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# Big Blue Takes Chill Off Wall Street's Spring

## *Strong First Quarter Results Boost Stock; Company Raises Outlook for Rest of 2008*

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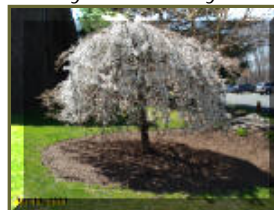
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NEW YORK, Apr 16 – Even if spring is creeping up ever so slowly these days on Wall Street and in the New York area, both figuratively and literally (see right photo, click on images to enlarge), IBM has sprung upward from the long winter doldrums. Defying the downward market trends and the supposed gloom in the IT sector, Big Blue reported today strong first quarter results, buoyed especially by global services, software and mainframe sales.



Revenues were up 11% to \$24.5 billion, while net earnings surged to \$1.65 per share, up 36%, well in excess of Wall Street expectations. So stand by for a surge in the IBM stock, but after-hours, and in tomorrow's regular trading sessions. Who knows, perhaps Big Blue shares will finally reach that \$125-target price that we had set 18 months ago (see "[IBM: A \\$125 Stock?](#)", Nov 2006). Indeed, the initial investor reaction has already pushed the IBM shares past \$124 in after-hours trading.



**IBM outperforms the Dow of which it is a part, surges to \$124**

The fact that the best growth in the quarter came from the two largest IBM units - Global Technology Services and Global Business Services, each up 17% (right chart), also validates the company's emphasis on the services business. Big Blue has proven that it can do well at a time of boom as well as doom. And IBM Global Services (IGS) now accounts for than half of IBM revenues

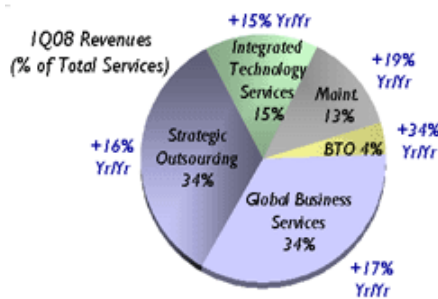


(left chart)

"We had a great start to the year," said IBM's CFO Mark Loughridge in his opening remarks at the

post-earnings teleconference with analysts. "This is a strong proof why our business model is good for tough times as well as the good times."

### IBM IGS



As a result, IBM boosted its earnings forecast for the year by 25 cents per share to \$8.50. "With this strong performance, we are on track to deliver our 2010 earnings target of \$10 to \$11 per share," the IBM CFO summed up his remarks.

Just as significantly, IBM defied general negative trends in the U.S. domestic market (up 8%, and up sequentially from the fourth quarter's 2% growth), and in the financial services sector (up 14%). The company reported healthy revenue increases in each, thus underlining the fact that the banking segment woes are company-specific, not generic in nature.



Communications was best performing industry segment, surging by 16% in the first

quarter. This was primarily driven by strong demand from global telcos who are building up their infrastructures to support three billion people moving into the middle class in emerging markets," Loughridge said.

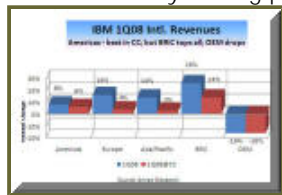
### IBM Industry Segments



**1Q08**

International markets continued to boost IBM's global revenue growth across the board.

"We had a very strong performance in the emerging markets," Loughridge said.

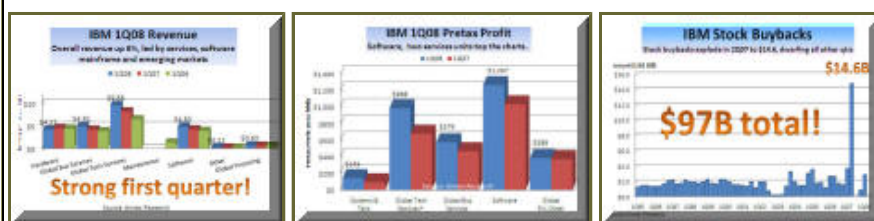


The BRIC countries (Brazil, Russia, India, China) grew by 26%, while other emerging markets rose by 19% in the quarter. No surprise there, as these countries have been the engine that fueled IBM's growth for a number of years now. What was unexpected, however, is that the Americas region, of which the U.S. is by far the biggest part, outperformed both Europe and Asia/Pacific in constant currency (6% vs. 4% and 3% respectively).

The two disappointing parts of IBM's business in the first quarter were the System i, sales which declined 21%, and the technology business, which was down 30%. The flat revenues of System x servers was also a sign of weakness. Fortunately for IBM, the profit margins in these underperforming businesses are relatively small, so their slowdown did not have a significant on the IBM bottom line.

### Summary & Outlook

Well, the first quarter was just about "as good as it gets" in a corporation as big as Big Blue is. It was certainly more than good enough for a company known for its conservative forecasts to lift its earnings estimate for the year to \$8.50 per share. More than anything else, that is a sign of optimism that seems to circulate around Armonk these days.



"So what could derail IBM's plans?" some of the media have been asking us this evening. Not much, it seems. The IBM CFO sounded very self-assured on the conference call when he said the company was on track to achieve his 2010 earnings forecast of \$10 to \$11 per share.

Perhaps the only thing would be external factors, we said, such as major geopolitical upheavals that might affect the major emerging markets on which IBM is now counting for much of its growth. Or a possibility that its push to globalization may alienate some of its important customers (see "[Globalization Pandemic](#)," Oct 2008).

"Globalization increases the distance between the customer and the vendor," we [noted in the above report](#). So IBM, and other large companies on the globalization binge, will have tread delicately to ensure that they don't step on some big toes as they try to increase the efficiency of their business.

But that's a potential cloud on a distant horizon. In the short-term, we see nothing but blue skies for Big Blue.

Annex Clients: [CLICK HERE](#) for detailed IBM 1Q08 P&L tables & charts

*Happy bargain hunting!*

*Bob Djurdjevic*

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