Financial Discussion

Martin Schroeter
Senior Vice President and
Chief Financial Officer
IBM’s Platforms

Industry and Domain Specialization
- Healthcare
- Financial Services
- IoT

Integrated Solutions
- Analytics
- Security
- Customer Engagement

Solutions
- Hybrid Software and Systems
- Data (Public, Private, Partner)

Global Ecosystem
The technology industry and IBM’s platforms

Industry Trends:

1960-1990: The Programmable Era
- Rise of the computer industry
- Increase in banking and transactions
- Primitive and structured data

For example:
U.S. Commercial Bank Assets
~$250B in 1960
~$3T in 1990

The World’s Data:

Evolution of IBM Platforms:

The technology industry and IBM’s platforms

1990-2010: The Digital Era
- The Internet and World Wide Web
- Beginning of e-commerce and mobile
- Clients need help managing their I/T

The World’s Data:

Evolution of IBM Platforms:
- Mainframe
- Outsourcing and Middleware

Industry Trends:

For example:
- Internet Traffic
  - 14 Exabytes/Month
  - 1 Terabyte/month

1960 1990 2010
The technology industry and IBM’s platforms

Industry Trends:

- Cloud as the pervasive delivery platform
- Complex, unstructured data requires cognitive insights
- Solutions must be tailored to industries

For example: Connected Devices

<table>
<thead>
<tr>
<th>Year</th>
<th>Data Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>~10B</td>
</tr>
<tr>
<td>2020</td>
<td>~34B</td>
</tr>
</tbody>
</table>

The World’s Data:

- Megabytes (1960)
- Terabytes (1990)
- Exabytes (2010)
- Zettabytes (2020+)

Evolution of IBM Platforms:

- Mainframe
- Outsourcing and Middleware
- Cognitive and Cloud Platform

Note 3
Investments to build IBM’s platforms and create new opportunities

**Market Opportunity (by 2020):**

- Cognitive Decision Support
- $500B

**Recent Investment Examples:**

- Over 4,000 patents in AI and cognitive computing (last 5 years)

**Watson Platform**

- Foundation for cognitive platform
- Organic investment
- Jeopardy!: 2011
- Watson Group: 2014
Investments to build IBM’s platforms and create new opportunities

**Market Opportunity (by 2020):**
- Cognitive Decision Support >$500B
- Enterprise Cloud >$800B

**Recent Investment Examples:**
- Over 4,000 patents in AI and cognitive computing (last 5 years)
- Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage

**IBM Cloud**
- Transforming infrastructure with an enterprise-grade, secure cloud platform
- World-class Bluemix development environment, data services and cloud managed services
- Cognitive solutions delivered through the Cloud as-a-Service
Investments to build IBM’s platforms and create new opportunities

**Market Opportunity (by 2020):**

- Cognitive Decision Support >$500B
- Enterprise Cloud >$800B
- Healthcare Total Industry >$10T Addressable >$200B

**Recent Investment Examples:**

- Over 4,000 patents in AI and cognitive computing (last 5 years)
- Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage
- Value-based care solutions, oncology, life sciences

**Watson Health**

- Broad dataset including health records, claims records, images, clinical data and payer data
- 7,000 Watson Health employees including doctors and health policy experts
- Secure and HIPAA-compliant Watson Health Cloud, built within a quality management system
Investments to build IBM’s platforms and create new opportunities

**Market Opportunity (by 2020):**
- **Cognitive Decision Support** >$500B
- **Enterprise Cloud** >$800B
- **Healthcare Total Industry** >$10T
- **Addressable** >$200B
- **Internet of Things** >$300B

**Recent Investment Examples:**
- Over 4,000 patents in AI and cognitive computing (last 5 years)
- Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage
- Value-based care solutions, oncology, life sciences
- The Weather Company

**Watson IoT**
- The Weather Company’s high-volume data platform serves as the foundation for Watson IoT
- Capitalizes on the growth of connected objects across all industries
- Built-in security and risk management

**Recent Investment Examples:**
- Over 4,000 patents in AI and cognitive computing (last 5 years)
- Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage
- Value-based care solutions, oncology, life sciences
- The Weather Company
Investments to build IBM’s platforms and create new opportunities

**Market Opportunity (by 2020):**

- **Cognitive Decision Support**
  - >$500B

- **Enterprise Cloud**
  - >$800B

- **Healthcare Total Industry**
  - >$10T
  - Addressable >$200B

- **Internet of Things**
  - >$300B

- **Financial Services Total Industry**
  - >$10T
  - Addressable ~$300B

**Recent Investment Examples:**

- Over 4,000 patents in AI and cognitive computing (last 5 years)
- Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage
- Value-based care solutions, oncology, life sciences
- The Weather Company
- Promontory

**Watson Financial Services**

- Launched Watson Financial Services in 2016
- Promontory acquisition brings expertise in regulatory compliance and risk management consulting to train Watson in financial services
- More than 5,000 GBS consultants with financial services expertise
Investments to build IBM’s platforms and create new opportunities

**Market Opportunity (by 2020):**

<table>
<thead>
<tr>
<th><strong>Cognitive Decision Support</strong></th>
<th><strong>Enterprise Cloud</strong></th>
<th><strong>Healthcare Total Industry &gt;$10T Addressable &gt;$200B</strong></th>
<th><strong>Internet of Things &gt;$300B</strong></th>
<th><strong>Financial Services Total Industry &gt;$10T Addressable ~$300B</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$500B</td>
<td>&gt;$800B</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Recent Investment Examples:**

- **Over 4,000 patents in AI and cognitive computing (last 5 years)**
- **Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage**
- **Value-based care solutions, oncology, life sciences**
- **The Weather Company**
- **Promontory**
- **Blockchain platform and ecosystem**

**Blockchain**

- Securely transfer any asset across any business network
- Industry specific solutions
- z Systems infrastructure powers Blockchain, with unmatched scale and security

**Recent Investment Examples:**

- **Promontory**
- **The Weather Company**
- **Enterprise Cloud platform including: IaaS, PaaS, cloud video, object storage**
- **Value-based care solutions, oncology, life sciences**
- **Healthcare**
- **IoT**
- **Financial Services**
- **Blockchain**
Investments position us to capitalize on macroeconomic trends

**Cognitive**
- 34B connected devices by 2020, of which IoT accounts for 24B
- 44 zettabytes (44 trillion gigabytes) of data in the digital universe by 2020

**Cloud**
- >85% of enterprise I/T organizations will commit to multi-cloud architectures by 2018
- >80% of consumer Internet traffic will be video by 2020

**Industry**
- Healthcare – 1.5 billion people aged 65 or older by 2050, compared to ~500 million today
- Telecom and Banking – 8X increase in mobile data traffic from 2015 to 2020, mobile banking users double
Our business units are tied into these macroeconomic trends

<table>
<thead>
<tr>
<th>Cognitive Solutions</th>
<th>Cognitive</th>
<th>Cloud</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explosion of data creates a requirement for cognitive</td>
<td>Cognitive workloads optimized for cloud delivery</td>
<td>Flagship industries in health and financial services</td>
<td></td>
</tr>
<tr>
<td>Global Business Services</td>
<td>Cognitive Consulting practice</td>
<td>Cloud Consulting and Application practice</td>
<td>Critical infrastructure and skills supporting key industries including:</td>
</tr>
<tr>
<td>Technology Services &amp; Cloud Platforms</td>
<td>Cognitive delivery insights and automation reduce costs</td>
<td>Enable clients’ transformation to cloud infrastructure</td>
<td>– Financial services</td>
</tr>
<tr>
<td>– Healthcare</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Industrial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Auto</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Retail</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Travel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Telco</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Public sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systems</td>
<td>Aligned with systems capabilities: Blockchain + z, Cognitive + Power</td>
<td>Systems enable hybrid cloud infrastructure</td>
<td></td>
</tr>
</tbody>
</table>
Cognitive Solutions Segment

**2016 Performance Highlights:**
- Solutions Software revenue +6%
- Strategic Imperatives +8%
- Cloud +54%
- Segment as-a-Service exit run rate $1.8B

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2016</th>
<th>$18.2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax Income</td>
<td>$6.4B</td>
<td></td>
</tr>
</tbody>
</table>

**Capabilities and Adoption:**
- Watson API calls for conversational services increased 50-fold year to year in 2016
- Watson Health managed dataset includes 100M health records, 200M claims records, 30B+ images
- >200 million monthly active users of The Weather Company platform

**Going Forward:**
- Solutions Software growth capitalizing on macroeconomic trends
- Transform industries including healthcare and financial services to capture share in growing markets
- Scale of the Watson on IBM Cloud platform – new clients, partners and availability to more than 1 billion people by the end of 2017

**Longer-term Model**
- Mid single-digit growth

2016 Revenue Yr/Yr @CC from Continuing Ops.  Note 6
Global Business Services Segment

2016 Performance Highlights:
- Strategic Imperatives +16%, mix of total GBS revenue >50%
- Cloud +66%
- Segment as-a-Service exit run rate $1.1B

Capabilities and Adoption:
- >30K consultants with industry expertise – from retail to industrial – delivering industry-specific solutions
- Cognitive Consulting and Cloud Consulting practices
- End-to-end capabilities for digital business and the interactive experience, leveraging design thinking and agile approaches

Going Forward:
- Industry-centric skills and specialized practices drive client value
- Cognitive tools to augment sales and delivery
- Trusted partner to transform and modernize our clients’ business processes

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>Longer-term Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$16.7B</td>
<td>Low single-digit growth</td>
</tr>
<tr>
<td>Pre-tax Income</td>
<td>$1.7B</td>
<td>Mid single-digit growth</td>
</tr>
</tbody>
</table>
Technology Services & Cloud Platforms Segment

2016 Performance Highlights:
- Infrastructure Services +3%
- Strategic Imperatives +40%
- Cloud +50%
- Segment as-a-Service exit run rate $5.8B

Capabilities and Adoption:
- GTS backlog growth for two consecutive years
- 20K practitioners trained and using Agile/DevOps
- Over 50 cloud datacenters across 19 countries
- >1 million Bluemix users

Going Forward:
- Enable our clients’ transformation to cloud
- Leverage as-a-Service offerings to grow in new markets and with new clients
- Utilize cognitive delivery insights and advanced automation to enhance delivery to our clients

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>Longer-term Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$35.3B</td>
<td>Low single-digit growth</td>
</tr>
<tr>
<td>Pre-tax Income</td>
<td>$4.7B</td>
<td>Mid single-digit growth</td>
</tr>
</tbody>
</table>

2016 Revenue Yr/Yr @CC from Continuing Ops. Note 6,7
Systems Segment

2016 Performance Highlights:
- Double-digit growth in:
  - Mainframe shipped MIPs cycle to cycle
  - Power Linux
  - Flash storage

Capabilities and Adoption:
- z Systems powers new workloads such as Blockchain
- Power is the platform for cognitive with its high performance in data-intensive workloads; ecosystem growth with OpenPOWER
- Storage value shifting to software defined storage, flash and object storage

Going Forward:
- Hardware revenue stable adjusting for product cycle dynamics
- High value systems reinvented for cognitive computing and optimized for cloud environments
- Leverage synergy with new technology, such as Blockchain on z and Power for cognitive

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>Longer-term Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$7.7B</td>
<td>Stable, high value and contributes to IBM model</td>
</tr>
<tr>
<td>Pre-tax Income</td>
<td>$0.9B</td>
<td></td>
</tr>
</tbody>
</table>
Global Financing Segment

2016 Performance:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$36B</td>
</tr>
<tr>
<td>Total Debt</td>
<td>$28B (66% of IBM)</td>
</tr>
<tr>
<td>Equity</td>
<td>$4B</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>31%</td>
</tr>
</tbody>
</table>

Supports IBM through:

- Client Financing – Leases and loans to IBM clients
- Commercial Financing – Working capital for IBM Business Partners
- Global Asset Recovery Services – Used equipment sales and asset disposition services

Longer-term Model

- Grow asset base
- Maintain high return on equity

Changes in 2017:

- Consolidation of IGF’s Financing assets into a single subsidiary (IBM Credit LLC)
- Public debt issuance by IBM Credit LLC (expected this year)
IBM Segment Model Summary

- **Cognitive Solutions**: Mid single-digit
- **Global Business Services**: Low single-digit
- **Technology Services & Cloud Platforms**: Low single-digit
  - Stable, adjusting for product cycles
- **Systems**: Stable, adjusting for product cycles
- **IBM**: Low single-digit
  - High value and contributes to IBM model

**Revenue Yr/Yr**
- Mid single-digit
- Low single-digit

**Pre-tax Income Yr/Yr**
- Mid single-digit
- Low single-digit
- Mid single-digit

**Note 6**
Revenue Dynamics

Strategic Imperatives revenue and mix:
- $21B, 22%
- $25B, 27%
- $29B, 35%
- $33B, 41%

As-a-Service annualized run rate ($B):
- $2.2
- $3.5
- $5.3
- $8.6

Revenue growth Yr/Yr:
- 2013: -7%
- 2014: -7%
- 2015: -11%
- 2016: -10%

Longer-term Model
- On track to reach $40B by 2018

- Strategic Imperatives: Double-digit growth
- IBM: Low single-digit growth
- Core Content: Decline in line with market
Pre-tax Income Contribution

Longer-term model: Mid single-digit growth

Contribution to IBM pre-tax income growth:

IBM Model: Low single-digit revenue growth with mix shifting toward Cognitive Solutions

Pre-tax Income Dollars

PTI dollar growth from:
- Revenue
- Margin

PTI dollar growth from:
- Cognitive Solutions
- All Other Segments
- Technology Services & Cloud Platforms
- Global Business Services

~5% / Year

Note 6
Free Cash Flow Realization

Above 90% over the long term

FCF Realization Adjusted*

FCF Realization as Reported

*Adjusted for book/cash tax differential and cash from gains
Cash Flow and Uses of Cash

<table>
<thead>
<tr>
<th>Last 2 years</th>
<th>Longer-term model:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash from Operations:</td>
<td>~$32B</td>
</tr>
<tr>
<td>Free Cash Flow:</td>
<td>~$25B</td>
</tr>
<tr>
<td>Free Cash Flow Realization:</td>
<td>98%</td>
</tr>
</tbody>
</table>

Uses of cash (last 2 years)

- Dividends: 30%
- CapEx: 22%
- Acquisitions: 26%
- Share repurchase: 22%
- Returned: 30%

Allows for return of capital:
- Annual dividend increase
- 2-3% annual share count reduction
- 70-80% of free cash flow returned to shareholders

Note 8, 9, 10
IBM Financial Model

- Low single-digit revenue growth
- Mid single-digit pre-tax income growth
- High single-digit EPS growth with return to shareholders
- Free cash flow realization above 90%
Investments position us to capitalize on macroeconomic trends

Enduring, high value platforms

Balanced investment and return of capital to shareholders

Summary
Notes

Note 1
Source: FDIC U.S. Commercial Bank Reports (online database)

Note 2
Source: Adapted from Cisco report “The History and Future of Internet Traffic,” August 2015

Note 3
Source: Adapted from Business Insider report “How the ‘Internet of Things’ will impact consumers, businesses, and governments in 2016 and beyond,” Jul 2016

Note 4
Source: IBM Market Development & Insights

Note 5
- Source for digital data: IDC Executive Summary “Data Growth, Business Opportunities, and the IT Imperatives,” Apr 2014
- Source for population age: United Nations Department of Economic and Social Affairs, Population Division “World Population Prospects, the 2015 Revision” (online database)
- Source for mobile banking users: KPMG report “Mobile banking users will double and hit a quarter of the world’s population by 2019,” Aug 2015

Note 6
Currency rate fluctuations not factored into longer-term model revenue growth rates

Note 7
GTS backlog growth at constant currency

Note 8
Free cash flow realization = free cash flow/GAAP net income from continuing operations

Note 9
Net cash from operations and free cash flow exclude Global Financing receivables

Note 10
Net share repurchase
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 revenue at constant currency, Solutions Software revenue at constant currency, Cognitive Solutions strategic imperatives revenue and cloud revenue at constant currency, GBS strategic imperatives revenue and cloud revenue at constant currency, Infrastructure Services revenue at constant currency, Technology Services & Cloud Platform strategic imperatives revenue and cloud revenue at constant currency, Core Content revenue at constant currency, revenue excluding divested businesses and free cash flow. The rationale for management’s use of this non-GAAP information is included on pages 26, 27, 56 and 69 of the company’s 2016 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 28, 2017. For reconciliation of these non-GAAP financial measures to GAAP and other information, please refer to pages 36, 37, 38 and 69 of the company’s 2016 Annual Report.
Non-GAAP Supplemental Materials
## Reconciliation of Revenue Growth

<table>
<thead>
<tr>
<th></th>
<th>FY 16 Yr/Yr</th>
<th>FY 15 Yr/Yr</th>
<th>FY 14 Yr/Yr</th>
<th>FY 13 Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GAAP @CC</td>
<td>GAAP @CC</td>
<td>GAAP @CC excl. Divested Businesses</td>
<td>GAAP @CC excl. Divested Businesses</td>
</tr>
<tr>
<td>Strategic Imperatives</td>
<td>13% 14%</td>
<td>17% 24% 26%</td>
<td>16% 18% 19%</td>
<td>17% 19%</td>
</tr>
<tr>
<td>Total IBM</td>
<td>(2.2%) (1.6%)</td>
<td>(11.9%) (4.1%) (1.2%)</td>
<td>(5.7%) (4.0%) (1.5%)</td>
<td>(4.4%) (2.3%)</td>
</tr>
<tr>
<td>Core Content</td>
<td>(11%) (10%)</td>
<td>(22%) (15%) (11%)</td>
<td>(12%) (10%) (7%)</td>
<td>(9%) (7%)</td>
</tr>
</tbody>
</table>

The above serves to reconcile the non-GAAP financial information contained in "IBM Investor Briefing" contained in the "Financial Discussion" presentation (Revenue Dynamics). See slide 28 for additional information on the use of these Non-GAAP financial information.