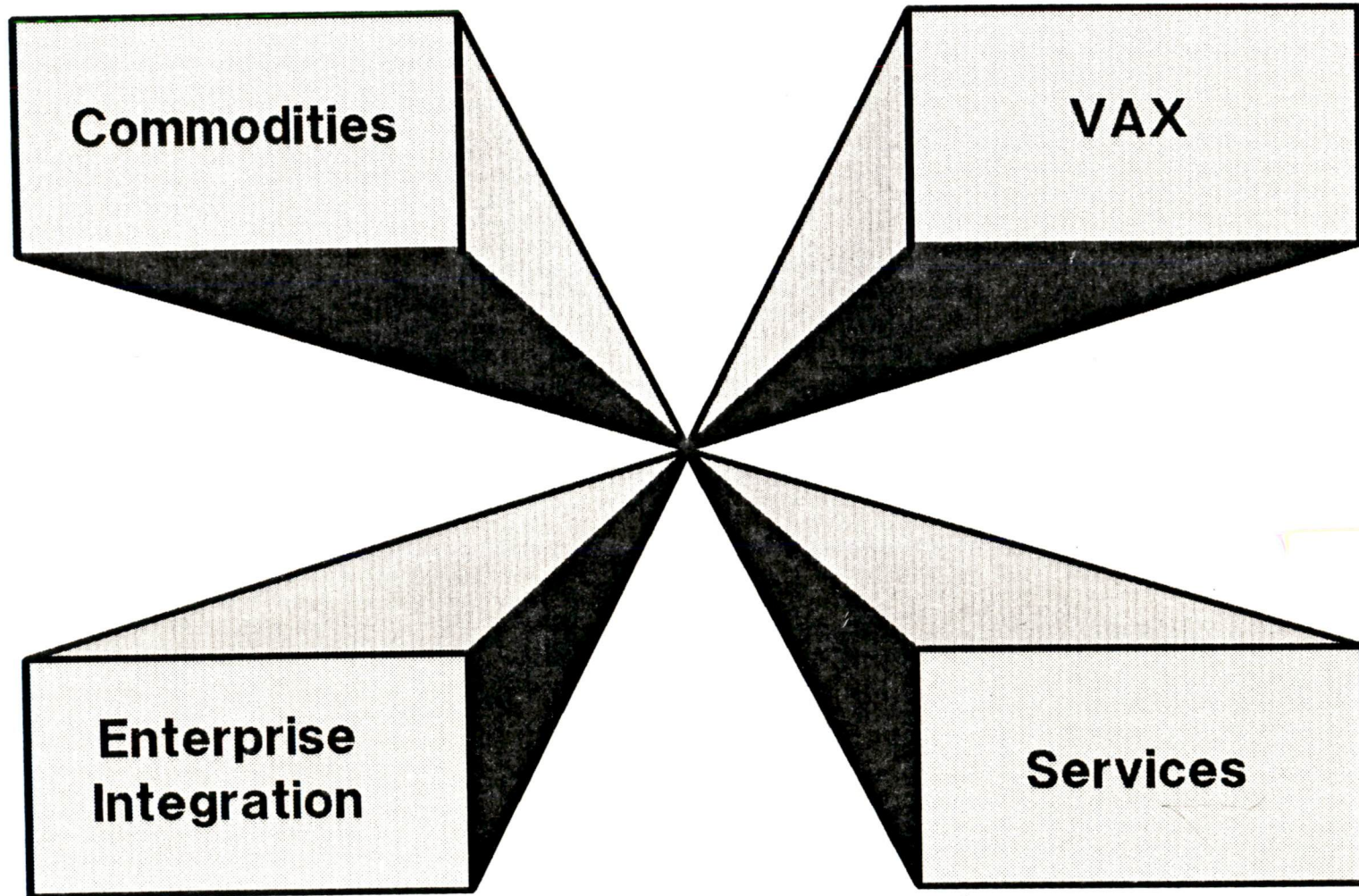


Competitive Business Models



Digital Restricted Distribution

Competitive Business Models

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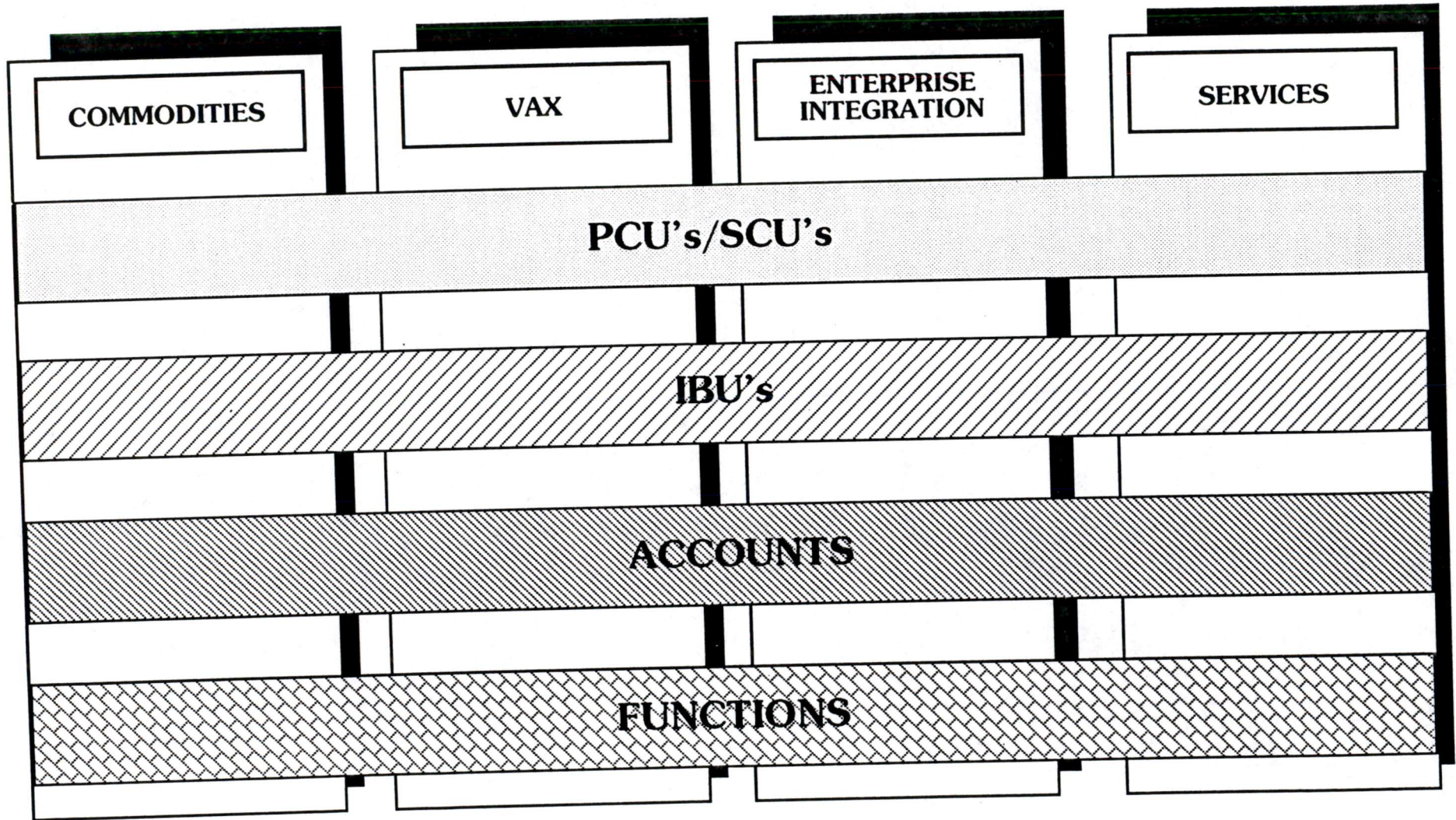
Business Overview

Overview

Digital Business Environment

- 0 The objective of this work is to provide a framework which bridges a total Company view and a view of our business unit structure to help in understanding and evaluating business unit models, plans and proposals.
- 0 Digital works in three or four different businesses with different business models. Each business has hardware, software and service components that must be understood in context. The businesses are:
 - 0 COMMODITY: This is Hardware, Software and Service businesses focused on low cost, high performance products where delivery tends to be through indirect channels. We have several commodity businesses. Examples of these include the Small Business Systems Group, PC and PCI, RISC workstations, UNIX, and Ethernet.
 - 0 VAX/VMS: This is a higher functionality business which must be priced appropriately for the level of added functionality. It includes pre-configured systems which may also require some moderate level integration or customization.
 - 0 ENTERPRISE INTEGRATION: Here we work with the customer's senior management in our vertical markets to provide a complete solution to a major business problem or a unique solution to a specific business problem.
 - 0 TRADITIONAL SERVICES: It is critical to keep in mind that the traditional service businesses span all three basic business models. The delivery vehicles, sales tools and cost structures for services will vary with the business model with which they are most closely aligned. These businesses will be measured with operational and financial metrics benchmarked against their best-in-class competitors for functional excellence.
- 0 Within NMS, this is a way to simplify our profit management and cost analysis of the Company.
- 0 The key is profit maximization - how can we get profit back from our customers for the value we have put in our products and services. We need to understand that the profit model will vary in each of the four major businesses.

Digital Business Environment



Digital Business Environment - Typical Products

- 0 These are the types of businesses/products that fall into each of the types of businesses
- 0 Notice that UNIX systems and software are considered commodity products as well as PC's and peripherals
- 0 The VAX box includes VAX systems and software
- 0 Here we work with the customer's senior management in our vertical markets to provide a complete solution to a major business problem or a unique solution to a specific business problem. The Enterprise Integration box includes the vertical marketing units selling integrated solutions.
- 0 The Services category includes primarily traditional, price book services which are also implicit in each of the other three categories

Digital Business Environment - Typical Products

COMMODITIES

UNIX Systems
UNIX Software
Personal Computer
PC Integration
Terminals
Ethernet
Storage
Maintenance

VAX

VAX Systems
VAX Software
Solutions
Maintenance
Networking

ENTERPRISE INTEGRATION

Banking
Insurance
Retail
Education
Healthcare
Government
Science
Professional Services
Telecommunications

SERVICES

Traditional Customer
Services
Maintenance
Customer Training
Special Systems

Business Unit Structure

- 0 We have placed each PCU/SCU and Marketing business unit into one of the major types of businesses.
- 0 There are many issues raised here:
 - Can any business unit fit in only one box
 - What are the levels of value-add from box to box and within boxes
 - Should software have a vertical box of its own
 - Should Networking hardware and software be shown horizontally
- 0 The key here is to understand how Digital should be getting value from its products and services.
- 0 It may be that a PC sold as a commodity should be priced differently from one sold as part of a VAX network which would be different from one sold as part a Healthcare system which might be different from one sold as part of a banking system. Price must reflect value add.
- 0 The services vertical box is shown as a memo item since we offer these services across the entire product line. It is still important to realize that the service cost of delivery should reflect the business model from which the hardware was sold.

NMS Business Unit Structure

COMMODITIES

PRODUCT CREATION UNITS

HARDWARE

INT Intel/SCO
 PCS DecStation
 DSG Disks & Subsystems Group
 TOPS Tapes & Optical Products
 PTG Process Technology
 ESD Electronic Storage Dev.
 VIPS Video & Hardcopy
 PCI PC Integration
 RSC RISC Business
 LENAC Low-End Networks
 & Communications

SOFTWARE

OSG Open Systems Software Grp.

SERVICE CREATION UNITS

DTS Desktop Services

VAX

PRODUCT CREATION UNITS

HARDWARE

VAX 9000
 FTS Fault-Tolerant Systems
 MSB Mid-Range Systems Business
 ESB Entry Systems Business
 WST VAX Workstations Business
 SCO Semiconductors
 MSD Microsystems Development
 CBG Continuing Products Bus. Grp.

SOFTWARE

VMS VMS
 ONS Open Network Systems
 NTS NAS Transaction Services
 NSS NAS Security Services
 NUF NAS User Frameworks
 NCE NAS Concurrent Eng.
 NLT NAS Languages & Tools
 NPC NAS Presentation/Comm.
 NIS NAS Information Services
 NDC NAS Distributed Computing
 NTS NAS Transaction Services
 CBN Corporate Backbone Ntwk.
 LAA Local Area Access
 LAN Local Area Network
 CLS Clusters
 Image/Voice/Human Interface

SERVICE CREATION UNITS

HPS Hardware Product Services
 SPS Software Product Services
 CT Customer Training

ENTERPRISE INTEGRATION

MBU's/IBU's

Healthcare
 Environmental
 Banking & Investment
 Insurance
 Media
 Telecommunications
 Utilities
 Wholesale/Retail
 Travel/Transportation
 Engineering
 Education/Science
 State & Local Government
 U.S. Federal Government
 Small to Medium Enterprise
 Professional Services
 CIM M&PD
 Sales & Distribution
 Research & Development Systems
 Component Business Group
 Finance & Accounting
 Office
 Electronic Publishing
 Application Development Systems
 Multi-Vendor Integration
 Corporate Information Systems
 Departmental Information Systems
 Software Development Depts.
 CALS/CE
 Systems Integration
 Massively Parallel Systems
 Workstations
 Information Systems Business
 IS/Operations Management
 Technical OEM Business

SERVICE CREATION UNITS

DCS Digital Consulting Service
 NWSS Network & Site Services
 OSS Operations & Site Services
 APS Application Project Services
 CSS Computer Special Systems

SERVICES

SERVICE CREATION UNITS

DTS Desktop Services
 HPS Hardware Product Services
 SPS Software Product Services

CSS Computer Special Systems

CT Customer Training

Digital Restricted Distribution

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Source: FY92 New Management System Submissions

Key Characteristics

- 0 This is a simplification of the very complex components of the businesses. We have tried to distill the factors for success of each model into several major items.
- 0 For instance, the commodity business should be characterized by low cost, high volume, indirect channels, and undifferentiated products. We expect low profit coupled with high asset turns.
- 0 The "VAX" business's characteristics would include higher complexity, higher functionality products distributed through direct sales channels. Higher profit with lower asset turns is expected.
- 0 The EIS business is characterized by high value add, focus on customer definition of the problem, high costs coupled with high levels of expertise. The expectation is for medium profit with higher asset turns.
- 0 The services businesses require high customer satisfaction and customer perceived value in terms of quality. They tend to have a lower asset base and higher labor base than the products business.

Key Characteristics

COMMODITIES

Low cost in all areas
Indirect channels
Price competitive
Low customer support
High volume/Low cost mfg.
Time to market
Undifferentiated
Primarily desktop & peripherals
High velocity
Short cycle times
Short product lifecycles
Value through perceived differentiation
Low complexity
Standard components

VAX

Strong customer relationship
Significant value add
High availability
Ease of information management
Direct sales channels
Value through functionality
Higher complexity
Work group solutions
Medium sales cycle
Mass customization

ENTERPRISE INTEGRATION

Customer defines product
Labor intensive
Requires high expertise
High fixed costs
Long delivery cycle
Low assets
Information delivery
High value add
Market pull
Leadership applications
Highest complexity
Long sales cycle
Unique enterprise wide solutions
Long term contracts
Full customization as perceived by customer
Project management imperative

SERVICES

Labor intensive
Quick response essential
Lower asset base than product business
Remedial
- large annuity business
- sales cycle tied to hardware
Standardization imperative
Excellent logistics key to lowest cost of delivery

Dynamic Environment

- 0 The environment within which Digital operates has undergone rapid change in the last several years.
- 0 These changes in the industry have required us to look at our business as several different models rather than as one totality.
- 0 The economy has weakened since 1987 with forecasts of improvement by FY94. We also expect inflation to moderate by 1994. The forecasts are based on surveys by Consensus Economics, Blue Chip, and DRI.
- 0 Industry growth will slow by 1994 but the size of the industry will have more than doubled, from \$197B in 1987 to \$422B in 1994 according to Infocorp.
- 0 Digital had a 4.8% market share in 1987 which fell to 4.5% in FY90. We expect it will bottom out at 4.1% in FY92, begin recovery, and grow to 4.3% by FY94.
- 0 The revenue mix is changing dramatically. Software and Services have become a much larger part of the business and we are becoming more internationalized. The low end and RISC segments have grown more rapidly than the high and mid range segments. Distribution has shifted towards indirect channels. Unit volume has increased rapidly while revenue growth has slowed.
- 0 The industry environment and the changes in the industry have made our business much more complex. The rapid rate of these changes forces us to look at our business in new and different ways to take advantage of future growth opportunities.

Dynamic Environment

	<u>FY87</u>	<u>FY90</u>	<u>FY94*</u>
Economy Worldwide GNP Growth Inflation	Strong 3.4% 2.6%	Weak 2.5% 4.7%	Strong 3.1% 3.3%
Industry Size Growth	\$197 B 13%	\$287 B 12%	\$422 B 9%
Style of Computing	Proprietary	Commoditization	Open Systems
Digital Estimated: Market Share**	4.8%	4.5%	4.3%
Revenue Mix Hardware/Software U.S./International Products/Services	80/20 53/47 67/33	70/30 45/55 63/37	60/40 40/60 57/43
Product Mix % Over \$500 KASV VAX/RISC Hardware High-Mid/Low	44% 100/0 60/40	0% 95/5 48/52	10% 60/40 40/60
Distribution Channels Direct/Indirect	70/30	72/28	???
Price/Performance	High volume increase High price/unit increase	High volume increase Decreasing price/unit	High volume increase Decreasing price/unit
Company View	Single Model	Single Model	Four Model

* Estimated Outlook

** Estimated based on Infocorp Market Data

Digital Restricted Distribution

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Competitors

- 0 Given that we have decided to manage ourselves as three or four businesses and we have identified what they are, the next step is to understand the business models in each of these areas.
- 0 In order to understand these business models, we analyzed vendors in each of these areas.
- 0 These are some of the most successful companies in each of these areas portrayed in the category most reflective of their major line of business.
- 0 Virtually all of these competitors cut across several business model types.
- 0 These are niche competitors, major systems vendors like IBM and HP are excluded purposefully. The business models of these vendors should be comparable to Digital's total company model.
- 0 This does not necessarily imply that we are in these businesses today (e.g. the commodity software category).

Niche Competitors in each Business Area

COMMODITIES

HARDWARE

Sun
Compaq
Dell
3 Com
Conner
Seagate

SOFTWARE

Lotus
Microsoft

VAX

HARDWARE

Amdahl
Silicon Graphics
Stratus

SOFTWARE

Oracle
Novell
ASK

ENTERPRISE INTEGRATION

Computer Sciences
Corp.
EDS

SERVICES

Bell Atlantic
Grumman

Competitive Business Models

- 0 We developed four business models based on the latest three year average results for each group of competitors.
- 0 In order to keep these consistent with Digital's business mix we weighted our competitor's results based on our own product mix. The weighting assumptions were based on FY90 PBU reporting, FY91 OTD forecasts and preliminary FY92 BUP from NMS. See "Mix Assumptions" backup schedule for detail.
- 0 As expected, operating income for the commodities business is low (8%) with low R&D and SG&A and higher cost of sales. Asset turns are high (inventory turns are 5.5X, DSO of 55) and revenue is growing fastest. The cost structure is driven by low cost of manufacturing and engineering coupled with the high level of discounts associated with indirect sales channels. The asset turns and growth is evidence of the requirement for high velocity across all facets of this type of operation.
- 0 The VAX business is characterized by the highest profit, with higher R&E and SG&A with lower cost of sales. Asset turns are lower (inventory turns are 3.6X, DSO of 101) and revenue growth of 28%. In this business there are higher costs across the board and a higher asset base than in the commodities model. The key is whether or not customers perceive enough value in the products to allow recovery of higher costs associated with the direct sales resources, sophisticated manufacturing and engineering, and marketing investments we make here.
- 0 Enterprise integration has profitability in between the two with very high cost of sales and moderate SG&A. The business is characterized by high asset turns primarily driven by a relatively low asset base. There are a number of varied business models within enterprise integration. Some of the businesses include: pure consulting; unique enterprise solutions consisting of hardware, software and services; industry specific solutions, and outsourcing.
- 0 The Services business demonstrates a relatively high profit margin with moderate asset turns. Each of the other models includes a service component. For example, the level of service provided by Sun, Dell, Compaq, Seagate, Conner and 3COM as part of their business is reflected in the commodity business model. The same is true in the VAX business model where the services provided by Amdahl, Stratus, and Silicon Graphics are accounted for. Additional levels of consulting or customized service should fall into the Enterprise Integration model.
- 0 These models are intended primarily to point out major differences between each type of business. The assumptions upon which the models are based must be dynamic. As product mix shifts or the industry environment changes the models must change as well.

Aggregate Competitive Business Models

COMMODITIES

Revenue	100%
Cost of Sales	70
Sales, Gen &Admin.	15
Research & Devlpmt.	7
Operating Income	8
Revenue/Employee (\$K)	\$136
ROA	8%
Inventory Turns	5.5x
DSO	55
PP&E Turns	7.9x
Operating Asset Turns	2.4x
Asset Turns	1.6
ROOA	13.0%
Leverage	2.2
ROE	18%
Optg. Assets/Empl(\$K)	\$ 54
Revenue Growth	46%
Optg. Profit/Empl(\$K)	\$ 13

VAX

Revenue	100%
Cost of Sales	38
Sales, Gen &Admin.	36
Research & Devlpmt.	11
Operating Income	15
Revenue/Employee (\$K)	\$185
ROA	13%
Inventory Turns	3.6x
DSO	101
PP&E Turns	8.1x
Operating Asset Turns	2.0x
Asset Turns	1.3x
ROOA	21%
Leverage	1.5
ROE	21%
Optg. Assets/Empl(\$K)	\$ 96
Revenue Growth	28%
Optg. Profit/Empl(\$K)	\$ 27

ENTERPRISE INTEGRATION

Revenue	100%
Cost of Sales	78
Sales, Gen &Admin.	11
Research & Devlpmt.	N/A
Operating Income	11
Revenue/Employee (\$K)	\$ 97
ROA	11%
Inventory Turns	54x
DSO	45
PP&E Turns	5.4x
Operating Asset Turns	3.0x
Asset Turns	1.5
ROOA	23%
Leverage	2.3
ROE	26%
Optg. Assets/Empl(\$K)	\$ 32
Revenue Growth	13%
Optg. Profit/Empl(\$K)	\$ 11

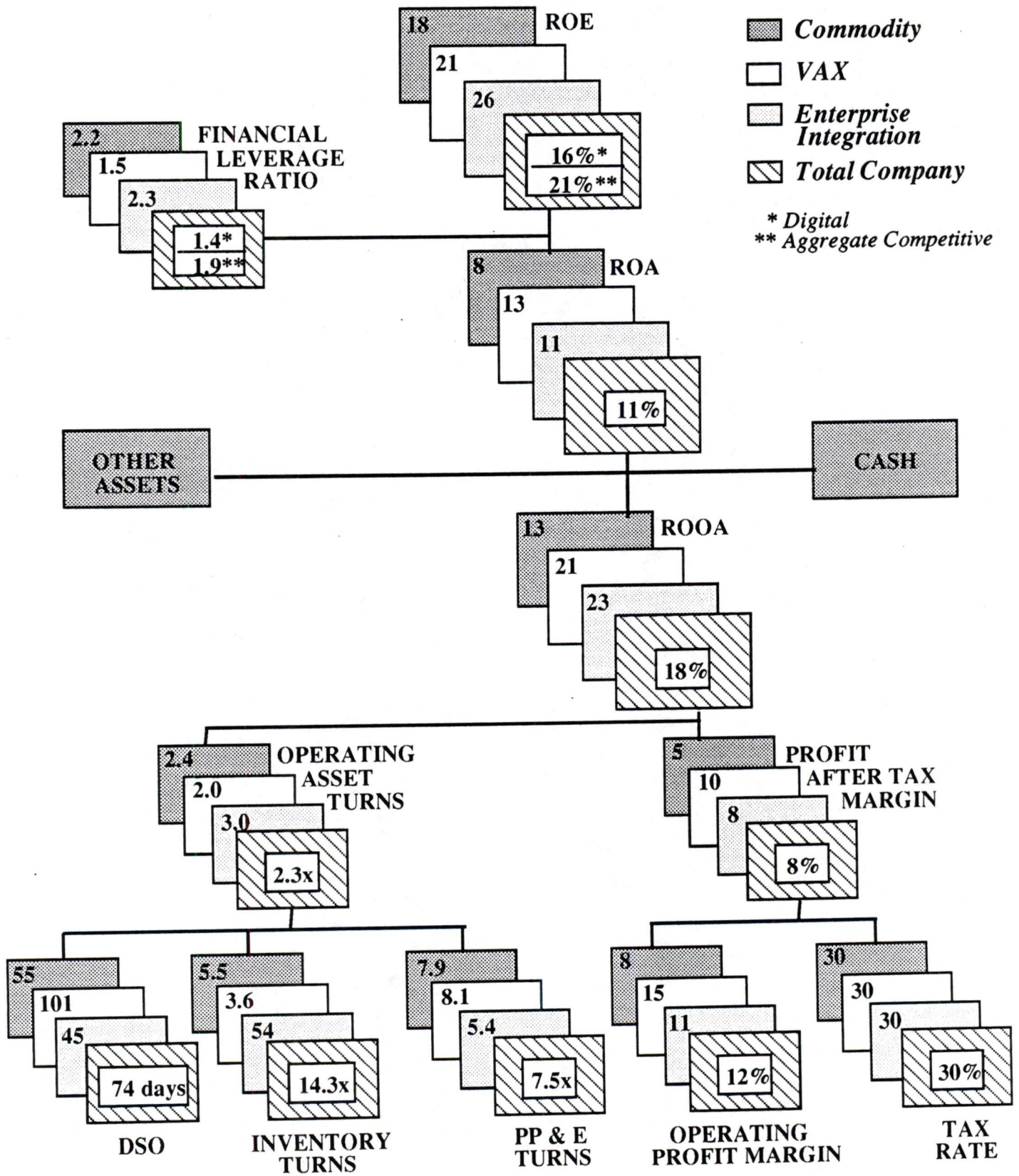
SERVICES

Revenue	100%
Cost of Sales	71
Sales, Gen &Admin.	14
Research & Devlpmt.	N/A
Operating Income	15
Revenue/Employee (\$K)	\$ 108
ROA	12%
Inventory Turns	42.3x
DSO	50
PP&E Turns	4.5x
Operating Asset Turns	2.2x
Asset Turns	1.3
ROOA	19%
Leverage	2.6
ROE	30%
Optg. Assets/Empl(\$K)	\$ 72
Revenue Growth	10%
Optg. Profit/Empl(\$K)	\$ 18

AGGREGATE COMPETITIVE BUSINESS MODEL

- 0 This format portrays the dynamic interaction of P&L management and Asset management activities as they influence Return on Assets (ROA), Return on Operating Assets (ROOA), and Return on Equity (ROE).
- 0 The format also portrays the differences between these interactions among the commodity, VAX and Enterprise Integration businesses. For example while the commodity business has the lowest ROOA (13%) based on profit after tax of 5% and operating asset turns of 2.4, the enterprise integration business, with the second lowest profitability of 8%, actually has the highest ROOA due to significantly higher asset turns.
- 0 The total company ROE will differ depending upon capital structure assumptions. The leverage derived from the aggregate competitive business model gives a 21% ROE while the current Digital capital structure would result in a 16% ROE.

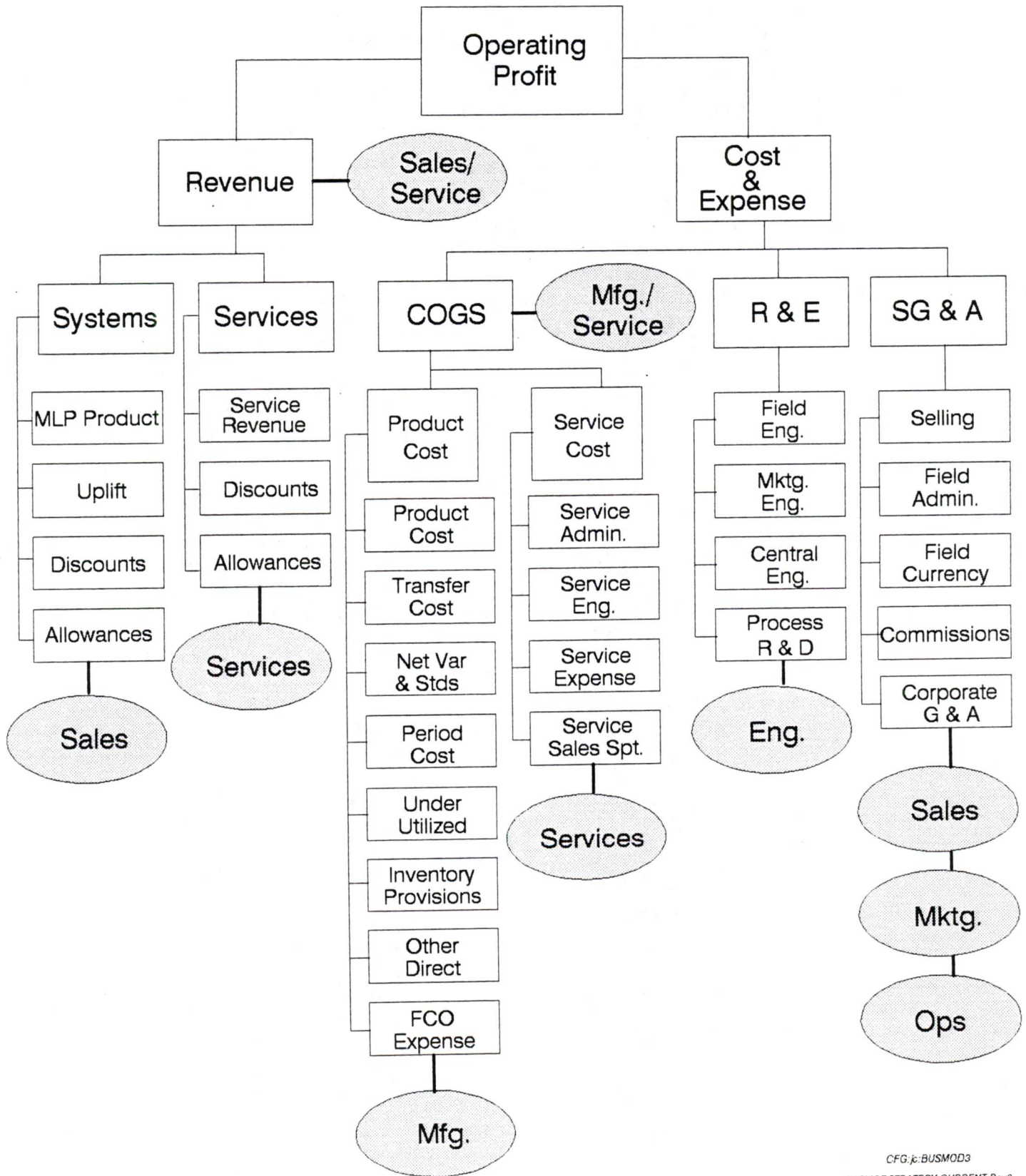
AGGREGATE COMPETITIVE DUPONT MODEL



FUNCTIONAL RESPONSIBILITY FOR PROFIT AND LOSS

0 This chart identifies functional organizations responsible for the various P&L components of the models.

Functional Responsibility For Profit & Loss Statement



"Best-in class"

0 This slide depicts the outcome if we choose the highest operating income and ROA from each group of competitors. ROE is simply the ROA assuming Digital's capital structure. The companies reflected are Compaq and Microsoft in the commodities space, Stratus and Novell in the VAX area, and EDS in EIS.

Competitive Business Model

Best-in-Class

COMMODITIES	
Revenue	100%
Optg. Profit	18%
ROA	20%
ROE	27%
Compaq Hardware Microsoft Software	

VAX	
Revenue	100%
Optg. Profit	15%
ROA	15%
ROE	21%
Stratus Hardware Novell Software	

ENTERPRISE INTEGRATION	
Revenue	100%
Optg. Profit	11%
ROA	12%
ROE	16%
EDS	

SERVICES	
Revenue	100%
Optg. Profit	22%
ROA	9%
ROE	13%
Bell Atlantic	

Note: ROE @ Digital's Capital Structure

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Total Company Models

- 0 When applying this methodology to the total company, it was necessary to weight each box based on the estimated percent of Digital's revenue in each of these areas (35% Commodity, 45% VAX and 20% EI).
- 0 This slide outlines several different business models against which we compared our results.
- 0 This demonstrates the differences between our actual results given our current business model and what our results could have been had we fully integrated the cost structure and profit generating lessons from the four business models.
- 0 Column three is the aggregate competitive business model outlined previously, Column four is the outcome of choosing the highest operating income and ROA from each group of competitors.
- 0 Columns five and six represent our current Digital business model and an alternative model with equal ROE based on lower profits and better asset management.

Digital

FY91 YTD and FY90 Results*

Compared with Alternative Business Models

	<u>Q3 YTD FY91 Actual</u>	<u>FY90 Actual*</u>	<u>Aggregate Competitive Bus. Model</u>	<u>Best in Class Bus. Model</u>	<u>Current Digital Bus. Model</u>	<u>Alternative Digital Bus. Model</u>
Revenue	100%	100%	100%	100%	100%	100%
Cost Of Sales	53	53	57			
Sales, Genral & Admin.	32	31	23			
Research & Development	12	12	8			
Operating Profit	3	4	12	15	17	10
Net Income	3%	4%	8%	11%	12%	7.5%
Asset Turns	1.1x	1.2x	1.4x	1.5x	1.3x	2.1x
ROA	2.9%	4.7%	11.2%	16%	16%	16%
Digital Leverage**	1.4	1.4	1.4	1.4	1.4	1.4
ROE	4.1%	6.5%	16%	22%	22%	22%
Aggregate Competitive Leverage			1.9			
ROE			21%			

*Excludes Restructuring

** Leverage = Average Assets/Average Equity

Cost Structure Implications

0 By running our estimated 1992 results through the competitive business model resulting from a mix of the commodity, VAX and Enterprise Integration business models we can start to get a feel for how much excess overhead might be in our cost structure. Based on 1992 estimates for continuation of our current environment, we have close to \$950 million in excess costs. Some of these costs are labor related and some are process related.

Assumptions for 1992 Outlook:

- o Revenue - 1% product growth, 10% service growth, 5% total growth
- o Cost Growth - 3.2 % (Transfer Cost up 5%, Service COD up 13%, Functional expenses up 7%, Currency down 146%).
- o Operating Profit Margin at 5.3%
- o Employment - FY91 end 116,900 with 8,000 more out by FY92 end

Assumptions for 1992 at Model Structure:

- o 92 product mix based on combined 92 BUP, 91 OTD, May WW Business Plan
- o 92 business mix: 45% commodity, 44% VAX, 11% EIS
- o Same revenue assumptions as in outlook
- o Cost structure created by flowing revenue through the aggregate competitive business models at the product and business mix indicated above
- o Employment based on the revenue per person from the aggregate competitive business model (\$154).

Competitive Business Models Cost Structure Implications (\$ Mils)



	<u>FY92 Outlook</u>	<u>FY92 Outlook at Model Structure</u>	<u>FY92 Outlook B/(W) Model</u>
Revenue			
Products	\$ 8,219	\$ 8,219	\$ ---
Services	<u>6,174</u>	<u>6,174</u>	<u>---</u>
Total Revenue	\$14,393	\$14,393	\$ ---
Total Expense	\$13,632	\$12,686	\$(946)
Operating Profit	\$ 761	\$ 1,707	\$(946)
Profit Margin	5.3%	11.8%	(6.5)%
Headcount	108,900	93,900	(15,000)
Asset Turns	1.2	1.4	(0.2)
Average Assets	\$11,700	\$10,287	\$(1,419)
ROA	4%	11%	(7)

Scenario A - Continuation of Current Environment

- 0 This scenario is based on simple trending off of FY91 growth.
- 0 Through FY91, Digital is expected to have implemented significant staffing reductions and cost controls. This analysis assumes continuations of those activities at about the same rate.
- 0 This does not assume any significant changes in business planning derived from the issues outlined in this presentation.
- 0 The result is a gradual improvement in operating profit margin from 4% of revenue in 1991 to 11% in 1994. The increased levels of profitability combined with asset management improvements drive an increase in ROA from 4% in 1991 to 9% in 1994.

Assumptions:

% Growth	92	93	94
Product NOR	1%	1%	2%
Service NOR	10	10	11
Total	5	5	6
Transfer Cost	5	5	2
Svc COD	13	9	6
Functional Exp	7	(3)	-
Currency	(152)	-	-
Total	3	2	2
Operating Profit	44	59	52

Scenario A

Continuation of Current Environment*

(\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 8,300	\$ 8,500
Services	<u>3,135</u>	<u>4,797</u>	<u>5,602</u>	<u>6,200</u>	<u>6,800</u>	<u>7,500</u>
Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$15,100	\$16,000
% Growth	23.7%	1.6%	6.1%	5%	5%	6%
Operating Profit (\$)	\$ 1,612	\$ 13	\$ 528	\$ 750	\$ 1,200	\$1,800
% of Revenue	17.2%	0.1%	3.8%	5%	8%	11%
ROA	14.6%	0.7%	3.5%	4%	6%	9%
ROE	18.9%	0.9%	4.9%	6%	8%	11%

* Continued cost control and headcount reductions

Future Scenario for Industry Growth by Business Model

- 0 We can use this approach in order to model the future. If we understand each basic business model in which we operate, we can then run revenue assumptions through each model to assess the impact of revenue mix on total company financials.
- 0 If our revenue in each of these businesses increases at the expected rate for that particular part of the industry, this is what our each business would look like in 1993 and 1994. Industry growth rates by business model were developed based on Infocorp data.

Assumptions:

Revenue:

- o 90 Based on PBU Reporting (detailed schedule in backup "FY90 Revenue"
- o 91 and 92 ties to current forecast/outlook by product and service based on the following mix assumptions:

% of Total Revenue		91	92
Product	Commodity H/W	43%	48%
	Commodity S/W	2	4
	VAX H/W	34	26
	VAX S/W	21	22
Service	Maintenance	75	72
	EIS	25	28

- o 93 and 94 based on expected market growth rates derived from Infocorp data:

% Growth		91	92
Commodity H/W		16%	11%
Commodity S/W		13	12
VAX H/W		3	6
VAX S/W		13	12
EIS		12	10
Total Company		12	10

- o All cost structures developed by flowing the revenue derived from the assumptions above through the aggregate competitive business model for each business.

Competitive Business Models

Industry Growth - (\$ Mils)

	COMMODITIES		VAX		ENTERPRISE INTEGRATION		TOTAL	
	<i>FY93</i>	<i>FY94</i>	<i>FY93</i>	<i>FY94</i>	<i>FY93</i>	<i>FY94</i>	<i>FY93</i>	<i>FY94</i>
Revenue	\$7720	\$8647	\$6594	\$7059	\$1769	\$1941	\$16183	\$17647
Optg Profit	\$ 664	\$ 772	\$1033	\$1112	\$ 189	\$ 208	\$ 1886	\$2092
%	9%	9%	16%	16%	11%	11%	12%	12%
ROA	9%	9%	14%	14%	11%	11%	11%	11%
ROE	12%	12%	19%	20%	16%	16%	15%	16%

Total Company Industry Growth Scenario

- 0 This scenario assumes that we manage the company in the context of the four business models we have discussed. This is the total company look at the scenario outlined by business model on the previous slide. The results are increased levels of profitability in 1992 and 1993, and greater levels of profitability in 1994. Revenue growth is assumed to equal industry growth
- 0 By understanding the profit levels associated with each of our business models we should be able to better manage the total company cost structure. We should be able to plan for instead of react to major shifts in our business mix.
- 0 The whole industry is being affected by the "shift to the desktop". Digital's commodity business is expected to grow from 26% of the business in 1990 to 49% of the business in 1994. Even though intuitively this should decrease our profitability, in both industry growth scenarios we improve to 12% operating profit and 11% ROA by 1993.

Scenario B

Industry Growth (\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 9,200	\$10,100
Services	<u>3,135</u>	<u>4,797</u>	<u>5,602</u>	<u>6,200</u>	<u>6,900</u>	<u>7,500</u>
Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$16,100	\$17,600
% Growth	23.7%	1.6%	6.1%	5%	12%	9%
Operating Profit	\$ 1,612	\$ 13	\$ 528	\$ 750	\$ 1,900	\$ 2,100
% of Revenue	17.2%	0.1%	3.8%	5%	12%	12%
ROA	14.6%	0.7%	3.5%	4%	11%	11%
ROE	18.9%	0.9%	4.9%	6%	15%	16%

Note: FY93 and 94 based on industry growth from Infocorp.

Key Messages

0 This work is intended to stimulate discussion and help understand how to operate in this environment, not to set specific goals. The current organizational structure does not necessarily match this conceptual framework.

0 Digital must recover value from our customers at each level of value add. We must not add value in research, product development, manufacturing complexities, partnering, marketing, solutions development, sales incentives, solution or service delivery if a customer does not perceive added value from the activity. This means understanding the total profit picture from MLP to operating income in each of our businesses. The value we put in will increase as we move from commodities to EIS.

0 In order to compete in the current industry environment it is critical to understand the three or four businesses in which we operate. It is also crucial to understand the differences between each business model and the interdependences which determine total company results.

0 In order to be successful within this framework we must fundamentally change the way we manage our business. Improvements in product development, manufacturing, strategy and planning processes; partnering; pricing and product strategy are necessary. We must do more than reduce our overall costs and employment levels.

Issues

○ Organizational

- Who owns each "box"?
- Certain products bridge across business
- There are no "base case" actuals. Therefore there is no real sense for what is goodness or badness in this context through current reporting/measurements systems.
- How does this tie into current organizational and reporting structures?

○ Product

- What is a VAX and is this an appropriate heading? (given ALPHA might be our future)
- What is UNIX (i.e. Sun's AT&T vs. SCO vs. ULTRIX)
- Is all hardware now "commodity" with different levels of perceived customer value?
- What is EIS? Is it a channel, a unique solution, an industry specific solution, outsourcing? Should it include just the consulting piece of unique solutions or the hardware and software sold as well?
- Product strategy for the future will have a major impact on the mix assumptions contained in the models.
- Should we take it down another level (i.e. an ESB system is much different than a 9000 than a 6000 in market maturity, level of value add, etc.)

○ Mechanical

- Are we examining the right group of competitors? (i.e. is it fair to include only "higher-value add niche players only in the "VAX" space)
- Where are IBM, HP and the Japanese vendors? (Should we attempt to approximate their business models in each of these areas?)
- Should we attempt to estimate the business model for the EIS business of Arthur Anderson, EDS, etc. due to lack of "pure" companies in this space?
- Should we use "timeless" models, 3 year averages, best-in-class, etc.?
- What is the impact of off balance sheet financing and leverage activities on ROE?

Backup

Competitive Business Model

Mix Assumptions

COMMODITIES 35%

HARDWARE - 96%

Sun	19%
Compaq	3
Dell	10
3 Com	7
Conner	17
Seagate	<u>44</u>
	100%

SOFTWARE - 4%

Lotus	50%
Microsoft	<u>50</u>
	100%

100%

VAX 45%

HARDWARE - 60%

Amdahl	9%
Stratus	48
Silicon Graphics	<u>43</u>
	100%

SOFTWARE - 40%

Novell	50%
Oracle	40
ASK	<u>10</u>
	100%

100%

ENTERPRISE INTEGRATION 20%

Computer Sciences	10%
EDS	<u>90</u>
	100%

100%

SERVICES

Computer Sciences	20%
EDS	40
Bell Atlantic	<u>40</u>
	100%

100%

Future Scenario for Open Systems/Client Server Leader by Business Model

0 If our revenue in each of these businesses above the expected rate for that particular part of the industry, this is what our each business would look like in 1993 and 1994. Industry growth rates by business model were developed based on Infocorp data.

Assumptions:

Revenue:

- o 90 Based on PBU Reporting (detailed schedule in backup "FY90 Revenue")
- o 91 and 92 ties to current forecast/outlook by product and service based on the following mix assumptions:

% of Total Revenue		91	92
Product	Commodity H/W	43%	48%
	Commodity S/W	2	4
	VAX H/W	34	26
	VAX S/W	21	22
Service	Maintenance	75	72
	EIS	25	28

- o 93 and 94 based on higher than expected market growth rates derived from Infocorp data:

% Growth	93	94
Commodity H/W	18%	13%
Commodity S/W	15	14
VAX H/W	5	8
VAX S/W	15	14
EIS	12	10
Total Company	13	11

- o All cost structures developed by flowing the revenue derived from the assumptions above through the aggregate competitive business model for each business.

Competitive Business Models

Open Systems/Client Server Leader

	COMMODITIES		VAX		ENTERPRISE INTEGRATION		TOTAL	
	<i>FY93</i>	<i>FY94</i>	<i>FY93</i>	<i>FY94</i>	<i>FY93</i>	<i>FY94</i>	<i>FY93</i>	<i>FY94</i>
Revenue	\$ 7,794	\$ 8,822	\$16,238	\$18,005	\$16,238	\$18,005	\$16,238	\$18,005
Optg Profit	\$ 670	\$ 788	\$ 1,403	\$ 1,134	\$ 191	\$ 212	\$ 1,904	\$ 2,134
%	9%	9%	16%	16%	11%	11%	12%	12%
ROA	9%	9%	14%	14%	11%	11%	11%	11%
ROE	12%	12%	19%	20%	16%	16%	15%	16%

Scenario C

Open Systems/Client Server Leader

(\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 9,400	\$10,500
Services	<u>3,135</u>	<u>4,797</u>	<u>5,602</u>	<u>6,200</u>	<u>6,900</u>	<u>7,500</u>
Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$16,300	\$18,000
% Growth	23.7%	37.9%	6.1%	5%	12%	11%
Operating Profit	\$ 1,612	\$ 13	\$ 528	\$ 750	\$ 1,900	\$ 2,100
% of Revenue	17.2%	0.1%	3.8%	5%	12%	12%
ROA	14.6%	0.7%	3.5%	4%	11%	11%
ROE	18.9%	0.9%	4.9%	6%	15%	16%

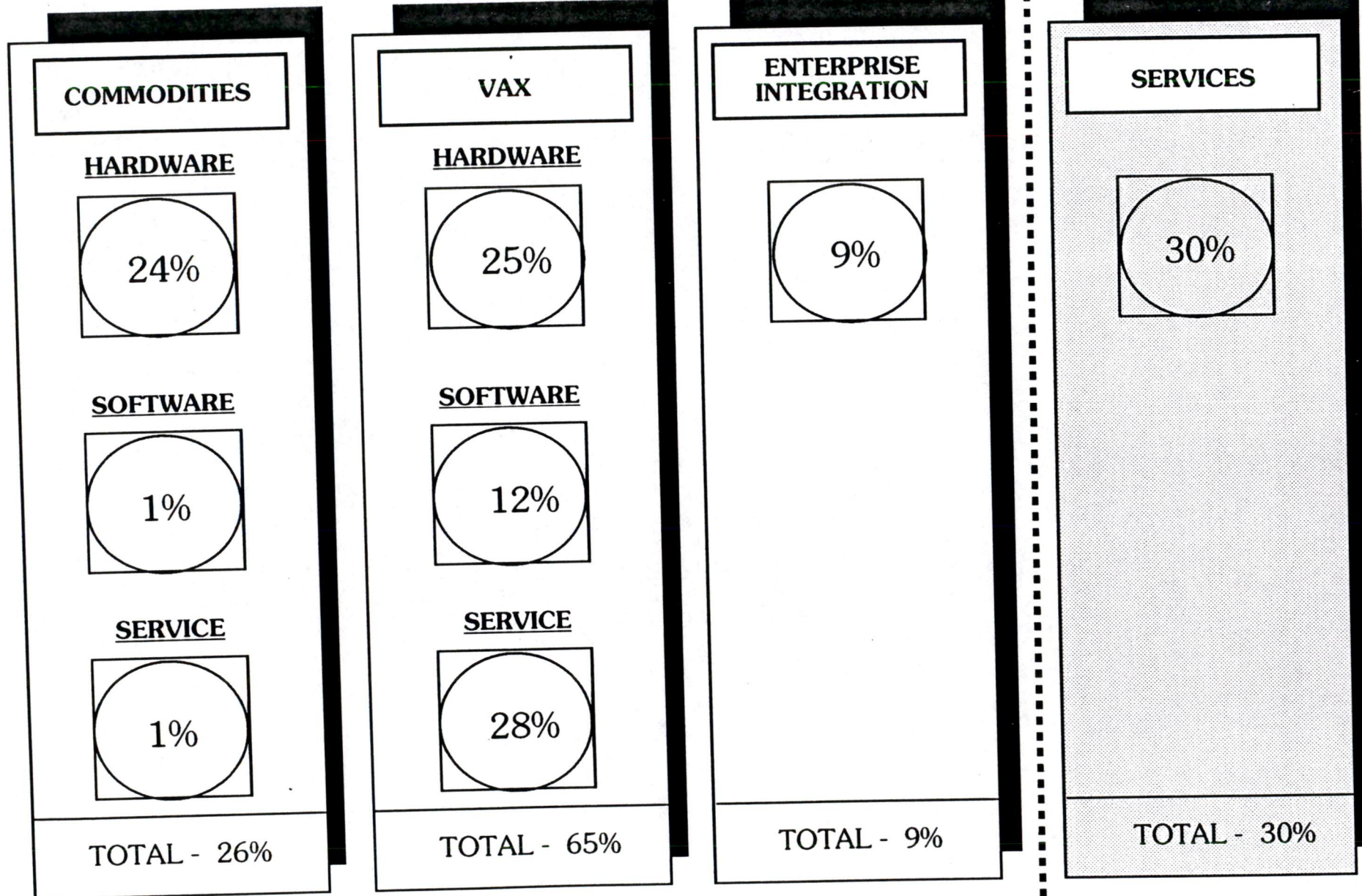
Note: FY93 and 94 reflect growth higher than industry

Growth Scenarios

(\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
REVENUE						
Traditional Total Company	\$ 9,389	\$12,943	\$13,738	\$14,400	\$15,100	\$16,000
Industry Growth					16,100	17,600
Open Systems/Market Leader					16,300	18,000
OPERATING PROFIT						
Traditional Total Company	\$1,612	\$ 13	\$ 528	\$ 750	\$1,200	\$ 1,800
% of Revenue	17.2%	0.1%	3.8%	5%	8%	11%
Industry Growth					\$1,900	\$2,100
% of Revenue					12%	12%
Open System/Market Leader					\$1,900	\$2,100
% of Revenue					12%	12%
ROA						
Traditional Total Company	14.6%	0.7%	3.5%	5%	6%	9%
Industry Growth					11%	11%
Open systems/Market Leader					11%	11%
ROE						
Traditional Total Company	18.9%	0.9%	4.9%	6%	8%	11%
Industry Growth					15%	16%
Open Systems/Market Leader					15%	16%

Digital Business Environment -FY90



Source: FY90 Product Financial Performance Reporting and Service Reports

Digital Restricted Distribution
CFG:JC:BUSMOD-CURRENT-Rev2

FY90 Revenue

COMMODITIES

HARDWARE

LED	\$ 460 M
MLDS	1184
TOPS	484
Video	325
PC	83
Hardcopy	364
RISC	<u>309</u>

\$ 3209 M

SOFTWARE

TOPS	\$ 4 M
Hardcopy	4
OSG	<u>75</u>

\$ 83 M

SERVICE

DTS	\$ 6 M
-----	--------

TOTAL \$ 3298 M
26 %

VAX

HARDWARE

CPU	\$ 1352 M
NAC	823
Cluster	115
Memories	<u>983</u>

\$ 3273 M

SOFTWARE

SSEM	\$ 905 M
DBS	33
SDT	256
TP/AP	109
NAC	<u>274</u>

\$ 1577 M

SERVICE

HPS	\$ 2637 M
SPS	837
DAS	<u>204</u>

\$ 3678 M

TOTAL \$ 8528 M
65%

ENTERPRISE INTEGRATION

PSS	\$ 559 M
DCSS	\$ 32 M
NWSS	245
RCS	<u>32</u>

\$ 309 M

FMS	\$ 12 M
-----	---------

ES	\$ 237 M
----	----------

TOTAL \$ 1117 M
9%

SERVICES

HPS	\$ 2637 M
SPS	837
DAS	204
DTS	<u>6</u>

\$ 3684 M

FMS	\$ 12 M
-----	---------

ES	\$ 237 M
----	----------

TOTAL \$ 3933 M
30%

Source: FY90 Product Financial Performance Reporting and Service Reports

Digital Restricted Distribution

CFG:JC:BUSMOD-CURRENT-Rev2

Digital Results vs. Composite Model

(\$ Millions)

	<u>FY91 Q3 YTD</u>			<u>Latest 4 Quarters (Q490, Q191, Q291, Q391)</u>		
	<u>Actual*</u>	<u>Model</u>	<u>B/(W) Model</u>	<u>Actual*</u>	<u>Model</u>	<u>B/(W) Model</u>
Revenue	\$ 9966	\$ —	\$ —	\$13,331	\$ —	\$ —
Cost of Sales	5254	5701	447	7073	7625	552
Sales, Gen & Admin.	3191	2312	(879)	4247	3093	(1154)
Research & Devlpmt.	1204	737	(467)	1617	986	(631)
Operating Profit	318	1216	(898)	394	1626	(1232)
Net Income	254	781	(527)	337	1045	(708)
Average Assets	\$11,788	\$ 7119	\$(4669)	\$11,690	\$9,522	\$(2,168)
Asset Turns	1.1x	1.4x	(.3)x	1.1x	1.4x	(.3)x
ROA	2.9%	11.1%	(8.2)%	2.9%	11.1%	(8.2)%
Leverage	1.4	1.9	.5	1.4	1.9	.5
ROE	4.1%	21.2%	(17.1)%	4.0%	21.2%	(17.2)%

* Excludes Restructuring Charge

COMPETITOR PROFITABILITY MODELS
Most Recent 3-Year Average As Reported

TOTAL SOLUTION VENDORS

<u>% OF REVENUE</u>	<u>DIGITAL</u>	<u>IBM</u>	<u>HEWLETT PACKARD</u>
Latest Year Revenue (\$M)	\$12,943	\$69,018	\$13,233
Revenue	100%	100%	100%
Cost Of Sales	50	44	51
Sales, Gen. & Admin.	29	32	28
Research & Developmt.	12	10	11
Operating Income	9	14	10
Inventory Turns	4.1	3.0	3.7
Dso	81	104	70
Pp&E Turns	4.1	2.5	4.2
Operating Asset Turns	1.7	1.2	1.5
Rooa	11.3%	9.7%	10.1%
Asset Turns	1.2	0.8	1.2
Roa	8.2%	6.7%	8.1%
Leverage	1.4	1.9	1.7
Roe	11.3%	12.6%	14.0%
Optg Assets/Employee (\$K)	\$ 59.1	\$ 139	\$ 74
Revenue/Employee (\$K)	\$ 100.9	\$ 168	\$ 130
Revenue Growth	6%	8%	16%
Optg Profit/Employee (\$K)	\$ 8.1	\$ 23	\$ 13
Cost/Employee (\$K)	\$ 90.6	\$144.3	\$117.3
PAT %	7%	8%	7%

COMPETITOR PROFITABILITY MODELS

Most Recent 3-Year Average As Reported

HARDWARE VENDORS

<u>% of Revenue</u>	<u>Amdahl</u>	<u>Compaq</u>	<u>Sun</u>	<u>Silicon Graphics</u>	<u>Stratus</u>	<u>Seagate</u>	<u>Conner</u>	<u>Dell*</u>	<u>3Com</u>
Latest Year Revenue	\$ 2101	\$ 3599	\$ 2466	\$ 420	\$ 404	\$ 2413	\$ 705	\$ 389	\$ 419
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Sales	57	59	56	47	40	83	76	70	49
Sales, Gen. & Administrative	16	19	24	32	32	7	9	20	29
Research & Development	13	5	13	12	13	4	5	4	10
Operating Income	14	17	7	9	15	6	10	6	12
Inventory Turns	3.4	4.1	7.3	2.3	2.8	4.7	5.5	4.9	6.4
DSO	89	56	64	97	94	47	75	44	48
PP&E Turns	4.5	5.3	7.8	9.1	7.3	4.8	7.3	21.4	12.5
Operating Asset Turns	1.6	2.0	2.6	1.7	1.9	1.9	2.1	3.2	3.5
ROOA	15.1%	25.1%	11.8%	11.5%	18.7%	7.5%	14.2%	9.8%	25.4%
Asset Turns	1.1	1.6	1.5	1.2	1.4	1.3	1.5	2.8	1.8
ROA	10.5%	19.3%	6.9%	7.9%	14.5%	4.9%	10.4%	8.6%	13.5%
Leverage	2.0	1.6	2.0	1.6	1.4	2.6	2.3	2.1	1.2
ROE	20.6%	30.9%	13.6%	12.6%	20.4%	12.6%	24.3%	17.9%	16.7%
Operating Assets/Employee (\$K)	\$ 145	\$ 206	\$ 72	\$ 103	\$ 108	\$ 26	\$ 52	\$ 93	\$ 62
Revenue/Employee (\$K)	\$ 228	\$ 422	\$ 190	\$ 177	\$ 200	\$ 50	\$ 109	\$ 302	\$ 214
Revenue Growth	18%	32%	53%	66%	23%	38%	150%	56%	29%
Operating Profit/Employee (\$K)	\$ 33	\$ 74	\$ 14	\$ 16	\$ 30	\$ 3	\$ 11	\$ 17	\$ 25
Cost/Employee (\$K)	\$194.3	\$347.7	\$176.1	\$160.6	\$170.2	\$ 46.6	\$ 97.8	\$226.8	\$187.9
PAT %	10%	12%	5%	7%	10%	4%	7%	3%	7%

*Two year average

Digital Restricted Distribution

CFG:JC:BUSMOD-CURRENT-Rev2

COMPETITOR PROFITABILITY MODELS
Most Recent 3-Year Average As Reported

SOFTWARE VENDORS

% of Revenue	<u>Lotus</u>	<u>ASK</u>	<u>Oracle</u>	<u>Microsoft*</u>	<u>Novell*</u>
Latest Year Revenue (\$ M)	\$ 556	\$ 208	\$ 971	\$ 1183	\$ 498
Revenue	100%	100%	100%	100%	100%
Cost of Sales	19	50	17	24	34
Sales, General & Administrative	48	35	53	31	35
Research & Development	16	8	9	14	10
Operating Income	17	7	21	31	21
Inventory Turns	5.9	18.9	N/A	5.6	6.4
DSO	52	96	169	50	65
PP&E Turns	5.5	20.0	6.2	4.3	8.3
Operating Asset Turns	2.8	3.1	1.6	2.4	2.8
ROOA	39.4%	16.9%	21.1%	54.3%	40.1%
Asset Turns	1.2	1.3	1.3	1.2	1.4
ROA	16.3%	6.8%	17.3%	27.4%	19.1%
Leverage	2.1	1.5	2.0	1.2	1.3
ROE	33.8%	10.0%	34.3%	33.0%	23.9
Operating Assets/Employee (\$K)*	\$ 69	\$ 122	\$ 85	\$ 62	\$ 58
Revenue/Employee (\$K)*	\$ 193	\$ 379	\$ 136	\$ 153	\$ 165
Revenue Growth	19%	21%	86%	42%	20%
Operating Profit/Employee (\$K)*	\$ 32	\$ 28	\$ 28	\$ 49	\$ 34
Cost/Employee (\$K)	\$160.8	\$176.0	\$108.8	\$103.8	\$129.9
PAT %	14%	6%	13%	22%	14%

* 2 year average

COMPETITOR PROFITABILITY MODELS
Most Recent 3-Year Average As Reported

SERVICE VENDORS

% of Revenue	<u>Bell Atlantic</u>	<u>Computer Sciences Corp.</u>	<u>EDS</u>	<u>Grumman</u>
Latest Year Revenue	\$11449	\$ 1500	\$ 6022	\$ 3506
Revenue	100%	100%	100%	100%
Cost of Sales	59	82	78	91
Sales, General & Administrative	19	10	11	6
Research & Development*	N/A	N/A	N/A	N/A
Operating Income	22	8	11	3
Inventory Turns	45.7	N/A	60.0	3.9
DSO	40	91	40	68
PP&E Turns	1.2	10.6	4.8	6.6
Operating Asset Turns	1.0	2.9	3.0	1.8
ROOA	11.2%	11.9%	24.7%	3.2%
Asset Turns	0.8	1.7	1.4	1.5
ROA	9.2%	7.1%	11.7%	2.8%
Leverage	3.1	2.0	2.3	1.8
ROE	28.2%	14.5%	27.1%	5.0%
Operating Assets/Employee (\$K)	\$ 135	\$ 23	\$ 33	\$ 63
Revenue/Employee (\$K)	\$ 136	\$ 66	\$ 100	\$ 111
Revenue Growth	5%	14%	13%	3%
Operating Profit/Employee (\$K)	\$ 30	\$ 6	\$ 11	\$ 4
Cost/Employee (\$K)	\$105.9	\$ 60.1	\$ 88.9	\$107.2
PAT %	11%	4%	8%	2%

* Research & Development included in Cost of Sales

Competitor Profiles

CONNER

- o Designs, manufactures, and markets high performance 3 1/2" and 2 1/2" Winchester Disk Drives
- o Primary business approach is to sell, design, and then build to customer specifications; They will not design, build, or try to sell disk drives until they have a high level of confidence in future orders from a major customer
- o Fastest growing start up in U.S. history; First to reach \$1B in four years
- o Simplify everyday operations in order to protect against bureaucracy
- o Compaq owns 21% of stock; In 1986 Compaq accounted for 90% of revenue; in 1990 25% of revenue
- o Reduce product costs through improved designs rather than increased volumes or vertical integration
- o Manufacturing strategy is to rely principally on outside vendors to supply high level subassemblies. Volume production takes place overseas after R&D and initial production in the U.S.; Vendors are in Asia and the U.S.
- o In June 1990, 6% of the 6,900 employees were in R & D, 3% in sales, 3% in F & A, 60% in direct labor. 80% of the employees are outside the U.S. with 60% in Singapore
- o Sales offices in California, Massachusetts, Texas, Japan, England, France, Germany, South Korea, Taiwan
- o The sell, design, build approach allows Conner to avoid some R & D risks and allows for flexibility and fast product changes; Products improve in small steps

Competitor Profiles

SUN MICROSYSTEMS

- o Leader in worldwide workstation market
- o Strategy: Retain leadership in price, performance, and technical innovation while establishing new industry standards
- o 15% owned by AT&T, Fujitsu has equity stake as well
- o 52% of revenues from U.S. and Canada
- o Core technology is spare microprocessor architecture which is being widely licensed to expand SPARC compatible base and encourage software development
- o Motorola based products have been transitioned to SPARC
- o SPARC Compliance Definition compliant systems range from portable (Toshiba) to minicomputer (ICL) to supercomputer (FPS)
- o Recent reorganization formed SunSoft software sub-division and SunTech "tools development" sub-division

SILICON GRAPHICS

- o Primary product line is "super workstations and servers"
- o International sales 39% of 1990 total
- o Direct sales force expanding
- o Setting standards developed IBM compatible PC graphics board
- o Silicon Graphics was #5 in workstations market in 1989 with a 5% share according to Dataquest
- o Manufacturing capacity in Europe meets international demand
- o Equity investment from NKK of Japan, will act as distributor in Japan
- o CDC owns 5% of the company
- o Strategy: low-cost, high performance products; broaden software base; expand potential markets

Competitor Profiles

AMDAHL

- Focus on IBM compatible mainframes
- Timely, lower-priced clones
- Fujitsu owns 49.5%, markets Amdahl products in Far East, provides components at discount prices, participates in joint development
- Distributes primarily through indirect channels
- 51% of 1989 revenue was domestic
- CPU prices are being cut while high-end storage prices are increasing

STRATUS

- Primary product line: Mid-range computer systems for fault-tolerant mission critical applications
- Offer UNIX overlay option
- Average system value \$500K
- Hardware/software split is 85%/15%
- 90% of 1989 revenue from U.S.
- IBM resells equipment and accounted for 35% of product revenue and 31% of service revenue in 1989; This percent is expected to decrease over time
- Distribution channels include direct sales force; growing number of distributors; OEM relationships with IBM and Olivetti
- Aggressive international expansion strategy
- ISDN integration development efforts, AT&T alliance

Competitor Profiles

COMPAQ

- o Position PC products as highest quality IBM clone
- o Aggressive European strategy
- o Multi-vendor open systems strategy
- o Use of standards allows lower Reserach & Development spending
- o Have broadened product breadth to include higher-end PC's, Servers, Workstations
- o Aggressive pricing at low-end, premium at high-end
- o Primary channels - distributors, VAR's

DELL

- o 1990 Sales: 48% small business/individuals; 41% national accounts, 11% VAR's
- o Focus on high quality, high performance, custom-configured products at "reasonable" prices
- o Emphasis on customer staisfaction
- o Concentrate on mainstream PC products early to market
- o Distribution primarily through mail order and resellers
- o 77% domestic
- o Offer service contracts through Xerox

Competitor Profiles

NOVELL

- Primary lines of business: software and hardware for PC LANs
- Strategy is to get out of hardware business and license out technology
- Multiple reseller agreements with large hardware vendors
- Joint venture with Softbank Japan for adaptation to Japanese market; Alliance includes development partnerships with: Sony, Toshiba, Canon, Fujitsu and NEC
- Expanding direct sales force - the primary focus on Fortune 500
- Restructured sales organization from geographic to market focus
- Strategy to run on all platforms - currently UNIX, Apple, MS/DOS, OS/2
- Export sales were 35% in 1989 vs. 24% in 1987
- XBridge product will allow access to WAN market
- Novell fought off a takeover attempt by Lotus last spring

COMPUTER SCIENCES CORP.

- Primary lines of business - prepackaged software; computer management consulting, data processing and credit reporting
- Historically over 60% of business in federal government sector
- Goal - move into commercial consulting
- Expertise is in developing software
- Recently sold off credit reporting and telecom units
- Aggressive acquisition and alliance campaign in Systems Integration business, includes acquisition of 6 domestic and European companies to date

Competitor Profiles

ELECTRONIC DATA SYSTEMS (EDS)

- o An information and communications services company providing information processing, consulting, systems management, systems integration, and communication services.
- o Acquired by General Motors in 1984; operates as an independent subsidiary of GM; GM accounted for 53% of revenue in 1990, down from 59% in 1988. Most services EDS provides for GM is paid for by fixed price, multi-year agreements
- o In 1989 it is estimated 85% of business was domestic, 15% international. There are operations in 28 countries.
- o EDS believes there's a widening gap between the technology curve and IS directors ability to use that curve. That gap is EDS's marketplace.
- o EDS has positioned itself to cash in on the outsourcing trend and is building a national network of data centers and acquiring considerable vertical market expertise.
- o Breakout of % of NOR in 1989:
 - System management 78%
 - Systems integration 11%
 - Development 10%
 - Consulting 1%
- o Buys many smaller businesses that fit or expand its systems expertise; own shares of businesses that contract out work to EDS
- o Follows a strategic business unit strategy with each unit having authority, responsibility and control of its own strategy. The SBU's are focussed on specific markets, customers and products.

Competitor Profiles

LOTUS

- Primary product line - application software packages for use with PC's
- Expanding product offerings to lessen reliance on spreadsheet package revenue
- In the last year has acquired CC:Mail for \$25M, Samna for \$65M, and owns 15% of Sybase with an option to buy another 10%. CC:Mail allows Lotus to move into the electronic mail market; Samna gives a presence in the graphical word processing market; Sybase is in the RDB segment
- Lotus 1-2-3 is estimated to have captured 64% of the \$660M 1990 spreadsheet market
- Microsoft and Lotus will jointly develop high level links between their products, allowing more of a single standard
- Lotus channels include distributors and direct sales
- Sales strategy is changing in that individual account representation will be stressed less and resources will be aimed at mid-tier and smaller businesses
- Slowing sales growth and expansion into new markets has resulted in implementation of cost controls and consolidations. In August 1990 they eliminated 40 positions via layoffs and absorption of work, and aimed for a 50% reduction in travel and entertainment

Competitor Profiles

ORACLE

- o Develops and markets computer software products used for database management, applications development, decision support and computer network communication
- o Strategy is to increase the breadth and quality of its products
- o International revenue was 49% of total in 1990 and management expects to see continued improvement in foreign business, particularly Europe and the pacific
- o License revenue has declined while service revenue has grown. Unix applications license revenue increased to 36% of license revenue in 1990 from 27% in 1988. VMS applications license revenue has fallen to 42% of license revenue from 47% in 1988. Service revenues have risen to 29% of total revenue in 1990 from 27% in 1988.
- o Oracle's direct sales method has a high level of cost associated; With its change of focus, much attention will be paid to large customer sites including offering on-site support.
- o Hewlett-Packard and Oracle agreed to sell each other's products in October 1990.
- o Oracle said they are increasing emphasis on quality and casting off its prior history of "win at any cost" sales strategy
- o Restructured in September 1990 when 10% of the U.S. work force was laid off and 2 of it's 5 level sales heirarchy were eliminated; Savings are estimated to be at least \$24M a year.

Competitor Profiles

BELL ATLANTIC

- o Engaged in providing communication services such as Cellular Mobile communication products; Distributing, servicing and repairing computers; Marketing and maintaining customer premises equipment to originate, route, or receive telecommunication; and providing software for telecommunication and computer networking
- o Bell Atlantic is the parent company for a diversified group of subsidiaries.
 - Seven telephone operating companies provide voice and data communications services
 - Other communications and related services, including Bell Atlantic Mobile systems, and the Business Systems group.
 - Financial and Real Estate services will no longer be a mainstream business and will not grow significantly
- o Revenue mix:
 - 86% telephone operating companies
 - 8% business systems group/Mobile systems
 - 6% financial/real estate services
- o International operations will become an increasing source of revenue and growth beginning in 1991. Bell's stated goal is to achieve \$1.5B in revenue contributions from international operations by 1995. Currently estimated at \$650M in international operations

Competitor Profiles

3COM

- o Designs, builds, sells and supports network systems based on industry standards on open system architecture
- o New strategy will concentrate on internetworking hardware and they will drop out of the LAN operating system business. They will remain a LAN Manager OEM, but will stop marketing 3+ open for other PC servers
- o In implementing this strategy 3Com laid off 12% of its 1,953 employees and assigned its LAN Manager 2.0 products to Microsoft in return for cancellation of a \$25M licensing fee. 3Com is also looking to sell its file server, network station, and gateway operations
- o Introduced a distribution channel in 1990 that resulted in improved sales from the reseller channel. Q4 FY90 saw 76% of sales via resellers, up from 20% in Q1 FY90.
- o International sales made up 40% of revenue in 1989 versus 33% in 1988. International sales is the fastest growing segment of the business.
- o R & D was 10% of revenue in 1990 and was used primarily for new products; Redesign of existing products resulted in lower manufacturing costs.
- o Working with IBM to develop new specifications for network management that will manage equipment on Mixed Token-Ring and Ethernet networks while preserving memory on the desktop.
- o Hewlett-Packard owns 5% of 3Com in a joint development and marketing alliance

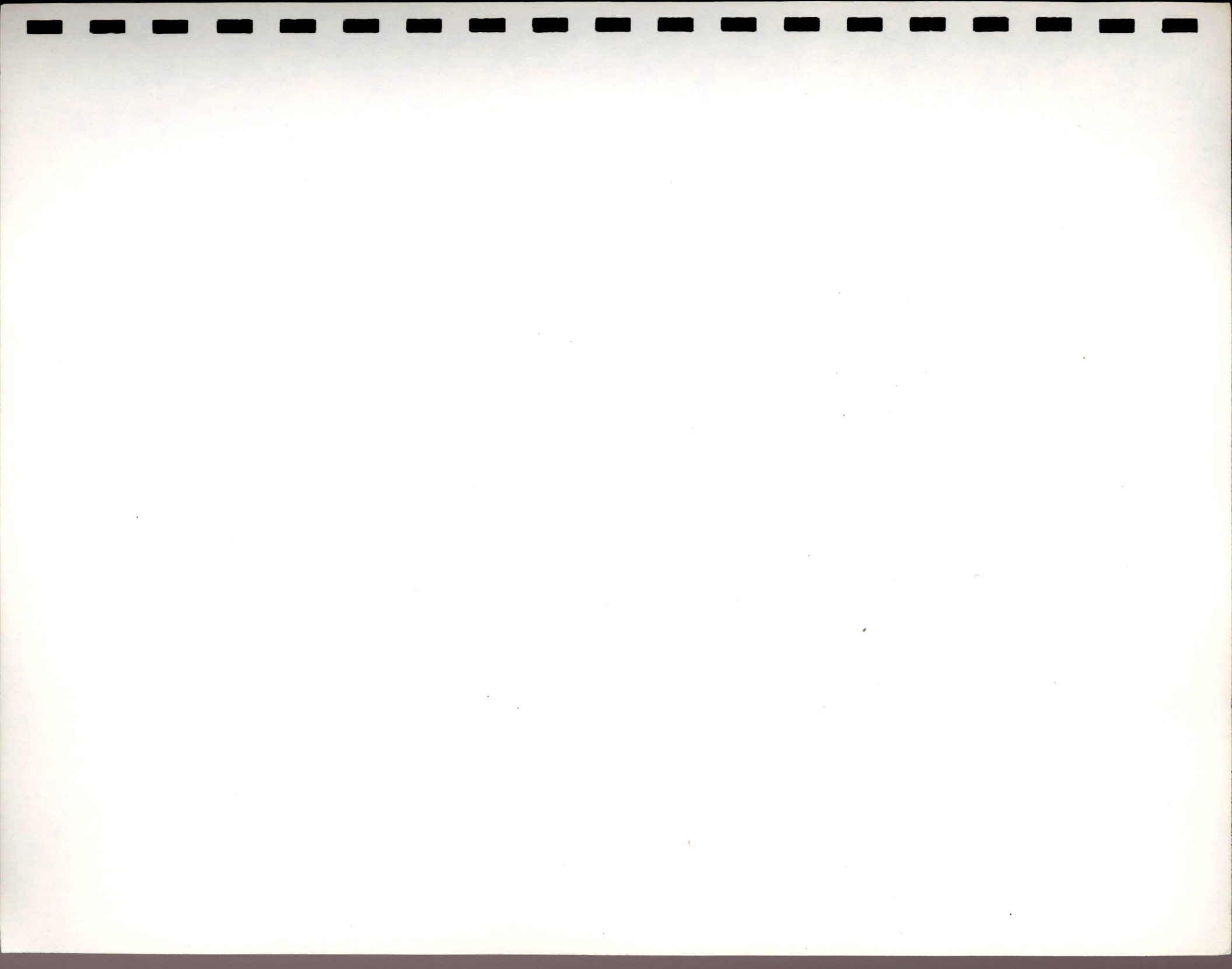
Competitor Profiles

SEAGATE

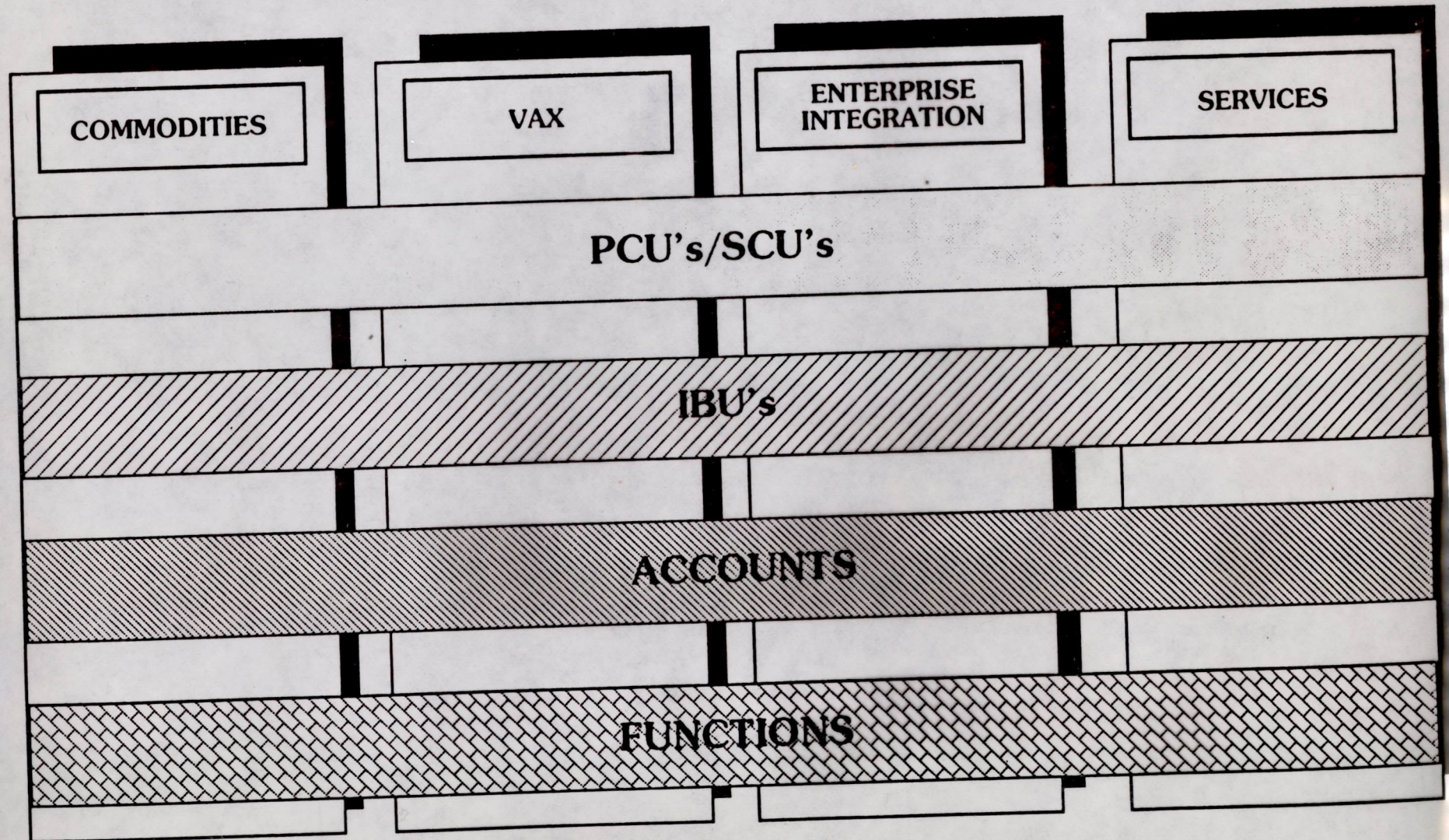
- Leader in \$7B market for compact disk drives
- Focus on quality, time-to-market, low-cost volume production
- Follow pioneering smaller firm's technology
- 1989 acquisition of Imprimis from CDC doubled revenue
- International sales in 1989 were 48% of total
- Only 29% of workforce in U.S. - worldwide manufacturing capacity
- Target market - high-end for data intensive users
- Broad product line, laptop to supercomputer (14 new products introduced in November 1990)
- Alliances with NCR and Cray

MICROSOFT

- Cross-licensing agreements with IBM
- Primary product line: Systems and Applications microcomputer software for business (40 different product offerings)
- Have entered Systems Integration market
- Estimated 20% market share in PC spreadsheets
- Revenue increases attributed to volume, not price
- Expanding sales and support staff in 1990
- Experiencing shift in mix towards higher margin software applications
- International revenue comprised 55% of 1990 total
- Aggressive incentive campaign to transition to Windows which comprised 7% of 1990 revenue
- Target markets for 1990's: Networks and Graphics
- Currently under investigation for potential anti-trust violations in MS/DOS market



Digital Business Environment



Digital Business Environment - Typical Products

COMMODITIES

UNIX Systems

UNIX Software

Personal Computer

PC Integration

Terminals

Ethernet

Storage

Maintenance

VAX

VAX Systems

VAX Software

Solutions

Maintenance

Networking

ENTERPRISE INTEGRATION

Banking

Insurance

Retail

Education

Healthcare

Government

Science

Professional Services

Telecommunications

SERVICES

Traditional Customer
Services

Maintenance

Customer Training

Special Systems

NMS Business Unit Structure

COMMODITIES

PRODUCT CREATION UNITS

HARDWARE

INT Intel/SCO
 PCS DecStation
 DSG Disks & Subsystems Group
 TOPS Tapes & Optical Products
 PTG Process Technology
 ESD Electronic Storage Dev.
 VIPS Video & Hardcopy
 PCI PC Integration
 RSC RISC Business
 LENAC Low-End Networks
 & Communications

SOFTWARE

OSG Open Systems Software Grp.

SERVICE CREATION UNITS

DTS Desktop Services

VAX

PRODUCT CREATION UNITS

HARDWARE

VAX 9000
 FTS Fault-Tolerant Systems
 MSB Mid-Range Systems Business
 ESB Entry Systems Business
 WST VAX Workstations Business
 SCO Semiconductors
 MSD Microsystems Development
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 NTS NAS Transaction Services
 NSS NAS Security Services
 NUF NAS User Frameworks
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 NIS NAS Information Services
 NDC NAS Distributed Computing
 NTS NAS Transaction Services
 CBN Corporate Backbone Ntwk.
 LAA Local Area Access
 LAN Local Area Network
 CLS Clusters
 Image/Voice/Human Interface

SERVICE CREATION UNITS

HPS Hardware Product Services
 SPS Software Product Services
 CT Customer Training

ENTERPRISE INTEGRATION

MBU's/IBU's

Healthcare
 Environmental
 Banking & Investment
 Insurance
 Media
 Telecommunications
 Utilities
 Wholesale/Retail
 Travel/Transportation
 Engineering
 Education/Science
 State & Local Government
 U.S. Federal Government
 Small to Medium Enterprise
 Professional Services
 CIM M&PD
 Sales & Distribution
 Research & Development Systems
 Component Business Group
 Finance & Accounting
 Office
 Electronic Publishing
 Application Development Systems
 Multi-Vendor Integration
 Corporate Information Systems
 Departmental Information Systems
 Software Development Depts.
 CALS/CE
 Systems Integration
 Massively Parallel Systems
 Workstations
 Information Systems Business
 IS/Operations Management
 Technical OEM Business

SERVICE CREATION UNITS

DCS Digital Consulting Service
 NWSS Network & Site Services
 OSS Operations & Site Services
 APS Application Project Services
 CSS Computer Special Systems

SERVICES

SERVICE CREATION UNITS

DTS Desktop Services
 HPS Hardware Product Services
 SPS Software Product Services

CSS Computer Special Systems

CT Customer Training

Key Characteristics

COMMODITIES

Low cost in all areas
Indirect channels
Price competitive
Low customer support
High volume/Low cost mfg.
Time to market
Undifferentiated
Primarily desktop & peripherals
High velocity
Short cycle times
Short product lifecycles
Value through perceived differentiation
Low complexity
Standard components

VAX

Strong customer relationship
Significant value add
High availability
Ease of information management
Direct sales channels
Value through functionality
Higher complexity
Work group solutions
Medium sales cycle
Mass customization

ENTERPRISE INTEGRATION

Customer defines product
Labor intensive
Requires high expertise
High fixed costs
Long delivery cycle
Low assets
Information delivery
High value add
Market pull
Leadership applications
Highest complexity
Long sales cycle
Unique enterprise wide solutions
Long term contracts
Full customization as perceived by customer
Project management imperative

SERVICES

Labor intensive
Quick response essential
Lower asset base than product business
Remedial
- large annuity business
- sales cycle tied to hardware
Standardization imperative
Excellent logistics key to lowest cost of delivery

Dynamic Environment

	<u>FY87</u>	<u>FY90</u>	<u>FY94*</u>
Economy Worldwide GNP Growth Inflation	Strong 3.4% 2.6%	Weak 2.5% 4.7%	Strong 3.1% 3.3%
Industry Size Growth	\$197 B 13%	\$287 B 12%	\$422 B 9%
Style of Computing	Proprietary	Commoditization	Open Systems
Digital Estimated: Market Share**	4.8%	4.5%	4.3%
Revenue Mix Hardware/Software U.S./International Products/Services	80/20 53/47 67/33	70/30 45/55 63/37	60/40 40/60 57/43
Product Mix % Over \$500 KASV VAX/RISC Hardware High-Mid/Low	44% 100/0 60/40	0% 95/5 48/52	10% 60/40 40/60
Distribution Channels Direct/Indirect	70/30	72/28	???
Price/Performance	High volume increase High price/unit increase	High volume increase Decreasing price/unit	High volume increase Decreasing price/unit
Company View	Single Model	Single Model	Four Model

* Estimated Outlook

** Estimated based on Infocorp Market Data

Digital Restricted Distribution

Niche Competitors in each Business Area

COMMODITIES

HARDWARE

Sun
Compaq
Dell
3 Com
Conner
Seagate

SOFTWARE

Lotus
Microsoft

VAX

HARDWARE

Amdahl
Silicon Graphics
Stratus

SOFTWARE

Oracle
Novell
ASK

ENTERPRISE INTEGRATION

Computer Sciences
Corp.
EDS

SERVICES

Bell Atlantic
Grumman

Aggregate Competitive Business Models

COMMODITIES

Revenue	100%
Cost of Sales	70
Sales, Gen &Admin.	15
Research & Devlpmt.	7
Operating Income	8
Revenue/Employee (\$K)	\$136
ROA	8%
Inventory Turns	5.5x
DSO	55
PP&E Turns	7.9x
Operating Asset Turns	2.4x
Asset Turns	1.6
ROOA	13.0%
Leverage	2.2
ROE	18%
Optg. Assets/Emp(\$K)	\$ 54
Revenue Growth	46%
Optg. Profit/Emp(\$K)	\$ 13

VAX

Revenue	100%
Cost of Sales	38
Sales, Gen &Admin.	36
Research & Devlpmt.	11
Operating Income	15
Revenue/Employee (\$K)	\$185
ROA	13%
Inventory Turns	3.6x
DSO	101
PP&E Turns	8.1x
Operating Asset Turns	2.0x
Asset Turns	1.3x
ROOA	21%
Leverage	1.5
ROE	21%
Optg. Assets/Emp(\$K)	\$ 96
Revenue Growth	28%
Optg. Profit/Emp(\$K)	\$ 27

ENTERPRISE INTEGRATION

Revenue	100%
Cost of Sales	78
Sales, Gen &Admin.	11
Research & Devlpmt.	N/A
Operating Income	11
Revenue/Employee (\$K)	\$ 97
ROA	11%
Inventory Turns	54x
DSO	45
PP&E Turns	5.4x
Operating Asset Turns	3.0x
Asset Turns	1.5
ROOA	23%
Leverage	2.3
ROE	26%
Optg. Assets/Emp(\$K)	\$ 32
Revenue Growth	13%
Optg. Profit/Emp(\$K)	\$ 11

SERVICES

Revenue	100%
Cost of Sales	71
Sales, Gen &Admin.	14
Research & Devlpmt.	N/A
Operating Income	15
Revenue/Employee (\$K)	\$ 108
ROA	12%
Inventory Turns	42.3x
DSO	50
PP&E Turns	4.5x
Operating Asset Turns	2.2x
Asset Turns	1.3
ROOA	19%
Leverage	2.6
ROE	30%
Optg. Assets/Emp(\$K)	\$ 72
Revenue Growth	10%
Optg. Profit/Emp(\$K)	\$ 18

Competitive Business Model

Best-in-Class

COMMODITIES	VAX	ENTERPRISE INTEGRATION	SERVICES
Revenue 100%	Revenue 100%	Revenue 100%	Revenue 100%
Optg. Profit 18%	Optg. Profit 15%	Optg. Profit 11%	Optg. Profit 22%
ROA 20%	ROA 15%	ROA 12%	ROA 9%
ROE 27%	ROE 21%	ROE 16%	ROE 13%
<i>Compaq Hardware</i> <i>Microsoft Software</i>	<i>Stratus Hardware</i> <i>Novell Software</i>	<i>EDS</i>	<i>Bell Atlantic</i>

Note: ROE @ Digital's Capital Structure

Digital

FY91 YTD and FY90 Results *

Compared with Alternative Business Models

	<u>Q3 YTD FY91 Actual</u>	<u>FY90 Actual*</u>	<u>Aggregate Competitive Bus. Model</u>	<u>Best in Class Bus. Model</u>	<u>Current Digital Bus. Model</u>	<u>Alternative Digital Bus. Model</u>
Revenue	100%	100%	100%	100%	100%	100%
Cost Of Sales	53	53	57			
Sales, Genral & Admin.	32	31	23			
Research & Development	12	12	8			
Operating Profit	3	4	12	15	17	10
Net Income	3%	4%	8%	11%	12%	7.5%
Asset Turns	1.1x	1.2x	1.4x	1.5x	1.3x	2.1x
ROA	2.9%	4.7%	11.2%	16%	16%	16%
Digital Leverage**	1.4	1.4	1.4	1.4	1.4	1.4
ROE	4.1%	6.5%	16%	22%	22%	22%
Aggregate Competitive Leverage			1.9			
ROE			21%			

*Excludes Restructuring

** Leverage = Average Assets/Average Equity

Competitive Business Models Cost Structure Implications (\$ Mils)

	<u>FY92 Outlook</u>	<u>FY92 Outlook at Model Structure</u>	<u>FY92 Outlook B/(W) Model</u>
Revenue			
Products	\$ 8,219	\$ 8,219	\$ --
Services	<u>6,174</u>	<u>6,174</u>	<u>--</u>
Total Revenue	\$14,393	\$14,393	\$ --
Total Expense	\$13,632	\$12,686	\$(946)
Operating Profit	\$ 761	\$ 1,707	\$(946)
Profit Margin	5.3%	11.8%	(6.5)%
Headcount	108,900	93,900	(15,000)
Asset Turns	1.2	1.4	(0.2)
Average Assets	\$11,700	\$10,287	\$(1,419)
ROA	4%	11%	(7)

Scenario A

Continuation of Current Environment*

(\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 8,300	\$ 8,500
Services	<u>3,135</u>	<u>4,797</u>	<u>5,602</u>	<u>6,200</u>	<u>6,800</u>	<u>7,500</u>
Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$15,100	\$16,000
% Growth	23.7%	1.6%	6.1%	5%	5%	6%
Operating Profit (\$)	\$ 1,612	\$ 13	\$ 528	\$ 750	\$ 1,200	\$1,800
% of Revenue	17.2%	0.1%	3.8%	5%	8%	11%
ROA	14.6%	0.7%	3.5%	4%	6%	9%
ROE	18.9%	0.9%	4.9%	6%	8%	11%

* Continued cost control and headcount reductions

Competitive Business Models

Industry Growth - (\$ Mils)

	COMMODITIES		VAX		ENTERPRISE INTEGRATION		TOTAL	
	<u>FY93</u>	<u>FY94</u>	<u>FY93</u>	<u>FY94</u>	<u>FY93</u>	<u>FY94</u>	<u>FY93</u>	<u>FY94</u>
Revenue	\$7720	\$8647	\$6594	\$7059	\$1769	\$1941	\$16183	\$17647
Optg Profit	\$ 664	\$ 772	\$1033	\$1112	\$ 189	\$ 208	\$ 1886	\$2092
%	9%	9%	16%	16%	11%	11%	12%	12%
ROA	9%	9%	14%	14%	11%	11%	11%	11%
ROE	12%	12%	19%	20%	16%	16%	15%	16%

Digital Restricted Distribution

CFG:JC:BUSMOD-CURRENT-Rev2

Scenario B

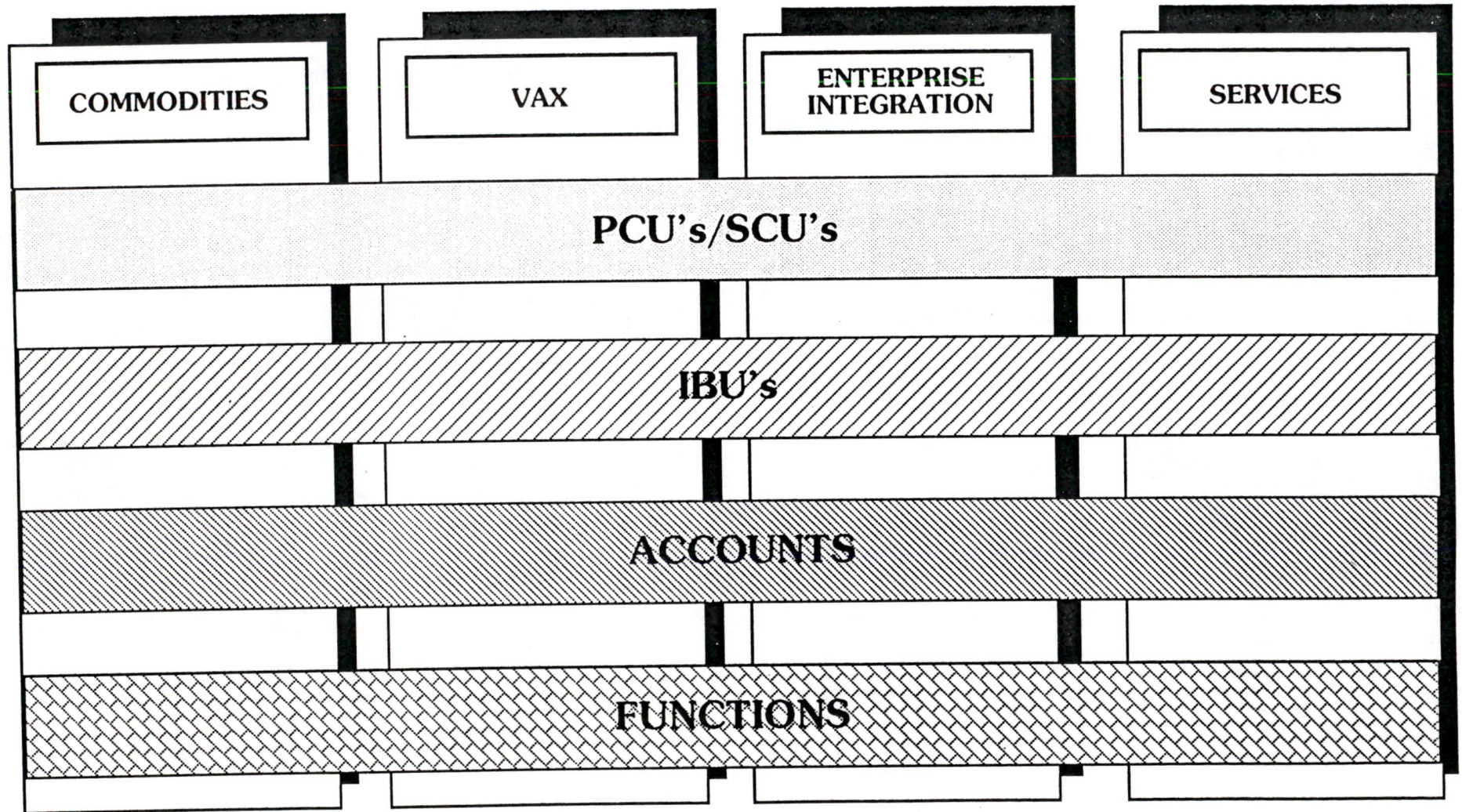
Industry Growth

(\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 9,200	\$10,100
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Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$16,100	\$17,600
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% of Revenue	17.2%	0.1%	3.8%	5%	12%	12%
ROA	14.6%	0.7%	3.5%	4%	11%	11%
ROE	18.9%	0.9%	4.9%	6%	15%	16%

Note: FY93 and 94 based on industry growth from Infocorp.

Digital Business Environment



Digital Business Environment - Typical Products

COMMODITIES

UNIX Systems
UNIX Software
Personal Computer
PC Integration
Terminals
Ethernet
Storage
Maintenance

VAX

VAX Systems
VAX Software
Solutions
Maintenance
Networking

ENTERPRISE INTEGRATION

Banking
Insurance
Retail
Education
Healthcare
Government
Science
Professional Services
Telecommunications

SERVICES

Traditional Customer
Services
Maintenance
Customer Training
Special Systems

NMS Business Unit Structure

COMMODITIES

PRODUCT CREATION UNITS

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INT Intel/SCO
 PCS DecStation
 DSG Disks & Subsystems Group
 TOPS Tapes & Optical Products
 PTG Process Technology
 ESD Electronic Storage Dev.
 VIPS Video & Hardcopy
 PCI PC Integration
 RSC RISC Business
 LENAC Low-End Networks
 & Communications

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SERVICE CREATION UNITS

DTS Desktop Services

VAX

PRODUCT CREATION UNITS

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SERVICE CREATION UNITS

HPS Hardware Product Services
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 Engineering
 Education/Science
 State & Local Government
 U.S. Federal Government
 Small to Medium Enterprise
 Professional Services
 CIM M&PD
 Sales & Distribution
 Research & Development Systems
 Component Business Group
 Finance & Accounting
 Office
 Electronic Publishing
 Application Development Systems
 Multi-Vendor Integration
 Corporate Information Systems
 Departmental Information Systems
 Software Development Depts.
 CALS/CE
 Systems Integration
 Massively Parallel Systems
 Workstations
 Information Systems Business
 IS/Operations Management
 Technical OEM Business

SERVICE CREATION UNITS

DCS Digital Consulting Service
 NWSS Network & Site Services
 OSS Operations & Site Services
 APS Application Project Services
 CSS Computer Special Systems

SERVICES

SERVICE CREATION UNITS

DTS Desktop Services
 HPS Hardware Product Services
 SPS Software Product Services

 CSS Computer Special Systems

 CT Customer Training

Key Characteristics

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Low customer support
High volume/Low cost mfg.
Time to market
Undifferentiated
Primarily desktop & peripherals
High velocity
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High availability
Ease of information management
Direct sales channels
Value through functionality
Higher complexity
Work group solutions
Medium sales cycle
Mass customization

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Labor intensive
Requires high expertise
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Long delivery cycle
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* Estimated Outlook

** Estimated based on Infocorp Market Data

Digital Restricted Distribution

CFG.JC.BUSMOD-CURRENT-Rev2

Niche Competitors in each Business Area

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HARDWARE

Sun
Compaq
Dell
3 Com
Conner
Seagate

SOFTWARE

Lotus
Microsoft

VAX

HARDWARE

Amdahl
Silicon Graphics
Stratus

SOFTWARE

Oracle
Novell
ASK

ENTERPRISE INTEGRATION

Computer Sciences
Corp.
EDS

SERVICES

Bell Atlantic
Grumman

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PP&E Turns	7.9x
Operating Asset Turns	2.4x
Asset Turns	1.6
ROOA	13.0%
Leverage	2.2
ROE	18%
Optg. Assets/Empl(\$K)	\$ 54
Revenue Growth	46%
Optg. Profit/Empl(\$K)	\$ 13

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Operating Income	11
Revenue/Employee (\$K)	\$ 97
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PP&E Turns	5.4x
Operating Asset Turns	3.0x
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Leverage	2.3
ROE	26%
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Revenue	100%
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Operating Income	15
Revenue/Employee (\$K)	\$ 108
ROA	12%
Inventory Turns	42.3x
DSO	50
PP&E Turns	4.5x
Operating Asset Turns	2.2x
Asset Turns	1.3
ROOA	19%
Leverage	2.6
ROE	30%
Optg. Assets/Empl(\$K)	\$ 72
Revenue Growth	10%
Optg. Profit/Empl(\$K)	\$ 18

Competitive Business Model

Best-in-Class

COMMODITIES	VAX	ENTERPRISE INTEGRATION	SERVICES
Revenue 100%	Revenue 100%	Revenue 100%	Revenue 100%
Optg. Profit 18%	Optg. Profit 15%	Optg. Profit 11%	Optg. Profit 22%
ROA 20%	ROA 15%	ROA 12%	ROA 9%
ROE 27%	ROE 21%	ROE 16%	ROE 13%
<i>Compaq Hardware Microsoft Software</i>	<i>Stratus Hardware Novell Software</i>	<i>EDS</i>	<i>Bell Atlantic</i>

Note: ROE @ Digital's Capital Structure

Digital Restricted Distribution
CFG:JC.BUSMOD-CURRENT-Rev2

Digital

FY91 YTD and FY90 Results *

Compared with Alternative Business Models

	<u>Q3 YTD FY91 Actual</u>	<u>FY90 Actual*</u>	<u>Aggregate Competitive Bus. Model</u>	<u>Best in Class Bus. Model</u>	<u>Current Digital Bus. Model</u>	<u>Alternative Digital Bus. Model</u>
Revenue	100%	100%	100%	100%	100%	100%
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Research & Development	12	12	8			
Operating Profit	3	4	12	15	17	10
Net Income	3%	4%	8%	11%	12%	7.5%
Asset Turns	1.1x	1.2x	1.4x	1.5x	1.3x	2.1x
ROA	2.9%	4.7%	11.2%	16%	16%	16%
Digital Leverage**	1.4	1.4	1.4	1.4	1.4	1.4
ROE	4.1%	6.5%	16%	22%	22%	22%
Aggregate Competitive Leverage			1.9			
ROE			21%			

*Excludes Restructuring

** Leverage = Average Assets/Average Equity

Competitive Business Models

Cost Structure Implications

(\$ Mils)

	<u>FY92 Outlook</u>	<u>FY92 Outlook at Model Structure</u>	<u>FY92 Outlook B/(W) Model</u>
Revenue			
Products	\$ 8,219	\$ 8,219	\$ ---
Services	<u>6,174</u>	<u>6,174</u>	<u>---</u>
Total Revenue	\$14,393	\$14,393	\$ ---
Total Expense	\$13,632	\$12,686	\$(946)
Operating Profit	\$ 761	\$ 1,707	\$(946)
Profit Margin	5.3%	11.8%	(6.5)%
Headcount	108,900	93,900	(15,000)
Asset Turns	1.2	1.4	(0.2)
Average Assets	\$11,700	\$10,287	\$(1,419)
ROA	4%	11%	(7)

Scenario A

Continuation of Current Environment*

(\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 8,300	\$ 8,500
Services	<u>3,135</u>	<u>4,797</u>	<u>5,602</u>	<u>6,200</u>	<u>6,800</u>	<u>7,500</u>
Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$15,100	\$16,000
% Growth	23.7%	1.6%	6.1%	5%	5%	6%
Operating Profit (\$)	\$ 1,612	\$ 13	\$ 528	\$ 750	\$ 1,200	\$1,800
% of Revenue	17.2%	0.1%	3.8%	5%	8%	11%
ROA	14.6%	0.7%	3.5%	4%	6%	9%
ROE	18.9%	0.9%	4.9%	6%	8%	11%

* Continued cost control and headcount reductions

Competitive Business Models

Industry Growth - (\$ Mils)

	COMMODITIES		VAX		ENTERPRISE INTEGRATION		TOTAL	
	<u>FY93</u>	<u>FY94</u>	<u>FY93</u>	<u>FY94</u>	<u>FY93</u>	<u>FY94</u>	<u>FY93</u>	<u>FY94</u>
Revenue	\$7720	\$8647	\$6594	\$7059	\$1769	\$1941	\$16183	\$17647
Optg Profit	\$ 664	\$ 772	\$1033	\$1112	\$ 189	\$ 208	\$ 1886	\$2092
%	9%	9%	16%	16%	11%	11%	12%	12%
ROA	9%	9%	14%	14%	11%	11%	11%	11%
ROE	12%	12%	19%	20%	16%	16%	15%	16%

Digital Restricted Distribution

CFG:JC:BUSMOD-CURRENT-Rev2

Scenario B

Industry Growth (\$ Mils)

	<u>FY87</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Revenue						
Products	\$ 6,254	\$ 8,146	\$ 8,136	\$ 8,200	\$ 9,200	\$10,100
Services	<u>3,135</u>	<u>4,797</u>	<u>5,602</u>	<u>6,200</u>	<u>6,900</u>	<u>7,500</u>
Total Revenue	\$ 9,389	\$12,943	\$13,738	\$14,400	\$16,100	\$17,600
% Growth	23.7%	1.6%	6.1%	5%	12%	9%
Operating Profit	\$ 1,612	\$ 13	\$ 528	\$ 750	\$ 1,900	\$ 2,100
% of Revenue	17.2%	0.1%	3.8%	5%	12%	12%
ROA	14.6%	0.7%	3.5%	4%	11%	11%
ROE	18.9%	0.9%	4.9%	6%	15%	16%

Note: FY93 and 94 based on industry growth from Infocorp.