

Electronic Data Profit Surges 15-Fold on Sales Gain (Update3)
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(Adds job cuts in 10th paragraph, Navy contract in 15th.)

By Ron Day

Nov. 1 (Bloomberg) -- Electronic Data Systems Corp., the world's second-largest seller of computer services, said third-quarter profit surged 15-fold to \$125 million after contract wins sparked the biggest sales gain in almost five years.

Net income rose to 24 cents a share, from \$8 million, or 2 cents, a year earlier, Plano, Texas-based Electronic Data said today in a statement. Sales in the period ended Sept. 30 rose 8.6 percent to \$5.29 billion.

Electronic Data combined sales gains from multibillion dollar orders from Kraft Foods Inc. and General Motors Corp. with job cuts to boost profit. New signings have rebounded on sales of cheaper, one-size-fits-all contracts, and more revenue is coming in from orders past the initial, start-up phase.

``They clearly are back in the market, winning business and taking back share," said Stifel Nicolaus & Co. analyst George Price, who rates Electronic Data ``buy" and said he doesn't own the shares. ``It's a company that's in the process of making good progress on its turnaround."

Shares of Electronic Data rose 32 cents to \$25.65 at 4 p.m. in New York Stock Exchange composite trading. They have gained 6.7 percent this year.

Profit beat Merrill Lynch & Co. analyst Gregory Smith's estimate of 20 cents, though sales missed his \$5.36 billion projection.

The company, founded in 1962 by H. Ross Perot, expects this quarter to earn 33 cents to 38 cents a share excluding some expenses on \$5.5 billion to \$5.7 billion in sales. Smith estimated profit of 39 cents and sales of \$5.53 billion.

Outlook

Fourteen analysts anticipate fourth-quarter earnings on average of 38 cents a share, based on a Thomson Financial survey.

The average sales estimate by 11 analysts is for \$5.53 billion.

Thomson doesn't disclose what is included in the estimates.

Profit this year will be as much as 88 cents a share on sales of as much as \$21.3 billion, EDS said. The forecast excludes discontinued operations and certain reversals in restructuring expenses. Third-quarter results were trimmed by 24 cents because of investments in new businesses, job cuts and measures to boost efficiency.

The company cut 2,000 jobs in the third quarter, and is planning to reduce the workforce by 5,000 this year, Chief Executive Officer Michael Jordan said on a conference call with analysts after the earnings release. Electronic Data employs about 120,000.

India Plans

Jordan moved work to India to tap demand for low-cost computer services, and compete with faster-growing Accenture Ltd. and larger rival International Business Machines Corp. Electronic Data bought most of Mphasis BFL Ltd. this year to add 11,000 workers in India and plans to employ 20,000 there by the end of the year.

Electronic Data's sales growth is a reversal after three years of declines, and has been sparked by new products including managing human resources and finance departments. It's also adding software that automates work and eliminates jobs.

Jordan, 70, who joined Electronic Data in March 2003, expects to lift the company's operating margin, which was 3 percent in the second quarter, to 7 percent in 2007, excluding stock-based compensation expenses. Operating margin is profit before interest and taxes as a percentage of sales.

Kraft Foods Contract

The company in the second quarter won a \$1.7 billion order to manage Kraft Foods Inc.'s software, hardware and phone systems and a \$700 million extension of a Bank of America Corp. contract.

It also won a \$3.8 billion renewal of an order from General Motors Corp., its largest customer and former parent.

A multiyear U.S. Navy contract signed in 2000 to build a data network helped bolster revenue in the third quarter, Chief Financial Officer Ron Vargo said on the call. The company won a \$3 billion extension to the contract in March.

Electronic Data handles about 3.2 percent of the world's computer-services work, less than the 7.6 percent done by IBM, IDC analyst Alex Motsenigos said in February.

The company today said it signed \$3.5 billion in new contracts, less than Smith's \$4.5 billion estimate. In August, it said it expects as much as \$25 billion in new orders this year, which would be the best performance since 2002's \$24.4 billion.

(Company officials will discuss the results at 5 p.m. New York time at <http://www.eds.com/investor>.)