

**The Computer and Peripherals Industry's growth has slowed, reflecting soft economic activity.**

**New products could help. So might the release of Microsoft's new operating system this fall.**

**The industry's earnings prospects over the rest of 2012 and in 2013 are mixed.**

**But a number of stocks in the group have attractive comeback potential to 2015-2017.**

### A Less-Than-Ideal Operating Climate

Economic activity in the developed world remains soft, and the previously heady growth rates in some developing nations, notably China, have moderated recently. The slower momentum, concerns regarding the looming "fiscal cliff" (automatic spending cuts in the United States in January), and uncertainty as to the outcome of the November elections have caused many companies and consumers to trim their technology spending plans.

### Necessary Or Discretionary?

Although a certain amount of information technology spending no doubt is essential for individuals and companies to function in today's increasingly interconnected world, some outlays are discretionary and can be postponed. Several companies reviewed here reported that their sales of computers to commercial customers fell in the first half, and we don't look for much near-term improvement. Meantime, budget pressures have hurt tech spending by public-sector entities.

On the other hand, consumers, even many financially strapped ones, tend to chase after the latest must-have electronic devices, so product cycles probably have a greater impact on their technology spending. In fact, in the first half of 2012, consumers appeared to have held off buying personal computers in anticipation of the rollouts of new products this fall. Although high unemployment in the United States no doubt will hurt somewhat, the industry might see some pickup in sales of computers and electronic devices to consumers in the December quarter (particularly in the holiday season) that might extend into 2013.

### Software Pulls Hardware Purchases

Microsoft's release of its new *Windows 8* operating system probably will prompt many computer users to update their computer hardware at the same time. This is especially true for consumers, who will likely continue to shift from laptops to tablet computers, and who will

## INDUSTRY TIMELINESS: 89 (of 98)

have a lot of new tablets and ultrathin laptop offerings to choose from this fall.

Many companies, however, are still transitioning to the *Windows 7* operating system. Sales of computer hardware to commercial users may not get much of a boost from *Windows 8* for a few more quarters.

### Pricing And Currency

With demand soft, price competition in segments of the industry has heated up, especially in emerging markets in which a lot of entry-level products are sold. Computer makers with a lot of business in the developing world could experience some pressure on their margins should the situation continue.

Too, unfavorable currency shifts hurt the sales of some U.S.-based companies that do business overseas, like *IBM*, in the June quarter, and may limit reported top-line growth in the September interim, as well.

### Hard Disk Drive Availability

The good news is that the shortages of hard disk drives that developed a year ago, following the severe flooding in Thailand, have been largely resolved. Disk drive prices, which rose last year, appear likely to moderate over the next several quarters.

### Computer Industry Earnings

The industry appears to have split into two groups. Companies like *Apple*, *EMC*, and *IBM* seem set to report record earnings in 2012 on margin improvement and, in the case of *Apple* and *EMC*, strong sales growth.

On the other hand, *Dell* and *Hewlett-Packard* appear to have lost their way in the past few years. It may take a while for them to regain their footing. Others hurt by the weak economic climate should do better when economic activity eventually strengthens.

### Conclusion

Since our July review, the Computer and Peripherals Industry's Timeliness rank has fallen to near the bottom of our universe of 98 industry groups. Nonetheless, a number of the stocks in the group have good recovery potential to mid-decade, especially for venturesome investors.

Theresa Brophy

Composite Statistics: COMPUTER & PERIPHERALS INDUSTRY							
2008	2009	2010	2011	2012	2013		15-17
431901	404219	473945	534238	<b>575000</b>	<b>620000</b>	Sales (\$mill)	800000
13.0%	14.6%	16.9%	18.3%	17.0%	17.0%	Operating Margin	18.0%
13661	15085	15265	16610	17000	18000	Depreciation (\$mill)	23000
31817	31289	48026	58806	59000	64000	Net Profit (\$mill)	81000
24.8%	24.2%	22.6%	23.3%	24.0%	24.0%	Income Tax Rate	24.0%
7.4%	7.7%	10.1%	11.0%	10.3%	10.3%	Net Profit Margin	10.1%
49365	65120	62887	55831	55000	59000	Working Cap'l (\$mill)	80000
44063	49504	49356	58388	56000	55000	Long-Term Debt (\$mill)	65000
110359	132404	163943	193757	250000	315000	Shr. Equity (\$mill)	525000
21.2%	17.9%	23.0%	23.7%	19.5%	17.5%	Return on Total Cap'l	13.5%
28.8%	23.6%	29.3%	30.4%	23.5%	20.5%	Return on Shr. Equity	15.5%
25.6%	20.8%	26.9%	28.1%	21.0%	18.5%	Retained to Com Eq	13.0%
11%	12%	8%	7%	10%	10%	All Div'ds to Net Prof	12%
16.1	13.7	12.6	12.4			Avg Ann'l P/E Ratio	17.0
.97	.91	.80	.78			Relative P/E Ratio	1.15
.7%	.9%	.7%	.6%			Avg Ann'l Div'd Yield	1.0%

*Bold figures are Value Line estimates*

