

6266Y-Draft 7-F
Robert M. Price
Presentation to Bankers
October 17, 1985

CONTROL DATA
PRIVATE

Good afternoon.

It was just about three weeks ago that I met with you and reviewed our operating progress in 1985, the plans for the balance of the year and for 1986. Since the last meeting, Marv Rogers and a team of people have worked with you to reach a satisfactory debt restructuring. I believe we are making progress toward that goal.

As we move ahead, it is important that you understand what we have done and are doing to address our short-term liquidity needs, and what we plan to do if actions taken and underway do not result in sufficient cost savings.

Before I begin this review, however, I want to say that I am well aware that many of you have no belief that the management of this company will do the things necessary to correct its current business problems. I think that assessment is completely wrong but I also recognize both the reasons for and the depth of your sentiment. So at this point it comes down to proving it to you. I also understand that proof is not a matter of talk, nor is it something that can be achieved overnight.

It will come the day we pay off the last bank debt. However, today we will start, and I can at least show you how Control Data is going to get to that goal.

I will talk about four areas. First, cost and expense actions that we have taken so far to reduce cash needs. Second, divestitures and asset sale actions taken or in process to raise cash and/or reduce losses. Third, additional restructuring actions that we are taking or are prepared to take in areas outside of PPCO.

The actions that we have taken so far relating to our cash needs are shown on this slide and I emphasize that these are only the extraordinary actions taken, not expected management actions like reducing inventory levels. Thus far this year, the actions we have taken result in lowering our total cost and expense base by \$194M. Those savings are partially effective this year and fully effective next year. In addition there have been one-time actions which have reduced expenses on a one-time bases by over 115 million dollars. These will primarily affect the 4th quarter.

This next chart shows divestitures and asset sales which have been completed or undertaken to raise cash and reduce debt. I have not included any sale and leaseback or other purely financing type asset dispositions. Y-T-D the total is \$24.8M with an additional \$70M forecast by year-end. In addition we are active in the process of divestiture of both BPG and Ticketron. The total of all those actions is the roughly \$25M done and the \$345M underway. There is no assurance that we will realize \$200M for Ticketron or \$75M for BPG. \$200M represents an average of estimates.

Next, current and proposed actions other than those concerning PPCO. I separate these actions because (1) PPCO. is obviously the most important problem that we have to fix. The numbers associated with it overwhelm every other problem. But, (2) we know that one of the areas which causes the most concern to you and the keenest interest is that of developing businesses. These activities are considered hopeless drains of cash and profits that we -- foolishly, it is said -- persist in pursuing in the face of rational business thinking. I won't mince words here. The area of developing businesses is one that Control Data has pursued conscientiously and intelligently. One reason we all sit here today with some options -- as opposed to figure out what to do with a one-product loser like STC of which you are all aware, is because starting over 20 years ago we pursued

some options. It is certainly not my intent here to argue the wisdom of those investments and I don't intend to try to change any minds on that score today. On the other hand I do want you to know that we are realistic and we know that given the resource requirements, international competitive picture, and general demands of business management today we will not be able to pursue as broad a range of strategies as we pursued in the past. Moreover given our current problems we can do even less than might otherwise be feasible.

Bill, Norb and I are committed to reviewing every part of this company, without exception, with a view to deferment of investment, sale of all or a part of business units, or closure of business units. This general review is underway and will be discussed with and approved by our board of directors. These will be difficult discussions but I can assure you that no area of the company is exempt from review. Pending our Board discussions, I can share with you in general terms our thoughts on where this is likely to go. Specifically included in this review will be:

- O Svcs. to the Healthcare Industry (Rev.32.6 NPBT[12.5])
- O Education Services (Rev.69.8 NPBT[16.2])
- O Financial Services (CCC) (Rev.1311.5 NPBT 81.1)
- O Marketing Info. Svcs. (ARB) (Rev.120.0 NPBT 25.3)
- O All affiliate investments (NPBT[22.2])

With regard to affiliates I believe it is important that I mention one explicitly. I commented on this in answer to a question at the meeting three weeks ago but it bears repeating. The investment in the EESI (Jacobs) Wind Energy Company was purely venture capital in nature. Control Data was never, is not, and does not intend to be in the Wind Energy business. This investment, like many venture investments. was a modest one initially. It has turned out badly, our investment position has escalated from a very minor one to a major one. And, as I showed at the last meeting, has been a significant financial burden. We have not had nor do we have any intention of having a long-term position of any sort. Until 3 months ago we were trying to extricate ourselves with little or no loss of prior investment. We now will get out as quickly as reasonably possible despite any P&L cost of doing so.

Finally, our actions with respect to PPCO. Included in the initial part of my discussion were some of the actions we have already taken with regard to PPCO. We are downsizing PPCO. Revenues in 1984 of \$1.5B included the IBM plug compatible end-user business (\$31M revenue) and loss of \$16.8M. It included the FDD (\$98M revenue). Revenue in 1985 of \$1.3B still includes \$28M of FDD revenue and \$192M BPG revenue. As you can see from this chart actions we have taken with regard to PPCO. -- Had they been effective for the whole year would have reduced the projected loss by some \$136M. Next year we'll have the benefit of those changes but more will be done. Breakeven revenue in 1986 is targeted at \$920M. This revenue level is below revenue projections, and compares to the equivalent 1985 revenue of \$1.079B. Thus we target a core peripheral business which will be breakeven at revenue levels 16% below this year's level (1984 equivalent=\$1.19B).

CONCLUSION

In summary then we have taken divestiture actions which will (1) downsize Control Data's computer business by some \$410M in revenue and will eliminate operations, losing \$40M this year. These divestitures including Ticketron should raise more than \$300M in cash when completed. We have reduced costs and expenses on an annualized basis by nearly \$200M. These savings are partially offset by increased interest expense.

We are conducting a comprehensive strategic review which will give us a set of business priorities not only for potential additional immediate action, but also provide the guidelines for contingency action as well.

As I mentioned, particular attention will be given affiliate investments, developing businesses and peripherals. The situation in peripherals is most sensitive and may well result in further downsizing or other alternatives.

I have tried to demonstrate to you this afternoon our current and contingency plans and our resolve to implement these plans. We are not here today to apologize. Control Data is a company with pride in its past and high expectations for its future. We know that this plan will succeed and that Control Data will be a stronger, more focused company.

Now, if you have any questions, I will be glad to try to answer them.