6103Y-Draft #2
BANK MEETING 9/25/85
R. M. Price

Overview

o Historical perspective -- balance sheet discussion (bring up-to-date -- August 31 rather than June 30)

o Short-term 0-4 months

- Bank financing -- need for
- More important -- our actions -- immediate
  - Enumerate actions to minimize cash needs, opens cash effort
  - (monthly summary)
  - People assets, productivity, stats

o Medium term 4-12 months

- Year end balance sheet
- Operations -- 1st, 2nd qtr. 1986
- Financing -- Ticketron. Effect on balance sheet

o Longer term 1-2 years

- Expected structure of balance sheet..ratios
- Sources of change - 1986
  Cash flow
- Additional equity .. CCC potential
- Peripherals outlook - 3 yrs. of marginal profitability.
  No drain P&L or cash in 1986

I. Introduction - Historical frame of reference

Before we look at the operational and cash flow status of the individual business units, I will spend a few minutes giving you an overall financial framework and basic strategic perspective with regard to the total company.

To do that I want to go back to December 31, 1983 and a look at Control Data's balance sheet. This chart is a summary of parent company capitalization [chart]. I've taken some liberty with the conventional long-term/short-term format to better portray the sources of debt and the particular nature of our equity.

1983 - total debt/equity, CCC investment, D/E ex-CCC, short-term bank debt. In 1983 we were cognizant of investment needs in Services over the coming years. One other crucial financial characteristic surfaced in ....

1984 - 1984 change: D(+20D) E(-80)
Asset change in Peripherals (+200) total (+214),
Debt year end (750), CCC decision.

1985 - By June 30. Pro forma with CCC sale. Decision re: financing.
Actual Aug. 31, pro forma with financing

Today to achieve the financial structure desired we must pursue still a different path. But the goal is still the same and that is to take you out of the existing short-term debt. To begin that process there is an alternative path to both reduce debt and increase equity. That path is to sell our Ticketron division and that is the path we are on.

This transaction should be complete by Mid-1st Qtr., although we will make every effort to effect it sooner if at all possible. But what this means is there are three time periods to consider as we look at the operations and financial status: (1) Short-term (0-4 months), (2) Medium-term (4-12 months), and (3) Long-term (1-2 years). Let me cover each period.

II. <u>Short-term</u>

In the next three months as you will see there is projected from opers. a modest overall positive cash flow of $44M. First of all sensitivity analysis of this shows a potential downside of 60, 80, 30. [need a list of exposures, systems, etc.] There is also some possible upside of 50 from miscellaneous divestitures and asset sales. There are also of course significant week to week and month to month fluctuations. In summary the next 3 months look like this [chart]. Net, net, additional short-term financing facilities of 75 appear to be required during this period to provide for these interperiod fluctuations and potential downside risks.

Effort is being put on shutting down cash outlays. This includes cancellation or defferal of all capital equipment, plant shutdowns in November and December, wage freezes and cancellation of all but customer critical travel. Actually the detailed list is some 10 pages long [show list -- attach "A"]. In addition we are continuing to reduce employment. this chart [board chart] shows both the history and projection of employment levels. I should also add that employment has been and will be reduced beyond mere response to business conditions. [productivity stats from board speech].

The year-end picture is then this [chart]. [explain assumptions].

Now the divestiture of Ticketron would change that picture in that the proceeds of some 150-200M would be available to reduce outstanding borrowings as well as increase equity by a similar (slightly smaller) amount.

Medium Term 4-12 months

The proposed divestiture could of course be delayed or for some reason not occur -- not that that is likely. But more important, additional steps are needed in any event to finish the job of financial restructure. Next year we should be able to make considerable progress in that regard. The single greatest dependency is peripheral products. We'll cover more of that later. From operations as currently projected, there will be a profit of 76.7 and an overall positive cash flow of 40. Thus purely from operations the year end 1986 balance sheet is as follows. The potential upside in that picture is the possibility of faster action in International Services. The potential downside is peripheral products. Over the first two quarters we look for 10 of the cash flow and over the last two 30. So during or still by the end of 1986 on a purely operational basis we will not have ~~completely~~ achieved our goal of eliminating the dependence on short-term debt, ~~that we desire~~. There are, however, two significant potential positive cash flow items in 1986 which could alter that condition. They are the extraordinary income resulting from [illegible] [illegible] an assumption involving accts receivable 1986 [illegible] will cease.

<u>Longer Term 1-2 years</u>

Let me now turn for a moment to just the P&L picture as opposed to the balance sheet. [This chart deals with only the computer business. Go over '85 and '86 ... reiterate soft spots upsides and repeat once more cash flows] [Note change from 'June' forecast for 1985. Change in total is $176M less in pre-tax profits. Obviously large -- will be dealt with in individual presentations].

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For each busines unit we have established performance norms in terms of return on invested capital. What this comes down to for the whole business is that with the exception of peripherals we expect to be performing at those norms by 1988. Peripherals will require 3-5 years and Larry Perlman will speak further to that. Let me just say here that the plan for that business is that even though Peripherals won't be much of a contributor it will <u>not</u> be in the intervening period either a P&L or a cash burden. Nevertheless we expect by 1988 to have these basic ratios:

(a) Debt/equity .4 or less

(b) ROIC 11.5%

(c) ROE 16-18%

(d) ROR 8.5%

$.4 = \frac{D}{E}$ $D = .4E$

$\frac{D}{D+E} = \frac{.4}{1.4}$

$\approx 28\%$

If during '86 and '87 it becomes evident that (a) we can't achieve those ratios or (b) achieving them requires additional acquisition or investment in priority business segments, then further divestiture or restructuring we'll be done to get where we want to go. CCC is a divestiture possibility. As to periphrals, a major restructuring is a possibility: (additional partners, etc.)

" A "

SLOWDOWN OF CASH OUTLAYS

- REVIEW OF ALL CAPITAL EQUIPMENT IN PROCESS
    - NON-CRITICAL REQUIREMENTS DELAYED 90 DAYS OR MORE
    - ALL IN PROCESS BEING REJUSTIFIED
    - SELECTED APPROVED CEA'S BEING CANCELLED
- PLANT SHUTDOWNS - MANUFACTURING
- CURTAIL DISCRETIONARY SPENDING
    - SUPPLIES
    - RELOCATION
    - EXTERNAL TRAINING, AND
    - TRAVEL EXCEPT ESSENTIAL CUSTOMER SUPPORT
- STOP BUILDING IMPROVEMENT AND DELAY CONSTRUCTION IN PROGRESS
- REDUCE EXTERNAL SERVICE RELATED EXPENDITURES
- CANCEL OPEN PURCHASE ORDERS ON EXTERNAL PURCHASES
- USE OF EXTERNAL CONSULTANTS TO BE REJUSTIFIED
- REVIEW ALL ADVERTISING EXPENDITURES FOR REDUCTIONS AND POSSIBLE DELAYS
- REVIEW CASH REQUIREMENTS AND PAYMENT TO AFFILIATES

SENSITIVITY +

ERA/RELOCATION REALTY	15-20
LA JOLLA LAND OPTION	11.0
MINNEAPOLIS BTC OR ETC SALE/LEASEBACK	13.5
SYNTONIC	8.0
HASTINGS	10.0
STOCK SALE	10-15M

"B"

SENSITIVITY

I. FOURTH QUARTER REVENUE & NPBT INCREASES

	REV.	NPBT
o DATA STORAGE DEVICES	34.4	25.4
COMPUTING SYSTEMS	47.9	18.6
SCIENTIFIC AND ENGR. SERVICES	26.7	19.5
	109.0	63.5

II. AGGRESSIVE INVENTORY REDUCTIONS $82M

III. AFFILIATES & INVESTMENTS

EARTH ENERGY SYSTEMS
VTC
DIGITAL PRODUCTIONS $30M

IV S-O DEVELOPMENT $9M