INTRODUCTION

ALTHOUGH IN MY OVERVIEW, I WILL SHOW YOU A FIVE-YEAR PROJECTION FOR CONTROL DATA TOTALLY, INCLUDING COMMERCIAL CREDIT, THE PRESENTATIONS THIS EVENING WILL CONCENTRATE ON THE COMPUTER BUSINESS. AT A LATER MEETING, PROBABLY IN NOVEMBER, WE WILL COVER COMMERCIAL CREDIT. ALSO, AS YOU KNOW, COMMERCIAL CREDIT IS WORKING ON NEW DIRECTIONS IN THE CONSUMER PART OF ITS BUSINESS AND THAT COULD CHANGE THE CURRENT PLAN NUMBERS. BY NOVEMBER, WE SHOULD BE ABLE TO DO A BETTER JOB OF DETERMINING THOSE CHANGES.

TONIGHT YOU WILL HEAR, IN ADDITION TO MY OVERVIEW, A STRATEGIC PLAN SUMMARY OF THE COMPUTER BUSINESS'S MAJOR COMPONENTS. MESSRS. KAMP, LACEY AND WHITE WILL SHOW YOU IN BROAD PERSPECTIVE THEIR STRATEGIC PLAN.

OVERVIEW -- THE CONTROL DATA PORTFOLIO

TO START WITH, (CHART 1), HERE'S A QUICK LOOK AT THE PAST FIVE YEARS. IN SHORT, THE CHART SHOWS EARNINGS HAVE MORE THAN TRIPPLED WHILE REVENUE HAS DOUBLED SINCE 1976. AGAIN, THIS CHART IS FOR CONTROL DATA TOTALLY.
HERE'S WHAT EARNINGS AND REVENUE LOOK LIKE GOING FORWARD (CHART 2). I HAVE BROKEN DOWN THE FIVE-YEAR PLAN PERIOD INTO TWO PIECES. THE FIRST TWO YEARS IN THE PLAN -- 1981, 1982 -- ARE CLEARLY DIFFERENT THAN THE THREE FOLLOWING YEARS. SO THE REASON FOR THIS TWO-YEAR/THREE-YEAR SPLIT IS THAT A MAJOR STRATEGIC CONSIDERATION WOULD BE MASKED IF WE JUST LOOKED AT FIVE-YEAR AVERAGES. BASICALLY, WHAT WE HAVE IS A SLOWDOWN IN REVENUE GROWTH RATE AND IN THE RATE OF IMPROVEMENT IN PROFITABILITY IN THE NEAR TERM FOLLOWED BY A PERIOD OF ACCELERATED GROWTH. I MUST ALSO SAY THAT THE 1983-85 NUMBERS MUST BE CONSIDERABLY DISCOUNTED AT THIS POINT. IT IS DARN NEAR IMPOSSIBLE TO GET PEOPLE TO TURN IN REALISTIC FOUR AND FIVE-YEAR PROJECTIONS -- PARTICULARLY WHEN THEY ARE SHOWING THE NEED FOR CONSIDERABLE SHORT-TERM INVESTMENT.

(CHAT 3) OVER THE PAST FIVE YEARS THERE HAS BEEN A DRAMATIC CHANGE IN THE POSITION OF MAJOR SEGMENTS OF THE COMPUTER BUSINESS. COMPUTER SYSTEMS, OEM, BUSINESS PRODUCTS, AND OTHERS HAVE ACHIEVED GOOD MARKET POSITIONS: IN SELECTED INDUSTRY MARKETS IN THE CASE OF COMPUTER SYSTEMS; QUITE BROADLY IN THE CASE OF OUR OEM DISK BUSINESS. THE IMPACT OF THIS CAN BE SEEN QUITE CLEARLY IN THE NEXT CHART. (CHART 4). WHAT YOU HAVE HERE IS THE RATIO OF PROFIT GROWTH TO REVENUE GROWTH. TAKE COMPUTER SYSTEMS, FOR EXAMPLE, WHICH IS THE MOST DRAMATIC. IN 1976, PROFIT INCREASED 100 PERCENT WHILE REVENUES INCREASED 5
PERCENT. THUS, PROFITS GREW 20 TIMES FASTER THAN REVENUE FROM '75 TO '76. IN 1977, REVENUE ACTUAL DECREASED WHILE PROFITS WENT FROM BREAK-EVEN TO SOME $18 MILLION. THUS, THE RATIO IS SOMETHING GREATER THAN INFINITY, WHATEVER THAT IS. WITH COMPUTER SYSTEMS REPRESENTING ABOUT 30 PERCENT OF OUR TOTAL REVENUES IN THAT TIME FRAME, YOU CAN SEE THE ENORMOUS LEVERAGE THOSE CHANGES HAD IN OVERALL PROFITABILITY. IN 1976, HOWEVER, BOTH OEM AND BPG DAMPENED THE EFFECT OF THE TURNAROUND IN COMPUTER SYSTEMS. BPG WAS STILL STRUGGLING THROUGH YEARS OF UNPROFITABILITY AND TRYING TO BUILD ITS MARKET POSITION. OEM DECREASED IN PROFITS FROM 1975 AS IT MADE THE TRANSITION FROM MARKETING MAINLY TO LARGE MAINFRAME COMPANIES TO A BROAD-BASED APPROACH TO MINI-COMPUTER MANUFACTURERS AND SMALL SYSTEMS HOUSES.

THEN, IN 1977, AS THE RESULT OF THE STRATEGIC CHANGE THESE PERIPHERAL PRODUCTS BUSINESSES BEGAN TO MAKE THEIR TURN AND GAINS IN MARKET POSITION BEGAN TO PAY OFF WITH PROFITS INCREASING 7, 8 EVEN 15 TIMES AS FAST AS REVENUE. TO THIS IMPROVEMENT OVER THE PAST FIVE YEARS HAS BEEN ADDED THE IMPROVEMENT IN CYBERNET, SBC (WHICH IS NOT ON THE CHART), PROFESSIONAL SERVICES, AND CDI SO THAT OVERALL IMPROVEMENTS IN COMPUTER BUSINESS HAVE BEEN, AS WE KNOW, EXCELLENT.
THROUGH THIS PERIOD, HOWEVER, THERE HAVE BEEN OTHER AREAS IN WHICH WE CONTINUE TO WORK AT IN IMPROVING BUSINESS VITALITY AND STRATEGIC POSITION. ALSO, WE HAVE BEGUN NEW BUSINESSES IN HEALTH, EDUCATION, DATA SERVICES AND HUMAN SERVICES. (CHART 5) THESE BUSINESSES HAVE NOW COME INTO DOMINANCE AS FAR AS THE PROFITABILITY PICTURE IS CONCERNED. UNTIL THEY TURN WE WILL EXPERIENCE SLOWER GROWTH IN PROFITABILITY THAN WE HAVE HAD IN THE PAST FIVE YEARS. THE NEXT CHART, (CHART 6), SHOWS THESE BUSINESS AREAS. AS YOU CAN SEE, SOME OF THESE BUSINESSES HAVE BEEN AROUND AWHILE (END USER, INTERNATIONAL DATA SERVICES, SBC FINANCIAL SERVICES) WHILE SOME ARE NEWER BUSINESS VENTURES (SBC'S GROW, JAPAN, HEALTHCARE, LC/BC'S, EDUCATION IN GENERAL). ALSO, WE HAVE A MIXTURE HERE OF RATHER MODEST UNDERTAKINGS -- FOR EXAMPLE, THE EXPANSION OF DATA SERVICES INTO "OTHER INTERNATIONAL" MARKET AREAS -- AND LARGE ONES SUCH AS EDUCATION. THE SMALLER ONES SHOULD ACHIEVE MATURITY MUCH MORE QUICKLY THAN SOMETHING AS BIG AS EDUCATION OR THE BUSINESS CENTERS. BUT THERE IS NO GUARANTEE OF THAT. WE HAVE BEEN WORKING AT SOME OF THE FINANCIAL SERVICES SUCH AS BTSI, SMALL BANK DEMAND DEPOSIT ACCOUNTING, AND EFTS FOR SEVERAL YEARS WITHOUT FINDING THE RIGHT COMBINATION OF PRODUCT AND MARKET STRATEGY. THESE ARE THE PROBLEMS WE WILL HAVE TO SOLVE IF WE WANT TO RESUME THOSE NICE RATIOS OF PROFIT GROWTH TO REVENUE GROWTH WE SAW IN THE EARLIER CHART.
(CHART 7) FINALLY, THEN, IF WE DO THE JOB, WE WILL GET THE ACCELERATED LONGER TERM REVENUE AND PROFIT GROWTH THAT WE SEE IN THE LATER PART OF THE FIVE-YEAR PLAN.

THE EXTERNAL SITUATION

INTERNATIONAL OUTLOOK IS NOT MUCH DIFFERENT. GROWTH AND STABILITY THEN WILL HAVE TO COME MOSTLY FROM OUR OWN EFFORTS.

COMPETITIVE SITUATION
THE OTHER PART OF OUR EXTERNAL ENVIRONMENT IS THE COMPETITION. CONTROL DATA IS THE ONLY COMPANY THAT HAS A STRATEGY BASED ON BOTH HARDWARE AND SERVICES. AND THE HARDWARE PORTION IS REALLY TWO QUITE SEPARATE BUSINESSES -- OEM PERIPHERALS AND COMPUTER SYSTEMS BEING QUITE DIFFERENT IN NATURE. SO WE COMPETE WITH A WIDE VARIETY OF COMPANIES, LARGE MAINFRAME COMPANIES, INDEPENDENT PERIPHERAL MANUFACTURERS, SERVICE COMPANIES AND SO ON. SOME OF THE LEADING COMPETITORS ARE SHOWN ON THIS CHART (CHART 9).

AT THIS POINT, LET ME STOP AND MAKE A DEFINITION. THE MONEY WE SPEND TO START UP A BUSINESS WE CALL STRATEGIC EXPENDITURES. STRATEGIC EXPENDITURES INCLUDE TECHNICAL EFFORT, MARKETING AND MANAGEMENT EXPENSE. THIS IS SOMETIMES CALLED "P&L INVESTMENT" HOWEVER, THE TERM "INVESTMENT" TENDS TO BE CONFUSING BECAUSE IT IMPLIES BALANCE SHEET ADDITIONS AS OPPOSED TO OPERATING STATEMENT EXPENSES. AND IT IS THE LATTER WHICH DOMINATE -- ESPECIALLY IN SERVICES, BUT SUCH EXPENSES DO REPRESENT A KIND OF "INVESTMENT" MONEY SPENT NOW, THE PAYBACK FOR WHICH COMES LATER, AND IT IS MORE THAN JUST R&D -- IT IS EVERYTHING INVOLVED IN ESTABLISHING A MARKET POSITION. SO LET'S CALL THEM "STRATEGIC EXPENDITURES."
"CONTROL DATA, THEN, IS NOT ONLY MAKING "STRATEGIC EXPENDITURES" AND INVESTMENTS IN ASSETS IN TWO (THREE) DISTINCT BUSINESSES, ONE OF THOSE BUSINESSES, SERVICES, BY ITS VERY NATURE, IS LONG-TERM AND FRONT-END LOADED WITH EXPENSE.

IN THE LONG RUN, THIS IS A MUCH BETTER STRATEGY FOR IT WILL GIVE US STABILITY THE OTHERS DON'T HAVE. IN THE SHORT RUN THOUGH, IT DOESN'T HELP THE FINANCIAL RATIO COMPARISONS.

THIS SUBJECT HAS MORE IMPLICATION THAN THERE IS TIME TO COVER TONIGHT, SO I WILL ADDRESS THAT SEPARATELY AT THE BOARD MEETING TOMORROW MORNING.

RESOURCE ALLOCATION

WITH THAT QUICK OVERVIEW OF THE STRATEGIC PLAN FROM AN INTERNAL PERSPECTIVE AND A FEW WORDS ON THE ANTICIPATED EXTERNAL SITUATION, I WILL TURN NOW TO A LOOK AT HOW WE WILL ALLOCATE RESOURCES -- TO THE GROWING PROFITABLE BUSINESSES; TO THE PROBLEM AREAS; TO THE NEW BUSINESS AREAS. IN THIS SECTION OF THE OVERVIEW, I WILL CONCENTRATE MOSTLY ON TECHNICAL EFFORT SINCE IT IS SUCH A KEY RESOURCE IN CONTROLLING THE COMPANY'S FUTURE. IN TOM, JOHN AND HANK'S PRESENTATIONS, YOU WILL SEE HOW THE TOTAL RESOURCE ALLOCATION IS BEING USED IN THEIR SEVERAL PARTS OF THE BUSINESS.
IN THAT REGARD, BEFORE LOOKING AT TECHNICAL EFFORT SPECIFICALLY, HERE IS A QUICK OVERVIEW OF (CHART 10) THREE MAJOR STRATEGIC EXPENDITURES: MARKETING, TECHNICAL EFFORTS, AND ASSETS, FOR THE NEXT 3 YEARS (1981-1983). IN MARKETING, IT IS ANTICIPATED THAT WE WILL SPEND FROM 1981 THROUGH 1983 ABOUT $409 MILLION. THE MAJOR MARKETING FOCUS IS ON THE SERVICES AREA WITH ABOUT 69 PERCENT OF THE $409 MILLION GOING INTO THAT AREA. SERVICES ARE MORE MARKETING INTENSIVE THAN THE OTHER BUSINESSES. AND THIS COUPLED WITH ITS STRATEGIC IMPORTANCE IS WHY IT GETS SUCH A LARGE PROPORTION OF MARKETING. THE SAME IMPORTANCE OF STRATEGIC FOCUS ON SERVICES CAN ALSO BE SEEN IN THE TECHNICAL EFFORT SPENDING OF NEARLY $920 MILLION, WITH SERVICES RECEIVING SOME 45 PERCENT OF THE TOTAL. MOST OF THIS MONEY IS FOR APPLICATIONS DEVELOPMENT. BUT SYSTEMS AND PERIPHERALS ARE HARDLY BEING NEGLECTED. THEIR TECHNICAL EFFORT SPENDING IS ANTICIPATED TO BE ABOUT A QUARTER OF A BILLION DOLLARS EACH OVER THE NEXT THREE YEARS.

IN TERMS OF ASSETS, PERIPHERALS REQUIRES OVER A HALF A BILLION DOLLARS OF ASSETS. THIS AMOUNT IS SLIGHTLY MORE THAN HALF OF THE $978 MILLION WE INTEND TO INVEST IN ASSETS. ASSETS INVESTMENTS IN THE PERIPHERAL AREA ARE PRIMARILY DIRECTED TOWARDS IMPROVING THE PRODUCTIVE EFFICIENCY OF THEIR MANUFACTURING PROCESS THROUGH AUTOMATION. THE WORKING CAPITAL REQUIREMENT FOR PERIPHERALS IS ALSO QUITE LARGE.
BUT AS I MENTIONED, TECHNICAL EXPENSE IS PERHAPS THE MAJOR "CONTROL LEVER" IN GUIDING THE COMPUTER BUSINESS FUTURE. SO I WILL COVER THAT IN A BIT MORE DETAIL.

(Chart 11) Technical spending is shown in this chart in total using the lefthand scale and is represented by the bars. It is also shown as a percent of total revenue as represented by the line at the top. The numbers in the top of each bar are year-to-year changes in anticipated technical spending. As the percentage numbers show, the rate of technical spending increase is quite substantial over the plan period. In 1981, technical spending peaks as a portion of revenue and is 11.1 percent. In the later years of the plan, the proportion of technical expending to revenue drops, but in total dollars exceeds a half billion dollars by 1984.

(Chart 12) The character of our technical spending has changed dramatically in the last few years. In 1980, we are spending about 64 percent of our total technical efforts in developing new businesses -- research and development of future-oriented products and services. In 1981 we are increasing the proportion to 66 percent of the total. This has changed substantially in the last five years as you can see from the chart. In 1976 we were spending only 49 percent of our total technical effort on developing new business. The biggest
CHANGE HAS BEEN A DROP IN THE ENHANCEMENT OF EXISTING PRODUCTS WHICH HAS DECREASED FROM 28 PERCENT TO 18 PERCENT OF THE TOTAL. INTO THIS CATEGORY FALL SUCH ACTIVITIES AS BUG FIXING, SOFTWARE MAINTENANCE AND EQUIPMENT UPGRADES. THIS CLEARLY SHOWS THE RESULTS NOT ONLY OF QUALITY PROGRAMS BUT EVEN MORE SIGNIFICANTLY, PERHAPS, THE MOVE TO MORE STANDARD PRODUCTS. THE SWITCH FROM FOCUSING ON OUR EXISTING PRODUCTS TO DEVELOPING NEW BUSINESSES IS ALSO A REFLECTION OF THE CONTINUING MOVE INTO SERVICES. THIS MOVE MEANS THAT A RISING PROPORTION OF TOTAL TECHNICAL EFFORT IS SPENT FOR APPLICATIONS AND COURSEWARE, RATHER THAN BASIC SYSTEMS HARDWARE AND SOFTWARE. IT IS THIS VALUE-ADDED COMPONENT, OF COURSE, THAT DISTINGUISHES THE SERVICES BUSINESSES.

PROPER ALLOCATION OF APPLICATIONS TECHNICAL EFFORT THUS BECOMES A MUCH MORE CRUCIAL FACTOR IN TOTAL TECHNICAL EFFORT SPENDING. AS THIS NEXT CHART SHOWS, (CHART 13) TOTAL SPENDING IN CONNECTION WITH APPLICATIONS IS NOW PLANNED AT 70 MILLION DOLLARS FOR 1981. THIS NUMBER WAS SO SMALL HISTORICALLY THAT WE DID NOT TRACK IT AS A SEPARATE CATEGORY. NOTE ALSO THAT WE ARE BEGINNING TO TRACK EXPENDITURES FOR COURSEWARE AIMED AT IMPROVING INTERNAL PRODUCTIVITY. I SHOULD NOTE, HOWEVER, THIS IS COURSEWARE ONLY USED INTERNALLY - IT DOES NOT INCLUDE DEVELOPMENT EXPENSE FOR COURSEWARE USED BOTH EXTERNALLY AND INTERNALLY. WE ARE GOING TO REFINE OUR CATEGORIES A BIT TO
GIVE US THIS TOTAL PICTURE OF APPLICATIONS FOR PRODUCTIVITY IMPROVEMENT. ALSO I WANT TO POINT OUT THAT DEVELOPMENT TOOLS/S&D SYSTEMS ARE ONLY SPECIAL TOOLS NECESSARY FOR SPECIFIC APPLICATIONS. THE NUMBER HAS NOTHING TO DO WITH SYSTEMS SOFTWARE. WHILE THIS DATA ON APPLICATIONS TECHNICAL EFFORT HAS BEEN ASSEMBLED THIS YEAR MANUALLY AND THERE ARE, NO DOUBT, QUITE A FEW OVERSIGHTS AND INACCURACIES, IT IS THE BEGINNING OF AN IMPORTANT NEW PART OF OUR STRATEGY PROCESS.

NEXT LET ME GIVE YOU SOME HIGHLIGHTS OF THE SPECIFIC MARKET AREAS INVOLVED IN THIS APPLICATIONS TECHNICAL EFFORT. (CHART 14) ONE MAJOR APPLICATIONS AREA IS ENGINEERING DESIGN. THIS HAS BECOME THE SINGLE LARGEST USE OF APPLICATIONS FUNDS. PRESENT PLANS SHOW NEARLY 8 MILLION DOLLARS TARGETED FOR ENGINEERING DESIGN IN 1981. HOWEVER, OUR OTHER KEY SCIENTIFIC AND ENGINEERING MARKETS WILL RECEIVE CONSIDERABLE FUNDS AS WELL, PARTICULARLY IN THE AREAS OF WEATHER AND ENERGY MANAGEMENT. FINANCIAL MARKETS AND GENERAL BUSINESS AREAS WILL BE A MAJOR APPLICATION FOCUS OF DATA SERVICES.

TECHNICAL EFFORT IS REQUIRED SO THAT WE CAN SUCCESSFULLY ENTER NEW AREAS OF HEALTH AND HUMAN SERVICES WITH A COMBINATION OF APPLICATIONS AND COURSEWARE. THIS AREA MAY BE ONE OF OUR MOST ATTRACTIVE LONG-TERM AREAS -- CERTAINLY IT APPEARS RIPE FOR THE APPLICATION OF COMPUTER TECHNOLOGY -- ESPECIALLY CBE. THE
OTHER AREA WITH A LARGE FOCUS OF APPLICATIONS TECHNICAL EFFORT IS IN MEETING SMALL BUSINESS NEEDS. THE BUSINESS CENTER STRATEGY DISCUSSED WITH YOU AT THE LAST MEETING IS AIMED AT BUILDING A DISTRIBUTION NETWORK FOR ALL OF OUR COURSEWARE, APPLICATIONS SOFTWARE, FINANCIAL AND CONSULTING SERVICES. THE PRINCIPAL CUSTOMER OF THIS DISTRIBUTION NETWORK IS SMALL BUSINESS.

FINANCIAL SUMMARY


REVENUE GROWTH DROPS OFF IN 1981, BUT CONTINUES AFTER THAT AT ABOUT 20 PERCENT THROUGHOUT THE PLAN PERIOD. THE ECONOMIC FORECAST HAS SOME EFFECT ON 1981 REVENUE, BUT OTHER THAN THAT OUR FIVE-YEAR PLAN IS NOT ALL THAT MUCH IMPACTED BY ECONOMIC CONDITIONS. AS A RESULT OF THE SEVERAL FACTORS I HAVE DISCUSSED, THE EARNINGS GROWTH RATE DROPS SUBSTANTIALLY IN
1981, though at 16.5 percent earnings are still growing slightly faster than revenue.

Remaining ratios reflect a similar pattern.

Finally, I will note that when we add the plan for the computer business to that of commercial credit, there will still be substantial growth in the earnings per share. It is tempting to dwell on the point that despite the many challenges I've already talked about, earnings per share in 1981 are projected to grow over 19 percent. That is not my focus, however, and I don't want it to be yours. We have more fundamental things to focus on. If we do, EPS will take care of itself -- not only in 1981 but in subsequent years as well.

Summary and Conclusions

(Chart 16) In summary, we have developed over the past five years a new base level of profitability as many of our businesses have matured with concomitant improvement in their fundamentals. We do not have, at the moment, any major new maturing businesses for the next two years. As a result, we will have to continue making strategic expenditures. These expenditures as well as asset investments are required to develop the opportunities we believe exist in the application and services area. The focus of our strategy activities is on
TECHNICAL EFFORT AND WITHIN THAT ON IMPROVING THE USE OF APPLICATIONS DEVELOPMENT AND EXPENDITURES.

FINALLY, THE RATE OF GROWTH OF PROFITABILITY IS SLOWING FOR A WHILE AND, AS A RESULT, FUNDING REQUIREMENTS ARE UP. THIS PRESENTS A CHALLENGE, BUT WE HAVE THE OPPORTUNITY TO LAY ADDITIONAL GROUND WORK FOR CONTINUED GOOD LONG-TERM GROWTH. AS I INDICATED LAST YEAR, 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. ACHIEVING EXCELLENCE HAS BEEN OUR GOAL AND OUR THEME. IT STILL IS AND WE HAVE LOTS OF NEAR-TERM ACTIONS BUILT INTO THIS PLAN TO MAKE IT HAPPEN.