

6741Y-Draft #9-F
INSTITUTIONAL INVESTORS MEETINGS 7/86
R. M. Price

INTRODUCTION

Thank you _____. I have some introductory comments to provide an overview for you - some recent history, our current situation and, most important, our future direction. Some of you here this morning know Control Data very well. And some of the others of you are getting acquainted with us for the first time. But for all of you the important message that I want you to understand today is that we have undertaken a fundamental restructuring of Control Data so that the company we'll be talking to you about today is not the company of a year or two ago, or even the company of six months ago. In particular we have set our sights on realizing the potential of selected assets of Control Data's portfolio. This has involved: 1) Strategic evaluation and selection of key business units, 2) Divestiture and a general narrowing of the company's focus, and 3) Putting in place the necessary financial structure. Also, and perhaps most important, we have put in place the key (and in many instances new) management resources to make it all happen, for what is involved is a change in corporate culture.

BASIC GOALS & ACTIONS

Strategic evaluation, narrowing of focus, financial restructuring. Let me elaborate on those three points for a moment. Strategic evaluation, [Chart 2], has resulted in three core businesses: Scientific & Engineering Services, Data Storage Products, and Financial Info. & Commercial Services. These three businesses focus on value added products and services in selected markets, and above all, pursuit of those opportunities only when there is substantial potential for consistent profits in a reasonably short timeframe. In addition to these three core businesses there is Commercial Credit which will be managed as a strategic investment.

Narrowing of focus has meant divestiture and cut back: 20 businesses with \$250M in net assets, more than 8,600 people last year -- actually employment levels have been further reduced this year so that as of May 31 in total we are nearly 3,000 below January 1, 1986. The change has also meant the reduction of some 1.2 million square feet of manufacturing and warehouse space, or some 20%. And finally, SG&A expenses in the 1st quarter are 12% less than a year ago (8,600 people equal \$240M in direct salary). I should emphasize that that reduction has also resulted from introduction of more effective manufacturing and administrative processes, not just reduction in product scope.

I want to leave most of the financial restructuring discussion to John Buckner. John is our new chief financial officer who joined the company as of the first of June. He's one of those key management changes to which I referred a moment ago.

The point I want to emphasize with regarding to financing action is that the financing we are talking to you about today is not the first step in that process, but rather it is the final step in a process that has already seen the completion of several important tasks [chart 4]. As you can see from this slide much has already been done: the asset sales I mentioned, a drive for operational positive cash flow, the sale of Ticketron and other assets. As a result we have not only funded operations, the bank debt was actually paid down by \$26M on signing of the bank override agreement and an additional 8 since then (June 12). The debt will be further reduced when we close on the Ticketron sale, which is expected within the next month. Moreover, overall debt has been reduced and equity increased from the special dividend of \$200M from Commercial Credit to the parent. So what we are talking about in this offering is the final step in recapitalization and repayment of the bank debt that is already well along.

Core Business Strengths

So we are now positioned to concentrate on our core businesses. Let me review some highlights of those businesses.

SESS

Control Data has an established reputation developed over many years. S&E applications are broadly recognized today as growing in importance as world-wide economic competition heats up. The U.S. market for computer mainframes has received considerable public attention recently, and there is no question that it is soft. On the other hand the international markets have been strong so that overall orders are ahead of plan year-to-date and revenues are essentially on plan. For the full year we expect the U.S. softness to continue so that in total revenue will be about the same or up slightly from 1985 and profits will be down due to pricing pressure on gross margins. Even so we expect continued future growth in our selected markets.

One item I should mention in that regard is the recent agreement reached with the G.O.I. for an OEM and manufacturing license arrangement for the CYBER180, Models 810 and 830. In its initial phase which will cover 8 years, this contract is valued at some \$30M and over the next 10-15 years could yield much more.

[Chart 5a]

In our computer mainframe business we concentrate on 6 markets: electric utilities, petroleum exploration and production, weather and environment, higher education and research, engineering applications in the manufacturing industry, and U.S. Government, primarily DOD. In each of these markets we have strong positions. For example, we are the leaders in power distribution control systems for electric utilities industry. These are large systems frequently involving multiple mainframes and typical orders are in the \$10-20M range. In fact we just announced a \$15M contract with Tampa Electric. In petroleum exploration we have more than 100 Cyber mainframes installed. 10 of 14 supercomputers in weather forecasting are Control Data Cyber 205's. In the past year we have established a network of 26 universities as Engineering Research Centers. Chrysler Corporation employs 31 Cyber mainframes as well as a Cyber 205 in its engineering application. All in all our 1,400 mainframe customers have a multi-billion dollar investment in key applications and provide a stable platform on which to build future business.

[Chart 5b]

In the supercomputer arena ETA last month started operating the ETA-10 prototype. We have been extremely pleased with the progress at ETA. It is without question the best executed supercomputer development I have seen -- and I've seen them all from the beginning. The 20K CMOS technology which underpins this development is extremely powerful and has attracted a lot of attention and support from key government agencies such as NSA.

The supercomputer market is extremely competitive, but one of the strengths ETA starts with is the installed base of Control Data mainframes. Also, Control Data's 20% share of the supercomputer market provides an excellent starting point for ETA.

[Chart 5c]

Technical Support Services is a somewhat unheralded strength of SESS. Suffice for me to point out that this half billion dollar business has a return on invested capital of almost 30% (1985 before interest and taxes). Included in TSS is third party maintenance which is growing at 20% per year and is well positioned for future growth from its current #3 position.

[Chart 5d]

The Government Systems segment of SESS is also strong. The core of this business consists of three military standard products: the AN/AYK-14 Navy standard airborne computer, the fire control computer for the M-1 tank and the Navy standard disk system. This \$300M segment of SESS grew at 20% last year and had a pre-tax, pre-interest ROIC of over 50%.

FICS

Let me turn to Financial Information and Commercial Services. [Chart 6] There are five principal services provided by this group, and each of them has a #2 market position or better. FICS revenues total over \$400M with an ROIC of 42% expected for 1986.

- 1) Arbitron Ratings - \$140M in revenues. Arbitron is #1 in radio and local TV audience measurement, and is #2 to A.C. Nielsen overall. Arbitron has an ROIC of over 300% (1985 before interest and taxes). The recently announced SCAN AMERICA joint venture with Time, Inc. is a syndicated service which will bring a whole new dimension to market research for consumer product manufacturers.

- 2) Payroll & Accounting Services. \$100M in revenue, 2nd to ADP (essentially equal to BA - 4.9%, 4.7%). This service is an outgrowth of the SBC acquisition made some years ago.

- 3) Quorum provides turnkey office systems and litigation support services for law firms. It is the leading litigation support service, and is the #2 supplier of services to this market.

- 4) FIS with its turnkey systems for credit unions is a strong #2 to CUNADATA and has a 20% market share -- nearly twice as large as the #3 company.

DSP - Larry Perlman will discuss (or RMP use LP notes)[Chart 7]

COMMERCIAL CREDIT

Finally, let me cover Commercial Credit, which beginning last summer has undergone a restructuring [Chart 8]. This restructuring, which is now complete except for divesting the property and casualty insurance business (Book Value \$97M), involved the sale of assets or businesses representing almost 30% of assets, over 20% of revenues and about 30% of the employee population.

Commercial Credit now consists of four core businesses; consumer financial services in the Mid-Atlantic, Southeast and Southwest areas of the United States; vehicle leasing; life and health insurance; and credit insurance. Using the proceeds of the asset sales to repay debt, Commercial Credit has become much stronger financially - with debt/equity reduced from about 6.5 to 1 to 5.7 to 1. And since the assets and businesses divested provided no profit, ROE profitability and fixed (1.32) charge coverages have all improved.

Moreover, we have successfully implemented a program to provide more separation between Commercial Credit and the parent company, including an independent Board. Along with the restructuring actions and other improvements, this will assist in a restoration of investment grade ratings on Commercial Credit's debt and to a successful refinancing of that debt over the next several years. Actually, this proces has already begun with a \$100M, 10 3/4%, 5 year debt offering completed last month.

Commercial Credit as it is now positioned and with good prospects for sustained future growth represents an important source of cash dividends to help finance the computer business. That's what we mean by a strategic investment.

CONCLUSION

For Control Data in total the actions we have taken not only has positioned us well for the future, they are already resulting in improvement in performance [Chart 9]. On a strictly operating basis we have improved each quarter since the 3rd quarter of last year and we expect this trend to continue.

Finally let me summarize the points I have made [Chart 10].

We are focused on value-added computer products and services in three core businesses. By 1990, it is our objective that every major business achieve a leadership position - leadership meaning being one of the four top competitors in a targeted market.

From an overall Corporate standpoint, we plan to reach a 15% return on equity, consistent earnings growth and a .4 to 1 debt to equity ratio. These are hard and fast objectives and we will aggressively manage the business to meet them. Perhaps the simplest way to say that is that while we are glad to be talking to you about this offering, our plan is that next time you'll have to be interested in investment grade securities.

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The computer industry and Control Data in particular face many challenges over the next several years. There are significant risks; I don't want to minimize them. The road ahead is difficult. We as a company, as I've pointed out, have many strengths on which to build. Despite all of the difficulties of the past, we have several solid and profitable businesses. We are employing the latest technologies in both our computer systems and disk drive products. We have a large and loyal customer base and a talented, supportive group of employees. Over the past several years, we demonstrated a toughness that will ensure we survive and prosper.

In the interest of time we will not go into detail of the restructuring actions for each of the businesses, but to illustrate the depth of what has been done Larry Perlman will next discuss Data Storage Products.

RMP Wrap Up (After J. K. Buckner)

Before taking your questions, I'll add to what we've said on the second quarter and the year. First of all the improvements we saw in the first quarter have continued in April and May. While we don't have final numbers for the quarter, we expect it to be somewhat ahead of plan and show improvement over the first quarter. So far our progress is encouraging.

As you know, being in registration limits what we can say about the full year, but let me end by saying I'm encouraged by the Y-T-D performance and forecasts. In short, we expect to meet the plan we put in place at the start of the year. Obviously, year over year performance will improve dramatically, and we'll be in a much more solid position for future profitability next year and over the balance of the decade.

\$350,000,000

 **CONTROL DATA CORPORATION**

\$250,000,000

5 YEAR SENIOR NOTES

\$100,000,000

25 YEAR CONVERTIBLE DEBENTURES

RESULTS OF STRATEGIC BUSINESS EVALUATION

- **THREE CORE COMPUTER BUSINESSES**

**1985 Revenue
(\$ - Millions)**

- **Scientific/Engineering
Systems and Services**

\$1,645

- **Data Storage Products**

\$1,269

- **Financial Information and
Commercial Services
(Excluding Ticketron)**

\$440

- **COMMERCIAL CREDIT - - A STRATEGIC INVESTMENT**

RESULTS OF REFOCUSING BUSINESS

- **Selling or closing 20 businesses with \$250 million in assets**
- **Cutting back staffing levels over 18 percent....more than 8,600 people**
- **Downsizing manufacturing facilities by 20 percent**
- **Reducing SG&A expenses by over 12 percent**

FINANCING ACTIONS

1. Fund 1985 cash requirements through asset sales....

- **Proceeds \$250 M**

3. Sell additional assets for liquidity....

- **Ticketron \$140 M**

2. Drive operational cash needs to breakeven for 1986....

- **1Q 1986 Positive**
- **YE forecast Breakeven**

4. Recapitalize company....

- **CCC \$200M dividend**
- **Bank debt replacement**

KEY COMPUTER BUSINESS STRENGTHS

- **SCIENTIFIC/ENGINEERING SYSTEMS AND SERVICES**
 - **Strong position in 6 key markets**
 - **ETA Supercomputers**
 - **Technical support services - - high returns, high growth**
 - **Government Systems - - military standard products yielding strong returns**

KEY COMPUTER BUSINESS STRENGTHS

- **FINANCIAL INFORMATION AND COMMERCIAL SERVICES**
 - **Focused markets and high returns**
 - **Arbitron ratings**
 - **Payroll and accounting services**
 - **Quorum systems**
 - **Credit union services**

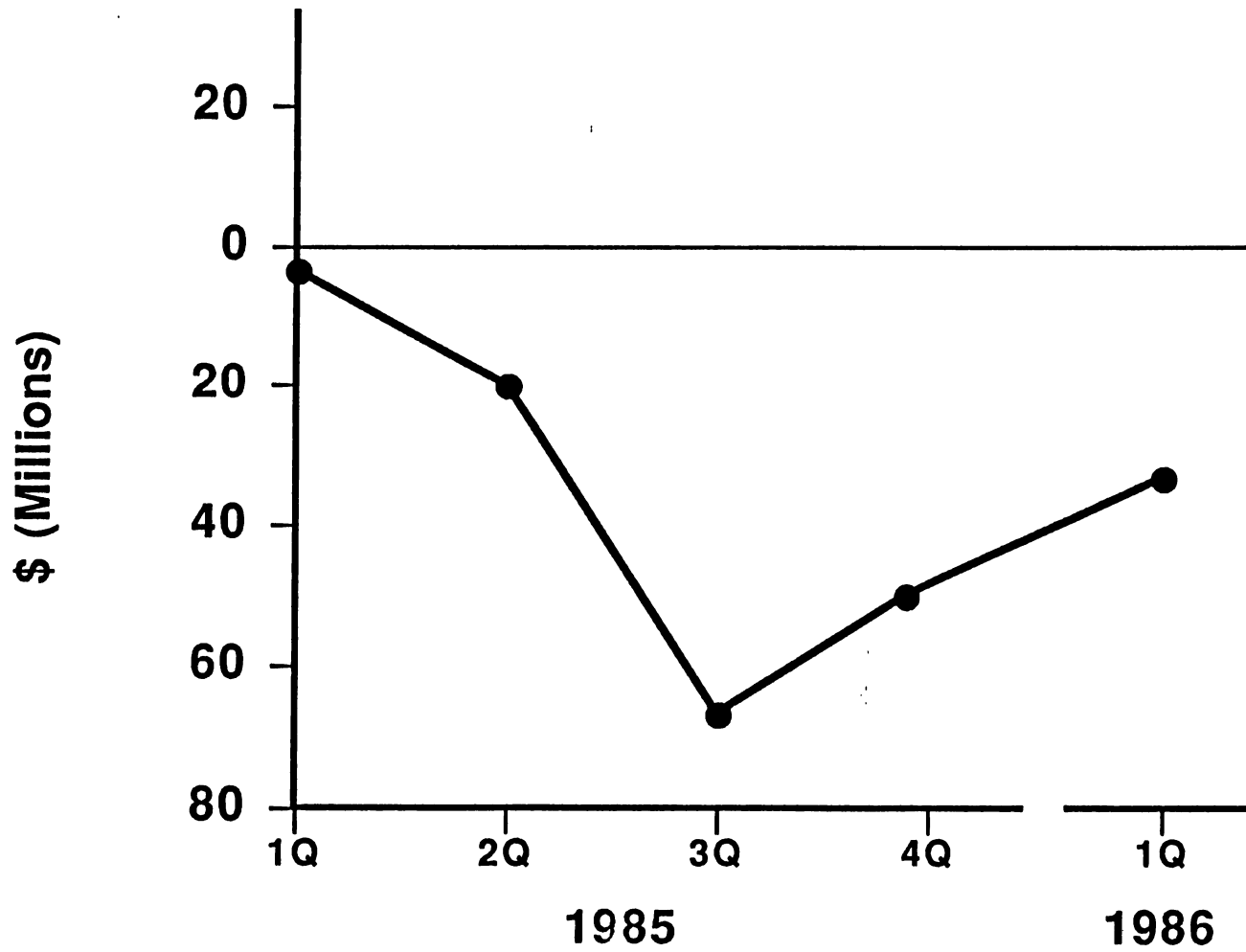
KEY COMPUTER BUSINESS STRENGTHS

- **DATA STORAGE PRODUCTS**
 - **Largest OEM disk drive supplier**

COMMERCIAL CREDIT IMPROVING

- **Restructuring essentially complete. Business and asset sales represented about...**
 - **30% of assets**
 - **20% of revenues**
 - **30% of employees**
- **Business now more sharply focused in 4 areas.**
- **Profitability and financial structure improved.**
 - **Profits of \$21.4M in 1Q**
 - **Debt to equity 5.7 to 1 versus 6.5 to 1 in 1984**
- **Operates more as a separate entity, including independent board.**

COMPUTER BUSINESS NET PROFIT BEFORE TAX (Excluding extraordinary items)



CONTROL DATA'S GOALS

- **Provide customers with high value added computer products and services**
- **Focus on selected markets to gain significant competitive position**
- **Achieve and maintain high ROE, consistent earnings growth, conservative financial structure**