

Introduction

Thank you. I'd like to welcome you to IBM's fourth quarter 2025 earnings presentation. I'm Olympia McNerney, and I'm here today with Arvind Krishna, IBM's Chairman, President and Chief Executive Officer, and Jim Kavanaugh, IBM's Senior Vice President and Chief Financial Officer. We'll post today's prepared remarks with a replay of today's webcast on the IBM investor website within a couple of hours. The earnings presentation is already available.

To provide additional information to our investors, our presentation includes certain non-GAAP measures. For example, all of our references to revenue and signings growth are at constant currency. We've provided reconciliation charts for these and other non-GAAP financial measures at the end of our presentation, which is posted to our investor website.

Finally, some comments made in this presentation may be considered forward looking under the Private Securities Litigation Reform Act of 1995. These statements involve factors that could cause our actual results to differ materially. Additional information about these factors is included in the company's SEC filings.

So with that, I'll turn the call over to Arvind.

CEO Perspective

Thank you for joining us today. Let me start by reflecting on our strong performance in 2025 and the execution of our Investor Day model, then get into more detail on the quarter. We are excited about the progress we made in 2025, delivering 6% revenue growth, our highest level of revenue growth in many years, and \$14.7 billion of free cash flow, our highest level of cash generation in over a decade.

As we laid out at our Investor Day in February 2025, we are executing on our strategy to advance IBM as a Software-led Hybrid Cloud and AI platform company. We entered 2025 intently focused on investing in innovation and productivity initiatives to accelerate our shift towards durable higher-growth end markets in Software, with expanding margins and strong free cash flow. Today Software represents approximately 45% of our business, up from about 25% in 2018. Software grew 9%, our highest annual growth rate in history, with three of our four Software sub-segments delivering double-digit growth rates. Innovation value can also be seen in our IBM Z performance, up 48% this year, achieving the highest annual revenue for Z in about 20 years. I am proud of our achievements in 2025 as we exceeded all of our target metrics for revenue growth, profitability and free cash flow that we laid out at our Investor Day. Our flywheel for growth is underpinned by client trust, flexible and open platforms, sustained innovation, deep domain expertise, and a broad ecosystem and that's exactly what played out for the year.

Let me now touch on the macro. We continue to operate in a dynamic macro environment, but one where client demand remains resilient in the categories that matter most to IBM. Enterprises are prioritizing technology investments that drive productivity, resilience, and flexibility particularly in hybrid cloud, AI, and mission-critical infrastructure. These technologies

are no longer viewed as incremental tools, but as platforms that fundamentally change how businesses scale, compete, and operate. As clients modernize core systems, redesign workflows, and seek to extract more value from growing volumes of data, expectations for integration, security, and performance continue to rise. These trends are structural, and they align closely with IBM's strategy and strengths.

Now turning to our execution in the fourth quarter. We delivered total revenue growth of 9%, our highest level in over three years. Software growth accelerated to 11% in the fourth quarter, driven by the strength of our diversified portfolio. Both Data and Automation are gaining strong momentum with clients, growing 19% and 14% respectively in the quarter. As AI adoption accelerates, enterprise clients are increasingly focused on how to keep operations running smoothly in a more complex and hybrid environment, fueled by a surge of new applications. Our end-to-end portfolio of leading Automation and Data solutions help clients manage and optimize operations, automate infrastructure and workflows, build resiliency, secure and govern data and drive cost efficiency. Consulting continued to grow, up 1%, reflecting increased demand for AI services as clients need help designing, deploying, and governing AI at scale. And Infrastructure delivered another robust quarter, growing 17%, driven by strength in z17, which has been outpacing z16 performance. A key contributor to this momentum is the innovation value we are delivering with z17 processing 50% more AI inferencing operations per day than z16 and bringing real-time inferencing capabilities inside IBM Z.

The breadth of our AI offerings is another key differentiator, combining an innovative technology stack with Consulting at scale, and our Client Zero journey. Our cumulative GenAI book of business now stands at over \$12.5 billion, of which Software is more than \$2 billion and Consulting is more than \$10.5 billion, with both seeing their largest quarterly increase to

date. As we look at the evolution of AI, our opportunity is to make it easy for clients to build AI that is specific to their data, their processes, and their competitive needs, including the effective use of smaller, more efficient models where they make sense. That is why IBM's approach spans Consulting, watsonx, our agentic platform Orchestrate, and Red Hat AI. Our announced acquisition of Confluent is another pillar in this strategy, helping unify our hybrid cloud and Automation solutions through a smart data platform. Confluent has the most capable technology to unlock the real time value of data across applications, clouds, APIs and as AI agents enter the enterprise, they will need access to that data in real time. Confluent is a great way to deliver that in a controlled, secured and governed manner. Our hybrid approach to models also enables clients to use the best option for each use case – IBM's Granite models, third-party models, or open models from Hugging Face, Meta, and Mistral.

In addition to being a demand driver, AI is also a powerful productivity driver for IBM, contributing to our strong financial performance. In 2023, we set out on a goal to achieve \$2.0 billion of productivity savings exiting 2024 and today we are well ahead of that, exiting 2025 with \$4.5 billion of annual run-rate savings. We have been accelerating our productivity initiatives to enable investment in innovation and highly strategic acquisitions like HashiCorp and Confluent, while continuing to deliver strong margin expansion and free cash flow growth. HashiCorp continues to accelerate within IBM, benefiting from our go-to-market distribution and joint product innovation. We see a similar opportunity with the announced acquisition of Confluent, leveraging IBM's global go-to-market reach to accelerate growth and disciplined G&A structure.

Accelerating organic innovation is a core focus for IBM. Project Bob is IBM's next-generation AI based software development system, designed to transform developer productivity. Bob introduces intelligent

orchestration between industry-leading frontier models such as Anthropic Claude and Mistral, small language models including IBM Granite, and custom models, all optimized for cost and performance. We have more than 20,000 IBMers that are using Project Bob, reporting productivity gains averaging 45% – a powerful Client Zero use case. We are also advancing innovation through deep M&A product synergies. For example, we recently developed Hashi infragraph, a real-time graph of infrastructure and application configuration. By fusing infragraph’s insights with IBM automation products like Concert, we unlock true root-cause analysis and proactive prevention for clients.

All this leads to real, tangible value for our clients. Companies like Morgan Stanley and FedEx are leveraging our technology solutions and infusing our GenAI products into core workflows. And Mastercard is leveraging our technology solutions including data management platforms, software platforms, and GenAI products and solutions. In Infrastructure, clients such as CVS are turning to z17’s AI capabilities for enhanced management of mainframe application workloads and increased resiliency. We also announced new or deepened strategic partnerships through the year with AMD, Anthropic, AWS, Microsoft, OpenAI and Oracle. Recently, we announced a partnership between Red Hat and NVIDIA that aligns our hybrid AI solutions and NVIDIA’s AI stack. This collaboration allows enterprises to deploy AI-accelerated applications across any environment from the data center to the public cloud using a unified, automated infrastructure. It represents a significant step forward in making high-performance AI more accessible and scalable for the hybrid enterprise. Innovation, combined with our strategic partnerships across Consulting with key hyperscaler and ISV relationships and Software with key data providers, drive a multiplier effect that fuels our flywheel for growth.

We continue to make steady progress in quantum computing. Over the past quarter, we advanced our development roadmap, improved error correction capabilities, and expanded ecosystem partnerships. Our collaboration with organizations such as Cisco and participation in government initiatives like the U.S. Department of Energy's Genesis Mission and DARPA's quantum benchmarking initiative reflect growing confidence in IBM's approach to building scalable, fault-tolerant quantum systems. Quantum advantage will require high-performing hardware, and in December, we deployed our first 120-qubit IBM Quantum Nighthawk based system for use by our clients. Back in 2024, we predicted that we'd see quantum advantage by the end of 2026, and with the help of IBM hardware, software, and rapid cycles of learning, our partners in the scientific computing community are starting to make the first credible advantage claims. We remain on track to deliver the first large-scale, fault-tolerant quantum computer by 2029.

To conclude, we finished the year with strong execution and continued progress against our strategy. IBM has long been known for innovation. What matters most is how that innovation is used – to help clients operate better, grow faster, and compete more effectively. We made a clear set of strategic choices over the last several years to help our clients do exactly that and it is playing out in our results today and going forward. We enter 2026 with momentum and confidence in our ability to sustain 5% plus revenue growth and grow free cash flow by about \$1 billion. With that, let me hand it over to Jim to go through the financials.

Financial Highlights

Thanks Arvind. As we entered 2025, we provided guidance of accelerating 5% plus revenue growth, greater than half a point of operating pre-tax margin expansion, double-digit Adjusted EBITDA growth and about \$13.5 billion of free cash flow. We exited 2025 beating all of these metrics, delivering 6% revenue growth, 100 bps of operating pre-tax margin expansion, 17% Adjusted EBITDA growth and \$14.7 billion of free cash flow, growing 16% over last year. This represents our highest free cash flow margin in reported history. And we delivered 12% growth in operating diluted earnings per share. This performance reflects strong execution of our flywheel for growth, through client trust, leadership in hybrid cloud and GenAI, accelerating innovation, deep domain expertise, and an ecosystem multiplier effect.

In 2025 we were intently focused on strengthening and accelerating our Software portfolio, delivering innovation value with our next generation mainframe launch, expanding our early leadership in GenAI and Quantum, and executing M&A growth synergies across IBM. All of our segments accelerated in the second half of 2025, with these drivers playing out and demonstrating momentum across our diversified business. For the full year, Software grew 9%, our highest annual growth rate in history with three of our four sub-segments delivering double-digit growth rates. Infrastructure was up 10% reflecting a record z17 launch, achieving the highest annual revenue for IBM Z in about 20 years and outpacing z16 over the first three quarters of the program. And Consulting inflected back to growth in the second half driven by GenAI momentum, with our GenAI book of business in Consulting at more than \$10.5 billion inception-to-date.

Let me now dive deeper into our fourth quarter performance. Software revenue growth accelerated to 11%, on top of last year's growth of 11.5%, which was the highest in 15 years. Growth was driven by the strength of our recurring revenue base, our shift to higher-growth end markets, innovation including our early leadership in GenAI, M&A growth synergies and monetization of our strong IBM Z placement with an inflection in Transaction Processing. Our ARR was strong at \$23.6 billion, up over \$2 billion from the end of 2024. This quarter's performance was broad based across our synergistic portfolio, with organic growth accelerating to over 7%. Data grew 19%, fueled by demand for our GenAI products and strong performance with established strategic partners, who enable customers to power our AI innovation and mission-critical workloads. These market dynamics underscore the synergy opportunity we see with Confluent. Automation grew 14%, including another record bookings quarter for HashiCorp. Red Hat decelerated to 8%, driven partially by the wrap on last year's elevated consumption-based services that we called out last quarter, and also from the in-quarter yield on single-digit bookings growth driven by delays in U.S. federal business deal activity related to the Government shutdown. While a longer growth arc, virtualization continues to gain momentum including over \$500 million of contracts signed over the last two years. OpenShift is now a \$1.9 billion ARR business, growing more than 30%. And as we expected last quarter, given the record z17 placement this year, Transaction Processing inflected back to growth of 4%.

Consulting revenue grew 1% in the fourth quarter, with Intelligent Operations up 3% and Strategy and Technology remaining stable. Performance was driven by steady demand across key offerings – business application transformation, application migration and modernization, application operations, and cybersecurity – as clients prioritize cost efficiency while continuing to invest in AI-enabled

transformation. As Arvind noted, clients are moving beyond experimentation and need support designing, deploying, and governing AI at scale. Our Consulting generative AI book of business surpassed \$2 billion in the quarter, our largest quarter of GenAI, reflecting continued momentum. We are also expanding our impact through Client Zero, applying our generative AI experience in driving productivity and efficiency to help clients operationalize AI at scale. This practical experience, combined with our domain expertise, is resonating with clients. While overall signings were down as we wrapped on record fourth-quarter signings last year, the mix continued to improve, with a greater share of strategic wins from both new clients and expanded engagements within existing ones.

Infrastructure revenue grew 17% this quarter, with Hybrid Infrastructure up 24% and Infrastructure Support down 2%. Within Hybrid Infrastructure, IBM Z had another outstanding quarter delivering its highest fourth-quarter revenue in more than two decades – up 61% year to year, reflecting the enduring value of the platform and the success of our latest z17 program. Clients are investing in z17 for its differentiated capabilities – real-time AI inferencing, quantum-safe security, and AI-driven operational efficiency – which are critical as enterprises modernize mission-critical workloads and scale for data-intensive environments. IBM Z continues to be the backbone of enterprise IT, enabling clients to integrate seamlessly with hybrid cloud while unlocking new levels of resiliency, scalability, and performance. Distributed Infrastructure revenue was flat with product cycle dynamics impacting Storage offset by growth in Power supported by solid adoption of our newly launched solutions.

Now turning to profitability. In 2025, we delivered our highest operating gross profit margin in reported history and highest operating pre-tax

margin in a decade, demonstrating the evolution of our portfolio mix and our laser focus on productivity. For the full year, productivity, mix and revenue scale drove expansion of operating gross profit margin by 170 basis points, Adjusted EBITDA margin by 230 basis points and operating pre-tax margin by 100 basis points. And we achieved this despite absorbing more than \$300 million of dilution from HashiCorp. Given the announcement of our intention to acquire Confluent, we accelerated productivity initiatives in the fourth quarter, to help mitigate 2026 dilution, similar to our playbook on HashiCorp. Excluding resulting workforce rebalancing charges we took in the fourth quarter, operating pre-tax margin expanded by 140 basis points for the full year. Segment profit margins expanded by 100 basis points in Software, 180 basis points in Consulting, with Consulting margins at the highest level in three years, and 450 basis points in Infrastructure.

For the full year, we generated \$14.7 billion of free cash flow, up \$2 billion year-over-year, resulting in our highest free cash flow margin in reported history. The primary driver of this growth is Adjusted EBITDA, up \$2.8 billion year-over-year, partially offset by increased investments in capex, higher cash taxes and higher net interest expense, as we expected coming into 2025.

Let me talk about our free cash flow evolution in more detail. Our re-positioning to a Software-led business, in addition to our cost discipline and productivity initiatives, drive significant operating leverage in our financial model. Since 2022, we have consistently delivered double-digit growth in free cash flow, well in excess of revenue growth, demonstrating this business model evolution. Our flywheel for growth and disciplined execution of productivity initiatives lead to sustainable and high-quality free cash flow generation. This durable cash flow engine enables us to invest in our business to accelerate growth. This includes increased

organic innovation, with R&D up about \$2.5 billion since 2019. And it allows us to pursue highly strategic M&A transactions like Apptio, Software AG, HashiCorp, DataStax and Confluent that drive M&A synergies across IBM. Our diversified and integrated business drives a platform multiplier effect that uniquely allows us to deliver M&A synergies. This includes synergies from our global go-to-market distribution scale, platform synergies that amplify value with IBM's complementary offerings and operational synergies through our G&A discipline. Most recently, this can be seen with HashiCorp, delivering adjusted EBITDA accretion ahead of expectations within the first full year in IBM.

Our financial flexibility fuels innovation and our disciplined capital allocation policy, including our commitment to return capital to shareholders. We exited 2025 with a strong liquidity position and a solid investment grade balance sheet, with cash of \$14.5 billion. We invested \$8.3 billion in acquisitions and returned \$6.3 billion to shareholders in the form of dividends. Our debt balance ending the year was \$61.3 billion, including \$15.1 billion of debt for our financing business, with a receivables portfolio that is almost 80% investment grade.

Summary

Now, let me discuss our expectations for 2026. Our strong performance in 2025 reflects the strength of our diversified portfolio and multi-year execution of our strategic re-positioning. Consistent with our Investor Day model, we expect to sustain constant currency revenue growth of 5% plus in 2026 and free cash flow to be up about \$1 billion year-over-year, growing high single digits.

Our revenue expectations are underpinned by our durable and accelerating Software business, which we expect to grow 10% this year. This acceleration is led by organic growth, driven by the strength of our recurring revenue base, our shift to higher growth end markets, GenAI traction, M&A growth synergies and monetization of our record Z placement with an inflection in Transaction Processing, a tremendous source of profitability and free cash flow for IBM. And we continue to expect Confluent will close by the middle of 2026. In Consulting, our backlog levels and momentum in GenAI, with backlog penetration over 25%, support an acceleration in revenue growth to low to mid-single digits for the year. The powerful combination of our integrated platforms, Services as Software model and Client Zero experience allow us to deliver differentiated value to clients. As we enter 2026 three quarters into z17's launch, we expect Infrastructure revenue to be down low single digits, about half a point impact to IBM, with Z growth in the first quarter balanced by product cycle dynamics throughout the rest of the year. The strength of our Z placement fuels our flywheel for growth with its attractive 3-4x stack multiplier across IBM.

Let me now touch on our GenAI book of business before I turn to profit. We have been reporting our cumulative GenAI book of business since the

third quarter of 2023 when it was in the low hundreds of millions of dollars. We exited 2025 with a GenAI book of business greater than \$12.5 billion, demonstrating strong momentum in Consulting and Software. This will be the last quarter in which we report this metric separately. AI is now embedded across our business – from how we deliver services, to our Software portfolio, to the capabilities we are adding to our infrastructure platforms, and how we drive our own productivity. As a result, a standalone GenAI metric no longer reflects the full scope of how AI is driving value across IBM.

For the full year, we expect IBM's operating pre-tax margin to expand by about a point. Our Software portfolio mix and ongoing productivity initiatives continue to drive margin expansion and mitigate Z product cycles and the impact of dilution from acquisitions. Our operating tax rate for the year should be in the mid-teens, and the timing of discrete items can cause the rate to vary within the year.

Let me give a little bit more color on Confluent dilution dynamics. We anticipate absorbing about \$600 million of dilution from Confluent in 2026, driven largely by stock-based compensation and interest expense. We expect Confluent will be accretive to Adjusted EBITDA within the first full year and to free cash flow in year two, post close. We have multiple levers that underpin our confidence in these accretion targets, including revenue synergies, operational spend synergies and ongoing productivity savings. Revenue synergies include both the ability to accelerate revenue leveraging our go-to-market distribution platform, as well as drive product synergies, which play out over time. We expect to realize about \$500 million of operational spend run-rate synergies by the end of 2027. And we continue to accelerate our productivity initiatives and now expect an incremental \$1 billion of productivity savings this year, driving \$5.5 billion of annual run-rate savings by the end of 2026. Taking this all into account,

we are confident in our ability to expand operating pre-tax margin by about a point in 2026.

For free cash flow, we expect to grow by about \$1 billion in 2026, in-line with our Investor Day model of high-single digit growth. Given the strong fundamentals of our business, Adjusted EBITDA growth will be the primary driver of our free cash flow, offset by similar factors as last year including cash tax headwinds, higher capex and higher net interest expense.

Looking to the first quarter, we expect our constant currency revenue growth rate to be similar to the full year. And for operating pre-tax margin we expect about 100 basis points of expansion, with workforce rebalancing fairly consistent with the prior year. Our first quarter operating tax rate should be in the mid-teens.

We are excited about our prospects in 2026. Our growth accelerators – portfolio mix, integrated value, and continued investment in innovation – are driving sustainable revenue growth and strong free cash flow. As we shift toward a Software-led business and speed our pace of innovation, our growth flywheel continues to strengthen. We entered 2026 with solid momentum across our business and remain focused on disciplined execution with unwavering focus on productivity, enabling investing for the future and delivering value for our shareholders. Arvind and I are now happy to take your questions. Olympia, let's get started.

Closing

Thank you, Jim. Before we begin Q&A, I'd like to mention a couple of items. First, supplemental information is provided at the end of the presentation. And then second, as always, I'd ask you to refrain from asking multi-part questions.

Operator, let's please open it up for questions.