



International Business Machines Corp. (IBM)

Updated July 25th, 2025 by Prakash Kolli

Key Metrics

Current Price:	\$261	5 Year Annual Expected Total Return:	-0.9%	Market Cap:	\$242.12B
Fair Value Price:	\$177	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	08/08/25
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.5%	Dividend Payment Date:	09/10/25
Dividend Yield:	2.6%	5 Year Price Target	\$215	Years Of Dividend Growth:	30
Dividend Risk Score:	D	Sector:	Information Technology	Rating:	Hold

Overview & Current Events

IBM is a global information technology company that provides integrated enterprise solutions for software, hardware, and services. IBM's focus is running mission critical systems for large, multi-national customers and governments. It typically provides end-to-end solutions. IBM spun off Kyndryl, its managed infrastructure business, on November 3rd, 2021, but is still one of the largest IT services companies in the world. The company now has four business segments: Software, Consulting, Infrastructure, and Financing. IBM had annual revenue of ~\$62.8B in 2024.

IBM reported excellent results for Q2 2025 on July 23rd, 2025. Companywide revenue rose 5% (CC) to \$16,977M from \$15,770M while diluted adjusted earnings per share rose 15% to \$2.80 from \$2.43 on a year-over-year basis. Diluted GAAP earnings per share rose 18% to \$2.31 in the quarter from \$1.96 in the prior year on better margins. A weakening U.S. dollar is helping IBM's revenue growth with a 1% - 2% tailwind.

Software revenue increased 8% (CC) to \$7,387M in comparable quarters due to 14% growth in Hybrid Platform & Solutions, 14% rise for Automation, 7% increase for Data, and a 2% decrease in Transaction Processing. Consulting revenue was flat at \$5,314M due to 2% decrease in Strategy and Technology and 2% growth in Intelligent Operations. The book-to-bill ratio is healthy at 1.14X. Infrastructure revenue climbed 11% (CC) to \$4,142M due to 19% increase in Hybrid Infrastructure and a 3% decline in Infrastructure Support. Z systems revenue rose 67% on the new z17.

IBM continued its tuck-in acquisition spree. Completed or announced M&A in 2025 include Hakkoda, HashiCorp, DataStax, and Applications Software Technology. IBM has acquired 35+ companies under the present CEO.

IBM forecasts revenue growth of ~5%+ and free cash flow of over \$13.5 billion in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$13.60	\$12.39	\$13.66	\$13.81	\$12.81	\$8.67	\$7.93	\$9.13	\$9.62	\$10.33	\$11.04	\$13.43
DPS	\$5.00	\$5.50	\$5.90	\$6.21	\$6.43	\$6.51	\$6.56	\$6.59	\$6.63	\$6.67	\$6.72	\$7.06
Shares¹	983	959	937	916	893	897	905	912	922	937	937	937

IBM's had difficulty generating revenue growth in the past decade due to the transition to cloud and SaaS in the IT industry and IBM's late emphasis on this market. However, IBM intends to be a major player in hybrid cloud as illustrated by the Red Hat and many smaller acquisitions. The company spun off Kyndryl in 2021, which had declining revenue and was not profitable, which should improve growth and margins. IBM has reorganized the remaining businesses into three operating segments. Also, IBM is reinforcing its AI and other software offerings as seen by the numerous acquisitions.

We currently expect earnings per share to grow at 4% annually on average driven by aggressive M&A and margin improvements. Due to the large Red Hat acquisition, we are not expecting any share buybacks in 2025 as the company deleverages.

The company is increasing the dividend but at a very low rate of less than 1% annually. We do not expect this to change.

¹ Share count is in millions.

Disclosure: This analyst is long IBM.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.4	12.1	11.6	10.4	11.2	14.4	13.4	13.4	17.0	21.3	23.6	16.0
Avg. Yld.	3.2%	3.7%	3.7%	5.8%	4.5%	5.2%	4.9%	4.9%	4.1%	3.0%	2.6%	3.3%

IBM's stock price is up considerably on solid results and higher margins. We have increased our earnings estimate for 2025 to match consensus. We again increased the multiple due to improving operational performance. Our fair value estimate is now \$177 using a multiple of 16X. Our five-year price target is now \$215 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	37%	44%	43%	45%	50%	75%	83%	72%	69%	65%	61%	53%

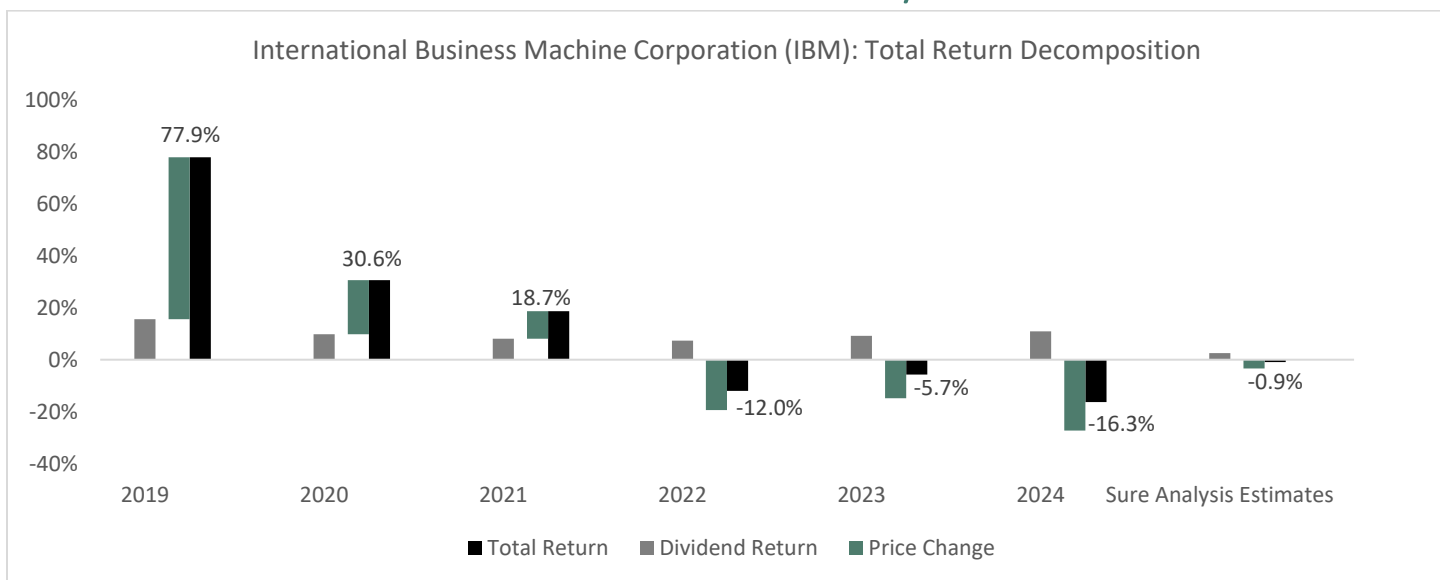
IBM's competitive strength is its brand, entrenched customer relations and extensive patent portfolio. IBM is also the market leader in mainframe computers where it has 90% of the market and little competition. IBM is a different company after the Kyndryl spin off and many acquisitions, but it should still be recession resistant. The nature of mission critical IT enterprise systems and software makes this unlikely to change in the near future. IBM has a leading position in networking, global cellular connections, credit card transaction processing, airlines, banks, hotels, retail, etc. However, the company does face risks in that many of its competitors have emphasized the cloud earlier and are growing faster.

IBM is deleveraging after increasing debt for acquiring Red Hat. It divides its debt into core debt and financing debt. Debt is down since the acquisition and core debt is now \$52.4B and is offset by \$15.5B in cash, cash equivalents, and securities. Global Financing debt is \$11.7B and it is decreasing due to winding down of OEM financing.

Final Thoughts & Recommendation

At present we are forecasting a -0.9% annualized total return for the next five years from a dividend yield of 2.6%, 4% EPS growth, and (-7.5%) from P/E multiple contraction. IBM's transition to a mainly software and consulting business is proving the naysayers wrong. The share price has risen because of growing revenue, earnings, and free cash flow. Margins are also improving. The firm's transformation and focus on AI and hybrid cloud has seemingly changed IBM's outlook. At the current share price, we have maintained our rating at a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue (\$B)	81.74	79.92	79.14	79.59	77.15	73.62	57.35	60.53	61.86	62.75
Gross Profit	40684	38516	36943	36936	36488	35575	31490	32687	34300	35551
Gross Margin	49.8%	48.2%	46.7%	46.4%	47.3%	48.3%	54.9%	54.0%	55.4%	56.7%
SG&A Exp.	19894	20279	19128	18863	20604	23082	18740	18609	17997	19688
D&A Exp.	3855	4381	4541	4480	6059	6695	6416	4802	4396	4667
Operating Profit	15690	13552	13140	13218	10543	6786	6865	8174	9374	9380
Op. Margin	19.2%	17.0%	16.6%	16.6%	13.7%	9.2%	12.0%	13.5%	15.2%	14.9%
Net Profit	13190	11872	5753	8728	9431	5590	5742	1639	7502	6023
Net Margin	16.1%	14.9%	7.3%	11.0%	12.2%	7.6%	10.0%	2.7%	12.1%	9.6%
Free Cash Flow	13104	12934	12951	11283	12400	15155	10420	8575	12121	12318
Income Tax	2581	449	5642	2619	731	-864	-124	-626	1176	-218

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets (\$B)	117.47	125.36	123.38	152.19	155.60	132.00	127.24	135.24	135.24	137.18
Cash & Equivalents	7826	11972	11379	8172	13212	6650	7886	13068	13068	13947
Acc. Receivable	9182	8928	7432	7870	7132	6754	6541	7214	7214	6804
Inventories	1553	1583	1682	1619	1839	1649	1552	1161	1161	1289
Goodwill & Int.	40888	40529	39353	73456	73413	68150	67133	71214	71214	71366
Total Liab. (\$B)	99.08	107.63	106.45	131.20	135.24	113.00	105.22	112.63	112.63	109782
Accounts Payable	6209	6451	6558	4896	4908	3955	4051	4132	4132	4032
Long-Term Debt	42168	46823	45812	62899	61538	51700	50949	56547	56547	54973
Total Equity	18246	17594	16796	20841	20597	18900	21944	22533	22533	27307
LTD/E Ratio	2.31	2.66	2.73	3.02	2.99	2.74	2.32	2.51	2.51	2.01

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	11.6%	10.4%	4.7%	7.0%	6.8%	3.6%	4.0%	1.3%	5.7%	4.4%
Return on Equity	101.1%	73.0%	32.1%	50.8%	50.1%	27.0%	29.1%	8.0%	33.6%	24.1%
ROIC	24.6%	20.7%	9.2%	13.7%	12.9%	6.7%	7.5%	2.3%	9.9%	7.5%
Shares Out.	965	946	922	892	892	889	905	912	922	937
Revenue/Share	83.18	83.36	84.43	86.86	86.41	82.11	63.40	66.35	67.09	66.96
FCF/Share	13.33	13.49	13.82	12.31	13.89	16.90	11.51	9.40	13.15	13.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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