



# IBM 1Q 2019 Earnings

April 16, 2019  
[ibm.com/investor](http://ibm.com/investor)

# 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 earnings 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 16, 2019. The reconciliation of non-GAAP information to GAAP is included on the slides entitled "Non-GAAP Supplemental Materials" in this presentation, as well as in Exhibit 99.1 to the company's Form 8-K submitted to the SEC on April 16, 2019. For other related information please visit the Company's investor relations web site at: <http://www.ibm.com/investor/events/earnings/1q19.html>





# Overview

1Q19

**\$18.2B**

Revenue

**\$2.25**

Operating EPS

**\$12.2B**

Free Cash Flow  
Last 12 Months

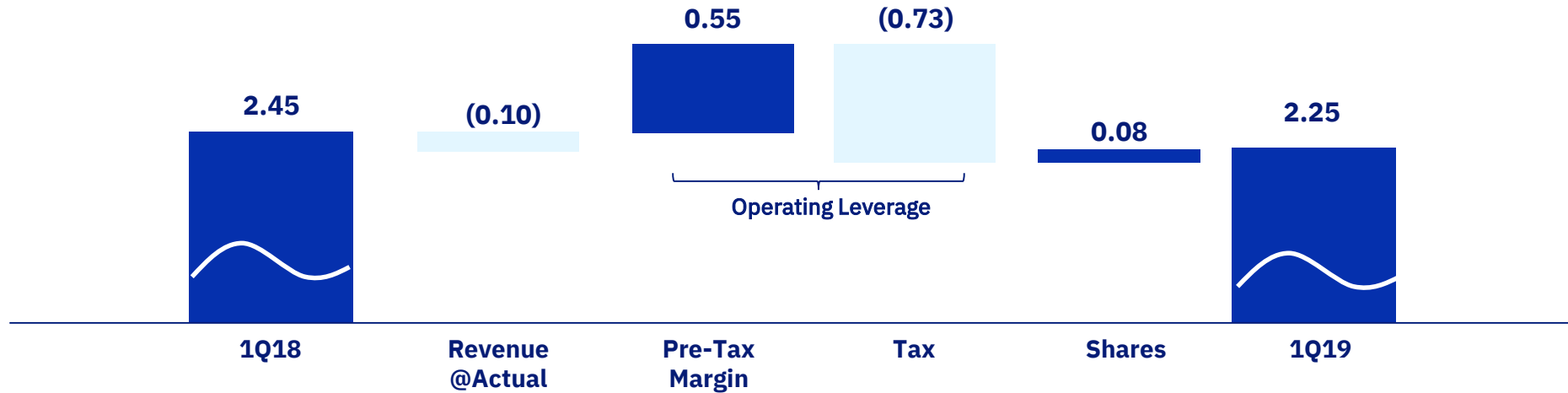
- Revenue growth in key high-value areas
  - Continued strong performance in Cloud & Cognitive Software and Global Business Services
  - Accelerating growth in cloud revenue, up 12% @cc, with 15% @cc growth in as-a-Service
- Strong margin performance and operating leverage
  - Gross margin expansion led by services, up 160 basis points
  - Continued actions to optimize portfolio
- Positioned to lead in the next chapter of cloud
- Maintaining full-year expectations for earnings per share and free cash flow





# Operating Earnings per Share Drivers

- Solid operating leverage and margin expansion
- EPS yr/yr performance reflects headwind from 32 cent benefit in 1Q18 earnings per share\*



\*1Q18 results included tax benefit, mitigated by pre-tax workforce rebalancing charges





# Key Financial Metrics

- Gross and pre-tax margin expansion, led by services
- Expense E/R reflects ongoing productivity and lower level of workforce actions, mitigated by lower IP income
- Net income and operating earnings per share reflect significant tax headwind
- Solid free cash flow performance supports investment and shareholder returns

<b>P&amp;L Highlights</b>	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
Revenue	\$18.2	(1%)
Cloud & Cognitive Software	\$5.0	2%
Global Business Services	\$4.1	4%
Global Technology Services	\$6.9	(3%)
Systems	\$1.3	(9%)
Pre-Tax Income - Operating	\$2.2	28%
Net Income - Operating	\$2.0	(12%)
Earnings Per Share - Operating	\$2.25	(8%)

<b>P&amp;L Ratios - Operating</b>	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
Gross Profit Margin	44.7%	0.9 pts
Expense E/R	32.4%	2.2 pts
Pre-Tax Income Margin	12.3%	3.2 pts
Tax Rate	10.0%	(40.6 pts)
Net Income Margin	11.0%	(0.9 pts)

<b>Cash Highlights</b>	<b>LTM</b>	
Free Cash Flow (excl. GF Receivables)	\$1.7	\$12.2
Share Repurchase (Gross)	\$0.9	\$4.6
Dividends	\$1.4	\$5.7
Cash Balance @ March 31	\$18.1	

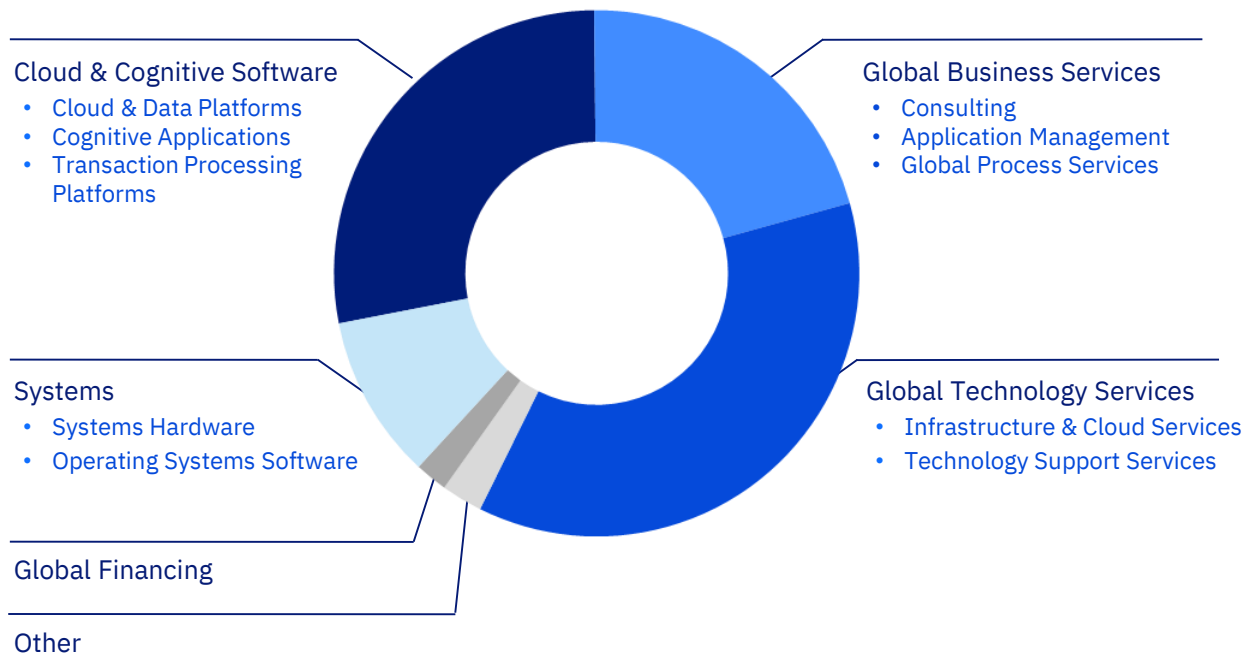
Revenue growth rates @CC, \$ in billions





# 2019 Segment Structure

- Cloud & Cognitive Software established to address clients' evolving needs and prepare for the acquisition of Red Hat
- "Other" now includes announced divested businesses; provides better visibility to ongoing operational performance
- Reflects management system changes; better aligns portfolio to underlying business models





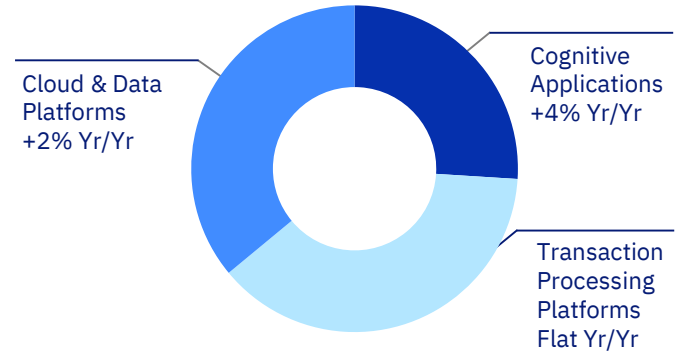
# Cloud & Cognitive Software Segment

- Cloud & Data Platforms growth across portfolio, supporting clients' journeys to cloud and AI
- Cognitive Applications growth led by security and solutions such as health and weather
- Pre-tax margin expansion driven by lower workforce charges yr/yr, mitigated by investments and lower IP income

## Segment Results Overview

Segment	1Q19	B/(W) Yr/Yr
Revenue (External)	\$5.0	2%
Pre-Tax Income	\$1.8	5%
Pre-Tax Income Margin	30.1%	2.3 pts
<b>Cloud Revenue</b>		
Cloud	\$0.7	10%
as-a-Service annual run rate	\$2.1	

## Segment Revenue Elements





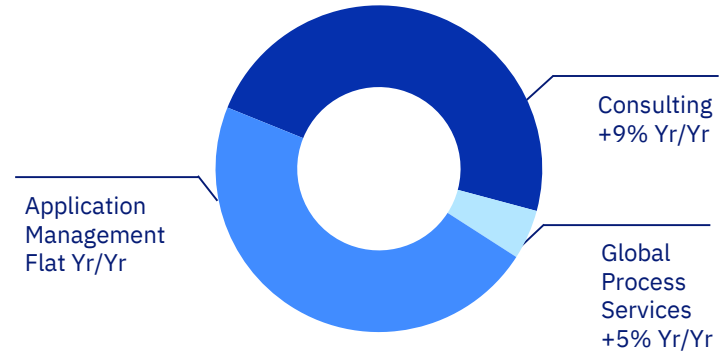
# Global Business Services Segment

- Revenue growth driven by digital consulting and cloud offerings across Consulting and Application Management
- Gross margin expansion reflects shift to higher value, productivity actions, leveraging global delivery footprint
- Investing in offerings across the “Advise, Move, and Build” stages of the cloud life cycle

## Segment Results Overview

<b>Segment</b>	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
Revenue (External)	\$4.1	4%
Gross Margin (External)	26.2%	2.8 pts
Pre-Tax Income	\$0.3	152%
Pre-Tax Income Margin	7.5%	4.5 pts
<b>Cloud Revenue</b>		
Cloud	\$1.2	25%
as-a-Service annual run rate	\$1.8	

## Segment Revenue Elements







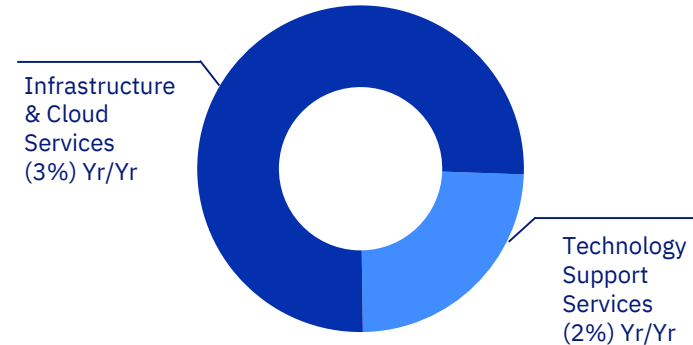
# Global Technology Services Segment

- Continued double-digit growth in cloud revenue
- Optimizing portfolio by de-emphasizing lower value services content
- Gross margin expansion driven by mix shift to higher value, scaling of cloud and productivity improvements
- Investing in offerings across the “Move, Build, and Manage” stages of the cloud life cycle

## Segment Results Overview

Segment	1Q19	B/(W) Yr/Yr
Revenue (External)	\$6.9	(3%)
Gross Margin (External)	33.7%	1.1 pts
Pre-Tax Income	\$0.3	315%
Pre-Tax Income Margin	3.8%	3.0 pts
<b>Cloud Revenue</b>		
Cloud	\$2.1	13%
as-a-Service annual run rate	\$7.5	

## Segment Revenue Elements





# Systems Segment

- IBM Z performance in line with product cycle; continued strong demand for new workloads
- Power grew for sixth consecutive quarter, driven by continued POWER9 adoption
- Storage declines driven by high end due to IBM Z cycle, and ongoing market and competitive dynamics
- Margin performance reflects mix headwind from IBM Z cycle

## Segment Results Overview

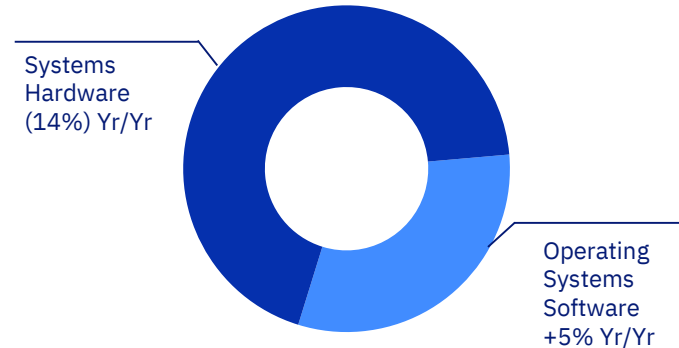
Segment	1Q19	B/(W) Yr/Yr
Revenue (External)	\$1.3	(9%)
Pre-Tax Income	(\$0.2)	Flat
Pre-Tax Income Margin	(13.5%)	(1.3 pts)

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### Cloud Revenue

Cloud	\$0.4	(15%)
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## Segment Revenue Elements





# Cash Flow and Balance Sheet Highlights

- Solid performance in free cash flow
- Free cash flow realization 114%\* over last 12 months
- Positioned to support the business over the longer term

<b>Cash Flow</b>	<b>1Q19</b>	<b>Yr/Yr</b>	<b>LTM</b>	<b>Balance Sheet</b>	<b>Mar 19</b>	<b>Dec 18</b>	<b>Mar 18</b>
Net Cash from Operations**	\$2.3	\$0.1	\$15.7	Cash & Marketable Securities	\$18.1	\$12.2	\$13.2
Free Cash Flow**	\$1.7	\$0.3	\$12.2	Global Financing Debt	\$29.5	\$31.2	\$31.7
<b>Selected Uses of Cash</b>				Core (non-GF) Debt	\$20.5	\$14.6	\$14.7
Net Capital Expenditures	\$0.6		\$3.4	Total Debt	\$50.0	\$45.8	\$46.4
Acquisitions	\$0.0		\$0.1				
Dividends/Share Repurchase	\$2.3		\$10.3				

\$ in billions

\*Adjusted for charges associated with enactment of U.S. tax reform

\*\*Excludes Global Financing receivables





# Summary

- Revenue growth in key high-value areas
- Strong margin performance and operating leverage
- Positioned to lead in the next chapter of cloud
- Maintaining full-year expectations for earnings per share and free cash flow

FY19

Expectations

at least

**\$13.90**

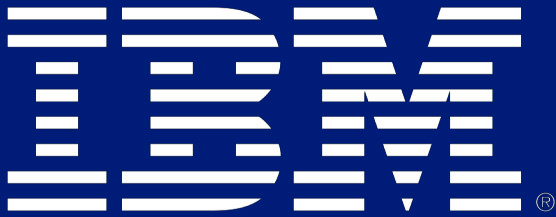
Operating EPS

approximately

**\$12B**

Free Cash Flow





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# Supplemental Materials

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



# Currency – Impact on Revenue Growth

Quarterly Averages per US \$	1Q19	Yr/Yr	4/15/2019	2Q19	3Q19	4Q19	FY19
			Spot				
Euro	0.88	(8%)	0.88	(5%)	(3%)	(1%)	(4%)
Pound	0.77	(7%)	0.76	(4%)	1%	2%	(2%)
Yen	110	(2%)	112	(3%)	0%	0%	(1%)
Revenue Impact, Future @ 4/15/19 Spot				~(2.5 pts)	~(1 pts)	0 pts	~(2 pts)
Prior View @ 1/18/19 Spot				~(2 pts)	(0-1 pts)	0-1 pts	(1-2 pts)
	US\$B	Yr/Yr					
Revenue As Reported	\$18.2	(5%)					
Currency Impact	(\$0.7)	(4 pts)					
Revenue @ CC		(1%)					



# Additional Revenue Information

<b>Segment Revenue</b>	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Cloud &amp; Cognitive Software</b>	<b>\$5.0</b>	<b>2%</b>
Cognitive Applications	\$1.3	4%
Cloud & Data Platforms	\$1.9	2%
Transaction Processing Platforms	\$1.8	Flat
<b>Global Business Services</b>	<b>\$4.1</b>	<b>4%</b>
Consulting	\$2.0	9%
Global Process Services	\$0.2	5%
Application Management	\$1.9	Flat
<b>Global Technology Services</b>	<b>\$6.9</b>	<b>(3%)</b>
Infrastructure & Cloud Services	\$5.2	(3%)
Technology Support Services	\$1.7	(2%)
<b>Systems</b>	<b>\$1.3</b>	<b>(9%)</b>
Systems Hardware	\$0.9	(14%)
Operating Systems Software	\$0.4	5%
<b>Global Financing</b>	<b>\$0.4</b>	<b>4%</b>

<b>Geography Revenue</b>	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
Americas	\$8.5	(1%)
Europe/ME/Africa	\$5.7	Flat
Asia Pacific	\$4.0	(2%)
<b>Cloud Revenue</b>	<b>Revenue</b>	<b>B/(W) Yr/Yr</b>
Total Cloud - 1Q19	\$4.5	12%
as-a-Service annual run rate	\$11.7	15%
Total Cloud - LTM	\$19.5	12%

Revenue growth rates @CC, \$ in billions

Supplemental Materials





# Additional Revenue, Gross Profit & Backlog Information

	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Systems Revenue</b>		
<b>Systems Hardware Revenue</b>	\$0.9	(14%)
IBM Z		(38%)
Power		9%
Storage		(11%)

	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Systems Gross Profit</b>		
<b>Systems Gross Profit</b>	<b>46.2%</b>	<b>2.5 pts</b>
Systems Hardware	28.9%	0.4 pts
Operating Systems Software	84.2%	(0.1 pts)

	<b>1Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Signings &amp; Backlog*</b>		
<b>Signings</b>	\$7.6	(14%)
<b>Backlog</b>	\$1111.6	(2%)
Backlog Yr/Yr @Actual		(8%)

Growth rates @CC, \$ in billions, Services Backlog calculated using March 31 currency spot rates

\*Signings & Backlog includes Global Technology Services, Global Business Services and Security Services; consistent with 2018 reporting

Supplemental Materials



# Expense Summary

Expense	1Q19	B/(W)	Currency	Acq.*	Base**
		Yr/Yr			
SG&A – Operating	\$4.6	14%	3 pts	0 pts	12 pts
		<i>Yr/Yr Impact of 1Q18 Workforce Actions</i>			<i>10 pts</i>
RD&E	\$1.4	(2%)	2 pts	0 pts	(4 pts)
IP and Custom Development Income	(\$0.1)	(68%)			
Other (Income)/Expense - Operating	(\$0.2)	NM			
Interest Expense	\$0.2	(6%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$5.9</b>	<b>11%</b>	<b>6 pts</b>	<b>0 pts</b>	<b>5 pts</b>

\$ in billions

\*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

Supplemental Materials



# Balance Sheet Summary

	<b>Mar 19</b>	<b>Dec 18</b>	<b>Mar 18</b>
Cash & Marketable Securities	\$18.1	\$12.2	\$13.2
Core (non-GF) Assets*	\$77.6	\$71.7	\$75.6
Global Financing Assets	\$35.2	\$39.5	\$36.5
Total Assets	\$130.9	\$123.4	\$125.3
Other Liabilities	\$64.3	\$60.6	\$60.6
Core (non-GF) Debt*	\$20.5	\$14.6	\$14.7
Global Financing Debt	\$29.5	\$31.2	\$31.7
Total Debt	\$50.0	\$45.8	\$46.4
Total Liabilities	\$114.3	\$106.5	\$107.0
Equity	\$16.6	\$16.9	\$18.3

\$ in billions

\*includes eliminations of inter-company activity

Supplemental Materials



# Cash Flow Summary

	1Q19	B/(W) Yr/Yr	FY18
Net Cash from Operations	\$4.8	\$0.2	\$15.2
Less: Global Financing Receivables	\$2.5	\$0.1	(\$0.3)
<b>Net Cash from Operations (excluding GF Receivables)</b>	<b>\$2.3</b>	<b>\$0.1</b>	<b>\$15.6</b>
Net Capital Expenditures	(\$0.6)	\$0.3	(\$3.7)
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>\$1.7</b>	<b>\$0.3</b>	<b>\$11.9</b>
Acquisitions	(\$0.0)	\$0.1	(\$0.1)
Divestitures	\$0.0	\$0.0	\$0.0
Dividends	(\$1.4)	(\$0.0)	(\$5.7)
Share Repurchases (Gross)	(\$0.9)	(\$0.1)	(\$4.4)
Non-GF Debt	\$5.9	\$6.4	(\$0.5)
Other (includes GF Net A/R & GF Debt)	\$0.6	(\$1.1)	(\$1.7)
Change in Cash & Marketable Securities	\$5.9	\$5.6	(\$0.6)

\$ in billions

Supplemental Materials



# Cash Flow (ASC 230)

	1Q19	1Q18
<b>Net Income from Operations</b>	<b>\$1.6</b>	<b>\$1.7</b>
Depreciation / Amortization of Intangibles	\$1.4	\$1.1
Stock-based Compensation	\$0.1	\$0.1
Working Capital / Other	(\$0.8)	(\$0.7)
Global Financing A/R	\$2.5	\$2.4
<b>Net Cash provided by Operating Activities</b>	<b>\$4.8</b>	<b>\$4.6</b>
Capital Expenditures, net of payments & proceeds	(\$0.6)	(\$0.9)
Divestitures, net of cash transferred	\$0.0	\$0.0
Acquisitions, net of cash acquired	(\$0.0)	(\$0.1)
Marketable Securities / Other Investments, net	(\$0.3)	(\$0.8)
<b>Net Cash used in Investing Activities</b>	<b>(\$0.9)</b>	<b>(\$1.8)</b>
Debt, net of payments & proceeds	\$4.2	(\$0.7)
Dividends	(\$1.4)	(\$1.4)
Common Stock Repurchases	(\$0.9)	(\$0.8)
Common Stock Transactions - Other	(\$0.1)	(\$0.0)
<b>Net Cash used in Financing Activities</b>	<b>\$1.9</b>	<b>(\$2.9)</b>
Effect of Exchange Rate changes on Cash	(\$0.1)	\$0.1
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>\$5.7</b>	<b>\$0.0</b>

\$ in billions

Supplemental Materials



# Non-GAAP Supplemental Materials

## Reconciliation of Operating Earnings Per Share

	<b>2019</b>
	<b>Expectations</b>
GAAP Diluted EPS	at least \$12.45
Operating EPS (Non-GAAP)	at least \$13.90
Adjustments	
Acquisition-Related Charges*	\$0.76
Non-Operating Retirement-Related Items	\$0.45
Tax Reform Enactment Impacts	\$0.24

\*Includes acquisitions as of March 31, 2019

The above reconciles the Non-GAAP financial information contained in the “Summary” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 16, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 1Q 2019

	1Q19 Yr/Yr			1Q19 Yr/Yr	
	GAAP	@CC		GAAP	@CC
<b>Cloud &amp; Cognitive Software</b>	<b>(2%)</b>	<b>2%</b>	<b>Global Technology Services</b>	<b>(7%)</b>	<b>(3%)</b>
Cognitive Applications	2%	4%	Infrastructure & Cloud Services	(8%)	(3%)
Cloud & Data Platforms	(2%)	2%	Technology Support Services	(7%)	(2%)
Transaction Processing Platforms	(4%)	Flat	Cloud	8%	13%
Cloud	7%	10%	<b>Systems</b>	<b>(11%)</b>	<b>(9%)</b>
<b>Global Business Services</b>	<b>Flat</b>	<b>4%</b>	Systems Hardware	(16%)	(14%)
Consulting	5%	9%	IBM Z	(39%)	(38%)
Global Process Services	Flat	5%	Power	6%	9%
Application Management	(5%)	Flat	Storage	(13%)	(11%)
Cloud	20%	25%	Operating Systems Software	2%	5%
			Cloud	(18%)	(15%)
			<b>Global Financing</b>	<b>Flat</b>	<b>4%</b>

The above reconciles the Non-GAAP financial information contained in the “Key Financial Metrics”, “Cloud & Cognitive Software Segment”, “Global Business Services Segment”, “Global Technology Services Segment”, “Systems Segment”, “Additional Revenue Information”, “Additional Revenue, Gross Profit & Backlog Information”, and “1Q19 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 16, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 1Q 2019 & Last 12 Months

	1Q19 Yr/Yr	
	GAAP	@CC
Americas	(2%)	(1%)
Europe/ME/Africa	(7%)	Flat
Asia Pacific	(5%)	(2%)

	1Q19 Yr/Yr		Last 12 Months	
	GAAP	@CC	GAAP	@CC
Total Cloud Revenue	7%	12%	10%	12%
Total as-a-Service Revenue	10%	15%		

The above reconciles the Non-GAAP financial information contained in the “Overview”, “Additional Revenue Information” and “1Q Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 16, 2019 for additional information on the use of these Non-GAAP financial measures.





# Non-GAAP Supplemental Materials

## Reconciliation of Expense Summary - 1Q 2019

	<b>1Q19</b>		
	<b>GAAP</b>	<b>Non-GAAP Adjustments</b>	<b>Operating (Non-GAAP)</b>
<b>SG&amp;A</b>			
Currency	3 pts	0 pts	3 pts
Acquisitions	0 pts	0 pts	0 pts
Base *	11 pts	1 pts	12 pts
<b>RD&amp;E</b>			
Currency	2 pts	0 pts	2 pts
Acquisitions	0 pts	0 pts	0 pts
Base *	(4 pts)	0 pts	(4 pts)
<b>Operating Expense &amp; Other Income</b>			
Currency	5 pts	0 pts	6 pts
Acquisitions	0 pts	0 pts	0 pts
Base*	8 pts	(3 pts)	5 pts

The above reconciles the Non-GAAP financial information contained in the “Expense Summary” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 16, 2019 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 Free Cash Flow-Last 12 Months

**12 Months  
Ended  
Mar 2019**

<b>Net Cash from Operating Activities per GAAP:</b>	<b>\$15.4</b>
Less: change in Global Financing (GF) Receivables	(\$0.2)
<b>Net Cash from Operating Activities (Excluding GF Receivables)</b>	<b>\$15.7</b>
Capital Expenditures, Net	(\$3.4)
<b>Free Cash Flow (Excluding GF Receivables)</b>	<b>\$12.2</b>

\$ 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 16, 2019 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



# Non-GAAP Supplemental Materials

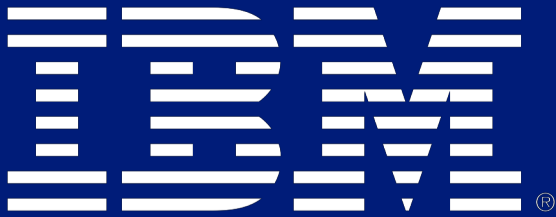
## Reconciliation of Free Cash Flow Realization-Last 12 Months

	<b>LTM</b>	<b>LTM Excluding Tax Reform*</b>
Free Cash Flow Realization	141%	114%

The above reconciles the Non-GAAP financial information contained in the “Cash Flow and Balance Sheet Highlights” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated April 16, 2019 for additional information on the use of these Non-GAAP financial measures.

\* Adjusted for the charges associated with enactment of U.S. tax reform





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