

The Computer And Peripherals Industry faces tough market conditions in the year ahead.

New products could give the group's sales a much-needed shot in the arm, however.

Last year's disk drive shortages are easing. But year-ahead earnings prospects are mixed.

Only a handful of computer companies pay dividends. But a number of stocks in the industry have good 3- to 5-year recovery potential.

Signs Of A Slowdown

Worldwide information technology spending in 2012 is forecasted to increase at about half of the 2011 pace. Some computer makers, like information storage system provider *EMC*, still expect demand for their products (aided by the shift to cloud computing) to expand at a faster clip than the computer market as a whole. Nonetheless, a number of the companies in the industry have been waving the caution flag recently.

Rival storage system company *NetApp* recently cited global economic uncertainty as the reason for its more conservative near-term revenue outlook, and others in the industry have expressed similar concerns. The industry participants have varying degrees of exposure to Europe, which is experiencing considerable financial and political turmoil. In the United States, the worry is that still-high unemployment will limit spending for consumer devices and that budgetary problems will hurt technology spending by public-sector entities and the defense sector. In sum, the near-term operating backdrop for the industry doesn't seem encouraging.

New Products Could Help

New products could give the industry's sales a much-needed boost in late 2012 or early 2013. A new family of integrated systems is expected to lift *IBM's* sales in the second half, and other server and information storage system makers are updating their lines.

In addition, many makers of consumer computing devices expect to bring out new offerings sometime this fall incorporating software giant *Microsoft's* new *Windows 8* operating system. *Windows 8* is designed for touch screen navigation, as that used in tablet computers and many laptops, as well as for personal computers that use a mouse. Many consumer computer hardware companies are coming out with tablet computers this fall using *Windows 8*.

Anecdotal evidence suggests that many consumers have, in fact, delayed purchasing new computers in anticipation of *Windows 8* and the flood of new tablets.

INDUSTRY TIMELINESS: 70 (of 98)

Consumer demand probably will strengthen but competition in the consumer hardware space is sure to intensify, so all tablet makers may not do well.

Hard Disk Drive Supplies Improving

Supplies of this component of computer hardware were hurt in the latter half of 2011 by flooding in Thailand. But there were signs in the March quarter that last year's shortages were beginning to ease. Moreover, many in the industry have been able to offset higher disk drive costs with price increases. Disk drive availability is likely to improve over the rest of 2012, and should not be a problem by 2013.

Earnings Prospects Mixed

Year-ahead prospects for companies in the computer industry vary, with some likely to report higher earnings and a few that started off the year on a weak note likely to fall short of their 2011 performance in 2012. Two of the biggest players in the group, *Dell* and *Hewlett-Packard*, are struggling to regain lost ground, while *Apple* probably will remain on a roll. Others, like *EMC* and *IBM*, should continue to benefit as companies increasingly adopt cloud computing.

Only The Largest Pay Dividends

At the time of our April report, only four of the largest companies in the Computer group paid cash dividends to shareholders (*Apple*, *Hewlett-Packard*, *IBM*, and *Seagate Technology*). *Dell* recently indicated that it plans to join this select group with an \$0.08-a-share quarterly dividend starting in its October period.

Computer makers, like other companies in the technology sector, have traditionally favored using available funds to support acquisitions or other investments that lead to new products or add technological expertise, or to buy back stock, rather than pay dividends to shareholders. We don't expect most of the industry to follow *Dell's* lead because staying ahead of technological developments is so important for this group.

Conclusion

The Computer And Peripherals Industry's Timeliness rank now resides in the lower half of the *Value Line* universe of nearly 100 industries, down sharply from its standing of 29th place at the time of our April report. Only a few of the stocks in the group are timely. However, a number of them have interesting recovery potential to our 2015-2017 time frame and, thus, may be of interest to patient investors.

Theresa Brophy

Composite Statistics: COMPUTER & PERIPHERALS INDUSTRY

2008	2009	2010	2011	2012	2013		15-17
431901	404219	473945	531923	575000	620000	Sales (\$mill)	800000
13.0%	14.6%	16.9%	18.3%	17.0%	17.0%	Operating Margin	18.0%
13661	15085	15265	16538	17000	18000	Depreciation (\$mill)	23000
31817	31289	48026	58735	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	55254	55000	59000	Working Cap'l (\$mill)	80000
44063	49504	49356	58388	56000	55000	Long-Term Debt (\$mill)	65000
110359	132404	163943	192607	250000	315000	Shr. Equity (\$mill)	525000
21.2%	17.9%	23.0%	23.8%	19.5%	17.5%	Return on Total Cap'l	13.5%
28.8%	23.6%	29.3%	30.5%	23.5%	20.5%	Return on Shr. Equity	15.5%
25.6%	20.8%	26.9%	28.3%	21.0%	18.5%	Retained to Com Eq	13.0%
11%	12%	8%	8%	10%	10%	All Div'ds to Net Prof	12%
16.1	13.7	12.6	12.3			Avg Ann'l P/E Ratio	17.0
.97	.91	.80	.77			Relative P/E Ratio	1.15
.7%	.9%	.7%	.6%			Avg Ann'l Div'd Yield	1.0%

Bold figures are Value Line estimates

