INTRODUCTION

LAST NIGHT WE WENT OVER THE COMPUTER BUSINESS FIVE-YEAR PLAN.
AT LEAST, IN OVERALL TERMS, WE SAW THE AREAS OF STRONG AND WEAK
PERFORMANCE, COMPETITIVE THREAT, PRODUCT STRENGTHS AND SO ON.

THIS MORNING, I WANT TO GIVE YOU A VIEW OF WHAT THAT MEANS
VIZ-A-VIZ THE FINANCIAL PERFORMANCE POSITION OF OUR
COMPETITION, BOTH U.S. AND FOREIGN COMPANIES, AND FURTHER,
THEN, THE IMPLICATION WITH REGARD TO FINANCING THE COMPUTER
BUSINESS OVER THE NEAR TERM.

FIRST, LET ME GO BACK AND RECAPITULATE OUR BUSINESS FROM A
"PORTFOLIO" PERSPECTIVE.

CHART 1

THIS EXHIBIT IS SIMILAR TO THE ONES THAT WERE SHOWN YOU LAST
NIGHT BY MESSRS. KAMP, LACEY, AND WHITE. THIS CHART
ILLUSTRATES OUR STRATEGY BY LOOKING AT THE POSITION FOR THE
COMPUTER BUSINESS IN 1981. THIS CHART IS A SOMEWHAT MODIFIED
VERSION OF THE TRADITIONAL CHART OF REVENUE GROWTH VERSUS
MARKET SHARE. ON THE VERTICAL SCALE, WE HAVE PLOTTED EACH
MAJOR BUSINESSES' SALES GROWTH RATE, FROM 1980 TO 1981. ON THE
HORIZONTAL SCALE IS CONTROL DATA'S SALES VOLUME RELATIVE TO THE
SALES VOLUME OF OUR PRINCIPAL COMPETITORS.
WE HAVE PLOTTED ONLY THE LARGER BUSINESSES WITHIN THE COMPUTER BUSINESS. THE SIZE OF EACH CIRCLE IS PROPORTIONAL TO THE ASSETS EMPLOYED IN THAT BUSINESS AREA. THE COLOR OF THE CIRCLE INDICATES A CASH GENERATION OF THAT BUSINESS IN 1981. GREEN INDICATES POSITIVE CASH FLOW, RED NEGATIVE CASH FLOW, AND YELLOW IS NEAR A BREAK-EVEN POSITION ON CASH FLOW. WITHIN THE CENTER OF EACH CIRCLE IS THE PRE-INTEREST, PRETAX RETURN ON ASSETS. YOU WILL NOTE THAT MOST OF THE BUSINESSES HAVE NEGATIVE CASH FLOW WITH ONLY EDP, BUSINESS PRODUCTS AND ENGINEERING SERVICES HAVING POSITIVE CASH FLOW.

I WOULD LIKE TO CALL YOUR ATTENTION TO THE ABSENCE OF ANY CDC BUSINESSES IN THE LOWER LEFT-HAND CORNER OF THE CHART. THIS HAS BEEN CHARACTERISTIC OF OUR BUSINESS AND STILL CONTINUES ON FOR 1981 AND THROUGHOUT THE NEXT FEW YEARS. THIS LOW GROWTH AND HIGH RELATIVE SALES SEGMENT OF THE CHART IS WHERE THOSE BUSINESSES THAT TYPICALLY HAVE HIGH PROFIT AND HIGH CASH GENERATION CAN NORMALLY BE FOUND. IN THE PARLANCE OF BOSTON CONSULTING GROUP, THIS IS THE AREA WHERE "CASH COWS" RESIDE. CONTROL DATA'S BUSINESSES DO NOT HAVE ANY SUCH "CASH COWS" THAT CAN BE USED TO FUND OTHER BUSINESS. WE MUST USE SOURCES OF FINANCING EXTERNAL TO THE COMPUTER BUSINESS IN ORDER TO SEIZE MARKET OPPORTUNITIES.
ALSO, IF I HAD BROKEN THIS CHART DOWN A BIT FURTHER, YOU WOULD FIND SOME PART OF OUR BUSINESSES IN THE LOWER RIGHT-HAND CORNER - THE LOW MARKET SHARE, STAGNATED CORNER. THIS IS TYPICALLY CALLED "THE DOGS." SINCE I HAVE AN AVERSION TO USING THE DEROGATORY TERM "DOG," I CALL THIS AREA THE MAJOR CHALLENGE AREA FOR IMPROVING PROFITABILITY. ONE OF MY MAJOR CONCERNS IS TRYING TO IMPROVE PROFITABILITY OF THESE BUSINESSES. FOR THE MOST PART, DOING THIS IS NOT A MATTER OF JUST IMPROVING EXECUTION IN THESE BUSINESSES -- IT IS A MATTER OF IMPROVING THEIR STRATEGY -- MARKET FOCUS OR PRODUCT STRATEGY OR BOTH -- AND DOING THIS, OF COURSE, REQUIRES MORE RATHER THAN LESS EXPENDITURES.

I WOULD ALSO LIKE TO POINT OUT THAT WE HAVE NOT PLOTTED COMMERCIAL CREDIT. THIS IS NOT AN OVERSIGHT, TODAY I WANT TO DEAL ONLY WITH THE COMPUTER BUSINESS. AS I MENTIONED LAST EVENING, WE WILL DISCUSS COMMERCIAL CREDIT STRATEGY AT A LATER MEETING.

CHART 2
THIS CHART IS THE SAME AS THE PREVIOUS CHART; EXCEPT THAT THE VERTICAL SCALE IS EARNINGS GROWTH RATE FROM 1980 TO 1981. WHAT STANDS OUT IS THAT NEARLY ALL OUR BUSINESSES -- EVEN THOUGH THEY HAVE NEGATIVE CASH FLOWS -- ARE GROWING EARNINGS AT A VERY GOOD RATE -- THAT'S 15 PERCENT PER YEAR OR BETTER. OR YOU CAN
SAY THAT THE OTHER WAY AROUND -- EVEN THOUGH EARNINGS ARE GROWING RAPIDLY, THEY STILL HAVE NEGATIVE CASH FLOWS. PERIPHERAL SYSTEMS AND EDUCATION ARE TWO PRODUCT FAMILIES IN WHICH THERE IS NOT NEAR-TERM EARNINGS GROWTH. HOWEVER, JUST AS I REMARKED WITH REGARD TO THE PREVIOUS CHART, THERE ARE SIGNIFICANT BUSINESS SEGMENTS WITHIN THE OTHER PRODUCT FAMILIES WHERE THIS IS ALSO THE CASE.

LET'S TAKE A LOOK NOW AT SOME OF OUR U.S. COMPETITORS. THIS NEXT CHART SHOWS THE GROWTH RATES AND FINANCIAL POSITION OF SOME OF THE MAJOR COMPETITORS.

CHART 3
FIRST OF ALL, YOU CAN SEE THAT IN RECENT YEARS WE HAVE BEEN GROWING BOTH REVENUE AND EARNINGS FASTER THAN NEARLY ALL THESE COMPANIES.

ON THE OTHER HAND, THEY ARE, GENERALLY SPEAKING, IN A CONSIDERABLY BETTER FINANCIAL POSITION THAN WE ARE. THOUGH OUR RETURN ON EQUITY IS QUITE COMPARABLE, THAT IS PRIMARILY BECAUSE CONTROL DATA IS HIGHLY LEVERAGED BY COMPARISON. FOR THE MOST PART, THIS FINANCIAL COMPARISON REFLECTS THE FACT THAT MARKET INVESTMENTS WERE MADE BY THESE COMPANIES 30, 40, OR 50 YEARS AGO -- ESPECIALLY IN OVERSEAS MARKETS -- NCR IN JAPAN, BURROUGHS IN EUROPE AND SO ON. ALSO WITH OUR STRATEGY OF
EMPHASIZING SERVICE BUSINESSES, WE FACE NON-TARIFF BARRIERS SUCH AS RIGHTS TO DISTRIBUTE, CLOSED ACCESS TO DATA COMMUNICATIONS NETWORKS, ETC. WHICH INHIBIT OUR ABILITY TO PENETRATE FOREIGN MARKETS. HARDWARE COMPANIES, WHILE THEY MUST DEAL WITH NORMAL TARIFF BARRIERS, DO NOT HAVE THIS PROBLEM. AND THE TARIFF BARRIER PROBLEM PEOPLE LIKE NCR, IBM AND SO ON OVERCAME LONG AGO WITH THE ESTABLISHMENT OF MANUFACTURING SUBSIDIARIES OVERSEAS BEFORE LOCAL OWNERSHIP REQUIREMENTS BECAME COMMONPLACE.

ADDITIONALLY, THESE COMPANIES HAVE HAD OLDER PRODUCTS IN MARKET LEADERSHIP POSITIONS -- I.E. CASH COWS TO FINANCE INVESTMENTS IN THEIR COMPUTER BUSINESS. THE EXCEPTION IS DEC.

YET ANOTHER CONSIDERATION IS THE DUAL HARDWARE/SERVICES STRATEGY WHICH CONTROL DATA FOLLOWS. I DISCUSSED LAST EVENING THE SHORT-TERM/LONG-TERM EFFECTS OF THAT VIZ-A-VIZ THESE HARDWARE ONLY COMPETITORS.

THE NEXT CHART SHOWS SOME YOUNGER COMPANIES IN OUR BUSINESS. YOU CAN SEE THAT THE FINANCIAL POSITION OF THESE COMPANIES IS SUBSTANTIALLY LESS ATTRACTIVE. WITH AN EXCEPTION OR TWO, THEY ARE MUCH MORE HIGHLY LEVERAGE THAN THE COMPANIES ON THE PREVIOUS CHART.
AGAIN, THE OLDER COMPANIES' PORTFOLIO COMPOSITION INCLUDES MATURE BUSINESSES THAT GENERATE CASH. CERTAINLY ONE GOOD WAY TO HAVE A VERY FAVORABLE FINANCIAL POSITION IS TO HAVE SOME PROFITABLE, MATURE BUSINESSES THAT GENERATE SUBSTANTIAL QUANTITIES OF CASH. THESE COMPANIES DON'T HAVE THAT LUXURY. VOLATILITY OF FINANCIAL POSITION IS THE RESULT. NOTE THAT MEMOREX'S O/E HAS GONE FROM .77 TO ____ IN 6 MONTHS.

OUTSIDE THE U.S., COMPANIES FINANCE THEIR GROWTH IN QUITE A DIFFERENT WAY. THAT IS TO HAVE A CLOSE PARTNERSHIP WITH CAPITAL SOURCES OUTSIDE OF THE COMPANY. THE NEXT CHART SHOWS SOME OF THE LEADING FOREIGN COMPANIES IN OUR INDUSTRY.

CHART 4

THE CONTRAST OF THESE NUMBERS WITH THEIR U.S. COUNTERPARTS IS DRAMATIC TO SAY THE LEAST. THIS IS MADE POSSIBLE, OF COURSE, BY AN OVERT PARTNERSHIP WITH THE GOVERNMENT AND THE FINANCIAL COMMUNITY. THESE COMPANIES ESPECIALLY THE JAPANESE CAN CONCENTRATE THEIR EFFORTS ON SEIZING MARKET OPPORTUNITIES. THEY DON'T HAVE THE ENCUMBRANCE OF BEING SELF-FINANCING AND TOTALLY MANAGING THEIR RISK EXPOSURE. THE COMBINATION WITH GOVERNMENT AND THE FINANCIAL COMMUNITY MAKES FOR VERY FORMIDABLE COMPETITORS AS IS SHOWN BY RECENT EVENTS SUCH AS TOM KAMP MENTIONED LAST EVENING.

DIFFERENT FINANCIAL STANDARDS ALSO ALLOW INVESTMENT TO IMPROVE PRODUCTIVITY AND INVESTMENT IN NEW TECHNOLOGIES AND MARKETS FAR BEYOND WHAT U.S. FINANCIAL STANDARDS WOULD ALLOW. BY THE WAY,
THIS IS NO SMALL FACTOR IN THE DECLINING RATE OF U.S.
PRODUCTIVITY GROWTH COMPARED TO RAPID GAINS IN PRODUCTIVITY
GROWTH EXPERIENCED ABROAD.

CHART 5

AS I INDICATED LAST NIGHT, OUR IMPROVING PROFITABILITY HAS BEEN
THE RESULT OF SOME MAJOR TURNAROUNDS OVER THE PAST FIVE YEARS.
THIS CHART WAS THE ONE WE SAW LAST EVENING. BUT AS WE LOOK
FORWARD OVER THE EARNINGS GROWTH OF THESE BUSINESSES WILL
MUCH MORE CLOSELY PARALLEL REVENUE GROWTH. SO IMPROVED
PROFITABILITY WILL HAVE TO COME FROM OTHER AREAS. THIS NEXT
CHART (CHART 6), WHICH WE ALSO SAW LAST EVENING, SHOWS SOME OF
THE MAJOR LOSS SEGMENTS I REFERRED TO EARLIER IN THE PORTFOLIO
DISCUSSION.

AGAIN, THEY REPRESENT BOTH CONTINUING AND NEW INVESTMENTS FOR
CONTROL DATA. THE MARKET OPPORTUNITY PRESENTED BY THESE
BUSINESSES IS VERY LARGE AS IS THEIR POTENTIAL TO IMPROVE OUR
PROFITABILITY. TO SEIZE THIS MARKET OPPORTUNITY, HOWEVER,
REQUIRES STRATEGIC EXPENDITURE FOR TECHNICAL EFFORT, MARKETING
AND MANAGEMENT. INVESTMENT IN ASSETS IS ALSO REQUIRED. THE
TURNAROUND IN THESE BUSINESSES FROM LOSSES TO PROFITS, OF
COURSE, IS A DOUBLE WHAMMY AS FAR AS PROFITABILITY IS
CONCERNED. BUT THAT WON'T OCCUR WITH MOST OF THESE BUSINESSES
FOR THE NEXT COUPLE OF YEARS. THAT COMBINED WITH THE FACT
THAT, AS WE HAVE SEEN, THE OTHER BUSINESSES ARE GROWING THEIR PROFITABILITY AT A MORE MODEST RATE, MEANS, IN SUMMARY, THAT THE OVERALL GROWTH OF PROFITABILITY OF THE COMPUTER BUSINESS WILL SLOW DOWN. BUT THE ALTERNATIVE TO THAT IS TO YIELD MARKET POSITION TO EITHER INTERNATIONAL COMPETITORS WHO ARE UNCONSTRAINED BY FINANCIAL RATIOS OR TO U.S. COMPETITORS WHO HAVE HISTORICAL CASH FLOWS TO FINANCE THEIR GROWTH.

SO THESE EARNINGS AND RETURN ON EQUITY COMPARISONS WITH U.S. AND FOREIGN COMPETITORS ARE ONE DIMENSION OF THE SITUATION WE MUST FACE HEAD-ON.

BUT THERE IS ANOTHER ASPECT AND THAT IS CASH FLOW AND FINANCING THE BUSINESS. AS WE HAVE SEEN ALREADY, THERE ARE SIGNIFICANT NEGATIVE CASH FLOWS INVOLVED IN THE COMPUTER BUSINESS BOTH IN FINANCING THE HIGH GROWTH RATE OF THE PROFITABLE BUSINESSES AND FINANCING THE STRATEGIC EXPENDITURES NECESSARY TO GET THE UNPROFITABLE ONES SQUARED AWAY STRATEGICALLY AND THUS TURNING A PROFIT.

BEFORE I SUMMARIZE THIS CASH FLOW PICTURE, LET ME MENTION ONE OTHER AREA WHICH IS CRITICAL TO OUR LONG-TERM SUCCESS.

CHART 7

THAT IS A SERIES OF INTERNAL IMPROVEMENTS. THESE IMPROVEMENTS REQUIRE FUNDS TO IMPLEMENT JUST AS MUCH AS THE MARKETPLACE
ORIENTED PROGRAMS OF THE PREVIOUS CHART. THESE INTERNAL PROGRAMS ARE AIMED AT IMPROVING THE CAPABILITY OF OUR MOST VALUABLE ASSET - CONTROL DATA EMPLOYEES. INVESTMENT IN OUR PEOPLE RESOURCES IS ONE OF THE BEST WAYS TO ACHIEVE AN OVERALL PRODUCTIVITY GAIN. THIS CHART SHOWS SOME OF THE MAJOR AREAS OF EXPENDITURE DIRECTLY RELATED TO OUR PEOPLE RESOURCES. THESE EXPENDITURES AS YOU CAN SEE COVER QUITE A WIDE SPECTRUM - FROM ADDITIONAL EXPENDITURES TO BRINGING THE PENSION PLAN INTO LINE TO THE STAYWELL INVESTMENT IN EMPLOYEE HEALTH TO A VARIETY OF EDUCATION INVESTMENTS TO IMPROVING EMPLOYEE SKILLS, THEIR PRODUCTIVITY AND THUS QUALITY OF OUR PRODUCTS AND SERVICES. AGAIN THESE EXPENDITURES ARE ONES WE ARE MAKING TODAY THE PAYBACK FOR WHICH WILL COME IN LATER YEARS. IT WOULD BE NICE IF ALL THE PAYBACKS WERE AS RAPID AS THE ONE FOR OUR NEW MEDICAL CLAIMS PROCESSING SYSTEM. LAST YEAR WE SPENT _____ AT SRC TO GET THIS NEW SYSTEM IN OPERATION. THIS YEAR THE SYSTEM WILL PAY ALL ITS COSTS AND STILL RETURN A NET $____ IN REDUCED CLAIMS PAYOUTS AND MORE EFFICIENT ADMINISTRATION.

AS A RESULT OF PURSUEING NEW INVESTMENT PROGRAMS, BOTH INTERNAL AND EXTERNAL, CASH REQUIREMENTS ABOVE THAT GENERATED BY THE BUSINESS OVER THE NEXT THREE YEARS WILL AMOUNT TO ABOUT $280 MILLION (CHART 8).
AS CAN BE SEEN IN THIS SUMMARY ILLUSTRATION OF OUR CASH FLOWS, ALL OF OUR MAJOR BUSINESS SEGMENTS ARE ABSORBING CASH FOR BOTH ASSET ADDITIONS AND FOR MEETING STRATEGIC EXPENDITURES. SHAREHOLDER DIVIDENDS ARE PROJECTED TO BE ABOUT $70 MILLION WHICH IS ABOUT BALANCED OFF WITH THE DIVIDENDS RECEIVED FROM COMMERCIAL CREDIT.

ALL OF THE OPERATING COMPONENTS OF THE COMPUTER BUSINESS REQUIRE FUNDING OVER THE NEXT THREE YEARS. BUT YOU WILL NOTE THAT THE DOLLARS REQUIRED BY THE PERIPHERAL PRODUCTS COMPANY IS NOW ONLY $8 MILLION. THIS OPERATING UNIT IS ALMOST FREE FROM REQUIRING ADDITIONAL FUNDS AND STILL THEY ARE ABLE TO GROW THEIR ASSETS BY $527 MILLION.

ALSO, IN LINE WITH THE STRATEGY TO EMPHASIZE SERVICES IN THE NEAR TERM IS A REQUIREMENT FOR SUBSTANTIAL INFLOWS OF CASH TO THE SERVICES BUSINESS AREA. THE NET OF ALL THESE FLOWS IS A REQUIREMENT TO OBTAIN ABOUT $280 MILLION FROM OUTSIDE SOURCES.

CHART 9

THROUGH COMMERCIAL CREDIT. OUR CURRENT LONG-TERM FINANCING
ARRANGEMENTS PROVIDED $180 MILLION AS SEEN IN THE NEXT BAR
COLORED RED. THE BALANCE WAS PROVIDED BY FLOATING RATE
FINANCING.

IN 1980, OUR FINANCING REQUIREMENTS INCREASED BY $149 MILLION,
WITH LESS THAN HALF SUPPLIED BY FINANCING ARRANGEMENTS WITH
COMMERCIAL CREDIT. THIS IS DUE TO THE CONTINUING SHIFT IN OUR
BUSINESS MIX WITH MORE SERVICES AND OEM BUSINESS AND LESS
LEASED HARDWARE. AS THE CHART INDICATES, OUR FLOATING RATE
FINANCING INCREASED SUBSTANTIALLY IN 1980 TO $188 MILLION, UP
$132 MILLION FROM THE PREVIOUS YEAR.

IN ANY EVENT, AS YOU CAN SEE WE WILL REQUIRE 100 TO 120 MILLION
DOLLARS OF INCREMENTAL FINANCING A YEAR FOR THE NEXT TWO YEARS.

WE HAVE A NUMBER OF OPTIONS TO DO THIS AND MARV ROGERS IS GOING
TO DISCUSS THEM WITH US.