

ANNEX BULLETIN

Annex Bulletin 2008-10

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INDUSTRY TRENDS

Updated 4/25/08, 11:30AM PDT

Analysis of Top 20 IT Companies' Market & Business Performances

IBM "Places" By a Nose over Google

Microsoft Still Tops in Market Cap But Its Lead Narrows

SCOTTSDALE, Apr 25 – "Win, place or show" are the three money positions in the game of horse racing. In our semi-annual "Annex Top 20 IT Companies Stakes," the winner was the odds-on favorite - Microsoft. Its market cap of \$295 billion was up only 0.7% since a year ago, but it was still enough for a comfortable "win" over the "place" and "show" finishers in this category.

Perhaps the biggest surprise, however, was the second "place" finish in the market cap race. IBM beat Google "by a nose" (\$172.54 billion vs. \$172.37 billion - see the chart), reversing the finish in the October market cap stakes, when Google edged out Big Blue by a similar margin. IBM's market cap is up 17.9% since April a year ago, Google's 17.8%. So it doesn't get much closer than that. But since IBM was a laggard stock a year ago, while Google had the momentum on its side, the latest results mean that those who bet on IBM would have received a greater payback at the betting window.



MARKET Rankings of Annex Top 20 IT

Contrary to the perceived "gloom and doom" in the stock market and the U.S. general economy these days, the Annex Top 20 IT companies' market cap is up 11% since a year ago to \$1.42 trillion. And its fundamentals are even better. The Annex Top 20 IT earnings were up 30% to \$624 billion in the last 12 months, while their revenues surged by 16% in the same time period (see below). So "up, up, and away" seems to be the message from the top of the IT industry pyramid.



But averages can be misleading. Remember that statistician who drowned trying to cross a lake with an average depth of three feet? Well, "the well of plenty" is not very deep atop the IT industry. Losers outnumbered the winners in the last 12

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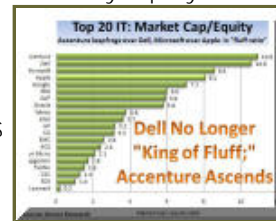
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months when it comes to market cap changes (see the chart). Which suggests a budding plutocracy among the Annex Top 20 IT in the industry, where the old adage, "the rich get richer and the poor get poorer," seems to apply.

And "an Apple a day keeps doctors away" is still the rule here. Apple's market cap change is by far the most impressive among the leading IT industry competitors. Oracle, Intel, IBM, Google and EMC are the next four competitors and the only ones, besides Apple, whose market cap increased in double digits in the last 12 months.

The biggest laggards in this Annex Top 20 IT category and Lexmark, Dell, EDS and Sun Micro.

Market cap/equity. Dell is no longer the "King of Fluff," having just surrendered that dubious title to Accenture. When it comes to market cap/equity ratio, the market indicator that we dubbed the "fluff ratio" back in 1998, when we first voiced our criticism of the stock buybacks (see "[Cabbage Patch Dolls...](#)," Nov 1998), Dell has sat on that throne for 10 years now as it has been 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 (for a 10.6 ratio).



Ditto re. Accenture (10.9), a relative newcomer to publicly traded companies, having gone public in 2001. Thus its equity is relatively small. But Accenture's market cap has gained 5% since a year ago, whereas Dell's has dropped 30%, thus causing a change at the top of the "fluff ratio" rankings.

Microsoft, which placed third (8.6), has a slight lead on Apple (8.1). And both of them have a substantial lead on Apple, Google, IBM, SAP and Oracle, placed 4-8 in our "fluff ratio" rankings.

P/E Ratio. When it comes to P/E ratios, the stock market indicators of what investors thing the future holds for a company's revenue and earnings performance, Yahoo is by far ahead of the rest of the Annex Top 20 IT pack (with a P/E of 58). Microsoft's bid and takeover battle are, of course, the principal reason for it. Because the Yahoo earnings per share are down 2% since a year ago, and revenue is up only 8%, while its market cap is down 11% despite the boost from Microsoft.



Google and Apple are second and third in this category with P/E ratios of 39 and 37 respectively, followed by CA, Oracle, SAP and EMC, each with a P/E of 20 or higher.

At the other end of the scale, CSC, Fujitsu, Dell and EDS are the least appreciated companies among the Annex Top 20 IT in this respect.

BUSINESS Rankings of Annex Top 20 IT

Net Earnings. Microsoft, the IT industry's top bottom line for years, continues to tower over the much bigger companies (in terms of revenues) that trail it at the bottom line, such as IBM or HP. In fact, the industry's most profitable company, with about \$17 billion net earnings, up 31% from a year ago, has widened its lead over its major competitors (IBM, HP, Intel - up 19%, 25% and 13% respectively) in the last 12 months.



Nor are these five companies alone in

Annex Clients: [CLICK HERE](#) for detailed table of the Top 20 IT Cos.

Happy bargain hunting!

Bob Djurdjevic

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