

IBM 1Q 2016 Earnings

April 18, 2016

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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), the company also discusses, in its earnings press release and earning presentation materials, certain non-GAAP information including "operating earnings" and other "operating" financial measures. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are included in supplemental materials entitled "Non-GAAP Supplemental Materials" that are posted on the Company's investor relations web site at:

<http://www.ibm.com/investor/events/earnings/1q16.html>

The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated April 18, 2016.



Overview

1Q16

\$18.7B

Revenue

\$2.35

Operating EPS

\$14.3B

*Free Cash Flow
Last 12 Months*

- Progress in transformation of business reflected in revenue dynamics
 - Strategic Imperatives represent 37% of IBM revenue over last 12 months
- Continuing to invest and partner to enhance cognitive solutions and cloud platform capabilities
- Actions to accelerate the transformation



Strategic Imperatives

Last 12 Months

\$30B

Revenue

37%

IBM Revenue

1Q16

\$7B

Revenue

17%

Year/Year

1Q16 Transformation Progress

- Acquisitions enhance existing capabilities in cloud video services, cloud consulting and digital experience
- Key partnerships to accelerate adoption of enterprise hybrid clouds
- Expanding Watson ecosystem and reach
- Enhanced Watson Health platform with acquisition of Truven (announced)

	1Q16	Yr/Yr
Analytics	\$4.2	9%
Cloud	\$2.6	36%
<i>aaS-exit annual run rate</i>	<i>\$5.4</i>	<i>46%</i>
Mobile	\$0.8	93%
Security	\$0.4	20%
Social	\$0.2	(1%)

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives primarily reflects solutions delivered via cloud



Key Financial Metrics

P&L Highlights	1Q16	B/(W)
		Yr/Yr
Revenue	\$18.7	(2%)
Expense	\$7.5	(24%)
PTI - Operating	\$1.4	(62%)
NI - Operating	\$2.3	(21%)
EPS – Operating	\$2.35	(19%)

P&L Ratios (Operating)

GP Margin	47.5%	(1.8 pts)
Expense E/R	40.2%	(9.3 pts)
PTI Margin	7.3%	(11.2 pts)
Tax Rate	(66.8%)	86.8 pts
NI Margin	12.1%	(2.6 pts)

Revenue growth rates @CC, \$ in billions except for EPS

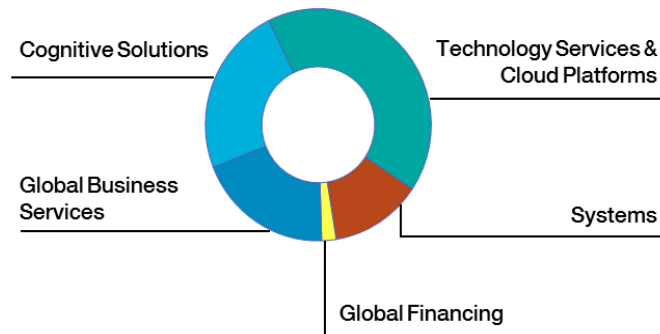
Cash Highlights	1Q16	Last 12
		Months
Free Cash Flow (excl. GF Receivables)	\$2.3	\$14.3
Share Repurchase (Gross)	\$0.9	\$4.4
Dividends	\$1.2	\$5.1
Cash Balance @ March 31	\$14.9	

- Gross margin reflects higher level of investments and mix within segments
- Expense and pre-tax income also reflects charges for actions to accelerate the transformation
- Tax includes benefit from resolution of tax case



Current Segment Structure

- IBM emerging as a cognitive solutions and cloud platform company
- Segment structure reflects management system
 - Introduced at IBM's investor briefing in February 2016
 - Historical financial information provided in March 2016



Cognitive Solutions & Industry Services

Cognitive Solutions	Global Business Services	Technology Services & Cloud Platforms	Systems	Global Financing
<ul style="list-style-type: none"> • Solutions Software • Transaction Processing Software 	<ul style="list-style-type: none"> • Consulting • Global Process Services • Application Management 	<ul style="list-style-type: none"> • Infrastructure Services • Technical Support Services • Integration Software 	<ul style="list-style-type: none"> • Systems Hardware • Operating Systems Software 	<ul style="list-style-type: none"> • Financing • Used Sales



Cognitive Solutions Segment

Segment Results	1Q16	Yr/Yr
Revenue (External)	\$4.0	Flat
Gross Margin (External)	82.0%	(2.5 pts)
PTI *	\$1.0	(34%)
PTI Margin *	21.8%	(10.8 pts)

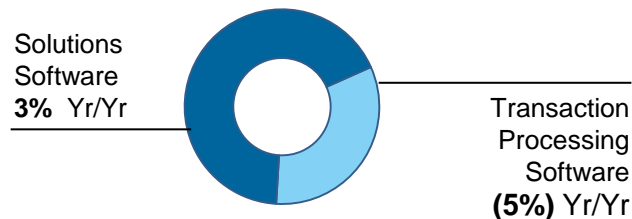
Highlights

- Solutions software growth led by security and analytics including Watson solutions
- Enhancing security capabilities by ramping security experts and acquisition of Resilient
- Continuing to build higher value solutions; announced addition of Truven to Watson Health platform

Revenue growth rates @CC, \$ in billions

*includes impact of 1Q16 charges: (\$230M) PTI, (5.0 pts) PTI margin

Segment Revenue Elements



Strategic Imperatives Revenue

within Cognitive Solutions	1Q16	Yr/Yr
Strategic Imperatives	\$2.5	4%
Cloud	\$0.4	34%
as-a-Service exit run rate	\$1.2	



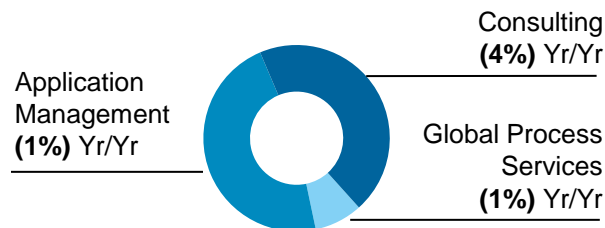
Global Business Services Segment

Segment Results	1Q16	Yr/Yr
Revenue (External)	\$4.1	(2%)
Gross Margin (External)	25.8%	(1.6 pts)
PTI *	\$0.2	(68%)
PTI Margin *	4.5%	(8.7 pts)

Highlights

- Engineering shift to strategic imperatives with growth across cloud, analytics, mobility, and security practices
- Expanded digital design capabilities with 3 acquisitions to join IBM Interactive Experience, the largest global digital agency
- Announced the acquisition of Bluewolf

Segment Revenue Elements



Strategic Imperatives Revenue

Strategic Imperatives Revenue within Global Business Services	1Q16	Yr/Yr
Strategic Imperatives	\$2.0	22%
Cloud	\$0.6	55%
as-a-Service exit run rate	\$0.5	

Revenue growth rates @CC, \$ in billions

* includes impact of 1Q16 charges: (\$330M) PTI, (7.7 pts) PTI margin



Technology Services and Cloud Platforms Segment

Segment Results	1Q16	Yr/Yr
Revenue (External)	\$8.4	2%
Gross Margin (External)	40.9%	(1.1 pts)
PTI *	\$0.3	(77%)
PTI Margin *	3.0%	(10.0 pts)

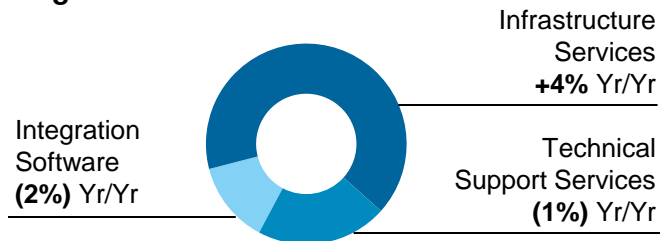
Highlights

- Growth in infrastructure services; shifting from systems integration to services integration, driven by move to hybrid cloud
- Continued momentum in SoftLayer with strong double-digit growth
- Cloud-enabled 100% of relevant IBM software and announced key partnerships with VMware, GitHub

Revenue growth rates @CC, \$ in billions

*includes impact of 1Q16 charges: (\$700M) PTI, (8.1 pts) PTI margin

Segment Revenue Elements



Strategic Imperatives Revenue

Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms	1Q16	Yr/Yr
Strategic Imperatives	\$1.8	45%
Cloud	\$1.2	50%
as-a-Service exit run rate	\$3.7	



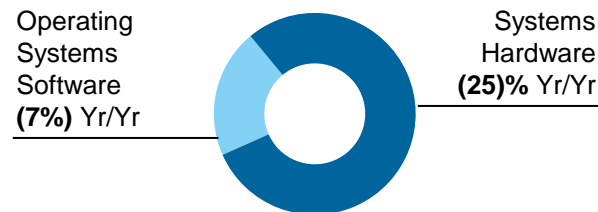
Systems Segment

Segment Results	1Q16	Yr/Yr
Revenue (External)	\$1.7	(21%)
Gross Margin (External)	57.2%	2.4 pts
PTI *	\$0.0	n/m
PTI Margin *	-0.5%	(11.8 pts)

Highlights

- z Systems performance reflects product cycle
- Linux on Power ~10% of the total Power revenue
- Continue to see momentum in OpenPOWER foundation
- Margin expansion across all hardware platforms

Segment Revenue Elements



Strategic Imperatives Revenue within Systems	1Q16	Yr/Yr
Strategic Imperatives	\$0.7	(5%)
Cloud	\$0.5	2%

Revenue growth rates @CC, \$ in billions

*includes impact of 1Q16 charges: (\$130M) PTI, (6.9 pts) PTI margin



Cash Flow and Balance Sheet Highlights

Cash Flow	1Q16	Yr/Yr	Last 12 Months
Net Cash from Operations*	\$3.3	\$1.3	\$18.1
Free Cash Flow*	\$2.3	\$1.2	\$14.3
Selected Uses of Cash			
Net Capital Expenditures	\$1.0		\$3.8
Acquisitions	\$2.6		\$5.8
Dividends/Share Repurchase	\$2.2		\$9.4

- Free Cash Flow up yr/yr; includes cash received from tax refund
- Free Cash Flow realization of 110% on a trailing twelve month basis
- Acquired 6 companies in the quarter

\$ in billions

*Excludes Global Financing receivables; **Prior year reclassified for the adoption of the FASB guidance (Debt issuance cost)

Balance Sheet	Mar 16	Dec 15	**Mar 15
Cash & Marketable Securities	\$14.9	\$8.2	\$8.8
Total Debt	\$45.6	\$39.9	\$38.7
Global Financing Debt	\$26.8	\$27.2	\$26.2
Global Financing Leverage	7.3	7.3	7.0
Non-GF Debt	\$18.8	\$12.7	\$12.5
Non-GF Debt/Capital	62%	54%	59%

- Higher cash and debt levels driven by timing of debt issuances



1Q 2016 Significant Items

Period contribution	EPS	Pre-Tax Income				
	1Q16	2Q-4Q16	% Realized			Annualized
			2Q16	3Q16	4Q16	
Workforce Transformation	(\$0.84)	>\$500M	~10%	~30-35%	~55-60%	~\$2B
Real Estate	(\$0.28)	~\$0	← Minimal savings →			<\$50M
Latin America Actions	(\$0.11)		← Reduced exposure →			
Tax Discretets	+\$1.21					

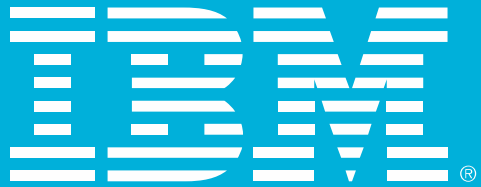
- Transformation requires skills shift; actions free up spending to invest in strategic imperatives
- Reflected in full year 2016 EPS and free cash flow expectations



Summary

- Continued progress in transformation of business
 - Strong growth in strategic imperatives revenue
 - Added to capabilities – organic, acquisitions, partnerships
 - Significant actions to accelerate transformation
- Profit dynamics reflect higher levels of investment and impact of actions
- Continue to expect at least \$13.50 of operating earnings per share for 2016
 - Improved view of free cash flow





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Supplemental Materials

- Key Financial Metrics – 1Q 2016 Significant Items
- Currency – Impact on Revenue Growth
- Geographic Revenue
- Segment Revenue & Gross Profit Margin
- Additional Revenue & Backlog Information
- Expense Summary
- Global Financing Portfolio
- Balance Sheet Summary
- Cash Flow Summary
- Cash Flow (ASC 230)
- Non-GAAP Supplemental Materials



Key Financial Metrics – 1Q 2016 Significant Items

P&L Highlights	1Q16	Impact of <u>charges/benefit</u>	
		B/(W) Yr/Yr	1Q16
Revenue	\$18.7	(2%)	
Expense	\$7.5	(24%)	\$1.4
PTI - Operating	\$1.4	(62%)	(\$1.5)
NI - Operating	\$2.3	(21%)	\$0.0
EPS – Operating	\$2.35	(19%)	(\$0.01)

P&L Ratios (Operating)

GP Margin	47.5%	(1.8 pts)	(0.1 pts)
Expense E/R	40.2%	(9.3 pts)	7.6 pts
PTI Margin	7.3%	(11.2 pts)	(7.8 pts)
Tax Rate	(66.8%)	86.8 pts	(85.8 pts)
NI Margin	12.1%	(2.6 pts)	(0.1 pts)

Revenue growth rates @CC, \$ in billions except for EPS



Currency – Impact on Revenue Growth

Quarterly Averages per US \$	1Q16	Yr/Yr	4/15/16	Yr/Yr @ 4/15/16 Spot			
			Spot	2Q16	3Q16	4Q16	FY16
Euro	0.91	(2%)	0.89	2%	2%	3%	1%
Pound	0.70	(6%)	0.71	(8%)	(9%)	(7%)	(7%)
Yen	115	3%	109	10%	11%	10%	9%
IBM Revenue Impact		(2.6 pts)		-1 to 0 pts	1 pts	1 to 2 pts	0 pts
	(US\$B)	Yr/Yr					
Revenue As Reported	\$18.7	(5%)					
Currency Impact	(0.5)	(2.6 pts)					
Revenue @ CC		(2%)					

Geographic Revenue

Geography Revenue	1Q16	Yr/Yr
Americas	\$8.7	(4%)
Europe/ME/Africa	\$5.9	(1%)
Asia Pacific	\$4.0	1%

- Americas performance consistent with 4Q15, with sequential improvement in the US (-4%) offset by weakness in Brazil
- EMEA reflects modest decline in Europe, strong performance in Middle East/Africa
- Asia Pacific returned to growth led by improvement in AP growth markets and continued growth in Japan (+2%)
- Total growth markets down 3%

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Segment Revenue & Gross Profit

Segment Revenue & Profit Metrics	Revenue	Yr/Yr	GP%	GP Yr/Yr
Cognitive Solutions	\$4.0	Flat	82.0%	(2.5) pts
Global Business Services	\$4.1	(2%)	25.8%	(1.6) pts
<i>Cognitive Solutions & Industry Services</i>	<i>\$8.1</i>	<i>(1%)</i>	<i>53.4%</i>	<i>(1.6) pts</i>
Technology Services & Cloud Platforms	\$8.4	2%	40.9%	(1.1) pts
Global Technology Services	\$7.4	2%	35.1%	(0.9) pts
Integration Software	\$1.0	(2%)	83.3%	(1.5) pts
Systems	\$1.7	(21%)	57.2%	2.4 pts
Systems Hardware	\$1.2	(25%)	46.4%	1.7 pts
Operating Systems Software	\$0.4	(7%)	87.8%	(1.9) pts
Global Financing	\$0.4	(6%)	42.4%	(7.1) pts

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Additional Revenue & Backlog Information

	1Q16	Yr/Yr
Software Revenue*	\$5.4	(1%)
Cognitive Solutions	\$4.0	Flat
Solutions Software	\$2.7	3%
Transaction Processing Software	\$1.3	(5%)
Integration Software	\$1.0	(2%)
Operating Systems Software	\$0.4	(7%)
Hardware Revenue	\$1.2	(25%)
z Systems		(42%)
Power		(14%)
Storage		(6%)

	1Q16	Yr/Yr
Services Revenue		
Global Technology Services	\$7.4	2%
Infrastructure Services	\$5.6	4%
Technical Support Services	\$1.8	(1%)
Global Business Services	\$4.1	(2%)
Consulting	\$1.8	(4%)
Global Processing Services	\$0.3	(1%)
Application Management	\$1.9	(1%)
Signings**	\$8.0	(17%)
Services Backlog	\$122	(1%)
Currency Impact Year to Year		\$1
Currency Impact Qtr to Qtr	\$3	

Growth rates @CC, \$ in billions, Actual backlog calculated using March 31 currency spot rates

*Total Software = Cognitive Solutions + Integration Software + Operating Systems Software

**Prior year reclassified to reflect current segment structure.

Supplemental Materials



Expense Summary

Expense Metrics	1Q16	B/(W) Yr/Yr	Currency	Acq. *	Base
SG&A – Operating	\$5.9	(18%)	2 pts	(2 pts)	(18 pts)
RD&E – Operating	\$1.4	(13%)	2 pts	(5 pts)	(10 pts)
IP and Development Income	(\$0.2)	26%			
Other (Income)/Expense	\$0.2	N/M			
Interest Expense	\$0.1	(37%)			
Operating Expense & Other Income	\$7.5	(24%)	1 pts	(3 pts)	(22 pts)

\$ in billions

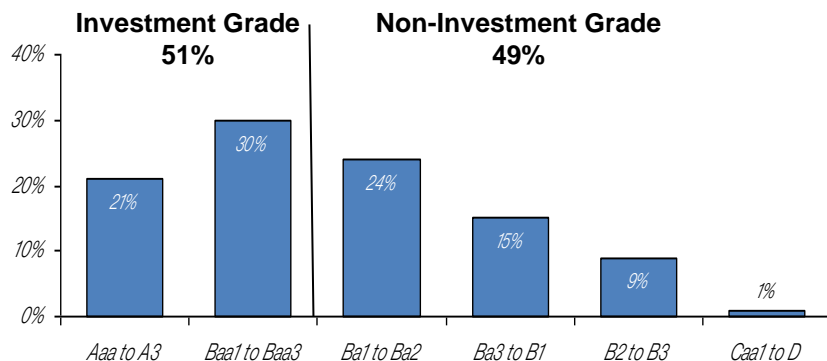
*includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges

Supplemental Materials



Global Financing Portfolio

1Q16 – \$25.4B Net External Receivables



Global Financing Metrics	1Q16	4Q15	1Q15
Identified Loss Rate	2.0%	1.8%	1.9%
Anticipated Loss Rate	0.6%	0.3%	0.4%
Reserve Coverage	2.6%	2.1%	2.3%
Client Days Delinquent Outstanding	4.2	3.8	4.2
Commercial A/R > 30 days	\$25M	\$15M	\$93M



Balance Sheet Summary

	Mar 16	Dec 15	Mar 15*
Cash & Marketable Securities	\$14.9	\$8.2	\$8.8
Non-GF Assets **	\$72.3	\$67.7	\$70.5
Global Financing Assets	\$31.7	\$34.6	\$32.5
Total Assets	\$118.9	\$110.5	\$111.8
Other Liabilities	\$58.2	\$56.2	\$60.7
Non-GF Debt **	\$18.8	\$12.7	\$12.5
Global Financing Debt	\$26.8	\$27.2	\$26.2
Total Debt	\$45.6	\$39.9	\$38.7
Total Liabilities	\$103.8	\$96.1	\$99.5
Equity	\$15.1	\$14.4	\$12.3
Non-GF Debt / Capital	62%	54%	59%
Global Financing Leverage	7.3	7.3	7.0

\$ in billions

* Prior year reclassified for the adoption of the FASB guidance (Debt issuance cost and Deferred Tax classification)

**includes eliminations of inter-company activity

Supplemental Materials



Cash Flow Summary

	1Q16	B/(W) Yr/Yr	FY15
Net Cash from Operations	\$5.6	\$2.0	\$17.0
Less: Global Financing Receivables	\$2.4	\$0.8	\$0.2
Net Cash from Operations (excluding GF Receivables)	\$3.3	\$1.3	\$16.9
Net Capital Expenditures	(\$1.0)	(\$0.0)	(\$3.8)
Free Cash Flow (excluding GF Receivables)	\$2.3	\$1.2	\$13.1
Acquisitions	(\$2.6)	(\$2.4)	(\$3.3)
Divestitures	\$0.0	\$0.0	(\$0.4)
Dividends	(\$1.2)	(\$0.2)	(\$4.9)
Share Repurchases (Gross)	(\$0.9)	\$0.2	(\$4.6)
Non-GF Debt	\$5.9	\$5.5	(\$0.1)
Other (includes GF A/R & GF Debt)	\$3.2	\$2.0	\$0.0
Change in Cash & Marketable Securities	\$6.7	\$6.3	(\$0.3)

\$ in billions

Supplemental Materials



Cash Flow (ASC 230)

	1Q16	1Q15
Net Income from Operations	\$2.0	\$2.3
Depreciation / Amortization of Intangibles	\$1.0	\$1.0
Stock-based Compensation	\$0.1	\$0.1
Working Capital / Other	\$0.1	(\$1.4)
Global Financing A/R	\$2.4	\$1.6
Net Cash provided by Operating Activities	\$5.6	\$3.6
Capital Expenditures, net of payments & proceeds	(\$1.0)	(\$0.9)
Divestitures, net of cash transferred	\$0.0	\$0.0
Acquisitions, net of cash acquired	(\$2.6)	(\$0.1)
Marketable Securities / Other Investments, net	\$1.5	\$1.6
Net Cash used in Investing Activities	(\$2.0)	\$0.6
Debt, net of payments & proceeds	\$5.0	(\$1.3)
Dividends	(\$1.2)	(\$1.1)
Common Stock Repurchases	(\$0.9)	(\$1.2)
Common Stock Transactions - Other	\$0.1	\$0.2
Net Cash used in Financing Activities	\$2.8	(\$3.4)
Effect of Exchange Rate changes on Cash	\$0.2	(\$0.4)
Net Change in Cash & Cash Equivalents	\$6.7	\$0.3

\$ in billions

Supplemental Materials



Non-GAAP Supplemental Materials

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company also discusses, in its earnings press release and earnings presentation materials, the following Non-GAAP information which management believes provides useful information to investors.

Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items

Management presents certain financial measures from continuing operations excluding the effects of certain acquisition-related charges, non-operating retirement-related costs and any related tax impacts. Management uses the term "operating" to describe this view of the company's financial results and other financial information. For acquisitions, these measures exclude the amortization of purchased intangible assets and acquisition-related charges such as in-process research and development, transaction costs, applicable restructuring and related expenses, and tax charges related to acquisition integration. For retirement-related costs, the company has characterized certain items as operating and others as non-operating. The company includes service cost, amortization of prior service cost and the cost of defined contribution plans in its operating results. Non-operating retirement-related costs include interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements, multi-employer plan costs, pension insolvency costs, and other costs. Non-operating costs primarily relate to changes in pension plan assets and liabilities which are tied to market performance, and management considers these costs to be outside the operational performance of the business. Management's calculation of these operating measures, as presented, may differ from similarly titled measures reported by other companies.

Overall, management believes that providing investors with an operating view as described above provides increased transparency and clarity into both the operational results of the business and the performance of the company's pension plans, improves visibility to management decisions and their impacts on operational performance, enables better comparison to peer companies, and allows the company to provide a long term strategic view of the business going forward. For its earnings per share guidance, the company is utilizing an operating view to establish its objectives and track its progress. The company's segment financial results and performance reflect operating earnings, consistent with the company's management and measurement system.

Constant Currency

Management refers to growth rates at constant currency or adjusting for currency so that certain financial results can be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the company's business performance. Financial results adjusted for currency are calculated by translating current period activity in local currency using the comparable prior year period's currency conversion rate. This approach is used for countries where the functional currency is the local currency. Generally, when the dollar either strengthens or weakens against other currencies, the growth at constant currency rates or adjusting for currency will be higher or lower than growth reported at actual exchange rates.



Non-GAAP Supplemental Materials

Cash Flow

Management uses a free cash flow measure to evaluate the company's operating results, plan share repurchase levels, evaluate strategic investments and assess the company's ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. The company defines free cash flow as net cash from operating activities less the change in Global Financing receivables and net capital expenditures, including the investment in software. A key objective of the Global Financing business is to generate strong returns on equity, and increasing receivables is the basis for growth. Accordingly, management considers Global Financing receivables as a profit-generating investment, not as working capital that should be minimized for efficiency. Therefore, management includes presentations of both free cash flow and cash flow from operations that exclude the effect of Global Financing receivables.

Debt-to-Capital Ratio

Management presents its debt-to-capital ratio excluding the Global Financing business. A financing business is managed on a leveraged basis. The company funds its Global Financing segment using a debt-to-equity ratio target of approximately 7 to 1. Given this significant leverage, the company presents a debt-to-capital ratio which excludes the Global Financing segment debt and equity because the company believes this is more representative of the company's core business operations.



Non-GAAP Supplemental Materials

Reconciliation of Operating Earnings Per Share

	2016
EPS Guidance	Expectations
IBM GAAP EPS	at least \$12.35
IBM Operating EPS (Non-GAAP)	at least \$13.50
<hr/>	
Adjustments	
Acquisition Related Charges*	\$0.76
Non-Operating Retirement-Related Items	\$0.39

* Includes acquisitions through March 31, 2016

The above reconciles the Non-GAAP financial information contained in the “Full-Year 2016 Expectations” and “Summary” discussions in the company’s earnings presentation. See Slide 26 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth-1Q 2016

	1Q16 Yr/Yr	
	GAAP	@CC
Americas	(7%)	(4%)
Europe/ME/Africa	(4%)	(1%)
Asia Pacific	(1%)	1%
U.S.	(4%)	(4%)
Japan	5%	2%
Growth Markets	(11%)	(3%)

The above reconciles the Non-GAAP financial information contained in the “Geographic Revenue” discussions in the company’s earnings presentation. See Slide 26-27 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth-1Q 2016 and 4Q 2015

	1Q16 Yr/Yr		4Q15 Yr/Yr	
	GAAP	@CC	GAAP	@CC
Strategic Imperatives	14%	17%	10%	16%
Analytics	7%	9%		
Cloud	34%	36%		
Mobile	88%	93%		
Security	18%	20%		
Social	(4%)	(1%)		

The above reconciles the Non-GAAP financial information contained in the “Strategic Imperatives” discussions in the company’s earnings presentation. See Slide 26 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth-1Q 2016

	1Q16 Yr/Yr			1Q16 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Cognitive Solutions	(2%)	Flat	Tech Svcs & Cloud Platforms	(2%)	2%
Solutions Software	1%	3%	Global Technology Services	(1%)	2%
Transaction Processing Software	(8%)	(5%)	Infrastructure Services	Flat	4%
Strategic Imperatives	2%	4%	Technical Support Services	(5%)	(1%)
Cloud	32%	34%	Integration Software	(4%)	(2%)
Global Business Services	(4%)	(2%)	Strategic Imperatives	41%	45%
Consulting	(6%)	(4%)	Cloud	46%	50%
Global Processing Services	(3%)	(1%)	Systems	(22%)	(21%)
Application Management	(3%)	(1%)	Systems Hardware	(25%)	(25%)
Strategic Imperatives	19%	22%	z Systems	(43%)	(42%)
Cloud	54%	55%	Power	(14%)	(14%)
			Storage	(7%)	(6%)
Cognitive Solutions & Industry Svcs	(3%)	(1%)	Operating Systems	(9%)	(7%)
			Strategic Imperatives	(6%)	(5%)
			Cloud	1%	2%
			Global Financing	(11%)	(6%)
			Total Software	(3%)	(1%)

The above reconciles the Non-GAAP financial information contained in the “Segment Revenue & Gross Profit”, “Additional Revenue & Backlog Information”, “Cognitive Solutions Segment”, “Global Business Services Segment”, “Technology Services & Cloud Platforms Segment” and “Systems Segment” discussions in the company’s earnings presentation. See Slide 26 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth – 1Q 2016, 4Q 2015 and 1Q 2015

	1Q16 Yr/Yr		4Q15 Yr/Yr		1Q15 Yr/Yr	
	GAAP	@CC	GAAP	@CC	GAAP	@CC
z Systems					118%	130%
IBM	(5%)	(2%)	(9%)	(2%)		
IBM excluding mainframe cycle & acquisitions	(4%)	(1%)	(10%)	(3%)		
Total Software Annuity	Flat	2%				
Total Software			(11%)	(6%)		

The above reconciles the Non-GAAP financial information contained in the “Overview”, “Key Financial Metrics”, and “Systems Segment” discussions in the company’s earnings presentation. See Slides 26 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Debt-to-Capital Ratio

	Mar 2016	Dec 2015	Mar 2015*
Non-Global Financing Debt/Capital	62%	54%	59%
IBM Consolidated Debt/Capital	75%	73%	76%

* Prior year reclassified for the adoption of the FASB guidance (Debt issuance cost)

The above reconciles the Non-GAAP financial information contained in the “Cash Flow and Balance Highlights” and “Balance Sheet Summary” discussions in the company’s earnings presentation. See Slide 27 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Free Cash Flow for the Last 12 Months

	12 Months Ended Mar 2016
Net Cash from Operating Activities per GAAP:	\$19.0
Less: the change in Global Financing (GF) Receivables	\$0.9
Net Cash from Operating Activities (Excluding GF Receivables)	\$18.1
Capital Expenditures, Net	(\$3.8)
Free Cash Flow (Excluding GF Receivables)	\$14.3

\$ in billions

The above reconciles the Non-GAAP financial information contained in the “Overview” and “Key Financial Metrics” discussions in the company’s earnings presentation. See Slide 27 of this presentation for additional information on the use of these Non-GAAP financial measures.





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