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A latent "virus"....

....always seems to lie in wait to strike major auto ID companies as they grow in size and stature. This past month it was Norand's turn.

- Symbol Technologies took its lumps in the years following its 1988 acquisition of MSI Data (SCAN Oct 88, Sep 92). Not only was this Symbol's first acquisition -- and its first move away from being a successful, one-product, hardware company -- but MSI was almost as large as Symbol itself and proved to be loaded with problems. It took almost five years for Symbol to swallow and digest MSI; for a short time, along the way, Symbol's profits disappeared and its stock dropped like a stone.
- Intermec's problems were different. While everyone else was building outside channels of distribution through VARs and systems integrators, Intermec was methodically buying up all of its distributors in order to build an internal direct sales and marketing organization. The company now believes that this organization restructuring was the right thing to do, but there were difficult moments to overcome. Many of the problems surfaced in 1991 when Intermec was bought out by Litton Industries (SCAN May 91).
- Telxon was breezing along in the late 1980s and early 1990s, growing rapidly and expanding its portable data terminal business in many directions. But the company may have "bought" too many of its major contracts by cutting its price and shaving its margins. A major upheaval occurred in 1992 when the company fell far short of projected sales and earnings (SCAN Nov 92, Jan 93). Top management was replaced and the company has since been completely reorganized.

Happily, all three of these leading ADC companies have emerged stronger than before, after having been tested and tempered by these trying experiences.

The persistent "virus" has now struck Norand, whose rapid growth was stopped in its tracks last month. Norand suffered the misfortune of having a number of problems converge at the same time at the end of its fiscal year (8/31/95).

Earlier, for the first nine months, the company's sales and earnings performance had been on target with analysts' expectations. Revenues for



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that period were \$160 million; net income \$6.9 million. Both figures were almost 25% ahead of last year. The nine months' report also contained passing references to reduced gross profits, which were attributed to increased sales of the "lower margin Pen*Key family of products." However, no serious problems were foretold.

Norand successfully introduced these pen-based units last year, calling them "one of the smallest, most powerful and rugged mobile computers" available. Norand targeted the Pen*Key at its traditionally strong route accounting market, but the company also expected to open up additional business in "health care, field auditing, market research, quality reporting, package tracking, baggage handling and car rental services." The nine months' report was quite optimistic about Norand's future growth.

Then, on September 25, the company announced the year-end results that caught everyone off-guard:

<u>Norand</u>	<u>3 Months Ended 8/31</u>		<u>12 Months ended 8/31</u>	
	<u>1995</u>	<u>1994</u>	<u>1995</u>	<u>1994</u>
Revenues (\$000)	\$58,013	\$62,623	\$218,100	\$192,953
Earnings (Loss) (\$000)	(6,826)	4,840	79	10,397
Earnings (Loss)/Share	(0.87)	.64	0.01	1.40

These reasons were set forth by Norand for these astoundingly poor fourth quarter results:

1. Charges against earnings of \$8.2 million (\$1.05 per share) were taken by the company's wholly-owned Italian subsidiary. "The Italian charges, which result from sales reversals, bad debts and inventory write-offs, are attributable in large part to irregularities that were discovered in September during the course of the year-end audit."
2. Fourth quarter domestic revenues were down. [The] reasons include postponed purchasing decisions by customers experiencing delays in their programs to migrate their application software to the new hardware platforms, and the receipt of some anticipated customer orders so late in the quarter that the Company was not able to properly complete and ship them before the end of the quarter."
3. "Delays in completion of operating system software for some of the Pen*Key family of products which, in turn, is adversely affecting third party software development timetables."
4. "A shift in product mix to the new Pen*Key family of products which carry a lower average margin than the products they replace."
5. "Increased competitive pricing pressures."

All of these problems applied to last fiscal year! The final blow came with the company's prediction for next year: "Excluding the impact of the charges in the fourth quarter, the Company expects gross margins to be lower in Fiscal 1996...although the decline should moderate during the last half of the year."

On September 26, Norand's stock plunged more than 17 points, losing half its

market value. Since then, shares have traded at between \$17 and \$20.

Why such a violent response? Certainly, the "irregularities" uncovered in the Italian subsidiary can be viewed as a one-time aberration. In addition, the consensus of knowledgeable industry-watchers is that the Pen*Key products are excellent performers and that the problems associated with them will be corrected soon.

From all indications, the major reason that Norand fell out of favor with the investment community was that it committed the unpardonable error of surprising its stockholders and the financial analysts who had been enthusiastically supporting the company.

For example, one seriously disappointed analyst told SCAN: "I still believe that Norand is a good company with an excellent strategy. But there was a miscalculation in their timing so they were not able to manage expectations. They did not see the slowdown in their core business fast enough. That core business -- route accounting -- is a mature market and Norand is relying on an upgrade cycle to drive it. It turned out that the product transition to the Pen*Key line was more complex than they anticipated. In addition, the mobile computing area is getting more competitive -- with smaller margins -- than the route accounting market. Hopefully, if they can get through this product transition, what they lose in the margins they should make up in the larger opportunity."

The current US route accounting market -- which Norand dominates with what some outside observers guess to be an 80% share -- is estimated to be approximately \$120 million per year. The annual mobile market, targeted for the Pen*Key products, is forecast to grow to as much as \$1 billion in five years. This business offers a much larger opportunity for Norand, even with a reduced market share. LXE, Symbol and Telxon, among others, have also fixed the mobile markets in their sights.

Comment

At its current share price of less than \$20, Norand's market value of \$150 million would seem to be a bargain for any acquisition-minded buyer that believes the company will come back strong in the near future. Although there are lots of rumors and speculation circulating, none have checked out. We do not know of any serious discussions now under way.

Would it be a stretch....

....to link the automatic data collection industry with the characterization of the US as the world's first "entertainment/information superpower?"

Are ADC companies -- arguably part of the information sector of that "superpower" designation -- caught up in the same frenzy of recent multi-billion dollar mergers and acquisitions as the entertainment side; e.g., Disney acquired Cap Cities/ABC; Time Warner swallowed CNN; Seagrams bought MCA; and AT&T took over McCaw?

Albeit on a more modest scale, the largest number of corporate consolidations

ever in the auto ID industry occurred during this past year:

Peak acquired Endata/UK (SCAN Nov 94); Eltron bought Russet/UK (SCAN Dec 94); PSC took over LazerData (SCAN Jan 95); Amtech gathered up Cotag/UK (SCAN Jan 95); Charterhouse obtained UBI (SCAN Feb 95); Fairey purchased Microscan (SCAN Feb 95); Peak took possession of IPP (SCAN Feb 95); Metrologic bagged Holoscan (SCAN May 95); Paxar successfully bid for Monarch Marking (SCAN July 95); Zebra absorbed Vertical Technologies (SCAN Aug 95); Telxon gobbled up Virtual Vision (SCAN Aug 95); Lowry procured Data Recall (SCAN Aug 95); and finally, just last month, Spectra Physics invested in TXCOM/France (SCAN Sep 95).

And the M&A activity continues. During the first week of October there were three new ADC corporate acquisitions....

The most prolific acquirer....

....of companies in the ADC industry has just completed its fourteenth and fifteenth acquisitions: Peak Technologies purchased AccuScan (Atlanta) on October 3 and Numeric Arts (UK) on October 6.

AccuScan, a developer and marketer of packaged applications software, was founded in 1986 by President Travis Collins. The large majority of its stock is owned by Collins and VP Sales Dave Wiedman. The balance is owned by ten key employees. Collins told SCAN that last year's sales were \$11 million and that current revenues have been growing at a 30% rate. He believes the company is "on track for 1995 revenues of between \$14 million and \$15 million."

Nick Toms, President of Peak, told SCAN that his company paid 395,000 shares of Peak stock for AccuScan. (Peak closed on NASDAQ at \$26.50 on October 3, bringing the purchase price to \$10.5 million.)

Peak, the leading full-service, value-added distributor and systems integrator of bar-code based data collection and wireless data transmission systems, markets the products of more than fifty manufacturers. With seventy locations throughout the US and Europe, 1994 sales were \$114 million. AccuScan is the first company bought by Peak that has a significant, well-known product line. All of the other Peak acquisitions have been VARs and systems integrators, which were added to broaden market coverage.

According to AccuScan's Collins, his company will retain its separate identity, staff and facilities. AccuScan has been marketing its products through a group of 300 VARs in the US and abroad. The company's software has been developed principally around Symbol Technologies hand-held terminals. This emphasis meshes well with Peak's position as the largest reseller of Symbol products. "We will continue to distribute under our AccuScan nameplate -- domestically and internationally -- through our VAR channel," Collins stated. "There will be no conflict with Peak. The AccuScan product family will remain as an exclusive product line for our VARs, including the SmarTrac and Data Harvester programs. We will repackage and relabel products for Peak to eliminate any channel conflict."

Toms also revealed that Peak's aggressive moves into Europe continued with the acquisition of Numeric Arts from the British Printing Corp. "Numeric Arts is a systems integrator reselling Symbol Technologies and Zebra products," Toms told SCAN. "They were a dominant player at one time, but have not been doing so well recently. The owners wanted to sell it."

According to Ed Stevens, Peak's Executive VP/CFO, Numeric Arts was purchased for \$1.3 million in cash. "Numeric Arts annual sales were \$4 million," he told SCAN, "and the company is still a significant player in the British market. Numeric Arts will be integrated immediately into Peak/UK -- the company we formed when Endata was acquired last year (SCAN Nov 94, Jan 95). Peak/UK is now, by far, the leading VAR/systems integrator in the United Kingdom."

The third acquisition....

...that went down during the first week in October was initiated by Eltron (Simi Valley, CA). The fast-growing manufacturer of low-cost, bar code label printers purchased Donner Media (Appleton, WI), a manufacturer of thermal labels.

Donner is a five-year-old company, with 1995 revenues (according to Eltron) "estimated to exceed \$2 million." Eltron's Chairman/CEO Don Skinner stated: "Donner provides the engine upon which we intend to build a meaningful supplies business."

Donner -- which produces both direct thermal and thermal transfer label stock -- will continue to operate under its current name with Jim Jessen remaining as president. The purchase price of \$1.3 million consisted of an undisclosed mix of cash and Eltron stock.

Earlier this year, Eltron floated a secondary stock offering which raised more than \$17 million -- partially earmarked for future acquisitions (SCAN May 95). For the first six months of 1995, Eltron posted sales of \$17.8 million (more than two-and-a-half times last year's first half) and net income of \$2.8 million, or \$.43 per share (vs \$.9 million and \$.17 last year).

We asked Hugh Gagnier, President of Eltron's Printer Division (to whom Donner Media will report), if Eltron had any plans to buy additional companies. "We are actively looking at a number of situations right now," he replied, "but there is nothing concrete." He would not elaborate.

After just fourteen months....

...in place as President/COO of Symbol Technologies, Jan Lindelow has placed his imprint on the company by completing a major structural reorganization and reassigning key personnel.

In a wide-ranging interview with Lindelow and Founder/Chairman/CEO Jerry Swartz, at the company's Bohemia headquarters in late September, the two executives discussed the significance of these moves. "What we have done," Swartz stated, "is to radically change the leadership and the organization of the company in the middle of good times and success. The best time to make changes is when

things are going well -- not when there are severe problems which require changes under pressure."

Lindelov explained the background for these changes by first identifying the three "core competencies" of the company as Laser Scanning, Portable Terminals, and Wireless Local Area Networks. "We always want to be the leaders in scanning," he emphasized, "which is the original core and strength of the company. Scanning and portable systems were coupled in our previous organization. But with competitors like PSC and Metrologic out there, it is critical that we focus on scanning. Therefore, we decided to build one division around scanning only."

Lindelov believes that the remaining technologies must be closely linked. "We are not a network supplier -- like AT&T, for example -- whose goal it is to sell just networks," he explained. "We have networks in order to sell terminals, and it is essential that these two technologies talk to each other. We therefore created a separate division called Mobile and Wireless Systems."

Lindelov repeatedly emphasized customer service. "A year ago," he stated, "although we felt that we serviced our customers as well as anyone in this industry -- we recognized that we were not up to world class standards of efficiency. Today, our customers are more demanding, and this reorganization is in response to their needs."

The new Symbol organization consists of four "building blocks" or operating units: The two new divisions -- Scanner Products and Mobile/Wireless Systems -- will handle product development, design, engineering, product testing and marketing functions. Their mission will be to hand over completed products to the third unit, the Operations Division, which will be responsible for manufacturing and distribution. The Sales and Service Division, in turn, will maintain contact with customers and resellers.

Assigned to lead the Scanner Products Division will be Senior VP Roger Kiel, who has served as general manager of Symbol's scanners and portable systems group since 1990. Senior VP Rich Bravman, a seventeen-year Symbol veteran, now will be the general manager of the new Mobile & Wireless Systems Division, moving over from his position as VP Business Development. Richard Feldt replaces the retiring Jack Lieberman as Senior VP of Operations. Feldt joined Symbol from A.T. Cross Company, where he was VP Manufacturing since 1991. Senior VP Tomo Razmilovic continues as general manager of Worldwide Sales and Service.

[An interesting sidelight. Lindelov segments all of Symbol's hardware into three categories: Core Products -- estimated at 75% of Symbols total sales -- which he regards as "commodities" that are on the shelf and can and should be shipped the next day; Configured Products, which require some engineering, but can be readily assembled from existing components and shipped within two weeks; and Custom Products, where the customer says "build this for me and no one else" -- these units require extensive engineering and may take months to deliver.]

Comment

As with many companies that have experienced rapid growth, Symbol Technologies has not always been successful in maintaining effective communication among its executives or between the company and its

customers and resellers. It is much too early to tell whether this new reorganization will improve that situation. There is little doubt, however, that Swartz and Lindelow have recognized past inadequacies and are intent on meeting these challenges head on. So far, we have heard nothing but praise for these moves from other company employees and important resellers.

[Other topics discussed during our interview with Swartz and Lindelow -- including the future of linear and 2-D symbologies, new products and applications, relations with resellers, mature and developing markets, and sales and earnings projections -- will be covered in future issues.]

The wide assortment....

....of special services offered by the US Postal Service is highlighted by a new automated tracking system -- dubbed the Planet Code -- that the USPS expects to have up and running next year. Unlike commercial carriers such as UPS, Federal Express and RPS, the Postal Service offers dozens of unique categories and services to fill the particular needs of businesses and consumers.

The Planet Code looks like the familiar long and short bars of the Postnet Code that the USPS currently uses to route mail to ZIP code destinations. The Planet Code, however, uses what the Postal Service calls "Reverse Topology"; i.e., for each numeric character, the short bars of Postnet become the long bars of Planet; the long bars of Postnet become the short bars of Planet.

The Planet Code consists of two start characters (referred to as "Service Type ID") followed by a nine-digit identification number and a checksum character. ("Planet" is an acronym for "Postal Alpha Numeric Encoding Technique." Since the encodation is all-numeric, we have not yet figured out where the "Alpha" designation fits in.)

Here's how the new system will work: Using the Planet Code, the USPS customer (the addressor) will encode each card or envelope with a unique nine-digit number that identifies the addressee. The Planet Code will appear just above the addressee's name. The objective is to track pieces of mail while they are still in the hands of the USPS, and to notify the addressor of a pending delivery.

- For those mailers -- e.g., direct mail advertisers -- who want to know when a specific piece of mail will be delivered, the Planet Coded letter will be scanned at the post office where the final sortation is made. The sender will be notified electronically via a "Postal Routed Information Network." Once the mailing company is advised precisely when the piece will be delivered, the company can schedule a followup sales call or an additional mailing.
- For those mailers who rely on reply mail, the Planet Code will also be useful. The code will be added to Business Reply Envelopes or Cards, which will be scanned at the post office where the initial sortation is made; i.e., the one closest to where the return piece was dropped in the mail. A local telephone company, for example, can use such advance notice

information to indicate that a customer's payment check is in the mail days before it arrives. This early signal will save the cost of sending any followup letters requesting payment. This system could also help to forecast daily cash flow.

Those are pretty specialized uses for a narrowly-targeted marketing strategy by the USPS. To learn more, we called Tom Cinelli, the USPS project manager for the Planet Code. "This system was designed by USPS," he explained. "The service will be paid for by the mailers and will provide additional revenue to USPS. We expect to implement the service in early 1996."

According to Cinelli, current USPS Postnet Code readers can be adapted to read Planet Code. He anticipates that the USPS will have a compatible scanning capability at all of its major mail processing and delivery units by next year. "USPS is beginning to understand the value of an information-rich mail stream," Cinelli added.

Tom Cinelli, USPS, 475 L'Enfant Plaza SW, Washington, DC 20260; 202/268-2000.

Expanding its horizons....

...Venture Development Corporation is proposing a very ambitious new study: "Markets and Distribution Channels for Bar Code Products: The Pacific Rim, Latin America, The Middle East and South Africa."

In characterizing this market, VDC states: "So far, demand for Automatic Identification outside the United States and Western Europe has been sluggish, at best. To be sure, Nippondenso, Densai, TEC, Panasonic, Hewlett Packard, Opticon, NEC, Allen-Bradley, Unitech, Ricoh and Zebex have managed to eke out some limited business. Even so, none of them or anyone else has come even close to tapping into the potentially huge demand for bar code products in the Pacific Rim, Latin America or the Middle East."

VDC believes that the customers -- who will be part of the "huge explosion" of auto ID demand from outside the US and Europe -- "would rather shop for bar code products locally than in Eugene, Oregon or Eau Claire, Wisconsin."

The product categories in the survey include: Bar code printers; Consumables; Bar code scanners; Portable and fixed data collection terminal systems; Bar code software; and Bar code services.

This market study is a "multiclient" project (at \$5,500 per client). The research began September 15; the final report is due February 28, 1996. We will be reporting some of the statistical highlights when they become available.

[Note: Girish Rishi -- who had been the auto ID specialist at VDC since joining the research firm just one year ago (SCAN Oct 94) -- has left to join Symbol Technologies as a Product Manager in the newly-formed Mobile & Wireless Systems Division.]

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