

International Business Machines Corp. (IBM) 9/15/09

IBM operates in developing and manufacturing information technology products and services worldwide. The company's Global Technology Services division operates in IT infrastructure and businesses processes. The Global Business Services provides professional services and application outsourcing services. The Systems and Technology segment offers hardware products for businesses and customers. The Software segment offers operating systems, applications, and web applications. The company's Global Financing division provides financing for the purchasing of products and services.

Current Price	\$119.22
52 Week High	\$124.00
52 Week Low	\$69.50
One Yr Target	\$125.00
Market Cap (in billions)	\$156.29
P/E (Trailing)	12.75
P/E(1 Yr Forward)	11.13
P/E/G	1.31
ROA	11.26%
ROE	57.96%
EPS	\$9.35
Beta	0.79
Annualized Dividend	\$2.20
Dividend Yield	1.85%
Analyst Consensus	2.10



Annual EPS

2005	\$4.91	
2006	\$6.06	23.42%
2007	\$7.18	18.48%
2008	\$8.93	24.37%
2009E	\$9.35	4.71%

Annual Revenue (in millions)

2005	\$91,134.00	
2006	\$91,423.00	0.32%
2007	\$98,786.00	8.05%
2008	\$103,630.00	4.90%

Annual Net Income (in millions)

2005	\$7,934.00	
2006	\$9,491.00	19.62%
2007	\$10,418.00	9.77%
2008	\$12,334.00	18.39%

Required Rate of Return

9.01%

Dividend Growth Model

Present Value of 2013 Price	\$19.94
Holding Period Return (5 years)	-19.86%

Expected Annualized Return Model

Present Value of 2013 Price	\$226.71
Holding Period Return (5 years)	16.15%

Residual Income Model

Intrinsic Stock Price	\$90.56
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Analysis

Positives

Very good ROE and projected EPS numbers

Good ability to drive Revenue and Net Income even in a down economy over past years

Undervalued according to the EAR valuation model

Negatives

Overvalued according to the DG and RI valuation models

Financial Statements

Balance Sheet is decent but has been getting worse in the past year

Income Statement looks great with EPS, Revenue, and Net Income increasing over 4 years

Huge changes in Cash Flows between years, with it being negative in previous year

Industry Analysis

Company is the largest in the industry

Company has leading financial ratios across the board

Summary

IBM is a great company and also a great stock. All its financial numbers look good to great. It is an industry leader in every way and should continue to be. Most financial statements are decent, but the Income Statement is great with continued increasing profits through the slow economy. Only one valuation model, the EAR model, says that the stock price is undervalued, but it easily clears the hurdle rate. Much of IBM's business depends on the broad economy, and with the economy poised to turn IBM's revenue prospects look great. IBM should continue to grow profits and expand its operations to tap into new revenue streams. With all of this into consideration, IBM earns a **buy** rating.