

Macintosh Developer Road Show

- **Looking Forward:**
Apple Computer presents a brief outline of the future

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- Welcome
- Internet
- MacOS
- Component Software / CyberDog
- Tools
- Hardware
- MultiMedia

Q3/Q4 Results

- Sales stabilization during all quarters; product mix shifts to higher end, higher margin, with lowered operating expenses
- Revenues:
 - \$2.321 billion in Q4
 - \$2.179 billion in Q3
 - \$2.185 billion in Q2
- Operating expenses:
 - Q4 dropped \$14 million from Q3
 - Q3 dropped \$35 million compared to Q2
- Profit/Loss
 - \$25 million profit in Q4
 - \$32 million loss in Q3
 - \$740 million loss in Q2

Q3/Q4 Results

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- Improved balance sheet
 - Cash end of Q4 was over \$1.7 billion
 - Cash end of Q3 was \$1.359 billion
 - Cash end of Q2 was \$592 million
 - Inventories reduced by over \$400 million
- Improved PowerBook quality
 - Implementing programs to resolve these problems and we expect PowerBook shipments to increase during Q4 as a result.
- Solidified organization
 - Completed the staffing of its top-level management
 - Marco Landi as Chief Operating Officer
 - Ellen Hancock as Chief Technology Officer
- ☰ **Presentation Instructions and Overview**
 - - **This presentation offers an overview of Apple's successes, business strategy, and technology preview which will continue to propel Apple and the Mac OS well into the twenty-first century. Updates to this presentation will be offered in the late January or early February via ARPLE CD and internal Apple websites.**

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- ☐ **Presentation Instructions:**
 - > For on-screen presentation: Use a MacOS compatible system with 8MB RAM or more, and thousands of colors capable video display.
 - > For overhead printouts: "Print", slides, options: color/grayscale.
 - > For audience handouts: "Print", handouts, options: color/grayscale.
 - > For speaker notes: "Print", notes, options: color/grayscale.

You will need the following TrueType fonts to correctly display and print this presentation:

- > Apple Garamond TrueType
- > N Helvetica Narrow

(These fonts are found on any ARPLE CD-ROM, and are members of the Apple FontPak™)

- ☐ **Centers of Business Activity**
- ☐ **Focusing on Apple Strengths**
- ☐ **"For 60 million Macintosh users, this is not just a logo. It's a symbol of freedom."**
 - ☐ [A letter from Dr. Gil Amelio, Chairman and Chief Executive Officer of Apple Computer, Inc.](#)

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☐ Dear Apple friends:

There are 60 million Macintosh users worldwide.

Think about it. Our developers do. That's why there are more than 8,000 software titles for Macintosh listed in the Redgate Catalog.

One of the nice things about those 60 million users is that they are fanatically loyal—7 out of 8 Mac users who buy a new computer choose another Macintosh. Maybe that's why Computer Intelligence InfoCorp rated us #1 in customer loyalty for the second year in a row.

People like that inspire me. They are the reason I feel so confident about Apple's future. And current industry trends make me happy, too—especially the explosive growth of the Internet and the accelerating demand for multimedia computing capability.

Of the more than 35 million people on the Internet, a significant number are Macintosh users. And on the World Wide Web, Apple is everywhere, making things easier for everyone—not just Macintosh users—with cutting-edge technology. On a single day in July 1996, for instance, 11,706 Windows users downloaded Apple's 32-bit QuickTime software for Windows.

The multimedia story is even bigger: About 63 percent of all multimedia applications development is done on Macintosh (Dataquest, 1995), and 65 percent of video postproduction is done on the Macintosh platform (Film & Video, 1995). Of the 50 best-selling CD-ROM titles worldwide last year, 42 (or 84 percent) were developed on the Macintosh (Lightstone Thompson, 1995). An even stronger indicator may be the fact that 33 percent of all multimedia computers are Macintosh computers (SIMBA, 1995).

If you'd like to have an idea of what the future holds for us, just consider these facts: The interactive multimedia industry accounts for an increasingly large share of the U.S. gross domestic product, and the convergence of the multimedia, computing, and communications industry will create a market that is estimated to grow to \$1.47 trillion by the year 2005 (Don Tapscott, *The Digital Economy*, 1995). We believe Apple Computer is uniquely positioned to benefit from these megatrends.

It's true that the news hasn't all been good. We had some reverses, and the company performed below expectations. Our share of the worldwide computer market slipped, our overall gross margins narrowed, and—with the cost of writing off excess inventory—we suffered a loss that dismayed many observers.

As Apple's new chairman and chief executive officer, my job is to put all that behind us and lead the company back to profitability. We've made a good start. The comeback has begun. Read on to find out how we see the future unfolding at Apple Computer.

Sincerely,

Page #4 Gil Amelio
Chairman and Chief Executive Officer

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- Dr. Gil Amelio
 - Chairman and CEO
 - Apple Computer, Inc.

☰ **There are 60 Million Macintosh Users Worldwide**

- - Since 1984, there have basically been only three kinds of computers: Computers that are large and hard to use. Computers that are small and hard to use. And computers called Macintosh.

From the time it was introduced (in a Super Bowl TV commercial that's talked about to this day), the Macintosh—affectionately called the Mac—has been the envy of the computer industry. And for one simple reason: It has always been incredibly easy to use. Dubbed "the computer for the rest of us," the Mac won the loyalty of millions of users who'd never previously used a computer. What made the Macintosh so popular (apart from its superior industrial design and its uniquely integrated hardware and software) was that jewel of an operating system called the Mac OS.

The Mac OS—the software that makes a computer work like a Macintosh—represented the key difference between the Mac and other computers.

For years, our competitors tried frantically to make their own operating systems work more and more like the Mac OS. As an industry observer noted, "It would not be an exaggeration to describe the history of the computer industry for the past decade as a massive effort to keep up with Apple" (BYTE magazine, December 1994). While the other guys scrambled to catch up, we sat on our laurels and let some of our lead evaporate.

- Fanatically loyal following
- Eight-thousand software titles
- Macintosh rated #1 for customer loyalty, second year in a row *

☰ **Broadening our Strengths**

- - Apple Computer has since launched a furious offensive to undo that mistake.
 - Let's now take a closer look at these seven areas detailing how we intend to extend the and improve the Apple advantage:
- ↳ Extending and improving on the Apple Advantage
- Creating the Ultimate Computing Experience
- We've Made the Right Connections
- Capitalizing on the Internet and Multimedia

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- Strengthening Apple's Value Proposition
- Managing by the Numbers
- Supporting our Developers
- Focusing on the Customer

☰ **Creating the Ultimate Computing Experience**

- - Superior technology is the cornerstone of our strategy to transform Apple. We plan to ship our breakthrough technologies in regular upgrades of the Mac OS. That way, customers can start using these great new capabilities almost as soon as they are created, instead of having to wait a year or more for a new release.

These new technology enhancements are designed to extend the Mac OS advantage with the easiest-to-use human interface; the richest environment for graphics, the Internet, and multimedia; and extensive communication and collaboration capabilities. We envision a Mac OS which will work seamlessly with leading industry-standard network services, the Internet, and server platforms.

Besides continuing Apple's policy of ensuring interoperability with DOS- and Windows-based computers, the Mac OS will help make it clear beyond question that Macintosh will survive as a mainstream platform well into the future.

Upgrades to the operating system will aim to improve the performance of current Macintosh applications in terms of raw computing power, and will engender a new generation of multimedia and productivity applications. That's because the Mac OS is increasingly being optimized to take advantage of the power of PowerPC RISC processors, to incorporate advanced multitasking capabilities, and to integrate memory protection capabilities to improve the stability of the computing environment.

- Superior technology is the cornerstone of Apple's transformation strategy
- Regular system upgrades
- Extending the Macintosh Advantage:
 - easiest-to-use human interface
 - the richest environment for graphics, the Internet and multimedia,
 - extensive communication and collaboration capabilities

☰ **We've Made the Right Connections**

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- ☐ The convergence of the multimedia, computing, and communications industries is creating a \$1 trillion multimedia market—and Apple has taken a number of steps to get a fatter slice of the multimedia pie.

That's why we licensed the Java programming environment from Sun Microsystems. We plan to work toward making Java an integral part of the Mac OS and Newton. "This is an important step in Apple's plan to launch cutting-edge Internet products and services," said Larry Tesler, vice president of the AppleNet division of Apple. "Licensing Java from Sun will enable Apple to make this key Internet standard widely available in its products." Customers will benefit from the wide choice of platform-independent Java "applets"—Java programs that can be included in HTML pages, in much the same way that digital images can be included in electronic documents—available on the Internet.

Apple and Sun have also announced plans to build a bridge between Apple's Macintosh computers and Sun's Solaris enterprise servers, giving Internet and corporate intranet users the best of both worlds—the ease of use and multimedia capabilities of the Macintosh and the high-performance networking capabilities of Sun's enterprise servers.

Apple signed a QuickTime licensing agreement with Netscape to enhance the quality of multimedia, video-based images, and digital music on the World Wide Web. Under the terms of this agreement, Apple's QuickTime plug-in extends the capabilities of the latest version of Netscape Navigator.

We joined forces with Silicon Graphics, Inc. to accelerate the development of "digital studios" for feature film, animation, and broadcast video. Then Apple, Netscape, and Silicon Graphics agreed to develop a new binary file format based on Apple's 3-D Metafile (3DMF) format. 3DMF will enable higher compression, quicker file streaming, and faster parsing of 3-D objects and virtual worlds across the Internet.

And Apple joined IBM, Netscape, Oracle Corporation, and Sun to announce guidelines for making low-cost, easy-to-use network computing devices. Designed to make multimedia Internet computing as prevalent as telephone and television services, these guidelines will ensure that different devices from different manufacturers will be compatible with one another.

☐ Powerful Alliances

☐ Sun Microsystems, Inc.

- ☐ Java to become an integral part of the Mac OS and Newton

☐ Netscape, Inc.

- ☐ To enhance the quality of multimedia, video-based images, and digital music of Netscape Navigator

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- Silicon Graphics, Inc.
 - To accelerate the development of “digital studios” for feature film, animation, and broadcast video
- Apple, Netscape, Silicon Graphics
 - To develop a new file format based on Apple’s 3D metafile format
- Apple, IBM, Netscape, Oracle Corp., Sun
 - To announce guidelines for making low-cost, easy-to-use network computing devices

☰ Capitalizing on the Internet and Multimedia

- - ☑ As converging industries create new business opportunities, Apple plans to capitalize on its strengths in two of the fastest-growing areas: the Internet and multimedia computing.

Larry Tesler, vice president, AppleNet division, manages the company’s initiatives in cyberspace. A respected scientist, industry pioneer, and noted author, he sums up Apple’s Internet strategy simply: “We’re going to make the Internet as easy to use as the Macintosh.”

According to Tesler, “We’re using the Internet to run our own business. This helps identify customer needs, cuts deployment times and costs, and improves communication with customers, developers, and employees.” Already, most of Apple’s computers are shipped Internet-ready. Soon, we anticipate that computers we ship will have adequate system memory, the right network connections, and the appropriate combination of Internet access software to deliver a complete Internet experience to our customers.

We’re also targeting growth opportunities in countries with low-PC-per-capita penetration but above-average growth rates—giant regional markets with a combined population of more than 2 billion. According to International Data Corporation, by the year 2000 about 22 percent of all Internet-access devices (roughly 22 million units) will be machines that are not personal computers. “Information appliances”—that is, devices that are as easy to use as a TV, and that can instantly connect novices to the Internet—are expected to do very well in these emerging regional markets.

As part of this effort, we’ve forged strategic alliances with members of China’s hardware and software industries in partnership with Motorola, Inc. As a result of one such alliance, Nanjing Power Computing Ltd. is scheduled to start production of Mac OS-compatible PowerPC processor-based desktop systems in late 1996.
- Most of Apple’s computer are shipped Internet-ready

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- Every computer will have adequate RAM, network connections, and Internet software by 1997
- Targeting growth opportunities in emerging regional markets
- Proliferation of Information appliances for Internet access
- Strong international strategic alliances

☰ **Strengthening Apple's Value Proposition**

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- ▣ Our plan is to restore the luster of the Apple brand and strengthen Apple's value proposition by designing and manufacturing products that deliver distinctively superior user value. We plan to strengthen the attributes our customers value most—Internet connectivity, graphics capabilities, a wide choice of applications, and outstanding industrial design—and combine them in products that offer a delightful user experience.

We are working to build these attributes into everything we design and manufacture—at every level, from the ground up—and they'll be present in the smallest details. The idea is to heighten the desirability of Apple-branded products—in short, to make them hard to resist. Whether it's the greatly enhanced graphics capability or the subtly improved human interface, we believe you'll notice the difference.

The value proposition for the Apple Macintosh was pretty much that way in the beginning. There used to be that big a difference in perception between Apple and other brands of computer, and—as even our competitors would concede—it was a perception based on reality. That's why the concept of distinctively superior user value is such a key part of our transformation strategy. Apple plans to offer a personal computing experience that will turn first-time buyers into lifetime customers. And that, in a sense, is what Apple's new value proposition is all about—the clear difference we're working to build back into our products.

That difference is being noticed. For instance, corporate customers—also referred to as enterprise customers—continue to buy to Macintosh computers. Recent orders have come in from Motorola, Hughes, Amgen, McDonnell-Douglas, Philip Morris, Cisco Systems, DuPont, Northwest Airlines, Siemens, Xerox, and HBO. Apple has won so many awards for industrial design that our walls are begging for mercy. That's too bad—for the walls, we mean. Because by the look of things, more honors are on the way. We're not in the business of predicting the future—we're in the business of making it happen. And the future of industrial design is taking shape right now at Apple Computer.

- ▣ Offering products that deliver distinctively superior user value
- ▣ Strengthen the attributes our customers value most for a delightful user experience:
 - ▣ Scalable user interfaces
 - ▣ Internet connectivity
 - ▣ Graphic capabilities
 - ▣ Application choices
 - ▣ Industrial design

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☰ **Managing by the Numbers**

- - ☒ Apple is focused on reducing costs through tighter manufacturing practices (especially in the areas of forecasting and inventory management) and smarter use of our assets. As Fred Anderson, Apple's new chief financial officer, explains, "Our immediate goal is to lower the company's break-even point and return Apple to profitability. We will make optimal use of outsourcing, improve our gross margins, and reduce operating expenses."

Anderson recently negotiated the successful completion of a \$661.25 million private placement of convertible subordinated debentures (due June 1, 2001), bringing Apple's cash balance to approximately \$1.3 billion. This will provide us with the liquidity to begin executing our strategic plans.

As Anderson sees it, "We took decisive action to align the balance sheet with current conditions and to establish the reserves we need for restructuring. We are implementing the turnaround strategy with the same decisiveness."

Apple's pragmatic new approach extends to products and markets as well, and decisions about products, markets, and sales channels will be based on differentiation and profitability within Apple's core markets, rather than on overall market share. We intend to aggressively promote our best-sellers, drop unprofitable models, and reduce the number of configurations. The idea is to offer clearer choices and eliminate customer confusion, making Apple products as easy to choose as they are to use.

- ☒ Reducing costs through tighter manufacturing practices and asset utilization
- ☒ Aggressively promote our best-sellers
- ☒ Drop unprofitable models
- ☒ Simplify product lines and selection

☰ **Supporting our Developers**

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- ▣ Aggressive licensing of the Mac OS to third-party manufacturers is a big part of our comeback strategy. We have licensed the Mac OS to several companies, including International Business Machines Corporation (IBM) and Motorola, Inc. Most of our licensees already have Mac OS-compatible systems on the market. The agreements also allow IBM and Motorola to sublicense the Mac OS to any manufacturer building machines with PowerPC microprocessors. As a result, IBM and Motorola—and their sublicensees—will be able to sell the Mac OS with a number of different hardware systems, based on the current Power Macintosh architecture or on the new PowerPC Platform specification.

While these third-party manufacturers are expected to convert many new users to the platform, we're taking steps to make sure these new users will have thousands of software titles to choose from. Under the leadership of Heidi Roizen, Apple's vice president for developer relations, we've redoubled our efforts to support our software developers—the people who write the applications that run on our computers.

Third-party developers are critical to our success. We intend to encourage developers to make sure that their products for the Mac OS come out first, or at least at the same time as their counterparts for Windows—and to provide the quality and functionality of the Mac OS version that is equal (or superior) to the Windows version. Apple people will be deployed with developers to help in this process. An Apple software evangelist sums it up best: "From now on we won't just support our developers, we'll nurture them."

- ▣ Giving third-party manufacturers a license to thrill
- ▣ Aggressive licensing of the Mac OS to IBM and Motorola
- ▣ Users will have thousands of software titles to choose from
- ▣ Making sure that new third-party products emerge first on the Mac OS

▣ **Focusing on the Customer**

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- ☐ Apple will focus on customers who appreciate our value advantage. We plan to develop products that provide a delightful user experience for the millions of people who create, communicate, and learn (including publishers, digital media artists and producers, and scientific and technical workers) in homes, schools, and businesses. And we will work to develop these products in a manner that represents a significant departure for Apple. As a senior engineer explains, "We've learned to stop throwing technology out there, hoping that it finds a problem. From now on, we'll identify customer problems and then develop the technology to solve them."
- ☐ Apple will develop products that provide a delightful user experience for the millions of people who create, communicate, and learn in homes, schools, and businesses.
- ☐ **The power to be your best**