

IBM Financial Statistics by Value Line (1993)

INT'L BUS. MACH. NYSE-IBM							RECENT PRICE	44	PE RATIO	NMF (Trailing: 51.2 Median: 13.0)	RELATIVE PE RATIO	NMF	DIVD YLD	2.3%	4.9%	VALUE LINE	1096
TIMELINESS (Relative Price Performance since Nov. 12, 1992)	4 Below Average	High: 96.0 Low: 55.8	134.3 92.3	128.5 99.0	158.8 117.4	161.9 119.3	175.9 102.0	129.5 104.5	130.9 93.4	123.1 94.5	139.8 83.5	100.4 48.8	57.1 41.6			Target Price Range 1996 1997 1998	409 300 258 209 165 120 108 90 50 40 30 20 10 5 2
SAFETY (Scale: 1 Highest to 5 Lowest)	2 Above Average															300 258 209 165 120 108 90 50 40 30 20 10 5 2	
BETA .90 (1.00 = Market)																	
1994-98 PROJECTIONS																	
Ann'l Total Price Gain Return																	
High 115 (+160%) 29%																	
Low 85 (-95%) 20%																	
Insider Decisions																	
A S O N D J F M A																	
to Buy 0 0 0 1 0 1 0																	
Options 0 0 0 0 0 0 0																	
to Sell 0 0 0 0 0 0 0																	
Institutional Decisions																	
JAN FEB MAR																	
to Buy 234 155 166																	
to Sell 305 423 372																	
Returns 2500/17 2263/20 2142/20																	
Relative Price Strength																	
Shaded areas indicate recessions																	
Options: CBOE																	
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994																© VALUE LINE PUB., INC. 96-98	
30.74 36.14 39.18 44.90 49.08 57.04 65.79 74.98 81.34 84.49 90.77 100.78 109.10 120.79 113.47 112.91 108.75 112.70																Revenues per sh E 142.85	
7.87 8.88 9.14 10.83 11.21 13.23 15.43 15.99 15.81 14.47 16.15 17.94 18.57 19.82 15.57 13.48 10.55 12.95 "Cash Flow" per sh 18.88																Earnings per sh A 7.55	
4.58 5.32 5.16 6.10 5.83 7.39 9.04 10.77 10.67 7.81 8.72 9.83 10.51 10.51 9.69 9.48 10.00 Div'ds Decl'd per sh B 2.50																Div'l Spending per sh 5.40	
2.50 2.88 3.44 3.44 3.44 3.71 4.10 4.40 4.40 4.40 4.73 4.84 4.84 4.84 4.84 4.84 4.84 Book Value per sh 52.25																Cap'l Value per sh 52.25	
5.43 6.51 9.68 10.61 11.56 11.10 8.07 8.93 10.45 7.82 7.21 9.14 11.18 11.39 11.38 8.31 7.00 7.00																Cap'l Spending per sh 5.40	
21.39 23.14 25.64 28.18 30.66 33.13 38.02 43.23 51.98 56.67 64.06 66.96 67.00 74.96 64.81 48.34 39.40 40.90																Book Value per sh 52.25	
580.88 583.24 583.59 583.81 592.29 602.41 610.72 612.69 615.42 606.61 597.33 590.04 574.78 571.39 571.02 571.44 570.00 568.00																Common Shs Outstg C 560.00	
14.5 12.7 13.9 10.4 10.3 9.4 12.7 10.8 12.3 18.0 16.6 11.9 12.3 10.4 28.6 33.7																Bold figures are Avg Ann'l P/E Ratio 13.0	
1.90 1.73 2.01 1.38 1.25 1.04 1.07 1.01 1.00 1.22 1.11 .99 .93 .77 1.83 2.04																Value Line estimates Relative P/E Ratio 1.00	
3.8% 4.3% 4.8% 5.4% 5.9% 5.0% 3.2% 3.5% 3.4% 3.1% 3.0% 3.8% 4.2% 4.4% 4.6% 5.8% 5.8%																Avg Ann'l Div'd Yield 2.5%	
CAPITAL STRUCTURE as of 3/31/93																	
Total Debt \$29603 mill. Due in 6 yrs \$27375 mill.																	
LT Debt \$12402 mill. LT Interest \$1045 mill.																	
(LT Interest earned 2.2%; total interest coverage: 1.3x)																	
Leases, Uncapitalized: Annual rentals \$1533.0 mill.																	
Pension Liability None																	
Pfd Stock None																	
Common Stock: 569,821,252 sha. (89% of Cap')																	
CURRENT POSITION 1990 1991 3/31/93																	
Cash Assets 3653 5151 5826																Revenue (\$mill) E 50000	
Receivables 22644 24317 20131																Operating Margin 18.0%	
Inventory (Avg Cat) 10108 9644 8219																	
Other 2315 1857 5570																	
Current Assets 35920 40969 39748																	
Accts Payable 3367 3507 2946																	
Debt Due 7602 13716 17401																	
Other 14307 18401 16019																	
Current Liab. 25276 33624 36366																	
ANNUAL RATES Past '90-'92 of change (per sh) 10 Yrs. 5 Yrs.																	
Revenues 8.5% 6.0% 3.5%																	
"Cash Flow" 3.5% 1.0% 2.0%																	
Earnings -1.5% -9.5% 5.5%																	
Dividends 3.5% 2.0% -10.5%																	
Book Value 7.5% 1.5% -3.0%																	
Cat- endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year																	
QUARTERLY REVENUES (\$ mill.)																	
1990 14185 16495 15277 23061 69018																	
1991 13545 14732 14433 22082 64792																	
1992 14037 16224 14702 19560 64523																	
1993 13058 14500 14250 20192 62000																	
1994 13250 15250 14750 20750 64000																	
Cat- endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year																	
EARNINGS PER SHARE A																	
1990 1.81 2.45 1.95 4.30 10.51																	
1991 .93 2.0 .30 2.26 3.69																	
1992 1.12 F 1.29 F .15 0.08 2.48																	
1993 .450 .425 .30 .55 .50																	
1994 .15 .50 .75 1.00 2.00																	
Cat- endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year																	
QUARTERLY DIVIDENDS PAID %																	
1989 1.10 1.21 1.21 1.21 4.73																	
1990 1.21 1.21 1.21 1.21 4.84																	
1991 1.21 1.21 1.21 1.21 4.84																	
1992 1.21 1.21 1.21 1.21 4.84																	
1993 .54 .54																	
(A) Based on average shares outstanding. Excludes nonrecuring gains (losses): '88, \$864, (89); '89, (\$2,58); '91 (\$8,54); '92, \$3,33; (\$14,51). Next earnings report due mid-Oct. (B) Next dividend meeting about Oct. 25. Goes ex about Nov. 5. Dividend payment dates: about March 10, June 10, Sept. 10, Dec. 10. (C) In millions. (D) Depreciation on accelerated basis. (E) Includes financial subsidiary from 1988. (F) Restated because of accounting change.																	
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Company's Financial Strength A Stock's Price Stability B Price Growth Persistence C Earnings Predictability D To subscribe call 1-800-823-0046.																	

George A. Niemand July 30, 1993

Week 4 - 1

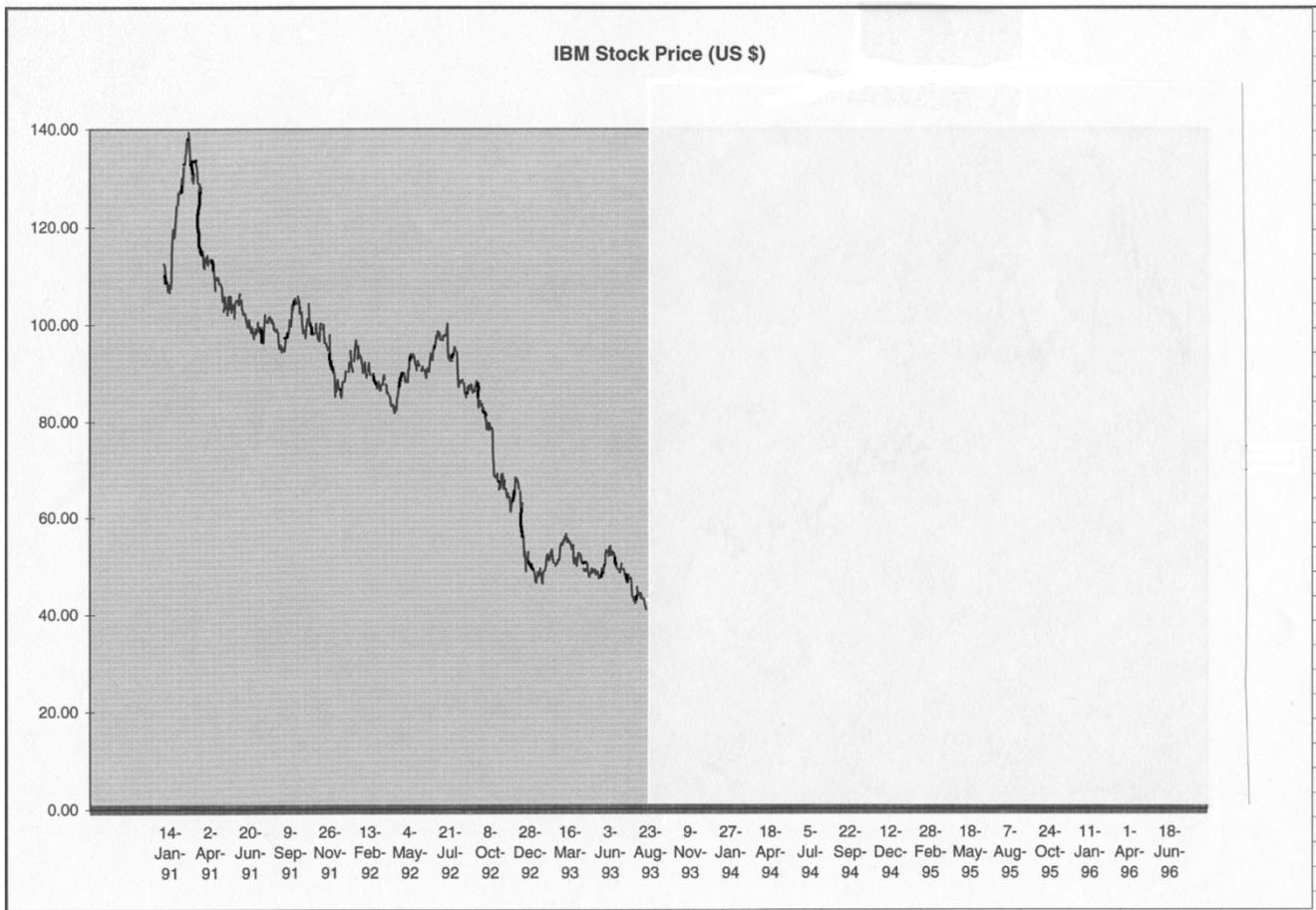
Financial Statement Interpretation

International Business Machines

	<u>1990</u>	<u>1993 Estimated*</u>
Stock Prices (\$US)	95–123	42–57
Working Capital (\$million)	13 644	3 380
Current Ratio	1.54	1.09
Acid Test Ratio	1.08	0.71
Equity Ratio	48.9%	31.8%
Debt-Equity Ratio	27.9%	60.3%
Operating Ratio	1.17	0.94
Income Ratio	8.7%	-0.45%
Rate of Return on Investment	6.8%	-0.38%
Inventory Turnover Ratio	3.0	2.1

*1993 Estimates by Value Line

IBM Stock Price (1991-1993)



Technical Analysis IBM price forecast?

IBM Stock Price (1992-1999)



(Bottom schedule depicts number of shares traded on a monthly basis.)

Two “Two for One” Stock Splits

- 1997
- 1999

2015-10-01 Share Price: \$145.33

52-Week High: \$190.89

52-Week Low \$140.62

IBM Consolidated Balance Sheet – 2013

(\$ in millions except per share amounts)

At December 31:	Notes	2013	2012
Assets			
Current assets			
Cash and cash equivalents		\$ 10,716	\$ 10,412
Marketable securities	D	350	717
Notes and accounts receivable—trade (net of allowances of \$291 in 2013 and \$255 in 2012)		10,465	10,667
Short-term financing receivables (net of allowances of \$308 in 2013 and \$288 in 2012)	F	19,787	18,038
Other accounts receivable (net of allowances of \$36 in 2013 and \$17 in 2012)		1,584	1,873
Inventories	E	2,310	2,287
Deferred taxes		1,651	1,415
Prepaid expenses and other current assets		4,488	4,024
Total current assets		51,350	49,433
Property, plant and equipment	G	40,475	40,501
Less: Accumulated depreciation		26,654	26,505
Property, plant and equipment—net	G	13,821	13,996
Long-term financing receivables (net of allowances of \$80 in 2013 and \$66 in 2012)	F	12,755	12,812
Prepaid pension assets		5,551	945
Deferred taxes	N	3,051	3,973
Goodwill	I	31,184	29,247
Intangible assets—net	I	3,871	3,787
Investments and sundry assets	H	4,639	5,021
Total assets		\$ 126,223	\$ 119,213
Liabilities and equity			
Current liabilities			
Taxes	N	\$ 4,633	\$ 4,948
Short-term debt	D&J	6,862	9,181
Accounts payable		7,461	7,952
Compensation and benefits		3,893	4,745
Deferred income		12,557	11,952
Other accrued expenses and liabilities		4,748	4,847
Total current liabilities		40,154	43,625
Long-term debt	D&J	32,856	24,088
Retirement and nonpension postretirement benefit obligations	S	16,242	20,418
Deferred income		4,108	4,491
Other liabilities	K	9,934	7,607
Total liabilities		103,294	100,229
Contingencies and commitments		M	
Equity		L	
IBM stockholders' equity			
Common stock, par value \$.20 per share, and additional paid-in capital		51,594	50,110
Shares authorized: 4,687,500,000			
Shares issued (2013—2,207,522,548; 2012—2,197,561,159)			
Retained earnings		130,042	117,641
Treasury stock, at cost (shares: 2013—1,153,131,611; 2012—1,080,193,483)		(137,242)	(123,131)
Accumulated other comprehensive income/(loss)		(21,602)	(25,759)
Total IBM stockholders' equity		22,792	18,860
Noncontrolling interests	A	137	124
Total equity		22,929	18,984
Total liabilities and equity		\$ 126,223	\$ 119,213

Amounts may not add due to rounding.

The accompanying notes on pages 84 through 146 are an integral part of the financial statements.

The accompanying notes on pages 76 through 139 are an integral part of the financial statements.

IBM Consolidated Income Statement – 2013

(\$ in millions)

For the year ended December 31:	Notes	2013	2012	2011
Net income		\$16,483	\$16,604	\$15,855
Other comprehensive income/(loss), before tax				
Foreign currency translation adjustments	L	(1,335)	(44)	(693)
Net changes related to available-for-sale securities	L			
Unrealized gains/(losses) arising during the period		(4)	8	(14)
Reclassification of (gains)/losses to net income		(8)	(42)	(231)
Subsequent changes in previously impaired securities arising during the period		4	20	4
Total net changes related to available-for-sale securities		(8)	(14)	(241)
Unrealized gains/(losses) on cash flow hedges	L			
Unrealized gains/(losses) arising during the period		43	32	(266)
Reclassification of (gains)/losses to net income		(166)	(253)	511
Total unrealized gains/(losses) on cash flow hedges		(123)	(220)	245
Retirement-related benefit plans	L			
Prior service costs/(credits)		16	—	(28)
Net (losses)/gains arising during the period		5,369	(7,489)	(5,463)
Curtailments and settlements		(3)	(2)	11
Amortization of prior service (credits)/cost		(114)	(148)	(157)
Amortization of net (gains)/losses		3,499	2,457	1,847
Total retirement-related benefit plans		8,767	(5,182)	(3,790)
Other comprehensive income/(loss), before tax	L	7,301	(5,460)	(4,479)
Income tax (expense)/benefit related to items of other comprehensive income	L	(3,144)	1,587	1,339
Other comprehensive income/(loss)	L	4,157	(3,874)	(3,142)
Total comprehensive income		\$20,641	\$12,731	\$12,713

Amounts may not add due to rounding.

The accompanying notes on [pages 84 through 146](#) are an integral part of the financial statements.

Latest statements available at http://www.ibm.com/annualreport/2013/bin/assets/2013_ibm_annual.pdf.

IBM Operating Margins by Segment – 2013

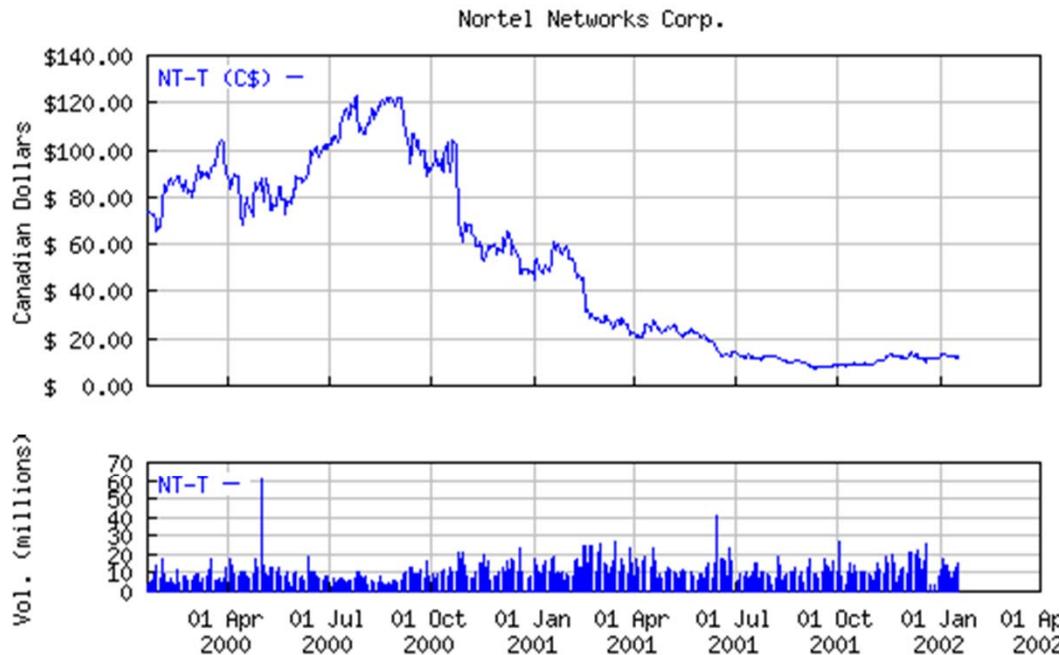
Gross Margin (%) = (Revenue – Cost of goods sold) / Revenue

(\$ in millions)	2013	2012	Yr-to-Yr. Percent/ Margin Change	Yr-to-Yr. Percent Change Adjusted for Currency
For the year ended December 31:				
Revenue				
Global Technology Services	\$38,551	\$ 40,236	(4.2)%	(1.4)%
Gross margin	38.1%	36.6%	1.5 pts.	
Global Business Services	18,396	18,566	(0.9)%	2.6%
Gross margin	30.9%	30.0%	0.9 pts.	
Software	25,932	25,448	1.9%	2.9%
Gross margin	88.8%	88.7%	0.1 pts.	
Systems and Technology	14,371	17,667	(18.7)%	(17.9)%
Gross margin	35.6%	39.1%	(3.5) pts.	
Global Financing	2,022	2,013	0.4%	2.8%
Gross margin	45.6%	46.5%	(0.9) pts.	
Other	478	577	(17.1)%	(16.4)%
Gross margin	(195.6)%	(71.6)%	(124.0) pts.	
Total consolidated revenue	\$99,751	\$104,507	(4.6)%	(2.5)%
 Total consolidated gross profit	 \$48,505	 \$ 50,298	 (3.6)%	
Total consolidated gross margin	48.6%	48.1%	0.5 pts.	
 Non-operating adjustments				
Amortization of acquired intangible assets	388	375	3.5%	
Acquisition-related charges	5	1	NM	
Retirement-related costs/(income)	629	264	138.1%	
Operating (non-GAAP) gross profit	\$49,527	\$ 50,938	(2.8)%	
Operating (non-GAAP) gross margin	49.7%	48.7%	0.9 pts.	

NM—Not meaningful

- Note the strategic transition from a “hardware” company to a “services” company.
- The margin on the software segment continues to be exceptional.

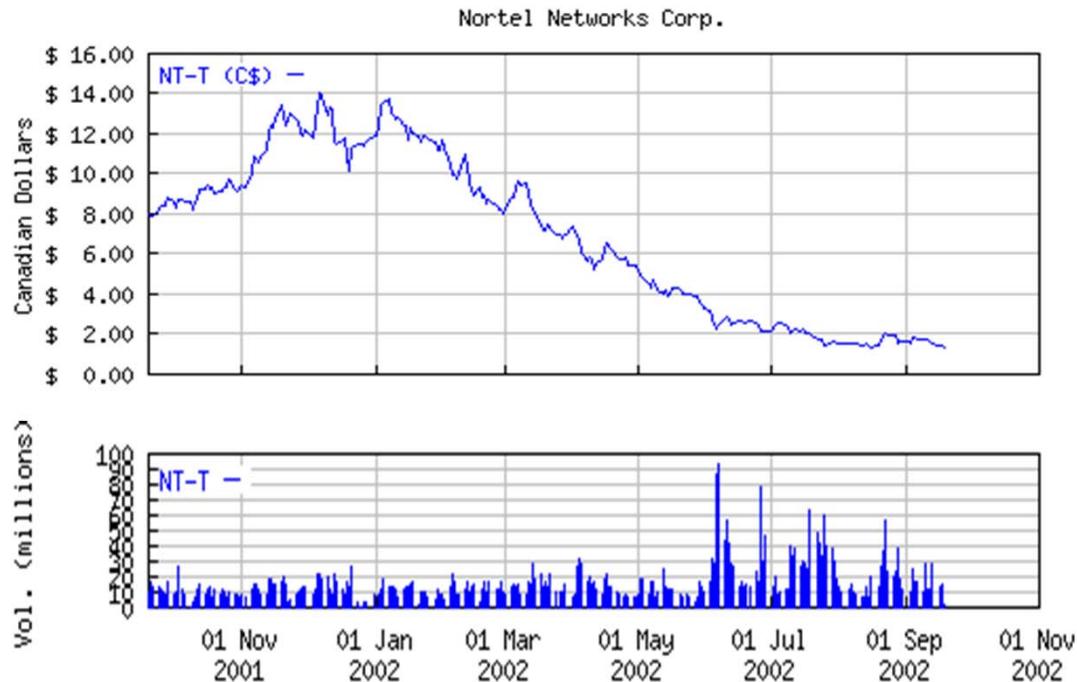
Nortel Networks – An IBM Parallel?



(Bottom schedule depicts number of shares traded on a daily basis.)

What to do now?
Will IBM's performance improvement be repeated at Nortel?

Nortel Networks – 2002 Stock Price



History does not always repeat itself !!!!
(Bottom schedule depicts number of shares traded on a daily basis.)

Delisted from TSX on June 26, 2009.

1-Year High: \$6.68

1-Year Low: \$0.08

But 10 to 1 Reverse Stock Split

Note that the bankruptcy court is still sorting out creditor claims in 2014. ~\$8 billion remains to be distributed amongst the creditors.

Nortel's peak market capitalization was ~\$400 billion.

Cost Accounting

- The Balance Sheet and Income Statement summarize a firm's financial activities
- At the engineering project level, considerably more detail is required

$$\begin{aligned}\text{TOTAL COSTS} &= \text{DIRECT MATERIAL COST} \\ &\quad + \text{DIRECT LABOUR COST} + \text{OVERHEAD}\end{aligned}$$

- The primary purpose of cost accounting is to allocate costs to a specific project or job
- Overhead costs cannot be allocated as direct charges to any single project or job
- Overhead costs must be prorated among all projects on some, more or less, arbitrary basis
- Popular distribution methods
 1. Rate per direct labour hour.
 2. Percentage of direct labour cost.
 3. A percentage of prime cost.
- Prime cost = direct material plus direct labour cost.

Cost Accounting - Job Costing

Manufacturing Firm's Estimated Annual Costs

Total direct labour hours	48 000
Total direct labour cost	\$960 000
Total direct material cost	\$1 200 000
Total overhead cost	\$720 000

Note that the factory average labour rate is \$20.00/hour.

Job Direct Resource Requirements:

Direct labour hours	40
Direct labour hourly rate	\$25.00
Direct materials cost	\$1 700

How much should this job contribute to the cost of running the factory?

Use one of three overhead allocation methods.

The direct costs plus the allocated overhead cost will establish the minimum price to charge the customer for this job in order to “cover all of the costs”.

Direct Labour Hour Method

Manufacturing Firm's Estimated Annual Costs

Total direct labour hours	48 000
Total direct labour cost	\$960 000
Total direct material cost	\$1 200 000
Total overhead cost	\$720 000

Job Direct Costs

Direct labour hours	40
Direct labour hourly rate	\$25.00
Direct materials cost	\$1 700

Method 1: Rate Per Direct Labour Hour Method

$$\text{rate} = \frac{\text{overhead cost}}{\text{direct labour hours}} = \frac{\$720\ 000}{48\ 000 \text{ hours}}$$
$$= \$15.00 \text{ per direct labour hour}$$

JOB COST ESTIMATE:

Direct material cost	\$1 700
Direct labour cost ($40 \times \$25.00$)	1 000
Overhead cost ($40 \times \$15.00$)	<u>600</u>
	\$3 300

Percentage of Direct Labour Cost Method

Manufacturing Firm's Estimated Annual Costs

Total direct labour hours	48 000
Total direct labour cost	\$960 000
Total direct material cost	\$1 200 000
Total overhead cost	\$720 000

Job Direct Costs

Direct labour hours	40
Direct labour hourly rate	\$25.00
Direct materials cost	\$1 700

Method 2: Percentage of Direct Labour Cost Method

$$\begin{aligned} \% &= \frac{\text{overhead}}{\text{direct labour cost}} = \frac{\$720\ 000}{\$960\ 000} (100\%) \\ &= 75\% \end{aligned}$$

JOB COST ESTIMATE:

Direct material cost	\$1 700
Direct labour cost (40 x \$25.00)	1 000
Overhead cost (0.75 x \$1 000)	<u>750</u>
	\$3 450

Percentage of Prime Cost Method

Manufacturing Firm's Estimated Annual Costs

Total direct labour hours	48 000
Total direct labour cost	\$960 000
Total direct material cost	\$1 200 000
Total overhead cost	\$720 000

Job Direct Costs

Direct labour hours	40
Direct labour hourly rate	\$25.00
Direct materials cost	\$1 700

Method 3: Percentage of Prime Cost Method

$$\begin{aligned}\% &= \frac{\text{overhead cost}}{\text{direct labour cost} + \text{direct material cost}} (100\%) \\ &= \frac{\$720\ 000}{\$960\ 000 + \$1\ 200\ 000} (100\%) \\ &= 33\ 1/3\%\end{aligned}$$

JOB COST ESTIMATE:

Direct material cost	\$ 1 700
Direct labour cost ($40 \times \$25.00$)	1 000
Overhead cost ($0.333 \times \$2\ 700$)	<u>900</u>
	\$3 600

Cost Accounting Caveats

- The accountant and engineer may work with the same financial data, but they do so for different purposes
- Must understand these costs carefully
- Cost data giving average or allocated values can be misleading for engineering economic analysis
 - hydro utility power increase decision
 - marginal costs are important
 - a reduction in labour costs will not result in a corresponding proportionate decrease in overhead costs
 - determine which costs actually change
- Must search for true incremental costs and incremental benefits to evaluate projects effectively