Lotus Development Corporation
1995 Business Plan

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Lotus Strictly Private

Lotus

LOTUS DEVELOPMENT CORPORATION
1995 BUSINESS PLAN

To: Board of Directors
From: Ed Gillis
Subject: Lotus Development 1995 Business Plan Overview
Date: December 7, 1994

Executive Summary.

P&L trend

($ in Millions)	'93(A)*	'94(F)	'95(P)	% Var 94/93	% Var 95/94
Revenue	$981	$975	$1,165	(1%)	20%
Cost of Sales	202	176	173		
Gross Margin	779	798	[illegible]		
Gross Margin %	79.4%	81.8%	84.7%		
Operating Expenses	669	728	849		
Operating Margin	118	71	139	(40%)	95%
Operating Margin %	12.1%	7.3%	12.0%		
Other Income/(Expense)	3	8	8		
Income Tax	48	29	53		
Net Income	$73	$49	$94	(33%)	90%
EPS	$1.61	$1.00	$1.80	(38%)	75%
Weighted Shares	44.7	49.1	52.4		

* [illegible]

Product P&L - Desktop vs Communications

($ in Millions)	Desktop			Communications (1)		
	94(F)	95(P)	% Var	94(F)	95(P)	% Var
Total Revenue	$644	$628	(2%)	$331	$537	62%
Cost of Sales - $	119	105	(12%)	57	73	28%
- % of Revenue	18%	17%		17%	14%	
Expenses - $ (2)	340	332	(3%)	307	418	36%
- % of Revenue	53%	53%		93%	77%	
Contribution Margin	$185	$191	3%	(33)	$48	n/a
- % of Revenue	29%	30%		(10%)	9%	

Notes:
(1) [illegible]
(2) [illegible]

Our 1995 Business Plan generates 20% revenue growth and 12% operating profit. This is up substantially from our flat year over year revenue performance in 1994 and our 7% operating margin, but represents disappointing profit performance relative to our previously established long term target of 15% to 18% operating profit in '95.

The plan is based on robust growth in the Communications business. Sales grow 62% over 1994 driven by growing sales of services and support and Notes licenses. The contribution from this business improves by $71m, largely as a result of scale. Our spending increases in the communications segment by 36%, or $109m, but $57m of this is concentrated on discretionary, revenue-related expenditures such as customer support, sales headcount and consulting and training services. We do not expect to commit these funds unless revenue volume is materializing.

Our desktop business maintains its contribution margin on flat revenue, which reflects an overall decline of 1.5 points of market share, offset by overall growth in the windows market. Desktop spending declines by 3% year over year, but a larger portion of the spending is concentrated on sales and marketing.

Our balance sheet is strong with ending cash (before any stock repurchase) projected to be $480m. Cash flow from operations are projected to be $200m.

1994 Review.

WSMG Contribution by Region

	North America		Europe		Japan		APAC		Latin America	
	94(F)	Plan var	94(F)	Plan var	94(F)	Plan var	94(F)	Plan var	94(F)	Plan var
Revenue	516	-33	223	-102	122	-0	43	-8	18	-6
Cost of Sales	58	-3	39	-6	18	1	6	-3	2	0
Expenses	267	-9	138	-10	36	2	21	-1	8	1
Contrib Margin	191	-21	47	-85	67	-3	16	-4	8	-7
Margin %	37%	-2%	21%	-20%	55%	-3%	37%	-2%	45%	-19%

1994 P&L Recap

($ in Millions)

	'93(A)	'94(P)	'94(F)	% Growth '94(F)
Revenue	$981	$1,129	$975	(1)%
Cost of Sales	202	188	178	
Gross Margin	779	941	797	
Gross Margin %	79.4%	83.4%	81.7%	
Operating Expenses	660	780	726	
Operating Margin	119	161	71	(40)%
Operating Margin %	12.1%	14.3%	7.3%	
Other Income/(Expense)	3	6	8	
Income Tax	46	64	28	
Net Income	76	104	50	(33)%
EPS	$1.69	$2.13	$1.03	(39)%
Weighted Shares	44.7	48.7	49.1	

Notes:
[illegible]
[illegible]
[illegible]

Desktop and Comms Revenue
Year over year

	93(A)	94(F)	95(P)	% Chg 94/93	% Chg 95/94
Desktop	783	644	628	-18%	-2%
Comms	178	331	537	86%	62%
Total	961	975	1,165	1%	20%

Our performance in 1994 was disappointing. Revenue was flat year over year and $154m below plan. Similarly, operating profit was $90m behind plan. Our problems were concentrated in the desktop. Our desktop business has declined by $139m year over year and lost 5.2 market share points. The majority of the desktop shortfall occurred in Europe, where we were $89m behind our desktop revenue plan and $77m below 1993 revenues.

Our desktop problems were in part due to late shipment of our desktop suite of products. These were expected in Q-2 and shipped in mid to late Q-3. However, our desktop performance can also be attributed to a weak word processor, which is functionally behind both of its competitors. The word processor appears to be the largest single determinant in suite selection. As a result, the weak word processor hurt us in the standalone category, but *more importantly, in the suite category. Our European performance was also negatively affected by poor channel relations, which was exacerbated by too much of our inventory in the channel as a result of sales and marketing efforts focused too heavily on selling product into the channel, instead of creating end user demand.*

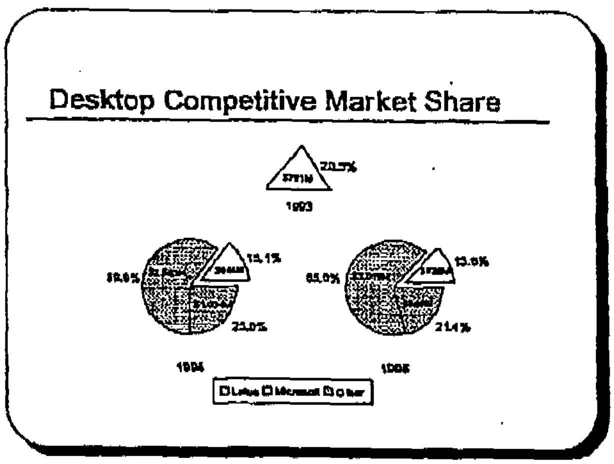
Our communications business grew strongly, and although behind plan revenue by $9m, grew 86% year over year, despite the introduction of Passport, our volume purchase program. This program had the effect of creating a lag in the reported sales of both desktop and communications products as the program altered the terms of sale from delivery of the product to actual deployment of the product.

*Separately, during 1994 we expanded the scope and control of our communications business with the acquisitions of Iris Associates, Soft*Switch, Edge Technologies and the Human Interface Group. Also, in '94 we concluded a significant reorganization of the North American sales force to more account-oriented deployment and we introduced worldwide, Passport, our volume licensing agreement. In the third quarter we reorganized Sales, Support and Marketing into a worldwide organization and we redefined our development and product management organizations into desktop and communications business units. Finally, our European business infrastructure was downsized by approximately 100 people and new management with significant channel experience is now in place.*

1995 Key Assumptions.

Our 1995 Business Plan reflects the following key assumptions:

1. A recommitment to our desktop business enables us to hold revenue flat after a year in which desktop revenue declined by $139m. (We lost five market share points in '94; our '95 plan assumes we lose 1.5 market share points.)



2. We maintain flat contribution margin in the desktop business. Spending in all functional categories in the desktop segment are reduced, but proportionately, more resources have been directed to desktop marketing.

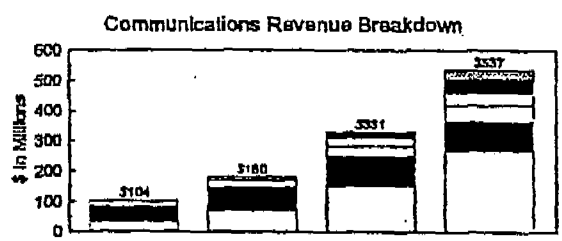
Desktop P&L

	1992	1993	1994	1995
Revenue	752	783	644	628
COGS	156	154	119	105
Gross Margin	596	630	525	523
Internal OPEX				
Development	84	80	72	76
Sales & Marketing	302	301	269	256
F&O allocation	78	66	53	46
Total OPEX	465	447	393	378
Operating margin - $	131	183	131	146
Operating margin - %	17.5%	23.3%	20.4%	23.2%

This P&L includes an internal view of development, sales and marketing spending. Development spending has been reduced for capitalized software and acquired technology amortization. F&O has been allocated to Desktop based on a percent of revenue.

3. We deliver a full suite of "Windows 95" products in the September 1995 timeframe. This is imperative in order to achieve our flat revenue targets and our contribution dollars from this segment. Currently this looks doable for each of the products EXCEPT our core spreadsheet product. Plans are currently under way to determine how to do this. (We are assuming "Windows 95" from Microsoft is widely available late in Q-2.)

4. The communications segment of our business grows by more than 60%.



	[illegible] (A)	[illegible] (A)	[illegible]	[illegible]
[illegible]	33	[illegible]	132	[illegible]
[illegible]	[illegible]	76	97	[illegible]
[illegible]	16	[illegible]	32	[illegible]
[illegible]	3	12	[illegible]	40
[illegible]			[illegible]	47
Other	3		[illegible]	33

*Approximately 32% of the overall growth in the comms segment comes from growth in our services and support business and from the recent acquisition of Soft*Switch, which grows 20% organically and represents twelve months in 1995 versus five months in 1994.*

The balance of the growth is fueled by Notes licenses and related tools and companion products. cc:Mail is assumed to be flat year over year.

5. Profitability from the communications business improves from ($61m) to $8m in 1995. This is based on growing R&D expense by approximately 27%; investing substantially in support which grows at 64%; and growing sales and marketing significantly at 30%, but well below the rate of revenue growth.

Comms P&L

	1992	1993	1994	1995
Revenue	117	178	331	537
COGS	33	40	57	73
Gross Margin	84	137	274	464
Internal OPEX				
Development	42	63	90	120
Sales & Marketing	72	122	217	296
F&O allocation	12	15	27	39
Total OPEX	126	200	335	455
Operating margin - $	-41	-62	-61	8
Operating margin - %	-35.2%	-35.0%	-18.3%	1.6%

This P&L includes Soft*Switch, ICG and WSG. The spending reflects an internal view of expenses. Development spending includes Soft*Switch development, net ICG development, capitalized software and acquired technology amortization. F&O has been allocated to Comms based on a percent of revenue.

6. Our venture with AT&T has no financial impact in 1995.

AT&T P&L

	1994	1995
Revenue	$0.0	$3.6
Spending		
Development	4.8	9.2
Sales & marketing	0.7	6.3
Administrative	0.3	1.0
Total spending	5.8	16.5
AT&T funding offset	(5.8)	(15.5)
Net spending	0.0	3.0
Contribution margin	$0.0	$0.6

Business Issues.

1. *Our desktop revenue assumptions are at risk given the following factors:*

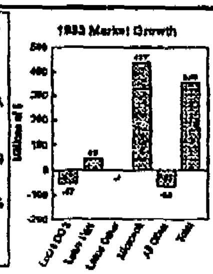
i. Microsoft market momentum, advertising budget and need for revenue to fuel historic record of growth in a year in which windows applications market growth is expected to fall to 14% (from 32% in 1994) create an environment in 1995 in which maintaining market share will be particularly difficult.

ii. Novell's presumed emergence as a more effective competitor after having digested Wordperfect means three companies will be competing for the slowing desktop applications market.

iii. The introduction of "Windows 95" is expected to delay customer buying and is likely to advantage Microsoft as they are expected to have full suite of windows 95 applications simultaneous with the release of the operating system. (Ours is likely to follow by ninety days, best case.)

Desktop Market Size and Growth

	Market Size 93	94 (E)	95 (P)	% 94/93	% 95/94
Market Units (M)	22.5	29.5	34.4	31%	17%
Mkt ASP	$170	$144	$134	(15%)	(7%)
$ Mkt Size	$3,845	$4,259	$4,615	11%	8%
Growth		$414	$356		

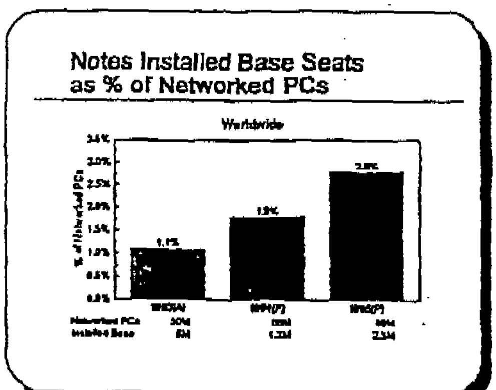


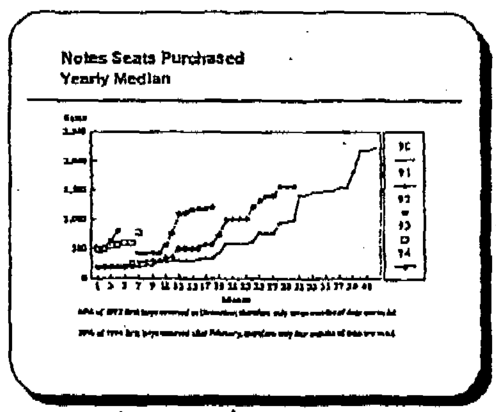
2. *Our desktop business is very profitable. Accordingly, for every $10m decline in desktop revenue our company-wide profitability will decline by approximately $4 to $5m. There is no "silver bullet" desktop strategy. We concluded the only way to maintain market share and preserve the large contribution we receive from this segment is to aggressively fight with sales and marketing programs and competitive products. The plan assumes we can do this very efficiently, generating a full suite of "Windows 95" products in September '95 with a development budget that is down 2% year over year. Similarly the plan assumes that we can*

maintain flat revenue by increasing our advertising spending by 14%, although we suspect that our share of voice actually declines.

An alternative approach, which we rejected, is to plan on $500m of desktop revenue (a 22% decrease) and attempt to protect, or at least consciously plan, on maximizing contribution dollars from this level of revenue growth. This approach effectively gives up on outlying years because it would significantly affect our ability to deliver "Windows 95" products in a competitive timeframe. Also, in a sales and marketing context this would be a visible signal to the marketplace that we were cutting back on our commitment to the desktop business. As a result, this would drive many of our large customers, or those undecided prospects, to Microsoft. The current approach gives us a chance of maintaining revenue in the $600 to $630 range while maintaining a very profitable segment.

3. Notes revenue growth represents 74% of year over year improvement. 75% of Notes license growth is expected to come from ongoing deployment of the installed base. Although our history here is short, our experience with the existing installed base suggests that the current deployment patterns support this rate of license growth. Our assumptions around license growth increase our penetration of Local Area Network PC's from 1.8% in '94 to 2.8% in '95.





4. Our communications business model is scaling very slowly. At $548m the business generates a breakeven level of operating profit and a relatively small, 9%, contribution margin. When compared to analogous database-type companies, their operating margins *range from 16% to 23%. The principal differences appear to be in the R&D area where we are spending 26% of the segment's revenue on R&D in contrast to the industry norm of 12% to 17%. Also in the cost of goods area, we are spending more on producing and fulfilling product than our database comparables. Finally, in the sales and marketing area we are spending more than the analogous database companies if we allocate sales expense on an "efforts" basis (vs. allocation of sales expense based on revenue as in the model below). We have analyzed each of these areas below.*

Comms Business Model vs Competitors

$ Millions	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revenue	[illegible]	[illegible]	[illegible]	[illegible]	425.7	2,001.1	405.6	61.0	312.9
COGS	[illegible]	[illegible]	[illegible]	[illegible]	8.3		25.9	3.4	14.9
Sales & Mktg	[illegible]	[illegible]	[illegible]	[illegible]	180.2	710.5	137.8	21.4	137.7
Support	[illegible]	[illegible]	[illegible]	[illegible]	62.4	490.2		7.0	32.9
Development	[illegible]	[illegible]	[illegible]	[illegible]	70.5	235.2	68.9	4.2	52.2
G&A & Other	[illegible]	[illegible]	[illegible]	[illegible]	29.8	135.1	58.5	4.6	33.2
Op Profit	[illegible]	[illegible]	[illegible]	[illegible]	68.5	421.2	85.1	10.2	42.0
% of Rev									
COGS	[illegible]	[illegible]	[illegible]	[illegible]	2%	0%	14%	7%	4%
Sales & Mktg	[illegible]	[illegible]	[illegible]	[illegible]	44%	36%	34%	42%	20%
Support	[illegible]	[illegible]	[illegible]	[illegible]	15%	25%	0%	14%	9%
Development	[illegible]	[illegible]	[illegible]	[illegible]	17%	12%	17%	8%	15%
G&A & Other	[illegible]	[illegible]	[illegible]	[illegible]	7%	7%	14%	9%	8%
Op Profit	[illegible]	[illegible]	[illegible]	[illegible]	16%	21%	21%	20%	23%

Source: Lotus: 1995 Plan (Excludes S/W Cap and Amortization) (Adjusted for External functional expense classifications)
Competitors: most recent annual report (adjusted for capitalized S/W and amortization where appropriate)
Note: Lotus Comms revenue excludes AT&T and includes $15M adjustment for elimination of reseller rebates

<u>R&D.</u> Our communications segment R&D expenses continue to run at a very high percentage of sales despite the fact that growth in the business unit's development spending in the '95 plan is only 14%. Core comms development, that is development directly related to Notes and cc:Mail, represents 21% of sales - a more competitive level. "Non-core" activities contribute to the large distortion in the ratio, because for the most part there is no revenue associated with these non-core activities, although we believe there is a large opportunity to capitalize on the installed base with add-on products as well as an opportunity to expand our overall penetration of the network with solutions-oriented applications. These include $23m of development spending on tools and companion products and represent such products as ViP, video, imaging and phone-Notes. In fact our efforts in this area are substantially larger than the dollars of spending suggest, because $5m of projects are funded

by third parties. We are in the process of determining which of these efforts are strategic and need to be done in house, and which could be done by third parties/partners. Our objective is to cap development expense for the comms business at 18% of sales in the '96 timeframe.

Communications Development
1995 Core vs Non-Core Spending

	Core	Non-Core	Total
Comms Revenue			[illegible]
Comms SBG			
Notes development	$35.4		$35.4
cc:Mail development	20.7		20.7
Core product mgmt	6.0		6.0
Organizer/ CAS	3.8		3.8
Tools		16.9	16.9
Companion products		6.0	6.0
Admin/Amod/Other	12.8	4.4	17.2
Subtotal	78.7	27.3	106.0
Other Comms			
Soft*Switch	12.6		12.6
Iris bonus expense	8.8		8.8
IPD	18.4		18.4
Subtotal	39.8	0.0	39.8
Total spending	$118.5	$27.3	$145.8
% of revenue	21.6%	5.0%	26.6%

This view of development spending reflects an internal view of development expense without a reduction of capitalized software or acquired technology amortization.

<u>Cost of Goods.</u> *Our cost of goods sold currently runs higher than our database comparables because we have a greater mix of shrink-wrap, physical units, especially in our cc:Mail business. Our cost of goods sold component should continue to decrease over time as the mix of physical units decreases and Notes becomes a larger proportion of our overall revenue mix.*

The industry-wide production of physical units continues to grow, largely as a result of growth in low end, home oriented products such as games and entertainment. The trend of physical units in the business segment of the market is clearly down. As a result, we are in the process of looking to sell our existing manufacturing capacity and talent, preferably on a turnkey basis under which we would contract our needs.

<u>Sales and marketing.</u> *We are investing in three channels of distribution for our communications products: a direct sales force, a two tier channel of resellers and distributors, and a VAR network of third parties. Our direct sales force is allocated (between desktop and communications) to the communications segment largely on the basis of revenue dollars. This probably understates sales expense for the comms segment because most evidence suggests that the sales force expends a larger proportion of their time and effort on comms-based activities. (A related concern as it relates to the allocation of our direct selling*

effort is that our direct sales expense for the desktop may be overstated, at least in terms of effectiveness.) The cost of our selling and distribution efforts cannot be directly compared to other companies because the reported categories generally group sales and marketing expense together. On a combined basis, it appears that our sales and marketing expense for the comms segment is higher than our database comparables. This is at least in part due to the fact that, other than Microsoft, the magnitude of our investment in several channels of distribution is unusual and probably involves some overlap and redundancy. On the other hand, these investments have been necessary, missionary components of a new, and we believe large, market category. We have estimated the direct cost of these channels below and we are currently evaluating means of reducing our overall costs.

Estimated 1995 Sales Distribution Cost
($ in Millions)

Sales Expense	80
Two-fer distribution (MIF and Rebates)	20
VARs, Strategic Alliances	10

We continue to believe we can achieve our long-term target of 15 to 18% operating margins. Our model of 1996 suggests that if our communications business grows at 35 to 50% in 1996 and we cap our development spending at 18% of revenue. The segment achieves standalone, 15% operating profit, and supports spending growth of 20-35% in sales, support and marketing.

OVERVIEW

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Lotus Development Corporation

Board of Director's Review
December 15 & 16, 1994

Financial Overview

1995 Business Plan

1994 Recap

1994 Summary

- EPS estimated to be $1.03 vs Plan of $2.13
- Revenue plan missed by $154M, operating profit off $90M
  - Missed Desktop revenue by $145M vs Plan
    - $138M down from 1993
    - Lost 3.7 Windows market share points
    - D/T Problems
      - Delayed product cycle
      - Weak word processor
      - Europe
  - Comms $9M off plan, but $151M over 1993

1994 Summary (continued)

- Planned spending was cut by $63M
  - COGS was reduced by $12M
  - Development (mostly DT) was cut by $23M
  - Sales, support and marketing was reduced by $24M
- Key Product Shipments
  - Notes 3.1 - Win, NLM and Unix AIX, HP, Sun, SCO
  - DT products: 123/W R.5.0, SSuite 3.0, Approach 3.0
- Completed Comms-based acquisitions: Iris, Soft-Switch and Edge

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1994 P&L Recap

($ in Millions)

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Other Income/(Expense)	3	6	8	
Income Tax	46	64	28	
Net Income	76	104	50	(33)%
EPS	$1.69	$2.13	$1.03	(30)%
Weighted Shares	44.7	48.7	49.1	

Notes:
1993 P&L excludes $25M Approach write-off.
1994 Plan P&L is adjusted for SoftSwitch, [illegible] and Lotus [illegible].
1994 Forecast P&L excludes [illegible] non-recurring charges for acquisitions and restructuring.

1994 Margin by Organization

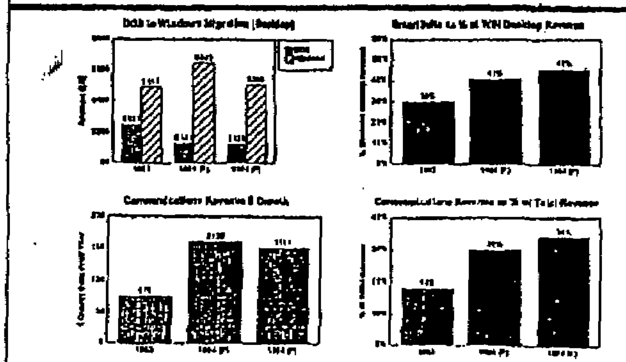
Fav/(Unfav)	WSMG '94(F)	WSMG V Plan	WSG '94(F)	WSG V Plan	SoftSwitch '94(F)	SoftSwitch V Plan	Other '94(F)	Other V Plan	Total '94(F)	Total V Plan
Revenue	922	-149	32	-9	10	0	4	4	975	-154
Cost of Sales	124	11	0	0	5	0	48	1	176	12
Expenses	470	17	54	2	14	0	189	34	728	52
Contrib Margin	329	-122	-22	-7	-2	0	-233	39	71	-60
Margin %	36%	-6%	-69%	80%	-16%	0%	N/A	N/A	7%	-7%

Other includes Development, F&A and Corporate Adjustments

1994 Margin by Region - WSMG

Fav/(Unfav)	North America '94(F)	North America V Plan	Europe '94(F)	Europe V Plan	Japan '94(F)	Japan V Plan	Asia Pacific '94(F)	Asia Pacific V Plan	Latin America '94(F)	Latin America V Plan
Revenue	516	-33	223	-102	122	-0	43	-8	18	-6
Cost of Sales	58	3	39	8	18	1	9	3	2	0
Expenses	267	9	138	10	38	2	21	1	8	1
Contrib Margin	191	-21	47	-86	67	-3	16	-4	9	-7
Margin %	37%	-2%	21%	-20%	55%	-3%	37%	-2%	45%	-18%

1994 Plan Assumptions



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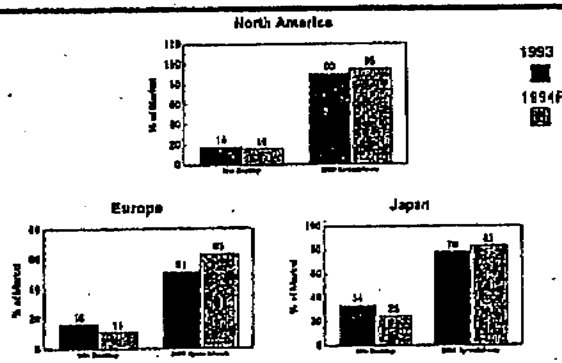
1994 Revenue Market Share



1995 Business Plan

Overview

1995 Plan Overview

- Overall revenue growth is 20%
  - Desktop declines by 2%
  - Communications grows by 62%
  - Notes seats double again in 1995
- Cost of Sales improves by 2.8 margin points
- Operating expenses grow by 17%
  - Desktop spending declines by 4%
  - Comms spending increases by 36%
- Operating margin improves from 7% in 1994 to 12% in 1995

1995 Plan Highlights

	93A	94F	95P
Revenue Growth	9%	(1%)	20%
- Desktop Growth	2%	(16%)	(2%)
- Communications Growth	73%	84%	62%
Spending Growth	6%	6%	14%
Operating Margin %	12.2%	7.3%	12.0%
EPS	$1.69	$1.03	$1.60
Return on Equity	16%	10%	16%

Note:
Communications growth includes [illegible], AT&T and Lotus Institute
Spending growth includes cost of sales and operating expenses

IBM 7510276942

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Product P&L - Desktop vs Communications

($ in Millions)

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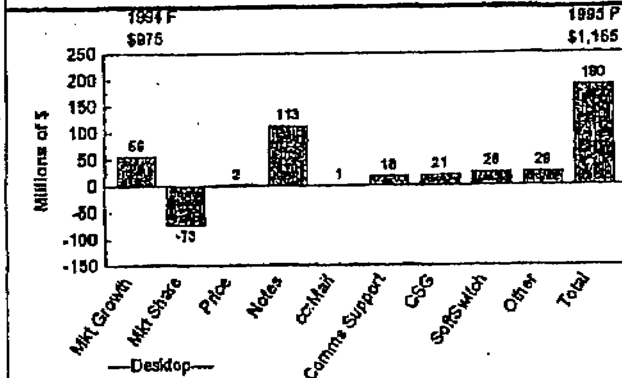
Contribution Margin	$185	$191	3%	($23)	48	n/a
- % of Revenue	29%	30%		(10%)	9%	

Notes:
(1) Communications includes WSG, SoftSwitch, AT&T and Lotus Institute
(2) Expenses do not include F&O or strategic investment

Revenue Bridge 1994 Forecast to 1995 Plan - By Market Component



P&L External View

($ in Millions)

	93(A)*	94(F)	95 Plan	% Var 95(P)/94(F)
Revenue	[illegible]	$975	$1,165	20%
Cost of Sales	[illegible]	[illegible]	[illegible]	1%
Gross Margin - $	770	709	987	[illegible]
Gross Margin - %	[illegible]	[illegible]	[illegible]	
Expenses:				
R&D	127	167	[illegible]	[illegible]
S&M	463	501	577	15%
G&A	70	70	74	[illegible]
Investment	0	0	[illegible]	n/a
Total Expenses	[illegible]	[illegible]	[illegible]	[illegible]
Operating Margin	119	71	[illegible]	[illegible]
Other (Income)/Expense	(3)	[illegible]	[illegible]	[illegible]
Profit Before Tax	122	[illegible]	147	[illegible]
Income Tax	[illegible]	28	[illegible]	[illegible]
Net Income	[illegible]	[illegible]	[illegible]	[illegible]
EPS	[illegible]	[illegible]	[illegible]	[illegible]
% of Sales:				
R&D	13%	[illegible]	15%	
S&M	47%	51%	50%	
G&A	7%	7%	7%	

* Adjusted for non-recurring items

1995 Business Plan

Desktop

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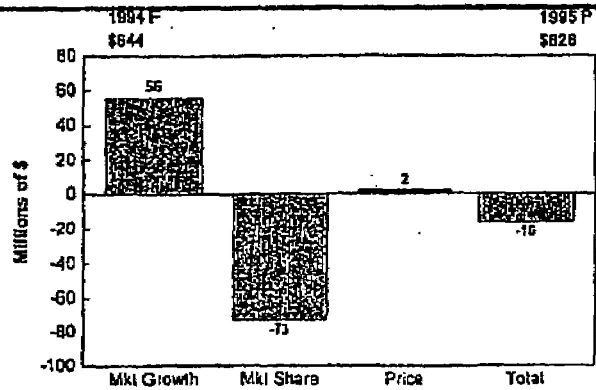
Desktop Plan Themes

- Hold desktop revenue flat despite 16% decline in '94
- Maintain flat desktop contribution margin
- Deliver full suite of "Windows 95" products in September '95

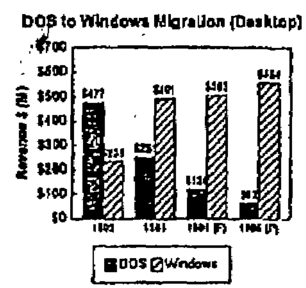
Desktop P&L

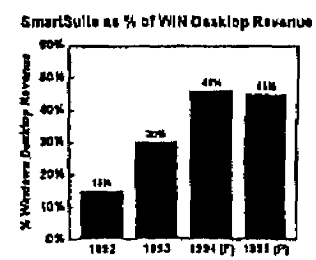
	1992	1993	1994	1995
Revenue	752	783	644	628
COGS	156	154	119	105
Gross Margin	596	630	525	523
Internal OPEX				
Development	94	80	72	76
Sales & Marketing	302	301	269	256
F&O allocation	70	68	53	46
Total OPEX	466	447	393	376
Operating margin - $	131	183	131	148
Operating margin - %	17%	23%	20%	23%

Desktop Revenue Bridge 1994 Forecast to 1995 Plan - By Market Component



Desktop Plan Assumptions





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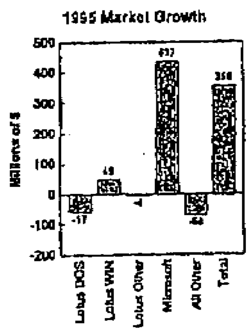
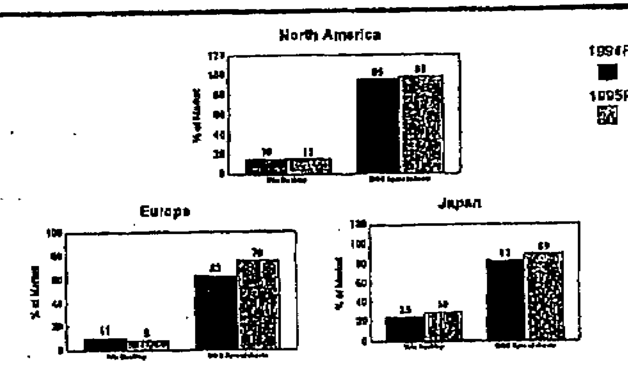
Desktop Market Size and Growth

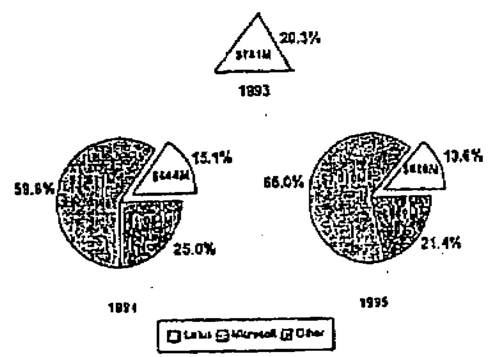
	Market Size 93	94 (F)	95 (P)	% 94/93	% 95/94
Market Units (M)	22.5	29.5	34.4	31%	17%
Mkt ASP	$170	$144	$134	(15%)	(7%)
$ Mkt Size	$3,845	$4,259	$4,615	11%	8%
Growth		$414	$356		



1995 Plan Revenue Market Share Assumptions



Desktop Competitive Market Share



Desktop Revenue by Product

	94F	95P	% Change
SmartSuite	1234	1147	8%
Spreadsheets	318	284	(10%)
WPD	23	29	22%
Graphics	26	23	(10%)
Database	15	19	27%
Organizer	23	24	5%
Support	8	16	100%
Other	5	12	320%
Total Desktop	1644	1623	(2%)

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Desktop Business Model vs Competitors

$Millions	Lotus Desktop	Corel	Word Perfect	Aldus
Revenue	[illegible]	[illegible]	[illegible]	[illegible]
COGS	84.5	32.8	132.2	41.5
Sales & Mktg	379.3	51.6	310.0	61.5
Support	34.3			
Development	83.7	6.4	125.4	33.4
G&A & Other	32.0	4.9	83.1	34.5
Op Profit	134.8	45.1	[illegible]	[illegible]

% of Revenue	Lotus Desktop	Corel	Word Perfect	Aldus
COGS	13%	23%	10%	20%
Sales & Mktg	59%	37%	45%	30%
Support	5%	0%	1%	0%
Development	13%	5%	11%	16%
G&A & Other	5%	3%	12%	17%
Op Profit	21%	31%	19%	8%

Source: Lotus: 1995 Plan (Excludes S/W Cap and Amortization) (Adjusted for External functional expense classifications)
Competitors: most recent annual report (adjusted for capitalized S/W and amortization where appropriate)

Communications

Desktop Business Issues

- Desktop revenue assumption
  - Microsoft market momentum, advertising budget, and need to fuel revenue growth in a slowing windows apps market
  - Novell emergence after "digesting" Wordperfect
  - Effect of Win '95 on customer buying
    - Microsoft presumed to ship apps simultaneously
- Desktop very profitable
  - Consolidated dependency
    - 50% profit impact on each $1 of D/T revenue
- Alternatives (contingencies) appear to be self fulfilling

Communications Plan Themes

- Communications revenue grows by 62%
  - 40% from services, support and Softswitch
  - Balance from Notes licenses and companion products & tools
- Comms contribution margin before F&O allocation improves to 9% (2% after F&O allocation)

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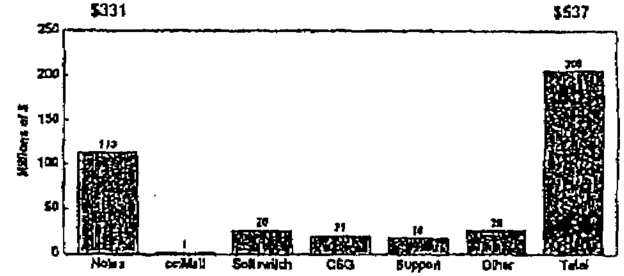
Comms P&L

	1992	1993	1994	1995
Revenue	117	178	331	537
COGS	33	40	57	73
Gross Margin	84	137	274	464
Internal OPEX				
Development	42	63	90	120
Sales & Marketing	72	122	217	298
F&O allocation	12	15	27	39
Total OPEX	126	200	335	453
Operating margin - $	(41)	(62)	(61)	8
Operating margin - %	-35%	-35%	-18%	2%

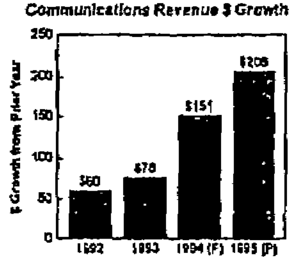
Note: Comms includes SoftSwitch, AT&T and WSG

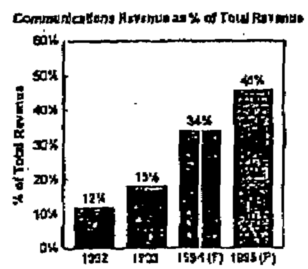
Comms Revenue Bridge 1994 Forecast to 1995 Plan- By Product



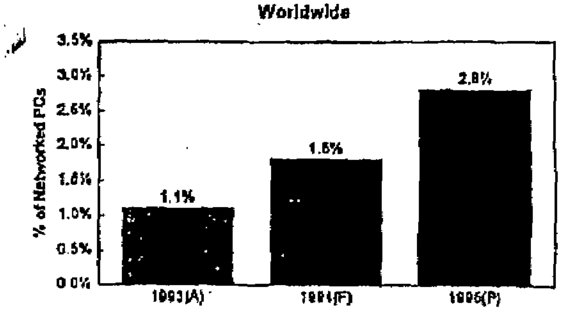
Other includes increases of $11M for Calendaring & Scheduling, $4M for Forms, $4M for AT&T, and $9M for Suite (Comms share).

Communications 1995 Plan Assumptions





Notes Installed Base Seats as % of Networked PCs



	1993(A)	1994(F)	1995(P)
Networked PCs	50M	68M	88M
Installed Base	6M	1.2M	2.5M

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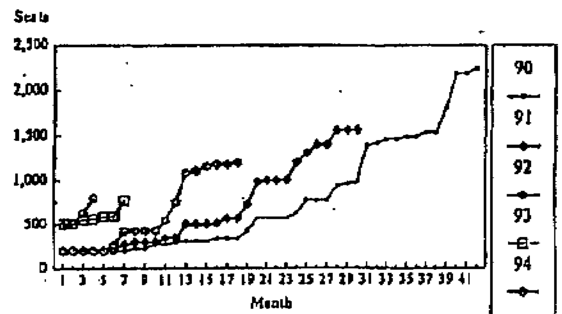
Notes Seats Purchased
Yearly Median



64% of 1993 first buys occurred in December, therefore only seven months of data are valid.

11% of 1994 first buys occurred after February, therefore only four months of data are valid.

Communications Revenue by Product

	94E	95P	% Change
Notes	132	2[illegible]5	74%
ccMail	87	88	1%
SmartSuite - Comms	1	8	[illegible]00%
SoftSwitch	16	42	163%
ICO		4	n/a
WSG	33	63	94%
Support	28	48	71%
Comms Calendaring/Forms/Etc	5	20	300%
Total Comms	351	537	53%

Comms Business Model vs Competitors

$ Millions	Comms	Soft-Switch	CSG	Total	Sybase	Oracle	AutoDesk	Power-soft	Informix
Revenue	[illegible]	42.1	[illegible]	[illegible]	420.7	2,001.1	405.8	51.0	353.9
COGS	37.0	8.8		46.0	8.3		55.8	3.4	14.0
Sales & Mktg	193.7	14.0	48.4	302.4	190.2	710.5	137.0	21.4	137.7
Support	49.8	4.8		54.4	62.4	480.2		7.0	32.9
Development	120.9	13.8	2.5	141.5	70.5	315.2	68.3	4.3	57.1
G&A & Other	28.8	4.3	5.3	38.5	29.8	139.1	58.5	4.8	33.2
Op Profit	7.0	(3.0)	(0.8)	3.4	58.5	421.2	85.1	10.2	82.0

% of Rev	Comms	Soft-Switch	CSG	Total	Sybase	Oracle	AutoDesk	Power-soft	Informix
COGS	8%	21%	0%	8%	2%	0%	14%	7%	4%
Sales & Mktg	44%	34%	91%	48%	44%	30%	34%	42%	39%
Support	11%	11%	0%	10%	15%	25%	0%	14%	9%
Development	29%	30%	0%	23%	17%	12%	17%	8%	15%
G&A & Other	6%	10%	10%	7%	7%	7%	14%	8%	9%
Op Profit	2%	-7%	-2%	1%	16%	21%	21%	20%	23%

Source: Lotus: 1995 Plan (Excludes S/W Cap and Amortization) (Adjusted for External functional expense classifications)
Competitors: most recent annual report (adjusted for capitalized S/W and amortization where appropriate)
Note: Lotus Comms revenue excludes AT&T and includes $15M adjustment for elimination of resale rebates

Communications Business Issues

- Notes license growth "robust"
  - Derivative of...
    - LAN base growth (25%+)
    - LAN penetration (1.5% to 3%)
    - 75% installed base deployment
- Price elasticity
- Companion products & tools
- ccMail revenue outlook (Win '95, LCS timing)
- Comms business model not scaling
  - "Non-core" R&D too high
  - Multiple sales-distribution channels create overlap

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1995 Business Plan

Spending

1995 Spending Themes

- Cost of Sales improvement 2.8 margin points
- *Total Communications spending grows 41%*
  - Development up 14%
  - Sales and marketing up 24%
  - *Support up 82%*
- But...
  - *70% is discretionary and varies with revenue*
  - *Comms-based infrastructure growth is 8%*
- Total Desktop spending declines 4%
  - Development is down 12%
  - *Sales and marketing is down 3%*
  - *Support is down 15%*
- $15M investment set aside for revenue risk

Variable vs Fixed Spending

	1994	1995	Growth $	Growth %
Variable Spending				
Variable COGS	$83	$87		
Sales H/C spending	130	154		
Support H/C spending	55	70		
Consulting H/C spending	28	42		
Investment	0	15		
Total Variable	293	368	75*	26%
Fixed Spending				
Development	157	180		
Marketing	214	235		
Sales, Support, Consulting	76	76		
COGS/G&A	164	167		
Total fixed	611	658	47*	8%
Total Spending	$904	$1,026	$122	14%

* Growth is entirely Comms related

Total Spending- Desktop vs Communications
(Excluding Cost of Sales)

	Desktop '94	Desktop '95	Comms '94	Comms '95	Total '94	Total '95
WWSM (1)	$269	$266	$170	$222	$438	$478
Dev	100	88	109	124	209	213
Soft-Switch	0	0	14	36	14	36
CSG	0	0	37	60	37	60
Investment	0	0	0	15	0	16
All Other (2)	24	33	5	23	30	56
Total	$393	$378	$335	$470	$728	$848
Growth %		-4%		41%		17%

Notes:
(1) Excludes F&O
(2) Includes F&O, NetCO, Corporate adjustments and currency

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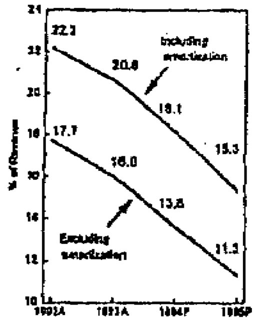
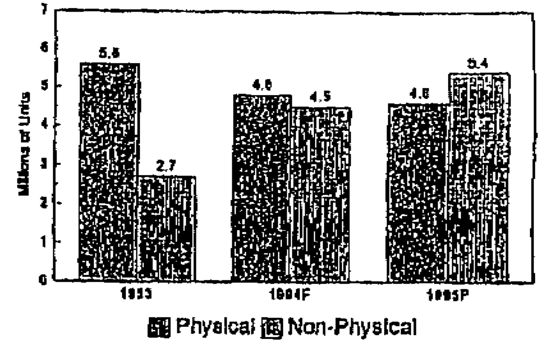
Cost of Sales as a Percent of Revenue

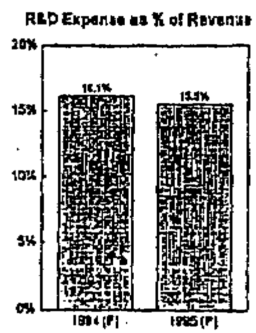


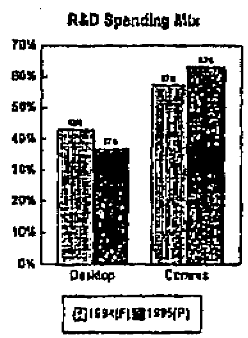
1994 Forecast	18.1%
Material and royalty reductions	(1.3%)
Soft*Switch Impact	0.3%
Fixed cost containment	(1.3%)
Fixed amortization	(0.5%)
1995 Plan	15.3%

Revenue Units Mix
Restructure our Manufacturing Capacity

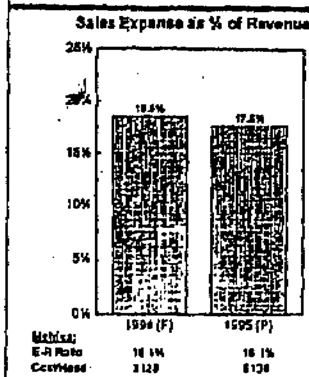


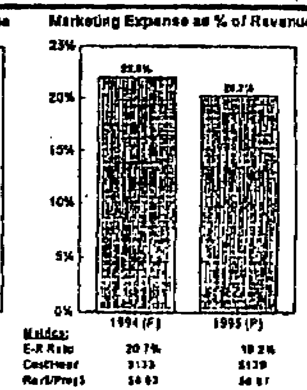
Spending by Function...
Research & Development (External View)





Spending by Function...
Sales & Marketing





 Lotus Strictly Private 12/7/94

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Spending by Function...
Support

	94 (F)	95 (P)
Revenue:		
Notes	16	25
cc:Mail	12	16
Other Comms	0	6
Desktop	8	17
Total Revenue	36	64
Paid expense*	28	48
Net Margin - Paid	8	16
Net Margin %	22%	24%

* Paid expense excludes warranty expense of $[illegible] in 1994 and $[illegible] in 1995

Support Expense as % Total Revenue

Ratios:

	1994 (F)	1995 (P)
E-R Ratio	7.7%	7.3%
Cost/Head	817	882

Spending by Function...
General & Administrative

	93 (A)	94 (F)	95 (P)
F&A	$40	$45	$48 ISS
WSMG	22	18	19
WSG	2	2	2
Development	5	5	5
Soft*Switch	0	2	4 Full year vs. half
ICG/Other	1	-2	-2
Total G&A	$70	$70	$76
G&A as % of Revenue	7%	7%	7%

Staffing - 1995 vs. 1994
Permanent and Contractors

1994 Forecast	6143
'95 Plan increases/(decreases):	
Revenue/volume-related additions:	
Consulting	54
Sales	100
Support	118
subtotal	272
Other Infrastructure:	
R&D	143
Marketing	-24
ISS	42
Manufacturing	-195
subtotal	-34
Total changes	238
1995 Year-ending Plan	6381

1995 Business Plan

Financial Position

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Balance sheet

($ In Millions)	'93 (A)	'94 (F)	'95 (P)
Cash	$417	$377	$480
Receivables	217	206	242
Inventory	21	18	19
Other Current Assets	21	28	28
Total Current Assets	676	630	769
Fixed Assets, net	127	135	137
Other Assets	102	112	136
Total Assets	$905	$877	$1042
Current Liabilities	$277	$216	$286
Deferred Liabilities	60	72	87
Long Term Debt	50	50	50
Stockholder's Equity	528	539	641
Total Liabilities and Equity	$905	$877	$1042

Cash flow

($ In Millions)	'93 (A)	'94 (F)	'95 (P)
Funds from Operations	$162	$126	$209
Funds from Investing Activities	(80)	(169)	(114)
Funds from Financing Activities	42	2	7
Net Cash Increase/(Decrease)	$124	($39)	$102

* 1995 Investing and financing assumptions
  - Cap Software and technology investments are $72M
  - Capital additions including the building are $42M
  - Common stock - employee option exercise proceeds are offset by stock buy-backs
  - Long-term debt - no payments scheduled and no prepayments assumed

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WWSM

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1995 Plan

Worldwide Regional Overview

Regional - 1994 Results

	FY94 Est	FY94 Plan	$ Inc/(Dec)	% Inc/(Dec)
Revenue	$922.2	$1,071.6	($149.3)	-14.0%
COS	$124.2	$134.6		
G.M. $	$798.1	$936.8		
G.M. %	86.5%	87.4%		
Marketing	$191.1	$205.7		
Sales	$167.0	$172.6		
Support	$71.1	$76.3		
F&O/Admin	$40.3	$31.7		
Total Op Exp	$469.6	$486.3	($16.6)	-3.0%
Op Margin	$328.6	$450.6	($121.9)	-27.0%
Op Margin %	35.6%	42.0%		

Note: F&O/Admin includes TV Ad, WW [illegible] Admin, and prov for Bad Debt (EMEA)

1994 Revenue Variance by Region

	FY94 Est	FY94 Plan	$ var	% var
Americas	$534.5	$573.1	($38.6)	-6.7%
EMEA	$223.2	$325.6	($102.4)	-31.4%
Japan	$121.6	$121.9	($0.3)	-0.2%
APAC	$43.0	$51.0	($8.0)	-15.7%
Total	$922.3	$1,071.6	($149.3)	-14.0%

Regional - 1995 Business Model

	FY94 Estimate	FY95 Plan	% Growth
Revenue	$922.3	$1,066.3	15.6%
COS	$124.3	$121.6	
G.M. $	$798.0	$944.7	
G.M. %	86.5%	88.0%	
Marketing	$191.2	$204.6	
Sales	$167.0	$179.6	
Support	$70.9	$83.9	
F&O/Admin	$40.3	$42.3	
Total Op Exp	$469.4	$510.5	8.6%
Op Margin	$328.6	$434.1	32.1%
Op Margin %	35.6%	40.7%	

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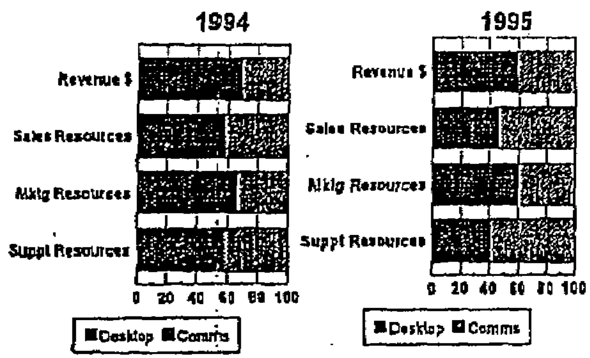
Worldwide Allocation of Resources (percent of revenue)



1995 Plan

Americas Overview

Americas - 1994 Recap

- Revenue:
  - Expected to be $38.6M lower than '94 Plan
  - Significant shortfall in standalone Desktop apps
  - Communications business on Plan (Comms estimate to exceed 35% of total Americas revenue)
  - Revenue lag due to Passport ramp up
- Channel Inventory:
  - Expected to end '94 at 8.5 weeks
- Margin:
  - Expected to be 2.4 pct. points under '94 Plan
  - Revenue shortfall partially offset by expense reductions

Americas - 1995 Market Assumptions

- Desktop Application Market:
  - PC Shipments to grow 9% from '94 to '95
  - Desktop apps market revenue to grow 8%
  - Suite/Office up 39%, accounting for 59% of Windows desktop apps market
- Comms Market:
  - Win 95 ships mid '95 with Mail embedded in OS
  - E-mail unit market growth expected to increase by 20.4% year over year (IDC data)
  - Microsoft Exchange ships in late 1995

Americas - Market Share Perspective

- Desktop:
  - Lotus share of total desktop market expected to decrease by 2% to 14%
  - Revenue to decrease 7%
- Comms:
  - Notes revenue to increase 67% over '94
  - Number of Notes seats doubles year over year
  - cc:Mail market share is expected to remain flat at 35%

Americas - Sales/Distribution Strategy

- Account Coverage Model:
  - Top 250 major accounts - strategic relationship, vested interest in each other's success
  - Next tier: 2500 selected - relationship focus, responsive and service oriented
  - All other: information, service, responsiveness
- Selling Strategy:
  - Leverage single point interest to multi product
  - Re-enter competitive (desktop) accounts by leveraging Notes/cc:Mail leadership
  - Major focus on responsiveness

Americas - Sales/Distribution Strategy

- Channel Strategy:
  - Map marketing programs and spending to channels which reach specific market segments
  - Partner with resellers & VARs on each opportunity
  - Leverage channel by pushing 100% contract business through Passport
  - Manage sell-in and channel inventory using EDI, which is now 100% implemented in N.America

Americas - Pricing Assumptions

- Total Lotus Americas ASPs
  - Expected to drop approx. 8% (to $93) due to shift to non-physical, upgrades, volume contracts
- Desktop ASPs:
  - To decrease by 8% from '94
- Comms:
  - cc:Mail ASP expected to rise slightly due to mix of licenses

Americas - Business Model

	FY94 Estimate	FY95 Plan
Revenue	$534.5	$611.8
COS	$60.9	$56.5
G.M. $	$473.6	$555.3
G.M. %	88.6%	90.8%
Total Op Exp	$274.7	$307.8
Op Margin $	$198.9	$247.5
Op Margin %	37.2%	40.5%

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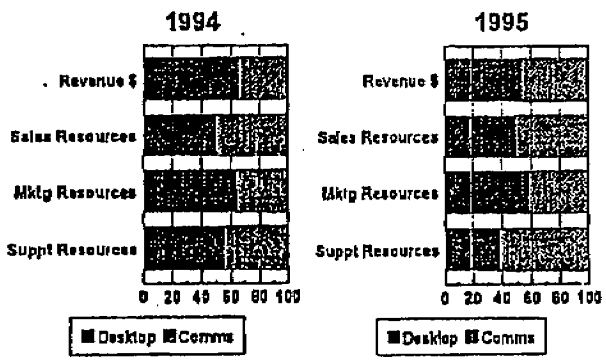
Americas Allocation of Resources



Americas - Cost Drivers

		1994 Est	1995 Plan	Variance
Marketing	E-R Ratio	20.7%	20.4%	(0.3) pts
	Rev/Prog	$6.50	$6.60	$0.00
	Cost/Head	$153K	$156K	$3K
Sales	E-R Ratio	17.7%	17.1%	(0.6)pts
	Cost/Head	$147K	$159K	$12K
Support	DT Svc Level	85%	63%	(22) pts
	Comm Svc Lvl	76%	78%	3 pts
	DT Cost/Hd	$62K	$63K	$1K
	Comm Cost/Hd	$86K	$90K	$4K

Americas - Passport Program

- Program Objectives:
  - Consistent global volume sales program
  - Leverage resellers
  - Counteract Microsoft licensing program
  - Increase contract revenue and market share
  - Meet customer's need with flexible licensing program
- Passport Program Features:
  - Comprehensive set of software volume purchase, maintenance and support offerings
  - Right to use software (license) not physical product
  - Priced and sold through the resellers
  - Consistent WW program
  - Three options in program

Americas - Passport Program

- Passport Program Options:
  - Volume Purchase Option
    - Pay for software as required
    - Price discount based on cummulative purchases
    - No future commitment for purchases required
    - Revenue recognized as order received
  - Contract Option
    - Contract signed with customer
    - 2 year commitment to purchase software, maintenance and support
    - Price (discount level) based on commitment
    - Orders placed over 2 years against commitment
    - Revenue recognized as orders received (not at commitment)
  - Enterprise Option
    - Contract signed with customer
    - Upfront order required (determines pricing)
    - Revenue recognized on initial upfront order

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Americas - Business Issues

- Risks
  - Windows 95 applications ship
  - Comms strategy need to focus on building and supporting the infrastructure
  - Maximize and rationalize multiple distribution strategies

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1995 Plan

EMEA Overview

EMEA - 1994 Recap

- Revenue
  - Expected to be $102M lower than '94 Plan
  - Channel inventory reduction reduced revenue $25M
  - Loss of market share in desktop area equalled approximately 4%
- Channel Inventory
  - Inventory at 12 weeks vs 25 at end of 1993
- Margin
  - Expected to be 20 pts under '94 Plan
  - Revenue shortfall could not be made up by expense reductions

EMEA - 1995 Market Assumptions

- Desktop Applications Market
  - PC shipments forecasted to grow 14% '94 to '95
  - Desktop apps market revenue grows 7%
  - Suite Office up 25% accounting for 68% of Windows desktop apps market
- Communications Market
  - Win 95 ships mid '95 with Mail embedded in OS
  - E-mail unit market growth expected to increase by 15.7% year over year (IDC data)
  - Microsoft Exchange ships late 1995

EMEA - 1995 Market Share Perspective

- Desktop
  - Lotus share of total desktop market expected to decrease 2 points to 9%
  - Sell In Plan assumes $20M reduction in channel inventory
  - Revenue to decrease 6%
- Comms
  - Notes revenue to increase 74% year over year
  - Number of Notes seats more than double
  - cc:Mail market share expectations are conservative at 26%

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EMEA - Sales/Distribution Strategy

- Focus countries on sell through/demand generation
  - Major enterprise/account focus for comms
  - Restart Passport program
- Centralize channel management
  - Responsible for sell-in revenue
  - Manage channel inventory
  - Implement Regulated Buy Plan/EDI
  - Establish policies/business practices
  - Greatly reduce # of resellers
- *Invest in strategic partners*
  - Bull, Olivetti, Telcos

EMEA - Pricing Assumptions

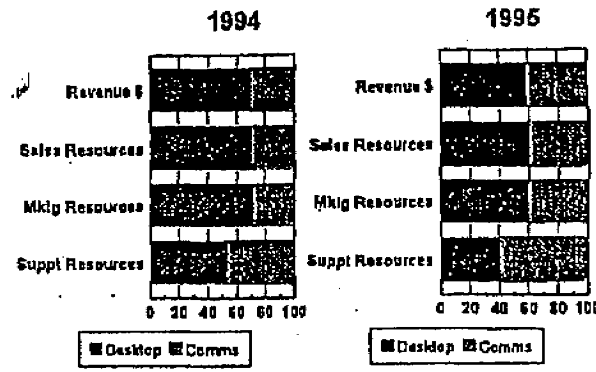
- Desktop ASP's:
  - To decrease 20%
- Comms
  - cc:Mail ASP's are expected to decrease 23% from FY94

EMEA - Business Model

	FY94 Estimate	FY95 Plan
Revenue	$223.2	$251.1
COS	$39.0	$39.1
G.M. $	$184.2	$212.0
G.M. %	82.5%	84.4%
Total Op Exp	$137.6	$131.6
Op Margin $	$46.6	$80.4
Op Margin %	20.9%	32.0%

Note: Plan in 000$ at 1994 Plan Rates

EMEA Allocation of Resources



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EMEA - Cost Drivers

		1994 Est	1995 Plan	Delta
Marketing	E/R Ratio	24.2%	18.0%	(6.2)pts
	Rev/Prog	$6.00	$7.60	$1.60
	Cost/Head	$149K	$128K	(521)K
Sales	E-R Ratio	20.4%	18.9%	(1.5)pts
	Cost/Head	$134K	$161K	$27K
Support	Dir Svc Level	90%	70%	(20)pts
	Comm Svc Lvl	90%	90%	0 pts
	Total Cost/Hd	$108K	$113K	$4K

EMEA - Business Issues

- Opportunities/Major Initiatives
  - New management team in place, consistent with US
  - Focus sell through vs sell in
  - Efficiencies from restructuring
  - Consolidation of distributors
  - Leverage partnerships & alliances
  - Aggressive focus on Passport

EMEA - Business Issues

- Risks
  - Must increase Comms pipeline and increase velocity of deployment
  - Chicago and Exchange challenge will be greater in Europe
  - Management of change with reorg and downsizing will be difficult

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1995 Plan

Japan Overview

Japan - 1994 Recap

- Revenue:
  - Estimated at Plan of $121.6M, up 14% over '93
  - Significant revenue shifts vs Plan:
    - Movement from standalone to Suite (51% vs Plan of 43%)
    - Movement from desktop to comms (comms at 10% vs Plan of 6%)
    - Increased non-physical (42% vs Plan of 35%)
- Channel Inventory:
  - expected to end the year at 3.4 weeks
- Margin:
  - $3.3M under '94 Plan due to increased marketing expense and COS

Japan - 1995 Market Assumptions

- Desktop Application Market:
  - PC shipments to grow 21% from '94 to '95
  - Desktop application market revenue to grow 14%
  - Suite/Office up 35%, accounting for 33% of Windows desktop application market
- Comms Market:
  - Win 95 ships mid '95 with Mail embedded in OS
  - E-mail market growth continues up 34% from '94 to '95
  - Microsoft Exchange ships in late 1995

Japan - 1995 Market Share Perspective

- Desktop:
  - Lotus share of total desktop market expected to increase by 1 point to 29%
  - Revenue to increase 15%
- Comms:
  - Notes revenue to increase 180% over '94
  - Number of Notes seats triples year over year
  - cc:Mail market share up ten points to 70 %
  - cc:Mail revenue to increase 15% over '94

Japan - Sales/Distribution Strategy

- Desktop:
  - Increase product awareness at retail
  - Stronger integration of comms & desktop
  - Introduce Notes Suite at retail
  - Enhance cooperation between distributors & major retailers
- Comms:
  - SEs to strengthen corporate sales
  - Develop stronger VARs & business partners
  - Develop and implement corporate seminars

Japan - Sales/Distribution Strategy

- Corporate
  - Promote workgroup computing
  - Intensive seminar efforts
  - Training/skills enhancement of sales reps
- Retail
  - Increase Lotus presence and number of outlets
  - Ad campaigns to drive traffic into stores
- Joint promotions with PC Manufacturers
- Focus on quality VAR's & Business Partners

Japan - Pricing Assumptions

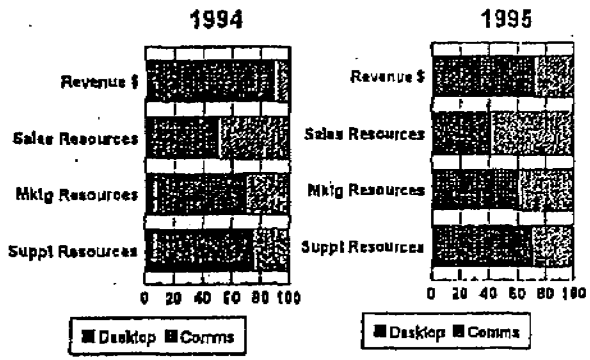
- Total Lotus Japan ASPs:
  - Shift to non-physical,upgrades and volume purchases expected to drive ASPs down by 16%
- Desktop ASPs:
  - Increase 1% ($146 to $148), due to increased pricing in Suites
- Comms:
  - cc:Mail ASP is expected to remain flat

Japan - Business Model

	FY94 Estimate	FY95 Plan
Revenue	$121.6	$153.9
COS	$18.1	$19.5
G.M. $	$103.5	$134.4
G.M. %	85.1%	87.3%
Total Op Exp	$36.4	$46.4
Op Margin $	$67.1	$88.0
Op Margin %	55.2%	57.2%

Note: [illegible]

Japan Allocation of Resources



Japan - Cost Drivers

		1994 Est	1995 Plan	Delta
Marketing	E-R Ratio	16.0%	17.0%	1.0 pts
	Rev/Prog	$8.0	$7.1	($0.9)
	Cost/Head	$117K	$120K	($3K)
Sales	E-R Ratio	4.6%	4.9%	0.3pts
	Cost/Head	$116K	$120K	$4.0K
Support	DT Svc Level	55%	81%	26%
	Comm Svc Lvl	70%	70%	N/C
	DT Cost/Hd	$93K	$95K	$1K
	Comm Cost/Hd	$93K	$76K	($17K)

Japan - Business Issues

- Opportunities/Major Initiatives:
  - Development:
    - Establish team for development and local integration to access vertical markets & system integration sales
  - Comms:
    - Build vendors system integration and certification (e.g. for NEC, Fujitsu)

Japan - Business Issues

- Risks
  - Recruitment of high quality business partners
  - Ability to attract and retain Systems Engineers
  - Desktop:
    - Shipment of Windows 95 products in Q4
  - Comms:
    - Introduction of Notes V4 in Q4
    - Introduction of LCS
    - Integration of Notes and cc:Mail

1995 Plan

APAC Overview

APAC - 1994 Recap

- Revenue:
  - $7m below plan, mostly due to desktop
  - Asia under performed, Anzac exceeded plan.
- Expenses:
  - Slightly over plan
- Channel Inventory:
  - 6-7 weeks expected inventory at year end
- PRC Contribution:
  - Overestimated contribution to FY94 plan
  - Expected to improve contribution in '95

APAC - 1995 Market Assumptions

- Desktop Applications Market
  - PC shipments forecasted to grow 16% '94 to '95
  - Desktop apps market revenue to grow 16%
  - Suite/Office up 20 % accounting for 54 % of Windows Desktop app market
- Comms Market
  - Win 95 ships mid '95 with Mail embedded in OS
  - Email revenue market expected to increase by 18% year over year
  - Microsoft Exchange ships in late 1995

APAC - 1995 Market Share Perspective

- Desktop:
  - Lotus share of total desktop market expected to decrease 2 points to 14%
  - Revenue remains flat
- Comms:
  - Notes revenue to increase 58% over '94
  - Number of Notes seats to double
  - cc:Mail market share up 7 points to 46 %
  - cc:Mail revenue increases 38 %

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APAC - Sales/Distribution Strategy

- Sales strategy:
  - Direct Sales to named accounts
  - Relationship selling
  - Joint calls w/partners
  - Drive Passport offerings
- Channel strategy:
  - Drive non-physical product in Asia
  - Target inventory of 5-6 weeks in 95

APAC - Pricing Assumptions

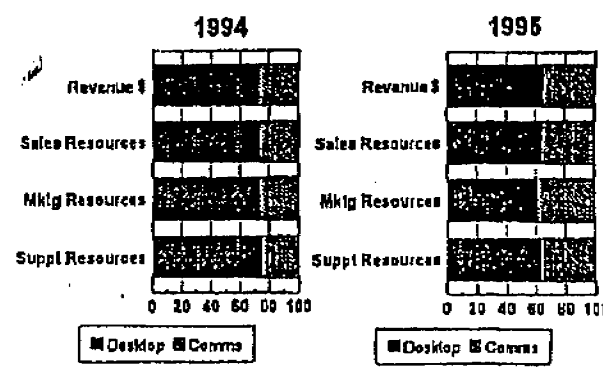
- Total Lotus pricing strategy:
  - Remain competitive, follow MS in most markets
  - Use specials opportunistically
  - Price Desktop for penetration - use non-standard pricing in emerging markets
  - Anticipate 15-20% ASP decline in non-emerging markets
- Comms:
  - cc:Mail pricing expected to decrease by 20%

APAC - Business Model

	FY94 Estimate	FY95 Plan
Revenue	$43.0	$49.6
COS	$6.3	$6.6
G.M. $	$36.7	$43.0
G.M. %	85.3%	86.7%
Total Op Exp	$20.7	$24.8
Op Margin $	$16.0	$18.2
Op Margin %	37.2%	36.8%

Note: Plan in 000$ at 1994 Plan Rates

APAC Allocation of Resources



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APAC - Cost Drivers

		1994 act	1995 Plan	Delta
Marketing	E/R ratio	16.7%	16.5%	(0.2) pts
	Rev/Prog	$0.40	$0.70	$0.30
	Cost/Head	$88K	$96K	$12K
Sales	E/R ratio	23.7%	26.1%	2.4 pts
	Cost/Head	$181K	$184K	$3K
Support	DT Svc Level	80%	76%	(6) pts
	Comm Svc Lvl	80%	86%	5 pts
	DT Cost/Hd	$59K	$61K	$2K
	Comm Cost/Hd	$62K	$64K	$2K

APAC - Business Issues

- Opportunities/Major Initiatives
  - China Investment:
    - Large market
    - Basic plan in place
    - Leverage Product Development efforts
    - Core team has been formed

APAC - Business Issues

- Risks
  - Currency movement
  - Political changes
  - Product delays
  - Training employees and customers
  - Attracting and retaining employees

1995 Plan

Worldwide Marketing Overview

Objectives

- Meet Business Units' overall revenue goals
  - Rebuild momentum in desktop
  - Maintain leadership position in groupware
- Provide consistent worldwide marketing message and support
- Improve overall marketing E/R ratio
- Build and harvest business partners

Corporate Marketing Strategies

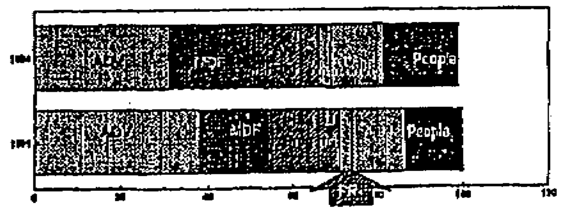
- Differentiate the desktop with team computing & aggressive marketing
- Dominate groupware arena with software, service & support
- Develop networks for the inter-enterprise (i.e. Internet and Worldwide Web opportunities)

Desktop Marketing Strategies

- Directions:
  - Shift mix toward aggressive demand generation
  - Strong promotions
  - Broad reach, not info rich
  - Strong channel programs
  - Breakthrough creative
  - Simple, hard hitting messages
  - Brand building
  - Explosive launches
  - Aggressive PR

Desk Top Strategies

- **Shift the Marketing Mix toward aggressive demand generation**
  - Increased national advertising
  - Continued channel demand programs
  - *Fewer seminars and technical tours*
  - Less reliance on trade shows
  - Fewer heads doing fewer programs

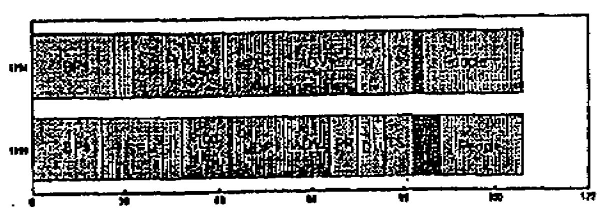


Comms Marketing Strategies

- Directions:
  - Business partner investment/building
  - Info rich vs broad reach media
    - sales & seminars vs advertising
  - Platforms for multiple products, customers
  - References/testimonials
  - Build customer base & mine it

Comms Strategies

- **Shift the marketing mix toward information intensive media**
  - Continued support for business partnering
  - Greatly increased seminar activity with partners
  - Less overall advertising; air cover primarily
  - Increased DM with installed base
  - More funds from partners: from \$.7 to \$4.0 million



Marketing Functional Strategies

- Advertising:
  - One international umbrella campaign focused on business, ROI, team computing
  - Demand generating, tie to partners, call to action
  - More business press, less trades
  - Monitor impact of TV
- Seminars and Events
  - Fewer trade shows, more seminars
- Intensive Corporate Communications
- Direct Marketing
- New media group - Internet, Notes net, etc.

Marketing Functional Strategies

- Major Markets:
  - Focus on enterprise segment
  - Simplify, improve and promote Passport
  - Build education market
  - Integrate government
  - Drive worldwide consistency

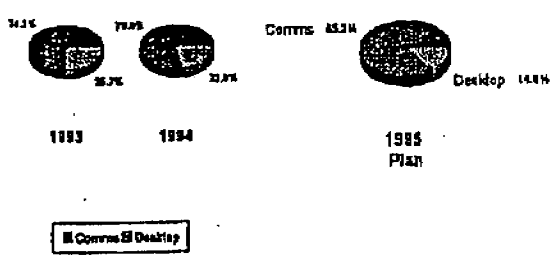
1995 Plan

CS & S Overview

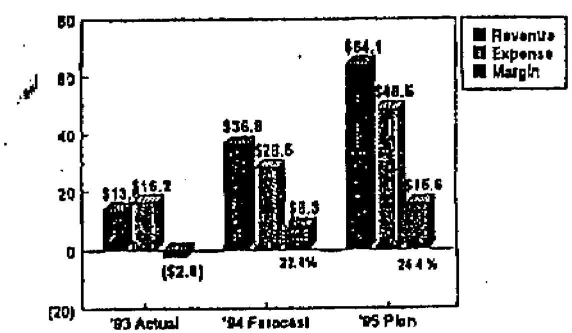
Strategic Imperatives

- Continue to drive to lower cost electronic support
- Provide world-class systems level support of our enterprise customers
- Invest in services marketing to capture comms support revenue potential
- Leverage global support infrastructure
- Continue to implement aggressive cost reduction initiatives in desktop support
- Invest in technology (ie, Internet) to lower cost profile and increase responsiveness

WW Support Revenue Mix



WW Comms Support P&L



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Opportunities

- Support ,as a business, is "historically" profitable (ex IBM, DEC, and HP)
- Support business is growing rapidly
  - Telephone support grows from \$5.2B (FY93) to \$7.6B (FY97)
  - Helpdesk support increases from \$1.8B (FY93) to \$3.2B (FY97)
- Notes installed base is expecled to exceed 2.8M seats (large untapped base)
- Growing percentage of our Notes customers represented by small/medium businesses (i.e., less likely to have large internal IS staff)

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December 15, 1994

1995 Desktop Business Plan

1994 Desktop Accomplishments: Product Shipments

- Shipped:
  - 1-2-3 for Windows Release 5
  - Approach 3.0
  - SmartSuite 3.0
  - Ami Pro 3.1
  - Freelance 2.1
  - NotesSuite 1.0
  - 1-2-3 for DOS Release 4.0
  - 1-2-3 Release 5 Multimedia Edition
  - 1-2-3 for OS/2 Release 2.1
  - Freelance for OS/2 Release 2.1
  - SmartSuite for OS/2
- JETFIGS* - simultaneous ship in 7 languages
  (* Japanese, English, Traditional Chinese, French, Italian, German, Spanish)

BYTE

PC MAGAZINE

PC USER

PC WORLD

INFO WORLD

1994 Desktop Accomplishments: New Technologies

- Delivered new Working Together Technologies
  - Common Install
  - SmartCenter
  - InfoBox
  - Lotus Common UI
  - SmartMasters
  - Notes/FX 1.1

- Made significant progress on next generation products for Win 95 delivery
  - Knockout demo of all Win '95 apps at Fall Comdex
  - Freelance 3.0 in Beta
  - Ami 4.0 receiving very positive early customer praise

1994: What Happened to the Desktop?

- Revenue $146 million below plan
  - Primarily due to European problems
- Lotus worldwide Suite market share declined 5%
  - Our word processor is weak
  - MS Office took share from individual apps
- Some key products were late
  - 1-2-3 Release 5, Approach 3.0, and SmartSuite 3.0 shipped in Q3, not Q2
- We seemed to lose interest and focus
  - Customers/press think we're going to pull out

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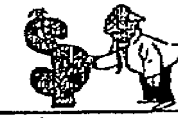
1994 Desktop P&L Performance

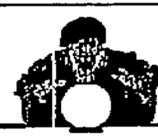
	Forecast	Plan	Δ	Δ%
Revenue	[illegible]	$790.0	[illegible]	[illegible]
COGS	(119.[illegible])	130.0	(10.8)	(8.3%)
Gross Margin	524.6	660.0	(135.6)	(20.5%)
Oper Exp	368.8	402.0	(33.2)	(8.3%)
Corp Adjust's	(28.6)	(20.0)	(8.6)	(43.0%)
Oper Margin	[illegible]	274.0	(93.7)	[illegible]
Oper Mar %	25.6%	35.2%		
Development Spending	$79.8	$63.6	(18.6)	[illegible]
Headcount	587	473	(116)	(10.8%)

Implications for 1995



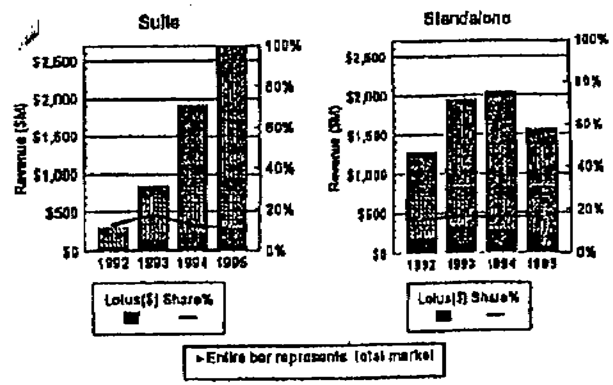
- Re-commit to the Desktop & rebuild momentum
  - Excite Lotus management, marketing, and sales
- Regain credibility with customers and analysts
  - Target IS in large, highly networked companies, and the ISVs who sell to them
  - Their 1995 desktop decision is strategic
- Re-establish product leadership position
  - New best-of-breed, differentiated apps--on time!
- Fight a marketing war
  - Focus, focus, focus on aggressive demand generation
- Reduce expenses, but maintain critical mass

Market Drivers



- Windows market growing 15%
  - Suite market growing; standalone market falling
  - Chicago momentum building; adoption rate uncertain
- DOS decline tapering
  - Expect $60 million Lotus revenue fall-off in 1995, compared to >$120 million in 1994
- Regional variances
  - But SmartSuite still losing share to Office overall
- Large numbers of corporates haven't standardized on the Microsoft desktop

Worldwide Windows Market Share



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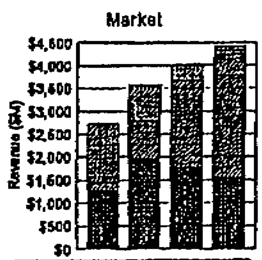
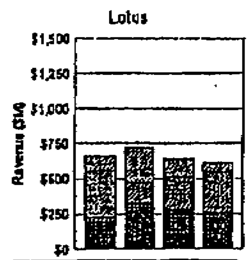
Worldwide Desktop Platform Split



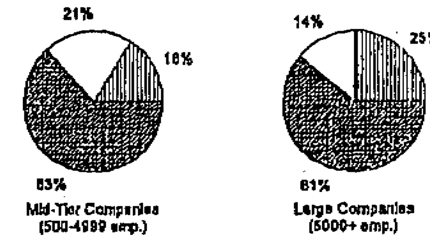
	1992	1993	1994	1995
Win S/A	$1,272	$1,955	$1,735	$1,558
Win Suite	$204	$841	$1,915	$2,681
DOS	$1,174	$778	$353	$176
WW Market	$2,742	$3,574	$4,022	$4,415



	1992	1993	1994	1995
Win S/A	$194	$329	$308	$280
Win Suite	$36	$143	$227	$236
DOS	$430	$245	$121	$83
WW Sales	$660	$717	$656	$600

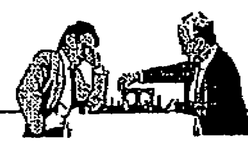
The Opportunity

About Two-Thirds of the Desktop App. Market Appears to be up for Grabs!



*Represents % of PC Users whose Companies have Standardized on MS Desktop App
Source: 1994 Desktop App. Standardization Quick-hit Study

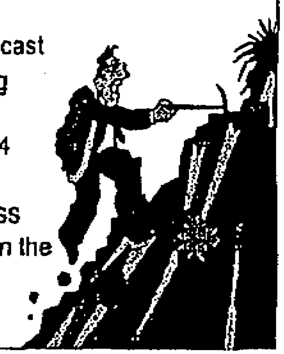
Competition



- Microsoft
  - Driving broad Win 95 availability and acceptance
  - Shipping Office 95 as close to simultaneous as they can
  - Still saying "no new Win 3.1 apps"
- Novell/WordPerfect
  - Their '94 is worse than ours
  - Poised with a new, competitive, networked suite
- Others
  - Nothing much

Desktop Goals

- Achieve $628.4 million worldwide revenue
  - $15.3 million below 1994 forecast
- Contribute 30.4% operating margin
  - Compared with 28.3% in 1994 forecast
- Build a sustainable business
  - Re-invigorate Lotus position in the desktop market



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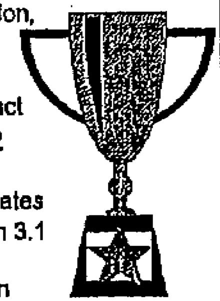
Key Strategies

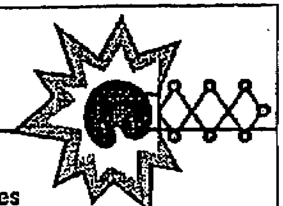
- Recommit Lotus to the Desktop
  - Strong, positive, top-down message that DT is a good business for Lotus
  - Target enterprise and corporate customers with a clearly articulated Lotus Desktop vision/value proposition
  - Leverage Notes installed base with vigor
  - Create a compelling long-term product vision
    - Component business model, architecture, technologies, and product strategy
    - Electronic distribution
    - Multi-platform portability and interoperability

Key Strategies



- Ship great (timely) Win 95 apps
  - Differentiate with usability, integration, and team computing
  - Strong programmability
  - Ship JETFIGS for world-wide impact
- Sustain/grow Win 3.1 and OS/2
  - Substantial revenue opportunity in continuing Win 3.1 sales in corporates
  - Follow on to Win 95 Suite with Win 3.1 and OS/2 parity release
  - Achieve incremental $30-50 million revenue in 70%-margin bundling deals

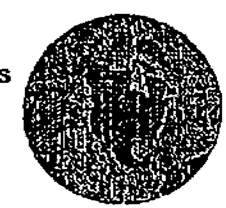
Key Strategies



- Broad-reach marketing
  - Simple, hard-hitting messages
  - Market Best-of-Breed individual apps to build credibility for the Suite
  - Image/Brand for the Lotus product line and for leadership features (e.g., User Assistance)
  - Advertising, promotion, and channel support
  - Generate early excitement for Win 95 apps
  - Capture 1-2-3 DOS and WordPerfect users
- Cost-effective support
  - 30-day warranty (instead of 90-day)
  - Perpetual electronic options

Key Strategies

- Streamline the organization, decision-making, and communication
  - Focus team on a single goal and product line vision
  - Simplify the calendar
  - Sync up schedules, process, deliverables
  - Significant org restructuring
  - Achieve breakthrough results
- Implement global optimizations
  - Words, technologies, automation
  - Off-shore porting and QA



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1995 Desktop Product Calendar

Q1 Q2 Q3 Q4

Win 95

MS O'fcd

SmartSuite w/ Organizer 2.0

NoteSuite Application Pack

AmiPro (for Windows 95)

Freelance (for Windows 95)

Approach (for Windows 95)

1-2-3 (for Windows 95)

SmartSuite (for Windows 95)

SmartSuite (for Windows 3.1)

OS/2 "Parity" Suite

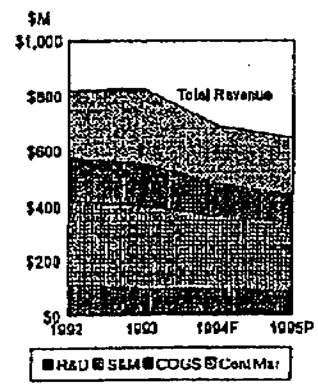
- Microsoft will ship Office 95 0-90 days after Win 95
- Lotus ships SmartSuite 95 in late Q3
- Follow with Win 3.1 and OS/2
- Simultaneous ship JETFIGS

1995 Worldwide Desktop P&L

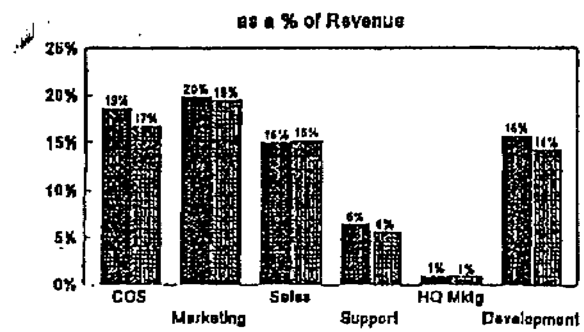
	1995	1994	Δ	Δ %
Revenue	$628.4	$643.7	($15.3)	(2.4%)
COGS	105.2	119.2	(14.0)	(11.7%)
Gross Margin	523.2	524.5	(1.3)	(0.2%)
Marketing	121.8	126.8	(5.0)	(3.9%)
Sales	94.7	95.2	(0.5)	(0.5%)
Support	34.3	40.4	(6.1)	(15.1%)
HQ Mktg	5.6	6.1	(0.5)	(8.2%)
Development	88.3	100.3	(12.0)	(12.0%)
Oper Exp	344.7	368.8	(24.1)	(6.5%)
Corp Adjusts	12.7	28.6	(15.9)	(55.6%)
Oper Margin	$191.2	$184.3	$6.9	3.7%
Oper Mgn %	30.4%	28.6%		

How Desktop Revenue Is Spent

- Desktop margin and revenue for 94 reflect falling ASPs and declining market share
- 95 Plan reflects a more modest decline
- Also reflects lower expenses to boost margin 2.1 points



Desktop Spending



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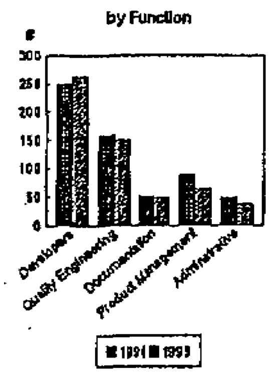
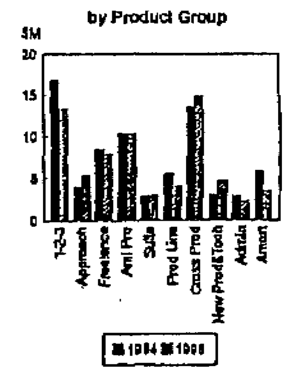
Desktop Development Headcount

- Overall net HC reduction from 567 to 560
- Invest in technical skills & staff
- Leverage product line decisions
- Automate QE to reduce time to market and lower overall cost
- Curtail non-product related spend



Desktop Development Expense

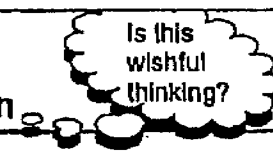
- Overall net spend reduction from $73.8M to $69.2M
- Bring 1-2-3 date into 1995
- Achieve critical mass for Approach
- Leverage cross-product contributions
- Invest in 1996 and beyond



Challenges and Risks

- Microsoft trying to dominate worldwide mindshare in Win 95 transition
  - Our marketing could get lost in the din
- Customer confidence needs bolstering
  - Lotus known to quit when competition gets tough
- Our product goals are the most aggressive in our history and in the industry
  - Don't have full plans in place yet
  - Restructuring at the same time
  - Need a great Programmability story and delivery

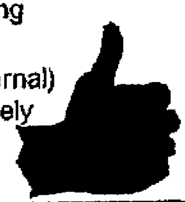
The Hard Question



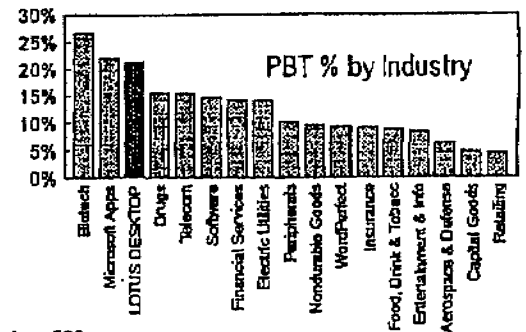
- Alternative: Scale the business to reflect a continuing 18% decline => $500 million revenue
- Any significant reduction becomes self-fulfilling
  - Can't sustain long-term business, commitments
  - Can't deliver a Win 95 product line in a timely way
  - Visible sales/marketing spending decline would signal a de-commitment
  - Undecided customers and prospects would say "No"
  - Loyal Lotus customers would begin to withdraw

Why We Can Succeed

- There is always room for a great #2
- We're confident in our revenue plan number
- We are communicating a consistent message of commitment
- We have simplified our marketing and product plans
- Early reviews (external and internal) of our new products are extremely positive



If not Desktop....where?



* Forbes 500

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December 15, 1994

1995 Communications Business Plan

1994 P&L Performance

	Forecast	Plan	Δ	Δ%
Revenue	$298.8	$299.0	$(0.2)	0%
COGS	57.2	58.1	(1.1)	(2%)
Gross Margin	241.6	240.9	0.9	0%
Oper Exp	282.7	289.9	(7.2)	(2%)
Other	(22.3)	(15.0)	(7.3)	49%
Oper Margin	$(26.6)	$(44.0)	$15.4	
Oper Mar%	(9.8%)	(14.7%)		
Development				
Spending	$98.8	$101.0	$(2.2)	(2%)
Headcount	[illegible]	795	(28)	(4%)

1994 Revenue Performance

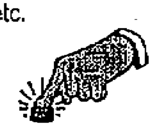
	Forecast	Plan	% Var
Notes	$153.2	$166.6	(8.7%)
cc:Mail	97.4	102.8	(5.5%)
Support	27.8	25.8	7.2%
Softswitch	16.3	16.4	(0.6%)
Other	4.1	(12.6)	n/a
Total	$298.8	$299.0	(0.1%)

1994 Comms Products Shipped

- Updated versions of Notes 3.X for:
  - Windows - Q2
  - Sun - Q1, Q3
  - NLM - Q1
  - HP - Q4
  - SCO - Q4
  - AIX - Q4
- Phone Notes:
  - 1.0 - Q1
  - 2.0 - Q4
- LN:DI 2.5 - Q4
- Notes Express - Q3
- cc:Mail Mobile - Q1
- Notes Pager - Q1
- Forms 1.0 - Q2
- Notes ViP - Q2
- Enterprise Router- Q2
- cc:Mail Pager - Q3
- Organizer 2.0 - Q4
- EMX:
  - 1.2 - Q2
  - Dir Sync & Profs AU-Q3

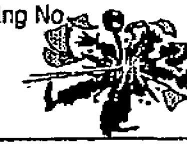
1994: What Went Right

- Revenue Growth in Notes of 117 % !
- Product Shipments in 3X Servers significant
  - VIP, Forms, C&S, Video, Phone, LCS View etc.
- Managed Spending under plan
- Partner Growth Exploded - 2x, yielding ROI
- Customer Satisfaction greatly improved
- Significant Industry Alliances Formed
  - HP, Oracle, Sun, SCO, Xerox
- Major Market Momentum P.R. 'Fortune' etc.
- Combined Mail/Notes plans culminated
- Key Acquisitions - SoftSwitch & Iris



What could have gone better ?

- Early year LCS engineering way behind...
- CC:Mail wins awards, flat $ in growth market
  - Drop in market share in important mid-market
- European Comms. execution & readiness a serious disappointment
- Marginalized non Core Messaging Apps.
  - C&S, Forms, Imaging
- Express market reaction a resounding No



Segmenting the Opportunity

Today
Strategic direction

	Large 5,000	Mid-tier 500-999	Small 100-[illegible]	SOHO 1-99	Under served opportunities
TECHNICAL MANAGER INFRA-STRUCTURE	Lead with Notes				Infrastructure to mid-tier companies, via large SI partners.
TECHNICAL CONTRIBUTOR UTILITY	Lead with cc:Mail				Utility (mail, doc. mgmt., OA) to all companies via channel. Need targeted Notes product.
BUSINESS MANAGER SOLUTIONS	Lead with Notes				Vastly expand solutions partners
BUSINESS CONTRIBUTOR PERSONAL	Sell Network Notes with AT&T, sell cc:Mail with public mail centers.				Personal solns in all sizes of company via Network Notes & public mail

Competition- Microsoft Exchange

MS Plus	MS Minus
[illegible] marketing muscle	In development for 5 years, with > 200 people (black hole syndrome)
Bundled with Back Office	Originally the 3, we've raised the bar with Notes, many features missing
Easy Decision	Delivery in end of 95 at best; now slipping 1 Qtr every Qtr.
Mail is part of the operating system	Release 1 product vs Release 4 product

Strategy: "Messaging + groupware", not just messaging

Competition- Novell Groupwise

Novell Plus	Novell Minus
Mail is part of the NOS	Little mindshare; confusion over WordPerfect/Novell pieces
Potential synergy between GroupWise and NetWare 4.1 and Directory	Significant lack of Notes capabilities
Bundling opportunity	Trouble selling relatively complicated s/w through traditional Novell channel
Lead in calendar and scheduling	Release 1 product vs Release 4 product

Strategy: Just say Notes

Comms Product Strategy

- Drive our six point value proposition
  - Component oriented, not monolithic, approach
  - Customer controlled migration
  - Reduced cost of ownership
  - Aggressive support of heterogeneous environments
  - Product line vs. single product approach
  - Four tier architecture - client, departmental server, enterprise server, inter-enterprise connectivity
- Our competitive strategy - differentiation

Comms Product Strategy

- Drive market share of Notes servers and clients
  - Create value proposition for servers and clients
    - Make server ubiquitous as object store
    - "Every bit of user data should be in a Notes database"
    - Use our client or other clients that access server via our industry standard APIs
  - Object store is the key; we have 2-3 years
    - Must build large installed base in that timeframe to be sustainable
    - Price server and client family for market share

Comms Product Strategy

- Support 6 million cc:Mail customers with significant new release
  - Provide clear manageable path for migration from cc:Mail to Notes
  - MS abandoning file share technology and forcing migration
- Notes must be the core of our strategy, but not the totality of our strategy
  - Focus on cc:Mail, Calendar & Scheduling, Forms
  - Realize return on companion products
  - Deliver greatly expanded Programmability model

Major Product Releases - 1995

Q1	Q2	Q3	Q4
HiTest API 3.0 / VIP 1.1		Notes 4 Tier 1	Notes 4 Tier 2
NotesView 4.0	Phone Notes / Mobile	cc:Mail OD 1.1	cc:Mail [illegible] / MAPI Client
Organizer 2.0		LCS 1.0	Organizer Win95
[illegible]	LN:DI 3.0	NotesView 2.0	Forms 2.0
ScreenCam 2.0		cc:Mail View 2.0	
EMX 1.2		Notes DMS	
Cantile 4.1			

Development Plan

- Development "Themes"
  - More intuitive UI
  - Programmability expanded
  - Enterprise scaleability and performance
  - Single Mail / Notes UI and infrastructure
  - Wide area management to reduce cost of ownership
- Development "Issues"
  - Integrating efforts in Cambridge, Westford, Mountainview & Wayne
  - Funding Mac development
  - Balancing a complex set of product and time-to-market trade offs for V4
  - Managing under valid, but extremely tight spending constraints

Comms Marketing Strategy

- Millions More Notes Users
  - Create New Customers: Reach IT and LOB Managers
  - Drive Expanded Deployment Among the Installed Base
  - Upsell OEM Bundle Users
- Control the Groupware Debate
  - Describe and Define the Category -- Own It
  - Demonstrate Leadership & Enhance via Slow Roll V4 Launch
  - Showcase Innovation with *ROI Stories*, Solutions, Tools

Comms Marketing Strategy (cont.)

- Generate Demand for cc:Mail
  - Build the Brand (Best Product, Best Story, Best Future)
  - Promote New Products and Bundles to Base
  - Attack the Mid-Tier Market
- Make "Companion Products" Winners
  - More Than Sizzle -- Value
  - Partnerships that Validate: Xerox, Intel, ATT

Comms Marketing Strategy (cont.)

- Communicate Notes as App Dev. Platform
  - Do it Your Way: VB, Industry Leading Tools, Lotus Tools
  - Win Developer Hearts and Minds with Edge (HiTest)
  - Create Demand for VIP
- Challenge Microsoft at Every Turn
  - Expose Exchange as a Messaging Solution
  - Fuel and Exploit "Abusive Monopolist" Label

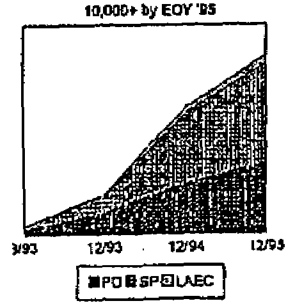
Sales & Distribution Strategy

- Notes "Industry" growth dramatic
  - Now driving material revenue growth
- Recurring revenues from customer base
  - Deployment rate accelerating
  - New customer expansion in high and mid-tiers
  - Pilot to deployment timeline now shrinking
  - Increasing base penetration opportunity for deployment of companion products
- Mid-tier Mail Market
  - Major growth opportunity for cc:Mail; requires stronger focus and plan execution
  - Competition in this segment intense
  - Recover share lost in 1994

1995 Partner Yield Projections

- Service Capacity
  - LAECs: 499 centers (46% Int'l); 246,000 students
  - Premium SPs: 400 co's; increase to 10 LCP per co.
- Products
  - Focus on Application ISVs
  - Double shipping products: 700 co's; 1,300 products
- Market Presence & Reach
  - Sales: Sell-thru = 25%+; Influence = 50%+; Top 50 opened 900 accounts in '94
  - Marketing: (800) co-op seminars; (14) Symposia; (9) T/S

WW Business Partners
10,000+ by EOY '95



1995 Business Unit P&L

	1995	1994	Δ	Δ%
Revenue	$480.4	$298.9	[illegible]	60.7%
COGS	72.9	57.0	15.9	27.9%
Gross Margin	[illegible]	241.9	165.4	68.4%
Marketing	82.9	64.3	18.6	28.9%
Sales	84.6	71.6	13.0	18.1%
Support	49.6	30.7	18.9	61.6%
HQ Mktg	4.3	2.9	1.4	48.3%
Softswitch	36.0	14.3	21.7	151.7%
Development	124.4	108.7	15.7	14.4%
Oper Exp	382.0	292.7	89.3	30.6%
Other	(18.5)	(22.3)	3.8	(17.0%)
Oper Margin	$43.7	$(28.6)	$72.3	
Oper Mgt %	9.1%	(10.0%)		

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Comms Revenue

	1995	1994	% Growth
Notes	$281.7	$153.2	84%
cc:Mail	101.0	97.4	4%
Support	47.2	27.8	70%
Softswitch	42.1	16.3	158%
Other	8.1	4.1	
Total	$480.1	$298.8	61%

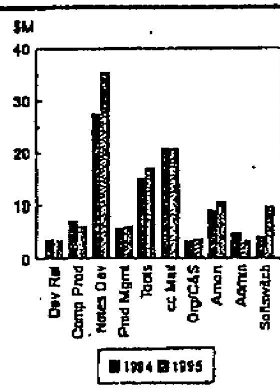
Comms Business Unit Trends

	FY93 Actual	FY94 Est.	FY95 Target
Revenue	$55	$98	$80
Percent Growth			
Revenue	-	92%	61%
S&M		74.3%	30.3%
Dev		40.6%	14.4%
Percent of Sales			
S&M	82%	58%	45%
Dev	50%	37%	26%
Op Profit	29%	40%	9%

- Operating Profit highly dependent on substantial revenue increase
- Focused effort to reduce Dev Exp as Percent of Revenue
- cc:Mail sales target not aligned with more conservative business unit view

Development Expense Trends

Group	FY'95 ($mmts)	FY'95 to Bi Rate Change
Dev Relations	$.4	28.2%
Comp Products	6.0	49.0%
Notes Dev	$35.4	8%
Gra Prod Mgmt	6.0	45.3%
Tools	$16.9	-6.8%
cc:Mail	$20.7	-5.0%
Organizer/C&S	3.6	19.5%
Amort / Bonus	$10.4	26.1%
Admin	$.3	45.3%
Total	$106.0	-7.9%



Business Issues

- Risk Management
  - Business characterized by high operating leverage & relatively low variable cost %
  - Combined with 60+% revenue growth over a significant 1994 base
  - Enhanced value proposition critical in competitive environment
  - Must carefully balance investment levels vs. contribution targets

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Business Issues

- Upside
  - Stronger positive reaction to pricing actions
  - Calendar & Scheduling market potential
- Downside
  - Notes price elasticity not as we expect
  - Not spending enough on marketing programs
  - Development risk on "new" LCS & messaging strategy
  - Underestimated cc:Mail/Notes cannibalization
  - Market psychology damaged by Microsoft FUD

Net, net....

- Make Notes an industry standard NOW
  - Drive for market share
  - Magnify market's perception of price reduction
  - Build upon the strong and growing base of business partners and enterprise customers
  - Aggressively attack and publicize Microsoft's competitive weakness with Exchange

Speak with one voice - It's broken record time

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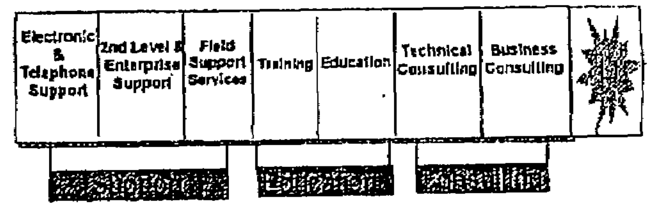
Lotus Education
Lotus Consulting
Lotus Institute

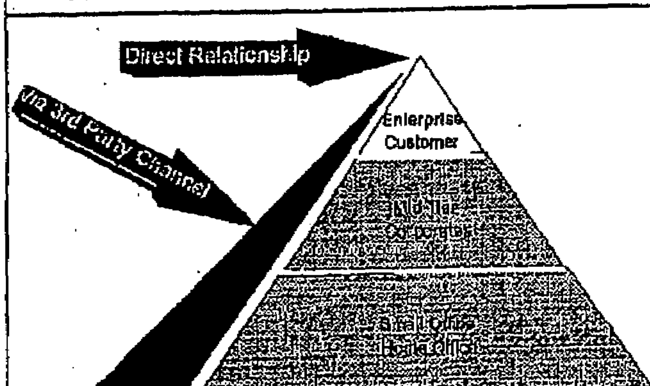
1995 WW Services Plan

The Lotus Services Continuum



Mission: *To help our customers most effectively use our technologies for competitive advantage*

Who do we Service?



WSG & CSS working with:

- Global/Major Accounts
- Business Partners
- Strategic Alliance Partners
- Product Development

Global Focus
Business Focus
Enterprise/Extended Enterprise Focus

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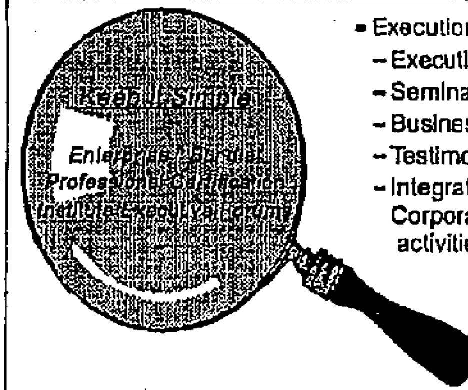
1995 Objectives

- Develop long-term relationships with enterprise customers
- Establish the Lotus Services Groups (Support, Education, Consulting, Institute) as Center of Excellence for the Industry
- Enable a successful third party industry of Business Partners to accelerate the growth of Workgroup Computing
- Deliver $52M of services revenue

Aggressively market WW Services

Marketing Programs



- Execution:
  - Executive Sales calls
  - Seminars
  - Business Shows
  - Testimonials/References
  - Integrate with Lotus Corporate message & activities

1995 Plan

Lotus Education

Constituents

- Enterprise Customers
- Business Partners
- User Organizations
- Lotus Internal

Lotus Education

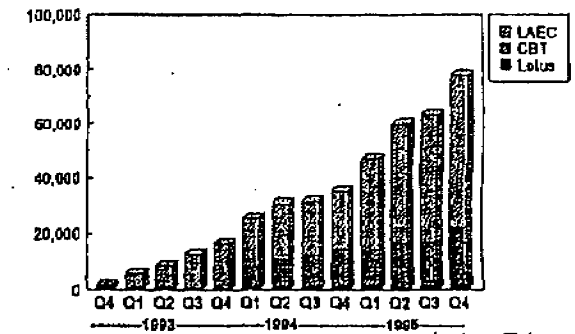
IBM 7510276992

1995 Focus

- Achieve 1995 Plan ($23 rev/$6 margin)
- Help customers accelerate deployment
- Develop & roll-out Notes V4 curriculum
- Continue geographic expansion
- Target enterprise customers
- Accelerate & expand certification
- Build skills within Lotus - worldwide

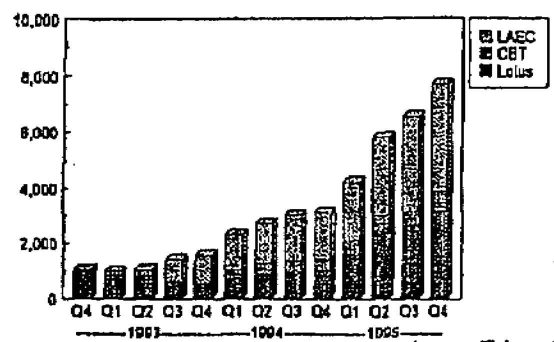
Lotus Education

Students Trained by Channel



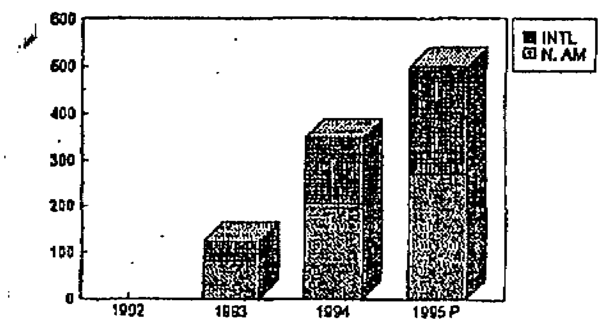
Lotus Education

Education Revenue by Channel



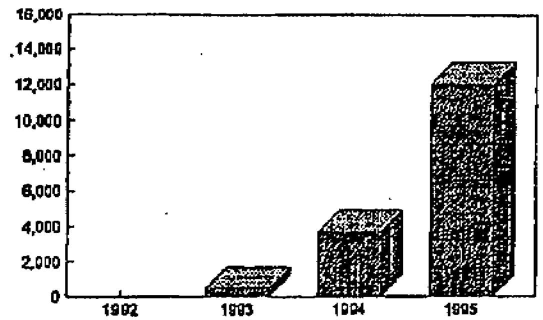
Lotus Education

LAECs - N.A. versus International



Lotus Education

Certified Lotus Professionals



Lotus Education

Programs

- Geographic expansion
- V4
- Translation
- Distance Learning
- Certification/CLP
- ATC
- LAEC
- Internal Lotus training

Lotus Education

1995 Plan

Lotus Consulting

Directions

- By 1997
  - 20% margin
  - Rev/Head of $250k (vs $124k in '94)
- Long term relationships with all major/global accounts
- An extended enterprise consultancy
- Higher leverage through value pricing

Lotus Consulting

Major 1995 Initiatives

- Positioning, marketing & service definition
- Tight integration with major/global account programs
- More sophisticated business model
  - Global vision with local variances in metrics
  - Multiple revenue streams
  - Profitability before growth
- Partnering (10/30/50)
- Radically redesigned incentive programs

Lotus Consulting

Enhanced Service Definition

- Accelerated Value Method (AVM)
- "Best Practices" studies
- Electronic Commerce business unit
  - InfoPaq derivatives, Internet, etc.
- Scaling the Institute
- Defined offerings for infrastructure / deployment

Lotus Consulting

What's Different this Time?

- Reliable historical data
  - By line of business
  - By region
- Bottom-up plan
  - Full buy-in at regional level

Lotus Consulting

Risks

- APAC/Japan growth of almost 84%
- Slower than expected turnaround in Europe
- Relationship with Business Partners

Lotus Consulting

Risk Management

- Increased "teaming" (subcontracting)
- Demand creation through marketing
- Enhanced value creation through service definition (AVM, etc.)
- Planned investments and reserves
- Increase in professional development
- Margin before growth management approach

Lotus Consulting

1995 Plan

Lotus Institute

MISSION

Lotus Institute is a research and education endeavor dedicated to helping networked organizations leverage teams, tasks, and technology to create outstanding performance.

Lotus Institute

Institute Objectives

- The Institute becomes a center of excellence for Lotus and its customers
  - Explore intersection of technology and cultural issues
  - Focused research and partnerships
  - Action research -- visible success stories
- We substantiate Notes as the "operating system" for the new work

Lotus Institute

Measures of Success - 1995

- Several highly visible and successful action research projects
- Surfacing, and helping generate, new business (i.e., Europe)
- Market recognition / differentiating our value proposition
- Driving deeper relationships with existing customers

Lotus Institute

Financial Summary and Conclusion

WSG 1995 Plan

Total WSG Operating Plan Financial Summary

	FY 1994	FY1995
Revenue	33,730.0	52,882.0
Operating Exp.	35,061.0	47,182.0
Margin $	(1,331.0)	5,700.0
Margin %	(3.9)	10.8
Amortization	2,672.0	2,700.0
Margin $	(4,003.0)	3,000.0
Margin %	(12.0)	5.7

$ Millions

Consulting Operating Plan Financial Summary

	FY 1994	FY1995
Revenue	20,012.0	27,182.0
Operating Exp.	20,180.0	24,534.0
Margin $	(168.0)	2,648.0
Margin %	(0.8)	9.7

$Millions

Education Operating Plan Financial Summary

	FY 1994	FY1995
Revenue	13,600.0	23,000.0
Operating Exp.	9,876.0	16,904.0
Margin $	3,724.0	6,096.0
Margin %	27.4	26.5

$ Millions

WSG Operating Plan Headcount Summary

	FY 1994	FY1995
Consulting	176	176
Education	67	105
Lotus Institute	18	18
G&A	18	21
Total	279	320

Ending Headcount

WSG Metrics

Consulting Business

	Actual 1993	Fcst 1994	Plan 1995
Utilization	50	58	64
Hourly Rate	130	130	141
Headcount	138	176	176
Rev/Head	163	134	169
Cost/Head	178	135	154

Education Business

	Actual 1993	Fcst 1994	Plan 1995
Students	41.7	122.7	245.3
Student Days	83.4	245.4	490.6
Rev/Student	122.0	110.0	95.0
Headcount	44.0	67.0	105.0
Rev/Head	138.0	245.0	267.0
Cost/Head	73.7	177.9	196.6

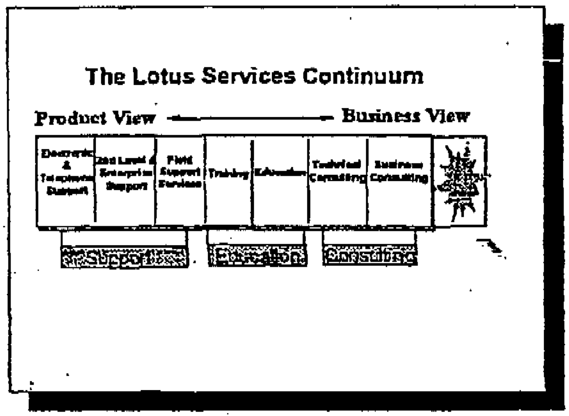
Overall Conclusion

- +17.5 point improvement of margin
- Integration of WSG activities with Sales & Marketing Organization's goals
- Improved management reporting tracking resource utilization and regional performance
- Regional/District buy-in
- Clear business objectives

Worldwide Services Group
Board of Directors 1995 Plan Document

12/7/94

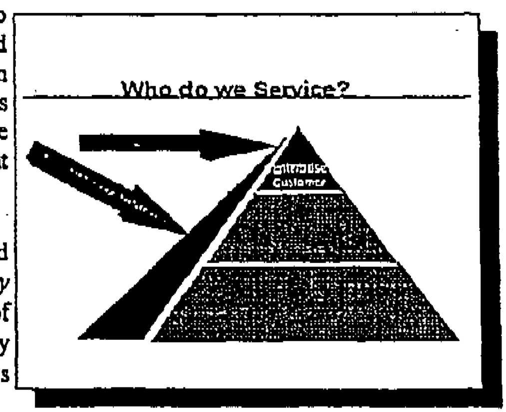
The Worldwide Services Group, formed originally in August, 94 includes three lines of business: Consulting Services, Education Services, and the Lotus Institute. Its purpose is to present a coherent, worldwide value proposition to our target customer segment; the "enterprise" customer. WSG works closely with the Customer Support organization in accomplishing this.



Mission

To help our customers most effectively use our technologies for competitive advantage.

WSG broadly provides the *service component* of Lotus' value proposition to the enterprise customer segment enabling this segment of customers, as well as the customers that are serviced by third party service providers, to gain maximum competitive advantage through the use of our software products. The services are offered to create an overall environment; technological and organizational, to enable our customers to gain competitive advantage. Principally, the mission is aimed at the propagation of Notes as the technological platform for knowledge management within our targeted customer base.



The execution of the mission is two-pronged and profitable in its own right: We aim to *directly* service the "enterprise" segment (a set of specifically named accounts) while profitably enabling a growing third-party industry of Business

Partners who normally should be targeting lower tiers of the market segment pyramid. The Enterprise segment consists of companies broadly having the following attributes: Large, multinational, prone to exploit leading edge technology, where much if not most, of their competitive advantage is gained through the exploitation of knowledge. WSG provides the infrastructure for disseminating, processing, and enhancing, the knowledge contained within the enterprise.

What business are we in?

I. Consulting

Lotus Consulting delivers its services using the five component framework presented below. This framework, the Accelerated Value Method (AVM), encompasses:

- Process Innovation: setting the business context of the engagement and redesigning processes
- Collaborative Development: developing the business solution, using a collaborative team-based approach and rapid iterative prototyping
- Enterprise Deployment: planning and implementation of the technology itself, potentially on a world-wide scale
- Transformation Management: the "people" tasks required to ensure the success of the business solution: education, cultural considerations, teambuilding, etc.
- Engagement Management: managing not only a single project, but the larger client relationship as well

II. Education

Lotus Education's resources provide value to the education market through development and direct delivery of new courses, high level topics, seminars and training industry trainers. Our education products are then leveraged through the channel as a key element of our worldwide coverage for core training and certification of professionals.

We are able to focus on solutions for the enterprise customer as well as the technical professional with this comprehensive and leveraged model.

In addition to our core business, we provide education services as part of the Transformation Management segment of consulting projects.

III. Lotus Institute

The Lotus Institute is a research and education endeavor, dedicated to helping networked organizations leverage the use of Notes through an integrated consulting approach which includes the cultural, business process and technical issues. The Institute is conducting research in the areas of computer assisted teams, knowledge management and electronic commerce, in order to establish Notes as the most effective technology to support those initiatives. The Institute will play a key role in attracting senior executives to examine Notes as key enabling technology for their organizations.

Vision

Success is when Lotus is viewed by the market as a provider of services and business problem solutions.

The "products" become the tools employed by the Service organization and Business Partners to deliver solutions to customer problems centered on the need to gain competitive advantage. Customers perceive the value of the service in terms of competitive advantage, and not simply the delivery of a defined number of hours of service. Our most lucrative relations are those which evolve over time with the needs of the customers, offering us a continuing stream of revenues. The relationship is more one of profitable partnership than one of vendor-client.

Strategy

I. Strong collaboration with Sales and Marketing

In order to achieve this vision, WSG needs to effectively integrate its efforts with those of the rest of the company. Until recently, the Consulting and Education organization (CSG) was largely viewed as apart, and independent from, the larger Lotus organization, WSG needs to be an integral part of a coordinated approach with Sales and Marketing as well as Development, in penetrating the enterprise segment of the market. Services must be perceived as a key element of the value proposition of the company and be promoted and sold in collaboration with the sales force.

This strong collaborative approach applies to all three lines of business of WSG: Lotus Consulting, Lotus Education, and the Lotus Institute.

II. Aggressive marketing (promotion) of Services

Services have never been a particularly highly marketed element of the Lotus value proposition. WSG will more than double the resources devoted to the promotion of its services. At this stage, the promotion strategy is based on basic, elementary approaches: executive sales calls, seminars, speaking at the appropriate business shows, collateral, testimonials / references, and above all, integration with the Lotus corporate message.

Major 1995 objectives

1. <u>Meet our financial and operational commitments.</u>

The WSG management team believes that the plan is realistic, if ambitious. We have planned conservative revenue growth and compressed expense growth, even at the expense of the long-term, if necessary, in order to establish a long-needed "credibility factor" for these activities.

WSG Summary Financial Statement

Thousands of $	1994 Forecast	1995 Plan	V $ 95/94	V % 95/94
Revenue:				
Consulting	20,012	27,182	7,171	35.8%
Education	13,600	23,000	9,400	69.1%
Lotus Institute	118	2,700	2,582	2188.1%
Total WSG	33,730	52,882	19,153	56.8%
Expenses:				
Consulting	20,180	24,534	4,354	21.6%
Education	9,876	16,904	7,028	71.2%
Lotus Institute	1,570	2,350	780	49.7%
Marketing	285	985	700	245.6%
G&A / Other	3,150	2,409	(741)	-23.5%
Total WSG	35,061	47,182	12,121	34.6%
Margin - $:				
Consulting	(168)	2,648	2,816	-1675.3%
Education	3,724	6,096	2,372	63.7%
Lotus Institute	(1,452)	350	1,802	-124.1%
Total WSG	(1,331)	5,700	7,031	-528.2%
Margin - %:				
Consulting	-0.8%	9.7%	10.6	
Education	27.4%	26.5%	-0.9	
Lotus Institute	-1230.5%	13.0%		
Total WSG	-3.9%	10.8%	14.7	
Amortization	2,672	2,700	28	1.0%
Margin after amortization	(4,003)	3,000		
Margin %	-11.9%	5.7%	17.5	

Our key financial commitment is the delivery of $5.7 million in contribution margin to the Corporation on a revenue base of $52.9 million, or a contribution margin of 10.8% before amortization, vs. a loss of $1.3 million in 1994 on revenues of $33.7m (a negative margin of 3.9%) as forecasted most recently.

This is accomplished principally by a dramatic improvement in the contribution of the Consulting activity which in 1994 came close to break-even. In the WSG plan, the revenue growth of the Consulting Group is held at roughly the Q4/94 run-rate plus the effect of operational improvements. The Education and Training Group is planned to continue to deliver its mid 20% margin, and the Institute is planned to break-even.

In the preparation of the plan, a number of investments were cut, made contingent upon exceeding planned revenues and margins. The focus has been on basic revenue and margin generation to meet the $5.7 million contribution margin. To the extent that the group is able to generate contribution margin dollars above the $5.7 million commitment, investments in infrastructure will be "released".

The principal operating guideline will be to "hire behind the curve", i.e., close the business before hiring the resources to meet the demand.

Within the bounds of meeting our financial objectives, our other 1995 objectives include:

2. **Develop long-term relations with enterprise customers.**

3. **Establish the Lotus Service Groups (Support, Education, Consulting, Institute) as Centers of Excellence for the Industry.**

4. **Enable a successful third party industry of Business Partners to accelerate the growth of Workgroup Computing centered on Lotus Notes.**

The Lotus Consulting Plan

Lotus Consulting 1995 Plan by Region

$ Millions	Americas		Europe		APAC/Japan		Total	
	94	95	94	95	94	95	94	95
Revenues	$12.6	$17.2	$6.0	$8.6	$2.8	$5.2	$20.0	$27.2
Margin %	24.0%	25.3%	-23.0%	11.2%	8.2%	4.3%	-8.0%	9.7%

The long range outlook for this business is within three years it is a 20% margin business with revenue in the range of $250K/head based upon long term relationships with large and/or global accounts, a leadership position in the area of extended enterprise consultancy, and achieving higher leverage through value pricing, rather than the capacity based pricing currently practiced.

1995 initiatives aimed at the business include...

- the positioning, marketing, and refining of our service definitions
- much tighter integration with Sales on major/global account programs
- a business model based on profitability before growth
- continued improvement in management reporting and control
- increased partnering with 3rd parties
- growth of engagements focused on the extended enterprise segment (AT&T)
- a compensation program designed to support our financial objectives
- standardization of methodologies and adoption of "best practices"

- standardized professional development

The following four clients are representative of the type of work conducted by Lotus Consulting in 1994.

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Standard Chartered Bank (APAC/Japan) -- Operating out of Singapore, our APAC consulting practice has developed a Relationship Manager's Workbench, for use by Corporate and Institutional banking representatives. Initially to be deployed in Asia, the application will eventually be deployed world-wide.

Asea Brown Boveri (UK/Nordic) -- Our UK-based consulting group has worked extensively with ABB in Sweden and Switzerland to establish a consistent and reliable global infrastructure for the eventual deployment of 50,000 Notes and Notes Express licenses. This work has also entailed devising a consistent framework for delivery of consulting services to ABB's numerous operating companies world-wide.

Deutsche Bank (Central Europe) -- In collaboration with IBM, Lotus Consulting in Germany has begun work on the initial stages of a pilot project for DB Office. This system, if successful, will see the deployment of more than 70,000 seats of Notes on an OS/2 platform, along with a suite of applications providing the DB Office functionality.

The Lotus Education Plan

Lotus Education 1995 Plan by Region

$ Millions	Americas		Europe		APAC/Japan		Total	
	94	95	94	95	94	95	94	95
Revenues	$8.4	$15.2	$3.0	$5.4	$2.2	$3.7	$13.6	$23.0
Margin %	50.7%	54.9%	28.6%	31.6%	6.4%	20.2%	27.4%	26.5%

Lotus Education has been managed to profitably grow from a direct delivery education group with limited capacity in 1992 to a worldwide education business with direct delivery capabilities, an indirect channel and technology based education products (aka CBT) today; while developing the education component of the Notes industry.

We will be challenged to improve margins while we focus on the following business areas for 1995 :

Achieve 1995 Plan ($23 rev/$6 margin)
Develop & roll-out Notes V4 curriculum

- Continue geographic expansion
- Help customers accelerate deployment
- Target enterprise customers
- Accelerate & expand certification
- Build skills within Lotus - worldwide

Both revenue and the number of students have grown at a pace consistent with our objectives.

Summary and Conclusions

The 1995 WSG Plan represents a major improvement in profitability, a 17.5 percentage point improvement from 1994, as a result of improvement in the Consulting business. While there is considerable risk built into a revenue growth of 57%, the management team believes it has addressed those risks and will be closely monitoring the progress of our execution of this plan.

The integration of WSG activities with those of the Sales & Marketing organizations, improved management reporting, regional performance based compensation plans, regional and district level "buy-in" to the plans, and clearly communicated business objectives help mitigate the risks.

A major business issue and risk is the ability to successfully manage a potentially conflicting relationship with the business partner community. We will be working towards partnering with them as well as making it clear where we will compete in the Enterprise accounts.

Our geographic expansion of the consulting business is minimal. Unless we exceed the plan, we will not have critical mass and scale in Hong Kong, Tokyo and Paris. The risk at this stage would be that despite this performance, we will still be short of having adequate coverage to meet the needs of our multinational customers.

Additional risks surround our geographic expansion. We have chosen to grow very aggressively in Education, tracking the planned Notes seat growth. Success here will depend upon the ability to manage and remain in control of this rapid growth. Another significant risk is that of the dependence of Education revenues on the Notes V.4 ship date. Clearly, any slippage will negatively impact revenues.

Finally, achieving this plan will depend on the ability of the management team to turn down "free" work. Common sense will prevail here, but as we are clearly focused on the achievement of our financial commitments, down to the regional/district level, we should be able to sensibly manage this.

Long Version

Worldwide Services Group
Board of Directors 1995 Plan Document

12/7/94

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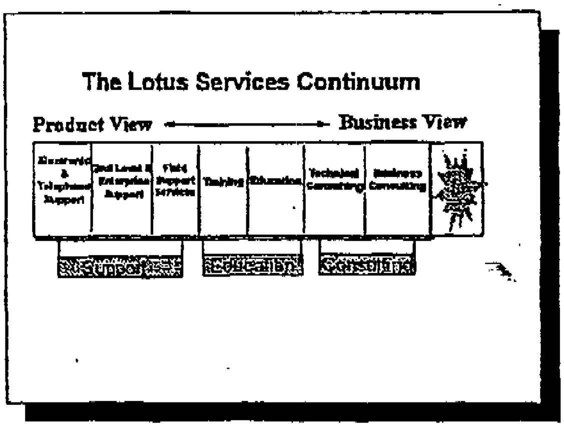

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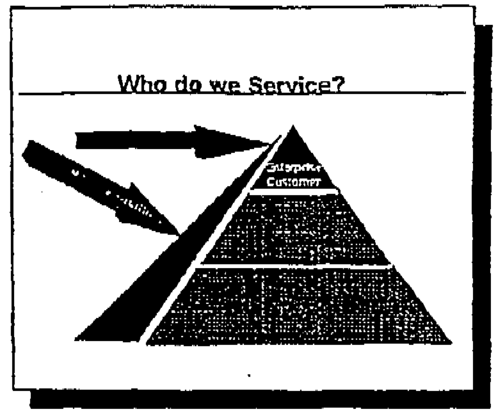
The execution of the mission is two-pronged and profitable in its own right: We aim to *directly* service the "enterprise" segment (a set of specifically named accounts) while profitably enabling a growing third-party industry of Business Partners who normally should be targeting lower tiers of the market segment pyramid. The Enterprise segment consists of companies broadly having the following attributes: Large, multinational, prone to exploit leading edge technology, where much if not most, of their competitive advantage is gained through the exploitation of knowledge. WSG provides the infrastructure for disseminating, processing, and enhancing, the knowledge contained within the enterprise.



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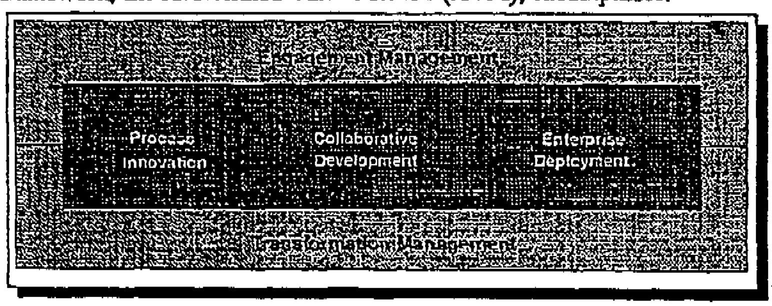

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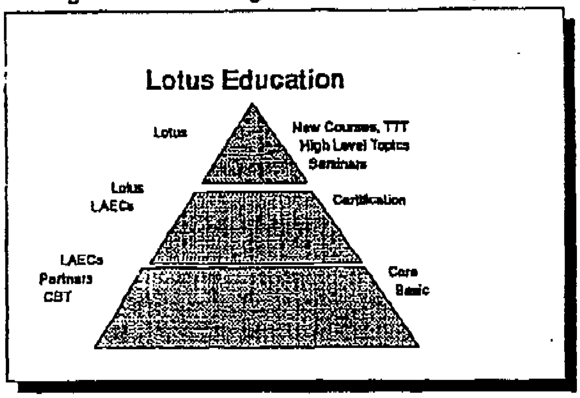

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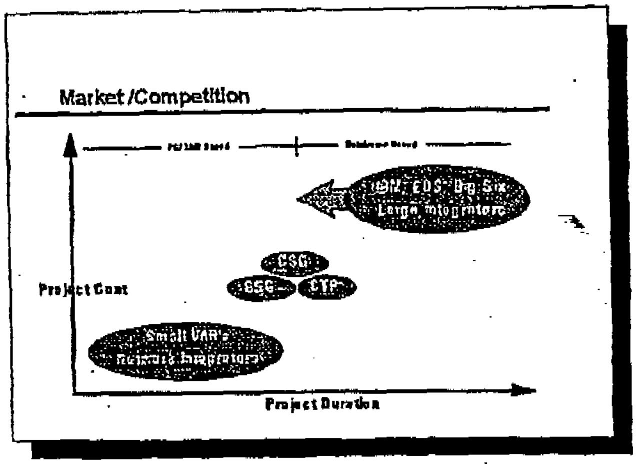
Competition

Other Software Vendors



The two most obvious competitors in the vendor category are Novell and Microsoft. Although both have established consulting practices, both claim that they do not view their consulting units as profit centers. This creates some pressure on Lotus Consulting to act similarly, as the high-level mandate is viewed as more partner-friendly. It is not obvious, however, that having a "break-even" mandate causes Microsoft's and Novell's consulting groups to truly behave any differently in practice.

With each firm's consulting group focused firmly on its respective technology, there is little or no competition on the basis of services alone. The services decision is usually contingent upon an overall product/technology decision.

Mid-Sized Technology Consulting Firms

Lotus Consulting is well positioned as a mid-size consulting practice. In terms of scale, the most comparable US based organizations are firms such as BSG Consulting and Cambridge Technology Partners. However, neither has a significant global presence (and are therefore unable to fully deliver to Enterprise class accounts) and both provide more general offerings The group's focus on workgroup computing opportunities results in higher realized rates when compared with similar sized practices. Furthermore, it enables a complementary, partner-oriented approach that minimizes competition.

Global Service Providers

By comparison with truly global service providers such as the Big 6, EDS, IBM ISSC, etc., we offer a much narrower set of offerings and are typically positioned as suppliers of specialist skills to their much larger project teams.

Value Added Resellers & Network Integrators

The vast majority of Lotus' business partners fall into the category of Value Added Reseller or Network Integrator. Many of these firms are also moving to offer higher value consulting and application development services. The group's strategy is to work closely with these firms to enable them, allowing them to address the needs of non-Enterprise class accounts. In addition, the Consulting business model relies increasingly on subcontracting to qualified business partners for delivery of service to Enterprise class accounts.

Strategy

I. Strong collaboration with Sales and Marketing

In order to achieve this vision, WSG needs to effectively integrate its efforts with those of the rest of the company. Until recently, the Consulting and Education organization (CSG) was largely viewed as apart, and independent from, the larger Lotus organization, WSG needs to be an integral part of a coordinated approach with Sales and Marketing as well as Development, in penetrating the enterprise segment of the market. Services must be perceived as a key element of the value proposition of the company and be promoted and sold in collaboration with the sales force.

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Critical success factors

I. Collaboration with the Worldwide Sales and Marketing Group

WSG is not a totally autonomous business unit, it depends on close integration with the distribution arm of the company. It is imperative that there be a very tight integration with both Sales and Marketing to promote our service offerings.

The services message will be built into the selling strategy and the Sales training efforts. Leads will be provided by the Support organization (and vice versa) when a need is seen within the customer's organization for a particular Education/Training, Consulting, or Support service. In order to achieve this we need to undertake an "evangelizing" effort aimed at increasing the awareness of the Sales and Marketing organization of WSG and the benefit that combining services with product pitches has in selling to enterprise accounts. In order to achieve this, it is essential that account plans be jointly developed with WSG and Sales input. These efforts are underway today with the full support of Sales and Marketing management.

II. Collaboration with the Development Organizations

WSG will be feeding information regarding problems or opportunities with respect to our software products back to the development organizations in much the same way as Customer Support does today.

III. Internal training, development recruitment and retention

Management of our human resource assets is a critical function for the success of the business.

As WSG is, by definition, a knowledge-based organization; our assets consist of the people in the organization and the intellectual capital they develop. We need to be planning and managing the supply of qualified professionals to respond to both the qualitative and quantitative needs of the business. This cannot be an ad-hoc effort, left to individual managers, but rather needs to be a highly systematic process so as to ensure the supply of human resources at the right time and the right place. As it is more expensive to recruit and train, than to retain, we will target and closely monitor attrition rates and ensure that plans are in place to develop, retain, promote, and compensate top quality individuals.

VI. Compensation strategy

Our compensation strategy is tailored to promote behavior consistent with our goals and objectives. Within the Consulting organization, the compensation plan is both merit based and includes a variable component tied to individual and group performance. This is being finalized at present and will be implemented by the 1st of January.

V. Technology

We will make use of our own technology internally in order to showcase to customers the intrinsic value of our technology and the value it adds to our business operation. In addition to internal use, we will extend the use of our technology to our business partner community, as well as to our clients.

The WSG ambition to exceed planned revenues and margins in order to fund investments depends upon a management reporting system which operates on a weekly basis, providing forward looking information upon which to base hiring and spending decisions. The basis for this exists in the present "T&E System (Time and Expenses System) in use in the Consulting organization. This will be expanded to the Lotus Institute and Lotus Education to provide them with the same level of management information.

The addition of the IS organization to WSG allows for the exploration of synergy between the two groups. We will showcase our applications to our customers, demonstrating the advantages we derive as a business from the use of Notes and the integration with our desktop products.

VI. Resource utilization

We will continue to manage our human resources on a global scale with maximum flexibility. We will be able to utilize consultants based in one region on projects in another region in order to respond as quickly as possible to customer demands as well as maximize our overall utilization ratio.

Additionally, we will build a solid network of sub-contractor resources from the Business Partner community upon which we can draw when needed. These people will be certified in the skills which are required and should be available on the broadest geographical basis as possible. The advantage of this works both ways; it provides us with a pool of variable cost labor to meet our demands and helps the Business Partners with cash flow.

The Lotus Consulting Plan

Lotus Consulting 1995 Plan by Region

$ Millions	Americas		Europe		APAC/Japan		Total	
	94	95	94	95	94	95	94	95
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*before Amortization expense

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Deutsche Bank (Central Europe) – In collaboration with IBM, Lotus Consulting in Germany has begun work on the initial stages of a pilot project for DB Office. This system, if successful, will see the deployment of more than 70,000 seats of Notes on an OS/2 platform, along with a suite of applications providing the DB Office functionality.

The Lotus Education Plan

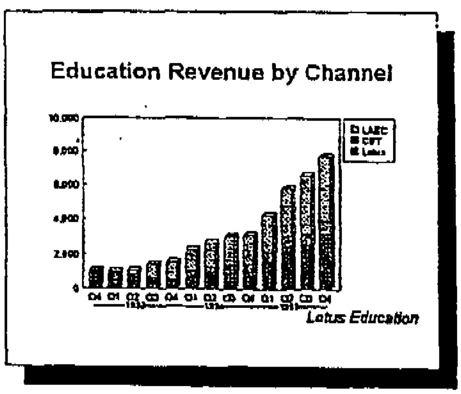
Lotus Education 1995 Plan by Region								
$ Millions	Americas		Europe		APAC/Japan		Total	
	94	95	94	95	94	95	94	95
Revenues	$8.4	$15.2	$3.0	$5.4	$2.2	$3.7	$13.6	$23.0
Margin %	50.7%	54.9%	28.6%	31.6%	6.4%	20.2%	27.4%	26.5%

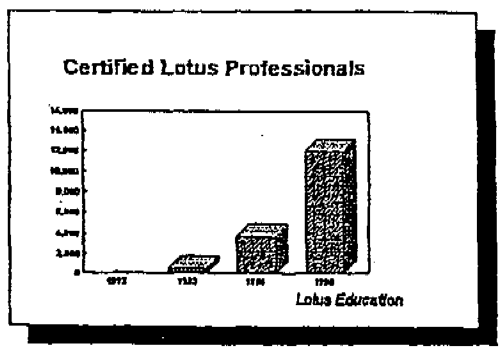
Lotus Education has been managed to profitably grow from a direct delivery education group with limited capacity in 1992 to a worldwide education business with direct delivery capabilities, an indirect channel and technology based education products (aka CBT) today; while developing the education component of the Notes industry.

We will be challenged to improve margins while we focus on the following business areas for 1995 :

Achieve 1995 Plan ($23 rev/$6 margin)
Develop & roll-out Notes V4 curriculum
Continue geographic expansion
Help customers accelerate deployment
Target enterprise customers
Accelerate & expand certification
Build skills within Lotus - worldwide

Both revenue and the number of students have grown at a pace consistent with our objectives.





Geographic expansion

The delivery of "Notes-centric" services is an integral part of the marketing strategy of the Communications Business as well as the strategy of focusing upon the Enterprise segment. For Lotus to be successful in both spaces, WSG needs to be able to provide the service component of the overall Lotus value proposition side by side with the Sales and Marketing organization. In certain areas of the world, this ability is weak, or non-existent.

In light of the particular emphasis we are placing upon the importance of meeting our financial commitments and improving our margin, our plan this year calls for minimal geographic expansion, but rather for consolidating our position in those areas expanded into in 1994; with the exception of education in some areas which is critical to the development of the Notes Industry.

Europe

I. <u>Consulting</u>

We currently have Consulting groups in the UK, Nordic, Germany, and France. In Consulting, these have been problem areas in 1994, with Europe resulting in a 23% operating loss. The Consulting plan calls for relatively modest growth in Europe, particularly in the UK/Nordic Region. We plan to consolidate our operations rather than expand into new territories.

In those countries in which we have no local operations, we will opportunistically import consultants from established offices and/or establish privileged relations with local consultancies. These would include Spain and Italy, where it is not clear, at this time, that these markets could support full-fledged Lotus Consulting practices at a scale allowing for adequate profitability.

In Europe, more particularly, the relationship between the Sales organization and the "old" CSG organization has been the most separate. The new management organization in Europe, under James Fieger, has made it a priority to reverse this and steps are planned in order to ensure tighter collaboration between the two organizations with common account plans, and closer communication. It is important that the current organization instability be quickly calmed in order for combined country teams to be able to work together on major account opportunities.

Specific country strategies for 1995 include Germany, where the focus will be on fewer, and larger, projects, and France, where we need to establish a viable management structure focusing on larger projects with a higher value-added content.

Significant margin improvements are planned for Europe. Whereas in 1994 the region contributed a loss of $1.4 million, or a negative contribution of 23%, in 1995, it is planned that the region will contribute $0.962 million, a margin of 11.2.%. This improvement is due to improvements in utilization rates and hourly rates as well as significant absolute decreases in expenses in the UK/Nordic region year over year.

II. Education

Education services are offered in virtually every European country; in several different languages. We will expand our services and establish infrastructure to support the acceleration of Lotus product penetration in the region.

As the penetration of Notes and cc:Mail continues in Europe, so do the revenue opportunities for the Education business. The margin on this business is expected to improve from 28.6% to 31.3% as a result of better resource utilization in the UK/Nordic region, offset by expansion in the rest of Europe.

III. Lotus Institute

The first indications suggest that the reception of the Lotus Institute concept is strongest in Europe. Initially the Institute will concentrate on Action Research (consulting) and establish highly visible case studies. EDF (Electricte de France) and Hewlett Packard-Europe have expressed strong interest in Action Research projects involving their senior management teams.

Asia - Pacific

I. Consulting

With operations in Australia, Japan, Singapore, and Hong Kong, the infrastructure is in place to take advantage of the underlying growth in this region. Regional management believes there is substantially more revenue opportunity in the region, however, in the interest of minimizing the risk of achieving the committed contribution margin, we have held revenue growth at 84%, growing from $2.8 million in 1994 to $5.2 million in 1995. Once again, the strategy is to "hire behind the curve" only when business is lined up, thus reducing the risk of putting fixed costs in place ahead of the revenue to cover them. To the extent that revenues in excess of plan can be reasonably assured, the additional growth above plan will be pursued.

In this region, where there is a track record in Australia of close collaboration between the old CSG organization and the Sales force, we believe that the organizational culture is favorable for the same collaboration to exist in APAC and Japan. This underlying culture supports a planned high growth rate.

II. Education

As we began to develop the education infrastructure in the region during 1994, our consulting colleagues have provided direct delivery support. We established our Education operation in Australia during the year and are now prepared to increase and deliver on this business with dedicated Education resources.

Summary and Conclusions

The 1995 WSG Plan represents a major improvement in profitability, a 17.5 percentage point improvement from 1994, as a result of improvement in the Consulting business. While there is considerable risk built into a revenue growth of 57%, the management team believes it has addressed those risks and will be closely monitoring the progress of our execution of this plan.

The integration of WSG activities with those of the Sales & Marketing organizations, improved management reporting, regional performance based compensation plans, regional and district level "buy-in" to the plans, and clearly communicated business objectives help mitigate the risks.

A major business issue and risk is the ability to successfully manage a potentially conflicting relationship with the business partner community. We will be working towards partnering with them as well as making it clear where we will compete in the Enterprise accounts.

Our geographic expansion of the consulting business is minimal. Unless we exceed the plan, we will not have critical mass and scale in Hong Kong, Tokyo and Paris. The risk at this stage would be that despite this performance, we will still be short of having adequate coverage to meet the needs of our multinational customers.

Additional risks surround our geographic expansion. We have chosen to grow very aggressively in Education, tracking the planned Notes seat growth. Success here will depend upon the ability to manage and remain in control of this rapid growth. Another significant risk is that of the dependence of Education revenues on the Notes V.4 ship date. Clearly, any slippage will negatively impact revenues.

Finally, achieving this plan will depend on the ability of the management team to turn down "free" work. Common sense will prevail here, but as we are clearly focused on the achievement of our financial commitments, down to the regional/district level, we should be able to sensibly manage this.

ICG

December 6, 1994

Interenterprise Communications Group

1995 Plan

Larry Moore

Eileen Rudden

ICG Mission

- Define and structure the inter-enterprise communication market
- Make Lotus the leading supplier in this rapidly growing market by
  - defining
  - providing
  - facilitating
- market-specific complete products building on Lotus' technology, products and infrastructure

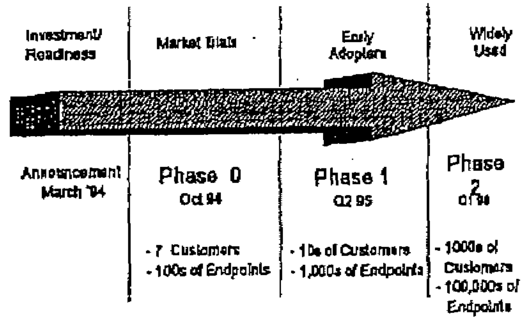
ICG Strategy

- Create AT&T Network Notes as the first major public Notes-based network
- Create additional public networks, interoperating with AT&T
- Support the development of the interenterprise service business with targetted tools investments

ICG Project Areas

- Network Notes
  - AT&T
  - Associate Networks
- Tools/enablers for interenterprise computing
  - Newsstand
  - US Postal Service project
- Notes Net

AT&T Network Notes Timeline



AT&T Network Notes Trials

Egghead	100	3000
Compaq	1500	8000
3M	60	1900
First Albany	40	400
Chase	40	4000
Westin	50	1000

'95 Network Notes Objectives

- Market Entry
  - 2500 leads
  - 250 customers
  - 400 seats/customer = 100,000 endpoints
- Prepare for 1 million endpoints by end 1996
  - V4 scalable carrier grade Notes
- Renegotiation of AT&T contract
  - Lotus leads marketing/sales support
  - $20 million budget
  - Associate Nets support

Market Entry Strategy

- Existing Notes customers
  - 60% experiment with interenterprise connections within 2 years
  - Highest application ROI in IDC study
- Electronic commerce, information distribution applications
- High tech, financial services and pharmaceutical industries first
- Special offer development for mid-tier

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Associate Networks strategy

- As quickly as possible, build the market for interoperable public Notes application networks
- With V4, change Notes license to apply only to internal use. Create public server offering
- Offer public nets
  - Annual fee offering
  - Revenue share offering

Associate Networks

- Goals: 3 by end of '95
  - In Sales Process:
    - US West, Advantis
  - Qualified Prospects:
    - France Telecom, Australia Telecom, Bell Canada WorldLinks
  - Prospects:
    - Bell South, SNet, GTE, Wiltel

Newsstand Strategies

- Create tools to enhance the value of Notes as a publishing platform.
  - An "editorial workbench," which minimizes the prepress information handling, and yields a graphical, interactive publication
- Create a "newsstand," channel of distribution for Notes-published information
  - consists of a catalogue, a set of information offerings, and subscription and billing services.

Newsstand

- Host the newsstand on NotesNet, the network for Lotus customers and business partners.
- Host the newsstand on AT&T Network Notes and other carriers
- Status: In Beta (~20 customers, ~13 IPs)

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Notes Net

- Notes Net is Lotus's network to link its Customers and Business Partners together
  - currently connecting 3000 customers and business partners worldwide
- Vision: create an electronic marketplace for Lotus, our business partners and customers
  - to drive the Notes business

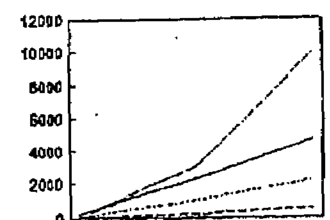
Notes Net

- Rides on AT&T's Interspan frame relay & dial network
- Will be operated as AT&T Network Notes app when that makes sense
- Will grow from 1400 to 5000 connections in the US. in 1995
- Will operate at breakeven in 1995; will charge to recover costs

ICG Quick Financials

- ICG spent $4.2 million, contributed $5.8 million (AT&T $10 million payment)
- ICG will break even in 1995
  - Projected to spend $15+ million
  - AT&T payment of $15 million
- ICG begins operating contribution in 1996
  - drives consulting and software revenues first, service revenue share builds over time

AT&T Goals



	1995	1996	1997
Enterprise Customers —	250	2,250	4,750
Mid Tier Customers ····	0	3,000	10,000
Endpoints (000) - · -	180	1,000	2,200
Revenue ($M) - -	25	250	600

IBM 7510277025