

Arvind Krishna
Chairman and Chief Executive Officer
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Final as Prepared

Hello everyone,

It is my privilege to share with you the report on your company and our progress in 2020. My remarks will cover four critical aspects of our work:

- Our financial performance in 2020
- Our hybrid cloud and AI strategy
- Our progress and the decisive moves we have made for future growth
- The importance of responsible stewardship

Let me start by discussing our financial performance in 2020 – a year of profound disruption for our clients and the world at large.

2020 performance

For the full year, we delivered \$73.6 billion of revenue. Much of this reflects broader uncertainty of the macro environments, which also affects our clients. That said, the urgency of digital transformation continues to fuel momentum for our business.

Our cloud-related revenue grew 20 percent to \$25.1 billion and now represents over one-third of our total revenue. Red Hat was a key driver with normalized revenue growth of 18 percent in 2020 and a backlog topping \$5 billion for the first time at year end.

Global Business Services' cloud revenue grew at a double-digit rate as we focused on modernizing clients' applications and reimagining their workflows with AI. Global Technology Services ended the year with strong contract renewals and new clients. And, IBM Z revenue grew in 2020, with the z15 now shipping the largest capacity in the platform's history.

The fundamentals across our business continue to be strong.

- Our operating gross profit margin expanded 130 basis points to over 49 percent. This indicates the value our clients find in our offerings.
- Operating net income was \$7.8 billion, even after a significant charge for structural actions to improve our go-forward position.
- We also took actions to strengthen our balance sheet and liquidity. As a result, we are in a stronger financial position.
- Free cash flow is the fuel for our growth, and for the year we generated a solid \$18.2 billion of net cash from operations and free cash flow of \$10.8 billion.

All of this allowed us to return capital to you—our shareholders.

And today I am pleased to share with you that the board approved an increase in our per share dividend to \$1.64 per quarter. We are extremely proud to have raised the dividend for 26 consecutive years.

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

Hybrid cloud and AI strategy

We're focused on hybrid cloud – allowing companies to securely deploy and manage data and apps across public and private clouds. We see the hybrid cloud opportunity at \$1 trillion. Most of the opportunity is still ahead of us as less than 25 percent of workloads have moved to public clouds thus far. Meanwhile, the current enterprise deployment rate of AI is only in the single digits.

To seize this opportunity, our approach is platform-centric. Red Hat Linux and OpenShift are the foundation of our hybrid cloud platform. And we have a vast software portfolio modernized to run cloud-native anywhere.

In addition, our GBS expertise is a key factor in driving consumption.

Based on this foundation, we are successfully leveraging Red Hat as a unique platform to address what our global, complex and highly regulated clients need: a hybrid cloud platform that is open, flexible and secure.

For our clients, the benefits of hybrid cloud are clear. In fact, clients find that choosing a hybrid cloud approach is 2.5 times more valuable than relying on public cloud alone.

We also have built industry clouds designed to tackle the specific needs of mission-critical and highly regulated industries. Our Cloud for Financial Services added key partners in 2020, such as Adobe, Infosys Finacle, Persistent Systems and many others. Some of the world's largest banks signed on, including Bank of America, BNP Paribas and MUFG Bank.

Indicators of progress

In 2020, we have helped clients across multiple industries to accelerate their digital transformations. We ended 2020 with more than 2,800 clients using our hybrid cloud platform, up 40 percent over the past year.

For example, we partnered with Schlumberger -- the world's largest oilfield services provider - - to allow its customers deploy applications across any infrastructure.

At a moment when connectivity has become so vital, we are helping telcos, such as Bharti Airtel, AT&T, Telefonica, Telecom Egypt or Vodafone Portugal transform their networks.

And major global companies across every industry are turning to us to emerge stronger from the pandemic. For instance, Delta Air Lines is using OpenShift, Cloud Paks and GBS expertise to modernize its digital customer experience.

At the same time, we are helping clients deploy AI at scale. More than 40,000 clients have turned to IBM to unlock value from their data.

IBM's AI platform is differentiated by automation, natural language processing and trust. We have the only AI platform that can run anywhere—on premise, private cloud, and public cloud. And we're helping clients across industries infuse AI into their core business processes, such as hiring, supply chains and customer service.

Decisive moves for future growth

I have immense confidence in our hybrid cloud and AI strategy. To support and accelerate our strategy, we have made a series of decisive moves over the past year.

Starting with the biggest decision, we announced the separation of our managed infrastructure services business in October. Once the spin-off is completed, our two companies will continue to share a strong bond.

In 2020 alone, we closed seven strategic acquisitions. All are designed to bolster our hybrid cloud and AI portfolio.

To accelerate consumption of our hybrid cloud platform, we have elevated the role of partners and rapidly expanded our ecosystem by adding hundreds of new partners. We are also investing \$1 billion in our ecosystem so that our partners can play a much bigger role in fulfilling the many needs of our clients.

We have also drastically simplified our go-to-market strategy. This includes a simplified and consistent client segmentation and emphasizing what we call “pre-sales Garages” which allow us to co-create with our clients at the center of our sales process.

To give you just one example—out of many others—of the important work we are doing with our partners, we collaborated with Salesforce to build our Digital Health Pass. The Digital Health Pass incorporates data such as temperature checks, COVID-19 test results and vaccine status to help organizations safely reopen.

I firmly believe these decisive and strategic moves provide a solid foundation for us to unlock future growth.

Responsible stewardship

The era of hybrid cloud and AI will offer vast new opportunities for business and society.

Even more so knowing that the crises of 2020 have set in motion an acceleration of digital transformation.

This means that we have a unique opportunity to infuse greater intelligence into the systems that underpin business, society and commerce.

But to bring that promise to bear, it will take trust and positive societal impact. And in 2020, we continued to use our scale, scope and trust to make an impact on important societal issues.

When the global public health crisis began, we organized the High-Performance Computing Consortium to put our fastest computers at the disposal of scientists around the world working to understand and combat COVID-19.

At the same time, IBM's Watson Assistant for Citizens helped dozens of governments at all levels disseminate information about COVID-19 testing and best practices.

As protesters took to the streets to condemn systemic racism, we sent a letter to Congress explaining our decision to abandon facial recognition software. This has prompted other tech companies to follow suit.

We are taking other steps to advance our environmental leadership. To help tackle the climate crisis, we set a new goal to reach net zero greenhouse gas emissions by 2030—without the use of carbon offsets.

The events of the past year have reaffirmed our long-standing commitment to address social injustices, accessibility gaps, and growing socio-economic differences. Within IBM, we continue to foster a culture of conscious inclusion where people of all backgrounds can thrive.

Despite the challenges of a global pandemic, in our November 2020 annual IBMer Engagement Survey, IBM achieved best-in-class results with an 88 percent inclusion score index and a similar percentage of IBMers saying they can be their authentic selves at work.

In 2020, we made a commitment to be more transparent in how we report Diversity & Inclusion. And just this month, we released our 2020 Diversity & Inclusion report. In it, you will see the progress we have made.

More specifically, we have increased our diversity representation over the past three years for women worldwide and underrepresented minorities in the U.S. We have also increased the hiring and advancement opportunities of women and underrepresented minorities in the U.S. in 2020.

Closing Comments

Let me now close by reflecting on the year that has passed and sharing my confidence in the future of this great company.

As I look back, for me as for so many other IBMers, 2020 has put the spotlight on IBM's essential role for our clients. As a company, we are clearly the backbone of some of the most critical systems that keep the world running.

Our technologies and services help banks process credit card transactions, businesses run supply chains, telcos connect customers, healthcare providers improve patient care, and companies and cities tackle cyber threats.

Today, IBM is reshaping its future as a hybrid cloud and AI platform company.

My confidence in our ability to exit this turbulent period stronger is grounded in the strength of our strategy, the progress of our transformation, and the talent and resilience of IBMers around the world.

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

I'm grateful for your support as we embark on the next chapter of our journey together.

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 operating net income, operating gross profit margin, free cash flow, revenue adjusted for divested businesses and constant currency, and Red Hat revenue, normalized for historical comparability. The rationale for management's use of this non-GAAP information is included in Exhibit 99.2 to the Form 8-K filed with the SEC on January 21, 2021. For reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures, and other information, please refer to Exhibit 99.1 to the Form 8-K filed with the SEC on January 21, 2021.