SUMMARY OF COMPUTER GROUP RESULTS

BOARD OF DIRECTORS

JULY 13, 1979

R. M. PRICE

THE STEADY GROWTH IN COMPUTER GROUP REVENUE REFLECTS CONTINUED STRONG DEMAND, PARTICULARLY IN OEM, WHERE ORDERS FOR THE FIRST HALF WERE SIGNIFICANTLY AHEAD OF PLAN. TOTAL REVENUES WERE $1025 MILLION, OR 6 PERCENT HIGHER THAN BUDGET AND A 21 PERCENT IMPROVEMENT OVER THE FIRST HALF OF 1978.

WE CONTINUE TO EXPERIENCE IMPROVEMENTS IN OUR PRODUCTIVITY INDICATORS, EVIDENCED BY THE PROGRESS IN GROSS PROFIT MARGINS AND EXPENSE AND ASSET TO REVENUE RATIOS, ALL BETTER THAN THE PRIOR YEAR'S FIRST HALF AS WELL AS THE FIRST QUARTER OF 1979.

GROSS PROFIT FOR THE FIRST HALF WAS $398 MILLION, 5 PERCENT BETTER THAN THE BUDGET OF $380 MILLION. THE GROSS PROFIT RATE OF 38.8 PERCENT REPRESENTS AN IMPROVEMENT FROM THE 38.4 PERCENT FOR THE FIRST HALF OF 1978. THE MOST SIGNIFICANT IMPROVEMENT
COMPARED TO PRIOR YEAR WAS EXPERIENCED BY EDP SYSTEMS WHERE THE GROSS PROFIT RATE INCREASED FROM 69 PERCENT TO 74 PERCENT. OVERALL THE RATE WAS SLIGHTLY LOWER THAN BUDGET DUE TO A CONSERVATIVE POSITION TAKEN ON RESERVES.

TOTAL EXPENSES FOR THE FIRST HALF WERE $337 MILLION, OR A 32.9 PERCENT EXPENSE TO REVENUE RATIO COMPARED TO 33.7 PERCENT FOR THE FIRST HALF OF 1978. EXPENSES WERE 2 PERCENT BELOW BUDGET. (TRANSLATION = 4 MILLION MORE (FAVORABLE))

THE EMPHASIS ON MARKETING AND TECHNICAL EFFORT CONTINUES AS THOSE EXPENSES WERE UP FROM THE PRIOR YEAR, 25 PERCENT AND 18 PERCENT RESPECTIVELY.

INTEREST EXPENSES CONTINUE TO BE THE PRINCIPAL CONTRIBUTOR TO OUR SAVINGS, DUE TO ASSET EFFICIENCIES AND THE IMPROVED EARNINGS.

TOTAL ASSETS AS OF JUNE 30 WERE $1417 MILLION OR $17 MILLION BELOW BUDGET. THIS REPRESENTS AN INCREASE OF 12 PERCENT FROM JUNE 30, 1978, SO WE ARE USING ONLY 36 CENTS OF ASSETS FOR EACH INCREMENTAL REVENUE DOLLAR ON AN ANNUALIZED BASIS.
A NEW RECEIVABLES COLLECTION PROGRAM, TRIP (TRADE RECEIVABLES IMPROVEMENT PROGRAM) IS BEGINNING TO SHOW FAVORABLE RESULTS. A NEW MEASURE, THE COLLECTION RATIO, HAS BEEN INTRODUCED AT THE COLLECTION UNIT LEVEL. THIS RATIO MEASURES THE RECEIVABLES ACTUALLY COLLECTED IN THE MONTH AS A PERCENTAGE OF THE TOTAL WHICH ARE, BY CONTRACT, COLLECTABLE. MOST COLLECTION UNITS ARE ACHIEVING IMPROVED COLLECTION RATIOS COMPARED TO THE 1978 BASE PERIOD.

TRADE RECEIVABLES OF $253 MILLION REPRESENTED AN IMPROVEMENT FROM 47 TO 41 DAYS AND WERE ONLY 0.4 PERCENT ABOVE BUDGET DESPITE THE HIGHER INCREASE IN REVENUE.

INVENTORIES CONTINUED TO EXPERIENCE THE HIGHEST PERCENTAGE INCREASE. AT $494 MILLION THEY WERE UP 19 PERCENT FROM PRIOR YEAR. THIS IS, OF COURSE, LARGELY DUE TO INCREASED VOLUME AND IT IS SLIGHTLY LOWER THAN THE INCREASE IN REVENUE. HOWEVER, WE NEED AND EXPECT IMPROVEMENT IN OUR INVENTORIES RELATIVE TO REVENUE DURING THE REMAINDER OF 1979.
RC-5

THE INCREASED REVENUE PLUS THE PRODUCTIVITY IMPROVEMENTS YOU HAVE SEEN HAVE RESULTED IN A PRETAX NET PROFIT OF $61.0 MILLION. THIS REPRESENTS 5.6 PERCENT OF REVENUE COMPARED TO 4.7 PERCENT FOR THE FIRST HALF OF 1978.

AFTER TAX PERFORMANCE IS EVEN BETTER THAN THIS NET PROFIT BEFORE TAX CHART INDICATES. WE ARE SEEING BENEFICIAL RESULTS FROM OUR EMPHASIS ON TAX RATE IMPROVEMENT, WHERE WE EXPECT TO BE BETTER THAN PLAN AND SIGNIFICANTLY BELOW THE 1978 TAX RATE. IMPROVED PROFITABILITY IN COUNTRIES SUCH AS CANADA, SWEDEN, SWITZERLAND, KOREA AND BELGIUM HAS BEEN INSTRUMENTAL IN THIS TAX RATE DECREASE.

THE TAX RATE WAS 49 PERCENT COMPARED TO 56 PERCENT FOR THE FIRST HALF OF 1978.

DATA SERVICES

RC-2

REVENUE TOTALING $199 MILLION FOR THE FIRST SIX MONTHS WAS $4 MILLION OVER BUDGET AND 17 PERCENT GREATER THAN THE COMPARABLE PERIOD LAST YEAR. THE SECOND QUARTER SAW TWO MILESTONES REACHED. CYBERNET EXCEEDED THE $12 MILLION MARK FOR THE FIRST TIME IN JUNE AND SBC EXCEEDED $16 MILLION IN JUNE.
PRETAX NET PROFIT TOTaled $16.7 MILLION WHICH Represents AN IMPROVEMENT IN NET PROFIT MARGIN FROM 7.5 PERCENT IN 1978 TO 8.4 PERCENT FOR THE FIRST HALF OF 1979.

DURING THE SECOND QUARTER A CONTRACT WAS SIGNED WITH YANKEE ATOMIC ESTIMATED AT $9.2 MILLION OVER FOUR YEARS WHICH WILL ENTAIL THE INSTALLATION OF A DEDICATED CYBER 175 FOR THE CUSTOMER'S USE.

INFORMATION AND EDUCATION SYSTEMS

REVENUE OF $234 MILLION FOR THE FIRST HALF WAS AHEAD OF LAST YEAR BUT FOUR PERCENT BELOW BUDGET. PURCHASE REVENUE ACCOUNTED FOR THE SHORTFALL. TWO CYBER 175 SYSTEMS, ONE 7600 SYSTEM AND ONE EDUCATION SYSTEM ACCOUNTED FOR THE MAJORITY OF THE DEVIATION, AS THESE SYSTEMS ACCEPTANCES HAVE BEEN DELAYED UNTIL THE THIRD QUARTER. RENTAL REVENUES WERE 22 PERCENT AHEAD OF LAST YEAR. ONE ADDITIONAL BIT OF GOOD NEWS IS THE CYBER 203 (STAR) ORDER WE RECEIVED LAST WEEK FROM THE FNWF IN MONTERREY, CALIFORNIA.
RC-5

NET PROFIT BEFORE TAX WAS $12.6 MILLION, OR 17 PERCENT FAVORABLE TO BUDGET DUE TO STRONG GROSS PROFIT PERFORMANCE. EXCELLENT GROSS MARGINS FROM OUR LEASE BASE, PRODUCT MIX AND MANUFACTURING EFFICIENCIES WERE THE CONTRIBUTING FACTORS. EXPENSES WERE ON PLAN.

RC-6

TOTAL ASSETS AT THE END OF THE FIRST HALF WERE WELL BELOW PLANNED LEVELS. RECEIVABLES AND LEASED EQUIPMENT WERE THE MAJOR CONTRIBUTORS. AGGRESSIVE COLLECTION ACTIVITIES PRIMARILY ACCOUNT FOR THE RECEIVABLES PERFORMANCE. PLANNED ADDITIONS TO THE LEASE BASE ARE NOT OCCURRING AS EARLY AS PLANNED DUE TO CUSTOMER DELAYS. WE DO EXPECT THE YEAR-END LEASED ASSETS TO BE ESSENTIALLY ON PLAN.

PERIPHERAL PRODUCTS

RC-2

TOTAL REVENUES OF $399 MILLION WERE $47 MILLION AHEAD OF BUDGET AND $99 MILLION BETTER THAN LAST YEAR. THE REVENUE FOR THE FIRST HALF WAS 32.6 PERCENT HIGHER THAN LAST YEAR. THIS
INCREASE CONTINUES TO REFLECT VERY STRONG DEMAND FOR OUR DISK PRODUCTS AND RELATED MEDIA. OEM REVENUE WAS $271 MILLION FOR THE FIRST HALF. BUSINESS PRODUCTS RECORDED FIRST HALF REVENUE OF $80 MILLION. BOTH OEM AND BUSINESS PRODUCTS ARE FORECASTING A STRONG SECOND HALF WITH ORDERS AND BACKLOGS REMAINING AT RECORD LEVELS. ADDITIONAL PLANT CAPACITY SHOULD HELP TO ALLEVIATE THE CUSTOMER ORDER PRESSURE AND IMPROVE OUR PRODUCTION CAPACITY.

RC-5

NET PROFIT BEFORE TAX OF $33 MILLION WAS FAVORABLE TO LAST YEAR BY $6.8 MILLION. OEM AND BPG PRODUCT FAMILIES' RESULTS WERE BOTH FAVORABLE TO BUDGET AND TO LAST YEAR'S RESULTS. PERIPHERAL SYSTEMS' RESULTS WERE NEGATIVELY IMPACTED BY A $4.9 MILLION INVENTORY DEVALUATION OF THE OMEGA PRODUCT LINE AND A $1.5 MILLION BAD DEBT PROVISION FOR INSTALLMENT SALES CONTRACTS.

RC-6

TOTAL ASSETS OF $499 MILLION WERE $47 MILLION HIGHER THAN BUDGET. THE HIGHER ASSETS ARE A RESULT OF THE INCREASE IN RECEIVABLES AND INVENTORIES IN BOTH MEMORY PRODUCTS AND BUSINESS PRODUCTS. THE INVENTORY LEVELS ARE NECESSARY TO MEET FORECASTED SECOND HALF OUTPUT. INCREASING RECEIVABLES ARE A REFLECTION OF REVENUE GROWTH AND NOT A SLOWDOWN OF COLLECTIONS.
SUMMARY AND OUTLOOK

FINALLY, LET ME ADD A FEW GENERAL COMMENTS ON CONSULTING AND EDUCATION SERVICES AND SOME OF THE BUSINESS DEVELOPMENT AREAS. DURING THE FIRST HALF, AN EXTRAORDINARILY STRONG PERFORMANCE WAS TURNED IN BY THE CONTROL DATA INSTITUTES AND THE EXTERNAL SEMINAR BUSINESS. CONTROL DATA INSTITUTE HAS EXCEEDED ALL REVENUE, PROFIT, AND RETURN ON INVESTMENT GOALS AND APPEARS HEADED FOR A RECORD BREAKING YEAR. CURRENT FORECASTS FOR YEAR-END ARE $22.5M REVENUE AND $5.2M NPBT. SIMILARLY, THE SEMINAR BUSINESS (PLUS IAT: INSTITUTE FOR ADVANCED TECHNOLOGY) IS FORECASTING $3.5M REVENUE PERFORMANCE WITH SOME $1.2M NPBT.

AT THE SAME TIME, THE EXPANDING NETWORK OF LEARNING CENTERS HAS MOVED INTO THE CONSUMER MARKETING AREA. THE BASIC SKILLS COURSEWARE IS OUR PRIME CONSUMER PRODUCT AT THIS TIME.

WE HAVE FORMED A SMALL BUSINESS AND CONSUMER MARKETING GROUP TO LEAD IN THE RAPID PENETRATION OF THESE MARKETS WITH OUR CBE COURSES.

THE BUSINESS AND TECHNOLOGY CENTER IN ST. PAUL HAS SEVERAL TENANTS ALREADY AND PLANS ARE DEVELOPING FOR MINNEAPOLIS AND TOLEDO, OHIO. A HIGH LEVEL MANAGEMENT STEERING COMMITTEE HAS BEEN ESTABLISHED TO GUIDE THE STRATEGY OF BTC'S.
FAIR BREAK HAS BEGUN TO GENERATE A SIGNIFICANT REVENUE BASE DURING THE FIRST HALF OF 1979. THE SIGNING OF A MAJOR CONTRACT WITH THE DEPARTMENT OF LABOR FOR TRAINING OF 300 INDIVIDUALS IN VARIOUS PHASES OF COMPUTER TECHNOLOGY AND PROGRAMMING PLUS ACCELERATING DEMAND FOR PLATO TERMINALS TO TEACH BASIC SKILLS THROUGH CETA PRIME SPONSORS LENDS CONSIDERABLE SUPPORT TO OUR CONVICTION THAT FAIR BREAK IS A VIABLE PRODUCT IN THE MARKETPLACE. WE NOW HAVE 55 FAIR BREAK TERMINALS INSTALLED, A BACKLOG OF 41 MORE AND PRIME PROSPECTS FOR OVER 60 -- THE PROGRAM IS MOVING.

AS SOME OF YOU KNOW, DEVELOPMENT HAS BEEN COMPLETED ON THE FIRST PRODUCT OFFERING OF THE STAYWELL SELF-HEALTH MANAGEMENT PROGRAM, A NEW HEALTH BENEFIT BEING OFFERED TO FULL-TIME CONTROL DATA EMPLOYEES AND SPOUSES. ORIENTATION, MEDICAL SCREENING, HEALTH RISK PROFILE, AND FOLLOW-ON HEALTH EDUCATION AND LIFE-STYLE CHANGE COURSES ARE MAJOR COMPONENTS OF THIS PROGRAM DESIGNED TO PROMOTE WELLNESS AND CONTAIN RISING HEALTH CARE COSTS. THE STAYWELL PROGRAM IS ADMINISTERED BY LIFE EXTENSION INSTITUTE, THE UNIT ACQUIRED FROM DUNN & BRADSTREED LAST AUGUST.

INITIALLY, THE STAYWELL PROGRAM IS BEING OFFERED TO EMPLOYEES AND SPOUSES IN SAN DIEGO AND NEW YORK CITY WITH ALL DOMESTIC CDC (INCLUDING CCC) EMPLOYEES AND SPOUSES OFFERED THE BENEFIT BY 1983.
DURING THIS FIRST WEEK OF ORIENTATION, 294 PEOPLE AT FOUR DIFFERENT WORK SITES WERE INTRODUCED TO STAYWELL. RESPONSE THUS FAR HAS BEEN EXCELLENT.

THE OUTLOOK FOR THE YEAR IS GOOD, AND WE CAN SEE PROGRESS IN PROFITABILITY GOING FORWARD INTO NEXT YEAR AND BEYOND. THE ECONOMIC QUESTION IS STILL THERE, BUT, AS I INDICATED AT OUR RECENT STAFF SESSION TO REVIEW FIVE-YEAR PLANS, THE POTENTIAL FOR IMPROVEMENT IN AREAS SUCH AS PERIPHERAL SYSTEMS, SMALL SYSTEMS, DATA SERVICES EUROPE, INSTRUMENTS AND CONTROLS -- TO NAME A FEW -- FAR OUTWEIGHS THE THREATS TO OUR BUSINESS FROM NORMAL ECONOMIC PROBLEMS. ON THE OTHER HAND, FIXING THOSE THINGS IS SOMETHING THAT MUST BE MADE TO HAPPEN. SO THERE IS MUCH TO BE DONE.