



Tasha, Amanda, Chase, Jonathan, & Wade

FIFTY SHADES OF BIC



History

- 1911- Computing-Tabulating-Recording Company (CTR) merger
- 1924- International Business Machines Corporation (IBM)
- 1935- Plays Large Role in US Social Security Act
“largest accounting operation of all time”
- 1964- Developed System/360, compatible computers
- 1973- Introduced Consumer Transaction Facility, also known as ATM
- 1990's- Client/Server Era
- 2000's- Dotcom Era
- 2014- IBM was awarded more patents for the 22nd year in a row



Strategy

Increasing presence in services and business solutions

Heavily invests in research and development to provide more opportunities to clients

Help clients become more innovative and efficient through software development and Hybrid Cloud

Focusing on the *USE* of technology not the technology itself



Recent Acquisitions & Divestitures

14 acquisitions in 2014 & 2015

Merge Healthcare, Inc.

Gravitant

3 spinoffs/sell outs in 2014 & 2015

Microelectronics business

x86 server business



Recent News (Nov. 4, 2015)

IBM adds \$4 billion to its share buyback program

Disclosed SEC revenue recognition probe;
Shares drop 4%

Near \$2 billion+ deal for The Weather
Company assets

Acquired Gravitant



Business Model

Global Technology Services

Global Business Services

Software

Systems and Technology

Global Financing



Global Technology Services

Provides IT structure and support services

- Strategic Outsourcing
- Integrated Technology Services
- Technical Support Services
- Cloud



Global Business Services

Helps clients use these technologies to reinvent relationships with their customers and realize new standards of efficiency

- Consulting and Systems Integration
- Application Management Services
- Global Process Services



Software

Middleware and operating systems software

- WebSphere

- Information Management

- Watson

- Tivoli

- Workforce Solutions

- Mobile



Systems & Technology

Provides clients with business solutions requiring advanced computing power and storage capabilities

- Servers

- Storage

- Technology



Global Financing

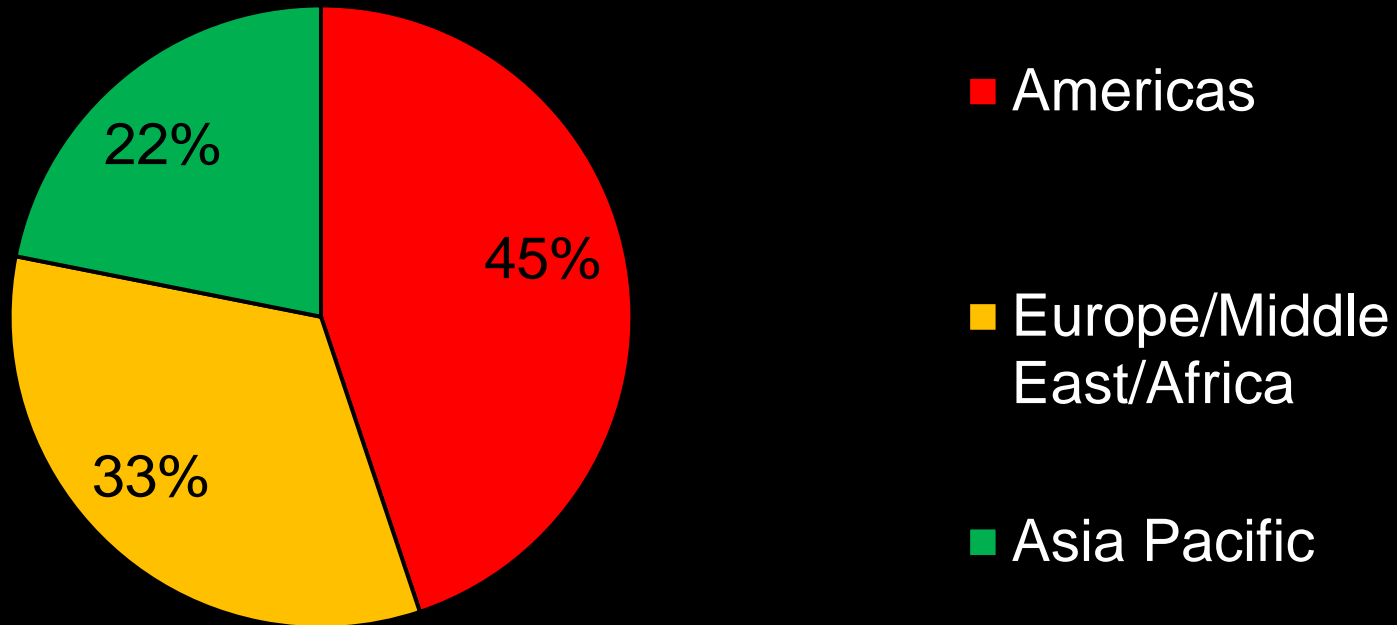
Facilitates clients' acquisition of IBM systems, software and services

- Client

- Commercial

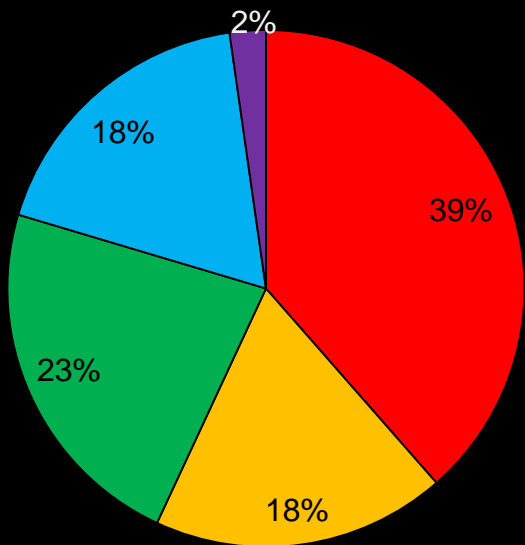
- Remanufacturing and Remarketing

Geographical Revenue

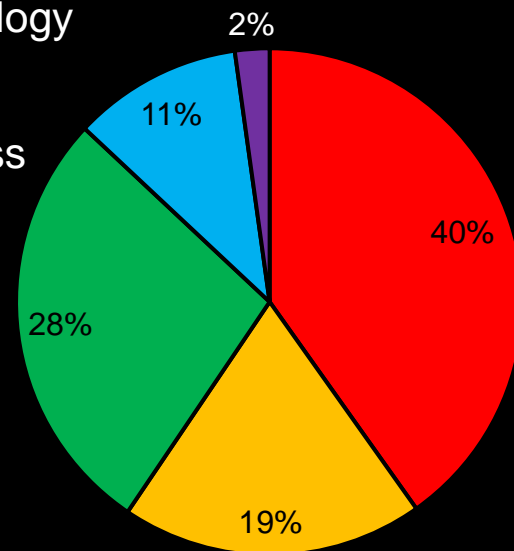


Segment Revenue

2010



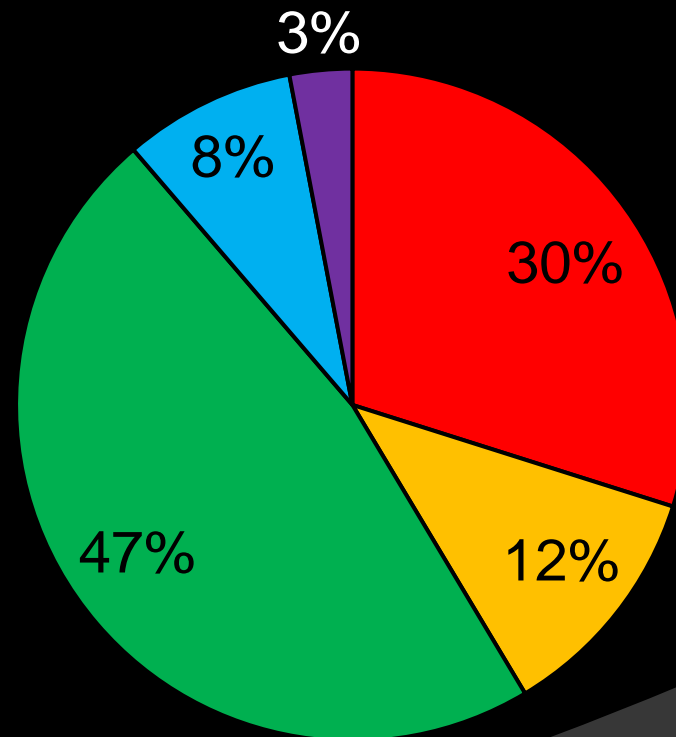
2014



- Global Technology Services
- Global Business Services
- Software
- Systems and Technology
- Global Financing

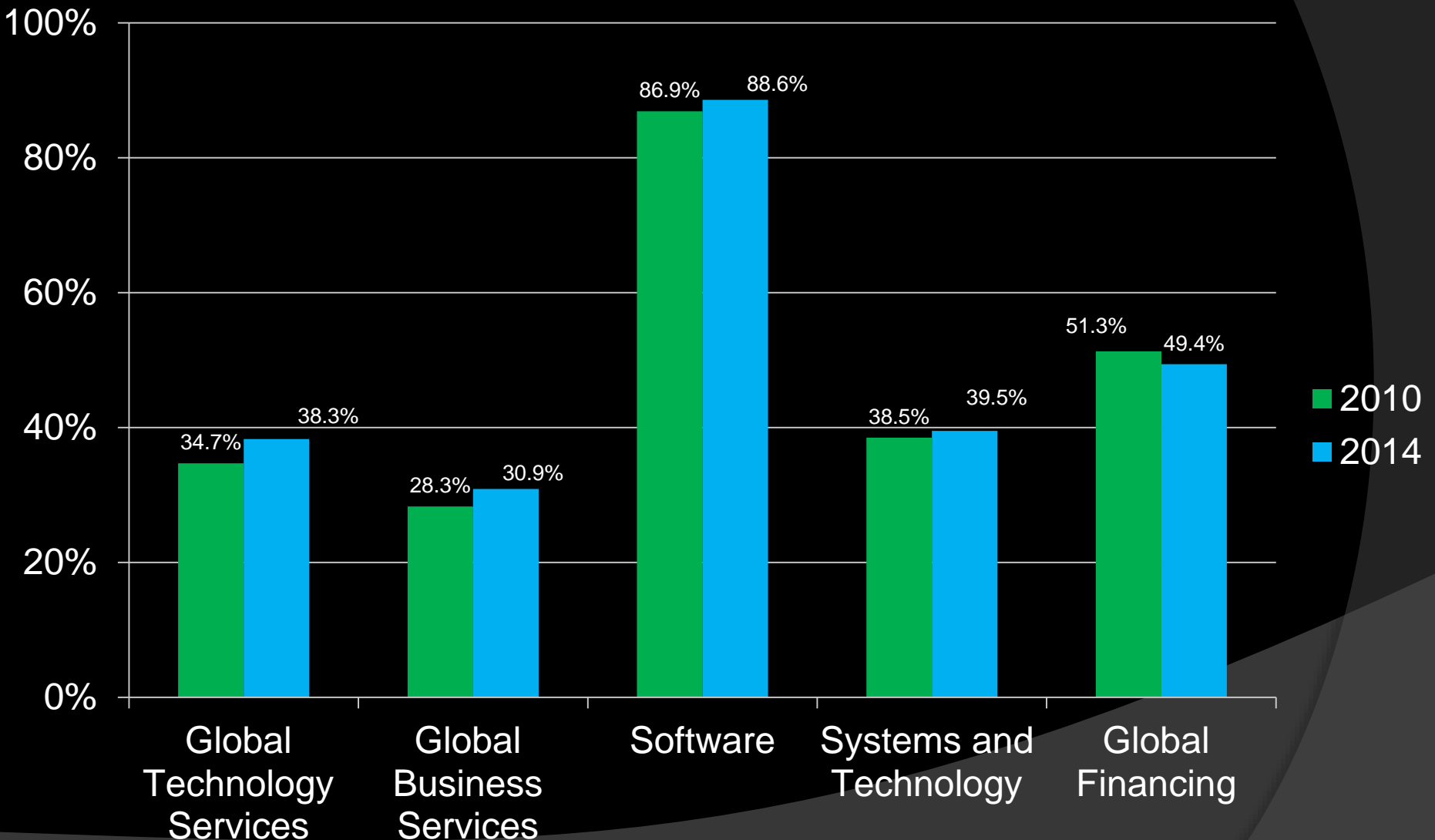
Segment Net Profit

- Global Technology Services
- Global Business Services
- Software
- Systems and Technology
- Global Financing





Segment Net Profit Margin





Research & Development

Awarded most U.S Patents for 22nd consecutive year (7,534 in 2014)

Annually Invests approx. 6% of total revenue

Averages 20 patents a day

\$26 Billion focused on improving capabilities in big data and analytics

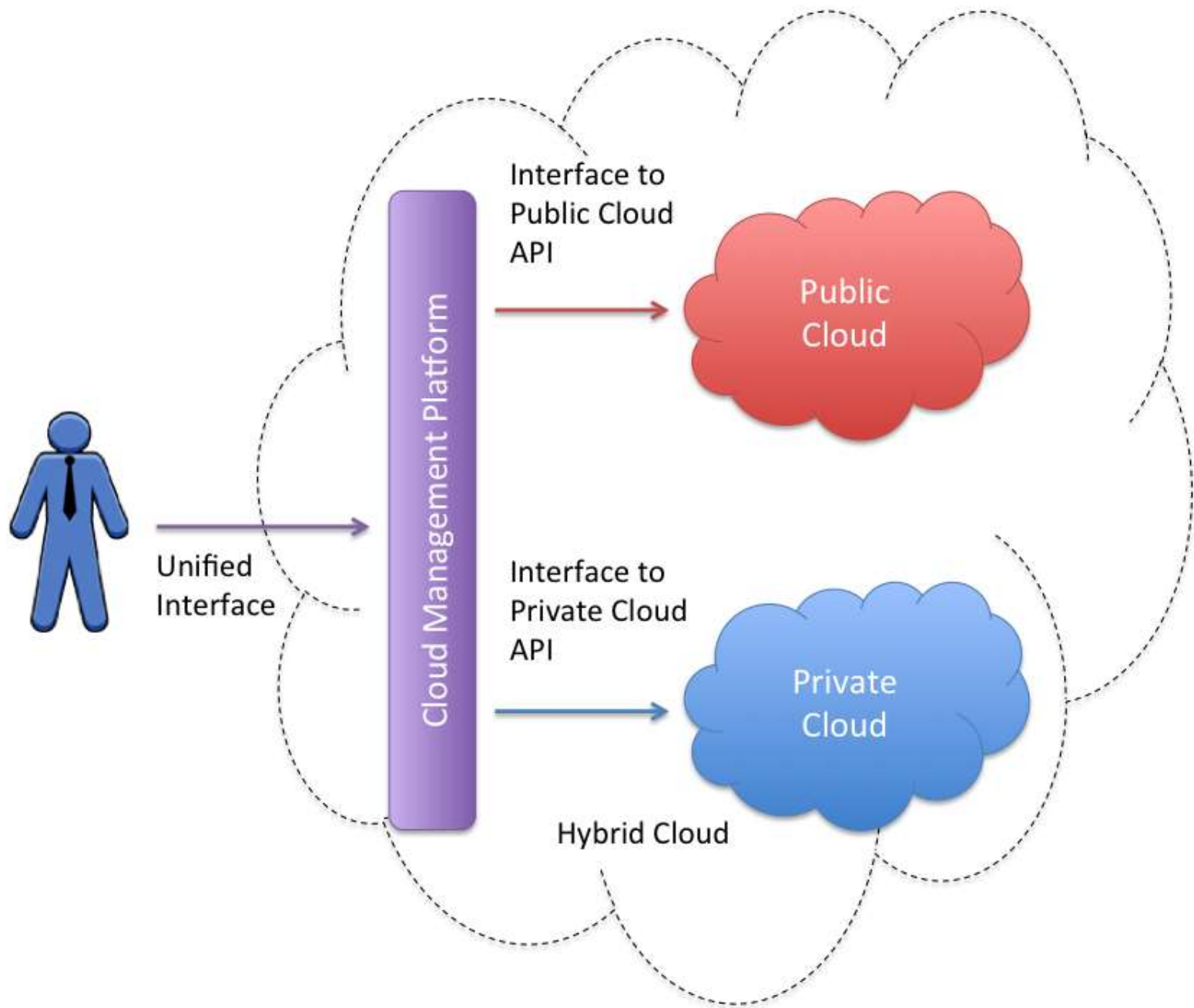


Cloud Based Acquisitions

Invested more than \$8 Billion to acquire 18 cloud related companies

More than 120 cloud based software offerings

Formed an alliance with SAP to run its business applications on IBM's cloud

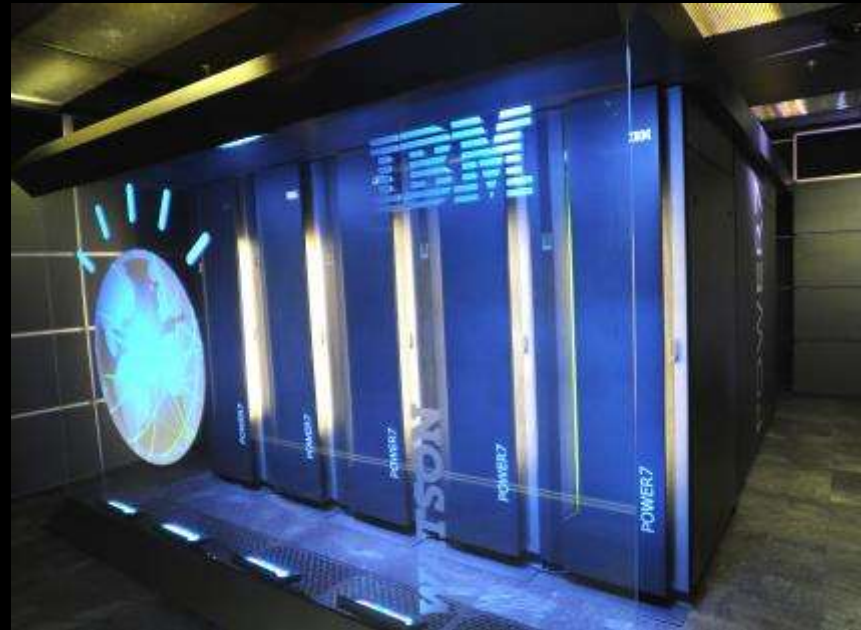


Watson

Analytics Software

Process Big Data
using Natural
Language

1st commercially
available cognitive
computing device



Clients

24 of the top 25 Fortune 500 Companies

90% of the World's Top Banks

9 of the Top 10 Oil/Gas Companies

40 of the Top 50 Retailers

92 of the Top 100 Healthcare organizations

The ExxonMobil logo consists of the word "ExxonMobil" in a bold, red, sans-serif font. The "X" is stylized with a red outline. Below the text is a dark blue horizontal bar.



Competitive Advantage

Continuous innovation

Highly diversified

Outside-in perspective

Brand Recognition

Economies of scale

High levels of security



Protective Moat

Sticky Business

Hard to Replicate

Innovative

Risk Factors

Cybersecurity

Dependent on innovation

Requires specialized personnel

Competitive pressure

Relationships with critical suppliers

Qualitative Review

What type of business is this: commodity or sustained competitive advantage?	Sustained Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	Yes
Does it require lots of R&D?	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

QUANTITATIVE ANALYSIS

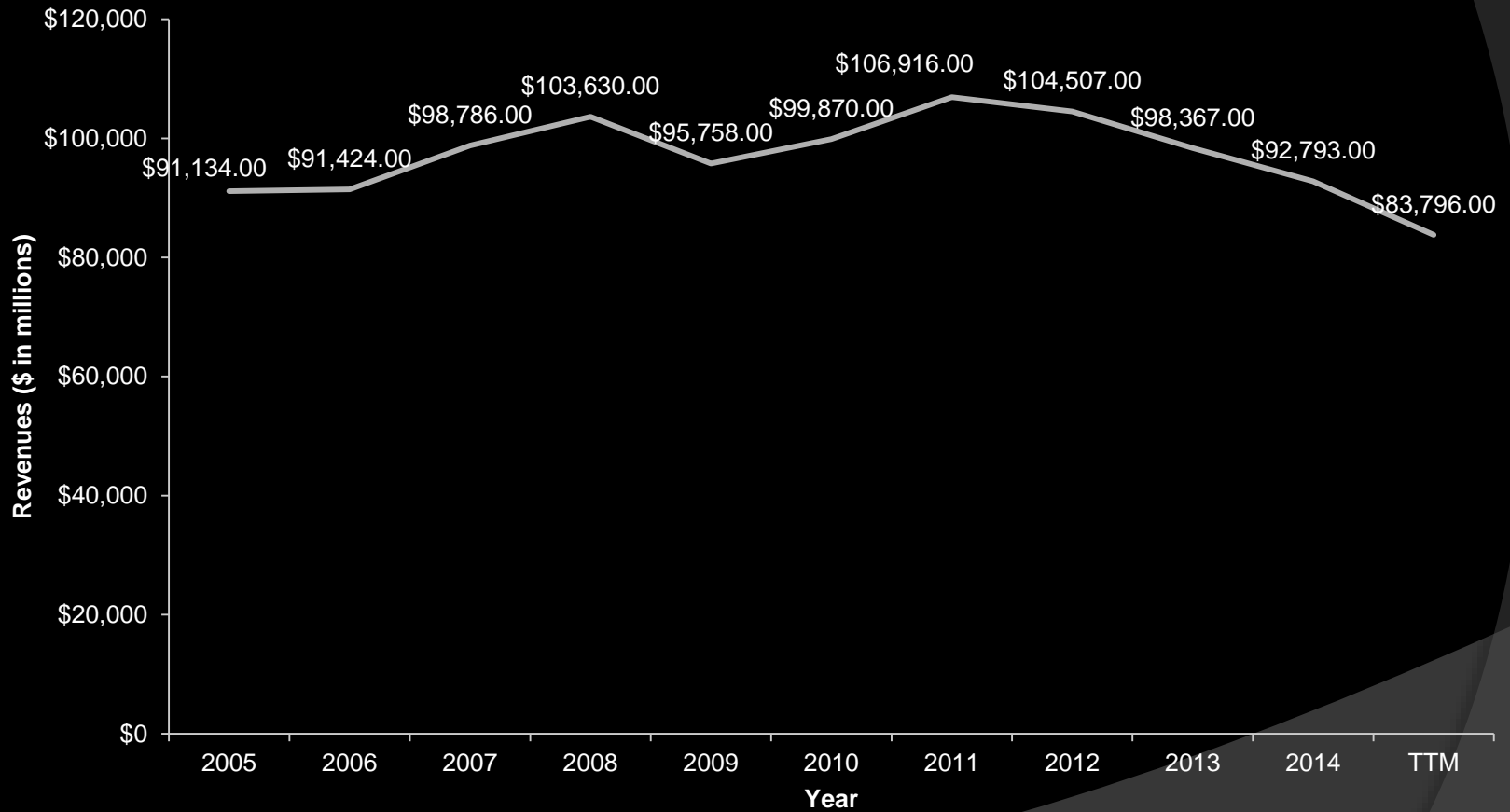
Interpretation of Financial Statements



<u>TTM</u>	<u>Value</u>	<u>Low Threshold</u>	<u>Pass?</u>
Gross Profit Margin	50.29%	$\geq 20\%$	Yes
% SGA	50.74%	$\leq 80\%$	Yes
% R&D	12.35%	$\leq 10\%$	No
% Depreciation	9.76%	$\leq 10\%$	Yes
Interest % of OP	2.92%	$\leq 15\%$	Yes
Net Profit Margin	16.96%	$\geq 10\%$	Yes
Current Ratio	1.25	≥ 1	Yes
Obligation Ratio	1.7 years	< 5 years	Yes
Adj. Debt to Shareholder Equity	0.67	< 0.8	Yes
Return on Equity	106.89%	$\geq 15\%$	Yes*
Return on Capital	28.13%	$\geq 15\%$	Yes*
Dividend Payout Ratio	31.98%	$\leq 60\%$	Yes
Preferred Stock	None	None	N/A
Capital Expenditures	34.79%	$\leq 25\%$	No
Net Earning Trend	Stable	Up	No
Retained Earnings Trend	Up	Up	Yes

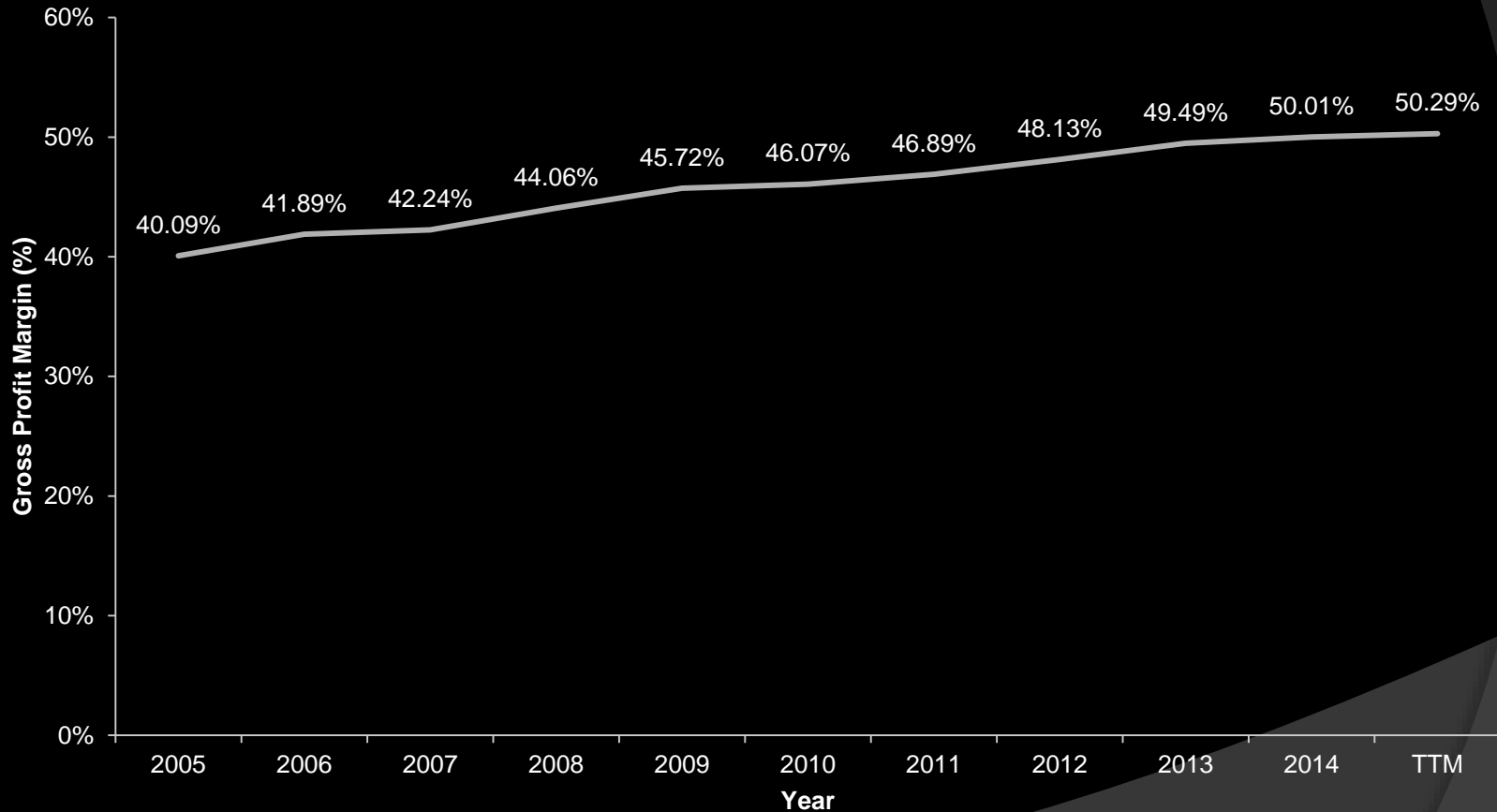


Revenues





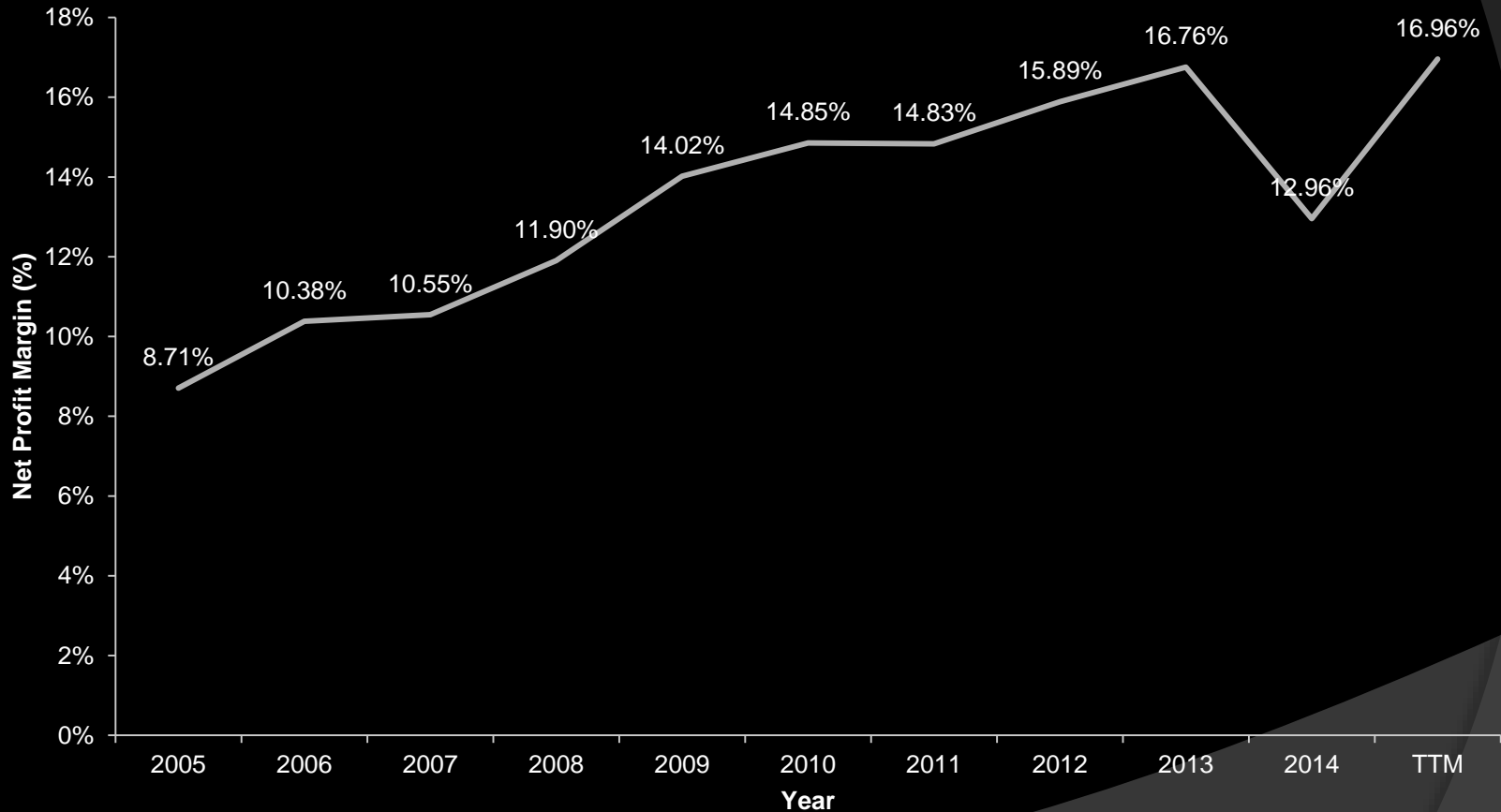
Gross Profit Margin



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



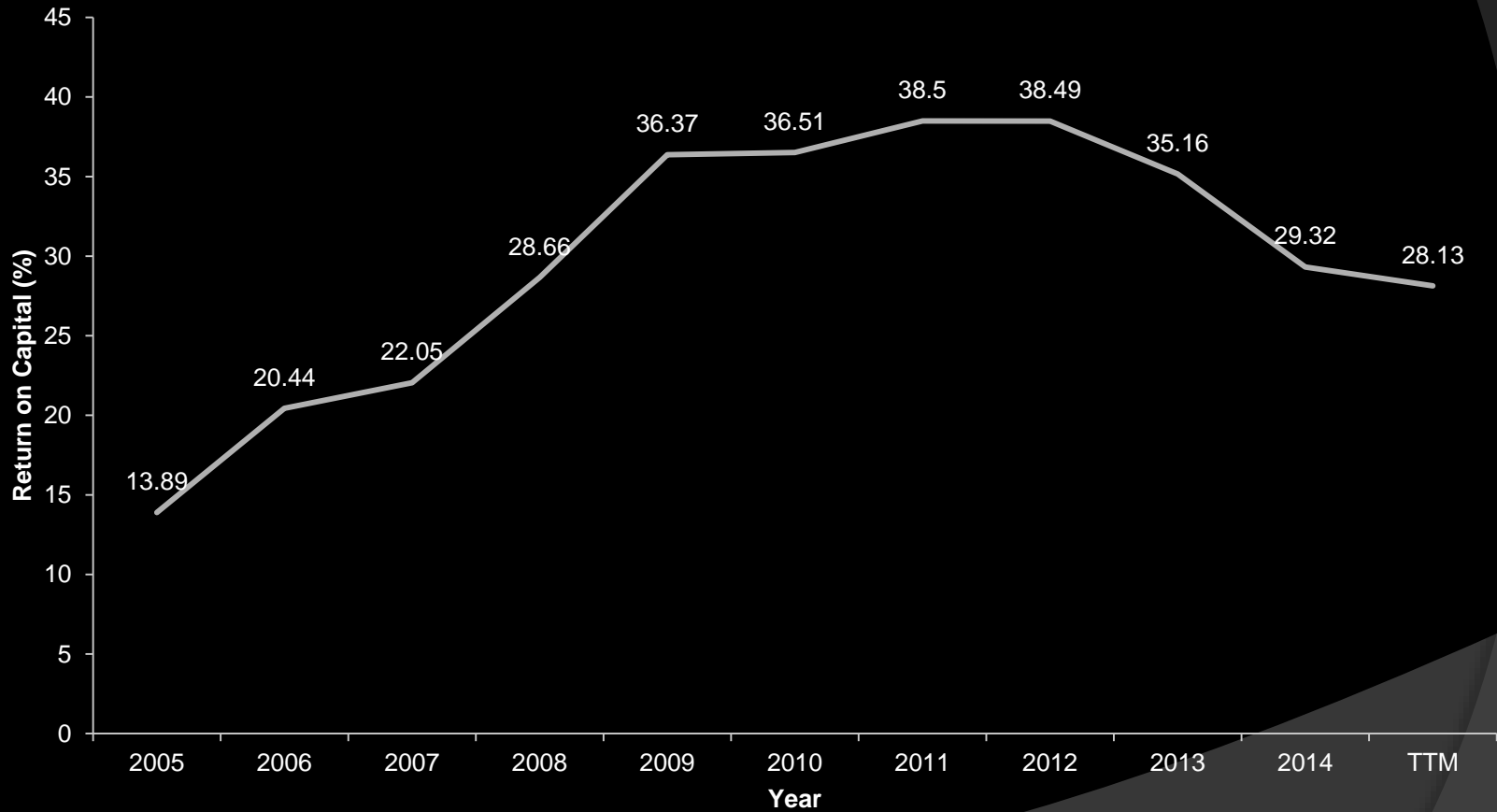
Net Profit Margin



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

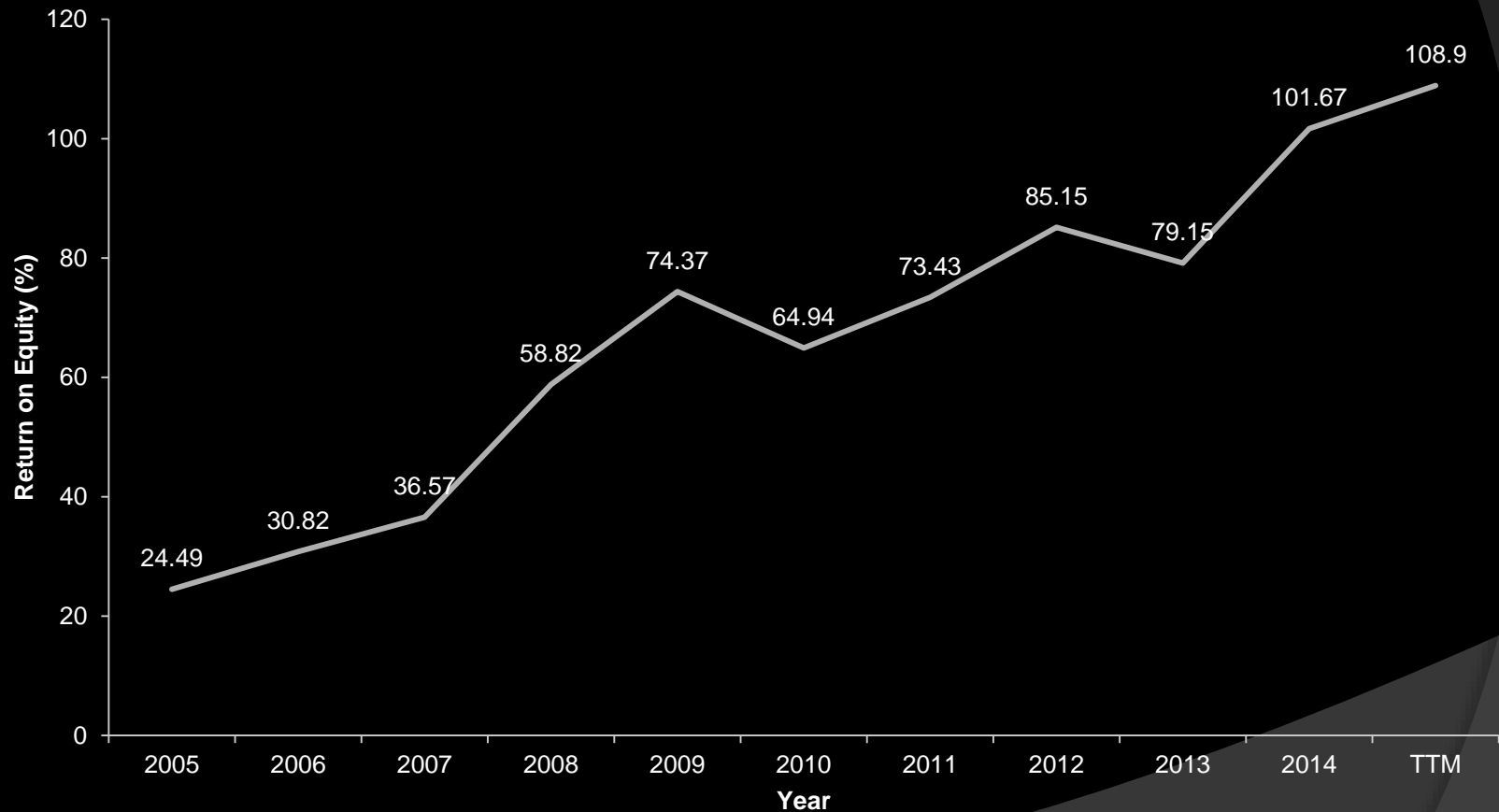


Return on Capital





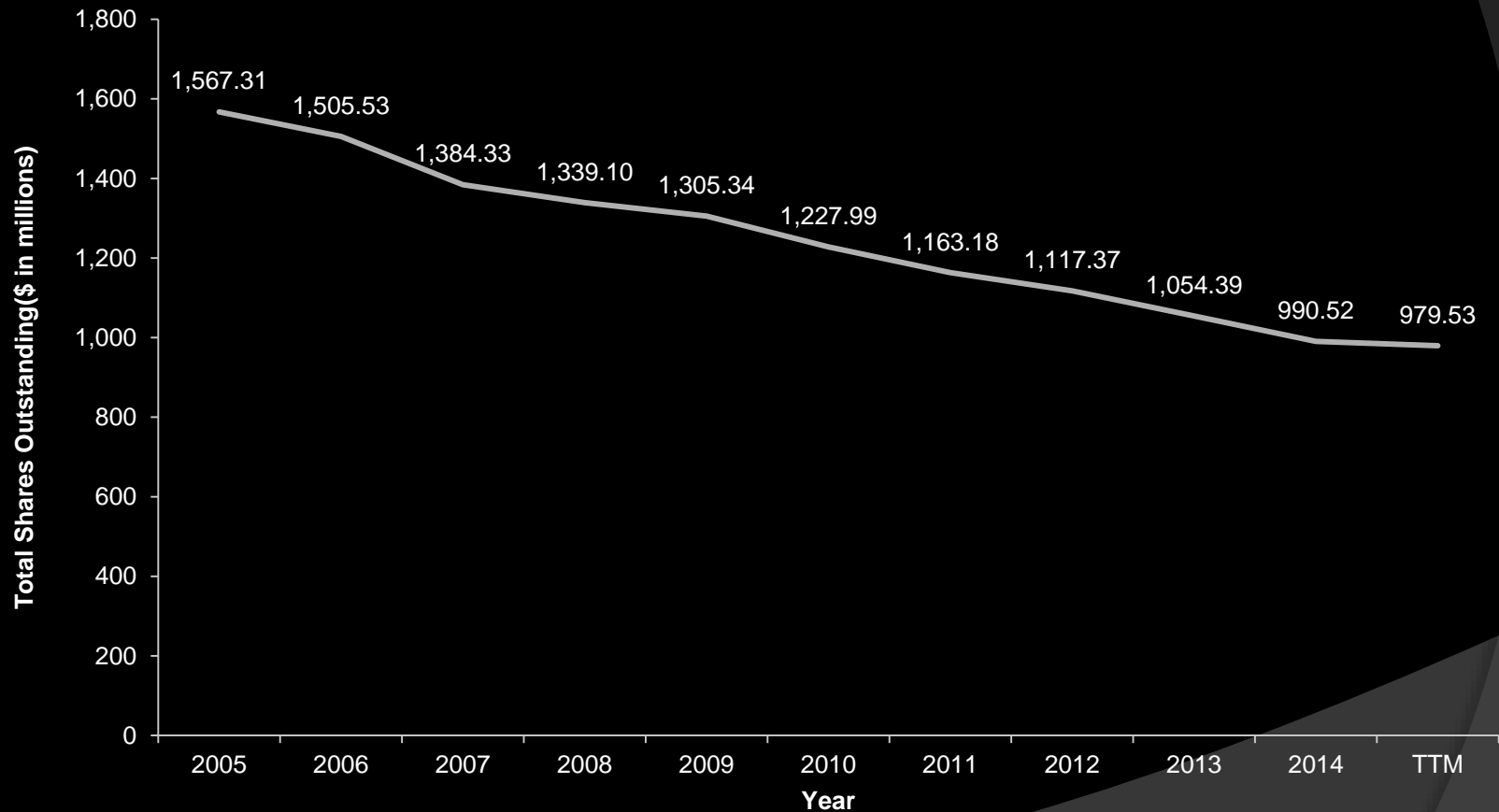
Return on Equity



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



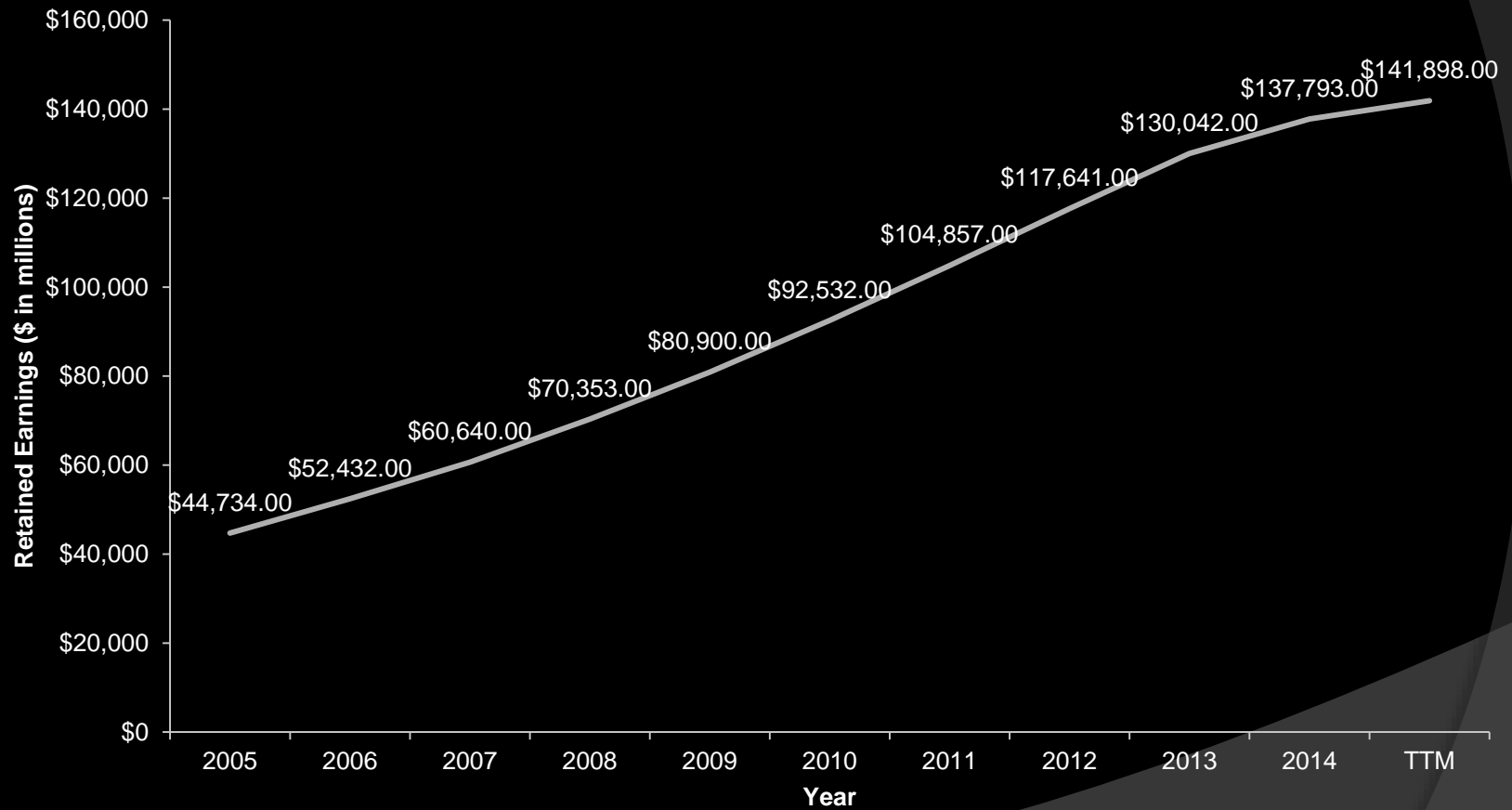
Total Shares Outstanding



39% of shares bought
back since 2005

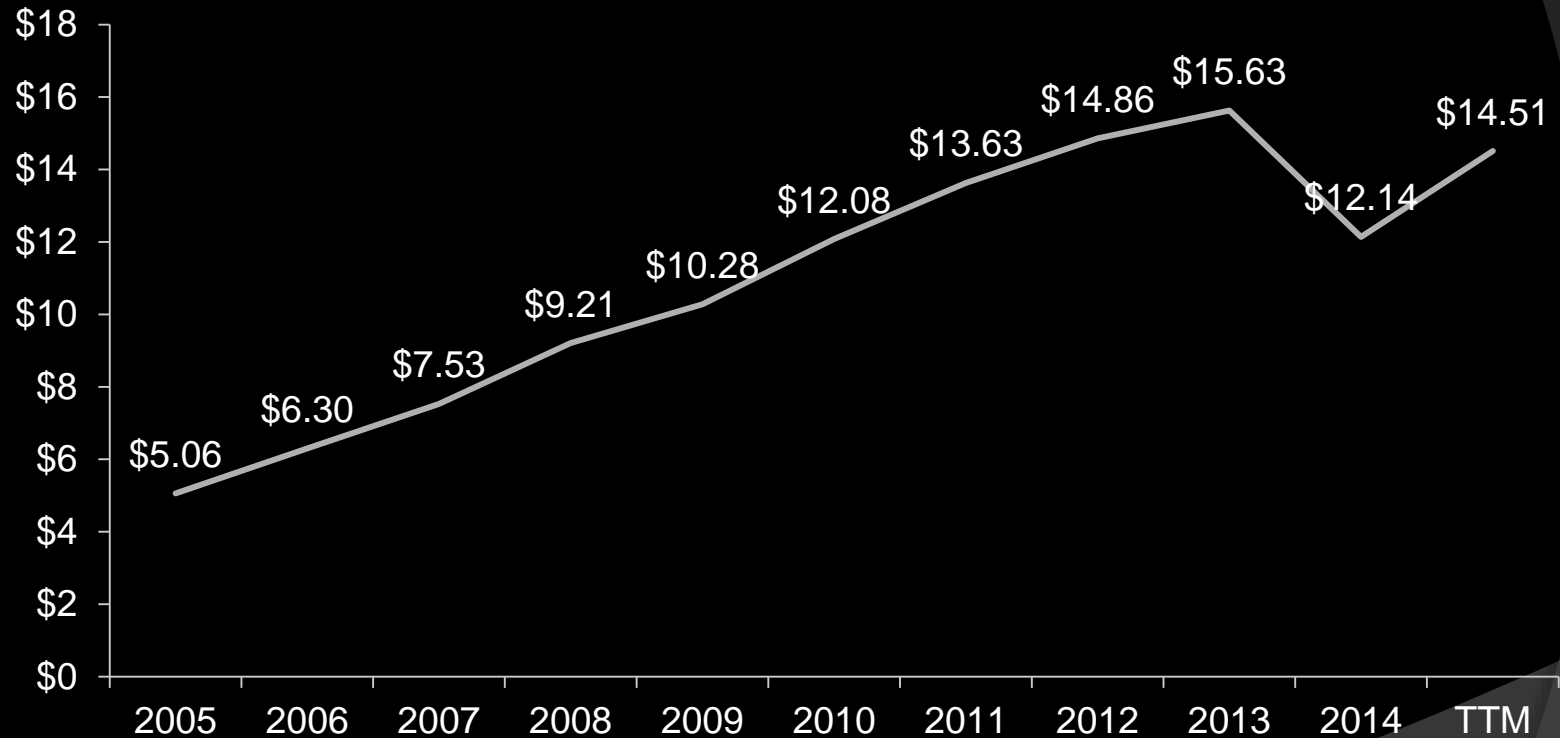


Retained Earnings





Earnings Per Share



EPS = Net Profit

Total shares outstanding

Buffettology

	Increasing Trends?
Sales per Share	Yes
Cash flows per Share	Yes
Earnings per Share	Yes
Dividends Declared per Share	Yes
Book Value per Share	Yes
Revenues (Sales)	No*
Gross Profit Margin	Yes
Operating Profit Margin	Yes
Number of Stores	N/A
Net Profit	No*
Net Profit Margin	Yes*
Working Capital	Stable
Return on Total Capital	Yes
Return on Shareholder's Equity	Yes
Common Shares Outstanding	No
Long Term Debt	Yes
LTD Payable in 5 years	Yes
All Dividends to Net Profit under 60%	Yes

Discounted Cash Flow

Discounted Cash Flow

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: \$ 99.86 ?

Terminal Value: \$ 49.96 ?

= Fair Value: \$ 149.82 ?

Margin Of Safety: 6%

Financial Data of International Business Machines Corp			
Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	5.70	5.00	-8.90
EBITDA Growth (%)	10.50	6.80	-11.10
EBIT Growth (%)	13.70	7.00	-14.80
EPS without NRI Growth (%)	14.50	9.50	-27.20
Free Cash Flow Growth (%)	9.00	0.70	-15.70
Book Value Growth (%)	-2.10	-2.10	-5.80

Discounted Cash Flow-Breakeven

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: \$ 95.26 ?

Terminal Value: \$ 45.4 ?

= Fair Value: \$ 140.66 ?

Margin Of Safety: 0%

Conscious Investor



6 Year

IBM:US International Business Machines Corp 	Application Software										Last trade 2015-10-27		Return Analysis	
	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EP Sttm	Years	HGROWTH	STAEGR®
EPS (\$)	4.890	6.110	7.180	8.930	10.010	11.522	13.063	14.370	14.943	11.880	\$11.340	6	5.44%	90.61%
SPS (\$)	58.147	60.726	71.360	77.388	73.359	81.328	91.917	93.530	94.605	93.681		6	4.98%	96.38%



6 Year Safety

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®	Req Return	TARG®
Default	137.86	\$11.340	13.13	5.44%	28.4%	6.74%	10.00%	99.09
Safety	137.86	\$11.340	10.92	2.52%	0.0%	1.15%	10.00%	53.08

Cut P/E by 16.8%

Cut Growth Rate by 53.7%



10 Year

IBM:US International Business Machines Corp

Application Software

Last trade 2015-10-27

Return Analysis

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EPSttm	Years	HGROWTH	STAEGR [®]
EPS (\$)	4.890	6.110	7.180	8.930	10.010	11.522	13.063	14.370	14.943	11.880	\$11.340	10	12.50%	86.78%
SPS (\$)	58.147	60.726	71.360	77.388	73.359	81.328	91.917	93.530	94.605	93.681		10	5.88%	95.10%

10 Year Safety

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®	Req Return	TARG®
Default	137.86	\$11.340	13.13	12.50%	28.4%	12.96%	10.00%	183.36
Safety	137.86	\$11.340	10.92	3.96%	0.0%	2.33%	10.00%	61.03

Cut P/E by 16.8%
 Cut Growth rate by 68.3%

Kill It

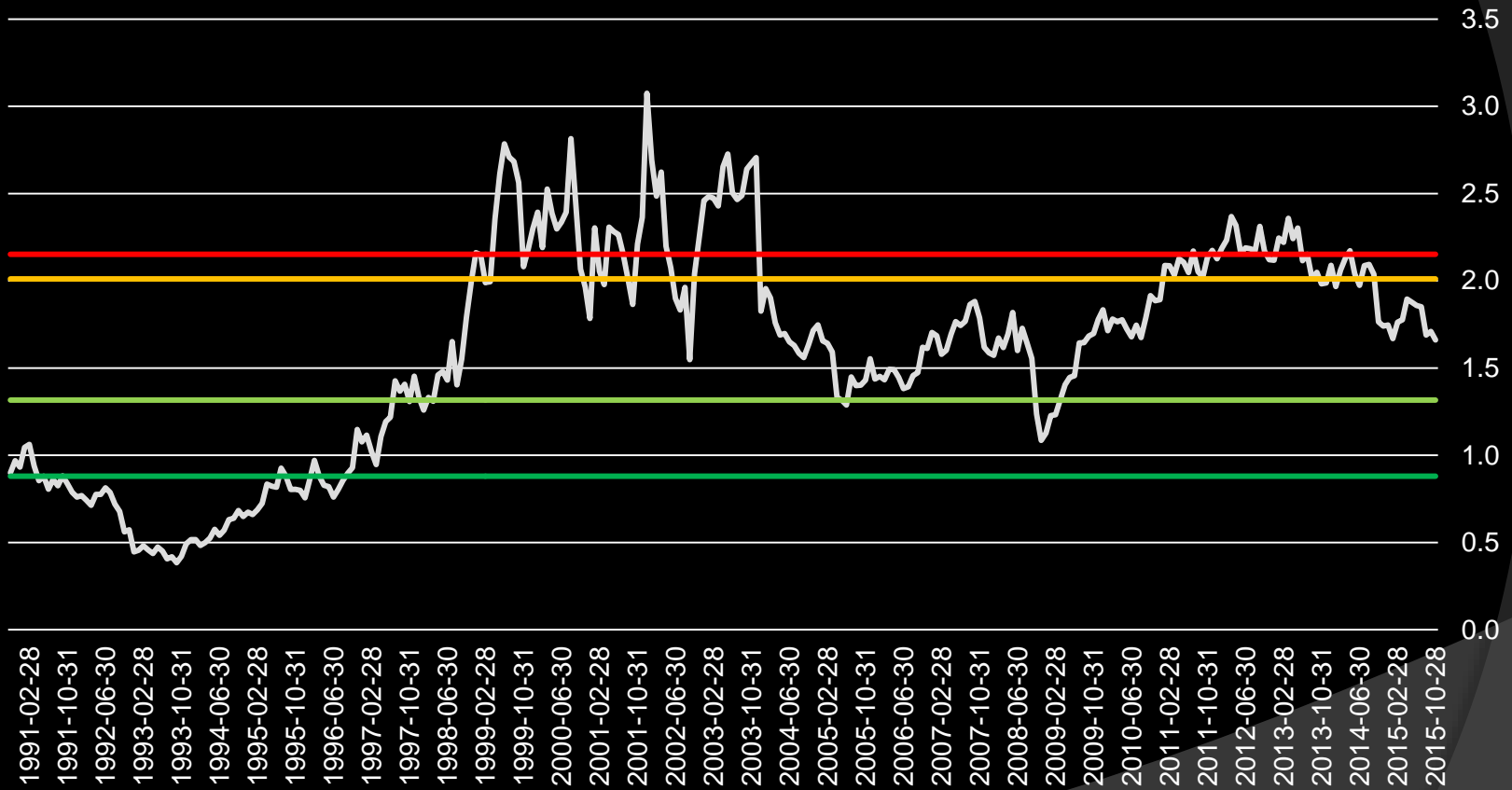
	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®	Req Return	TARG®
Default	137.86	\$11.340	13.13	12.50%	28.4%	12.96%	10.00%	183.36
Safety	137.86	\$11.340	10.92	3.96%	0.0%	2.33%	10.00%	61.03
Saved	137.86	\$11.340	9.00	3.00%	0.0%	-0.04%	10.00%	45.84

Cut P/E by 31.5%
 Cut Growth rate by 76%

Valuebands

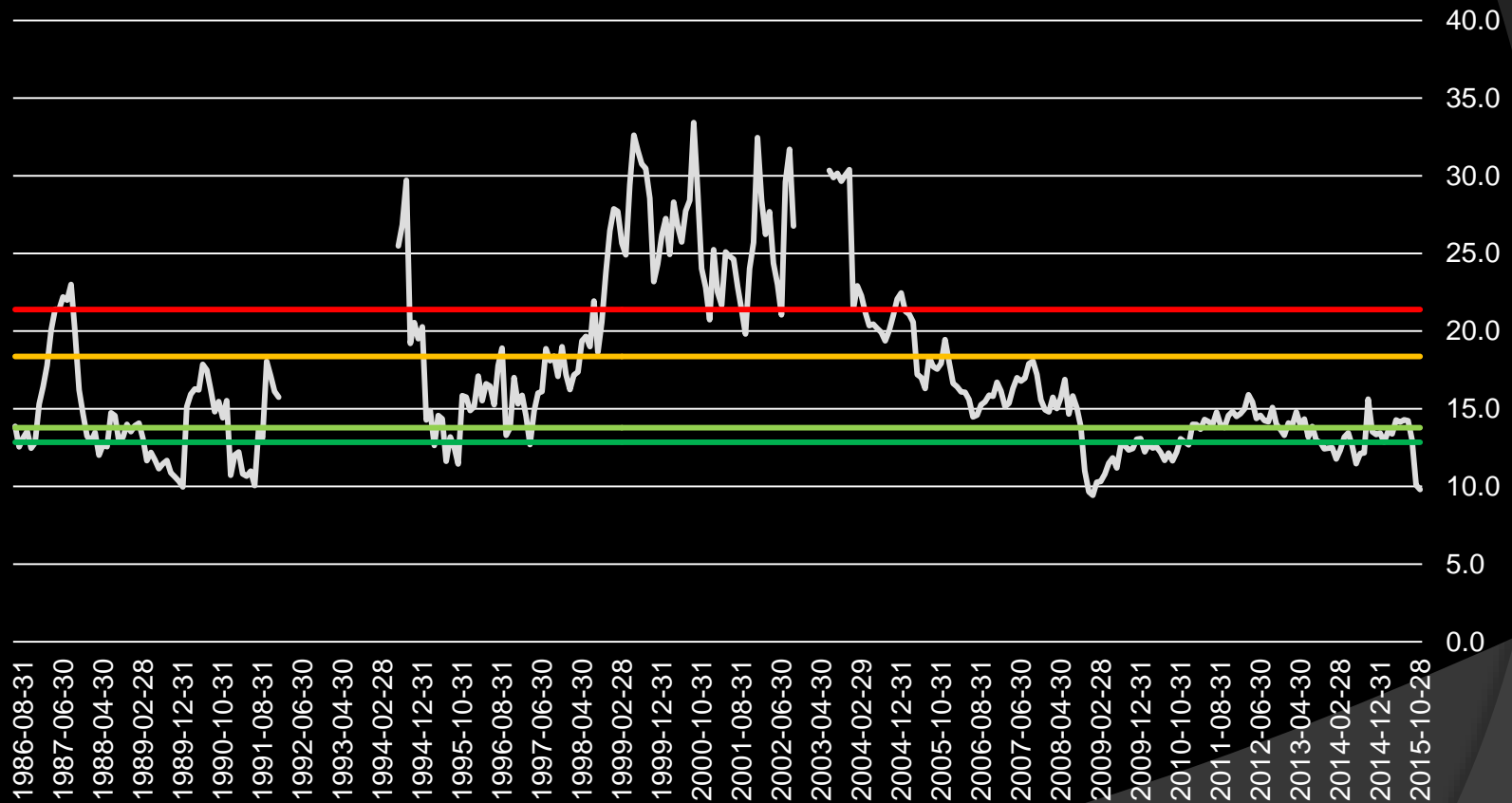


Price to Sales





Price to Earnings





Price to Book





Price to Cash Flow



Price to Free Cash Flow



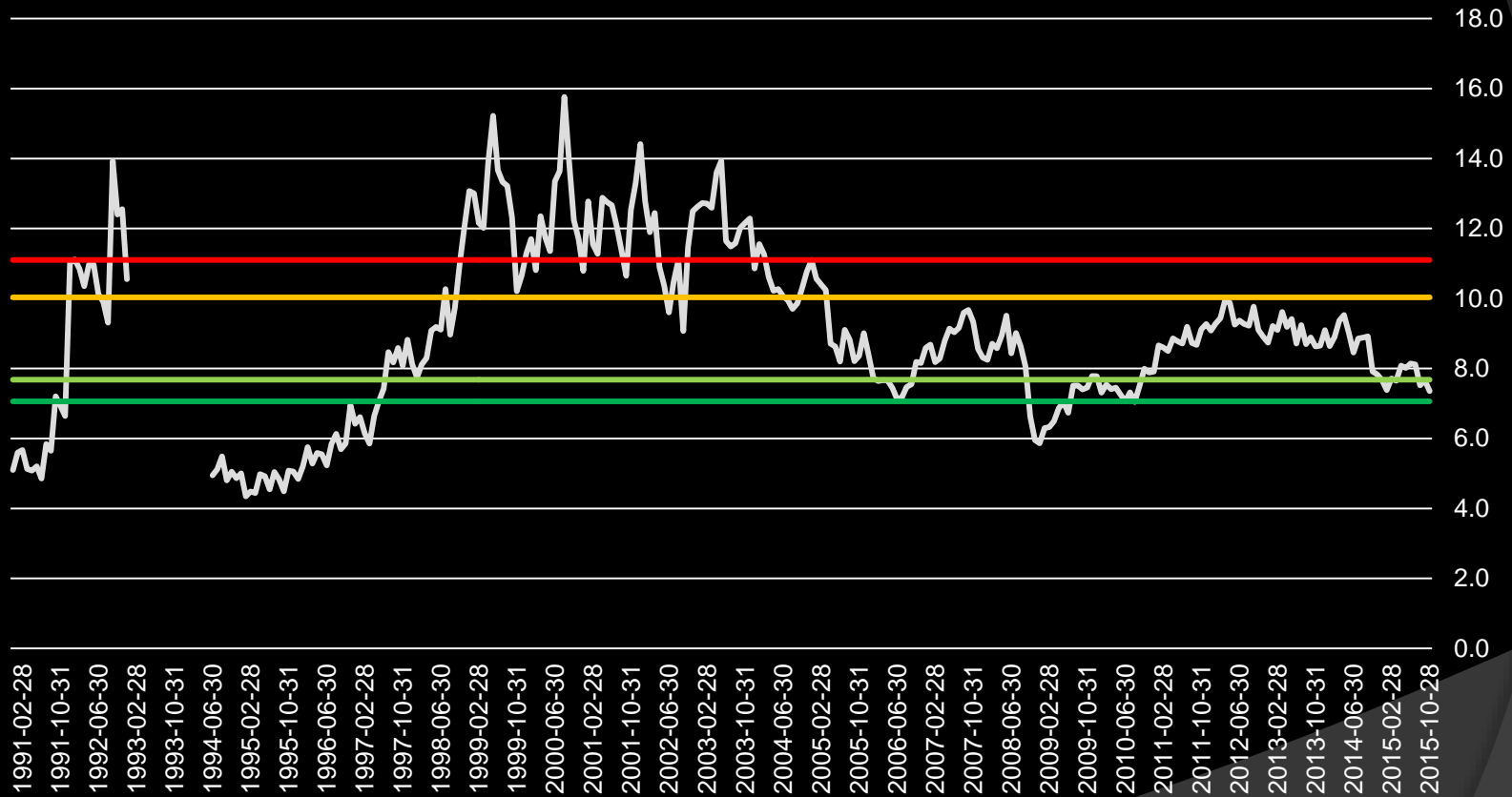


Enterprise Value to Revenue





Enterprise Value to EBITDA





Enterprise Value to EBIT



Valuation Summary

<u>P/S</u>	<u>P/E</u>	<u>P/B</u>	<u>P/CFO</u>	<u>P/FCF</u>	<u>EV/Rev</u>	<u>EV/EBITDA</u>	<u>EV/EBIT</u>
1.66	9.80	10.28	9.00	11.00	1.96	7.35	8.91
48%	1%	81%	20%	9%	66%	23%	12%

Intraportfolio

PEG Ratio



	Ticker	▲ PEG Forward
▷	AIG-WT	-
▷	BRK.B	-
▷	AIG	1.2
▷	IBM	1.3
▷	CMI	1.7
▷	WBA	1.7
▷	AAP	1.7
▷	BBBY	1.8
▷	CHRW	1.9
▷	UNP	2.0
▷	ORCL	2.0
▷	MSFT	2.1
▷	MDT	2.5
▷	PEP	3.7
▷	WMT	4.4
▷	NSRGY	5.1

Price/ Earnings



	Ticker	▲ Price / Earnings ▼
▷	AIG-WT	-
▷	IBM	9.6
▷	CMI	11.1
▷	BBBY	11.1
▷	WMT	12.1
▷	AIG	12.5
▷	UNP	15.6
▷	ORCL	18.3
▷	BRK.B	18.9
▷	CHRW	21.1
▷	WBA	24.5
▷	NSRGY	25.5
▷	AAP	28.8
▷	PEP	30.5
▷	MDT	34.2
▷	MSFT	35.6

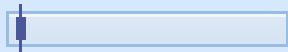
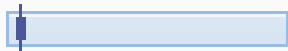

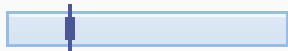





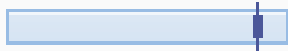

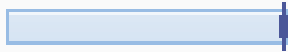
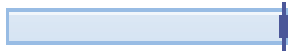
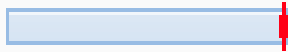
Price/Free Cash Flow



	Ticker	▲ P/CF
▷	AIG-WT	-
▷	WMT	7.0
▷	IBM	7.8
▷	CMI	9.3
▷	BBBY	9.6
▷	BRK.B	10.0
▷	UNP	10.4
▷	ORCL	12.9
▷	PEP	14.5
▷	MSFT	14.9
▷	CHRW	16.0
▷	WBA	16.6
▷	MDT	16.6
▷	NSRGY	17.0
▷	AAP	20.2
▷	AIG	23.1

5 Year P/E



	Ticker	▲ 5-Year Price / Earnings Range
▷	AIG-WT	
▷	NSRGY	
▷	IBM	9.4  16.0
▷	BBBY	10.9  18.7
▷	AIG	2.1  -
▷	WMT	11.0  19.0
▷	CMI	8.3  23.2
▷	UNP	12.7  24.0
▷	CHRW	13.9  36.1
▷	ORCL	13.3  25.3
▷	WBA	10.0  43.6
▷	BRK.B	13.3  19.9
▷	MDT	10.5  36.5
▷	MSFT	8.8  36.2
▷	PEP	15.1  30.6
▷	AAP	11.5  28.3

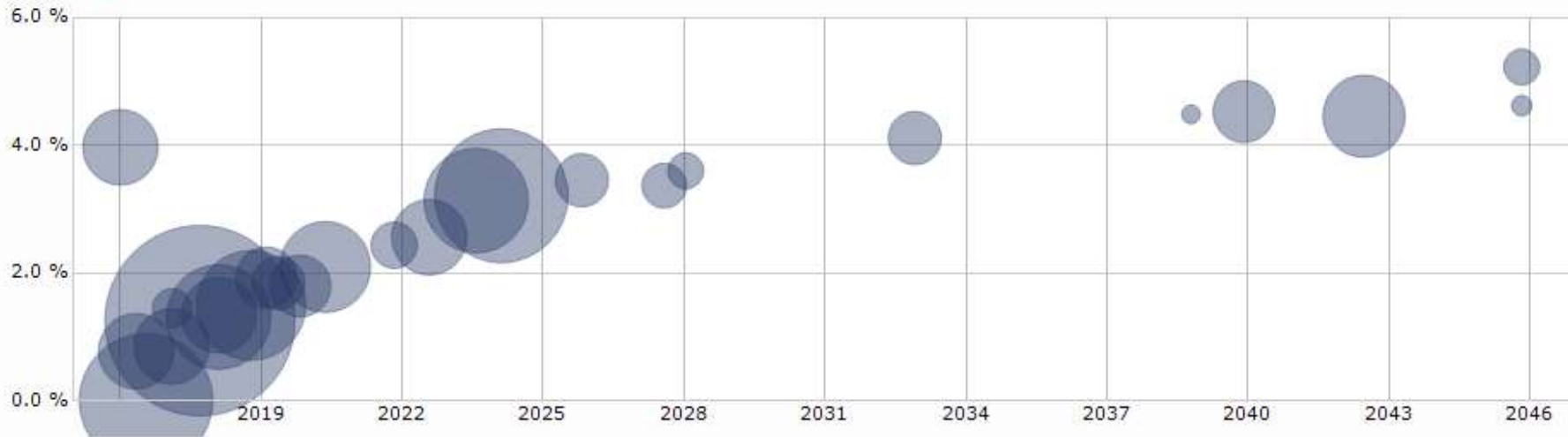
Morningstar

Morningstar Debt Analysis

Yield to Maturity

● Debt ● Preferred ● Convertible

●●● Circle size determined by issue amount





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 2%	01/05/2016	1,000.0	---	99.6	2.000	Fixed	No	No	3.96
Intl Busn Machs	02/05/2016	1,000.0	---	99.8	0.349	FRN	No	No	---
Intl Busn Machs 0.45%	05/06/2016	1,000.0	---	99.7	0.450	Fixed	No	No	0.77
Intl Busn Machs 1.95%	07/22/2016	2,000.0	---	102.9	1.950	Fixed	No	No	0.00
Intl Busn Machs 1.25%	02/06/2017	1,000.0	---	100.7	1.250	Fixed	No	No	0.85
Intl Busn Machs 2.2%	02/10/2017	374.9	---	101.3	2.200	Fixed	No	No	1.44
Intl Busn Machs 5.7%	09/14/2017	3,000.0	---	110.0	5.700	Fixed	No	No	1.25
Intl Busn Machs 1.125%	02/06/2018	1,500.0	---	99.5	1.125	Fixed	No	No	1.31
Intl Busn Machs	02/06/2018	500.0	---	99.8	0.470	FRN	No	No	---
Intl Busn Machs 1.25%	02/08/2018	1,000.0	---	99.8	1.250	Fixed	No	No	1.34

DuPont Analysis



DuPont

IBM	Net Profit Margin (Net Income/Revenue)	Total Asset Turnover (Revenue/Total Assets)	Financial Leverage Multiplier (Total Assets/Total Equity)	Return on Equity
TTM	16.96%	0.77	8.17	106.89%
2014	12.96%	0.79	9.90	101.30%
2013	16.76%	0.78	5.54	72.32%
2012	15.89%	0.88	6.32	88.04%
2011	14.83%	0.92	5.77	78.73%



DuPont-Competitors

DuPont	Net Profit Margin (Net Income/Revenue)	Total Asset Turnover (Revenue/Total Assets)	Financial Leverage Multiplier (Total Assets/Total Equity)	Return on Equity
IBM	16.96%	0.77	8.17	106.89%
MSFT	13.52%	0.52	2.23	15.85%
AMZN	0.33%	1.78	4.52	2.66%
ORCL	24.95%	0.35	2.33	20.17%



Industry Breakdown

Company	IBM	MSFT	AMZN	ORCL
Revenues (millions)	83,796	90,758	100,589	38,079
Net Income (millions)	14,210	12,273	328	9,501
P/E	10	35	916	18
P/S	1.66	4.84	3.03	4.56
ROE (%)	106.70	14.28	2.66	19.90
ROA (%)	12.47	7.05	-0.58	9.18
Operating Margin (%)	18.65	19.95	1.70	35.61
Net Profit Margin (%)	16.96	13.52	0.33	24.95
Dividend Yield (%)	3.77	2.68	0.00	1.56

Conclusion

- ◎ Sticky business
- ◎ Brand name loyalty
- ◎ Largest patent portfolio
- ◎ Transition phase

Recommendation

- ◎ Limit order at \$135