



The Berkshire Hathaway's

CEO Ernest Stephenson, CBO Jacob Bravo,
CIO Kelli Gohmert, CRO Eli Von Berg,
CFO Tasha Phillips



Mission Statement

“IBM is an innovation company. Both in what we do and how we do it, we pursue continuous transformation – always remixing to higher value in our portfolio and skills, in the capabilities we deliver to our clients and in our own operations and management practices.”



History

- **1911**-The Computing-Tabulating-Recording Company was founded
- **1924**- C-T-R was renamed International Business Machines Corporation (IBM)
- **1960's**- Shift from bundled business sales to individual sales
- **1973**- Introduced first Automatic Teller Machine (ATM)
- **1981**- First IBM personal computer
- **1990's**- Rise of the server
- **2000's**- Decreased hardware manufacturing/ emphasis on consulting for IT and process solutions
- **2012**- IBM was awarded more patents than any other company for the 20th consecutive year



Recent News

- Missed 2013 4th quarter revenues
- Top executives forgoing incentive based pay
- Implementing job cuts
- Louisiana pension lawsuit
- Economic reform in China causes drop in sales
- Agreed to sell low-end x86 process server business to Lenovo for \$2.3 billion
- Invested \$1.2 billion more in Softlayer
- Invested \$1 billion in new Watson business unit



Business Model

- **Principal Goals**
 - Help clients to become more innovative, efficient and competitive
 - Provide long-term value to shareholders
- **Business Segments**
 - Global Technology Services
 - Global Business Services
 - Software
 - Systems and Technology
 - Global Financing



Global Technology Services

- **Global Technology Services (GTS)**
 - Provides IT infrastructure services and business process services
 - Delivers business value through global scale, standardization, and automation.
- **Capabilities**
 - Strategic Outsourcing Services
 - Global Process Services
 - Integrated Technology Services
 - Maintenance
 - GTS Services Delivery



Global Business Services

- **Global Business Services (GBS)**
 - Provides professional services and application management services
 - Delivers business value and innovation to clients through solutions
- **Capabilities**
 - Consulting and Systems Integration
 - Application Management Services



Software

- Software consists primarily of middleware and operating systems software.
- **Capabilities**
 - WebSphere
 - Information Management Software
 - Tivoli Software
 - Lotus Software
 - Rational Software
 - Security Systems Software
 - Operating Systems



Systems and Technology

- **Systems and Technology**
 - Provides clients with business solutions requiring advanced computing power and storage capabilities
- **Capabilities**
 - Systems
 - Storage
 - Retail Store Solutions
 - Microelectronics



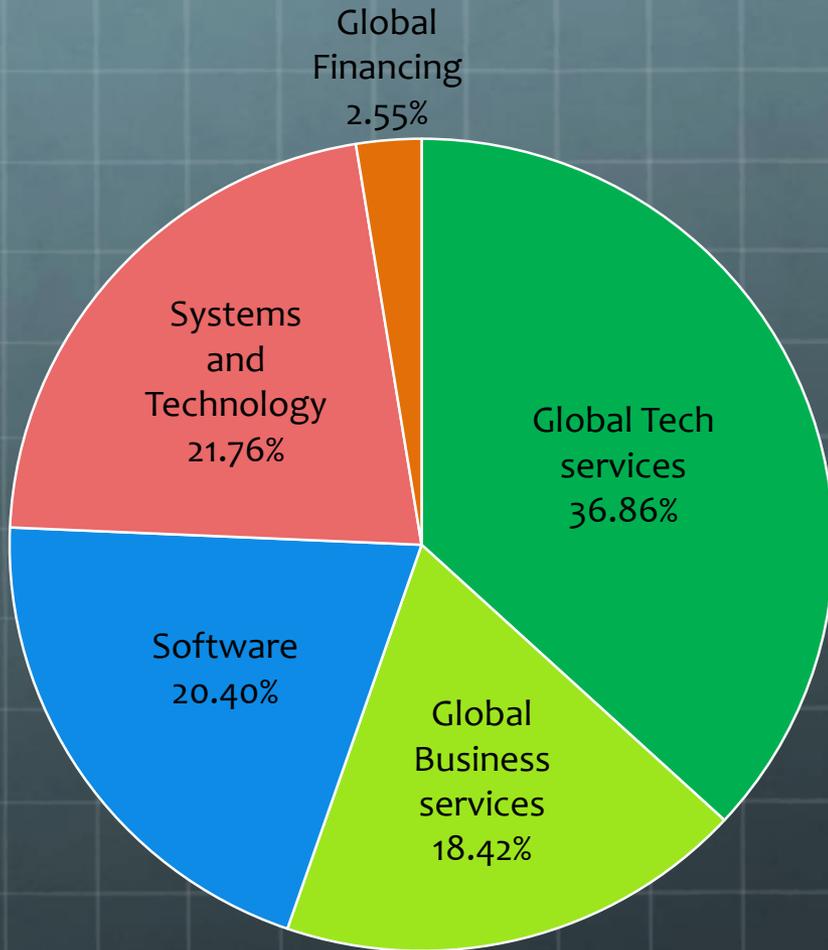
Global Financing

- **Global Financing**
 - Facilitates clients' acquisition of IBM systems, software and services.
- **Capabilities**
 - Client Financing
 - Commercial Financing
 - Remanufacturing and Remarketing

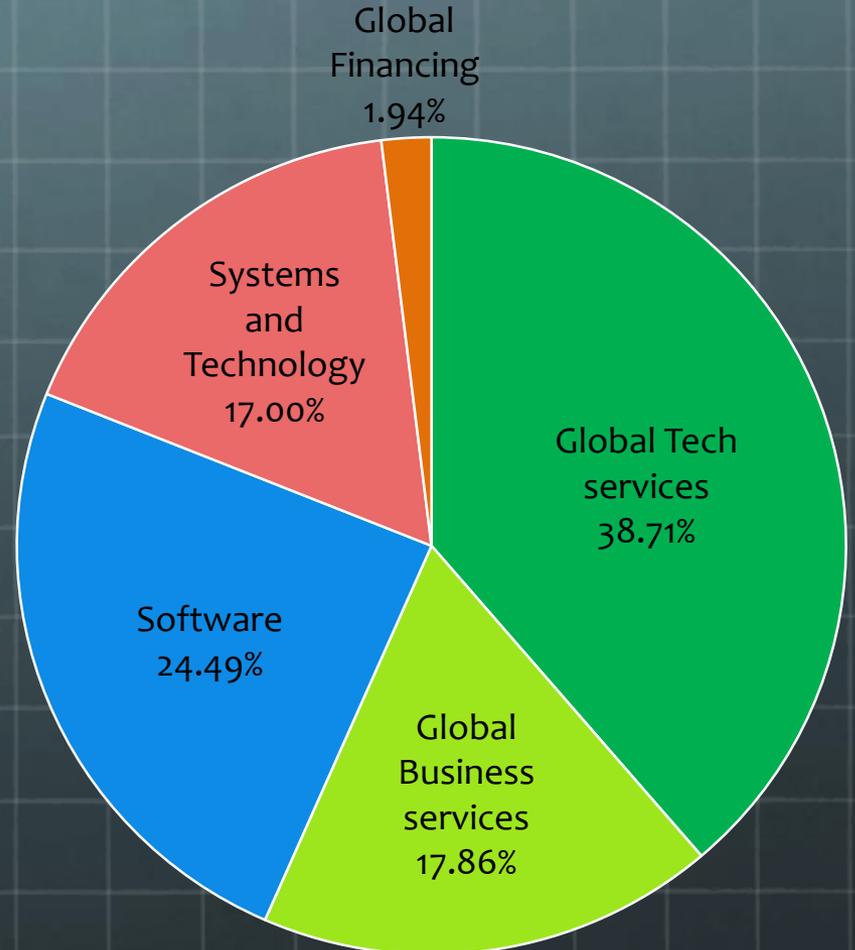


Revenue by Segment

Revenue (2007)



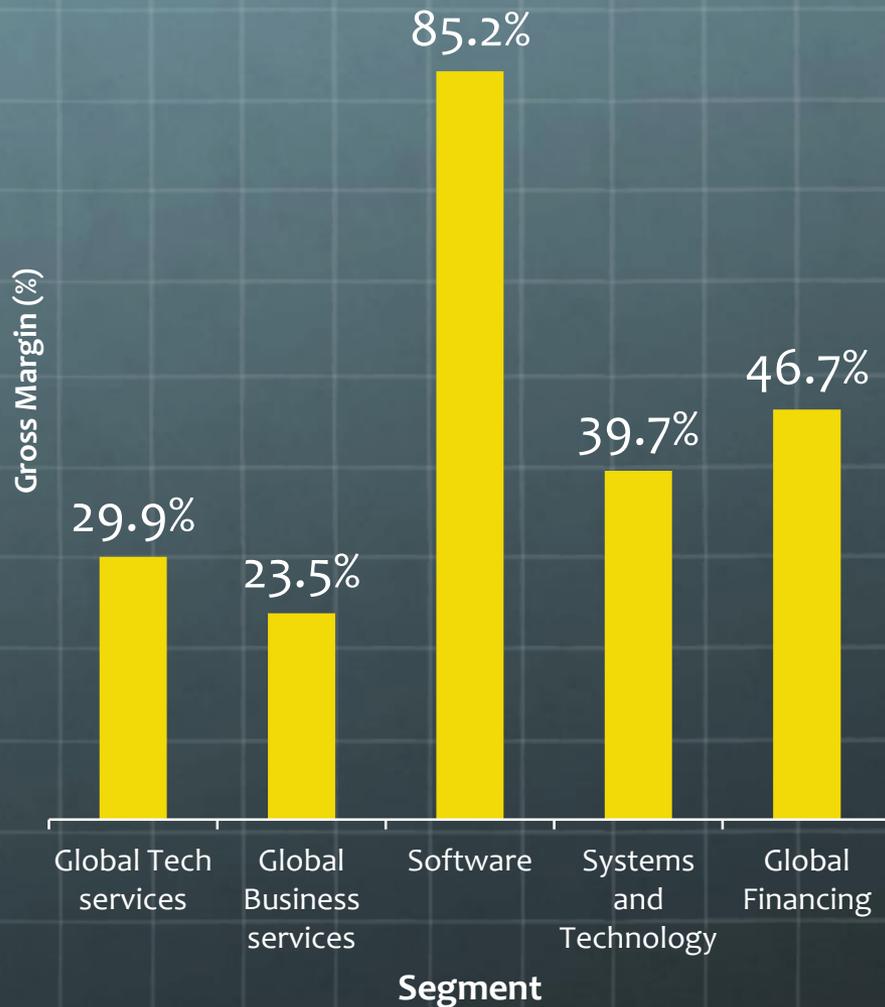
Revenue (2012)



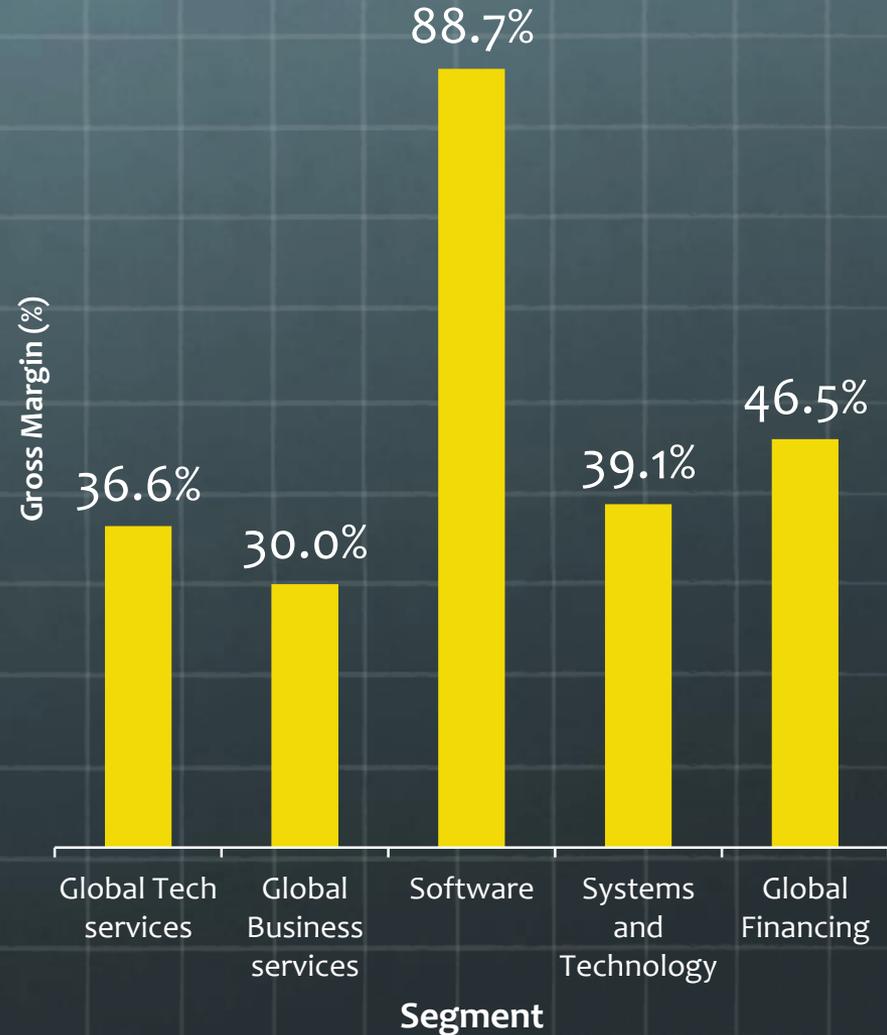


Gross Margin by Segment

Gross Margin (2007)



Gross Margin (2012)





Growth Initiatives

- **Smarter Planet**
 - Smarter Commerce
 - Smarter Cities
- **Growth Markets**
 - Africa
- **Business Analytics and Optimization**
 - Watson
- **Cloud Computing**
 - SmartCloud
 - SoftLayer



Smarter Planet

- Technology-enabled world that is more instrumented, interconnected, and intelligent.
- Enables people and organizations to tackle significant business and societal challenges.
- **Smarter Commerce**
 - Integrates and transforms how companies manage and adapt their buy, market, sell and service processes
- **Smarter Cities**
 - Enables local governments to make smarter decisions, anticipate issues and coordinate resources more effectively, and deliver citizen-centric services that underpin sustainable economic growth.



Let's build a smarter planet.



Watson

- **Cognitive supercomputer capable of understanding natural language and context**
 - Healthcare
 - Finance
 - Cross-industry
 - Platform for start-ups
- **\$1 billion invested in new Watson business unit**
- **Projected revenue**
 - 2018: \$1 billion
 - 2023: \$10 billion





Cloud Computing

- **SmartCloud**
 - Products
 - Solutions
 - Services
- **SoftLayer**
 - \$1 billion in revenue in 2012
 - IBM invested \$1.2 billion in 2013 to double hosting capabilities





Risk Factors

- **Technology Risk**
 - May not be able to obtain Intellectual Property licenses necessary to prevent competitive offerings
 - Cybersecurity and Privacy Considerations
 - Failure of Innovation Initiatives
- **Business Risks**
 - Subject to economic environment and IT spending budgets
 - May not meet its growth and productivity objectives
 - Local legal, economic, political and health conditions
 - Substantial costs for environmental matters
 - Tax Matters
 - Relationships with critical suppliers and distributors



Risk Factors cont.

- **Personnel Risk**
 - Loss of skilled personnel
- **Acquisition Risk**
 - Failure to achieve objectives of acquisitions
 - Investing in growth opportunities



Competitors

- **Global Services:**

- Accenture
- Computer Sciences Corporation
- Fujitsu
- Hewlett-Packard Company

- **Software:**

- Computer Associates, Inc.
- Microsoft Corporation
- Oracle Corporation

- **Systems and Technology:**

- Cisco Systems, Inc.
- Dell, Inc.
- EMC Corporation
- HP
- Oracle
- Amazon

- **Global Financing:**

- Cisco
- Hewlett-Packard



Competitive Advantages

- **Aspera acquisition**
 - Delivers the industry's fastest transmission speeds over any network link
 - 2GB video across country reduced from 3.5 hours to 5 minutes
 - Patented
- **Softlayer and software**
 - Non-commodity
 - Launching over 100 cloud products and over 40 cloud services in 2014
- **Incentivized management and workforce**
 - Principal goals



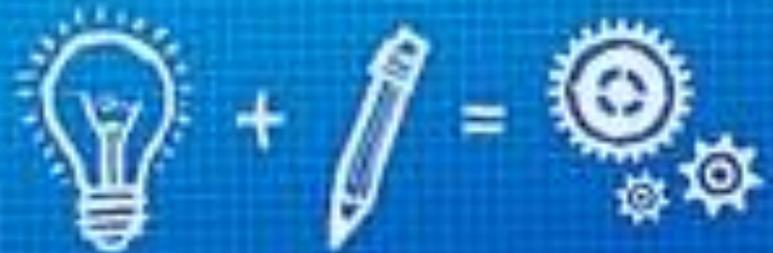
Protective Moat

- **Barriers to entry**
 - Largest mathematics department of any public company.
 - Research and Development operations
 - Over \$6 billion invested, annually
- **2012 was the 20th consecutive year IBM has been the patent leader**
- **“Sticky” business**
 - High switching costs
 - Integrated IT solutions : hardware, software, and services
 - Relationships



What does IBM do?

- Manufacture and sell computer hardware and software
- Offer consulting services
- Solve problems
- Innovate technology

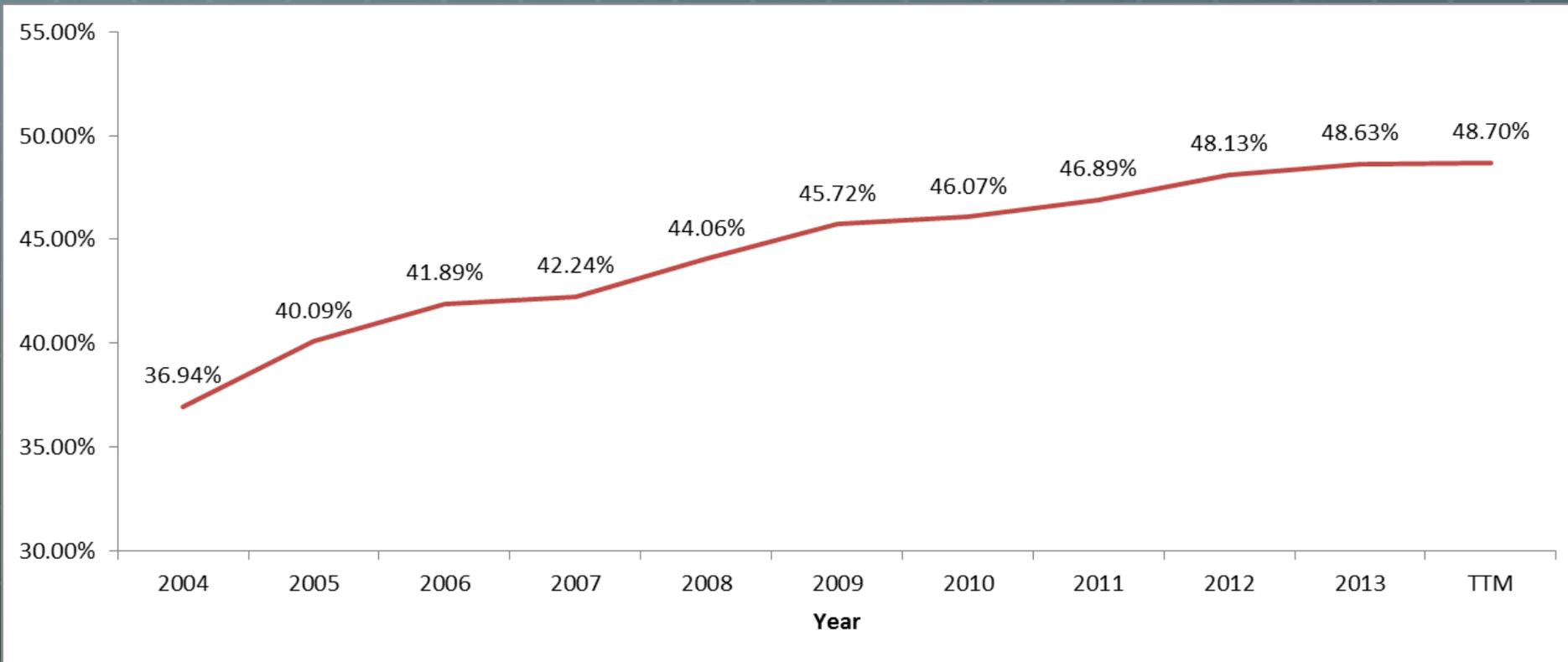


IBM[®] Interpretation of Financial Statements

Gross Profit Margin	48.70%	> 20%	Yes
% SGA	47.48%	< 80%	Yes
% Depreciation	9.35%	< 10%	Yes
Interest % of OP	2.02%	< 10%	Yes
Net Profit Margin	15.92%	> 10%	Yes
Current Ratio	1.21	> 1	Yes
Obligation Ratio	2.88	< 5	Yes
Adj. Debt to Shareholder Equity	0.65	< 0.8	Yes
Return on Equity	81.16%	> 15%	Yes
Return on Capital	33.36%	> 15%	Yes
Dividend Payout Ratio	24.73%	< 60%	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	22.06%	< 25%	Yes



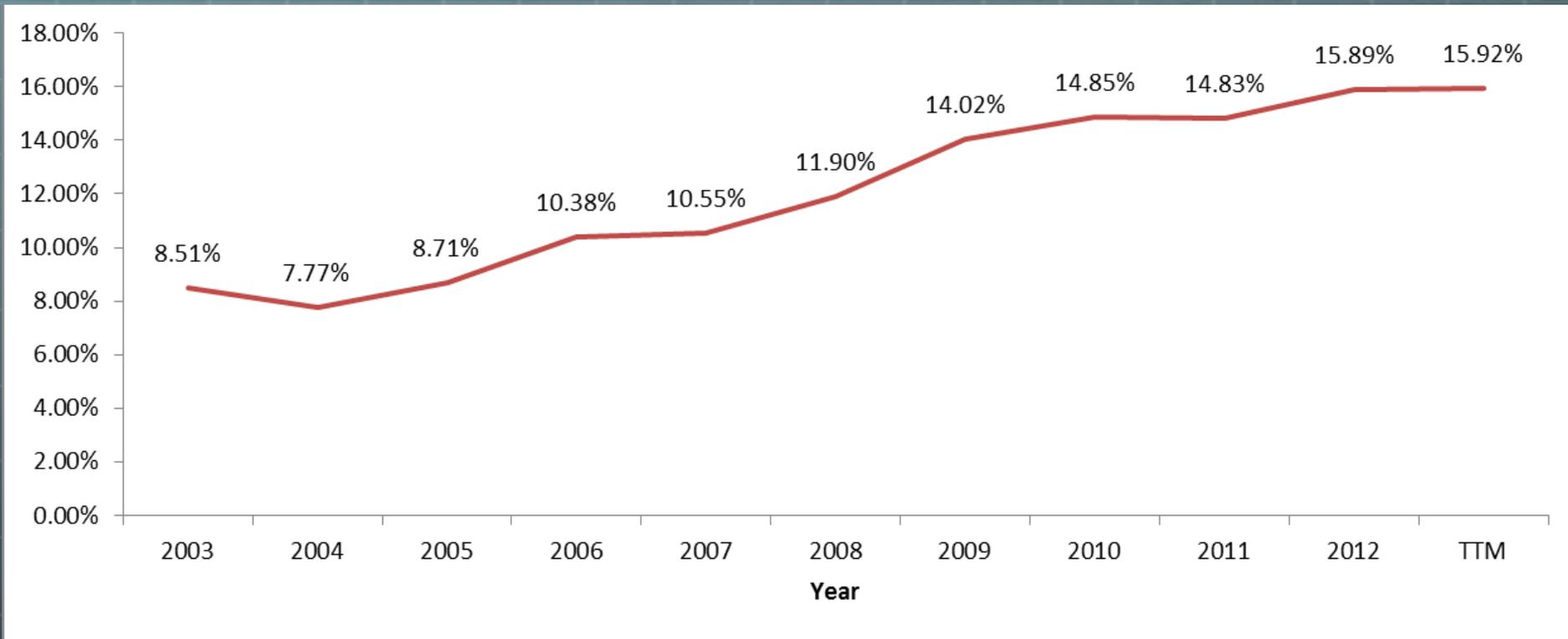
Gross Profit Margin



Gross Profit Margin as % = $\frac{\text{Gross Profit}(\$)}{\text{Revenue}(\$)}$



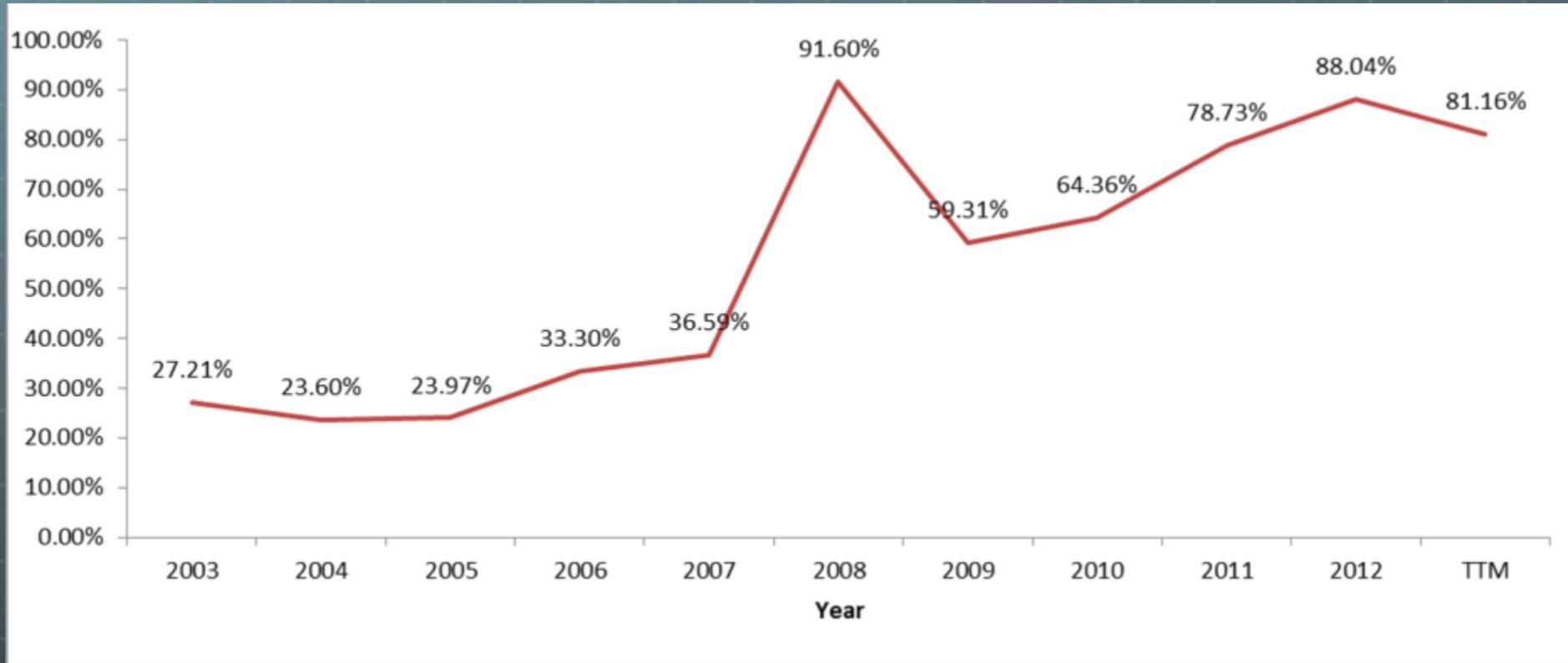
Net Profit Margin



$$\text{Net Profit Margin as \%} = \frac{\text{Net Profit}(\$)}{\text{Revenue}(\$)}$$



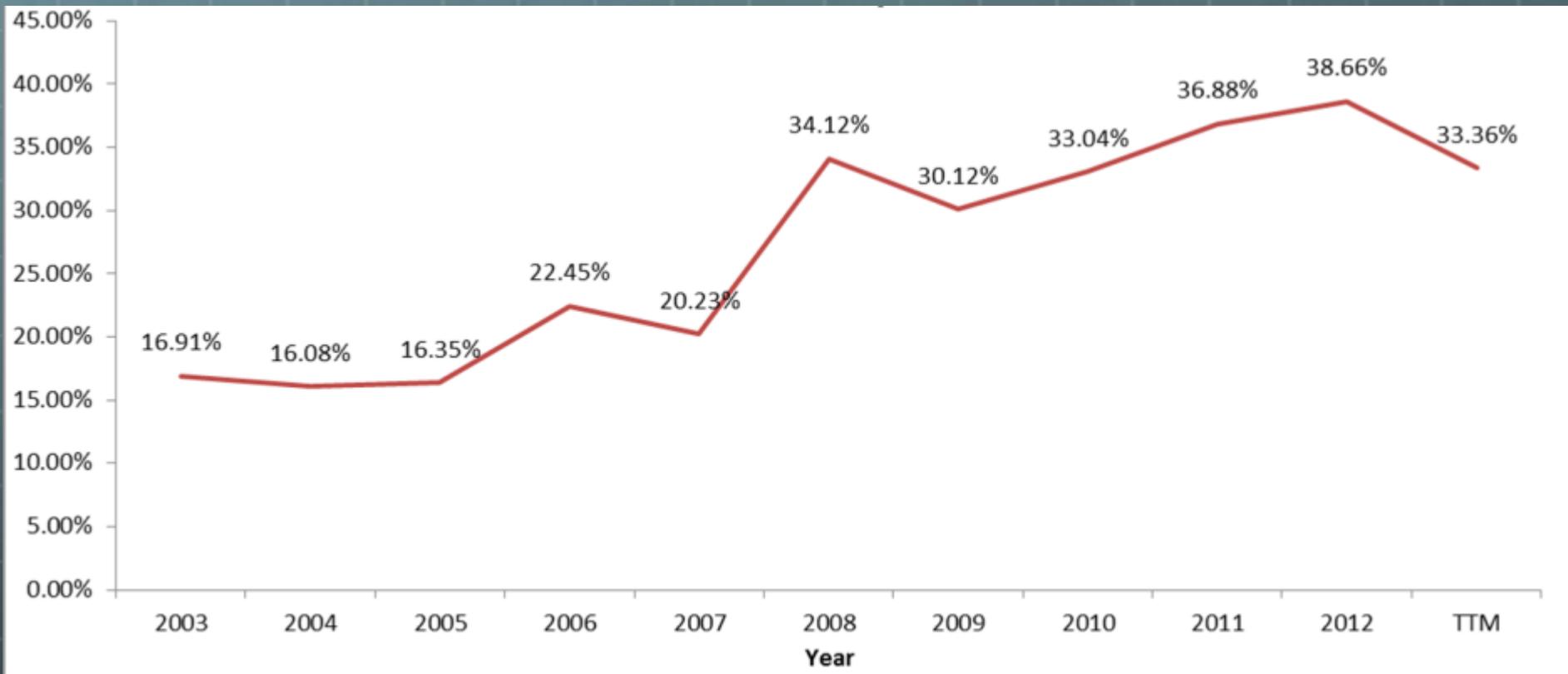
Return on Equity



Return on Equity as % = $\frac{\text{Net Profit}(\$)}{\text{Total Equity}(\$)}$



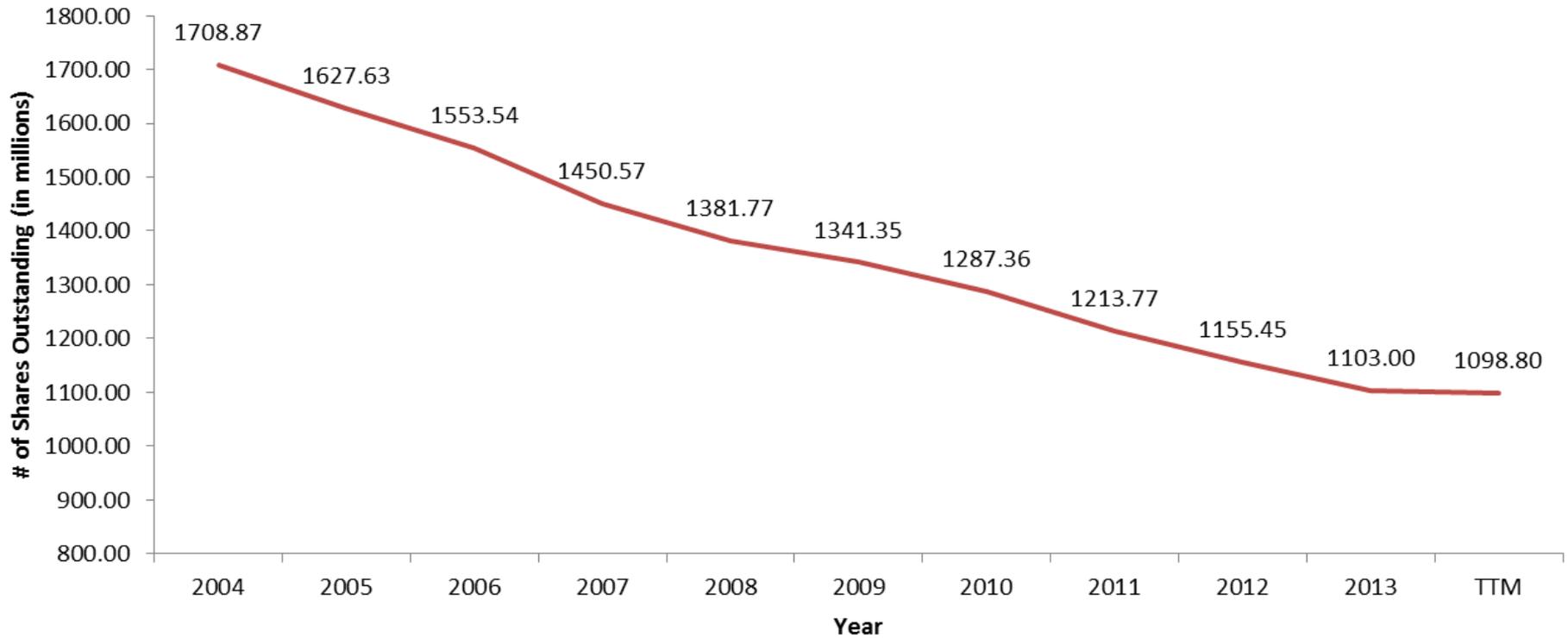
Return on Capital



Return on Capital as % = $\frac{\text{Net Profit}(\$)}{\text{Total Equity} + \text{Long Term Debt}(\$)}$

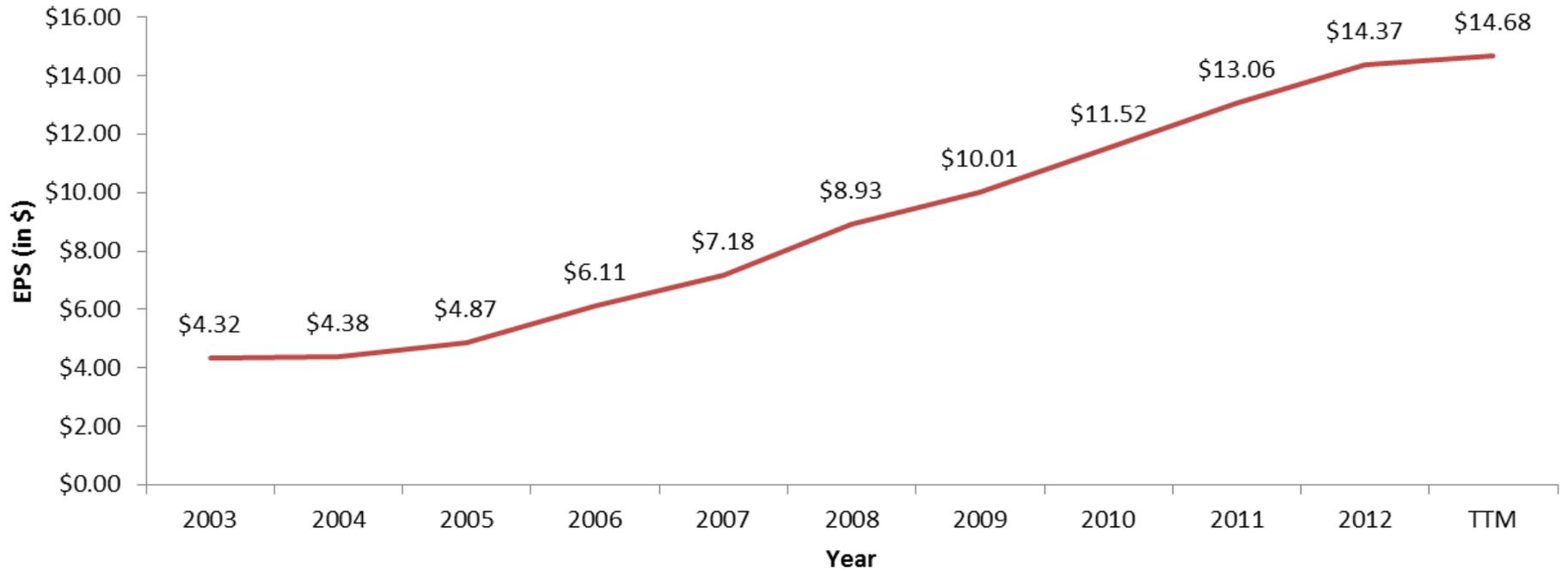


Shares Outstanding





Earnings Per Share



$$\text{Earnings Per Share} = \frac{\text{Net Profit}(\$)}{\text{Total Shares Outstanding}}$$

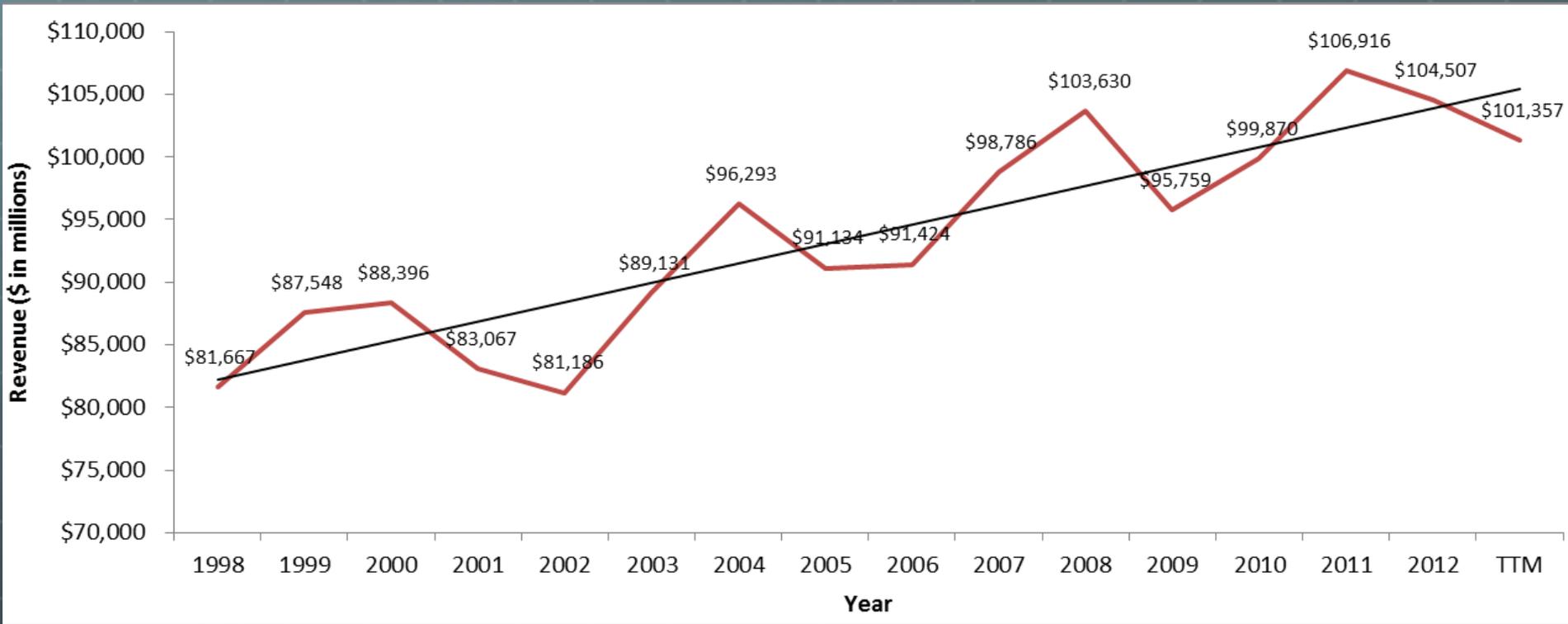


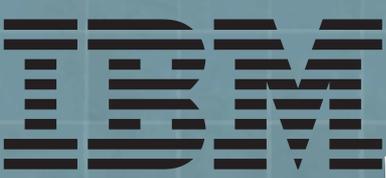
Buffettology

Statistical Array Analysis	Increasing Trends
Sales per Share	Yes
Cashflows per Share	Yes
Earnings per Share	Yes
Dividends Declared per Share	Yes
Capital Spending per Share	Yes
Book Value per Share	Inconsistent
Revenues (Sales)	No*
Gross Profit Margin	Yes
Operating Profit Margin	Yes
Net Profit	Yes
Net Profit Margin	Yes
Retained Earnings	Yes
Working Capital	Inconsistent*
Shareholder's Equity	Inconsistent
Return on Total Capital	Yes
Return on Shareholder's Equity	Yes
Common Shares Outstanding	No
Long-Term Debt	Inconsistent
LT Debt Payable in 5 years	Yes
All Dividends to Net Profit under 60%	Yes
Annual Growth Rate Analysis	Yes

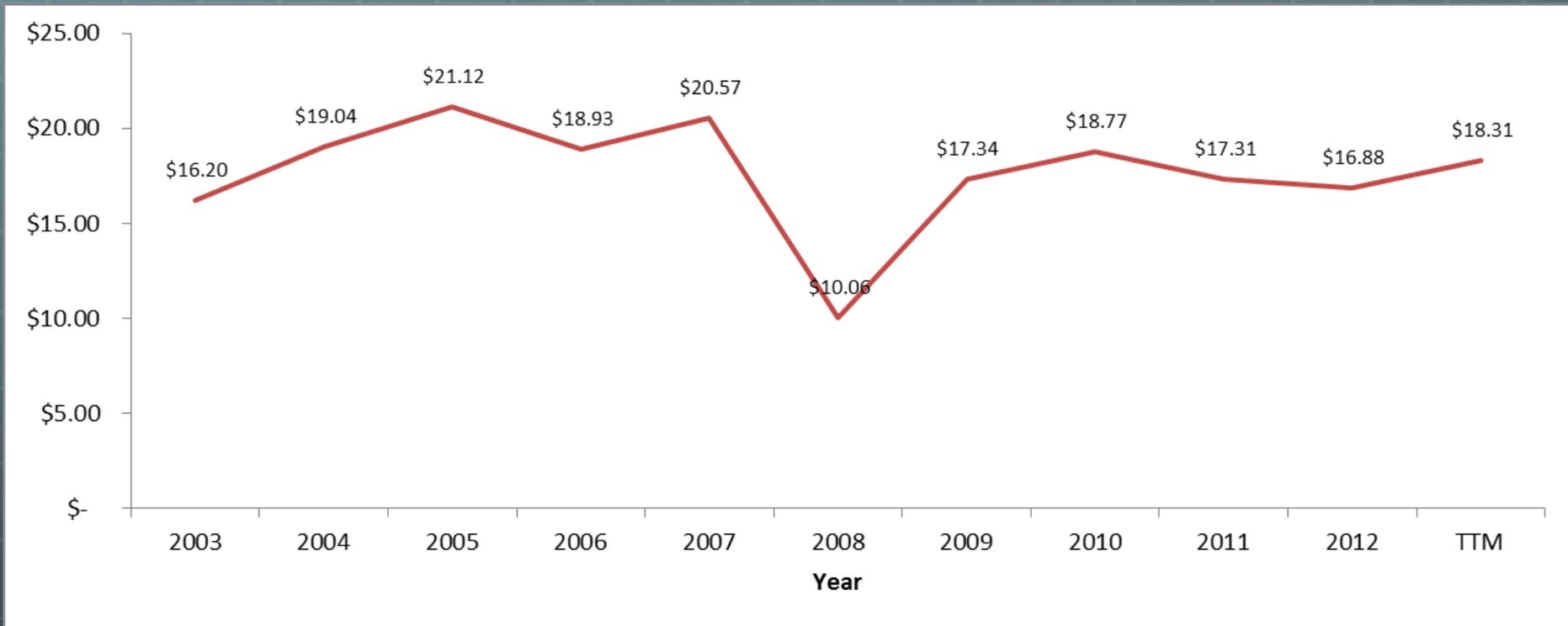


Revenues (Sales)





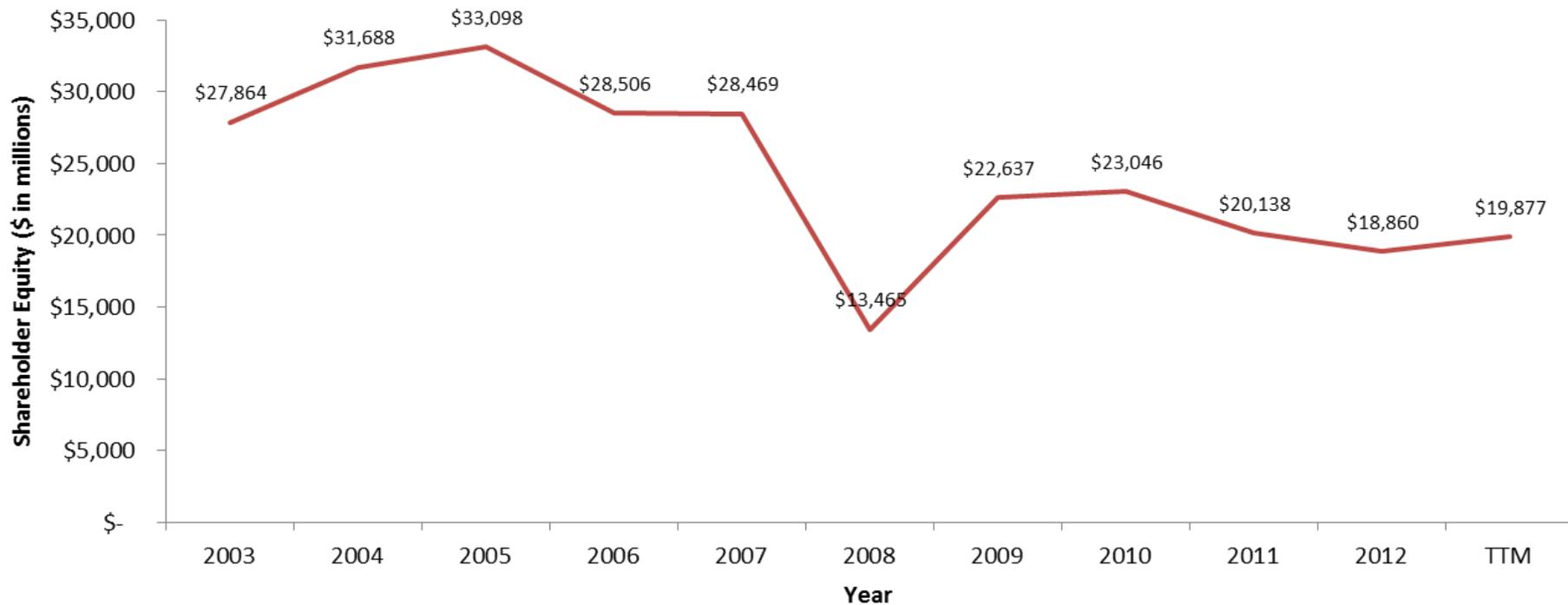
Book Value per Share



Book Value = $\frac{\text{Total Shareholder Equity} - \text{Preferred Equity}}{\text{Total Outstanding Shares}}$



Shareholder Equity



Shareholder Equity = Total Assets - Total Liabilities



Qualitative Review

Review	
What type of business is this: commodity or sustained competitive advantage?	Sustained Competitive advantage
Is it heavily unionized?	No
Does it require heavy capital infusion?	Yes
Does it require lots of research and development?	Yes
Can inventory become obsolete?	Yes
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage.	No



DuPont Analysis

Company	Total Asset Turnover (Revenue / Total Assets)	X	Net Profit Margin (Net Profit/Revenue)	X	Financial Leverage Multiplier (Total Assets/Total Equity)	=	Return on Equity
IBM	0.86	X	0.16	X	5.93	=	81.6%
Amazon	2.2	X	0.002	X	3.51	=	1.5%
Microsoft	0.56	X	0.28	X	1.74	=	27.3%
Cisco	0.48	X	0.2	X	1.71	=	16.4%
HP	1.06	X	0.05	X	3.88	=	18.5%
Oracle	0.44	X	0.29	X	1.96	=	25%
Accenture	1.85	X	0.11	X	3.35	=	68.2%



Industry Comparison

Company	IBM	Amazon	Cisco	Microsoft	HP	Oracle	Accenture
Market Cap (\$ million)	\$206,410.00	\$182,910.00	\$121,580.00	\$303,700.00	\$56,880.00	\$171,850.00	\$ 53,940.00
Return on Equity	81.20%	1.50%	13.60%	25.60%	20.80%	23.60%	61.20%
Return on Assets	13.60%	0.40%	8.00%	14.80%	5.20%	12.00%	18.40%
Gross Profit Margin	48.00%	27.70%	61.30%	66.20%	23.00%	81.50%	31.40%
Net Profit Margin	17.00%	0.20%	16.50%	26.70%	4.90%	27.50%	9.60%
Dividends per Share	\$3.60	\$0.00	\$0.65	\$0.92	\$0.55	\$0.24	\$1.74
Price/Earnings	12.4	1402.1	12.4	13.5	11.4	16.3	16.3
Price/Sales	2.00	2.61	2.52	3.82	0.52	4.80	1.90



Conscious Investor- 3-year Default

IBM International Business Machines Corp Symbol Default

Industry: Information Technology Services Market: USA

Earnings Per Share (EPS)									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
4.320	4.930	4.900	6.110	7.180	8.930	10.010	11.520	13.060	14.370

Sales Per Share									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
52.600	58.516	57.900	60.687	71.314	77.388	73.359	81.329	91.917	93.530

Net Profit Margin (NPM)									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
8.51	8.75	8.75	10.38	10.55	11.90	14.02	14.85	14.83	15.89

Return on Equity (ROE)									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
27.20	28.30	24.10	33.30	36.60	91.60	59.30	64.40	78.70	88.00

Price Earnings Ratio (PE Ratio)									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
21.90	20.40	20.20	16.00	16.90	14.70	13.30	12.80	14.90	14.70
16.90	16.60	14.70	11.90	12.40	7.80	8.20	10.10	11.20	12.30

Price									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
94.54	100.43	99.10	97.88	121.46	130.93	132.85	147.53	194.90	211.79
73.20	81.90	71.85	72.73	88.77	69.50	81.76	116.00	146.64	177.35

Payout Ratio (PR)									
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
15	14	16	18	21	21	21	22	22	23

EPSStm	Years	HGROWTH	STAEGR™
14.380	3	Calc 11.69%	99.61%
Chart	3	Calc 7.24%	98.27%
Current NPM		15.89	Chart
Current ROE		88.00	Chart
Current PE		13.13	Chart
Current Price		188.76	Chart
Current PR		23%	Chart

STRETD®
current year 16 Jan 2014

Dividend Reinvestment Strategy
 Buy additional shares
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price	188.76
EPSStm	14.380
PE Ratio	13.30
HGrowth	11.69 %
Payout	22 %

Investment Period years
 Tax - dividends %
 Tax - capital gains %

Calculate per year

TARGD®
current year

Dividend Reinvestment Strategy
 Buy additional shares
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Req Return	10.0 %
EPSStm	14.380
PE Ratio	13.30
HGrowth	11.69 %
Payout	22 %

Investment Period years
 Tax - dividends %
 Tax - capital gains %

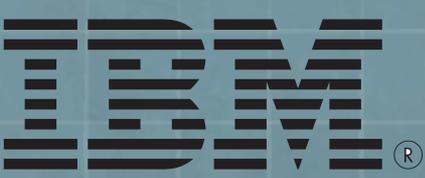
Calculate



EPSttm	Years		HGROWTH	STAEGR™
14.380	3	Calc	11.69%	99.61%
Chart	3	Calc	7.24%	98.27%

Current NPM
15.89 Chart

Current ROE
88.00 Chart



STRETD®

current year

16 Jan 2014

Price

188.76

Dividend Reinvestment Strategy

EPSttm

14.380

Buy additional shares

PE Ratio

13.30

Invest at the rate below

HGrowth

11.69

%

Note: PE and PR Ratios are ave of 4 yrs

Payout

22

%

Investment Period

5 years

Tax - dividends

0 %

Tax - capital gains

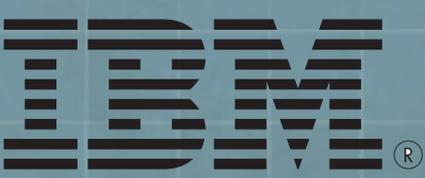
0 %

Calculate

13.84%

per year

Sync with TARG



CI- 6-year Default

IBM International Business Machines Corp Symbol

Industry: Information Technology Services Market: USA

Earnings Per Share (EPS)										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
4.320	4.930	4.900	6.110	7.180	8.930	10.010	11.520	13.060	14.370	EPSStm 14.380

Sales Per Share										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
52.600	58.516	57.900	60.687	71.314	77.388	73.359	81.329	91.917	93.530	Chart

Net Profit Margin (NPM)										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
8.51	8.75	8.75	10.38	10.55	11.90	14.02	14.85	14.83	15.89	Current NPM 15.89

Return on Equity (ROE)										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
27.20	28.30	24.10	33.30	36.60	91.60	59.30	64.40	78.70	88.00	Current ROE 88.00

Price Earnings Ratio (PE Ratio)										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
21.90	20.40	20.20	16.00	16.90	14.70	13.30	12.80	14.90	14.70	Current 15.01
16.90	16.60	14.70	11.90	12.40	7.80	8.20	10.10	11.20	12.30	High 13.13
										Low

Price										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
94.54	100.43	99.10	97.88	121.46	130.93	132.85	147.53	194.90	211.79	Current 215.90
73.20	81.90	71.85	72.73	88.77	69.50	81.76	116.00	146.64	177.35	High 188.76
										Low

Payout Ratio (PR)										
12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	
15	14	16	18	21	21	21	22	22	23	Current PR 23%

STRETD®

current year 16 Jan 2014

Price 188.76

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSStm 14.380

PE Ratio 13.30

HGrowth 14.51 %

Payout 22 %

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate 16.71% per year Sync with TARG

TARGD®

current year

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

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Req Return 10.0 %

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HGrowth 14.51 %

Payout 22 %

Investment Period 5 years

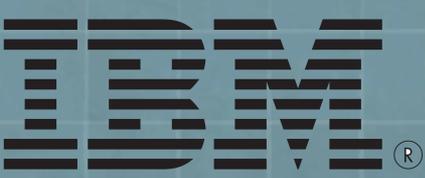
Tax - dividends 0 %

Tax - capital gains 0 %

Calculate \$253.80 Sync with STRET



EPSttm	Years		HGROWTH	STAEGR™
14.380	6	Calc	14.51%	97.66%
Chart	6	Calc	HGROWTH	STAEGR™
			5.75%	96.81%
		Current NPM	15.89	Chart
		Current ROE	88.00	Chart



STRETD®

current year

16 Jan 2014

Price

188.76

EPSttm

14.380

PE Ratio

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HGrowth

14.51 %

Payout

22 %

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Note: PE and PR Ratios are ave of 4 yrs

Investment Period

5 years

Tax - dividends

0 %

Tax - capital gains

0 %

Calculate

16.71%

per year

Sync with TARG



CI 10-year Default

IBM International Business Machines Corp Symbol Details Print Save Image Save Load Default Safety

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15	14	16	18	21	21	21	22	22	23

EPSttm	Years	HGROWTH	STAEGR™
14.380	10	15.29%	95.86%
Chart	10	6.69%	96.23%

Current NPM: 15.89

Current ROE: 88.00

current year **STRETD®** 16 Jan 2014

Dividend Reinvestment Strategy: Buy additional shares Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price	188.76
EPSttm	14.380
PE Ratio	13.30
HGrowth	15.29%
Payout	22%

Investment Period: 5 years Tax - dividends: 0% Tax - capital gains: 0%

17.51% per year

current year **TARGD®**

Dividend Reinvestment Strategy: Buy additional shares Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

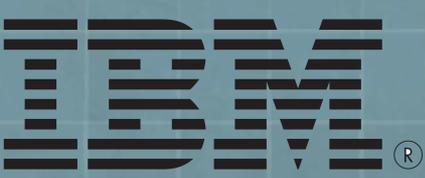
Req Return	10.0%
EPSttm	14.380
PE Ratio	13.30
HGrowth	15.29%
Payout	22%

Investment Period: 5 years Tax - dividends: 0% Tax - capital gains: 0%

\$253.80



EPSttm	Years		HGROWTH	STAEGR™
14.380	10	Calc	15.29%	95.86%
Chart	10	Calc	HGROWTH	STAEGR™
			6.69%	96.23%
			Current NPM	Chart
			15.89	
			Current ROE	Chart
			88.00	



STRETD®

current year

16 Jan 2014

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price

188.76

EPSttm

14.380

PE Ratio

13.30

HGrowth

15.29

%

Payout

22

%

Investment Period

5

years

Tax - dividends

0 %

Tax - capital gains

0 %

Calculate

17.51%

per year

Sync with TARG



CI- Safety

STRETD®

current year

16 Jan 2014

Price

188.76

EPSttm

14.380

PE Ratio

11.61

HGrowth

6.00

%

Payout

9

%

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period

5 years

Tax - dividends

0 %

Tax - capital gains

0 %

Calculate

4.23% per year

Sync with TARG

Cut Price/Earnings by 13%
Cut earnings growth by 59%



CI- Kill It

STRETD®

current year 16 Jan 2014

Price 188.76

EPSttm 14.380

PE Ratio 11

HGrowth 5 %

Payout 9 %

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate 2.18% per year Sync with TARG

Cut Price/Earnings by another 5%
Cut earnings growth down another 17%



CI- Kill It Again

STRETD®

current year 16 Jan 2014

Price 188.76

EPSttm 14.380

PE Ratio 9.82

HGrowth 5 %

Payout 9 %

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate -0.01% per year Sync with TARG

Cut Price/Earnings another 11%



Discounted Cash Flow- 5-year EBITDA Growth

Earnings Per Share : \$ 14.94

Growth Rate In the Next: 10 Years **9.6** %

Business Predictability ★★★★★

Terminal Growth Rate: 4 %

Years of Terminal Growth: 10

Discount Rate: 12 %

DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ -13.82 Add to Fair Value

Growth Value: \$ 132.88

Terminal Value: \$ 81.86

= Fair Value: \$ 214.73

Margin Of Safety: 17%

Annual Rates (per share)	10 yrs	5 yrs
Revenue Growth (%)	6.70	6.00
EBITDA Growth (%)	11.10	9.60
EBIT Growth (%)	15.70	12.00
Earning Growth (%)	15.40	13.00



Discounted Cash Flow- Break Even

Earnings Per Share : \$?

Growth Rate In the Next: Years: % ?

Business Predictability  ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

DCF Reverse DCF ^{NEW} ←

Tangible Book Value: \$ Add to Fair Value

Growth Value: \$ 114.78

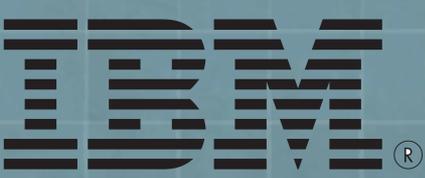
Terminal Value: \$ 61.79

= Fair Value: \$ 176.56

Margin Of Safety: 0%

Financial Data of International Business Machines

Annual Rates (per share)	10 yrs	5 yrs
Revenue Growth (%)	6.70	6.00
EBITDA Growth (%)	11.10	9.60
EBIT Growth (%)	15.70	12.00
Earning Growth (%)	15.40	13.00



Morningstar Debt Analysis

Name	Maturity Date	Amount \$(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
Intl Busn Machs Corp Medium Term N 6.25%	01/27/2014	---	---	---	6.250	Fixed	Yes	---	---
Intl Busn Machs 6.625%	01/30/2014	1,033.5	High	100.0	6.625	Fixed	No	No	6.41
Intl Busn Machs Corp Medium Term Nt 6.4%	04/16/2014	---	---	---	6.400	Fixed	Yes	---	---
Intl Busn Machs 1.25%	05/12/2014	1,000.0	High	100.3	1.250	Fixed	No	No	0.30
Intl Busn Machs	06/18/2014	---	---	---	---	FRN	---	---	---
Intl Busn Machs Corp Medium Term Nts 7%	06/23/2014	---	---	---	7.000	Fixed	Yes	---	---
Intl Busn Machs 0.875%	10/31/2014	1,350.0	High	100.5	0.875	Fixed	No	No	0.21
Intl Busn Machs	02/04/2015	1,000.0	---	100.0	0.000	FRN	No	No	---
Intl Busn Machs 0.55%	02/06/2015	1,500.0	High	100.3	0.550	Fixed	No	No	0.27
Intl Busn Machs 0.75%	05/11/2015	900.0	---	100.6	0.750	Fixed	No	No	0.33
Intl Busn Mchn 3.625%	05/27/2015	168.7	---	104.3	3.625	Fixed	No	---	0.42
Intl Busn Machs	06/20/2015	---	---	---	0.000	Zero	---	---	---
Intl Busn Machs	06/20/2015	---	---	---	0.000	Zero	---	---	---
Intl Busn Machs	06/20/2015	---	---	---	0.000	Zero	---	---	---
Intl Busn Machs	07/29/2015	650.0	---	99.5	0.000	FRN	No	No	---
Intl Busn Machs 2%	01/05/2016	1,000.0	High	102.7	2.000	Fixed	No	No	0.59
Intl Busn Machs 0.45%	05/06/2016	1,000.0	---	99.2	0.450	Fixed	No	No	0.80
Intl Busn Machs 1.95%	07/22/2016	2,000.0	High	102.2	1.950	Fixed	No	No	1.28
Intl Busn Machs 1.25%	02/06/2017	1,000.0	High	100.7	1.250	Fixed	No	No	1.03
Intl Busn Machs 2.2%	02/10/2017	470.6	High	---	2.200	Fixed	No	No	---



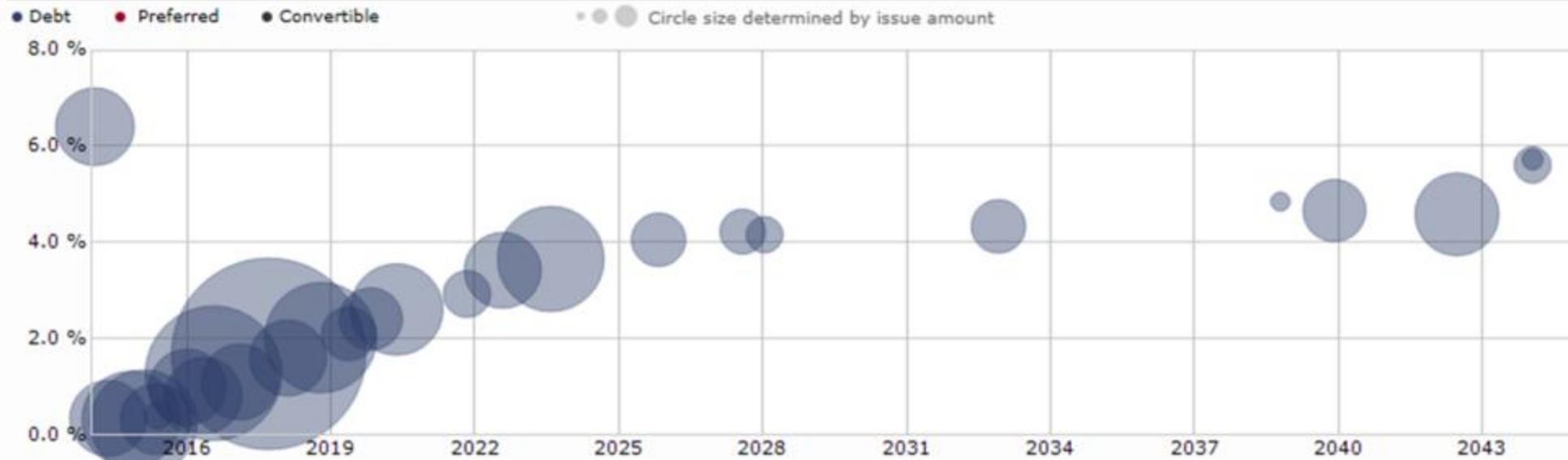
Morningstar Debt Analysis cont.

Name	Maturity Date	Amount \$(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
Intl Busn Machs 5.7%	09/14/2017	3,000.0	High	115.0	5.700	Fixed	No	No	1.47
Intl Busn Machs 1.25%	02/08/2018	1,000.0	---	98.6	1.250	Fixed	No	No	1.60
Intl Busn Machs 7.625%	10/15/2018	1,600.0	High	125.0	7.625	Fixed	No	No	2.05
Intl Busn Machs 1.875%	05/15/2019	600.0	---	98.4	1.875	Fixed	No	No	2.20
Intl Busn Machs 8.375%	11/01/2019	750.0	High	131.9	8.375	Fixed	No	No	2.43
Intl Busn Machs 1.375%	11/19/2019	1,377.9	---	---	1.375	Fixed	No	No	---
Intl Busn Machs 1.625%	05/15/2020	1,250.0	---	94.4	1.625	Fixed	No	No	2.58
Intl Busn Machs 1.875%	11/06/2020	2,066.9	---	---	1.875	Fixed	No	No	---
Intl Busn Machs 2.75%	12/21/2020	1,242.2	---	---	2.750	Fixed	No	No	---
Intl Busn Machs 2.9%	11/01/2021	500.0	High	98.3	2.900	Fixed	No	No	3.14
Intl Busn Machs 1.875%	08/01/2022	1,000.0	---	89.9	1.875	Fixed	No	No	3.24
Intl Busn Machs 3.375%	08/01/2023	1,500.0	---	97.9	3.375	Fixed	No	No	3.64
Intl Busn Machs 7%	10/30/2025	600.0	High	131.1	7.000	Fixed	No	No	3.72
Intl Busn Machs 2.875%	11/07/2025	1,377.9	---	---	2.875	Fixed	No	No	---
Intl Busn Machs 6.22%	08/01/2027	468.6	High	122.1	6.220	Fixed	No	No	4.08
Intl Busn Machs 6.5%	01/15/2028	313.0	High	125.1	6.500	Fixed	No	No	4.12
Intl Busn Machs 5.875%	11/29/2032	600.0	High	122.4	5.875	Fixed	No	No	4.15
Intl Busn Machs 8%	10/15/2038	2,062	High	145.2	8.000	Fixed	No	No	4.85
Intl Busn Machs 5.6%	11/30/2039	745.1	High	112.8	5.600	Fixed	No	No	4.74
Intl Busn Machs 4%	06/20/2042	1,107.3	---	90.3	4.000	Fixed	No	No	4.62
Intl Busn Machs 7%	10/30/2045	27.0	High	124.6	7.000	Fixed	No	No	5.38
Intl Busn Machs 7.125%	12/01/2096	316.3	High	126.7	7.125	Fixed	No	No	5.61



Morningstar Debt Analysis cont.

Yield to Maturity





Intra-portfolio Valuations



Price/Earnings

Ticker	▲ Pri... Earnings
AIG-WT	-
AIG	9.7
WRLD	12.2
IBM ⓘ	12.2
BBBY	13.3
BRK.B	13.5
MSFT	13.5
WMT	14.4
MDT	15.3
LO	15.6
ORCL	15.8
PEP	19.3
WAG	20.0
KO	20.2
NSRGY	20.4
AAP	21.0
BDX	23.2



Price/Sales

Ticker	▲ ... Sales
BBY	0.2
WMT	0.5
WAG	0.8
AIG	1.1
BBBY	1.2
AAP	1.3
BRK.B	1.5
PEP	1.9
IBM ⓘ	2.0
WRLD	2.1
NSRGY	2.3
BDX	2.6
LO	2.7
MDT	3.5
KO	3.7
MSFT	3.8
ORCL	4.7



Price/Free Cash Flow

Ticker	▲ Price / Cash Flow
BBY	2.6
WRLD	5.2
BRK.B	10.3
WMT	10.7
MSFT	10.7
IBM ✕	11.4
ORCL	11.5
BBBY	11.9
BDX	12.3
MDT	12.4
PEP	12.8
NSRGY	13.7
WAG	14.3
AAP	14.8
LO	14.9
AIG	15.0
KO	16.7



52-week Price Range

Ticker	▲ 52-wk Range
IBM	\$172.57 \$215.90
KO	\$36.54 \$43.43
BBY	\$13.83 \$44.66
BBBY	\$56.37 \$80.82
WMT	\$68.13 \$81.37
BRK.B	\$96.30 \$119.30
AIG-WT	\$13.91 \$21.78
PEP	\$70.98 \$87.06
AIG	\$36.68 \$53.33
NSRGY	\$63.38 \$77.85
WAG	\$39.58 \$62.24
MSFT	\$27.10 \$38.98
LO	\$37.95 \$53.27
MDT	\$43.51 \$60.93
WRLD	\$72.12 \$107.98
ORCL	\$29.86 \$38.77
BDX	\$83.63 \$112.71



Van Den Berg Metrics



Price/Earnings





Price/Free Cash Flow



Interactive Charts. Jan. 30 2014, 2:8 UTC. Powered by





Price/Sales





Enterprise Value/Revenue





Enterprise Value/EBITDA





Enterprise Value/EBIT





Valuation Recap

IBM	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Current
P/E	27.94	26.18	19.15	28.32	37.64	21.39	19.93	16.82	15.82	14.94	9.39	13.08	12.68	14.02	13.29	<u>12.4</u>
P/FCF	64.02	48.59	42.08	25.31	16.11	16.23	16.54	13.03	15.3	13.55	7.91	10.13	12.26	14.11	14.24	<u>14.5</u>
P/S	2.16	2.3	1.75	2.61	1.65	1.83	1.75	1.47	1.65	1.58	1.12	1.83	1.89	2.09	2.12	<u>2</u>
EV/REV	2.42	2.53	2.03	2.84	1.86	2.05	1.94	1.66	1.85	1.87	1.41	2.06	2.09	2.29	2.37	<u>2.24</u>
EV/EBITDA	13.07	11.62	10.4	14.74	12.42	11.51	12	8.67	9.16	9.27	6.62	8.51	8.47	9.45	9.27	<u>8.67</u>
EV/EBIT	21.6	18.59	15.42	23.35	22.22	18.15	19.45	16.56	14.16	13.68	8.92	11.58	11.51	12.09	12.1	<u>11.2</u>



IBM	Dec-09	Dec-10	Dec-11	Dec-12	Current	Average
P/E	13.08	12.68	14.02	13.29	<u>12.4</u>	18.94
P/FCF	10.13	12.26	14.11	14.24	<u>14.5</u>	21.49
P/S	1.83	1.89	2.09	2.12	<u>2</u>	1.86
EV/REV	2.06	2.09	2.29	2.37	<u>2.24</u>	2.09
EV/EBITDA	8.51	8.47	9.45	9.27	<u>8.67</u>	10.24
EV/EBIT	11.58	11.51	12.09	12.1	<u>11.2</u>	15.66



Conclusion

- Constant production from research and development
- High switching costs for customers
- Easily surpasses Buffett's financial requirements
- Brand name loyalty
- Plan to give \$70 billion back to shareholders by 2015
 - \$50 billion in share repurchases and \$20 billion in dividends
- Innovative company poised for the long-run
- Selling at a reasonable discount to fair value



Perfect Storm

- Devaluation of the Yen
- China's Economic Reform Plan
- Fallout from NSA scandal
- Shifting business model
- Mainframe investment cycle at its valley
- Relatively new CEO



IBM revenue drops for 7th straight quarter,

Druckenmiller Shorting IBM in Bet
Cloud Computing to Win

IBM: Must-Sell Amid Watson Problems

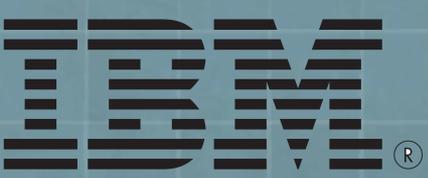
**Is This Old Tech Company
Doomed?**

Warren Buffett: “Be fearful when others
are greedy and greedy only when others
are fearful.”



Decision

- Limit order at \$176.70



Questions?