

ASHTON-TATE THRIVES IN SLIDING MARKET

Acquisition of Multimate would give it best-selling programs in three major markets

CULVER CITY, CALIF.

The current slide in the personal computer business appears to have bypassed the major software houses—so far, at least. As their weaker brethren fall victim to hard times, some companies are coming up with healthier market shares. One of them is Ashton-Tate, which is now halfway through a fiscal year that promises to be far and away the best in its five-year history.

The producer and marketer of the hot-selling data-base management package dBASE III saw its revenue more than double—to \$24 million in its first fiscal quarter, ended April 30, from \$11.2 million a year ago. Profits soared to \$2.35 million from \$149,000 a year earlier—and financial analysts say the Culver City company's upswing should continue (see tables).

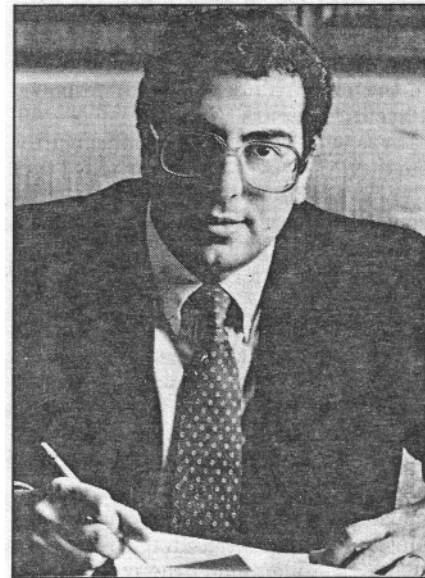
For all fiscal 1986, industry analysts believe the company could earn \$10 million to \$12 million, compared with fiscal 1985's \$7.5 million. This

optimistic view doesn't take into account the company's planned acquisition of privately owned Multimate International Corp. Ashton-Tate agreed last week to acquire the East Hartford, Conn., company for a total of \$19 million in cash and stock.

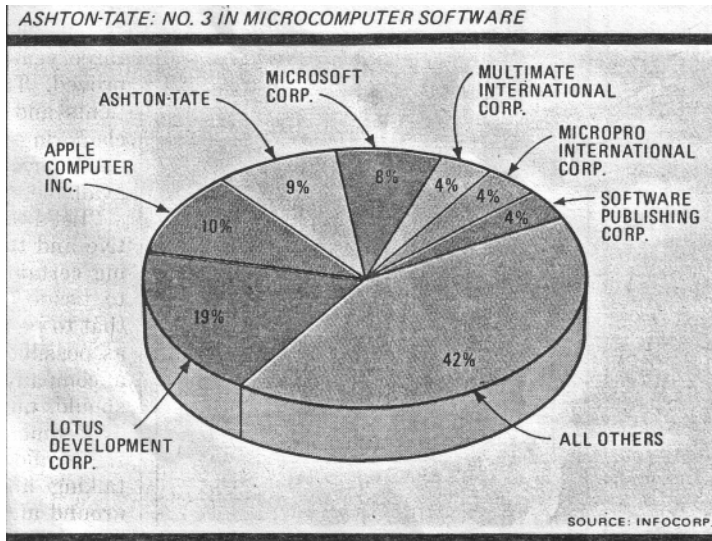
TWO JOLTS. Less than a year ago, Ashton-Tate suffered two jolts that left it tottering, or so it seemed to observers. Cofounder and chairman George Tate died suddenly from a stroke last August. Several months later, David C. Cole, the company's president and free-wheeling dealmaker, left to become President of Ziff-Davis Publishing Co., New York.

"Some people were predicting the company would go under," recalls Edward M. Esber Jr. A former IBM Corp. engineer who also holds a BS in computer engineering and an MSEE, the 32-year-old Esber was named president and chief executive of Ashton-Tate late last year; he had been the company's marketing vice president.

What saved the day for Ashton-Tate was dBASE III. The new version of the company's data-manipulation software is faster and manages data better. It is also in the favorable position of having little competition. The product consistently gained market penetration, even in the teeth of the personal computer recession.



BUYING. Multimate is the latest purchase by Ashton-Tate president Edward Esber Jr.



Ashton-Tate's Framework, a multi-function integrated package that includes spreadsheet, word-processor, financial-analysis, and graphics capabilities, also has performed well in the marketplace, though not up to earlier inflated expectations. The mainstay dBASE III and the newer Framework account for 64% and 20% of revenue, respectively. The remainder comes from other, older products, such as dBASE II.

Esber believes Ashton-Tate has pulled off a coup that eludes most software companies. "We're one of the few to have best-selling products in two major markets"—data-base management and integrated spreadsheets. Acquisition of Multimate's popular word-processing software would give Ashton-Tate a best-seller in a third major market.

"People underestimate the importance of having such solidly established products during a chaotic market period," says one financial analyst who follows the software market closely. "There's more momentum to the established products than people give credit to."

Though Esber takes no credit for Ashton-Tate's key products, which were in place before he took over, he has deftly exploited them by installing basic management practices for financial planning and cost controls. These practices were sorely lacking in the past, observers say.

NEW BLOOD. Within months of assuming the helm, Esber named key managers to direct other improvements necessary to a smooth-running business. But unlike Esber, a founder of VisiCorp, these executives seldom had much experience with software companies.

Nonetheless, they quickly began to have a major effect on Ashton-Tate. They streamlined manufacturing by farming out assembly work, beefed up customer service for quicker response to calls, and strengthened relationships with dealers, a critical growth factor. Esber also worked on improving internal communications; his success in this area has boosted company morale much higher than it had been during turbulent 1984, insiders point out.

"He's a solid manager, in control financially, concentrating on management and product expansion," says Carmelo J. Santoro, chief executive officer of Silicon Systems Inc., Tustin, Calif., and a director of Ashton-Tate. In Santoro's view, Ashton-Tate is well positioned for further growth.

Despite the company's notable gains, the future by no means promises unimpeded clear sailing, as Esber admits. The overriding problem is the challenge all microcomputer software outfits face: profitability. Most software companies have one mainstay product,

which pays off with profits bunched into a fairly short period, compared with hardware's longer market cycles.

Ashton-Tate's dBASE is a prime example, as is Lotus Development Corp.'s 1-2-3. But both companies succeeded in leveraging their software into new and improved products. By contrast, VisiCorp could not do the same with its once-runaway success, VisiCalc, which flamed out under intense competition from next-generation integrated software packages.

EARNINGS STREAMS. "We have to find out how to convert these earnings spurts to earnings streams," says Esber. Whether by acquisition or by internal product development, a software business has to keep expanding and upgrading its offerings or fall by the wayside, industry observers point out. "It amounts to remaking our business every 12 to 24 months," Esber explains.

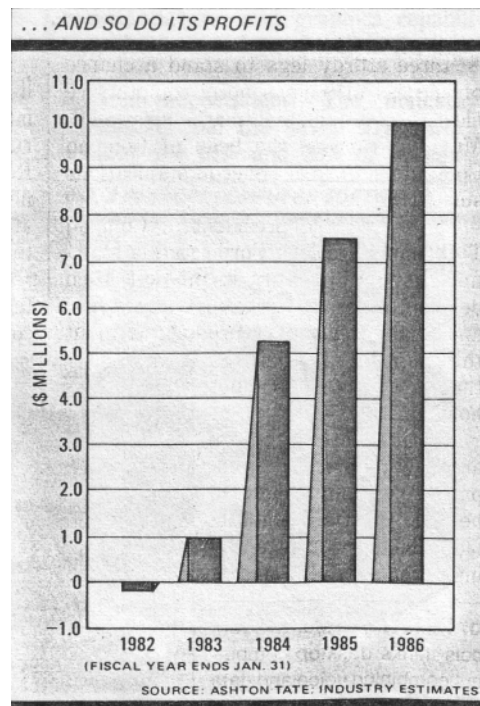
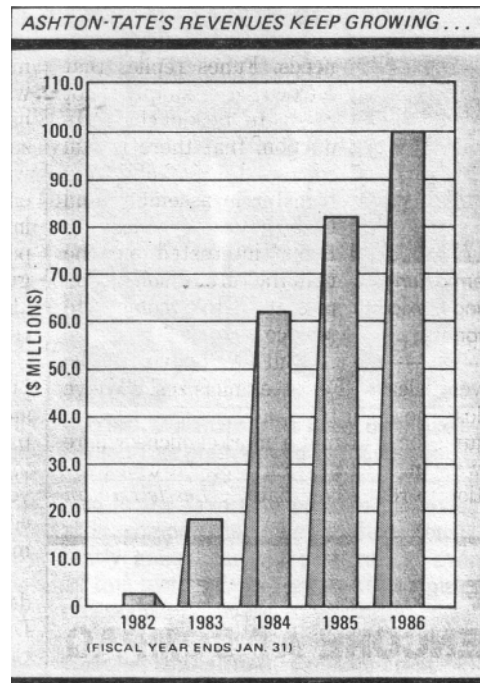
Director Santoro sees Esber's management of Ashton-Tate's future in similar terms. "He has to take dBASE and expand in a cohesive manner."

Santoro approved of Ashton-Tate's decision to acquire the remaining 85% of Forefront Corp., Sunnyvale, Calif., Framework's developer, in the first quarter. The move made sense, says Esber, because it expands the development strength available to improve Framework, and the two groups have proved they can work well together. Similarly, the move to buy Multimate will help Ashton-Tate expand its product line even further, Esber says.

The pricing of software products also remains an unsolved question that nags all participants. Despite dBASE III's recommended retail price of \$695, for example, most dealers discount this to about \$400. Because Ashton-Tate sells the product to dealers for \$350 (garnering the company a 10% profit margin), dealers still make money, but the level could erode further from dog-eat-dog retail competition.

For the software supplier to raise prices, it must give more service, which is expensive. One possibility is direct selling, which is expensive. But Esber thinks some company will "try it on a selective basis [to certain niches] soon.

As for new ideas for software products, the recession in the personal computer market has helped here, too. When times were better, innovators with promising products started their



own companies, often in the proverbial garage. "Now the `Big Four' get the first look" at new software products, says Esber, referring to his company as well as to Lotus, Software Publishing, and Microsoft. "The dreams of entrepreneurs have been altered," he says. "They don't want to be an Ashton-Tate or Lotus anymore, but [they want to] work for us."

For the future, Esber plans to keep concentrating on "management basics," and to plow more money into research and development to further evolve current products. The company's R&D budget reached a high in the first quarter at some 8% of sales, or \$2 million. However, revolutionary software, or truly easy-to-use programs, is still a way off. Even Esber admits that personal computer software "sometimes can be really hard to use."

—Larry Waller

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