CDC BOARD REMARKS

1977 OPERATING RESULTS

GENERAL COMMENTS

1977 WAS A YEAR OF EXCELLENT PROGRESS. WE ACHIEVED MUCH OF WHAT WE SET OUT TO DO — THOUGH CERTAINLY NOT ALL. BUT ONE MAJOR OBJECTIVE WAS TO MAKE A BIGGER STEP IN IMPROVED PROFITS. THAT WE DID — 140% BETTER THAN 1976 ACTUAL AND 40% BETTER THAN PLAN. REVENUE GREW BY 13% WHILE ASSETS DECREASED FOR THE THIRD YEAR IN A ROW.

BUT PROGRESS WAS IN NON-NUMERIC TERMS AS WELL. MANAGEMENT TRAINING WAS GREATLY INCREASED. SOME 1850 MANAGERS RECEIVED 152,000 HOURS OF TRAINING IN 1977 AND HALF OF THAT WAS DELIVERED VIA CBE.

OUR EEO PROGRAMS ARE REALLY BECOMING A SOURCE OF PRIDE. 1977 WAS OUR BEST YEAR OF PROGRESS EVER. IN TOTAL THE GROUP HAS AN 11.5% MINORITY POPULATION — NON-MINORITY WOMEN IN PROFESSIONAL AND TECHNICAL CATEGORIES IS 9.2%. EACH OF THESE IS ABOUT 1.5 POINTS BETTER THAN 1976. INCIDENTALLY, 16% OF OUR SALESPEOPLE ARE WOMEN.

RETENTION IS THE COMMON MAJOR PROBLEM FOR MINORITIES. AT THE beginning of last year minority turnover was double the rate for non-minorities. We made some progress in 1977 and that factor was reduced to 1.6. Turnover reduction is a major program for
THE OBJECTIVE OF THIS PROGRAM IS A 20% IMPROVEMENT IN TURNOVER RATE.

GOING BACK TO OPERATING RESULTS FOR A MINUTE, 8 OUT OF 10 PRODUCT FAMILIES WERE PROFITABLE IN 1977 -- THAT COMPARES TO 1976 WHEN ONLY HALF WERE PROFITABLE. NEXT YEAR THE GOAL IS 9 OUT OF 10.

BUT I MUST ADD THAT WE HAVE A LONG WAY TO GO TO ACHIEVE TRULY RELIABLE AND CONSISTENT PERFORMANCE OF THESE PRODUCT FAMILIES ACROSS THEIR VARIOUS PRODUCT LINES, GEOGRAPHICAL AREAS OF OPERATION AND ACROSS TIME -- THAT IS, YEAR AFTER YEAR.

THE MARKETING GROUP HAD AN EXCELLENT YEAR. VERN AND HIS PEOPLE ACHIEVED 113% OF ORDER BUDGET AND 102% OF REVENUE BUDGET. THIS NEXT CHART SUMMARIZES THE ORDER PERFORMANCE. IN THE INTEREST OF TIME I WON"T DWELL ON THAT BUT THE 103% ORDER PERFORMANCE IS EXCELLENT AND THERE IS GOOD BALANCED PERFORMANCE. THE NEXT CHART SHOWS REVENUE AND AGAIN IN TOTAL YOU SEE THE 103%. THE BIGGEST DISAPPOINTMENT IS THE EDP SYSTEMS REVENUE SHORTFALL AND IS A POINT OF CONCENTRATION FOR 1978.

ALL MAJOR GEOGRAPHIC UNITS ALSO EXCEEDED THEIR ORDER OBJECTIVES, WHILE ONLY CANADA WILL MISS THEIR TOTAL REVENUE GOAL. NOT SURPRISINGLY, PROFITABILITY PERFORMANCE FOLLOWED THE SAME PATTERN AS REVENUE -- THAT IS, ALL MAJOR GEOGRAPHIC UNITS EXCEPT CANADA MADE THEIR OBJECTIVES. WEST EUROPE WAS THE TOP ACHIEVER IN PERCENT OVER PROFIT AND REVENUE TARGETS, WHILE U.S. OPERATIONS JUST NOSED THEM OUT IN ORDERS.
THIS IS, OF COURSE, GOOD BALANCED PERFORMANCE. WE ARE OBVIOUSLY PROUD OF THE CONTRIBUTION OF SO MANY PEOPLE THROUGHOUT THE YEAR. IN ADDITION TO ACHIEVING OUR ORDER AND REVENUE OBJECTIVES, WE HAD ANOTHER GOOD BASE BUILDING YEAR IN NEW ACCOUNTS; 30 EDP SYSTEMS; 195 CYBERNET SERVICE; 144 PERIPHERAL PRODUCTS; 29 DATA SYSTEMS; AND 45 PLATO CUSTOMERS. NEW ACCOUNTS IN THE YEAR INCLUDE SOME EXTREMELY SIGNIFICANT INDUSTRY LEADERS: PACIFIC TELEPHONE AND TELEGRAPH AND FORD MOTOR COMPANY AS DATA SERVICE AND COMPUTER SYSTEM NEW ACCOUNTS, UNIVERSITY OF DELAWARE, OUR FIRST PLATO SYSTEM THAT GREW FROM OUR SERVICE OFFERING, AND THYSSEN COMPANY, GERMANY'S LARGEST INDUSTRIAL CONCERN WHICH WAS CRACKED WITH MASS STORAGE. MR. NORRIS WILL BE SHARING SOME ADDITIONAL INDIVIDUAL SUCCESS STORIES AT THE MARCH MEETING WHEN HE SUMMARIZES THE 1978 SHARK CLUB FOR YOU.

WE HAVE THE FOUNDATION TO CONTINUE THE BALANCED PERFORMANCE, AND OF COURSE THAT IS THE CHALLENGE FOR 1978. WE ARE QUITE AWARE IT WILL TAKE ANOTHER STRONG EFFORT TO ACHIEVE OUR AGGRESSIVE GOALS. WE HAVE MADE CONTINUITY AND SUSTAINED PERFORMANCE IMPORTANT THEMES FOR 1978.

THERE ARE SO MANY THINGS TO TALK ABOUT -- SO MANY THINGS ACCOMPLISHED, SO MUCH MORE TO DO THAT IT IS DIFFICULT TO PICK AND CHOOSE. IN THE INTEREST OF TIME, HOWEVER, I THINK IT BEST TO GO ON TO THE OPERATIONS CHARTS AND FILL IN A FEW MORE HIGHLIGHTS AROUND THOSE.
REVENUE


OBVIOUSLY THE OEM NUMBER STANDS OUT FROM ALL THE REST. BUT I SHOULD ADD THAT REVENUE TRENDS IN OEM AND INDEED IN P.P. CO. IN TOTAL WERE CONSISTENTLY FAVORABLE AND GAINED MOMENTUM QUARTER BY QUARTER DURING THE YEAR.

SYSTEMS IS A DISAPPOINTMENT, BUT THERE IS GOOD NEWS EVEN IN THE 5% REVENUE SHORTFALL. RENTAL REVENUE WAS 2% BETTER THAN BUDGET -- THE FIRST TIME EVER. IMPROVEMENT IN SYSTEMS REVENUE PERFORMANCE IS A MAJOR PROGRAM FOR 1978.

DATA SERVICES JUST HAD AN EXCELLENT REVENUE PERFORMANCE AND U.S. CYBERNET WAS PERHAPS THE MOST PLEASANT RESULT OF MANY OUTSTANDING PERFORMANCES WITH ITS REVENUES INCREASING BY 26% OVER 1976.

ENGINEERING SERVICES IS JUST PLAIN SERENDIPITY. THE THIRD PARTY AND SELF-MAINTENANCE THREATS WERE MET, THE QUALITY OF SERVICE AND GENERAL PERFORMANCE WERE AT AN ALL TIME HIGH -- AND THE REVENUES AND PROFITS CAME ALONG WITH IT.
GROSS PROFIT

IT'S HARD TO KNOW WHERE TO START ON THIS CHART, THERE WERE SO MANY GOOD PERFORMERS -- BUT I'LL TAKE SYSTEMS.

IN THESE NUMBERS IS THE FACT THAT EDP SYSTEMS CONTRIBUTED MORE THAN $11 MILLION OF GROSS PROFIT OVER BUDGET IN SPITE OF THE $19 MILLION REVENUE SHORTFALL. FROM 1975 TO 1977, EDP SYSTEMS GROSS PROFIT PERCENTAGE HAS IMPROVED BY 10 PERCENTAGE POINTS. (REITERATE PROFITABILITY GOAL).

PERIPHERAL PRODUCTS COMPANY, WITH THE INCREASED VOLUME OF OEM, ALSO CONTRIBUTED $11 MILLION OF FAVORABLE DEVIATION AND DATA SERVICES ADDED ANOTHER $16 MILLION FAVORABLE. BOB KLEINERT POINTED OUT TO ME THAT THE 3% IMPROVEMENT IN SBC GROSS PROFIT RATE WOULD HAVE MEANT $4 MILLION MORE PROFIT IN 1977 EVEN IF REVENUES HAD STAYED AT THE 1976 LEVEL. CYBERNET GROSS PROFIT RATES IMPROVED 7% POINTS FROM 1976. THE MAJOR SHORTFALLS WERE IN AEROSPACE AND DATA SYSTEMS.

EXPENSES

EXPENSES ENDED THE YEAR AT $18 MILLION OVER BUDGET. OF THIS TOTAL, $5 MILLION IS CONCERNED WITH TRANSLATION LOSSES AND $6 MILLION IS INVOLVED WITH THE WRITE-OFFS PERTAINING TO COMPUNET AND BRAZIL.
MARKETING EXPENSES WERE OVER BUDGET BY 4% OR APPROXIMATELY $7 MILLION. AS PREVIOUSLY REVIEWED, THE INCREASE IN ORDERS AND REVENUES INCREASED INCENTIVE COMPENSATION COSTS IN THE RANGE OF $2.5-$3.0 MILLION. ALSO, AS WE GENERATED ADDITIONAL GROSS PROFIT DURING THE YEAR, WE DECIDED TO MAKE ADDED INVESTMENTS IN MARKETING PERSONNEL DURING THE SECOND HALF.

ALSO INCLUDED ARE THE EXPENSES OF $2+ MILLION ASSOCIATED WITH THE CLOSE-DOWN OF THE BRUSSELS HEADQUARTERS.

IN TECHNICAL SPENDING WE CAME IN WITHIN ONE-HALF OF 13% BUDGETED SPENDING.

NET PROFIT

THE PRE-TAX PROFIT LINE THEN REFLECTS ALL OF THIS. AS I POINTED OUT IN THE BEGINNING, $55.8 MILLION IS 140% OF 1976 PERFORMANCE. OUR PERFORMANCE CONSISTENTLY IMPROVED OVER THE YEAR, AND BASED ON THIS IMPROVEMENT, WE HAVE BEEN MUCH MORE AGGRESSIVE IN SETTING GOALS FOR 1978.

ASSETS

FINALLY, THEN, A QUICK LOOK AT ASSETS. WHAT CAN I SAY? WITH REVENUE UP BY 13%, ASSETS ACTUALLY DECREASED. AS A CONSEQUENCE, THE GROUP ASSET TO REVENUE RATIO DECLINED 14 CENTS FROM .93 TO .82. WITH THOSE SMALL RESULTS IT IS NO SURPRISE THAT THERE WERE MANY
OUTSTANDING PERFORMERS. ONE OF THE BEST WAS IN ENGINEERING SERVICES WHERE THE TURNAROUND BEGAN IN 1976 CONTINUED -- WITH A 17.5% INCREASE IN REVENUES INVENTORIES AND DAYS RECEIVABLES WERE HELD FLAT. EDP SYSTEMS ASSETS DECLINED BY $96 MILLION AND THAT MEANS SINCE 1975 YEAR-END EDP ASSETS HAVE BEEN REDUCED $200 MILLION. DATA SERVICES ASSETS INCREASED 5% EVEN THOUGH REVENUE INCREASED 22%. IN PERIPHERALS ASSETS INCREASED 14% WITH REVENUE GROWING 28%. EVEN THOUGH THAT'S GOOD PERFORMANCE, MUCH NEEDS TO BE ACCOMPLISHED TO IMPROVE DELINQUENT RECEIVABLES IN PERIPHERALS. THAT SAME STATEMENT APPLIES TO WEST EUROPE FOR ALL ITS BUSINESS SEGMENTS.


SUMMARY

SO ALL IN ALL, IT WAS ANOTHER YEAR OF PROGRESS. OUR PLANS FOR 1978 ARE AGGRESSIVE -- MORE AGGRESSIVE THAN THE BUDGETS WE SET
FOR 1977. AS I SAID TO THE S&S BOARD YESTERDAY, WE ARE ALL pleased and proud of our achievements but still humble in the face of what still needs to be done.