INTRODUCTION

THIS IS ONE OF THE TWO OCCASIONS EACH YEAR WHEN WE DISCUSS CONTROL DATA'S CORPORATE STRATEGIC POSTURE IN SOME DETAIL. THE OTHER OCCASION IS THE ANNUAL REVIEW OF INNOVATION ACTIVITIES WHICH TAKES PLACE AT THE MARCH BOARD MEETING.

STRATEGIC PLANNING PROCESS PERSPECTIVE

THE STRATEGIC PLANNING PROCESS ITSELF IS PRETTY MUCH THAT WHICH HAS EVOLVED IN RECENT YEARS. THERE WAS, HOWEVER, ONE SIGNIFICANT CHANGE THIS YEAR. THAT WAS THE EMPHASIS PLACED ON THE IDENTIFICATION, ANALYSIS AND INVESTIGATION OF STRATEGIC ISSUES.

A STRATEGIC ISSUE IS NEITHER AN OBJECTIVE NOR A STRATEGY. RATHER, IT IS A MAJOR CORPORATE LEVEL OPPORTUNITY OR THREAT WHICH MUST BE UNDERSTOOD AND RESOLVED (TO THE DEGREE WE ARE ABLE) BEFORE THE STRATEGIC PLANS CAN BE FULLY ARTICULATED. SUCH ISSUES MOST OFTEN AFFECT SEVERAL OPERATING UNITS, AND ALMOST BY DEFINITION THEY ARE NOT EASILY RESOLVED.

BACK IN JANUARY, THE MANAGEMENT COMMITTEE -- WORKING WITH INPUTS FROM THE PLANNING STAFF AND THE OPERATING ORGANIZATIONS -- SETTLED ON 13 SUCH ISSUES. WE THEN FORMED 13 TEAMS, EACH HELDED BY A KEY EXECUTIVE. THIS ADDED EMPHASIS ON STRATEGIC ISSUES HAS TRULY IMPROVED THE QUALITY OF THE STRATEGIC PLAN -- CERTAINLY IT HAS HELPED THE TOP MANAGEMENT THINKING PROCESS, AND THERE IS A GOOD FEELING OF HAVING ADDRESSED THE RIGHT PROBLEMS.

SO RATHER THAN DETAILED REVIEWS OF EACH BUSINESS, I WILL PROVIDE ONLY A STRATEGIC OVERVIEW AND HIGHLIGHT SOME OBJECTIVES AND STRATEGIES BEING ADDRESSED BY MAJOR OPERATING UNITS. THERE IS MORE DETAIL IN THE BOOKLETS WHICH EACH OF YOU HAVE ALREADY RECEIVED AND, OF COURSE, WE'LL BE GLAD TO ANSWER QUESTIONS.
THEN FOLLOWING MY REMARKS, JOHN LACEY AND TOM MILLER WILL DISCUSS THE 13 ISSUES ALTHOUGH TIME DOESN'T REALLY PERMIT US TO GO INTO EACH OF THEM IN DETAIL. I HOPE YOU HAVE HAD AN OPPORTUNITY TO REVIEW YOUR COPY OF THE ONE-PAGE ISSUE SUMMARIES. DURING THE REVIEW OF EACH ISSUE WE WILL ADDRESS QUESTIONS YOU MAY HAVE IN THAT REGARD.

WITH THAT INTRODUCTION, LET ME TURN TO AN OVERVIEW OF THE LONG-RANGE PLAN. CONTROL DATA'S BASIC BUSINESS STRATEGIES ARE, OF COURSE, UNCHANGED. ESSENTIALLY THAT IS TRUE AS WELL FOR EACH OF THE FOUR MAJOR BUSINESSES: COMPUTERS, PERIPHERALS, COMPUTER SERVICES, AND FINANCIAL SERVICES. WHILE THE CURRENT YEAR'S FORECAST REFLECTS HOW DIFFICULT IT IS TO REALIZE QUICKLY THE FINANCIAL RESULTS WE DESIRE, THERE JUST IS NO DOUBT THAT WE ARE STRATEGICALLY ENORMOUSLY WELL OFF. MOREOVER, IT'S TOO EASY TO BE SELF-CRITICAL. A LOOK AT SOME OTHERS IN THE COMPUTER INDUSTRY REVEALS WHAT I MEAN.

FOR EXAMPLE, BECAUSE OF THE TENOR OF CONVERSATIONS IN VARIOUS MEETINGS WITH OTHER EXECUTIVES, I TOOK A LOOK AT A REPRESENTATIVE SAMPLE OF TEN COMPANIES. ADP, APPLE, COMPUTER SCIENCES, STC, DATA GENERAL, DEC, AS WELL AS BURROUGHS, HONEYWELL, NCR AND SPERRY. HERE ARE JUST A FEW OBSERVATIONS:

SLIDE

1) WITH THE SOLE EXCEPTION OF BURROUGHS -- A QUIRK -- REVENUE GROWTH HAS DROPPED PRECIPITOUSLY OVER THE PAST TWO YEARS -- ON AVERAGE IT HAS BEEN CUT IN HALF AND FOR THE MAINFRAMES BY A FACTOR OF ABOUT SIX.

2) PROFITABILITY HAS LIKewise FALLEN -- APPLE'S RETURN ON EQUITY WAS CUT IN HALF BETWEEN 1980 AND 1982. ADP'S ROE FELL BY 15 PERCENT (ONE OF THE MORE STABLE PERFORMERS). COMPUTER SCIENCES ALSO CUT IN HALF, SPERRY BY NEARLY ONE-THIRD, AND SO ON. BY COMPARISON, CONTROL DATA'S DROP IN ROE BY 18 PERCENT LOOKS LIKE GOOD FINANCIAL PERFORMANCE.


4) THE WAY THINGS ARE GOING, CONTROL DATA COULD BE ONE OF THE BETTER 1983 PERFORMERS.

FURTHERMORE, THE RELATIVE STRENGTH OF CONTROL DATA'S COMPUTER BUSINESS STRATEGY IS EVIDENT WHEN YOU STOP AND THINK THAT PERIPHERALS AND SERVICES HAVE BOTH BEEN GOING THROUGH A MAJOR TECHNOLOGICAL UPHEAVAL, COMPUTER MAINFRAMES COMMAND A MINISCULE
OVERALL MARKET SHARE (LESS THAN TWO PERCENT) IN A MARKET IBM TOTALLY DOMINATES AND YET WE HAVE HAD A RELATIVELY MODEST REDUCTION IN PROFITABILITY OF THE COMPUTER BUSINESS. TO SOME DEGREE, AS I HAVE NOTED BEFORE, THAT IS DUE TO CONSIDERABLY IMPROVED OPERATIONAL EFFECTIVENESS BUT IT ALSO MEANS STRATEGICALLY WE CLEARLY ARE POSITIONED SO THAT WE ARE NOT QUITE SO VULNERABLE TO THE VAGARIES OF THE GENERAL MARKET PLACE.

WE HAVE NOT YET REACHED SUCH A POSITION WITH REGARD TO FINANCIAL SERVICES, SO LET ME TURN TO THAT SUBJECT FIRST.

(COMMERCIAL CREDIT)

SLIDE

COMMERCIAL CREDIT'S STRATEGIES WITH REGARD TO SMALL BUSINESS SERVICES, REAL ESTATE, THRIFT AND BANKING, ARE INTENDED TO ACHIEVE DIFFERENTIATION AND MARKET NICHE. THIS IS A RELATIVELY STRAIGHTFORWARD THING AT THE GROSSEST STRATEGIC CUT. BUT THE QUESTION OF TRULY DIFFERENTIATED PRODUCTS DELIVERED PROFITABLY ON A DAY-TO-DAY BASIS IS MUCH MORE DIFFICULT. WHAT IT NETS DOWN TO IS FINANCIAL SERVICES IS OUR BIGGEST CHALLENGE OVER THE NEXT FIVE YEARS. IT'S NOT SURPRISING THEN THAT THE ISSUES SURROUNDING CCC STRATEGY APPEARED IN SEVERAL PLACES IN THE "TOP 13." I WON'T COMMENT FURTHER HERE EXCEPT TO NOTE THAT IN THE PACKAGE WE WILL PASS OUT TO YOU WITH REGARD TO PERFORMANCE NORMS, THERE ARE NONE FOR CCC BECAUSE WE SIMPLY AREN'T FAR ENOUGH ALONG TO KNOW THEM. I DON'T MEAN WE HAVE NO IDEA OR THAT WE HAVE NO OBJECTIVES -- JUST THAT FOR THE MOMENT, IT SUFFICES TO SET FORTH THE OBJECTIVE THAT WE MUST IMPROVE DRASTICALLY FROM WHERE WE ARE TODAY.

(SYSTEMS)

SLIDE

COMPUTER SYSTEMS IS ANOTHER MATTER. OUR COURSE HAS BEEN WELL ESTABLISHED FOR TEN YEARS OR MORE.

NO SIGNIFICANT STRATEGIC CHANGES ARE PLANNED. OF COURSE, ETA IS A MAJOR CHANGE IN THE APPROACH TO THE SUPERCOMPUTER PART OF THE BUSINESS, BUT THE STRATEGY ITSELF REMAINS CENTERED ON LARGE SCALE SCIENTIFIC AND ENGINEERING COMPUTERS.

BY 1986, THE COMBINED REVENUES OF COMMERCIAL AND GOVERNMENT SYSTEMS WILL GROW TO BE A BILLION DOLLARS, REFLECTING AVERAGE ANNUAL REVENUE GROWTH OF 10.6 PERCENT PER YEAR. EARNINGS AS A PERCENTAGE OF REVENUE WILL GROW FROM 4.4 PERCENT IN 1982 TO 6.4 PERCENT IN 1986, AND ROIC WILL IMPROVE FROM 6.5 PERCENT TO 10.4 PERCENT IN THE SAME PERIOD.
PERIPHERAL PRODUCTS, STRATEGICALLY IS SOMEWHERE BETWEEN FINANCIAL SERVICES AND COMPUTER SYSTEMS. THE CORE STRATEGY IS TO BUILD ON THE CURRENT STRONG POSITION IN THE TRADITIONAL OEM DISK MARKET (MANUFACTURERS OF LARGE MAINFRAMES AND MINICOMPUTERS).

BUT THERE ARE RAPID TECHNOLOGICAL AND COMPETITIVE CHANGES OCCURRING WHICH DictATE A LOT OF QUICK MANEUVERING AT THE PRODUCT AND MARKET STRATEGY LEVEL. THE COMBINED MAINFRAME/MINI MARKET IS OFFICIALLY PROJECTED TO GROW 15 PERCENT PER YEAR FOR THE NEXT FEW YEARS. AS THE DIFFICULTIES DEC HAS ENCOUNTERED INDICATE, HOWEVER, THIS IS A TIME OF CONSIDERABLE TURMOIL AND CONFUSION FOR LOWER PERFORMANCE MACHINES. IT'S NO LONGER CLEAR WHAT'S MICRO AND WHAT'S MINI, SO THE CONVENTIONAL WISDOM WITH REGARD TO GROWTH RATES WILL PROBABLY CHANGE -- AND I SUSPECT DOWNWARD FOR MINI'S. IN ANY EVENT, LEADERSHIP IN KEY DISK TECHNOLOGY PROGRAMS WILL ENABLE PPCO TO MAINTAIN A 35 PERCENT MARKET SHARE.

ON THE OTHER HAND, PERIPHERAL PRODUCTS WILL INCREASE ITS PARTICIPATION IN THE EMERGING MICROCOMPUTER DATA STORAGE MARKETS. CURRENTLY, CONTROL DATA HAS LESS THAN TEN PERCENT OF THE 5 1/4" AND LOWER DIAMETER DISK DRIVE MARKET. WITHIN FIVE YEARS WE PLAN TO GROW THIS TO 25 PERCENT.

STRATEGICALLY THE TRADITIONAL END USER OR "PLUG COMPATIBLE" PERIPHERALS BUSINESS MUST BE VIEWED AS AN INCREMENTAL BUSINESS TO OEM. UNFORTUNATELY, IN 1983, AND AS NOW PROJECTED FOR 1984, IT IS AN INCREMENTAL BUSINESS WHICH IS LOSING MONEY! STRATEGICALLY THE BUSINESS IS HIGHLY VULNERABLE AND FAST PACED TECHNOLOGICALLY DUE TO IBM'S AGGRESSIVENESS. THERE ARE NO SIMPLE ANSWERS HERE. SUFFICE TO SAY THAT THIS WILL BE ONE OF THE ISSUES FOR THE UPCOMING LIST TO BE STUDIED IN 1984.

ONGOING TECHNOLOGY INVESTMENT IS CRUCIAL TO THE PERIPHERALS BUSINESS AND WILL CONTINUE TO BE MADE IN KEY AREAS SUCH AS VERTICAL MAGNETIC RECORDING, OPTICAL DISK, PLATED DISK, AND THIN FILM TECHNOLOGIES.

SPEAKING OF INVESTMENT -- JUST IN CASE YOU NEED THE DATA, I PROBABLY SHOULD GIVE YOU SOME IN CASE YOU NEED IT TO LAY TO REST SOME OF THE FICTIONS PERPETRATED BY THE BUSINESS WEEK ARTICLE. PERIPHERAL PRODUCTS IS NOT, NEVER HAS BEEN, AND AT LEAST FOR THE FORSEEABLE FUTURE, WILL NOT BE A "CASH COW." IT IS A BUSINESS IN WHICH WE HAVE MADE, ARE MAKING, AND WILL MAKE A TREMENDOUS INVESTMENT. THESE RESOURCE NEEDS ARE SO GREAT THAT THIS IN ITSELF WAS IDENTIFIED AS ONE OF THE 13 MAJOR STRATEGIC ISSUES. BUT LET ME GIVE YOU SOME DATA.
SINCE 1977 — WHICH WAS THE YEAR IN WHICH THE MINICOMPUTER MANUFACTURERS EXPLOSIVE GROWTH CAUSED THE DEMAND FOR THE SMD TO REALLY TAKE OFF — PPCO'S REVENUES HAVE GROWN AT AN AVERAGE ANNUAL RATE OF 18 PERCENT. BUT IN THAT SAME TIME, TECHNICAL EFFORT EXPENSE HAS GROWN BY AN AVERAGE ANNUAL GROWTH RATE OF 24 PERCENT. SO NOT ONLY HAVE WE INCREASED TECHNICAL EFFORT IN TERMS OF TOTAL ABSOLUTE DOLLARS EVERY YEAR FOR SIX YEARS, WE HAVE SPENT A GREATER PERCENT OF REVENUE.

CAPITAL INVESTMENT HAS FOLLOWED A SIMILAR PATTERN: OVER THE PAST SIX YEARS, ON AVERAGE 36 PERCENT OF CONTROL DATA'S ASSETS HAVE BEEN INVESTED IN THE PERIPHERAL PRODUCTS BUSINESS.

OVER THE NEXT THREE YEARS, TECHNICAL EFFORT WILL ALMOST DOUBLE IN ABSOLUTE DOLLARS WHILE PERIPHERALS REVENUES ARE PROJECTED TO GROW BY 70 PERCENT OVER THE SAME PERIOD. AND CAPITAL EQUIPMENT EXPENDITURES WILL CONTINUE TO GROW UNTIL BY 1986 61 PERCENT OF THE ANNUAL CAPITAL EQUIPMENT BUDGET WILL BE FOR THE PERIPHERALS BUSINESS. WHAT THAT NETS OUT TO IS THIS: IN SPITE OF AN OBJECTIVE SET FORTH TWO OR THREE YEARS AGO TO GET THE PERIPHERALS BUSINESS ON A SELF-FUNDING (ZERO CASH FLOW) BASIS, WE ARE CONTINUING TO MAKE INVESTMENTS IN PERIPHERALS CONSIDERABLY IN EXCESS OF ITS REVENUE GROWTH OR ITS SHARE OF TOTAL CORPORATE REVENUES. WE'RE DOING THAT BECAUSE THAT'S WHAT'S REQUIRED TO KEEP THIS BUSINESS HEALTHY AND COMPETITIVE.

IN ANY EVENT, WE ARE NOT LOOKING FOR AN INSTANT REBOUND OF PERIPHERAL'S PROFITABILITY IN 1984, BUT RATHER A SLOW GRADUAL IMPROVEMENT OVER THE NEXT THREE YEARS. REVENUE GROWTH, HOWEVER, WILL COME BACK STRONG AND AVERAGE SOMEWHERE AROUND 20 PERCENT OVER THE NEXT THREE YEARS.

(SERVICES)

COMPUTER SERVICES IS CHARACTERIZED BY GREAT DIVERSITY — DIVERSITY OF APPLICATION AND CUSTOMER, STRATEGIC MATURITY, AND OPERATIONAL EFFECTIVENESS.

SLIDE

IN DATA SERVICES, THE BASIC APPLICATIONS — OR "SOLUTIONS" — APPROACH WILL BE FURTHER ENHANCED BY THE FORMATION OF DIVISIONS, DEDICATED TO SERVE SELECTED INDUSTRIES. THESE DIVISIONS WILL BE CHARTERED TO DELIVER PRODUCTS AND SERVICES FROM MULTIPLE PRODUCT FAMILIES TO MEET SPECIFIC APPLICATION NEEDS. THIS APPROACH HAS BEEN USED SUCCESSFULLY ALMOST SINCE THE BEGINNING OF OUR DATA SERVICES BUSINESS — TICKETRON AND ARBITRON RATINGS ARE THE TWO MOST PROMINENT EXAMPLES — AND WE ARE NOW IN A POSITION TO DO A LOT MORE. ON JANUARY 1, 1984, FOR EXAMPLE, THE C.I.M. DIVISION WILL BE FORMED. THE ROOTS OF
C.I.M. go back to the middle sixties when a structured analysis program called STARDYNE was brought up on Cybernet. Over the years our expertise in C.A.E. has grown and prospered, but it is really a milestone to see these resources get focused in a major way.

(Network Services)

With regard to the subject of data services, there's one other comment of a basic strategic nature that needs to be made. With the advent of powerful micro-driven workstations, there is considerable talk in industry circles to the effect that remote computing -- the traditional network service of Cybernet -- is a thing of the past. That's not true. It's critical in our strategic thinking to have this situation very clearly in mind. There will always be a need to access on a shared -- I.E. remote -- basis the largest most powerful computers available. People have needed to do so in the past, they will need to do so in the future. There is a hiatus in Cybernet growth at the moment. The reasons for that hiatus are two: first is that the recession of the last two and one-half years has cut deeply into the large engineering projects which provide the bulk of Cybernet's business. This is compounded by the more or less permanent recession in the nuclear industry. But the second and more fundamental reason is that today the most powerful computer is a vector (as opposed to scalar) processor -- the Cyber 205 -- and the fact is that, on a broad basis, people haven't learned to formulate their problems for vector processors.

In due time all this will change and a good part of Cybernet's strategic responsibility is to foster and accelerate this change.

Now without question, historically there has been a lot of relatively trivial computing performed on a remote basis using large computers. Such work clearly is more suitably done at a local workstation. This part of network services is gone forever and properly so. Supplying such workstations is a part of data services and they must respond far more aggressively to this need than they have thus far.

Remote computation services meets two important needs: 1) the need, as I have just discussed, for super computer power; and 2) the desire for specialized services that organizations either don't have or don't want to bother with. I won't take the time here to elaborate on this but it is this need that our Bis ("Call") service addresses.
BUSINESS DEVELOPMENT

I'LL TURN NOW TO THE SERVICES IN THE BUSINESS DEVELOPMENT GROUP. OTHER THAN SOME NEW BUSINESS IDEAS IN SOFTWARE AND DATA BASES, BUSINESS DEVELOPMENT IS BASICALLY EDUCATION AND HEALTHCARE SERVICES. AFTER LONG GESTATION, THESE BUSINESSES ARE NOW COMING ON STRONG: REVENUE WILL GROW FROM $109 MILLION LAST YEAR TO $255 MILLION IN 1986. THE GROSS PROFIT RATE WILL IMPROVE BY ALMOST 12 POINTS DURING THIS PERIOD, AND 1984 WILL BE PROFITABLE.

MAJOR MARKETS RUN THE GAMUT FROM LARGE BUSINESSES TO ACADEMIC INSTITUTIONS, GOVERNMENT, MEDICAL SERVICE PROVIDERS, AND CONSUMERS.


URBAN AND RURAL VENTURES

THE SERVICES OF THE URBAN AND RURAL VENTURES GROUP, AND CDBAI, ESSENTIALLY REPRESENT THE APPLICATION OF OUR EDUCATION SERVICES TECHNOLOGY TO SPECIFIC NEEDS. EDUCATION TECHNOLOGY IS COMBINED WITH DATA PROCESSING TECHNOLOGY, MANAGEMENT AND HUMAN RESOURCE DEVELOPMENT TECHNOLOGIES TO PROVIDE COMPREHENSIVE SERVICES FOR THESE MARKETS.

URBAN AND RURAL VENTURES HAVE THE PARTICULAR CHALLENGE OF CREATING NEW MARKETS OUT OF PRESSING SOCIETAL NEEDS. THIS CONSIDERABLE TASK IS MADE EVEN MORE DIFFICULT BY THE INABILITY IN MANY INSTANCES OF THE CLIENT INVOLVED -- I.E. THE PEOPLE BENEFITING FROM THE SERVICE -- TO PAY FOR IT DIRECTLY. SO FREQUENTLY MARKETING AND DELIVERY INVOLVES WORKING WITH A SPLIT CLIENT/CUSTOMER SITUATION.

THIS ORGANIZATION INCLUDES THREE OPERATING GROUPS: AGRICULTURAL PRODUCTS AND SERVICES, BUSINESS AND TECHNOLOGY CENTERS, AND WORLDTECH. IN ADDITION, THE GROUP SERVES AS THE MANAGING AGENT FOR CONTROL DATA UNDER GENERAL MANAGEMENT SERVICES AGREEMENTS WITH THREE AFFILIATES: CITY VENTURE CORPORATION, RURAL VENTURES, INC., AND IN THE U.K., WORLDTECH VENTURES, LTD.
REVENUE FOR URBAN AND RURAL VENTURES IS PLANNED TO GROW FROM $6 MILLION IN 1983 TO $30 MILLION IN 1986. WHILE GROSS PROFIT WILL BE INCREASING STEADILY, THIS WILL NOT BE SUFFICIENT TO COVER EXPENSES AND AFFILIATE LOSSES. LOSSES WILL BE REDUCED, HOWEVER, FROM $7.2 MILLION LOSS IN 1982 TO $2.1 MILLION LOSS IN 1986.

FINANCIAL SUMMARY

I’LL CONCLUDE MY PRESENTATION WITH SOME COMMENTS ON THE FINANCIAL PLAN. FIRST LET ME MAKE A COUPLE OF COMMENTS WITH REGARD TO THE FORMAT OF THE FINANCIAL DATA.

EACH OF THE OPERATING UNITS HAS PREPARED A SET OF FINANCIALS AS PART OF THEIR PLAN. THESE NUMBERS ARE CONSISTENT WITH THE STRATEGIC OBJECTIVES EXPRESSED IN THE PLANS. THIS IS THE DATA IN THE GREEN BOOKLETS, WHICH WERE SENT TO YOU EARLIER. IT INCLUDES SUMMARY FINANCIAL INFORMATION FOR EACH MAJOR SEGMENT OF THE COMPANY, AS WELL AS FOR THE CORPORATION AS A WHOLE. THIS MATERIAL WAS SIMPLY LIFTED DIRECTLY FROM THE PLANNING DOCUMENTS. SO AS YOU PERHAPS NOTED, IT TREATS THE DATA IN TERMS OF "COMPUTER BUSINESS" AND "COMMERCIAL CREDIT" RATHER THAN "IS&P" AND "FINANCIAL SERVICES" WHICH IS WHAT WE USE IN EXTERNAL REPORTS. ALSO, THOSE SUMMARIES WERE PREPARED LAST SUMMER DURING THE PLAN PROCESS, SO THE '83 FORECAST USED WAS THAT MADE IN JUNE. THE FORECAST FOR '83 HAS IMPROVED SOMEWHAT SINCE THEN.

SO WE HAVE FOR YOU A SUPPLEMENTAL FINANCIAL HANDOUT WHICH PROVIDES TOP LEVEL P&L SUMMARIES WITH A MORE CURRENT FORECAST OF THIS YEAR'S RESULTS. THE HANDOUT ALSO INCLUDES THE FINANCIAL DATA IN EXTERNAL FORMAT.

WE ALSO HAVE ADDED AN ADDITIONAL IMPORTANT ELEMENT TO THE FINANCIAL PLANNING PROCESS THIS YEAR.

EACH BUSINESS WAS ASKED TO PREPARE WHAT WE ARE REFERRING TO AS "PERFORMANCE NORMS." THESE PERFORMANCE NORMS DESCRIBE THE SUSTAINED LEVEL OF PERFORMANCE FOR THE BUSINESS AFTER IT HAS REACHED A REASONABLE STEADY-STATE OPERATING LEVEL.

THE NORMS ARE EXPRESSED IN TERMS OF FINANCIAL RATIOS. DEPENDING ON ITS LEVEL OF DEVELOPMENT, A BUSINESS MAY OR MAY NOT REACH ITS PERFORMANCE NORMS IN THE THREE-YEARS COVERED BY THE FINANCIALS OF THE CURRENT PLAN.

IN THE SLIDES WHICH FOLLOW, I WILL BE REFERRING TO THE FINANCIALS OF THE PLAN ITSELF -- NOT THE NORMS. BUT WE HAVE PREPARED ANOTHER SUPPLEMENT FOR YOU WHICH GIVES THE NORMS FOR THE MAJOR PRODUCT FAMILIES. THAT PACKAGE ALSO INCLUDES
SPECIFIC 12-MONTH OBJECTIVES WITH REGARD TO PEOPLE, PROCESS, AND CAPITAL WHICH I THOUGHT MIGHT BE OF INTEREST. AS PART OF THE ON-GOING STRATEGIC AND OPERATIONS REVIEW PROCESS WE'LL BE TESTING PERFORMANCE AGAINST THOSE OBJECTIVES.

SLIDE


FROM A REVENUE LEVEL OF $4.3 BILLION LAST YEAR, CONTROL DATA WILL GROW STEADILY, BECOMING A 7.5 BILLION DOLLAR COMPANY BY 1986.

THIS REFLECTS, IN PART, THE REBOUND OF THE OEM BUSINESS, BUT THE GROWTH IS SUPPORTED AS WELL BY THE PLANS OF MOST OF THE OTHER OPERATING UNITS, INCLUDING COMMERCIAL CREDIT.

THIS NEXT SLIDE SHOWS THE ANNUAL REVENUE GROWTH RATE. NOTE THAT FOR THE LAST THREE YEARS, GROWTH HAS BEEN IN THE RANGE OF 5 PERCENT TO 10 PERCENT PER YEAR. FOR THE NEXT THREE, HOWEVER, THE GROWTH RATE WILL INCREASE. THE 17.5 PERCENT RATE IN 1984 AND 1985 IS OPTIMISTIC AND I'M SURE FINAL BUDGETS WILL NOT BE THAT AGGRESSIVE BUT GROWTH IN THE 15 PERCENT RANGE SHOULD BE ACHIEVABLE.

NOT ALL UNITS ARE GROWING AT 15 PERCENT, OF COURSE. COMPUTER SYSTEMS, FOR EXAMPLE, IS PLANNING AN ANNUAL REVENUE GROWTH IN THE RANGE OF SIX PERCENT TO 12 PERCENT. OTHERS SUCH AS OEM, EDUCATION AND HEALTHCARE SERVICES WILL GROW FASTER THAN THE AVERAGE.

NET PROFIT BEFORE TAX AS A PERCENTAGE OF REVENUE WILL IMPROVE GRADUALLY, AS SHOWN IN THIS SLIDE, FROM 5.4 PERCENT LAST YEAR TO 6.5 PERCENT IN 1986. AT THIS POINT IT IS NOT EVIDENT THAT WE CAN GET BACK TO THE 1981 LEVEL OR SEVEN PLUS PERCENT IN THE THREE-YEAR PERIOD. THIS REFLECTS BOTH REDUCED OPERATING RETURNS ACHIEVABLE IN THE PERIPHERALS BUSINESS AND THE BUSINESS MIX WHICH MOVES STEADILY TOWARD SERVICES WHICH ARE CHARACTERIZED BY LOWER MARGINS -- ALBEIT GREATER RETURNS ON CAPITAL.

THE CHANGING PROFILE OF THE BUSINESS IS FURTHER REFLECTED BY LOWER GROSS PROFIT MARGINS WHICH ARE MORE THAN OFFSET BY REDUCED OPERATING EXPENSE RATIOS TO YIELD THE NPBT IMPROVEMENT. OVER THE NEXT FOUR YEARS, EXPENSE AS A PERCENTAGE OF REVENUE WILL FALL ALMOST FOUR POINTS, FROM 37 PERCENT TO 33.1 PERCENT.
DROPPING NOW TO BOTTOM LINE RESULTS, HERE YOU SEE RETURN ON INVESTED CAPITAL, SHOWN IN BLUE, AND RETURN ON EQUITY, IN RED. THESE TWO PROFITABILITY MEASURES REFLECT A PARALLEL IMPROVEMENT OVER THE NEXT THREE YEARS.


WITH THE PLANNED GROWTH IN EQUITY THROUGH RETAINED EARNINGS AND INTERCOMPANY DIVIDENDS, THE DEBT/EQUITY RATIO CONTINUES TO IMPROVE -- FROM ABOUT .66 TO 1 IN THE '83 FORECAST TO .61 BY YEAR END 1986. SO WE WOULD NOT PLAN ANY ADDITIONAL EQUITY FINANCING. THE IMPROVING DEBT/EQUITY RATIO ALSO REFLECTS GROWING FINANCIAL STRENGTH AND STAYING POWER IN TIMES OF ADVERSE INTEREST RATES.

WITH RESPECT TO THE INCREASED DEBT A SIGNIFICANT PORTION WILL CONTINUE TO COME FROM THE INTERCOMPANY LEASE FINANCING PROGRAM WITH COMMERCIAL CREDIT REPRESENTING, IN A TYPICAL YEAR, ABOUT 50 PERCENT OF OUR TOTAL DEBT REQUIREMENTS. THE BALANCE OF THE DEBT NEEDS WILL BE SATISFIED THROUGH A COMBINATION OF SHORT TERM DEBT (BANK LOANS AND COMMERCIAL PAPER) AND THE ISSUANCE OF ADDITIONAL MEDIUM AND LONG TERM DEBT.


TRADITIONAL SOURCES OF FINANCING, ON THE OTHER HAND, WILL REMAIN RELATIVELY UNCHANGED OVER THIS PERIOD -- ABOUT $3.4 BILLION IN 1983 COMPARED TO $3.8 BILLION IN 1986.

I MENTIONED EARLIER THE EFFORT TO DEFINE PERFORMANCE Norms FOR EACH BUSINESS. WE ALSO DEVELOPED A SET OF Norms FOR CONTROL DATA AS A WHOLE.

HERE ARE THE PERFORMANCE RATIOS FROM THE PLAN THAT WE JUST LOOKED AT: ROE, ROIC, AND RETURN ON REVENUE.

AND THESE [OVERLAY] ARE THE Norms FOR THESE RATIOS AS WE SEE THEM TODAY. SEVERAL COMMENTS ARE IN ORDER.

1) AS IS OBVIOUS, WE DO NOT THINK, AS THINGS NOW STAND, THE Norms CAN BE REACHED IN THE NEXT THREE YEARS. GIVEN THE LEVEL OF MATURITY OF MANY OF OUR BUSINESSES THIS IS TO BE EXPECTED.
2) NOT SHOWN IS THE NORM FOR REVENUE GROWTH. THAT NUMBER IS 15 PERCENT. ACCORDING TO MANY FORECASTS THAT WOULD SHOW US LOSING MARKET SHARE. I DON'T BELIEVE THE FORECASTS BUT IT DOESN'T MATTER ANYWAY. REVENUE GROWTH IS VERY IMPORTANT IN SOME AREAS -- SUCH AS PLATO AND PERIPHERALS -- AND LESS IMPORTANT IN OTHERS. IT WILL COME OUT WHERE IT COMES OUT.

3) THESE "NORMS" CANNOT BE CONSTRUED AS GIVEN TO US LIKE TABLETS OF STONE TO MOSES ON THE MOUNTAIN -- THEY WILL NO DOUBT CHANGE OVER TIME. IN PARTICULAR, IMPLICIT IN THESE NUMBERS IS AN ASSUMED ROE FOR COMMERCIAL CREDIT OF TEN PERCENT. ON THE ONE HAND, THAT'S TWO TO FIVE PERCENTAGE POINTS BETTER THAN CCC HAS ACHIEVED IN THE LAST SEVEN YEARS: ON THE OTHER IT'S FIVE POINTS LESS THAN THE 15 PERCENT SOME PEOPLE FEEL THAT BUSINESS SHOULD ATTAIN. AS REMARKED EARLIER, WE ARE STILL WORKING THE QUESTION OF WHAT IT REALLY SHOULD BE.

4) CONCOMITANTLY THESE NUMBERS ASSUME A COMPUTER BUSINESS ROE NORM OF 20 PERCENT. ON A SUSTAINED BASIS THAT WOULD MAKE US THE LEADER IN THE INDUSTRY -- OUTSIDE OF IBM.

5) THAT'S PLENTY GOOD ENOUGH FOR A GOAL FOR ANY ORGANIZATION.

RATHER THAN TRY TO SUMMARIZE, LET ME CONCLUDE WITH A FEW MORE GENERAL OBSERVATIONS.

1) THE "PLANNING PROCESS" THIS YEAR -- WITH ITS "ISSUES" DISCUSSIONS AND THE "NORMS" DISCUSSION HAS BEEN VERY REWARDING -- THE BEST WE'VE HAD YET.

2) BUT THAT DOESN'T MEAN THE NUMBERS ARE PERFECT -- FAR FROM IT. IN FACT, IF WE ADDED UP THE '84 BUDGET NUMBERS AS THEY NOW EXIST, THEY WOULD RESULT IN EARNINGS ROUGHLY $1.00/SHARE LESS THAN THOSE IN THE PLAN. OF COURSE, WE ARE GOING TO IMPROVE THE BUDGET BEFORE IT'S FINISHED -- BUT IT WON'T GO BACK TO THE PLAN LEVEL EITHER.

3) IN RELATION TO OTHERS IN THE INDUSTRY, CONTROL DATA IS DOING VERY, VERY WELL -- THAT'S NOT OUR MEASURE OF SUCCESS, BUT IT IS NOT IRRELEVANT EITHER.

4) COMPETITION -- FROM IBM, JAPAN AND OTHERS -- IS GOING TO PUT PRESSURE ON THE U.S. COMPUTER AND MICROELECTRONICS INDUSTRIES LIKE IT HAS NEVER WITNESSED BEFORE. I HAVE NEVER KNOWN A TIME WHEN THERE WAS MORE FEAR OF IBM.

5) WE'RE NOT -- AND THAT'S NEITHER BRAVADO NOR BLINDNESS. WE KNOW WE'VE GOT TO WORK OUR TAILS OFF TO MAKE AN INCH OF PROGRESS FINANCIALLY. BUT WE ALSO KNOW WHAT WE'RE TRYING TO DO STRATEGICALLY AND WHY IT WILL GIVE US ENOUGH MARKET PLACE DISTINCTIVENESS TO SURVIVE AND PROSPER.

NOW, LET'S MOVE ON TO JOHN AND THE "ISSUES."