SYSTEMS AND SERVICES UPDATE

REMARKS BY

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SYSTEMS, SERVICES AND MARKETING

TO

MEETING OF SECURITY ANALYSTS

MINNEAPOLIS, MINN.

MONDAY, APRIL 18, 1977
GOOD AFTERNOON. I APPRECIATE THIS OPPORTUNITY TO UPDATE YOU LADIES AND GENTLEMEN ON WHAT HAS HAPPENED IN MY AREAS OF RESPONSIBILITY SINCE THE MEETING WITH ANALYSTS THAT WE HELD HERE LAST NOVEMBER.

OFTEN TIMES WE IN THE MANAGEMENT OF A COMPANY TEND TO DEVELOP A PARTICULAR STEREOTYPE OF THE ANALYST AS A RESULT OF THE SEEMINGLY ENDLESS STREAM OF REPORTS THAT YOU PRODUCE. I'M SURE YOU'RE WELL AWARE OF THE STEREOTYPE.

SEVERAL WEEKS AGO, FOR EXAMPLE, I SAW IT PORTRAYED IN A CARTOON IN THE LONDON TIMES. IT SHOWED A BALLOONIST WHO LEFT FRANCE TO CROSS THE ENGLISH CHANNEL. ALONG THE WAY HE WAS BLOWN OFF COURSE AND HE LANDED IN A FARM AREA SOMEWHERE IN THE CENTRAL PART OF THE BRITISH ISLES.

AS HE WAS TRYING TO DISENGAGE HIMSELF FROM THE BALLOON, HE WAS RELIEVED TO SEE A MAN APPROACHING.

"WHERE AM I?", HE ASKED.

"WHY, YOU ARE IN THE BASKET OF A BALLOON IN THE MIDDLE OF A FIELD," CAME THE ANSWER.

THE EXASPERATED BALLOONIST WALKED AWAY MUTTERING -- "DAMN SECURITY ANALYST".

"WAIT A MINUTE", THE ENGLISHMAN SAYS -- "HOW DID YOU KNOW" . . .

"SIMPLE," THE BALLOONIST ANSWERED, "THE ONLY PEOPLE IN THE WORLD WHOSE INFORMATION IS ALWAYS ACCURATE, AND ALWAYS USELESS".

WELL -- STEREOTYPES OR NO -- WE HAVE TO GET ON WITH OUR WORK, DON'T WE. AND WE'LL TRY TO HELP IN THAT REGARD THIS AFTERNOON.
BY NOW I'M SURE THAT ALL OF YOU HAVE RECEIVED OUR 1976 ANNUAL REPORT. YOU KNOW THAT IT WAS A GOOD YEAR FOR CONTROL DATA IN GENERAL AND FOR OUR SYSTEMS AND SERVICES OPERATIONS IN PARTICULAR.

OUR SYSTEMS BUSINESS IN 1976 CONTRIBUTED 31 PERCENT OF OUR TOTAL COMPUTER BUSINESS REVENUES . . . AND SYSTEMS REPRESENTS 47 PERCENT OF THE ASSETS EMPLOYED IN THE COMPUTER BUSINESS.

SO THAT WE ARE ALL WORKING FROM THE SAME ORGANIZATIONAL BASE, SYSTEMS CONSISTS OF: (1) THOSE PEOPLE ENGAGED IN THE DESIGN, DEVELOPMENT AND SUPPORT OF OUR LARGE SCALE GENERAL PURPOSE COMPUTERS . . . (2) IT INCLUDES SPECIALIZED COMPUTER-RELATED PRODUCTS FOR MILITARY AND AEROSPACE APPLICATIONS . . . AND (3) IT INCLUDES OUR INSTRUMENTS AND CONTROLS OPERATIONS.

COMPUTER SERVICES -- THE FASTEST GROWING SEGMENT OF MY RESPONSIBILITY -- LAST YEAR CONTRIBUTED 37 PERCENT OF OUR COMPUTER BUSINESS . . . AND COMPUTER SERVICES REPRESENTED 21 PERCENT OF THE ASSETS EMPLOYED IN OUR COMPUTER BUSINESS.

OUR COMPUTER SERVICES ORGANIZATION INCLUDES (1) DATA SERVICES; AND (2) PROFESSIONAL SERVICES.

THIS AFTERNOON I WOULD LIKE TO START BY MAKING SOME OVERALL COMMENTS ON BOTH SYSTEMS AND SERVICES AND THEN I'D LIKE TO SPECIFICALLY ADDRESS OUR COMPUTER SERVICES OPERATIONS IN SOME DETAIL.

JOHN TITSWORTH WILL FOLLOW ME AND REVIEW FOR YOU THE COMPUTER SYSTEMS BUSINESS.
THROUGHOUT THE PRESENTATION WE WILL TRY TO UPDATE YOU ON CURRENT DEVELOPMENTS IN OUR MAJOR PRODUCT LINES . . . WE'LL ALSO DESCRIBE WHAT IS TAKING PLACE IN OUR MARKET AREAS . . . AND WE'LL REVIEW OUR RECENT OPERATING PERFORMANCE AS WELL AS OUR STRATEGY FOR MAKING FUTURE PROFITS.

SO, FOR OPENERS LET ME POINT OUT SOME OF THE GENERAL ASPECTS OF OUR SYSTEMS AND SERVICES BUSINESSES. ALTHOUGH I FEEL A BIT LIKE A BROKEN RECORD, I REPEAT AS I HAVE DONE IN THE PAST, OUR MAJOR EFFORT OVER THE PAST SEVERAL YEARS HAS BEEN DEVOTED TO IMPROVING THE FUNDAMENTALS OF OUR OPERATIONS, AS OPPOSED TO REVENUE GROWTH. IN NOVEMBER I CHARACTERIZED 1976 AS A YEAR OF PROGRESS IN THAT REGARD. AT THAT POINT I DID NOT HAVE THE FINAL RESULTS TO SHOW YOU. BUT TODAY I DO.

WE ARE PUTTING HEAVY EMPHASIS ON IMPROVING THE OPERATING EFFICIENCY OF OUR MANAGEMENT SYSTEMS -- PARTICULARLY OUR ASSET MANAGEMENT PROGRAM . . . THESE EFFORTS ARE IMPROVING OUR RETURNS ON THE ASSET DOLLARS THAT WE HAVE INVESTED IN OUR BUSINESSES.

LET ME QUANTIFY WHAT'S BEEN HAPPENING. IN 1974 WE REQUIRED $1.60 OF ASSETS TO PRODUCE EACH DOLLAR OF REVENUE IN OUR SYSTEMS AND SERVICES OPERATIONS. IN 1975 WE ACHIEVED A REDUCTION TO $1.21. IN 1976 THAT RATIO IMPROVED TO 99 CENTS. THIS WILL FURTHER IMPROVE IN 1977.

PART OF OUR SUCCESS RELATES TO THE CHANGING COMPOSITION OF OUR SYSTEMS AND SERVICES OPERATIONS.
SERVICES HAVE GROWN RAPIDLY BECAUSE THIS HAS BEEN AN AREA OF
EMPHASIS FOR MANY YEARS NOW. OUR SERVICES BUSINESSES REQUIRE
LESS ASSET INVESTMENTS, THEREFORE THEY HAVE CORRESPONDINGLY HIGHER
REVENUE TO ASSET RATIOS. FOR EXAMPLE, IN DATA SERVICES OVERALL
WE ARE NOW RUNNING AT 42 CENTS OF ASSETS TO ONE DOLLAR OF REVENUE.

HOWEVER, EFFICIENCY OF ASSETS AS WELL AS MIX HAVE CONTRIBUTED
TO THESE IMPROVEMENTS. THE ASSET MANAGEMENT PROGRAM HAS HAD A
PARTICULARLY BENEFICIAL EFFECT IN OUR SYSTEMS ORGANIZATION WHICH
IS MORE ASSET INTENSIVE. ALL-IN-ALL, TODAY WE ARE PRODUCING 32
PERCENT MORE REVENUES FOR EACH DOLLAR OF ASSETS INVESTED THAN WE
WERE TWO YEARS AGO.

THERE ARE OTHER EXAMPLES OF THE ATTENTION WE ARE GIVING TO
MANAGEMENT EFFICIENCY:

○ FIRST, IN THE PAST TWO YEARS, THE PRODUCTIVITY OF OUR
SALES MEN HAS INCREASED MORE THAN 10 PERCENT.

○ AND OUR REVENUE PER EMPLOYEE STATISTICS HAVE GONE FROM
$32,000 TO $42,000.

SOME OF YOU HAVE PERHAPS HEARD OF OUR RECENT MOVE TO SCALE
DOWN OUR EUROPEAN HEADQUARTERS OPERATION. LET ME GIVE YOU SOME
PERSPECTIVE ON THIS DEVELOPMENT.

SEVERAL YEARS AGO WE ESTABLISHED A MANAGEMENT AND ADMINISTRATIVE
GROUP IN BRUSSELS TO STRENGTHEN OUR OPERATIONS AND IMPROVE ADMINIS-
TRATIVE SYSTEMS AND DISCIPLINES. OUR PROGRESS IN THAT REGARD HAS
BEEN ENCOURAGING. TODAY OUR MANAGEMENT STRUCTURE AT THE COUNTRY
LEVEL IS STRONG AND HIGHLY CAPABLE.
NOW WE CAN START TO REALIZE REAL COST SAVINGS BY ELIMINATING THE OVERSEAS LOCATION OF OUR EUROPEAN HEADQUARTERS WITH ITS HEAVY STAFFING AND ADMINISTRATIVE COSTS.

ANOTHER AREA OF EMPHASIS HAS BEEN BUSINESS FORECASTING. I AM HIGHLY PLEASED WITH THE RESULTS. OUR FORECASTING SYSTEMS ARE NOW PROVIDING US WITH BETTER AND MORE RELIABLE INDICATORS OF ANTICIPATED PERFORMANCE . . . FOR NEXT MONTH . . . AND NEXT QUARTER . . . AND FOR THE YEAR AS A WHOLE. THIS SEEMS AN OBVIOUS REQUIREMENT TO GOOD OPERATIONAL CONTROL BUT I THINK IT IS OFTEN OVERLOOKED AS THE KEYSTONE OF GOOD LONG-RANGE PLANNING AS WELL.

THERE IS ANOTHER IMPORTANT AREA WHERE WE'VE MADE SIGNIFICANT PROGRESS . . . THAT IS IN THE REFINEMENT OF OUR BUSINESS STRATEGY.

WE CONTINUE TO FOCUS ON THE PARTICULAR NEEDS AND REQUIREMENTS OF SELECTED SEGMENTS OF THE GENERAL COMPUTER MARKET. WE DO THIS BY: (1) BRINGING TO BEAR SPECIFIC APPLICATIONS EXPERTISE AND (2) TAILORING OUR PRODUCTS AND SERVICES TO BETTER SERVE SELECTED CUSTOMER REQUIREMENTS. IN THIS WAY, CLEARLY WE FEEL WE ARE LESS EXPOSED TO COMPETITIVE MOVES.

NOW LET ME TURN TO COMPUTER SERVICES. FROM THE CHART HERE YOU CAN SEE THAT THIS SEGMENT OF OUR COMPANY IN 1976 REPRESENTED 37 PERCENT OF TOTAL COMPUTER BUSINESS REVENUES.

CONTROL DATA'S COMPUTER SERVICES ACTIVITIES HAVE BEEN GROWING AT AN AVERAGE RATE OF 20 PERCENT OVER THE PAST FIVE YEARS. IN 1976, DATA SERVICES, WHICH HAVE BEEN THE MOST RAPIDLY GROWING SEGMENT, CONTRIBUTED 50 PERCENT OF OUR SERVICES REVENUE. DATA SERVICES TODAY REPRESENT A QUARTER BILLION DOLLAR BUSINESS FOR CONTROL DATA.
THE MARKET FOR DATA SERVICES IS HUGE. NO ONE COMPANY HAS 10 PERCENT. WE ARE THE LEADERS. TO MAINTAIN OUR CURRENT MARKET SHARE, WE WILL HAVE TO RUN HARD, FOR THE MARKET IS GROWING AND CHANGING AS IT EVOLVES. LET'S LOOK BRIEFLY AT THAT MARKET.

AS YOU CAN SEE, THE COMBINED MARKET FOR DATA SERVICES IN THE U.S. AND WESTERN EUROPE WILL REACH ABOUT $11 BILLION IN 1980. THE COMPOUND GROWTH RATE IS 15.3 PERCENT, WITH WESTERN EUROPE GROWING FASTER THAN THE MARKETPLACE IN THE UNITED STATES.

THE RANGE OF DATA SERVICES AT CONTROL DATA IS ENORMOUS . . . RANGING FROM SPECIFIC DEDICATED SERVICES FOR A GIVEN MARKET SEGMENT, OR APPLICATION AREA, DOWN TO RAW COMPUTER TIME. WHATEVER THE FORM, THE SERVICE IS AVAILABLE THROUGH THE CONTROL DATA NETWORK WHICH WE HAVE DISCUSSED IN OTHER MEETINGS. AND THAT NETWORK IS CONTINUALLY GROWING MORE EFFICIENT AND ECONOMICAL AS A DELIVERY VEHICLE.

WE DISTINGUISH BETWEEN APPLICATION SERVICES AND GENERAL NETWORK DATA SERVICES. THE DISTINGUISHING DIFFERENCE IS THAT APPLICATION SERVICES ARE QUITE SPECIFIC IN THEIR NATURE. FOR EXAMPLE, OUR HIGHLY SUCCESSFUL ARBITRON SERVICES PROVIDE AUDIENCE MEASUREMENT STATISTICS FOR A SPECIFIC INDUSTRY -- RADIO AND TELEVISION.

WITHIN NETWORK DATA SERVICES OUR MOST IMPORTANT PRODUCT LINES CAN BE SUMMARIZED AS THESE:

- INTERACTIVE TIMESHIRING PRODUCTS;
- BATCH AND REMOTE BATCH DATA PROCESSING FOR ENGINEERING AND SCIENTIFIC APPLICATIONS; AND
o LOCAL BATCH DATA SERVICES FOR SMALL BUSINESS.

WITHIN THE APPLICATION SERVICES AREAS, IMPORTANT PRODUCT LINES INCLUDE:

- FOCUS -- A CREDIT UNION SERVICE;
- ARBITRON (WHICH I'VE MENTIONED);
- ACTION -- CONSUMER FINANCE DATA SERVICES;
- TICKETRON -- TICKETING AND WAGERING DATA SERVICES;
- BTSI -- BROKERAGE TRANSACTION SERVICE, AND;
- TELEMONEY -- ELECTRONIC FUNDS TRANSFER.

GEOGRAPHY

OUR DATA SERVICES OPERATIONS SERVE WORLDWIDE MARKETS. NOW, HOW DID WE DO IN THIS AREA IN 1976? OUR TOTAL INTERNATIONAL DATA SERVICES VOLUME LAST YEAR AMOUNTED TO $42 MILLION OR 17 PERCENT OF TOTAL DATA SERVICES.

WHILE OUR PRINCIPAL OPERATIONS ARE IN THE UNITED STATES, OUR INTERNATIONAL DATA SERVICES OPERATIONS INCLUDE AUSTRALIA . . . CANADA . . . EUROPE . . . MEXICO . . . BRAZIL AND SOUTH AFRICA.

BASED ON 1976 RESULTS, WE CAN SEE THAT WE ARE MAKING SIGNIFICANT PROGRESS TOWARDS PUTTING THESE GEOGRAPHIC SEGMENTS ON A SOUND AND PROFITABLE BASIS. AUSTRALIA, WHICH IS THE MOST FIRMLY-ESTABLISHED OF OUR INTERNATIONAL DATA SERVICES SEGMENTS OUTSIDE EUROPE, IS ALREADY ACHIEVING ACCEPTABLE PROFIT MARGINS. THE OTHER GEOGRAPHIC AREAS WILL FOLLOW.
AND BASED ON WHAT WE SEE AT THE PRESENT TIME WE WOULD EXPECT OUR INTERNATIONAL DATA SERVICES TO GROW FASTER THAN THE UNITED STATES FOR THE NEXT SEVERAL YEARS.

SOME OF THE LIMITING FACTORS IN THE INTERNATIONAL DATA SERVICES BUSINESS INCLUDE THE COMMUNICATIONS INFRASTRUCTURE AND THE PROBLEMS OF TRANSPORTING DATA ACROSS INTERNATIONAL BOUNDARIES.

FOR MANY YEARS WE HAVE TALKED ABOUT THE CRITICAL MASS IN OUR DATA SERVICES OPERATIONS AS BEING IMPORTANT TO REALIZING THEIR FULL POTENTIAL. WE BELIEVE WE HAVE NOW REACHED THAT POINT IN NORTH AMERICA WHERE COST ADDITIONS ARE SUBSTANTIALLY LESS THAN THE INCREMENTAL REVENUES THEY PRODUCE.

TO QUANTIFY THAT POINT LET ME GIVE YOU A SPECIFIC EXAMPLE. IN 1973 WE WERE PRODUCING REVENUES OF $10 FOR EACH DOLLAR OF COMPUTER HARDWARE INVESTED IN OUR CALL/370 OPERATIONS. TODAY THAT HAS GROWN TO $16. THAT IS A 60 PERCENT IMPROVEMENT.

LET ME ELABORATE A BIT ON OUR NORTH AMERICAN NETWORK RESOURCE -- WE BELIEVE THIS IS THE MOST IMPORTANT ASSET WE HAVE TO EFFECTIVELY BRING OUR CUSTOMERS AN INCREASING RANGE OF DATA SERVICES PRODUCTS.

OUR NORTH AMERICAN NETWORK FOR INTERACTIVE APPLICATIONS MAKES IT POSSIBLE FOR CONTROL DATA TO NOW OFFER, ON A LOCAL BASIS, OUR TIMESHARING SERVICES IN 176 MARKETS WORLDWIDE. INCIDENTALLY, IN 1973 THAT NUMBER WAS ABOUT 70 . . . A 160 PERCENT INCREASE. OUR PLANS CALL FOR A SIMILAR INCREASE IN 1977.
THERE ARE 38 LARGE SCALE COMPUTERS OF THE CYBER CLASS, OR 370/145 CLASS AND LARGER INSTALLED IN OUR WORLDWIDE NETWORK FACILITY. THESE INCLUDE CONTROL DATA CYBER EQUIPMENT AS WELL AS IBM SYSTEMS. IT IS OUR PLAN TO CONTINUE FOR MANY YEARS TO USE COMPUTERS OF BOTH MANUFACTURERS IN ORDER TO BE ABLE TO TAKE ADVANTAGE OF THE APPLICATIONS SOFTWARE AND USER PREFERENCES RELATING TO BOTH SYSTEMS TYPES.

WHO ARE THE CUSTOMERS WHO USE OUR DATA SERVICES? ONE POPULAR MISCONCEPTION IS THAT THEY ARE TYPICALLY SMALL COMPANIES NOT YET LARGE ENOUGH TO AFFORD THEIR OWN COMPUTER. THAT IS SIMPLY NOT THE CASE.

TODAY, MORE THAN HALF THE COMPANIES THAT RANK IN THE FORTUNE 500 ARE OUR DATA SERVICES CUSTOMERS. IN ADDITION, A TOTAL OF 177 MAJOR BANKING AND FINANCIAL INSTITUTIONS USE OUR DATA SERVICES . . . AND THE UNITED STATES GOVERNMENT IS ALSO A VERY IMPORTANT DATA SERVICES CUSTOMER.

THESE CUSTOMERS USE OUR DATA SERVICES BECAUSE THE TOTAL COSTS AND EFFICIENCY OF SOLVING CERTAIN KINDS OF PROBLEMS AND OF PROVIDING CERTAIN KINDS OF INFORMATION IS SIMPLY BETTER HANDLED ON A SERVICES BASIS FROM CONTROL DATA.

OUR DATA SERVICES GROWTH IN 1976 WAS SOMEWHAT SLOWER THAN WHAT IT WILL BE IN THE FUTURE. 1976 WAS A YEAR OF CONSOLIDATION AND ASSIMILATION. WE ALSO HAD PROBLEMS IN EUROPE WHERE, VERY SIMPLY, OUR DATA SERVICES BUSINESS HAD OUTGROWN OUR MANAGEMENT CAPABILITY.
IN THE FIRST QUARTER OF THIS YEAR DATA SERVICES REVENUES WERE UP 21 PERCENT OVER THE FIRST QUARTER A YEAR AGO. OUR EXPECTATION FOR THE FUTURE IS CONTINUING STRONG GROWTH.

WITHIN THOSE PARAMETERS LET ME GIVE YOU A FEELING FOR SOME OF THE GROWTH RATES ASSOCIATED WITH SPECIFIC PRODUCT LINES . . . OUR CALL 370 MANAGEMENT TIMESHARING SERVICE HAS HAD AN AVERAGE GROWTH RATE OVER THE PAST SEVERAL YEARS OF AROUND 18 PERCENT . . . IN 1976 ARBITRON'S REVENUES ROSE 23 PERCENT AND TICKETRON REPORTED A 30 PERCENT INCREASE. OUR CYBERNET DATA SERVICES REVENUES INCREASED BY 13 PERCENT. SO YOU CAN SEE THERE IS QUITE A RANGE AND MOREOVER IT VARIES FROM YEAR TO YEAR AS WELL.

NOW, LET'S LOOK AT SPECIFIC STRATEGIES.

WE WILL CONTINUE OUR THRUST FOR NEW APPLICATIONS THAT COMPLEMENT OUR CURRENT SET OF INDUSTRIES.

AN ENHANCED DATA MANAGEMENT LANGUAGE WILL BE AVAILABLE IN THE CURRENT QUARTER FOR CALL/370. IT WILL PROVIDE GREATER EASE OF USE . . . IMPROVED PRICE PERFORMANCE . . . AND INCREASED PRODUCTIVITY AND IT WILL REQUIRE LESS CUSTOMER EDUCATION AND LESS MARKETING TRAINING.

NETWORK SERVICES WILL CONTINUE WITH THEIR THRUST IN THE MARKET AREA AND ENHANCE AND EXTEND THEIR OFFERINGS IN:

- ARCHITECTURAL AND ENGINEERING . . . ELECTRICAL ENGINEERING . . . GRAPHICS . . . STRUCTURES AND CONSTRUCTION. INCIDENTALLY THE UNISTRUC GRAPHICS SERVICE, ANNOUNCED LAST MONTH, IS RECEIVING GOOD ACCEPTANCE.
WE'LL ALSO ENHANCE AND EXTEND OUR MANAGEMENT APPLICATIONS AND PETROLEUM SERVICES.

ON THE OPERATIONS SIDE, WE WILL CONTINUE TO IMPROVE OUR NETWORK AND COMPUTER THROUGHPUT EFFICIENCY ... WE WILL IMPROVE OUR QUALITY OF SERVICE ... AND WE WILL BALANCE OUR MACHINES FOR RESPONSE TIME AND REVENUE, THUS IMPROVING GROSS PROFIT MARGINS.

CONSULTING SERVICES

INCLUDED IN THE PROFESSIONAL SERVICES THAT I MENTIONED EARLIER IS OUR CONSULTING SERVICES WHICH LAST YEAR HAD REVENUES OF ABOUT $43 MILLION. THAT WAS A 12 PERCENT INCREASE OVER 1975. AND BY THE WAY, THE REVENUE GAIN FOR CONSULTING SERVICES IN THE FIRST QUARTER WAS OVER 20 PERCENT. OUR PRE-TAX RETURN ON ASSETS IN THIS BUSINESS IS IN THE 30 PERCENT RANGE.

THESE ACTIVITIES very closely complement our data services because in a number of instances they represent consulting expertise that relates to specific applications that are important data services revenue producers. Consulting services are also complementary to our computer systems business.

ONE EXAMPLE OF THIS CLOSE FIT BETWEEN CONSULTING SERVICES AND DATA SERVICES IS UTILITY PROCESSING. CONSULTANTS WITH UTILITY INDUSTRY EXPERIENCE OFTEN WORK WITH THEIR CLIENTS TO DEVELOP AND UTILIZE OUR DATA SERVICES TO SOLVE SPECIFIC PROBLEMS. WITHIN OUR CONSULTING ACTIVITY WE PRESENTLY HAVE NINE SPECIALIZED CONSULTING TEAMS -- WE CALL THEM CONSULTING FIRMS -- THAT SPECIALIZE IN THE
AREAS OF: HUMAN RESOURCES MANAGEMENT, LEGAL SERVICES, AUTOMATION AND PROCESS CONTROL, STRUCTURAL ENGINEERING, MANUFACTURING, DATA MANAGEMENT, PETROLEUM SERVICES, NUCLEAR CONSULTING AND NETWORK CONSULTING.

ENGINEERING SERVICES

THE OTHER MAJOR ACTIVITY IN PROFESSIONAL SERVICES IS ENGINEERING SERVICES. THIS ENTAILS THE MAINTENANCE OF CONTROL DATA COMPUTER SYSTEMS AND PERIPHERAL EQUIPMENT. IT ALSO INCLUDES MAINTENANCE ON EQUIPMENT MANUFACTURED BY OTHER COMPANIES.

REVENUES IN THIS ACTIVITY IN 1976 AMOUNTED TO $182 MILLION, A TWELVE PERCENT GAIN OVER 1975.

FUTURE POTENTIAL FOR DATA SERVICES

TO CLOSE THESE REMARKS I'D LIKE TO RETURN TO DATA SERVICES AND DISCUSS THEIR FUTURE POTENTIAL AT CONTROL DATA. AS I HAVE INDICATED IN PAST MEETINGS, WE EXPECT OUR DATA SERVICES REVENUES TO APPROXIMATELY DOUBLE OVER THE NEXT FIVE YEARS.

WE BELIEVE THAT, ONCE AN APPROPRIATE CRITICAL MASS IS ESTABLISHED, A MATURE SERVICE CAN GENERATE PRE-TAX PROFIT MARGINS OF BETWEEN TEN AND TWENTY PERCENT. WE ARE ALREADY EXPERIENCING MARGINS OF THIS MAGNITUDE IN SELECTED, WELL-ESTABLISHED PRODUCT AREAS.
BECAUSE THE ASSETS REQUIRED IN DATA SERVICES ARE TYPICALLY 40 TO 50 CENTS PER REVENUE DOLLAR, A PRE-TAX RETURN ON ASSETS IN THE RANGE OF 20 PERCENT IS ACHIEVABLE WITH RANGES FROM 15 PERCENT TO 40 PERCENT FOR INDIVIDUAL DATA SERVICES.

WE ARE STILL ESTABLISHING OURSELVES IN A NUMBER OF GEOGRAPHIC AREAS IN WHICH WE STILL HAVE DATA SERVICES PRODUCT LINES THAT HAVE NOT REACHED THAT ESTABLISHED LEVEL. NEVERTHELESS, LOOKING AHEAD OVER THE NEXT SEVERAL YEARS WE EXPECT THAT AN INCREASING PROPORTION OF OUR DATA SERVICES BUSINESS WILL BE SHOWING THESE ACCEPTABLE PROFIT MARGINS.

WE WILL CONTINUE TO DEVELOP AND ESTABLISH NEW DATA SERVICES AND WILL ACCORDINGLY CONTINUE TO MAKE MARKETING INVESTMENTS TO ESTABLISH THESE PRODUCTS. AT THE SAME TIME WE ARE WORKING VERY HARD TO IMPROVE OUR OPERATIONAL EFFICIENCY. AT THE OUTSET TODAY I REFERENCED THE FACT THAT IN NOVEMBER I SPOKE OF 1976 AS A YEAR OF PROGRESS. BUT I ADDED THEN AND ADD NOW THE MORE IMPORTANT THOUGHT THAT IT WAS ONLY ONE MORE STEP IN OUR ON-GOING PROGRAMS TO BRING FUNDAMENTAL IMPROVEMENT TO OUR BUSINESS. THIS IS NOT A SOMETIME OR SHORT-TERM THING. WE ARE A LARGE COMPANY AND IT IS HARD, SLOW WORK. SO FAR, SO GOOD. I AM -- WE ALL ARE -- OBVIOUSLY PLEASED WITH THE RESULTS OF 1976 AND OUR FIRST QUARTER OF 1977. BUT IT REALLY IS ONLY A SPUR TO GET ON WITH THE TASK AT HAND.
I STARTED MY PRESENTATION WITH A LITTLE STORY ABOUT SECURITY ANALYSTS. WE IN MANAGEMENT AGONIZE OF COURSE ABOUT OUR CREDIBILITY. CLEARLY EACH OF US BELIEVES THE INEXORABILITY OF HIS LOGIC, THE RATIONALITY OF HIS ARGUMENT, THE DEXTERITY OF HIS STRATEGY IS SO OVERWHELMING THAT ALL MUST FOLLOW AND BE CONVINCED. I WAS GIVEN THIS LITTLE REMINDER RECENTLY BY ONE OF MY PEOPLE OF WHAT CREDIBILITY IS REALLY ALL ABOUT. THOUGHT YOU MIGHT ENJOY IT TOO.

NOW, I'D LIKE TO INTRODUCE TO YOU THE MAN WHO, IF YOU HAVE SEEN THIS WEEK'S BUSINESS WEEK, NEEDS NO INTRODUCTION. HE'S JOHN TITSWORTH, EXECUTIVE VICE PRESIDENT, SYSTEMS.