

International Business Machines Corporation

NYSE: IBM | IT Services, Software and Infrastructure | Equity Research Update | 3 September 2026

Price (2 Sep 2026 close)	\$231.70 (+0.13%)	Recommendation	WATCHLIST (unchanged)
Change since 10 Aug report	-2.4%	Investment score	64 / 100 (was 64.6)
Market capitalisation	\$218.29bn	Weighted fair value	\$246.00 (+6.2%)
Enterprise value	\$275.43bn	Consensus target	\$245.35 (25 analysts)
52-week range	\$199.19 - \$332.46	Dividend yield	2.92% (\$6.76)
Forward P/E	18.1x (was 18.5x)	Next catalyst	Q3 results, 21 October 2026

Valuation is struck on the 2 September 2026 closing price of \$231.70 (Alpha Vantage GLOBAL_QUOTE, confirmed by StockAnalysis.com). The most recent results are the second quarter reported on 22 July 2026. No trade plan is published, because this is not a Buy call and publishing entry and stop levels beside a Watchlist rating invites readers to act on it. Figures described as this report's calculation are derived rather than company-reported.

Investment Summary

The August report set out four specific conditions that would move IBM to Buy and four that would move it to Hold or Avoid. Three weeks later none of the eight has been met, and the price has moved 2.4% lower, from \$237.28 to \$231.70. On the arithmetic alone this update would be short. What makes it worth writing is that the character of the story has changed even though none of the tests has resolved: for most of August the market stopped debating IBM's deal pipeline and started debating its quantum computing franchise instead.

The specific developments are these. IBM completed its acquisition of HRL Laboratories on 26 August, a deal aimed squarely at quantum hardware. On 25 August a US Treasury quantum initiative put IBM alongside Microsoft and Alphabet in the frame. On 26 August BTIG published a sceptical note on an IBM quantum milestone and the shares fell 1.86% that session. On 31 August Barron's asked directly whether quantum computing can save the stock. Susquehanna raised its target to \$235 from \$225 the same day while keeping a Neutral rating, which is a fair summary of where the sell side sits: the consensus target has crept from \$244.16 to \$245.35 across 25 analysts, some 5.9% above the market.

None of that changes the investment case, and it is important to be clear about why. Quantum is optionality with no revenue attached to it in any guided period. It does not answer the question the August report identified as decisive, which is whether the two-thirds of deferred deals management said would close over six months actually close, and whether transaction processing improves sequentially. That question has a date on it: 21 October. Nothing between now and then is likely to settle it.

Two findings from re-examining the accounts do deserve to be recorded. The first is that trailing earnings are flattered by tax to an unusual degree. IBM reported \$10.44bn of pretax income over the trailing twelve months and \$10.73bn of net income, because the income tax line was a benefit of \$265m rather than a charge. Net income exceeding pretax income is not a sustainable arrangement, and normalising to a 15% rate would put trailing earnings per share nearer \$9.32 than the reported \$11.27, and the trailing multiple at roughly 24.9x rather than 20.6x. That calculation is this report's own. The second is more encouraging: free cash flow of \$13.79bn covers the \$6.76 dividend comfortably at a 60% payout, the free cash flow yield is 6.32%, and return on invested capital of 13.96% sits at roughly twice the 6.81% estimated cost of capital. The cash generation is real even where the tax-assisted earnings figure is not.

The rating stays at Watchlist, and unlike the last two updates the reasoning behind it has not changed either. At \$231.70 the probability-weighted fair value of \$246.00 implies 6.2% upside against 4.7% in August. That is a marginally better proposition and still not one worth publishing a trade plan around, particularly with the ten-year Treasury yield at 4.79% against a 2.92% dividend yield.

Testing the Conditions the Last Report Set

A Watchlist rating is only useful if it names what would end it. The August report did, in eight rows. This is the audit.

Condition set on 10 August	Status	Evidence
Toward Buy: a pullback into the \$210-\$220 band with the thesis intact	Not met	Price \$231.70, some 5.3% above the top of that band. The low since was \$227.40 on 17 August
Toward Buy: 21 October confirming deal closures and software at the high end of 6-8%	Pending	The catalyst is seven weeks out and is the single most informative event available
Toward Buy: transaction processing improving sequentially	Pending	Reports with Q3. This is the line that broke and the one the CFO staked 2027 growth on
Toward Buy: sustained reclaim of the 100-day average on above-average volume	Not met	100-day now \$246.95; price sits 6.2% below it and below the 20-day as well
Toward Avoid: the remaining two-thirds of deferred deals failing to close	Pending	Reports with Q3. No interim disclosure either way
Toward Avoid: a second cut to software guidance	Not met	No guidance revision since 22 July
Toward Avoid: free cash flow undershooting the back-half skew	Pending	Trailing free cash flow of \$13.79bn is consistent with the roughly \$15.7bn full-year path
Toward Avoid: an investigation becoming a filed class action, or a break below \$199.19	Not met	Law-firm investigations continue without a filed complaint. The July low has not been retested

Four conditions cannot yet be tested and four have not been met. A rating that survives its own tests unchanged is a weaker statement than one that passes them, but it is the accurate one.

What Has Changed

Measure	10 Aug 2026	2 Sep 2026	Read
Share price	\$237.28	\$231.70	-2.4%; range-bound between \$227 and \$242
Forward P/E	18.5x	18.1x	Marginally cheaper on a modestly higher estimate
Consensus target	\$244.16	\$245.35	Susquehanna to \$235 from \$225, still Neutral
Consensus upside	2.9%	5.9%	Better, and still thin for a 4-5% growth business
Weighted fair value	\$248.50	\$246.00	Implied return improves from 4.7% to 6.2%
20-day average	Price above it	\$234.37, price below	One of the two reasons technicals were raised in August
100-day average	\$248.59	\$246.95	Recomputed; the reclaim trigger remains unfired
Short interest	33.09M shares	22.05M shares	Down 33% in a month; the bears covered into the recovery
Quantum newsflow	Absent	HRL closed 26 Aug	New narrative, no revenue in any guided period
10-year Treasury yield	~4.60%	4.79-4.81%	Competes directly with a 2.92% dividend yield

Financial Position

IBM's accounts have not been updated since 22 July, so the point of revisiting them in a refresh is to look harder rather than to look again. Two things stand out on a second pass, and they point in opposite directions.

Earnings quality is weaker than the headline multiple suggests. Over the trailing twelve months IBM recorded a \$265m income tax benefit rather than a charge, so net income of \$10.73bn exceeded pretax income of \$10.44bn. Reported earnings per share of \$11.27 therefore contains a component that will not repeat. Applying a 15% effective rate to the

same pretax income gives roughly \$8.87bn of net income and earnings per share nearer \$9.32, which puts the trailing multiple at about 24.9x rather than the 20.6x that screens will show. At a 21% rate it is 26.7x. These are this report's calculations and are not company measures, but they matter for anyone comparing IBM's trailing multiple against a peer group taxed normally.

Cash generation is the offsetting strength and it is not tax-assisted. Operating cash flow of \$14.89bn against capital expenditure of only \$1.10bn produced \$13.79bn of free cash flow, a 19.96% free cash flow margin and a 6.32% free cash flow yield on the current market capitalisation. The \$6.76 dividend costs roughly 60% of earnings and rather less of free cash flow, and it has now been raised for 30 consecutive years. Return on invested capital of 13.96% against an estimated 6.81% cost of capital means IBM is creating value on the capital it employs, which is the opposite of what the trailing earnings multiple would lead a reader to assume.

The balance sheet remains the least attractive part of the picture and has become slightly more relevant as rates have risen. Total debt of \$65.27bn against \$8.13bn of cash leaves net debt of \$57.14bn, or \$60.65 per share, at 3.67x EBITDA with interest cover of 6.61x and a current ratio of 0.79. None of that is alarming for a business with this cash flow, but refinancing at 2026 yields rather than the yields at which the stock was issued is a slow, real drag on the free cash flow that supports the dividend.

Metric (trailing twelve months)	Value	Interpretation
Revenue	\$69.10bn	Guided to 4-5% constant-currency growth for the full year
Gross margin	58.10%	Operating margin 18.47%; margin expansion survived the revenue cut
Pretax income	\$10.44bn	The clean measure of operating profitability
Income tax	-\$265m (a benefit)	Net income exceeds pretax income; will not repeat
Reported EPS	\$11.27	Normalised at 15% tax gives about \$9.32 (this report's calculation)
Free cash flow	\$13.79bn	\$14.64 per share; 6.32% yield; the number that carries the dividend
Dividend	\$6.76 (2.92%)	60% payout, 30 consecutive years of growth
Net debt	\$57.14bn	3.67x EBITDA, interest cover 6.61x, current ratio 0.79
ROIC / WACC	13.96% / 6.81%	Creating value on employed capital, unlike the multiple implies
Beta	0.71	A genuinely defensive holding; 52-week price change -4.84%
Altman Z / Piotroski F	3.4 / 6	Solvency adequate, quality middling

Source: S&P Global Market Intelligence via StockAnalysis.com, as of 3 September 2026.

Valuation

IBM is best valued on free cash flow and on the dividend, because both are large, stable and uncontaminated by the tax effect described above. On that basis the shares change hands at 15.83x free cash flow and 19.97x free cash flow on an enterprise basis, the difference between the two being the debt load. Neither is demanding. Neither is cheap enough to compel action in a business whose revenue is guided to grow 4-5% and whose three-year consensus earnings growth forecast is 7.35%, which gives a PEG of 2.68.

Method	10 Aug	2 Sep	Comment
Forward P/E	18.5x	18.1x	Against 7.35% forecast EPS growth; PEG 2.68
Trailing P/E as reported	21.1x	20.6x	Flattered by the tax benefit
Trailing P/E normalised	n/a	24.9x	At a 15% tax rate; this report's calculation
Price / free cash flow	16.2x	15.83x	The cleanest multiple for this business

Method	10 Aug	2 Sep	Comment
EV / EBITDA	17.1x	16.72x	EV inflated by \$57.14bn of net debt
Dividend yield	2.85%	2.92%	Against a 4.79% ten-year Treasury yield
Consensus target	\$244.16	\$245.35	25 analysts, range \$174 to \$350

The macro variables that matter here

IBM's macro sensitivity runs almost entirely through the long end of the Treasury curve, and for two reasons that are worth separating. The first is competitive: a large part of IBM's shareholder base owns it for the dividend, and at a 2.92% yield the stock is offering 1.87 percentage points less than a risk-free ten-year note now yielding 4.79%, its highest since November 2023. With futures placing better-than-even odds on a quarter-point increase at the 15-16 September meeting, that gap is more likely to widen than to close in the near term. The second is mechanical: \$65.27bn of debt refinances into prevailing yields over time, and each maturity that rolls at a higher coupon takes a small permanent bite out of the free cash flow that funds the dividend.

Demand-side macro matters much less than for most technology holdings. IBM's revenue comes largely from enterprise contracts and recurring software, not from consumer spending, and the deferrals that caused the July warning were attributed to capital reallocation toward artificial intelligence rather than to any weakening in the economy. Retail sales and consumer confidence are not analysed here for that reason.

Sentiment and Positioning

Indicator	Reading	Interpretation
Consensus rating	Buy, 25 analysts	Target \$245.35, 5.9% above the market
Most recent action	Susquehanna, Neutral, \$235	31 Aug; raised from \$225 without changing the rating
Target dispersion	\$174 to \$350	The widest in this coverage; the deferral question is unresolved
Short interest	22.05M, 2.34% of shares	Down from 33.09M a month earlier; 1.75 days to cover
Insider activity	Officer sold \$5.76m	Form 144 filed 26 Aug, sale reported 28 Aug
Institutional ownership	66.06%	Insiders hold 0.09%
Securities investigations	Ongoing, none filed	Four firms since late July; no complaint has been filed
moomoo news feed	Quantum-dominated	HRL close, Treasury initiative, BTIG scepticism, Barron's feature
moomoo digest	Mixed	Corporate action positive, analyst tone neutral, insider signal negative

The insider line is the one that has changed and it cuts against the 20 August report of insider buying. A single officer sale of \$5.76m is not by itself a signal, since scheduled disposals are routine at this size, but noting it and letting the reader weigh it is better than omitting it.

Technical Position

The August report raised its technical score to 6 on three observations: RSI had normalised to 49.8, price sat above both the 20-day average and the 20-day exponential average, and the MACD histogram was positive. Two of those three have since reversed. Price at \$231.70 is below the 20-day simple average of \$234.37 and below the 20-day exponential average of \$233.80, while the MACD histogram remains marginally positive at +0.44. The stock has spent three weeks oscillating in a \$227 to \$242 range with no directional resolution, which is what a market waiting for a dated catalyst looks like.

Indicator	Reading	Interpretation
Close (2 Sep 2026)	\$231.70	Mid-range; 16.4% above the July low, 30.3% below the June high
SMA 20 / EMA 20	\$234.37 / \$233.80	Both lost since the last report
SMA 50	\$242.38	4.6% overhead
SMA 100	\$246.95	The reclaim level named in August; 6.2% overhead
SMA 200	\$262.99	11.9% overhead; the June collapse still dominates the long average
RSI (14)	46.9	Neutral. No oversold condition to buy and no overbought one to fade
MACD (12,26,9)	-1.28, signal -1.73	Histogram +0.44; still positive but flattening
ATR (14)	\$6.75 (2.9% of price)	Quiet. One-third of Coherent's relative daily range
Range, last 20 sessions	\$227.40 - \$241.80	A 6% band, unbroken in either direction
Support / resistance	\$199-\$212 / \$248-\$259	Unchanged from August; neither has been approached
Volume, 20d vs 50d	4.90M vs 9.18M	Turnover has halved; interest has drained away since July

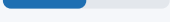
Indicators other than the 200-day average were computed in code from raw daily OHLCV through the 2 September close; the series runs 100 sessions, so the 200-day figure is taken from S&P Global via StockAnalysis.com, whose 50-day value matches the computed one exactly.

Risks

Risk	Probability	Severity	Assessment
Deferred deals do not return	Medium	High	The central question. Management said two-thirds to three-quarters would close over six months and invited the test. It reports on 21 October
Transaction processing keeps declining	Medium	High	The specific line that broke, and the one the CFO tied 2027 growth to. A structural decline would reset estimates rather than delay them
Securities litigation escalates	Low-medium	Medium	Four firms investigating since late July with no complaint filed. The base rate for these amounting to nothing is high, but the overhang is live
Rising yields compress the dividend case	Medium-high	Medium	2.92% against a 4.79% ten-year. A September hike is better than even. This pressures the multiple without touching the business
Refinancing cost on \$65.27bn of debt	Certain, gradual	Low-medium	3.67x EBITDA with 6.61x cover. Not a solvency issue; a slow drag on the free cash flow behind the dividend
Quantum optionality is priced before it is earned	Medium	Low-medium	BTIG has already disputed one milestone. Quantum carries no revenue in any guided period and should carry no valuation either
Consulting stays soft	Medium	Medium	Signings were up 6% but the business remains the most cyclical part of the mix

Scorecard

Factor	Score	Rationale and change since 10 August
Business Quality weight 14%	7/10	Unchanged. Two wide moats and two adequate ones; nothing since August has tested them

Factor	Score	Rationale and change since 10 August	
Financial Strength weight 14%		8/10	Unchanged. Free cash flow of \$13.79bn and a covered dividend outweigh the tax-flattered earnings line
Competitive Advantage weight 14%		7/10	Unchanged. HRL adds quantum capability; BTIG disputes the milestone. Too early to score either way
Management weight 10%		6/10	Unchanged. No new execution evidence. A \$5.76m officer sale is noted but not weighted heavily
Growth Potential weight 14%		6/10	Unchanged. Guidance is 4-5% constant currency and quantum carries no revenue in any guided period
Valuation weight 18%		6/10	Unchanged. 18.5x to 18.1x forward is offset by the finding that trailing earnings are tax-assisted
Risk (10 = lowest risk) weight 10%		5/10	Unchanged. Litigation overhang persists without escalating; short interest fell; rate risk rose
Technical Setup weight 6%		5/10	Cut from 6. Price lost the 20-day average and the 20-day EMA, two of the three reasons for August's upgrade
Investment Score	64 / 100	Weighted sum of the eight factors, computed in code. The August report scored 64.6 on this basis once its Risk factor is restated; the difference is one point of technical decay	

Scored 1-10, where 10 is always best, including Risk. A Risk score of 5 therefore denotes a moderately risky business, consistent with the risk table above. An important comparability note: the August report scored Risk on the opposite scale, where 10 denoted the highest risk, and awarded 6. Restated onto this scale that is 5, which is the figure used for every comparison in this report. Reporting it as a change from 6 to 5 would have invented a deterioration that did not occur. Weights: Valuation 18, Business Quality 14, Financial Strength 14, Competitive Advantage 14, Growth Potential 14, Management 10, Risk 10, Technical Setup 6.

Recommendation: WATCHLIST

The rating is unchanged and, for the first time across three reports on this name, so is the reasoning. In July the call was to wait eight days for results. In August it was that the recovery had already collected the reward for those results. Today it is simply that the position has not moved: the shares are 2.4% lower, the weighted fair value implies 6.2% upside against 4.7%, and the question that decides the rating has a date on it seven weeks out.

This is not an upgrade because 6.2% of implied upside is not compensation for an unresolved structural question, and because the entry the August report wanted, a pullback into \$210-\$220, never arrived. The shares bottomed at \$227.40 on 17 August and have held a narrow range since. Buying at \$231.70 would mean placing a stop below the \$199-\$212 support band for a first target near \$248, which remains close to a one-to-one proposition before the litigation overhang is counted.

It is not a downgrade because nothing has deteriorated. Free cash flow covers the dividend with room, return on invested capital is double the cost of capital, short interest has fallen by a third, the consensus target has edged higher, and no guidance has been revised. The quantum acquisition is a genuine addition to the long-term option set even if it deserves no place in a valuation today. An Avoid rating would require believing the deferral story is false, and no evidence for that has emerged.

What would change the view

Condition	Consequence
The 21 October report confirming deferred deals closed and software tracking to the high end	Upgrade to Buy if the price has not already run. This is the cleanest confirmation available
A pullback into the \$210-\$220 band with the thesis intact	Upgrade to Buy. The same business at roughly 16x forward is a different proposition from 18.1x

Condition	Consequence
Transaction processing showing sequential improvement	Upgrade. It is the line that broke and the one management staked 2027 growth on
The 21 October report showing the remaining deferred deals did not close	Downgrade to Avoid. The timing story becomes a demand story
A second cut to software guidance	Downgrade. It would make the July warning the first data point rather than the whole event
An investigation converting into a filed class action with specific credible allegations	Downgrade, or a decisive break below \$199.19 on volume
A sustained rise in long yields alongside a hawkish September FOMC	No rating change, but it lowers the fair-value range. A discount-rate effect is not a business effect

No entry, stop or target levels are published, because this is not a Buy call. The levels that matter for monitoring are the \$199-\$212 support band, the \$227-\$242 range that has contained the last three weeks, and the \$246.95 hundred-day average overhead.

Scenario Analysis

Case	Prob.	Fair value	Outline
Bull	30%	\$285 (+23.0%)	Two-thirds to three-quarters of deferred deals close as guided, software reaches the high end of 6-8% with the second half near double digits, transaction processing turns during 2027, and the multiple re-rates toward 21x forward. Quantum contributes narrative rather than revenue
Base	50%	\$243 (+4.9%)	Guidance is delivered roughly as given. Deals close at the slower end, software lands mid-range, consulting stays soft, and the forward multiple holds near 18x. Trimmed slightly from \$245 to reflect that trailing earnings are tax-assisted and that the risk-free rate has risen
Bear	20%	\$195 (-15.8%)	The remaining deals do not return, the reallocation of enterprise budgets toward artificial intelligence proves durable rather than a timing effect, software guidance is cut again in October, litigation escalates, and the multiple compresses toward 15x

Probabilities sum to 100%. The probability-weighted fair value of \$246.00 was computed in code from the inputs shown and implies 6.2% upside from \$231.70, against \$248.50 and 4.7% in August. The bull case has been trimmed from \$290 to \$285 and the base case from \$245 to \$243, both for the same reason: a higher risk-free rate lowers what any given stream of earnings is worth, and nothing in the interim improved the earnings. The distribution remains close to symmetric, roughly 23% of upside against 16% of downside, which is the arithmetic definition of a name to watch rather than to buy.

Final Verdict

Would this be worth an allocation of one's own money today? No, and for a duller reason than at any point in the last two months: nothing has happened.

IBM is a good business trading at a fair price with one important question outstanding. The business generates \$13.79bn of free cash flow on \$69.10bn of revenue, earns roughly twice its cost of capital on the capital it employs, has raised its dividend for thirty consecutive years, and covers that dividend at a 60% payout. Those are the characteristics of something worth owning at the right price. The forward multiple of 18.1x against 4-5% revenue growth and 7.35% forecast earnings growth is not obviously the wrong price, but nor is it the right one when a risk-free ten-year note pays 4.79% and the equity yields 2.92%.

The question outstanding is the same one it has been since 14 July. Management said the deals that slipped would largely close within six months and that transaction processing would recover. A third had closed by the July call. The rest report on 21 October. Until then an investor is being asked either to trust that account at a full multiple or to wait, and waiting costs a 2.92% yield against a stock that has traded in a 6% band for three weeks. That is a cheap wait.

One caution about the interim. The market has spent August discussing IBM's quantum computing franchise, an acquisition it has completed and a Treasury initiative it may benefit from, and it would be easy to let that stand in for progress. It should not. Quantum carries no revenue in any period management has guided to, one milestone has already drawn public scepticism from BTIG, and a narrative that arrives while the operating question stays open is a reason for more caution rather than less. Watch the transaction processing line on 21 October. Everything else is commentary until then.

Scope and sources. This report was prepared on 3 September 2026 as a scheduled update to coverage last published on 10 August 2026. It follows no new company disclosure; the most recent results are the second quarter reported on 22 July 2026, and their treatment here is deliberately brief because that quarter was covered in the previous report. Valuation is struck on the 2 September 2026 closing price of \$231.70, taken from Alpha Vantage and confirmed against StockAnalysis.com. Fundamental statistics are from S&P Global Market Intelligence via StockAnalysis.com as of 3 September 2026. Technical indicators other than the 200-day average were computed in code from raw daily OHLCV through the 2 September close. News, corporate actions and analyst activity were sourced from the moomoo news and research feeds and cross-checked against primary reporting. Macroeconomic figures are as reported through 2 September 2026. No earnings call transcript was sought for this update, as no call has taken place since the one reviewed for the previous report; the next is scheduled for 21 October 2026. Figures described as this report's calculation are derived, not company-reported. Nothing here is a recommendation to any particular person; it is informational only and not financial advice.