

# HOPE AT STORAGE TECHNOLOGY

By THOMAS C. HAYES, SPECIAL TO THE NEW YORK TIMES

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Illustrations:

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Photo of Jesse I. Aweida with Robert Ganter

The Storage Technology Corporation usually has proved itself lithe and resourceful, dancing in the shadow of the computer industry giant, the International Business Machines Corporation.

But the company took a nasty fall last year when a bad batch of disk drives caused computer system failures at several big corporations. "We ended up on the bleeding edge of technology, instead of the leading edge," one computer systems executive at a major bank said sarcastically.

The \$17 million bill to remedy the situation contributed to Storage Technology's first drop in annual profits since 1974. They had grown at an average yearly rate above 40 percent for the last 10 years. Perhaps worse, though, was the damage to the company's reputation for sound engineering at an especially portentous time.

Storage Technology is about to ship its new thin-film disk drive, the 8380, nearly 10 months after I.B.M. established a lead with its 3380. The 8380 is a glamour entry among a half-dozen new products on the way - products that Jesse I. Aweida, chairman and chief executive, is counting on to contribute about another \$1 billion in sales at Storage Technology in 1985. A Cool Reception

That is a tall order, considering that the company passed \$1 billion in total revenues - at \$1.1 billion, a 17 percent gain over 1981 - for the first time last year. Net income, at \$64.7 million, or \$1.88 a share, dropped 21 percent. With customer demand still tepid, the company said on March 14 that it was laying off 500 of its 8,100 workers here, mainly in its administrative staff.

Yet analysts expect the market for thin-film disk drives to exceed \$5 billion in two years, up from \$2 billion this year. If its 8380 catches on this spring, Storage Technology could capture 20 percent of the thin-film disk business by 1984, and 25 percent by 1985, according to Stephen T. McClellan, a technology analyst with Salomon Brothers Inc.

He wrote in a recent report that the 8380 is smaller, faster and easier to manufacture than the 3380 thin-film disk drive that I.B.M. began to ship late in 1981. If he is right, Mr. Aweida's sales projection may turn out to have been conservative.

At the moment, however, many chastened customers and unimpressed analysts have adopted a cautious attitude. "We're giving it a cool reception because we want somebody else to work the bugs out," a computer systems manager in a major aerospace company said. Stock Outlook

It does not matter that Storage Technology continues to spend heavily on research and is said by some to be ahead of I.B.M. in developing an inexpensive storage disk based on laser science. The price of its slumping shares is not expected to rebound this year unless the 8380 succeeds.

Mr. Aweida, 52 years old, a self-assured former product manager at I.B.M. who co-founded Storage Technology in 1969, acknowledged as much.

"The question in a lot of people's minds is whether we can make it, ship it and have it work well," he said. "We feel very good about it. The evidence will probably be there no later than July."

Storage Technology shares, which closed Friday at \$20.875, unchanged, in trading on the New York Stock Exchange, slipped from a peak of \$40.25 in 1981. Mr. Aweida compares the slump to 1978, when Storage Technology was readying several new products but was out of favor on Wall Street.

He is moving cautiously in an effort to perfect the 8380 manufacturing system well before Storage Technology pushes into heavy production. He plans to ship 100 of the units, priced at nearly \$100,000 apiece, through the summer. If all goes well, the rate will go to 900 units in the fourth quarter, he said.

Meanwhile, I.B.M. shipped more than 5,000 of the 3380 disk drives last year and is expected to add as many as another 15,000 this year, according to Frank R. Gens, a senior research analyst with the Yankee Group, a data processing and telecommunications research and consulting concern based in Boston.

He and some other analysts pointed out that I.B.M. has stepped up the pace of its new product introductions. That gives competitors like Storage Technology less time to recoup their investment on their equipment that plugs into I.B.M. mainframes.

One analyst, who asked not to be identified because Storage Technology is one of his customers, said I.B.M. is readying a disk drive with 2,500 billion bits of memory storage capacity - more than twice the 1,000 billion bits of memory in the 3380 -that it could announce as early as next fall. The storage capacity in 1,000 billion bits is roughly equal to 125,000 typewritten pages.

"That is what is holding Storage Technology's stock down," he said. I.B.M.'s Innovation Rate Beyond that, I.B.M.'s increasingly rapid rate of product innovation, coupled with aggressive price-cutting, has cast a cloud over most plug-compatible manufacturers, according to Ulric Weil, an industry analyst with Morgan Stanley & Company.

Other analysts, however, doubted that I.B.M. would move so quickly to bring a new disk drive to the market, since an announcement that soon would discourage potential customers from buying its 3380 or agreeing to long-term leases, both of which the company is encouraging.

Mr. Aweida said Storage Technology also is developing a version of the 8380 with double storage capacity, which he expects to ship sometime next year. Customers have told his sales staff that the I.B.M. sales force is hinting about an enhancement of the 3380, but Mr. Aweida indicated he doubts that it will be announced this year.

In addition to Storage Technology, the other so-called plug compatible manufacturers of peripheral equipment for I.B.M. mainframe computers principally include the Amdahl Corporation, the Control Data Corporation and the Memorex division of the Burroughs Corporation.

I.B.M., of course, is the leader in the plug-compatible industry. Among the independents, Storage Technology does about two-thirds of the plug-compatible business, according to Mr. Aweida.

These are not simply "me too" products, copies of I.B.M. originals, Mr. Aweida asserted. For instance, Storage Technology just introduced a controller, called Sybercache, a plug-in accessory which speeds the entry and recall of data between a range of I.B.M. mainframe computers and information storage units.

"That's a good product," said Thomas J. Crotty, director of research for the Gartner Group, a research arm of Dillon, Read Inc. Then, too, programs for certain I.B.M. computers, including the 3081 series as well as the 3082, 3083 and 3084, do not have to be altered when the Storage Technology 8380 disk drive is added, according to Ted Costello, a technology analyst with Sutro & Company, in San Jose, Calif. Oddly, changes in programs are necessary to run I.B.M.'s 3380 disk drive.

"Who needs the headaches of reprogramming?" Mr. Costello said, "With the arrival of the 8380, Storage Tech will be more compatible with I.B.M.'s market than I.B.M. is." **Second-Half Rebound**

Storage Technology spent about \$75 million on research and development last year, up from \$50 million in 1981. Mr. Aweida said he plans to keep the figure at about 7 percent of sales again this year. Beyond that, the company has raised \$250 million through limited partnerships in 1981 to finance its first mainframe computer, which is due for initial delivery in about a year.

Mr. Aweida is telling Wall Street not to expect a rebound in profits at Storage Technology during the first half of 1983, but he is optimistic that a pickup in the economy will give the 8380 and other new products a lift in the second half.

Analysts who expect the company to repeat past successes think its shares are an uncommon bargain among high-technology stocks, many of which have doubled in price since last August.

"Once they get their product cycle back on track, they should be off to the races," said Joseph R. Kapka, a technology analyst with Bateman Eichler, Hill Richards Inc., in Santa Clara, Calif.

"All the bad news is already in the stock," Mr. Costello, of Sutro & Company, added. "Once they ship this new generation of disk drives, it won't take long to find out."