

# Seven-fold rise in earnings during last five years

Cincom, the world's most experienced software company, builds, sells, and supports software for data access and integration, process automation, manufacturing business solutions, customer experience management, and business communications in addition to offering IT and contact center outsourcing. High quality, rapid implementation, and excellent service give Cincom clients greater productivity, faster speed-to-market, and a quicker return on investment.



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Thomas M. Nies, Chief Executive Officer, spoke with *Wall Street Reporter Magazine* on December 8, 2004

**WSR:** *Maybe we could start off with a brief history and a general overview of the company.*

**NIES:** Cincom's been operational for 36 years. We operate all around the world and have three to four thousand strategic customers. We deal with commercial, Government and institutional buyers. We don't sell consumer software. We compete in the marketplace with firms like Oracle, SAP, and Siebel, selling not only strategic software applications and software products, but also application development, database management and software and services that clients use to build and develop their own applications.

**WSR:** *Tell us about some of the emerging and developing trends that you see within the industry and explain to us how the company's products are redesigned to capitalize and address these trends.*

**NIES:** I think the most important trend is that customers are becoming much more demanding buyers. There is a significant supply of excess software in the marketplace today. I estimate as much as 40-50%. For any type of product or solution one wants there are half a dozen good potential providers. This gives customers the opportunity to demand more for their money. As a result, software implementations are now a better buy for them than they were in the past and will be even better in the future. Software companies who provide their customers more value at a lower cost, with more rapid ROI, while

minimizing risk, are going to benefit handsomely in the future. Those who continue to require very drawn out and significantly excessive costs of implementation and support will suffer. Simple enough. In a buyer's market, customers will demand and get greater value at much lower overall cost. Only naive buyers will accommodate vendors in today's marketplace as they did in the years leading up to 2000.

**WSR:** *One of the developments we have seen in recent times is the whole regulatory requirement of Sarbanes-Oxley. And companies are looking to such areas as business intelligence software. How do you see this particular trend developing and how is the company addressing this?*

**NIES:** Sarbanes-Oxley is a good indication of the fact that investors want more

## SUMMARY

Privately held Cincom Systems sells both strategic enterprise software products and support capabilities for clients looking to develop applications internally. The company competes directly with global giants like Oracle and SAP by offering comparable products at a fraction of the cost and deployment time. To help clients consolidate their vendor channels, the company now offers hosting, outsourcing and other IT services, again at a lower price. The company's sales network was built around marketing partnerships and new relationships are continually pursued. Asia is viewed as a key growth market. ROIC has averaged 80% over the last decade while earnings have grown 700% in five years. Management is seeking expansion opportunities.

information about the business just as management needs more information about the business. There has to be a lot more integrity in the figures and facts because excessive risks will no longer be tolerated. But besides knowing more about the business and reporting to the owners and the regulatory bodies, the globalized world we are living in today has increased the competition so much that more effective, better and more comprehensive use of software in just about every area of the business is absolutely mandated. That is one of the reasons why I think we are going to see a great blossoming in software opportunities in the future, certainly in business intelligence. It's not one that Cincom is now promoting heavily, but it's a new opportunity area for us too.

**WSR:** *In terms of partnerships and alliances within the industry, how does Cincom use them to further your objectives?*

**NIES:** Partnerships are key. One has to minimize the cost of selling and distributing software, as well as

broadening the base availability and distribution of software and solutions offered. So, we not only look to allies to supplement and round out our product line, but also we look to partners who would use our software line and some of the services we offer to better satisfy their customers. We are working heavily with developing and expanding partnerships. We originally built the company around a partner-related environment, and I think this is a way forward for most companies today. It's a major trend in our industry to see expansion of partnerships everywhere.

**WSR:** *Cincom competes in the industry against such leading companies as SAP, Oracle, and Siebel Systems. How does Cincom distinguish its technology and its product offerings from these competitors?*

**NIES:** Today, almost all the software providers offer the customer more than they really need to satisfy their requirements. So, emphasis on product feature and functionality is an area of marginal utility and with

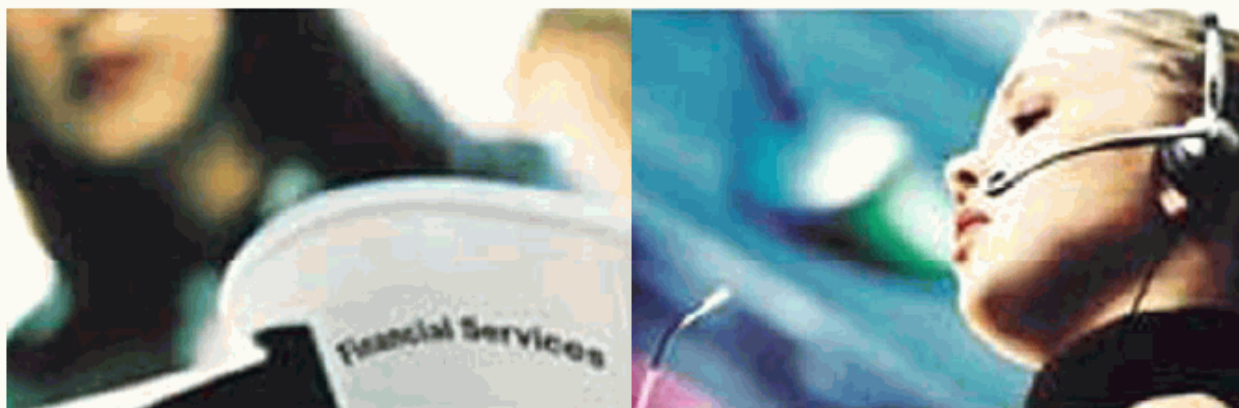
diminishing returns to boot. To win more consistently in the marketplace today one must deliver more value to the customer at a lowered cost. The differentiator we show companies from an Oracle or a SAP is that Cincom will implement a system of similar capability for perhaps a fourth or fifth, maybe in some cases, a tenth of the total costs and half to a third of the time required to reach operational utility of the systems desired. That's our value proposition. Cincom does this consistently and we believe that is the significance and strength of our comparative advantage. More value, delivered for less time, cost and risk are having a very strong impact for Cincom in the marketplace.

**WSR:** *Can you tell us about the background and experience of the management team on board?*

**NIES:** One of the great strengths of Cincom is that our company has proven to be a very attractive company to our associates. We not only are able to attract good managers and top executives to Cincom, but we were able to retain them. We have an average of 12 to 15 years or so leading and guiding every one of our business pursuits. Our people are committed to our business, and Cincom is committed to our people. We have probably the longest average employment rate in the industry. We also have the highest returnee rate. One out of every 12 of our people are people are returnees. Over 25% of Cincom's staff have more than 15 years with our company. We are deep in talent. We have a really experienced and zealous management team. We can, and do consistently, deliver on our promises because of the skill, quality and experience of our people.



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**WSR:** *Cincom serves thousands of clients in six continents. How do you foresee the next two to three years—now—as a time of expansion and development for the company?*

**NIES:** Customers want providers to take more and more responsibility. So, we are expanding our offerings. Hosting services, outsourcing services and more comprehensive facilities management types are now being provided to customers. We see this as a great growth opportunity for us because customers who are looking at the IBMs, Computer Sciences, EDS, and others are now looking for alternative suppliers who will provide the same type of quality and comprehensiveness of service, but at significantly lower prices. So, this is another market opportunity that we are pursuing with exactly the same model as we employed for our software product offerings. What Dell has done for PCs—that is to provide a very similar quality

at a much lower price—is what we are doing in the area of software and outsourcing services. It is a model that we think will play well into the future; more value with lower cost. We see this not just with Dell, but we see these demands being made in almost every industry, in every part of our now globalized commercial world.

**WSR:** *In terms of geographic expansion, what are some of your other new key markets that you think might represent an opportunity?*

**NIES:** Asia-Pacific is absolutely on the top of the list by far. Europe and America are mature markets. They are good markets with moderate growth.

And we are penetrating and developing these markets quite well. But, the growth rate in these markets is much less than the growth rate in places like China and throughout the rest of Asia. Japan is still a very good growth market, but China, India and much of Asia are now very, very substantial growth opportunities. That's why just

about everybody is going there as fast and as significantly as they can.

**WSR:** *Perhaps you could give us just an idea of some of the key milestones that we can expect to see from the company over the next 12 to 18 months.*

**NIES:** Throughout this entire decade, we have averaged over 80% compounded return on invested capital; 80%—that's three to four times or five times what is typically generated among good performing companies in our industry. So, a very high return on investment and also significant increases in earnings per share is a key Cincom emphasis. We have increased earnings per share by seven-fold over the last five years and we are averaging, as I said, 80% return on capital investment. We are looking to expand the business significantly without any kind of adverse effect on these operating results. This will be no easy task for us. But, we are committed to high returns on investments for ourselves just as we look to provide our customers high returns on their investments with us.