SUMMARY OF COMPUTER GROUP RESULTS
BOARD OF DIRECTORS
SEPTEMBER 14, 1979
R. M. PRICE

RC-2

COMPUTER GROUP REVENUE GROWTH CONTINUES TO BE STRONG, WITH THE
INDICATIONS NEARLY THE SAME AS WHEN I SPOKE TO YOU TWO MONTHS
AGO.

THROUGH AUGUST TOTAL REVENUES WERE $1,390 MILLION, OR 6 PERCENT
HIGHER THAN BUDGET AND 21 PERCENT AHEAD OF 1978.

THE PRIMARY CONTRIBUTORS TO THIS GROWTH WERE DATA SERVICES, UP
19 PERCENT, AND PERIPHERAL PRODUCTS, UP 33 PERCENT, FROM THE
FIRST EIGHT MONTHS OF LAST YEAR.

RC-3

GROSS PROFIT MARGINS CONTINUE TO IMPROVE DUE TO FAVORABLE
PRODUCT MIX AND MANUFACTURING EFFICIENCIES.

THROUGH AUGUST
TOTAL GROSS PROFIT WAS $546 MILLION, 6 PERCENT HIGHER THAN THE
BUDGET OF $513 MILLION.

THE GROSS PROFIT RATE OF 39.3 PERCENT
IS AN IMPROVEMENT FROM 38.5 PERCENT ONE YEAR AGO AND 38.8
PERCENT JUST TWO MONTHS AGO.
THE MOST SIGNIFICANT IMPROVEMENT WAS IN EDP SYSTEMS, FROM 69 PERCENT TO 74 PERCENT. TWO RECENT PURCHASE ACCEPTANCES CONTRIBUTED TO THE HIGH GROSS PROFIT RATE. ADDITIONS TO THE LEASE BASE RECENTLY HAVE BEEN AROUND THE 80-PERCENT LEVEL. IN ADDITION, PERIPHERAL PRODUCTS' GROSS MARGIN HAS IMPROVED FROM 28.8 PERCENT TO 29.3 PERCENT SINCE JUNE.

RC-4

TOTAL EXPENSES THROUGH AUGUST WERE $457 MILLION, ONE PERCENT BELOW BUDGET DESPITE REVENUE BEING 6 PERCENT HIGHER THAN BUDGET. THIS REPRESENTS 32.9 PERCENT OF REVENUE, COMPARED TO 33.5 PERCENT ONE YEAR AGO. THE RESULT OF THIS IMPROVED EXPENSE PRODUCTIVITY FLOWS DIRECTLY TO THE BOTTOM LINE.

OUR BIGGEST INCREASES IN EXPENSES OVER 1978 CONTINUE TO BE TECHNICAL AND MARKETING EXPENSES, UP 19 AND 20 PERCENT RESPECTIVELY, COMPARED TO THE 21 PERCENT REVENUE GROWTH. INTEREST EXPENSE, AT $31 MILLION, WAS ONE MILLION DOLLARS BELOW THE FIRST EIGHT MONTHS OF 1978 AND $5 MILLION BELOW BUDGET.
CDC Board of Directors
R. M. Price
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RC-6

TOTAL ASSETS AS OF AUGUST 31 WERE $1443 MILLION OR $10 MILLION BELOW BUDGET. THIS REPRESENTS AN INCREASE OF 12 PERCENT FROM AUGUST 31, 1978 COMPARED TO THE 21 PERCENT INCREASE IN REVENUE. ON AN ANNUALIZED BASIS WE ARE EMPLOYING 42¢ OF ASSETS TO ACHIEVE AN INCREMENTAL DOLLAR OF REVENUE.

TRADE RECEIVABLES OF $245 MILLION REPRESENTED AN IMPROVEMENT FROM 46 DAYS CURRENTLY. THIS YEAR WE HAVE ALSO ADOPTED A NEWER, SIMPLER MEASURE OF RECEIVABLES COLLECTIONS PERFORMANCE. IT SIMPLY STATES HOW MANY OF THE DOLLARS YOU COULD HAVE COLLECTED THAT YOU ACTUALLY DID COLLECT. NOT SUPRISINGLY IT IS CALLED THE COLLECTION RATIO. SO FAR THIS YEAR, WE COLLECTED 42 PERCENT OF OUR AVAILABLE RECEIVABLES COMPARED TO 40 PERCENT FOR THE SAME PERIOD IN 1978.

INVENTORIES WERE UP 27 PERCENT FROM A YEAR AGO AT $528 MILLION. THIS CONTINUES TO BE OUR MAJOR ASSET CONCERN AS $528 MILLION IS 15 PERCENT HIGHER THAN BUDGET. THE LARGEST INCREASES ARE IN EDP SYSTEMS AND PERIPHERAL PRODUCTS, WHERE INVENTORIES WERE UP 31 PERCENT AND 41 PERCENT RESPECTIVELY FROM 1978.
IN PERIPHERALS WE ARE BUILDING UP TO A HIGHER REVENUE LEVEL IN
IN THE FOURTH QUARTER. STILL, A GREAT DEGREE OF EMPHASIS WILL
BE PLACED ON CONTROLLING INVENTORY LEVELS AND PARTICULARLY
INCOMING PARTS.

THE INCREASE IN SYSTEMS INVENTORIES IS PRIMARILY DUE TO
SHIPMENTS OF SEVERAL LARGE CYBER SYSTEMS WHICH WILL NOT OCCUR
UNTIL NEXT QUARTER.

RC-5
PRODUCTIVITY IMPROVEMENTS IN GROSS PROFIT RATES AND EXPENSES
AND THE INCREASED REVENUE CONTRIBUTED TO A PRETAX NET PROFIT OF
$89 MILLION COMPARED TO $57 MILLION FOR THE FIRST EIGHT MONTHS
OF 1978. THIS REPRESENTS 6.4 PERCENT OF REVENUE COMPARED TO
5.0 PERCENT IN 1978 AND 6.0 PERCENT FOR THE FIRST HALF OF
1979. THE .8 PERCENT IMPROVEMENT IN GROSS PROFIT MARGINS AND
.6 PERCENT IMPROVEMENT IN EXPENSE PRODUCTIVITY ACCOUNT FOR THIS
1.4 PERCENT INCREASE FROM 1978.
DATA SERVICES

RC-2

DATA SERVICES AUGUST REVENUE REACHED A NEW MONTHLY HIGH IN AUGUST AT $37.4M, WITH SBC AND US CYBERNET ACHIEVING MONTHLY REVENUE MILESTONES OF OVER $17M AND $7M RESPECTIVELY. AUTOMATED WAGERING INCREASED ITS MONTHLY REVENUE BY NEARLY $.5M DUE TO THE ADDITION OF THE MARYLAND LOTTERY CONTRACTS.

YEAR-TO-DATE REVENUE WAS $271M, $6M HIGHER THAN BUDGET AND 19 PERCENT OVER 1978.

RC-5

NET PROFIT FOR THE FIRST EIGHT MONTHS WAS $24.8M, $10.5M AHEAD OF BUDGET. THE NPBT MARGIN OF 9.1 PERCENT IS AHEAD OF 1978'S MARGIN OF 8.0 PERCENT.

RC-6

ALTHOUGH STAYING BELOW BUDGET, ASSETS HAVE HAD A FAIRLY STEADY GROWTH THROUGHOUT THE FIRST EIGHT MONTHS, PRIMARILY DUE TO INCREASED REVENUE LEVELS CAUSING HIGHER ACCOUNTS RECEIVABLE BALANCES AND INCREASED INVESTMENT IN REVENUE PRODUCING EQUIPMENT, SUCH AS DATA CENTER UPGRADES AND TERMINALS FOR THE MARYLAND LOTTERY.
DATA SERVICES' CURRENT OUTLOOK FOR THE REMAINDER OF 1979 CONTINUES STRONG.

ENGINEERING SERVICES

RC-2

REVENUE FOR THE FIRST EIGHT MONTHS CONTINUED AT A VERY STRONG PACE, $2.3M AHEAD OF BUDGET. COMPARED TO THE SAME PERIOD A YEAR AGO, THIS WAS A 17.0 PERCENT INCREASE. THE U.S. AND WEST EUROPE GEOGRAPHIES WERE THE PRIME FACTORS IN THIS POSITION.

THE U.S. WAS $4.8M FAVORABLE AND WEST EUROPE IS $7.3M FAVORABLE.

RC-5

NET PROFIT WAS $2.3M FAVORABLE TO BUDGET. THIS REPRESENTS A 23.9 PERCENT INCREASE OVER THE SAME PERIOD IN 1978. AS A PERCENT TO REVENUE NPBT HAS IMPROVED FROM 9.0 PERCENT IN 1978 TO 9.6 PERCENT IN 1979.

RC-6

ASSETS HAVE INCREASED FROM $132M TO $147M. THE ASSET TO REVENUE RATIO HAS IMPROVED FROM $.57 IN 1978 TO $.55 IN 1979. FOR THE PAST TWELVE MONTHS REVENUES HAVE INCREASED 17.0 PERCENT WHILE THE RECEIVABLE LEVEL HAS STAYED LEVEL, REFLECTING IMPROVED COLLECTION PERFORMANCE.
PROFESSIONAL SERVICES

RC-2

REVENUE CONTINUES TO BE STRONG IN ALL GEOGRAPHIES WITH A
YEAR-TO-DATE TOTAL OF $40.3M COMPARED TO A BUDGET OF $37.6M.
THIS REPRESENTS A GROWTH OF 14 PERCENT OVER THE SAME POINT IN
TIME LAST YEAR.

RC-5

NET PROFIT BEFORE TAXES OF $1.3M THROUGH AUGUST WAS 400K
FAVORABLE TO BUDGET. ON THE OTHER HAND, YOU WILL NOTE THE DIP
IN THE TREND LINE. THIS REPRESENTS TWO CONSECUTIVE MONTHS OF
LOSS FOR PS. THIS IS PRIMARILY A REPORTING AND TIMING MATTER
AND IS NOT A REFLECTION OF THE BUSINESS STATUS ITSELF. TO THE
CONTRARY, PS IS PROJECTING SIGNIFICANTLY IMPROVED FOURTH
QUARTER RESULTS.

RC-6

ASSETS INCREASED $1.0M IN AUGUST AND ARE AT $19.3M VERSUS A
BUDGET OF $14.6M. THE MAJOR CONTRIBUTOR TO THIS OVERRUN IS
APPROXIMATELY $3M OF FIXED ASSETS ASSOCIATED WITH THE ST. PAUL
BTC BUILDING WHICH WERE NOT IN THE ORIGINAL BUDGET. THIS ASSET
WILL TRANSFER OUT OF PS BALANCE SHEET BY YEAR END AND THEY WILL
END UP CLOSE TO THEIR ASSET BUDGET.
SYSTEMS

RC-2
YEAR-TO-DATE REVENUE WAS AT 95 PERCENT OF BUDGET AND CONTINUES TO BE AHEAD OF THE 1978 LEVELS. PURCHASE REVENUE ACCOUNTS FOR THE SHORTFALL FROM PLAN. ORDERS AND SHIPMENTS OF CYBER 176 SYSTEMS ARE OCCURRING LATER THAN PLANNED. IN ADDITION, THREE CYBER 175 SYSTEM ACCEPTANCES ARE LATER THAN PLANNED. REVENUE FROM ALL OF THESE SYSTEMS WILL OCCUR THIS YEAR AND WE STILL EXPECT TO EXCEED BUDGET FOR THE YEAR.

RC-5
NET PROFIT WAS 12 PERCENT FAVORABLE TO BUDGET DUE TO THE EXCELLENT GROSS PROFIT MARGINS. THIS REFLECTS GOOD PERFORMANCE IN GOVERNMENT SYSTEMS AND INSTRUMENTS AND CONTROLS AS WELL AS EDP SYSTEMS.

RC-6
ASSETS CONTINUED TO BE BELOW BUDGET AND BELOW LAST YEAR'S LEVELS. RECEIVABLES AND LEASED EQUIPMENT WERE THE MAJOR CONTRIBUTORS TO FAVORABLE ASSET LEVELS. RECEIVABLES PERFORMANCE IS DUE TO CONTINUED AGGRESSIVE COLLECTION ACTIVITIES. LEASED EQUIPMENT ADDITIONS HAVE BEEN BELOW PLAN ALREADY, BUT ARE EXPECTED TO RECOVER MOST OF THE SHORTFALL BY YEAR-END.
SYSTEMS INVENTORIES HAVE INCREASED RECENTLY DUE TO A FEW DELAYS IN SYSTEM SHIPMENTS. THERE ARE TWO CYBER 176 SYSTEMS AND SEVEN CYBER 170 LOWER SYSTEMS IN INVENTORY. ALL OF THESE SYSTEMS ARE EXPECTED TO SHIP BEFORE YEAR END. BOTH CYBER 176 ORDERS ARE EXPECTED IN OCTOBER. ORDERS ARE IN-HOUSE FOR ALL THE SEVEN CYBER 170 LOWER SYSTEMS. INVENTORIES HAVE ALSO INCREASED BECAUSE OF A BUILD UP IN OUR CYBER 200 MANUFACTURING CAPABILITY. WE DO NOT, HOWEVER, EXPECT TO SHIP ANY SYSTEMS BEFORE THE END OF THE YEAR. EVEN THOUGH WE'RE WINNING CYBER 200 PROCUREMENTS NOW THE HARASSMENT OF PROTESTS IS PRODUCING SOME SHIPMENT DELAY.

PERIPHERAL PRODUCTS

RC-2
TOTAL REVENUES OF $546M WERE $72M BETTER THAN BUDGET AND $137M HIGHER THAN LAST YEAR. THE REVENUE FOR THE FIRST EIGHT MONTHS WAS 33 PERCENT HIGHER THAN LAST YEAR. THIS INCREASE CONTINUES TO REFLECT VERY STRONG DEMAND FOR OUR DISK PRODUCTS AND RELATED MEDIA. OEM REVENUE WAS $370M THROUGH AUGUST, WHICH WAS 18.5 PERCENT HIGHER THAN BUDGET. BUSINESS PRODUCTS RECORDED REVENUE OF $111M, OR 22 PERCENT BETTER THAN BUDGET. BOTH OEM AND BUSINESS PRODUCTS ARE FORECASTING A STRONG FOURTH QUARTER WITH ORDERS AND BACKLOGS REMAINING AT RECORD LEVELS. ADDITIONAL PLANT CAPACITY SHOULD HELP TO ALLEVIATE THE CUSTOMER ORDER PRESSURE AND IMPROVE OUR DELIVERY LEAD TIMES.
RC-5

NET PROFIT BEFORE TAX OF $48.4M WAS $19.5M AHEAD OF BUDGET AND FAVORABLE TO LAST YEAR BY $12.6M. 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 $4.9M INVENTORY DEVALUATION OF THE OMEGA PRODUCT LINE EARLIER THIS YEAR.

RC-6

TOTAL ASSETS OF $523M WERE $67M HIGHER THAN BUDGET. THE HIGHER ASSETS ARE A RESULT OF INCREASED RECEIVABLES AND INVENTORIES.

ALTHOUGH INVENTORY BUILD-UPS FOR MEMORY PRODUCTS AND BUSINESS PRODUCTS ARE CONSISTENT WITH ORDER BACKLOGS AND CUSTOMER DEMAND, THIS STILL REPRESENTS A POTENTIAL ASSET EXPOSURE WHICH WE ARE CAREFULLY MONITORING.

INCREASING RECEIVABLES ARE HIGH BUT DO NOT REFLECT A SLOWDOWN OF COLLECTIONS. ACTUALLY, DAYS OF RECEIVABLES HAVE IMPROVED FROM 55 DAYS LAST YEAR TO 49.9 DAYS THIS YEAR AND THE COLLECTION RATIO HAS IMPROVED FROM .34 TO .36.
EDUCATION

RC-2

EDUCATION SERVICES REVENUE CONTINUES TO INCREASE MONTH AFTER MONTH AND IS PARTICULARLY STRONG IN THE CDI WORLDWIDE OPERATIONS. ON THE OTHER HAND, THE TERMINATION OF BUSINESS IN IRAN AND THE LACK OF SOME PLATO SYSTEMS SALES MEANS TOTAL REVENUE IS BELOW PLAN.

RC-4 (EXPENSES)

EXPENSES OF $21.8M WERE UNFAVORABLE TO BUDGET THROUGH AUGUST BY $900K AND IS THE RESULT OF A $1.5M RESERVE PROVISION FOR THE IRAN RECEIVABLES WHICH WAS MADE IN THE MONTH OF AUGUST AS A RESULT OF CONTINUED TURMOIL IN IRAN.

RC-5 (NET BEFORE TAX)

THE NET LOSS OF $8.2M WAS UNFAVORABLE DUE TO THE OVERRUN IN EXPENSES, STRONG PERFORMANCE IS NOTED IN THE CDI U.S. AND CDI INTERNATIONAL PERFORMANCE YEAR TO DATE, CDI'S CONTINUING THEIR EXCELLENT PROFIT PERFORMANCE YTD FOR EXAMPLE, THE 30 MILLION OF U.S. CDI PROFIT REVENUE A 56% OR COA.

RC-6

ASSETS CONTINUED TO BE BELOW PLAN. RECEIVABLES AND INVENTORY ARE THE TWO CATEGORIES CONTRIBUTING TO THIS FAVORABLE ASSETS PROFILE AND HAVE BEEN SUCH SINCE THE BEGINNING OF THE YEAR.

(SLIDE OFF)
BUSINESS DEVELOPMENT

THIS PAST QUARTER MARKED A MAJOR MILESTONE IN THE HEALTHCARE SERVICES AREA, AS THE FIRST PHASE OF THE STAYWELL SELF HEALTH MANAGEMENT IMPLEMENTATION PROGRAM WAS COMPLETED IN SAN DIEGO.

ORIENTATION, MEDICAL SCREENING AND HEALTH RISK PROFILES HAVE BEEN COMPLETED IN SAN DIEGO. WE ARE JUST NOW MOVING INTO THE FOLLOW-ON COMPONENTS THERE, AND IT'S STILL TOO EARLY TO COMMENT ON PARTICIPATION IN THESE AREAS. HOWEVER, PARTICIPATION IN THE FIRST PHASE WAS WELL BEYOND OUR EXPECTATIONS, AS ALMOST 80 PERCENT OF THE 700 ELIGIBLE EMPLOYEES IMMEDIATELY CHOSE TO PARTICIPATE AFTER ORIENTATION. PERHAPS OF MORE SIGNIFICANCE IS THAT AFTER ADDITIONAL THOUGHT ANOTHER 100 OR SO PEOPLE HAVE SIGNED UP DURING THE TWO-MONTH PERIOD FOLLOWING THEIR ORIENTATION SESSION.

IN AUGUST, THE PROGRAM WAS INTRODUCED TO OUR NEW YORK CITY EMPLOYEES: ALTHOUGH ALL RESULTS AREN'T IN YET, THE EXPERIENCE THERE SO FAR CLOSELY PARALLELS THE SAN DIEGO EXPERIENCE.
SUMMARY

SO, AS WE DISCUSSED LAST EVENING -- THERE IS PROGRESS. BOTH THE PROFIT MARGINS AND THE ASSET EFFICIENCIES ARE SHOWING BETTER THAN BUDGETED IMPROVEMENTS. 1979 IS GOING TO BE A GOOD YEAR. I EXPECT 1980 TO BE A GOOD BIT TOUGHER -- BUT WE'LL HAVE A CHANCE TO TAKE A CLOSER LOOK AT THAT IN NOVEMBER.