

RECENT PRICE	161.44	P/E RATIO	10.6 (Trailing: 10.3 Median: 13.0)	RELATIVE P/E RATIO	0.57	DIV'D YLD	2.8%	VALUE LINE
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2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	270	(+65%)	16%
Low	220	(+35%)	10%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	4	0	0	1	0	1	4	0	0
to Sell	11	0	1	2	0	5	6	0	0

Institutional Decisions

	1Q2014	2Q2014	3Q2014
to Buy	586	611	622
to Sell	983	916	869
Hld's(000)	588179	578241	577018

	THIS STOCK	VL ARITH. INDEX
1 yr.	-7.6	8.0
3 yr.	-8.4	72.4
5 yr.	41.3	119.8

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	95.95	96.35	Revenues per sh	108.90
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	20.00	21.00	"Cash Flow" per sh	25.10
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	15.00	16.00	Earnings per sh ^A	19.00
.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	5.15
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	17.55	25.00	Book Value per sh ^D	53.70
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	985.0	960.0	Common Shs Outs't'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	12.2		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	.64		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%	2.3%		Avg Ann'l Div'd Yield	2.1%

CAPITAL STRUCTURE as of 9/30/14					96293	91134	91424	98786	103630	95758	99870	106916	104507	99751	94500	92500	Revenues (\$mill)	98000
					16.8%	16.0%	19.3%	20.7%	20.6%	23.0%	23.0%	23.5%	25.1%	24.3%	25.5%	27.0%	Operating Margin	29.0%
Total Debt \$45697 mill. Due in 5 Yrs \$19246 mill.					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
LT Debt \$32821 mill. LT Interest \$745 mill.					8643.0	8519.0	9416.0	10418	12334	13425	14833	15855	16604	16483	15100	15500	Net Profit (\$mill)	17300
(LT interest earned: 24.5x; total interest coverage: 17.9x)					30.0%	30.3%	29.3%	28.1%	26.2%	26.0%	24.8%	24.5%	24.2%	15.6%	20.5%	21.0%	Income Tax Rate	22.0%
(70% of Cap'l)					9.0%	9.3%	10.3%	10.5%	11.9%	14.0%	14.9%	14.8%	15.9%	16.5%	16.0%	16.8%	Net Profit Margin	17.7%
Pension Assets-12/13 \$93.7 bill. Oblig. \$105.1 bill.					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	33000	33000	Long-Term Debt (\$mill)	50000
Pfd Stock None					29747	33098	28506	28470	13465 ^F	22755	23172	20236	18860	22792	17275	24000	Shr. Equity (\$mill) ^D	48350
Common Stock 989,660,472 shs.					19.9%	18.3%	23.1%	21.3%	35.6%	31.2%	33.8%	37.6%	39.5%	30.4%	31.0%	28.0%	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%	87.0%	65.0%	Return on Shr. Equity	36.0%
MARKET CAP \$160 billion (Large Cap)					25.1%	22.0%	27.1%	29.1%	72.4%	46.4%	50.3%	61.2%	68.0%	54.5%	63.0%	46.5%	Retained to Com Eq	26.0%
CURRENT POSITION	2012	2013	9/30/14		14%	15%	18%	21%	21%	21%	21%	22%	23%	25%	28%	28%	All Div'ds to Net Prof	27%

(SMILL.)			
Cash Assets	11129	11066	9565
Receivables	30578	31836	28002
Inventory (Avg Cst)	2287	2310	2356
Other	5439	6138	7240
Current Assets	49433	51350	47163
Accts Payable	7952	7461	5855
Debt Due	9181	6862	12876
Other	26492	25831	23575
Current Liab.	43625	40154	42306
ANNUAL RATES	Past	Past	Est'd '11-'13
of change (per sh)	10 Yrs.	5 Yrs.	to '17-'19
Revenues	6.5%	6.0%	2.5%
"Cash Flow"	10.5%	11.0%	5.0%
Earnings	13.0%	14.0%	5.0%
Dividends	19.0%	17.0%	7.5%
Book Value	2.5%	2.5%	19.5%

Calendar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	24607	26666	26157	29486	106916
2012	24673	25783	24747	29304	104507
2013	23408	24924	23720	27699	99751
2014		46283F	22397	25820	94500
2015	21800	23000	22800	24900	92500

Calendar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
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		6.63 ^F	3.46	4.91	15.00
2015	3.05	3.75	3.70	5.50	16.00

Calendar	QUARTERLY DIVIDENDS PAID				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
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	1.10	1.10	
2015					

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.

IBM shares fell to a three-year low after the company logged disappointing earnings in the September term and abandoned its 2015 operating earnings target of \$20.00 a share. (We figure that works out to \$18.00-\$19.00 on a reported earnings basis.) In discussing its recent performance and turnaround efforts, IBM painted a difficult picture. **Revenues and pretax profits fell in all three of its segments in the period.** Results were hurt by sales execution issues in software; less-than-expected productivity, a longer transition on new contracts, and price pressure on back office implementations in services; a slowdown in client activity in September that depressed systems revenues; and unfavorable currency shifts. **Results also reflected the sale of IBM's semiconductor manufacturing operation.** IBM doesn't have the scale to justify the investment needed for the move to next-generation chip technology. Revenues and reported earnings now exclude the discontinued business, including its operational losses and a transaction charge totaling \$3.44 a share in the period

and \$3.65 in the first nine months of 2014 as well as retirement/acquisition costs. **IBM faces intense competition in its quest to transition to new ways of computing, including the software-defined data center and software delivered via subscription.** It has strengths in areas like analytics and is creating units to address growth markets. But transitioning will take time, and long-term earnings visibility is limited. **We've sharply lowered our share-net estimates and projections.** December-quarter results will include a \$0.75-a-share gain on the sale of IBM's Systems x line, which may be offset by the loss of the product's profits in that seasonally strong period and a workforce rebalancing charge. All told, the three businesses divested in 2014 had \$7 billion in annual revenues in 2013 that it will miss (but a combined \$500 million of losses). Currency may remain a headwind in 2015. **The stock's pullback has created the best entry point in a few years.** But investors will need to be very patient, since IBM has a lot of work ahead of it.

Theresa Brophy *January 2, 2015*

<p>(A) Based on diluted shs. Excl. nonrecurring gains (losses) from discontinued operations: '03, (\$0.02); '04, (\$0.01); '05, (\$0.02); '06, \$0.05; '14, (\$3.65). Quarters may not sum due to change in shs. Next earnings report mid-Jan.</p>	<p>(B) Dividends historically paid in early March, June, September, and December. ■ Dividend reinvestment plan available. (C) In millions. (D)</p>	<p>Incl. Intangibles. As of 9/30/14, \$34.4 billion, \$34.78/sh. (E) In '08, incl. \$15.2 bill. retirement benefit plan loss. (F) For first six months of 2014, restated for divestitures.</p>	<p>Company's Financial Strength A++ Stock's Price Stability 90 Price Growth Persistence 70 Earnings Predictability 100</p>
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