The Silver Word

International Business Machines Corporation

International Business Machines Corporation (IBM) has top class computing expertise, and its ecommerce solutions are considered the best in the business. However, given its size, the company is subject to the law of large numbers, and thus by many measures appears not to move as quickly as many other New Economy companies.

Established in 1911, IBM uses advanced information technology to provide customer solutions. The company has five divisions: Hardware (technology, personal systems, and servers), Global Services, Software, Global Financing, and Enterprise Investments. The Hardware and Global Services divisions account for the bulk of their business; in 1999, Hardware generated 42% of revenues and 49% of gross profits, while Global Services brought in 37% of revenues and 42% of gross profits. Headquartered in Armonk, New York, IBM has operations in 165 counties, and as of December 1999 employed 307,401 people.

When Louis V. Gerstner became Chairman and CEO in 1993, the company was in need of a turnaround. Despite pressure to split IBM into separate independent units, Mr. Gerstner kept the company in tact. One of IBM's strengths was its ability to provide integrated solutions for customers, and with the rise of the Internet and network computing, IBM was once again at the head of the pack. In 1995 IBM acquired Lotus Development Corporation, and a year later it acquired Tivoli Systems Inc. Services soon became the fastest growing segment of the company, with growth of more than 20 percent per year. From 1993 to 1996, the market value of the company increased by more than $50 billion. In May 1997, IBM demonstrated Deep Blue, a 32-node IBM RS/6000 computer, programmed to play chess on a world-class level. Deep Blue's calculating power, accessing 200 million chess moves per second, had a wide range of applications, from weather forecasting to financial modeling.

Today, IBM delivers a full range of innovative, integrated, ebusiness solutions to a variety of industries, education, healthcare, and government organizations. The company manufactures over 40,000 products, including desktop and notebook computers, workstations, servers, software, and networks.

IBM's ecommerce services incorporate assessments and strategy workshops for the planning and implementation of specific business solutions. Ecommerce includes web application development, procurement services, knowledge management, custom systems integration, enterprise resource planning, supply chain management, business intelligence, and customer relationship management.

In February of this year, IBM joined Cisco Systems to provide their customers with IBM's host integration software; this software facilitates web access to applications and data that reside on host computers. In April, S1 Corporation and IBM announced an alliance to deliver ebusiness solutions to financial institutions that offer Internet based corporate banking. The S1 Corporate Suite on the IBM platform enables banks to offer their clients a wide range of online cash and asset management services.

June was another busy month for the company. IBM, Siebel Systems, Intentia International, and Mercury Systems aligned to develop and market a comprehensive set of integrated ebusiness airline applications. Also, IBM and nine other companies created e2open.com, a global business-to-business electronic marketplace for the computer, electronics, and telecommunications industries. The nine other companies are Hitachi, LG Electronics, Matsushita Electronic, Nortel Networks, Seagate Technology, Solectron, Toshiba, Ariba and i2. e2open.com's electronic marketplace allows thousands of companies to plan, manage, and execute supply-chain transactions over the Internet.

IBM's revenues increased by only 7% in 1999, to $87.5 billion, from $81.7 billion in 1998. However, net income rose 22%, to $7.7 billion, and earnings per share increased by $0.87, to $4.25 in 1999. It was a record year for net income and earnings, and ebusiness services' revenues grew an extraordinary 60% from a year ago. Moreover, IBM generated strong cash flows and completed 17 acquisitions.

The company's capital structure resembles that of an old-line industrial company: debt was close to 60% of capital in 1998 and 1999, and the long-term debt to equity ratio was close to 80% in 1998 and 70% in 1999. IBM receives top marks from the credit ratings agencies, so the company can clearly handle the debt. Times interest earned, a measure of solvency, increased from 12.9 in 1998 to 16.4 in 1999. At the operating level, inventory turnover, an indication of a firm's inventory management efficiency, increased from 9.8 in 1998 to 11.1 in 1999. Days to turn over inventory decreased from 37.4 in 1998 to 33.0 in 1999. This means that inventories were being converted to receivables at a faster rate in 1999 than in 1998.

First quarter 2000 results were impacted by continued Y2K-related activity at a number of IBM's larger customers, and by steps the company took to reposition some of its businesses. Revenues declined 5% from the year ago quarter, to $19.3 billion, but net income rose by 3%. Still, IBM continues to move forward with confidence. In April, the Board of Directors increased IBM's dividend 8%, and authorized up to $3.5 billion in additional funding for the company's share buyback program.