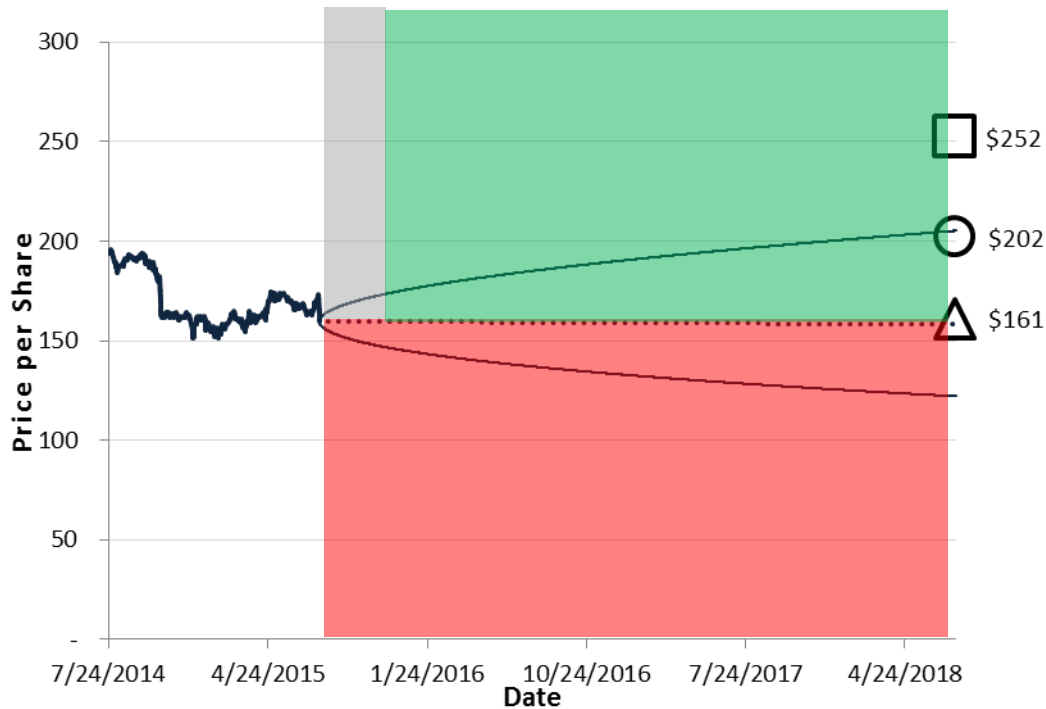


B / S	P / C / S	Strike	Exp.	Premium
Buy	Stock	-	-	\$ 160.40
Sell	Call	160.00	OCT '15	\$5.00

IOI Tear Sheet : IBM (IBM)

"Bond Replacement" Covered Call Position

Data as of 22 July, 2015



IOI's Take

IBM dropped after reporting earnings on July 20. A lot of things have to go right for IBM to generate operational performance implied by our best-case valuation, but considering its stable of long-term clients and competitive products, it is hard to imagine operational performance worse than our worst-case scenario. About 4% yield on a 3-month investment – better than a bond! We need to do more work to figure out if upside is credible too.

Drivers

Revenues	Consulting, security, and, more recently Cloud and AI are all businesses that are growing due to corporate demand.
Profitability	Profitability is improving as IBM sheds its system x server business and the proportion of its revenues from higher margin products and services increases.
Investment Level / Eff.	IBM is investing in the right areas. Whether these investments will work out or not is.
Balance Sheet	None found in our research to date.

Valuation & Return

IOI Conviction Rating: High

	Low	Likely	High
Stock Fair Value (\$)	161	202	252
Stock Return (%)	0	26	56
Option Period Return (%)	4	4	4
Option Annual Return (%)	18	18	18

Valuation Metrics

	Projection Avg		Historical Median	
	Worst	Best	5-year	10-year
Revenue Growth (%)	1	5	-2	0
Profit Margin (%)	12	17	15	17
Med-term Growth	5%	7%	-12	2

