IBM

IBM's growth fell from 9% to 1%; the Q3 print tests the guide.

Q2 2026 revenue rose 1.1% to $17.2B after 9%, 12% and 9% in the prior three quarters. Software and mainframe fell short, the full-year growth guide was cut, and results for Q3 are due on 21 October.

+1.1% CALCULATED

Q2 2026 revenue growth: $17.16B vs $16.98B (growth calculated from reported revenue).

Watchlist: the Q3 print on 21 October shows whether the Q2 shortfall was timing (slipped deals, pulled-forward hardware) or something more lasting.

Core question

After a Q2 miss in Software and mainframe, can IBM get back to 4% to 5% growth while digesting an $11.6B acquisition?

Revenue

Q2 revenue $17.16B, +1.1%; Software +5.1%, Consulting +0.2%, Infrastructure -7.4% (calculated). Calendar fiscal year.

Margin

Gross margin 57.7% vs 58.8%; pre-tax margin 14.4% vs 15.3%; Software segment margin up to 32.2% (calculated).

Cash

Free cash flow $4.8B in H1, flat; the full-year target of about +$1B needs about $10.9B in H2 (calculated).

Risk

Debt $62.0B (incl. $13.0B IBM Financing) vs $8.2B of cash, restricted cash and securities; goodwill $74.6B is 49% of assets; TTM tax was a benefit, flattering GAAP earnings.

Street

Targets span $174 to $297, average $242.65, 3.6% above the 15 Oct close of $234.12; 11 of 25 analysts are neutral.

PRICE	MARKET CAP	PRICE AS OF	REPORT DATE
$234.12	$220.6B	15 Oct 2026	16 Oct 2026
as of 15 Oct 2026	as of 15 Oct 2026		

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SUMMARY

A cash-rich franchise that just missed where it needed to grow.

Software and Consulting held up but Infrastructure fell 7.4% as the mainframe cycle lapped. Guidance came down while the cash flow target stayed.

4% to 5%
FY26 constant-currency growth guide, cut from more than 5%; consensus revenue of $70.39B is +4.2%.

-42%
IBM Z revenue in Q2 as the z17 launch is lapped; Distributed Infrastructure grew 37%.

-$264M
TTM income tax is a benefit (calculated), so trailing GAAP earnings overstate run-rate profit. CALCULATED

What supports the view

- Software revenue $7.76B, +5.1%; Red Hat +11%, Data +19%; Software segment margin 32.2% (calculated).
- IBM says Q2 consulting signings grew 6%; $5.0B, +5.0% and H1 $10.4B (+6.8%) are from the tab, unverified.
- Q2 operating (non-GAAP) EPS $2.93, +5%; H1 operating cash flow $7.8B vs $6.1B.
- Dividend $1.69 a quarter, a 2.9% yield; free cash flow yield 6.3% (S and P).

What could undercut it

- The CEO letter says numerous large deals failed to close on time and drove most of the shortfall.
- Growth guide cut to 4% to 5%; H2 revenue must grow about 3% to 5% (calculated).
- Debt $62.0B (incl. $13.0B IBM Financing) vs $8.2B cash and securities, after $10.5B of H1 acquisitions.
- Gross margin fell 1.0 point to 57.7% and Infrastructure segment margin to 21.8% from 23.3%.

What decides it: Q3 results on 21 October after the close (date per S&P): Software growth, Z and the full-year guide.

Key figures

METRIC	PERIOD	VALUE	SOURCE
Revenue	Q2 2026	**$17.162B**	Q2 2026 release
Gross margin	Q2 2026	**57.7%**	Q2 2026 release
Pre-tax income	Q2 2026	**$2.479B**	Q2 2026 release

Diluted EPS, continuing opsQ2 2026**$2.27**Q2 2026 releaseTTM revenueQ3 25 to Q2 26**$69.096B** CALCULATEDCalculated: four quartersTTM pre-tax incomeQ3 25 to Q2 26**$10.440B** CALCULATEDCalculated: four quarters

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METRIC	PERIOD	VALUE	SOURCE
Debt incl. IBM Financing / cash and securities	30 Jun 2026	**$62.0B / $8.2B**	Q2 2026 release

What to watch

21 OCT 2026

Q3 2026 results (after close)

Date per S&P, shown as confirmed. Watch Software, Z, consulting signings, the FY guide and free cash flow.

LATE JAN 2027

Q4 and FY 2026 results

Quarter timing only; no date sourced.

UNDATED

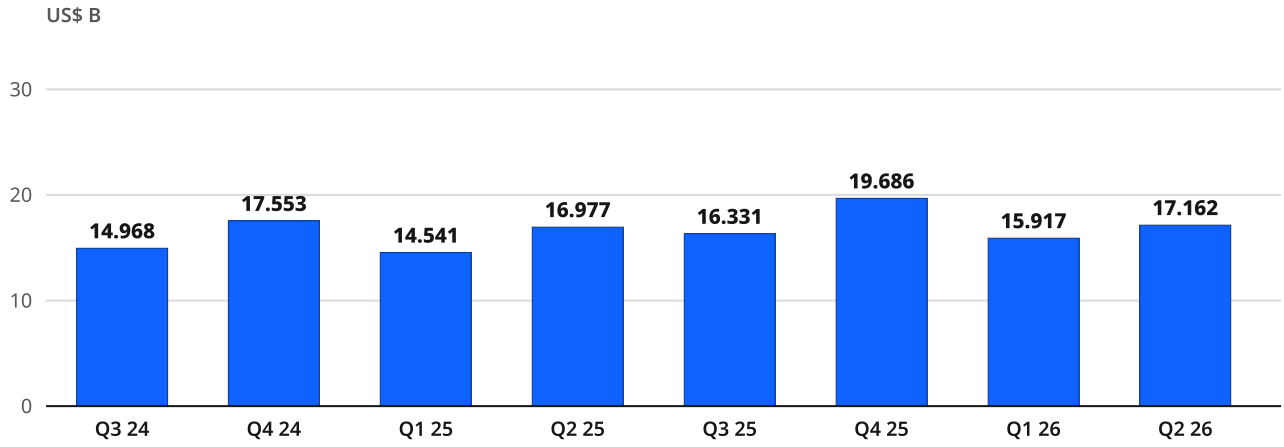
Quantum programme

Anderon letter of intent with the Commerce Department; over $10B of quantum investment planned; no dated milestone sourced.

EVIDENCE 1 · REVENUE AND MARGINS

Revenue growth stalled at 1.1% and gross margin slipped a point.

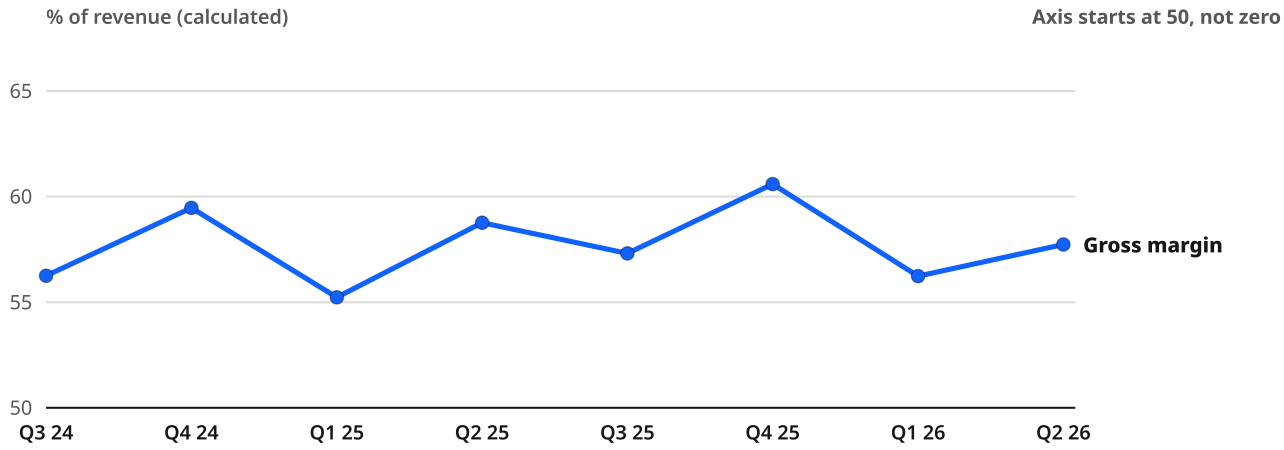
Q2 2026 revenue of $17.2B was only 1.1% above a year earlier



Revenue as reported. Q4 is the seasonal peak. IBM reports on a calendar year.
Source: IBM 8-K releases (SEC), Q3 2025 to Q2 2026 and comparatives. Flip tab IBM ends at Q1 2024 and was not used.

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Gross margin moves between 55% and 61% with the seasons



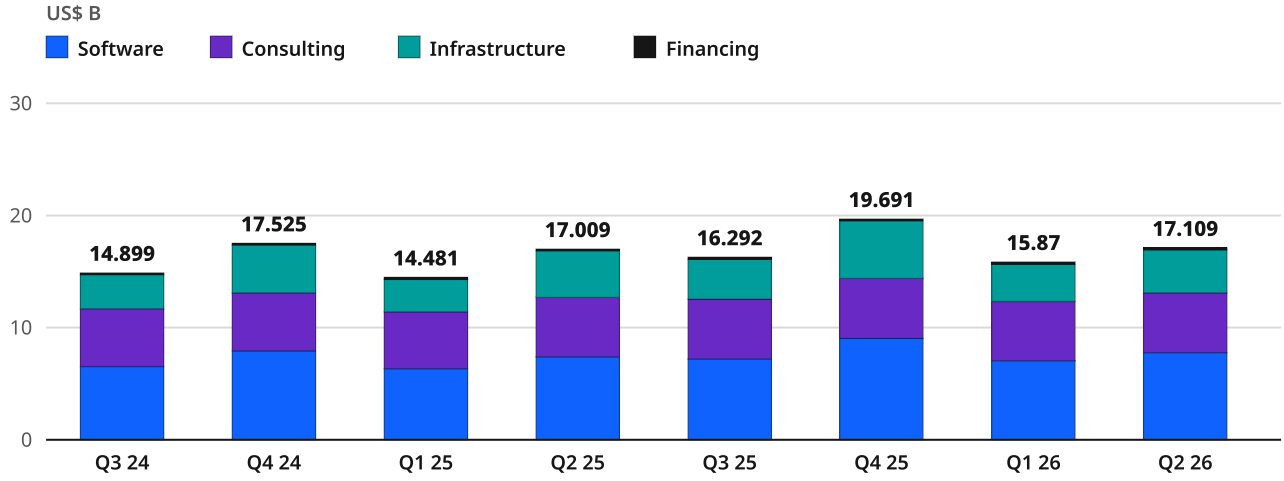
Calculated: gross profit divided by revenue. Axis starts at 50. Q2 2026 reported 57.7% vs 58.8% in Q2 2025.
Source: IBM releases (SEC); margins calculated by the Desk.

Q2 SG&A was $4.98B (-0.9%) and R&D $2.31B (+10.2%); interest expense $486M. Pre-tax income was $2.48B at a 14.4% margin vs 15.3% (reported). Operating (non-GAAP) pre-tax income was $3.29B, a 19.2% margin (reported).

EVIDENCE 2 · SEGMENTS

Software and Consulting grew; Infrastructure fell 7.4% as Z lapped.

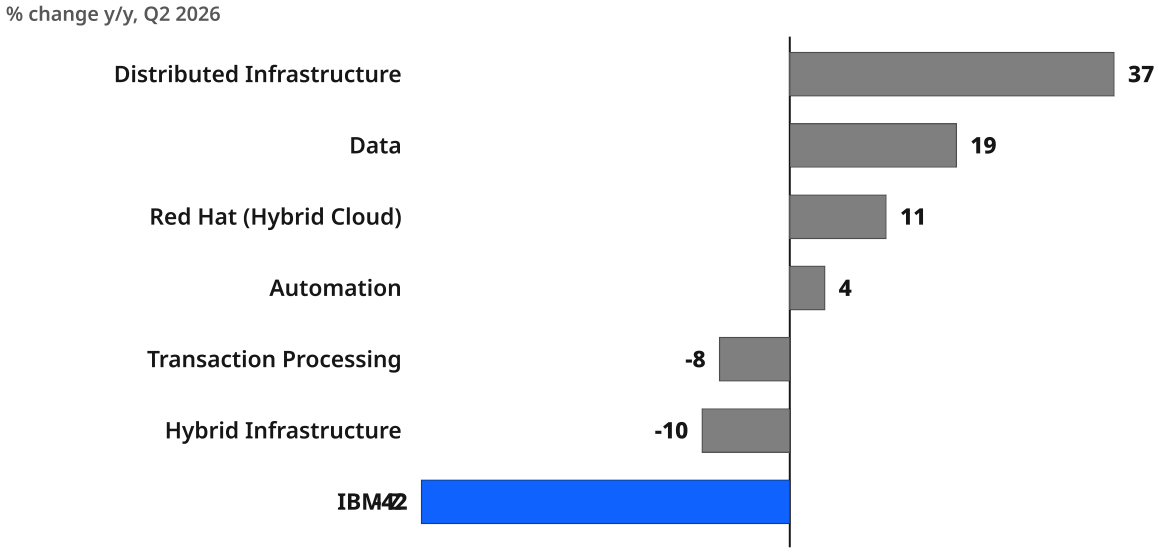
Infrastructure shrank in Q2 while Software reached $7.8B



Segment revenue as reported; excludes the small Other line (Q2 2026: $52M).
Source: IBM releases (SEC), Q3 2025 to Q2 2026 and prior-year comparatives.

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Distributed Infrastructure and Data grew fastest; Z fell 42%



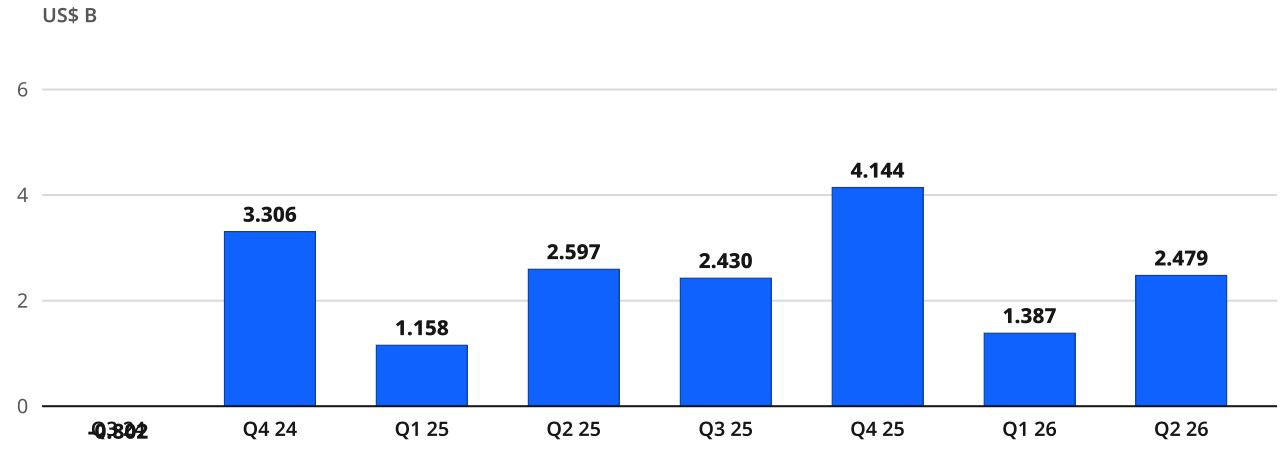
Growth as reported by IBM (Z, Distributed Infrastructure) or calculated from reported lines (Data, Red Hat, Automation, Transaction Processing, Hybrid Infrastructure).
Source: IBM Q2 2026 release and Form 10-Q (SEC).

Segment profit margins in Q2 were Software 32.2% (31.1% a year ago), Consulting 12.1% (10.6%), Infrastructure 21.8% (23.3%) and Financing 58.0% (reported). The CEO letter of 14 July attributes the shortfall mainly to Z and its software stack, a shift of client capex toward servers, storage and memory in late June, and large deals that failed to close on time.

EVIDENCE 3 · EARNINGS QUALITY

A tax benefit and a pension charge distort trailing profit.

Pre-tax income peaks in Q4; Q3 2024 held a $2.7B pension charge



Pre-tax income from continuing operations as reported. Q3 2024 includes a $2.7B pension settlement charge.
Source: IBM releases (SEC); Q3 2025 to Q2 2026 and comparatives.

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QUARTER	PRE-TAX INCOME	INCOME TAX	EFFECTIVE RATE
Q3 2025	**$2,430M**	$686M	28.2%
Q4 2025	**$4,144M**	-$1,435M	-34.6%
Q1 2026	**$1,387M**	$172M	12.4% CALCULATED
Q2 2026	**$2,479M**	$313M	12.6%
TTM	**$10,440M**	-$264M CALCULATED	-2.5% CALCULATED

Q3 2025 carried a one-time non-cash charge from U.S. tax legislation and Q4 2025 a benefit from resolving audit matters (reported). TTM income from continuing operations of $10.7B therefore exceeds pre-tax income; at an illustrative 15% tax rate the TTM P/E would be about 24.9x rather than 20.3x (calculated, illustrative).

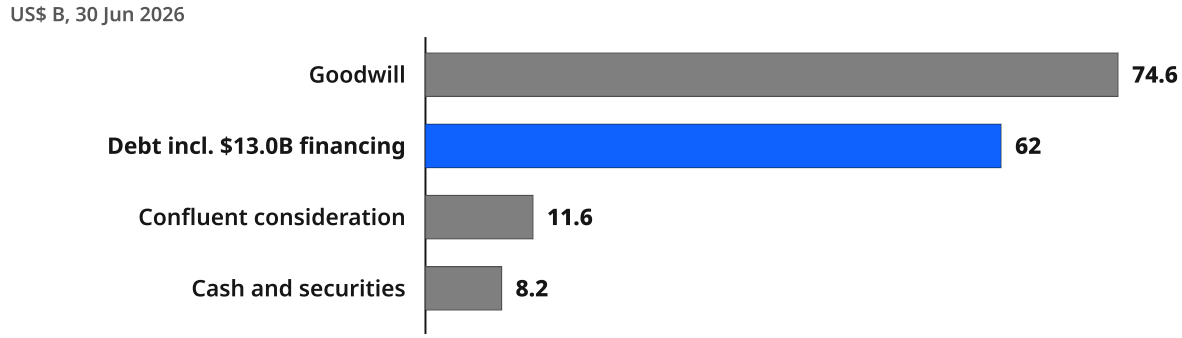
EVIDENCE 4 · CASH AND BALANCE SHEET

Cash flow is solid, but acquisitions pushed debt to $62B.

ITEM	VALUE	BASIS	SOURCE
H1 2026 operating cash flow	**$7.77B vs $6.07B**	Reported	Q2 2026 10-Q
H1 2026 free cash flow	**$4.8B, flat**	Reported	Q2 2026 release
FY26 free cash flow guide	**About +$1B y/y**	Reported	Q2 2026 release

Dividends paid, H1**$3.17B**ReportedQ2 2026 10-QGoodwill**$74.6B (49% of assets)** CALCULATEDReported / calculatedQ2 2026 10-QConfluent consideration**$11.6B**ReportedQ2 2026 10-QNet debt (incl. IBM Financing debt)**about $53.8B** CALCULATEDCalculated$62.0B total debt less $8.2B cash, restricted cash and securities

Goodwill and debt are many times the cash balance



Debt includes $13.0B of IBM Financing debt. Cash includes restricted cash and marketable securities as reported.
Source: IBM Q2 2026 release and Form 10-Q (SEC).

Free cash flow was $2.5B in Q2, $0.3B below a year earlier. Cash and securities fell $6.3B from year-end as IBM spent $10.5B on acquisitions in H1. IBM's FY26 target of about +$1B implies roughly $10.9B in H2 (calculated).

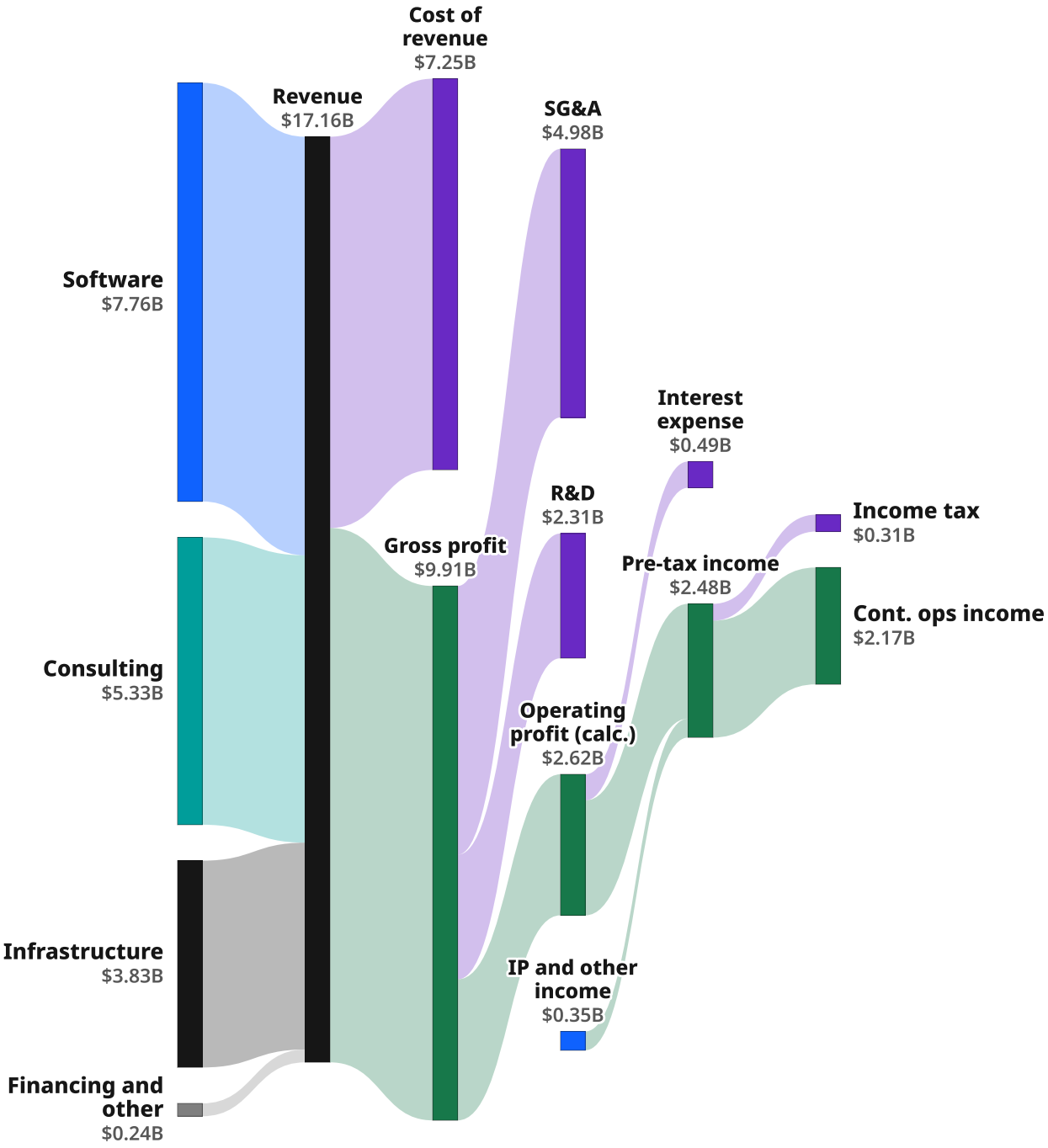
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INCOME STATEMENT FLOW

Of each dollar of Q2 revenue, 14 cents reached pre-tax income.

Q2 2026 income statement

US$ B · quarter ended 30 Jun 2026 · GAAP, continuing ops



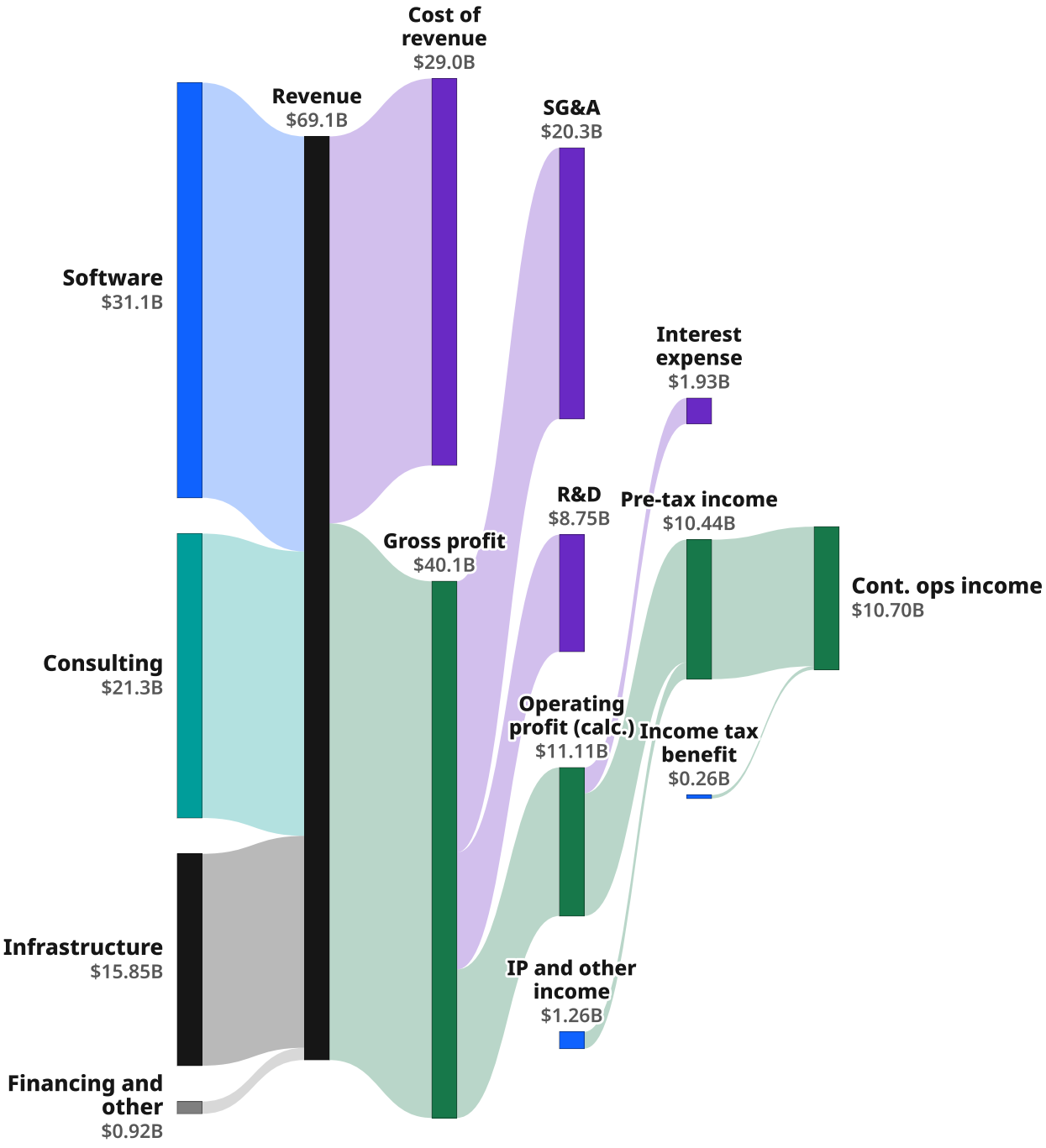
Source: IBM Q2 2026 release (8-K EX-99.1). Financing and other and IP income lines are calculated balancing items.
Chart: desk analysis. Operating profit is gross profit less SG&A and R&D (calculated).

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Over four quarters, a $264M tax benefit lifted income above pre-tax profit.

TTM income statement, Q3 2025 to Q2 2026

US$ B · twelve months to 30 Jun 2026 · GAAP, continuing ops · calculated



Source: IBM releases for Q3 2025 to Q2 2026 (SEC). Sum of four quarters, calculated.
Chart: desk analysis. Operating profit and balancing income lines are calculated.

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RISKS

Five exposures matter most, set against real strengths.

Growth reset

Q2 revenue +1.1% after three quarters of 9% or better; the FY26 guide was cut to 4% to 5% constant currency.

Mainframe cycle

IBM Z fell 42% as z17 was lapped; Transaction Processing software fell 8%; pulled-forward hardware may reverse.

Deal execution

The CEO letter says numerous large deals failed to close on expected timelines and drove most of the shortfall.

Leverage and goodwill

Debt $62.0B (incl. $13.0B IBM Financing) vs $8.2B cash and securities; Confluent $11.6B; goodwill $74.6B is 49% of assets (calculated).

Earnings quality

TTM tax is a $264M benefit; at 15% the TTM P/E would be about 24.9x (calculated, illustrative).

Offsetting strengths

Red Hat +11%, Data +19%, Software margin 32.2%, 6.3% free cash flow yield and a 2.9% dividend yield.

VALUATION

The published Street range runs from $174 to $297 against a $234.12 price.

Only the third-party analyst range is sourced; the Desk has no scenario model. This is not a Desk target.

Street range (third-party)

CASE	STREET TARGET	VERSUS CLOSE	SOURCE
Street low	**$174**	-25.7%	S and P Global MI, 25 analysts
Street average	**$242.65**	+3.6%	S and P Global MI
Street high	**$297**	+26.9%	S and P Global MI

Valuation inputs, 15 Oct 2026

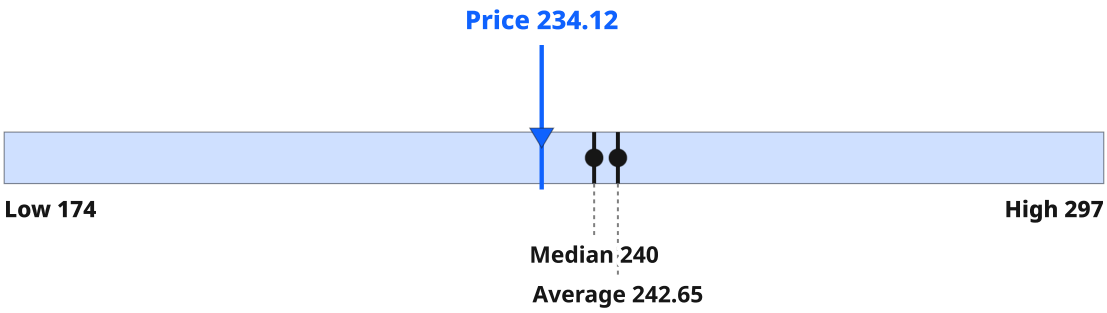
METRIC	BASIS	VALUE	SOURCE
Market capitalisation	Oct 15 close	**$220.6B**	S and P Global MI
Trailing P/E	TTM GAAP	**20.3x**	S and P Global MI
Forward P/E	S and P	**17.9x**	S and P Global MI

P/E on FY26 EPS $12.31Consensus, non-GAAP**19.0x** CALCULATEDCalculated: $234.12 / $12.31EV/EBITDATTM**16.8x**S and P Global MIFree cash flow yieldTTM**6.3%**S and P Global MIDividend yield$6.76 annual**2.9%**S and P Global MI

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The price sits in the lower half of the published range

US$ per share



Third-party analyst targets as polled by S and P Global; not a Desk view.
Source: stockanalysis.com forecast page, 15 Oct 2026.

CATALYSTS

One dated event: Q3 results on 21 October, five days away.

21 OCT 2026 · KEY DATE

Q3 2026 results (after close)

Date per S&P. Watch Software growth, Z and Infrastructure, consulting signings, the 4% to 5% guide and free cash flow; consensus FY26 revenue is $70.39B.

LATE JAN 2027

Q4 and FY 2026 results

Quarter timing only; no date sourced.

UNDATED

Quantum and Confluent milestones

Anderon letter of intent; Confluent integration and debt paydown; no dated events sourced.

METHOD AND DATA QUALITY

How the numbers were checked

Tags: OK confirmed against the source, FIX corrected, PART partly supported, UNV not verified.

CLAIM	RESULT	NOTE
Q2 2026 income statement, segments, cash flow, debt and goodwill	OK	Read from the release and 10-Q; quarterly history from the five releases.
Flip tab IBM is current	FIX	Ends at Q1 2024; nine quarters (Q2 2024 to Q2 2026) are missing, so no tab data was used.
Flip tab IBM history 2021 to 2024	FIX	Duplicated columns (22Q2, 22Q4, 23Q1), blank 22Q3 with #DIV/0!, mislabelled interest and operating income rows.
TTM revenue, gross profit and pre-tax income	OK	Sum of four quarters matches S and P ($69.10B, $40.14B, $10.44B); labelled calculated.

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CLAIM	RESULT	NOTE
Sankey balancing lines: Financing and other, IP and other income	PART	Revenue less three segments; $1M to $2M rounding against reported lines; labelled calculated.
Illustrative P/E of 24.9x at a 15% tax rate	PART	Illustration only; uses the Q2 2026 non-GAAP effective rate as a proxy.
Q3 2026 report date of 21 Oct 2026	UNV	From S and P, shown as confirmed; not checked on IBM investor relations.
Debt $62.0B and cash $8.2B composition	OK	Release: debt incl. $13.0B IBM Financing; $8.2B is cash, restricted cash and marketable securities.

Consulting signings $5.0B and +5.0% UNV IBM prepared remarks say signings grew 6%; the dollar figure was not found in sources checked.

Not sourced or not determinable

- Q3 2026 guidance and the free cash flow bridge to the +$1B target (given on the call).
- Legal, pension and regulatory exposures (not reviewed in depth).
- IBM-defined TTM free cash flow (about $14.7B calculated from rounded quarters; S and P shows $13.79B).
- Share of Q2 shortfall caused by each factor named in the CEO letter.

SOURCES & DISCLOSURE

Principal sources

1. **IBM Q2 2026 earnings release (8-K EX-99.1)**
   sec.gov/Archives/edgar/data/51143/000005114326000077/ibm-20260722xex991.htm
2. **IBM Q2 2026 release: debt incl. $13.0B IBM Financing; $8.2B cash, restricted cash and marketable securities; operating EPS $2.93**
   newsroom.ibm.com/2026-07-22-IBM-RELEASES-SECOND-QUARTER-RESULTS
3. **IBM CEO letter and preliminary Q2 2026 results, 14 Jul 2026 (8-K)**
   sec.gov/Archives/edgar/data/51143/000005114326000070/ibm-20260714xex991.htm
4. **IBM Form 10-Q, quarter ended 30 Jun 2026**
   sec.gov/Archives/edgar/data/51143/000005114326000078/ibm-20260630.htm
5. **IBM Q1 2026 release (8-K EX-99.1)**
   sec.gov/Archives/edgar/data/51143/000005114326000036/ibm-20260422xex991.htm
6. **IBM Q4 and Q3 2025 releases (8-K EX-99.1)**
   sec.gov/Archives/edgar/data/51143/000005114326000004/ibm-20260128xex991.htm
7. **Valuation statistics, S and P Global MI via stockanalysis.com, 15 Oct 2026** (secondary)
   stockanalysis.com/stocks/ibm/statistics/
8. **Analyst targets and estimates, S and P Global MI / TipRanks via stockanalysis.com** (secondary)
   stockanalysis.com/stocks/ibm/forecast/
9. **Flip sheet, tab IBM (read-only; ends at Q1 2024, not used)** (secondary)
   docs.google.com/spreadsheets/d/1m3h9Xce3SRMaq20li2Qg4HuSZowwxQSd9FkQmeuI7Dw (Flip sheet, read-only)

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