

The companies operating in the Computer Software Industry performed reasonably well in 2011. Spending on computer software and related services was healthy, as corporations took advantage of new technologies and gained efficiencies in their information systems.

Although the current prospects for global economic expansion remain uneven, our sense is spending on enterprise software and related services is likely to advance again in 2012, though at a slower pace than last year.

A Second Look At 2012

Although there seems to be more optimism regarding the prospects for economic growth in the United States than there was back in November when we published our last review of the Computer Software Industry, much of the improved view hinges on the extent of the recession that is likely to take place in Europe. We note here, some have opined that the Continent is already in recession, and that the resulting drag stateside is underappreciated. Whatever the case, it is fair to say that the prospects for global economic expansion are generally seen as being uneven. Although some semblance of a plan seems finally to be taking shape, the sovereign debt problems in parts of the European Monetary Union are likely to remain a dark cloud over the Continent for some time yet. Moreover, some have questioned whether China's pace of expansion can be maintained, suggesting that there may be a bit of respite in order, as the Central Committee takes measures to cool certain sectors of that country's economy.

Nonetheless, the reality is that most corporate businesses are in good financial shape and have the resources to continue investing in information technology. That said, there continues to be mention of lengthening sales cycles, with a higher level of scrutiny being given to large deals.

On balance, though, it appears that IT spending is set to stay on the advance in 2012, as corporations continue to seek efficiencies from systems already in place and to better understand their customers and target markets. Indeed, information technology is at the core of most businesses these days and is often a key factor in their ability to compete. Accordingly, notwithstanding the uneven prospects for global economic growth, it seems reasonable to assume that the IT spending plans now in place will support continued growth in the Computer Software Industry. Still, our sense is the increase in

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spending budgets is set to be less than it was in 2011, as corporations have made contingency plans for a worsening of the situation in Europe.

Industry Trends—A Quick Review

Cloud computing and hosted services continue gaining popularity. Many software vendors are benefiting from the interest, as their customers look to leverage storage, applications, security, and processing power via cloud services. This industry dynamic tends to match up well with corporations increasingly viewing IT as a service.

Meanwhile, the number of software companies tailoring their products and services for small and mid-sized businesses/enterprises (SMB/E) is a growing theme, going hand-in-hand with the notion of IT as a service. The idea is to provide these smaller companies, which probably cannot afford a resident IT staff, with the efficiencies of cloud computing and system virtualization. There is growing customer interest in this regard. The list of companies taking aim at this arena is extensive, including *Microsoft*, *Symantec*, and *VMware*.

Elsewhere, the explosion of data, which is being fueled by the popularity of mobile computing (smartphones, tablets, etc.) and social media, is enhancing the prospects for many in this group. Consequently, the ability to manage and organize the information to gain insight into customers and markets has taken on new immediacy. *Teradata* is well positioned here, given its broad range of data warehouses and appliances, as well as its business intelligence applications and services. *Oracle* can also be mentioned as a beneficiary, reflecting its market share in database management systems, middleware, and business applications. In addition, its Exadata systems have direct applications in data warehousing. We would be remiss not to include *SAP* here. The business applications software vendor's HANA architecture, which utilizes in-memory technology, facilitates high-speed responses to complex analytic queries, and should find high demand.

Conclusion

There is a broad spectrum of companies in the Computer Software Industry, offering a wide range of products and services. As always, subscribers would do well to consult individual company reports before making new commitments.

Charles Clark

Composite Statistics: COMPUTER SOFTWARE							
2007	2008	2009	2010	2011	2012		14-16
118154	135647	132466	140864	155000	166500	Revenues (\$mill)	200000
34.3%	35.6%	35.7%	38.2%	40.0%	40.0%	Operating Margin	38.0%
4552.6	5820.3	6305.7	6233	6400	6600	Depreciation (\$mill)	6500
26743	30029	28712	34214	40250	43500	Net Profit (\$mill)	50000
30.0%	28.9%	27.8%	25.3%	26.0%	26.0%	Income Tax Rate	26.0%
22.6%	22.1%	21.7%	24.3%	26.0%	26.1%	Net Profit Margin	25.0%
32894	28974	44942	55989	58000	60000	Working Cap'l (\$mill)	65000
13819	17844	21119	29339	35000	35000	Long-Term Debt (\$mill)	40000
95125	101073	113758	126301	145000	170000	Shr. Equity (\$mill)	200000
24.8%	25.5%	21.6%	22.4%	23.0%	21.5%	Return on Total Cap'l	21.5%
28.1%	29.7%	25.2%	27.1%	28.0%	25.5%	Return on Shr. Equity	25.0%
18.5%	24.8%	20.3%	22.1%	22.0%	20.5%	Retained to Com Eq	20.0%
18%	16%	20%	19%	20%	20%	All Div'ds to Net Prof	20%
21.2	18.7	15.4	15.8			Avg Ann'l P/E Ratio	15.0
1.15	.98	1.03	1.01			Relative P/E Ratio	1.00
.8%	.9%	1.3%	1.2%			Avg Ann'l Div'd Yield	1.5%

