

Mighty Value Pandas

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A History of IBM

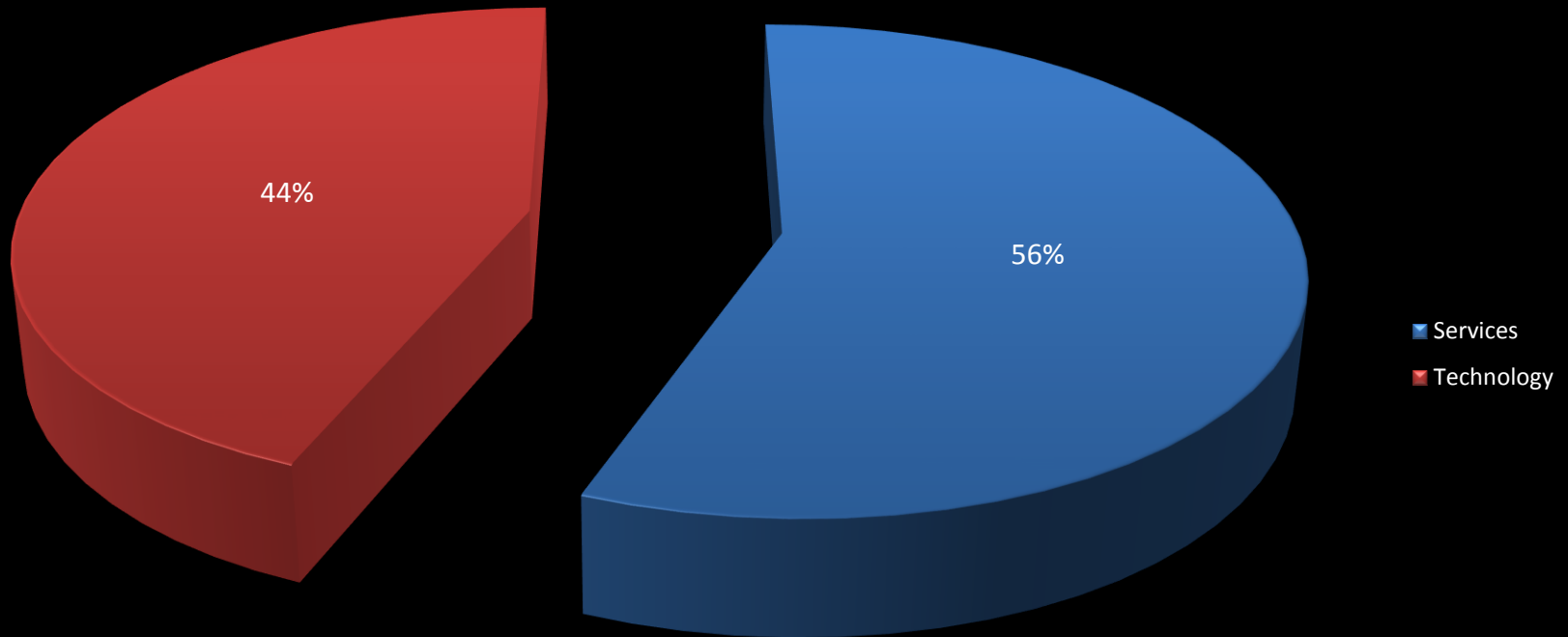
- **1911**- The Computing-Tabulating-Recording Company was founded (Renamed IBM in 1924)
- **1949**- Forms the World Trade Corporation to manage its foreign operations. In the span of two decades, the organization will generate more than half of IBM's bottom line.
- **1971**- Created the floppy disk.
- **1973**- Created the ATM.
- **1987**- Fifth employee wins Nobel Prize.
- **2000**- IBM is awarded the 2000 U.S. National Medal of Technology for the company's record of innovation in storage technology.

A History of IBM

- 2001- IBM is selected to build the world's most powerful computing Grid, an interconnected series of Linux clusters capable of processing 13.6 trillion calculations per second.
- 2002- IBM acquires PricewaterhouseCoopers global business consulting and technology services unit -- PwC Consulting.
- 2005- Sold its personal computer business to Lenovo.
- 2007- IBM acquires Cognos, a Canadian software company specializing in business intelligence. The acquisition supports IBM's global Information on Demand strategy.
- 2012- IBM was awarded more U.S. patents than any other company for the 20th consecutive year.

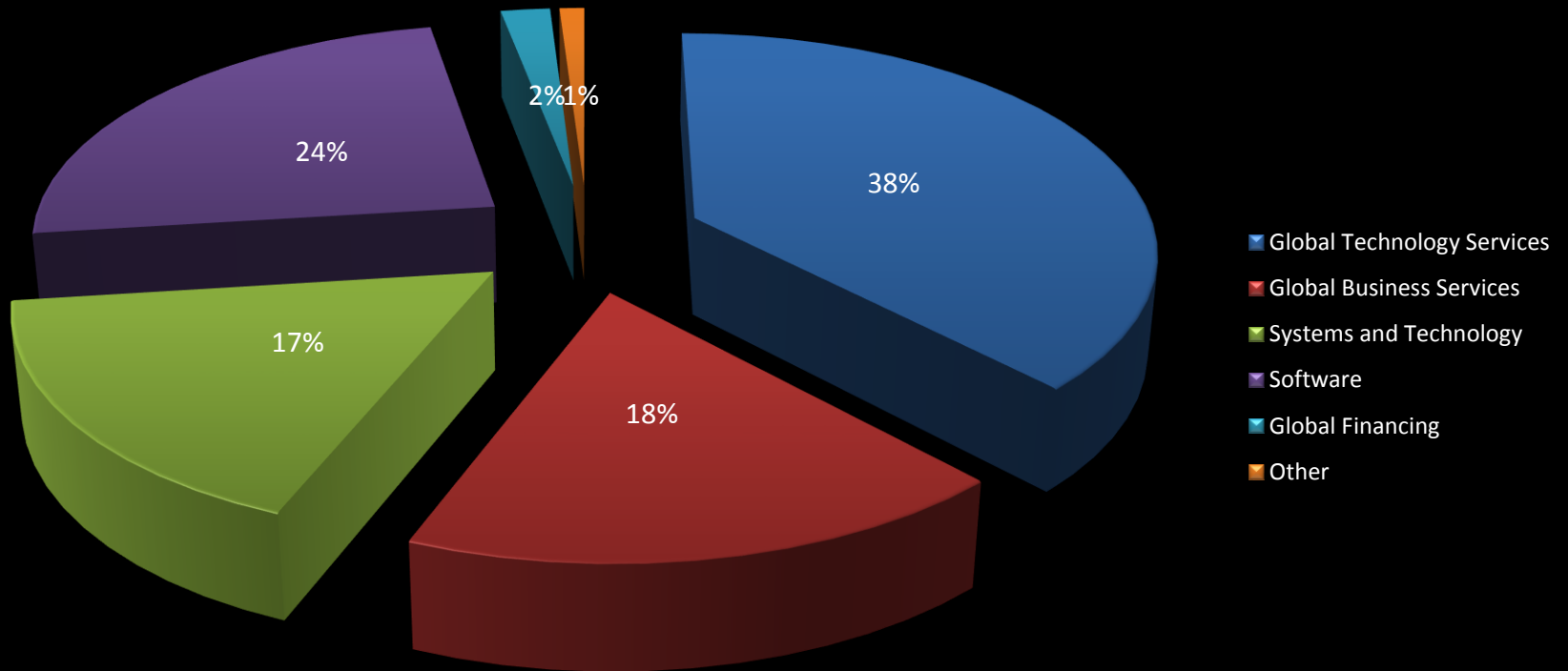
IBM – Broken into Revenues

Basic Revenue Breakdown



IBM – Broken into Revenues

Revenue Breakdown



Global Technology Services

- Broken into 4 Segments:
 - Strategic Outsourcing Services
 - Global Process Services
 - Integrated Technology Services
 - Technology Support Services
- 60% of External Global Services is annuity based

Global Business Services

- 2 Segments
 - Consulting
 - Application Management Services

Systems and Technology

- 3 Segments
 - Systems
 - Storage
 - Microelectronics
- Provides Clients with Business Solutions
 - Requiring advanced computing power and storage capabilities

Software

- 6 Segments
 - WebSphere Software
 - Information Management Software
 - Tivoli Software
 - Lotus Software
 - Rational Software
 - Operating Systems

Global Financing

- 3 Segments
 - Client Financing
 - Commercial Financing
 - Remanufacturing and Remarketing

Making Business Easier

- Big Data
- Cloud
- Smarter Planet

Big Data

- Gusher or “explosion” of Information
 - Massive Invisible Flow
- More Data is created in 2 days than was ever created before 2003

Cloud

- Wireless Access to servers stored at IBM
- Accessible from anywhere
 - Low cost to IBM
 - Low cost to businesses

Smarter Planet

- Smarter Commerce
 - Adapts processes to make customers focal point for firms
- Smarter Cities
 - Allows government to regulate regions and create growth
- Social Business
 - Uses technology to improve customer service and build a smarter workforce

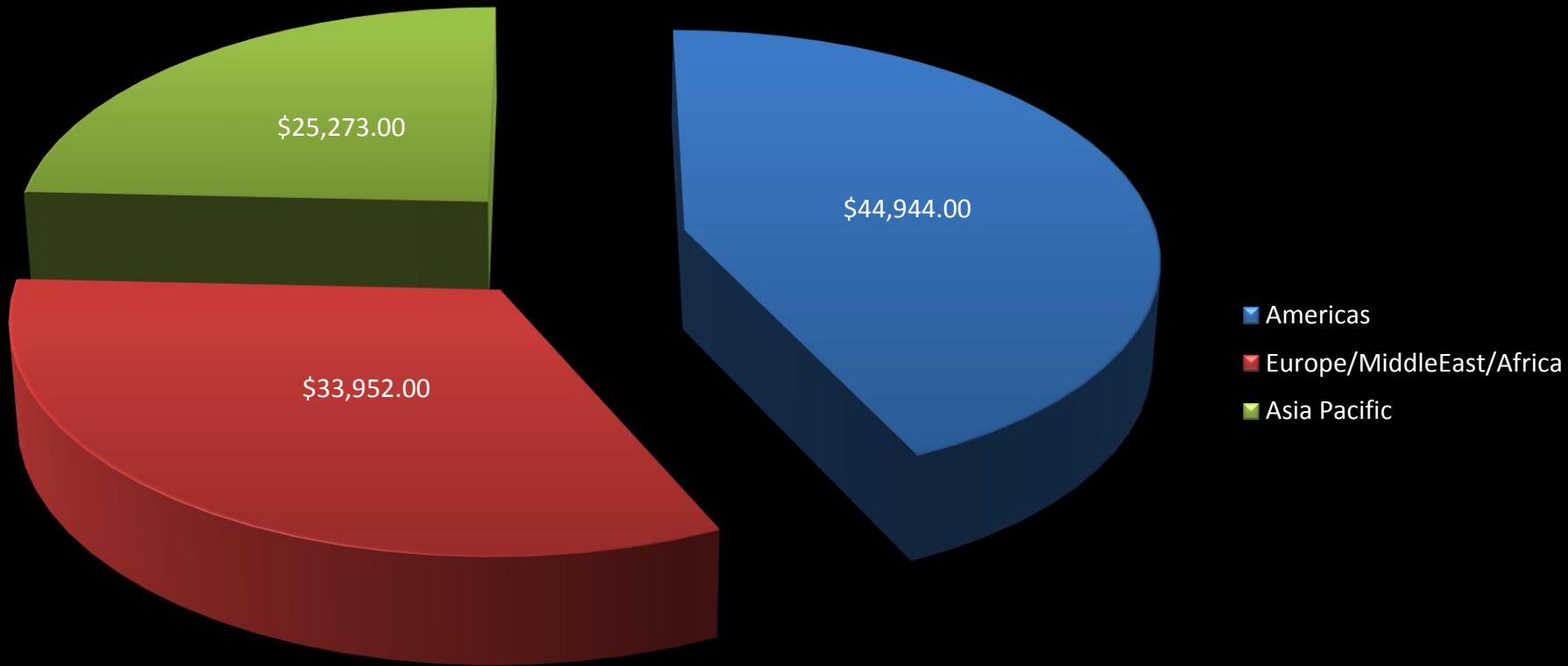
Goals going Forward

- Reach \$20 EPS by 2015
- Grow software to about 50% of profits
- Budgeted \$20 billion for acquisitions by 2015
- Return \$70 billion to shareholders
 - \$50 billion in stock repurchases
 - \$20 billion in dividend payout

Their Moat drives Profit

- Strategic Monopolies
 - Geographic
 - Patents through innovation
 - Economies of Scale
- Grown Net Profit Margin 9 years in a row
 - 8.5% in 2003
 - 15.9% in 2012

Revenue by Geography in Millions of US Dollars

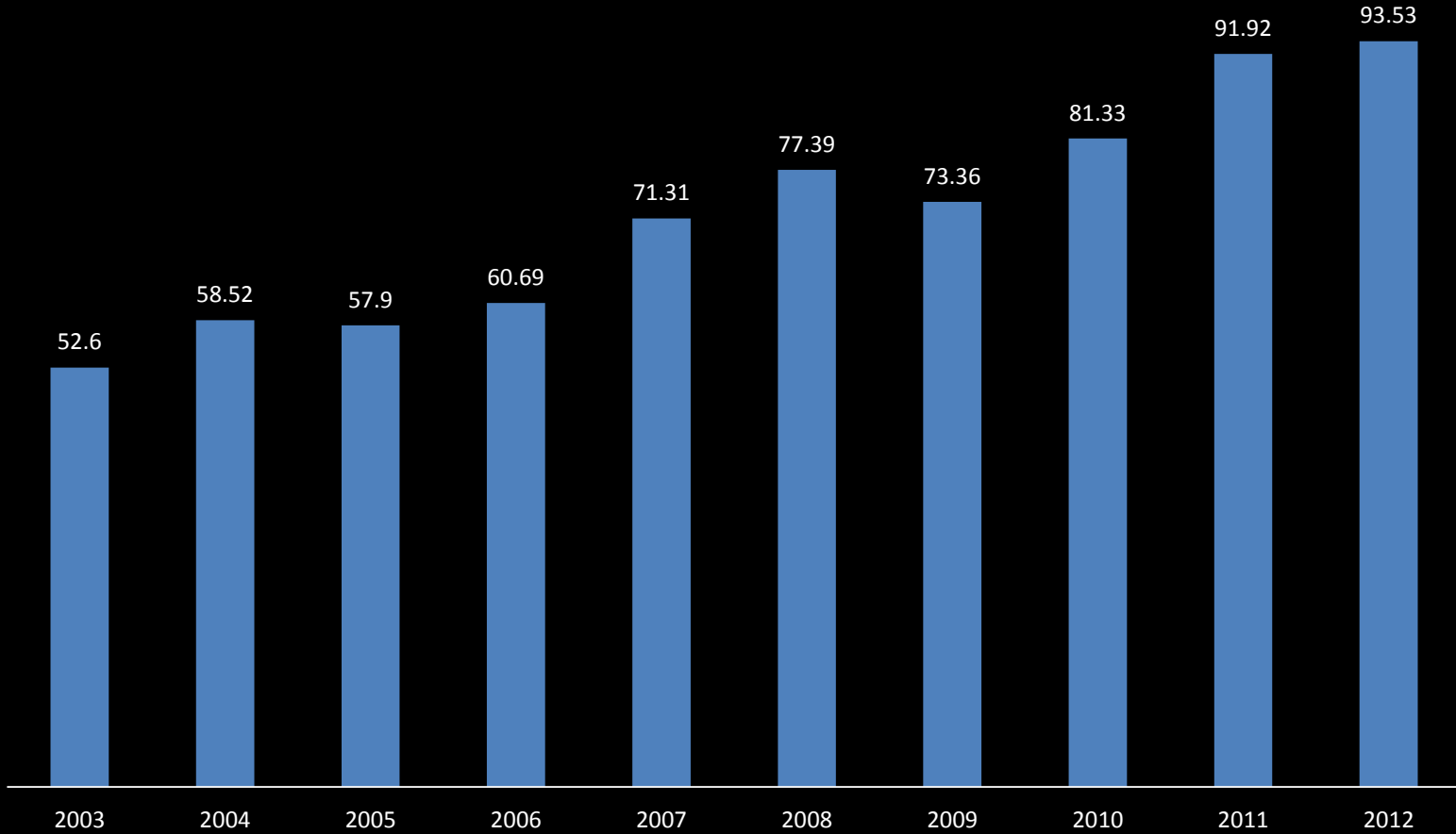


Acquisitions & Patents

- Since 2000 Acquired 140 Companies
- 11 Companies in 2012
- 6,478 Patents in 2012

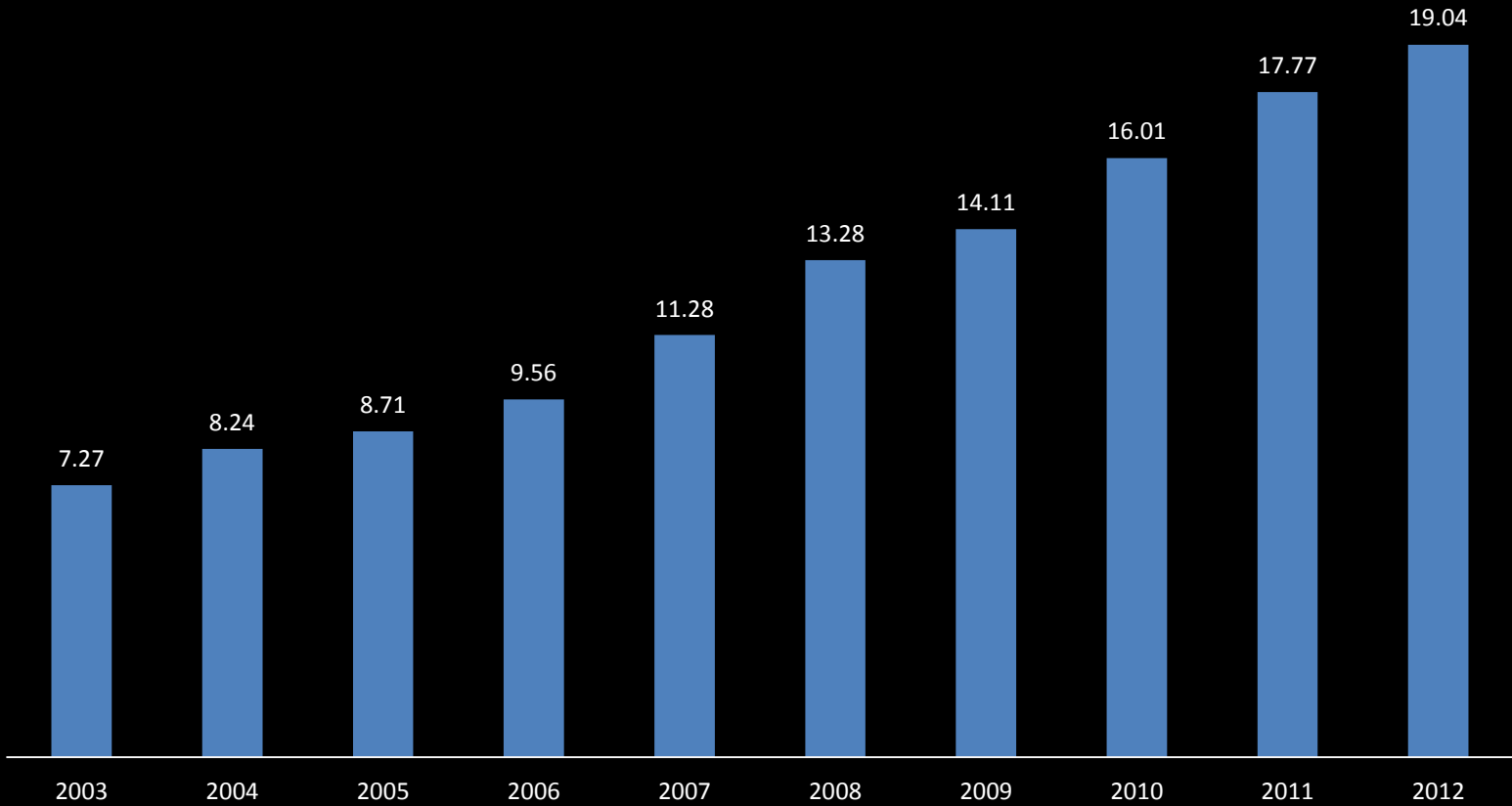
FINANCIAL RATIOS

Sales Per Share



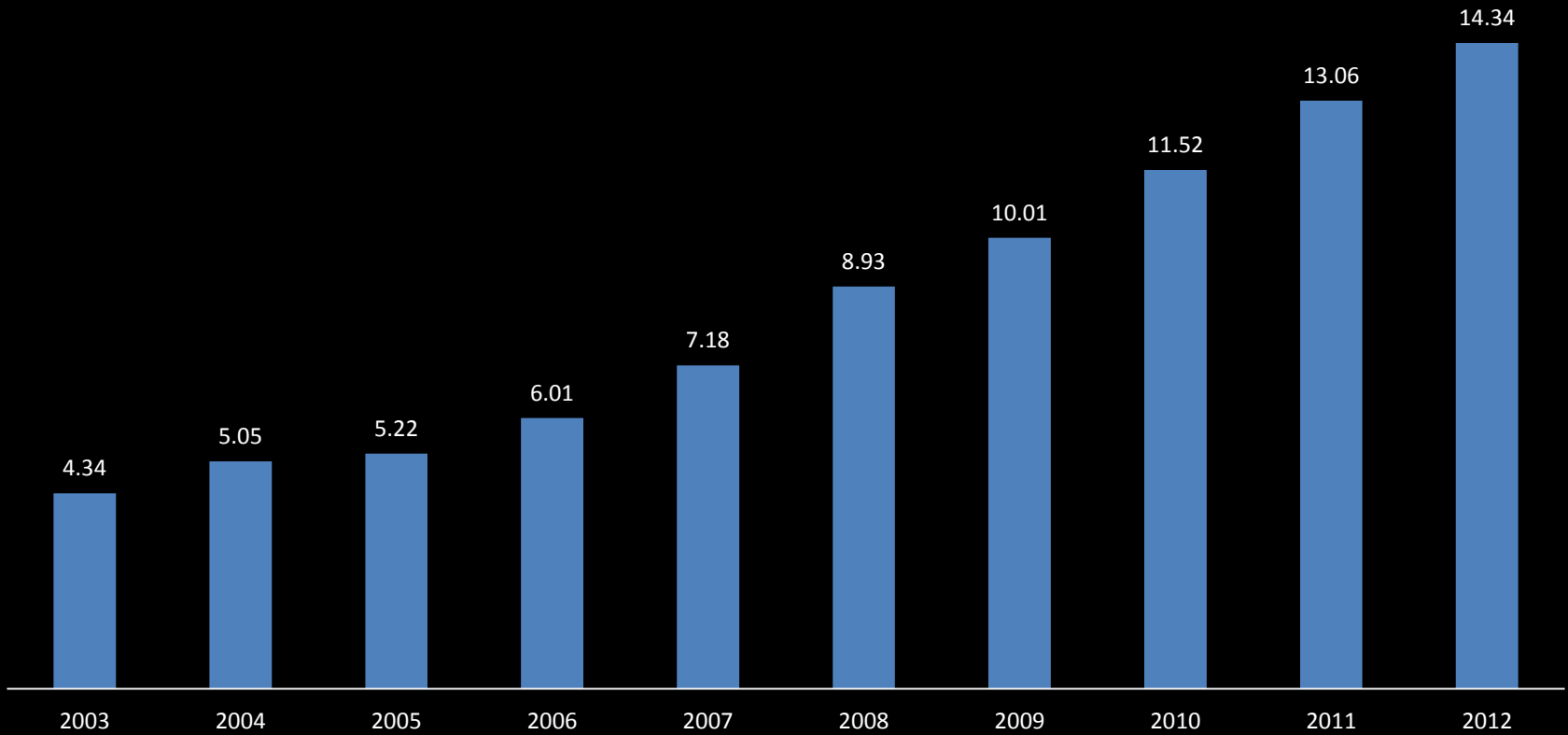
Sales per Share (has almost doubled)

Cash Flow per Share



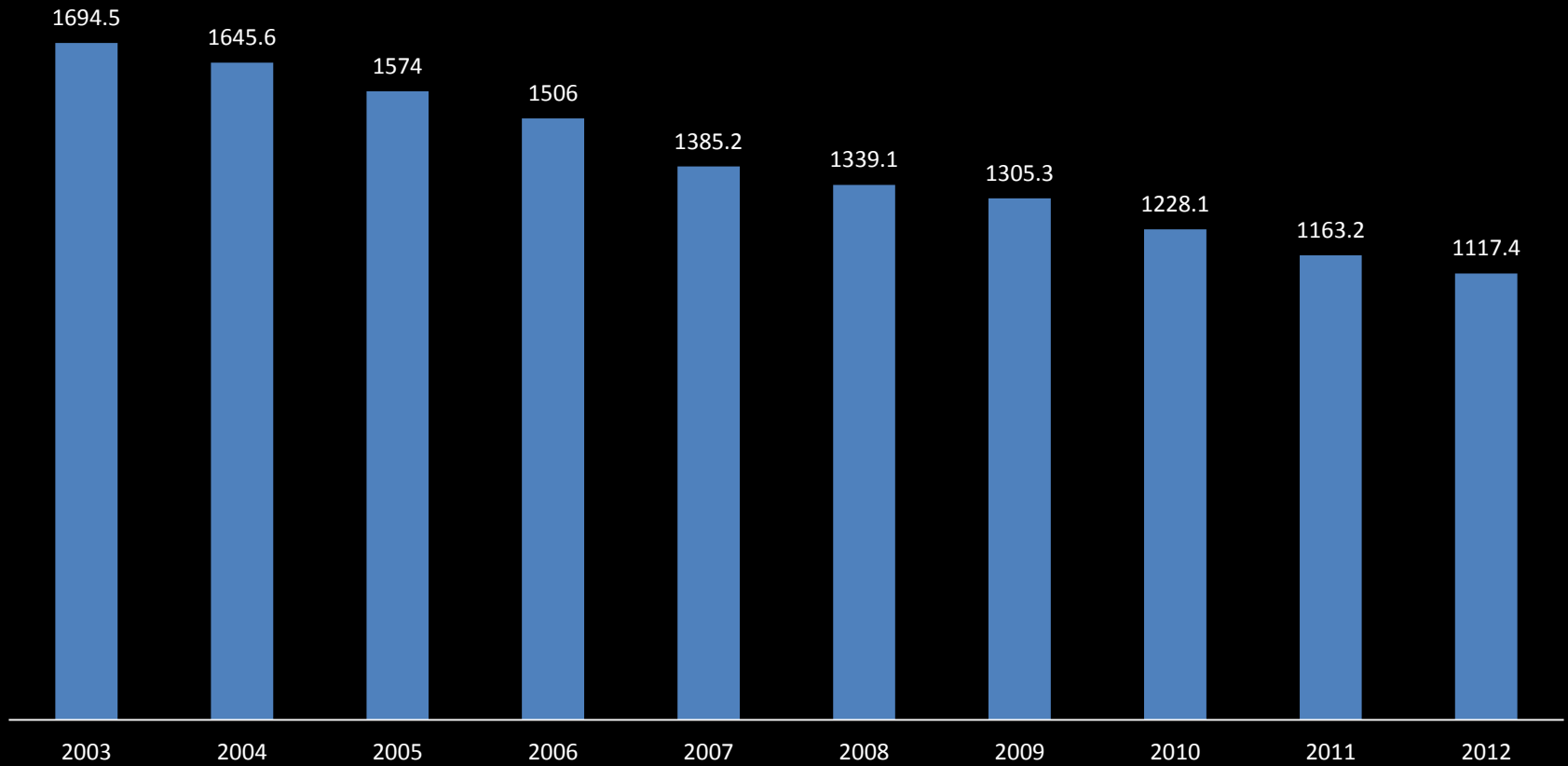
Cash Flow per Share (Has more than Doubled)

Earnings per Share



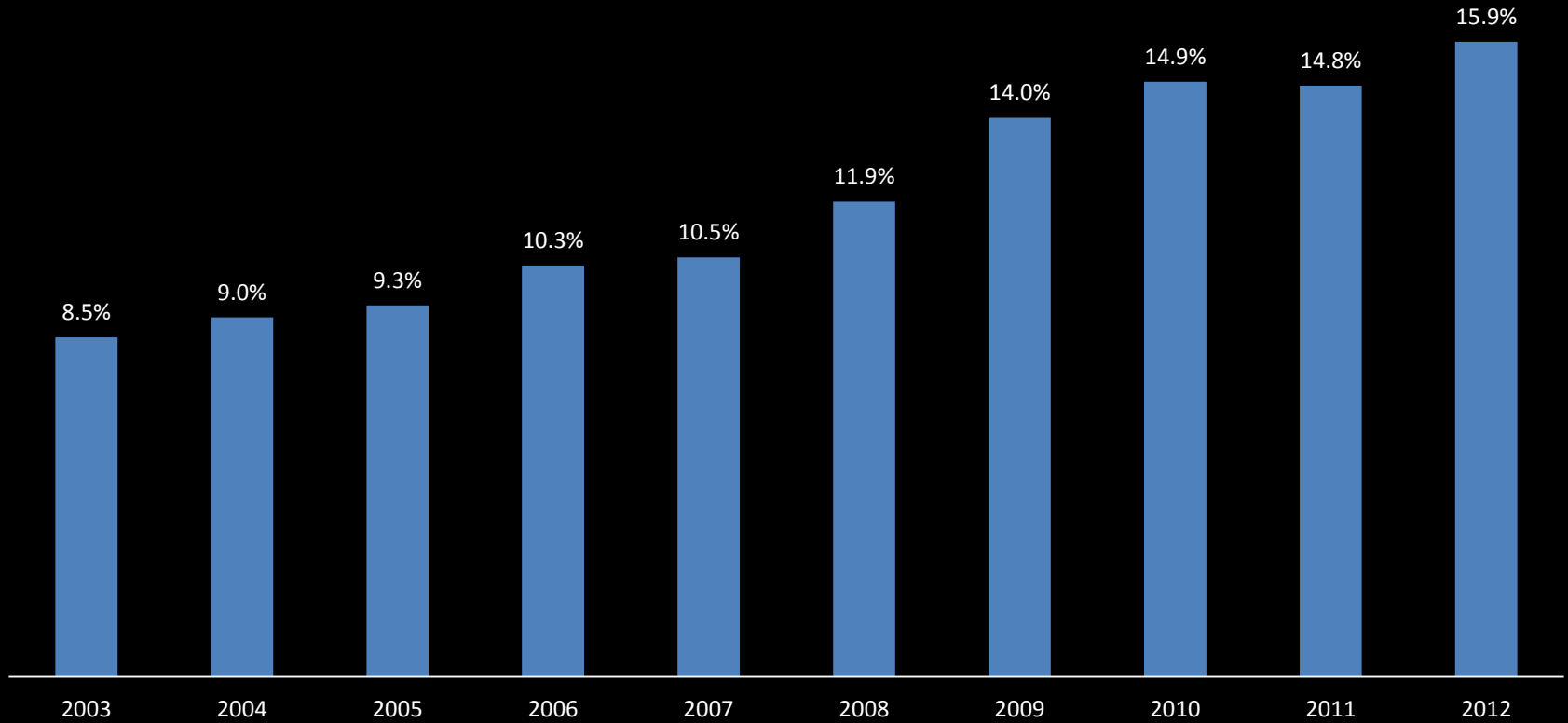
Earnings per Share (Has more than Tripled)

Common Shares Outstanding



Common Shares Outstanding (Decreased by 34% over past 10 Years)

Net Profit Margin



Net Profit Margin (Has almost doubled)

Main Financial Ratios

IBM Ratios	VALUE	Explanation
Current Price per Share	\$199.68	IBM is trading in the middle of its 52 week
Current PE	13.9	IBM typically trades for an average PE of 10.9 to 19.6 (PE has been compressing over the past 10
Return on Total Capital	39.50%	Currently at 39.5%, and it is expected to increase in the future. This easily meets Buffett's threshold
Return on Shareholder's Equity	88.00%	Currently at 88.0%, and it is expected to increase in the future. This easily meets Buffett's threshold
Gross Margin	48.10%	Gross margins have remained in the 37%-48.1% range over the past 10 years (Gurufocus.com)
Operating Margin	25.10%	Operating margin has remained in the 16.6%-25.1% range over the past 10 years.
Dividend Payout Ratio	23%	Dividend payout ratio is only 23% leaving enough cash in the company to expand operations.

ValueLine Financial Strength	A++ rating indicates tremendous strength
ValueLine Stock's Price Stability	Price stability is 95.
ValueLine Earnings Predictability	Earnings predictability is 100.

Conscious Investor Report

3 Year Default

Earnings Per Share (EPS)											EPSttm	Years	HGROWTH	STAEGR™	
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12		14.470	3	Calc	11.69%	99.61%
4.320	4.930	4.900	6.110	7.180	8.930	10.010	11.520	13.060	14.370						
Sales Per Share											Chart	Years	HGROWTH	STAEGR™	
52.600	58.516	57.900	60.687	71.314	77.388	73.359	81.329	91.917	93.530			3	Calc	7.24%	98.27%
											Current NPM		Chart		
											15.89				
Return on Equity (ROE)											Current ROE		Chart		
27.20	28.30	24.10	33.30	36.60	91.60	59.30	64.40	78.70	88.00		88.00				
Price Earnings Ratio (PE Ratio)											Current	Current PE		Chart	
21.90	20.40	20.20	16.00	16.90	14.70	13.30	12.80	14.90	14.70	14.92	High	13.43			
16.90	16.60	14.70	11.90	12.40	7.80	8.20	10.10	11.20	12.30	12.57	Low				
Price											Current	Current Price		Chart	
94.54	100.43	99.10	97.88	121.46	130.93	132.85	147.53	194.90	211.79	215.90	High	194.31			
73.20	81.90	71.85	72.73	88.77	69.50	81.76	116.00	146.64	177.35	181.85	Low				
Payout Ratio (PR)											Current PR		Chart		
15	14	16	18	21	21	21	22	22	23		23%				

STRETD®				TARGD®			
current year	26 Apr 2013	Price	194.31	current year		Req Return	10.0 %
Dividend Reinvestment Strategy		EPSttm	14.470	Dividend Reinvestment Strategy		EPSttm	14.470
<input checked="" type="radio"/> Buy additional shares <input type="radio"/> Invest at the rate below		PE Ratio	13.30	<input checked="" type="radio"/> Buy additional shares <input type="radio"/> Invest at the rate below		PE Ratio	13.30
Note: PE and PR Ratios are ave of 4 yrs		HGrowth	11.69 %	Note: PE and PR Ratios are ave of 4 yrs		HGrowth	11.69 %
		Payout	22 %			Payout	22 %
Investment Period	5 years	Tax - dividends	0 %	Investment Period	5 years	Tax - dividends	0 %
		Tax - capital gains	0 %			Tax - capital gains	0 %
Calculate	13.32% per year	Sync with TARG		Calculate	\$225.45	Sync with STRET	

3 Year Default

EPSttm	Years	HGROWTH	STAEGR™
14.470	3	Calc 11.69%	99.61%
Chart	3	Calc 7.24%	98.27%
		Current NPM	Chart
		15.89	
		Current ROE	Chart
		88.00	

3 Year Default

STRETD®	
current year	26 Apr 2013
Dividend Reinvestment Strategy	
<input checked="" type="radio"/> Buy additional shares	
<input type="radio"/> Invest at the rate below	
Note: PE and PR Ratios are ave of 4 yrs	
Price	194.31
EPSttm	14.470
PE Ratio	13.30
HGrowth	11.69 %
Payout	22 %
Investment Period	5 years
Tax - dividends	0 %
Tax - capital gains	0 %
Calculate	13.32% per year
Sync with TARG	

6 Year Default

12/12	EPSttm	Years	HGROWTH	STAEGR™
14.370	14.470	6 ▼	Calc 14.51%	97.66%
93.530	Chart	6 ▼	Calc 5.75%	96.81%
15.89			Current NPM 15.89	Chart
88.00			Current ROE 88.00	Chart

6 Year Default

STRETD®

current year 26 Apr 2013

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price	194.31
EPSttm	14.470
PE Ratio	13.30
HGrowth	14.51 %
Payout	22 %

Investment Period years

Tax - dividends %

Tax - capital gains %

per year

10 Year Default

12/12	EPSttm	Years		HGROWTH	STAEGR™
14.370	14.470	10 ▼	Calc	15.29%	95.86%
93.530	Chart	10 ▼	Calc	HGROWTH 6.69%	STAEGR™ 96.23%
15.89				Current NPM 15.89	Chart
88.00				Current ROE 88.00	Chart

10 Year Default

STRETD®	
current year	26 Apr 2013
Dividend Reinvestment Strategy	
<input checked="" type="radio"/> Buy additional shares	
<input type="radio"/> Invest at the rate below	
Note: PE and PR Ratios are ave of 4 yrs	
Price	194.31
EPSttm	14.470
PE Ratio	13.30
HGrowth	15.29 %
Payout	22 %
Investment Period	5 years
Tax - dividends	0 %
Tax - capital gains	0 %
Calculate	16.97% per year
Sync with TARG	

Safety

STRETD®	
current year	26 Apr 2013
Dividend Reinvestment Strategy	
<input checked="" type="radio"/> Buy additional shares	
<input type="radio"/> Invest at the rate below	
Note: PE and PR Ratios are ave of 4 yrs	
Price	194.31
EPSttm	14.470
PE Ratio	11.78
HGrowth	6.00 %
Payout	9 %
Investment Period	5 years
Tax - dividends	0 %
Tax - capital gains	0 %
Calculate	4.05% per year
Sync with TARG	

Kill it Now

STRETD®	
current year	26 Apr 2013
Dividend Reinvestment Strategy	
<input checked="" type="radio"/> Buy additional shares	
<input type="radio"/> Invest at the rate below	
Note: PE and PR Ratios are ave of 4 yrs	
Price	194.31
EPSttm	14.470
PE Ratio	10
HGrowth	6.00 %
Payout	9 %
Investment Period	5 years
Tax - dividends	0 %
Tax - capital gains	0 %
Calculate	0.83% per year
Sync with TARG	

Kill It Again

STRETD®

current year 26 Apr 2013

Dividend Reinvestment Strategy

Buy additional shares
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price	194.31
EPSttm	14.470
PE Ratio	10
HGrowth	5.2 %
Payout	9 %


Investment Period years

Tax - dividends %
Tax - capital gains %

per year

Guru Ownership

IBM is held by these Gurus:

 Click to exclude managers not in the List of Gurus.

Ticker	Guru Name	Portfolio Date*	Current Shares	% of Shares Outstanding	% of Total Assets Managed
IBM	Warren Buffett	2012-12-31	68,115,484	6.11	17.3
IBM	Jeremy Grantham	2012-12-31	5,334,954	0.48	3
IBM	James Barrow	2013-03-31	4,512,907	0.4	1.7
IBM	Ken Fisher	2013-03-31	3,149,765	0.28	1.79
IBM	Ruane Cunniff	2012-12-31	1,486,409	0.13	2.1
IBM	David Williams	2011-12-31	1,000,000	0.09	4.1
IBM	Diamond Hill Capital	2013-03-31	803,939	0.07	1.8
IBM	Chris Davis	2012-12-31	734,945	0.07	0.37
IBM	Pioneer Investments	2012-12-31	463,386	0.04	0.4
IBM	Jim Simons	2012-12-31	414,000	0.04	0.26

Buffettology

Metric	IBM	Buffett's Threshold	Meets Threshold?
Gross Profit Margin	48.13%	>40%	Yes
Net Profit Margin	15.89%	10-20%	Yes
Depreciation/ Gross Profit	9.3%	<10%	Yes
Interest/ Operating Income	2.25%	<15%	Yes
Current Ratio	1.13	>1	Yes
Long Term Debt/ Net Earnings	2.73 Years	<5 (<3 preferred)	Yes
SG&A Expenditures/ Gross Profit	46.83%	<30%	No
Capital Expenditures/ Net Profit	24.58%	<25%	Yes

Buffettology, cont.

Metric	2007	2008	2009	2010	2011	2012
Net Revenue	\$10,418	\$12,334	\$13,425	\$14,833	\$15,855	\$16,604
Cash Balance	\$16,146	\$12,907	\$13,974	\$11,651	\$11,922	\$11,129
Goodwill	\$14,285	\$18,226	\$20,190	\$25,136	\$26,213	\$29,247
Intangibles	\$2,107	\$2,878	\$2,513	\$3,488	\$3,392	\$3,787
Share Buybacks	\$14,705	\$10,578	\$7,429	\$15,375	\$15,046	\$11,995

(dollar amounts in millions)

- **No Preferred Stock**
- **Free Cash Flow Yield: 6.71%**
- **Earnings Yield: 7.17%**
- **Return on Assets: 13.93%**

Buffettology, cont.

Metric	IBM	Buffett's Threshold	Meets Threshold?
Return on Equity	88.04%	>15%	Yes
Return on Capital	25.88%	>15%	Yes
Dividend Payout Ratio	23%	<60%	Yes
Dividend Yield	1.70%		
Debt/Equity Ratio	0.71	<0.8	Yes

DuPont Analysis

Metric	IBM
Net Profit Margin	15.89%
Total Asset Turnover	0.877
Financial Leverage Multiplier	6.321
Return on Equity	88.04%

Van Den Berg Metrics


Valuation Ratio	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average
PE Ratio(ttm)	21.02	19.6	16.57	15.67	14.73	9.28	12.91	12.49	13.83	13.14	14.92
Price to Tangible Book Ratio	4.41	4.36	3.38	5.51	--	--	--	--	--	--	--
Price-to-Free-Cash-Flow Ratio	15.92	15.1	11.83	15.04	14.43	7.79	10.02	12.08	13.93	14.08	13.02
Price-to-Sales Ratio	1.79	1.71	1.44	1.62	1.55	1.1	1.81	1.86	2.06	2.09	1.70
EV-to-Revenue	1.96	1.83	1.52	1.73	1.71	1.29	1.93	1.99	2.2	2.27	1.84
EV-to-EBITDA	11.79	11.07	9.52	9.37	9.02	6.25	8.12	8.66	9.36	9.35	9.25
EV-to-EBIT	17.28	16.03	14.8	13.28	12.48	8.39	10.41	10.96	11.58	11.46	12.67
Earnings Yield (Joel Greenblatt)	5.8	6.2	6.8	7.5	8	11.9	9.6	9.1	8.6	8.7	8.2
Forward Rate of Return	-3.39	2.15	8.14	18.9	18.02	19.8	25.08	21.87	18.86	15.21	14.46
Shiller PE Ratio	12.88	22.35	18.05	20.2	20.1	13.05	17.54	17.22	18.33	16.23	17.60

DCF-10 Year Earnings Growth

Enter Symbol: (Price: USD 199.70)

Earnings Per Share : USD ?

Growth Rate In the Next: Years: % ← ?

Business Predictability  ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

Tangible Book Value: **USD -12.72** (not added to Fair Value) ?

Growth Value: **USD 171.06** ?

+ Terminal Value: **USD 132.18** ?


= Fair Value: USD 303.23 ?


Margin Of Safety: 34%

DCF-5 Year Earnings Growth

Enter Symbol: (Price: USD 199.70)

Earnings Per Share : USD ?

Growth Rate In the Next: Years: %  ?

Business Predictability  ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

Tangible Book Value: **USD** (not added to Fair Value) ?

Growth Value: USD 151.88 ?

+ Terminal Value: USD 107.1 ?


= Fair Value: USD 258.98 ?

Margin Of Safety: 23%

DCF-Breakeven

Enter Symbol: (Price: USD 199.70)

Earnings Per Share : USD ?

Growth Rate In the Next: Years: %  ?

Business Predictability  ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

Calculate

Tangible Book Value: **USD** (not added to Fair Value) ?

Growth Value: **USD** 124.92 ?

+ Terminal Value: **USD** 74.67 ?

= Fair Value: USD 199.59 ?

Margin Of Safety: **0%**

IBM

- Predictable:
 - Steadily Growing Efficiency ratios
- Understandable:
 - Service based company that augments other businesses
- Sustainable:
 - Strategic Monopolies that protect it
- Undervalued:
 - Missed Earnings by \$0.05 so good opportunity

Recommendation

- Put Expiring June 21st
 - Strike price \$200
 - Premium of \$4.50
 - Break-even of \$195.50
 - Annualized return of 19.1%