

**The Computer And Peripherals Industry's growth has slowed. Makers of computer equipment for both consumers and businesses have been hurt by the cautious spending environment and heightened competition.**

**A number of companies in this industry are likely to report lower sales and earnings for 2012, and some probably limped into 2013.**

**It's unclear to what extent Microsoft's new *Windows 8* operating system, rolled out in late October, will help lift computer sales.**

**A number of stocks in this industry have interesting recovery potential to mid-decade, but the group is not for momentum-oriented accounts (i.e. Timeliness ranks of 1 or 2) or for income.**

**The Consumer Computer Market**

Although *iPad* maker *Apple* still seems to be outperforming its competitors by a mile, many consumer-oriented computer and peripheral device companies are having a harder time sustaining sales growth.

The holiday season may not have been a very merry one for some personal computer (PC) companies. Despite the allure of tablet computers, high unemployment still seems to be contributing to a cautious consumer spending climate, with some consumers probably postponing or foregoing computer purchases viewed as discretionary.

Moreover, competition in the PC market from ever-popular *Apple* devices, Microsoft's new *Surface* computer, and a host of other new offerings has intensified. Too, tablet computers have been stealing sales from traditional desktop and notebook computers.

As a result, PC prices are under pressure. To offset the margin squeeze, consumer-oriented computer companies have been trying to rein in costs. One positive is that disk drive prices, pushed up by flooding in Thailand in late 2011, are nearly back to normal lower levels. Given the importance of new products, however, research spending remains a priority. Meanwhile, a major multiyear turnaround effort is under way at beleaguered *Hewlett-Packard*.

**The Enterprise Computer Market**

The story is similar for computer makers that sell computer equipment primarily to companies. Uncertainty regarding economic growth and the fiscal cliff in the United States, as well as financial pressures in euro-zone nations, have been causing businesses to take more care, and take longer, in evaluating technology purchasing decisions. Budgetary concerns seem to be restraining technology spending by public-sector entities. Although companies often rush to use up capital spending allocated for the year before December 31st, it's unclear whether this annual phenomenon boosted computer equipment purchases much as 2012 drew to a close, given the tough market conditions. Companies will eventually have to replace aging computer systems, but many seem to be deferring doing so.

Meanwhile, demand in most developing nations likely remained healthy in late 2012, but some companies experienced slower sales in Brazil and Australia last fall and the weakness may have continued in the December quarter and into 2013.

Like the PC makers, companies that mainly sell mainframe computers, servers, and information storage systems have been refreshing their product lineups. Unlike PCs and other consumer devices, the computer

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hardware that manages many corporate functions faces growing competition from software that now performs many of the jobs previously handled exclusively by servers and mainframes.

Given the latter trend, companies in the enterprise computing space have been building software and services businesses. Software and services also face considerable competition, but some subsectors (virtualization software, analytics, information security offerings) appear to be growing. Moreover, software generally has much wider margins than computer hardware. On the whole, the sales and earnings of companies that sell mostly to businesses probably will hold up better in the difficult year ahead than those of companies that sell mostly to consumers.

**Windows 8**

In the past, new software releases have sometimes led consumers and businesses to purchase new computers. With that trend in mind, the Industry had been hoping that Microsoft's new *Windows 8* operating system, rolled out in late October, would pull sales of computer hardware along with it.

However, computer sales trends during the first few weeks of the new operating system's availability suggest *Windows 8* didn't serve as a meaningful sales catalyst early in the holiday season.

Struggling *Dell*, which mainly sells computers to businesses, has pointed out that many companies are still upgrading to the *Windows 7* operating system. Widespread adoption of *Windows 8* by the business sector probably won't happen soon. Consumers, who tend to gravitate to the latest hot new electronic devices, may be earlier adopters of *Windows 8*, although the operating system reportedly takes a little time to learn. Once sales data for the 2012 holiday season is tallied, we'll have a better idea whether *Windows 8* has been of much help.

**Conclusion**

The Computer And Peripherals Industry's Timeliness rank continues to hover near the bottom of our universe of nearly 100 industry groupings. None of stocks in the group are ranked favorably (1 or 2) for Timeliness. And only a few companies here pay dividends. But a number of issues have decent recovery potential over the 3- to 5-year term.

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