TANDEM CONFIDENTIAL

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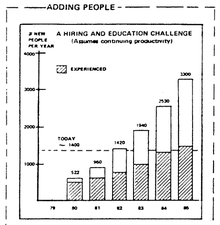
ESSENCE OF SUCCESS IN OUR BUSINESS OR OPPORTUNITY, FUN & CHALLENGE FOR EACH OF US

- (PEOPLE CAPABILITY)^2
- CLEAR, WELL DEFINED DIRECTION
- FINANCIAL RESOURCES
- PEOPLE ORIENTED ENVIRONMENT

ADDING PEOPLE

A HIRING AND EDUCATION CHALLENGE (Assumes continuing productivity)



Create desire to work at Tandem
- Company success, including quality of product, technology, people, market, management . . .
- Benefits/rewards to people, including opportunity to learn, to grow, and to work.

Pre-screen
- Only interview a few so you can spend more time

Interview with multiple people, functions and levels

Enhance interest... Never oversell job or opportunity

Ask for others' opinions — do reference checks

Re-examine negatives. Everyone has them — Can we overcome them

- Never compromise on quality • You must live with them and the major stress of being a manager is "people problems"

Never make an offer unless they mentally commit to Tandem—When they accept, continue "selling" hard because companies try the hardest to keep their best people

The first few weeks at a company are difficult—help a new person feel welcome

PEOPLE FOR GROWTH

PEOPLE EVALUATION MODEL

INNATE CHARACTERISTICS (DEMANDED)
- Desire to grow
- Desire for team winning
- Honesty/integrity
- Enthusiasm (not measured by mouth movement) Quiet OK
- Responsibility
- Work ethic
- Respect for/from others
- Leadership
- Inner driven/ rewarded
- Communication
- Pride in good job

JOB DRIVEN (PREFERRED)
- Experience in previous job
- Experience in computer industry

GROWTH DRIVEN (IF POSSIBLE)
- Over-qualified
- Potential to assume more responsibility

PEOPLE AND MANAGEMENT

The overall management structure at Tandem is intended to get the job done while accommodating rapid growth and decentralization. The structure is the same at all levels and is based almost totally on having enough outstanding people who share philosophy and responsibility, and who work together.

Decentralization gives more responsibility to more people, which makes for a better work environment and provides for development of people. Furthermore it allows more senior management the time to work on:
- Leadership
- Creativity
- People
- Communication
- Strategy
- Problem solving as needed

A group of people can manage itself in three ways:
- Self management — Each person knows the right thing to do and does it. This is Utopia for there are only people working and there is no overhead (manager).
- Peer management — This is identical to self management except that each person also assumes the responsibility that others perform their individual tasks (typical Oriental).
- Manager's management — Someone (the manager) assumes a subset of the individual tasks and also the responsibility for the total activities and all of the people.

Any of these might be right, depending on the size and the nature of the group. With growth, the last is necessary.

The essence of Tandem philosophy is to minimize the manager's individual tasks by delegating responsibility to others in the group. This gives the manager time to hire outstanding people, to develop and care about people, and to think about creativity and strategy.

BUILDING AN ORGANIZATION

- Divide the work and responsibility 6 ways, according to both logic and the capabilities of the people. Many organizations will work with outstanding people — more will work without outstanding people.
- Choose the 6 best people and give them the work and responsibility on the basis of their skills, interest, and potential.
- 5 of the 6 are at Tandem somewhere, and they deserve the opportunity. Don't be fooled that the unknown is better than the known.
- On the other hand, beware of the Peter Principle. A good individual contributor might not make a good manager.
- A new manager needs to be trained and managed carefully. After all, he's never done it before.
- Remember, you owe us 10 equivalents of yourself in the next 5 years.
- Hire, promote, and reward on merit (otherwise you have politics which leads to ruin).
- Outstanding people need less management than you think. People with problems need more management than you think.

PEOPLE AND MANAGEMENT

- Always err on the human side.
- Encourage open communication & ideas at all levels. Unilateral decisions are wrong more often than group decisions.
- Always express your feelings and provide help to those with problems (no one should be surprised at review time).
- An individual with good innate characteristics but in the wrong job is needed somewhere else.
- An individual may be more valuable than his manager.
- Don't hire only in your own image (diversity produces more good ideas than homogeneity).
- Remember that a manager's success is a reflection of the success of those working with and for him and vice versa.

EDUCATION/COMMUNICATION

In high growth, one third to one fourth of our people are not contributing to profit and revenues. Our ability to "get people on board" faster significantly increases productivity.

Similarly, our ability to educate customers shortens the time until we have repeat business.

Communication is critical to decentralization.

The goal of all education is to develop packages so the process is self generating.

STRATEGY

MARKET

The market which defines our product is characterized by those applications(s) for on-line systems which are:
- Transaction driven
- Database interactive
- Critical in terms of uptime &/or data integrity
- Requires the power of a $200K system, or more

And especially where the application(s) is susceptible to being distributed in a network of systems.

The kinds of organizations to which we can sell directly are:
- Those that can develop their application (sophisticated) or have a software house develop it for them.
- Those that can pay cash for their systems

These organizations are typically:
- Large, multi-location banks, other financial institutions and industrial companies (commercial data processing)
- Government agencies (standard commercial products)
- Smaller sophisticated companies

Additional channels of distribution include:
- O.E.M. of high quality and construction
- Software house of high quality (indirect channel of distribution).
- Distributors in countries where the potential is small, or where their government requires local ownership, and where the country is strategic for multi-nationals

The market does not include countries with which would violate our concepts of humanity (direct or indirect), or countries where Tandem employees would be in danger (direct).

THE MARKETING CHALLENGE

TANDEM'S POSTURE
Technology/Financial/Product/Marketing

DEVELOPING & EVOLVING STRATEGY

FINANCE

- Fund growth with equity • Emphases on return from business (not a "finance company") • Use debt for insurance
- Conservative accounting • Raise money when not needed

PRODUCT/PRODUCT DEVELOPMENT

Tandem is a product/technology driven company within the framework of market definition.

Goal is to provide the best product for:
- Non-Stop
- Data Integrity
- Security

With Performance:
- Response Time
- Aggregate Throughput

And to customize performance at full cost to customer:
- System (Minimize our cost)
- Application software (Modularity, programming ease)
- Support Cost (Software, Service)
- Communication (Transmission)

And with Functionality . . . . . .

Goal is to be leader in:
- System Architecture
- Networks
- Data Base
- Terminal Handling

And in technology as critical to contribution of such.

Goal is to maintain system performance while maintaining cost.

PERSONNEL

In high growth, a primary function of management is personnel. Hiring & developing people and creating the right environment can not be abdicated.

Goals of Personnel:
- Provide support for managers
- To represent a company to do a good job
- Provide a framework for self and peer management
- Provide framework for benefits and salaries
- Communication about a people environment (reports to people/not managers)

MANUFACTURING

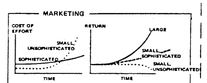
The concept of our product gives Tandem major competitive advantages in the manufacturing process.
- Flexible and quick response for customer needs (Modularity, planning)
- Ability to locate systems integration and test near customers for a small investment and with relative ease. (Modularity, low capitalization)

Furthermore, the product concept gives advantages in asset management (inventory) thus making high distribution of SI & T feasible. (Simple, minimum modules, single product)

Direct labor is 4% of total revenues.
Materials is 24% of total revenues and 30% of current assets.
Customer support cost also recovers 24% of total revenues.

Therefore, the basic emphases of manufacturing is
- Geographically distributed systems integrations and test (Optimize product support costs while making good asset management more difficult but not impossible)
- Centralized materials and order control
- Highly integrated and standardized "network" data processing system for control
- Designed in quality with worldwide standards and uniformity
- Consolidated production assembly and functional test
- Equipment to suit short or higher production cycles, to augment scarce resources, and to ensure quality
- Protection against risk
- Vertical integration for capabilities not NIH
- Dual sources of supplies
- Outstanding vendor relations

MARKETING



SALES
- Work on 7 accounts • Monthly end user + Monthly large corporations with nearest potential • Where application is on-line and needs non-loop • Where you will have a high level technical person willing to bet their job

You will win product competition (only a question of time)
- Then real competition starts • You must penetrate to top • Use your resources

Remember, we don't loan, rent, or give abnormal discounts.

MARKET SUPPORT

Three major marketing challenges for Tandem are:
- Establishing company visibility and credibility • Getting interested, high quality competition that is superior in numbers • Training and equipping a fast growing sales organization with tools to help make them more effective than the competition

Marketing support goals include:
- Creating top management awareness of Tandem
  - Ad programs in business & trade press
  - Press stories about Tandem
  - Presentations to the financial community
  - Management level sales tools (management pitch, executive overview, product brochures)
- Developing sales tools and training (product literature, presentation materials, pricing, competitive information)
- Using successful reference accounts to sell new business
  - Customer reference data base/quick information
  - Applications experience gathered industry by industry turns into sales training, application briefs and press stories
- Using HQ resources (if needed) to close new business
  - Professional, well planned HQ visit with management
  - Product seminar or management visit at customer site
- Providing professional product introductions to efficiently add new products to above cycle (maximize information & minimize confusion)

SYSTEM SUPPORT

Support is more critical & more important for Tandem than any other computer company
- The probability of system failure MTBF & MTTR (Mean Time between Failure, Mean Time To Repair) or probability of system failure is directly related to quality of support
- Repeat sales are primarily a function of support
- Due to our size, new sales are primarily a function of past support (given realistic sales commitment)

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WITHIN STRATEGIC FRAMEWORK, DEVELOP, MARKET, MANUFACTURE AND SUPPORT PRODUCTS AND SERVICES

Real competition is ourselves
Technology trends
User needs & trends
Economy

COMPANY SUCCESS

COMPETITION
Real or possible - Product or financial
Primarily IBM, DEC 2nd
Must coexist with IBM environment

FINANCIAL PERFORMANCE

CUSTOMERS (Buy Product + People)

MAXIMIZE GROWTH Given: People, Customers, Profit, And Considering Risk . . . . . .

Growth

Control via salesperson hire rate

QUICK RESPONSE

ORDER CYCLE

Sell	Order	Ship	Payment
	T - 60 days	T = Time	T +90 days

COST OF GOODS SOLD

Material	+ (T-60)
Direct Labor	+ (T-45)
Overhead	+ (T-45)

COST OF PEOPLE (Excluding Manufacturing)

Sales	T - 6 mos
Software support	T - 6 mos
Service	T - 6 mos
Marketing	+ In Anticipation
Development	+ In Anticipation
Administration	+ In Anticipation

partial, full, full, full

CALCULATING CASH REQUIREMENTS

1. $A/R\ @\ T = Rev(T) \times \frac{A/R\ Days}{90}$
   $-A/R\ @$ Beginning of planning period
   + Cash Use
2. Inv @ T = Rev (Period T + 1) $\times \frac{Inv.\ Days}{90}$
   $-Inv.\ @$ Beginning
   +Cash Use
3. $A/P\ @\ T = \frac{Inv.\ @\ T}{2}$
   $-A/P\ @$ Beginning
   +Cash Source
4. Sum of Net Profit for all periods from beginning to T.
   + (Rev 1 + Rev 2 + . . . + Rev T) x N/M
   + Cash Source
5. Total Cash Required or (Generated) = 1 + 2 – 3 – 4

A/R = ACCNTS RECEIVABLE
REV = REVENUE/QUARTER
INV. = INVENTORY
A/P = ACCOUNTS PAYABLE
NM = NET PROFIT MARGIN
NP = NET PROFIT

PRODUCTIVITY
- CREATIVITY & INNOVATION (Products, markets, organizations, system . . . .)
- CAPITAL FROM PROFITS & EXTERNAL SOURCES (for investment in people, systems and automation)
- ENTHUSIASTIC, HARDWORKING, OUTSTANDING PEOPLE (motivating managers)
- PEOPLE WHO PARTICIPATE IN RESPONSIBILITY & REWARDS OF COMPANY
- CLEAR GOALS & PHILOSOPHY

PROFIT STATEMENT

	TNDM	IBM	DEC	PRIME
Revenue	100	100	100	100
Cost of Revenue	37	37	56	42
Product Development	8	7	8	8
Marketing, G & A	37	33	20	30
Interest (net)	–	1	–	2
Income before tax*	18	24	16	18
Provision for taxes	9	11	6	7
Net Income (earning)	9	13	10	11

* Net Pre-tax Profit Margin

COST STRUCTURE

BALANCE SHEET

Current Assets	Current Liabilities
Cash (net)	Accounts Payable
Account Receivable Increase	Accrued Expenses
Decrease	Long Term Debt
Inventory Increase	Total Liabilities
Decrease	Shareholders Investment (ie $)
Prepaid Expenses	(ie Shares)
Property & Equipment	
Total Assets	

FINANCIAL RISK RATIOS (Current, debt to equity)

CASH FLOW

USE
- Materials
- Salaries
- Taxes
- Rent
- Supplies
- Inventory
- Receivables

SOURCES

Payments by customer	Losses
Equity (Sales of stock)	Debts
Debt (Bank loans)	Profits
	Equity

PROFIT

OUTSIDE CASH FOR GROWTH AND INVESTMENT

MEASURES OF SUCCESS

- REVENUE REVENUE GROWTH RATE
- PROFIT PROFIT GROWTH RATE
- PROFITABILITY (Profit + Revenues)
- EARNINGS PER SHARE EPS GROWTH RATE (Profits + #of Shares)
- RETURN ON EQUITY (Profit + Shareholders Investment)
- RETURN ON ASSETS (Profit + Assets) (Profit + (Assets - Cash))
- DIVIDENDS (When company can earn less than stockholder can)
- CONSISTANCY OF PERFORMANCE: Versus company goals, Versus investor aspirations, Versus competitors
- QUALITY OF: – People, – Products, – Customers, – Management, – Market/Product/Technology strategy
- RISKS FROM: – Ourselves, – Fast delivery, – Capital availability, – Competition, – Materials (suppliers)

BENEFITS/REWARDS FOR US
- Opportunity to learn
- Opportunity to grow
- Opportunity to work with outstanding people (aspiration level)
- Salary Structure
- Salesbase
- Holidays
- Stock Option
- Stock Purchase
- Insurance
- Eye care
- Dental
- Disability

BOARD OF DIRECTORS
– Represent stock holders
– Determine % of company to give or sell to employees

STOCK PRICE (EPS *PE Ratio)

GROWTH RATE (EPS) VERSUS PE RATIO

	LAST YR.	LAST QTR. (9/22/90)	PE
HP	30%	24%	19
DG	20	3	16
DEC	21	38	17
PRIME	102	92	38
IBM	–3	3	13
CRAY	191	19	40
COC	41	20	10
AMDAHL	–74	–96	91*
DATAPOINT	30	30	22
BURROUGHS			9
TANDEM	97	80	56

*PE can —>∞ as profit —>0

PE RATIO IS:
– Evaluation of company's future
– Is a cost of capital

OTHER SUPPLIERS
– Insurance
– IC'S Peripherals

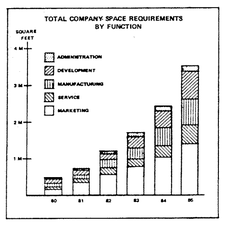
EXTERNAL FINANCING

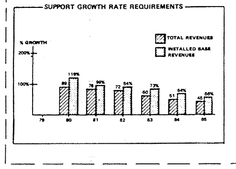
STOCK MARKET

BANKS

FINANCIAL RATIOS

	INV. DAYS	DAYS A/R	RTRN ON ASSETS	RTRN ON CURRENT ASSETS	RTRN ON C/S EXC INTEREST	CURRENT RATIO	DEBT % CAPITAL IZATION	RTRN ON EQUITY	STOCK RTRN
HP	127	68	12%	18%	23%	2.6X	19%	19.2%	
DG		51	10	13	16	3.0	31	16.3	
DEC	171	62	11	13	18	4.7	34	17.2	
PRIME	128	116	16	26	26	2.2	38	27.8	
IBM	79	73	11	26	34	1.8	8	16.0	
CRAY	366	6	44	76	166	3.2	6	77.4	
AMDAHL									
DATAPOINT	132	79	15	23	24	2.8	4	21.0	
BURROUGHS		133	6	11	13	1.7	4	8.8	
TANDEM	147	116	13	16	16	4.7	3	17.0	





APPLICATION SUPPORT

In our business, customers are buying solutions to problems, which we and they believe can be satisfied by a Tandem system(s).

Therefore, Tandem must provide a directed support which will aid our customers in achieving their expected solution.

After making certain that the customers' expectations are achievable and realistic, we should assist them in
- System sizing
- A plan for educating their people
- Use of development tools
- Periodic application design reviews
- Data base design

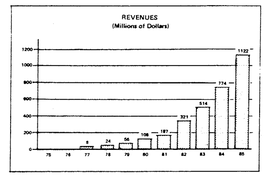
Repeat business is dependent on how well the first application works.

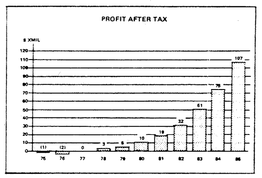
Furthermore, support is a critical factor in our financial position.
- Support theoretically must grow at the integral of our overall business
- Support classically in a lower margin "business"
- Scarce and tools are a significant investment

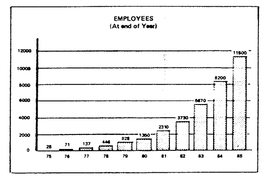
These considerations are amplified in the 80's.
- Too few support people who must be even stronger & broader due to more critical & complex applications & networks. (Higher salaries, potentially lower margins)
- Declaring cost of system (for given complexity) relative to support cost

Emphasis in support
- Productivity through product and tool design creativity
- Productivity through people the same as the rest of the company, but the people growth rate is higher (integral for service)

THE FORECAST/PLAN







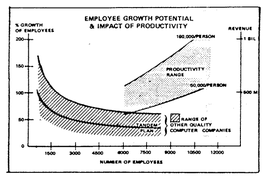
BALANCE SHEET

	6/30/90	9/30/86
CASH	15,081	
ACCOUNTS RECEIVABLE	27,047	
INVENTORIES	19,366	
PREPAID EXPENSES	1,272	
TOTAL CURRENT ASSETS	71,846	
PROPERTY & EQUIPMENT (NET)	11,418	
	83,367	(600,000)
CURRENT PORTION OF LEASE	427	
ACCOUNTS PAYABLE	7,116	
ACCRUED LIABILITIES	2,441	
ACCRUED INCOME TAXES	(4,343)	
TOTAL CURRENT LIABILITIES	15,329	
CAPITALIZED LEASE OBLIGATION	1,481	
DEFERRED INCOME TAXES	1,167	
SHAREHOLDERS INVESTMENT	65,186	
	83,367	(600,000)

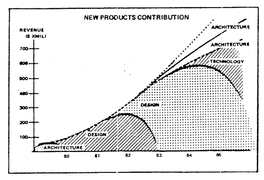
THE VARIANCE CHALLENGE

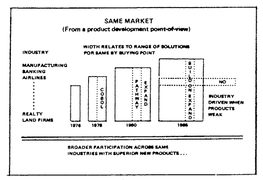
THE PLAN FRAMEWORK IS FEASIBLE, BUT . . .

TANDEM'S POSTURE
- MARKET POTENTIAL AND GROWTH RATE
- CUSTOMER/INDUSTRY/IMAGE BASE
- COMPETITIVE ENVIRONMENT AND PRODUCT EXPERIENCE LEVEL OF POTENTIAL COMPETITION
- EXPERIENCE AT TANDEM (DEVELOPMENT, SUPPORT, O. A., SELLING
- TECHNOLOGY TRENDS
- USER NEED AND COST TRENDS
- TANDEM'S COST STRUCTURE AND CAPABILITY FOR END USER ORIENTED SALES AND SUPPORT
- KNOWLEDGE TO USE AND INITIAL CAPABILITY FOR LSI/VLSI
- INTERNAL SYSTEMS FOR DECENTRALIZATION AND CONTROL
- FINANCIAL POSTURE AND POSSIBILITIES
- FOUNDATION OF OUTSTANDING, GROWTH ORIENTED PEOPLE

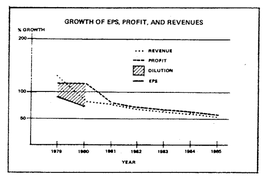


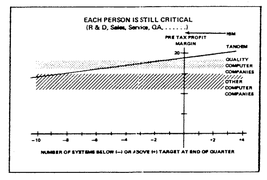
CHALLENGE: GENERATE NEW PRODUCT CONTRIBUTIONS



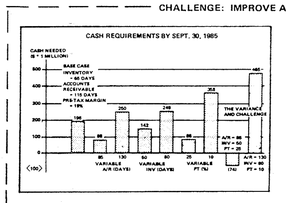


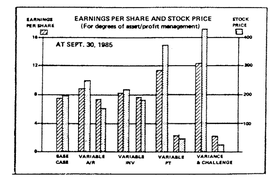
CHALLENGE: MAINTAIN SUPERIOR GROWTH AND PROFIT PERFORMANCE





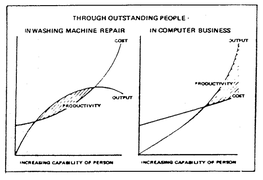
CHALLENGE: IMPROVE ASSET MANAGEMENT

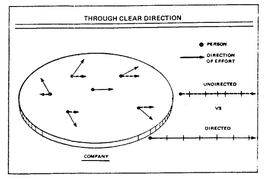




CHALLENGE: IMPROVE PRODUCTIVITY

THROUGH PRODUCT CREATIVITY
- SELLING
- SPARES & TRAINING
- FORECASTING
- SERVICE STAFFING
- INTEGRATION & TEST
- SOFTWARE SUPPORT
- INVENTORY CONTROL
- CUSTOMER TRAINING
- DOCUMENTATION
- DEVELOPMENT

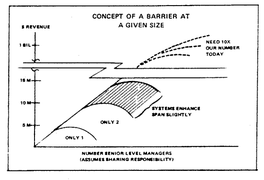


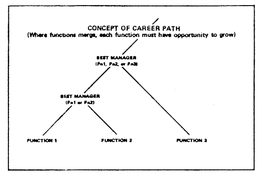


CHALLENGE: DO A BETTER JOB WITH PEOPLE

DISTRIBUTION OF RESOURCES (BY %)

	CUPERTINO 1980	CUPERTINO 1995	OTHER AREAS 1980	OTHER AREAS 1995
ASSETS	40	20	60	80
EXPENSES (EXCEPT COS)	38	20	62	80
PEOPLE	50	20	50	80
REVENUE	NA	NA	100	100





THE 1980's – RAPIDLY CHANGING RESOURCES AND RESPONSIBILITIES

GEOGRAPHIC MANAGEMENT
(Global Corporate Responsibility, People, Measures of Success)

		Area 1	Area 2	Area 3	Area n
FUNCTIONS GEOGRAPHICALLY GRANTED	SALES				PARTIAL
	SOFTWARE (Application)				
	SERVICE (Hardware)				
	CUSTOMER TRAINING				"DEVELOPING COUNTRY"
AT LARGER SIZE	SALES TRAINING		MAY BE GLOBAL		
FUNCTIONS ABLE TO BE GEOGRAPHICALLY DISPERSED – GLOBAL RESOURCE INITIALLY	ACCOUNTING				
	BOARD REPAIR				
	SYSTEMS INTEGRATION				
	ASSEMBLY		SHARED RESOURCES		
	PRODUCT MNGT				
	DEVELOPMENT				
FUNCTIONS CENTRALIZED	AUDIT/INFO				
	MATERIALS				
	QUALITY OF: • PRODUCT • SUPPORT • PEOPLE				
	FINANCE				