

IBM 1Q 2020 Earnings

April 20, 2020
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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 website, 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 except as required by law; 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 revenue for Red Hat normalized for historical comparability, revenue adjusting for divested businesses and currency, operating earnings, other "operating" financial measures, including free cash flow, net cash from operating activities excluding Global Financing receivables, and adjustments for currency. The rationale for management's use of this non-GAAP information is included as Exhibit 99.2 to the company's Form 8-K filed with the SEC on April 20, 2020. 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 filed with the SEC on April 20, 2020. For other related information please visit the Company's investor relations web site at:

<http://www.ibm.com/investor/events/earnings/1q20.html>

Arvind Krishna

Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO Perspective

“IBM remains focused on helping our clients adapt to the immediate challenges of the COVID-19 pandemic, while we continue to enable them to shift their mission-critical workloads to hybrid cloud and expand their use of AI to help transform their operations.

Our first-quarter performance in cloud is a reflection of the trust clients place in IBM's technology and expertise today, and positions us to continue building an enduring hybrid cloud platform for the future.”

- Arvind Krishna, IBM CEO



Leading in the
Current Environment



Areas of Future Focus



First Quarter 2020

Positioned for the Current Environment and Beyond

Client Base & Portfolio

Large enterprise incumbency

Majority of revenue from financial services, public sector & telecom

Client buying behavior shifting

~60% revenue in recurring businesses; mission-critical

Recent Actions

Aligning investments to near-term opportunities

Structural actions for long-term competitiveness

Accelerating digital transformation

Leverage flexible supply chain

Financial Profile

High-value business model

Strong balance sheet

Ample liquidity & access to capital

Secure dividend

1Q20 Highlights

\$17.6B

Revenue

\$1.84

Operating (non-GAAP) EPS

\$11.6B

Free Cash Flow LTM



**Revenue &
Gross Margin**

**Modest
Revenue Growth**

**150 bps
Gross Margin Expansion**



**Strong Cloud
Performance**

**+23% @cc
Revenue Growth**

**\$22B
LTM Revenue**



**Red Hat
Momentum**

**+20% @cc
Revenue Growth**

**>2,200
Clients using RHT &
IBM container platform**



**Solid Cash
Generation**

**\$12B
Cash Balance**

**128%
FCF Realization (LTM)**

Cloud & Cognitive Software

Cloud & Data Platform growth led by Red Hat and Data & AI

Cognitive Applications and Transaction Processing Platforms impacted by client buying behavior in March

Portfolio aligned to longer-term hybrid cloud & AI opportunity

Revenue

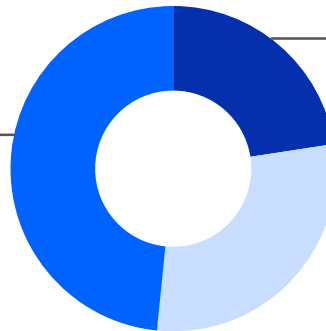
\$5.2B

Revenue Growth

7%

Segment Elements

Cloud & Data Platforms
+34% yr/yr
includes Red Hat



Cognitive Applications
(3%) yr/yr

Transaction Processing Platforms
(15%) yr/yr

Global Business Services

Consulting driven by cloud modernization and intelligent workflows

Continued scaling of Red Hat engagements

Clients are deprioritizing projects with longer-term paybacks

Aligning our resources to focus on near-term opportunities

Revenue

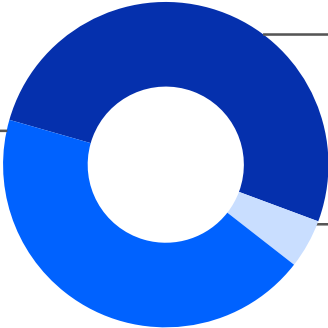
\$4.1B

+1% yr/yr

Gross Margin Expansion

100 bps

Segment Elements



Consulting
+5% yr/yr

Global Process Services
(7%) yr/yr

Application Management
(2%) yr/yr

Global Technology Services

Actions to accelerate the shift to higher value segments and improve cost competitiveness

Tighter integration across GTS & GBS to address cloud opportunity

Strong signings growth led by cloud

Near-term impact from lower client business volumes

Revenue

\$6.5B

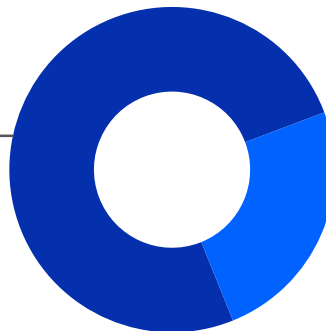
(4%) yr/yr

Gross Margin Expansion

30 bps

Segment Elements

Infrastructure &
Cloud Services
(4%) yr/yr



Technology
Support
Services
(5%) yr/yr

Systems

IBM Z and Storage growth driven by product cycle and mission-critical workloads

Power decline reflects cycle dynamics and exposure to smaller enterprises

Gross Margin expansion reflects mix benefit from new innovations in IBM Z and Storage

Revenue

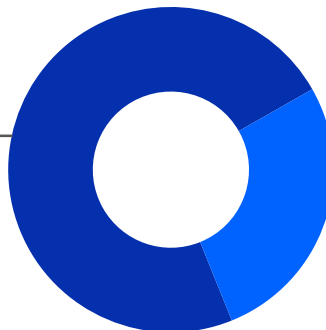
\$1.4B

Revenue Growth

4%

Segment Elements

Systems Hardware
+10% yr/yr



Operating
Systems
Software
(9%) yr/yr

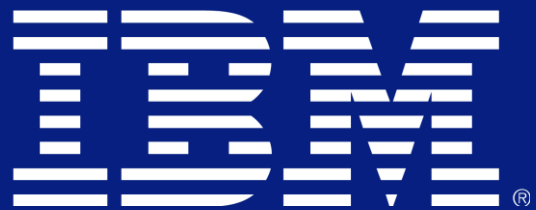
Summary

Managing in the Current Environment

- Aligning resources and investments to near-term opportunities
- Managing cost & expense
- Multiple scenarios; prepared for wide-range of outcomes
- Solid free cash flow & ample liquidity

Positioned to Emerge Stronger

- Strategy and portfolio aligned to hybrid cloud and AI
- Structural actions for long-term competitiveness
- Higher value model differentiates IBM



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Supplemental Materials

- Currency – Impact on Revenue Growth
- Revenue and P&L Highlights
- Services Segment Details
- Software & Systems Segment Details
- Expense Summary
- Balance Sheet Summary
- Cash Flow Summary
- Cash Flow (ASC 230)
- Offering Realignment between Segments
- Historical Segment Recast to reflect Offering Realignment
- Non-GAAP Supplemental Materials

Some columns and rows in these materials, including the supplemental exhibits, may not add due to rounding
Supplemental Materials



Currency – Impact on Revenue Growth

Quarterly Averages per US \$	1Q20	Yr/Yr	4/17/2020	2Q20	3Q20	4Q20	FY20
			Spot				
Euro	0.91	(3%)	0.92	(3%)	(2%)	(2%)	(3%)
Pound	0.78	(2%)	0.80	(3%)	1%	(3%)	(2%)
Yen	109	1%	108	2%	(0%)	0%	1%
Revenue Impact, Future @ 4/17/20 Spot		(1.5 pts)		(2-3 pts)	(2-2.5 pts)	(2-2.5 pts)	(2-2.5 pts)

	US\$B	Yr/Yr
Revenue As Reported	\$17.6	(3.4%)
Currency Impact		(1.5 pts)
Revenue @ CC		(1.9%)

Revenue and P&L Highlights

Financial results reflect impact of transaction-related adjustments associated with the Red Hat acquisition

Revenue Highlights	1Q20	B/(W) Yr/Yr*
Revenue	\$17.6	Flat
Cloud	\$5.4	23%

Geography Revenue	1Q20	B/(W) Yr/Yr*
Americas	\$8.2	Flat
Europe/ME/Africa	\$5.5	1%
Asia Pacific	\$3.9	Flat

Revenue growth rates @CC, \$ in billions

*Yr/Yr excludes impact of divested businesses

**Pre-Tax Income includes impact of structural actions/charges – (\$0.9B), (39 pts) yr/yr, Pre-Tax Margin impact – (5 pts)

Supplemental Materials

Operating P&L Highlights \$	1Q20	B/(W) Yr/Yr
Gross Profit	\$8.1	Flat
Expense	\$7.4	(26%)
Pre-Tax Income**	\$0.7	(69%)
Net Income	\$1.6	(18%)
Earnings Per Share	\$1.84	(18%)

Operating P&L Highlights %	1Q20	B/(W) Yr/Yr
Gross Profit Margin	46.2%	1.5 pts
Expense E/R	42.2%	(9.9 pts)
Pre-Tax Margin**	3.9%	(8.4 pts)
Net Income	9.4%	(1.7 pts)
Tax Rate	NM	NM



Services Segments Details

GBS Segment	1Q20	B/(W) Yr/Yr	GTS Segment	1Q20	B/(W) Yr/Yr
Revenue (External)	\$4.1	1%	Revenue (External)	\$6.5	(4%)
Consulting	\$2.1	5%	Infrastructure & Cloud Services	\$4.9	(4%)
Global Process Services	\$0.2	(7%)	Technology Support Services	\$1.6	(5%)
Application Management	\$1.8	(2%)	Gross Profit Margin (External)	34.0%	0.3 pts
Gross Profit Margin (External)	27.2%	1.0 pts	Pre-Tax Income	(\$0.2)	(165%)
Pre-Tax Income	\$0.3	(9%)	<i>impact of structural actions/charges</i>	(\$0.4)	(149 pts)
<i>impact of structural actions/charges</i>	(\$0.1)	(38 pts)	Pre-Tax Income Margin	(2.6%)	(6.5 pts)
Pre-Tax Income Margin	6.5%	(0.6 pts)	<i>impact of structural actions/charges</i>	(6 pts)	(6 pts)
<i>impact of structural actions/charges</i>	(3 pts)	(3 pts)	Cloud Revenue (External)	\$2.3	12%
Cloud Revenue (External)	\$1.3	8%			
			Services Signings & Backlog	1Q20	B/(W) Yr/Yr
			Signings	\$8.9	19%
			Backlog	\$107.8	Flat
			Backlog Yr/Yr @Actual		(3%)

Revenue & Signings growth rates @CC, \$ in billions, Services Backlog calculated using March 31 currency spot rates, Signings & Backlog includes Security Services
Supplemental Materials



Software and Systems Segment Details

Cloud & Cognitive Software Segment	1Q20	B/(W) Yr/Yr	Systems Segment	1Q20	B/(W) Yr/Yr
Revenue (External)	\$5.2	7%	Revenue (External)	\$1.4	4%
Cognitive Applications	\$1.2	(3%)	Systems Hardware	\$1.0	10%
Cloud & Data Platforms	\$2.5	34%	IBM Z		61%
Transaction Processing Platforms	\$1.5	(15%)	Power		(32%)
Pre-Tax Income	\$0.9	(48%)	Storage		19%
<i>impact of structural actions/charges</i>	<i>(\$0.2)</i>	<i>(12 pts)</i>	Operating Systems Software	\$0.4	(9%)
Pre-Tax Income Margin	15.4%	(15.3 pts)	Gross Profit Margin (External)	50.2%	4.1 pts
<i>impact of structural actions/charges</i>	<i>(4 pts)</i>	<i>(4 pts)</i>	Systems Hardware	38.1%	9.2 pts
Cloud Revenue (External)	\$1.3	86%	Operating Systems Software	82.9%	(1.3 pts)
			Pre-Tax Income	(\$0.2)	(8%)
			<i>impact of structural actions/charges</i>	<i>(\$0.1)</i>	<i>(30 pts)</i>
			Pre-Tax Income Margin	(14.3%)	(0.8 pts)
			<i>impact of structural actions/charges</i>	<i>(4 pts)</i>	<i>(4 pts)</i>
			Cloud Revenue (External)	\$0.4	10%

Segment results reflect impact of transaction-related adjustments associated with the Red Hat acquisition

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Expense Summary

Expense	1Q20	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
SG&A – Operating	\$5.7	(24%)	1 pts	(8 pts)	(17 pts)
RD&E – Operating	\$1.6	(13%)	0 pts	(12 pts)	(2 pts)
IP and Custom Development Income	(\$0.1)	15%			
Other (Income)/Expense - Operating	(\$0.1)	(56%)			
Interest Expense	\$0.3	(87%)			
Operating Expense & Other Income	\$7.4	(26%)	0 pts	(12 pts)	(14 pts)
<i>impact of structural actions/charges</i>	<i>\$0.9</i>	<i>(15 pts)</i>			<i>(15 pts)</i>

\$ in billions

*includes acquisitions in the last twelve months net of non-operating acquisition-related charges and includes impact of divested businesses

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

Supplemental Materials



Balance Sheet Summary

	Mar 20	Dec 19	Mar 19^{**}
Cash & Marketable Securities	\$12.0	\$9.0	\$18.1
Core (non-GF) Assets*	\$116.4	\$115.3	\$77.6
Global Financing Assets	\$24.9	\$27.9	\$35.2
Total Assets	\$153.4	\$152.2	\$130.9
Other Liabilities	\$68.9	\$68.3	\$64.3
Core (non-GF) Debt*	\$42.1	\$38.2	\$20.5
Global Financing Debt	\$22.3	\$24.7	\$29.5
Total Debt	\$64.3	\$62.9	\$50.0
Total Liabilities	\$133.3	\$131.2	\$114.3
Equity	\$20.1	\$21.0	\$16.6

\$ in billions

*includes eliminations of inter-company activity

**pre-Red Hat acquisition close

Supplemental Materials



Cash Flow Summary

	1Q20	B/(W) Yr/Yr	FY19
Net Cash from Operations	\$4.5	(\$0.3)	\$14.8
Less: Global Financing Receivables	\$2.4	(\$0.1)	\$0.5
Net Cash from Operations (excluding GF Receivables)	\$2.1	(\$0.2)	\$14.3
Net Capital Expenditures	(\$0.7)	(\$0.1)	(\$2.4)
Free Cash Flow (excluding GF Receivables)	\$1.4	(\$0.3)	\$11.9
Acquisitions	(\$0.0)	(\$0.0)	(\$32.6)
Divestitures	\$0.0	(\$0.0)	\$1.1
Dividends	(\$1.4)	(\$0.0)	(\$5.7)
Share Repurchases (Gross)	-	\$0.9	(\$1.4)
Non-GF Debt	\$3.5	(\$2.4)	\$22.8
Other (includes GF Net A/R & GF Debt)	(\$0.4)	(\$1.1)	\$0.7
Change in Cash & Marketable Securities	\$3.0	(\$2.9)	(\$3.2)

\$ in billions

Supplemental Materials



Cash Flow (ASC 230)

	1Q20	1Q19
Net Income from Operations	\$1.2	\$1.6
Depreciation / Amortization of Intangibles	\$1.6	\$1.4
Stock-based Compensation	\$0.2	\$0.1
Working Capital / Other	(\$0.9)	(\$0.8)
Global Financing A/R	\$2.4	\$2.5
Net Cash provided by Operating Activities	\$4.5	\$4.8
Capital Expenditures, net of payments & proceeds	(\$0.7)	(\$0.6)
Divestitures, net of cash transferred	\$0.0	\$0.0
Acquisitions, net of cash acquired	(\$0.0)	(\$0.0)
Marketable Securities / Other Investments, net	(\$0.2)	(\$0.3)
Net Cash provided by/(used in) Investing Activities	(\$0.9)	(\$0.9)
Debt, net of payments & proceeds	\$1.4	\$4.2
Dividends	(\$1.4)	(\$1.4)
Common Stock Repurchases	-	(\$0.9)
Common Stock Transactions - Other	(\$0.0)	(\$0.1)
Net Cash provided by/(used in) Financing Activities	(\$0.1)	\$1.9
Effect of Exchange Rate changes on Cash	(\$0.4)	(\$0.1)
Net Change in Cash, Cash Equivalents & Restricted Cash	\$3.1	\$5.7

\$ in billions

Supplemental Materials



Offering Realignment between Segments

In 2019, IBM updated its reportable segments and in 2020, this segment structure remains consistent. During the first quarter of 2020, the company realigned offerings and the related management system to reflect divestitures completed in the second half of 2019 and tighter integration of certain industry-related consulting services. Accordingly, IBM is updating its Cloud & Cognitive Software segment, Global Business Services segment and the Other – divested businesses category in the first quarter of 2020 and recasting historical information in these areas for consistency with the go-forward performance. To provide some context of the magnitude of these changes, total recast revenue in 2019 is approximately \$0.3 billion of IBM’s total \$77 billion. There is no change to the Global Technology Services, Systems, or Global Financing segments, and there is no impact to IBM’s consolidated results.

Management System Change

Divestitures of IBM's risk analytics and regulatory offerings and sales performance management offerings

Realignment of certain industry-related consulting offerings to the Global Business Services segment

Resulting Segment Implications

- Cloud & Cognitive Software (Cognitive Applications)
 - + Other - divested businesses
-
- Cloud & Cognitive Software (Cognitive Applications)
 - + Global Business Services (Consulting)

These changes are effective in the first quarter of 2020. Subsequent to the first quarter, on April 6, 2020, Arvind Krishna became Chief Executive Officer of IBM and announced a number of management changes, which did not impact the company’s reportable segments.

Historical Segment Recast to reflect Offering Realignment

Cloud & Cognitive Software	1Q19
Total Revenue	\$5,808
External Revenue	\$4,967
Cognitive Applications	\$1,238
Cloud & Data Platforms	\$1,917
Transaction Processing Platforms	\$1,812
Internal Revenue	\$841
Gross Profit \$ (External)	\$3,753
Gross Margin % (External)	75.6%
Segment Pre-Tax Income	\$1,785
Pre-Tax Income Margin	30.7%
Total Revenue Yr/Yr Change	(2.5%)
Pre-Tax Income Yr/Yr Change	5.6%

Global Business Services	1Q19
Total Revenue	\$4,229
External Revenue	\$4,155
Consulting	\$2,001
Application Management	\$1,908
Global Process Services	\$247
Internal Revenue	\$74
Gross Profit \$ (External)	\$1,087
Gross Margin % (External)	26.2%
Segment Pre-Tax Income	298
Pre-Tax Income Margin	7.0%
Total Revenue Yr/Yr Change	(0.8%)
Pre-Tax Income Yr/Yr Change	145.7%

Note: Additional historical recast segment information will be available on the IBM Investor Relations website and in IBM's SEC filings

\$ in millions, items in **bold** reflect changes from previously reported results
Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 1Q 2020

	1Q20 Yr/Yr	
	GAAP	@CC
Cloud & Cognitive Software	5%	7%
Cognitive Applications	(4%)	(3%)
Cloud & Data Platforms	32%	34%
Transaction Processing Platforms	(16%)	(15%)
Cloud	84%	86%
Global Business Services	Flat	1%
Consulting	4%	5%
Global Process Services	(9%)	(7%)
Application Management	(4%)	(2%)
Cloud	6%	8%

	1Q20 Yr/Yr	
	GAAP	@CC
Global Technology Services	(6%)	(4%)
Infrastructure & Cloud Services	(6%)	(4%)
Technology Support Services	(7%)	(5%)
Cloud	10%	12%
Systems	3%	4%
Systems Hardware	9%	10%
IBM Z	59%	61%
Power	(33%)	(32%)
Storage	18%	19%
Operating Systems Software	(11%)	(9%)
Cloud	9%	10%

The above reconciles the Non-GAAP financial information contained in the “Cloud & Cognitive Software”, “Global Business Services”, “Global Technology Services”, “Systems”, “Services Segment Details”, “Software & Systems Segment Details”, and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 20, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 1Q 2020

	1Q20 Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted
Total Revenue	(3.4%)	2 pts	2 pts	0.1%
Americas	(4%)	2 pts	1 pts	Flat
Europe/ME/Africa	(4%)	2 pts	3 pts	1%
Asia Pacific	(2%)	1 pts	1 pts	Flat
Total Cloud	19%	2 pts	2 pts	23%

The above reconciles the Non-GAAP financial information contained in the “1Q20 Highlights”, “Revenue and P&L Highlights”, and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 20, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue for Red Hat, Normalized - 1Q 2020

Red Hat Revenue, Normalized for Historical Comparability	Three Months Ended		Yr/Yr	Yr/Yr@CC
	Mar 31 2020	Mar 31 2019		
Red Hat revenue as reported in IBM consolidated results (1)	\$719	\$ -		
Add: Red Hat revenue prior to acquisition (2)	-	900		
Add: Purchase accounting deferred revenue and intercompany adjustments (3)	<u>347</u>	<u>-</u>		
Red Hat revenue normalized for historical comparability (non-GAAP)	\$1,066	\$900	18%	20%

- (1) Represents GAAP Revenue as reported by IBM, which is included in the Cloud & Cognitive Software segment.
- (2) Red Hat revenue for the three months ended March 31, 2019 represents pre-acquisition Red Hat standalone revenue and is included for comparative purposes.
- (3) Represents the first-quarter 2020 impact of the deferred revenue purchase accounting adjustment and adjustments to add back revenue which was eliminated for sales between Red Hat and IBM. This line represents revenue that would have been recognized by Red Hat under GAAP if the acquisition had not occurred, but was not recognized by IBM due to purchase accounting and intercompany adjustments.

The above reconciles the Non-GAAP financial information contained in the “1Q20 Highlights” and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 20, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 1Q 2020

	1Q20		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	1 pts	0 pts	1 pts
Acquisitions/Divestitures	(12 pts)	4 pts	(8 pts)
Base*	(16 pts)	(1 pts)	(17 pts)
RD&E			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	(12 pts)	0 pts	(12 pts)
Base*	(2 pts)	0 pts	(2 pts)
Operating Expense & Other Income			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	(14 pts)	2 pts	(12 pts)
Base*	(15 pts)	1 pts	(14 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 20, 2020 for additional information on the use of these Non-GAAP financial measures.

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

Non-GAAP Supplemental Materials

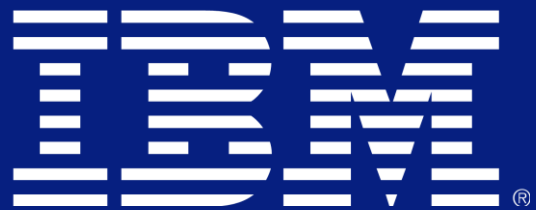
Reconciliation of Free Cash Flow - Last 12 Months

**12 Months
Ended
Mar 2020**

Net Cash from Operating Activities per GAAP:	\$14.5
Less: change in Global Financing (GF) Receivables	\$0.4
Net Cash from Operating Activities (Excluding GF Receivables)	\$14.1
Capital Expenditures, Net	(\$2.5)
Free Cash Flow (Excluding GF Receivables)	\$11.6

\$ in billions

The above reconciles the Non-GAAP financial information contained in the “1Q20 Highlights” and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 20, 2020 for additional information on the use of these Non-GAAP financial measures.



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