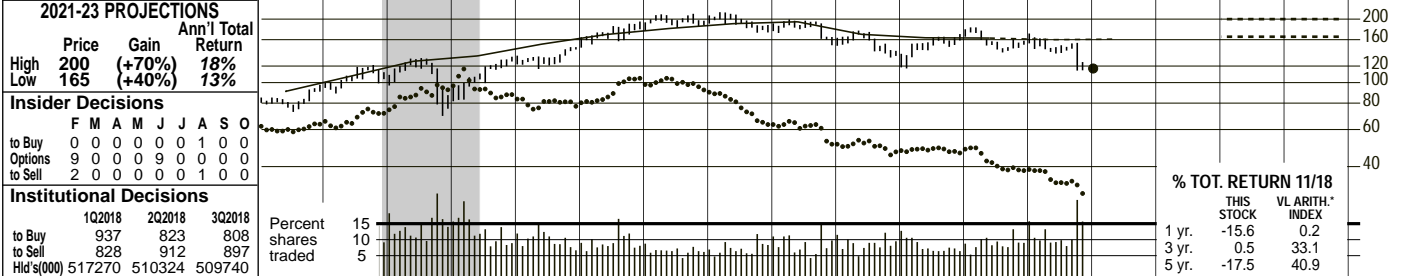


INT'L BUS. MACH. NYSE-IBM

RECENT PRICE **116.65** P/E RATIO **9.9** 9.6 12.0 RELATIVE P/E RATIO **0.65** DIV'D YLD **5.6%** VALUE LINE

TIMELINESS 4 Lowered 11/2/18	High: 121.5	130.9	132.9	147.5	194.9	211.8	215.9	199.2	176.3	170.0	182.8	171.1		Target Price Range
SAFETY 1 Raised 4/15/05	Low: 88.8	69.5	81.8	116.0	146.6	177.3	172.6	150.5	131.6	116.9	139.1	114.1		2021 2022 2023
TECHNICAL 4 Lowered 12/14/18	LEGENDS — 9.5 x "Cash Flow" p sh ... Relative Price Strength Options: Yes Shaded area indicates recession													
BETA .95 (1.00 = Market)	2021-23 PROJECTIONS Price Gain Ann'l Total High 200 (+70%) 18% Low 165 (+40%) 13%													



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
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	84.64	84.49	85.82	88.00	87.85	Revenues per sh	92.20
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	17.83	17.19	17.13	16.85	16.95	"Cash Flow" per sh	18.40
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	13.60	12.39	12.04	11.70	11.80	Earnings per sh ^A	12.50
.59	.63	.70	.78	1.10	1.50	1.90	2.15	2.50	2.90	3.30	3.70	4.25	5.00	5.50	5.90	6.21	6.52	Div'ds Decl'd per sh ^B	7.15
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	3.71	3.77	3.50	4.00	4.00	Cap'l Spending per sh	5.00
13.23	16.44	18.08	21.03	18.92	20.55	10.06 ^F	17.43	18.87	17.40	16.88	21.62	11.98	14.77	19.29	19.08	24.15	29.55	Book Value per sh ^D	46.10
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	965.73	945.87	922.18	905.0	905.0	Common Shs Outst'g ^C	900.0
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	11.4	12.1	13.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.5
1.17	1.12	.95	.86	.75	.79	.74	.73	.73	.82	.87	.73	.62	.57	.64	.65			Relative P/E Ratio	.80
.7%	.7%	.8%	.9%	1.3%	1.4%	1.7%	2.0%	1.9%	1.7%	1.7%	1.9%	2.3%	3.2%	3.7%	3.7%			Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 9/30/18																																																									
Total Debt \$46921 mill. Due in 5 Yrs \$29841 mill. LT Debt \$35989 mill. LT Interest \$585 mill. (LT interest earned: 17.9x; total interest coverage: 14.7x) (65% of Cap'l)																																																									
Pension Assets-12/17 \$93.6 bill. Oblig. \$106.5 bill.																																																									
Pfd Stock None Common Stock 908,793,777 shs.																																																									
MARKET CAP \$106 billion (Large Cap)																																																									
CURRENT POSITION																																																									
<table border="1"> <tr> <th></th> <th>2016</th> <th>2017</th> <th>9/30/18</th> </tr> <tr> <td>Cash Assets</td> <td>8527</td> <td>12580</td> <td>14663</td> </tr> <tr> <td>Receivables</td> <td>29245</td> <td>31630</td> <td>27087</td> </tr> <tr> <td>Inventory (Avg Cst)</td> <td>1553</td> <td>1583</td> <td>1893</td> </tr> <tr> <td>Other</td> <td>4563</td> <td>3942</td> <td>4614</td> </tr> <tr> <td>Current Assets</td> <td>43888</td> <td>49735</td> <td>48257</td> </tr> <tr> <td>Accts Payable</td> <td>6209</td> <td>6451</td> <td>5384</td> </tr> <tr> <td>Debt Due</td> <td>7513</td> <td>6987</td> <td>10932</td> </tr> <tr> <td>Other</td> <td>22553</td> <td>23925</td> <td>20506</td> </tr> <tr> <td>Current Liab.</td> <td>36275</td> <td>37363</td> <td>36822</td> </tr> </table>																			2016	2017	9/30/18	Cash Assets	8527	12580	14663	Receivables	29245	31630	27087	Inventory (Avg Cst)	1553	1583	1893	Other	4563	3942	4614	Current Assets	43888	49735	48257	Accts Payable	6209	6451	5384	Debt Due	7513	6987	10932	Other	22553	23925	20506	Current Liab.	36275	37363	36822
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BUSINESS: International Business Machines Corporation is a worldwide supplier of technology and business services, software, and systems hardware. 2017 revenue breakdown: Technology Services & Cloud Platforms, 43%; Global Business Services, 21%; Systems, 10%; Cognitive Solutions, 23%; Financing & Other, 3%. Geographic mix: Americas region, 48% of revenue; EMEA, 31%; Asia, 21%. R&D, 7.3% of '17 revenue. '17 depreciation rate: 14.0%. About 380,000 employees. Officers & directors control less than 1% of stock; The Vanguard Group, 6.88%; BlackRock, 6.2%; State Street, 5.6% (3/18 proxy). Chairman, Pres. & CEO: Virginia M. Rometty. Inc.: NY. Address.: New Orchard Road, Armonk, NY 10504. Tel.: 914-499-1900. Internet: www.ibm.com.

International Business Machines plans to acquire Red Hat. It is offering \$190 a share in cash for the provider of open-source software for cloud computing, in a transaction valued at \$34 billion. Directors of both companies have approved the deal, which is also subject to a vote by Red Hat shareholders and regulatory approval. IBM intends to finance the deal with cash and debt, and will suspend its stock-buyback program in 2020 and 2021. The purchase is strategic. IBM hopes the acquisition will assist it in helping businesses transition to cloud computing. There should be cross-selling opportunities. Too, Red Hat has an extensive developer ecosystem. IBM expects the combination to add 200 basis points to its five-year compound annual revenue growth rate; be gross-margin and cash-flow accretive in year one of the merger; and to add to earnings per share at the end of year two (but we assume it will dilute reported earnings in late 2019 and 2020). Our estimates and projections won't include Red Hat until the acquisition is completed in the latter half of 2019. Meanwhile, IBM is facing some headwinds. Currency shifts, which provided a revenue tailwind in the first half, turned into a headwind in the September quarter, clipping two percentage points from revenue growth. But global business services and strategic business revenues rose. Meanwhile, systems revenues, which advanced 10% in the year-earlier period, rose a modest 2%, as the rollout of IBM's new z14 mainframe computer in late 2017 annualized. The gross margin was flat, but selling expenses moderated. We think IBM ended 2018 on a weak note, and look for slight earnings progress in 2019. Absent another major new product introduction, systems revenues probably will fall back to a more sustainable level. It is also taking time for revenues from strategic imperatives (like cloud computing) to offset declines in more mature offerings. But efficiency initiatives might support better margins. IBM's dividend yield is attractive. But the company continues to struggle to reignite revenue growth, and the stock has below-average 3- to 5-year potential. It is also ranked unfavorably for Timeliness.

Theresa Brophy December 28, 2018

(A) Based on diluted shs. Excl. gains (losses) from discontinued operations; '03, (\$0.02); '04, (\$0.01); '05, (\$0.02); '06, \$0.05; '14, (\$3.65). In '17, excludes \$5.90 charge related to tax reform. Quarters may not sum due to change in shs. Next earnings report mid-January.	(B) Dividends historically paid in early March, June, September, and December. ■ Dividend reinvestment plan available. (C) In millions. (D) Incl. Intangibles. As of 9/30/18, \$39.7 billion, \$43.64/sh. (E) In '08, incl. \$15.2 bill. retirement benefit plan loss.	Company's Financial Strength A++ Stock's Price Stability 85 Price Growth Persistence 15 Earnings Predictability 90
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