

Arvind Krishna
Chairman and Chief Executive Officer
2022 IBM Annual Shareholder Meeting
April 26, 2022

Hello everyone.

2021 was a pivotal year for IBM. From strengthening our portfolio, to expanding our partner ecosystem, to successfully spinning off parts of our business, we took a series of bold steps to execute against our strategy.

Through this hard work, which I will describe in more detail in my remarks, we were able to return your company to growth. In broad strokes, there are three topics I will discuss today.

- I'll start by giving you an overview of our financial performance in 2021.
- Then, I'll update you on our strategy and execution.
- Finally, I'll end by quickly touching upon IBM's longstanding commitment to science, innovation, and responsible stewardship and how these serve as engines for growth over the long term.

2021 financial performance

So, let's begin by looking at our financial performance in 2021.

For the year, we delivered \$57.4 billion in revenue and \$12.8 billion in cash from operations. Revenue growth accelerated at constant currency throughout 2021. We gained strong momentum toward the end of the year with 8.6% growth in the fourth quarter. Meanwhile, hybrid cloud revenue grew 19% at constant currency and now makes up 35% of IBM revenue.

If we look at the three pillars of IBM's portfolio:

- IBM Software grew 4% at constant currency.
- IBM Consulting grew 8% at constant currency.
- and IBM Infrastructure declined 3% at constant currency, reflecting product cycle dynamics.

As you can see, IBM is already looking like a very different company. Today, over 70% of our annual revenue is in software and consulting, both delivering healthy, sustainable growth. IBM is a higher-growth, higher-value business, with strong and growing free cash flow, lower capital intensity, and attractive shareholder returns.

I'm also pleased to say that our improved financial performance allowed us to return capital to you—our shareholders. We returned \$6 billion to stockholders through dividends in 2021. We also reduced debt by \$10 billion in 2021 and by \$21 billion since acquiring Red Hat in 2019. Of course, we did all of this while we continued to invest in skills, innovation, and our ecosystem, including \$3 billion on acquisitions in the year.

And today I am pleased to share with you that the board approved an increase in our per share dividend to \$1.65 per quarter. We are extremely proud to have raised the dividend for 27 consecutive years.

Let me now walk you through our strategy around hybrid cloud and AI.

Strategy and execution

IBM's improved financial performance is a direct reflection of our ability to execute on our strategy, which is resonating strongly with our stakeholders.

In 2021, we continued to align our portfolio with the two most transformational enterprise technologies of our time: hybrid cloud and AI. To seize what is a \$1 trillion hybrid cloud opportunity, we have a platform-centric approach that allows our clients to develop and deploy applications across private and public clouds and consume innovation from anywhere.

On top of making important organic investments, we made 15 strategic acquisitions last year—all of which are designed to strengthen our hybrid cloud and AI offerings.

For example, Waeg, Bluetab, and Taos reinforce our cloud consulting expertise. Turbonomic integrates with Instana and Watson AIOps to create an industry-leading suite of automation software. And ReaQta expands our AI-based threat detection and response capabilities in IBM Security.

We also made many important changes to the way we engage clients. Our new client engagement model is based on two central tenets: experiential selling and co-creation. And our clients have responded very well to these changes so far.

Another critical change we have made is expanding IBM's partner ecosystem. We now have a vast, but carefully selected network of systems integrators, independent software vendors, service providers, channel partners, and developers. This allows to address a much larger opportunity.

To give you a few examples, we strengthened existing relationships with companies like Adobe, Oracle, and EY. We created new consulting services in collaboration with SAP and co-created an AI-enabled analytics solution with Deloitte. We announced new strategic partnerships with Cisco, Palo Alto Networks, and Telus, all focused on 5G, Edge, and network automation. And we saw our Consulting revenue in support of AWS, Azure, and Salesforce grow more than 50%.

All of these efforts are part of a larger cultural shift at IBM toward client-centricity – which is already paying off.

For example, we are helping Spain's Telefónica to modernize its network platform, combining the potential of 5G with the customization and intelligence of hybrid cloud. National Grid, a leading US electric and gas utility, is working with IBM and Boston Dynamics to analyze data at the edge in real time to improve equipment uptime and prevent power outages. The Australian federal government is working with IBM on the technology platform that powers the country's COVID-19 vaccination program. And IBM Consulting and PNC Bank partnered on a next-generation solution that allows customers to make banking decisions based on real-time data—a massive change for the banking industry.

This client-first, problem-solving approach is the reason why our client renewal rates are increasing, and our recurring revenue base is growing. It is the reason why longtime clients like CVS, Verizon, and Anthem continue to put their trust in our people and our technology. And it is the reason why we now have more than 3,800 hybrid cloud platform clients and nearly 3,000 clients co-creating in IBM Garages.

Commitment to science, innovation, and responsible stewardship

While we are focused on meeting the needs of clients today, we continue to shape the technologies of tomorrow. That is why IBM Research continues to advance the fundamental science of computing, driving innovation and pioneering a new era of accelerated discovery.

The work we are doing around quantum computing is a great example of this focus. Last year, we deployed the world's first 127-qubit processor, and are now on our way to a 1,000-qubit processor by the end of 2023. We also forged a series of long-term partnerships with universities, governments, and hospitals to develop quantum applications that will accelerate the discovery of everything from medicine to materials.

In 2021, IBM also unveiled a major breakthrough in semiconductor design. IBM introduced the world's first 2-nanometer chip technology, which will allow 50 billion transistors to fit on a chip the size of a fingernail. This, along with other innovations, could help keep Moore's law alive for years to come.

Another long-term and unwavering commitment is IBM's role in defining what good tech means in the digital age. Let me tell you what I mean by that.

Among the most pressing challenges facing our society today is closing the digital skills gap. To help address this issue, IBM has committed to providing 30 million people of all ages with critical skills by 2030. In addition, we are investing an additional \$250 million in our apprenticeship program.

We also continue to make progress on diversity and inclusion, which we believe is imperative for the health of our business and our society. In 2021, IBM again grew the percentage of women and underrepresented minorities in our workforce as a whole, as well as in our executive ranks. We also added a diversity modifier to our executive compensation program to reinforce the importance of a diverse workplace.

The Human Rights Campaign Foundation designated IBM as a "Best Place to Work for LGBTQ+ Equality" with a 100% rating. These efforts—and others—were recently recognized by JUST Capital, which named IBM the most just company in our industry.

In 2021, we also took important steps with regard to sustainability. Most notably, we announced our goal of net-zero greenhouse gas emissions by 2030 across all the countries in which we operate. And IBM's pioneering work in AI-based solutions for sustainability put us into an elite group of companies—among those recognized in the annual TIME100 Most Influential Companies list.

Altogether, I firmly believe that these actions have made IBM a stronger and better company.

Conclusion

Let me close now by sharing my confidence in the future of this company.

One thing is certain – 2021 marked a very important change in our company's trajectory.

We entered 2022 more strategically focused and more technologically capable. IBM is a company that is now more open to partnerships and more open to innovation through co-creation.

Our hard work in the past years has led us to this moment. It gives us confidence that we can deliver mid-single digit revenue growth in 2022. And it has made it possible for IBM to play a critical role in the digital transformation of the world's mission-critical businesses.

Let me end by thanking you – our shareholders – for your continued confidence in IBM.

I'm grateful for your support as we position IBM as the catalyst that makes the world work better for decades to come.

Information about non-GAAP financial measures and report on company.

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), this material contains non-GAAP financial measures on a continuing operations basis, including revenue growth rates adjusted for constant currency. The rationale for management's use of this non-GAAP information is included in Exhibit 13 to the Form 10-K submitted with the SEC on February 22, 2022. For reconciliation of these non-GAAP financial measures to GAAP and other information, please refer to pages 9, 17, and 32 of the company's 2021 Annual Report. Cash from operations is presented on a consolidated basis, which includes activity from discontinued operations related to the separation of Kyndryl.