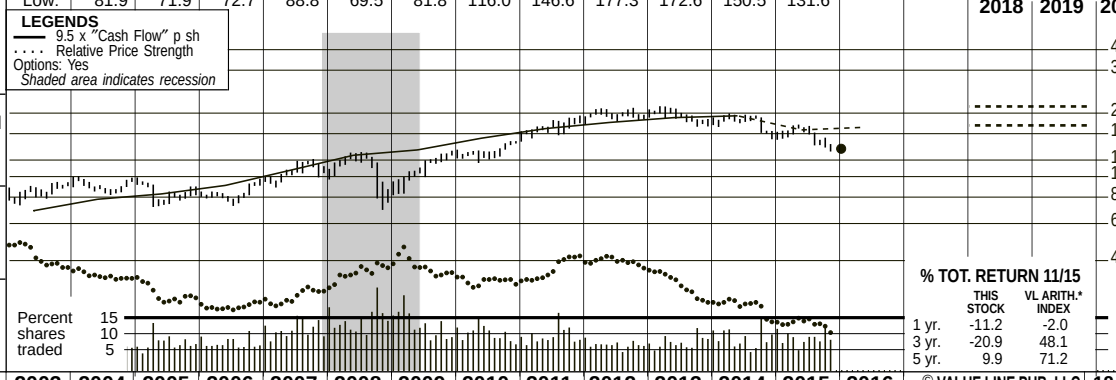
INT'L BUS. MACH. NYSE-IBM

RECENT PRICE **135.50** | P/E RATIO **10.3** (Trailing: 9.3 / Median: 13.0) | RELATIVE P/E RATIO **0.59** | DIV'D YLD **3.8%** | VALUE LINE

TIMELINESS 4 Lowered 7/31/15
SAFETY 1 Raised 4/15/05
TECHNICAL 3 Raised 1/1/16
BETA .85 (1.00 = Market)

High:	100.4	99.1	97.9	121.5	130.9	132.9	147.5	194.9	211.8	215.9	199.2	176.3
Low:	81.9	71.9	72.7	88.8	69.5	81.8	116.0	146.6	177.3	172.6	150.5	131.6

Target Price Range
2018 | 2019 | 2020



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	215	(+60%)	15%
Low	175	(+30%)	10%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	0	3	0	1	0	0	1	0	0
to Sell	2	7	0	1	3	0	1	2	0

Institutional Decisions

	1Q2015	2Q2015	3Q2015
to Buy	686	639	675
to Sell	921	868	838
Hld's(000)	588305	578324	575168

% TOT. RETURN 11/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-11.2	-2.0
3 yr.	-20.9	48.1
5 yr.	9.9	71.2

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE 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	**84.90**	**85.10**	Revenues per sh	**94.45**
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	**17.55**	**18.05**	"Cash Flow" per sh	**20.45**
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	**13.25**	**13.50**	Earnings per sh A	**15.00**
.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	5.00	**5.20**	Div'ds Decl'd per sh B ■	**6.00**
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	**4.25**	**4.25**	Cap'l Spending 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	**13.10**	**18.70**	Book Value per sh D	**39.45**
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	**960.0**	**940.0**	Common 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	**11.8**		Avg Ann'l 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	**.60**		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%	3.2%		Avg Ann'l Div'd Yield	**3.1%**

91134	91424	98786	103630	95758	99870	106916	104507	99751	92793	**81500**	**80000**	Revenues ($mill)	**85000**
16.0%	19.3%	20.7%	20.6%	23.0%	23.0%	23.5%	25.1%	24.3%	24.0%	**23.0%**	**24.0%**	Operating Margin	**24.5%**
5188.0	4983.0	5201.0	5450.0	4994.0	4831.0	4815.0	4676.0	4678.0	4492.0	**3850**	**4000**	Depreciation ($mill)	**4600**
8519.0	9416.0	10418	12334	13425	14833	15855	16604	16483	15751	**13000**	**12960**	Net Profit ($mill)	**13800**
30.3%	29.3%	28.1%	26.2%	26.0%	24.8%	24.5%	24.2%	15.6%	21.2%	**18.0%**	**20.0%**	Income Tax Rate	**20.0%**
9.3%	10.3%	10.5%	11.9%	14.0%	14.9%	14.8%	15.9%	16.5%	17.0%	**16.0%**	**16.2%**	Net Profit Margin	**16.2%**
10509	4569.0	8867.0	6569.0	12933	7554.0	8805.0	5808.0	11196	9822.0	**8000**	**7000**	Working Cap'l ($mill)	**12000**
15425	13780	23039	22689	21932	21846	22857	24088	32856	35073	**33000**	**35000**	Long-Term Debt ($mill)	**40000**
33098	28506	28470	13465E	22755	23172	20236	18860	22792	11868	**12580**	**17600**	Shr. Equity ($mill) D	**35500**
18.3%	23.1%	21.3%	35.6%	31.2%	33.8%	37.6%	39.5%	30.4%	34.6%	**29.5%**	**25.5%**	Return on Total Cap'l	**19.0%**
25.7%	33.0%	36.6%	91.6%	59.0%	64.0%	78.4%	88.0%	72.3%	132.7%	**103.0%**	**73.5%**	Return on Shr. Equity	**39.0%**
22.0%	27.1%	29.1%	72.4%	46.4%	50.3%	61.2%	68.0%	54.5%	96.8%	**64.0%**	**45.5%**	Retained to Com Eq	**23.5%**
15%	18%	21%	21%	21%	21%	22%	23%	25%	27%	**38%**	**38%**	All Div'ds to Net Prof	**39%**

CAPITAL STRUCTURE as of 9/30/15

Total Debt $39660 mill. **Due in 5 Yrs** $19246 mill.
LT Debt $32122 mill. **LT Interest** $950 mill.
(LT interest earned: 19.0x; total interest coverage: 16.9x) (71% of Cap'l)

Pension Assets-12/14 $147.4 bill. **Oblig.** $112.3 bill.

Pfd Stock None
Common Stock 970,110,126 shs.

MARKET CAP $131 billion (Large Cap)

CURRENT POSITION ($MILL.)	2013	2014	9/30/15
Cash Assets	11066	8476	9568
Receivables	31836	31831	25113
Inventory (Avg Cst)	2310	2103	1613
Other	6138	7012	5818
Current Assets	51350	49422	42112
Accts Payable	7461	6864	5166
Debt Due	6862	5731	7538
Other	25831	27005	21028
Current Liab.	40154	39600	33732

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	6.0%	5.0%	*Nil*
"Cash Flow"	10.5%	9.0%	*.5%*
Earnings	13.0%	11.5%	*Nil*
Dividends	19.5%	15.0%	*8.0%*
Book Value	.5%	1.0%	*15.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	24673	25783	24747	29304	104507
2013	23408	24924	23720	27699	99751
2014	22236	24047	22397	24113	92793
2015	19590	20813	19280	**21817**	**81500**
2016	**18800**	**20200**	**19000**	**22000**	**80000**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full 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	2.43	3.58	3.02	**4.22**	**13.25**
2016	**2.40**	**3.55**	**3.10**	**4.45**	**13.50**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
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	1.30	1.30	1.30	
2016					

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 revenues; 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.

The past few years have been difficult for IBM. Rapid changes in the information technology sector have taken a toll on the company's legacy operations. Efforts are under way to shift its product and services mix to faster-growing, more profitable arenas, like cloud computing. (Revenues rose 65% in the September quarter.) But the strong growth in these newer offerings isn't yet offsetting the drag from divestitures and weakness in traditional lines. Meanwhile, economic activity in many developing nations where IBM does business has slowed, and currency pressures are hurting revenues. We expect reported earnings per share in 2015 to come in at the low end of the company's $13.25-$14.25 estimate range, after $1.50 of retirement and acquisition costs.

And 2016 looks to be another tough one. We have pared our share-net estimate for the year, from $14.25 to $13.50.

Revenues probably will slip modestly in the new year. Newer offerings should continue growing strongly, but revenues from legacy businesses probably will decline further. Currency trends may remain unfavorable, and currency hedges are due to run off. It may take time for developing-nation markets, many of which depend on economic growth in China, to recover. Other concerns include price pressure in the high-end disk and tape-based storage system business and the slowdown in software transactions in September. Too, consulting and systems integration revenues are being hurt by a falloff in traditional large implementation projects.

Moreover, margin improvement may be limited in 2016. On the one hand, IBM's focus on more profitable businesses than its traditional lines should gradually produce a richer revenue mix. On the other hand, the spending required to build up newer businesses probably will remain high, offsetting some of the better mix.

IBM's transformation no doubt will take time. Meanwhile, earnings prospects to late decade aren't as well defined as they once seemed. The issue's pullback since the start of 2015 has created a good entry point, and the dividend yield is attractive, but investors will need to be patient. The good-yielding Dow stock is also ranked unfavorably (4) for Timeliness.

Theresa Brophy *January 1, 2016*

(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. (B) Dividends historically paid in early March, June, September, and December. ■ Dividend reinvestment plan available. (C) In millions. (D) Incl. Intangibles. As of 9/30/15, $33.1 billion, $34.07/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	55
Earnings Predictability	100

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