

B / S	P / C / S	Strike	Exp.	Premium
Sell	Put	145.00	OCT 20, '17	\$4.65
Effective Buy Price				\$140.35

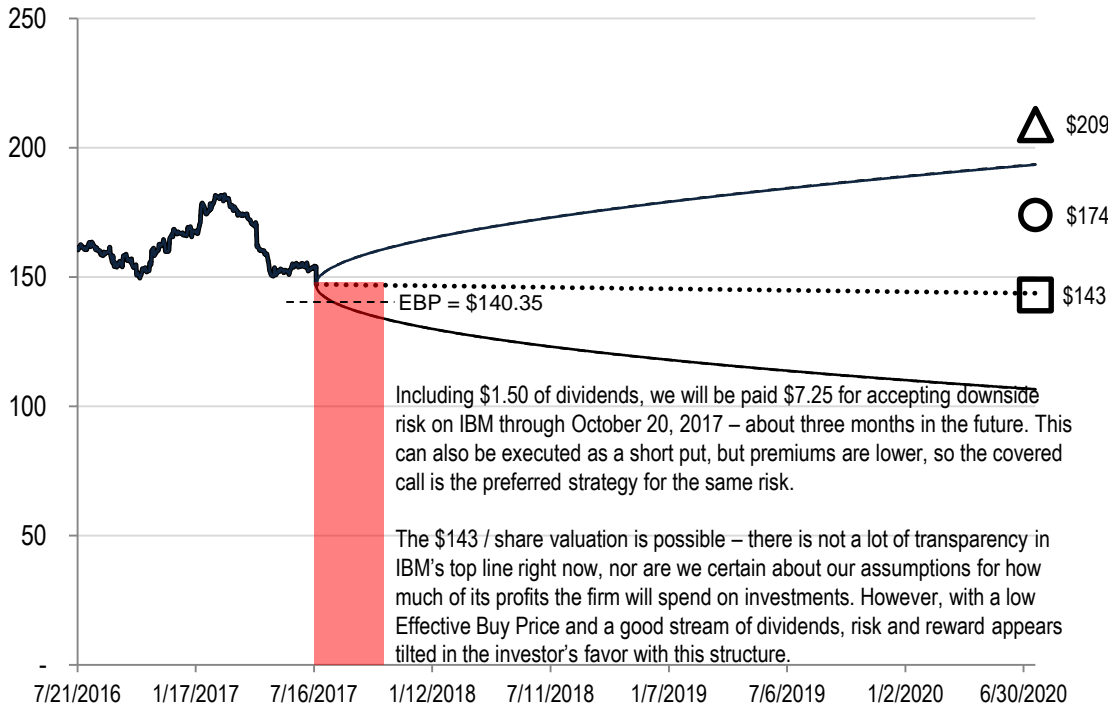
Framework's Take

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

Revenues	Strategic Imperatives grow at 12% best / 5% worst. Legacy falls at 10% per year. Proj: +1% (Best), -3% (Worst).
Profitability	We adjusted IBM's required maintenance capex down, pushing up our measure of profit. Proj: 17% (B), 15% (W)
Investment Level / Eff.	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 \$7.25 for accepting downside risk on IBM through October 20, 2017 – about 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
Stock Fair Value (\$)	143	174	209
Stock Return (%)	-3	20	42
Option Period Return (%)	3	3	3
Option Annual Return (%)	13	14	14

Historical Metrics

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

Market Risk

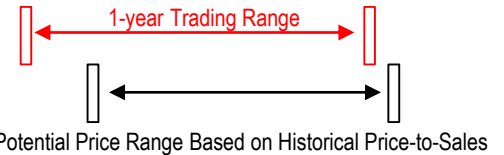
The price fell into the \$120-range within the last 52 weeks – this is roughly congruous with our Price-to-Sales downside gauge. IBM's biz in changing and growth will not be uniform quarter-to-quarter. Buffett's disinvestment news also may push stock price down.

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**



Potential Price Range Based on Historical Price-to-Sales

