

## **Introduction**

Thank you. I'd like to welcome you to IBM's first quarter 2026 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 and 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 the 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 with our first quarter results and then provide context on what we are seeing across the business. IBM is off to a strong start to 2026. Revenue in the first quarter grew 6%, and combined with strong margin expansion, drove 13% growth in free cash flow. These results reflect the durability of our portfolio, the mission-critical nature of the work we do for clients, and the continued execution of our strategy.

Let me first touch on the macro. While we are operating in a dynamic environment, Middle East developments didn't impact us in the first quarter. Uncertainties remain but our diversity across businesses, geographies, industries, and large enterprise clients position us well. Conversations we are having with clients remain consistent. Enterprises are investing in capabilities that increase resiliency, productivity and accelerate growth. They are modernizing core systems. They are scaling AI. And they are making deliberate choices about where workloads should run and who controls the infrastructure underneath them. These are structural priorities. And they align directly with IBM's strengths.

This quarter's performance reinforces the strategic choices we have made over the last several years to advance IBM as a Software-led Hybrid Cloud and AI platform company. Software revenue grew 8%, with Data and Red Hat growing double digits. Infrastructure grew 12%, with another record Z quarter, up 48%. We also had strong performance in Distributed Infrastructure as generative AI increases demand for our storage offerings. Consulting grew 1%, with momentum in enterprise data and business application transformations, as clients modernize to deploy AI securely and at scale. The durability of our portfolio is a defining feature of IBM today.

Let me spend a few minutes on AI. Enterprises are still figuring out where to deploy this technology and where competitive advantage truly sits. Every major technology wave has followed a pattern. Value begins with infrastructure, moves to enabling platforms, and ultimately concentrates in the workflows where businesses operate. Right now, the spotlight is on foundation models. Enterprises are building portfolios — frontier models for some workloads, smaller models running on-premises for others, and open-source models where control and flexibility matter the most. Enterprises will want to retain control of their proprietary data. AI will run everywhere — across public cloud, private and sovereign clouds, and on premises. The core challenge is making all of this work together. This includes orchestrating across models, agents and workflows, governing enterprise data, and securing these systems at scale. And that is exactly where IBM operates. We are building the platform that lets enterprises put AI to work on their terms, wherever it runs, whichever models they choose, and under governance they control. Our portfolio is built around world class security, support and integration for an enterprise environment.

Red Hat provides a common, open platform that lets enterprises run applications and AI consistently across any infrastructure. More AI adoption means more demand for open, flexible infrastructure. In Automation, the logic is similar. Agents multiply applications, integrations, and execution paths. Managing that sprawl requires a control plane to provision infrastructure, integrate applications, secure environments, and manage cost. This is what our end-to-end automation portfolio provides. In an AI-driven world, security risks are rising. IBM Concert identifies vulnerabilities proactively and automates remediation, helping enterprises maintain resilience at scale.

Our Data business is seeing similar AI tailwinds. AI is only as good as the data it can access. And increasingly, that data is not static. It is generated continuously across transactions, applications, and interactions. To deliver real-time AI outcomes, data must be available in motion, governed, and delivered securely to models and agents wherever they are running. Confluent, which we closed this past quarter, solves that directly. It streams live, governed data to models and agents across the hybrid environment. And the orchestration layer ties it together. In a multi-model world, clients need to route between models, manage agent workflows, and maintain governance. That is what watsonx Orchestrate and our watsonx platform deliver. We have also created AI-editions of critical software products like Db2, Cognos, and MQ. These embed agentic AI that can reason, act, and automate at scale, while preserving IBM-grade security and trust.

Infrastructure remains a critical differentiator as AI moves into the core of enterprise operations. IBM Z delivers the lowest unit cost architecture at scale for workloads that require end-to-end encryption, continuous availability, and ultra-high throughput. Clients rely on our Z platform to process billions of transactions reliably, with six to eight nines of availability. They run AI inferencing directly in line with those transactions. Our Spyre accelerator lets clients run AI on 100% of their transaction volume without moving data off platform, allowing them to embed AI directly into their transaction flows. Financial services clients are using this for real-time fraud detection, saving tens of millions of dollars. At the same time, AI-assisted modernization, including code understanding, refactoring, and API integration, makes it easier to evolve applications without compromising the guarantees the platform provides. Our watsonx assistants for Z were made available over two years ago. They help clients preserve the architectural strengths that deliver resilience, security, and scalability while making the platform more

productive. Clients who have deployed watsonx Code Assistant for Z are growing MIPs capacity three times faster than those who have not.

In Consulting, AI is both a growth driver and a productivity engine. As agents take on more work, delivery becomes faster, more software driven, and more scalable. IBM is leaning into this shift through our Consulting Advantage platform and unique integrated value sitting side by side with Software. This helps clients operationalize AI while improving our own efficiency. Demand continues to accelerate as clients move beyond experimentation and focus on transforming applications, data, and workflows to embed AI into core operations.

All of this allows us to drive value for clients. ServiceNow is leveraging watsonx for automated data quality and observability to deliver AI ready data and code generation to refresh legacy applications to modern application runtimes including ServiceNow. Visa continues to work with IBM on ongoing software and data modernization efforts supporting the scale, resiliency, and performance of VisaNet. With Nestlé, we are using NVIDIA-accelerated watsonx.data to embed AI directly into core order-to-cash operations, enabling faster, real-time insights across Nestlé's global supply chains. This highlights how quickly we can bring research to bear for commercial value. Nestlé was ideal for this proof of concept because of its strong digital backbone. In Infrastructure, clients such as NatWest and RBC are modernizing their mainframe environments using AI and Automation capabilities including watsonx Assistant and watsonx Code Assistant for Z to improve resiliency, security, and developer productivity.

We continue to accelerate organic innovation. IBM Bob, our AI-based software development system, is now generally available. Our entire developer workforce is using Bob, with average productivity gains of 45%.

Bob automates the full software lifecycle, from legacy modernization to security, using specialized agents and multi-model optimization. It drives developer productivity and predictable costs. We also introduced Sovereign Core, software that lets organizations run AI workloads under their own operational authority, within a defined jurisdiction and auditable controls. We see sovereignty becoming a bigger factor in where and how workloads run. Every enterprise and every nation is waking up to the same reality. They need AI and cloud infrastructure they control — infrastructure no one can turn off or tamper with because of geopolitics.

During the quarter we also announced strategic collaborations with NVIDIA, expanding our work across GPU-native analytics. In addition, we announced a strategic collaboration with Arm to expand how AI workloads run across IBM infrastructure. By enabling the Arm software ecosystem within mission-critical environments like IBM Z, clients can scale AI closer to their data while preserving the security and resilience they require. These partnerships reflect our approach: open, flexible, and on the infrastructure clients choose.

We continue to make progress in quantum and remain on track to deliver the first large-scale fault-tolerant quantum computer by 2029. Here are some signposts of progress. In March, researchers used IBM quantum hardware to simulate a 300-atom system with the Cleveland Clinic, demonstrating that quantum computers can serve as reliable tools for pharmaceutical discovery. Another team accurately simulated real magnetic materials. Magnetism is central to new forms of energy and electrification. These are significant demonstrations to date that quantum computers can serve as reliable tools for scientific discovery. We also released a new blueprint for quantum-centric supercomputing that outlines the architecture for integrating quantum and classical systems at

scale. We strongly believe that our partners will achieve the first examples of quantum advantage this year leveraging IBM hardware.

In closing, we are executing on our strategy of accelerating revenue growth and delivering higher profitability. Given our strong start to the year, we remain confident in our ability to sustain revenue growth of 5% plus and grow free cash flow by about \$1 billion this year. With that, let me hand it over to Jim to go through the financials.

## Financial Highlights

Thanks Arvind. In the first quarter, we delivered 6% revenue growth, 140 basis points of operating pre-tax margin expansion, 17% Adjusted EBITDA growth, 19% diluted operating earnings per share growth and \$2.2 billion of free cash flow, growing 13% year to year. This represents our highest first quarter free cash flow in a decade and free cash flow margin in reported history. This performance reflects the work we have done to strengthen our Software led platforms, deliver innovation value to clients and the durability of our financial model.

Now I'll dive deeper into our segment performance. Software revenue grew 8%, marking a strong start to the year. This reflects the diversity of our portfolio, ongoing GenAI innovation, continued shift to higher growth end markets and flexible consumption model. Our ARR was solid at \$24.6 billion, up 10% since last year. Data revenue grew 16%, fueled by demand for our GenAI products, strength in our strategic partnerships, and inorganic contribution from DataStax and Confluent which closed in mid-March. Red Hat growth accelerated two points sequentially to 10%, largely driven by the stabilization of consumption-based services revenue growth that we expected. OpenShift is now a \$2 billion ARR business with strong growth. And virtualization continues to gain traction, with over \$600 million of contracts signed since the beginning of 2024. Automation grew 7%, with February marking the one-year anniversary of the acquisition of HashiCorp. Over the last year, we have seen record HashiCorp bookings leveraging IBM's go-to-market scale and achieved adjusted EBITDA accretion ahead of expectations. Transaction Processing grew again, up 2%, as we monetize on the strong z17 program.

In Infrastructure, our revenue grew 12% this quarter, with Hybrid Infrastructure up 25% and Infrastructure support down 6%. Within Hybrid Infrastructure, growth was broad-based with strong demand for our offerings across IBM Z, Power and Storage. IBM Z continues to outperform prior programs, growing 48% this quarter. Clients are investing in IBM Z as they modernize mission-critical workloads, driven by requirements for resiliency, security, and compliance, while enabling new AI capabilities on the platform. Distributed Infrastructure grew double digits with strength in both Power and Storage. Power growth was driven by demand for Power11, with its resiliency and performance advantages supporting data-intensive workloads. In Storage, growth reflected strong adoption of our new Flash offerings introduced in the first quarter, which incorporate industry-leading agentic AI capabilities.

In Consulting, our revenue grew 1% this quarter, reflecting momentum in the business as client demand continues to shift towards enterprise-wide transformation. Signings returned to growth, up 6%, with strength across our application and data transformation offerings, driven by clients modernizing their environments to support AI adoption and capture value. Revenue growth was balanced across the portfolio, with both Strategy and Technology and Intelligent Operations up 1%. Generative AI is now firmly integrated across our Consulting engagements, representing about 30% of our backlog. This reflects how generative AI has become embedded in the work we do. Our differentiated, asset-led delivery model continues to drive productivity and speed to value, combining deep domain expertise with software, automation, and reusable assets to help clients deploy AI securely and at scale.

Let me now discuss profitability. Several years ago, we set an ambitious objective to reinvent our enterprise operations for greater speed, lower friction, and structurally lower cost. Through disciplined execution —

eliminating manual touchpoints, simplifying processes, and applying data, automation, and AI at scale — we have built a proven, repeatable AI-enabled transformation engine that is accelerating. Since 2023, this has driven \$4.5 billion of productivity savings, with an additional \$1 billion expected in 2026. Our success is enabling us to accelerate investments in innovation, strengthen our competitive advantage as client zero, and fuel our growth flywheel, while expanding our margins. You can see this in the results this quarter with productivity, revenue scale and mix driving expansion of operating gross profit margin by 110 basis points, Adjusted EBITDA margin by 170 basis points and operating pre-tax margin by 140 basis points, all ahead of expectations. Segment profit margins expanded by 720 basis points in Infrastructure and 60 basis points in Software. Consulting segment profit margin declined modestly, reflecting currency headwinds from the geographic mix of the business and the reinvestment of productivity gains amid an improving demand environment.

In the quarter, we generated \$2.2 billion of free cash flow, up about \$300 million year-over-year. The primary driver of this growth is Adjusted EBITDA, up about \$600 million year-over-year, partially offset by higher net interest expense and increased investments in capex, as we expected coming into 2026.

We exited the first quarter with a strong liquidity position and a solid investment grade balance sheet, with cash of \$11.8 billion. We invested \$10.5 billion in acquisitions, driven by the closing of Confluent and returned \$1.6 billion to shareholders in the form of dividends. Our debt balance ending the quarter was \$66.4 billion, including debt of \$12.8 billion for our financing business, with a receivables portfolio that is 80% investment grade.

## Summary

Let me now pivot to discuss our expectations going forward. The strong start to the year drives our confidence in delivering constant currency revenue growth of 5% plus in 2026 and free cash flow growth of about \$1 billion year over year. Given where we are in the year, we believe it is prudent to maintain our guidance, even as underlying performance and execution are off to an encouraging start. The combination of our focused portfolio, investment in innovation, and our diversity across businesses, drives the durability of our performance.

Our revenue expectations are underpinned by our accelerating Software business, which we now expect to grow 10% plus this year. In Consulting, the quality of our backlog and momentum in GenAI, with backlog penetration at about 30%, continue to support an acceleration in revenue growth to low to mid-single digits for the year. We are off to a great start with z17, and four quarters into z17's launch, we prudently continue to expect Infrastructure revenue to be down low single digits for the year, representing about a half a point impact to IBM. We remain confident this will be our strongest Z cycle given the AI innovation value we are delivering to clients.

The momentum in our productivity flywheel is fueling margin expansion, while enabling investment in innovation. Last quarter we disclosed that we anticipated absorbing about \$600 million of dilution from Confluent in 2026, driven largely by stock-based compensation and interest expense. While we are absorbing incremental dilution given the early closing of Confluent, actions we are taking to accelerate our cost synergies enable us to stay on track to expand operating pre-tax margin by about a point

this year. 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.

For free cash flow, we continue to expect to grow by about \$1 billion for the full year, driven primarily by growth in Adjusted EBITDA. The headwinds I discussed heading into the year of higher cash taxes, higher capex and higher net interest expense remain the same.

Looking to the second 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 50 basis points of expansion as Software mix and productivity are offset by dilution from the early closing of Confluent. Our second quarter operating tax rate should be in the mid-teens.

AI is fundamentally reshaping our clients' operating environments, increasing complexity, risk and the need for flexibility. IBM's flywheel for growth — built on trust, security and governance, a portfolio that helps enterprises put AI to work on their terms, and sustained productivity that fuels rapid innovation — positions us to help deliver value for our clients. We feel confident in our outlook and are excited about what's ahead. 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 multi-part questions.

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