INT'L BUS. MACH. NYSE-IBM

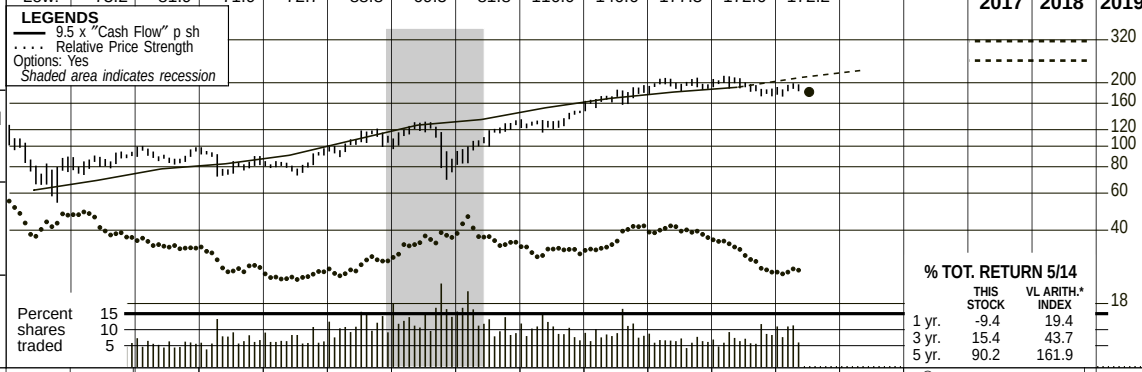
RECENT PRICE **180.88** | P/E RATIO **10.7** (Trailing: 12.4 / Median: 13.0) | RELATIVE P/E RATIO **0.57** | DIV'D YLD **2.5%** | VALUE LINE

TIMELINESS 2 Raised 6/13/14
SAFETY 1 Raised 4/15/05
TECHNICAL 2 Raised 6/6/14
BETA .85 (1.00 = Market)

High:	94.5	100.4	99.1	97.9	121.5	130.9	132.9	147.5	194.9	211.8	215.9	199.2
Low:	73.2	81.9	71.9	72.7	88.8	69.5	81.8	116.0	146.6	177.3	172.6	172.2

Target Price Range
2017 | 2018 | 2019

LEGENDS
— 9.5 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	315	(+75%)	*17%*
Low	255	(+40%)	*11%*

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	1	0	0	0	0	0	0	0	0
Options	0	0	0	3	0	0	4	0	0
to Sell	0	0	0	4	0	0	11	0	1

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	687	719	586
to Sell	811	908	983
Hld's(000)	639177	617222	588179

% TOT. RETURN 5/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-9.4	19.4
3 yr.	15.4	43.7
5 yr.	90.2	161.9

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
44.10	48.52	50.14	49.83	47.14	52.60	58.52	57.90	60.69	71.31	77.39	73.36	81.33	91.92	93.53	94.61	***99.50***	***104.20***	Revenues per sh	***116.65***
6.10	7.50	7.41	7.27	6.53	7.27	8.24	8.71	9.56	11.28	13.28	14.11	16.01	17.77	19.04	20.07	***22.30***	***24.20***	"Cash Flow" per sh	***28.60***
3.29	3.72	4.44	4.35	3.95	4.34	5.05	5.22	6.01	7.18	8.93	10.01	11.52	13.06	14.37	14.94	***16.85***	***18.50***	Earnings per sh A	***22.00***
.44	.47	.51	.55	.59	.63	.70	.78	1.10	1.50	1.90	2.15	2.50	2.90	3.30	3.70	***4.25***	***4.55***	Div'ds Decl'd per sh B ■	***5.50***
3.52	3.30	3.19	3.28	2.76	2.59	2.65	2.44	2.90	3.34	3.11	2.64	3.41	3.53	3.65	3.93	***3.65***	***3.80***	Cap'l Spending per sh	***4.80***
10.36	11.23	11.56	13.70	13.23	16.44	18.08	21.03	18.92	20.55	10.06	17.43	18.87	17.40	16.88	21.62	***22.50***	***32.15***	Book Value per sh D	***72.80***
1851.8	1804.2	1762.9	1723.2	1722.4	1694.5	1645.6	1574.0	1506.5	1385.2	1339.1	1305.3	1228.0	1163.2	1117.4	1054.4	***980.0***	***950.0***	Common Shs Outst'g C	***900.0***
19.0	28.9	24.8	24.7	21.4	19.6	18.0	16.1	13.9	14.8	12.3	10.9	11.4	13.1	13.7	13.0	*Bold figures are*		Avg Ann'l P/E Ratio	***13.0***
.99	1.65	1.61	1.27	1.17	1.12	.95	.86	.75	.79	.74	.73	.73	.82	.87	.73	*Value Line*		Relative P/E Ratio	***.80***
.7%	.4%	.5%	.5%	.7%	.7%	.8%	.9%	1.3%	1.4%	1.7%	2.0%	1.9%	1.7%	1.7%	1.9%	*estimates*		Avg Ann'l Div'd Yield	***1.9%***

CAPITAL STRUCTURE as of 3/31/14

Total Debt $43980 mill. **Due in 5 Yrs** $23590 mill.
LT Debt $34668 mill. **LT Interest** $885 mill.
(LT interest earned: 22.4x; total interest coverage: 17.9x) (68% of Cap'l)

Pension Assets-12/13 $93.7 bill. **Oblig.** $105.1 bill.

Pfd Stock None
Common Stock 1,012,183,432 shs.

MARKET CAP $183 billion (Large Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
96293	91134	91424	98786	103630	95758	99870	106916	104507	99751	***97500***	***99000***	Revenues ($mill)	***105000***
16.8%	16.0%	19.3%	20.7%	20.6%	23.0%	23.0%	23.5%	25.1%	24.3%	***26.5%***	***27.5%***	Operating Margin	***29.5%***
4915.0	5188.0	4983.0	5201.0	5450.0	4994.0	4831.0	4815.0	4676.0	4678.0	***4600***	***4600***	Depreciation ($mill)	***5300***
8643.0	8519.0	9416.0	10418	12334	13425	14833	15855	16604	16483	***17275***	***18400***	Net Profit ($mill)	***20450***
30.0%	30.3%	29.3%	28.1%	26.2%	26.0%	24.8%	24.5%	24.2%	15.6%	***20.0%***	***21.0%***	Income Tax Rate	***22.0%***
9.0%	9.3%	10.3%	10.5%	11.9%	14.0%	14.9%	14.8%	15.9%	16.5%	***17.7%***	***18.6%***	Net Profit Margin	***19.5%***
7172.0	10509	4569.0	8867.0	6569.0	12933	7554.0	8805.0	5808.0	11196	***7000***	***10000***	Working Cap'l ($mill)	***12000***
14828	15425	13780	23039	22689	21932	21846	22857	24088	32856	***34600***	***38000***	Long-Term Debt ($mill)	***50000***
29747	33098	28506	28470	13465E	22755	23172	20236	18860	22792	***22050***	***30525***	Shr. Equity ($mill) D	***65500***
19.9%	18.3%	23.1%	21.3%	35.6%	31.2%	33.8%	37.6%	39.5%	30.4%	***31.5%***	***27.5%***	Return on Total Cap'l	***18.0%***
29.1%	25.7%	33.0%	36.6%	91.6%	59.0%	64.0%	78.4%	88.0%	72.3%	***78.5%***	***60.5%***	Return on Shr. Equity	***31.0%***
25.1%	22.0%	27.1%	29.1%	72.4%	46.4%	50.3%	61.2%	68.0%	54.5%	***59.0%***	***45.0%***	Retained to Com Eq	***23.5%***
14%	15%	18%	21%	21%	21%	21%	22%	23%	25%	***25%***	***25%***	All Div'ds to Net Prof	***25%***

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	11129	11066	9704
Receivables	30578	31836	29661
Inventory (Avg Cst)	2287	2310	2456
Other	5439	6138	6138
Current Assets	49433	51350	47959
Accts Payable	7952	7461	6865
Debt Due	9181	6862	9312
Other	26492	25831	24881
Current Liab.	43625	40154	41058

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	6.5%	6.0%	*4.0%*
"Cash Flow"	10.5%	11.0%	*7.0%*
Earnings	13.0%	14.0%	*7.5%*
Dividends	19.0%	17.0%	*9.0%*
Book Value	2.5%	2.5%	*25.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	24607	26666	26157	29486	106916
2012	24673	25783	24747	29304	104507
2013	23408	24924	23720	27699	99751
2014	22484	***24300***	***23400***	***27316***	***97500***
2015	***22800***	***24500***	***23800***	***27900***	***99000***

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	2.31	3.00	3.19	4.62	13.06
2012	2.61	3.34	3.33	5.13	14.37
2013	2.70	2.91	3.68	5.73	14.94
2014	2.29	***4.05***	***4.20***	***6.31***	***16.85***
2015	***3.20***	***4.30***	***4.40***	***6.60***	***18.50***

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.55	.65	.65	.65	2.50
2011	.65	.75	.75	.75	2.90
2012	.75	.85	.85	.85	3.30
2013	.85	.95	.95	.95	3.70
2014	.95	1.10			

BUSINESS: International Business Machines Corporation is a worldwide supplier of advanced information processing technology, communication systems, services, and program products. 2013 revenue breakdown: Global Technology Services, 37%; Global Business Services, 18%; Systems and Technology, 14%; Software, 27%; Global Financing, 4%. Foreign business: 65% of 2013 revenues; Research, 6.2%. '13 depreciation rate: 11.6%. Has 431,212 empl. Officers & directors control less than 1% of stock; Berkshire Hathaway, 6.3%; State Street, 5.4%; BlackRock, 5.4%; Vanguard Group, 5.1% (3/14 proxy). Chairman: Samuel J. Palmisano. Pres. & CEO: Virginia M. Rometty. Inc.: NY. Add.: New Orchard Road, Armonk, NY 10504. Tel.: 914-499-1900. Internet: www.ibm.com.

The tough times continue at IBM. March-quarter revenues fell 4%, 1% adjusted for currency and a divestiture. Software and services rose an adjusted 2%, but systems fell 23%, and accounted for much of the 20% decline in China.

The mainframe business is at the low point of the sales cycle (before a new model debuts). And, in focusing on the high end of its *Power* systems line, IBM missed an opportunity on the low end.

The gross margin expanded. The services margin widened, and sales of very profitable software rose. Other expense included a $0.67-a-share workforce rebalancing charge partly offset by a $0.07-a-share divestiture gain. The tax rate rose but stock repurchases mitigated the decline in reported share net, which also included $0.25 of acquisitions and retirement costs.

The company is holding to its forecast of operating earnings per share, before about $1.00 of annual acquisitions/retirement costs, of $18.00 in 2014 and $20.00 in 2015 (about $17.00 and $19.00 on a reported basis). The 2014 June-period comparison will be easy since share net in the year-earlier term was reduced by $0.65 of workforce rebalancing costs. But revenues probably will remain under pressure. Management looks for the 2013-to-2015 share-net advance to be supported by productivity initiatives (about $3.25 a share of earnings growth) and stock repurchases ($2.00), partly offset by higher taxes ($1.50 a share).

We think IBM will have to push hard to reach these targets. Like other technology companies, IBM is adjusting to the rapid shift in the computing market to the cloud. Competition is likely to remain intense. And it will take time for new systems to contribute to top-line growth. Too, the divestiture of IBM's *Systems x* line will further depress revenues. Our share-net estimates for 2014 and 2015 assume earnings will fall short of management's goals.

IBM's transformation efforts may pay off by late decade, however. It looks to add more high-value offerings to its mix, and deliver more software as a service. It is a leader in the growing analytics field and should benefit as emerging-nation markets strengthen. The Dow stock is timely and has good 3- to 5-year potential.

Theresa Brophy *July 4, 2014*

(A) Based on diluted shs. Excl. nonrecurring gains (losses):'02, ($1.89); '04, ($0.11); '05, ($0.34); gain (losses) from discontinued operations; '03, ($0.02); '04, ($0.01); '05, ($0.02); '06, $0.05. Quarters may not sum due to change in shares. Next earnings report mid-July. **(B)** Dividends historically paid in early March, June, September, and December. ■ Dividend reinvestment plan available. **(C)** In millions. **(D)** Incl. Intangibles. As of 3/31/14, $34.9 billion, $34.49/sh. **(E)** In '08, incl. $15.2 bill. retirement benefit plan loss.

Company's Financial Strength	A++
Stock's Price Stability	90
Price Growth Persistence	70
Earnings Predictability	100

© 2014 Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.