

International Business Machines Corp. (NYSE: IBM)

Sector: Technology (NAICS: 541512)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$198.20	\$193.07	\$199.21	\$172.19	0.91	11.58	\$192.6B (Large Cap)	2.28%

Industry Trends

The IT Services industry remains very competitive. Current themes dominating this segment include cloud computing and big data analytics. With interest rates at all-time lows, companies have been issuing cheap debt in order to acquire higher-value business that will excel in the cloud and analytical spaces. The desire for social, mobility, analytics, and cloud look to drive future growth for the industry, especially in the emerging markets. The IDC estimates that the spending for tools to analyze growing pools of data is forecasted to rise 27% a year to more than \$32 billion by 2017. This shows the industry has huge upside growth potential and a large demand to satisfy.

Investment Thesis

International Business Machines Corp. (IBM) has been the leader in advanced business and computer solutions, specifically in its innovation of cognitive science and business analytics. IBM has a competitive position in the market with the top market share of 6.58% and a strong financial position for support and growth. The Company has a long history of rewarding shareholders with generous share buybacks for the past 20 years and 19 consecutive quarters of rising dividend payments. IBM's strategies position itself to capitalize on the growing trends of big data, cloud computing, social and mobility, and cognitive science, especially with its latest project, The Watson Group. Investors will continue to receive share price appreciation through the stock repurchase program, as well as with IBM's organic growth.

Business Summary

IBM is the world's largest IT and consulting services company, providing advanced computer and business solutions in over 170 countries. The Company operates within its five core business segments: Global Technology Services, Global Business Services, Software, Systems and Technology, and Global Financing. In addition, IBM serves as a global pioneer in the business and technology innovation space, focusing on continuous research and development to help shape the future of society. IBM houses over 431,000 full-time employees around the globe.

IBM 5-year stock performance vs. S&P 500:



Corporate Social Responsibility:

ESG Disclosure Rating	47.93 (Ind. Avg.: 34.37)
Environmental Disclosure Score	48.84 (Ind. Avg.: 32.66)
Carbon Disclosure Score	86.00 (Ind. Avg.: 82.64)
Social Disclosure Score	36.84 (Ind. Avg.: 30.90)
Governance Disclosure Score	57.14 (Ind. Avg.: 51.65)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	\$207.9M (Ind. Avg.: \$168.4M)
Total Energy Consumption (000s MWh)	6.23 (Ind. Avg.: 1.34)

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance

Competition:

IBM's competitors vary across its different business segments. Global Services: Accenture, Amazon, Computer Sciences, and HP; Software: CA, Microsoft, Oracle, and SAP; Systems and Technology: Cisco, Dell, EMC, HP, and Oracle; Global Financing: Cisco, HP, and GE.

Pros:

- The Company has rewarded shareholders with share buybacks for the past 20 years, most recently purchasing approximately \$64 billion of shares over the last five years, and plans to continue its share repurchase program in the future
- A long history of consecutive rising dividends paid out to shareholders
- Acquisition of many higher-value businesses to add to IBM's strategic position in the cloud computing and big data analytic spaces

Cons:

- The IT Services industry remains highly competitive, and consumers have many options to choose from as innovation continues to grow at a rapid rate
- Political instability and legal concerns in expanding into emerging markets for potential growth
- The extent of cybersecurity and privacy protection moving to a more integrated and wireless technological platform such as cloud computing

Value Estimate: \$198-\$212 (2014-2019)

Estimated Real Annual Return: 9%-15%

Key Valuation Data:

Estimated Revenues	3%
WACC	10%
Terminal Growth Rate	2%
Calculated CAGR	7%

Key Financial Data2

Expected inflation	3%
Current EPS	\$17.85
Forecasted EPS Growth	5%
Credit Quality	Aa3/AA-/A+
ROE	79.15%
ROA	13.43%
Price/Book	11.14
Debt/Equity	1.73
Debt/Assets	0.31
Current Ratio	1.28
Price/Cash Flow	11.90

Report Prepared By:

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