

9/83  
AGS Board

**AGS COMPUTERS, INC.**

Presentation: Mr. Lawrence J. Schoenberg, Chairman of the Board

Hi, I'm Larry Schoenberg and I am Chairman of the Board of AGS Computers and I guess I should give you a round of applause for still being here at this hour. For those who are not aware we filed a secondary yesterday and the prospectuses which were outside are also up here on the right. So this is like our first run for a quick and short road show. Pass it out if someone wouldn't mind helping. OK. AGS builds and markets software and distributes micro computer software and hardware. AGS's current business mix shown here reflects our plan to equalize our software products, system development and micro computer distribution businesses. The software products business now represents twice the percentage of the mix that it did last year at this time. I think at least one thing we could do to put some of these numbers in perspective is to note that AGS is the fourth largest company that has appeared at this conference. We are sort of a cult company. It is sort of extraordinary how little we have managed to convey our current position. I have generally left out a lot of the industry data because by now you have heard more than enough but I put a few bits up here on the business development business and the main thing we want to point out that both our growth and our margin are about twice the industry average and as far as consistency is concerned, we have had better results in 65 of our 66 historical periods. Our market

share in this industry, despite being one of the largest companies in the systems development area, is one-half of one percent. That is not exactly overwhelming, and in a fast growing area like this demonstrates that not only is there plenty of opportunity but it is amazing how little you see any of the same competitors. I calculated that in not more than one percent of our business do we compete against anyone who has been here at the Alex Brown Seminar. In the systems development area, AGS concentrates and focuses on the communication and the finance industries. These industries are fast growing, profitable and undergoing substantial deregulation. What that means to us is they got the money, they got the need, they got the backlog and they are big users of services like ours. Basically we attempt and generally do succeed in getting complete project development responsibility. We believe that we have a very high value added service because we concentrate in the revenue producing areas of a companies business. We are not a Kelly Girl operation. We don't substitute for summer vacation schedules, and over 90% of our business is repeat business. AGS receives multiple projects from its clients at an increasing rate year after year, as we have demonstrated our ability to install projects on time within budget. The value of our 850 person professional staff is demonstrated by our getting about ten to fifteen times the revenue for system development revenues that the underlying software package revenue. As an example, we recently completed a distribution system for Swiss Re where we got about a million and

a half dollars in revenue and the software product that was underlying it was \$100,000. Most people who know of us know of us because of our AT&T association.

Most of the work we are doing at AT&T and Bell Labs involves communication projects and products.

AT&T is our largest customer and we are currently providing the services of about 200 technical specialists at six locations throughout the country. In fact, AGS is Bell Labs and AT&T Information Systems, which is now known as ATTIS, largest supplier of high technology talent. Our business with the AT&T system over the last ten yers has shown continual increases and the trend is accelerating with the break up of AT&T.

AGS, by virtue of its work at the Labs, probably has the largest trained UNIX consulting staff. We are currently providing support and enhancements for the next version (system VI) of the UNIX operating system. This expertise should be invaluable as UNIX is likely to become the De Facto operating

system standard for 16 + 32 bit micros. We are using this expertise to develop UNIX based products for the microcomputer marketplace.

We are engaged in the development of a number of new products at the Labs and ATTIS including--

- o Working on the Net 1000 system from systems programming to providing customer interfaces and applications.
- o Working on the development of microprocessor based intelligent telephones and terminals for further business and home use including Videotext.

Perhaps of most importance we are working with "ATTIS" in the development of software products for users of the ATTIS network. Some of those will be proprietary to AGS and we will be paid on a transaction basis.

AGS will also be in the best position to provide customization services to AT&T customers because of its AT&T development experience and relationships.

AGS entered the software products business through the acquisition of two complementary companies in 1982, and a banking software company in June 1983.

With current revenues at a 15 million dollar level exclusive of micro software, and with a client base of over 2,000 users, we expect software products to be AGS' fastest growing area.

We are the leading supplier with over 1500 users of software products which provide effective management of the systems development process.

The products include project/resource management and information system planning and development methodologies.

AGS entered the vertical software product market in June 1983 with the acquisition of DISC, Inc.

Our proprietary software packages are used throughout the world.

The account reconciliation package is the industry standard and reconciles customer and internal accounts. The combined interest reporting system handles current and anticipated reporting requirements.

Our products fall into specialty areas hardly touched by the integrated banking software systems. We believe that we can continue to find niches in the large bank market, an increasing demand for free-standing applications in the small and medium bank area, and a new demand for these applications from institutions other than banks or "non-banks" as Hogan calls them.

One of the real advantages of our products is their compatibility with a wide range of hardware and systems software.

The product groups clients provide AGS with a unique marketing opportunity to sell our system development services. In turn our traditional clients are excellent prospects for our software products.

Our R&D efforts are directed toward--

- o UNIX based products--primarily those which simplify the use of UNIX.

- o Terminal based products which provide an integrated set of tools for systems development and resource management.
- o Specialized financial applications.

AGS has seven distribution facilities located throughout the United States and plans for several more to enable us to provide fast delivery and local contact to our customers. We now carry 38 days of inventory and believe that shorter shipping distances will allow us to carry less inventory and still maintain a fast response rate.

The company believes that with 2Q revenues of \$23 million it is the largest independent distributor of microcomputer products, including microprocessors, related peripheral equipment and packaged software, in the United States.

The Company's strategy in its distribution business is based upon offering a full line of quality products together with a high level of service and dealer support. We seek to market products which offer the best possible price performance characteristics. A critical aspect of the company's competitiveness is its ability to deliver these products quickly and in sufficient quantity. To meet this requirement, the company fills most orders within 24 hours of receipt. In addition, the company provides its customers with substantial sales and marketing support, such as on-site demonstrations, product updates and sales seminars. We also provide technical and service support through information hotlines and specialized service teams. By maintaining close relationships with a large number of product

suppliers, the company is able to provide its customers with a continuous flow of information concerning new products and technical developments.

Peripheral equipment accounts for approximately 72% of the company's sales in this segment, with microprocessors accounting for approximately 20% and packaged software accounting for about 6%. We are making a significant effort to increase the software percentage.

The company's line of products includes those manufactured by Altos, Hayes, NEC, Okidata, and Televideo.

The great success of IBM's PC has created a vast marketing opportunity for us in peripherals.

The diversity of the product line represents tremendous stability, as the largest of the 75 manufacturers that we handle represents 14 percent of our revenues.

The real advantage of being a distributor is our ability to move with the market. We are not dependent upon the success of any individual manufacturer. We are in the enviable position of participating in the growth of the entire industry without the risk of product obsolescence.

We sell presently to customers who are servicing the high price end of the microcomputer marketplace.

Our customer base of over 4,000 is divided into retail stores and other repackagers.

We might add that no single customer accounts for 1% of our revenues.

AGS' revenues rose at a compound rate of 53% over the past five years. The increase was 68% in 1982 and 96% in the first six months of 1983. Our growth rate has accelerated since our corporate decision to expand into software products and microcomputer distribution.

The growth rate without acquisitions would have been 50% in 1982 and in the first half of 1983.

AGS has also had consistent growth throughout its history. It has had record results in every year and 65 out of its 66 quarters.

AGS' net income rose 38% in 1982 and 74% in the first six months of 1983. The compounded growth rate has been 62% over the last five years.

AGS' pre-tax margins in systems development and software products has risen from 10% to 15% over the last two years.

Microdistribution pre-tax margins have decreased to the current level of 4%. AGS expects its margin to show some improvement in the future.

In addition to earnings, AGS measures its financial success by its return on investment and its ability to generate the cash to finance its future growth. Its return on investment was 46% in 1982. The last five years it averaged 41%, a number which itself is double the industry average. Cash flow is substantially greater than reported profits, mainly due to the large amount of deferred taxes which will never be payable unless the company's revenues decrease.

AGS' productivity, as measured by its revenue per employee, has doubled in three years to a current rate of \$125,000 per employee.

L. J. SCHOENBERG (30 YRS)

J. ABRAMS (17 YRS)

DISTRIBUTION	SYSTEM DESIGN	SOFTWARE PRODUCTS
H. D. Moore	A. Stepanski	J. Herbets
G. Hoffstein	D. Levine	R. Thatcher
M. Kolba	R. Dunkle	A. Luray
	E. Anthony	A. Harris
7 Yrs. Average	20 Yrs. Average	15 Yrs. Average
Experience	Experience	Experience

Our acquisition objectives are built around the three strategies depicted on the screen.

We believe we have demonstrated our ability to do successful acquisitions by our results. The acquired companies have accelerated their growth under AGS' management. We are particularly proud that in five years we have never had a single management resignation in any acquisition.

This record has enabled us to add more management depth than would normally be obtainable by internal growth.

AGS believes that it has the depth and longevity of management to achieve its objectives.

Thirteen top management people with an average industry experience of 15 years must be close to unique and would probably have been impossible without acquisitions.

During the 1980's AGS believes it will be necessary to deliver complete application solutions. AGS intends to be a dominant force in fulfilling this need--

- o It will focus on finance and telecommunication services;
- o And it will combine its technical expertise and its delivery efficiency to provide the highest value added and lowest cost systems.

AGS intends to do this while maintaining a constant strong growth rate and return on investment.

These results, goals and strategies will insure that AGS will continue to be a major computer services company.

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Q. What are we going to do with the proceeds of the public offering?

A. We don't have any specific plans -- our history tells us that we can generate sufficient cash for internal growth from our own operations, so by definition the only area we are likely to use it in is acquisition.

Q. To what do we attribute the decrease in margins in the micro business?

A. Well, I think there are two issues here, and one is rate of growth versus anticipated growth. I mean everyone is spending so much money opening up new locations and providing training that some of it is the old problem costs growing a little faster than revenues. Another issue is that remarkably different margins in different product lines. For example people always talk about how much better margins are in software distribution. There is a high gross profit margin with much higher support, so I am not so sure there is a higher margin bottom. I will tell you one thing. All you fellows buying all that micro d stock, they are out there competing very hard. So all those things are there. We haven't seen -- everyone always asks me have we seen Arrow, yes. They must have a bent arrow.

Thank you very much.