

# ANNEX BULLETIN

Annex Bulletin 2008-15

July 17, 2008

A partially OPEN CLIENT edition

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[IBM Delivers Explosive Quarter](#) (Big Blue firing on all cylinders - analysis of 2Q08 results)

[Turning "Green" into Greenbacks](#) - Our annual update to 5-yr forecast for IBM.

## IBM FINANCIAL

Updated 7/29/08, 7:15AM PDT; adds [Market Update...](#)

*Analysis of IBM's Second Quarter Business Results*

### IBM Delivers Explosive Growth

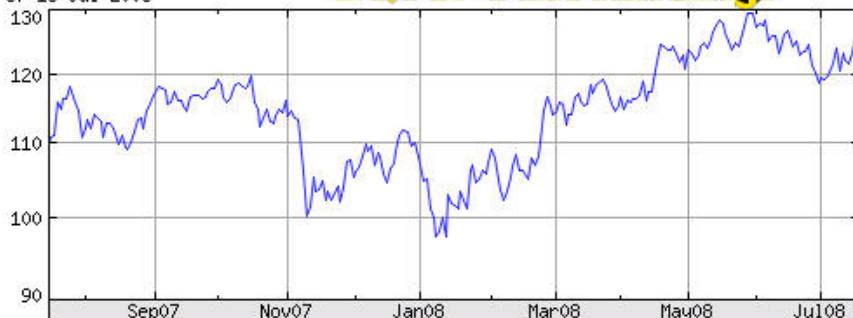
#### *Big Blue Firing on All Cylinders; Double Digit Earnings and Revenue Growth*

LONDON, England, July 17 – What recession? Nix the fears that IT will follow real estate into the abyss. Flying in the face of worries whipped up by a demise of financial stocks, IBM exploded with double digit growth in most of its operating units during the second quarter. It was probably the best quarter Big Blue has had in recent memory, if not ever.

The company blew to smithereens Wall Street's timid estimates with a \$1.98 EPS (vs. \$1.82 street average), up 32% on an organic basis, and a 13% revenue surge to \$26.8B (vs. \$25.9 B).

INTL BUSINESS MACHINES  
as of 16-Jul-2008

**2Q08: Outstanding!**



**IBM comes up with one of its best quarters ever**

Mainframes hoisted the Big Blue flag on Wall Street's pole with a 32% revenue surge, with the financial sector contributing heavily to that growth, up 15% over the corresponding quarter a year ago.

"In this quarter, we were frankly sold out (of mainframes)," said IBM's CFO, Mark

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[Capgemini's Great Valentine's Day Gift](#) (Analysis of Capgemini's 4Q07 and FY07 results)

[Profit Drops, Stock Follows](#) (Analysis of EDS's 4Q07 results)

Loughridge, during a post-earnings teleconference with analysts.

The System p was not far behind with a 29% revenue surge. The systems hardware as a whole was up 10%, reversing a declining hardware trend from last year. And again, the gross margins shot up by 1.3 points since a year ago.

IBM software surged 17% on gross margins of 84.6% - more great news for the Big Blue bottom line.

The two global services units, IBM's biggest and most important segments, were up 18% and 15% respectively. And each of them improved gross margins, too. Now Global Technology Services boasts a gross margin of 31.6%, while Global Business Services contributes 25.% toward the IBM bottom line.

In short, Big Blue is firing on all cylinders. Wall Street doomsayers and recession buzzards had better look for trouble outside the IT industry. For, things could not be better in this economic sector.

The latest IBM results go to show us that Big Blue's mainframe, software and services strategy works in bad times as well as good. Now that their financial sector is struggling, these institutions are evidently turning to IT as a risk management and mitigating tool. And IBM has catchers on both sides of the demand - some for growth (such as in emerging markets) and some for retrenchment (such as in the financial sector).

No wonder the company also raised the 2008 forecast by 25 cents per share. Now, if only Wall Street were to wake up and smell the IT roses instead of sniffing for carcasses among the financial institutions.

Click on [IBM 2Q08 table](#) for detailed tables and charts (Annex clients only)

*Happy bargain hunting!*

*Bob Djurdjevic*

#### MARKET UPDATE

### *IBM Pulls Market Up by Its Boot Straps*

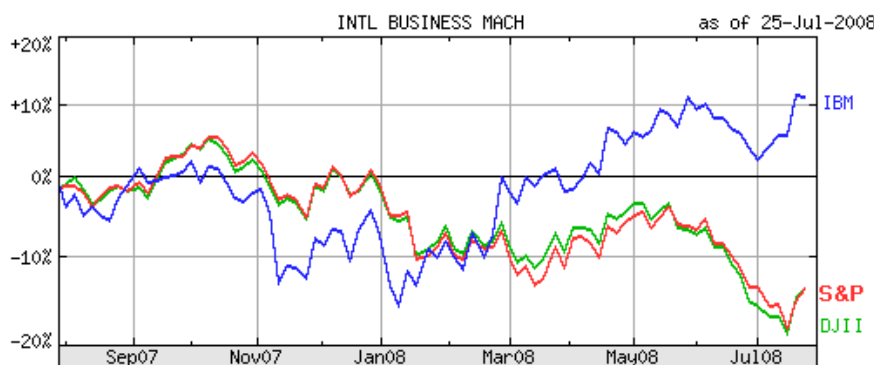
SCOTTSDALE, July 29 - It has been a long time coming, but IBM may be once again becoming a bellwether stock. Since its outstanding second quarter results came out on July 17, IBM has picked up the market by its boot straps and pulled it up willy-nilly, notwithstanding the woes of the financial sector or other economic worries in the U.S. (see the chart).

[Profit, Revenue Surge,  
Lifting Stock, Too](#)  
*(Analysis of CSC's 3Q08  
results)*

[Services, Emerging  
Markets Boost IBM](#)  
*(Analysis of IBM's full  
4Q07 results)*

[Big Blue Shines in 4Q](#)  
*(Analysis of IBM's  
preliminary 4Q07 results)*

[Microsoft Still Wall Street  
Darling](#) *(Analysis of  
institutional holdings of  
Top 10 IT Cos)*



## IBM pulls up sluggish market by the boot straps...

Answering a question by a financial media columnist about the reasons for IBM's stellar performance in the face of negative economic and market climate this year, we said that, "IBM's strategy has been proven to work in good times and bad. In good times, it supports the customers' growth. In bad times, it helps them save money. So it's a win-win deal for both the customers and IBM in any economic environment."

As to why IBM has not been negatively impacted by the credit crisis and rising energy prices, the reason is same. IBM's strategy has been proven to be recession-proof. IBM's focus on emerging markets, for example, has been beneficial in terms of growth. And its "green" initiative, that directly addresses the high energy costs, has resonated especially well with the largest customers at home and elsewhere in developed countries.

Time will tell whether or not IBM has once again become a bellwether stock. What we can say meanwhile is that IBM picked up the sluggish market by its boot straps and pulled it up. If pictures is worth a thousand words, then the above chart tells the tale about that.

As for the future outlook, IBM is clearly on a roll. The company's performance has gathered momentum. Having predicted almost two years ago that IBM shares would move up to \$125 (they are trading at about \$127 now), we now expect that to carry it upward for the rest of the year toward the newly upgraded analyst outlook of \$8.81 per share. Our own EPS estimates are (and have been even before the 2Q results came out) \$9.10 for this year and \$10.17 for 2009.

In short, there is plenty of blue skies ahead for Big Blue.

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