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New Phone: 516/487-6375 New Fax: 516/487-6393

Volume XVIII Number 6

February 1995

We cannot recall....

....such a concentrated series of corporate acquisitions in the auto ID business as has occurred during the past ninety days: First, Peak Technologies acquired Endata (SCAN Nov 94), then Eltron acquired Russet (SCAN Dec 94), PSC acquired LazerData (SCAN Jan 95), and Amtech acquired Cotag (SCAN Jan 95).

These corporate deals reached a crescendo this past month when Charterhouse purchased UBI, Fairey bought Microscan, and Peak acquired IPPC. (All of these recent acquisitions are described in detail below in this issue.)

A breakdown shows that five of these seven acquisitions involved British companies: three that were acquired (Endata, Russet and Cotag), and two that were the purchasers (Charterhouse and Fairey). Of the remaining companies, all were American except Sweden-based UBI.

There is no apparent pattern that we can discern from these moves. They involve both public and private companies. Three companies were acquired to open new markets (Endata, Russet, IPPC); two for product diversification (Cotag and LazerData); and two as pure financial investments (UBI and Microscan). The annual sales volumes of these acquired companies are relatively small (under \$20 million), except for UBI (\$75 million).

Comment

Although the reasons for this flurry of mergers may be diverse, we believe these moves reflect a generally healthy outlook for the automatic data collection industry. In five of the seven deals, both participants were already in the ADC business and the acquiring firms were seeking to expand their customer or product base. Companies do not normally take this quick route to growth unless they are optimistic about the technology's future.

We have been tracking....

....the peregrinations of United Barcode Industries (UBI) since its earliest days, as the company's headquarters have moved from country to country (SCAN Dec 86, Jan 90, Oct 91, Jan 92). In its latest journey, UBI (headquartered in Sweden) was acquired in January by Charterhouse Development Capital of England.



0273-3080(199502)18:6:1-V

INCLUDING THE INTERNATIONAL EDITION

UBI was formed in 1991 as a result of the merger of Sweden-based Atech AB and France-based Barcode Industries.

Atech, founded six years earlier from the merger of printer manufacturers Antonin and Swedot, was noted primarily for its thermal printers for the airline industry. Barcode Industries was organized in 1981 by Edouard David and Gilbert Warnan as a manufacturer of wand scanners, wedges and related software. (US operations were started in 1984 under the direction of Jeremy Metz who continues as President of UBI's North American division.)

In 1993, UBI was bought by Kongsbo, a Swedish holding company, with financing provided by Svenska Handelsbanken, one of Sweden's largest banks. Kongsbo came upon tough times soon afterwards and was "reorganized" (at the time, it was variously referred to as a "bankruptcy" or "reshuffling of assets"). Svenska Handelsbanken then took over the financially troubled Kongsbo, intending to strengthen the company and sell off its divisions as quickly as possible.

Enter Charterhouse Development Capital! Established in 1934, Charterhouse is a leader in venture capital and buy-out financing in the UK and Europe. The acquisition of UBI, for 400 million Swedish Krona (\$54 million), was made in cash on behalf of Charterhouse's managed funds.

[As part of the purchase, five members of UBI's executive management team have invested alongside Charterhouse. "Management now owns a small portion of the company -- somewhat less than 20%," Jeremy Metz told *SCAN*. "We bought in on the same terms as Charterhouse. The ultimate plan of the new owners is to take the company public and, as investors, we hope to participate in some of the rewards."]

UBI currently has 330 employees in 25 offices in nine countries, in addition to a worldwide distribution network. The company rates itself as Europe's leading bar code printer and scanner manufacturer. Sales are approximately \$75 million, exclusively in bar code products. About 20% of its volume comes from reselling products made by others (e.g., laser scanners from PSC). Approximately 18% of the company's worldwide sales are in the US, with almost all of the balance in Europe. According to Metz, his company is actively developing new products, including a portable CCD scanner for two-dimensional symbologies.

Two of the leading....

....manufacturers of fixed-position laser scanners were sold during the last sixty days, under totally different scenarios. A comparison of the two deals is enlightening, particularly with regard to the reasons the acquisitions were made and the perceived values of the acquired companies.

PSC acquired LazerData in December from a British conglomerate, BTR PLC (*SCAN* Jan 95). LazerData manufactures large, high-performance, omnidirectional scanners. The company has smaller, fixed-position laser scanners under development.

In January, Microscan Systems (Renton WA) was purchased by a British conglomerate, Fairey Group (Egham, England). Microscan has specialized in designing and manufacturing compact, high-performance laser scanners for more than ten years.

Fairey is a long-established and successful UK holding company that had its beginnings in the airplane business (it was a Fairey-manufactured Swordfish bomber that sunk the German battleship Bismark during WWII). Following the war, when Britain cut back its defense budgets, Fairey abandoned the airplane business and diversified by buying small, hi-tech companies in electronic process instrumentation, aerospace and defense equipment. Fairey's 1994 annual sales from its fourteen subsidiaries was approximately \$230 million, with an estimated healthy \$40 million pre-tax profit. The company made six acquisitions during the past two years -- five of which were in the US.

As for the reasons for the acquisitions, PSC purchased LazerData to expand its product line from hand-held to fixed-position laser scanners -- both large and small. PSC expects to utilize its purchasing power -- and to integrate LazerData's products into PSC's larger distribution network -- to help its new division grow in sales and profitability.

Fairey, on the other hand, has no other current interests in ADC technology. According to Mike Mertel, founder and President of Microscan, Fairey purchased his company solely as a financial investment and has no plans to acquire any other companies in the industry. "Microscan and its management will continue to operate as before," Mertel told *SCAN*. "I have a contract for a couple of years to continue to run the company. Fairey brings to us a ready source of capital that we did not have before."

A key question in evaluating the possible acquisition of a company is arriving at a fair value. LazerData, with an annual sales volume of \$10 million, had been struggling, with profitability at just about breakeven. PSC paid \$9 million for the company.

Microscan's 1994 sales were about \$20 million, with pre-tax profits expected to exceed \$5 million. Fairey paid an astonishing \$58.5 million in cash for the company -- \$50 million on contract and \$8.5 million in notes payable over the next two years. As one knowledgeable industry pundit told *SCAN*: "This purchase price makes the PSC/LazerData deal look like a bargain. It places PSC into the important growing market for fixed-position laser scanners at a relatively cheap price."

Microscan's performance during the past four years has been exemplary: sales and earnings have been growing at better than a compound annual rate of 20% since 1991 (and Mertel believes that trend will continue); 50% of the company's sales are to OEMs in the medical, photofinishing and paper-handling business; the company supplies private-label units to Intermec; and only 20% of sales are outside the US, with many opportunities abroad to expand the market for its fixed-position laser scanners.

Given that history of success, why was Microscan sold? About six years ago, Mertel told *SCAN*, he took on a financial partner, Brian Fenwick-Smith, a Brit living in Monaco. Last year, Fenwick-Smith indicated he wanted to retire and to sell his interests in Microscan. Since Mertel did not have the resources to buy out his partner, they went outside the company for help. The Fairey offer to

buy the entire company satisfied Fenwick-Smith and the price also made sense to Mertel. "This was not a distress sale," Mertel explained. "We have been doing phenomenally. That's when it's time to get out."

Can't argue with that!

The third acquisition....

....this past month, was the purchase of Innovative Products & Peripherals Company (Denver, CO) by Peak Technologies (New York City). IPPC is a systems integrator of bar code data capture products and a reseller for Symbol Technologies, Zebra, Norand and UBI. Peak, a national distribution network for ADC products for the non-retail market, is the largest reseller in North America of the products of each of these same manufacturers.

IPPC's annual sales volume is \$12 million. The purchase price was 700,000 shares of Peak common stock. At the current price of \$18 per share (near Peak's peak for the past 52 weeks), the total comes to \$12.6 million.

According to Nick Toms, Peak's Chairman/CEO, IPPC's coverage of the Rocky Mountain and Southwest areas substantially completes his company's strategy to become a national distributor with complete coverage of the US. Peak also has begun to expand beyond the US borders with its acquisition of UK-based Endata last October (SCAN Nov 94, Jan 95).

The on-again, off-again....

....pending litigations between Symbol Technologies and Spectra Physics finally seem to have been resolved.

S-P had sued Symbol in 1990 charging unfair competition and other complaints. In April 1991, Symbol countersued specifying infringement of four of its patents. In early 1992, the companies announced that they had reached a tentative agreement under which Symbol was to "confirm, clarify and expand its license with Spectra," and Spectra would pay Symbol an "increased royalty for certain products." In addition, S-P would give Symbol license rights to its existing patents relating to scanners. The attorneys just had to work out some final wording (SCAN April 92).

But the deal fell apart when the lawyers could not resolve some of the issues that the corporate officers had not addressed when they thought they had reached agreement.

Last month, the companies actually signed a definitive agreement and dropped all claims and counterclaims. The announcement stated:

"Symbol has affirmed, clarified and expanded its license with Spectra Physics and confirmed that Spectra is entitled to sell its SP 300 and SP 400 product lines without any liability for patent infringement of Symbol's patents. Spectra will also enter into a consent judgment acknowledging the validity and enforceability of Symbol's U.S. Patent Nos. 4,816,660 and 5,247,162 under which it is licensed. Under the new

agreement, Spectra Physics will pay Symbol an increased royalty for certain products."

Auto ID is alive and well....

....in the non-grocery retail industry. This observation was borne out by the large number of visitors drawn to the booths of the automatic data capture companies at the 84th annual National Retail Federation (NRF) Convention and Exposition in New York in January.

NRF is the world's largest trade association of retailers, with membership encompassing just about every type of retail store other than grocery/supermarkets. Representatives from the department, specialty, discount, mass merchandise and independent stores gather at the New York Hilton each year to attend seminars and exhibits in order to discover the latest developments to improve store operations -- from the most sophisticated computerized/electronic devices to the best-designed clothes hangers.

Automatic data collection was highlighted in one form or another by 92 companies listed in the directory under Point-of-Sale Terminals & Systems. The scanners offered by these exhibitors have become more aggressive and the systems they designed more interactive than ever before.

Attracting most of the attention in ADC-related activities were RF wireless communications systems. "Wireless is the single most exciting element in retail automation today," stated James Traxler, VP Telxon's Retail Technology Group. Telxon and Symbol Technologies were featuring new RF products to provide larger coverage, better interface capabilities, and lower prices. Both companies offer claims to their leadership in this field: Symbol introduced spread spectrum four years ago and references an installed base at more than 10,000 sites worldwide; Telxon states that it has the largest number of installed units (200,000) at more than 1,000 sites.

[As part of its corporate restructuring in late 1993, Telxon formed a wholly-owned, design and manufacturing subsidiary, Aeronet Wireless Communications, to "focus on the burgeoning wireless local-area networking (LAN) market." In 1994, according to the company, Aeronet -- which is an independent operating division -- "shipped over 70,000 wireless products, including radio modules and Ethernet access points." Aeronet's major customer is Telxon, but the company is expanding its marketing scope to include foreign distributors.]

The NRF show had outgrown the NY Hilton's facilities many years ago and has pushed itself into every available nook and cranny on the second, third and fourth floors. A decision has finally been made to move out of the hotel and into New York's Javits Convention Center -- but not until January 1997.

Neatly sidestepping....

....the controversial issue of possible damage to prerecorded cassette tapes, the Board of Directors of the National Association of Recording Merchandisers

(NARM) narrowed its focus and issued a unanimous recommendation on January 13: "Music companies are urged to begin source tagging of CDs [compact disks] with the acousto-magnetic electronic-article-surveillance (EAS) technology immediately."

The Board explained its latest move as follows:

"The decision was based on findings that the sale of prerecorded music in the CD format continues to increase and now substantially exceeds the sale of prerecorded cassettes; that prerecorded cassette sales have declined to the point where there is widespread belief that the format has a limited lifespan ahead; that prevention of CD theft is the priority for music retailers; that a bulk activation device for the acousto-magnetic technology has been developed which will be accepted by music retailers and wholesalers; that there is a willingness among the majority of music suppliers to source tag the CD format; and that acousto-magnetic EAS is now the preferred technology among music retailers even without source tagging."

NARM is an international trade association whose 1,100 members represent packaged entertainment software retailing, wholesaling, distribution, and manufacturing. The organization, based in Marlton, NJ, has been investigating the possibility of EAS source tagging since late 1985. The association recommended the acousto-magnetic technology for its members in March 1993 after what it refers to as "extensive tests and deliberations."

The 1993 decision was not well-received by the proponents -- notably Checkpoint Systems (Thorofare NJ) -- of the widely-used, competitive EAS systems which are based on radio frequency technology. The acousto-magnetic method is proprietary to Sensormatic (Deerfield FL), which has offered to license its technology to others -- for an appropriate fee -- but not to place it in the public domain (SCAN May 93).

Following the 1993 NARM decision, the controversy was compounded when the six largest record and tape manufacturers -- the so-called "major labels" -- refused to endorse the NARM recommendation. Their opposition was based on the potential degradation of audio tapes by the acousto-magnetic deactivation devices at the checkout counters. As a result of this opposition, NARM laid aside its recommendation, and the decision as to which system to use has been in limbo for almost two years.

It would be an understatement to say that Sensormatic's competitors were caught unawares by this latest NARM decision. On Monday, January 16, at the NRF convention (see above), we spoke with representatives from Checkpoint who smugly confided to us: "Acousto-magnetic for prerecorded products is dead. The manufacturers just won't go for it and NARM has backed off."

What they didn't know at that time -- and what we did not find out until later that day -- was that NARM's Board of Directors had met on the previous Friday (Jan 13) and reaffirmed their decision to go with acousto-magnetic rather than RF, but had targeted the important CDs as the starting point.

NARM, which had clearly preferred the acousto-magnetic system all along, had effectively made an end-run around the issue of damaging audio tapes by stating that "the [cassette tape] format has limited lifespan ahead" and that the

majority of music suppliers are willing to "source tag the CD format."

Checkpoint has not yet responded to this new turn of events.

It was inevitable....

....that the so-called "scanning error" problems of the supermarkets -- previously reported by the ABC and CBS TV networks (SCAN April 93, Sep 93, Dec 93) -- would spread to other types of retailers.

This time, Dateline NBC (12/16/94) surveyed automated systems in department, discount and mass merchandise stores to check on pricing discrepancies: i.e., do the prices shown on the merchandise agree with those charged at the checkout counter? (Unlike the supermarkets, shelf price accuracy is not an issue in these other stores since all of the prices appear on tags and labels attached to the merchandise.)

We found this latest Dateline survey to be the best-documented and most damning of all the televised reports to date. The "coast to coast" survey covered nineteen stores in six states, including outlets from Wal-Mart, Kmart, Sears, Calderas, Montgomery Ward, Macy's, Filenes Basement and Hechts. Following the lead of ABC and CBS, NBC focused on the "sale item" category, which seems to be the most vulnerable to error. Of the 240 sale items purchased by Dateline staffers, forty-two (or about one in six) were priced higher at the checkout register than on the merchandise. The worst culprit was a Felines store with six out of ten overcharges!

Mark Green, New York City's former Consumer Affairs Commissioner -- who has publicly decried these pricing errors for several years -- complained vehemently on camera: "This is dishonest checkout....Extreme negligence by the retailers....Probably intentionally done by the stores....Real consumer ripoffs."

In this instance, Green had a great deal of corroborating evidence on his side. For example, in one Hechts department store (Washington, DC) an NBC representative went back five times in one week and purchased exactly the same item on each visit. The store overcharged for the item at the checkout every time; and each time the error was reported to the cashier and/or the store manager. When confronted with the video-taped evidence, the chairman of the 45-store retail chain made feeble excuses, such as: "Honest mistakes will happen....We have been very busy."

Comment

Are these pricing errors the result of deliberate cheating by the retailers? We find it difficult to believe that any of them would be so stupid or venal. It seems more plausible that many of these managers are just negligent and do not recognize the seriousness of this problem -- even after so many warnings by the media and consumer groups.

It also must be recognized that this problem is not a simple one in these large retail stores. Whereas a supermarket offers a manageable 15,000-to-20,000 line items for sale -- mostly laid out on shelves with edge

markings -- a full-service department store carries more than one million products. They are price-marked with various forms of hang-tags and labels. Entire groupings may go on sale with an overhead sign proclaiming "Take 25% off ticketed price." Department managers often have the authority to run daily, or even hourly, specials on selected merchandise to promote slow-moving items. This need for pricing flexibility is a challenge that has not yet been adequately addressed by the auto ID retail specialists.

One final thought. Although NBC did mention a few times that the problem was the result of the incorrect prices recorded in the store computers, the report continually referred to this as "scanner error." It would have been enlightening to the viewers (and gratifying to us) if about 90 seconds of air time had been devoted to describing how the scanner reads the code and accurately records -- every time -- the data entered into the computer by the less-accurate humans.

Whoever said...

...."Nice guys finish last" did not know Sprague Ackley of Intermec. Ackley was this year's winner of the Dilling Award, presented annually by AIM/US to an individual "in recognition of his efforts in advancing the growth of the Automatic Data Collection...industry through technological developments and significant applications." The presentation -- a surprise to Ackley, who had not been told he was selected -- was made by Bonney Shuman at the AIM/US annual meeting in San Diego in December.

Ackley joined Intermec in 1980 soon after he received his Masters Degree in Physics from the State University of New York at Stony Brook. He is now the Principal Engineer at that company and is involved with projects pertaining to printing, decoding, symbology, and the laboratory measurement of bar code print quality.

For many years, Ackley has actively participated in standards activities for the Health Industry, Uniform Code Council, Automotive Industry Action Group and ANSI. Most recently, he was the Chairman of the AIM Technical Symbology Committee and has guided that group through the difficult negotiations connected with the consideration and approval of 2-D symbologies.

Ackley is respected as a tough, fair, knowledgeable scientist, always ready to hear the other side, but holding fast to his principles.

[We can also vouch for his innovative and fearless spirit. At SCAN China in Beijing last April, all of the seminar speakers were frustrated to find that the slide projector provided by the Chinese hosts had no trays to hold the slides. While everyone stood around with their thumbs in their mouths, Ackley commandeered a taxi and returned two hours later, after canvassing a dozen camera stores, with the five trays that were needed.]

Congratulations to Sprague Ackley and kudos to the Dilling Committee on this year's selection.

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Phone: Int + 44-285-653011 • Fax: Int + 44-285-640401