



RSS Overview

IBM Global Financing October 2, 2002



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About IBM Global Financing

- IBM Global Financing is the world's premier single-source provider for multi-vendor Information Technology financing solutions
 - Over \$37 billion in assets
 - 96 of the Fortune 100 are customers; 800 + of Fortune 1000
 - Ranked 10th among Fortune 500 diversified financial companies
 - Ranked 4th among the finance/leasing companies in the US (Monitor 100, 2001)
- Provider of financing and asset management services to businesses selling or acquiring Information Technology-related products and services
 - \$42 billion in originations in 2001 with end user companies and business partners

2002 Business Profile

- World's largest Information Technology-related financier
- \$37B assets (42% of IBM)
- \$26B debt (94% of IBM)
- \$3.4B revenue (4% of IBM)
- \$1.3B pre-tax income (12% of IBM)
- 3,000 people (1% of IBM)
- Over 125,000 customers

"The discipline of a bank, the expertise of an Information Technology vendor."

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Why IBM is in the Financing Business

- Customer loyalty: Facilitates and contributes to the total IBM solution for customers by enabling the acquisition of hardware, software and services
- Provides another point of customer service and account management
- Delivers added income
- Builds a quality stream of earnings
- Provides a view of the secondary market
- Financial and asset control

Why Lead with Financing?

- Helps Sell More Product:
 - \$3,000/month often easier to sell versus \$100,000 due upfront!
- Capture Financing Promotions:
 - Get a "better deal!"
 - **Creates an impending technology event at end of lease**
- Avoid Product Obsolescence:
 - Balance technology with budget
 - Avoid "Stranded Asset"...Book Value loss
- **Conserve Capital for faster Roll-outs**
- Eases Discounting Pressure:
 - "Too expensive"
 - "Doesn't fit within budget - let's downsize the solution"
- Off-balance sheet
 - CFO may not need to approve capital expenditure
- Simplicity - one monthly bill - allows for 'bill back'

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Current examples

Type of Offering / Promotion	
LRF	Low Rate Financing
OTC	IBM One Time Charge Software Financing
Deferral	IBM Product Deferral to 2003
Trade-in / Buyback	IBM or OEM
TEO / TUO	Prestated upgrades / replacement pricing
OEM Financing	Scanners, Self Scan, etc.



Why RSS is different

- **Longer life-cycle**
 - Higher RV's
 - Higher Purchase propensity
 - Longer depreciation
- **More structured Roll-outs**
 - Store-by-store, Region-by-Region
- **More OEM content ; POS = ~30% of total**
 - Scanners, readers, swipers, Self-scan
 - 3rd party SW and Services (eg. ACE, prepaid Maintenance)
 - IGF can finance all, one consolidated payment

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Success Storie

- **Ahold, USA**

- Leasing since 1996
- Over 300 M to date
- **Over 100 M in POS**
- Accelerates something every year

- **Minyards**

- Scheduled for 4Q, 2002 - 2Q, 2003
- Sell 'stalled' in July
- Though a joint pricing strategy with a deferral all of the products and services ordered for 3Q, 2002!!
- Total deal over \$10M; IBM HW 4.5 M

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Scenario: Discount Pass-Thru

Purchase new equipment	\$ 1 million acquisition
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Marketing Objective: Below Market Interest Rate
Term 60 mo Full Payout Lease

At market interest rate and 10% Price Discount

Selling Price to Customer	Lease Payment	Customer Interest Rate
\$900K	\$18,391	8.33%

At Market Interest Rate

Discount Thru Rate Buy Down:

Selling Price to Customer	Lease Payment	Customer Interest Rate
\$1,000K	\$18,391	3.94%

Below Market Interest Rate
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Scenario: Operating Lease

Purchase new equipment	\$ 1 million acquisition
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Customer Objective: Off balance sheet and low monthly payments

Customer's Incremental Borrowing Rate = 7.00%

36 months Fair Market Value Lease

Purchase Price Discount only 10%
(\$100K)

Purchase Price	Lease Payment	Total Lease Payment	Present Value
\$900K	\$26,638	\$959K	94.0 %

On balance sheet

Purchase Price Discount 4% and Rate Buy Down 6%

Purchase Price	Lease Payment	Total Lease Payment	Present Value
\$960K	\$26,638	\$959K	89.9 %

Off balance sheet

Credit Issues

- Financial Statement Requirements
- Articles of Organization
 - relatively new requirement to comply with RA9
- Credit terms and conditions of approval
 - ILOC
 - Front-loaded step payment structures
 - Financing Term restrictions



Details You Need

- Customer name and Number
- Deal size
- List and Net prices for Hardware
- Any 'soft' or One-time charges
- OEM products
- Install date(s)



EARLY Integration

- BEFORE Customer pricing
- As buying criteria is being established
- As acquisition method is being established
- Credit issues

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