

TWIN CITIES ANALYST MEETING

June 11, 1981

Robert M. Price

GOOD MORNING. THANK YOU FOR JOINING US TODAY. IT IS A PLEASURE TO BE WITH YOU AND, NATURALLY, IT IS A PLEASURE TO REPORT THAT BUSINESS AT CONTROL DATA CONTINUES TO BE VERY GOOD. BOB DUNCAN, LARRY JODSAAS AND JOHN LACEY HAVE ALREADY GIVEN YOU SOME DETAILS OF THREE OF OUR MAJOR BUSINESS SEGMENTS. I'LL TRY TO BRING IT ALL TOGETHER FOR YOU. TO GET AT THAT TASK, I WILL KEEP THE USUAL RATION OF STATISTICAL INFORMATION TO A MINIMUM. INSTEAD I'D LIKE TO GIVE YOU A BASIC FRAME OF REFERENCE FOR HOW WE GO ABOUT OUR BUSINESS, WHAT SHAPES OUR VIEW OF THE WORLD, WHAT THE FORCES ARE WHICH SHAPE OUR STRATEGIES. WE'LL ALSO TAKE A LOOK AT HOW STRATEGY IS APPLIED AND ALSO TALK A BIT ABOUT THE FUTURE OUTLOOK.

PRINCIPAL OPERATIONS

I SEE A LOT OF FAMILIAR FACES IN THE AUDIENCE AND I KNOW MANY OF YOU ARE QUITE KNOWLEDGEABLE ABOUT THE COMPANY. YOU HAVE ALSO ALREADY HEARD THIS MORNING A FAIR AMOUNT OF DETAIL. BUT FOR THOSE OF YOU LESS FAMILIAR, LET ME BACK UP AND MAKE SURE WE ALL HAVE A CAPSULE OVERVIEW DESCRIPTION OF THE BUSINESS.

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CONTROL DATA CONSISTS OF FOUR BUSINESS SEGMENTS -- COMPUTER SERVICES, COMPUTER SYSTEMS, PERIPHERAL PRODUCTS AND FINANCIAL SERVICES. THREE OF THESE BUSINESS SEGMENTS BROKE THE BILLION DOLLAR LEVEL IN REVENUE FOR THE FIRST TIME THIS PAST YEAR.

COMPUTER SERVICES WAS ONE OF THESE THREE. SERVICES REPRESENTS THE PRIMARY STRATEGIC THRUST OF CONTROL DATA. SERVICES IS THE ESSENCE OF THE VALUE-ADDED APPROACH WHICH IS THE DOMINANT CHARACTERISTIC OF CONTROL DATA'S BUSINESS STRATEGY -- MORE OF THAT IN A MOMENT.

NEXT, A FEW WORDS ON THE SYSTEMS BUSINESS WHICH YOU HEARD ABOUT FROM JOHN LACEY.

CONTROL DATA WAS FOUNDED NEARLY TWENTY-FOUR YEARS AGO AS A COMPANY DESIGNING AND BUILDING LARGE-SCALE COMPUTER SYSTEMS. COMPUTER SYSTEMS CONTINUES AS A CORNERSTONE OF OUR BUSINESS AND IN RECENT YEARS HAS RECEIVED CONSIDERABLE IMPETUS FOR NEW GROWTH FROM THE ENORMOUS NEED FOR COMPUTING IN ENERGY-RELATED PROBLEMS SUCH AS ENGINEERING DESIGN, WHICH SOME OF YOU JUST SAW, RESEARCH, EXPLORATION AND CONSERVATION. INDICATIVE OF THE BASIC EXPANSION GOING ON IN OUR PRIMARY MARKETS IS THE CONTINUING STRENGTH IN ORDERS FROM NEW CUSTOMERS.

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THE THIRD MAJOR BUSINESS SEGMENT IS PERIPHERAL PRODUCTS WHICH IN 1980 GREW TO \$1.2 BILLION. THE MAJOR BUSINESS OF PERIPHERALS IS SALES TO ORIGINAL EQUIPMENT MANUFACTURERS -- OEM'S -- AND CONTROL DATA IS A PRINCIPAL SUPPLIER OF PERIPHERALS TO THE MINIAND MICRO-COMPUTER MANUFACTURERS -- BOTH OF WHICH ARE EXPERIENCING VERY RAPID GROWTH.

FINANCIAL SERVICES, THE FOURTH SEGMENT, IS THE BUSINESS OF OUR COMMERCIAL CREDIT SUBSIDIARY. COMMERCIAL CREDIT WAS THE THIRD BUSINESS SEGMENT WHICH HAD \$1 BILLION IN GROSS INCOME IN 1980. SERVING THE NEEDS OF SMALL BUSINESS IS A MAJOR PART OF COMMERCIAL CREDIT'S BUSINESS AND THE BASIC STRATEGY HERE INVOLVES THE DEVELOPMENT OF NEW NON-CASH SERVICES TO AUGMENT BASIC FINANCIAL SERVICES.

AS THE MATERIAL YOU HAVE INDICATES, OVER THE PAST FIVE YEARS, CONTROL DATA'S COMBINED REVENUES HAVE DOUBLED FROM \$1.9 BILLION TO \$3.8 BILLION AND NET EARNINGS HAVE GROWN FROM \$38 MILLION TO \$151 MILLION.

#### BASIC BELIEFS

THAT, IN BRIEF, IS A "PHYSICAL" DESCRIPTION OF OUR COMPANY -- HOW BIG, WHAT PRODUCTS AND SO ON.

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BUT, IN TRUTH, THAT DOESN'T TELL YOU MUCH ABOUT US -- ANYMORE THAN AGE, HEIGHT, WEIGHT, COLOR OF HAIR AND EYES TELLS YOU VERY MUCH ABOUT A PERSON. SO LET ME MOVE ON TO A MORE QUALITATIVE DESCRIPTION OF WHAT LIES BEHIND THE STATISTICS I HAVE JUST GIVEN YOU.

THERE ARE FIVE CHARACTERISTICS OF CONTROL DATA THAT ARE KEY TO ITS CORPORATE CHARACTER, WHICH UNDERPIN, AND IN EFFECT DETERMINE OUR APPROACH TO THE BUSINESS.

1. WE TAKE A LONG-TERM APPROACH TO OUR BUSINESS.

OUR PRODUCTS AND SERVICES, AND BUSINESS STRATEGIES ARE INSEPARABLE FROM A HISTORY OF PRACTICAL SUCCESS IN APPLYING THREE MAJOR TOOLS OF PROBLEM-SOLVING -- COMPUTER TECHNOLOGY, FINANCIAL RESOURCES, AND INNOVATIVE, KNOWLEDGEABLE PEOPLE -- TO IMPORTANT AND COMPLEX NEEDS.

BECAUSE THESE NEEDS ARE COMPLEX, SOLUTIONS FREQUENTLY INVOLVE A LOT OF EXPERIMENTATION, FALSE STARTS AND DEAD ENDS BEFORE THE RIGHT APPROACH IS FOUND. THIS WAS TRUE IN THE BEGINNING WITH THE DESIRE TO BUILD THE BIGGEST COMPUTERS -- CONTROL DATA HAS ALWAYS BEEN KNOWN AS THE MOST SUCCESSFUL SUPER COMPUTER MAKERS. WHAT PEOPLE DON'T KNOW IS THAT BEHIND THAT SUCCESS LIES A WILLINGNESS TO KEEP AT IT WHEN

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INITIAL DESIGNS DIDN'T WORK OUT AND TO CONTINUE THROUGH FINANCIAL ADVERSITY UNTIL SUCCESS WAS ATTAINED. (EXAMPLE CYBER 200).

ANOTHER EXAMPLE WOULD BE EDUCATION. STARTING UP CONTROL DATA INSTITUTES WAS A LONG-TERM BACK STRATEGY IN 1965. IT TOOK SEVEN YEARS BEFORE THEY FIRST REACHED PROFITABILITY. TODAY, CONTROL DATA INSTITUTES ARE ONE OF OUR MOST SUCCESSFUL BUSINESSES. PLATO-CBE RESEARCH AND DEVELOPMENT BEGAN IN 1961. IT FIRST WENT TO MARKET IN 1975. IT WILL TAKE UNTIL 1983 TO REACH CRITICAL MASS AND PROFITABILITY BUT WHEN THAT OCCURS IT COULD VERY WELL BE OUR MOST PROFITABLE BUSINESS.

THERE ARE MYRIAD EXAMPLES I COULD NAME BUT THE POINT IS THE LONG-TERM APPROACH IS PART OF OUR HISTORY AND CULTURE. TAKING A LONG-TERM VIEW IS EASY WHEN TIMES ARE GOOD. STICKING TO IT WHEN TIMES ARE BAD IS THE REAL TEST. WE KNOW THAT FROM FIRST-HAND EXPERIENCE. AND, BY THE WAY, THE ABSENCE OF A LONG-TERM VIEW IN MOST OF U.S. INDUSTRY IS NOW BEGINNING TO BE RECOGNIZED AS A ROOT CAUSE OF ITS DECLINING COMPETITIVE POSITION.

2. WE UNDERSTAND, BELIEVE IN, AND CHAMPION THE CAUSE OF TECHNICAL COOPERATION. AND WE HAVE PROVED WE CAN MAKE IT WORK FOR US.

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THE FORM AND SCOPE OF OUR ORGANIZATIONAL APPROACH TO A GIVEN TASK IS DICTATED BY THE SIZE AND NATURE OF THE PROBLEM TO BE SOLVED. OFTEN WE USE ONLY INTERNAL RESOURCES. HOWEVER, WHEN THE SCOPE OR SIZE OF THE TASK REQUIRES THE PARTICIPATION OF OTHER ORGANIZATIONS, THERE IS NO HESITANCY TO FORM COOPERATIVE VENTURES. WE UNDERSTAND THE GIVE AND TAKE NECESSARY TO ACHIEVE LASTING BENEFIT TO ALL PARTIES.

BY AND LARGE, EVEN TODAY, PEOPLE IN THE COMPUTER INDUSTRY DO NOT UNDERSTAND THE NEED FOR TECHNOLOGICAL COOPERATION. ALL YOU HAVE TO DO IS LOOK AROUND AND SEE INDUSTRIES WHICH WERE ONCE THE STARS OF U.S. BUSINESS, BUT TODAY ARE IN TROUBLE BECAUSE THEY ARE TECHNOLOGICALLY LAGGING. THE PROBLEMS OF THE U.S. AUTO INDUSTRY SO PROMINENTLY FEATURED THESE DAYS IS ONLY THE MOST OBVIOUS EXAMPLE, AND WITHOUT BROAD BASED TECHNOLOGICAL COOPERATION BY INDUSTRY AND GOVERNMENT IT WILL JUST AS INEVITABLY OCCUR IN OUR INDUSTRY AS WELL. DESPITE A SMALL INVESTMENT -- PERHAPS ONE THIRD THAT OF IBM -- THE JAPANESE ARE CONSIDERED TO BE AT PARITY WITH THE UNITED STATES ON VLSI DEVELOPMENT. FURTHERMORE, JAPAN, WITH ITS TRADING COMPANIES, IS POSITIONED BETTER THAN UNITED STATES COMPANIES TO PARTICIPATE IN ONE HUGE MARKET AREA OF THE FUTURE -- DEVELOPING COUNTRIES, ESPECIALLY CHINA AND OTHER COUNTRIES IN ASIA.

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FORTUNATELY, THE LESSONS OF SURVIVAL CONTROL DATA LEARNED AS A SMALL COMPANY ARE STILL STRONG IN OUR CULTURE. WE SEE AND FEEL THE TANGIBLE BENEFITS COOPERATION HAS BROUGHT. IF ANYONE NEEDS AN EXAMPLE, YOU NEED GO NO FURTHER THAN MPI.

3. WE VIEW THE URGENT NEEDS OF THE 1980'S AS EXCEPTIONAL BUSINESS OPPORTUNITES.

THESE NEEDS ARISE OUT OF UNCERTAINTY AND CHANGE AND MEETING THEM PROVIDES ENORMOUS OPPORTUNITY. INDEED, WE ARE AN INDUSTRY WHOSE VERY EXISTENCE REPRESENTS TECHNOLOGICAL CHANGE. THE GROWTH OF OUR INDUSTRY IS FUELED BY SOCIETAL CHANGE AND THE INSATIABLE NEED FOR MORE AND BETTER KNOWLEDGE -- TO COPE WITH UNCERTAINTY. MAJOR UNMET NEEDS INCLUDE DECLINING PRODUCTIVITY, INFLATION, UNEMPLOYMENT AND UNDEREMPLOYMENT, URBAN STAGNATION AND BLIGHT, THE NEED FOR LOWER FOOD COSTS AND HOUSING, FOR BETTER, LESS EXPENSIVE AND MORE AVAILABLE EDUCATION AND HEALTH CARE, FOR A VIGOROUS SMALL BUSINESS ENVIRONMENT AND FOR ALTERNATIVE AND CHEAPER SOURCES OF ENERGY.

TAKE ENERGY -- JUST ONE ASPECT OF ENERGY. THE DEMAND FOR VERY LARGE COMPUTERS TO ASSIST IN OIL EXPLORATION. IN 1974 WE SOLD FIVE SYSTEMS FOR THIS PURPOSE; OVER THE PAST THREE YEARS WE HAVE AVERAGED MORE THAN FOUR TIMES THAT NUMBER. ALSO REALTED TO ENERGY IS THE NEED TO REDESIGN PRACTICALLY

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EVERYTHING WE USE TO BE MORE ENERGY EFFICIENT OR TO USE ALTERNATIVE FORMS OF ENERGY. THE MASSIVE DESIGN ENGINEERING TASK FACING OUR COUNTRY -- OUR WORLD -- CAN ONLY BE ACCOMPLISHED WITH COMPUTER HELP -- COMPUTER-AIDED DESIGN AS IT IS CALLED. CAD IS A MAJOR PRESENT AND FUTURE MARKET FOR BOTH OUR SYSTEMS AND DATA SERVICES.

4. WE UNDERSTAND THAT RISK TAKING IS ESSENTIAL TO SUCCESS. AND IT HAS FORGED THE FOUNDATION OF OUR COMPANY.

I MENTIONED A MOMENT AGO THE CHALLENGE IN DESIGNING LARGE COMPUTERS. WHEN YOU CONSIDER THAT THE COST OF DEVELOPING A NEW COMPUTER LINE WAS WELL IN EXCESS OF 100 MILLION DOLLARS, CONTROL DATA WAS LITERALLY BETTING THE COMPANY EVERY FOUR YEARS OR SO FROM INCEPTION ALL THROUGH THE SIXTIES.

THE ONLY WAY A SMALL COMPANY COULD HAVE R&D MONEY WAS TO TAKE FIXED PRICE DEVELOPMENT CONTRACTS AND GO FOR BROKE. FORTUNATELY, WE WERE ABLE TO MAKE THIS STRATEGY WORK ENOUGH TIMES TO SURVIVE.

BUT IT HAS LEFT SOMETHING MORE IMPORTANT...A HERITAGE OF DEVELOPMENT...COURAGE...THAT IS A PART OF OUR CULTURE...A WILLINGNESS TO TAKE ON LARGE CHALLENGES AND THE FORTITUDE TO STICK WITH THINGS EVEN IN ADVERSITY.



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5. ABOVE ALL, WE BELIEVE IN THE REALITY OF INDIVIDUALS.

FINALLY, OF COURSE, IT IS THE EFFECTIVITY, THE PRODUCTIVITY OF INDIVIDUALS WHO MAKE FINANCIAL REALITY OUT OF STRATEGY, MARKET POSITION AND BUSINESS APPROACH. UNDERSTANDING AND INNOVATION WITH REGARD TO THE INDIVIDUALS WHO MAKE UP OUR COMPANY IS A KEY CHARACTERISTIC OF CONTROL DATA. NOW I REALIZE THAT MOST ORGANIZATIONS, PUBLIC OR PRIVATE, ROUTINELY PROCLAIM THAT PEOPLE ARE THEIR MOST VALUABLE ASSET. WHAT THEY FAIL TO REALIZE IS THAT PEOPLE DO NOT ALWAYS FIT EXACTLY INTO THE ROLES THEY ARE SUPPOSED TO PLAY. SO MOST ORGANIZATIONS DON'T CREATE NECESSARY PROGRAMS OR MAKE NECESSARY ACCOMMODATIONS.

PEOPLE JUST DO NOT AUTOMATICALLY FIT INTO CERTAIN NICHES. THEIR DEVELOPMENT IS A CONTINUOUS AND LIFE-LONG PROCESS. CONTROL DATA, MORE THAN ANY COMPANY I KNOW, UNDERSTANDS THIS REALITY. IT DOES SO WITHOUT EVER REDUCING ITS STANDARDS FOR PERFORMANCE AND ACCOUNTABILITY. WE WORK HARD AT IMPROVING OUR PRODUCTIVITY -- IT'S IMPORTANT FOR CONTROL DATA AND IMPORTANT FOR THIS COUNTRY. IT'S STARTLING WHEN YOU REALIZE THAT HAD THE UNITED STATES MAINTAINED THE THREE PERCENT GROWTH RATE OF THE 50'S AND 60'S, THE REAL U.S. OUTPUT WOULD NOW BE \$400 BILLION MORE PER YEAR.

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SO, THESE FIVE BASIC CHARACTERISTICS ARE THE KEY:

1. WE TAKE A LONG-TERM APPROACH TO OUR BUSINESS.
2. WE UNDERSTAND, BELIEVE IN, AND CHAMPION THE CAUSE OF TECHNICAL COOPERATION. AND WE HAVE PROVED WE CAN MAKE IT WORK FOR US.
3. WE VIEW THE URGENT NEEDS OF THE 1980'S AS EXCEPTIONAL BUSINESS OPPORTUNITES.
4. WE UNDERSTAND THAT RISK TAKING IS ESSENTIAL TO SUCCESS. AND IT HAS FORGED THE FOUNDATION OF OUR COMPANY.
5. ABOVE ALL, WE BELIEVE IN THE REALITY OF INDIVIDUALS.

CONTROL DATA AT THE SAME TIME IS A VERY DIVERSIFIED COMPANY.

#### LEVELS OF SERVICE

CONTROL DATA IS BEST VIEWED AS A VERTICALLY INTEGRATED SERVICE COMPANY. WE HAVE THE COMPONENTS: COMPUTERS, PERIPHERALS, APPLICATIONS EXPERTISE, PEOPLE AND FINANCIAL SERVICES THAT CAN BE COMBINED INTO AN EVER GROWING NUMBER OF VALUE-ADDED SERVICES -- KNOWLEDGE SERVICES. AND IT IS THIS THAT IS THE DISTINGUISHING FEATURE OF CONTROL DATA -- THAT MAKES US DIFFERENT FROM ANY OTHER COMPANY IN OUR INDUSTRY. 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 THE COMPONENTS AS WELL. THUS, IN PERIPHERAL PRODUCTS BY SELLING OEM, OR IN COMPUTER MAINFRAMES

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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. ANOTHER WAY TO LOOK AT IT IS STARTING FROM THE BASE LEVEL PRODUCTS SUCH AS PERIPHERALS, COMPUTERS, FINANCIAL SERVICES, SOFTWARE, AND PROFESSIONAL PEOPLE, A VERY LARGE NUMBER OF EVER INCREASING VALUE-ADDED PRODUCTS AND SERVICES CAN BE GENERATED. THE HIGHEST VALUE-ADDED COMBINATION IS A SPECIFIC DATA SERVICE; THE LOWEST IS A SIMPLE PIECE OF HARDWARE. SO THESE COMBINATIONS CAN BE THOUGHT OF AS LEVELS OF VALUE-ADDED SERVICES. AND, AS I HAVE INDICATED, ATTRACTIVE MARKETS EXIST FOR ALL LEVELS, WHILE AT THE SAME TIME THEY REINFORCE THE ULTIMATE SERVICES THRUST OF OUR BUSINESS.

#### OUTLOOK

LET ME TURN TO THE FUTURE -- OUR OUTLOOK HAS NOT CHANGED FROM THAT DISCUSSED IN OUR RECENT ANNUAL REPORT. ALL OF CONTROL DATA'S FOUR MAJOR BUSINESSES ARE STRONG AND ADVERSE CHANGES IN ECONOMIC CONDITIONS ARE NOT AN OVERRIDING FACTOR IN OUR PLANNING.

THE COMPANY'S CUSTOMER BASE IS MUCH BROADER AND, IN MARKET AREAS OF PARTICULAR CONCENTRATION IT IS DEEP AS WELL. IN MANY SYSTEMS AND SERVICES APPLICATION AREAS -- ENERGY AND PETROLEUM EXPLORATION ARE JUST TWO EXAMPLES -- MARKET DEMAND SHOULD REMAIN STRONG EVEN IN A DOWN ECONOMY.

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WE HAVE INVESTED SUBSTANTIALLY IN BUILDING OUR COMPUTER SYSTEMS LEASE BASE. AS JOHN LACEY NOTED, MORE THAN TWO-THIRDS OF OUR CYBER 170 SYSTEMS ORDERS ARE LEASE (AND RECENTLY EVEN MORE SO). AS YOU KNOW, RENTAL INCOME IS INHERENTLY MORE STABLE THAN OUTRIGHT SALES AND ULTIMATELY MORE PROFITABLE.

AND FINANCIAL SERVICES ARE MUCH HEALTHIER THAN A YEARS AGO. THROUGH AGGRESSIVE ASSET REDUCTION AND EXPENSE CONTROL PROGRAMS, THE RISKS OF THE HIGH INTEREST RATE CLIMATE HAVE BEEN REDUCED. THE INSURANCE BUSINESSES HAVE BENEFITED FROM THE ELIMINATION OF CERTAIN LINES AND A MORE CONSERVATIVE UNDERWRITING POLICY. AND, AS I NOTED EARLIER, COMBINING CASH AND NON-CASH SERVICES IN A BROADER OFFERING TO MARKETS SUCH AS SMALL BUSINESS NOT ONLY SPREADS MARKETING COSTS, IT MAKES FOR HEALTHIER, MORE VIABLE CUSTOMERS AS WELL. WE ALSO ARE TAKING STEPS TO INCREASE OUR INVOLVEMENT IN THE REAL ESTATE AND HOME-OWNER FINANCIAL SERVICES MARKETS.

INTEREST RATES STILL CONTINUE AT HIGH LEVELS -- AND WILL PROBABLY REMAIN THERE THE REST OF THIS YEAR. IT IS UNLIKELY THAT FINANCIAL SERVICES EARNINGS WILL ACHIEVE THE RECORD LEVEL OF 1980. HOWEVER, ON THE COMPUTER SIDE, WITH A GOOD PERFORMANCE SO FAR THIS YEAR AND ORDERS CONTINUING STRONG, WE HAVE GOOD EXPECTATIONS FOR ADDITIONAL REVENUES AND EARNINGS GROWTH.

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FOR THE COMPANY IN TOTAL, WE ARE LOOKING FORWARD TO ANOTHER  
YEAR OF REVENUE AND EARNINGS GROWTH IN 1981.

THANK YOU. NOW, QUESTIONS AND ANSWERS.