

IBM 1Q 2017 Earnings

April 18, 2017

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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 is included as Exhibit 99.2 to the company's Form 8-K submitted to the SEC on April 18, 2017. The reconciliation of non-GAAP information to GAAP is included on the slides entitled "Non-GAAP Supplemental Materials" in this presentation. For other related information please visit the Company's investor relations web site at:

<http://www.ibm.com/investor/events/earnings/1q17.html>



Overview

1Q17

\$18.2B

Revenue

\$ 2.38

Operating EPS

\$10.5B

*Free Cash Flow
Last 12 Months*

- Continued strength in strategic imperatives
- Core capabilities deliver high-value, mission-critical solutions
- Continuing to invest for long term
- Maintain full-year expectations



A Cognitive Solutions & Cloud Platform Company

- Uniquely providing cognitive technologies on cloud platform with industry focus
- Scaling and extending reach of Watson and IBM Cloud with new solutions, clients, partnerships
- Global leader in enterprise cloud; serving top industry clients
- Building emerging technologies, e.g. blockchain, quantum

Last
12 months

\$34B

*Strategic Imperatives
Revenue*

42%

*of IBM
Revenue*

Strategic Imperatives Revenue	1Q17	Yr/Yr
Total	\$7.8	13%
Analytics	\$4.5	7%
Cloud	\$3.5	35%
<i>aaS annual run rate</i>	<i>\$8.6</i>	<i>61%</i>
Mobile	\$1.0	22%
Security	\$0.5	10%
Social	\$0.2	(3%)

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud



Key Financial Metrics

P&L Highlights	1Q17	B/(W) Yr/Yr
Revenue	\$18.2	(2%)
Expense - Operating	\$6.0	20%
PTI - Operating	\$2.1	52%
NI - Operating	\$2.3	(1%)
EPS - Operating	\$2.38	1%

P&L Ratios (Operating)

GP Margin	44.5%	(3.0 pts)
Expense E/R	33.2%	7.1 pts
PTI Margin	11.4%	4.1 pts
Tax Rate	(9.3%)	(57.6 pts)
NI Margin	12.4%	0.3 pts

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

Cash Highlights	1Q17	Last 12 Months
Free Cash Flow (excl. GF Receivables)	\$1.1	\$10.5
Share Repurchase (Gross)	\$1.3	\$3.9
Dividends	\$1.3	\$5.3
Cash Balance @ March 31	\$10.7	

- Gross margin reflects investment and mix to as-a-Service
- Expense, pre-tax income and tax yr/yr dynamics impacted by 1Q16 charges/benefits
- Free cash flow reflects typical 1Q seasonality



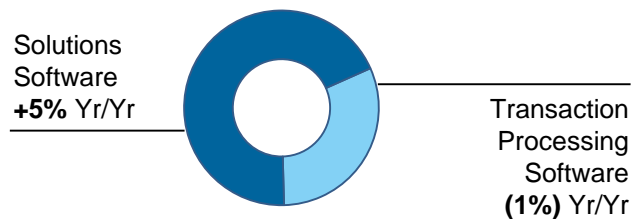
Cognitive Solutions Segment

Segment Results	1Q17	Yr/Yr
Revenue (External)	\$4.1	3%
Gross Margin (External)	77.3%	(4.7 pts)
PTI	\$1.3	26%
PTI Margin	26.7%	4.8 pts

Highlights

- Analytics including Watson and security led growth in Solutions Software
- Continued strong performance in SaaS
- Improvement in Transaction Processing Software yr/yr revenue performance
- Gross margin reflects investment levels and business mix

Segment Revenue Elements



Strategic Imperatives Revenue within Cognitive Solutions	1Q17	Yr/Yr
Strategic Imperatives	\$2.6	7%
Cloud	\$0.6	45%
as-a-Service annual run rate	\$1.8	



Global Business Services Segment

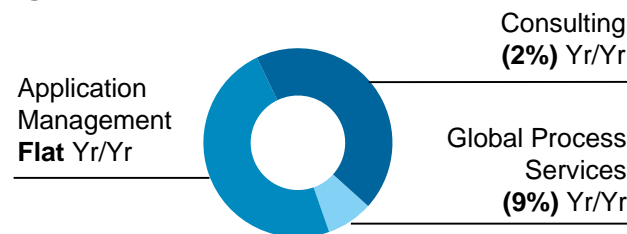
Segment Results	1Q17	Yr/Yr
Revenue (External)	\$4.0	(2%)
Gross Margin (External)	23.6%	(2.2 pts)
PTI	\$0.3	53%
PTI Margin	7.1%	2.6 pts

Highlights

- Improvement in revenue trajectory
- Stable revenue base in Application Management; moving clients to cloud architectures
- Declining consulting revenue; strength in digital offset by declines in on-premise enterprise application work
- PTI margin expansion; gross margin reflects investments and skills remix

Revenue growth rates @CC, \$ in billions

Segment Revenue Elements



Strategic Imperatives Revenue within Global Business Services	1Q17	Yr/Yr
Strategic Imperatives	\$2.2	13%
Cloud	\$0.9	57%
as-a-Service annual run rate	\$1.0	



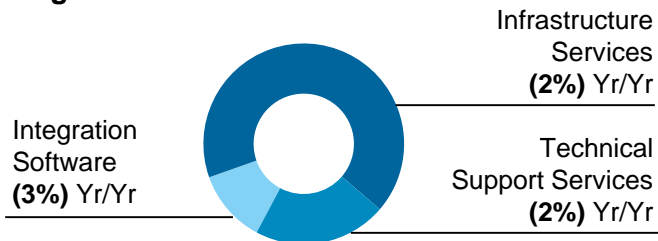
Technology Services and Cloud Platforms Segment

Segment Results	1Q17	Yr/Yr
Revenue (External)	\$8.2	(2%)
Gross Margin (External)	38.9%	(2.0 pts)
PTI	\$0.7	166%
PTI Margin	8.2%	5.2 pts

Highlights

- Strategic imperatives growth led by cloud; building hybrid cloud environments
- Infrastructure Services revenue decline reflects productivity delivered to clients and contract dynamics
- PTI margin expansion; gross margin reflects investing in client environment and business mix

Segment Revenue Elements



Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms	1Q17	Yr/Yr
Strategic Imperatives	\$2.4	31%
Cloud	\$1.7	42%
as-a-Service annual run rate	\$5.7	



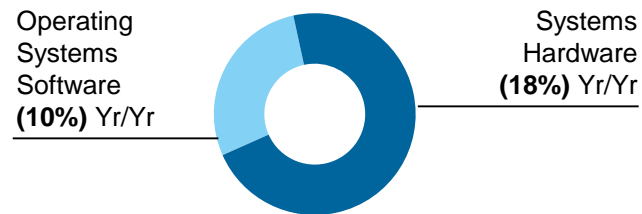
Systems Segment

Segment Results	1Q17	Yr/Yr
Revenue (External)	\$1.4	(16%)
Gross Margin (External)	47.5%	(9.8 pts)
PTI	(\$0.2)	NM
PTI Margin	-11.9%	(11.4 pts)

Highlights

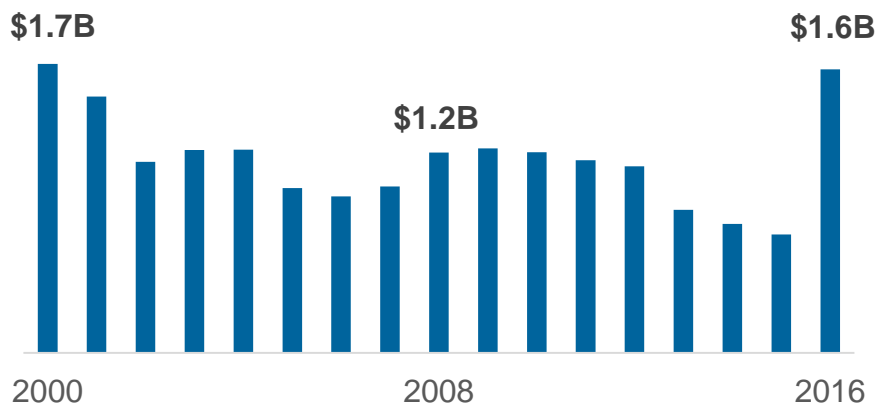
- z Systems and Power revenue and gross margin declines reflect product cycles
- Storage hardware revenue growth led by Flash
- Continued to address shifting markets in Power and Storage

Segment Revenue Elements



Strategic Imperatives Revenue within Systems	1Q17	Yr/Yr
Strategic Imperatives	\$0.5	(15%)
Cloud	\$0.4	(16%)





- Investment in R&D and innovation creates significant intellectual property (IP)
- IP monetization through IP income is driven by strategy, e.g. scale economics, resource optimization

Intellectual Property Partnerships

Structure:

- License source code to technology or services partner who assumes the development mission, invests and builds new functionality
 - IBM retains ownership of IP and ownership of revenue stream and pays a royalty to partner
 - Partner sells to their clients and pays a royalty back to IBM from revenue they receive

Benefits:

- Enables prioritization of development resources
- Continued innovation for clients using our high value IP
- Establishes additional channels and can expand client base

Sustainability:

- 3 new product areas in 1Q17; 19 over the last two years
- Represents ~1% of software code base



Cash Flow and Balance Sheet Highlights

Cash Flow	1Q17	Yr/Yr	Last 12 Months
Net Cash from Operations*	\$1.9	(\$1.4)	\$14.0
Free Cash Flow*	\$1.1	(\$1.2)	\$10.5
Selected Uses of Cash			
Net Capital Expenditures	\$0.8		\$3.6
Acquisitions	\$0.1		\$3.2
Dividends/Share Repurchase	\$2.6		\$9.2

- Free Cash Flow reflects 1Q seasonality; yr/yr impacted by 1Q16 tax refund
- Free Cash Flow realization 90% over last 12 months

\$ in billions

*Excludes Global Financing receivables

Balance Sheet	Mar 17	Dec 16	Mar 16
Cash & Marketable Securities	\$10.7	\$8.5	\$14.9
Total Debt	\$42.8	\$42.2	\$45.6
Global Financing Debt	\$28.5	\$27.9	\$26.8
Global Financing Leverage	9.0	7.3	7.3
Non-GF Debt	\$14.3	\$14.3	\$18.8
Non-GF Debt/Capital	48%	50%	62%

- Global Financing leverage reflects new client and commercial financing entity
- Positioned to support business over the longer term



Summary

- Continued strength in strategic imperatives
- Core capabilities deliver high-value, mission-critical solutions
- Continuing to invest for long term
- Maintain full-year 2017 expectations
 - First half to second half profit improvement
 - Operating EPS of at least \$13.80
 - Free cash flow flat yr/yr





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Supplemental Materials

- Currency – Impact on Revenue Growth
- Geographic Revenue
- Segment Revenue & Gross Profit
- Additional Revenue & Backlog Information
- Expense Summary
- Global Financing Portfolio
- Balance Sheet Summary
- Cash Flow Summary
- Cash Flow (ASC 230)
- Non-GAAP Supplemental Materials



Currency – Impact on Revenue Growth

Quarterly Averages per US \$	1Q17	Yr/Yr	4/17/17 Spot	Yr/Yr @ 4/17/17 Spot			
				2Q17	3Q17	4Q17	FY17
Euro	0.94	(3%)	0.94	(6%)	(5%)	(1%)	(4%)
Pound	0.81	(15%)	0.79	(14%)	(4%)	1%	(8%)
Yen	114	1%	108	(1%)	(6%)	1%	(1%)
IBM Revenue Impact @ 4/17/17 Spot		(0.7 pts)		(2 pts)	(2 pts)	0-1 pts	(1 pts)
with FX movements @ 1Std Deviation				+/-2 pts	+/-3 pts	+/-4 pts	+/-2 pts
IBM Revenue Impact @ 5 Yr Historical Average FX movements				(2 pts)	(2-3 pts)	(1 pts)	(1-2 pts)

	US\$B	Yr/Yr
Revenue As Reported	\$18.2	(2.8%)
Currency Impact	(\$0.1)	(0.7 pts)
Revenue @ CC	\$18.3	(2.2%)



Geographic Revenue

Geography Revenue	1Q17	Yr/Yr
Americas	\$8.7	(1%)
Europe/ME/Africa	\$5.4	(4%)
Asia Pacific	\$4.0	(3%)

- Americas reflects moderate decline in US (-1%), Latin America flat yr/yr
- E/ME/A weakness; declines in UK, Germany
- Asia Pacific includes modest sequential improvement in Japan (flat yr/yr), growth in India, decline in China following strong 4Q16



Segment Revenue & Gross Profit

Segment Revenue & Gross Profit Metrics - 1Q17	1Q17 Revenue	Yr/Yr	1Q17 GP%	Yr/Yr
Cognitive Solutions*	\$4.1	3%	77.3%	(4.7) pts
Solutions Software	\$2.8	5%		
Transaction Processing Software	\$1.3	(1%)		
Global Business Services	\$4.0	(2%)	23.6%	(2.2) pts
Consulting	\$1.8	(2%)		
Global Process Services	\$0.3	(9%)		
Application Management	\$1.9	Flat		
Technology Services & Cloud Platforms	\$8.2	(2%)	38.9%	(2.0) pts
<i>Global Technology Services**</i>	<i>\$7.2</i>	<i>(2%)</i>	<i>33.5%</i>	<i>(1.6) pts</i>
Infrastructure Services	\$5.5	(2%)		
Technical Support Services	\$1.8	(2%)		
Integration Software*	\$1.0	(3%)	79.3%	(4.0) pts
Systems	\$1.4	(16%)	47.5%	(9.8) pts
Systems Hardware	\$1.0	(18%)	31.9%	(14.4) pts
Operating Systems Software*	\$0.4	(10%)	86.9%	(0.9) pts
Global Financing	\$0.4	(2%)	31.8%	(10.6) pts

Revenue growth rates @CC, \$ in billions

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

**Global Technology Services = Infrastructure Services + Technical Support Services

Supplemental Materials



Additional Revenue & Backlog Information

	1Q17	Yr/Yr
Systems Hardware Revenue	\$1.0	(18%)
z Systems		(40%)
Power		(27%)
Storage		7%

	1Q17	Yr/Yr
Signings	\$7.9	Flat
Services Backlog	\$116	(2%)
Currency Impact Year to Year		(\$3)
Currency Impact Quarter to Quarter	\$2	

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

Supplemental Materials



Expense Summary

Expense Metrics	1Q17	B/(W) Yr/Yr	Currency	Acq.**	Base***
SG&A – Operating*	\$4.9	17%	1 pts	(2 pts)	19 pts
RD&E – Operating	\$1.5	(2%)	1 pts	(4 pts)	1 pts
IP and Custom Development Income	(\$0.4)	105%			
Other (Income)/Expense	(\$0.0)	NM			
Interest Expense	\$0.1	8%			
Operating Expense & Other Income	\$6.0	20%	1 pts	(3 pts)	22 pts

\$ in billions

*includes workforce rebalancing charge \$0.2B 1Q17, \$1.0B 1Q16

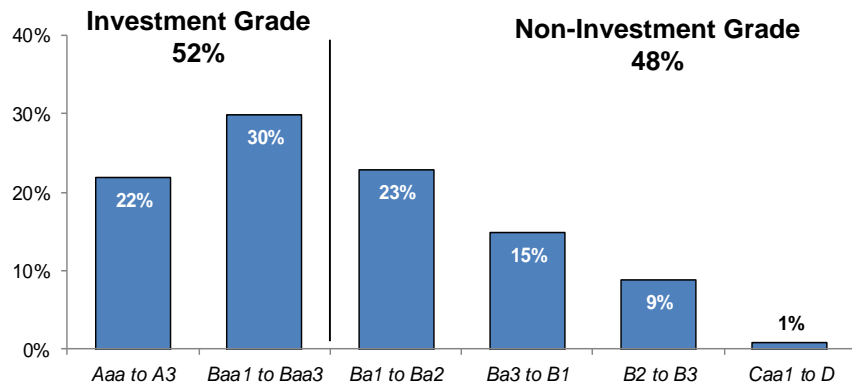
**includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges

***represents the percentage change after excluding the impact of currency and acquisitions



Global Financing Portfolio

1Q17 – \$24.4B Net External Receivables



Global Financing Metrics

	1Q17	4Q16	1Q16
Identified Loss Rate	1.4%	1.2%	2.0%
Anticipated Loss Rate	0.4%	0.4%	0.6%
Reserve Coverage	1.8%	1.6%	2.6%
Client Days Delinquent Outstanding	4.8	4.0	4.2
Commercial A/R > 30 days	\$20M	\$22M	\$25M



Balance Sheet Summary

	Mar 17	Dec 16	Mar 16
Cash & Marketable Securities	\$10.7	\$8.5	\$14.9
Non-GF Assets*	\$74.6	\$74.4	\$72.3
Global Financing Assets	\$32.2	\$34.6	\$31.7
Total Assets	\$117.5	\$117.5	\$118.9
Other Liabilities	\$56.3	\$56.9	\$58.2
Non-GF Debt*	\$14.3	\$14.3	\$18.8
Global Financing Debt	\$28.5	\$27.9	\$26.8
Total Debt	\$42.8	\$42.2	\$45.6
Total Liabilities	\$99.0	\$99.1	\$103.8
Equity	\$18.4	\$18.4	\$15.1
Non-GF Debt / Capital	48%	50%	62%
Global Financing Leverage	9.0	7.3	7.3

\$ in billions

*includes eliminations of inter-company activity

Supplemental Materials



Cash Flow Summary

	1Q17	B/(W) Yr/Yr	FY2016
Net Cash from Operations *,**	\$4.0	(\$1.6)	\$17.1
Less: Global Financing Receivables **	\$2.0	(\$0.2)	\$1.7
Net Cash from Operations (excluding GF Receivables) *	\$1.9	(\$1.4)	\$15.4
Net Capital Expenditures	(\$0.8)	\$0.2	(\$3.7)
Free Cash Flow (excluding GF Receivables) *	\$1.1	(\$1.2)	\$11.7
Acquisitions	(\$0.1)	\$2.5	(\$5.7)
Divestitures	(\$0.0)	(\$0.0)	(\$0.5)
Dividends	(\$1.3)	(\$0.1)	(\$5.3)
Share Repurchases (Gross)	(\$1.3)	(\$0.4)	(\$3.5)
Non-GF Debt	\$0.2	(\$5.6)	\$1.3
Other (includes GF A/R & GF Debt) *	\$3.6	\$0.3	\$2.2
Change in Cash & Marketable Securities	\$2.2	(\$4.5)	\$0.3

\$ in billions

*Reclassified to reflect adoption of the FASB guidance on stock-based compensation

**Revised classification of certain financing receivables for FY 2016 increasing (1Q16 decreasing) Net Cash from Operations offset by Global Financing Receivables. No impact to Net Change in Cash from Operations (excluding GF Receivables) or Free Cash Flow.

Supplemental Materials



Cash Flow (ASC 230)

	1Q17	1Q16
Net Income from Operations	\$1.8	\$2.0
Depreciation / Amortization of Intangibles	\$1.1	\$1.0
Stock-based Compensation	\$0.1	\$0.1
Working Capital / Other *	(\$1.1)	\$0.1
Global Financing A/R **	\$2.0	\$2.2
Net Cash provided by Operating Activities *,**	\$4.0	\$5.5
Capital Expenditures, net of payments & proceeds	(\$0.8)	(\$1.0)
Divestitures, net of cash transferred	(\$0.0)	\$0.0
Acquisitions, net of cash acquired	(\$0.1)	(\$2.6)
Marketable Securities / Other Investments, net **	\$1.3	\$1.6
Net Cash used in Investing Activities**	\$0.3	(\$1.9)
Debt, net of payments & proceeds	\$0.5	\$5.0
Dividends	(\$1.3)	(\$1.2)
Common Stock Repurchases	(\$1.3)	(\$0.9)
Common Stock Transactions - Other *	\$0.0	\$0.0
Net Cash used in Financing Activities *	(\$2.1)	\$2.8
Effect of Exchange Rate changes on Cash	\$0.1	\$0.2
Net Change in Cash & Cash Equivalents	\$2.3	\$6.7

\$ in billions

*Reclassified to reflect adoption of the FASB guidance on stock-based compensation

**Revised classification of certain financing receivables for 1Q16 decreasing Net Cash provided by Operating Activities and Net Cash used in Investing Activities. No impact to Net Change in Cash & Cash Equivalents or Free Cash Flow.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Operating Earnings Per Share

	2017 Expectations
IBM GAAP EPS	at least \$11.95
IBM Operating EPS (Non-GAAP)	at least \$13.80
<hr/>	
Adjustments	
Acquisition-Related Charges*	\$0.75
Non-Operating Retirement-Related Items	\$1.10

*Includes acquisitions through March 31, 2017

The above reconciles the Non-GAAP financial information contained in the "Summary" discussions in the company's earnings presentation. See Exhibit 99.2 included in the Company's Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 1Q 2017

	1Q17 Yr/Yr	
	GAAP	@CC
Americas	0%	(1%)
Europe/ME/Africa	(8%)	(4%)
Asia Pacific	(2%)	(3%)
U.S.	(1%)	(1%)
Japan	1%	0%
LÀ	7%	0%

The above reconciles the Non-GAAP financial information contained in the “Geographic Revenue” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 1Q 2017

	1Q17 Yr/Yr	
	GAAP	@CC
Strategic Imperatives	12%	13%
Analytics	6%	7%
Cloud	33%	35%
Mobile	20%	22%
Security	9%	10%
Social	(4%)	(3%)

The above reconciles the Non-GAAP financial information contained in the “A Cognitive Solutions & Cloud Platform Company” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 1Q 2017

	1Q17 Yr/Yr	
	GAAP	@CC
Cognitive Solutions	2%	3%
Solutions Software	4%	5%
Transaction Processing Software	(1%)	(1%)
Strategic Imperatives	6%	7%
Cloud	44%	45%
Global Business Services	(3%)	(2%)
Consulting	(4%)	(2%)
Global Process Services	(10%)	(9%)
Application Management	(1%)	0%
Strategic Imperatives	12%	13%
Cloud	56%	57%
Cognitive Solutions & Industry Svcs	(1%)	0%

	1Q17 Yr/Yr	
	GAAP	@CC
Tech Svcs & Cloud Platforms	(2%)	(2%)
Global Technology Services	(2%)	(2%)
Infrastructure Services	(3%)	(2%)
Technical Support Services	(1%)	(2%)
Integration Software	(4%)	(3%)
Strategic Imperatives	30%	31%
Cloud	41%	42%
Systems	(17%)	(16%)
Systems Hardware	(19%)	(18%)
z Systems	(40%)	(40%)
Power	(28%)	(27%)
Storage	6%	7%
Operating Systems Software	(10%)	(10%)
Strategic Imperatives	(16%)	(15%)
Cloud	(16%)	(16%)
Global Financing	(1%)	(2%)

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 Exhibit 99.2 included in the Company’s Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 1Q 2017

	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	1 pts	0 pts	1 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base *	16 pts	3 pts	19 pts
RD&E			
Currency	1 pts	0 pts	1 pts
Acquisitions	(4 pts)	0 pts	(4 pts)
Base *	(2 pts)	3 pts	1 pts
Operating Expense & Other Income			
Currency	1 pts	0 pts	1 pts
Acquisitions	(3 pts)	0 pts	(3 pts)
Base*	20 pts	2 pts	22 pts

The above reconciles the Non-GAAP financial information contained in the “Expense Summary” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.

*Represents the percentage change after excluding the impact of currency and acquisitions.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Debt-to-Capital Ratio

	Mar 2017	Dec 2016	Mar 2016
Non-Global Financing Debt/Capital	48%	50%	62%
IBM Consolidated Debt/Capital	70%	70%	75%

The above reconciles the Non-GAAP financial information contained in the “Cash Flow and Balance Sheet Highlights” and “Balance Sheet Summary” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.

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 which increased to 9 to 1 in the first quarter 2017 from approximately 7 to 1 at Dec 31, 2016. 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 Free Cash Flow-Last 12 Months

	12 Months Ended Mar 2017
Net Cash from Operating Activities per GAAP:	\$15.5
Less: the change in Global Financing (GF) Receivables	\$1.5
Net Cash from Operating Activities (Excluding GF Receivables)	\$14.0
Capital Expenditures, Net	(\$3.6)
Free Cash Flow (Excluding GF Receivables)	\$10.5

\$ in billions

The above reconciles the Non-GAAP financial information contained in the “Overview”, “Key Financial Metrics” and “Cash Flow and Balance Sheet Highlights” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 18, 2017 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials





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