

B/S	P/C/S	Strike	Exp.	Premium
Buy	Stock	155.00	N/A	(\$155.00)
Sell	Call	155.00	OCT 20, '17	\$5.05
Effective Buy Price (w/o dividends)				(\$149.95)

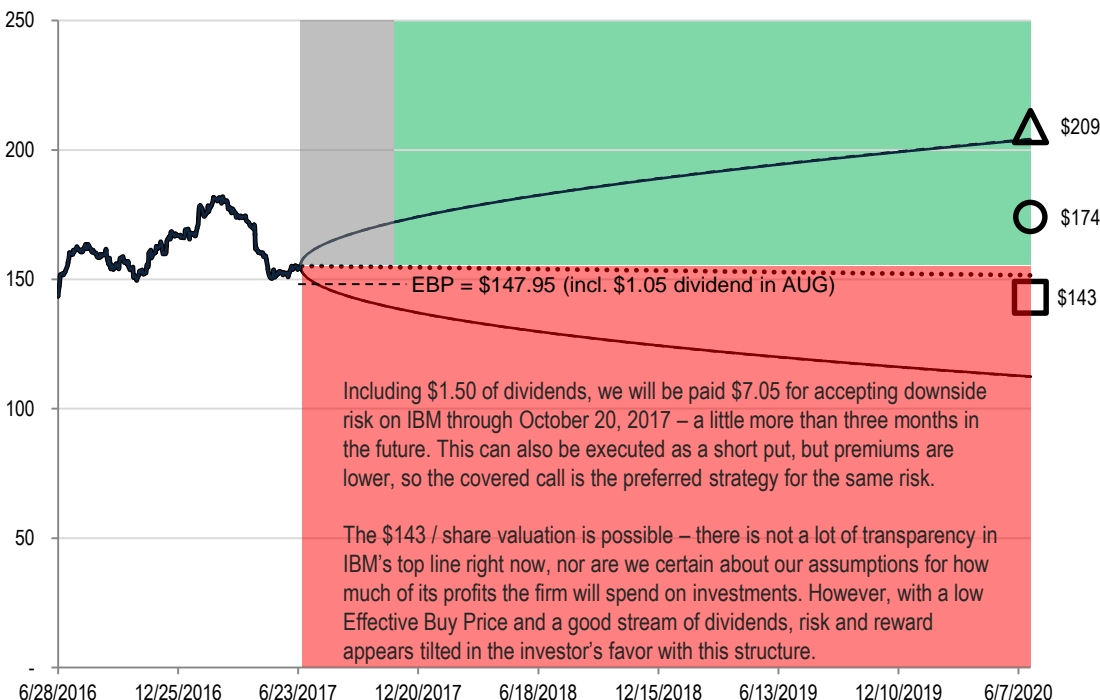
### Framework's Take

Buffett doesn't see much upside and, in fact, our upper valuation scenario is in line with the option market's best-case price projection for IBM as well. However, the downside does seem undervalued, even with low implied volatility readings in the 17% range. IBM is a complex company going through a major transformation while providing investors and analysts very little granular data to process. "Strategic Initiatives" now represent roughly 40% of revenues and is growing at a 12% annualized rate. The rest of the business is shrinking at roughly a 10% rate. Several of the company's segments' growth rates turned barely positive in 1Q17... Baby steps...

### Drivers

<b>Revenues</b>	Great pricing power due to regulatory leniency. Volumes from all segments at risk from trade probs (China/Mexico). Proj: +1% (Best), -3% (Worst).
<b>Profitability</b>	We adjusted IBM's required maintenance capex down, pushing up our measure of profit. Proj: 17% (B), 15% (W)
<b>Investment Level / Eff.</b>	Co has been selling off legacy businesses and buying new ones, so difficult to judge required spending. We're sticking with 25%. Proj (med-term growth): +7% (B), +5% (W)

**Balance Sheet** No hidden assets / liabilities found in our analysis.



Including \$1.50 of dividends, we will be paid \$7.05 for accepting downside risk on IBM through October 20, 2017 – a little more than three months in the future. This can also be executed as a short put, but premiums are lower, so the covered call is the preferred strategy for the same risk.

The \$143 / share valuation is possible – there is not a lot of transparency in IBM's top line right now, nor are we certain about our assumptions for how much of its profits the firm will spend on investments. However, with a low Effective Buy Price and a good stream of dividends, risk and reward appears tilted in the investor's favor with this structure.

### Valuation & Return

### Valuation Uncertainty: High

	Low	Likely	High
<b>Stock Fair Value (\$)</b>	143	174	209
<b>Stock Return (%)</b>	-8	12	35
<b>Option Period Return (%)</b>	-3	5	5
<b>Option Annual Return (%)</b>	-9	15	15

### Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	-6	-2
Profit Margin (%)	15	15
Med-term Growth	-3	-1

### Market Risk

The price fell into the \$120-range within the last 52 weeks – this is roughly congruous with our Price-to-Sales downside gauge. IBM's biz in changing and growth will not be uniform quarter-to-quarter. Buffett's disinvestment news also may push stock price down.

**Scenarios Key**  
ST Rev Growth | ST OCP Margin | Med-Term Growth

Case / Scenario	Value
PSR Implied Low	126
-3%   15%   5%	143
252-day Low	144
* -3%   15%   7%	154
-3%   17%   5%	163
1%   15%   5%	172
-3%   17%   7%	174
252-day High	182
1%   15%   7%	184
PSR Implied High	186
* 1%   17%   5%	195
1%   17%   7%	209

Probability / Materiality

0 43 86 129 173 216 **Stock Price**

