



International Business Machines Corporation

IBM

EQUITY RESEARCH REPORT

July 14, 2026

IBM — INTERNATIONAL BUSINESS MACHINES CORPORATION

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	**HOLD / WATCHLIST**
Current Price	€189.50 (USD \$216.91)
Fair Value (Base Case)	€182.00
Margin of Safety	-4.0% (trading above fair value)
Target Entry (if HOLD)	€160.00

Return Profile	Value
Dividend Yield	~3.1%
Expected Dividend Growth	~2.5%
Expected Price Appreciation	~3.5% CAGR
Total Expected Return (Base)	~6.6% CAGR
Bear Case Total Return	-1.5% CAGR
Bull Case Total Return	~11.5% CAGR
Probability-Weighted Return	~5.8% CAGR

Risk Assessment	Value
Wealth Preservation Score	58 / 100
Downside Protection Score	55 / 100
Quality Score	62 / 100
Risk Level	MODERATE
Probability of >50% Loss	~7%
Recession Profile	RESILIENT

One-Line Thesis:

IBM offers a durable dividend and improving software mix, but the current valuation sits above both its fair value and historical norms while leverage climbs post-Confluent, leaving insufficient margin of safety for a preservation

buyer today.

INVESTMENT THESIS

IBM has completed a genuine transformation. Revenue grew 7.6% in 2025 to \$67.5 billion, gross margin expanded to 58.2%, and free cash flow held above \$12 billion. The company sits in a defensive corner of enterprise IT, with recurring software subscriptions, a sticky mainframe franchise, and a consulting arm that anchors long client relationships. A remaining performance obligation near \$69 billion gives you real forward visibility. For a preservation mandate, this is the kind of stable, cash-generating business that belongs on a watchlist.

The problem is price, not quality. At €189.50 the stock trades at roughly 24-26x trailing earnings and 8.5x book value, well above the sector median and above where IBM historically changed hands on cash-flow and book measures. Analyst targets cluster in the high-\$270s to mid-\$290s, but two data providers show current price sitting close to or above their target midpoints, which tells you the market has already paid for the AI and hybrid-cloud narrative. You are not buying a discounted franchise here. You are buying a fully priced one, and paying full price violates the margin-of-safety rule that protects capital in a drawdown.

Leverage is the second concern. Total debt reached \$61.3 billion at year-end 2025 and long-term debt sat at \$57.7 billion by Q1 2026 after the \$11.6 billion Confluent acquisition, which added \$7.2 billion of goodwill and \$3.8 billion of intangibles. Debt-to-equity near 197% is the direct cause of IBM's high book multiple and the reason it cannot earn a FORTRESS solvency rating. The company services this debt comfortably today, keeps investment-grade access, and has never cut its dividend. But a preservation buyer accounts for what happens if free cash flow compresses while \$57 billion of debt needs refinancing at higher rates. The base case return of ~6.6% falls just short of the 7% hurdle, and the bear case turns modestly negative. That combination — no margin of safety, a return that misses the hurdle, and rising leverage — makes this a HOLD. Wait for a pullback toward €160 before committing capital.

1. BUSINESS QUALITY ASSESSMENT

IBM operates three segments: Software (\$7.05B Q1 2026 revenue, highest margin), Consulting (\$5.27B), and Infrastructure (\$3.33B, mainframe-driven). The mix has shifted decisively toward higher-margin software over five years, lifting gross margin from 54.9% (2021) to 58.2% (2025).

Sector classification: Enterprise IT — moderately cyclical, not secular decline. Enterprise IT spending contracts in recessions but the software/subscription base and mainframe installed base cushion the swings.

Understandable business model. **Sector Verdict: CONTINUE.**

Secular tailwinds exist (AI adoption, hybrid cloud, quantum optionality) but IBM competes against faster-moving hyperscalers (AWS, Azure, Google Cloud) with superior cloud economics. IBM's advantage is the entrenched enterprise relationship, not technological leadership.

2. FINANCIAL FORTRESS ANALYSIS

Solvency Check:

Metric	Value	Threshold	Status
Debt-to-Equity	~1.97x	<1.0x	**FAIL**
Interest Coverage (est.)	~6-7x	>5.0x	PASS
FCF Positive (5/5 years)	Yes	4 of 5	PASS
Cash / Total Debt	\$14.5B / \$61.3B ≈ 24%	>20%	PASS
Debt Maturity Cliff	No disclosed cliff	<30% in 2yr	Monitor

Stress Test (30% revenue drop, 2 years): IBM would remain solvent given ~\$12B annual FCF and \$14.5B liquidity. Dividend likely maintained given track record. No dilutive equity raise required. Interest coverage the pressure point given \$57.7B long-term debt.

The 197% D/E is elevated but partly structural for a share-buyback-heavy blue chip with modest book equity. It disqualifies FORTRESS status.

Solvency Assessment: ADEQUATE (proceed with monitoring).

Earnings Quality: Operating cash flow (\$5.17B Q1 2026) consistently exceeds net income; FCF/net income ratio strong. Clean audit, no restatements, no going-concern language. **Earnings Quality: HIGH.**

3. DIVIDEND ANALYSIS

Metric	Value	Threshold	Status
Dividend Yield	~3.1%	1.5-5%	PASS
Payout Ratio (Div/EPS 2025)	~55%	<75%	PASS
FCF Payout Ratio	~50% (\$6B div / \$12B FCF)	<70%	PASS
Dividend Growth 5Y CAGR	~1-3%	>3%	MARGINAL
Consecutive Years Paid	25+ (Dividend Aristocrat)	>10	PASS
FCF Coverage	~2.0x	>1.3x	PASS

IBM raised its dividend for 25+ consecutive years and maintained it through 2008 and 2020. The weak spot is anemic dividend growth (~1-3% CAGR), which barely keeps pace with inflation. The income is safe but not compounding meaningfully.

Stress Test (40% earnings drop): Dividend still covered by FCF at ~1.2x. Aristocrat status protects the payout.

Dividend Sustainability: ROCK SOLID.

4. VALUATION ANALYSIS

Metric	Current	5Y Avg	10Y Avg	vs. History	Assessment
P/E (TTM)	~24-26x	~35.6x	~25.7x	Below 5Y, at 10Y	Fair-to-Full
EV/EBITDA	~17-20x	low-teens (typ.)	—	Above norm	Full
P/FCF	~22x	low-teens (typ.)	—	Elevated	Full
P/B	~8.5x	low-single digits (typ.)	—	Re-rated up	Expensive
P/S	~4.2x	(sector 1.2x)	—	3x sector	Full
Dividend Yield	~3.1%	~4.5%	—	Below (price up)	Full

The P/E looks reasonable versus IBM's own inflated 5-year average, but every cash-flow and asset-based metric (EV/EBITDA, P/FCF, P/B, P/S) sits well above both sector and IBM's own long-term norms. The equity has re-rated on the AI narrative.

Margin of Safety Calculation: Normalized EPS ~\$10.50 × fair multiple of ~20x = fair value ~\$210 USD (€183). Current price €189.50 sits above this. **Margin of Safety: approximately -4%.**

Valuation: FULL.

5. SCENARIO ANALYSIS

BEAR CASE (25% weight): Recession compresses consulting, AI spend slows, multiple contracts to ~16x, Confluent underperforms triggering goodwill scrutiny. Revenue flat, EPS -10%. Dividend maintained (aristocrat).

- 10-Year Price Target: €150 | **Total Return CAGR: ~-1.5%**

BASE CASE (50% weight): Revenue grows ~4-5% CC, margins stable, multiple reverts to ~20x. Dividend grows ~2.5%.

- 10-Year Price Target: €245 | **Total Return CAGR: ~6.6%**

BULL CASE (25% weight): AI book of business (>\$12.5B) scales, software sustains 10%+, quantum optionality re-rates the stock to 26x.

- 10-Year Price Target: €340 | **Total Return CAGR: ~11.5%**

Scenario	Price Target	Total CAGR	Weight	Contribution
Bear	€150	-1.5%	25%	-0.4%
Base	€245	6.6%	50%	3.3%
Bull	€340	11.5%	25%	2.9%
Expected		**~5.8%**		

Downside Protection: Probability of >50% permanent loss ~7% (below 10% threshold, aided by aristocrat dividend and investment-grade balance sheet). The bear case shows a negative total return, which fails the "bear case ≥ 0%" absolute requirement narrowly.

6. RISK ASSESSMENT

- **Leverage:** \$61.3B total debt, 197% D/E, \$57.7B long-term debt refinancing exposure at higher rates.
- **Acquisition integration:** Confluent (\$11.6B, \$7.2B goodwill) carries impairment risk if performance disappoints.
- **Competitive:** Structurally behind hyperscalers in cloud; defends share through relationships, not innovation.
- **Cyclical consulting:** Enterprise IT budgets cut in downturns.
- **Valuation risk:** Full multiples leave no cushion if AI narrative cools.
- **Cyber/regulatory:** Rising AI regulation and cyber exposure (X-Force flagged 44% surge in exploitation of public-facing apps in 2025).

Recession Profile: RESILIENT — historically maintained dividend through 2008/2020, moderate revenue sensitivity, strong recovery.

7. MANAGEMENT & GOVERNANCE

Management has executed a credible mix shift toward software and delivered margin expansion. Capital allocation blends dividends, buybacks, and large acquisitions. The Confluent deal is the aggressive move to watch — a \$11.6B debt-funded acquisition tests capital discipline. No related-party red flags, clean audit, stable leadership tone in filings.

Management Quality: GOOD.

Capital Allocation Track Record: ACCEPTABLE (dividend discipline strong; acquisition appetite raises leverage).

8. PEER COMPARISON

Dimension	IBM	Accenture	SAP	Cisco	Best
P/E vs History	~24-26x	~11x	~21x	~40x	ACN discount
Debt/Equity	~1.97x (high)	Low	Moderate	Moderate	ACN
Dividend Yield	~3.1%	~1.5%	~1%	~2.8%	IBM
FCF Margin	~18%	High	High	High	Peers
Dividend History	25+ yrs	Shorter	Shorter	Shorter	IBM

IBM leads on income reliability but trails on balance sheet strength and trades richer than Accenture and SAP on most operating multiples.

9. KEY METRICS SUMMARY

Metric	Value
Revenue 2025	\$67.5B (+7.6%)
Net Income 2025	\$10.6B
Basic EPS 2025	\$11.36
FCF 2025	\$12.1B
Gross Margin	58.2%
Operating Margin	18.2%
ROE	~36-38%
ROIC	~13-15% (vs WACC ~8-9%) — **Value Creating**
Total Debt	\$61.3B
Dividend Yield	~3.1%

10. MONITORING CHECKLIST

- [] Software growth sustaining $\geq 10\%$ (bull confirmation)
- [] Confluent revenue contribution & goodwill health
- [] Debt trajectory / interest coverage vs refinancing schedule
- [] Consulting resilience through any macro softening
- [] Dividend growth rate acceleration
- [] Price pullback toward €160 entry target

11. MARKET EXPECTATIONS & CONSENSUS

Implied by current price: ~4-5% sustained constant-currency revenue growth plus continued margin expansion — the market has priced the guided outlook as delivered.

Consensus Bull Case: Software acceleration to 10%+, AI book (>\$12.5B) scaling into recurring revenue, quantum optionality.

Consensus Bear Case: Consulting softness, integration drag, multiple compression toward peers.

Analyst Consensus: Buy / Overweight. Targets: Investing.com \$294.94 (high \$390, low \$195); Fox \$281.72; StockAnalysis \$277.68.

What would validate consensus: Q2/Q3 2026 software growth beat, margin expansion, raised guidance.

What would disappoint: Consulting miss, guidance cut, Confluent underperformance.

Forward Valuation:

Metric	Value	Assessment
Fwd P/E	~20-22x (est.)	Full
EV/EBITDA	~17-20x	Above norm
P/B	~8.5x	Rich vs sector 2.96x
Beta	~0.9 (est.)	Defensive tilt

12. KEY BUSINESS DRIVERS

Driver 1: Software segment growth rate

Why it matters: Highest-margin, recurring revenue; the transformation thesis rests here.

Current level: ~10%+ (double-digit)

Bull threshold: sustained $\geq 10\%$. Bear threshold: $< 5\%$.

Next data point: Q2 2026 earnings (mid-July).

Driver 2: Free cash flow trajectory

Why it matters: Funds dividend and debt service; the preservation anchor.

Current level: ~\$12.1B (2025).

Bull threshold: $> \$13\text{B}$. Bear threshold: $< \$10\text{B}$.

Next data point: quarterly cash flow statements.

Driver 3: Total debt / interest coverage

Why it matters: Rising leverage post-Confluent is the single biggest solvency variable.

Current level: \$61.3B debt, coverage ~6-7x.

Bull threshold: debt paydown, coverage $> 8\text{x}$. Bear threshold: coverage $< 4\text{x}$.

Next data point: Q2 2026 10-Q balance sheet.

Driver 4: Mainframe (IBM Z / z17) cycle strength

Why it matters: Drives Infrastructure revenue and margin.

Bull threshold: strong upgrade adoption. Bear threshold: cycle rollover.

Next data point: Infrastructure segment reporting.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker	Relationship	Signal
Enterprise software peer	SAP	correlates with software demand	Bullish if SAP guidance rises
IT consulting peer	ACN	leads consulting spend cycle	Bearish if ACN warns on bookings
Tech sector ETF	XLK	correlates with multiple	Bearish if XLK breaks 50-day MA
Investment-grade credit	LQD	leads refinancing cost	Bearish if IG spreads widen

Monitoring rule: If ACN issues a consulting bookings warning or IG credit spreads widen materially, re-evaluate IBM's base case within 5 trading days.

EXIT TRIGGERS (If upgraded to BUY)

- **Price falls to €160:** Upgrade to BUY, initiate standard position.
- **Software growth drops below 5% two consecutive quarters:** Downgrade / avoid.
- **Interest coverage below 4x:** Re-review solvency, trim.
- **Confluent goodwill impairment announced:** Reassess capital allocation thesis.
- **Dividend growth stalls to zero:** Downgrade income thesis.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Current Price: €189.50 (USD \$216.91)

Target Entry Price: €160.00 (~16% below current)

Why Hold: A quality, income-reliable business trading at full valuation with no margin of safety. The base case return (~6.6%) sits just below the 7% hurdle, the bear case turns modestly negative (failing the "bear $\geq 0\%$ " absolute requirement), and leverage is climbing post-Confluent. Solid business, wrong price.

Trigger for Upgrade: Pullback toward €160, or evidence of software acceleration combined with debt reduction.

Absolute Requirements Check:

- ☐ Bear case $\geq 0\%$ — **FAIL** (-1.5%)
- ☐ Base case $\geq 7\%$ — **FAIL** (~6.6%)
- ☒ Solvency ADEQUATE — PASS
- ☒ Dividend ROCK SOLID — PASS
- ☒ Probability >50% loss <10% — PASS (~7%)

Two absolute requirements narrowly fail at the current price, which forbids a BUY. A modest price decline would flip both.

ANALYST NOTES

Key Assumptions:

- Normalized EPS ~\$10.50, fair multiple ~20x.
- Dividend growth ~2.5% (conservative vs. anemic recent trend).
- WACC ~8-9%; ROIC ~13-15% confirms value creation.
- Confluent integrates without material impairment.

Limitations:

- EV/EBITDA, P/FCF, P/B historical averages inferred, not directly sourced.
- Insider and institutional ownership data unavailable in research set.
- Interest coverage estimated, not directly reported.
- Forward P/E estimated.

Confidence Level: MEDIUM — The business quality and dividend safety are well-documented and high-conviction. The valuation conclusion depends on multiple assumptions (fair multiple, normalized earnings) where source data showed provider dispersion. The core call — full valuation, no margin of safety, wait for a better entry — holds across reasonable assumption ranges.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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