

<b>IBM</b> <b>Ticker: IBM</b> <b>Sector: Technology</b>	<b>Intrinsic Value: \$266.95</b> <b>Current Price: \$181.84</b> <b>Stop loss: \$154.56</b> <b>Upside review: \$209.116</b>	<b>TTM P/E: 11.66</b> <b>Forward P/E: 8.76</b> <b>FV Imp P/E: 12.65</b> <b>Beta: 0.67</b>	<b>Market Cap: \$182.95 Bil</b> <b>Dividend Yield: 2.20%</b>
---	---	--	---

### Industry Trends:

Worldwide spending on IT services is expected to grow at a compound annual growth rate (CAGR) of 4.7% through 2012–17. Cloud services and Data Analytics will lead growth in the IT industry for the next 25 years. IT cloud services will grow at a CAGR of 23.5% for 2012–17.

### Investment Thesis:

Buy recommendation is based on IBM's strong position in enterprise software and services. IBM is moving away from low margin hardware business to high margin cloud computing and consulting.

### Business Summary:

International Business Machines Corporation provides information technology (IT) products and services worldwide. The company operates in five segments: Global Technology Services, Global Business Services, Software, Systems and Technology, and Global Financing.

### performance:



Direct Competitor Comparison					
	IBM	ACN	HPQ	MSFT	
Market Cap:	182.95B	49.41B	53.46B	297.33B	
Employees:	N/A	281,000	317,500	99,000	
Qtrly Rev Growth (yoy):	-0.06	0.02	-0.03	0.14	
Revenue (ttm):	99.75B	28.70B	112.30B	83.43B	
Gross Margin (ttm):	0.49	0.33	0.23	0.71	
EBITDA (ttm):	24.30B	4.42B	13.03B	31.83B	
Operating Margin (ttm):	0.20	0.14	0.07	0.34	
Net Income (ttm):	16.48B	3.33B	5.11B	22.82B	
EPS (ttm):	14.94	4.70	2.62	2.70	
P/E (ttm):	11.66	16.52	10.69	13.27	
PEG (5 yr expected):	1.12	1.49	-3.80	1.81	
P/S (ttm):	1.82	1.73	0.48	3.62	

### Competitive Analysis:

IBM's software and services business have very high switching costs and recurring revenue. IBM's brand and economies of scale in product development and distribution has an edge in getting new customers.

### Pros:

Shift towards high margin IT products

Edge in product development due to close relationships across large customer base.

Strong share buyback and dividends

### Risk Factors:

Customer appetite for large IT systems reduced due to the availability of cloud computing systems.

Slowdown in revenue growth as the company shift towards higher margin business.

Not as nimble as the new cloud computing startups.

### Total Return Estimates:

3 Yr FV Reversion: 13.65%  
5 Yr FV Reversion: 7.9%

### Total Return Estimates:

#### Key Valuation Assumptions:

Est. Revenue Growth 1%  
WACC 6.15%  
Expected Inflation 1%  
Terminal Growth Rate 1%  
10 yr. Risk Free Rate 2.82%  
Equity Risk Premium 5.90%  
Tax Rate 24.2%

#### Key Financial Data:

Est. 2013 EPS \$15.0  
Est. 2014 EPS \$16.10  
3-5 Yr. Est. EPS Growth 5%  
PEG (TTM) 1.10

#### Credit Quality

ROE AA-  
78.65%  
ROA 9.98%  
Price /Book 7.98  
Price/Cash Flow 11.3  
Debt/Equity 1.7  
Current Ratio 1.28  
Quick Ratio 1.22

#### CSR Scores vs. Industry Average:

Human Rights: 0/1  
Business Ethics Policy: 1/1  
ESG Disclosure: 46.69/33.30  
Equal Opportunity: 1/1  
Emission Reduction: 1/1  
Environmental Disclosure Score: 46.51/34.83