**International Business Machines Corp. (NYSE: IBM)**

**Sector: Technology (NAICS: 541512)**

**Intrinsic Value**

<table>
<thead>
<tr>
<th>Intrinsic Value</th>
<th>Current Price</th>
<th>52 Week High</th>
<th>52 Week Low</th>
<th>Beta</th>
<th>P/E</th>
<th>Market Cap</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>$198.20</td>
<td>$193.07</td>
<td>$199.21</td>
<td>$172.19</td>
<td>0.91</td>
<td>11.58</td>
<td>$192.6B (Large Cap)</td>
<td>2.28%</td>
</tr>
</tbody>
</table>

**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 businesses 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:**

![IBM vs. S&P 500 Graph](image)

(Yahoo Finance)

**Corporate Social Responsibility:**

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

**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


**Estimated Real Annual Return: 9%-15%**

**Key Valuation Data:**

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

**Key Financial Data:**

- 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:**

Stephen Vento
9/23/2014

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance