REVIEW OF OCTOBER RESULTS OF THE
COMPUTER GROUP

NOVEMBER 10, 1978
BOARD OF DIRECTORS MEETING
R. M. PRICE

The improvements which we have seen in the computer business financial results in 1978 continued in September and October. All major segments of the computer business — Data Services, Marketing Services, Peripheral Products and EDP Systems — contributed to the improvement. This balanced performance is very important as we look to 1979 and the uncertain economic conditions ahead. Some segments of our business are more susceptible to changes in economic conditions than others, but with the major segments of the business operating profitably, we are in somewhat better shape to weather a recession if one occurs than we were in prior years.

Chart 1

Revenue for September and October totaled $333 million to bring the year-to-date total to $1455 million. This represents about a 23 percent increase over the first 10 months of 1977. Of particular importance, is the increase in rental and service revenue. We have been building the lease base in EDP Systems and Peripheral Products and rental revenues were up 20 percent over the previous 10 months. This coupled with similar growth in service revenue, raised our total rental and service income by 18 percent over 1977. This revenue
stream is inherently more stable than outright sales and should provide an additional hedge against uncertain economic conditions.

Chart 2

Gross profit totaled $123 million in September and October to bring our year-to-date total to $553 million. The gross profit rate of 38 percent is slightly below the budget of 38.3 percent and reflects the settlement of the international wagering contracts which were recorded in September. Excluding these wagering entries, our year-to-date gross profit percentage would have been 38.5 or slightly better than budget.

Chart 3

Our expenses in September and October brought our year-to-date total to $471 million compared to a budget of $464 million.

The general weakening of the dollar has resulted in increased expenses as reported in dollars of about 10.5 million.

While our revenue is up 23 percent over 1977, our expenses are up only 15 percent. The increase reflects planned additions to the sales force and investments in R&D. Our administrative expense is up only 4.5 percent or significantly less than the rate of inflation.
Net profit before tax totaled $81.6 million at the end of October. While this is up 70 percent over 1977, it still represents only 5.6 percent of revenue. We are all aware of the need to improve this ratio as we finish our 1979 budgets. As we currently see the 1979 budgets, we are looking for about a 25 percent increase in profit on about a 10 to 11 percent increase in revenue. This would give us a net profit before tax to sales ratio of about 6.3 percent.

These expectations are based on the latest economic forecasts from COMCRES which call for slower real growth in 1979, but no recession, at least not in the capital goods sector.

One of our major tasks is to continue to improve our management of assets as illustrated on this chart. The CPI ownership change had a significant impact on our assets since we now consolidate all CPI assets and report them in our balance sheet. We have adjusted both the budget and the actual data, effective July 1, on this chart to reflect this change.

At the end of October, our assets totaled $1276 million or about $34 million below budget. We have had an increase in assets of about five percent over the prior year to support
the 23 percent increase in revenue. This translates to about 20 cents of assets to support each dollar of additional revenue.

On an incremental basis this does not seem too bad, but we are still not satisfied with the performance of the base business.

Our efforts in 1978 have been largely focused on reducing our investment in trade receivables. We have had a team of specialists conducting on-site reviews of the credit and collection function in 15 of our organizations worldwide which account for two-thirds of our delinquent receivable problem. These in-depth reviews have provided us with a much better understanding regarding the nature of our receivables problem and have resulted in the development and implementation of detailed action plans by these organizations designed to improve our future performance in receivables management.

We have also tasked our general management with aggressive improvement goals and reviewed these in our monthly operations reviews.

The net effect of this effort has been a reduction of $4 million in delinquent receivables from year-end 1977 despite significantly higher billings. As of September 30, the percentage of receivables which were delinquent dropped to 31 percent compared to 34 percent at year-end 1977. Although we are planning further improvements for 1979, it will be a major challenge as the money supply gets tighter.
Before we move on to the major operating units, let me summarize briefly the situation in Iran.

IRAN STATUS REPORT

The news media has carried a significant amount of information concerning recent events in Iran and the following is to update you on our present situation as it exists today.

The business picture. Briefly we have $10 million is assets. This does include CTI. Six larger CYBER systems are installed. We were in the process of installing a CYBER 174 at Abadan in the southern part of Iran. The machine is there - not yet installed. There are two 171's still in backlog and there are 30 CYBER 18 installations located throughout the country. We are advised a leased CYBER 72-13 installed at NIGC has been destroyed. The system had a net book value of $200K. Equipment is covered by insurance less a small deductible. Coverage extends also to up to six months rental income.

As far as our education project is concerned, the school is closed. Both the students and instructors are on strike - very little is being accomplished. If the situation deteriorates much further, we will probably evacuate all expatriate personnel and arrange with the customer for temporary curtailment of our services until the school reopens. The curtailed services would be performed by local personnel.
To put the people situation into perspective, we had 29 expatriates (20 U.S., 9 TCN's) with 54 dependents in Iran. We have now evacuated 14 expatriates and 51 dependents. Remaining dependents consist of two Iranian born dependents of an Indian TCN and the wife of a German TCN in Abadan, who is secure in the OSCO compound. Most were evacuated to London with several going to other countries including India and the U.S.

The plan from this point in time is to support, as best we can with the minimal number of people remaining, the installed base and in the process convince our customers that we continue to be there as a viable vendor.