

# ANNEX BULLETIN

Annex Bulletin 2008-07

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## IBM CORPORATE

Updated 2/26/08, 10:00PM MST

*Analysis of IBM's Mainframe Announcement & Strategy*

### The "z10" Lifts "Big Green"

#### *IBM Stock Surges on New Buybacks, Mainframe Prospects*

NEW YORK, Feb 26 – IBM new \$15 stock buybacks and the new z10 mainframe announcement and strategy combined to lift not only the new "Big Green," but the entire market today. IBM surged more than four points to close at \$114.49, while the Dow rose nearly 115 to finish at 12,685. Meanwhile, several analyst downgrades, who got spooked by Google's allegedly declining ad-search revenues, led to a sharp drop in the share prices of the latest "Wall Street darling." Google ended up at \$463, down 4.6%, but not before first dropping below \$450.



**IBM lifts market, outshines Google, on new buybacks, mainframe announc.**

Take a good look at the above chart. We have never seen anything like it and we may not ever see that again - IBM towering over the Dow and the S&P, and all three stock market indices leaving Google deep down in the dust. How quickly the world can be turned upside-down by the Wall Street casino.

No, we don't expect an exception to become a rule. But we do think that IBM share

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have ways to go before being priced fairly relative to competition. Our target price for Big Blue has been \$125 since Nov 2006. And the recent strength of IBM fundamentals would have probably pushed it even higher, were it not for a general market malaise in recent weeks and months.

### Customer Generates Buzz at IBM Mainframe Event



But while the stock market was buzzing with IBM and Google news, the greatest buzz at the IBM mainframe announcement in New York was generated by Buzz Woeckener, a customer (left).

"I am pretty passionate about the System z, and pretty passionate about virtualization," said the zLinux manager at Nationwide in his opening remarks. He proceeded to detail his company's massive server optimization project that has yielded \$15 million in savings over three years. "It's been a great ride," he added. "We've met all our expectations and exceeded quite a few."

**Nationwide**

**Overall Benefits: TCO, Speed, & Simplification**

- **Significantly better TCO (\$15 million savings over 3 years)**
  - 50% reduction in Web hosting monthly costs
  - 80% reduction in data center floor space needs; power conservation
  - 50% reduction in hardware & OS support efforts
  - 85 - 90% average CPU utilization
  - Significant savings on middleware costs (WebSphere, UDB, Oracle)
- **Significantly faster provisioning speed (months → days)**
- **Dynamic allocation of compute power**
  - Capacity on demand; increase/reduce compute power

Source: Woenecke (2/26/08)

It is stories like this that put the meat on the bones of the super fast technology that IBM is bringing into the market place under the covers of

its new z10 mainframe. And that also put food on the table of the CIO families. Asked if the Nationwide CEO was aware of the benefits that the mainframe technology and virtualization have generated for his company, Woeckener replied, "Absolutely. And he is very supportive of what we do."

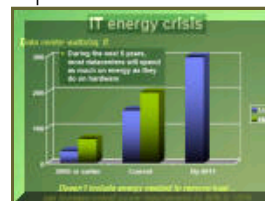
A major source of such large savings has come from reducing the high maintenance costs of the large Intel-based "server farm" that Nationwide used to have. And since the IBM new mainframes are very "green" (environmentally), they were helped lower the overall costs.

Nor is Nationwide unique in this respect. Rising energy costs and environmental concerns are putting pressure on growing computer data centers, with their voracious appetites for electricity. The new z10 delivers the computing power of 1,500 Intel-based servers while consuming 85% less energy and covering 85% less floor space.



Rod Adkins (left), senior IBM vice president of M&D, told the New York audience that IBM itself "will double its computing capacity between now and 2010 without increasing energy consumption or carbon footprint." Adkins said that IBM currently operates eight million square feet of data center space, and influences and 40 million that its customers run.

"We're about to hit the wall," Adkins said, when it comes to energy consumption. And the new z10 will help stave that off for a while.



Nationwide's Woenecke said his company was "going to hit the all" in 2005. But now, thanks to the new IBM mainframe technology, Nationwide will be able to put off a physical data center expansion till 2010.

Traditionally, mainframe computers run at utilization rates of 85% and more (up to 99%+ at Nationwide), while by contrast, the PC-style servers have utilization rates of only about 15%. As a result, the once costly mainframes, have become the low-cost data center solutions, even if individual machines cost \$1 million and up.



"The market economics are moving in our direction, and we're seeing a return to the mainframe," Jim Stallings, general manager of IBM's Enterprise Systems, was quoted as saying in today New York Times story (Stallings was actually in Mumbai, India, leading the IBM announcement for this important Asian market, while Bill Zeitler, the head of all IBM hardware, did it in Tokyo and Beijing).



Adding weight to the importance of the New York launch was Steve Mills, the head of IBM software. Mills said he reveled in the chance to sell hardware for a change. His enthusiasm and almost evangelical-sounding belief in the righteousness of IBM's virtualization strategy was as infectious as that of the Nationwide customer.

"The z10 is an absolute screamer," Mills raved. "We have never taken a step this big" when introducing new mainframe technology. Indeed, the z10 offers between 50% and 100% performance improvement over the z9 which debuted in July 2005 (see "[Polaris Eclipses T-Rex](#)", July 2005).



Yet even with the previous generation z9, IBM enjoyed unparalleled success. Mills said that in 2006, "the fastest growing server in the industry from a revenue standpoint was the IBM System z, not some Intel-based server." And that's no small feat, considering that there are some 30 million servers in the world today.

Mills hailed the z10 as a "commercial supercomputer" and a "universal server" that can run a broad range of different workloads.

"We are at a fundamental inflection point in our industry," Mills said, likening the current situation to that in 1974, when the concept of virtual machines first emerged. There is an explosion of handheld devices around the world, as well as a huge increase in data storage. Both are straining the traditional data center concepts, and calling for new approaches.

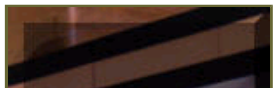
Besides the z10, IBM also unveiled today what it calls the "new enterprise data center" whose "underpinning is virtualization," said Adkins. He said that between now and September, IBM will offer 300 free one-day data center assessments to its enterprise customers that will help them decide if the new IBM approach is the right one for them.



At Nationwide, that is no longer a question. "in two minutes I can now configure new servers for one of our users who wants to test some new idea," Woeckener raved. "And if the idea doesn't work out, I can remove them just as fast."

In January 2006, for example, they were able to stress-test the performance of their system at a 22-fold increase in computing capacity, anticipating additional demand due to their new Superbowl commercial.

You can't do that with any physical "industry standard" (Intel-based) servers, he added.



The fact that all through 2007, their mainframes "had zero downtime from a hardware standpoint," was simply a bonus.

Add to it the IBM System z's legendary "Fort Knox"-type security, and you can begin to understand while the mainframe is experiencing a renaissance (we predicted three years ago - see "[Poughkeepsie Spring](#)," Feb 2005 or click on the right image). For the rest of the year, the only question is to what extent they will boost IBM's financial fortunes as they have already done to its image in the market place.

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*Happy bargain hunting!*

*Bob Djurdjevic*

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