

ROBERT M. PRICE

SECURITY ANALYST PRESENTATION

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GOOD MORNING. IT'S NICE TO BE WITH YOU AGAIN. BACK IN NOVEMBER WHEN WE TALKED, 1977 WAS NOT QUITE CONCLUDED BUT I CHARACTERIZED IT AS ANOTHER YEAR OF PROGRESS BOTH IN FINANCIAL RESULTS AND LONG TERM FUNDAMENTAL IMPROVEMENTS. THE FINAL REPORT FOR 1977 HAS VERIFIED THOSE COMMENTS.

EACH SIX MONTHS FOR SEVERAL YEARS NOW I HAVE DISCUSSED WITH YOU VARIOUS ELEMENTS OF OUR BUSINESS STRATEGY AND HOW IT DRIVES OFF THE CENTRAL THEME OF SERVICES. LIKEWISE, I HAVE COMMENTED ON SOME PARTICULAR ASPECT OF THE ON-GOING AND LONG-TERM PROGRAM TO IMPROVE OUR SYSTEM OF MANAGEMENT AND PROFITABILITY.

I THINK THE RESULTS SPEAK FOR THEMSELVES. THE DIFFERENCE IN CONTROL DATA TODAY AND IN 1974 IS CONSIDERABLE, AND THE PROGRAM IS ON-GOING. WE HAVE NOT AND DO NOT SEEK HIGH DRAMA -- RATHER STEADY PROGRESS WHICH ALLOWS NOT ONLY IMPROVED FINANCIAL RESULTS BUT INVESTMENT IN IMPROVED BUSINESS PROCESSES.

THIS MORNING WE WILL DEPART FROM THE USUAL FORMAT OF THE PAST. I HAVE ONLY A FEW SUMMARY REMARKS TO MAKE AND THEN WOULD LIKE TO SPEND THE REST OF THE TIME ANSWERING YOUR QUESTIONS. YOU WILL GET DETAILED PRESENTATIONS ON THE COMPUTER GROUP THIS AFTERNOON.

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FIRST, LET ME ADD JUST A FEW THOUGHTS TO BEN'S COMMENTS ON THE FIRST QUARTER OF 1978.

AS BEN INDICATED, THE FIRST QUARTER PROFIT FOR THE COMPUTER BUSINESS WAS \$4.4 MILLION. PERHAPS MORE IMPORTANT THAN THE ACTUAL DOLLAR LEVEL, THE QUARTER REPRESENTED CONSISTENT, STRONG PERFORMANCES IN ALL THREE OF THE MAJOR AREAS OF THE COMPUTER BUSINESS.

THE IMPROVEMENT IN DATA SERVICES REVENUES, WHICH WERE UP 18 PERCENT IN THE FIRST QUARTER, IS A CONTINUATION OF THE SOLID 1977 TRENDS TOWARD BROAD BASED CUSTOMER ACCEPTANCE OF CONTROL DATA'S SPECIALIZED PROBLEM SOLVING CAPABILITIES.

THE COMPUTER SYSTEMS BUSINESS ALSO HAD A STRONG QUARTER, ESPECIALLY IN THE SALE AND LEASE OF THE CYBER 170 SERIES MACHINES AS EVIDENCED BY THE FACT THAT SHIPMENTS OF MAINFRAMES WERE UP 25 PERCENT. DURING THE QUARTER, THE COMPANY ADDED FOUR MODELS TO THE CYBER 175 AND CYBER 176 SYSTEM OFFERINGS, FURTHER EXPANDING THE BROADEST SINGLE OPERATING SYSTEM COMPUTER LINE IN THE INDUSTRY. MARKET ACCEPTANCE OF THESE NEW OFFERINGS HAS BEEN STRONG.

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THE PERIPHERAL OPERATIONS ALSO CONTINUED TO EXPERIENCE STRONG DEMAND FOR ITS PRODUCTS. AS OF THE END OF APRIL, OEM ORDERS WERE UP 60 PERCENT OVER THE SAME PERIOD LAST YEAR. THE PERIPHERAL BUSINESS IS ANOTHER AREA WHERE WE ARE CLEARLY RECOGNIZED AS A LEADER, AND IT IS AN AREA WHERE THERE IS SIGNIFICANT GROWTH OPPORTUNITY FOR THE FUTURE.

DURING THE QUARTER, WE CONTINUED TO MAKE IMPROVEMENTS IN OUR OPERATING EFFICIENCY. WHILE REVENUE GREW AT 18 PERCENT OR \$62 MILLION, COMPUTER BUSINESS ASSETS GREW ONLY 3 PERCENT OR \$38 MILLION. THIS REPRESENTED AN IMPROVEMENT IN THE RATIO OF ASSETS TO REVENUES FROM .91 AT THE END OF FIRST QUARTER 1977 TO .80 IN THE QUARTER JUST ENDED. THIS YEAR OUR AVERAGE ASSET TO REVENUE RATIO WILL CONTINUE ITS IMPROVEMENT TO APPROXIMATELY .78.

IN TERMS OF GEOGRAPHIC DISTRIBUTION OF REVENUE, THE FIRST QUARTER WAS SIMILAR TO LAST YEAR'S PERFORMANCE. REVENUES FROM OUTSIDE OF THE UNITED STATES WERE ABOUT ONE-THIRD OF THE TOTAL COMPUTER BUSINESS REVENUES. OUR STRONGEST MARKETS WERE IN THE UNITED STATES AND WEST EUROPE, WITH REVENUE GROWTH RATES OF 22 PERCENT AND 14 PERCENT, RESPECTIVELY.

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ALL IN ALL, WE ARE ENCOURAGED WITH THE PERFORMANCE OF THE COMPANY IN THE QUARTER, AND WE REMAIN POSITIVE ABOUT OUR OUTLOOK FOR 1978.

NEXT, LET ME QUICKLY RECAPITULATE THE ESSENCE OF CONTROL DATA'S BUSINESS STRATEGY, AND THEN WE CAN TURN TO YOUR SPECIFIC QUESTIONS.

AS WE HAVE SAID BEFORE, CONTROL DATA'S CENTRAL STRATEGIC THEME IS SERVICES. THE BUSINESS OPPORTUNITY FOR SERVICES CANNOT BE OVERSTATED. ALL THE MAJOR SOCIETAL PROBLEMS INVOLVE AN OVERWHELMING NEED FOR INFORMATION; AND THIS IS WHAT DATA SERVICES, EDUCATION AND PROFESSIONAL SERVICES ARE ALL ABOUT. CONTROL DATA CAN BEST BE VIEWED AS BEING A HIGHLY VERTICALLY INTEGRATED SERVICE COMPANY. THAT IS, WE MAKE ALL THE COMPONENTS -- THE COMPUTER MAINFRAMES, THE PERIPHERAL PRODUCTS, THE SOFTWARE PRODUCTS, THE FINANCIAL SERVICES, AND THE CONSULTING SERVICES THAT GO INTO OUR FINAL INFORMATION SERVICE.

AT THE SAME TIME, THE TOTAL MARKET FOR INFORMATION SERVICES IS SO HUGE AND IS APPROACHED IN SO MANY WAYS BY SO MANY DIFFERENT COMPANIES THAT THERE ARE ENORMOUS MARKETS FOR EACH OF THESE INDIVIDUAL COMPONENTS AS WELL. THUS, IN PERIPHERAL PRODUCTS BY SELLING OEM, OR IN COMPUTER MAINFRAMES BY SELLING COMPLETE SYSTEMS, OR IN CONSULTING SERVICES BY TREATING THAT AS A SEPARATE SERVICE, WE ACHIEVE ECONOMIES OF SCALE NOT POSSIBLE TO ANY OTHER SERVICE

COMPANY. ANOTHER WAY TO LOOK AT IT IS STARTING FROM THE BASE LEVEL PRODUCTS SUCH AS PERIPHERALS, COMPUTERS, FINANCIAL SERVICES, SOFTWARE, AND PROFESSIONAL PEOPLE, A VERY LARGE NUMBER OF EVER INCREASING VALUE ADDED PRODUCTS AND SERVICES CAN BE GENERATED. THE HIGHEST VALUE ADDED COMBINATION IS A SPECIFIC DATA SERVICE; THE LOWEST IS A SIMPLE PIECE OF HARDWARE. SO THESE COMBINATIONS CAN BE THOUGHT OF AS LEVELS OF VALUE ADDED SERVICES. AND, AS I HAVE INDICATED, ATTRACTIVE MARKETS EXIST FOR ALL LEVELS, WHILE AT THE SAME TIME THEY REINFORCE THE ULTIMATE SERVICES THRUST OF OUR BUSINESS.

THIS STRATEGY IS DISTINCTIVE IN SEVERAL REGARDS. CLEARLY WE ARE ADDRESSING MARKETPLACE NEEDS THAT ARE NON-CYCLICAL, FUNDAMENTAL, INSISTENT, AND GROWING. WE BRING TO OUR CUSTOMERS GREATER PROPRIETARY VALUE AND IN THE LONG RUN IT MEANS FOR US LESS ACROSS-THE-BOARD COMPETITIVE EXPOSURE. THIS IS IN CONSIDERABLE CONTRAST TO THOSE WHO PURSUE A STRATEGY OF HARDWARE UNIQUENESS. A TRUE PROPRIETARY ADVANTAGE IN HARDWARE WILL BECOME INCREASINGLY DIFFICULT FOR ANY COMPUTER MANUFACTURER TO OFFER IN THE FUTURE.

I DON'T MIND ADMITTING THAT IT'S NICE TO STAND IN FRONT OF YOU THIS MORNING AND SAY THAT 1977 WAS A RECORD YEAR IN REVENUE AND PROFITS. BUT TRUTHFULLY I HAVE TO SAY THAT IS ALSO RELATIVELY UNIMPORTANT TO US AS WE MOVE AHEAD INTO 1978. FOR WE HAVE BARELY BEGUN TO REALIZE THE LEVERAGE INHERENT IN OUR BASIC STRATEGY. LET'S JUST TAKE ONE EXAMPLE -- ENERGY.

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CONTROL DATA HAS BEEN A MAJOR SUPPLIER IN THIS FIELD SINCE LONG BEFORE IT WAS PROMINENTLY RECOGNIZED AS A CRITICAL WORLD PROBLEM. ALMOST EVERY PART OF THE COMPUTER BUSINESS IS INVOLVED. FOR EXAMPLE, WE HAVE AN ORGANIZATION, WHOSE ORIGINS GO BACK 10 YEARS, DEDICATED TO NUCLEAR POWER PLANT DESIGN AND SAFETY. WE ALSO HAVE ONE FOR THE PETROLEUM INDUSTRY. MOST OF OUR HARDWARE DIVISIONS ARE INVOLVED WITH PRODUCTS AND EXPERTISE TO SERVE ENERGY MARKETS. AND WE OFFER AS PART OF DATA SERVICES DESIGN TOOLS TO ENGINEERS WORKING IN POWER PLANT DESIGN. THIS YEAR OUR CYBERNET DATA SERVICE AND PLATO BEGIN WORKING TOGETHER. PLATO WILL TEACH ENGINEERS THE LATEST TECHNIQUES AND TOOLS AVAILABLE TO THEM THROUGH CYBERNET AND OF COURSE THE NETWORK ACTUALLY BRINGS THESE PROBLEM-SOLVING TOOLS TO THE ENGINEER. THIS COMBINED PLATO/CYBERNET APPROACH WILL INCREASE REVENUES FOR JUST ONE DESIGN APPLICATION BY 50 PERCENT. THAT'S WHAT I MEAN BY JUST BEGINNING TO REALIZE OUR PRODUCT LEVERAGE.

BUT PERHAPS ONE OF THE DEVELOPMENTS OF GREATEST POTENTIAL IS IN THE AREA OF ENERGY MANAGEMENT. THAT IS, MAKING BETTER USE OF THE ENERGY WE DO HAVE. CONTROL DATA, BUILDING ON THE LONG EXPERIENCE OF ITS AUTOCON SUBSIDIARY WITH THE UTILITIES INDUSTRY, HAS DEVELOPED AN OPERATIONS CONTROL SYSTEM FOR ELECTRIC POWER UTILITIES. THESE ARE LARGE AND COMPLEX SYSTEMS TYPICALLY COSTING SOME 10 MILLION DOLLARS. THE SYSTEM PAYS FOR ITSELF IN FUEL COST SAVINGS ALONE IN TWO TO FOUR YEARS.

CONTROL DATA IS THE PIONEER AND LEADER IN THESE SYSTEMS.  
WISCONSIN ELECTRIC POWER COMPANY -- COMPLETED JUST LAST YEAR --  
WAS THE FIRST SUCH SYSTEM IN THE WORLD. IN THE NEXT TWO YEARS  
THE UTILITIES INDUSTRY WILL INSTALL SIX MORE SYSTEMS -- CONTROL  
DATA HAS FOUR OF THESE.

BUT THERE IS MORE THAN BASIC BUSINESS STRATEGY THAT BODES WELL  
FOR THE FUTURE. FOR WE ARE SIMULTANEOUSLY IMPROVING FINANCIAL  
PERFORMANCE THROUGH BETTER ASSET MANAGEMENT, PRODUCTIVITY  
IMPROVEMENTS IN RESEARCH AND DEVELOPMENT EXPENDITURES, INVESTMENT  
IN MARKETING, MANAGEMENT DEVELOPMENT AND TRAINING AND SO ON.

OVERALL, OUR FINANCIAL GAME PLAN IS TO MAINTAIN A BALANCE BETWEEN  
OUR INVESTMENTS IN NEW PRODUCTS AND SERVICES AND OUR COMMITMENT  
TO CONSISTENTLY INCREASE THE RATE OF PROFITABILITY. WE ARE  
CONFIDENT OF OUR ABILITY TO ACHIEVE THAT GOAL. OUR BROADER  
BASED BUSINESS MORE EFFECTIVELY INSULATES US AGAINST ECONOMIC  
EXPOSURES AND OUR SERVICES STRATEGY REDUCES COMPETITIVE EXPOSURES.  
AS MORE START-UP PRODUCTS AND SERVICES MOVE INTO MATURE CYCLES,  
WE WILL PRODUCE A GROWING PROFIT BASE AND IMPROVED PROFITABILITY.

THAT IS A QUICK REVIEW, THEN, OF OUR STRATEGY AND OUR COMMITMENT  
TO IMPROVED PROFITABILITY. OUR BUSINESS STRATEGY PROVIDES US  
WITH A GOOD COURSE FOR FUTURE GROWTH. ADDITIONALLY, OUR FINANCIAL  
PLAN REPRESENTS A PROPER BALANCE BETWEEN INVESTMENT FOR THE FUTURE  
AND CURRENT RESULTS.

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