Financial Discussion

James Kavanaugh
Senior Vice President and Chief Financial Officer
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.

**Integrated Model**

- Innovative Technology
- Industry Expertise
- Trust and Security
- High Value and Financial Returns

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Operating Gross Profit Margin</th>
<th>Free Cash Flow</th>
<th>Annual Dividend per Share</th>
<th>Return on Invested Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$79B</td>
<td>47%</td>
<td>$13B</td>
<td>$6</td>
<td>17%</td>
</tr>
</tbody>
</table>

*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:
  - ~40%

- Invested in R&D, Capital and Acquisitions:

2015-2017

- Returned to shareholders via share repurchase and dividends:
  - 57%

- Invested in R&D, Capital and Acquisitions:

Cumulative Investment

Over last 6 years

- Invested in last 3 years:
  - $13B
  - $25B
  - $34B
  - $47B
  - $62B
  - $71B

- Invested in R&D:
  - ~$17B

- Capital Expense:
  - ~$11B

- Acquisition Spend:
  - ~$10B

- Platforms, data / AI and Cognitive Solutions
- Building domain and industry capabilities
- Scaling new market segments
- IBM Cloud Single Architecture
- 58 Cloud data centers support clients across ~140 countries
- 8 Cloud availability zones

Leverage partnerships and ecosystems to extend reach
Our increased investments and portfolio actions have driven a fundamentally different business mix.

**Revenue Mix**

- **2007**
  - Software: 20%
  - Services: 55%
  - Hardware & IGF: 25%
  - **47%** Annuity Mix
  - **42%** Gross Profit %

- **2014**
  - Software: 28%
  - Services: 59%
  - Hardware & IGF: 13%
  - **58%** Annuity Mix
  - **51%** Operating Gross Profit %
  - **$34B** Investments prior 3 years
  - **27%** Strategic Imperatives revenue mix

- **2017**
  - Software: 31%
  - Services: 59%
  - Hardware & IGF: 10%
  - **61%** Annuity Mix
  - **47%** Operating Gross Profit %
  - **$37B** Investments last 3 years
  - **46%** Strategic Imperatives revenue mix
... while building new business models

**2007**
- Software: 20%
- Services: 55%
- Hardware & IGF: 25%
- Annuity Mix: 47%
- Gross Profit %: 42%

**2014**
- Software: 28%
- Services: 59%
- Hardware & IGF: 13%
- Annuity Mix: 58%
- Gross Profit %: 51%

**2017**
- Software: 31%
- Services: 59%
- Hardware & IGF: 10%
- Annuity Mix: 61%
- Gross Profit %: 59%

**2017**
- Cognitive Solutions: 23%
- Technology Services & Cloud Platforms: 43%
- Global Business Services: 21%
- Systems & IGF: 13%

- $37B Strategic Imperatives revenue in 2017
- 11% Strategic Imperatives revenue growth in 2017
- 22% of IBM revenue in Cloud
- $10.3B as a Service Exit Run-Rate
We have redesigned our operating model and changed the way we work

Streamlined Management System
Improve speed and responsiveness to clients

- **35%** Reduction in layers
- **30%** Improvement in decision rights alignment

Scaling agile and new ways of working
Strengthen capacity for rapid innovation

- **~50%** of employees are new in last 5 years

<table>
<thead>
<tr>
<th>STRUCTURE</th>
<th>WORKFORCE</th>
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<tbody>
<tr>
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<td>~50% of employees are new in last 5 years</td>
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<td>30% Improvement in decision rights alignment</td>
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<table>
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<tr>
<th>WORKFLOWS</th>
<th>WORKSPACE AND TECHNOLOGY</th>
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<tbody>
<tr>
<td>60% Improvement to DevOps throughout</td>
<td>7M Sq. ft. converted to innovation workspace</td>
</tr>
<tr>
<td>25% Decrease in quote to cash time cycle</td>
<td></td>
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<tr>
<td>1 Enterprise data architecture on the IBM Cloud</td>
<td></td>
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</table>
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
... building on our enterprise leadership and integrated model

**Repositioned For The Future**

+ Invested in key emerging high value segments and rebuilt innovation pipeline
+ Portfolio actions have driven a fundamentally different business mix
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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

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**$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

**#1**

in Enterprise IT

**$7B**

of annual revenue divested in last 5 years

**$37B**

of Fortune 500 are IBM clients

**~50%**

of employees are new in last 5 years

**~70%**

of world’s business data managed...responsibly

**80%**

of 2017 revenue from clients buying cross-IBM solutions

**95%**

Annuity mix in 2017, up 14pts over past decade

**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.

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

- **Integrated IBM Model...**
  - Industry and Integrated Solutions
    - Health
    - Financial Services
    - IoT
    - Security
  - Watson on IBM Cloud
    - Public, Private and Hybrid
  - Data:
    - Infrastructure and Services
    - Systems
    - Software
    - Services

...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

IBM Integrated Model
Monetized through platform usage and high value services and solutions

IBM Blockchain Platform
on the IBM Cloud and Mainframe

GBS Blockchain Services

Blockchain Ecosystem

Blockchain Solutions
Build - Operate - Lead

Value Drivers

#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
+21 more

IBM Food Trust
+10 more

Universal Payments
+8 more

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

IBM Integrated Model
Multiple monetization models: pay for value

- Vertical Solutions
  - Oncology & Genomics
  - Life Sciences
  - Health and Human Services
  - Imaging
  - Value-based Care

- Industry and Process Specialization
  - HIPAA - GxP - GDPR

- Enterprise Scale Cognitive Platform
  - Watson on IBM Cloud
  - Built for Security

- Data
  - Public - Private - Partner

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

IBM Integrated Model
Monetized through high value software and services

GBS Consulting Services
Managed Security Services

Cognitive Security Solutions
- Cloud, Mobile and IoT Security
- Threat Intelligence
- Infrastructure Security
  - Mainframe and Endpoint
- Data and App Security
- Identity and Access management
- Advanced Fraud Protection

IBM Cloud, Mainframe Pervasive Encryption

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

>6,000
Security clients utilizing AI

>8,000
Subject matter experts

~3,700
Patents granted

#1
Enterprise security vendor

$3B
IBM Security revenue in 2017

54%
Revenue growth in 2017 *

~60B
Events monitored per day

* Revenue Y/Y% @CC
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)

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

Monetized through high value hardware, software and services
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Outsourcing Backlog</th>
</tr>
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<tbody>
<tr>
<td>2007</td>
<td>$74B</td>
</tr>
<tr>
<td>2015</td>
<td>$77B</td>
</tr>
<tr>
<td>2016</td>
<td>$78B</td>
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<td>2017</td>
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**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

**Outsourcing Provider**

<table>
<thead>
<tr>
<th>Provider</th>
<th>Year</th>
<th>Value</th>
</tr>
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<td>2017</td>
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**Cloud**

<table>
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<th>Value</th>
<th>Year</th>
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<tbody>
<tr>
<td>14%</td>
<td>2015</td>
</tr>
<tr>
<td>20%</td>
<td>2016</td>
</tr>
<tr>
<td>&gt;25%</td>
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**Strategy Imperatives**

- Outsourcing provider in the world
- >40% higher outsourcing win rates with mainframe than without
- >40% of 2017 signings are Cloud
- 1/3 of server incidents resolved with automation

**Clients on IBM Services Platform with Watson**

- >1,000 Clients
IBM’s differentiation results in high value and financial returns

Integrated Model

- Innovative Technology
- Industry Expertise
- Trust and Security

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%

High Value and Financial Returns
Deliver pre-tax income dollar growth

**Mix and Scale**

\(~2 \text{ pts of annual PTI dollar growth}\)

Deliver segment revenue models
Scale efficiencies, net of as a Service mix

**Operating Leverage**

\(~3 \text{ pts of annual PTI dollar growth}\)

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

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<td>Revenue Growth: Mid Single-Digit</td>
<td>Revenue Growth: Low Single-Digit</td>
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<tr>
<td>+ Scale new platforms and solutions</td>
<td>+ Shift clients to cloud</td>
</tr>
<tr>
<td>+ Momentum in as a Service offerings</td>
<td>+ Capitalizing on new strategic emerging workloads</td>
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<th>Global Business Services</th>
<th>Systems</th>
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<tbody>
<tr>
<td>Revenue Growth: Low Single-Digit</td>
<td>Revenue Growth: Stable Adjusting for Product Cycles</td>
</tr>
<tr>
<td>+ Continue to shift to higher value offerings</td>
<td>+ Optimize existing platforms for new workloads</td>
</tr>
<tr>
<td>+ Infusing AI and analytics to differentiate for clients</td>
<td></td>
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Note 8
IBM revenue model of low single-digit growth is driven by as a Service momentum

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### as a Service Longer-Term Model

- **Exit Run Rate**: 15% - 20% Growth
- **Gross Profit %**: +3pts / year

Cloud is accretive to longer term model

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<th>Pre-Tax Income Dollars</th>
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Exit Run Rate +3pts / year

Gross Profit % +3pts / year

Cloud is accretive to longer term model
Services deliver higher margin through AI differentiation and efficiencies

### 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
Enterprise productivity fuels investment and contributes to profit growth

**Spending Profile**

- **Productivity**
  - 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

**Spend to Revenue**

- ~3pts gross savings,
- ~1pt net of investment
IBM’s strong free cash flow and balance sheet provide financial flexibility

### Free Cash Flow Realization
- **Last 3 Years**: 104%
- **Longer-Term Model**: >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 is well positioned to grow and deliver longer-term financial model

**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
Notes

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.