

Dain Investors Meeting

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R. M. Price

Good afternoon. I would also like to express our appreciation to the folks at Dain Bosworth for inviting us to be a part of this conference.

In my remarks today, I'll concentrate on the computer business -- the part of the corporation that I manage. Mr. Rogers, a moment ago, described the three major product areas of Control Data's computer business as consisting of Computer Systems, Peripherals, and Services. In each of these areas we have some unique strengths that give us strong market positions. For example, we have long had a position of leadership in large-scale scientific and engineering computer systems. Last year, computer systems had its best year ever in revenues, profits, orders, and shipments. We are the largest

producer of peripheral products for OEM's and we are the world's largest data services company. So, as you seek to analyze Control Data, it is important not only to remember these individual capabilities and strengths....but also to appreciate that in combination they make Control Data what is best looked at as a service company -- a unique service company -- one that is highly vertically integrated as well. By that I mean we produce all the components -- the computer mainframes, the peripheral products, the software products, the financial services and the consulting -- that make up a final 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 to other computer equipment companies, 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. As I told our stockholders several weeks ago, it is predicted that 50 years from now, 80 to 90 percent of the entire U.S. workforce will be in jobs that involve the accumulation and producing of information. Society's major needs all involve -- in one way or another -- an ever increasing demand for better and more available

knowledge. It is an enormous business opportunity and no company is better positioned than Control Data to meet this need.

Today I'd like to tell you about some of the strategies that we're employing to capitalize on these opportunities. The single most distinctive characteristic of Control Data is its strategy of looking upon major unmet societal needs as business opportunities. There tend to be two reactions when we make that statement -- one is that it is just another way of saying we are a "socially responsible" company -- bent on "doing good". The other is that this is simply a truism -- that the statement is, in essence, true of every business.

Without taking the time today to go into that somewhat esoteric discussion, let me assure you that we don't mean either of those things. What is nets down to is this: the business opportunities of our uncertain world are manifold. They include the need for better quality and equality of education, reduced health care costs, energy conservation, as well as new sources of energy and small business and small farm revitalization. Survival, stability, and long-term profitability will be found in addressing these manifold needs. This is no different than it has been throughout history.

What is different are the specific needs of today. And, there are other differences as well, because solutions require massive resources. They must be holistic not partial and effective planning and management are a must. Above all, cooperation amongst many elements of society -- business, government, academia and other -- is essential.

This is not just theory. We are doing it today in programs such as City Venture, PLATO, Rural Venture, Staywell, Business and Technology Centers, Fair Break, Homework, and a host of other business ventures. These are all opportunities born of the need for improved knowledge. They involve technological cooperation and a willingness to stick to it for a long time. They will also be the stars of our future business. As we pursue these unique opportunities and those for the hundreds of other products and services that Control Data also delivers, there are some fundamental strategic planning principles we adhere to. The first has to do with technological innovation and new product development. The second, and closely related to the first, has to do with product uniqueness. The third concerns marketing, and the fourth is asset efficiency.

I'll start with innovation and new product development. Let me say first off that advances in electronic circuit technology provide the basic underpinning for everything we do. The

continuing evolution from small and medium-scale integrated circuits to large-scale integrated circuits, and now to very large-scale integrated circuits provides the basic vehicle for ever more cost-effective services as well as more cost-effective products. Because of the vital nature of microelectronics technology to our future, we have been working to establish greater cooperation in this area both in the U.S. and in Europe.

This is the thrust behind the large grant last year to help establish a center for microelectronic and information sciences here in Minnesota. We have been joined by Honeywell and, hopefully, other major corporations around the world will soon announce that they will join in. In addition to the better use of research dollars, cooperative ventures can also provide manufacturing economies of scale. Magnetic Peripherals, Inc. and Computer Peripherals, Inc. are two of a number of ventures which are providing improved margins in our peripheral products business.

Computer manufacturers throughout the world buy more peripheral equipment from Control Data than any other supplier. We have the broadest disk drive product line in the entire industry -- currently, we ship a disk drive about every 45 seconds.

Even with the leveraging that cooperation provides, to achieve needed innovation and unique value-added products and services means ever growing expenditures in research and development. This year, we expect to spend about \$170 million on research and development, more than double the level of three years ago. For many companies, it is a great temptation, in uncertain economic conditions such as we have today, to cut development programs in order to bolster short-term earnings. That would be dumb strategy for a high technology company. We have pursued a tougher but more sound long-term approach. We have sought to balance technical expenditures for future services and products with the need to make current business more profitable. Attesting to our success in this balancing act, in recent years we have been introducing a steady stream of new products that are achieving success in the marketplace while the company is achieving the steady improvement in earnings mentioned earlier. One product that we announced recently is a compact disk drive. We call it the lark. This is the first in a planned family of new Control Data eight-inch disk drives. Another new product that we announced early this month is the Cyber 205 computer system. It will provide large-scale, scientific and engineering computer power for the 80's.

These are examples of new hardware products. However, the majority of technical dollars are being spent in the realm of software. Two examples:

The first is computer-aided engineering design. This service allows tedious engineering and design work such as calculating, managing and organizing information, and repetitious functions such as storing and reproducing drawings to be done by the computer. The second is called information analysis service, a process which permits the easy formulation of information data bases and at the same time eliminates design errors and reduces the cost involved.

The second example, as I mentioned, is closely related to the first. We make a conscious effort to seek product uniqueness based on applications and market area expertise, rather than just hardware technology. The combination of computer products, network services, and specialized applications knowhow are combined to address the needs of key industries. A few examples will make the point:

Control Data is recognized as a major supplier to the education market, an area where we have been extremely active almost since the start of the company. Educational institutions tend to think first of Control Data for their computing needs. As a result, nearly one-fourth of all large-scale Control Data computers are installed in educational institutions where they are used in basic research, instructional time-sharing and administrative data processing.

We are recognized as a world leader in our knowledge of seismic data processing. As a result, in the past five years 42 systems have been installed to help in the search for oil. Similarly, more than half of the world's major weather centers have installed large-scale Control Data systems.

The third guideline concerns marketing. We have been steadily increasing expenditures for marketing -- not just in absolute dollars, but also as a percent of revenue. This is our investment in achieving growth. This year, marketing is budgeted at 13.2 percent of revenue compared to an actual of 12.5 percent three years ago. This acceleration of marketing investment is devoted primarily to adding sales personnel, and over half of the increases and in Data Services and Education Services.

But we're also learning new marketing methods not normally associated with marketing industrial products -- heavier reliance on advertising, seminar selling, Learning Centers as marketing distribution points, and so on -- although not a major factor in revenue production today, they will be crucial to marketing success later in the 80's.

The fourth principle deals with deploying assets in an efficient manner. High interest costs, inflation, and an

urgent need for greater productivity make a focus on the efficient use of assets extremely important. We have worked hard in this area. In 1975, the asset to revenue ratio in the computer business was \$1.06. That is, it took \$1.06 of assets to produce \$1.00 of revenue. Today that ratio is 61 cents. Time doesn't permit looking at the many aspects of asset management that have contributed to this improvement but one at least is worth special mention. That is the day-to-day task of collecting trade receivables. Days outstanding has improved from 55 in 1975 to 40 today. By the way, that last number compares to an industry average last year of 44.

How about the prospects for the balance of 1980? The adverse effect of combined high interest costs and a deteriorating economic environment, make it less likely that the remaining quarterly comparisons for the computer business and for the company as a whole will be as strong as the first quarter was. However, despite these conditions, the outlook for the full year remains favorable for significant earnings gains. The economic uncertainty that exists these days is a dampener on nearly everyone's outlook. If anything, however, there may be too much optimism with regard to the five to ten-year outlook -- i.e., there is a lot of "get the recession done with and back to the good old days" feeling.

But there are underlying problems in the economy that cannot be purged by a simple little old recession. Lack of capital investments, poor export policy, barriers to small business formation, the disappearance of small farms, the energy transition, 30 to 40 percent minority youth unemployment and lack of consensus -- if not knowledge -- with regard to how to cure lagging productivity, are realities which are definitely recession immune and which will persist far beyond 1980 or 1981. In spite of that -- indeed as I noted, because this same list of woes presents opportunity to those who will address them -- I am optimistic and confident with regard to Control Data's future.

So using the strategies and marketing philosophies that I discussed a moment ago, we should continue to see solid improvements in operating results. At the same time, we will continue to launch products and services that will give us new sources of revenues and earnings -- products like the lark -- like computer-aided design and knowledge services in many forms. This balance of innovation and sound management of fundamentals should make for a vigorous and healthy Control Data for many years to come.

Thank you.