



Bateman Eichler, Hill Richards

INCORPORATED

700 SOUTH FLOWER STREET, LOS ANGELES, CALIFORNIA 90017 • (213) 625-3545

OFFICES
THROUGHOUT
THE WEST
NEW YORK
LONDON

Research

*Vince
Warren*

COMPANY REPORT

Action Purchase Recommendation
March 17, 1982

S&P 500: 109.08

TYMSHARE, INC. (NYSE - TYM - 17 5/8)

52-Week Price Range	E.P.S. (FY - December)			P/E Ratio		Dividend Rate	
	1981	1982E	1983E	1982E	1983E	Indicated	Yield
\$57 3/4 - 16	\$1.33	\$1.40	\$2.10	12.7x	8.5x	None	-0-

SUMMARY

1. Tymshare is a leader in the rapidly growing Computer Services market which has experienced long term growth of 15 - 20% annually. Tymshare's annual revenue growth, aided by acquisitions, has been in the 25 - 30% range. The company provides computer processing services to customers via telephone lines. These services are based on Tymshare's proprietary software for specific applications designed to provide cost savings and productivity improvement.
2. Tymshare is also a major participant in the hot growth area of value-added communications networks through its TYMNET operation. Networks combine specialized hardware and software with communications lines and represent a major growth area for the future as communications and computing become more closely meshed. The company's TYMNET operation, growing 50% per year, has been a pioneer in developing networks that link remote computer processing. Tymshare is currently planning to implement a series of microwave transmission centers in major U.S. cities through its recently-acquired Microband subsidiary. Each city's microwave installation will provide local communications without resorting to phone lines. Long distance transmission will be provided by satellite, further reducing dependence on phone lines.
3. We believe current margin difficulties adversely impacting earnings are not indicative of the company's long term potential. Unusually large telephone rate increases and slower than anticipated growth in much of Tymshare's remote computer processing business caused expense level variances which resulted in margin pressure. Growth should improve in the remote processing business and expense levels should be brought under control by the later half of 1982. We expect Tymshare to resume its 20 - 25% annual earnings growth by 1983.

Additional Information Is Available Upon Request

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material facts. This report is for informational purposes and is not a solicitation of orders to purchase or sell securities. This firm and/or its officers may have a position in securities mentioned and may buy or sell these securities from time to time. Additional information on companies mentioned is available upon request.

4. We believe that the current earnings difficulties are fully discounted. Moreover, the stock is attractively valued at 13x trailing earnings compared to the average multiple of 15x for the Software/Services group and its own 11x - 27x range over the last five years. The stock is currently selling at a 30% premium above book value. Historically, these valuation parameters have represented attractive purchase points. Action purchase is recommended.

FINANCIAL CHARACTERISTICS

Common Shares Outstanding	11.8 million	Long-Term Debt/Total Capitalization:	13.7%
Estimated Float	8.0 million	Return on Average Equity:	1980A: 19%
Market Value	\$210.9 million		1981A: 10%
Book Value Per Share	\$13.35		1982E: 10%

QUARTERLY EARNINGS

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
1980 A	\$0.62	\$0.45	\$0.39	\$0.35
1981 A	0.67	0.46	0.24	(0.04)
1982 E	0.30	0.25	0.35	0.50

COMPANY POSITION

Tymshare is one of the largest companies providing remote computing services based on proprietary software. These services are accessed by customers via terminals which communicate over phone lines with Tymshare's network of computer installations. The company has developed its own value-added communications network called TYMNET which consists of leased phone lines, specially designed computers for network "nodes" and sophisticated software to control traffic and provide user functions. The company's history has been characterized by rapid growth and technological innovation. Tymshare has also been active in acquiring companies with specialized computer services in order to augment growth.

Tymshare's enviable earnings record has become tarnished recently due to unusual expenses and the impact of the recession. AT&T's precipitous telephone rate increases represented a major blow to Tymshare, increasing expenses approximately \$8 million in excess of expectations for 1981. The largest segment of the company's business involves various kind of computer applications known as Decision Support Systems (DSS). DSS revenues have not increased at their usual 20% annual pace as had been anticipated. Consequently, expense levels have outrun revenues and created severe margin pressures. The company is also coping with several disappointing smaller operations which are producing short-term losses. As a result of the various margin pressures, 1981 earnings dwindled quarter-by-quarter to the point where a slight loss was incurred in the seasonally weak fourth quarter. Earnings for the year as a whole compared poorly with 1980, although revenues increased 23%.

OUTLOOK

Tymshare is currently paring expense levels in its processing services businesses to improve margins. We expect this business will remain weak in the first half of 1982, probably showing no growth. The market should pick up in the second half of 1982 and result in margin improvement. The company's TYMNET operation (including the Microband acquisition) should continue its strong 50% annual rate of growth. Tymshare has filed an application with the FCC to provide microwave communications in 50 major U.S. cities. These installations, combined with long range transmission provided by satellite, should provide an extremely valuable network facility. Telephone expenses should be gradually brought under control as the year progresses with most of the benefit seen later in 1982. In contrast to its acquisition emphasis in prior years, we expect Tymshare to prune operations in an effort to

eliminate unprofitable entities. The Automatic Teller Machine operation is the most likely candidate to be eliminated.

Margins are expected to be below the historical norm for all of 1982, particularly during the first half. Profitable operations are expected for each quarter. Fortunately, the first quarter of 1982, one of the worst in terms of recession impact will receive a big boost from the seasonal tax form processing business. Cost control measures and an improving economy could contribute to second half earnings improvement.

INCOME STATEMENT
(\$ Amounts in Millions Except Per Share Amounts)

	Fiscal Year Ended - December 31				
	1983E	1982E	1981	1980	1979
REVENUES					
Computer Information Services Revenues	\$320.0	\$285.0	\$254.0	\$211.0	\$176.2
Data Communications Services Revenues	80.0	55.0	36.0	24.4	16.2
Eliminations	--	--	--	(0.5)	(0.7)
Total Revenues	\$400.0	\$340.0	\$290.0	\$235.9	\$193.1
Pretax Income	\$ 44.0	\$ 28.7	\$ 25.7	\$ 34.4	\$ 26.0
Pretax Margin	11.0%	8.4%	8.9%	14.6%	13.5%
Taxes	\$ 18.5	\$ 12.1	\$ 10.1	\$ 15.7	\$ 11.4
Tax Rate	42.0%	42.0%	39.3%	45.6%	43.8%
Net Income	\$ 25.5	\$ 16.6	\$ 15.7	\$ 18.7	\$ 14.6
Net Margin	6.4%	4.9%	5.4%	7.9%	7.6%
Earnings Per Share	\$ 2.10	\$ 1.40	\$ 1.33	\$ 1.81	\$ 1.53
Shares Outstanding (Million)	12.1	11.9	11.8	11.3	9.3

INVESTMENT RECOMMENDATION

Currently, the stock is attractively valued at 13x trailing earnings compared with the average 15x multiple for the group and its own historical range (11 - 27x) over the last five years. In addition, the stock is selling at only a 30% premium to book value. The primary uncertainty surrounding Tymshare at this point hinges on the timing of an earnings turnaround. We are confident that this turnaround will occur in 1982.

Joseph R. Kapka

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST