Sierra On-Line

NASDAQ Symbol SIER (Incl. in Nat'l Market; marginable)

Price	Range	P-E Ratio	Dividend	Yield	S&P Ranking	Beta
Apr. 7'89	1988-9					
11⅝	13⅜-8¾	12	None	None	NR	NA

Summary

Sierra is a publisher of premium-priced interactive animated adventures, simulations and other microcomputer entertainment software products, designed primarily for IBM PCs, IBM PC-compatibles and Apple computers. Revenues and earnings grew significantly in recent years, reflecting the introduction of successful new products. During October 1988, in its initial public stock offering, the company sold 1,610,000 common shares (980,000 new financing) at $9 per share.

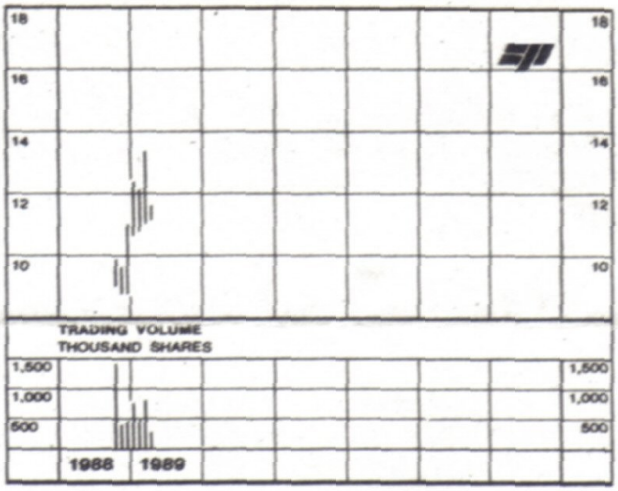
Business Summary

Sierra On-Line, Inc. develops and publishes premium-priced interactive animated adventures, simulations and other microcomputer entertainment software products. The products feature high-quality graphics, music and sound effects and are designed primarily for IBM PCs, IBM PC-compatibles and Apple computers. Gross sales by product title (and introduction date) in recent fiscal years were:

	1987-8	1986-7
HomeWord (10/83)	4.5%	8.5%
King's Quest (5/84)	6.3%	8.7%
King's Quest II (4/85)	4.8%	14.3%
The Black Cauldron (10/85)	5.5%	8.6%
Smart Money: Financial Manager (8/86)	1.7%	4.0%
Space Quest (9/86)	9.9%	10.9%
King's Quest III (11/86)	11.7%	14.1%
Leisure Suit Larry (6/87)	10.0%	---
3-D Helicopter Simulator (8/87)	7.8%	---
Thexder (8/87)	12.2%	---
Space Quest II (11/87)	4.5%	---
Police Quest (11/87)	6.5%	---
Mixed-Up Mother Goose (11/87)	1.0%	---
Other	13.6%	30.9%

Of 1987-8 revenues, Tandy Corp. and Egghead Discount Software accounted for 23.4% and 11.0%, respectively.

Sierra, whose business was founded in 1979, experienced losses beginning in 1983-4 as it shifted to publication of cartridge games and, later, business software, and expanded into mass merchandise distribution channels. Corrective actions, including termination of game cartridge and business software distribution, helped the company return to profitability in 1986-7. Significant subsequent



growth stemmed from the introduction of successful new products, among which are sequels, plus versions of previously released software adapted for different computers.

Principal current products have suggested retail prices of $29.95 to $79.95. Sales are made to large computer and software specialty chains, through independent distributors to smaller retailers and, to a limited extent, by means of direct consumer order. Generally, rights are acquired to products created by independent developers, some of whom also are Sierra employees, under license or assignment agreements requiring royalty payments ranging from 5% to 14% of net receipts. R&D expenditures have been increasing consistent with management's policy to increase in-house product development and to reduce future royalty liability.

Next earnings report expected in May.

Per Share Data ($)

Yr. End Mar. 31	1988	1987	1986	1985	1984
Book Value	1.49	0.28	0.05	0.47	0.95
Earnings[1]	0.53	0.10	d0.34	d0.48	d0.31
Dividends	Nil	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil	Nil
Calendar Years	**1987**	**1986**	**1985**	**1984**	**1983**
Prices—High	NA	NA	NA	NA	NA
Low	NA	NA	NA	NA	NA
P/E Ratio—	NA	NA	NM	NM	NM

Data as orig. reptd. 1. Bef. spec. items of +0.42 in 1988, +0.08 in 1987. NA-Not Available. d-Deficit. NM-Not Meaningful.

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Sierra On-Line, Inc.

Income Data (Million $)

Year Ended Mar. 31	Oper. Revs.	Oper. Inc.	% Oper. Inc. of Revs.	Cap. Exp.	Depr.	Int. Exp.	Net Bef. Taxes	Eff. Tax Rate	¹Net Inc.	% Net Inc. of Revs.
1988	**11.9**	**3.68**	**30.9**	**0.81**	**0.23**	**0.06**	**2.95**	**52.1%**	**1.41**	**11.8**
1987	6.8	0.71	10.4	0.10	0.21	0.11	0.53	47.5%	0.28	4.1
1986	4.4	d0.79	NM	0.07	0.25	0.10	d0.89	Nil	d0.89	NM
1985	5.3	NA	NA	NA	NA	NA	d1.17	Nil	d1.17	NM
1984	5.8	NA	NA	NA	NA	NA	d0.73	NM	d0.67	NM

Balance Sheet Data (Million $)

Mar. 31	Cash	Curr. Assets	Curr. Liab.	Ratio	Total Assets	Ret. On Assets	Long Term Debt	Common Equity	Total Cap.	% LT Debt of Cap.	Ret. On Equity
1988	**2.82**	**5.13**	**2.42**	**2.1**	**6.14**	**29.7%**	**0.61**	**3.12**	**3.72**	**16.3**	**76.6%**
1987	1.49	3.03	2.77	1.1	3.38	9.7%	0.03	0.58	0.61	5.4	15.0%
1986	NA	NA	NA	NA	2.32	NM	0.08	0.10	0.18	44.8	NM
1985	NA	NA	NA	NA	3.07	NM	0.22	0.99	1.21	18.5	NM
1984	NA	NA	NA	NA	5.21	NM	0.38	1.98	2.36	16.2	NM

Data as orig. reptd. 1. Bef. spec. items. d-Deficit. NM-Not Meaningful. NA-Not Available.

Total Revenues (Million $)

Quarter:	1988-9	1987-8	1986-7
Jun.	3.14	1.57	0.98
Sep.	5.58	2.96	1.41
Dec.	8.19	4.84	2.73
Mar.		3.00	1.82
		12.37	6.94

Common Share Earnings ($)

Quarter:	1988-9	1987-8	1986-7
Jun.	0.16	0.04	d0.02
Sep.	0.30	0.18	0.01
Dec.	0.42	0.25	0.08
Mar.		0.06	0.03
		0.53	0.10

Total revenues for the nine months to December 31, 1988, climbed 80%, year to year. The company reported that 90% of the revenue increase was attributable to five recently introduced titles: Manhunter, King's Quest IV, Leisure Suit Larry II, Police Quest II and Goldrush! Total costs and expenses rose 77% (despite a 165% increase in research and development outlays, which were boosted in a strategy to increase the number of internally developed products). Pretax income was ahead 88%. Taxes were at a lower effective rate (45.0% versus 52.1%), and income before extraordinary credits advanced 2.2-fold, to $2,711,900 ($0.91 a share), from $1,255,300 ($0.47). The extraordinary credits, from tax-loss carryforwards, totaled $895,400 ($0.30) and $988,000 ($0.37), respectively. Share earnings are based on 2,974,567 common and equivalent shares for the 1988-9 period and 2,670,909 a year earlier.

Historically, Sierra has recorded its highest revenues and earnings in the months immediately preceding the year-end holiday season, which correspond with its third fiscal quarter. Although the company attempts to monitor and control the volume of sales to customers, large shipments in anticipation of the holiday season could lead to customer overstocking and higher-than-normal returns in subsequent months.

Dividend Data

No cash dividends have been paid.

Finances

During October 1988, in its initial public stock offering, Sierra On-Line sold 1,610,000 common shares, at $9 per share, through underwriters led by Piper, Jaffray & Hopwood Inc. and Oppenheimer & Co., Inc. Of the shares, 980,000 were sold for Sierra's account and 630,000 for stockholders. Net proceeds to the company approximated $7,719,600, and $364,000 was received from the exercise of certain warrants.

Principal purposes of the initial public offering included increasing Sierra's working capital and equity base, facilitating future access to public capital markets and allowing future acquisitions involving publicly traded shares. Management expected that the offering proceeds, plus funds from operations, would be sufficient to meet the company's capital requirements until at least March 31, 1990. Also available to Sierra was an unused $1,500,000 line of credit.

Capitalization

Long Term Debt: $21,300 of lease obligs. (6/88).

Common Stock: 3,424,275 shs. ($0.01 par). Officers & directors beneficially own about 25%, incl. 23% held by Kenneth A. Williams & his wife, Roberta L. Williams.

Options: To purchase 252,000 shs. at $0.54 to $9 ea. (9/88).

d-Deficit.

Office—40033 Sierra Way, Oakhurst, Calif. 93644. **Tel**—(209) 683-4468. **Chrmn, Pres, CEO & Secy**—K. A. Williams. **CFO & Contr**—E. A. Heinbockel. **Dirs**—D. C. Hodgson, J. C. Morby, K. A. Williams, R. L. Williams. **Transfer Agent & Registrar**—First Interstate Bank of California, San Francisco. **Incorporated** in Delaware in 1987. **Empl**—155.

Information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. J. Lang