

ANNEX BULLETIN

Annex Bulletin 2007-34

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Analysis of Top 20 IT Companies' Market & Business Performances

An Apple a Day Keeps Bear Away

...at Least in Current Stock Market; But Microsoft Still Tops All in Market Cap, HP in Revenues, Intel in Equity

STAMFORD, Connecticut, Oct 5 - The Top 20 IT leaders that we follow have weathered well the credit-driven hurricanes in the month of August. In fact, many major IT stocks have been leading the market to its new record heights. Apple, for example, has been a standout performer, rising 87% in the last six months (see the chart). So "an apple a day" kept bears away, or at least at bay, one could say.



As a group, the Top 20 are up 6.6% to \$1.25 trillion in market cap since we last took their financial temperature in late April (see the chart).

MARKET Rankings of Top 20

In the process of ascending up the industry market cap ladder to the No. 4 rung overall, Apple has leapfrogged such venerable Wall Street favorites as HP, Oracle and SAP. It had already left Dell, EMC and others in the dust by April, rising early in the year on the wings of the January 2007 iPhone announcement hype. Apple is now also knocking on the doors of IBM and Intel, the next two market cap hills it must climb before staking out a challenge to Microsoft, the IT industry's King of Market Cap.



Interestingly, it was a hardware company, EMC, that was the second best stock in terms of market cap change in the last six months, surging by 52% since last April. The leading chip-maker, Intel, and the third largest software company, Oracle, followed with 28% and 26% increases respectively.

Overall, 13 of the Top 20 IT stocks we follow saw their market values rise in the last six months. Among the "unlucky seven" that did not, Lexmark, BearingPoint and EDS held up the rear. Interestingly, even such industry behemoths as Microsoft and Fujitsu are in this "group of seven." Guess investors must have figured their market cap contained

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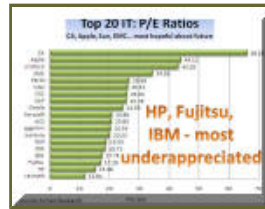
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[BRIC by BRIC... to Top Line Growth](#) - Echoes from IBM meeting for fin analysts [[Annex clients click here](#)]

too much of the past and not enough of the future.

Conflicting Views about Future Outlook, Except for Apple's

When it comes to the future outlook, our two measurements of investors' confidence in various competitors' chances for success in months and years ahead - the P/E and market cap/equity ratios - reflected Wall Street's conflicting views. Except for Apple, of course. Apple was the only company that figured among the top five in each of the two ratios.



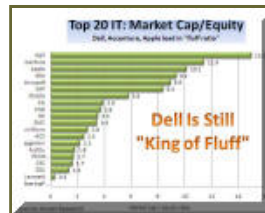
P/E Ratio. CA, Apple, Sun, EMC and Perot Systems, in that order, led the Top 20 in terms of their P/E ratios. Lexmark, HP, Fujitsu, IBM and EDS were the bottom five, with Dell just a notch higher. "Yesterday's" IT leaders seem to be languishing in the cellar, waiting for a second chance at redemption.



IBM, Dell, HP among Top 20 IT stocks with lowest P/E ratios

Which means that investors who are bottom-fishing for bargains may find some of these stocks appealing, if merely because they have not risen as much as others during the recent bull runs.

Market cap/equity. In terms of market cap/equity ratio, the market indicator that we dubbed the "fluff ratio" back in the late 1990s when we first voiced our criticism of the stock buybacks (see "[Cabbage Patch Dolls...](#)," Nov 1998), Dell continues to be the "King of Fluff," as it was nine years ago. Dell is a company that has always believed in returning the wealth to investors rather than keeping it on its books. So it has a tiny equity relative to its market cap.



Among the other four leaders in this category, Accenture, the No. 2, is a relatively young company (it went public in 2001), so it has not been accumulating its book value for very long. Plus its market cap has grown rapidly up until about June of this year, so the ratio reflects it.

In case of Apple, its No. 3 position is mostly due to the soaring market cap. Not so when it comes to IBM and Microsoft, No. 4 and No. 5 IT companies in terms of market cap/equity ratio. Their high "fluff" content is mostly due to the enormous depletion of equity through stock buybacks. These two companies are by far the biggest practitioners of this dubious practice in the IT industry (see "[Are We in Buyback Bubble?](#)", May 2007).

BUSINESS Rankings of Top 20

[Per Ardua Ad Astra - Analysis of HP's 2Q07 business results \[Annex clients click here\]](#)

[The Greening of Big Blue - IBM to spend \\$1 billion on "going green"](#)

[Are We in "Buyback Bubble?" - Analysis of corporate stock buyback trends](#)

[IBM: Lowering Center of Gravity - Highlights of Partnerworld 2007, with Detailed Reports for clients](#)

[Growth Accelerating - Analysis of Capgemini's 1Q07 business results \[Annex clients click here\]](#)

[To Buy \(back shares\) or Not to Buy? - Analysis of stock buybacks in corporate America](#)

[No Surprises in Good Opening Quarter - Analysis of IBM 1Q business results \[Annex clients click here\]](#)

[IBM Stock Still Grossly Undervalued \(A preview of IBM first quarter business results\)](#)

[Accenture Beats Forecasts, Again \(Analysis of Accenture's 2QFY07 results\)](#)

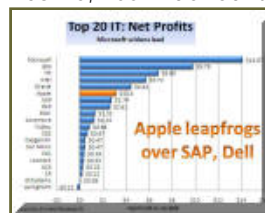
[HPS, Capgemini Tie for "Gold" - Results of Octathlon 2007 \[Annex clients click here\]](#)

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[IBM Profit to Grow Faster Than Revenue - Update to 5-yr IBM forecast \[Annex clients click here\]](#)

[The \(T\)ides of March Sink Markets Again - Analysis of global economic & investment trends](#)

Profit. Microsoft, the IT industry's bottom line top for years, towers over the much bigger companies (in terms of revenues) that trail it at the bottom line. In fact, the industry's most profitable company, with over \$14 billion of net income, has widened its lead over its major competitors (IBM, HP, Intel) in the last six months.

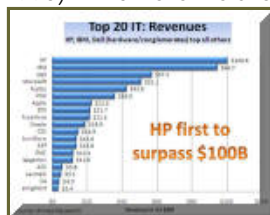


Oracle, now No. 5 in the industry, has also been moving up the ladder. But once again it was Apple that has been growing by leaps and bounds in terms of profitability, too. So at least its market cap expansion was not all based on marketing "fluff." Apple's bottom line helped push it up, too.

At the other end of the scale, BearingPoint, Perot, CA, ACS and Lexmark are holding up the rear as the least profitable companies among the Top 20.

Revenue. In 2006, HP surpassed IBM at the top line to become the industry's largest company (see "[New King of the Hill](#)," Nov 2006). This year, HP has become the first company in the IT industry ever to exceed \$100 billion in revenues. This feat is more than a bit ironic when one considers some industry pontifications from the past.

In January 1985, when the then new IBM chairman, John Akers, took the reigns of what was then the most powerful company in the world, not just in the IT industry, he predicted that Big Blue would be a \$180 billion-corporation "within a decade" (i.e., by 1995). And here we are, 22 years later, recording the first IT company ever to surpass "only" the \$100 billion-mark. And it isn't IBM, either.



We called Akers' 1985 prediction a "pipe dream" at the time, much to his chagrin and that of other IBM leaders (see "[Akers: The Last Emperor](#)," June 1991). Now in hindsight, investors can see how sometimes roads to doom are paved by executive pipe dreams. Which should serve as a sobering thought when they

listen to some of today's pontifications from executive mountaintops.

This is all the more important as there is a lot more chaff and fluff in today's stock valuations than there was back in 1985, when the IBM chairman felt so confident about his company's future. And no, we are not referring to IBM of today being overvalued. On the contrary. As you also saw from our market analysis, the IBM stock is one on our bottom-fishing list of candidates. But looking at some of the other market cap leaders has got to leave a prudent investor shaking its head in disbelief, especially one with long memories of past market follies.

When it comes to revenue growth, however, Oracle tops the Top 20 list, closely followed by Apple. (Apple is everywhere, isn't it?). Capgemini, EMC, Accenture and SAP complete the Top 5 rankings.



At the bottom end of the scale, BearingPoint, Lexmark, Intel, Fujitsu and CSC are hoping for better days ahead.

As a group, our Top 20 IT leaders have grown their revenues at 7.2% per year.

Equity. Once again, primarily due to "bite-backs" of its aggressive buybacks, the industry's (by far) oldest company ranks as only No. 5 in terms of equity. Oracle has now surpassed IBM, claiming the No. 4 spot, and Apple is just one notch behind. Intel, HP and Microsoft are the industry leaders in this business performance category.



[IGS: Growth Slows, Profit Surges](#) - Analysis of IGS 2006 business results
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[HP: Toward New Highs?](#) (Excerpts from analysis of HP's 1Q07 business results)
[[Annex clients click here](#)]

[Capgemini Caps Great Year, Saves Best for Last](#) (Analysis of Capgemini's fourth quarter business results)

[EDS: On Sunny Side of Street](#) (Analysis of EDS' fourth quarter business results)

[CSC: Where Less Seems More](#) (Analysis of CSC's third quarter fiscal 2007 business results)

[Fujitsu: Sales Up, Profit Down](#) (Analysis of Fujitsu's third quarter fiscal 2007 business results)

[IBM Shatters Records](#) (Analysis of IBM's fourth quarter business results)

[IBM Stock Passes Century Mark](#) (Analysis of Big Blue's Stock Performance)

[Happy Days Are Here Again](#) (Analysis of Top 20 IT leaders' latest stock market and business performances)

["Excellenture" Excels Again](#) (Analysis of Accenture's first quarter fiscal 2007 business results) [[Annex clients click here](#)]

[Hedging the Bets](#) (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [[Annex clients click here](#)]

[Globalization Accelerates](#) (Analysis of United Nation's annual survey of global investments)

[IBM: A \\$125-Stock?](#) (An update to "From Small

BearingPoint, Perot, Accenture, ACS and CA are at the other end of the scale. (BearingPoint also seems to be all over the IT cellar, doesn't it?).

Summary

History has taught us that what goes around, comes around. And gravity ensures that what goes up must come down. And both are still with us.

Over the years, we have seen a number of such churns in the IT industry. So we know being an IT leader at any given moment is but a fleeting moment of fame, often to be extinguished by some new game or summit reclaim.

At the moment, "an Apple a day" seems like a gay play. But at \$161.45 per share, how long can such good fortune fare?

"Forever, forever..." sing the apple juice makers.

"Not so fast, and definitely not so high," the apple consumers' reply.

But as long as the market is primarily driven by investment cash flows and not by business fundamentals, as it has been in the last decade or so, you can expect the unexpected: the anomalies to be the rule, and the rules to confirm the exceptions.

Happy bargain hunting!

Bob Djurdjevic

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IBM-Google on Cloud Nine?

SCOTTSDALE, Oct 8 - This morning, the Google shares passed the \$600-mark for the first time in history. It is not clear if the coincidental IBM-Google announcement about its "date in the clouds" had anything to do with it (the "cloud" computing, massively parallel architecture - [click here for the announcement details](#)).

What is certain is that both companies have put a lot of PR effort into the announcement. The CEOs of both IBM and Google are quoted in the release, and have made themselves available for media interviews ([click here for the Wall Street Journal story](#)).

What's also certain is that the reason for all this hoopla is Microsoft. The latest "cloud" on Microsoft's horizon - a united IBM-Google quest for new Internet architecture - is about casting a long shadow through the Windows into the living rooms of the hundreds of millions of Internet users. IBM and Google are hoping that their joint \$40 million to \$50 million investment into the universities' brainpower will pay off in the long run.

When this writer was pre-briefed about the announcement on Friday, the briefers wanted to get an instant reaction and a "sound bite." Here it is...

"This IBM-Google 'cloud' sounds to me like the two companies throwing this parallel computing technology out there like pollen into the wind, hoping that something somewhere would hatch; that perhaps some student would end up on his/her own Cloud Nine the way Bill Gates found his own with DOS some three decades ago." :-)

Meanwhile, Google shareholders should be already on Cloud Nine this morning.

[Acorns Mighty Oaks Grow](#))

[Capgemini: Longest Sustained Stock Price Rise](#)
(An update to "By Leaps and Bounds")

[HP: New King of the Hill](#)
(Analysis of HP's fourth quarter business results)

[IBM: From Little Acorns Mighty Oaks Grow](#)
(Analysis of IBM's "State of the Union")

[Capgemini: By Leaps and Bounds](#) (Analysis of Capgemini's preliminary third quarter business results)

[Fujitsu: Good Performance Gets Better, More Global](#)
(Analysis of Fujitsu's first half FY2007 business results)

[IBM: A Slam Dunk Quarter](#)
(Analysis of IBM third quarter business results)

[Accenture's Emphatic Year-end Accents](#) (Analysis of Accenture's fourth quarter results) [[Annex clients click here](#)]

[IBM: Services in a Box](#)
(Analysis of IBM Global Services' Ground-shifting Announcements)

[Strong Comeback by IT Stocks in Third Quarter](#)
(Analysis of top 20 IT companies' market and business trends)

[Stock Buybacks: A Fading Fad](#) (Dell, erstwhile "King of Fluff," suspends its stock buybacks)

[Capgemini: Growth Continues](#) (Revenues, net profit up in double digits, margins also improve)

[HP Firing on All Cylinders](#)
(Stock sets new multi-year record following excellent third fiscal quarter results) [[Annex clients click here](#)]

What we find especially interesting about the announcement is that it represents the blending of two entirely different business DNA. IBM's heritage is enterprise computing and mainframes. Google's is Internet computing and consumer markets. Guess both companies are betting that their hybrid, conceived in the clouds, weakens the Washington state Goliath's grip on the IT markets.

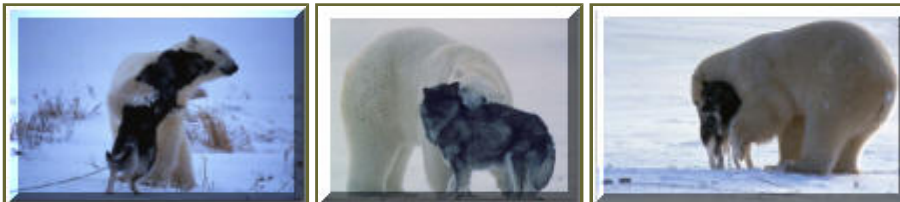
Time will tell. One cannot predict innovation. So your guess is as good as ours as to whether or not this new "cloud" will end up as a mere "pie in the sky," or will turn into a new Cloud Nine.

Not All Bears Bear Bad News

SCOTTSDALE, Oct 9 - Just got an amazing pictorial from a Canadian reader in reaction to our "an apple a day kept bears away, or at least at bay, one could say"-story. It appears than not all bears bear bad news. Take a look...



...starting with the location of the photo essay - Churchill, Manitoba; way up north, on the western shores of the Hudson Bay (left map). That's where a polar bear showed up out of the blue and scared the bejesus out of the photographer and the huskies, who immediately assumed defensive positions (middle). But the bear grunted, "I don't understand what all the fuss it about. I've come to play not bite" (right).



Whereupon the bear proceeded to pat the dogs first, and then fool around with them. They soon got the message and started to lick the bear back, who, in turn, returned the favor. For a while, it was a regular love fest on ice. "Bear meets dog and they fall in love," could be the caption for the above scenes.

[Power of Manpower](#) (While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force)

[Ebb Tide Lowers Most Boats](#) (Analysis of EDS' and CSC's latest quarterly results)

[IBM Stock Grossly Undervalued?](#) (Analysis of stock market valuations of IBM and its major competitors) [[adds latest Fujitsu, Capgemini results](#)]

[IBM vs. HP: A Tale of Two Blues](#) (Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus") [[Annex clients click here](#)]

[Go East, Young Man!](#) (A speech delivered in St. Petersburg, Russia, May 25, 2006; [click here for slides](#))

[IBM 5-Yr Forecast: Steady As She Goes](#) (Emphasis on quality continued) [[Annex clients click here](#)]

[Octathlon 2006: Accenture Again Wins "Gold!"](#) (HP gets "Silver," IBM "bronze") [[Annex clients click here](#)]





The cuddly polar bear reportedly returned every night that week to play with the dogs. Man's best friend's friend? And here is Wall Street pinning for bulls! Maybe they've got their animal types mixed up. Ever hugged a cuddly Teddy Bull?

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