



## **NCR Reports 29% Increase in Third Quarter Operating Income**

October 19, 2000 at 8:35 AM EDT

DAYTON, Ohio, Oct. 19 /PRNewswire/ -- NCR Corporation (NYSE: NCR) today announced net income of \$54 million, or \$0.55 per diluted share, for the third quarter ended September 30, 2000. Excluding the impact of special items, which include charges related to the October 1999 restructuring and write-down of acquisition-related in-process research and development, net income was \$58 million, or \$0.59 per diluted share, compared to \$40 million, or \$0.40 per diluted share, before special items in the prior year period.

Overall revenues were \$1.46 billion compared to \$1.53 billion in the year-ago period. Data Warehousing revenues increased 28 percent to \$230 million compared to \$180 million in the third quarter of 1999. As anticipated, revenues from solutions that have been de-emphasized or exited decreased by 30 percent to \$146 million, a \$64 million reduction. Currency effects, largely driven by weakness in the euro, negatively impacted revenues by \$45 million, or 3 percent.

NCR Chairman and CEO Lars Nyberg said, "NCR had a solid quarter in terms of operating income and cash flow generation, despite the effects of currency fluctuations. Gross margin improvement was excellent; and our Teradata Data Warehousing business delivered another outstanding performance, achieving 28 percent revenue growth over last year's third quarter."

He added, "Our continual improvement in operating income validates our strategy to exit commodity hardware businesses in favor of differentiated software and service-related solutions. Overall, I am proud of our ability to execute this quarter despite some challenges, primarily in Europe. I look forward to the fourth quarter and 2001 as we begin to grow revenues and continue to progressively improve the profitability of the company."

### **Revenue**

Overall revenues were down 4 percent, primarily a result of the anticipated declines in de-emphasized solutions, negative currency impact and the previously announced product availability issue in Retail Store Automation. On a local currency basis, revenues were down 1 percent.

Data Warehousing saw continued growth momentum as revenues increased 28 percent over the third quarter of 1999, leading to year-to-date growth of 36 percent. Data Warehousing revenue growth continues to be broad-based across all regions. More importantly, new customer wins were more than double the prior year and were spread across several industries including the financial, retail, telecom, transportation, government, e-commerce, airline, manufacturing and supply industries.

Retail Store Automation revenue decreased 5 percent from a 1999 third quarter which saw 32 percent revenue growth due primarily to Y2K upgrades. The product supply issue discussed last quarter negatively impacted the third quarter by approximately \$10 million. Consequently, NCR expects strong Retail Store Automation revenue growth in the fourth quarter.

Against a strong quarter a year ago, Financial Self Service (ATMs) revenues were down 8 percent; on a local currency basis, revenues were down 2 percent. During the quarter, NCR saw increased customer demand from the U.S. market for both full function ATMs and entry-level cash dispensing machines, and continued to experience strong growth in Asia. NCR anticipates this trend to continue and expects to report revenue growth in the fourth quarter of the year.

Customer Services revenues were down 3 percent, primarily a function of the relationship with revenue declines in de-emphasized or exited businesses and the Y2K-related termination of commodity hardware maintenance revenues at the end of 1999.

Systemmedia revenues were up 3 percent for the quarter. As anticipated, Payment and Imaging revenues were down 19 percent due to the 1999 realignment. Other revenues, which include revenues from exited businesses, were down 30 percent from the third quarter of 1999.

### **Gross Margin**

Reported gross margin was 31.6 percent of revenues. Costs associated with the business restructuring announced last October negatively affected gross margins by \$4 million in the third quarter of 2000. Without this negative impact, gross margins increased to 31.9 percent of revenues, up 1.6 points from last year's 30.3 percent. Higher revenue mix from Data Warehousing, product cost reductions and improved technical consultant utilization were among the drivers of the margin improvement.

### **Expenses**

Total reported expenses in the third quarter of 2000 were \$396 million compared to \$412 million in the third quarter of 1999. In-process research and development charges related to NCR's recent acquisition of Stirling Douglas Group resulted in incremental research and development expenses in the third quarter of \$1 million. Excluding this special item, total expenses in the quarter were \$17 million less than the prior year period, which represents a 4 percent reduction. Research and development expenses excluding this special item were \$76 million, or 5.2 percent of revenue, versus \$82 million, or 5.4 percent of revenue last year. The third quarter year-over-year decrease in research and development expenses is attributable to exited solutions.

### **Operating and Net Income**

NCR reported a 29 percent increase in operating income to \$67 million for the third quarter of 2000. Excluding special items, NCR's operating income was \$72 million in the current quarter compared to \$52 million in the same period a year ago, a 38 percent improvement.

Commenting on the quarterly earnings, David Bearman, Chief Financial Officer, noted, "Store Automation returned to profitability; Self Service/ATMs had an operating income ratio of more than 13 percent; Data Warehousing improved substantially despite higher marketing investment; and earnings from Other businesses included approximately \$8 million from high availability service initiatives (flat versus a year ago) and a significant improvement in the losses from exited businesses."

Reported net income was \$54 million for the quarter. Excluding the \$4 million after-tax impact of special items, NCR's net income was \$58 million. Reported net income per basic and diluted share was \$0.57 and \$0.55, respectively. Excluding special items, net income per diluted share was \$0.59, compared to \$0.40 in the third quarter of 1999, a 48 percent increase.

#### Balance Sheet

NCR ended the third quarter of 2000 with \$621 million in cash and short-term investments. As of September 30, 2000, NCR had short- and long-term debt of \$83 million and total stockholder's equity of \$1.71 billion. During the quarter, NCR repurchased approximately 973,000 shares of its common stock at an average price of \$33.94 per share, or \$33 million. Approximately, \$181 million remains from the \$250 million share repurchase program authorized by NCR's Board of Directors in October 1999. NCR completed a previous \$250 million share repurchase authorization in 1999.

At the end of the third quarter, NCR employed approximately 31,900 people worldwide, including contractors, down 600 from 32,500 at the end of the second quarter, and down 1,200 from 33,100 a year ago.

#### Outlook and Financial Guidance

For the fourth quarter of 2000, NCR anticipates revenue growth as well as continued improvements in gross margin supporting its ability to achieve the company's \$300 million operating income target, a 48 percent improvement compared to the \$203 million of operating income generated in 1999. Fourth quarter revenue growth is targeted at about 5 percent, including 15-20 percent growth from Data Warehousing. NCR's other key businesses -- Retail Store Automation, Financial Self Service, and Customer Services -- should generate revenue growth of 5 percent or higher in the fourth quarter, with Retail Store Automation being particularly strong. The fourth quarter will be the last quarter impacted by NCR's 1999 restructuring.

The acquisition of 4Front Technologies, completed on October 16, 2000, will be particularly important in providing revenue growth and operating leverage in the Customer Services business. NCR and 4Front have been working together in recent months on rapid operations integration to achieve optimal, and early, success. It is expected that there will be moderate one-time charges associated with this integration which will be recorded beginning in this year's fourth quarter. Excluding one-time charges, NCR is comfortable with analysts' current fourth quarter 2000 average earnings estimate of \$1.15 per share.

For 2001, NCR will continue to focus on sound revenue growth and increasing profitability from its key businesses. Overall revenue growth is expected to be 5 percent, including:

- 20-25 percent increase for Data Warehousing
- 5 percent increase for each of Retail Store Automation, Financial Self Service, and Customer Services businesses; and
- Revenue decline from exited businesses of approximately 40 percent, but from a much lower base.

Momentum in Data Warehousing, the benefit from the 4Front acquisition, easier comparisons because of the slow start experienced by the Retail and Financial businesses in 2000, and the current good growth in customer proposals and orders strongly reinforces the credibility of these targets.

NCR is comfortable with analysts' current 2001 average earnings estimate of \$2.89 per share, as reported by First Call.

#### About NCR Corporation

NCR Corporation is a US \$6.2 billion leader in providing Relationship Technology(TM) solutions to customers worldwide in the retail, financial, communications, manufacturing, travel and transportation, and insurance markets. NCR's Relationship Technology solutions include privacy-enabled Teradata(R) warehouses and customer relationship management (CRM) applications, store automation and automated teller machines (ATMs). The company's business solutions are built on the foundation of its long-established industry knowledge and consulting expertise, value-adding software, global customer support services, a complete line of consumable and media products, and leading edge hardware technology. NCR employs 31,900 in 130 countries, and is a component stock of the Standard & Poor's 500 Index. More information about NCR and its solutions may be found at [www.ncr.com](http://www.ncr.com).

NCR and Teradata are trademarks or registered trademarks of NCR Corporation in the United States and other countries.

#### Financial Information

Detailed financial information regarding NCR's third quarter results is available on NCR's web site <http://www.ncr.com>. NCR's Chairman and Chief Executive Officer, Lars Nyberg, and Senior Vice President and Chief Financial Officer, David Bearman, will also discuss the company's financial performance during a conference call today at 10:30 a.m. (EDT). Access is available from NCR's web-site at [http://www.ncr.com/about\\_ncr/ir/invest\\_rel.asp](http://www.ncr.com/about_ncr/ir/invest_rel.asp).

The replay is accessible by calling (402) 530-7724 beginning at 11:30 A.M. (EDT) today until 3:00 P.M. (EDT) on October 27, 2000.

#### Note to Investors:

This news release contains forward-looking statements, including statements as to anticipated or expected results, beliefs, opinions, and future financial performance. These forward-looking statements include projecting revenue and profit growth for the fourth quarter of 2000 and for 2001, and statements expressing comfort with analysts' earnings estimates. These forward-looking statements are based on current expectations and assumptions and involve risks and uncertainties that could cause NCR's actual results to differ materially.

In addition to the factors discussed in this release, other risks and uncertainties include: the timely development, production or acquisition, and market acceptance of new and existing products and services; shifts in market demands; continued competitive factors and pricing pressures; short product-

cycles and rapidly changing technologies; turnover of workforce and the ability to attract and retain skilled employees; tax rates; ability to execute the company's business plan; general economic and business conditions; and other factors detailed from time to time in the company's Securities and Exchange Commission reports and the company's annual reports to stockholders. The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

NCR CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(in millions, except per share amounts)

	For the Periods Ended September 30			
	Three Months		Nine Months	
	2000	1999	2000	1999
Revenue				
Products	\$778	\$818	\$2,178	\$2,324
Services	686	712	1,989	2,111
Total Revenue	1,464	1,530	4,167	4,435
Cost of products	486	516	1,369	1,478
Cost of services	515	550	1,507	1,610
Total Gross Margin	463	464	1,291	1,347
% of Revenue	31.6%	30.3%	31.0%	30.4%
Selling, general and administrative expenses	319	330	953	995
Research and development expenses	77	82	246	247
Income from Operations	67	52	92	105
% of Revenue	4.6%	3.4%	2.2%	2.4%
Interest and other income (net)	18	34	52	60
Income Before Income Taxes	85	86	144	165
% of Revenue	5.8%	5.6%	3.5%	3.7%
Income tax expense	31	33	56	63
Net Income	\$54	\$53	\$88	\$102
% of Revenue	3.7%	3.5%	2.1%	2.3%
Net Income per Common Share				
Basic	\$0.57	\$0.54	\$0.93	\$1.04
Diluted	\$0.55	\$0.53	\$0.90	\$1.00
Weighted Average Common Shares Outstanding				
Basic	96.1	97.6	95.1	98.3
Diluted	99.1	101.1	98.1	102.0
Excluding Significant Special Items				
Income from Operations	\$72	\$52	\$139	\$105
Net Income	\$58	\$40	\$124	\$89
Net Income per Common Share (Diluted)	\$0.59	\$0.40	\$1.27	\$0.88

Significant special items represent restructuring and other related charges (\$4 million in Q3 and \$22 million year-to-date) in connection with the action

announced in October 1999. Also includes in-process research and development charges of \$1 million (Data Warehousing) in Q3 and \$25 million year-to-date.

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

NCR CORPORATION  
IMPACT OF SIGNIFICANT SPECIAL ITEMS  
(Unaudited)  
(in millions, except per share amounts)

	For the Periods Ended September 30			
	Three Months		Nine Months	
	2000	1999	2000	1999
Revenue	\$1,464	\$1,530	\$4,167	\$4,435
Gross Margin - base business	467	464	1,312	1,347
% of Revenue	31.9%	30.3%	31.5%	30.4%
Special items	(4)	0	(21)	0
Reported gross margin	463	464	1,291	1,347
% of Revenue	31.6%	30.3%	31.0%	30.4%
Expenses - base business	395	412	1,173	1,242
% of Revenue	27.0%	26.9%	28.1%	28.0%
Special items	1	0	26	0
Reported expenses	396	412	1,199	1,242
% of Revenue	27.0%	26.9%	28.8%	28.0%
Income from operations	72	52	139	105
Special items	(5)	0	(47)	0
Reported income from operations	67	52	92	105
Other income, net - base business	18	13	52	39
Special items	0	21	0	21
Reported other income	18	34	52	60
Income before income taxes - base business	90	65	191	144
Special items	(5)	21	(47)	21
Reported income before income taxes	85	86	144	165
Income taxes - base business	32	24	67	54
Income taxes related to special items	(1)	9	(11)	9
Reported income taxes	31	33	56	63
Net income - base business	58	40	124	89
Special items	(4)	13	(36)	13
Reported net income	\$54	\$53	\$88	\$102
Earnings per diluted share - base business	\$0.59	\$0.40	\$1.27	\$0.88
Special items	\$(0.04)	\$0.13	\$(0.37)	\$0.12
Reported earnings per diluted share	\$0.55	\$0.53	\$0.90	\$1.00

Significant special items represent restructuring and other related charges (\$4 million in Q3 and \$22 million year-to-date) in connection with the action announced in October 1999. Also includes in-process research and development charges of \$1 million (Data Warehousing) in Q3 and \$25 million year-to-date.

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NCR CORPORATION  
CONSOLIDATED REVENUE SUMMARY and OPERATING INCOME SUMMARY  
(Unaudited)  
(in millions)

For the Periods Ended September 30

	Three Months			Nine Months		
By Solution Offering	2000	1999	% Change	2000	1999	% Change
Revenue						
Store Automation	\$242	\$255	(5%)	\$598	\$709	(16%)
Self Service / ATMs	259	280	(8%)	708	746	(5%)
Data Warehousing	230	180	28%	673	494	36%
Customer Services Maintenance:						
Store Automation	116	115	1%	346	346	0%
Self Service / ATMs	106	103	3%	327	350	(7%)
Data Warehousing	42	41	2%	130	119	9%
Payment and Imaging	30	29	3%	89	88	1%
Other	127	144	(12%)	387	438	(12%)
Total Customer Services Maintenance	421	432	(3%)	1,279	1,341	(5%)
Systemedia	123	120	3%	365	352	4%
Payment and Imaging	43	53	(19%)	131	156	(16%)
Other	146	210	(30%)	413	637	(35%)
Total Revenue	\$1,464	\$1,530	(4%)	\$4,167	\$4,435	(6%)
Operating Income/(Loss) - Including Customer Services Maintenance						
Store Automation	\$6	\$15	-	\$(34)	\$29	-
Self Service / ATMs	49	61	-	120	155	-
Data Warehousing	(12)	(38)	-	(27)	(130)	-
Systemedia	3	5	-	11	15	-
Payment and Imaging	11	8	-	30	17	-
Other	15	1	-	39	19	-
Total Operating Income*	\$72	\$52	-	\$139	\$105	-
Goodwill Amortization						
Reflected in						
Operating Income	\$10	\$3	-	\$22	\$9	-

\*Excludes significant special items.

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NCR CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in millions)

September 30      June 30      December 31  
2000                  2000                  1999

	(Unaudited)	(Unaudited)	
<b>Assets</b>			
Current assets			
Cash and short-term investments	\$621	\$561	\$763
Accounts receivable, net	1,152	1,173	1,197
Inventories	311	299	299
Other current assets	281	298	282
Total Current Assets	2,365	2,331	2,541
Property, plant and equipment, net	929	972	1,002
Other assets	1,521	1,474	1,352
Total Assets	\$4,815	\$4,777	\$4,895
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities			
Short-term borrowings	\$45	\$37	\$37
Accounts payable	388	335	378
Other current liabilities	1,108	1,142	1,247
Total Current Liabilities	1,541	1,514	1,662
Long-term debt	38	38	40
Other long-term liabilities	1,522	1,523	1,584
Total Liabilities	3,101	3,075	3,286
Total Stockholders' Equity	1,714	1,702	1,609
Total Liabilities and Stockholders' Equity	\$4,815	\$4,777	\$4,895

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

NCR CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(in millions)

	For the Periods Ended September 30			
	Three Months		Nine Months	
	2000	1999	2000	1999
Operating Activities				
Net Income	\$54	\$53	\$88	\$102
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	87	93	272	278
Net gain on sales of assets	(16)	(27)	(37)	(35)
Purchased research and development from acquisitions	1	-	25	-
Changes in assets and liabilities				
Receivables	24	63	61	266
Inventories	(11)	2	(11)	(9)
Current payables	87	30	(19)	(50)
Deferred revenue and customer deposits	(64)	(37)	(7)	12

Timing of disbursements for employee severance and pension	(73)	(57)	(217)	(158)
Other assets and liabilities	(8)	19	(91)	(52)
Net Cash Provided by Operating Activities	81	139	64	354
Investing Activities				
Short-term investments, net	16	16	52	(93)
Net expenditures and proceeds for service parts	(13)	3	(76)	(74)
Expenditures for property, plant and equipment	(54)	(66)	(163)	(136)
Proceeds from sales of property, plant and equipment	113	72	172	89
Business acquisitions and investments	(15)	-	(71)	-
Other investing activities	(37)	(44)	(73)	(68)
Net Cash Provided by (Used in) Investing Activities	10	(19)	(159)	(282)
Financing Activities				
Purchase of Company common stock	(33)	(99)	(37)	(161)
Short-term borrowings, net	8	(16)	8	13
Long-term debt, net	-	-	(3)	(1)
Other financing activities	14	21	55	71
Net Cash Provided by (Used in) Financing Activities	(11)	(94)	23	(78)
Effect of exchange rate changes on cash and cash equivalents	(4)	9	(17)	(6)
Increase (Decrease) in Cash and Cash Equivalents	76	35	(89)	(12)
Cash and Cash Equivalents at Beginning of Period	406	441	571	488
Cash and Cash Equivalents at End of Period	\$482	\$476	\$482	\$476

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presentation. SOURCE NCR Corporation

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