International Business Machines Corp. (IBM)

Updated January 31st, 2026 by Prakash Kolli

Key Metrics

Current Price:	$307	**5 Year Annual Expected Total Return:**	0.8%	**Market Cap:**	$286.68B
Fair Value Price:	$223	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/10/26
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	03/10/26
Dividend Yield:	2.2%	**5 Year Price Target**	$285	**Years Of Dividend Growth:**	31
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 ~$67.5B in 2025.

IBM reported another excellent quarter for Q4 2025 on January 28th, 2026. Companywide revenue rose 9% (CC) to $19,686M from $17,553M while diluted adjusted earnings per share rose 15% to $4.52 from $3.92 on a year-over-year basis. Diluted GAAP earnings per share rose 88% to $5.86 in the quarter from $3.11 in the prior year on higher revenue, operating results, better margins, and a tax benefit. The company also recorded a pension settlement charge last year.

Software revenue increased 11% (CC) to $9,031M in comparable quarters due to 8% growth in Hybrid Platform & Solutions, 14% rise for Automation, 19% increase for Data, and a 4% increase in Transaction Processing. Consulting revenue rose 1% (CC) to $5,349M due to flat Strategy and Technology and 3% growth in Intelligent Operations. The book-to-bill ratio is healthy at 1.03X. Infrastructure revenue climbed 17% (CC) to $5,132M due to 24% increase in Hybrid Infrastructure and 2% (CC) less Infrastructure Support. Z systems revenue rose 61% because of the new z17.

IBM penned a deal to acquire Confluent for $11B, which should help expand its AI offerings and real-time data offering applications. IBM has acquired 36+ companies under the present CEO.

IBM now forecasts revenue growth of ~5%+ (CC) and free cash flow of over $15.5 billion in 2026.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
EPS	$12.39	$13.66	$13.81	$12.81	$8.67	$7.93	$9.13	$9.62	$10.33	$11.36	***$12.40***	***$15.83***
DPS	$5.50	$5.90	$6.21	$6.43	$6.51	$6.56	$6.59	$6.63	$6.67	$6.72	***$6.79***	***$7.14***
Shares[1]	959	937	916	893	897	905	912	922	937	937	***953***	***978***

IBM's had difficulty generating revenue and earnings growth before the RedHat acquisition due to transition to the cloud and SaaS in the IT industry and IBM's late emphasis on this market. IBM's legacy businesses were growing slowly or not at all. However, IBM intends to be a major player in hybrid cloud and AI 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.

We currently expect earnings per share to grow at 5% annually on average driven by aggressive M&A and margin improvements. Due to the large Red Hat acquisition and many smaller ones, we are not expecting any share buybacks in 2026 as the company deleverages. In fact, the share count is rising.

The company is increasing the dividend but at a very low rate of less than 1% annually. We do not expect this to change in the near future because of net debt and leverage, which has declined to 2.77X from 4.0X in 2020.

[1] Share count is in millions.

Disclosure: This analyst is long IBM.

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Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/E	12.1	11.6	10.4	11.2	14.4	13.4	13.4	17.0	21.3	25.6	***24.7***	***18.0***
Avg. Yld.	3.7%	3.7%	5.8%	4.5%	5.2%	4.9%	4.9%	4.1%	3.0%	2.3%	***2.2%***	***2.5%***

IBM's stock price is down since our last report despite good results. We have set our 2026 earnings estimate to match consensus. We again increased the multiple to 18X due to improving operational performance and rising software revenue. Our fair value estimate is now $223. Our five-year price target is now $285 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	44%	43%	45%	50%	75%	83%	72%	69%	65%	58%	***55%***	***45%***

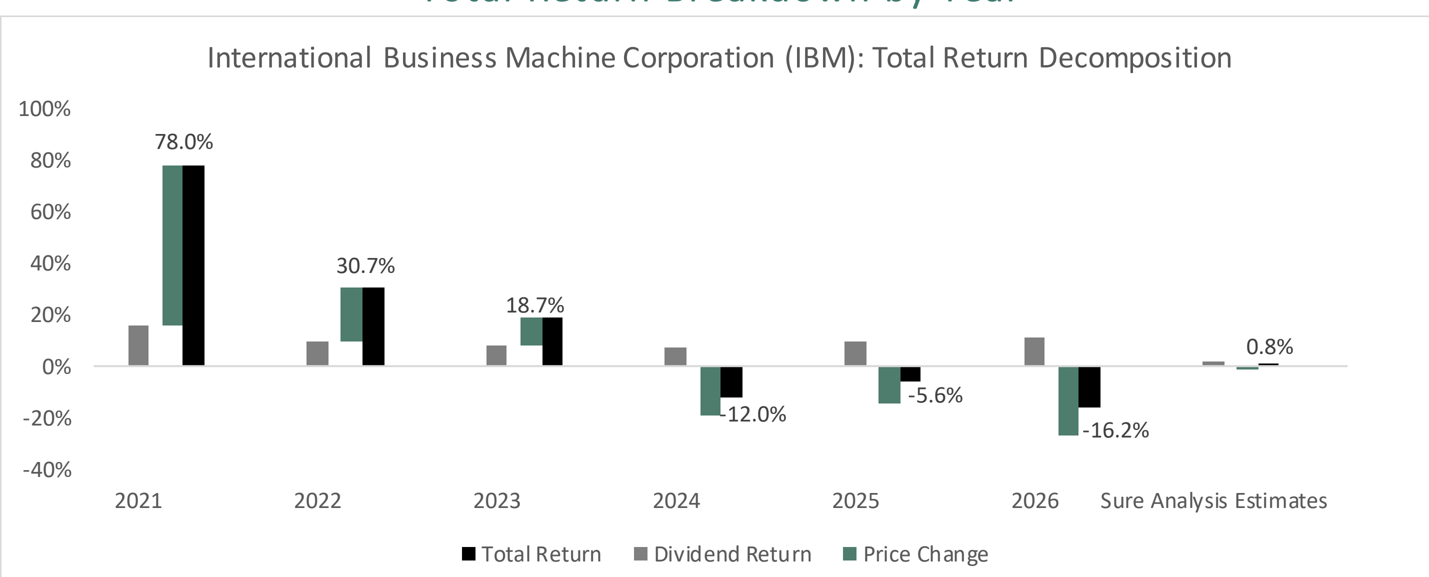
IBM's competitive strength is its brand, entrenched customer relations and extensive patent portfolio. IBM is also the market leader in mainframe computers where it has 90% of the market and little competition. IBM is a different company after the Kyndryl spin off and many acquisitions, but it should 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 $46.2B and is offset by $14.5B in cash, cash equivalents, and securities. Global Financing debt is $15.1B and it is decreasing due to winding down of OEM financing.

Final Thoughts & Recommendation

At present we are forecasting a 0.8% annualized total return for the next five years from a dividend yield of 2.2%, 5% EPS growth, and (-6.2%) 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	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue ($B)	79.92	79.14	79.59	77.15	73.62	57.35	60.53	61.86	62.75	67.54
Gross Profit	38516	36943	36936	36488	35575	31490	32687	34300	35551	40185
Gross Margin	48.2%	46.7%	46.4%	47.3%	48.3%	54.9%	54.0%	55.4%	56.7%	59.5%
SG&A Exp.	20279	19128	18863	20604	23082	18740	18609	17997	19688	20123
D&A Exp.	4381	4541	4480	6059	6695	6416	4802	4396	4667	5021
Operating Profit	13552	13140	13218	10543	6786	6865	8174	9374	9380	10325
Op. Margin	17.0%	16.6%	16.6%	13.7%	9.2%	12.0%	13.5%	15.2%	14.9%	15.3%
Net Profit	11872	5753	8728	9431	5590	5742	1639	7502	6023	10571
Net Margin	14.9%	7.3%	11.0%	12.2%	7.6%	10.0%	2.7%	12.1%	9.6%	15.7%
Free Cash Flow	12934	12951	11283	12400	15155	10420	8575	12121	12318	11575
Income Tax	449	5642	2619	731	-864	-124	-626	1176	-218	-242

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets ($B)	125.36	123.38	152.19	155.60	132.00	127.24	135.24	135.24	137.18	151.88
Cash & Equivalents	11972	11379	8172	13212	6650	7886	13068	13068	13947	14471
Acc. Receivable	8928	7432	7870	7132	6754	6541	7214	7214	6804	15456
Inventories	1583	1682	1619	1839	1649	1552	1161	1161	1289	1220
Goodwill & Int.	40529	39353	73456	73413	68150	67133	71214	71214	71366	79108
Total Liab. ($B)	107.63	106.45	131.20	135.24	113.00	105.22	112.63	112.63	109.78	119.14
Accounts Payable	6451	6558	4896	4908	3955	4051	4132	4132	4032	4756
Long-Term Debt	46823	45812	62899	61538	51700	50949	56547	56547	54973	57383
Total Equity	17594	16796	20841	20597	18900	21944	22533	22533	27307	---
LTD/E Ratio	2.66	2.73	3.02	2.99	2.74	2.32	2.51	2.51	2.01	1.98

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	10.4%	4.7%	7.0%	6.8%	3.6%	4.0%	1.3%	5.7%	4.4%	7.3%
Return on Equity	73.0%	32.1%	50.8%	50.1%	27.0%	29.1%	8.0%	33.6%	24.1%	35.2%
ROIC	20.7%	9.2%	13.7%	12.9%	6.7%	7.5%	2.3%	9.9%	7.5%	11.5%
Shares Out.	946	922	892	892	889	905	912	922	937	949
Revenue/Share	83.36	84.43	86.86	86.41	82.11	63.40	66.35	67.09	66.96	71.19
FCF/Share	13.49	13.82	12.31	13.89	16.90	11.51	9.40	13.15	13.14	12.20

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