

International Business Machines Corp

S&P Recommendation **STRONG BUY** ★★★★★

Price
\$121.08 (as of Sep 25, 2009)

12-Mo. Target Price
\$147.00

Investment Style
Large-Cap Growth

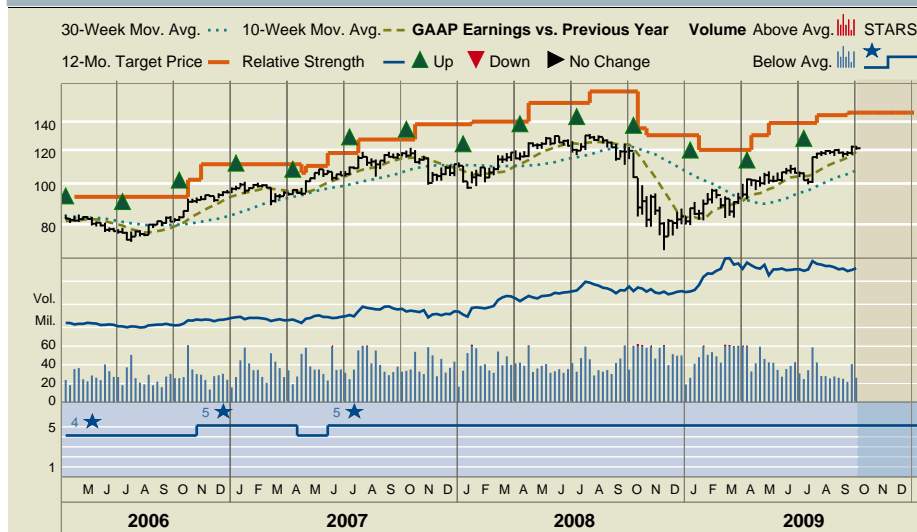
GICS Sector Information Technology
Sub-Industry Computer Hardware

Summary IBM's global capabilities include information technology services, software, computer hardware equipment, fundamental research, and related financing.

Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	\$122.88–69.50	S&P Oper. EPS 2009E	9.80	Market Capitalization(B)	\$158.722	Beta	0.82
Trailing 12-Month EPS	\$9.37	S&P Oper. EPS 2010E	10.90	Yield (%)	1.82	S&P 3-Yr. Proj. EPS CAGR(%)	10
Trailing 12-Month P/E	12.9	P/E on S&P Oper. EPS 2009E	12.4	Dividend Rate/Share	\$2.20	S&P Credit Rating	A+
\$10K Invested 5 Yrs Ago	\$15,400	Common Shares Outstg. (M)	1,310.9	Institutional Ownership (%)	59		

Price Performance



Options: ASE, CBOE, P, Ph

Analysis prepared by **Thomas W. Smith, CFA** on September 08, 2009, when the stock traded at **\$117.34**.

Highlights

- ▶ We expect revenues to decrease about 8% in 2009, reflecting a slower growing global economy and negative currency effects. We then project a 4% revenue increase for 2010 as we see economic conditions gradually improving. We believe the Services segments will continue to gain traction, helped by strong second-quarter growth in outsourcing contract signings. We project growth in IBM's Software segment, reflecting recent acquisitions, including Cognos, Platform Solutions, ILOG, and Exeros. We look for softness in Systems and Technology segment sales, as hardware is being hit especially hard in an IT industry downturn.
- ▶ We look for gross margins to widen to 45.8% in 2009 and 46.3% in 2010, from 44.1% in 2008, on ongoing cost reduction efforts and an improved sales mix. We think pretax margins will expand as well. Effective tax rates should benefit from more international business.
- ▶ We estimate EPS of \$9.80 for 2009 and \$10.90 for 2010. About \$5.1 billion in board authorizations for buybacks remained as of July 16, 2009, and we expect share buybacks to bolster EPS.

Investment Rationale/Risk

- ▶ IBM's results should benefit, in our view, from relatively strong revenue growth in emerging markets and a widening of margins reflecting cost cutting and improved profitability in more mature markets. We expect per-share results to benefit from lower effective tax rates as business shifts overseas, and from share buybacks.
- ▶ Risks to our recommendation and target price include execution risks with regard to the global expansion of services operations. Pricing pressure and managing a transition to new hardware products are also risks. Regarding corporate governance practices, we are somewhat concerned that the roles of chairman and CEO are combined.
- ▶ Our 12-month target price of \$147 reflects a target P/E near 15X, which is toward the middle of the recent five-year historical range for IBM, applied to our 2009 EPS estimate of \$9.80. Our target P/E is also at a discount to a recent forward P/E near 21X for Information Technology Sector companies in the S&P 500 Index. We view the stock's valuation as compelling given IBM's economies of scale and relatively steady earnings performance.

Qualitative Risk Assessment

LOW **MEDIUM** **HIGH**

Our risk assessment reflects what we view as IBM's competitively positioned solutions offerings, global market presence, and significant economies of scale, offset by what we see as an intensely competitive pricing environment.

Quantitative Evaluations

S&P Quality Ranking **A**

D **C** **B-** **B** **B+** **A-** **A** **A+**

Relative Strength Rank **MODERATE**

46
LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million \$)

	1Q	2Q	3Q	4Q	Year
2009	21,711	23,250	--	--	--
2008	24,502	26,820	25,302	27,006	103,630
2007	22,029	23,772	24,119	28,866	98,786
2006	20,659	21,890	22,617	26,257	91,424
2005	22,908	22,270	21,529	24,427	91,134
2004	22,175	23,098	23,349	27,671	96,293

Earnings Per Share (\$)

	1Q	2Q	3Q	4Q	Year
2009	1.70	2.32	E2.38	E3.40	E9.80
2008	1.65	1.98	2.05	3.28	8.93
2007	1.21	1.55	1.68	2.80	7.18
2006	1.08	1.30	1.45	2.30	6.06
2005	0.85	1.14	0.94	2.01	4.91
2004	0.93	1.16	1.06	1.81	4.94

Fiscal year ended Dec. 31. Next earnings report expected: Mid October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.500	10/28	11/06	11/10	12/10/08
0.500	01/27	02/06	02/10	03/10/09
0.550	04/28	05/06	05/08	06/10/09
0.550	07/28	08/06	08/10	09/10/09

Dividends have been paid since 1916. Source: Company reports.

International Business Machines Corp**Business Summary** September 08, 2009

CORPORATE OVERVIEW. With a corporate history dating back to 1911, International Business Machines has grown to be a major contributor to each major category that comprises the total information technology market: hardware, software, and services. The company is a leading server vendor, among the largest software vendors (behind Microsoft Corp.), and has the largest global services organization.

The company strives for innovation as a means of product differentiation, and had a research and development budget of \$6.3 billion in 2008, up from \$6.2 billion in 2007. IBM reports being awarded over 4,000 patents in 2008, more than any other company.

The global scope of operations is reflected in the mix of revenue sources in 2008, with the Americas representing about 41%, EMEA 36%, Asia Pacific 20%, and an OEM category 3%. Regional growth was stronger outside the Americas in 2008 on a dollar reporting basis, but was stronger in the Americas on a constant currency basis. Revenue from the Americas grew at a 4% (4% in constant currency) pace in 2008, while revenue from EMEA grew 7% (3%), and revenue from Asia Pacific grew 8% (2%), compared to a 5% (2%) rate for all IBM. The company's revenue from the so-called BRIC countries (Brazil, Russia, India and China) grew 18% (15%) in 2008.

CORPORATE STRATEGY. IBM has evolved from being a computer hardware vendor to a systems, services and software company. While computer hardware (included in the Systems and Technology segment) accounted for about 19% of sales in 2008 (22% of sales in 2007), IBM has emphasized -- through acquisitions and investments -- services and software. These areas serving adjacent markets to hardware have gained momentum as IBM leverages its ability to offer total solutions to customers. IBM's focus on higher value added segments such as services, at 57% of 2008 sales (55% of 2007 sales), and software 21% (20%) resulted in these areas together representing almost 78% of revenue in 2008. Global financing represented approximately 3% (3%) of 2008 revenues, and is primarily used to leverage IBM's financial structuring and portfolio management, and to expand the customer base.

The Systems and Technology segment (\$19 billion in revenue in 2008) focuses largely on servers and systems that provide required computing infrastructure for business. IBM has made a transition to more open systems; all IBM servers can run Linux, a key open source operating system. This segment also includes storage product operations that address information retention and archiving needs, microelectronics (semiconductor) operations, and offers retail store solutions. While IBM introduced the PC, it sold this business to Lenovo Group Ltd. in May 2005, for \$1.75 billion.

IBM's Services segments (nearly \$59 billion revenue in 2008) include Global Technology Services (\$39 billion) and Global Business Services (\$20 billion). Global Technology encompasses strategic outsourcing, integrated technology services, business transformation outsourcing, and maintenance. We believe the services operation has a strong position in emerging e-business services, with a services backlog of \$117 billion as of the end of 2008, near the year earlier level, as estimated by the company.

The Software segment (\$22 billion in revenue in 2008), has sought growth based on the strength of IBM's middleware and database offerings. IBM has made a number of acquisitions in recent years, including the February 2008 acquisitions of Cognos, which added offerings in business intelligence and performance management, and Net Integration Technologies Inc., which added a business server software solution for small and medium-sized businesses.

FINANCIAL TRENDS. An information technology industry downturn will pressure results into 2010, in our view. Also, we believe IBM's revenue growth is challenged by the sheer size of its business (which topped \$100 billion in revenues in 2008). However, we see potential for continuing margin expansion as a result of restructuring efforts in the company's hardware business, a more software-oriented business mix, and productivity initiatives in its Services segments. An aggressive program of share buybacks aided results in 2007, and buybacks continued at a more moderate level in 2008. We expect share buybacks to continue in 2009 and 2010.

Corporate Information**Investor Contact**

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Website<http://www.ibm.com>**Officers****Chrmn, Pres & CEO**

S.J. Palmisano

SVP & General**Counsel**

R.C. Weber

SVP & CFO

M. Loughridge

Treas

M.J. Schroeter

SVP & CTO

R.W. Moffat, Jr.

Board Members

A. J. Belda

C. P. Black

W. R. Brody

K. I. Chenault

M. L. Eskew

S. A. Jackson

T. Nishimuro

J. W. Owens

S. J. Palmisano

J. E. Spero

S. Taurel

L. Zambrano

Domicile

New York

Founded

1910

Employees

398,455

Stockholders

561,442

International Business Machines Corp

Quantitative Evaluations

S&P Fair Value Rank	5+	1	2	3	4	5
		LOWEST		HIGHEST		

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation	\$145.40	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that IBM is Undervalued by \$24.32 or 20.1%.
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Investability Quotient Percentile	100	LOWEST = 1 HIGHEST = 100 IBM scored higher than 100% of all companies for which an S&P Report is available.
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Volatility	LOW	AVERAGE	HIGH
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Technical Evaluation	BULLISH	Since September, 2009, the technical indicators for IBM have been BULLISH.
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Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2008	2007	2006	2005
Price/Sales	1.12	1.59	1.65	1.47
Price/EBITDA	5.36	8.36	8.92	9.19
Price/Pretax Income	6.96	10.82	11.33	10.94
P/E Ratio	9.43	15.05	16.03	16.74
Avg. Diluted Shares Outstg (M)	1,381.8	1,450.6	1,553.5	1,627.6

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	4.90	4.74	2.41	1.86
Net Income	18.39	15.05	9.59	5.16

Ratio Analysis (Annual Avg.)

Net Margin (%)	11.90	10.92	10.06	9.28
% LT Debt to Capitalization	50.31	42.54	38.54	40.53
Return on Equity (%)	58.82	42.00	36.00	34.21

Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Tangible Book Value	NM	8.72	8.93	13.97	11.86	12.36	10.84	12.96	11.08	10.65
Cash Flow	12.49	10.22	9.39	8.10	7.82	7.01	5.61	7.08	6.95	7.40
Earnings	8.93	7.18	6.06	4.91	4.94	4.34	3.07	4.35	4.44	4.12
S&P Core Earnings	6.03	6.94	5.88	3.93	4.06	3.00	0.08	1.33	NA	NA
Dividends	1.90	1.50	1.10	0.78	0.70	0.63	0.59	0.55	0.51	0.47
Payout Ratio	21%	21%	18%	16%	14%	15%	19%	13%	11%	11%
Prices:High	130.93	121.46	97.88	99.10	100.43	94.54	126.39	124.70	134.94	139.19
Prices:Low	69.50	88.77	72.73	71.85	90.82	73.17	54.01	83.75	80.06	80.88
P/E Ratio:High	15	17	16	20	20	22	41	29	30	34
P/E Ratio:Low	8	12	12	15	18	17	18	19	18	20

Income Statement Analysis (Million \$)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenue	103,630	98,786	91,424	91,134	96,293	89,131	81,186	85,866	88,396	87,548
Operating Income	21,680	18,765	16,912	14,564	15,890	14,790	11,175	14,115	16,147	18,086
Depreciation	4,930	4,405	4,983	5,188	4,915	4,701	4,379	4,820	4,513	6,159
Interest Expense	1,477	1,431	278	220	139	145	145	238	717	727
Pretax Income	16,715	14,489	13,317	12,226	12,028	10,874	7,524	10,953	11,534	11,757
Effective Tax Rate	26.2%	28.1%	29.3%	34.6%	29.8%	30.0%	29.1%	29.5%	29.8%	34.4%
Net Income	12,334	10,418	9,416	7,994	8,448	7,613	5,334	7,723	8,093	7,712
S&P Core Earnings	8,323	10,072	9,116	6,395	6,923	5,270	111	2,302	NA	NA

Balance Sheet & Other Financial Data (Million \$)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Cash	12,907	16,146	10,656	13,686	10,570	7,647	5,975	6,393	3,722	5,831
Current Assets	49,004	53,177	44,660	45,661	46,970	44,998	41,652	42,461	43,880	43,155
Total Assets	109,524	120,431	103,234	105,748	109,183	104,457	96,484	88,313	88,349	87,495
Current Liabilities	42,435	44,310	40,091	35,152	39,798	37,900	34,550	35,119	36,406	39,578
Long Term Debt	22,689	23,039	13,780	15,425	14,828	16,986	19,986	15,963	18,371	14,124
Common Equity	13,465	28,470	28,506	33,098	29,747	27,864	22,782	23,614	20,624	20,264
Total Capital	45,096	51,509	42,286	48,523	44,575	44,850	42,768	39,577	38,995	36,236
Capital Expenditures	4,171	4,630	4,362	3,842	4,368	4,393	4,753	5,660	5,616	5,959
Cash Flow	17,264	14,823	14,399	13,182	13,363	12,314	9,713	12,533	12,586	13,851
Current Ratio	1.2	1.2	1.1	1.3	1.2	1.2	1.2	1.2	1.2	1.1
% Long Term Debt of Capitalization	71.6	44.7	32.6	31.7	33.3	37.9	46.7	40.3	47.1	39.2
% Net Income of Revenue	11.9	10.6	10.3	8.8	8.8	8.5	6.6	9.0	9.2	8.8
% Return on Assets	10.7	9.3	9.0	7.4	7.9	7.6	5.7	8.7	9.2	8.9
% Return on Equity	58.8	36.6	30.6	24.7	29.3	30.1	23.1	35.1	39.7	39.0

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

International Business Machines Corp

Sub-Industry Outlook

Our fundamental outlook for the S&P Computer Hardware sub-industry for the next 12 months is positive. We estimate that global unit sales of personal computers will decrease about 4% in 2009, reflecting slowing economic activity. This would represent a sharp downturn from moderately healthy unit sales growth we estimate near 10% in 2008; the sales pace faded in the second half of 2008. Price competition, a long-term trend toward lower average selling prices, and growing demand for small, low-cost "ultra-portable" notebook PCs will contribute to a decline of about 15% in global PC industry revenue in 2009, in our view. Consumer preference for wireless and portable computing is helping to drive PC unit sales. With more laptops, versus desktops, in the PC sales mix, we see some help for margins for PC makers. We think computer hardware vendors will redouble their efforts to take costs out of their infrastructures in order to manage through a period of moderate demand. We expect computer makers' profitability in 2009 to benefit from modest component costs as a result of competition among semiconductor suppliers. We believe the industry downturn in computer hardware has begun to fade in the second half of 2009, and we project PC unit growth of 8% for 2010.

We see longer-term fundamentals in the computer industry remaining attractive, albeit with lively price competition, as we think that a global appetite for technology products such as smartphones, personal digital assistants and lightweight portable computers with wireless functionality should boost productivity and communications. Many vendors have also streamlined operations in recent years, and we see this boosting longer-term profit potential.

We believe the benefits of Internet-related computing for the computer industry are well under

way. Demand for Internet-based applications is growing, as we think they offer companies opportunities to reduce costs and improve customer service. Although many deployments have been made to capitalize on these opportunities, we think the evolution of the platforms could produce additional investment as Internet use matures. In addition, as price pressures in the PC industry have remained intense, we think that hardware vendors have been seeking to offset the negative impact on profits by offering higher-margin services, servers and storage.

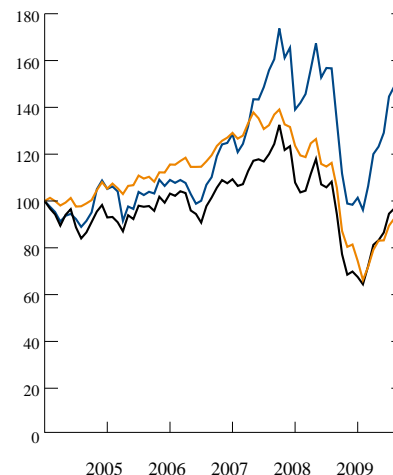
Year to date through September 4, the S&P Computer Hardware Index increased 51.7%, versus a 13.2% increase for the S&P 1500 Index. In 2008, the S&P Computer Hardware Index decreased 40.5%, compared to a 38.5% drop in the S&P 1500 Index.

--Thomas W. Smith, CFA

Stock Performance

GICS Sector: Information Technology
Sub-Industry: Computer Hardware

Based on S&P 1500 Indexes
Month-end Price Performance as of 08/31/09



Sub-Industry Sector S&P 1500

NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Sub-Industry : Computer Hardware Peer Group*: Computer Hardware - Large System Vendors

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
Intl Bus. Machines	IBM	158,722	121.08	122.88/69.50	0.82	1.8	13	145.40	A	100	11.9	71.6
Dell Inc	DELL	29,999	15.34	17.26/7.84	1.33	Nil	16	22.70	B+	98	4.1	30.8
Hewlett-Packard	HPQ	111,488	47.02	47.86/25.39	1.05	0.7	16	50.40	B+	96	7.0	15.4
Sun Microsystems	JAVA	6,803	9.03	9.37/2.60	1.68	Nil	NM	NA	C	41	NA	17.4
Toshiba Corp	TOSBF	17,473	5.40	5.50/2.15	1.64	0.6	NM	NA	NR	17	1.7	30.9

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

International Business Machines Corp**S&P Analyst Research Notes and other Company News****September 11, 2009**

International Business Machines Corp. unveiled its new CIO, promoting intellectual property guru Pat Toole to head its IT innovation efforts. The former general manager for IP within IBM's research wing is relishing the challenge of driving improvements at one of the world's largest tech companies. Cost control, in particular, has been a key issue for IBM during the recession, enabling the server and software giant to grow its profit and margins despite diminishing sales. Toole says that he will continue these efforts.

September 8, 2009

10:31 am ET ... S&P REITERATES STRONG BUY OPINION ON SHARES OF INTERNATIONAL BUSINESS MACHINES (IBM 117.18****): IBM reiterates its financial guidance in an SEC filing ahead of mid-September investor meetings. The IT services, hardware and software provider still expects to earn at least \$9.70 a share in 2009 and forecasts EPS of \$10 to \$11 in 2010. We project IBM's heavy R&D spending, near \$5.8B for 2009, and presence in hardware from microelectronics to servers, will aid competitive market positioning. We are raising our EPS estimates to \$9.80 from \$9.75 for 2009, and to \$10.90 from \$10.80 for 2010. We are raising our P/E-based 12-month target price to \$147 from \$145. /T.Smith-CFA

August 17, 2009

02:15 pm ET ... S&P RAISES OPINION ON SHARES OF BROCADE COMMUNICATIONS TO STRONG BUY FROM BUY (BRCD 7.95****): BRCD will report Jul-Q results on August 20 after the market close. We believe BRCD's relationship with IBM (IBM 116.95****) will help it gain market share in FY 09 (Oct.) and FY 10, based on our outlook for accelerated adoption for BRCD products. As a result, we are increasing our operating EPS estimate by \$0.01 to \$0.13 in FY 09 and by \$0.02 to \$0.35 in FY 10, excluding one-time items. We are also raising our 12-month target price by \$1 to \$10, based on our revised DCF analysis that assumes a 9.6% weighted average cost of capital and 2% terminal growth. /RKhalid, CFA

July 28, 2009

08:39 am ET ... S&P MAINTAINS STRONG BUY OPINION ON SHARES OF IBM (IBM 117.63****): IBM announces definitive merger agreement to acquire SPSS Inc. (SPSS 35.09, NR), a Chicago-based provider of analytics software, which we believe should fit well with IBM's software and services growth strategies. The planned acquisition would cost IBM \$1.2 billion in cash and we expect it to close within 2009, subject to SPSS shareholder approval, regulatory clearances, and customary closing conditions. We believe the initial cost and integration challenges will be outweighed by product enhancements and cross-selling opportunities. /T.Smith-CFA

July 17, 2009

IBM posts \$2.32 vs. \$1.97 Q2 EPS as widened gross profit margin, lower total expenses offset 7% revenue decline (adjusting for currency). Street was looking for EPS of \$2.02. Raises '09 EPS view to at least \$9.70 from \$9.20. Says it is "well ahead of pace for our 2010 roadmap of \$10 to \$11 per share."

July 17, 2009

02:39 pm ET ... INTERNATIONAL BUSINESS MACHINES CORP. (IBM 114.95) UP 4.31, UPDATE - IBM (IBM) POSTS \$2.32 Q2 EPS. BERNSTEIN RAISES ESTIMATES, TARGET... Analyst Toni Sacconaghi says while revenues were slightly below consensus, IBM's EPS was a stunning \$2.32, blowing past his \$2.07, consensus's \$2.02. Notes results were clean and demonstrated very strong, but not unprecedented, operating leverage. Raises \$9.50 '09 EPS estimate to \$9.90, \$10.50 '10 to \$11.00, \$120 target to \$130. Continues to like IBM's valuation and strong earnings visibility, particularly in an uncertain economic environment. Rates outperform./B.Brodie

July 17, 2009

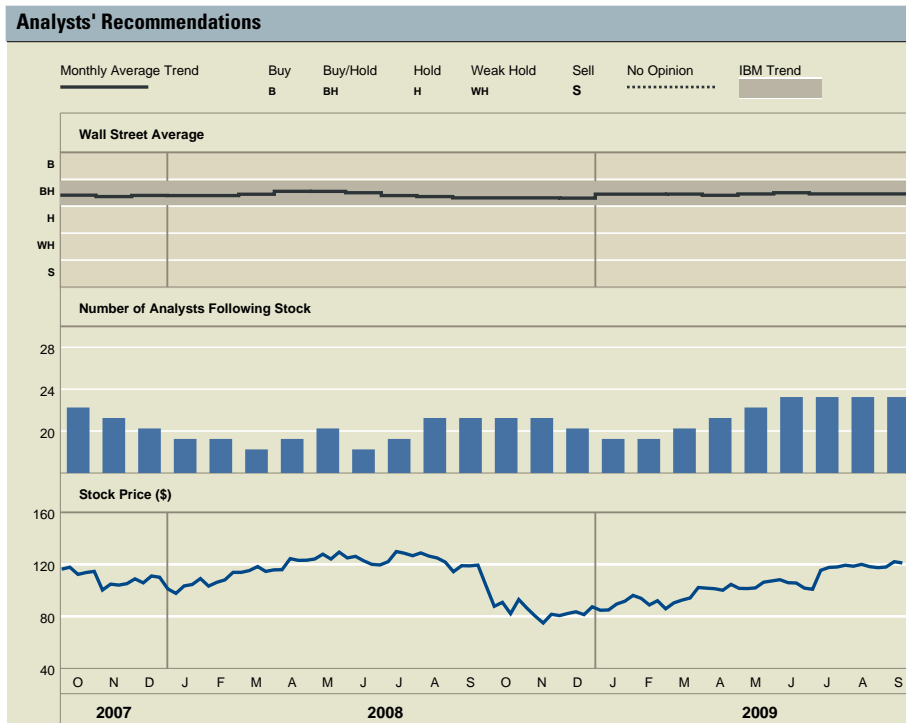
08:56 am ET ... S&P REITERATES STRONG BUY OPINION ON SHARES OF INTERNATIONAL BUSINESS MACHINES (IBM 110.64****): Q2 EPS of \$2.32 vs. \$1.98 is above our \$2.08 estimate, despite revenues of \$23.3B, below our expectation of \$24.9B. We believe that currency headwinds and clients restraining technology spending will lead to a sales decline of 9% in '09. But reflecting cost cutting, increased sales of wider margin software, and improved margins in the services segment, we see gross margin of 45.9%. We are raising our '09 EPS estimate by \$0.47, to \$9.72, and '10's by \$0.48, to \$10.68. We are lifting

our P/E-based 12-month target price by \$6 to \$145. Shares are indicated higher. /T.Smith, CFA,,D.Cathers

July 17, 2009

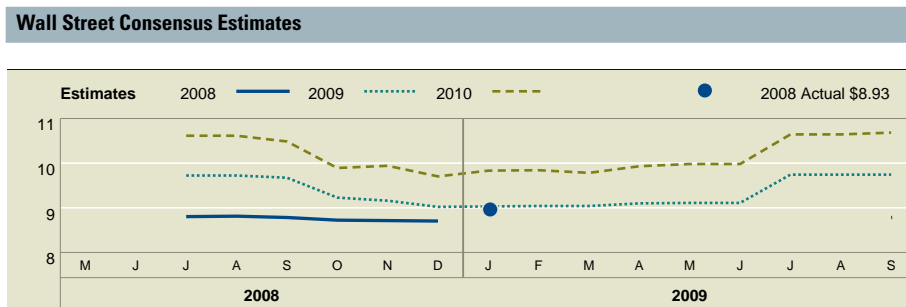
08:49 am ET ... INTERNATIONAL BUSINESS MACHINES CORP. (IBM 110.64) UNCHANGED, IBM (IBM) POSTS \$2.32 Q2 EPS. COWEN RAISES ESTIMATES, REITERATES OUTPERFORM... Analyst Moshe Katri tells salesforce Q2 revenue/EPS of \$23.25B/\$2.32 compared to consensus \$23.4B/\$2.01. Notes gross and pretax margins expanded nicely (up 230 bps and 410 bps, respectively). Remains buyer of IBM considering the powerful combination of stronger-than-expected services bookings, gradual improvement in visibility (hardware, software, svcs), strong margin upside, stock's discounted valuation to S&P 500. Views stock as attractive recovery play on IT spending budgets. Raises \$9.10 '09 EPS estimate to \$9.70, \$10.00 '10 to \$10.50./Brodie

International Business Machines Corp



Of the total 28 companies following IBM, 23 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	7	30	7	7
Buy/Hold	7	30	8	10
Hold	9	39	8	5
Weak Hold	0	0	0	1
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	23	100	23	23



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2010	10.71	11.25	9.87	23	11.3
2009	9.76	9.90	9.63	23	12.4
2010 vs. 2009	▲ 10%	▲ 14%	▲ 2%	0%	▼ -9%
Q3'10	2.63	2.75	2.51	10	46.0
Q3'09	2.37	2.45	2.30	21	51.1
Q3'10 vs. Q3'09	▲ 11%	▲ 12%	▲ 9%	▼ -52%	▼ -10%

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- American Technology Research
- Argus Research Corp.
- Barclays Capital
- Brigantine Advisors LLC
- Canaccord Capital
- Caris & Company
- Cowen & Co.
- Credit Suisse First Boston
- Crowell Weedon & Co.
- Davenport & Co Of Virginia
- Deutsche Bank
- First Global Stockbroking Ltd.
- Goldman Sachs & Co.
- Griffin Securities, Inc.
- Harris Nesbitt
- JP Morgan Securities
- Merrill Lynch Research
- Morgan Stanley & Company
- Nutmeg Securities, Ltd.
- SG Securities
- Sanford C Bernstein & Co., Inc.
- Smith Barney
- Standard & Poors
- Thomas Weisel Partners
- UBS Warburg
- Wachovia Securities
- Wall Street Access
- Wall Street Strategies

Wall Street Consensus vs. Performance

For fiscal year 2009, analysts estimate that IBM will earn \$9.76. For the 2nd quarter of fiscal year 2009, IBM announced earnings per share of \$2.32, representing 24% of the total annual estimate. For fiscal year 2010, analysts estimate that IBM's earnings per share will grow by 10% to \$10.71.

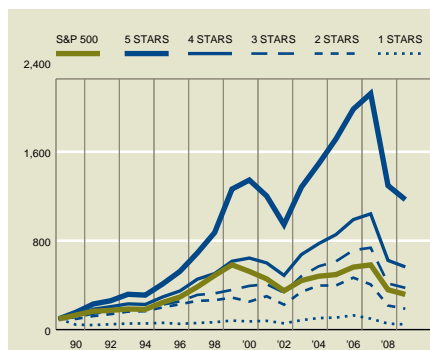
International Business Machines Corp

Glossary

S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

STARS Average Annual Performance



S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

S&P's IQ Rationale:

Intl Bus. Machines

	Raw Score	Max Value
Proprietary S&P Measures	101	115
Technical Indicators	35	40
Liquidity/Volatility Measures	18	20
Quantitative Measures	64	75
IQ Total	218	250

Volatility

Rates the volatility of the stock's price over the past year.

Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

S&P Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC-London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

Abbreviations Used in S&P Equity Research Reports

CAGR- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

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Required Disclosures

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In North America: As of June 30, 2009, research analysts at Standard & Poor's Equity Research Services U.S. have recommended 24.5% of issuers with buy recommendations, 59.5% with hold recommendations and 16.0% with sell recommendations.

In Europe: As of June 30, 2009, research analysts at Standard & Poor's Equity Research Services Europe have recommended 27.7% of issuers with buy recommendations, 46.8% with hold recommendations and 25.5% with sell recommendations.

In Asia: As of June 30, 2009, research analysts at Standard & Poor's Equity Research Services Asia have recommended 26.1% of issuers with buy recommendations, 55.6% with hold recommendations and 18.3% with sell recommendations.

Globally: As of June 30, 2009, research analysts at Standard & Poor's Equity Research Services globally have recommended 25.2% of issuers with buy recommendations, 57.2% with hold recommendations and 17.6% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

For All Regions: All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

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This investment analysis was prepared from the following sources: S&P MarketScope, S&P Compustat, S&P Industry Reports, I/B/E/S International, Inc.; Standard & Poor's, 55 Water St., New York, NY 10041.