

IBM Closes Cognos Acquisition; Software investment strategy a key growth component for IBM

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With \$20 billion in annual revenue, IBM's software business has grown over the past decade into the world's largest enterprise software provider, evolving from the sale of stand-alone software products to helping customers solve their information integration, content and data management challenges through middleware solutions.

More than 25,000 IBM software developers work in 60 labs around the world to create software products in high-growth areas, such as information integration and enterprise security, systems development tools, storage and content management. A series of strategic acquisitions in such high-growth areas has complemented IBM's organic software growth strategy.

IBM's acquisition of both Telelogic, completed on April 3, 2008, and Cognos, completed on January 31, 2008, highlights the aggressive investment strategy that is a key contributor to the success of IBM's software business.

Telelogic is a leading provider of software used in the development of technical systems, such as consumer electronics, medical systems, automobiles, communications devices and airplanes.

With the Cognos acquisition, IBM gains a leadership position in the fast growing "business intelligence" software market. Research firm IDC says this market opportunity is expected to be close to \$7 billion in 2007, and will continue to grow faster than the overall IT market growth rate over the next five years.

Growing IBM's software business is an important part of the company's roadmap for achieving earnings-per-share of \$10 to \$11 in 2010. IBM's software long-term model is to grow revenue 7 to 10 percent, of which two to three percentage points would be derived from acquisition-related activities.

To fuel the revenue growth, IBM has been executing a targeted acquisition strategy to focus on areas of the software business that are both high-value and high-growth. IBM identifies software acquisition targets, such as Telelogic and Cognos, with ready-made assets that can be used with multiple customers to round out its growing portfolio of middleware, a term which refers to software that connects software together.

IBM looks for companies that are likely to add growth both in the acquired businesses and IBM's end-to-end middleware business in a relatively short time. With Cognos, an IBM Business Partner for 15 years, IBM can quickly offer a range of offerings and services for its customers, as seen in the February 6 announcement of a host of [new IBM-Cognos products and services](#).

The experience of more than 50 software acquisitions in eight years has helped IBM identify ways to assimilate new businesses quickly, using "accelerators" to make them more productive than they otherwise would be on their own, such as access to:

- 15,000 sales representatives in IBM's Software Group, and connections to thousands of others in IBM's services and sales organizations.
- 60 IBM software labs located around the world, including new ones opening in emerging countries, where customers can work side-by-side with developers to solve their organization's specific business needs.
- IBM's multi-billion dollar research and development organization, the world's largest corporate research program.

The strategy is working

In the fourth quarter of 2007, IBM's software business delivered \$6.3 billion in revenue, up 12 percent year-to-year. Branded middleware products – areas where IBM is making software acquisitions – increased to 58 percent of total software revenue over the year-earlier period. IBM's information management business posted strong revenue growth in 2007 thanks in part to another acquisition in August 2006, FileNet Corp. of Costa Mesa, Calif.

For 2007, revenue generated by IBM's software business was \$20 billion, up 10 percent, over 2006.

Strategic acquisitions Support IBM's Information on Demand strategy

Both Cognos and FileNet are examples of IBM's cross-company "Information on Demand" initiative announced in February 2006. IBM is helping customers deal with highly competitive marketplace dynamics that are forcing organizations to quickly understand and analyze ever-increasing amounts of data – whether it's digital, audio or video – to make better decisions faster. IBM's approach calls for integrating data, content, information, business intelligence and performance management systems. By looking at data as something that can be mined as a strategic asset, information can be used for competitive advantage or to transform the way an organization conducts business.

IBM's approach to growing its software business -- through acquisitions that drive growth -- differs from competitors. IBM looks to integrate and leverage potential acquisitions, making certain it is the right technology with the right culture. By being very selective, IBM increases its chances that acquisitions will succeed. The following are some of the successful acquisitions IBM has made to promote its Information on Demand approach:

- **Princeton Softech** enhances and expands IBM's ability to help clients increasing data security, data privacy, and data retention requirements and costs.
- **DataMirror** provides real-time data integration to help organizations unlock the potential of their data without impacting the performance or stability of their mission-critical operational systems.
- **Ascential** provides data integration software to help companies solve complex and demanding data integration challenges to make better strategic business decisions.
- **SRD** provides identity resolution software to help organizations increase business insight by delivering an accurate view into individuals/relationships in real time, providing associations previously nearly impossible to discover.
- **Trigo** enables companies to integrate and centrally manage product information scattered across an enterprise and a supply chain.
- **DWL** provides customer integration middleware that helps create a single, integrated view of customer information across a company's applications and businesses.
- **Alphablox** enables customers and business partners to embed analytics into existing business processes, making information available to a wide spectrum of users and applications.

For additional information on the Cognos acquisition and IBM's acquisition strategy, please see the following articles: [IBM's acquisition strategy](#), from March 2007, and the announcement of our [Telelogic acquisition](#) from June 2007 and [Cognos acquisition](#) from November 2007.