY OF THE 7600 &
- PROGRESS IN THE COOPERATIVE PROGRAM
  WITH NCR

THIS WILL GREATLY IMPROVE OUR ABILITY
TO FOCUS AND CONTROL OUR TECHNICAL EFFORT EXPENSES

OUR CUSTOMER SPECIFIC & APPLICATIONS TECHNICAL
EFFORT EXPENSE

OUR CUSTOMER SPECIFIC & APPLICATIONS TECH

WILL BE ANALYZED & MANAGED ON AN INDUSTRY
MARKET BASIS

TO LOOK FOR MAXIMUM PAY-OFF
FOR DATA SERVICES AS WELL AS SYSTEMS.

NOW TO THE OPERATING HIGHLIGHTS FOR SYSTEMS.

WE EXPECT THE TOTAL OF OUR "PURCHASE" REQUIREMENTS TO BE LESS THAN IN '74.

OUTRIGHT SALES OF SYSTEMS.
PURCHASE CONVERSIONS &
LONG TERM LEASES.

RENTALS ON THE OTHER HAND SHOULD BE UP AGAIN AS THEY HAVE IN EACH OF THE PAST 3 YEARS.

WE ARE EXPECTING IN PARTICULAR THAT THE FIRST TWO QUARTERS WILL BE DOWN IN TOTAL SYSTEMS REVENUE UNTIL THE CYBER 170 SHIPMENTS GET INTO FULL SWING.

WE HAVE STRINGENT EXPENSE CONTROLS ALREADY IN PLACE TO MINIMIZE THE EXPOSURE.

BUT OUR EFFORTS IN THIS REGARD ARE SOMEWHAT OFFSET BY THE FACT THAT INVENTORIES FOR SYSTEMS WILL BE HIGH IN THE 1ST HALF EVEN THOUGH FOR THE YEAR OVERALL THEY WILL DECLINE.
In short, we expect a hard squeeze all the way around until Cyber 170 deliveries move out in the 2nd half.

On the bright side however, is that our revenue coverage in backlog going into '75 was higher than for '74 or for '73.

Although purchase conversion & outright sale revenues also have historically been essential to any sort of reasonable plan to finance current development & MKTG costs.

We are slowly easing our dependence on such biz & the rising backlog coverage is one more result of a growing lease base.

Gross profit margins will be about the same as '74. Actually gross margins on the Cyber 170 will be 9 to 10 percentage points higher than on current product lines.
But with '75 reflecting reduced outright sale revenues. & the bulk of Cyber 170 deliveries occurring in the second half of these improved margins. There will be not much effect before 1976. The total expenses will be down in '75 from '74. Significant decreases will occur in product-support costs and product development.

The net result is that through a tough approach to people & expenses, we should be able to compensate for the projected conservative volume of biz. & improve the position compared to '74. Any improvement in volume of course should further improve this position.

Pause

Overall our company's receivables levels & ratios are improving essentially no. Our '75 plan calls for about 1 1/2% increase in total receivables levels.
Actually, the improvement is really more dramatic than these percentages indicate. This is in part due to our mix of receivables. Our '75 plan calls for a lower ratio of revenue creating long-term receivables. We are able enabling us to invoice & collect more quickly on our sales in our services and systems biz.

Those invoiced to the customer but not yet collected — prior to 1974 have averaged about 28% delinquent. A receivable is defined as delinquent over 30 days being defined as delinquent on the 31st day after invoice date. In 1974 we averaged 22% delinquent.

& our '75 plan anticipates a reduction to 20% delinquencies. This achievement is due primarily to an aggressive management program mounted last yr.
INVENTORIES

WE ANTICIPATE THAT THE LEVEL OF OUR NET INVENTORIES WILL REMAIN ESSENTIALLY FLAT BETWEEN '74 & '75 WITH EDP SYSTEMS INVENTORIES DECLINING IN THE LATTER PART OF 1975.

THIS WILL CONTINUE A TREND TOWARD IMPROVING TURNS WHICH BEGAN IN '74 CONTINUED THROUGH '74.

OUR REAL OVERALL TURNS FROM A MANAGEMENT EFFICIENCY STANDPOINT IMPROVED BY ABOUT 3% IN '74 & WE ANTICIPATE ANOTHER 5% IMPROVEMENT IN '75. THIS WILL BE ACHIEVED PRIMARILY IN OUR EDP SYSTEMS & MAINTENANCE SVS BIZ'S.
IN SUMMARY

OUR ASSET IMPROVEMENT PROGRAM IS BEGINNING TO PAY OFF.

OVER THE PAST THREE YEARS

OUR ASSETS HAVE GROWN AT $155 MILLION PER YEAR.

IN 1974 THIS RATE WAS $130 MILLION.

FOR NEXT YEAR THE RATE WILL BE DOWN FURTHER TO ESSENTIALLY A NO GROWTH SITUATION.

EXCEPT FOR THE LEASE BASE ADDITIONS.

WE ACTUALLY HAVE A DECREASE.

SO OVER THE NEXT 4 TO 5 YEARS

WE CAN SEE A QUITE HEALTHY PICTURE EMERGING

WITH THE CASH THROW-OFF OF THE LEASE BASE

BEComing AN IMPORTANT SOURCE OF FUNDS.

FOR OUR SYSTEMS AND SERVICES GROWTH.
$ Millions

TOTAL COMPUTER BUSINESS

1975 REVENUES

SERVICES: 461.0
SYSTEMS: 413.6
PERIPHERALS: 290.3
1975 REVENUES - SERVICES

DATA SERVICES
48.5%

ENGINEERING SERVICES
37.5%

EDUCATIONAL SERVICES
7.0%

CONSULTING SERVICES
7.0%
NETWORK DATA SERVICES

- CYBERNET BATCH
- CYBERNET INTERACTIVE
- EUROPE BATCH
- EUROPE INTERACTIVE
- AUSTRALIA SCOPE
- AUSTRALIA KRONOS
- CANADA SCOPE
- CANADA KRONOS
- CANADA CALL 370
- STAR
- SDRC
- SBC TIMESHARING
LOCAL BATCH DATA SERVICES

- DPS (SBC)
- BRAZIL
- MEXICO
Chart 5. Levels of service.
APPLICATION DATA SERVICES

- ACTION DATA SERVICES
- AMERICAN RESEARCH BUREAU (ARB)
- BROKERAGE TRANSACTION SERVICES, INC.
DEVELOPMENTAL DATA SERVICES

- AIRLINES
- AUTOMATED WAGERING
- GREENWICH DATA SYSTEMS
- INSURANCE
- MEDICAL
- SYSTEMS RESOURCES, INC.
- TICKETRON
- COMP...
1975 REVENUES - SYSTEMS

EDP SYSTEMS
71.8%

INSTRUMENTS & CONTROLS
9.0%

AEROSPACE & MILITARY
19.2%