John Gantz

KAYPRO HUNKERS DOWN

"IBM has created an air of fear and confusion in the personal computer industry," says David Kay, the marketing vice president and 5 percent owner of Kaypro, as well as the son of the founder of the firm. Lagging sales of IBM's PCjr and recent price cuts have triggered what is turning into a full-scale shakeout.

"It doesn't have to be," says Kay. He has reason to be frustrated.

Until the late 1970s, Kaypro, aka Non-Linear Systems, made digital voltmeters and pint-size oscilloscopes, and David Kay was an independent contractor. But then founder Andrew Kay aimed the little company at the budding market for personal computers and began it on a journey from which it can never return. He called his sons, David and Allen, into the business; he got his wife, Mary, and father, Frank, to help out, too.

In August 1983, he took the company public and completed the transformation of the firm from a small, family-run corporation to something that must answer to outside stockholders, the Securities and Exchange Commission, and a board of directors.

During the first four fiscal years of Non-Linear's metamorphosis into Kaypro, the company brought in little more than $16 million in sales and chalked up $717,000 in losses. It was a middling performance by a company that few had ever heard of.

Then, concurrent with the fiscal year that began in August 1982, Non-Linear began shipping Kaypro II computers. Forty-two thousand units went out the door that year, bringing the company's fiscal 1983 revenues to $75 million from $5 million. Earnings grazed $13 million. When the company went public, David Kay's holdings had a paper value of $17 million. Altogether, the Kay clan, including Andrew and Mary, two sons, a brother, a father, and two daughters, were worth $270 million in Kaypro stock.

Alas, with the books about to close on Kaypro's fiscal 1984, the Kay family fortune dwindled to about a quarter of its peak value. And although revenues will surely pass $125 million, profits will be hard-pressed to beat fiscal 1983's $13 million.

According to InfoCorp, a market research firm, Kaypro will be lodged exactly in the middle of the top 10 makers of transportable computers — but way behind the first four, Compaq, IBM, ACT, and Hewlett-Packard, in terms of sales.

Therein lies Kaypro's best chance for survival.

For, although the company competes with IBM, as do all in the market, it does not do so head-on. By eschewing the MS-DOS world for CP/M, Kaypro is deliberately aiming at a different kind of computer buyer — the economy-minded type who doesn't need IBM compatibility and who is appreciative of all the extras Kaypro bundles in with its computers. The company can also point out that its comparable products are not hundreds but thousands of dollars cheaper than Big Blue's.

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"The market has reached the first phase of saturation," says David Kay, "and we are seeing a new wave of buyers. They're looking for business solutions, not simply computer power. Since 99 percent of buyers use a personal computer to perform just one task, we think that by bundling in thousands of dollars worth of software into our standard products, we're in a unique position to provide those solutions."

Kaypro does bundle. With its new hard-disk Kaypro 12X, for instance, the company offers a rich assortment of word processing, database, and spreadsheet programs along with the basic hardware. Bundled price: $3,295. As its recently announced Business Pak, the company provides a Kaypro 2X computer; printer and cables; word processing, database, and spreadsheet programs; and a typewriter emulation package called Type-It for $1,895.

For the long term, Kaypro seems to be positioning itself as a provider of low-cost business solutions for penny-conscious individuals and small businesses. In offering bundled software, hardware, and peripherals, the company mimics small business-computer companies, like Basic Four and Qantel, of the minicomputer era. It is a strategy that may keep Kaypro forever out of the most glamorous tier of personal computer suppliers — IBM, Apple, Compaq, Tandy — but that will also keep it out of huge pools of red ink. As long as Kaypro doesn't bank too much on promised MS-DOS and high-tech lap-size models, it has a fair shot at long-term success. It is, after all, a 30-year-old company.

For the short term, it looks as though Kaypro will simply hunker down and wait out the panic. Kaypro's revenues for the third quarter came in at $32.5 million, down $3 million from the quarter before, while profits were down $800,000, to $3.2 million.

In an era when Apple Computer may spend more on advertising a single product than Kaypro makes in a year, or when Lotus Development can make more money off a single software package than Kaypro does on all its products, the ability to hunker down during tough times may be an asset in itself.

Kaypro's lack of glamour may be useful camouflage. Its stock, selling for below $3 a share, sports a price/earnings ratio of about 4 and a book value over $1.25 a share. For a company that's bringing in $100 million a year, maintaining an after tax margin of 10 percent, logging a ratio of current assets to liabilities of 3-to-1, and rolling out new products even as other companies go under, those are pretty attractive numbers.

When the ghost busters come and lay this period of fear and confusion to rest, Kaypro could be sitting pretty. □

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