

IBM

Investor

Update

Spring 2019



# 2018 Business Highlights

IBM returned to growth in 2018, grew earnings per share and stabilized margins

**\$79.6B**

**Revenue**



Full-year revenue growth

Cloud revenue of **\$19 billion**, with growth led by as-a-Service

**46.4%**

**Gross Profit Margin**



Stabilized margins, with **margin expansion** in the second half

**\$11.9B**

**Free Cash Flow**



Enables **investment** and **stockholder returns**

**\$6.28**

**Annualized Dividend per Share\***



Returned **\$10 billion** to stockholders in dividends and share repurchases

Raised dividend for the **23rd** consecutive year

**17%**

**Return on Invested Capital\*\***



Reflects high-value business

\* Annualized Dividend per Share equals most recent quarterly dividend per share multiplied by four

\*\* Excludes \$2 billion in 2018 charges related to the U.S. Tax Cuts and Jobs Act of 2017



# IBM's Strong Foundation for the Cognitive and Cloud Era

IBM is uniquely positioned to move enterprise clients to the next chapter of **digital reinvention**

## Scaling AI

Moving from experimentation to production, scaling and embedding AI across the enterprise

## Hybrid Cloud

Moving mission-critical workloads to the cloud: hybrid, multi-cloud, open, secure, managed

Innovative Technologies



Industry Expertise



Trust and Security

**Integrated Model**



# Positioned for the Future

IBM has taken actions to lead in the emerging, high-value segments of the IT market, and deliver long-term value to stockholders

## IBM Today

**#1 in enterprise IT,  
and #1 in...**

- AI for business
- hybrid cloud
- enterprise services
- enterprise security
- enterprise systems
- blockchain

## Recent Actions

**Maintained high level of investment  
in R&D, capital, acquisitions**  
to extend lead in areas such as  
hybrid cloud, AI, security, quantum

**Announced acquisition of Red Hat**  
to accelerate adoption of hybrid cloud

**Announced divestiture of select  
software and services businesses**  
to prioritize investments for  
IBM's integrated high-value model

## Longer-Term Financial 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%



# Commitment to Stockholder Engagement and Responsiveness

We have a continuous practice of meeting with a significant number of our largest investors throughout the year to solicit and incorporate feedback into our practices and disclosures



**2018 Proxy Season**

**100+**  
# of stockholders we engaged with prior to the 2018 Annual Meeting

**>70%**  
% of IBM's institutional ownership we engaged with prior to the 2018 Annual Meeting

**250,000**  
# of registered and beneficial stockholders we reached out to, which represents a majority of our retail stockholder base

**2018 Off Season**

**>50%**  
% of the shares voted at the 2018 Annual Meeting that directors and senior management offered to engage with

**>30%**  
% of the shares voted at the 2018 Annual Meeting that directors and senior management engaged with on corporate governance, business strategy, executive compensation and sustainability

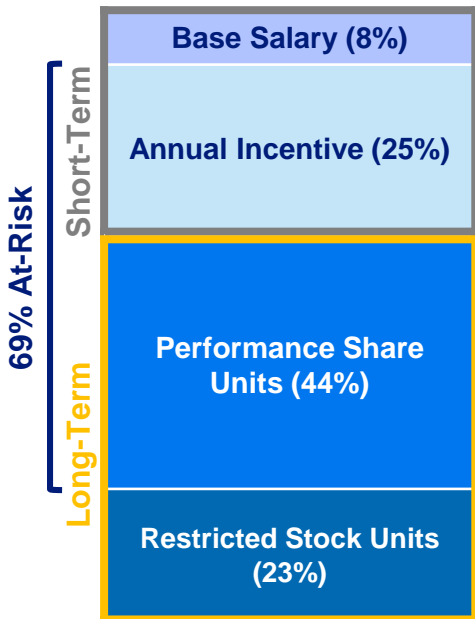
Recent Outcomes of Engagement:	
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Changed Presiding Director title to Lead Director</li> <li>• Continued focus on active Board refreshment and Diversity</li> <li>• Committee chair and member rotation</li> </ul>
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Added a relative ROIC modifier to PSUs granted beginning in 2018</li> <li>• Reduced maximum annual incentive plan opportunity for CEO from 3x to 2x target</li> <li>• For the 2019 annual incentive, total IBM revenue will replace Strategic Imperatives revenue metric</li> </ul>
<b>Corporate Social Responsibility</b>	<ul style="list-style-type: none"> <li>• Enhanced proxy disclosure on corporate responsibility and sustainability</li> <li>• Ensured IBM attendees with sustainability expertise were available for dialogue with investors</li> <li>• Held a webcast devoted exclusively to sustainability topics</li> </ul>



# Executive Compensation Aligns with High-Value Business Model

Compensation Committee ensures that our pay programs for our senior executives are closely aligned to IBM's strategy and performance

## 2018 CEO Pay Mix



- Market competitive
- **Operating Cash Flow (40%)**: Measures ability to reinvest and return value to stockholders
- **Operating Net Income (40%)**: Measures our profit and operational success
- **Strategic Imperatives Revenue (20%)**: Promotes shift to a cognitive solutions and cloud platform company
- **Three-Year Performance Period**
- **Operating Earnings Per Share (70%)**: Measures profitability on a per-share basis
- **Free Cash Flow (30%)**: Measures ability to reinvest and return value to stockholders over multiple years
- **Relative ROIC Modifier**: Measures return on invested capital, demonstrating the company's differentiated high-value model versus peers
- Typically vest over four years

**2019 Enhancement**  
Replaced Strategic Imperative revenue with IBM revenue as an annual incentive metric

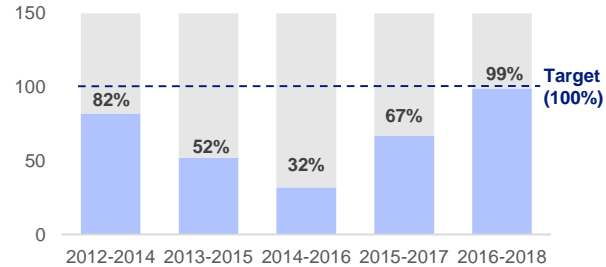
**The CEO's total target compensation is unchanged from 2018 to 2019**



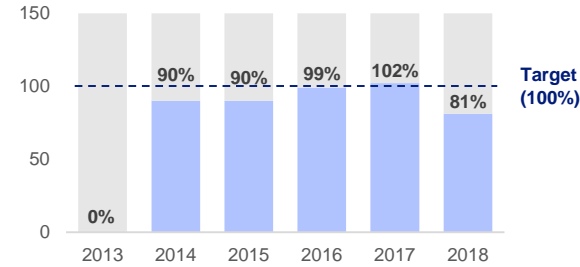
# Performance-Based Executive Compensation

Annual and long-term incentive program target metrics are set at rigorous levels, with pay-at-risk designed to balance short- and long-term business objectives

**LONG-TERM PERFORMANCE SHARE UNIT PAYOUTS AS % OF TARGET**

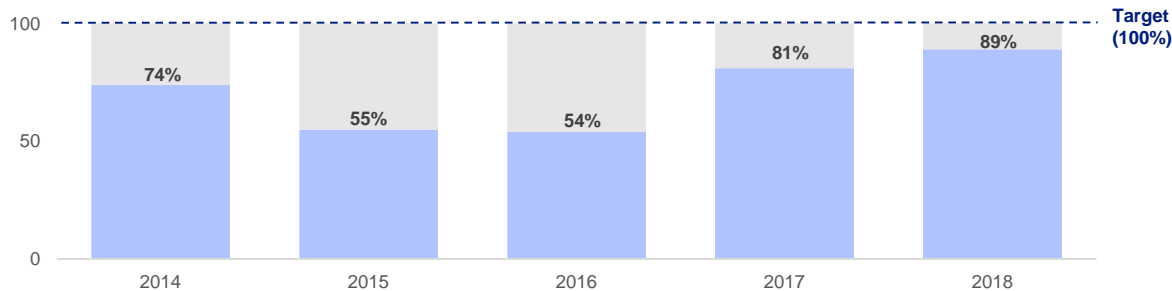


**CEO ANNUAL INCENTIVE PROGRAM AS % OF TARGET**



2018 Annual Incentive Program score reflects a **15 point downward qualitative adjustment**. Even though overall results were strong in 2018, performance was not with the consistency that management set for itself across all markets and units

**CEO TOTAL ACTUAL PAYOUT AS % OF TARGET ANNUAL COMPENSATION**




Total actual payout ranged from 54% to 89% of target annual compensation over the last five years, **reflecting our rigorous performance goals**



# Thoughtful Approach to Active Board Refreshment

Our Director Nominees, all leaders in their respective fields, have a deep understanding of our business and extensive industry expertise to contribute diverse and fresh perspectives

**VIRGINIA ROMETTY** 



Chairman, President and CEO, IBM

**Lead Director** **MICHAEL ESKEW** 



Retired Chairman and CEO, UPS

As part of our **robust and proactive refreshment efforts** we added two new directors in 2019:



**DAVID FARR** 



Chairman and CEO, Emerson Electric Co.

**ALEX GORSKY** 



Chairman and CEO, Johnson & Johnson

**SHIRLEY ANN JACKSON** 




President, Rensselaer Polytechnic Institute


**ANDREW LIVERIS** 



Retired Exec. Chairman, DowDuPont  
Retired Chairman and CEO, Dow Chemical

**ADMIRAL MICHELLE HOWARD, Retired Admiral, US Navy**



- The first woman to become a four-star admiral, and the first African American and first woman to be named Vice Chair of Naval Operations
- Admiral Howard's experience with cybersecurity and technology in the digital age will benefit IBM stockholders 

**JOSEPH SWEDISH** 



Sr. Advisor, Retired Chairman, Pres. CEO, Anthem, Inc.

**SIDNEY TAUREL** 



Chairman Emeritus, Eli Lilly and Co.  
Chairman, Pearson plc

**PETER VOSER** 




Retired CEO, Royal Dutch Shell plc  
Chairman, ABB Ltd.


**FREDERICK WADDELL** 



Retired Chairman and CEO, Northern Trust Corporation

**DR. MARTHA POLLACK, President, Cornell University**



- Computer scientist and leader in the field of AI, key skills and expertise for IBM
- Dr. Pollack's perspectives on education and the use of technology to improve lives provide value to IBM and its stockholders 

**Industry Expertise Key:**

Healthcare: 	Financial Services: 	Transport & Logistics: 
Energy: 	Manufacturing: 	Research & Development: 
Government: 	Information Technology: 	Chemicals: 





# Optimal Mix of Skills and Experience for Director Nominees

The Board is committed to ongoing, proactive refreshment and maintaining a diversity of backgrounds, talents and perspectives

## Balanced Mix of Tenures

Less Than 5 Years

**6 Directors**

5-10 Years

**3 Directors**

More Than 10 Years

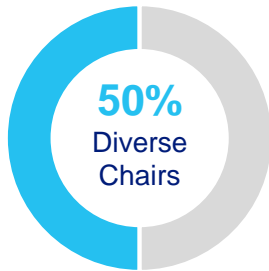
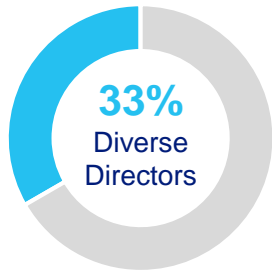
**3 Directors**

Average tenure is **6.7 years**

## Highly Qualified Director Nominees with Diverse Experiences

Public Company Board	10	Industry leaders with deep executive and oversight experience
Organizational Leadership and Management	12	
Global Business Operations	9	Global experience necessary to oversee a business of IBM's scale, scope and complexity
Finance/Public Company CFO	7	
Tech, Cybersecurity, or Digital	12	Critical skill given industry trends and transformation
Government / Public Policy	12	Key insight into IBM's regulatory environment

## Emphasis on Diversity



## Building the Right Board for IBM: Key Director Attributes

### Business Operation, Innovation, and Transformation Experience

- 100% of IBM Directors have led complex organizations
- Key to Board's oversight of company's innovation and transformation

### Industry Experience

- IBM's Directors have experience leading organizations in a variety of industries, enhancing the Board's knowledge and perspectives on contemporary business issues

### Global Perspective

- Every IBM Director has international experience
- Board's diverse and international experience is crucial for IBM, which operates in more than 175 countries worldwide



# Commitment to Governance Best Practices

The table below highlights practices that IBM embraces in support of strong governance

## Stockholder Rights and Governance Best Practices

- ✓ Annual election of directors
- ✓ Robust independent lead director role
- ✓ Stockholder special meeting right
- ✓ Proxy access
- ✓ Majority voting for directors
- ✓ Annual Board self-evaluation
- ✓ 11 of 12 director nominees are independent
- ✓ Signatory of Commonsense Principles 2.0 **NEW**
- ✓ Endorser of Investor Stewardship Group Principles **NEW**
- × No supermajority voting provisions
- × No stockholder rights plan or poison pill

## Compensation Governance Best Practices

- ✓ Tie a significant portion of pay to Company performance
- ✓ Maintain robust clawback provisions
- ✓ Stock ownership guidelines for Chairman, CEO and SVPs
- ✓ Utilize noncompetition and non-solicitation agreements
- ✓ Remove impact of share repurchase on executive incentives
- × No individual severance or change-in-control agreements for NEOs
- × No excise tax gross-ups
- × No dividend equivalents on unearned RSUs/PSUs
- × No hedging or pledging of IBM stock
- × No stock option repricing, exchanges or options granted below market value
- × No guaranteed incentive payouts
- × No accelerated vesting of equity awards for NEOs



# Corporate Responsibility is Smart Business

Under the Board's guidance and supervision, IBM's longstanding commitment to the highest standards of corporate responsibility is an integral part of our long-term performance strategy



## CORPORATE CITIZENSHIP

- We apply our technology and talent to create solutions for education, environmental sustainability, healthcare and more
- Programs like Pathways in Technology Early College High Schools (P-TECH) are leading the way in public education reform to address the global skills gap by integrating high school and college coursework with workplace opportunities



## SUPPLY CHAIN

- Responsibly sourced packaging materials
- Conduct environmental supplier audits
- Foster supplier diversity globally
- Apply the Responsible Business Alliance (RBA) Supplier Code of Conduct



## DIVERSITY & INCLUSION

- Recognized global leader in workplace diversity, inclusion and equality.
- Only tech company in this century to have won the coveted Catalyst Award for advancement of women, and IBM has been the winner four times
- Programs such as Tech Re-Entry and Business Resource Groups create an equal opportunity workforce



## ENVIRONMENT

- Use innovative technology and deep expertise to minimize our environmental impact and develop smarter solutions for a more sustainable world
- In 2017, we reduced CO<sub>2</sub> emissions at our managed locations by 42.9% versus our 2005 baseline, exceeding our goal to reduce emissions by 35% by 2020

## U.N. Sustainable Development Goals (SDGs)

- 17 interconnected initiatives aimed **at building an inclusive and sustainable world**
- Our products, services, and solutions **enable clients to drive improved sustainability**
- IBM's **contributions toward the achievement** of certain SDGs can be found at [www.ibm.com/ibm/environment/news/ibm\\_undsds\\_2018.pdf](http://www.ibm.com/ibm/environment/news/ibm_undsds_2018.pdf)

Visit [www.ibm.com/ibm/responsibility/](http://www.ibm.com/ibm/responsibility/) to learn more about these initiatives and to read our latest Corporate Responsibility Report



## Voting Item 5: Stockholder Proposal on Written Consent

The Board recommends a vote AGAINST this proposal and believes that action by written consent without prior notice to all stockholders is not in the best interest of stockholders

The Board does not believe that majority written consent is an appropriate corporate governance model for a widely-held public company like IBM

- Majority written consent **would allow a bare majority of stockholders to act without a meeting**, let alone notice to the other IBM stockholders
- By contrast, IBM's current practices, including a special meeting right, guarantee that **notice and an opportunity to be heard is given to all stockholders** prior to a stockholder vote
- This allows for **meaningful discourse and deliberation to occur before important decisions** are made affecting IBM
- This **transparency and fairness for all stockholders** would be negated with a majority written consent provision



# Voting Item 6: Stockholder Proposal on Independent Chairman

The Board recommends a vote AGAINST this proposal because the Board's flexibility to determine the appropriate leadership structure is essential and IBM has a robust Lead Director role ensuring effective independent oversight

The Board believes the Company's current leadership structure is in the best interests of IBM stockholders:



## Lead Director Michael L. Eskew

- Retired Chairman & CEO, UPS
- Global business, technology, leadership and oversight experience

- ✓ The full Board reviews our leadership structure annually to ensure the allocation of responsibilities remains appropriate
- ✓ The Board's flexibility to determine the appropriate Board leadership structure is essential
- ✓ IBM's current leadership structure is optimal for the Company at this time
- ✓ There is no conclusive evidence to support that a separate, independent Chairman leads to enhanced oversight or increased value for IBM stockholders
- ✓ IBM stockholders have continuously supported the current leadership structure with the majority of stockholders voting against this proposal multiple times

IBM's Lead Director role is robust and ensures effective independent oversight at all times:

### As Lead Director, Mr. Eskew has the following core responsibilities:

- ✓ Presides at all Board meetings at which the Chairman is not present and leads a session of non-management directors at each meeting
- ✓ Serves as liaison between the Chairman and the independent directors
- ✓ Approves information sent to the Board
- ✓ Approves meeting agendas and meeting schedules
- ✓ Has the authority to call meetings of the independent directors
- ✓ Available for consultation and direct communication

### In addition to core responsibilities, Mr. Eskew also:

- ✓ Conducts one-on-one debriefs with the Chairman after each meeting
- ✓ Analyzes CEO performance in executive sessions in conjunction with the Executive Compensation & Management Resources Committee chair
- ✓ Reviews feedback from the Board and Committee evaluation process
- ✓ Engages with senior management outside of Board meetings to ensure a deep understanding of business and strategy
- ✓ Attends other committee meetings



**The Board asks that  
you vote:**

**For all management  
proposals**

**Against both  
stockholder proposals**

✓ **FOR** Election of all Twelve Director Nominees

✓ **FOR** Ratification of PricewaterhouseCoopers LLP as IBM's Independent Registered Public Accounting Firm

✓ **FOR** Advisory Vote on Executive Compensation

✓ **FOR** Approval of Long-term Incentive Performance Terms for Certain Executives for Awards Eligible for Transitional Relief Pursuant to Section 162(m) of the Internal Revenue Code

✗ **AGAINST** Stockholder Proposal on the Right to Act by Written Consent

✗ **AGAINST** Stockholder Proposal to Have an Independent Board Chairman

*To express our appreciation for your participation in our annual meeting, IBM will make a \$1 charitable donation to [AnitaB.org](https://AnitaB.org) on behalf of every stockholder account that votes this year.*

*AnitaB.org is a global nonprofit organization that connects, inspires, and guides women in technology.*

**/ ANITA  
B.ORG**



IBM

# Appendix A





# 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, specifically free cash flow. The rationale for management's use of this non-GAAP information and its reconciliation are included on page 61 of the Company's Annual Report, which is Exhibit 13 to the Form 10-K submitted to the SEC on February 26, 2019.

Note: 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.

