INTRODUCTION

THE BASIC THRUST OF OUR LONG-RANGE PLAN REMAINS THAT OF IMPROVING THE PROFITABILITY OF THE COMPUTER BUSINESS ON A CONSISTENT, CONTROLLED BASIS. TO ACHIEVE THAT OBJECTIVE, WE WILL CONTINUE TO WORK AT STRATEGIES TO IMPROVE THE OPERATING EFFICIENCY OF HUMAN, PHYSICAL AND FINANCIAL RESOURCES. AT THE SAME TIME, WE ARE ALSO PURSUING AN AGGRESSIVE GROWTH LONG-TERM STRATEGY. THUS THIS PLAN CALLS FOR REINVESTMENT OF MUCH OF THE BENEFITS PRODUCED FROM THESE OPERATING EFFICIENCIES.

(BASIC CHART) PROFITABILITY IMPROVEMENT CHART

OVER THE PAST FEW YEARS, WE HAVE TAKEN GREAT STRIDES IN IMPROVING OUR PROFITABILITY: HOWEVER, WE STILL HAVE A WAYS TO GO IN ORDER TO REACH THE INDUSTRY AVERAGES.
INDUSTRY COMPARISON CHART

As you can see by this chart, the revenue growth of the industry leaders was quite substantial last year at a weighted average of 25.7 percent which compares with our growth of 23.5 percent. The major revenue growth in the industry is still occurring in the service and peripheral areas, although systems picked up somewhat last year to a 15.5 percent rate.

The industry leaders average ROIC, which is the after-tax return on the invested capital (i.e., debt plus equity) was 13.4 percent in 1978. (Flip Overlay) This compares with our ROIC of 4.6 percent in 1978 and our projected 8 percent for 1979.

The average debt/equity ratio of the industry leaders was in the .50 range as compared with our current level of 1.12.

In essence the plan says we can be above average by 1982, while continuing on a course oriented toward long-term industry leadership. More specifically, we can double ROIC and cut debt to equity in half.
ECONOMIC INDICATOR CHART

WITH THE CURRENT STATE OF THE ECONOMY, A LOGICAL QUESTION IS WHAT ECONOMIC ASSUMPTIONS WERE MADE AS A BASIS FOR THE PLAN. COMCRES DATA, FROM COMMERCIAL CREDIT, PROJECTS INFLATION TO BE 7.7 PERCENT IN 1980 WITH AN AVERAGE 7 - 8 PERCENT RANGE FOR THE PLAN PERIOD. WAGE RATE INCREASES CONTINUE AT A SUBSTANTIAL RATE.

YOU WILL NOTE THAT COMCRES PROJECTS CONTINUED GROWTH IN CAPITAL EXPENDITURES DESPITE A PROJECTED SLOWDOWN IN GNP. PART OF THE RATIONALE BEHIND THIS IS THAT INDUSTRIES MUST MAKE GREATER INVESTMENTS IN IMPROVING PRODUCTIVITY. COMPUTER-RELATED EQUIPMENT CAN MAKE A GOOD CONTRIBUTION TOWARD THESE IMPROVEMENTS IN PRODUCTIVITY.

THEREFORE, INVESTMENTS ARE EXPECTED TO CONTINUE AT GOOD GROWTH RATE, AT CURRENT DOLLARS. COMCRES IS ALSO PROJECTING GOOD GROWTH IN EXPORTS OF Capital EQUIPMENT. BOTH OF THESE FACTORS HAVE BEEN SHOWN TO CORRELATE WELL WITH CONTROL DATA'S BUSINESS OUTLOOK.
AS FAR AS THE COMPUTER INDUSTRY IS CONCERNED, WE ARE PROJECTING LOWER GROWTH IN SHIPMENTS IN 1979-80 THAN IN 1978 FOR THE GENERAL PURPOSE EQUIPMENT. THE MINICOMPUTER AREA IS CONTINUING TO GROW AT A 30 PERCENT PLUS RATE. THE GROWTH RATE IN SMALL BUSINESS COMPUTERS AND MINICOMPUTERS IS A MAJOR FACTOR IN OUR PERIPHERAL PRODUCTS GROWTH. IN DOLLARS, WE ARE EXPECTING SHIPMENTS IN THESE THREE CLASSES TO DOUBLE IN VALUE BETWEEN 1978 AND 1982 REACHING $41.5B IN 1982.

AS YOU CAN SEE, THE FORECAST BOTH FOR THE CAPITAL EQUIPMENT SECTOR OF THE U.S. ECONOMY AND FOR THE COMPUTER INDUSTRY IS QUITE BULLISH. IT IS BASED ON THE ASSUMPTIONS THAT THE CURRENT RECESSION WILL BE MILD AND LARGELY RESTRICTED TO CONSUMER GOODS.

A VOCAL MINORITY OF ECONOMISTS STRONGLY DISAGREE WITH THIS OUTLOOK. THEY PROJECT A SHARP RECESSION MORE LIKE 1973-74 WHICH WOULD CLEARLY HAVE A MAJOR IMPACT ON THE COMPUTER INDUSTRY. WHILE OUR PLANS ARE BASED ON THE OPTIMISTIC CONSENSUS AS PROJECTED BY COMCRES, WE ARE TAKING SOME STEPS TO LIMIT OUR RISKS IN THE EVENT THE DOWNTURN IS SEVERE. I'LL COVER THIS IN MORE DETAIL IN A FEW MINUTES.
TO ACHIEVE OUR OBJECTIVE OF EXCEEDING INDUSTRY PERFORMANCE BY 1982, WE WILL BE RELYING ON BOTH INVESTMENT STRATEGIES AND PRODUCTIVITY STRATEGIES.

PORTFOLIO CHART

THE INVESTMENT STRATEGIES CAN BEST BE VIEWED BY REVIEWING OUR CURRENT STRATEGIC POSITION AS INDICATED IN THIS PORTFOLIO CHART FOR THE COMPUTER GROUP IN 1980. THIS IS A SOMEWHAT MODIFIED VERSION OF THE TRADITIONAL CHART OF GROWTH VERSUS MARKET SHARE. ON THE VERTICAL SCALE, WE HAVE THE SALES GROWTH RATE, SPECIFICALLY FROM 1979 TO 1980. ON THE HORIZONTAL SCALE IS OUR SALES VOLUME RELATIVE TO OUR PRINCIPAL COMPETITION.

ONLY THE LARGER BUSINESSES WITHIN THE COMPUTER GROUP ARE SHOWN ON THIS CHART. THE SIZE OF THE CIRCLE IS PROPORTIONAL TO THE ASSETS EMPLOYED. THE COLOR OF THE CIRCLE INDICATES THE CASH GENERATION OF THAT BUSINESS IN 1980. GREEN INDICATES POSITIVE CASH FLOW, RED NEGATIVE CASH FLOW, AND YELLOW THAT IT IS NEAR A BREAK-EVEN POSITION ON CASH FLOW. THE PRE-INTEREST, PRE-TAX RETURN ON ASSETS IS SHOWN IN THE CIRCLE.
AS INDICATED ON THE CHART, WE HAVE ONE BUSINESS, OEM DISK MEMORY, THAT IS IN A VERY STRONG STRATEGIC POSITION AND ALSO IN A HIGH GROWTH MARKET. OUR REVENUES ARE ABOUT FIVE TIMES THAT OF THE NEXT LARGEST COMPETITOR AND THIS IS ONE OF THE PRINCIPAL REASONS THAT THE OEM BUSINESS IS QUITE PROFITABLE. THE GROWTH RATE IS HIGH BECAUSE MUCH OF THE OUTPUT GOES TO THE BOOMING MINICOMPUTER MARKET. AS YOU CAN SEE, CASH FLOW IS PLANNED TO BE POSITIVE. THIS HAS NOT BEEN THE CASE IN THE PAST. NOR WOULD IT BE IN 1980 WITHOUT AN EXPLICIT RESTRICTION ON ASSET GROWTH. EVEN WITH THIS RESTRICTION, HOWEVER, WE BELIEVE WE CAN FOLLOW A STRATEGY IN OEM OF MAINTAINING OUR LEADERSHIP POSITION IN DISK MEMORIES AND EXPANDING THIS POSITION INTO OTHER PRODUCT AREAS SUCH AS PRINTERS.

IN SERVICES, WE ARE ALSO IN A LEADERSHIP POSITION BUT BY A MUCH SMALLER MARGIN. SERVICES, OF COURSE, INVOLVES A NUMBER OF SMALLER DISTINCT BUSINESSES, BUT LOOKED AT BROADLY, WE HAVE A RELATIVE SALES VOLUME OF ABOUT 1.1. THAT IS, OUR REVENUE IS ABOUT 10 PERCENT HIGHER THAN THAT OF OUR PRINCIPAL COMPETITORS NAMELY ADP AND COMPUTER SCIENCES.
IN SERVICES, OUR OBJECTIVE IS TO REMAIN NUMBER ONE AND TO
ESTABLISH THE CLEAR LEADERSHIP POSITION WHICH WE CURRENTLY DO
NOT HAVE. THIS IS NOT A NEW OBJECTIVE - OUR STRESS ON GROWTH
IN SERVICES DURING THE PAST DECADE HAS BEEN AIMED AT BEING
NUMBER ONE IN THIS EMERGING INDUSTRY. AT PRESENT, THE INDUSTRY
IS STILL HIGHLY FRAGMENTED WITH NO ONE COMPETITOR HAVING AS
MUCH AS 10 PERCENT OF THE MARKET. A GREAT DEAL OF DEDICATION
AND RESOURCES WILL BE REQUIRED TO IMPLEMENT THIS STRATEGY WHICH
IS STILL THE MOST IMPORTANT ASPECT OF OUR OVERALL COMPUTER
BUSINESS STRATEGY. IT IS IN THIS SEGMENT OF OUR BUSINESS, TOO,
THAT WE LOOK TO DEVELOP TOTALLY NEW BUSINESSES SUCH AS THOSE IN
HEALTH SERVICES. WE EXPECT THE DATA SERVICES INDUSTRY TO GROW
AT ABOUT 17 PERCENT PER YEAR AND OUR ARROW POINTS TO THE LEFT
ON THE CHART TO INDICATE THE STRATEGIC DIRECTION FOR THE FUTURE
- NAMELY, IMPROVEMENT IN MARKET SHARE.

ONE OF THE MAJOR CHALLENGES FOR THE COMPUTER BUSINESS IS TO
FOLLOW THROUGH ON OUR EDUCATION STRATEGY. ON THE CHART, WE
HAVE SHOWN OUR EDUCATION BUSINESS IN A VERY STRONG POSITION.
THIS IS TRUE IF WE CONSIDER OUR COMPETITION TO BE OTHER
COMPANIES DELIVERING COMPUTER-BASED EDUCATION.
BUT THAT IS NOT THE REAL ISSUE. THE ISSUE IS OUR PENETRATION OF THE TOTAL EDUCATION AND TRAINING MARKET. FROM THIS STANDPOINT OUR RELATIVE SALES VOLUME IS MINISCULE. THE NEED FOR IMPROVED QUALITY, EQUALITY AND PRODUCTIVITY IN EDUCATION IS SO OVERWHELMING THAT MANY TECHNOLOGIES AND APPROACHES WILL RUSH IN OVER THE NEXT FIVE TO TEN YEARS IN AN ATTEMPT TO MEET THE NEED. THE REAL CHALLENGE FOR CONTROL DATA IS TO ESTABLISH MARKET PRESENCE -- SO AS TO FINALLY EMERGE AS THE INDUSTRY LEADER OF AN ENORMOUS CBE MARKET. THIS IS NO SMALL CHALLENGE AND CERTAINLY IS NOT PREORDAINED BECAUSE OF THE CURRENT SUPERIORITY OF OUR TECHNOLOGY. IT WILL TAKE A LOT OF MONEY AND MORE THAN THAT A LOT OF HARD WORK.

BEFORE DISCUSSING THE EDP BUSINESS, I WOULD LIKE TO CALL YOUR ATTENTION TO THE ABSENCE OF ANY CDC BUSINESS IN THE LOWER LEFT HAND CORNER OF THE CHART. THIS LOW GROWTH AND HIGH RELATIVE SALES SEGMENT OF THE CHART IS WHERE THE HIGH PROFIT AND HIGH POSITIVE CASH FLOW GENERATORS ARE NORMALLY FOUND. OUR BUSINESS PORTFOLIO DOES NOT HAVE ANY SUCH "CASH COWS" THAT CAN BE USED TO FUND OTHER BUSINESSES AND THIS ACTS AS A CONSTRAINT ON OUR TOTAL COMPUTER BUSINESS STRATEGY. ALSO, IF I HAD BROKEN DOWN THIS CHART A BIT FURTHER YOU WOULD FIND SOME PART OF SYSTEMS, SERVICES AND PERIPHERALS IN THE LOWER RIGHT-HAND CORNER -- THE LOW MARKET SHARE, STAGNATED CORNER. AND IT IS RIGHT THERE -- IN THOSE BUSINESS SEGMENTS -- THE KEY TO TRULY IMPROVED PROFITABILITY LIES. CORRECTING THOSE PROBLEM AREAS IS A MAJOR CHALLENGE AND ONE OF MY PRINCIPAL CONCERNS.
IN THE CASE OF EDP, WE HAVE INDICATED A GROWTH RATE OF ABOUT 10 PERCENT AND A RELATIVE POSITION OF ABOUT .35. THIS SALES VOLUME IS MEASURED AGAINST UNIVAC, HONEYWELL AND BURROUGHS RATHER THAN IBM SINCE WE HAVE AVOIDED MARKETS WHERE WE WOULD HAVE A CONSTANT HEAD-TO-HEAD CONFRONTATION WITH IBM. IN THE LARGE SCIENTIFIC COMPUTER MARKET, OUR VOLUME IS, AS NEAR AS WE CAN TELL, ABOUT ONE-THIRD THAT OF THE OTHER PRINCIPAL COMPETITORS. WHILE IT WOULD BE DESIRABLE TO BE NUMBER ONE IN ALL OF OUR MAJOR BUSINESSES, IN CASE OF EDP, THIS IS JUST NOT FEASIBLE. EVEN ASSUMING WE COULD GROW RAPIDLY ENOUGH TO GET TO A NUMBER ONE POSITION, IT WOULD REQUIRE ABOUT $1 BILLION IN CASH TO FINANCE THE PROGRAM AND THIS IS CLEARLY NOT THE MOST ADVANTAGEOUS USE OF THAT MONEY EVEN IF WE HAD IT -- WHICH WE DON'T.

OUR EDP STRATEGY IS RATHER TO FOCUS ON SELECTED INDUSTRY AREAS WHERE WE CAN BE NUMBER ONE. THESE AREAS ARE THOSE DISCUSSED IN LAST YEAR'S PLAN - EDUCATION, WEATHER, PETROLEUM, ENERGY, UTILITIES, SPECIFIC GOVERNMENT PROGRAMS AND THE CAD/CAM SEGMENT OF MANUFACTURING. I'LL SPEAK MORE TO THIS POINT IN A MOMENT.
INVESTMENTS

NOW LET'S TAKE A LOOK AT EACH MAJOR SEGMENT AND THE CHARACTERISTICS OF THE INVESTMENT STRATEGY FOR EACH. I WILL COVER THIS IN THREE MAJOR CATEGORIES OF INVESTMENT: MARKETING, TECHNICAL EFFORT AND ASSETS — AS INDICATED ON THIS CHART FOR TOTAL SERVICES.

(Chart - Total Services Investment)

FOR PURPOSES OF THIS CHART, ALL SERVICES EXCEPT ENGINEERING SERVICES ARE INCLUDED SINCE THE INVESTMENT CHARACTERISTICS OF THE SEVERAL BUSINESSES ARE QUITE SIMILAR. MARKETING INVESTMENT IS DEFINED AS THE INCREMENTAL MARKETING EXPENSE EACH YEAR OVER THAT IN THE PRIOR YEAR. FOR THE 1980 TO 1982 PERIOD, WE WILL BE INVESTING ABOUT $199 MILLION IN MARKETING OR ABOUT 62 PERCENT OF THE TOTAL TO EXPAND SERVICES. THE BULK OF THIS IS IN DATA SERVICES AND EDUCATION TO ENABLE US TO CLEARLY ESTABLISH OURSELVES IN THE NUMBER ONE POSITION.

TURNING TO TECHNICAL EFFORT (TECHNICAL EFFORT IS DEFINED HERE AS R&D PLUS THE NET INCREMENT IN OTHER TECHNICAL EFFORT FROM YEAR TO YEAR) WE SEE AN INVESTMENT OF $167 MILLION OR ONLY 25 PERCENT OF THE TOTAL IN BEHALF OF SERVICES. AGAIN, MOST OF THE INVESTMENT IS FOR COURSEWARE AND APPLICATIONS SOFTWARE. MORE THAN MONEY IS NEEDED, HOWEVER. MANAGEMENT FOCUS, ATTENTION -- DEDICATION IS BEING ACHIEVED ORGANIZATIONALLY THROUGH THE TECHNOLOGY CENTERS OF THE PROFESSIONAL SERVICES ORGANIZATION AND THROUGH THE NEW BUSINESS DEVELOPMENT ORGANIZATION. TIME DOES NOT PERMIT US TO COVER ALL OF THOSE PROGRAMS TONIGHT BUT I THINK THROUGH YOUR PARTICIPATION IN VARIOUS BUSINESS BOARDS AND STRATEGY COMMITTEES MANY OF YOU ARE WELL AWARE OF THE SIZE AND IMPORTANCE OF THESE NEW BUSINESS START UPS.

ASSET INVESTMENTS IN SERVICES WILL GROW BY $166 MILLION OR 27 PERCENT OF THE COMPUTER BUSINESS TOTAL. WHILE THIS MAY SEEM SMALL IN VIEW OF OUR MAJOR THRUST IN THIS AREA, IT IS DUE TO THE RELATIVELY LOW ASSET INTENSITY OF THE SERVICES BUSINESSES. WHILE WE ARE STRIVING TO USE ASSETS IN SERVICES AS EFFICIENTLY AS POSSIBLE, THERE HAVE BEEN NO LIMITS TO GROWTH BASED ON ASSET CONSTRAINTS.
OVERLAY - TOTAL SERVICES

THE RESULTS OF THESE INVESTMENTS ARE AS INDICATED ON THE OVERLAY. WE EXPECT REVENUE GROWTH OF 21 PERCENT PER YEAR. EARNINGS WILL GO FROM $14 MILLION IN 1979 TO $52 MILLION IN 1982 AND THE RESULTING RETURN ON INVESTED CAPITAL WILL RISE FROM 9.8 PERCENT TO 19.3 PERCENT. WHILE WE ARE LOOKING FORWARD TO THESE HIGHER RETURNS, WE ARE PREPARED TO MAKE SACRIFICES IN EARNINGS AND RETURN ON INVESTED CAPITAL IF NECESSARY TO REACH OUR GROWTH OBJECTIVE.

SLIDE - PERIPHERAL PRODUCTS INVESTMENTS

TURNING TO PERIPHERAL PRODUCTS, OUR MARKETING INVESTMENT WILL BE $83 MILLION OR ABOUT 26 PERCENT OF THE COMPUTER BUSINESS TOTAL. MARKETING INVESTMENT IS RELATIVELY SMALL BECAUSE, IN THE OEM SEGMENT, SALES PRODUCTIVITY IS VERY HIGH - TYPICALLY $4 MILLION PER SALESPERSON.

THE KEY TO LEADERSHIP IN PERIPHERAL PRODUCTS LIES IN TECHNOLOGY. WE HAVE BECOME NUMBER ONE IN THIS MARKET THROUGH HEAVY INVESTMENT IN TECHNOLOGY AND IT IS ESSENTIAL THAT WE CONTINUE THIS INVESTMENT. THE COST WILL TOTAL $190 MILLION DURING THE NEXT THREE YEARS.
HOLDING A LEADERSHIP POSITION DOES NOT COME CHEAPLY IN THE ASSET CATEGORY EITHER. ABOUT 60 CENTS OF ASSETS ARE REQUIRED FOR EACH DOLLAR OF REVENUE IN PERIPHERAL PRODUCTS AND A TOTAL INVESTMENT OF $356 MILLION IS PLANNED IN THE NEXT THREE YEARS -- MORE THAN DOUBLE THAT OF SERVICES AND ABOUT 57 PERCENT OF THE COMPUTER BUSINESS TOTAL. ONCE AGAIN, THE MAJOR ASPECT OF THE PERIPHERAL PRODUCTS FIVE-YEAR PLAN IS TO IMPROVE PRODUCTIVITY SO THAT THE GROWTH OF THE PERIPHERAL BUSINESS CAN BE FUNDED FROM ITS OWN EARNINGS AND ASSET EFFICIENCIES. THIS IS SOMETHING WE HAVE NOT ACHIEVED IN THE PAST, BUT UNLESS WE CAN ACHIEVE THIS, THE ASSET "CRUNCH" WILL RESULT IN DAMAGE TO OUR OEM LEADERSHIP POSITION OR HURT THE GROWTH OF THE SERVICES BUSINESSES BY SIPHONING OFF THEIR POTENTIAL ASSET INVESTMENTS -- OR BOTH. I DON'T WANT TO GLOSS OVER THIS POINT. AS YOU WILL SEE AGAIN WHEN I DISCUSS PRODUCTIVITY STRATEGIES, WE ARE WORKING VERY HARD TO ACHIEVE THE MOST WE CAN FROM OUR PHYSICAL AND PEOPLE RESOURCES. BUT OVERALL WE FEEL WE HAVE STRUCK A GOOD BALANCE BETWEEN POTENTIAL GROWTH, RISK OF OVER EXPANSION AND A FINANCABLE ASSET PLAN.

OVERLAY - PERIPHERAL PRODUCTS

THE RESULTS OF THESE PERIPHERAL INVESTMENTS ARE SHOWN ON THIS CHART. REVENUE GROWTH IS PLANNED AT ABOUT 22 PERCENT PER YEAR WITH EARNINGS INCREASING FROM $41 MILLION TO $130 MILLION IN 1982. ROIC WOULD RISE FROM 13 PERCENT IN 1979 TO 22 PERCENT IN 1982.
SLIDE - SYSTEMS INVESTMENTS

IN SYSTEMS, THE PRINCIPAL INVESTMENT REQUIRED IS IN TECHNICAL EFFORT. A TOTAL OF $267 MILLION OR ABOUT 40 PERCENT OF THE COMPUTER BUSINESS TOTAL IS PLANNED FOR THIS AREA. THE TECHNICAL EFFORT CONSISTS OF TWO PIECES. BY FAR, THE LARGEST PIECE IS THE BASIC HARDWARE AND SOFTWARE TECHNOLOGY NEEDED TO STAY ABREAST OF THE RAPIDLY CHANGING INDUSTRY. THE SECOND REQUIREMENT IS THAT I REFERENCED EARLIER AND IS THE APPLICATION DEVELOPMENT NEEDED TO ACHIEVE OUR STRATEGY OF BEING NUMBER ONE IN OUR SELECTED INDUSTRY AREAS. THE AMOUNT OF SUCH APPLICATIONS TECHNICAL EFFORT UP UNTIL 1979 HAS BEEN NOMINAL AND EVEN OVER THE COURSE OF THIS FIVE-YEAR PLAN IT STILL AMOUNTS TO LESS THAN 3 PERCENT OF THE TOTAL. IT IS ALSO APPROPRIATE TO NOTE THAT MUCH OF THE TECHNICAL EFFORT IN EDP IS A BENEFIT TO THE CYBERNET SEGMENT OF DATA SERVICES WHICH TAKES ABOUT 9 PERCENT OF THE OUTPUT FROM EDP. EDP ALSO FUNDS APPROXIMATELY 9% OF THE PERIPHERAL TECHNICAL EFFORT AND THIS FUNDING IS INCLUDED IN THE EDP TOTAL.

THE INVESTMENT IN MARKETING IS RELATIVELY SMALL, $38M OR ABOUT 12 PERCENT OF THE COMPUTER BUSINESS TOTAL. WE ARE CONTINUING TO MAKE MODEST INVESTMENTS IN ADDITIONAL SALESPERSONS TO EXPAND OUR PENETRATION OF NEW ACCOUNTS.
THE ASSET INVESTMENT OF $85M IS ALSO RELATIVELY LOW AS IT IS
BASED ON THE PROJECTED CONTINUATION OF IMPROVED EFFICIENCIES IN
ASSET UTILIZATION IN EDP.

OVERLAY - SYSTEMS
THE RESULTS OF THESE INVESTMENTS ARE SHOWN ON THIS OVERLAY.
THE 13 PERCENT INCREASE IN REVENUE GROWTH REPRESENTS A MODERATE
INCREASE IN MARKET SHARE DURING THE PLANNED PERIOD. EARNINGS
ARE PROJECTED TO INCREASE FROM $25 MILLION TO $40 MILLION AND
ROIC FROM 7.0 PERCENT TO 9.2 PERCENT. WHILE THIS IMPROVEMENT
MAY SEEM MODEST IN COMPARISON WITH OTHER SEGMENTS, IT IS
IMPORTANT TO NOTE THAT EDP REMAINS A CORNERSTONE OF THE
COMPUTER BUSINESS AND MANY OF OUR OTHER SERVICES.

WITH THIS OVERVIEW OF OUR INVESTMENT STRATEGY, LET ME TURN TO
THE EQUALLY IMPORTANT ASPECT OF PRODUCTIVITY STRATEGIES. I'LL
COVER PHYSICAL, HUMAN AND FINANCIAL RESOURCES.

(CHART ON PRODUCTIVITY STRATEGY)

PHYSICAL RESOURCES
IN THE DISCUSSION OF INVESTMENTS I NOTED THAT WE WOULD BE
ADDING ABOUT $620 MILLION TO OUR ASSETS DURING THE NEXT THREE
YEARS. OF THIS TOTAL, ABOUT $123 MILLION WOULD BE FOR GROSS
ADDITIONS FOR PLANT AND EQUIPMENT. THERE ARE FOUR MAJOR
ELEMENTS OF OUR STRATEGY FOR IMPROVED PRODUCTIVITY IN PLANT AND
EQUIPMENT.
1. ADD CAPACITY BASED ON RELATIVELY HIGH LEVELS OF UTILIZATION.

As indicated earlier, we want to be prepared if a sharp recession materializes. We are therefore adding capacity on the basis of a five-day, two-shift operation. So we may miss some sales if business is higher than expected in 1980 and 1981, but it also guards against the risk of overexpansion and subsequent underutilization in the event of a downturn.

2. MAINTAIN A HIGH LEVEL OF SUBCONTRACTING.

We are currently subtracting out about $40 million of work that could be done in Control Data Facilities. It is very tempting to make additional investment in plant and equipment and achieve some significant reduction in products costs by bringing this work in-house. We intend to resist this temptation in order to ensure that we will continue to achieve high levels of utilization in the event of a downturn.

3. MAINTAIN PROPER BALANCE OF OWNED, SHORT-TERM LEASED AND LONG-TERM LEASED FACILITIES.
(CHART ON FACILITIES)

This chart shows the estimated amount of space that will be required through 1982. It also indicates the amount of owned, long-term lease and short-term lease space.

Our plan calls for adding 3.9 million square feet between now and December 1982. At least 15 percent of this additional space will be in the form of short-term lease so that we can retrench if necessary and still maintain a reasonable level of facility use.

By the way, the figures I have given you do not include the facilities which will be a part of the BTC program. Those facilities are not internally used facilities so to speak, but actually represent an external real estate business. And we intend to set them up as such. At present we foresee about $145 million of BTC facilities by 1984.

There are many more facets of our productivity strategy in the asset area. (Asset chart) These include continued emphasis on receivables and inventory, and these will be covered in in the operating group presentations. The improvement in asset utilization from 1977 through 1984 is summarized on this chart. We expect the A/R ratio to drop from .64 in 1979 to .50 in 1984.
WE HAVE SIGNIFICANT OPPORTUNITIES TO IMPROVE PRODUCTIVITY IN HUMAN RESOURCES AND MUCH WORK TO DO TO ACHIEVE THESE IMPROVEMENTS. ONE MAJOR OPPORTUNITY FOR IMPROVEMENT LIES IN BETTER INFORMATION SYSTEMS.

CONTROL DATA'S INFORMATION SYSTEMS, LIKE THOSE OF MANY COMPANIES, HAVE BEEN DEVELOPED LARGELY IN RESPONSE TO SPECIFIC NEEDS. WE HAVE NOW REACHED THE POINT WHERE WE CAN RUN THE DAY-TO-DAY BUSINESS IN A REASONABLY ORDERLY MANNER AND CAN STAND BACK AND CONDUCT AN OVERHAUL OF OUR MANAGEMENT SYSTEMS. WE ARE DEVELOPING OVERHAUL PLANS FOR SIX CORE AREAS: MANUFACTURING, PERSONNEL, ACCOUNTING, DEVELOPMENT, MARKETING AND SERVICES OPERATIONS. THESE WILL BE A LONG RANGE AFFAIR -- REQUIRING FIVE YEARS OR MORE TO COMPLETE THE SIX CORE AREAS.

LONG RANGE PLANS -- SUCH AS THE ONES FOR INFORMATION SYSTEMS -- HAVE BEEN DEVELOPED FOR OTHER MAJOR FUNCTIONAL AREAS: FACILITIES, QUALITY, ACCOUNTING, PERSONNEL AND LEGAL SERVICES. TIME DOESN'T PERMIT REVIEWING THOSE THIS EVENING BUT THEY ALL AIM AT ONE GOAL -- IMPROVED PRODUCTIVITY.
I WILL, HOWEVER, SPEND JUST A MOMENT ON ONE SUCH PLAN. THAT IS THE TRAINING PLAN. WE ARE CONTINUING THE EMPHASIS ON SALES AND MANAGEMENT TRAINING I DISCUSSED IN OUR LAST YEAR'S FIVE-YEAR PLAN BUT WE ARE ADDING TO THIS NEW PROGRAMS FOR ADMINISTRATIVE PEOPLE, FOR TECHNICAL PEOPLE AND BETTER ORIENTATION PROGRAMS FOR ALL OUR EMPLOYEES.

(TRAINING CHART)

THIS CHART ILLUSTRATES THE INVESTMENT IN TRAINING THAT IS INCLUDED IN THE PLAN. WE EXPECT TO GO FROM 24.3 HOURS PER EMPLOYEE IN 1978 TO 32 HOURS PER EMPLOYEE IN 1982. THANKS TO CBE THE COST PER HOUR OF TRAINING, INCLUDING SALARIES, TRAVEL AND INSTRUCTION IS PLANNED TO INCREASE ONLY 2.5 PERCENT PER YEAR, WHICH IS CONSIDERABLY LESS THAN THE FORECASTED INFLATION INCREASE OF 7 TO 8 PERCENT PER YEAR.

THE VERTICAL SCALE SHOWS REVENUE PER EMPLOYEE. OUR 1978 PERFORMANCE OF $45K PER EMPLOYEE COMPARES TO AN AVERAGE OF $41K PER EMPLOYEE IN FIVE COMPETITIVE COMPANIES FOR THE SAME YEAR. THROUGH BETTER TRAINING AND OTHER IMPROVEMENTS, WE EXPECT TO IMPROVE REVENUE PER EMPLOYEE TO $59K BY 1982.

NOW LET ME GO BACK TO THE OVERALL PROGRAM ON PRODUCTIVITY IMPROVEMENT.
4. DEVOTE ADDITIONAL RESOURCES TO TAX PLANNING TO REDUCE THE OVERALL TAX RATE.

THIS STRATEGY IS BEING IMPLEMENTED AND WILL BE CONTINUED. WE HAVE A TAX PLANNING TASK FORCE WHICH HAS IDENTIFIED A LARGE NUMBER OF OPPORTUNITIES FOR REDUCTION IN TAX RATES. A FULL-TIME TAX PLANNER HAS BEEN ADDED TO THE COMPUTER GROUP STAFF. WE HAVE MADE ENOUGH PROGRESS TO-DATE IN TAX RATE REDUCTION TO FEEL CONFIDENT IN THE 48 PERCENT TAX RATE USED IN THIS LONG-RANGE PLAN COMPARED WITH THE 54% TO 50% RATES USED IN LAST YEAR'S PLAN.

FINANCIAL SUMMARY CHART

NOW, LET ME TURN TO THE OVERALL FINANCIAL SUMMARY. OVER THE FIVE YEARS, REVENUES WILL INCREASE BY A FACTOR OF TWO AND ONE-HALF, EARNINGS BY A FACTOR OF 5, AND ASSETS BY A FACTOR OF LESS THAN 2.

AS A RESULT (OVERLAY) ROIC, IMPROVES FROM 4.6 PERCENT IN 1978 TO OVER 22 PERCENT BY 1984. SINCE IBM EARNED 21.5 PERCENT ROIC IN 1978 I SUSPECT WE ARE A BIT OPTIMISTIC IN THOSE LAST COUPLE OF YEARS BUT THE IMPORTANT THING IS THAT THE 1982 FIGURE OF 15.8% REPRESENTS AN ACHIEVABLE AND ABOVE AVERAGE PERFORMANCE LEVEL.
PROBABLY THE MOST UNRELIABLE STATISTIC OF THE PLAN IS THAT OF POPULATION GROWTH. THAT'S A NICE WAY OF SAYING THE FIGURES YOU SEE REPRESENT MOSTLY EXTRAPOLATIONS AS OPPOSED TO DERIVED NUMBERS. WHAT IT AMOUNTS TO IS THAT HEADCOUNT REALLY IS PLANNED ONLY ON AN ANNUAL BUDGET BASIS AND SO THESE NUMBERS IN THE FIVE-YEAR PLAN ARE NOT VERY RELIABLE.

CONSTANT DOLLAR CHART

IN LOOKING AT THE PLAN IN CONSTANT DOLLARS, I.E., INFLATION IS TAKEN OUT TO YIELD CONSTANT DOLLARS OF PURCHASING POWER, THE REAL REVENUE GROWTH RATE IS STILL 7.9 PERCENT. ASSETS ARE RELATIVELY FLAT AND THERE IS GOOD GROWTH IN EARNINGS.

CURRENT PLAN VS. LAST YEAR CHART

HERE, I'VE SHOWN A COMPARISON OF THE CURRENT PLAN WITH LAST YEAR'S 1979-83 PLAN. REVENUE GROWTH IS SOMEWHAT HIGHER, ASSETS ARE ALSO HIGHER BUT ASSET TO REVENUE RATIOS ARE LOWER AND EARNINGS IN THIS PLAN ARE CONSIDERABLY HIGHER.

CURRENT PLAN VS. LAST YEAR RATIO CHART

AS A RESULT, THEN, THE BASIC PROFITABILITY RATIOS IMPROVED OVER LAST YEAR'S PLAN. BY 1982 ROE EXCEEDS 22 PERCENT; ROIC EXCEEDS 15 PERCENT.
FINANCING PLAN CHART

ALTHOUGH MARV ROGERS WILL COVER THIS IN GREATER DEPTH THIS EVENING, I'LL NOTE THE FINANCING NEEDS BRIEFLY. IN 1980, WE'LL FINANCE OUR GROWTH IN ASSETS WITH THE EARNINGS OF $105.3M, NIBL OF $52.8M, AND $37.6M OF DEBT. IN 1981 AND BEYOND, THE PLAN IS SELF-FINANCING AS IS INDICATED BY THE CASH FLOW IN GREEN.

CONCLUSION

LAST YEAR WHEN I REVIEWED THE LONG-RANGE PLAN WITH YOU, I INDICATED THAT IT WAS THE MOST AGGRESSIVE WE HAD EVER SHOWN THE BOARD. THIS YEAR'S PLAN IS EVEN MORE AGGRESSIVE. FOR EXAMPLE, IN LAST YEAR'S PLAN, WE PROJECTED EARNINGS OF $182M IN 1982, THIS YEAR'S PLAN PROJECTS $230M IN EARNINGS FOR THE SAME YEAR. Thus in trying to exceed industry profitability, we are setting tough targets for ourselves.

STILL WE BELIEVE WE ARE FOLLOWING GOOD, LONG-TERM INVESTMENT AND PRODUCTIVITY STRATEGIES. WE'RE ALSO TAKING A CAREFUL LOOK AT OUR BUSINESS PORTFOLIO TO HELP IMPROVE OUR PROFITABILITY ON A CONSISTENT, CONTROLLED BASIS. ACHIEVING EXCELLENCE HAS BEEN OUR GOAL AND OUR THEME SINCE THIS TIME LAST YEAR. IT IS GETTING CLOSER.

NOW, VERN SIELING WILL GIVE YOU A PERSPECTIVE ON OUR WORLDWIDE MARKETING EFFORTS THAT ARE THE KEY IN ATTAINING OUR FUTURE PLAN OBJECTIVES.