

IBM

International Business Machines Corp Internet

<i>Balance Sheet Data as of</i>	2020-03-31
<i>Earnings Release Date</i>	2020-04-20
<i>Date of Report</i>	4/23/20

Equity & Credit Attractiveness		
	<u>IBM</u>	<u>Sector</u>
Credit Ranking Percentile	40%	55%
Equity Ranking Percentile	60%	65%
<small>(Note: 100% = best, 10% = worst, 0% = not enough data)</small>		

Risk Summary
Company Risk Rating: Equal to Market Risk
Sector Risk Rating: Equal to Market Risk

This report is for your information only and is not an offer to sell or a recommendation to buy the securities or instruments named or described in this report. Additional information is available upon request. The information in this report has been obtained or derived from sources believed by Sixty Guilders Research, LLC to be reliable, but Sixty Guilders Research, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report are current as of the date of the report and are subject to change without notice. See last page of report for more detailed disclosures. Copyright © 2020 Sixty Guilders Research, LLC.

International Business Machines Corp (IBM) / Internet

4/23/20

Company Description

IBM looks to be a part of every aspect of an enterprise's IT needs. The company primarily sells infrastructure services (37% of revenue), software (29% of revenue), IT services (23% of revenue) and hardware (8% of revenues). IBM operates in 175 countries and employs approximately 350,000 people. The company has a robust roster of 80,000 business partners to service 5,200 clients – which includes 95% of all Fortune 500. While IBM is a B2B company, IBM's outward impact is substantial. For example, IBM manages 90% of all credit card transactions globally and is

Per Share Data

Stock Price	1 Yr Low	1 Yr High	% Change	
			3 Mo.	1 Yr
\$119.85	\$90.56	\$158.75	-17%	-14%

Representative Bond

3.45% due 2026	
Moody's	A2 (07/09/2019)
S&P	A (10/29/2018)
Mod. Duration	5.3 yrs
Amount (mil)	1,350
Price (% of par)	110.900
YTW	1.49%

Dividend Yield: 5.4% Div Grwth Rate: 1%

Balance Sheet Data as of	2020-03-31
Earnings Release Date	2020-04-20

* Average annual increase over five years

Current Enterprise Value Mix (, millions)	TEV Mix	EBITDA Turns	Broad Market
Total Debt	68,126	42%	4.3x
Preferred & Other	129	0%	0.0x
Less Cash	11,865	7%	-1.6x
Market Cap of Equity	106,476	65%	6.7x
TEV (net of cash)	162,866	Eq Float: 100%	9.4x

Margin Analysis (latest fiscal year)

EBITDA Margin	23%
Capex	4%
Unlevered Free Cash Flow	19%
Cash Flow From Operations (CFO)	19%
Free Cash Flow After Dividends (FCF)	8%

Risk & Relative Volatility

Altman Z score	2.81x
Beta	1.26x
Aggregate Risk:	Equal to Market Risk

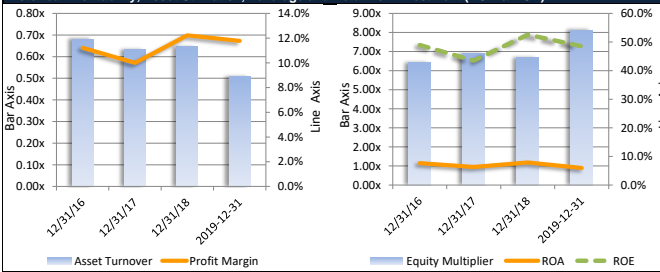
Liquidity Analysis

Cash	11,865
Remaining FY Est. Free Cash flow (FCF)	3,614
Estimated FY End Cash & Availability	15,479

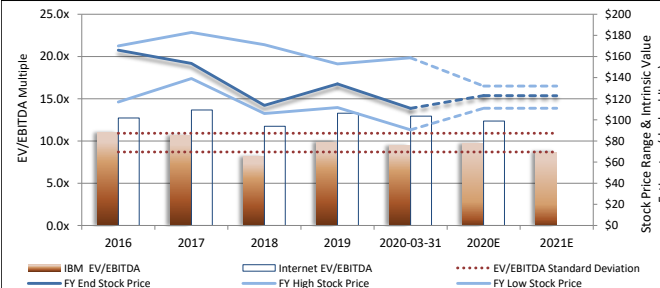
DuPont Formula

ROA	
Profit Margin	12%
Asset Turns	0.5x
ROA	6%
ROE	
Equity Multplr.	7.7x
ROE	45%

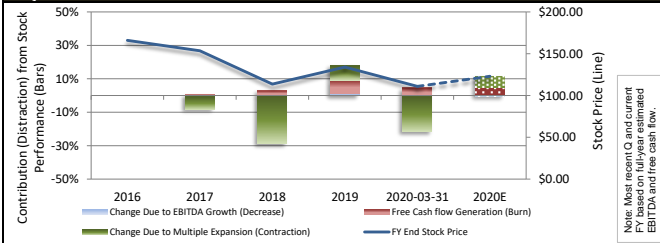
Historical Profitability, Asset Utilization, Leverage and Return on Investment (ROA & ROE)



Historical Capitalization & Valuation



Analysis of Annual Stock Performance Drivers



Definitions: TEV: Total Enterprise Value (Market Cap of Equity plus Net Debt, Preferred & Minority Interest), EBITDA (Earnings Before Interest, Taxes & Depreciation & Amortization)
Altman Z Score: Above 3.0 indicates credit worthy company, below 1.8 indicates increased default probability over next 24 months (developed by Edward Altman)
Z spread: yield spread in basis points above comparable maturity LIBOR contract/forward curve

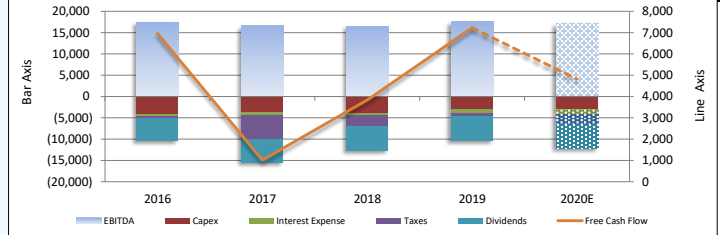
All information in this presentation is property of Sixty Guilders Research, LLC. It may not be shared or reproduced without explicit consent of Sixty Guilders. Information from other sources included in this presentation is assumed to be accurate, but its accuracy cannot be guaranteed. All historical information is for presentational purposes only. Future results, performances, variances or correlations may be significantly different than historical material included in this presentation. See last page for more disclosures. 2020

Source: Company Reports, YCharts, Inc., Sixty Guilders Research, LLC

Summary Financial Tables and Profitability

Cash Flow Metrics (, millions)	2016	2017	2018	2019	2020E	Growth Rates	
						'16-'19 avg	'19-'20E
Revenue	79,920	79,139	79,591	77,147	73,534	-1%	-5%
EBITDA	17,341	16,556	16,545	17,569	17,048	0%	-3%
Capex	(4,150)	(3,773)	(3,964)	(2,907)	(3,105)	-10%	7%
Interest Expense	(522)	(615)	(459)	(995)	(995)	18%	0%
Taxes	(449)	(5,642)	(2,619)	(731)	(2,373)	7%	n/a
Dividends	(5,256)	(5,506)	(5,666)	(5,707)	(5,757)	3%	1%
Free Cash Flow	6,964	1,020	3,837	7,229	4,819	15%	-33%
Margins (% of Revenue, except for int. exp. & tax rate)							
EBITDA	21.7%	20.9%	20.8%	22.8%	23.2%	108 bps	41 bps
Capex	5.2%	4.8%	5.0%	3.8%	4.2%	-100 bps	45 bps
Interest Expense	1.2%	1.3%	1.0%	1.5%	1.5%	25 bps	0 bps
Eff. Tax Rate	2.0%	26.9%	12.5%	3.4%	11.2%	136 bps	781 bps
Free Cash Flow	8.7%	1.3%	4.8%	9.4%	6.6%	66 bps	-282 bps
Balance Sheet Data (, millions)							
Total Debt (net debt)	42,168	46,823	45,812	66,778	52,647	19%	-21%
Total Ent. Value	190,688	175,733	135,171	172,861	159,252	-3%	-8%
Leverage	2.4x	2.8x	2.8x	3.8x	3.1x	1.4x	-0.7x
EV/EBITDA	11.0x	10.6x	8.2x	9.8x	9.3x	-1.2x	-0.5x
Dividend Payout Ratio	43%	84%	60%	44%	54%	111 bps	1032 bps

Annual EBITDA and Free Cash Flow Generation (, millions)



Investment Considerations

Positives	Negatives
Ample equity relative to total assets	Recent leverage above historic average
Attractive free cash flow	Recent margins below historic average
	Noticeable amount of total debt
Adequate dividend coverage	
Adequate public float	
Attractive dividend yield	

Stock Upside under Takout Scenario Relative To Industry Group Historic M&A Multiples

Enterprise Value Multiple to:	EBITDA	Sales	Ttl Assets	Stock Bk Val	
Internet Sector	13.4x	1.8x	1.2x	2.3x	
IBM current Valuation	9.3x	2.2x	1.0x	5.3x	
IBM target at Industry Takeout Multiple	\$193.86	\$77.74	\$141.44	\$52.68	Wt. Avg
Assigned Weight to Metric	75%	19%	5%	1%	\$167.70
Takeout Upside (Downside) to Group M&A Multiples	62%	-35%	18%	-56%	40%

Back of the Envelope Analysis of Ability to LBO
Assumptions: 1. EBITDA Growth ahead? No 2. Insiders own more than 5%? No
3. Assuming pro forma equity of 2X EBITDA post deal, can pre-deal free cash flow support new debt at a 7% interest cost to take out non-insider equity at a 20% equity premium? No
4. Would a 20% equity premium be cheap or rich relative to peer group M&A multiples shown above? Cheap
Conclusion: Overall we believe an LBO of IBM would likely be unfeasible

Cumulative Cash Flow Quality (2016-2019)	IBM	Internet	Broad Equity Market
(CFO-Capex) / (EBITDA-Int.Exp.-Taxes-Capex)	1.0x	0.9x	0.8x

Rate of Return Decomposition & Implied Stock Growth Expectation

	10 Yr LIBOR Swap	Est. 10 Yr Bond Yield	Earnings Yield (E/P)	Beta	Long Term Expected Equity Total Return (ETR)	Required Total Return Upside Above Earnings Yield: ETR-(E/P)
S&P 500	2.5%	4.1%	4.9%	1.0x	10%	5.1%
IBM	2.5%	3.2%	10.4%	1.3x	12%	1.6%
Internet	2.5%	6.1%	7.7%	1.2x	12%	3.8%

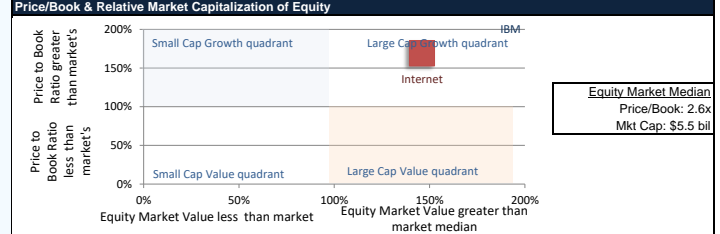
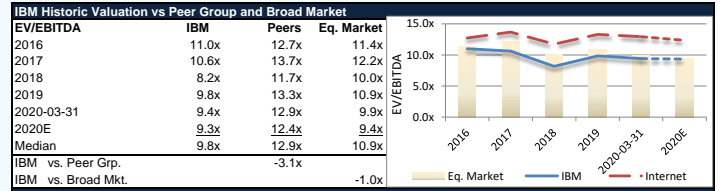
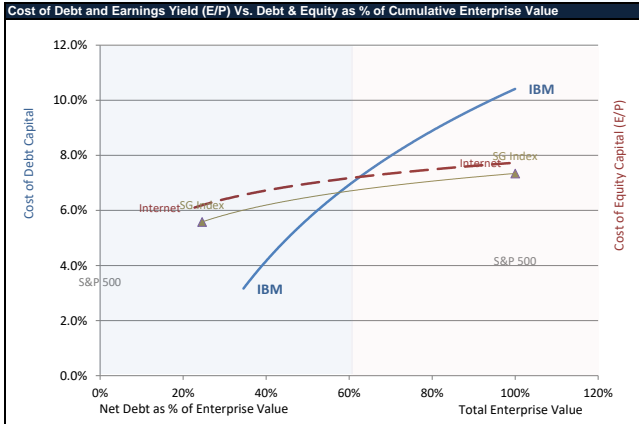
This table uses beta to estimate the long term expected equity return (fifth column). Given the current earnings yield (the inverse of the P/E ratio), the sixth column calculates the residual equity return necessary for the total return to reach the long term expected return. The chart shows the decomposition of return, starting with current 10 yr LIBOR swaps (the risk free rate), the incremental bond yield, the incremental earnings yield, and the residual "required growth return" necessary to achieve the long term expected return (ETR).

International Business Machines Corp (IBM) / Internet

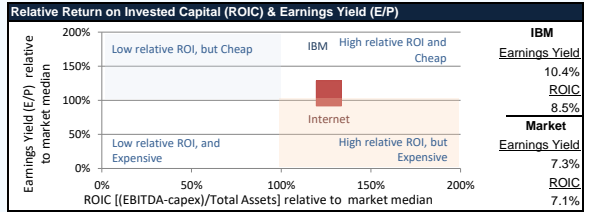
\$119.85 per share
4/23/20

Debt and Equity Valuation Analysis

	Amount	Recent Price	Estimated EPS	P/E Ratio (on Estimated EPS)	10 Yr Bond Yield & Earnings Yield (E/P)	Forward EBITDA Multiple	Tranche as % of Ent. Value (net of cash)	Earnings Yield / Bond Yield
S&P 500								
S&P 500 Net Debt	0				4.1%	1.5x	0%	S&P 500
S&P 500	2,818	2,818	\$137.84	20.4x	4.9%	16.2x	100%	IBM's equity yield (inverse of P/E) relative to its bond yield is superior to that of the market
International Business Machines Corp (IBM) / Internet								
International Business Machs Corp 3.45% due 2026	1,350	110.900			3.2%	3.1x	35%	IBM
Equity Market Value	106,476	\$119.85 per share	\$12.48	9.6x	10.4%	5.3x	65%	3.3x
Total Enterprise Value (net of cash)	174,731					9.3x	100%	Internet
Internet Sector								
Internet Debt					6.1%	2.9x	23%	IBM's equity yield relative to its bond yield is superior to that of its peer group
Internet Equity					12.9x	7.7%	12.9x	100%



Stock Price Intrinsic Value Upside (Downside) Potential Analysis				
FY2021E Estimated EBITDA: 19051.0 mil (12% projected growth vs. 2020E)				
Implied Required Stock Return above Div Yield (one year NPV discount rate applied for 1.5 years) 13%				
	EV Forward EBITDA	2021E	NPV	Upside (Downside)
				Implied Price Target
A. Forward EBITDA on Current Multiple				
	Historic Median	Current		
	10.6x	9.0x		
	Price Target on FY EBITDA & lowest EV/ Forward Multiple		\$129	\$128 7%
B. Historic EBITDA Multiple				
	Assigned Weight			
Low	24%	8.2x		
Median	75%	9.8x		
High (capped at 20x if necessary)	1%	11.0x		
Valuation based on historic EBITDA	100%	9.4x	\$139	\$124 3%
C. Industry Sector Relative Valuation				
IBM EV/EBITDA historic median		9.8x		
Internet EV/EBITDA median		12.9x		
IBM median premium (discount) to sector		-3.1x		
Internet EV/EBITDA 2020E (capped at 20x if needed)		12.4x		
Plus (minus) historic IBM premium (discount)		-3.1x		
Sector-based Target IBM EV/EBITDA 2021E		9.3x	\$131	\$117 -3%
D. Bond Market Yield Based Valuation				
	Act. Est P/E			
Required Equity Return (NPV Discount Rate): 7.3%	9.6x			
Estimated EPS: \$12.48	Target P/E			
	9.6x			
Price Target	8.5x EBITDA		\$120	\$106 -11%
E. Plus Dividend Yield and Free Cash Flow				
Dividend Yield				5%
Average Price Target (A-D section calculations)			\$118.78	
Plus (minus Negative) Free Cash Flow balance of year per share			\$4.07	
Average Fundamental Price Target			\$122.84	
	Implied EV/EBITDA Multiple	2020E	2021E	NPV Target
NPV Stock Intrinsic Value Estimate	9.7x	8.7x		\$123.00 2%



Stock Valuation Range Analysis (stock prices in \$)				
	Intrinsic Value Range	Intrinsic Value Upside (Downside)	EV/EBITDA Multiple	Implied 2021E P/E Multiple
	172.00	43%	10.6x	13.8x
	164.00	37%	10.2x	13.1x
	156.00	30%	9.9x	12.5x
	149.00	24%	9.3x	11.9x
	142.00	18%	9.3x	11.4x
	135.00	13%	9.3x	10.8x
	Intrinsic Value Estimate: 129.00	8%	9.0x	10.3x
	117.00	-3%	8.4x	9.4x
	111.00	-8%	8.1x	8.9x
	105.00	-13%	7.9x	8.4x
	100.00	-17%	7.6x	8.0x
	95.00	-21%	7.4x	7.6x
	90.00	-25%	7.2x	7.2x
	86.00	-28%	7.0x	6.9x
	82.00	-32%	6.8x	6.6x
The S&P 500 @ 2818 reflects the following valuation metrics: 13.9x 15.4x				
The sector's historic M&A EBITDA takeover multiple has averaged: 13.4x				
Shaded area denotes broad valuation range driven by the various valuation methods (A -D) in accompanying chart (single point NPV highlighted). Light gray font prices reflect trading levels				

Internet Sector companies include: Accenture PLC, Amazon.com Inc, Carnival Corp, CDW Corp, CoreLogic Inc, Cognizant Technology Solutions Corp, DXC Technology Co, eBay Inc, eBay Inc, EPAM Systems Inc, Etsy Inc, Expedia Group Inc, Facebook Inc, Fidelity National Information Services Inc, Fiserv Inc, Alphabet Inc, IAC/InterActiveCorp, International Business Machines Corp, Gartner Inc, Jack Henry & Associates Inc, Leidos Holdings Inc, Match Group Inc, Norwegian Cruise Line Holdings Ltd, NCR Corp, Royal Caribbean Cruises Ltd, Science Applications International Corp, Synnex Corp, Teradata Corp, TripAdvisor Inc, Unisys Corp, Wayfair Inc, Xerox Holdings Corp.

All information in this presentation is property of Sixty Guilders Research, LLC. It may not be shared or reproduced without explicit consent of Sixty Guilders. Information from other sources included in this presentation is assumed to be accurate, but its accuracy cannot be guaranteed. All historical information is for presentational purposes only. Future results, performances, variances or correlations may be significantly different than historical material included in this presentation. See last page for more disclosures. 2020



International Business Machines Corp (IBM) / Internet
\$119.85 per share **Earnings & Equity Valuation Sensitivity**

Current Stock Price: \$119.85 per share Intrinsic Value Sensitivity to Earnings & Valuation Multiple Assumptions						
		FY2021E Estimated EBITDA:				
Implied 2021E		18,192	18,617	19,051	19,485	19,930
EV/EBITDA	P/E	-5%	-2%	0%	2%	5%
11.0x	13.8x	161.38	166.63	172.00	177.37	182.86
10.6x	13.1x	153.74	158.81	164.00	169.19	174.49
10.2x	12.5x	146.10	150.99	156.00	161.01	166.12
9.9x	11.9x	139.42	144.15	149.00	153.85	158.80
9.6x	11.4x	132.73	137.31	142.00	146.69	151.48
9.3x	10.8x	126.05	130.47	135.00	139.53	144.16
9.0x	10.3x	120.32	124.61	129.00	133.39	137.88
8.7x	9.9x	114.59	118.75	123.00	127.25	131.60
8.4x	9.4x	108.86	112.88	117.00	121.12	125.33
8.1x	8.9x	103.13	107.02	111.00	114.98	119.05
7.9x	8.4x	97.40	101.16	105.00	108.84	112.77
7.6x	8.0x	92.63	96.27	100.00	103.73	107.54
7.4x	7.6x	87.85	91.39	95.00	98.61	102.31
7.2x	7.2x	83.08	86.50	90.00	93.50	97.08
7.0x	6.9x	79.26	82.59	86.00	89.41	92.90
6.8x	6.6x	75.44	78.68	82.00	85.32	88.71

Stock Upside (downside) based on Intrinsic Value Sensitivity to EPS & Valuation Multiple Assumptions						
		FY2021E Estimated EBITDA:				
Implied 2021E		18,192	18,617	19,051	19,485	19,930
EV/EBITDA	P/E	-5%	-2%	0%	2%	5%
11.0x	13.8x	34%	39%	43%	48%	52%
10.6x	13.1x	28%	32%	37%	41%	45%
10.2x	12.5x	22%	26%	30%	34%	38%
9.9x	11.9x	16%	20%	24%	28%	32%
9.6x	11.4x	11%	14%	18%	22%	26%
9.3x	10.8x	5%	9%	12%	16%	20%
9.0x	10.3x	0%	4%	7%	11%	15%
8.7x	9.9x	-5%	-1%	2%	6%	10%
8.4x	9.4x	-9%	-6%	-3%	1%	4%
8.1x	8.9x	-14%	-11%	-8%	-4%	-1%
7.9x	8.4x	-19%	-16%	-13%	-9%	-6%
7.6x	8.0x	-23%	-20%	-17%	-14%	-10%
7.4x	7.6x	-27%	-24%	-21%	-18%	-15%
7.2x	7.2x	-31%	-28%	-25%	-22%	-19%
7.0x	6.9x	-34%	-31%	-28%	-25%	-23%
6.8x	6.6x	-37%	-34%	-32%	-29%	-26%

This table depicts the tradeoff between the company meeting the earnings projections, versus meeting the multiple assumptions. The high lighted price range shows the price range derived from the single point EBITDA multiple analysis from the prior page.

Source: Company reports, YCharts, Inc., Sixty Guilders Research, LLC

All information in this presentation is property of Sixty Guilders Research, LLC. It may not be shared or reproduced without explicit consent of Sixty Guilders. Information from other sources included in this presentation is assumed to be accurate, but it's accuracy cannot be guaranteed. All historical information is for presentational purposes only. Future results, performances, variances or correlations may be significantly different than historical material included in this presentation. See last page for more disclosures. 2020

oooo