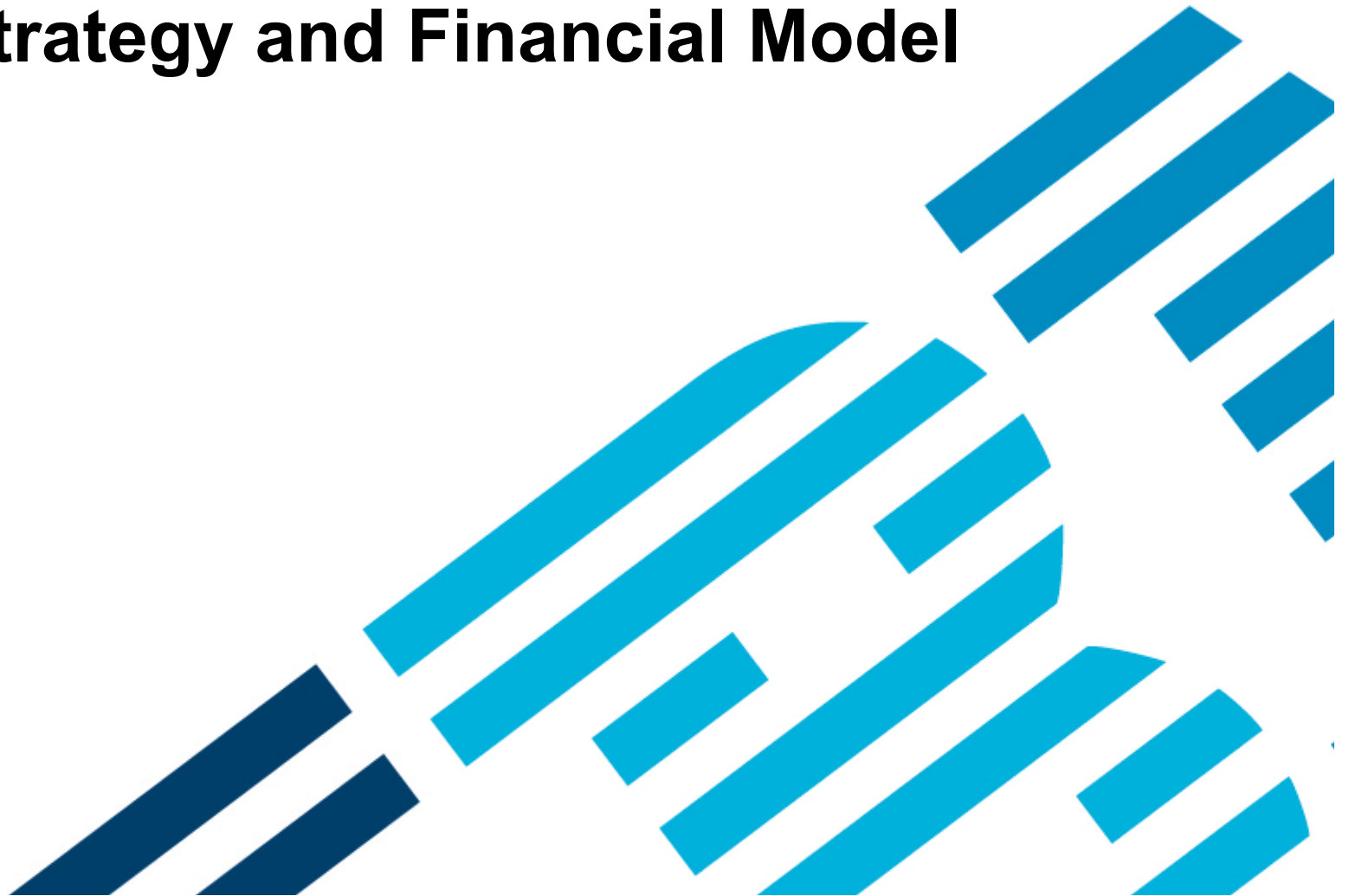


# IBM Strategy and Financial Model 2014



Certain comments made in this presentation may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the Company's current assumptions regarding future business and financial performance. These statements by their nature address matters that are uncertain to different degrees and involve a number of factors that could cause actual results to differ materially. Additional information concerning these factors is contained in the Company's filings with the SEC. Copies are available from the SEC, from the IBM web site, or from IBM Investor Relations. Any forward-looking statement made in these presentation materials speaks only as of the date on which it is made. The Company assumes no obligation to update or revise any forward-looking statement. These charts and the associated remarks and comments are integrally related, and they are intended to be presented and understood together.

In an effort to provide additional and useful information regarding the Company's financial results and other financial information as determined by generally accepted accounting principles (GAAP), these materials contain certain non-GAAP information including "operating earnings" and other "operating" financial measures. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are included as Attachment II ("Non-GAAP Supplemental Materials") to the Company's Forms 8-Ks dated May 14, 2014 and January 18, 2011.

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## Agenda

- Strategic Overview
- Financial Model

## IBM's strategic imperatives address key market shifts

### STRATEGIC IMPERATIVE #1

## Data

**Make markets  
by transforming  
industries and  
professions with data.**

### WHAT WE SEE SHIFTING

**Data is becoming  
the world's new  
natural resource.**

### OUR POINT OF VIEW

**Data is the new basis of  
competitive advantage**

### STRATEGIC IMPERATIVE #2

## Cloud

**Remake  
enterprise IT  
for the era  
of Cloud.**

### WHAT WE SEE SHIFTING

**The emergence of cloud  
is transforming IT and  
business processes  
into digital services.**

### OUR POINT OF VIEW

**Cloud is the path to  
new business models.**

### STRATEGIC IMPERATIVE #3

## Engagement

**Enable "systems  
of engagement"  
for enterprises.  
And lead by example.**

### WHAT WE SEE SHIFTING

**Social. Mobile. Security.  
All are changing  
how individuals  
are understood and engaged.**

### OUR POINT OF VIEW

**A systematic approach  
to engagement  
is now required.**

# Data is the new basis of competitive advantage



## Market trends...

By 2017 there will be more than **1 trillion** connected objects and devices on the planet generating data.

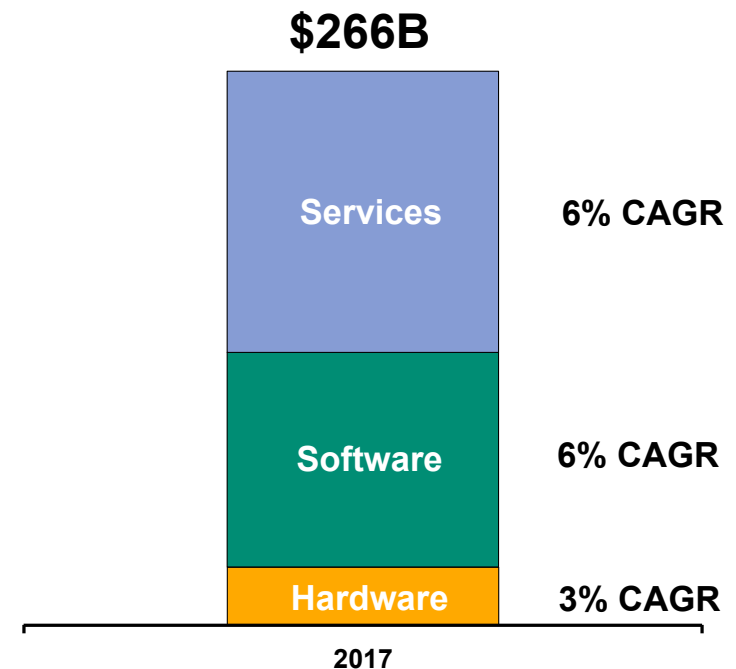
There are **2.5 billion** gigabytes of data generated every day...

... of which **80%** is unstructured.

By 2017, WW data spend will be **\$266B**.

## Big Data & Analytics Market Opportunity\*

6% CAGR through 2017



\*Source: IBM Market Insights 1H2014

# IBM has built the world's broadest and deepest portfolio in data and analytics



**\$24 billion**

invested to date in Big Data and analytics

**\$17 billion**

of gross spend on >30 acquisitions

**15,000**

analytics consultants and 400 mathematicians

**40,000**

client engagements to date

*We are building WATSON solutions and technologies for the cognitive area*

**\$1 billion**

investment in Flash technology

**1,000**

university partnerships and 2,215 Business Partners

**500**

analytics patents generated each year

**2/3**

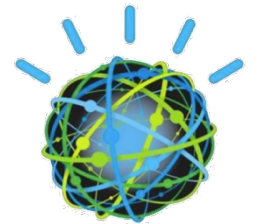
of IBM Research is focused on data, analytics and cognitive computing

**\$1 billion**

investment, incl. \$100m to build an ecosystem

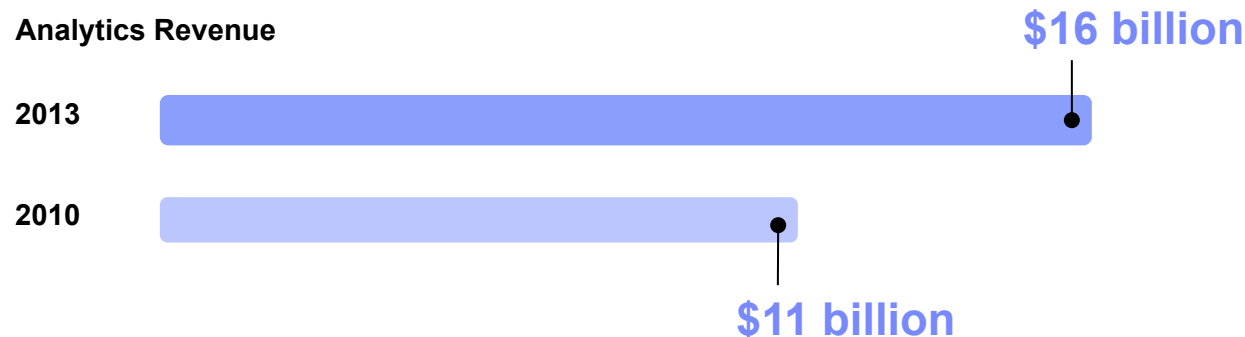
**2,000**

engineers, researchers, developers and designers



**We have significantly increased analytics revenue through strategic investments, and new skills and capabilities.**

Analytics Revenue



## Cloud is the path to new business models



### Market trends...

Nearly **70%** of enterprises to pursue hybrid cloud by 2015\*\*

**91%** of net new software built for cloud delivery in 2014\*\*\*

Growing IT complexities accelerating shift to software defined solutions

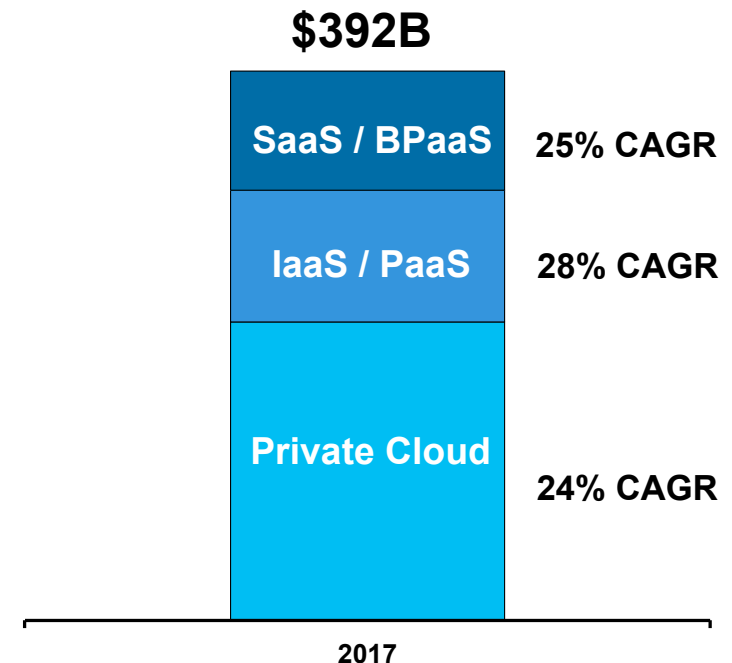
Open standards driving new class of innovation

Expanding role of Service Providers

By 2017, cloud spend will be **\$392B**.

### Cloud Market Opportunity\*

25% CAGR through 2017



\*Source: IBM Market Insights, 1H 2014

\*\*Source: Gartner, p.6, Private Cloud Matures, Hybrid Cloud is Next, Gartner G00255302, Sept 6, 2013

\*\*\*Source: IDC Directions, "How SaaS Gets Built" Doc # DR2014\_T3\_RM March 2014

# IBM has built the world's most complete cloud portfolio



**\$7 billion**

invested to date  
to build cloud  
capabilities

**1,500 +**

cloud patents

**5.5 million**

client transactions  
processed daily  
through IBM's  
public cloud

**80%**

of Fortune 500  
companies use IBM's  
cloud capabilities

**15**

acquired companies,  
including SoftLayer,  
for cloud infrastructure

**2,000**

SoftLayer APIs  
to provide a view  
of the client's  
environment

**100 +**

industry-leading  
Software as a Service  
(SaaS) offerings

**5,000 +**

private and hybrid cloud  
engagements included  
IBM Systems in 2013

*We are investing \$1.2 billion  
to expand our cloud footprint  
and capabilities*

**15**

new data  
centers to  
be added

**40**

total cloud data  
centers across  
five continents



**In 2013 we grew our cloud revenue 69 percent, and we exited the year with a run rate for cloud "as a service" double that of 2012.**

Cloud Revenue

2013



**\$4.4 billion**

2012



**\$2.6 billion**

Cloud "as a service"  
run rate

2013



**\$2 billion**

2012



**\$1 billion**



## A systematic approach to engagement is now required

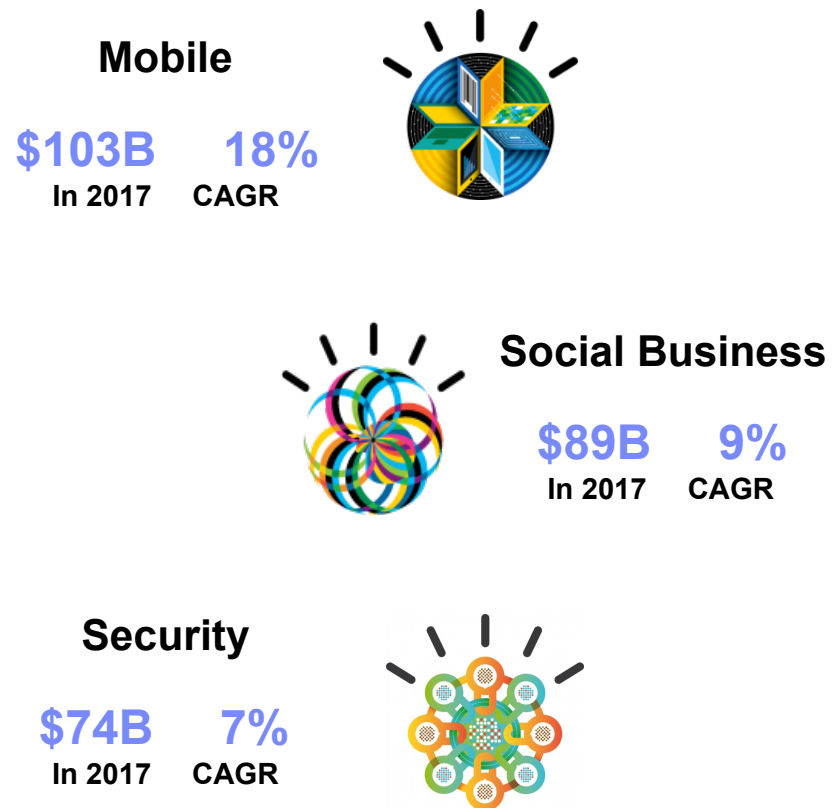
### Market trends...

**84%** of smartphone users check an app as soon as they wake up

**80%** of individuals are willing to trade their information for a personalized offering

**2/3** of US adults say they would not return to a business that lost their personal, confidential information

### Market Opportunity\*



\*Source: IBM Market Insights, 1H 2014



# IBM's portfolio enables enterprises and communities to engage customers, employees and citizens securely

**6,000**

security experts,  
3,000 mobile experts,  
2,800 social business  
experts

**4,300**

patents in mobile,  
social and security  
technologies

**#1 and #1**

market leader for  
enterprise social software;  
market leader in security and  
vulnerability management\*

**7 of 10**

top banks in the US,  
9 of top 10 in the UK  
and 2 of top 4 in Australia  
use IBM Security Solutions

**8**

companies acquired  
for mobile capabilities

**12**

companies acquired  
for security technologies

**25**

security labs globally,  
10 security operations  
centers globally

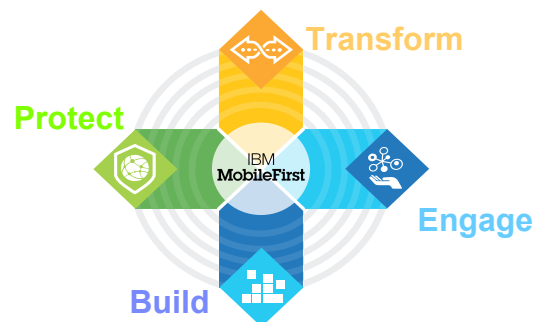
**15 billion**

security events monitored  
daily in 130 countries

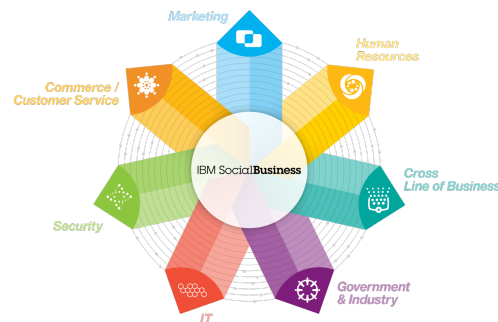
\*IDC, Worldwide Enterprise Social Software 2013-2017 Forecast and 2012 Vendor Shares, Doc #241323, June 2013  
IDC, Worldwide Security and Vulnerability Management 2013-2017 Forecast and 2012 Vendor Shares, Doc #242465, August 2013

## Our mobile, social and security portfolio generated double-digit revenue growth in 2013.

**69%** growth in Mobile



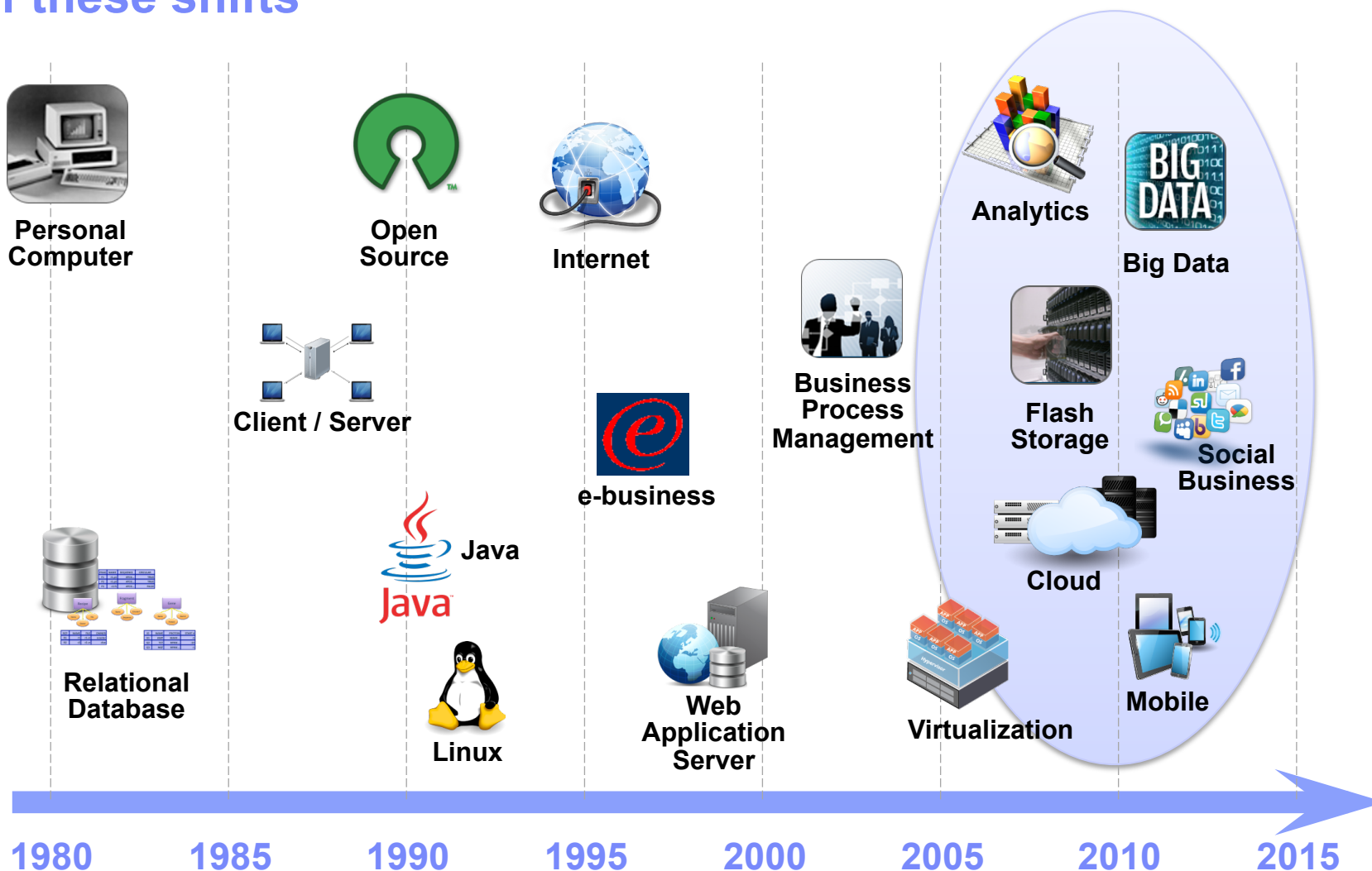
**45%** growth in Social Business



**19%** growth in Security



## The IT sector is being transformed by the convergence of these shifts



## IBM has built a culture of continuous transformation to create and capture value in an ever changing market

1	We remix our portfolio to higher value
2	We make new markets and engage new buyers
3	We reinvent core franchises for a new era of computing
4	We reinvent the enterprise itself for greater value and productivity
5	We enable expert, engaged employees to deliver a differentiated client experience



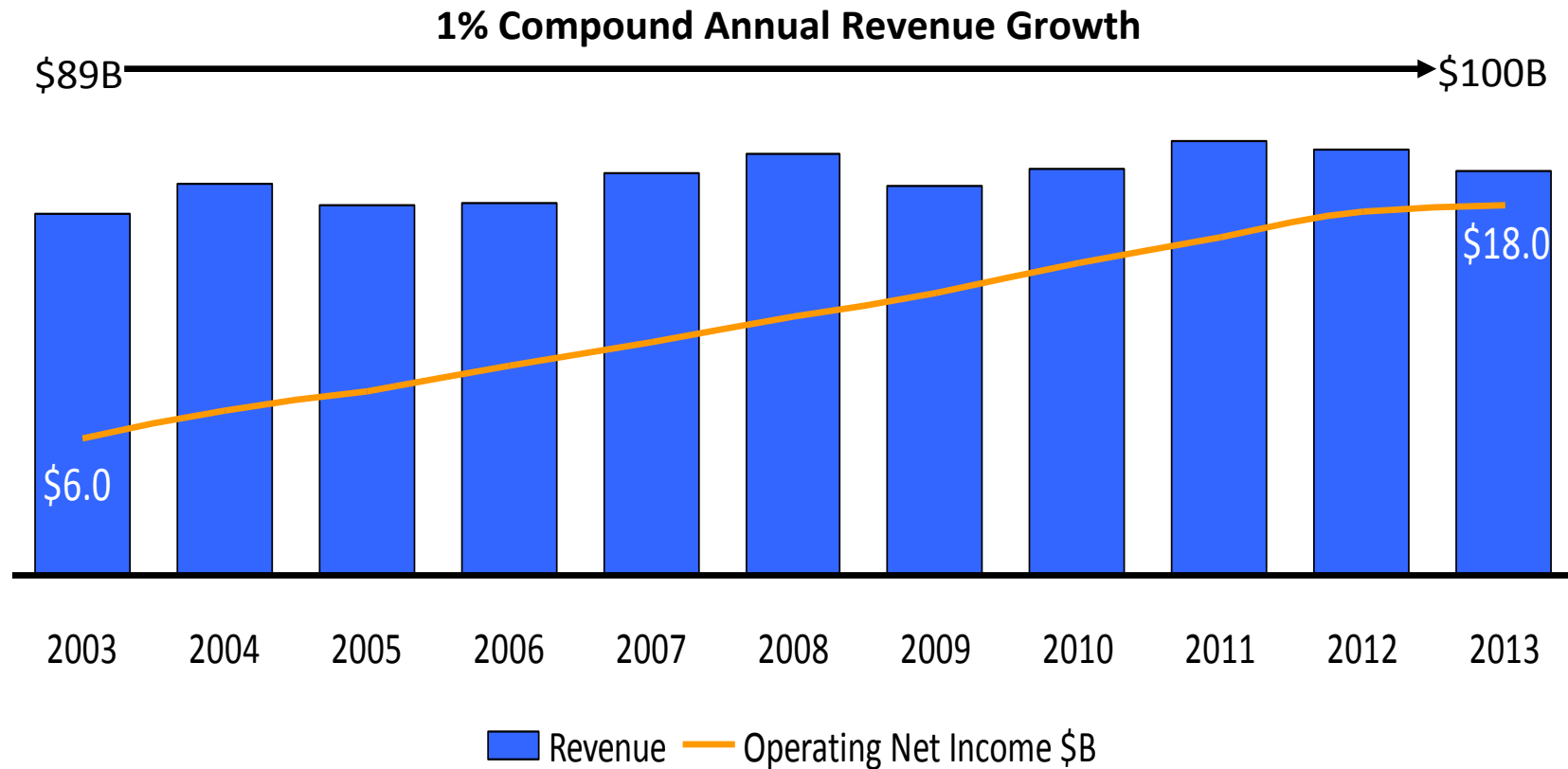
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## Agenda

- Strategic Overview

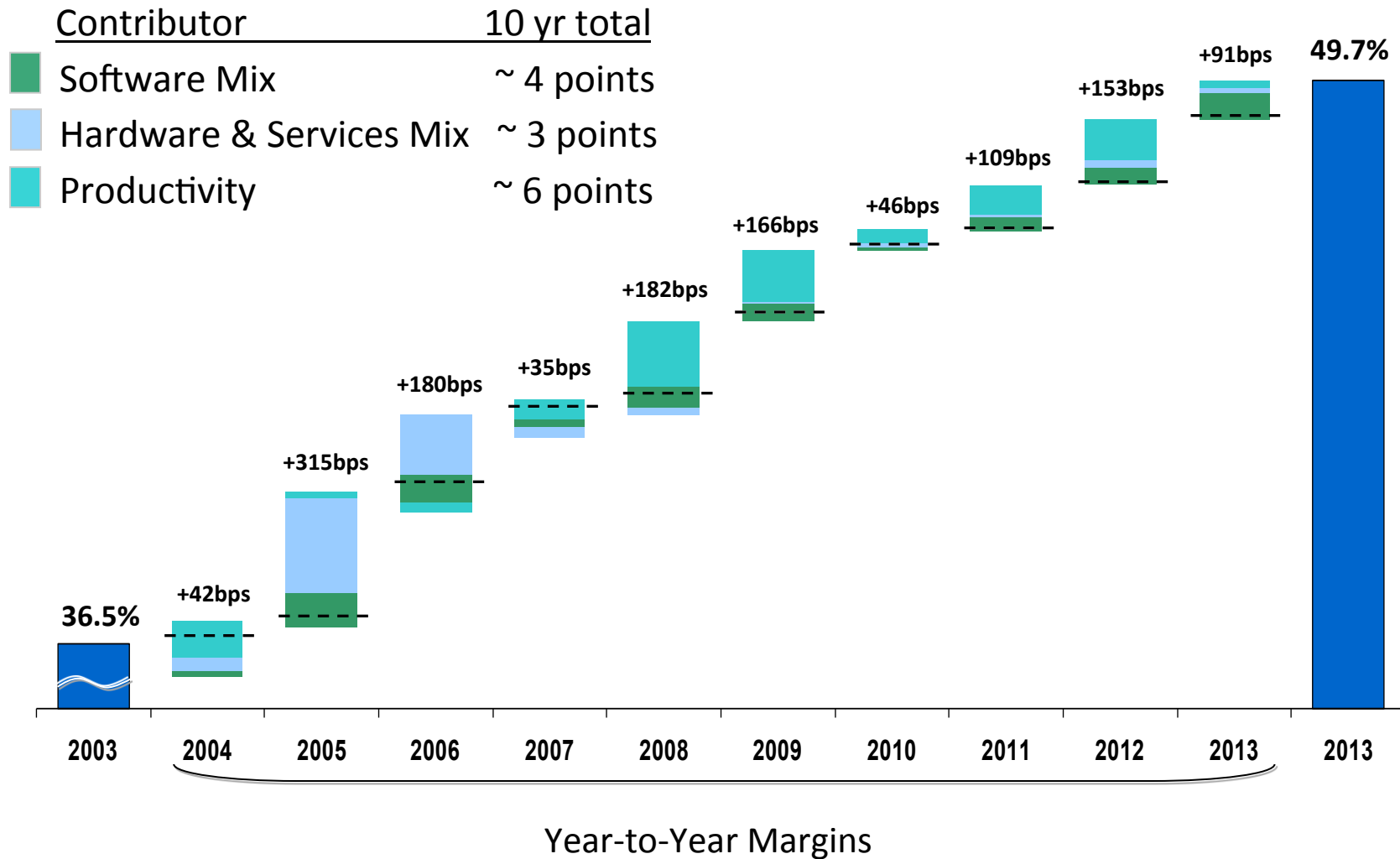
- Financial Model

## 12% compound growth in Operating Net Income driven by shift to higher value



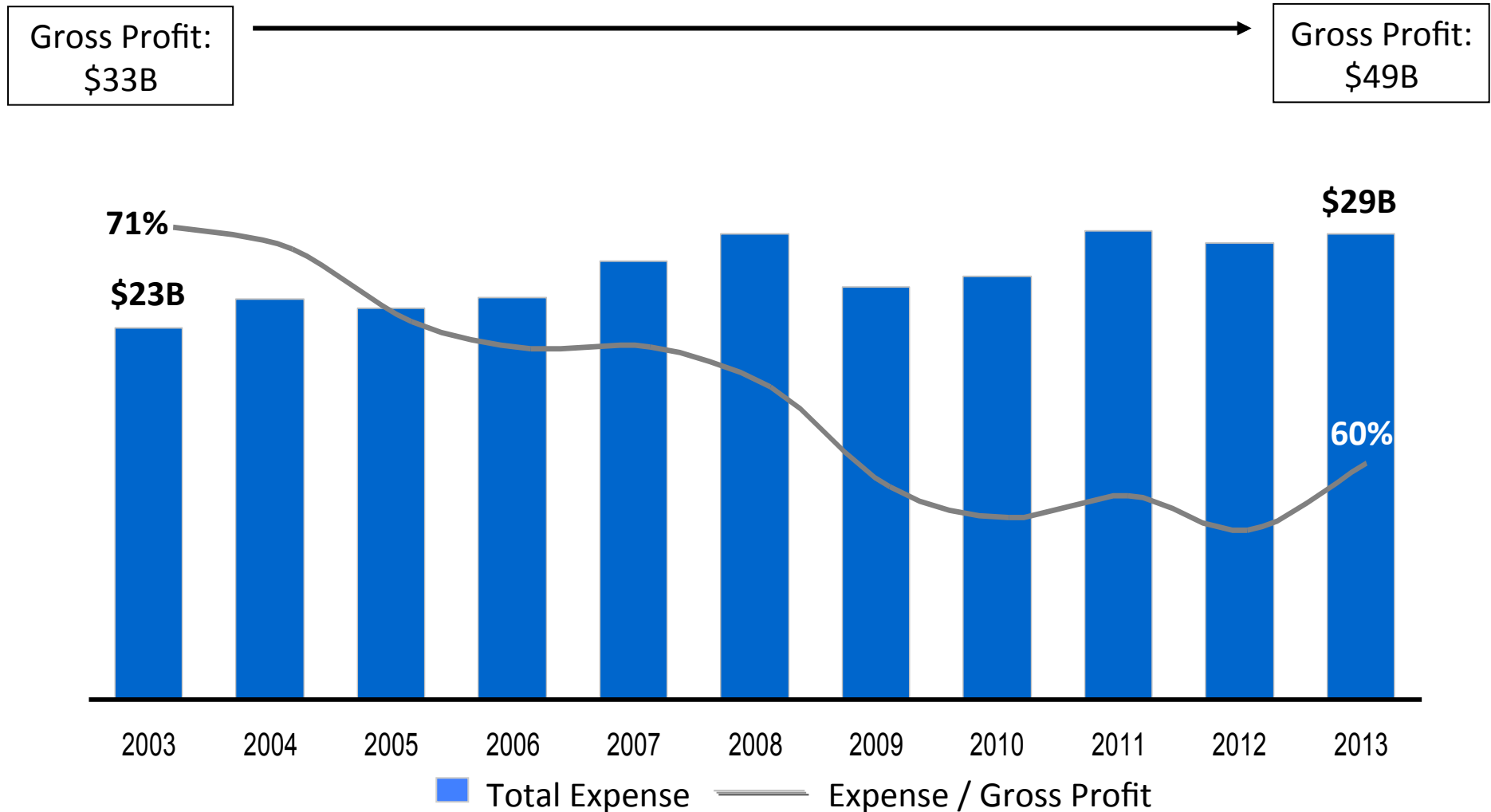
~3% CAGR excluding Divested Revenue: PC, Printers, PLM, Retail Store Solutions

## Significant Gross Profit margin expansion over the last decade



Operating (Non-GAAP) Gross Margins 2010-2013

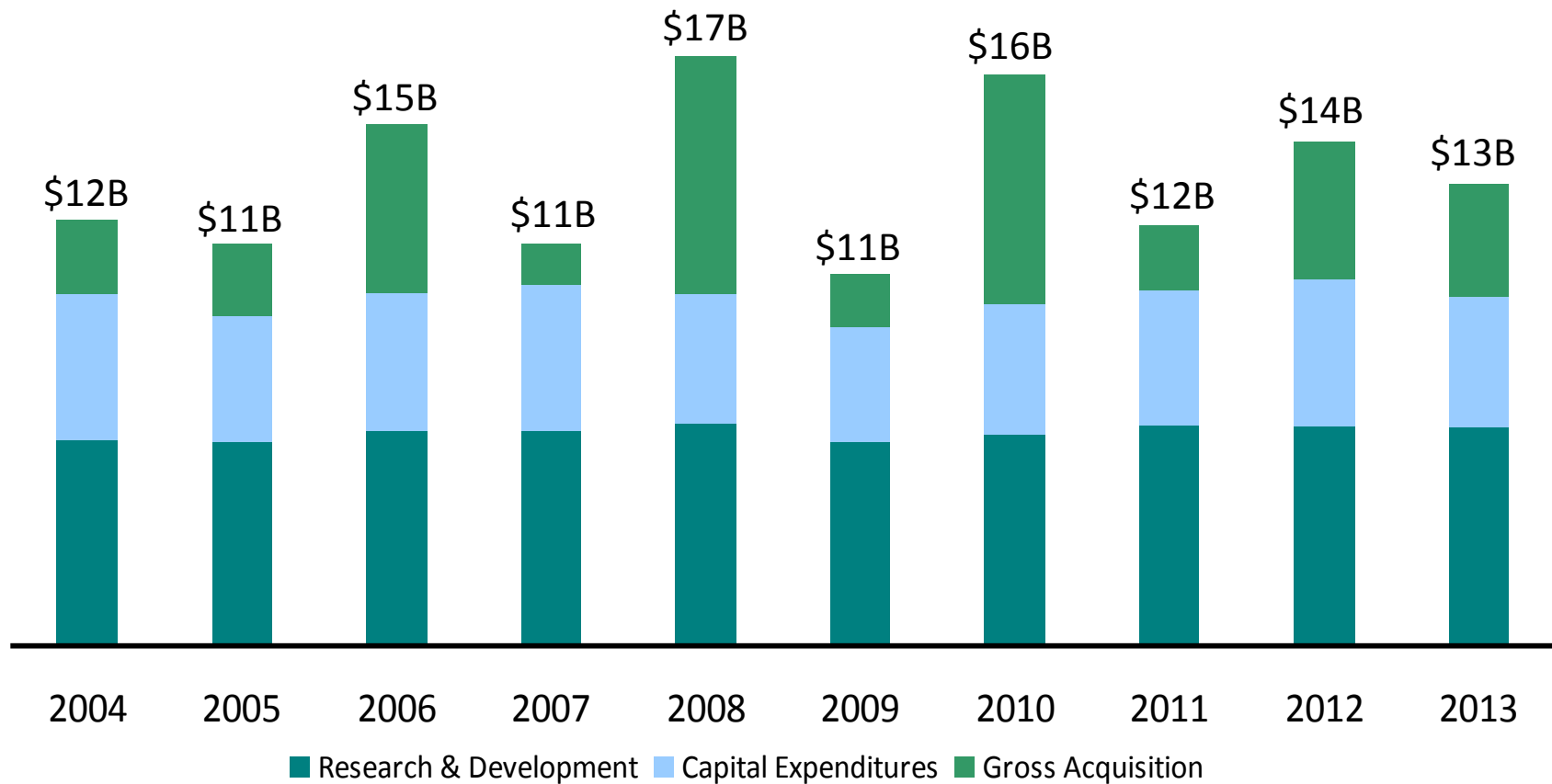
## Gross Profit growth reflects shift in investments to higher value and enterprise productivity





## Investment directed toward areas of opportunity

- \$133B invested over the last decade in R&D, Cap Ex, and Acquisitions
- Approximately 65% of 2013 investments focused on Software and Services



*Capital Expenditures excludes rentals and dispositions*

## Acquisitions aligned with Strategic Imperatives

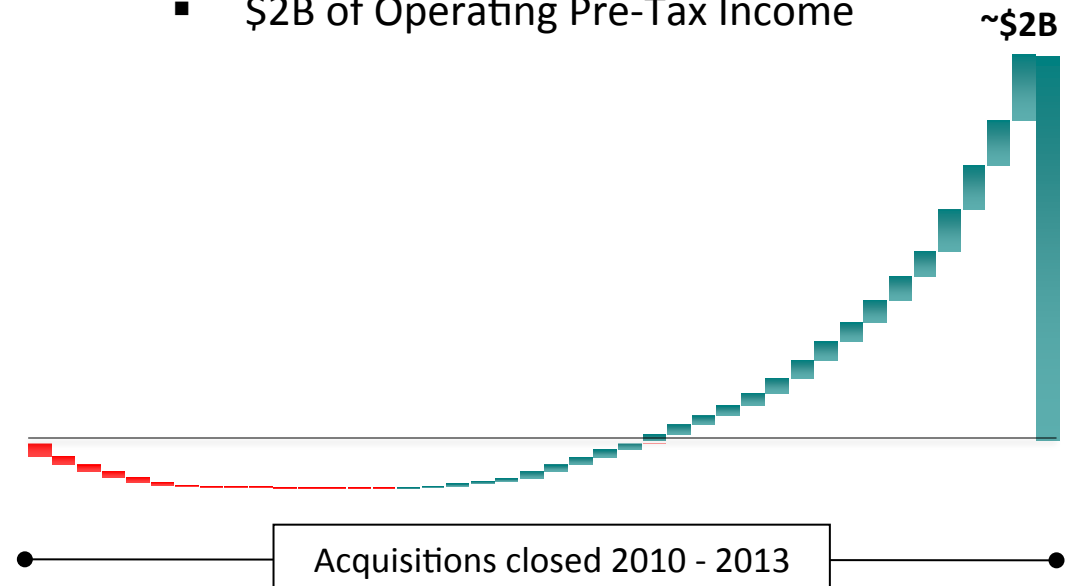
### Strategic Imperative acquisitions (2005 - 2013)

- **30** Data
- **15** Cloud
- **8** Mobile
- **12** Security

- Scalable intellectual property
- Key to solutions offerings
- Leverage synergies through global distribution

### Acquisition Operating PTI

- 43 companies acquired since 2010
- \$2B of Operating Pre-Tax Income

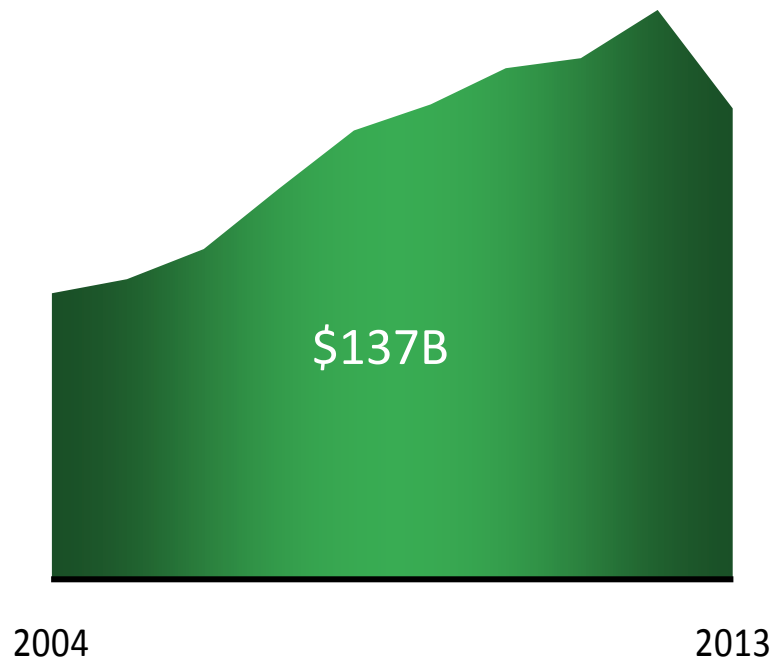


*Operating (non-GAAP) Pre-Tax Income*

## Free Cash Flow and cash utilization balanced over the long term

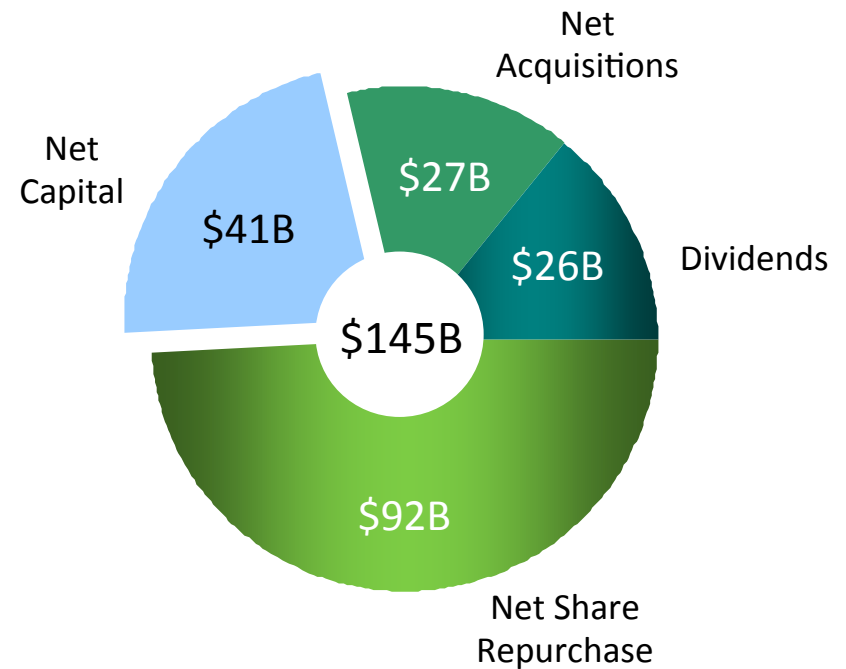
### Free Cash Flow

\$125B driven by Net Income



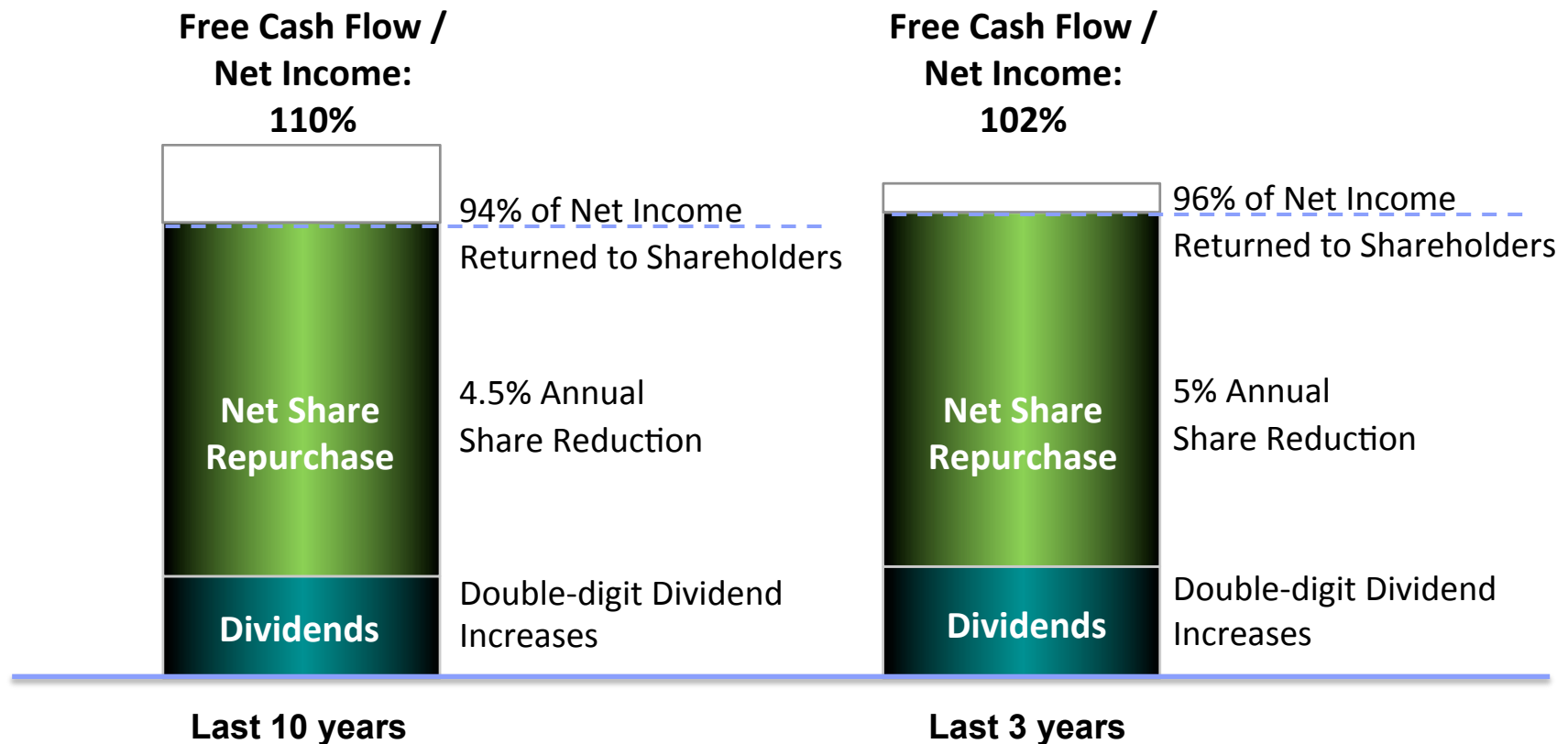
### Primary Cash Uses

Returned > 85% of Free Cash Flow to Shareholders







*Net acquisitions include cash used in acquisitions and from divestitures*

## Free Cash Flow Realization supports our model



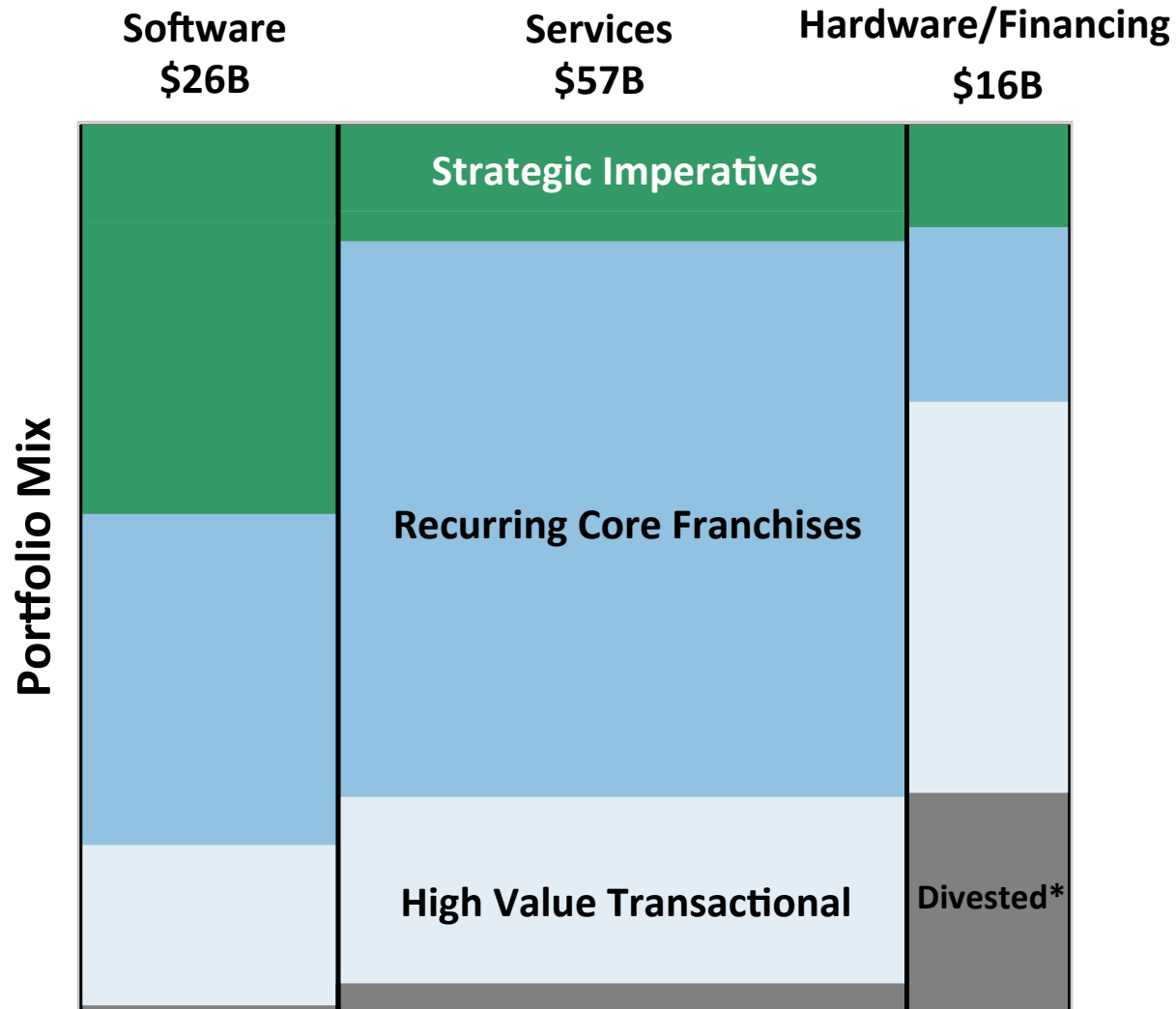
## IBM Portfolio includes:

- 
  - Strategic Imperatives for growth
    - Data, Cloud and Systems of Engagement
- 
  - Recurring Core Franchises
    - Annuity businesses in Services, Software and Financing
    - Highly recurring portions of our Hardware, Software and Services Transactional Businesses
- 
  - High Value Transactional Businesses
- 
  - Divested Content

**These areas of the portfolio cut across all business segments**

# IBM Portfolio

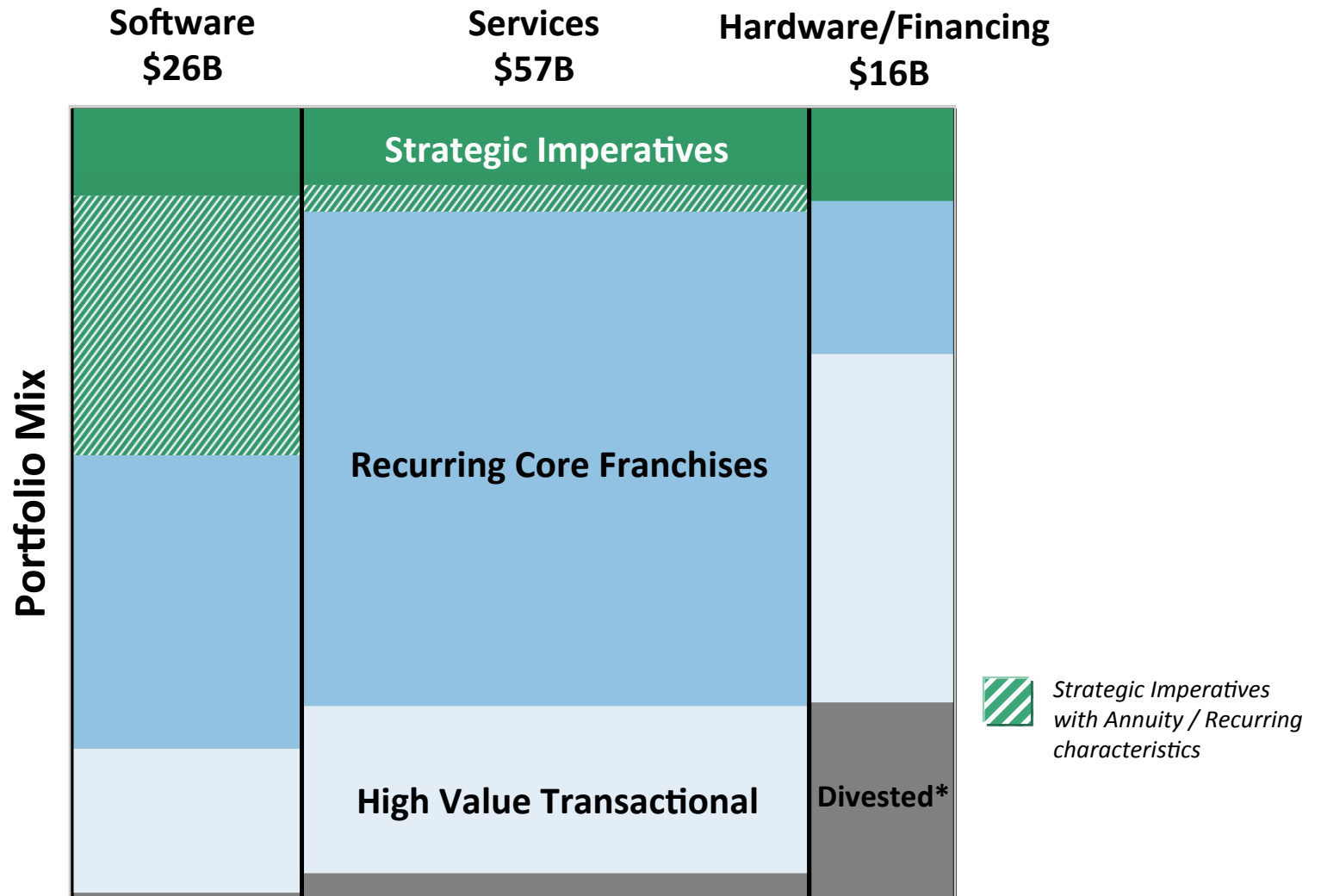
## 2013 Revenue



\* Divested Content represents Customer Care BPO and Industry Standard Servers

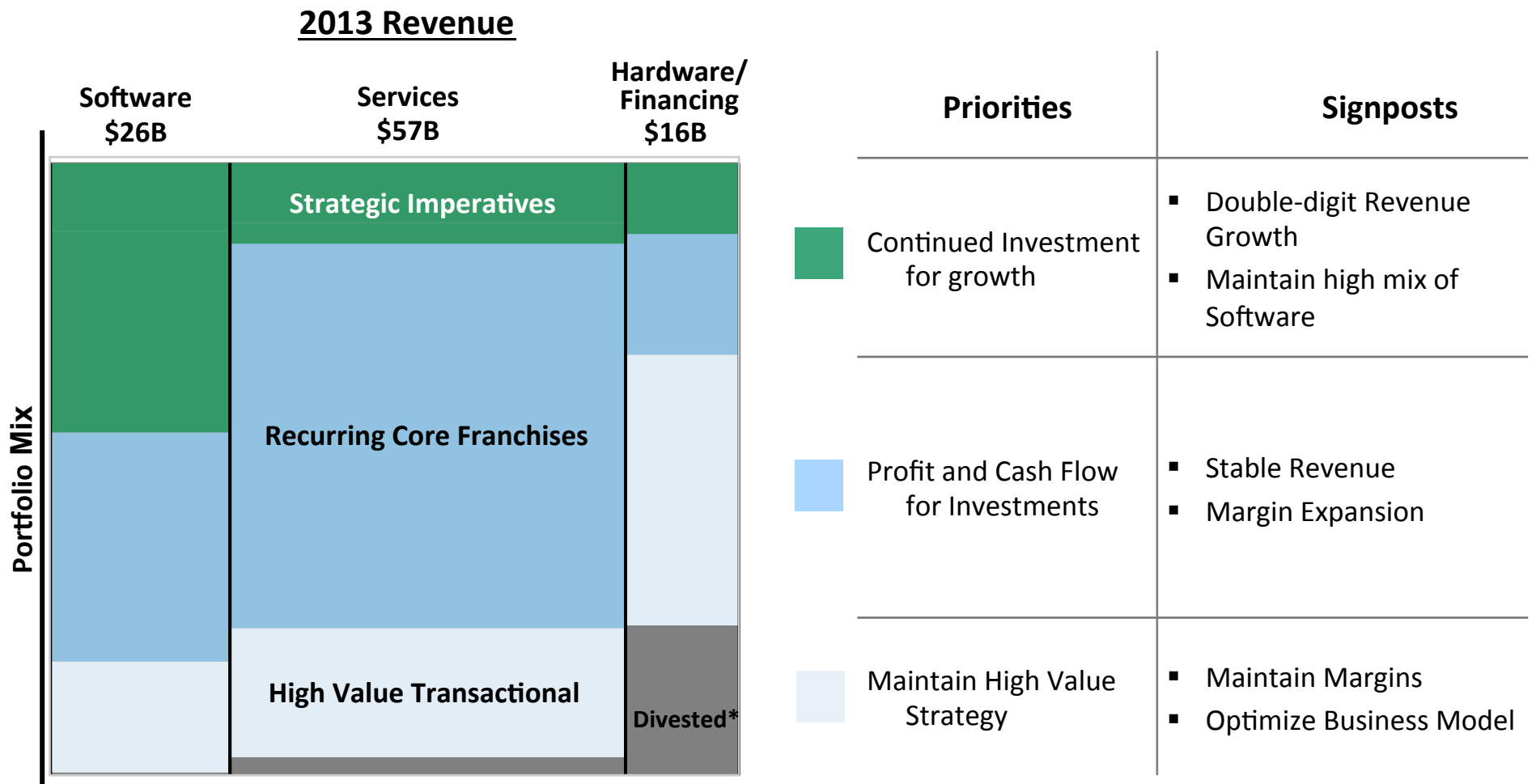
# IBM Portfolio

## 2013 Revenue



\* Divested Content represents Customer Care BPO and Industry Standard Servers

# IBM Portfolio



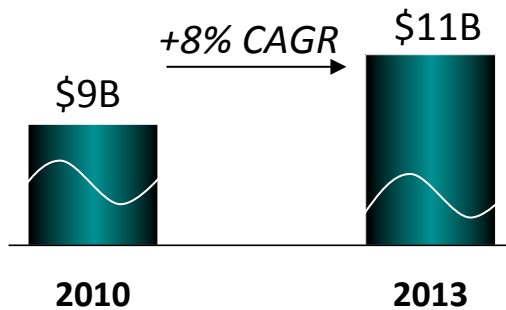
\* Divested content represents Customer Care BPO and Industry Standard Servers



## Software and Services contributed to Pre-tax Income growth

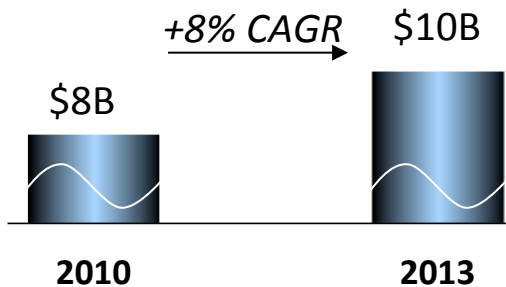
### Software Segment

- High margin Software growth



### Services Segments

- Large annuity content in Services



### Hardware Segment

- Focus on High End Servers and Storage stabilizes Hardware
  - Divested System x improves margins



2010 excludes PLM Gain

## Financial Model

### Revenue & Profit

Revenue growth supported by

- Double-digit 'Strategic Imperatives' growth
- Stability in the recurring core franchises
- Disciplined acquisitions

Pre-Tax Income growth driven by

- Expanding Gross Profit Margin
- Ongoing Enterprise productivity

### Cash Flow

Free Cash Flow Realization in the "90%'s"

- Supports Strategic investments
- Significant return to shareholders
  - Share Repurchase
  - Dividends

**"At Least" \$20 Operating EPS in 2015**

as a point along the way to delivering long term value to clients and shareholders

