

# IBM's Longer-Term Financial Model

May 3, 2004

A recent sell-side report has challenged IBM's stated longer-term business model of  
Mid to high single-digit revenue growth, and  
Double-digit earnings per share growth.

The report expresses the opinion that IBM's future EPS growth will be 7-9%. While investors should form their own opinions, we believe that they should question the report's conclusion based on the following facts:

- The report uses the historical period of the mid-90's to the present as a basis for extrapolating future growth for a dividend-discount model.

As all investors know, this was a very volatile time, characterized by two very different themes --

The first part of this period was dominated by the dot.com bubble.  
The latter part was dominated by sustained economic weakness.

An average of this timeframe for the technology sector is not useful in projecting future trends.

- The report states that IBM will receive expected diminished impact from three factors -- pension income, intellectual property income, and reduced taxes.

IBM's tax rate has been stable for many years.

And during the recent period of economic weakness, IBM's pension and IP income together have been declining -- negatively impacting EPS.

Yet in 2003 -- and again in first quarter of 2004 -- IBM's EPS grew double digits.

- Most importantly, an analysis based on history would not consider either changes in customer requirements or increased competitiveness of IBM's products and offerings.

Over the past 2 years, customer priorities have been changing. They are increasingly focused on the integration of information technology and business value to become more resilient, more responsive and more integrated with their customers and suppliers. IBM is uniquely qualified to help our clients with that integration and transformation -- tailored to each customer's needs. We have demonstrated this leadership with consistent share gains in multiple key markets, and we have the most extensive portfolio in the industry.

IBM believes that its recent results -- and current average Street estimates of double-digit EPS growth for 2004 -- indicate that we are executing to deliver our stated longer-term model.

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