

Financial Discussion

IBM
Investor
Briefing
2018

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Senior Vice President and
Chief Financial Officer
IBM

IBM

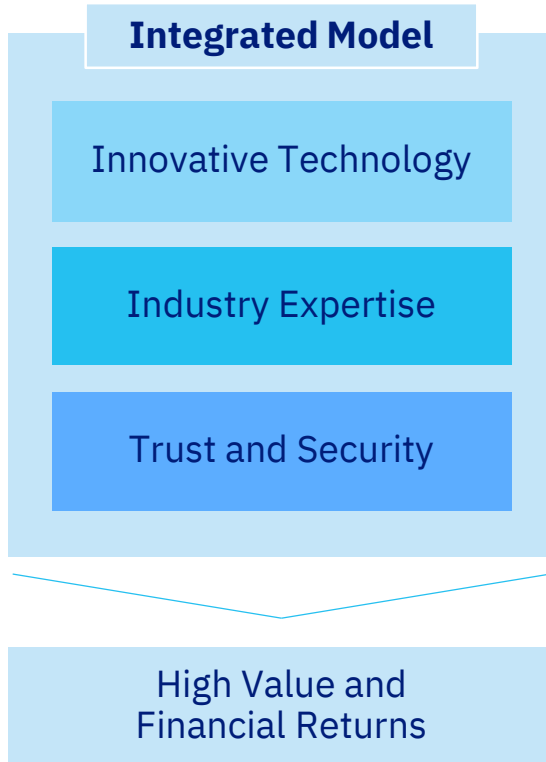
Our differentiated value proposition is driven by innovative technology, industry expertise, trust and security – delivered through an integrated model

IBM is repositioned to lead in high value segments of enterprise IT

IBM's value is driven through building new platforms and solutions while modernizing our enduring platforms

IBM's differentiation results in high value business mix and attractive financial returns

We are a high value profitable business positioned to deliver value to our clients and our shareholders



2017

\$79B Revenue

47% Operating Gross Profit Margin

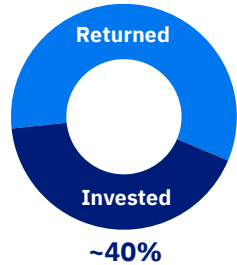
\$13B Free Cash Flow

\$6 Annualized Dividend per Share

17% Return on Invested Capital
Top quartile of S&P 500

We have increased investments in key emerging high value segments while continuing to return capital to shareholders

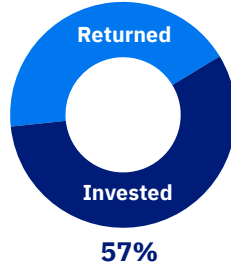
2012-2014



Returned to shareholders via share repurchase and dividends

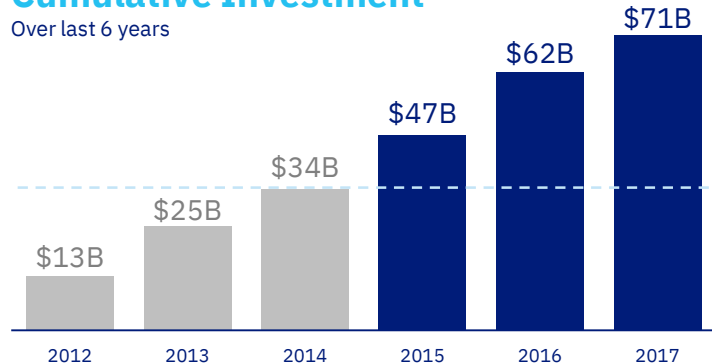
Invested in R&D, Capital and Acquisitions

2015-2017



Cumulative Investment

Over last 6 years



~\$17B
Research and Development

- AI market leadership with Watson
- Expanding security capability
- Modernizing systems portfolio
- Developing blockchain capability
- World's first 50-qubit quantum computer

~\$11B
Capital Expense

- IBM Cloud Single Architecture
- 58 Cloud data centers support clients across ~140 countries
- 8 Cloud availability zones

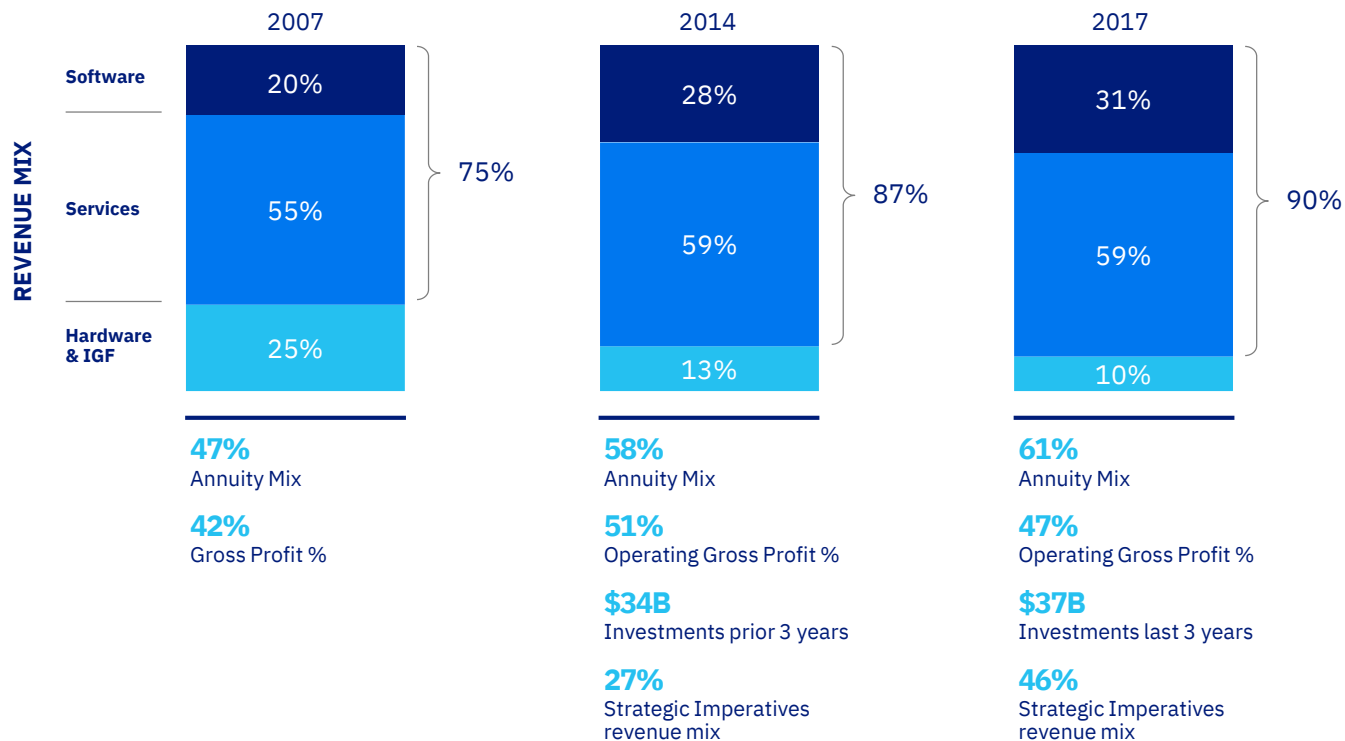
\$37B
Invested in last 3 years

~\$10B
Acquisition Spend

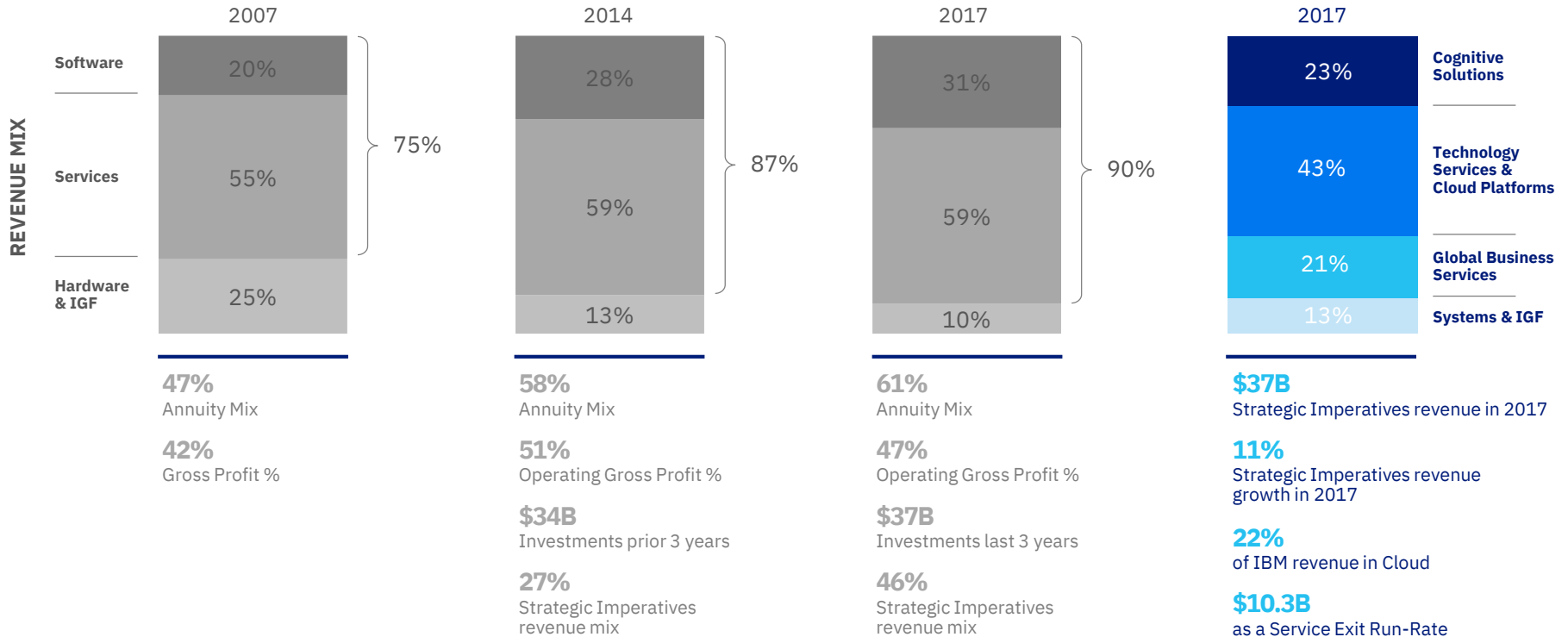
- Platforms, data / AI and Cognitive Solutions
- Building domain and industry capabilities
- Scaling new market segments

Leverage partnerships and ecosystems to extend reach

Our increased investments and portfolio actions have driven a fundamentally different business mix



... while building new business models



We have redesigned our operating model and changed the way we work



Streamlined Management System

Improve speed and responsiveness to clients

Scaling agile and new ways of working

Strengthen capacity for rapid innovation

STRUCTURE

35% Reduction in layers



30% Improvement in decision rights alignment



WORKFLOWS

60% Improvement to DevOps throughput



25% Decrease in quote to cash time cycle



New
Operating
Model

WORKFORCE



~50% of employees are new in last 5 years

WORKSPACE AND
TECHNOLOGY



7M Sq. ft. converted to innovation workspace



1 Enterprise data architecture on the IBM Cloud

IBM has made bold changes to reposition for the future



Repositioned For The Future

- + Invested in key emerging high value segments and rebuilt innovation pipeline
- + Portfolio actions have driven a fundamentally different business mix
- + Built new business models for the new IT era
- + Remixed skills and implemented new ways of working

\$37B

Invested in R&D, capital expenditures, and acquisitions over last 3 years

#1

AI platform for business, #1 Blockchain, #1 Quantum...

34

Companies acquired in last 3 years

\$17B

Cloud revenue and \$10.3B as a Service exit run-rate in 2017

\$7B

of annual revenue divested in last 5 years

~50%

of employees are new in last 5 years

Repositioned For The Future

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IBM Differentiation

- + Innovative technology enables market leadership
- + Leverage industry expertise to provide integrated industry solutions
- + Trust and security with deep client relationships
- + Delivered through an integrated model

#1

in Enterprise IT

80%

of 2017 revenue from clients buying cross-IBM solutions

95%

of Fortune 500 are IBM clients

~60%

Annuity mix in 2017, up 14pts over past decade

~70%

of world's business data managed ...responsibly

17%

Return On Invested Capital in 2017, top quartile S&P 500

IBM leverages innovation and expertise to build new platforms and solutions while modernizing our enduring platforms



Integrated Model

Innovative Technology

Industry Expertise

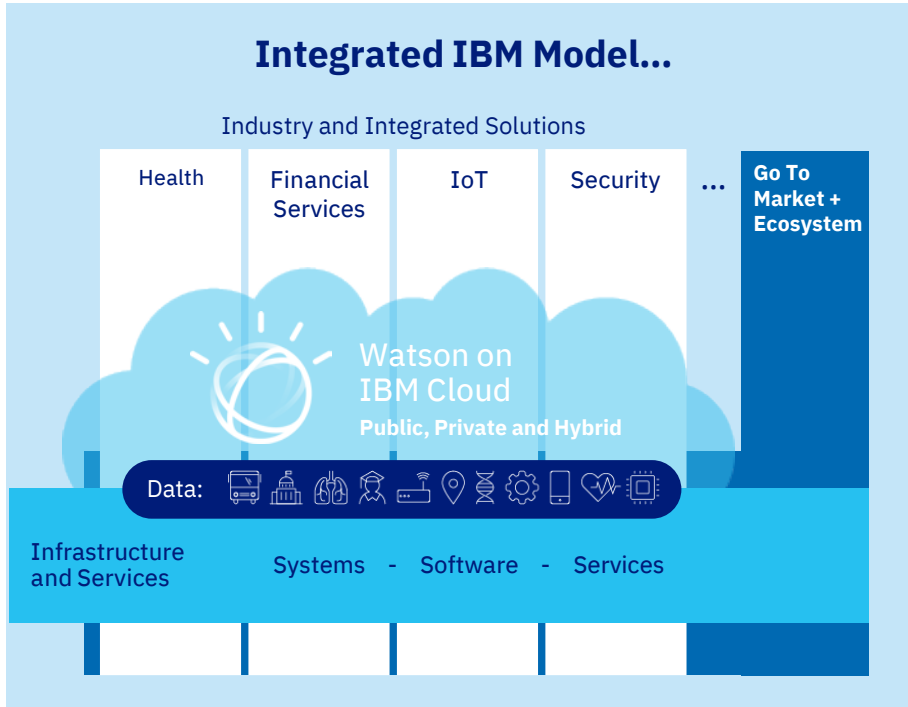
Trust and Security

Value Drivers

1. Integrated model and trusted client relationships
2. First mover in the most promising, emerging technologies
3. Unique ability to provide integrated industry solutions
4. Leading market position in high value segments
5. Strong R&D track record through multiple technology eras
6. Deep expertise with unrivaled global customer base

High Value and Financial Returns

1. IBM's integrated model and trusted client relationships provide competitive advantage



...Drives Value for Clients and IBM

95%

of Fortune 500 are IBM clients

90%

of Top 100 clients purchased cross-IBM solutions

Consistent

Wallet share in Top 100 clients

~30pts

Higher total shareholder return for Top 100 clients compared to S&P Global 1200

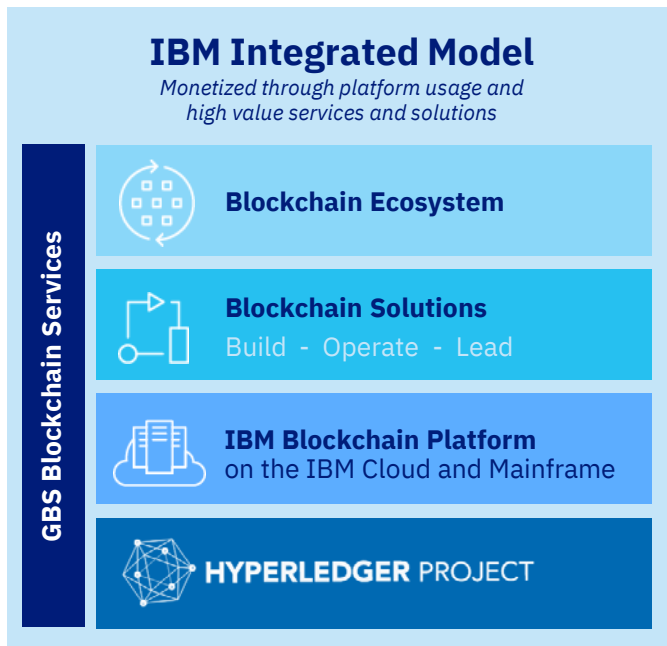
... Leveraging our IBM Cloud

- + 10 of the top 10 banks...
- + 9 of the top 10 retailers...
- + 8 of top 10 airlines...
- ... are Cloud as a Service Clients

2. IBM is a first mover in the most promising, emerging technologies e.g. IBM Blockchain

Disrupting Multiple Markets

e.g. \$2T Global Payment & \$1.8T Global Supply Chain by 2020



Value Drivers

- + Industry's first enterprise-grade blockchain platform for permissioned networks
- + Leverages IBM Z and pervasive encryption for security and scalability
- + Digital transformation for blockchain with IBM Services industry and process expertise
- + Built on open ecosystem for commercial networks and developer innovation

#1

Enterprise Blockchain partner

~5M

Lines of Hyperledger code contributed

>1,500

Blockchain professionals

~4,000

Hyperledger developers

35

Active networks

> 400 Client Projects

Global Trade



IBM Food Trust



Universal Payments



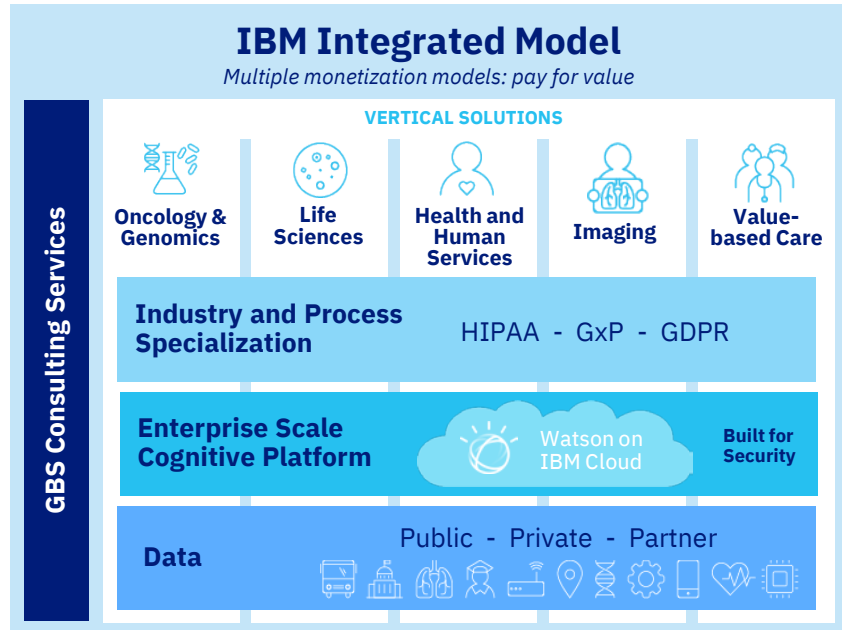
Trade Finance



3. IBM has the unique ability to provide integrated industry solutions e.g. IBM Watson Health

~\$360B of Health

Total Addressable Market Opportunity by 2020



Value Drivers

- + Leveraging the IBM Cloud designed for Health (HIPAA / GxP)
- + 80+ Watson AI Services specifically built for health
- + Industry-specific strategic consulting
- + Largest set of clinical and claims data in the private sector
- + 30+ years of healthcare information experience

13K

Clients and partners

>115K

People helped by cognitive offerings

210M

Clinical and claims data records,
45% refreshed quarterly

155

Hospital and health organization
deployments

>40

Peer-reviewed publications for
cognitive offerings

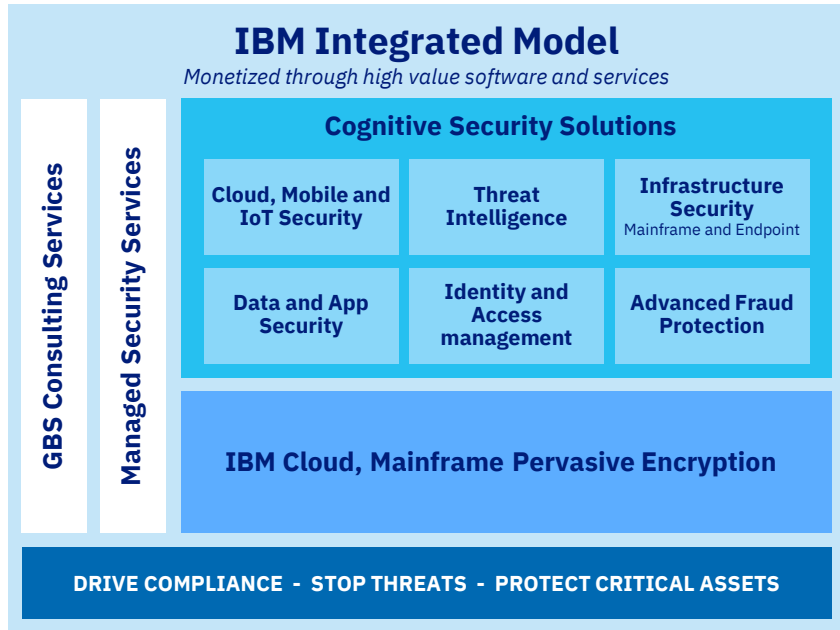
13

Cancers on which Watson is trained

4. IBM has a leading market position in several high value segments e.g. IBM Security

~\$120B of Security

Total Addressable Market Opportunity by 2020



Value Drivers

- + Industry's largest integrated product and services business
- + Digital immune system for compliance and threat protection
- + Industry leading AI and orchestration for insight and automation

>15,000

Security clients

#1

Enterprise security vendor

>6,000

Security clients utilizing AI

\$3B

IBM Security revenue in 2017

>8,000

Subject matter experts

54%

Revenue growth in 2017 *

~3,700

Patents granted

~60B

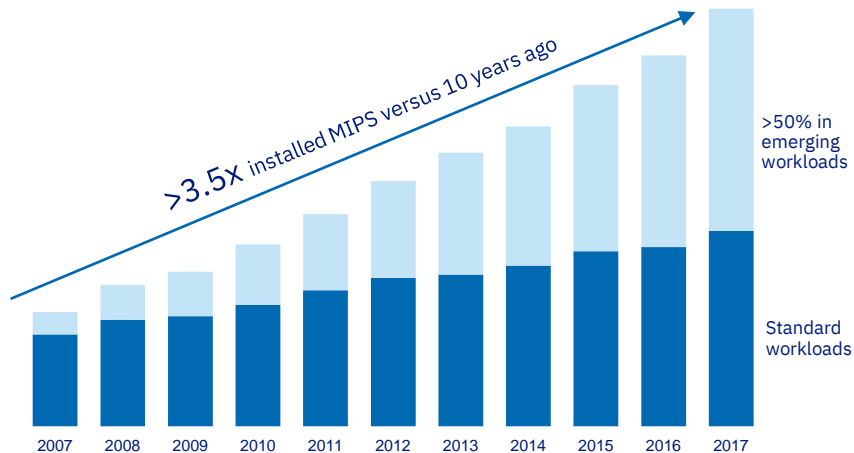
Events monitored per day

5. IBM has a strong R&D track record through multiple technology eras e.g. IBM Z



Continuous Reinvention of Enduring Platforms for Business

Workload as measured by installed Million Instructions Per Second (MIPS)



Monetized through high value hardware, software and services

IBM Z Value Drivers

- + Industry first pervasive encryption capabilities
- + Open and connected to public and private cloud environments
- + Optimized for machine learning and real time insights
- + Transparent and predictable container pricing for new workloads
- + Unmatched reliability, security, and availability

92
of top 100 banks in the world

10
of 10 largest insurers in the world

30B
Transactions processed per day

~\$7T
Annual credit card payments

>3.5x
installed MIPS versus 10yrs ago

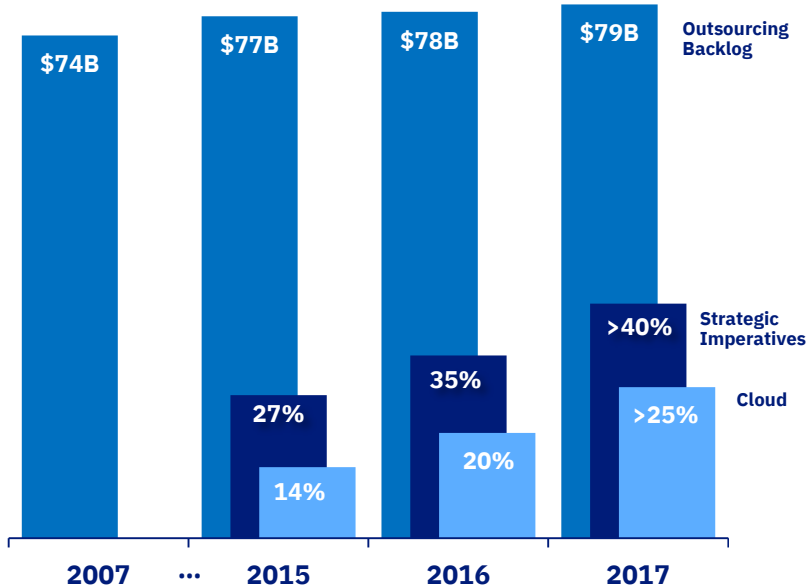
>50%
of installed MIPS in emerging workloads

>50%
Strategic Imperatives revenue mix

6. IBM has deep expertise with unrivaled global customer base e.g. IBM Services [GTS + GBS]

Stable Outsourcing Backlog moving clients to the future

GTS + GBS



Outsourcing Value Drivers

- + Market leader with 2x the share of nearest competitor
- + Expertise and innovation-based leadership
- + Global scale with extensive capabilities and world-class delivery
- + Infusing AI and automation into service delivery
- + Dedicated IBM Research team and labs

#1

Outsourcing provider in the world

Leader

in Gartner Magic Quadrant for data center outsourcing

>1,000

Clients on IBM Services Platform with Watson

30 pts

higher outsourcing win rates with mainframe than without

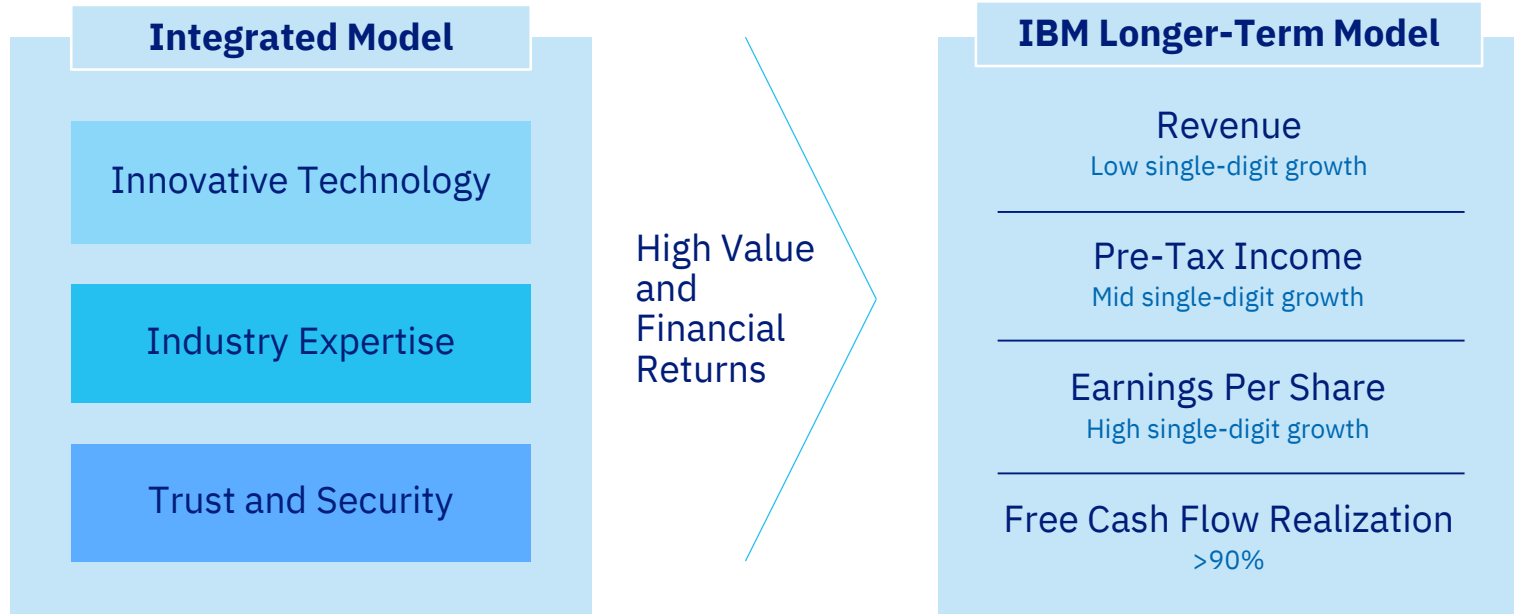
>40%

of 2017 signings are Cloud

1/3

of server incidents resolved with automation

IBM's differentiation results in high value and financial returns



Mix and Scale

~2 pts of annual PTI dollar growth

Deliver segment revenue models

Scale efficiencies, net of as a Service mix

Operating Leverage

~3 pts of annual PTI dollar growth

Expand services margins

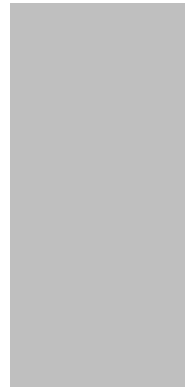
Drive enterprise productivity

Mid Single-Digit PTI Dollar Growth

IBM revenue model of low single-digit growth is driven by as a Service momentum



Mid-Single Digit
PTI Dollar Growth



Mix and
Scale

~2pts

Pre-Tax Income
Dollars

Cognitive Solutions

Revenue Growth:

Mid Single-Digit

- + Scale new platforms and solutions
- + Momentum in as a Service offerings

Technology Services and Cloud Platforms

Revenue Growth:

Low Single-Digit

- + Shift clients to cloud
- + Capitalizing on new strategic emerging workloads

Global Business Services

Revenue Growth:

Low Single-Digit

- + Continue to shift to higher value offerings
- + Infusing AI and analytics to differentiate for clients

Systems

Revenue Growth:

Stable Adjusting
for Product Cycles

- + Optimize existing platforms for new workloads

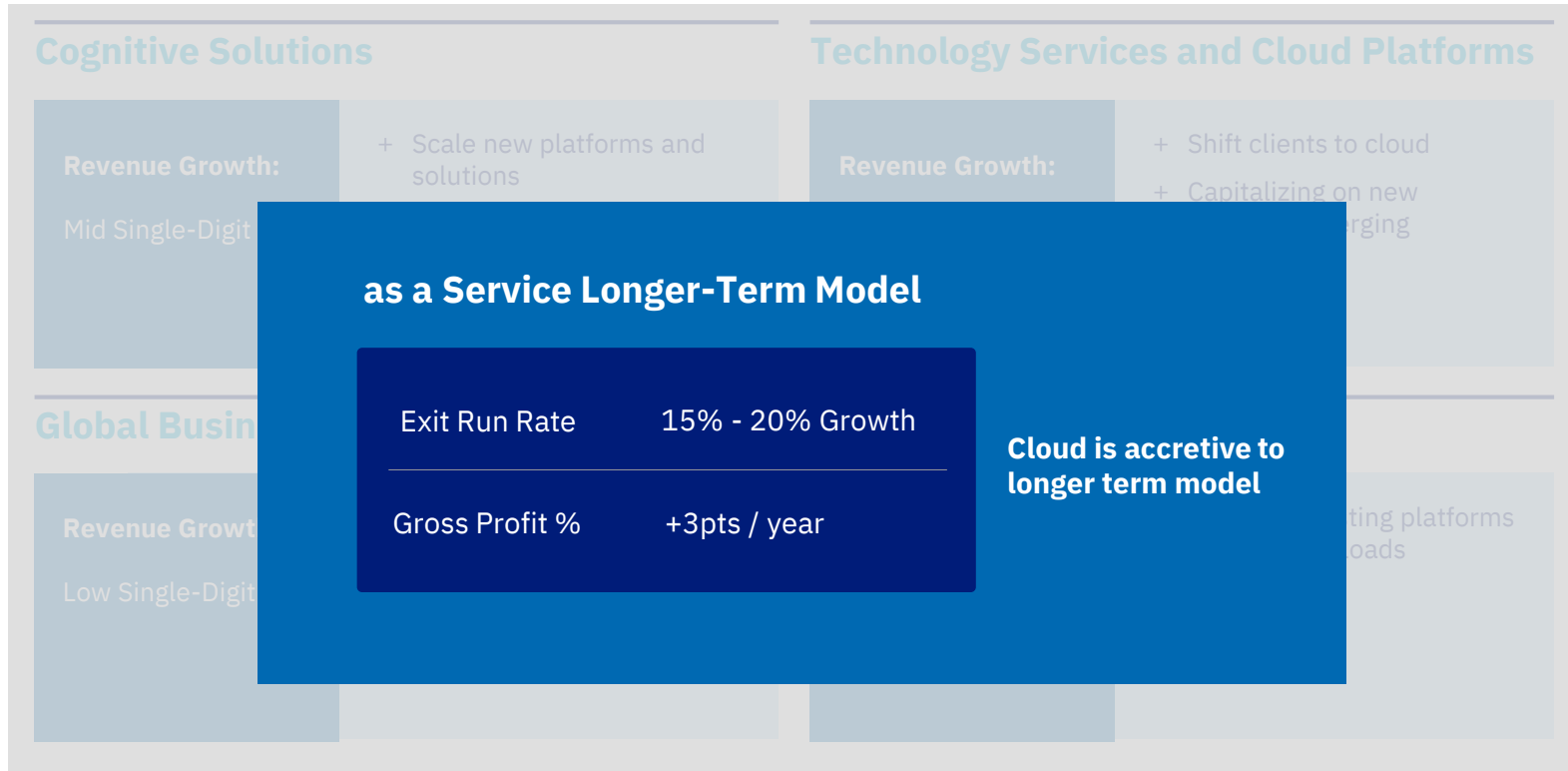
IBM revenue model of low single-digit growth is driven by as a Service momentum



Mid-Single Digit
PTI Dollar Growth



Pre-Tax Income
Dollars



Mid-Single Digit
PTI Dollar Growth

Operating
Leverage

~3pts

Mix and
Scale

~2pts

Pre-Tax Income
Dollars

Technology Services & Cloud Platforms

~ 50bps Margin Expansion Per Year

Productivity and Talent Optimization

- + Reduce layers and structure
- + Rebalance workforce for critical skill needs

Infuse AI and Cognitive Automation

- + Leverage IBM Services Delivery Platform with Watson
- + Embed Agile Service Delivery approaches
- + Utilize virtual reality tech services tools

Shift to Standardized Delivery Models

- + IBM Cloud higher margin than traditional services

Global Business Services

~ 50bps Margin Expansion Per Year

Productivity and Talent Optimization

- + Align skills to key growth areas
- + Improve utilization and productivity
- + Optimize delivery resource mix for value

Infuse AI and Cognitive Automation

- + Improve upon delivery efficiencies
- + Leverage IBM AI / Watson capabilities to improve delivery

Shift to High Value Offerings

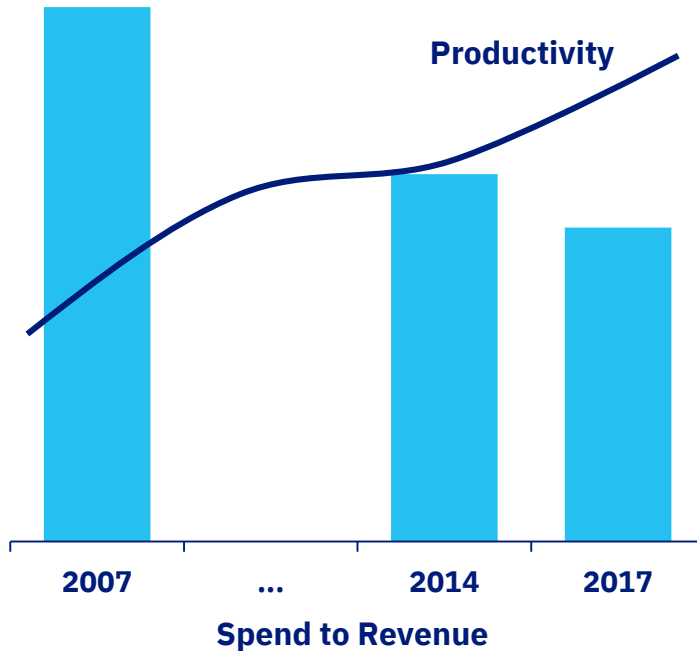
- + Digital & iX
- + Cognitive capabilities

Mid-Single Digit
PTI Dollar Growth



Pre-Tax Income
Dollars

Spending Profile



Initiatives

- + Unlock new value through a cognitive enterprise support model
- + Design end-to-end workflows across the enterprise
- + Embed digitization and cognition in processes
- + Leverage a data-driven platform

~3pts gross savings,
~1pt net of investment

	Last 3 Years	Longer-Term Model
Free Cash Flow Realization	104%	>90%
Capital Expense	~\$11B	Steady Investment
Acquisition Spend	~\$10B	Strategically Aligned
Dividends	~\$16B	Annual Increase
Share Repurchase	~\$12B	Annual ~2% share count reduction

Continue to invest for future

- + R&D to expand innovation pipeline
- + Capital to build out Cloud and as a Service
- + Acquisitions to strengthen IBM platforms and solutions

Continue to return to shareholders

- + 70-80% of free cash flow returned to shareholders
- + Continue dividend increases
- + Continue share count reduction

IBM Longer-Term Model

Revenue

Low single-digit growth

Pre-Tax Income

Mid single-digit growth

Earnings Per Share

High single-digit growth

Free Cash Flow Realization

>90%

- + Our differentiated value proposition is driven by innovative technology, industry expertise, trust and security, delivered through an integrated model
- + IBM is repositioned to lead in high value segments of enterprise IT
- + IBM's value is driven through building new platforms and solutions while modernizing our enduring platforms
- + IBM's differentiation results in high value business mix and attractive financial returns

IBM

Note 1

Gross Profit Margin and Free Cash Flow are non-GAAP measures. For additional information on these non-GAAP measures, please refer to slide 27.

Note 2

Annualized Dividend equals most recent quarterly dividend per share multiply by four.

Note 3

ROIC is based on GAAP from Continuing Operations and equals Net Operating Profits after Tax (adjusted for one-time tax reform charge) divided by the average sum of total debt and total stockholders' equity. S&P 500 excludes financial services companies due to lack of comparability.

Note 4

2012-2014 Investments adjusted for Capex and R&D relating to divestitures.

Note 5

Acquisition Spend is based on Gross Purchase Price.

Note 6

2014 and 2017 Gross Profit Margins are non-GAAP measures. For additional information on these non-GAAP measures, please refer to slide 27.

Note 7

Total Shareholder Return is over last 6 years.

Note 8

Currency rate fluctuations not factored into longer-term model revenue growth rates.

Note 9

Free Cash Flow Realization equals Free Cash Flow divided by GAAP Net Income from Continuing Operations. 2017 FCF Realization adjusted for one-time tax reform charge.

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 web site, 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. 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), these materials contain certain non-GAAP financial measures on a continuing operations basis, including operating (non-GAAP) gross profit margin and free cash flow. The rationale for management's use of this non-GAAP information is included on pages 26, 27 and 68 of the company's 2017 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 27, 2018. For reconciliation of the 2017 growth in Security revenue, operating (non-GAAP) gross profit margin and free cash flow, please refer to pages 28, 49 and 68 of the company's 2017 Annual Report. For reconciliation of the 2014 operating (non-GAAP) gross profit margin, please refer to page 66 of the company's 2016 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 28, 2017.

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