



International Business Machines Corporation

Hybrid Cloud and Hybrid Results

IBM is continuing to build momentum due to hybrid cloud and enterprise AI, especially as watsonx gains more traction. While there's real long-term potential in areas such as quantum computing, growth in the near term is held back by tough competition in cloud services. **With solid cash flow but limited short term upside, IBM is rated as a hold while we wait for clearer progress in revenue growth.**

Thesis Point 1

In IBM's annual report, we see that they have positioned themselves to sustainably grow through their technology innovation and consulting expertise at a time when businesses are seeking both cost-effective and secure digital transformation solutions. They are building a portfolio of enterprise AI offerings such as IBM watsonx, as well as hybrid cloud. More than 90% of Fortune 500 companies are using IBM hybrid cloud solutions, which puts the company in a great position to benefit from the predicted surge in container-based AI deployments. Alongside their leadership in technology innovation is their consulting segment. IBM is the only technology company with a consulting business, contributing to IBM consulting accounting for around 80% of AI-related bookings. With their expanding enterprise AI and hybrid cloud offerings supported by their unique consulting services, IBM is likely to see increased cash flow generation. As their container-based AI model accelerates, IBM is positioned to have recurring revenue streams across its portfolio.

Thesis Point 2

IBM listed quantum computing as one of its primary research areas in its 2024 Annual Report, in which they emphasized "massive advances" are happening in IBM research that will address real customer issues. This has resulted in IBM solidifying its leadership in quantum computing, which is a technology that has potential to transform computer power across industries. IBM has already recorded approximately \$1 billion in quantum books on a cumulative basis, which indicates growth in the demand for this technology. As we look forward, IBM's continuous investment in quantum computing signals long term upside. The commercialization of this technology remains uncertain, and short-term profitability may be limited due to capital expenditures and other research costs. However, If IBM can capitalize on turning its quantum computing development into high margin revenue streams, the segment could emerge as a major driver of future growth for the company.

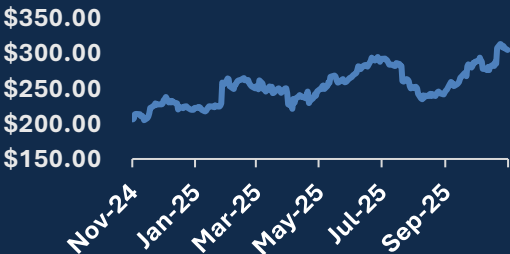
Company Overview

International Business Machines Corporation (IBM) is a global technology and consulting company. Their primary market is business-to-business, and they offer entry-level cybersecurity, data analytics, artificial intelligence, and hybrid cloud solutions. IBM's mission is to use innovation and technology to make the world a better place. Its revenue is distributed among various segments, including infrastructure, consulting, and software. Strong demand for AI-driven services and hybrid cloud computing is currently helping IBM. With significant strength in its Software segment offsetting some weakness in Infrastructure, IBM reported consistent revenue growth in its most recent quarter.

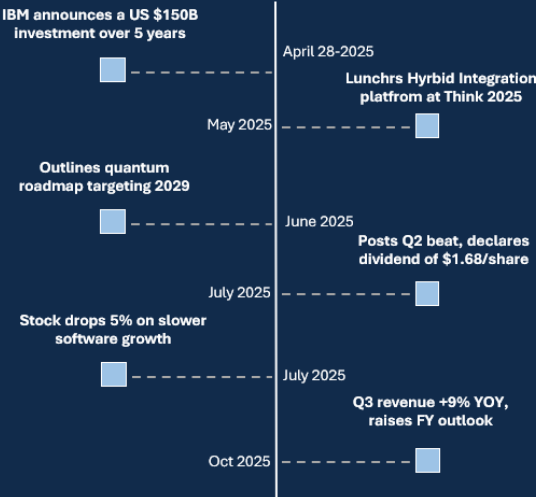


TICKER:	IBM
RATING:	HOLD
PRICE:	\$283.50
PRICE TARGET:	\$300.00
MARKET CAP:	\$269.27bn
52-W RANGE:	\$203.51-\$296.16
P/E:	45.38x
IMPLIED UPSIDE:	5.8%

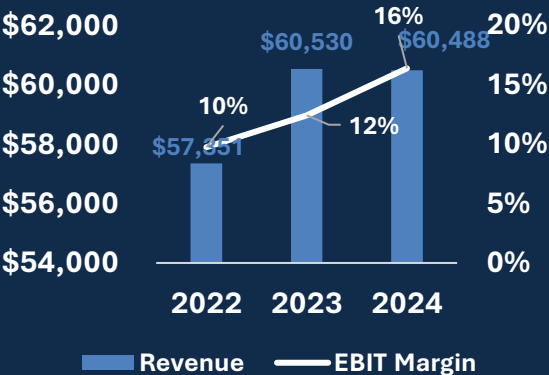
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1 IBM has positioned itself well in the technology area by incorporating hybrid cloud, Ai, and quantum which will help it differentiate itself from other companies. However, IBM must continue to innovate and evolve rapidly as well as commercialize their innovations. They also must focus on expanding their technology by constantly improving the speed and versatility of their technology. If they fail to do effectively manage these responsibilities, the company could struggle to sustain market growth share and increase their profit margins.

Risk 2 IBM has made and will continue to make a huge priority in acquisitions, alliances, and divestitures. These transactions present risk such as companies not being able to follow through with transactions successfully or companies not being able to obtain objectives. Companies may also fail to integrate new operations, achieve planned revenue goals or cost savings, as well as retain key employees or strategic relationship. All of these risks can possibly limit the success of these deals, which could impact IBM’s strategic objectives and reduce their flexibility.

Catalysts There are a few things that could help push IBM’s stock higher moving forward. First, if watsonx and the hybrid cloud business continue to gain traction and start driving growth, then it would likely improve how investors view the company. Another big potential driver is IBM’s quantum efforts. If they can start showing more short-term progress, they would likely see more optimism from investors as well. Any clear signs of stronger revenue growth would push IBM in the right direction and support a higher valuation.

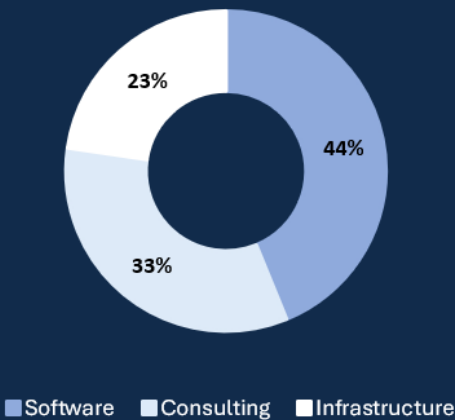
Valuation

DCF Analysis (Summ)							
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030
Revenue	88,898	93,900	97,050	100,642	104,729	109,372	114,644
Revenue Growth	7%	6%	3%	4%	4%	4%	5%
America	72,162	73,400	74,648	76,066	77,663	79,450	81,436
Europe	10,279	11,000	11,990	13,120	14,412	15,893	17,594
Asia Pacific	8,920	9,500	10,412	11,456	12,653	14,029	15,614
EBIT	14,274	18,000	20,380	21,386	22,517	23,788	25,222
EBIT Margin	16%	19%	21%	21%	22%	22%	22%
Tax Expense	(1,646)	4,000	4,484	4,705	4,954	5,233	5,549
Effective Tax Rate	-12%	22%	22%	22%	22%	22%	22%
NOPAT	15,920.00	14,000.00	15,896.76	16,681.41	17,563.02	18,554.95	19,672.92
D&A	3,434	3,750	3,882	4,126	4,399	4,703	5,044
Capex	5,412	7,550	6,696	7,221	7,802	8,449	9,172
Changes in NWC	(290)	(100)	(107)	43	204	380	573
UFCF	14,232	10,300	13,189	13,544	13,955	14,429	14,973
PV of FCF		10,234	12,433	11,642	10,938	10,312	9,757

Our valuation assumes margin expansion across its software and consulting operations. We project a 7.2% revenue CAGR, which grows from \$61.8B in 2024A to \$81.7B in 2028E. EBITDA expands from \$13.8B to \$18.9B, which is driven by software and consulting revenue. Reference the appendix for our downside and upside case assumptions.

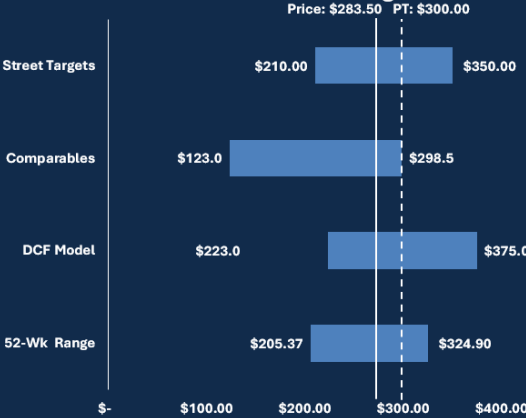
Conclusion We rate IBM as a HOLD, as we recognize its ongoing transition toward AI-driven software and hybrid cloud solutions, but have not yet seen clear signs of this inflection. We assign a \$300 price target, representing roughly 6% upside from the current price of \$283.50.

Revenue Segments

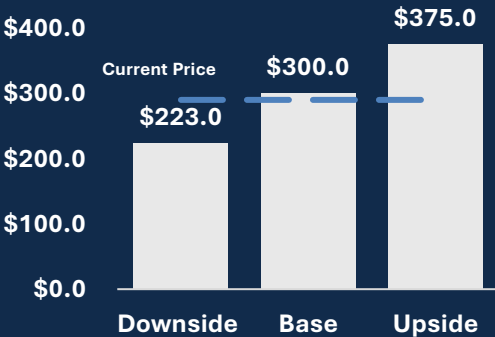


Terminal Value	
Exit Multiple Method	
2034 EBIT	\$15,029
EV/EBIT Exit Multiple	20.0x
Terminal Value	\$300,588
PV of Terminal Value	\$221,502
PV of Projection Period	\$83,225
PV of Terminal Value	\$221,502
Implied TEV	\$304,727
(-) Debt	\$58,396
(+) Cash	\$14,591
Implied Equity Value	\$260,922
Diluted Shares Outstanding	935
Implied Share Price	\$300.00
Upside/Downside	5.8%

Football Field Valuation Range



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	61,797	67,500	72,585	77,373	81,708	7.2%
EBITDA	13,786	17,000	16,709	17,831	18,850	8.1%
EBIT	9,788	13,000	12,339	13,153	13,890	9.1%
NOPAT	10,006	11,175	10,612	11,772	12,918	6.6%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	22.3%	25.2%	23.0%	23.0%	23.1%	23.3%
EBIT Margin	15.8%	19.3%	17.0%	17.0%	17.0%	17.2%
Revenue Growth	2.2%	9.2%	7.5%	6.6%	5.6%	6.2%
EBIT Growth	-1.2%	32.8%	-5.1%	6.6%	5.6%	7.8%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	23.1x	22.1x	22.7x	20.0x	17.9x	21.2x
EV/Sales	5.6x	5.1x	4.7x	4.4x	4.2x	4.8x
EV/EBITDA	24.9x	20.2x	20.5x	19.3x	18.2x	20.6x
FCF Yield	4.3%	4.5%	4.4%	5.0%	5.6%	4.8%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Oracle Corporation (NYSE:ORCL)	\$628,571	\$729,700	31.1x	\$70,622	\$37,531
Accenture plc (NYSE:ACN)	\$148,833	\$146,577	17.3x	\$73,597	\$14,120
Dell Technologies Inc. (NYSE:DELL)	\$82,227	\$103,600	11.7x	\$111,241	\$12,559
Cognizant Technology Solutions Corporation (N	\$34,630	\$33,446	13.0x	\$21,779	\$4,047
IBM	\$271,027	\$322,826	24.0x	\$69,357	\$19,215

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth	Rate LF
Oracle Corporation (NYSE:ORCL)	19.4x	69.7%	41.5%	31.5%		9.7%
Accenture plc (NYSE:ACN)	10.4x	31.9%	17.5%	15.6%		7.4%
Dell Technologies Inc. (NYSE:DELL)	8.2x	21.3%	10.0%	7.3%		10.5%
Cognizant Technology Solutions Corporation (N	8.3x	34.1%	18.1%	15.7%		7.4%
IBM	16.8x	57.8%	27.2%	21.8%		4.5%

High	19.44x	69.7%	41.5%	31.5%		10.5%
75th Percentile	16.80x	57.8%	27.2%	21.8%		9.7%
Average	12.63x	43.0%	22.9%	18.4%		7.9%
Median	10.38x	34.1%	0.0%	15.7%		7.4%
25th Percentile	8.26x	31.9%	17.5%	15.6%		7.4%
Low	8.25x	21.3%	10.0%	7.3%		4.5%

IBM

Implied Enterprise Value (25th Percentile)	\$	158,792
Implied Enterprise Value (Median)	\$	199,462
Implied Enterprise Value (75th Percentile)	\$	322,826

Implied Share Price (25th Percentile)	\$	123.02
Implied Share Price (Median)	\$	166.53
Implied Share Price (75th Percentile)	\$	298.50

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	0.69
Risk Free Rate	4.39%
Cost of Equity	6.22%
Weighted Average Cost of Debt	4.55%
Tax Rate	14.00%
Cost of Debt	0.61%
Total Equity	\$271,026
Total Debt	\$43,805
Equity/Total Capitalization	84.39%
Debt/Total Capitalization	15.61%
WACC	6.84%

Downside Case: Growth stalls as IBM faces stiff competition in cloud and AI, limiting watsonx traction and slowing hybrid cloud bookings. With an exit multiple of 20x our model projects a fair value of \$223 or 21% downside.

Upside Case: IBM accelerates growth as watsonx adoption inflects, hybrid cloud wins larger enterprise share, and consulting drives recurring AI-related revenue. Keeping our exit multiple steady at 20x gives us a PT of \$375 implying roughly 32% upside

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.