

# IBM 4Q 2023 Earnings



January 24, 2024  
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# Forward-looking statements and non-GAAP information

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. Those statements by their nature address matters that are uncertain to different degrees. Those statements 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 website, or from IBM Investor Relations. Any forward-looking statement made during this presentation speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements except as required by law; these charts and the associated remarks and comments are integrally related and 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), the company also discusses, in its earnings press release and presentation materials, certain non-GAAP information including operating earnings and other "operating" financial measures, free cash flow, net cash from operating activities excluding IBM Financing receivables,

adjusted EBITDA and adjustments for currency. The rationale for management's use of this non-GAAP information is included as Exhibit 99.2 to the company's Form 8-K submitted to the SEC on January 24, 2024. The reconciliation of non-GAAP information to GAAP is included in the press release within Exhibit 99.1 to the company's Form 8-K submitted to the SEC on January 24, 2024, as well as on the slides entitled "Non-GAAP supplemental materials" in this presentation.

To provide better transparency, the company also discusses management performance metrics including annual recurring revenue, signings, and book-to-bill. The metrics are used to monitor the performance of the business and are viewed as useful decision-making information for management and stakeholders. The rationale for management's use of these performance metrics and their calculation are included in the Management Discussion section of the company's 2022 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 28, 2023. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-4Q23>

Arvind Krishna

Chairman and  
Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,  
Chief Financial Officer



## CEO perspective

“In the fourth quarter, we grew revenue in all of our segments, driven by continued adoption of our hybrid cloud and AI offerings. Client demand for AI is accelerating and our book of business for watsonx and generative AI roughly doubled from the third to the fourth quarter. For the year, revenue growth was in line with our expectations, and we exceeded our free cash flow objective.

Based on the strength of our portfolio and demonstrated track record of innovation, for 2024 we expect revenue performance in line with our mid-single digit model and about \$12 billion in free cash flow.”

**Arvind Krishna**

*IBM Chairman and CEO*



4Q23  
Performance



Generative AI



Clients, Innovation, Portfolio

# Financial highlights

**4Q23**

**+3.3%**

Revenue growth yr/yr

**FY23**

**\$11.2B**

Free cash flow

“We again demonstrated the fundamental strengths of our business in the fourth quarter through solid, broad-based revenue growth, continued profit margin expansion, increased productivity gains and strong cash generation.

Throughout 2023, those strengths enabled us to increase our investment in R&D and talent, and complete nine acquisitions to bolster our hybrid cloud and AI capabilities, all while continuing to return value to shareholders through our dividend.”

**James Kavanaugh**

*IBM SVP & CFO*

Revenue growth rates @CC

**\$17.4B**

Revenue

**~75%**

Revenue mix (full yr)  
in software and consulting

**~50%**

Recurring revenue mix (full yr)  
led by high-value software

**140bps**

Gross margin expansion  
(operating)

**110bps**

Pre-tax margin expansion  
(operating)

**\$13.5B**

Cash and marketable securities

# Software

Hybrid cloud and AI platforms resonating:  
OpenShift and watsonx

Solid and growing recurring revenue base;  
ARR\* of \$14.4 billion, +7% yr/yr

Wrapping on seasonally strong  
transactional growth

Continued investment in innovation

+2%

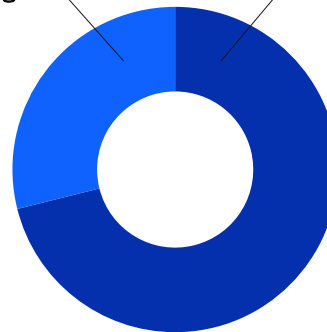
4Q23 revenue growth  
\$7.5B revenue

+5%

FY23 revenue growth  
\$26.3B revenue

## Revenue categories - 4Q23

Transaction Processing  
+4% yr/yr



Hybrid Platform  
& Solutions  
+1% yr/yr

Red Hat Automation +7%  
Data & AI Security +1% (6%)

4Q/FY 23 results; revenue growth rates @CC

\*Annual recurring revenue for Hybrid Platform & Solutions, growth rate @CC

# Consulting

Technology-driven transformations continue to drive broad-based growth

Strength in strategic partner practices

Book-to-bill ratio >1.15 for the year

Continued margin expansion

+5%

4Q23 revenue growth  
\$5.0B revenue

+6%

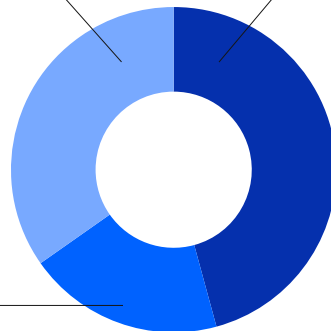
FY23 revenue growth  
\$20.0B revenue

## Revenue categories – 4Q23

Application Operations  
+6% yr/yr

Technology Consulting  
+4% yr/yr

Business Transformation  
+5% yr/yr



# Infrastructure

zSystems delivered growth, with z16 significantly ahead of prior cycle

Installed MIPS capacity up ~2X over last two z cycles

Distributed Infrastructure performance reflects Power and storage growth

Strong gross and pre-tax margin performance

+2%

4Q23 revenue growth  
\$4.6B revenue

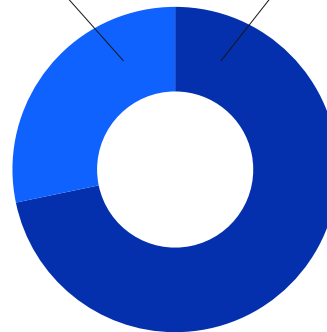
(4%)

FY23 revenue growth  
\$14.6B revenue

## Revenue categories – 4Q23

Infrastructure Support  
(9%) yr/yr

Hybrid  
Infrastructure  
+7% yr/yr



zSystems +8%  
Distributed  
Infrastructure +7%



# Summary

## 4Q23 / FY23 Summary

Results demonstrate strength of portfolio and sustainability of revenue growth

watsonx gaining traction across Software and Consulting

Operating leverage and productivity initiatives drive improving margin

Strongest level of cash generation since 2019

## 2024 Expectations

Revenue growth @CC in line with mid-term model

Increased productivity target to \$3 billion in annual run-rate savings

Free cash flow of about \$12 billion

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# Supplemental material

- Revenue and P&L highlights
- Adjusted EBITDA performance
- Cash flow and balance sheet highlights
- Currency impact on revenue growth
- Software & Infrastructure segment details
- Consulting segment details
- Expense summary
- Balance sheet summary
- Cash flow summary
- Cash flow (ASC 230)

- Revenue and P&L highlights – FY 2023
- Software & Infrastructure segment details – FY 2023
- Consulting segment details – FY 2023
- Expense summary – FY 2023
- Retirement-related summary
- Software segment revenue categories
- Consulting segment revenue categories
- Infrastructure segment revenue categories
- Non-GAAP supplemental materials

# Revenue and P&L highlights

Revenue highlights	4Q23	B/(W) Yr/Yr
Revenue	\$17.4	3%
Americas	\$8.9	5%
Europe/ME/Africa	\$5.3	(2%)
Asia Pacific	\$3.2	8%

Operating P&L highlights \$	4Q23	B/(W) Yr/Yr
Gross profit	\$10.4	7%
Expense	\$6.3	(5%)
Pre-tax income	\$4.2	9%
Net income	\$3.6	9%
Earnings per share	\$3.87	8%
Adjusted EBITDA	\$5.5	8%

Operating P&L highlights %	4Q23	B/(W) Yr/Yr
Gross profit margin	60.1%	1.4 pts
Expense E/R	36.1%	(0.3 pts)
Pre-tax income margin	24.0%	1.1 pts
Net income margin	20.6%	0.9 pts
Tax rate	13.9%	(0.2 pts)

# Adjusted EBITDA performance

	4Q23	Yr/Yr	FY23	Yr/Yr
Operating (non-GAAP) pre-tax income from continuing operations	\$4.2	\$0.3	\$10.3	\$0.5
Net interest expense	\$0.3	\$0.0	\$0.9	(\$0.1)
Depreciation/Amortization of non-acquired intangible assets	\$0.7	(\$0.0)	\$2.8	(\$0.3)
Stock-based compensation	\$0.3	\$0.0	\$1.1	\$0.1
Workforce rebalancing charges	\$0.0	\$0.0	\$0.4	\$0.4
Corporate (gains) and charges*	(\$0.0)	\$0.0	(\$0.1)	\$0.3
Adjusted EBITDA	\$5.5	\$0.4	\$15.5	\$0.9

\$ in billions

\*Corporate (gains) and charges primarily consists of unique corporate actions such as gains on divestitures

# Cash flow and balance sheet highlights

Cash flow	FY23	Yr/Yr*
Net cash from operations**	\$12.7	\$1.5
Free cash flow***	\$11.2	\$1.9

Selected uses of cash	FY23	Yr/Yr*
Net capital expenditures	\$1.5	(\$0.4)
Acquisitions	\$5.1	\$2.7
Dividends	\$6.0	\$0.1

Balance sheet	Dec 23	Dec 22
Cash & marketable securities	\$13.5	\$8.8
Total debt	\$56.5	\$50.9

Selected debt measures	Dec 23	Dec 22
IBM Financing debt	\$11.9	\$12.9
Core (non-IBM Financing) debt	\$44.7	\$38.1

\$ in billions

\*FY22 YTD includes immaterial cash flows from discontinued operations

\*\*Non-GAAP financial measure; excludes Financing receivables

\*\*\*Non-GAAP financial measure; adjusts for Financing receivables and net capital expenditures

# Currency impact on revenue growth

Quarterly averages per US \$	4Q23	Yr/Yr	Spot 1/23/24	1Q24	2Q24	3Q24	4Q24	FY24
Euro	0.93	5%	0.92	1%	(0%)	(0%)	1%	0%
Pound	0.81	6%	0.79	4%	1%	0%	2%	2%
Yen	148	(5%)	148	(12%)	(8%)	(3%)	(0%)	(5%)
Revenue impact, future @ 1/23/24 Spot		0.8 pts		(1-1.5 pts)	(1-1.5 pts)	(0-1 pts)	~0 pts	~(1 pts)
<i>Prior view @ 10/24/23 Spot</i>		(0-1 pts)		(2-2.5 pts)	(2-2.5 pts)			(1-2 pts)
	US \$B	Yr/Yr						
Revenue as reported	\$17.4	4.1%						
Currency impact		0.8 pts						
Revenue @CC		3.3%						

# Software & Infrastructure segment details

Software segment	4Q23	B/(W) Yr/Yr
Revenue	\$7.5	2%
Hybrid Platform & Solutions	\$5.3	1%
Red Hat		7%
Automation		Flat
Data & AI		1%
Security		(6%)
Transaction Processing	\$2.2	4%
Pre-tax income	\$2.4	3%
Pre-tax income margin	32.2%	Flat
Annual recurring revenue*	\$14.4	7%

Infrastructure segment	4Q23	B/(W) Yr/Yr
Revenue	\$4.6	2%
Hybrid Infrastructure	\$3.3	7%
zSystems		8%
Distributed Infrastructure		7%
Infrastructure Support	\$1.3	(9%)
Pre-tax income	\$1.2	15%
Pre-tax income margin	25.7%	2.8 pts

Revenue growth rates @CC, \$ in billions

\*Annual recurring revenue for Hybrid Platform & Solutions, growth rate @CC



# Consulting segment details

Consulting segment	4Q23	B/(W) Yr/Yr
Revenue	\$5.0	5%
Business Transformation	\$2.3	5%
Technology Consulting	\$1.0	4%
Application Operations	\$1.8	6%
Gross profit margin	27.7%	0.3 pts
Pre-tax income	\$0.6	11%
Pre-tax income margin	11.5%	0.5 pts
Signings	\$6.6	8%
Book-to-bill ratio (FY)	>1.15	

# Expense summary

Expense	4Q23	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
Operating expense & other income	\$6.3	(5%)	(5 pts)	(2 pts)	1 pts
SG&A – operating	\$4.5	Flat	0 pts	(1 pts)	1 pts
RD&E	\$1.7	(9%)	0 pts	(2 pts)	(7 pts)
IP and custom development income	(\$0.2)	(1%)			
Other (income)/expense - operating	(\$0.2)	(24%)			
Interest expense	\$0.4	(29%)			

\$ in billions

\*Includes acquisitions in the last twelve months net of non-operating acquisition-related charges and includes impact of closed divested businesses

\*\*Represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures

# Balance sheet summary

	Dec 23	Dec 22
Cash & marketable securities	\$13.5	\$8.8
Core (non-IBM Financing) assets*	\$107.9	\$103.4
IBM Financing assets	\$13.9	\$15.0
Total assets	\$135.2	\$127.2
Other liabilities	\$56.1	\$54.3
Core (non-IBM Financing) debt*	\$44.7	\$38.1
IBM Financing debt	\$11.9	\$12.9
Total debt	\$56.5	\$50.9
Total liabilities	\$112.6	\$105.2
Equity	\$22.6	\$22.0

\$ in billions

\*Includes eliminations of inter-company activity

# Cash flow summary

	4Q23	B/(W) Yr/Yr	FY23	B/(W) Yr/Yr*
Net cash from operations	\$4.5	\$0.5	\$13.9	\$3.5
Less: IBM Financing receivables	(\$1.9)	(\$0.1)	\$1.2	\$1.9
Net cash from operations (excluding IBM Financing receivables)	\$6.3	\$0.6	\$12.7	\$1.5
Net capital expenditures	(\$0.3)	\$0.3	(\$1.5)	\$0.4
Free cash flow (excluding IBM Financing receivables)	\$6.1	\$0.9	\$11.2	\$1.9
Acquisitions	(\$0.1)	\$1.2	(\$5.1)	(\$2.7)
Divestitures	-	(\$0.0)	(\$0.0)	(\$1.3)
Dividends	(\$1.5)	(\$0.0)	(\$6.0)	(\$0.1)
Non-IBM Financing debt	(\$2.0)	\$0.8	\$5.5	\$3.6
Other (includes IBM Financing net A/R & IBM Financing debt)	\$0.1	\$0.6	(\$1.0)	\$1.9
Change in cash & marketable securities	\$2.5	\$3.4	\$4.6	\$3.3

\$ in billions

\*FY22 includes immaterial cash flows from discontinued operations

# Cash flow (ASC230)

	4Q23	4Q22	FY23	FY22 <sup>*</sup>
Net income from operations	\$3.3	\$2.7	\$7.5	\$1.6
Pension settlement charges	-	-	-	\$5.9
Depreciation / amortization of intangibles	\$1.2	\$1.1	\$4.4	\$4.8
Stock-based compensation	\$0.3	\$0.2	\$1.1	\$1.0
Operating assets and liabilities / other, net	\$1.6	\$1.7	(\$0.3)	(\$2.2) <sup>**</sup>
IBM Financing A/R	(\$1.9)	(\$1.8)	\$1.2	(\$0.7)
Net cash provided by operating activities	\$4.5	\$4.0	\$13.9	\$10.4
Capital expenditures, net of payments & proceeds	(\$0.3)	(\$0.5)	(\$1.5)	(\$1.9)
Divestitures, net of cash transferred	-	\$0.0	(\$0.0)	\$1.3
Acquisitions, net of cash acquired	(\$0.1)	(\$1.3)	(\$5.1)	(\$2.3)
Marketable securities / other investments, net	\$3.2	\$0.6	(\$0.5)	(\$1.3)
Net cash provided by/(used in) investing activities	\$2.8	(\$1.3)	(\$7.1)	(\$4.2)
Debt, net of payments & proceeds	(\$0.1)	(\$1.4)	\$4.5	\$1.2
Dividends	(\$1.5)	(\$1.5)	(\$6.0)	(\$5.9)
Financing - other	\$0.0	(\$0.0)	(\$0.2)	(\$0.2)
Net cash provided by/(used in) financing activities	(\$1.6)	(\$2.9)	(\$1.8)	(\$5.0)
Effect of exchange rate changes on cash	\$0.1	\$0.2	\$0.0	(\$0.2)
Net change in cash, cash equivalents & restricted cash	\$5.8	\$0.0	\$5.1	\$1.0

\$ in billions

\*FY22 includes immaterial cash flows from discontinued operations

\*\*FY22 includes a \$1.5B tax effect associated with the one-time, non-cash pension settlement charge

# Revenue and P&L highlights – FY 2023

Revenue highlights	FY23	B/(W) Yr/Yr
Revenue	\$61.9	3%
Americas	\$31.7	2%
Europe/ME/Africa	\$18.5	1%
Asia Pacific	\$11.7	7%

Operating P&L highlights \$	FY23	B/(W) Yr/Yr
Gross profit	\$34.9	5%
Expense	\$24.6	(5%)
Pre-tax income	\$10.3	5%
Net income	\$8.9	7%
Earnings per share	\$9.62	5%
Adjusted EBITDA	\$15.5	6%

Operating P&L highlights %	FY23	B/(W) Yr/Yr
Gross profit margin	56.5%	1.3 pts
Expense E/R	39.8%	(0.9 pts)
Pre-tax income margin	16.7%	0.4 pts
Net income margin	14.3%	0.6 pts
Tax rate	14.0%	1.2 pts

# Software & Infrastructure segment details – FY 2023

Software segment	FY23	B/(W) Yr/Yr
Revenue	\$26.3	5%
Hybrid Platform & Solutions	\$18.7	5%
Red Hat		9%
Automation		4%
Data & AI		5%
Security		(2%)
Transaction Processing	\$7.6	6%
Pre-tax income	\$6.6	7%
Pre-tax income margin	25.0%	0.4 pts

Infrastructure segment	FY23	B/(W) Yr/Yr
Revenue	\$14.6	(4%)
Hybrid Infrastructure	\$9.2	(2%)
zSystems		(4%)
Distributed Infrastructure		(1%)
Infrastructure Support	\$5.4	(7%)
Pre-tax income	\$2.4	7%
Pre-tax income margin	16.6%	1.8 pts

# Consulting segment details – FY 2023

Consulting segment	FY23	B/(W) Yr/Yr
Revenue	\$20.0	6%
Business Transformation	\$9.2	5%
Technology Consulting	\$3.8	4%
Application Operations	\$7.0	9%
Gross profit margin	26.6%	1.1 pts
Pre-tax income	\$1.9	14%
Pre-tax income margin	9.6%	0.8 pts
Signings	\$23.3	17%
Book-to-bill ratio	>1.15	



# Expense summary – FY 2023

Expense	FY23	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
Operating expense & other income	\$24.6	(5%)	(2 pts)	(1 pts)	(1 pts)
SG&A – operating	\$18.0	(2%)	0 pts	0 pts	(3 pts)
RD&E	\$6.8	(3%)	1 pts	1 pts	(5 pts)
IP and custom development income	(\$0.9)	30%			
Other (income)/expense - operating	(\$0.9)	(21%)			
Interest expense	\$1.6	(32%)			

\$ in billions

\*Includes acquisitions in the last twelve months net of non-operating acquisition-related charges and includes impact of closed divested businesses

\*\*Represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures

# Retirement-related summary

Key assumptions and metrics	2022	2023	2024
Funded status at year end*			
US	125%	123%	
WW	114%	111%	
Discount rate at year end			
US	5.3%	5.0%	
WW	4.4%	4.0%	
Expected ROA at prior year end			
US	4.0%	5.5%	5.0%
WW	3.6%	4.9%	4.9%
Actual ROA			
US	(14.3%)	4.3%	
WW	(15.7%)	4.5%	

Cost and contributions	Expected	
	2023	2024
Operating cost	1.2	1.1
Non-operating cost	0.0	0.4
Total cost	1.1	1.5
Contributions**	1.8	1.5

\$ in billions

\*Qualified defined benefit plans

\*\* Includes cash and non-cash contributions; 2024 contributions do not reflect impact of salary increase related to the 2024 U.S. Retirement Plan changes

# Software segment categories

## Revenue categories

### Hybrid Platform & Solutions

Software, infused with AI, to help clients operate, manage, and optimize their IT resources and business processes within hybrid, multi-cloud environments

Red Hat: incl. RHEL, OpenShift, Ansible

Automation: incl. business automation, AIOps and management, integration, and application servers

Data & AI: incl. data fabric, customer care, data management, business analytics, dataops & governance, asset & supply chain management, information exchange and weather

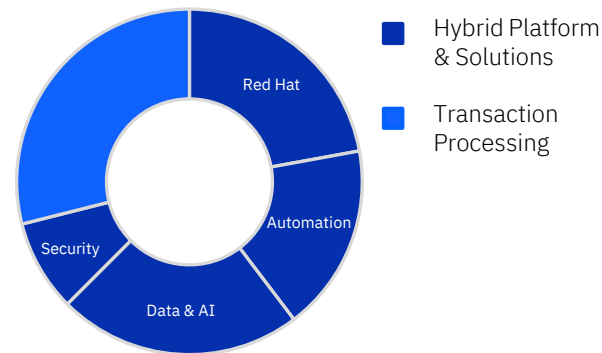
Security: incl. software and services for threat, data and identity

### Transaction Processing

Software that supports clients' mission-critical on-premise workloads in industries such as banking, airlines and retail

incl. transaction processing software such as Customer Information Control System and storage software, and analytics and integration software running on IBM operating systems (e.g., DB2 and WebSphere running on z/OS)

## Revenue categories – FY 2023



# Consulting segment categories

## Revenue categories

### Business Transformation

Strategy, process design, system implementation and operations services to improve and transform key business processes.

Deploys AI and automation in business processes to exploit the value of data and includes an ecosystem of partners alongside IBM technology, which includes strategic partnerships with Adobe, Oracle, Salesforce and SAP, among others

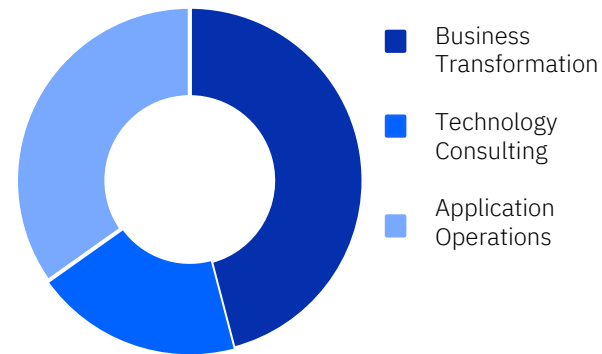
### Technology Consulting

Skills to architect and implement cloud platforms, including Amazon, Microsoft and IBM, and strategies to transform the enterprise experience and enable innovation, including application modernization for hybrid cloud with Red Hat OpenShift

### Application Operations

Application and cloud platform services required to operationalize and run cloud platforms. Facilitates clients' efforts to manage, optimize and orchestrate application and data workloads across platforms and environments through both custom applications and ISV packages

## Revenue categories – FY 2023



# Infrastructure segment categories

## Revenue categories

### Hybrid Infrastructure

Innovative infrastructure platforms to help meet the new requirements of hybrid multi-cloud and enterprise AI workloads leveraging flexible and as-a-service consumption models

zSystems: incl. hardware and operating system

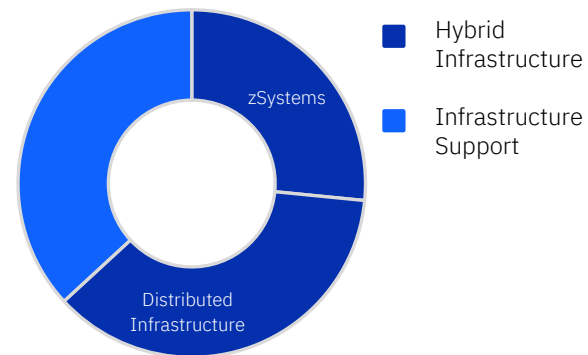
Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

### Infrastructure Support

Comprehensive, proactive and AI enabled services to maintain and improve the availability and value of clients' IT infrastructure (hardware and software) both on-premises and in the cloud

incl. maintenance for IBM products and other technology platforms

## Revenue categories – FY 2023



# Non-GAAP supplemental materials

## Reconciliation of revenue performance - 4Q 2023 & FY 2023

	4Q23 Yr/Yr			FY23 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Total revenue	4%	3%	Total revenue	2%	3%
Americas	5%	5%	Americas	2%	2%
Europe/ME/Africa	2%	(2%)	Europe/ME/Africa	3%	1%
Asia Pacific	6%	8%	Asia Pacific	2%	7%

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights”, “Revenue and P&L highlights – FY 2023” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of segment revenue performance - 4Q 2023

	4Q23 Yr/Yr			4Q23 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Software	3%	2%	Consulting	6%	5%
Hybrid Platform & Solutions	2%	1%	Business Transformation	6%	5%
Red Hat	8%	7%	Technology Consulting	5%	4%
Automation	1%	Flat	Application Operations	7%	6%
Data & AI	1%	1%			
Security	(5%)	(6%)	Infrastructure	3%	2%
Transaction Processing	5%	4%	Hybrid Infrastructure	8%	7%
			zSystems	8%	8%
			Distributed Infrastructure	8%	7%
			Infrastructure Support	(9%)	(9%)

The above reconciles the non-GAAP financial information contained in the “Software”, “Consulting”, “Infrastructure”, “Software & Infrastructure segment details”, “Consulting segment details” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of segment revenue performance - FY 2023

	FY23 Yr/Yr			FY23 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Software	5%	5%	Consulting	5%	6%
Hybrid Platform & Solutions	5%	5%	Business Transformation	4%	5%
Red Hat	9%	9%	Technology Consulting	2%	4%
Automation	3%	4%	Application Operations	7%	9%
Data & AI	5%	5%			
Security	(2%)	(2%)	Infrastructure	(5%)	(4%)
Transaction Processing	6%	6%	Hybrid Infrastructure	(2%)	(2%)
			zSystems	(5%)	(4%)
			Distributed Infrastructure	(1%)	(1%)
			Infrastructure Support	(8%)	(7%)

The above reconciles the non-GAAP financial information contained in the “Software”, “Consulting”, “Infrastructure”, “Software & Infrastructure segment details – FY 2023”, “Consulting segment details – FY 2023” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP supplemental materials

## Reconciliation of expense summary - 4Q 2023 & FY 2023

	4Q23			FY23		
	GAAP	Non-GAAP adjustments	Operating (non-GAAP)	GAAP	Non-GAAP adjustments	Operating (non-GAAP)
SG&A						
Currency	0 pts	0 pts	0 pts	0 pts	0 pts	0 pts
Acquisitions/divestitures	(1 pts)	0 pts	(1 pts)	0 pts	0 pts	0 pts
Base*	1 pts	0 pts	1 pts	(2 pts)	0 pts	(3 pts)
RD&E						
Currency	0 pts	0 pts	0 pts	1 pts	0 pts	1 pts
Acquisitions/divestitures	(2 pts)	0 pts	(2 pts)	1 pts	0 pts	1 pts
Base*	(7 pts)	0 pts	(7 pts)	(5 pts)	0 pts	(5 pts)
Operating expense & other income						
Currency	(5 pts)	(1 pts)	(5 pts)	(1 pts)	(1 pts)	(2 pts)
Acquisitions/divestitures	(1 pts)	0 pts	(2 pts)	(1 pts)	0 pts	(1 pts)
Base*	3 pts	(2 pts)	1 pts	21 pts	(22 pts)	(1 pts)

\*Represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures.

The above reconciles the non-GAAP financial information contained in the “Expense summary” and “Expense summary – FY 2023” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of continuing operations - 4Q 2023

		4Q23			
	GAAP	Acquisition- related adjustments	Retirement- related adjustments	Tax reform impacts	Operating (non-GAAP)
Gross profit	\$10,267	\$172	—	—	\$10,439
Gross profit margin	59.1%	1.0 pts	—	—	60.1%
SG&A	4,791	(271)	—	—	4,520
Other (income) & expense	(193)	12	22	—	(159)
Total expense	6,509	(259)	22	—	6,272
Pre-tax income	3,759	431	(22)	—	4,167
Pre-tax income margin	21.6%	2.5 pts	(0.1 pts)	—	24.0%
Tax rate	12.6%	0.9 pts	0.5 pts	(0.1 pts)	13.9%
Net income	3,285	339	(41)	4	3,587
Net income margin	18.9%	2.0 pts	(0.2 pts)	0.0 pts	20.6%
Earnings per share	\$3.54	\$0.37	(\$0.04)	\$0.00	\$3.87

\$ in millions (except EPS which is in whole dollars)

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights”, “Expense summary” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of continuing operations - FY 2023

		FY23			
	GAAP	Acquisition- related adjustments	Retirement- related adjustments	Tax reform impacts	Operating (non-GAAP)
Gross profit	\$34,300	\$631	—	—	\$34,931
Gross profit margin	55.4%	1.0 pts	—	—	56.5%
SG&A	19,003	(1,039)	—	—	17,964
Other (income) & expense	(914)	10	39	—	(866)
Total expense	25,610	(1,029)	39	—	24,620
Pre-tax income	8,690	1,660	(39)	—	10,311
Pre-tax income margin	14.0%	2.7 pts	(0.1 pts)	—	16.7%
Tax rate	13.5%	1.4 pts	(0.0 pts)	(0.9 pts)	14.0%
Net income	7,514	1,292	(30)	95	8,870
Net income margin	12.1%	2.1 pts	(0.0 pts)	0.2 pts	14.3%
Earnings per share	\$8.15	\$1.40	(\$0.03)	\$0.10	\$9.62

\$ in millions (except EPS which is in whole dollars)

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights – FY 2023”, “Expense summary – FY 2023” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of GAAP net income to adjusted EBITDA

	4Q23	Yr/Yr	FY23	Yr/Yr
Net income as reported (GAAP)	\$3.3	\$0.6	\$7.5	\$5.9
Less: Income/(loss) from discontinued operations, net of tax	\$0.0	\$0.2	(\$0.0)	\$0.1
Income from continuing operations	\$3.3	\$0.4	\$7.5	\$5.7
Provision for/(Benefit from) income taxes from continuing operations	\$0.5	\$0.0	\$1.2	\$1.8
Pre-tax income from continuing operations (GAAP)	\$3.8	\$0.4	\$8.7	\$7.5
Non-operating adjustments (before tax)				
Acquisition-related charges*	\$0.4	\$0.0	\$1.7	(\$0.1)
Non-operating retirement-related costs/(income)**	(\$0.0)	(\$0.1)	(\$0.0)	(\$6.6)
Kyndryl-related impacts	-	\$0.0	-	(\$0.4)
Operating (non-GAAP) pre-tax income from continuing operations	\$4.2	\$0.3	\$10.3	\$0.5
Net interest expense	\$0.3	\$0.0	\$0.9	(\$0.1)
Depreciation/Amortization of non-acquired intangible assets	\$0.7	(\$0.0)	\$2.8	(\$0.3)
Stock-based compensation	\$0.3	\$0.0	\$1.1	\$0.1
Workforce rebalancing charges	\$0.0	\$0.0	\$0.4	\$0.4
Corporate (gains) and charges***	(\$0.0)	\$0.0	(\$0.1)	\$0.3
Adjusted EBITDA	\$5.5	\$0.4	\$15.5	\$0.9

\$ in billions

\*Primarily consists of amortization of acquired intangible assets

\*\*FY 2022 includes a one-time non-cash pre-tax pension settlement charge of \$5.9 billion

\*\*\*Corporate (gains) and charges primarily consists of unique corporate actions such as gains on divestitures

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights”, “Revenue and P&L highlights – FY 2023”, “Prepared remarks” and “Adjusted EBITDA performance” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of net cash from operations to adjusted EBITDA

	4Q23	4Q22	FY23	FY22
Net cash provided by operating activities	\$4.5	\$4.0	\$13.9	\$10.4
Add:				
Net interest expense	\$0.3	\$0.2	\$0.9	\$1.1
Provision for/(Benefit from) income taxes from continuing operations*	\$0.5	\$0.4	\$1.2	(\$0.6)
Less change in:				
Financing receivables	(\$1.9)	(\$1.8)	\$1.2	(\$0.7)
Other assets and liabilities/other, net* , **	\$1.6	\$1.4	(\$0.7)	(\$3.1)
Adjusted EBITDA	\$5.5	\$5.0	\$15.5	\$14.6

\$ in billions

\*Full-year 2022 includes \$1.5 billion tax effect associated with the one-time, non-cash, pension settlement charge

\*\* Other assets and liabilities/other, net mainly consists of operating assets and liabilities/other, net in the “Cash flow (ASC230)” discussion, workforce rebalancing charges, non-operating impacts and corporate (gains) and charges

The above reconciles the non-GAAP financial information contained in the “Prepared remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of Pre-tax income margin – FY 2024 expectations

	GAAP B/(W)	Operating (non-GAAP) B/(W)
Pre-tax income margin Yr/Yr	Flat	~ 0.5Pts

The above reconciles the non-GAAP financial information contained in the “Prepared remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 24, 2024, for additional information on the use of these Non-GAAP financial measures.

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