

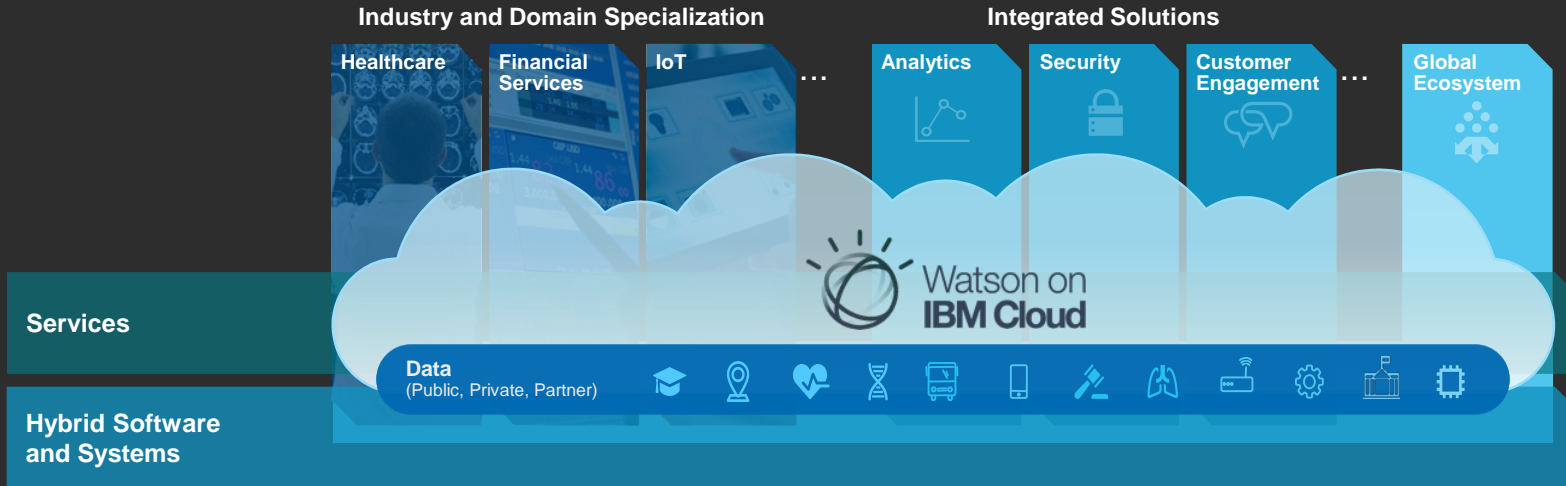
# Financial Discussion

Martin Schroeter  
Senior Vice President and  
Chief Financial Officer

IBM  
Investor  
Briefing  
2017



# IBM's Platforms



# The technology industry and IBM's platforms

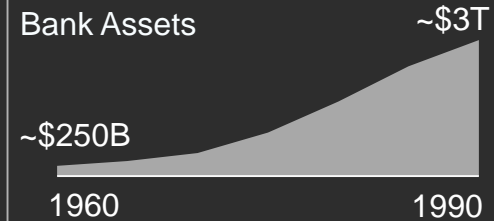
## Industry Trends:

### 1960-1990: The Programmable Era

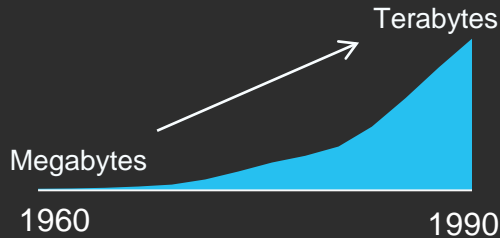
- Rise of the computer industry
- Increase in banking and transactions
- Primitive and structured data

For example:

U.S. Commercial Bank Assets



## The World's Data:



## Evolution of IBM Platforms:



# The technology industry and IBM's platforms

## Industry Trends:

### 1990-2010: The Digital Era

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

For example:  
Internet Traffic

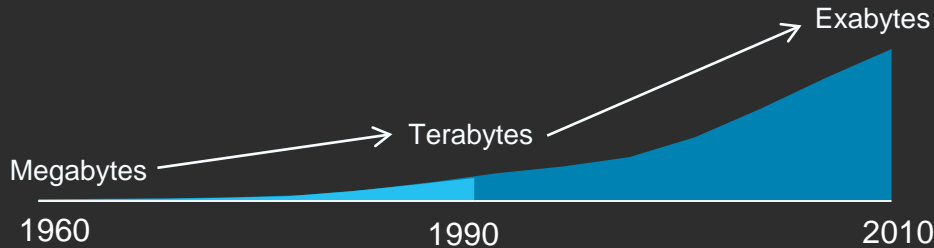
14 Exabytes/  
Month

1 Terabyte/  
month

1990

2010

## The World's Data:



## Evolution of IBM Platforms:

Mainframe

Outsourcing and Middleware

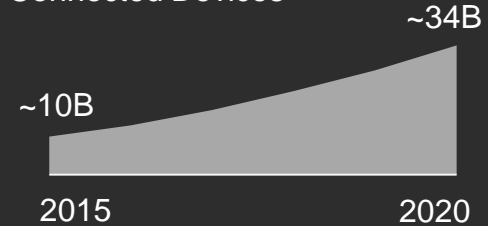
# The technology industry and IBM's platforms

## Industry Trends:

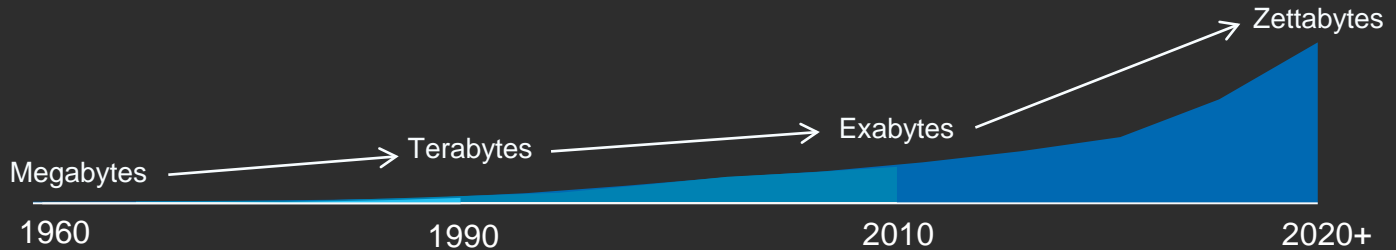
### Going Forward: The Cognitive Era

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

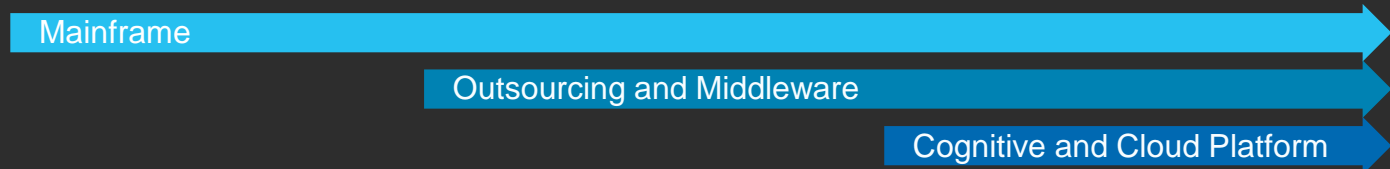
For example:  
Connected Devices



## The World's Data:



## Evolution of IBM Platforms:



# 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:

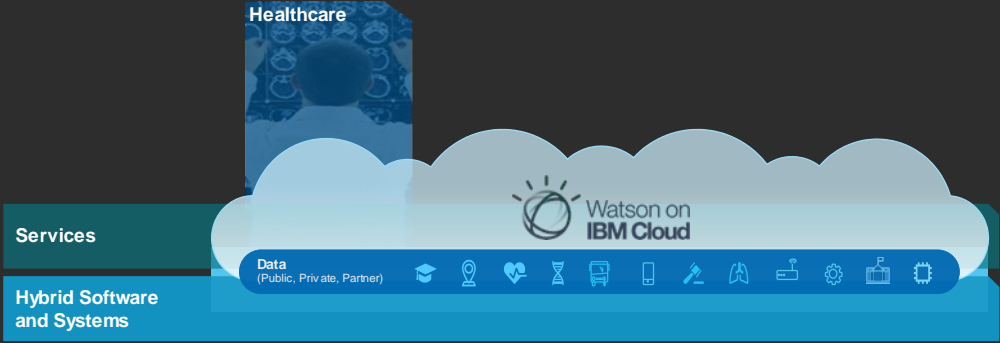
Over 4,000 patents in AI and cognitive computing (last 5 years)

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)

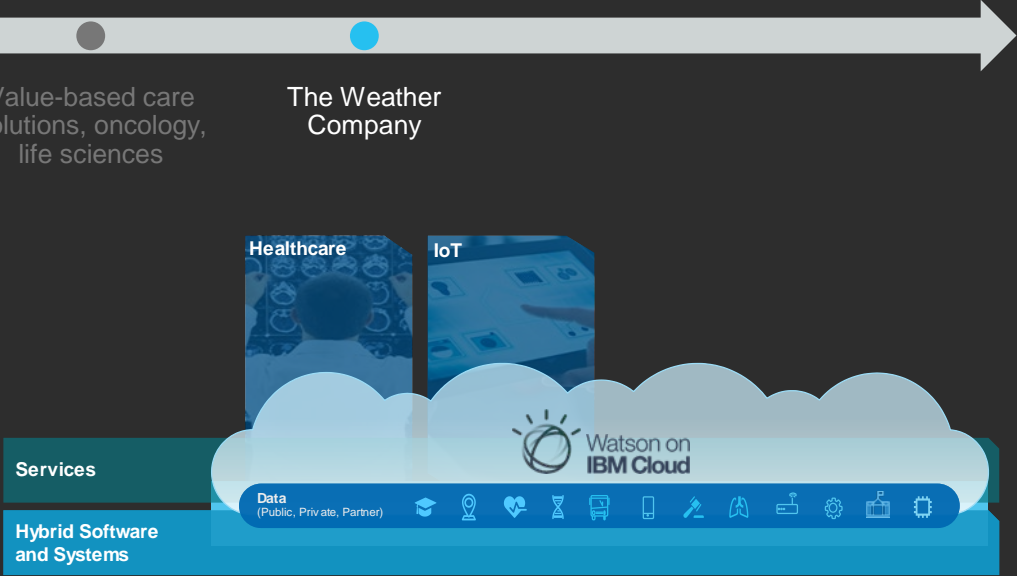
Enterprise IBM Cloud platform including: IaaS, PaaS, cloud video, object storage

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



# 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

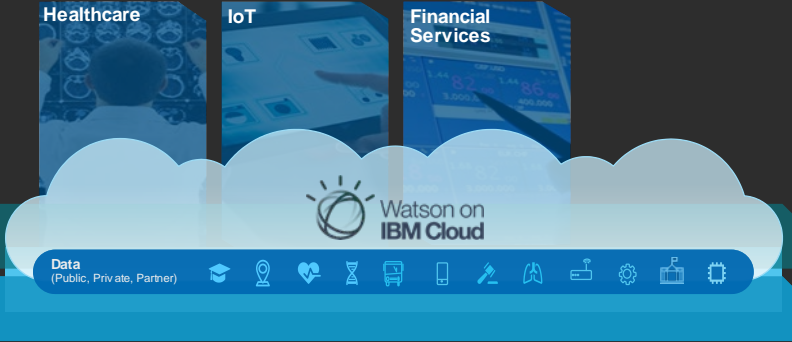
Value-based care solutions, oncology, life sciences

The Weather Company

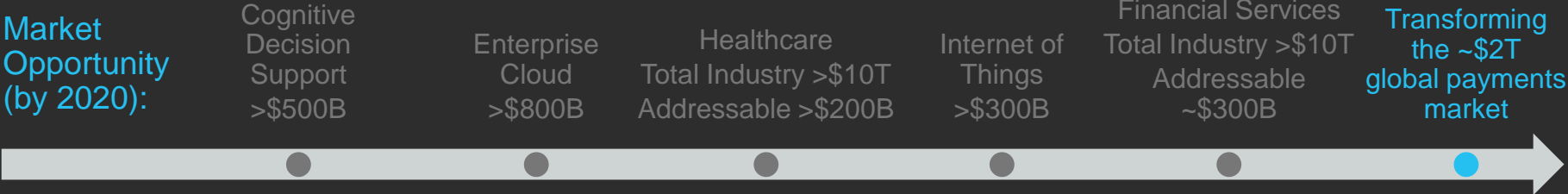
Promontory

## 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

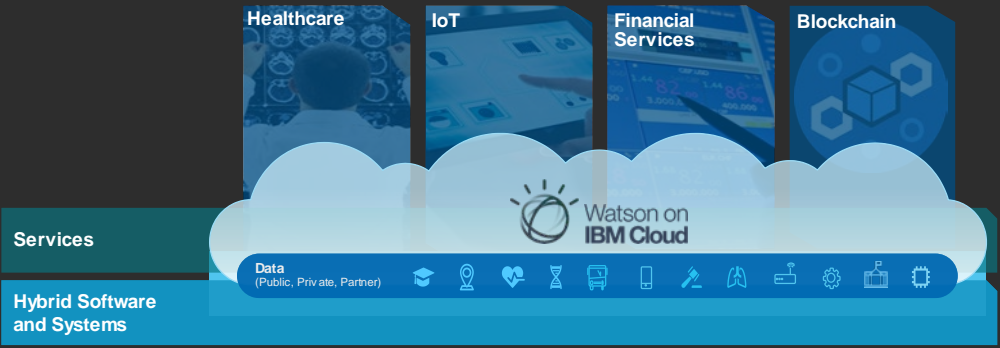


# Investments to build IBM's platforms and create new opportunities



## Blockchain

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



# 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

	Cognitive	Cloud	Industry
<b>Cognitive Solutions</b>	Explosion of data creates a requirement for cognitive	Cognitive workloads optimized for cloud delivery	Flagship industries in health and financial services
<b>Global Business Services</b>	Cognitive Consulting practice	Cloud Consulting and Application practice	Critical infrastructure and skills supporting key industries including: <ul style="list-style-type: none"> <li>– Financial services</li> <li>– Healthcare</li> <li>– Industrial</li> <li>– Auto</li> <li>– Retail</li> <li>– Travel</li> <li>– Telco</li> <li>– Energy</li> <li>– Public sector</li> </ul>
<b>Technology Services &amp; Cloud Platforms</b>	Cognitive delivery insights and automation reduce costs	Enable clients' transformation to cloud infrastructure	
<b>Systems</b>	Aligned with systems capabilities: Blockchain + Z, Cognitive + Power	Systems enable hybrid cloud infrastructure	

# Cognitive Solutions Segment

## 2016 Performance Highlights:

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

## 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

	<u>2016</u>	<u>Longer-term Model</u>
Revenue	<b>\$18.2B</b>	Mid single-digit growth
Pre-tax Income	<b>\$6.4B</b>	Mid single-digit growth

## 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

# 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

	<u>2016</u>	<u>Longer-term Model</u>
Revenue	<b>\$16.7B</b>	Low single-digit growth
Pre-tax Income	<b>\$1.7B</b>	Mid single-digit growth

## 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

# 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

	<u>2016</u>	<u>Longer-term Model</u>
Revenue	<b>\$35.3B</b>	Low single-digit growth
Pre-tax Income	<b>\$4.7B</b>	Mid single-digit growth

## 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



# 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

	<u>2016</u>	<u>Longer-term Model</u>
Revenue	<b>\$7.7B</b>	Stable, high value and contributes to IBM model
Pre-tax Income	<b>\$0.9B</b>	

## 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

# Global Financing Segment

## 2016 Performance:

Total Assets	<b>\$36B</b>
Total Debt	<b>\$28B</b> (66% of IBM)
Equity	<b>\$4B</b>
Return on Equity	<b>31%</b>

## 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

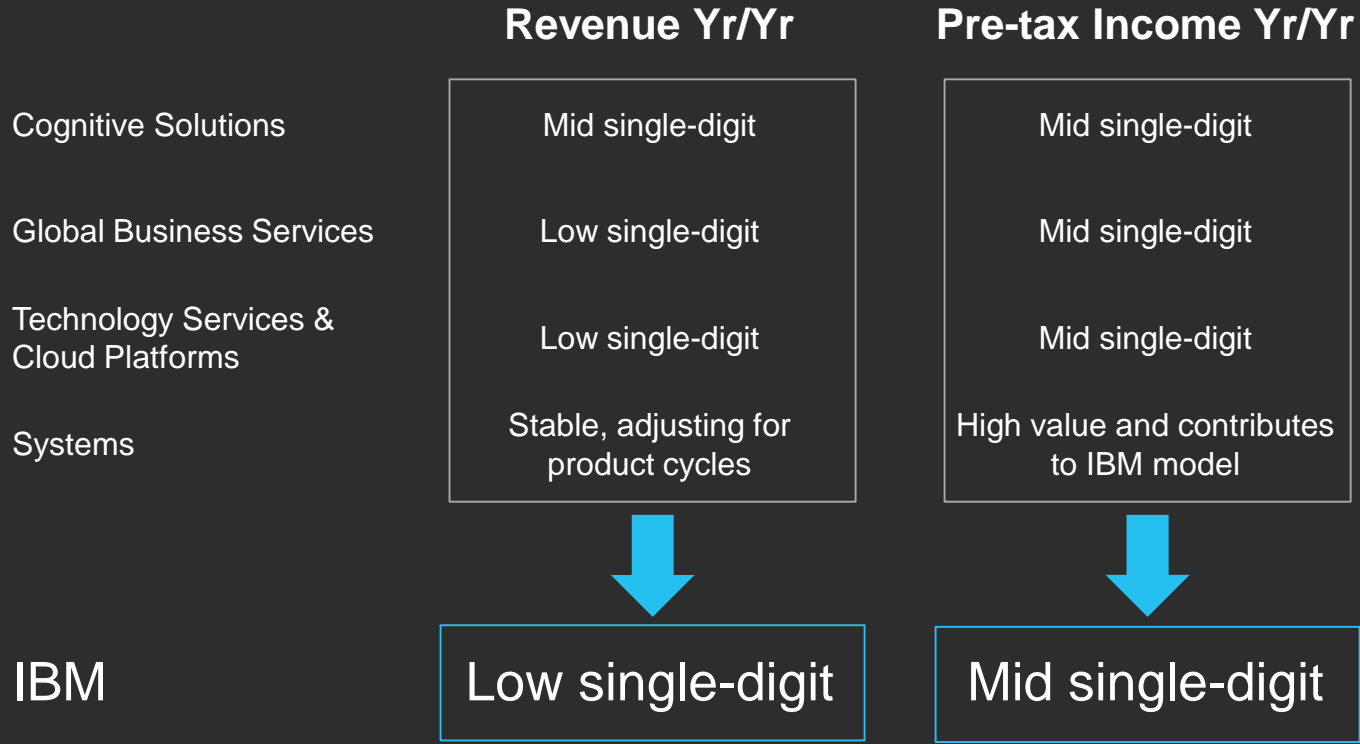
## Longer-term Model

- 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



# Revenue Dynamics

Strategic Imperatives revenue and mix:

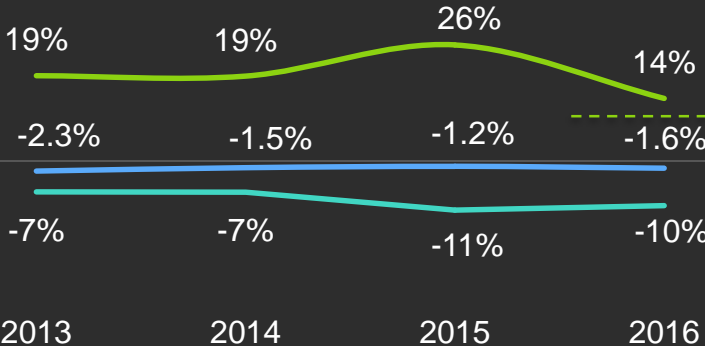


On track to reach \$40B by 2018

As-a-Service annualized run rate (\$B):



Revenue growth Yr/Yr



## Longer-term Model

Strategic Imperatives: Double-digit growth

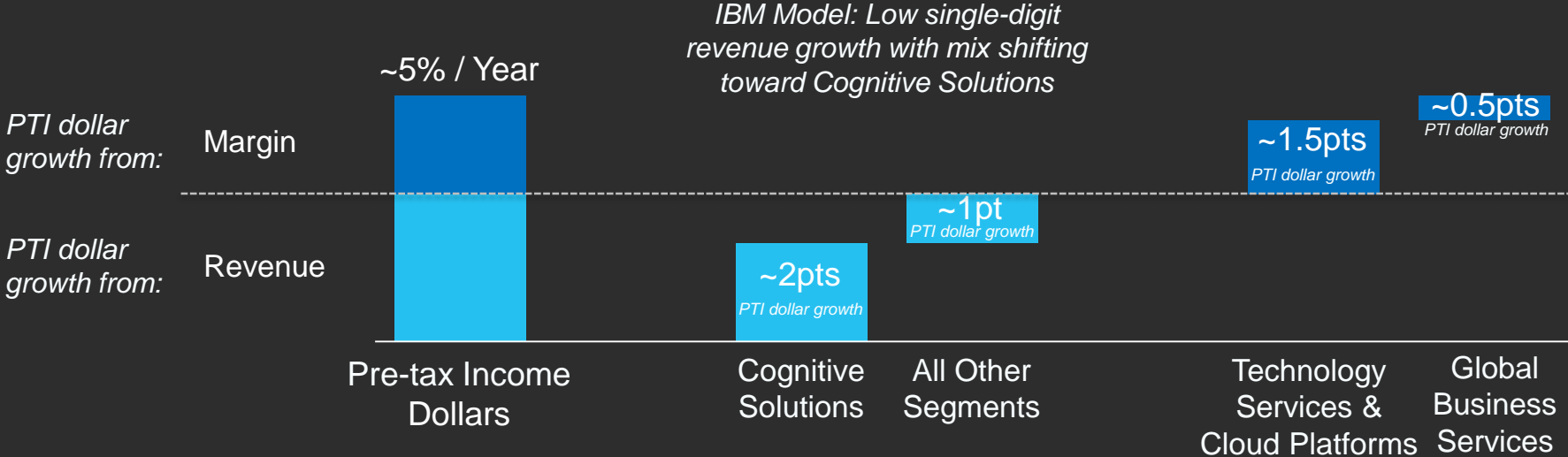
IBM: Low single-digit growth

Core Content: Decline in line with market

# Pre-tax Income Contribution

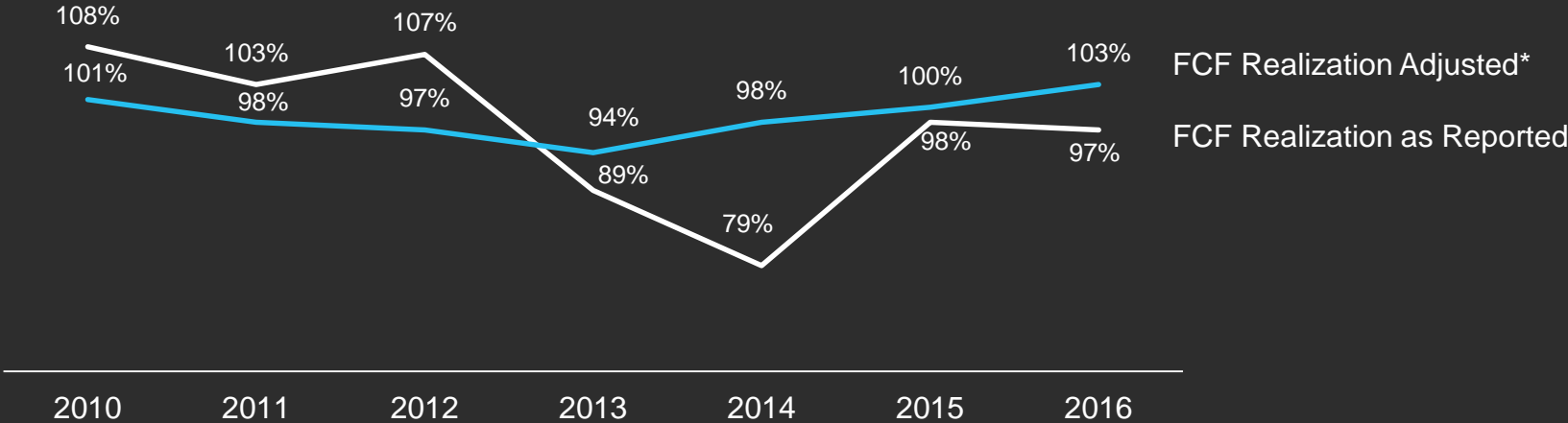
Longer-term model:  
Mid single-digit growth

Contribution to IBM pre-tax income growth:



# Free Cash Flow Realization

Above 90% over the long term



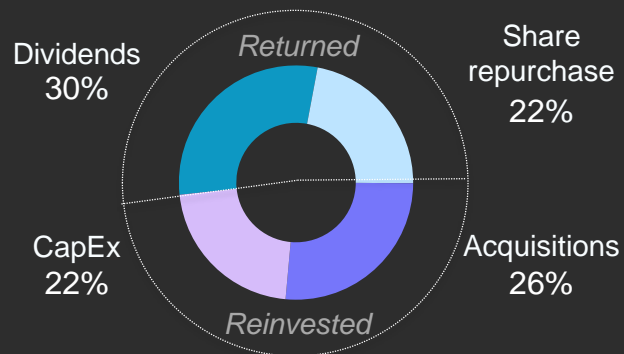
FCF Realization Adjusted\*  
FCF Realization as Reported

\*Adjusted for book/cash tax differential and cash from gains

# Cash Flow and Uses of Cash

	Last 2 years	Longer-term model:
Net Cash from Operations:	~\$32B	Growth in line with profit
Free Cash Flow:	~\$25B	Steady capital investment
Free Cash Flow Realization:	98%	Above 90%

## Uses of cash (last 2 years)



## Allows for return of capital:

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

# 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%

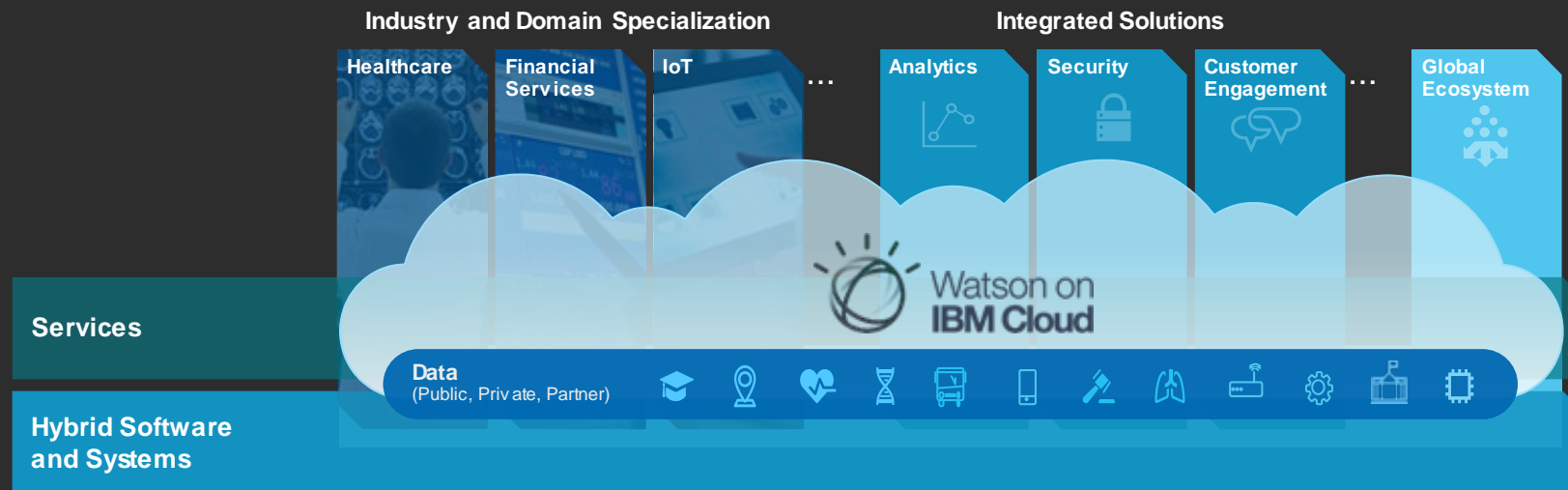


# Summary

Investments position us to capitalize on macroeconomic trends

Enduring, high value platforms

Balanced investment and return of capital to shareholders





# 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 multi-cloud architectures: IDC FutureScape: “Worldwide Cloud 2017 Predictions,” Dec 2016
- Source for internet and mobile traffic: Cisco White Paper “Cisco VNI Forecast and Methodology, 2015-2020,” Jun 2016
- 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

IBM  
Investor  
Briefing  
2017



# Non-GAAP Supplemental Materials

## *Reconciliation of Revenue Growth*

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

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.

