| \|NTH BJS, MACH, NYSE-IBM |  |  |  |  |  |  |  | $\begin{array}{\|l\|l\|} \hline \text { RECENT } 163.00 & \begin{array}{l} \text { P/E } \\ \text { RATIO } \\ \text { PRICE } \end{array} \\ \hline 10.7\binom{\text { Trailing: } 10.4}{\text { Median: } 13.0} \end{array}$ |  |  |  |  |  | $\begin{aligned} & \text { RELATIVE } \\ & \text { P/E RATIO } 0.56 \end{aligned}$ |  | $\begin{array}{l\|l} \hline 6 & \text { DIV'D } \\ \text { YLD } \end{array}$ | $2.8 \% \text { VALUE }$ |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| TIMELIN | $\text { vess } 3$ | Lowered | 0/31/14 | High: | $\begin{array}{r} 100.4 \\ 81.9 \end{array}$ | $\begin{aligned} & 99.1 \\ & 71.9 \end{aligned}$ | 97.9 72.7 | $\begin{array}{r} 121.5 \\ 88.8 \end{array}$ | $\begin{array}{r} 130.9 \\ 69.5 \end{array}$ | $\begin{array}{r} 132.9 \\ 81.8 \end{array}$ | $\begin{aligned} & \hline 147.5 \\ & 116.0 \end{aligned}$ | $\begin{aligned} & 194.9 \\ & 146.6 \end{aligned}$ | $\begin{aligned} & \hline 211.8 \\ & 177.3 \end{aligned}$ | $\begin{aligned} & \hline 215.9 \\ & 172.6 \end{aligned}$ | $\begin{aligned} & \hline 199.2 \\ & 150.5 \end{aligned}$ | $\begin{aligned} & 165.4 \\ & 149.5 \end{aligned}$ |  |  | Target Price 2018 2019 | Range 2020 |
| SAFETY <br> TECHNI | CAL | Raised 4 <br> Lowered | $\begin{aligned} & 15 / 05 \\ & 3 / 27 / 15 \end{aligned}$ | LEGENDS <br> - 9.5 x "Cash Flow" p sh $\ldots$ Relative Price Strength Options: Yes Shaded area indicates recession |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| BETA | $35 \quad(1.00$ | Market) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 320 |
|  | 8-20 PR | JJECTIO |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 200 |
|  |  | Gain | Total |  |  |  |  |  |  |  |  | - |  |  |  |  |  |  |  | 160 |
| High |  | Gain | $\begin{aligned} & \text { turn } \\ & 4 \% \end{aligned}$ |  |  |  |  |  |  |  | !い! ${ }^{\prime \prime}$ |  |  |  |  |  |  |  |  | 120 |
| Insider Decisions |  |  |  |  |  |  |  | + |  |  |  |  |  |  |  |  |  |  |  | 100 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 80 |
| - | M J J | A S 0 | N D J |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 60 |
| to Buy Options to Sell | $\begin{array}{lll}0 & 0 & 0 \\ 1 & 0 & 1 \\ 2 & 0 & 5\end{array}$ | $\begin{array}{lll}0 & 0 & 0 \\ 4 & 0 & 0 \\ 6 & 0 & 0\end{array}$ | $\begin{array}{lll}0 & 0 & 0 \\ 0 & 0 & 0 \\ 0 & 0\end{array}$ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 40 |
| Institutional Decisions |  |  |  |  |  |  |  |  | - |  |  |  |  |  |  |  |  | \% TO | R RETURN 2/15 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | STOCK INDEX |  |
| to Buy | 611 | 622 | 619 |  |  | shares |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $\begin{array}{rr} -10.3 & 8.2 \\ -12.3 & 60.8 \end{array}$ |  |
| $\begin{aligned} & \text { to Sell } \\ & \text { Hild's(000) } \end{aligned}$ | 978241 | $\begin{array}{r} 869 \\ 577018 \end{array}$ | $\begin{array}{r} 1020 \\ 574895 \end{array}$ |  |  |  |  |  |  |  | $\|\|\|\|\mid$ | \||l|l| |  | W |  |  |  |  | $\begin{array}{rr} -12.3 & 60.8 \\ 40.5 & 110.1 \\ \hline \end{array}$ |  |
| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | $\bigcirc$ © VA | E LINE PUB. LLC | 18-20 |
| 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 | 93.68 | 87.95 | 91.40 | Revenu | s per sh | 98.90 |
| 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 | 20.44 | 20.00 | 21.10 | "Cash F | ow" per sh | 24.20 |
| 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 | 15.59 | 15.00 | 15.90 | Earning | per sh A | 18.25 |
| . 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 | 4.75 | Div'ds D | Decl'd per sh B - | 5.25 |
| 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 | 4.22 | 4.90 | 5.00 | Cap'IS | ending per sh | 5.50 |
| 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 | 11.98 | 17.25 | 24.45 | Book Va | lue per sh ${ }^{\text {D }}$ | 55.50 |
| 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 | 990.52 | 955.0 | 930.0 | Comm | Shs Outst'g C | 900.0 |
| 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 | 11.7 | Bold fig | res are | Avg An | I P/E Ratio | 13.0 |
| 1.65 | 1.61 | 1.27 | 1.17 | 1.12 | . 95 | . 86 | . 75 | . 79 | . 74 | . 73 | . 73 | . 82 | . 87 | . 73 | 62 |  | Line | Relative | P/E Ratio | . 80 |
| .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 A | Div'd Yield | 2.2\% |
| CAPITAL STRUCTURE as of 12/31/14 |  |  |  |  |  | 91134 | 91424 | 98786 | 103630 | 95758 | 99870 | 106916 | 104507 | 99751 | 92793 | 84000 | 85000 | Reven | (\$mill) | 89000 |
|  |  |  |  |  |  | 16.0\% | 19.3\% | 20.7\% | 20.6\% | 23.0\% | 23.0\% | 23.5\% | 25.1\% | 24.3\% | 24.0\% | 26.0\% | 26.5\% | Operat | g Margin | 28.0\% |
| Total Debt $\$ 40804$ mill. Due in 5 Yrs $\$ 19246$ mill. LT Debt $\$ 35073$ mill. LT Interest $\$ 945$ mill. (LT interest earned: $22.2 x$; total interest coverage: 20.5x) <br> (75\% of Cap') |  |  |  |  |  | 5188.0 | 4983.0 | 5201.0 | 5450.0 | 4994.0 | 4831.0 | 4815.0 | 4676.0 | 4678.0 | 4492.0 | 4500 | 4600 | Depreci | ation (\$mill) | 5300 |
|  |  |  |  |  |  | 8519.0 | 9416.0 | 10418 | 12334 | 13425 | 14833 | 15855 | 16604 | 16483 | 15751 | 14600 | 15000 | Net Pro | (\$mill) | 16500 |
|  |  |  |  |  |  | 30.3\% | 29.3\% | 28.1\% | 26.2\% | 26.0\% | 24.8\% | 24.5\% | 24.2\% | 15.6\% | 21.2\% | 20.0\% | 20.0\% | Incom | Tax Rate | 20.0\% |
|  |  |  |  |  |  | 9.3\% | 10.3\% | 10.5\% | 11.9\% | 14.0\% | 14.9\% | 14.8\% | 15.9\% | 16.5\% | 17.0\% | 17.4\% | 17.6\% | Net Pr | t Margin | 18.5\% |
| Pension Assets-12/14 \$147.4 bill. Oblig. \$112.3 bill. |  |  |  |  |  | 10509 | 4569.0 | 8867.0 | 6569.0 | 12933 | 7554.0 | 8805.0 | 5808.0 | 11196 | 9822.0 | 7000 | 10000 | Workin | Cap'I (\$mill) | 12000 |
|  |  |  |  |  |  | 15425 | 13780 | 23039 | 22689 | 21932 | 21846 | 22857 | 24088 | 32856 | 35073 | 37000 | 39000 | Long-Te | m Debt (\$mill) | 50000 |
| Pfd Stock None |  |  |  |  |  | 33098 | 28506 | 28470 | 13465 | 22755E | 23172 | 20236 | 18860 | 22792 | 11868 | 16450 | 22750 | Shr. Equ | ity (\$mill) ${ }^{\text {D }}$ | 50000 |
| Common Stock 990,523,759 shs. |  |  |  |  |  | 18.3\% | 23.1\% | 21.3\% | 35.6\% | 31.2\% | 33.8\% | 37.6\% | 39.5\% | 30.4\% | 34.6\% | 28.0\% | 25.0\% | Return | on Total Cap'l | 17.5\% |
|  |  |  |  |  |  | 25.7\% | 33.0\% | 36.6\% | 91.6\% | 59.0\% | 64.0\% | 78.4\% | 88.0\% | 72.3\% | 132.7\% | 89.0\% | 66.0\% | Return | Shr. Equity | 33.0\% |
| MARKET CAP $\$ 161$ billion (Large Cap) |  |  |  |  |  | 22.0\% | 27.1\% | 29.1\% | 72.4\% | 46.4\% | 50.3\% | 61.2\% | 68.0\% | 54.5\% | 96.8\% | 62.0\% | 46.0\% | Retaine | to Com Eq | 23.5\% |
| CURRENT POSITION (\$MILL.) |  |  | $2012$ | $\begin{array}{ll} 2013 & 12 / 31 / 14 \end{array}$ |  | 15\% | 18\% | 21\% | 21\% | 21\% | 21\% | 2२\% | 23\% | 25\% | 27\% | 30\% | 30\% | All Div | to Net Prof | 29\% |


| (\$MILL.) |  |  |  |
| :--- | ---: | ---: | ---: |
| Cash Assets | 11129 | 11066 | 8476 |
| Receivables | 30578 | 31836 | 31831 |
| Inventory (Avg Cst) | 2287 | 2310 | 2103 |
| Other | 5439 | 6138 | 7012 |
| Current Assets | 49433 | 51350 | 49422 |
| Accts Payable | 7952 | 7461 | 6864 |
| Debt Due | 9181 | 6862 | 5731 |
| Other | $\underline{26492}$ | $\frac{25831}{}$ | $\frac{27005}{}$ |
| Current Liab. | 43625 | $\frac{40154}{39600}$ |  |


| ANNUAL RATES | Past | Past |  |
| :--- | ---: | ---: | ---: |
| Est'd '12''14 |  |  |  |
| of change (per sh) | 10 Yrs. | 5Yrs. | to 18.20 |
| Revenues | $6.0 \%$ | $5.0 \%$ | $1.0 \%$ |
| "Cash Flow" | $10.5 \%$ | $9.0 \%$ | $3.5 \%$ |
| Earnings | $13.0 \%$ | $11.5 \%$ | $3.5 \%$ |
| Dividends | $19.5 \%$ | $15.0 \%$ | $6.0 \%$ |
| Book Value | $.5 \%$ | $1.0 \%$ | $22.0 \%$ |


| Cal- <br> endar | QUARTERLY REVENUES (\$ mill.) <br> Mar.31 |  |  |  | Full <br> Jun.30 |
| :---: | ---: | :---: | :---: | :---: | :---: |
| 2012 | 24673 | 25783 | 24747 | 29304 | 104507 |
| 2013 | 23408 | 24924 | 23720 | 27699 | 99751 |
| 2014 | 22236 | 24047 | 22397 | 24113 | 92793 |
| 2015 | 20000 | 21250 | 20750 | 22000 | 84000 |
| 2016 | 20250 | 21500 | 21000 | 22250 | 85000 |
| Cal- | EARNINGS PER SHARE A |  |  |  | Full |
| endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Year |
| 2012 | 2.61 | 3.34 | 3.33 | 5.13 | 14.37 |
| 2013 | 2.70 | 2.91 | 3.68 | 5.73 | 14.94 |
| 2014 | 2.43 | 4.23 | 3.46 | 5.54 | 15.59 |
| 2015 | 2.60 | 3.65 | 3.45 | 5.30 | 15.00 |
| 2016 | 2.75 | 3.85 | 3.70 | 5.60 | 15.90 |
| Cal- | QUARTERLY DIVIDENDS PAID Ba | Full |  |  |  |
| endar | Mar.31 | Jun.30 | Sep.30 | Dec. 31 | Year |
| 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 | 4.25 |
| 2015 | 1.10 |  |  |  |  |

BUSINESS: International Business Machines Corporation is a worldwide supplier of advanced information processing technology, communication systems, services, and program products. 2014 revenue breakdown: Global Technology Services, 38\%; Global Business Services, 18\%; Systems and Technology, 10\%; Software, $32 \%$; Global Financing, $2 \%$. Foreign business: $55 \%$ of 2014 reve-
IBM's results in the final quarter of 2014 were weak overall. The divestitures of its System x (mainframe) line and its Customer Care businesses reduced revenues by $\$ 1.6$ billion. Unfavorable currency movements clipped $\$ 1.2$ billion from the top line. Adjusted revenues slipped $2 \%$, with services flat, software down 3\%, and systems off $12 \%$. Without the lowmargined Systems x line, the gross margin expanded. Pretax earnings were bolstered by a $\$ 1.1$ billion gain on the Systems $x$ sale, but the tax rate rose. Stock repurchases mitigated the share-net decline.
The company plans to invest $\$ 4$ billion in strategic areas. The latter, which include cloud computing, analytics, mobile computing, and information security, generated $\$ 25$ billion in revenues in 2014, a $16 \%$ increase from 2013. IBM expects revenues from these initiatives to reach $\$ 40$ billion by 2018 and account for over $40 \%$ of the top line then, from 27\% in 2014. Very profitable transactional business, like the recently refreshed Power systems line, should also contribute nicely to results. But revenues from legacy businesses, like mainframe computers, probably will
nues; Research, $5.8 \%$. '14 depreciation rate: $11.5 \%$. Has 379,592 empl. Officers \& directors control less than 1\% of stock; Berkshire Hathaway, 7.8\%; State Street, 5.5\%; BlackRock, 5.4\%; Vanguard Group, 5.6\% (3/15 proxy). Chairman, Pres. \& CEO: Virginia M. Rometty. Inc.: NY. Add.: New Orchard Road, Armonk, NY 10504. Tel.: 914-499-1900. Internet: www.ibm.com.
decline with time. Over the long haul, total revenues should rise at a low-singledigit pace, and a more profitable product mix (with more software content) should support high-single-digit growth in operating earnings per share.
The going is apt to remain difficult this year and next, however. Due to last year's divestitures, IBM started 2015 with a lower revenue base. Revenues are also likely to be hurt by the strong dollar and challenges in some emerging markets. The cloud computing business isn't up to scale yet, and business transformation costs may limit margin expansion. Our 2015 share-net call of $\$ 15.00$ includes an estimated $\$ 0.75$ of nonoperating costs. We don't look for much revenue growth in 2016 but margins might improve a bit.
IBM shares haven't recovered yet from their sharp falloff last October, when the Dow company abandoned its previous earnings target. If revenues and earnings track our current expectations, investors should be rewarded with slightly above-average total returns, but they may need to be very patient.
Theresa Brophy
April 3, 2015

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[^0]:    (A) Based on diluted shs. Excl. nonrecurring to change in shs. Next earnings report mid- millions. (D) Incl. Intangibles. As of 12/31/14, gains (losses), from discontinued operations; April.(B) Dividends historically paid in early $\$ 33.7$ billion, $\$ 33.98 / \mathrm{sh}$. (E) In '08, incl. $\$ 15.2$ 03, ( $\$ 0.02$ ); '04, ( $\$ 0.01$ ); '05, ( $\$ 0.02$ ); ' 06 , March, June, September, and December. a bill. retirement benefit plan loss. $\$ 0.05$; '14. (\$3.65). Quarters may not sum due Dividend reinvestment plan available. (C) In

    Company's Financial Strength
    Stock's Price Stability
    Price Growth Persistence

