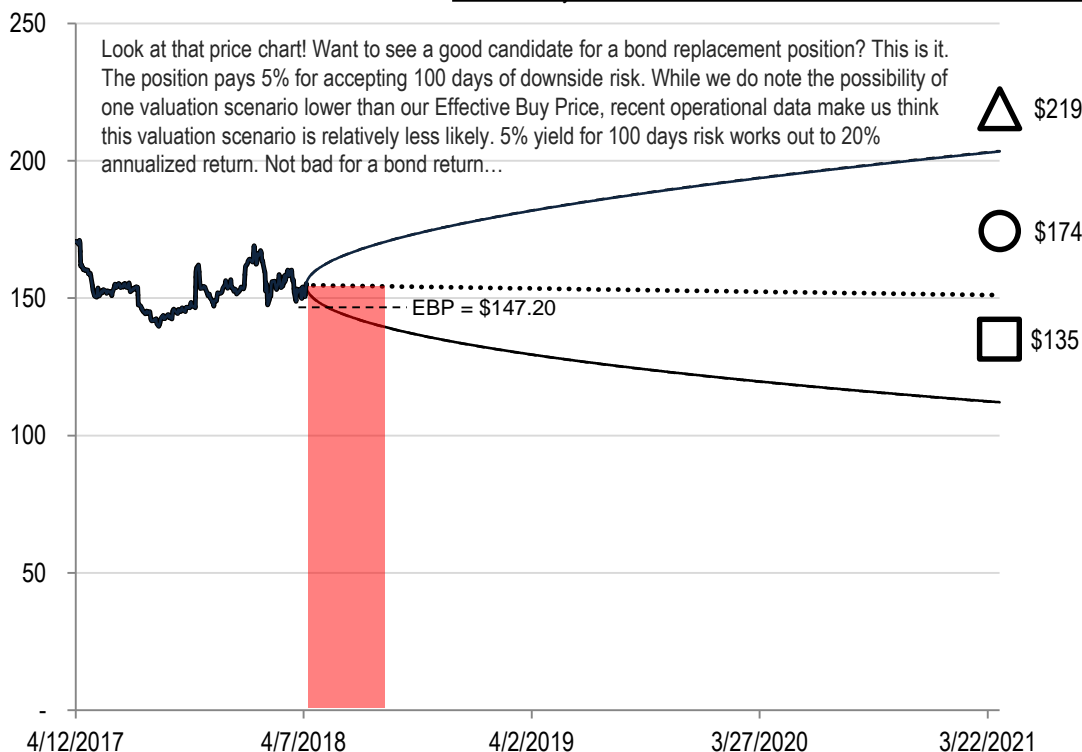


B / S	P / C / S	Strike	Exp.	Premium
Sell	Put	155.00	JUL 20, '18	\$7.80
Effective Buy Price				\$147.20



Framework's Take

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 46% of revenues and is growing over 10% per year. The rest of the business is shrinking at roughly the same rate, leading to little net top-line growth. Strategic business to represent a larger share than non-strategic during FY2018 and the strategic businesses IBM are in are differentiated and high quality. Partnership with Apple to make inroads into corporate markets for iPhones and iPads is more of a positive for IBM than for Apple. Soon comes the day when IBM's upside is attractive.

Drivers

Revenues	Constant struggle between Strategic & Non-Strategic Proj: +3% (Best), -2% (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), +2% (W)

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

Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	135	174	219
Stock Return (%)	-13	12	41
Option Period Return (%)	-8	5	5
Option Annual Return (%)	-27	20	20

Historical Metrics

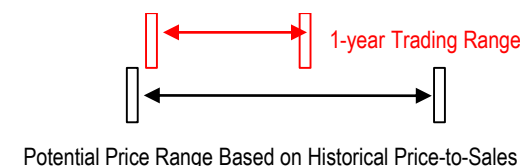
	Historical Median	
	5-year	10-year
Revenue Growth (%)	-6	-2
Profit Margin (%)	17	16
Med-term Growth (%)	-3	2

Market Risk

IBM's business is changing so growth will not be steady quarter-to-quarter. Possibility for negative earnings surprises always possible. No longer owned by Buffett – shunned by "value investors?"

Probability / Materiality

Scenarios Key	
ST Rev Growth ST OCP Margin Med-Term Growth	
Case / Scenario	Value
PSR Implied Low	135
-2% 15% 2%	135
252-day Low	140
-2% 17% 2%	153
-2% 15% 7%	161
3% 15% 2%	162
252-day High	171
-2% 17% 7%	182
3% 17% 2%	184
3% 15% 7%	194
PSR Implied High	195
3% 17% 7%	219



0 44 88 Stock Price 132 175 219