

## **IBM to Acquire Cognos**

*November 12, 2007*

On November 12, 2007, IBM announced its intent to acquire Cognos. A copy of the announcement press release is available at <http://www-03.ibm.com/press/us/en/pressrelease/22572.wss> .

The acquisition of Cognos is:

- consistent with IBM's acquisition strategy
- an effective use of IBM's capital, and
- an important step to delivering IBM's 2010 earnings per share roadmap.

### **Cognos is a leader in Business Intelligence and Performance Management**

Cognos is a recognized industry leader in enterprise business intelligence (BI) and performance management solutions. Cognos provides a complete platform for business intelligence and performance management, leveraging Service Oriented Architecture (SOA) to deliver greater flexibility. Cognos is the only software provider to have transformed its entire range of business intelligence and performance management capabilities into a single, integrated, open standards-based platform.

The acquisition of Cognos fits squarely within IBM's acquisition strategy – with complementary “product-like” capabilities in high growth segments that are scalable, and leverage IBM's global infrastructure.

In IBM's Investor Briefing in May 2007, IBM identified Information on Demand as a key growth initiative, and Cognos extends IBM's business intelligence capabilities to enhance IBM's Information on Demand value proposition. Based on several industry surveys, BI is a top IT priority for customers, and is increasingly viewed by CIOs as a strategic component of middleware. According to IDC, the Business Intelligence Tools software market will be a \$7.8 billion opportunity in 2008, growing at almost 12% per year. The overall market opportunity for BI software and services is expected to be \$30.6 billion in 2008.

### **IBM /Cognos Combination**

#### ***The portfolios of IBM and Cognos are complementary***

The combination of IBM and Cognos makes IBM the premier provider across the business intelligence stack, with each party contributing best in class capabilities:

IBM: Database and Middleware/Integration Components

Cognos: Business Intelligence Tools and Performance Management Software

There is effectively no overlap in products and technology between IBM and Cognos, and Cognos provides significant technology synergies, including leading support for Service Oriented Architecture (SOA). IBM will now offer the most comprehensive information infrastructure for business intelligence and performance management. This end-to-end solution extends IBM's ability to capitalize on growth opportunities.

The companies also have an alignment of philosophy around open standards. Cognos has a strong history of supporting heterogeneous application environments, and has the support of a broad-based ecosystem of Independent Software Vendors, with over 3,000 partners.

### ***Drivers of Revenue Synergies***

IBM has a successful track record of integrating companies, and the long-standing partnership between IBM and Cognos provides a solid base for delivering these revenue synergies.

There is substantial business opportunity to cross-sell IBM's products into Cognos' accounts, particularly in the consumer packaged goods, pharmaceuticals, government and education industries.

Leveraging IBM's global infrastructure will accelerate delivery of Cognos solutions, especially in Asia and emerging countries.

In addition, business intelligence and performance management creates an opportunity to provide an integrated set of offerings including IBM services, hardware, and other middleware software.

### **Transaction Details and Financial Implications**

IBM and Cognos have entered into a definitive agreement for IBM to acquire Cognos in an all cash transaction of approximately \$5 billion, or \$58 per share. The net transaction value is \$4.9 billion. Approximately half of IBM's investment in Cognos will come from the U.S., and half from outside of the U.S.

This transaction is subject to Cognos shareholder approval, and certain regulatory clearances and other customary closing conditions. The transaction will be completed as soon as is practical, with a target closing of first quarter 2008.

After closing, Cognos will be integrated into IBM's Information Management business and results reported in the Software segment. As of the last quarter, Cognos' trailing twelve month revenue was approximately one billion dollars. With a closing date in the first quarter, the acquisition is expected to add over one point of growth to IBM's total revenue in 2008.

Including the opportunity cost of foregone interest income, IBM expects this transaction to be minimally dilutive to earnings in 2008, and accretive in 2009. On a cash basis, the acquisition is expected to be accretive in 2008. IBM will provide commentary on its 2008 earnings expectations in its fourth quarter 2007 earnings webcast in January.

***Capital allocation model contributes to 2010 earnings per share roadmap***

In the last 3 years, IBM generated approximately \$15 billion of cash from operations per year, and ended the third quarter of 2007 with cash of \$13.8 billion. IBM's capital allocation model – and achievement of IBM's 2010 earnings per share roadmap – is based on continued investment in the business through capital expenditures and acquisitions. In addition, IBM will continue to return value to shareholders through a combination of share repurchase and dividends.

This acquisition fits within the parameters of the capital allocation model for 2007 and 2008, and is contained within the acquisition spending assumed in the 2010 roadmap.

The acquisition of Cognos demonstrates IBM's continued commitment to its business model and its 2010 earnings per share roadmap.

## **Supplemental Information**

### ***Strategy: This is larger than recent acquisitions – is this a change to your strategy?***

Our strategy is to invest in capabilities that have certain characteristics, including: intellectual property based, highly scalable, able to leverage our global infrastructure, and in growth areas. The acquisition of Cognos matches these characteristics. With Cognos, we saw a unique opportunity to acquire a core asset in an important adjacent space.

IBM invested \$4.8 billion on acquisitions in 2006, and less than \$1 billion in the first three quarters of 2007. The acquisition of Cognos is consistent with our overall capital allocation model for 2007 and 2008, and contained within the acquisition spending assumed to deliver the 2010 roadmap.

### ***Capital: Is this an effective use of your cash – why not use it for share repurchase?***

We have had a robust share repurchase program, spending \$94 billion since 1995, and it continues to be an important contributor to our 2010 roadmap. In 2007, including our \$12.5 billion accelerated share repurchase, we have spent \$18 billion year-to-date.

Consistent with the performance of our acquisitions over the last few years, the acquisition of Cognos is expected to deliver returns well in excess of our cost of capital. So we estimate that this acquisition, even before services and hardware synergies, provides superior cash flow per share when compared to a \$5 billion share repurchase. While the cash per share benefit is effectively equal in 2008, we expect the benefit from the acquisition to increase significantly over time.

### ***2010 Roadmap: How is this consistent with your 2010 roadmap?***

The roadmap will be delivered through a combination of several elements, including IBM's growth initiatives and acquisitions. The acquisition of Cognos is consistent with the 2010 roadmap, as we expect it to be accretive to earnings in 2009, and contribute to earnings per share growth in 2010.

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Additional information on IBM's acquisition strategy and performance is available in an article posted to IBM's investor website in March 2007, <http://www.ibm.com/investor/viewpoint/ircorner/2007/07-03-02-1.phtml> .