



NCR Reports Second-Quarter Results; Data Warehousing posts strong operating performance

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DAYTON, Ohio, Jul 25, 2002 (BUSINESS WIRE) -- NCR Corporation (NYSE:NCR) today reported that revenue for the quarter ended June 30, 2002, was \$1.38 billion, an 8 percent decline from the \$1.50 billion reported in the second quarter of 2001. On a local-currency basis, revenue decreased 9 percent.

Net income for the second quarter was \$32 million, or \$0.32 per diluted share. In the year-ago period, NCR reported net income and earnings per diluted share of \$35 million and \$0.35, respectively, which included special items and reflected amortization of goodwill. Excluding goodwill amortization and special items, second-quarter 2001 net income and earnings per diluted share would have been \$53 million or \$0.53 per diluted share.

Among second-quarter 2002 results:

- Data Warehousing solution revenue was flat for the quarter. Including customer service maintenance, revenue increased 3 percent over the second quarter of 2001, which contributed to record Data Warehousing operating income.
- Financial Self Service solution revenue declined 2 percent from last year's second quarter, despite strong double-digit growth in the Asia-Pacific region. Operating margins improved from the first quarter, though down against a strong prior-year period.
- Retail Store Automation solution revenue declined 22 percent, in line with expectations, and improved significantly from the first quarter of 2002, leading to operating margin improvement.
- Free cash flow improved approximately \$40 million year over year.

"In light of the current economic environment, I am pleased with NCR's second-quarter Data Warehousing results. We continued to gain market share as companies around the world make strategic investments in our leading-edge data warehousing technology. As a result, Teradata(R) data warehousing made a significant contribution to our operating results, delivering solid revenue performance and strong operating income growth. This achievement was impressive given the extremely difficult capital spending environment that is clearly having an impact, particularly on our Retail Store Automation and Customer Service businesses," said NCR Chairman and Chief Executive Officer (CEO) Lars Nyberg.

"We have not seen signs of improved capital spending. As a result, visibility into the coming quarters remains limited. However, we continue to expect Data Warehousing to achieve meaningful operating profit, and Financial Self Service and Retail Store Automation to drive sequential revenue and operating margin improvement throughout the balance of the year," concluded Nyberg.

Revenue

Compared to the second quarter of 2001, Data Warehousing solution revenue was flat at \$255 million. Financial Self Service solution revenue decreased 2 percent, or 5 percent when adjusted for foreign currency fluctuations. Retail Store Automation solution revenue was down 22 percent, in line with guidance. Systemmedia revenue was up 6 percent, while Payment & Imaging solution and Other solution revenues were down 24 percent and 41 percent, respectively.

Gross Margin

Total gross margin for NCR products and services was 29.1 percent, down 1.8 percentage points from the second quarter of 2001. Product gross margin increased 0.9 points to 36.9 percent of product revenue, while services gross margin declined 4.7 points to 20.7 percent of services revenue.

Expenses

Total expenses in the second quarter were \$350 million. Reported expenses for the second quarter of 2001 were \$404 million. Excluding special items and goodwill amortization, expenses were down 10 percent from the second quarter of 2001, due to NCR's successful expense reduction program. Research and development expense for the quarter was \$61 million, or 4.4 percent of revenue, versus \$77 million, or 5.1 percent of revenue, in the year-ago period. This reduction in research and development

expense reflects actions taken throughout 2001, including the consolidation of research and development centers.

Operating and Net Income

Operating income for the quarter was \$51 million. In the second quarter of 2001, reported operating income was \$59 million. Excluding special items and goodwill amortization, operating income for the second quarter of 2001 was \$77 million. Other expense in the second quarter of 2002 was \$6 million, the same as reported in the year-ago quarter.

Second quarter net income was \$32 million, or \$0.32 per diluted share. In the year-ago period, including special items and goodwill amortization, net income and earnings per diluted share were \$35 million and \$0.35, respectively. Excluding special items and goodwill amortization, 2001 second-quarter net income and earnings per diluted share were \$53 million and \$0.53, respectively.

The special item that was included in the results for the second quarter of 2001 was a \$2 million acquisition-related integration charge. Goodwill amortization expense, net of tax, included in the second quarter of 2001 totaled \$16 million.

In accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), and previously discussed in the company's 2002 first-quarter earnings release, NCR has employed the transitional goodwill impairment test to assess impairment of its goodwill assets. As a result, the company recorded a non-cash, net-of-tax goodwill impairment charge of \$348 million as a cumulative effect of accounting change retroactive to January 1, 2002. This charge principally relates to goodwill associated with our Other business segment, which includes the 4Front acquisition. In addition, impairment of goodwill related to acquisitions within the Retail Store Automation and Systemedia business segments is included in the charge reflected in NCR's year-to-date financial statements.

The effective tax rate for the quarter was 30 percent. The weighted average number of shares outstanding on a fully diluted basis increased to 100.5 million in the second quarter from 100.3 million a year ago.

Balance Sheet

NCR ended the second quarter with \$569 million in cash and short-term investments, up from \$379 million on March 31, 2002. As of June 30, 2002, NCR had short-term and long-term debt of \$318 million, up from \$114 million at the end of the first quarter of 2002. In June of 2002, the company privately issued \$300 million of senior unsecured notes, due in 2009. The proceeds from the issuance were used to repay the company's then-existing short-term debt with the remainder available for general corporate purposes.

Outlook

During the second half of 2002, NCR expects year-over-year revenue and profit improvement in its Data Warehousing business but anticipates that the effects of the difficult capital spending environment on its other businesses will offset those gains. For the full year, NCR expects total revenue to decline 5 percent. Data Warehousing solution revenue is still expected to be up 10 percent, with Financial Self Service and Retail Store Automation solution revenues down 0-5 percent and 5-10 percent, respectively. Systemedia revenue is expected to be up 0-5 percent year over year. Payment and Imaging solution revenue is expected to be down 20 percent due in part to the sale of NCR's item-processing outsourcing business. Other solution revenue is expected to decline 35 percent. Given the effects of adverse market conditions on NCR's businesses, we are targeting operating income for the year in the \$250-\$300 million range, which would result in earnings per diluted share in the \$1.60-\$2.00 range.

For the third quarter of 2002, revenue for NCR is expected to decline 0-5 percent year over year. Data Warehousing solution revenue is expected to be up 10-20 percent from the third quarter of 2001, while Financial Self Service and Retail Store Automation solution revenues are expected to be down 0-5 percent and 5-10 percent, respectively. Systemedia revenue is expected to be up 0-5 percent with Payment and Imaging solution and Other solution revenues declining 25-30 percent each. Third-quarter operating income is expected to be \$50-\$65 million with earnings per share in the \$0.30-\$0.40 range.

About NCR Corporation

NCR Corporation (NYSE:NCR) is a leading global technology company helping businesses build stronger relationships with their customers. NCR's ATMs, retail systems, Teradata data warehouses and IT services provide Relationship Technology(TM) solutions that maximize the value of customer interactions. Based in Dayton, Ohio, NCR (www.ncr.com) employs approximately 30,400 people worldwide.

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Other Information

NCR Chairman and CEO Lars Nyberg and Senior Vice President and Chief Financial Officer Earl Shanks will discuss the company's financial performance during a conference call today at 10:00 a.m. (ET). Live access to the conference call, as well as a replay, is available from NCR's web site at <http://investor.ncr.com/>.

In accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), NCR discontinued amortization of goodwill as of January 1, 2002. Operating segment results for 2001 reflecting the SFAS 142 accounting change are available on NCR's web site at www.ncr.com.

Note to Investors

This news release contains forward-looking statements, including statements as to anticipated or expected results, beliefs, opinions and future financial performance, within the meaning of Section 21E of the Securities and Exchange Act of 1934. Forward-looking statements include projections of revenue, profit growth and other financial items, future economic performance and statements concerning analysts' earnings estimates, among other things. 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 duration and intensity of the economic recession and its impact on the markets in general or on our ability to meet our commitments to customers, the ability of our suppliers to meet their commitments to us, or the timing of purchases (including upgrades to existing data warehousing solutions and retail point-of-service solutions) by our current and potential customers, and other general economic and business conditions; the timely development, production or acquisition, and market acceptance of new and existing products and services (such as self-checkout and electronic shelf-labeling technologies, ATM outsourcing and enterprise data warehousing), including our ability to accelerate market acceptance of new products and services; shifts in market demands, such as a possible shift toward industry-standard "open" platforms for data warehousing solutions; continued competitive factors and pricing pressures and their impact on our ability to improve gross margins and profitability, especially in our more mature offerings such as Retail Store Automation and Financial Self Service solutions; short product cycles, rapidly changing technologies and maintaining competitive leadership position with respect to our solution offerings, particularly data warehousing technologies; tax rates; ability to execute our business plan; turnover of workforce and the ability to attract and retain skilled employees, especially in light of recent cost-control measures taken by us; availability and successful exploitation of new acquisition and alliance opportunities; and continued efforts to establish and maintain best-in-class internal information technology and control systems; 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 June 30

	Three Months		Six Months	
	2002	2001	2002	2001
Revenue				
Products	\$ 710	\$ 774	\$ 1,322	\$ 1,464
Services	670	725	1,305	1,411
Total revenue	1,380	1,499	2,627	2,875
Cost of products	448	495	848	937
Cost of services	531	541	1,028	1,065
Total gross margin	401	463	751	873
% of revenue	29.1%	30.9%	28.6%	30.4%
Selling, general and administrative expenses	289	327	574	680
Research and development expenses	61	77	117	153
Income from operations	51	59	60	40
% of revenue	3.7%	3.9%	2.3%	1.4%
Interest and other expense, net	6	6	9	13
Income before income taxes and cumulative effect of accounting change	45	53	51	27
% of revenue	3.3%	3.5%	1.9%	0.9%
Income tax expense (benefit)	13	18	15	(129)
Income before cumulative effect of accounting change	32	35	36	156
Cumulative effect of accounting change, net of tax	-	-	(348)	(4)
Net income (loss)	\$ 32	\$ 35	\$ (312)	\$ 152
% of revenue	2.3%	2.3%	(11.9%)	5.3%
Net income (loss) per common share				

Basic before cumulative effect of accounting change	\$ 0.32	\$ 0.36	\$ 0.36	\$ 1.62
Cumulative effect of accounting change	-	-	(3.54)	(0.04)
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Basic	\$ 0.32	\$ 0.36	\$ (3.18)	\$ 1.58
	=====	=====	=====	=====
Diluted before cumulative effect of accounting change	\$ 0.32	\$ 0.35	\$ 0.35	\$ 1.57
Cumulative effect of accounting change	-	-	(3.45)	(0.04)
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Diluted	\$ 0.32	\$ 0.35	\$ (3.10)	\$ 1.53
	=====	=====	=====	=====
Weighted average common shares outstanding				
Basic	98.4	96.7	98.2	96.2
Diluted	100.5	100.3	100.6	99.8

2002 - Reported six-month results include the after-tax, cumulative effect of adopting SFAS 142 (\$348 million).

2001 - Reported six-month results include the effect of goodwill amortization (\$37 million; \$19 million in Q2); excluding the effect of goodwill amortization, operating income, net income and earnings per diluted share would have been \$72 million (\$75 million in Q2), \$184 million (\$51 million in Q2) and \$1.85 (\$0.51 in Q2), respectively. Special items represent the before-tax provision for loans and receivables with Credit Card Center (\$40 million) and integration charges related to acquisitions (\$4 million; \$2 million in Q2); the tax benefit from the resolution of international income tax issues (\$138 million); and the after-tax, cumulative effect of adopting SFAS 133 (\$4 million).

NCR CORPORATION

IMPACT OF SIGNIFICANT SPECIAL ITEMS & GOODWILL AMORTIZATION (Unaudited)

(in millions, except per share amounts)

For the Periods Ended June 30

	Three Months		Six Months	
	2002	2001	2002	2001
Revenue	\$ 1,380	\$ 1,499	\$ 2,627	\$ 2,875
Gross margin - base business	401	465	751	876
% of Revenue	29.1%	31.0%	28.6%	30.5%
Special items	-	(2)	-	(3)
Reported gross margin	401	463	751	873
% of Revenue	29.1%	30.9%	28.6%	30.4%
Expenses - base business	350	388	691	761
% of Revenue	25.4%	25.9%	26.3%	26.5%
Goodwill amortization	-	16	-	32
Special items	-	-	-	40
Reported expenses	350	404	691	833
% of Revenue	25.4%	27.0%	26.3%	29.0%
Income from operations				
- base business	51	77	60	115
Goodwill amortization	-	(16)	-	(32)
Special items	-	(2)	-	(43)
Reported income from operations	51	59	60	40
Other expense, net - base business	6	3	9	7
Goodwill amortization	-	3	-	5
Special items	-	-	-	1

Reported other expense	6	6	9	13
Income before income taxes				
- base business	45	74	51	108
Special items and goodwill amortization	-	(21)	-	(81)
Reported income before income taxes a 234 (47)				
Cash and cash equivalents at beginning of period	378	305	335	347
Cash and cash equivalents at end of period	\$ 569	\$ 300	\$ 569	\$ 300
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