

# IBM 2Q 2017 Earnings

July 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 July 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/2q17.html>



# Overview

2Q17

**\$19.3B**

*Revenue*

**\$ 2.97**

*Operating EPS*

**\$10.8B**

*Free Cash Flow  
Last 12 Months*

- Strong growth in strategic imperatives revenue, reflects organic performance
- Sequential improvement in gross margin
- Solid expense management
- Strong cash flow performance
- Maintain full-year expectations for earnings per share and free cash flow



# A Cognitive Solutions & Cloud Platform Company

- Strategic imperatives revenue up 12% over last twelve months
  - leverages IBM's strong position in traditional IT
- Cloud revenue of \$15B over last twelve months
  - expanding base of leading companies on the IBM Cloud
- Building enduring platforms for enterprise-grade workloads
- Continue to reinvent underlying core technologies to support the most contemporary solutions

Last  
12 months

**\$34B**

*Strategic Imperatives  
Revenue*

**43%**

*of IBM  
Revenue*

<b>Strategic Imperatives Revenue</b>	2Q17	Yr/Yr
<b>Total</b>	<b>\$8.8</b>	<b>7%</b>
Analytics	\$5.1	6%
Cloud	\$3.9	17%
<i>aaS annual run rate</i>	<i>\$8.8</i>	<i>32%</i>
Mobile	\$1.2	29%
Security	\$0.6	5%
Social	\$0.3	3%

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud



# Key Financial Metrics

<b>P&amp;L Highlights</b>	2Q17	B/(W) Yr/Yr
Revenue	\$19.3	(3%)
Expense - Operating	\$6.0	6%
PTI - Operating	\$3.1	(12%)
NI - Operating	\$2.8	(2%)
EPS - Operating	\$2.97	1%

## **P&L Ratios (Operating)**

GP Margin	47.2%	(1.8 pts)
Expense E/R	31.3%	0.4 pts
PTI Margin	15.9%	(1.4 pts)
Tax Rate	9.2%	9.8 pts
NI Margin	14.5%	0.5 pts

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

<b>Cash Highlights</b>	2Q17	Last 12 Months
Free Cash Flow (excl. GF Receivables)	\$2.6	\$10.8
Share Repurchase (Gross)	\$1.4	\$4.5
Dividends	\$1.4	\$5.4
Cash Balance @ June 30	\$12.3	

- Gross margin decline reflects impact from mix and investment levels
  - yr/yr dynamics improved vs. first quarter
- Expense better yr/yr driven by efficiency while continuing to invest in key areas
- Tax rate reflects 15% ongoing rate and discrete benefits
- Strong free cash flow performance



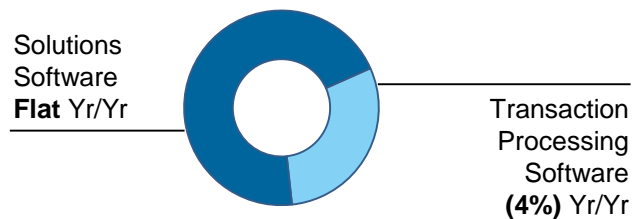
# Cognitive Solutions Segment

<b>Segment Results</b>	2Q17	Yr/Yr
Revenue (External)	\$4.6	(1%)
Gross Margin (External)	79.0%	(3.1 pts)
PTI	\$1.6	11%
PTI Margin	31.0%	3.4 pts

## Highlights

- Annuity content continues to grow, driven by SaaS
- Solutions Software includes growth in analytics
- Gross margin reflects investments and mix; sequential improvement in yr/yr performance

## Segment Revenue Elements



<b>Strategic Imperatives Revenue within Cognitive Solutions</b>	2Q17	Yr/Yr
Strategic Imperatives	\$3.0	1%
Cloud as-a-Service annual run rate	\$0.6	24%
	\$1.9	



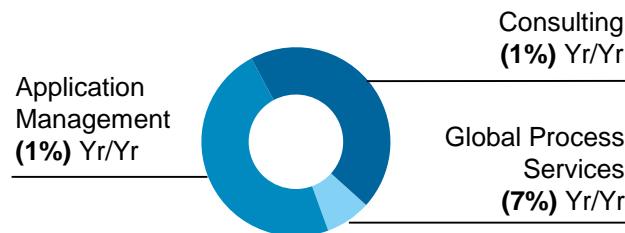
# Global Business Services Segment

<b>Segment Results</b>	2Q17	Yr/Yr
Revenue (External)	\$4.1	(2%)
Gross Margin (External)	24.9%	(1.4 pts)
PTI	\$0.3	(32%)
PTI Margin	7.7%	(3.2 pts)

## Highlights

- Second consecutive quarter of signings growth with strength in digital offerings
- Improved Consulting revenue trajectory as backlog stabilizes
- Decline in enterprise apps, shifting resources away from traditional areas

## Segment Revenue Elements



<b>Strategic Imperatives Revenue within Global Business Services</b>	2Q17	Yr/Yr
Strategic Imperatives	\$2.5	11%
Cloud	\$1.0	39%
as-a-Service annual run rate	\$1.1	



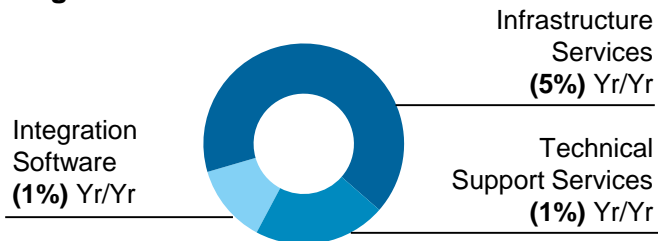
# Technology Services and Cloud Platforms Segment

Segment Results	2Q17	Yr/Yr
Revenue (External)	\$8.4	(4%)
Gross Margin (External)	40.6%	(1.0 pts)
PTI	\$1.0	(21%)
PTI Margin	11.8%	(2.4 pts)

## Highlights

- Infrastructure Services deceleration driven by acquisition wrap and shift away from lower value work
- Strong growth in cloud, analytics, mobile and security
- Gross margin reflects investment in cloud platforms; sequential improvement driven by service delivery

## Segment Revenue Elements



Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms	2Q17	Yr/Yr
Strategic Imperatives	\$2.5	22%
Cloud	\$1.7	21%
as-a-Service annual run rate	\$5.8	





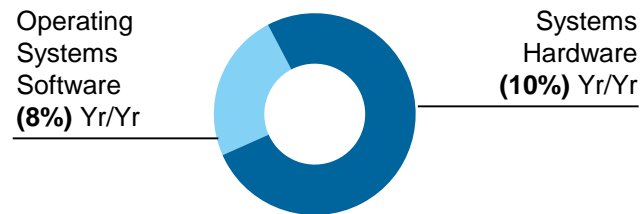
# Systems Segment

Segment Results	2Q17	Yr/Yr
Revenue (External)	\$1.7	(10%)
Gross Margin (External)	52.7%	(3.9 pts)
PTI	\$0.1	(68%)
PTI Margin	3.9%	(6.7 pts)

## Highlights

- z Systems performance in quarter reflects cycle; new product introduction in 3Q
- Storage grew for second consecutive quarter, led by flash
- Gross margin expanded in z Systems and Storage; overall margin decline reflects mix

## Segment Revenue Elements



Strategic Imperatives Revenue within Systems	2Q17	Yr/Yr
Strategic Imperatives	\$0.8	(15%)
Cloud	\$0.6	(17%)



# Cash Flow and Balance Sheet Highlights

<b>Cash Flow</b>	2Q17	Yr/Yr	Last 12 Months
Net Cash from Operations*	\$3.3	\$0.1	\$14.1
Free Cash Flow*	\$2.6	\$0.3	\$10.8
<b>Selected Uses of Cash</b>			
Net Capital Expenditures	\$0.7		\$3.3
Acquisitions	\$0.1		\$0.4
Dividends/Share Repurchase	\$2.8		\$9.8

- Strong collections performance contributed to free cash flow growth
- Free Cash Flow realization 94% over last 12 months

\$ in billions

\*Excludes Global Financing receivables

<b>Balance Sheet</b>	Jun 17	Dec 16	Jun 16
Cash & Marketable Securities	\$12.3	\$8.5	\$10.6
Total Debt	\$45.7	\$42.2	\$44.5
Global Financing Debt	\$29.0	\$27.9	\$26.5
Global Financing Leverage	9.0	7.3	7.3
Non-GF Debt	\$16.6	\$14.3	\$18.0
Non-GF Debt/Capital	52%	50%	59%

- Positioned to support business over the longer term
- Global Financing leverage reflects client and commercial financing entity established 1Q17



# Summary

- Strong performance in strategic imperatives, leveraging IBM's position in traditional IT
- Sequential improvement in gross margin
- Continuing to invest while driving efficiency in spend base
- Maintain full-year 2017 expectations
  - 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	2Q17	Yr/Yr	7/17/17 Spot	3Q17	4Q17	FY17
Euro	0.94	(3%)	0.91	(3%)	0.87	3%	6%	1%
Pound	0.81	(15%)	0.78	(12%)	0.77	(1%)	5%	(5%)
Yen	114	1%	111	(3%)	113	(10%)	(3%)	(4%)
IBM Revenue Impact, Future @ 7/17/17 Spot		(0.7 pts)		(1.4 pts)		(0-1 pts)	2 pts	0 pts
with FX movements @ 1Std Deviation						+/-2 pts	+/-3 pts	+/-1 pts
IBM Revenue Impact @ 5 Yr Historical Average FX movements						(1 pts)	(0-1 pts)	(1 pts)

	US\$B	Yr/Yr
Revenue As Reported	\$19.3	(4.7%)
Currency Impact	(\$0.3)	(1.4 pts)
Revenue @ CC	\$19.6	(3.3%)



# Geographic Revenue

<b>Geography Revenue</b>	2Q17	Yr/Yr
Americas	\$9.2	(3%)
Europe/ME/Africa	\$5.8	(5%)
Asia Pacific	\$4.3	(1%)

- Americas reflects decline in US (-5%), growth in Latin America and Canada
- E/ME/A weakness; declines in Germany and UK
- Asia Pacific improved sequentially, with growth in Japan (+1%) and India



# Segment Revenue & Gross Profit

Segment Revenue & Gross Profit Metrics	2Q17 Revenue	Yr/Yr	2Q17 GP%	Yr/Yr
<b>Cognitive Solutions*</b>	<b>\$4.6</b>	<b>(1%)</b>	<b>79.0%</b>	<b>(3.1) pts</b>
Solutions Software	\$3.2	Flat		
Transaction Processing Software	\$1.4	(4%)		
<b>Global Business Services</b>	<b>\$4.1</b>	<b>(2%)</b>	<b>24.9%</b>	<b>(1.4) pts</b>
Consulting	\$1.8	(1%)		
Global Process Services	\$0.3	(7%)		
Application Management	\$2.0	(1%)		
<b>Technology Services &amp; Cloud Platforms</b>	<b>\$8.4</b>	<b>(4%)</b>	<b>40.6%</b>	<b>(1.0) pts</b>
<i>Global Technology Services**</i>	<i>\$7.3</i>	<i>(4%)</i>	<i>34.5%</i>	<i>(0.9) pts</i>
Infrastructure Services	\$5.5	(5%)		
Technical Support Services	\$1.8	(1%)		
Integration Software*	\$1.1	(1%)	82.1%	(3.2) pts
<b>Systems</b>	<b>\$1.7</b>	<b>(10%)</b>	<b>52.7%</b>	<b>(3.9) pts</b>
Systems Hardware	\$1.3	(10%)	41.8%	(4.3) pts
Operating Systems Software*	\$0.4	(8%)	87.1%	(3.0) pts
<b>Global Financing</b>	<b>\$0.4</b>	<b>(2%)</b>	<b>30.8%</b>	<b>(7.9) pts</b>

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

	2Q17	Yr/Yr
<b>Systems Hardware Revenue</b>	\$1.3	(10%)
z Systems		(33%)
Power		(3%)
Storage		8%

	2Q17	Yr/Yr
<b>Signings</b>	\$10.9	(14%)
<b>Services Backlog</b>	\$118	(4%)
Currency Impact Year to Year		(\$1)
Currency Impact Quarter to Quarter	\$2	

Growth rates @CC, \$ in billions, Actual backlog calculated using June 30 currency spot rates



# Expense Summary

<b>Expense Metrics</b>	2Q17	B/(W) Yr/Yr	Currency	Acq.*	Base**
SG&A – Operating	\$4.9	4%	2 pts	(1 pts)	4 pts
RD&E – Operating	\$1.4	2%	1 pts	0 pts	1 pts
IP and Custom Development Income	(\$0.4)	Flat			
Other (Income)/Expense	(\$0.1)	NM			
Interest Expense	\$0.1	12%			
<b>Operating Expense &amp; Other Income</b>	<b>\$6.0</b>	<b>6%</b>	<b>3 pts</b>	<b>(1 pts)</b>	<b>4 pts</b>

\$ in billions

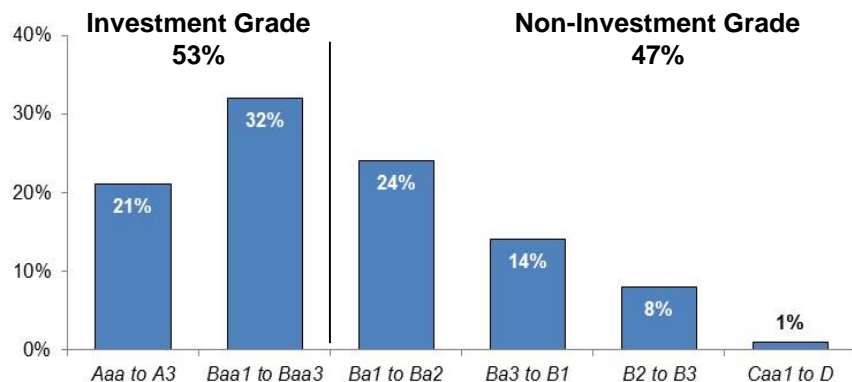
\*includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges

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



# Global Financing Portfolio

## 2Q17 – \$25.4B Net External Receivables



## Global Financing Metrics

	2Q17	1Q17	2Q16
Identified Loss Rate	1.1%	1.4%	2.1%
Anticipated Loss Rate	0.4%	0.4%	0.5%
Reserve Coverage	<b>1.5%</b>	<b>1.8%</b>	<b>2.6%</b>
Client Days Delinquent Outstanding	4.9	4.8	3.5
Commercial A/R > 30 days	\$31M	\$20M	\$25M



# Balance Sheet Summary

	Jun 17	Dec 16	Jun 16
Cash & Marketable Securities	\$12.3	\$8.5	\$10.6
Non-GF Assets*	\$74.1	\$74.4	\$75.3
Global Financing Assets	\$34.1	\$34.6	\$32.2
Total Assets	\$120.5	\$117.5	\$118.1
Other Liabilities	\$56.3	\$56.9	\$57.6
Non-GF Debt*	\$16.6	\$14.3	\$18.0
Global Financing Debt	\$29.0	\$27.9	\$26.5
Total Debt	\$45.7	\$42.2	\$44.5
Total Liabilities	\$102.0	\$99.1	\$102.2
Equity	\$18.5	\$18.4	\$15.9
Non-GF Debt / Capital	52%	50%	59%
Global Financing Leverage**	9.0	7.3	7.3

\$ in billions

\*includes eliminations of inter-company activity

\*\*Global Financing leverage reflects client and commercial financing entity established in 1Q17

Supplemental Materials



# Cash Flow Summary

	QTD	B/(W)	YTD	B/(W)
	2Q17	Yr/Yr	2Q17	Yr/Yr
Net Cash from Operations *,**	\$3.5	\$0.0	\$7.4	(\$1.6)
Less: Global Financing Receivables **	\$0.2	(\$0.1)	\$2.2	(\$0.3)
<b>Net Cash from Operations (excluding GF Receivables) *</b>	<b>\$3.3</b>	<b>\$0.1</b>	<b>\$5.2</b>	<b>(\$1.3)</b>
Net Capital Expenditures	(\$0.7)	\$0.2	(\$1.6)	\$0.4
<b>Free Cash Flow (excluding GF Receivables) *</b>	<b>\$2.6</b>	<b>\$0.3</b>	<b>\$3.6</b>	<b>(\$0.9)</b>
Acquisitions	(\$0.1)	\$2.8	(\$0.2)	\$5.2
Divestitures	\$0.0	\$0.0	\$0.0	(\$0.0)
Dividends	(\$1.4)	(\$0.1)	(\$2.7)	(\$0.1)
Share Repurchases (Gross)	(\$1.4)	(\$0.6)	(\$2.7)	(\$0.9)
Non-GF Debt	\$2.1	\$2.9	\$2.4	(\$2.7)
Other (includes GF A/R & GF Debt) *	(\$0.2)	\$0.4	\$3.3	\$0.8
Change in Cash & Marketable Securities	\$1.6	\$5.9	\$3.8	\$1.3

\$ in billions

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

\*\*Revised classification of certain financing receivables for 2Q16 (QTD/YTD) 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)

	QTD 2Q17	QTD 2Q16	YTD 2Q17	YTD 2Q16
<b>Net Income from Operations</b>	<b>\$2.3</b>	<b>\$2.5</b>	<b>\$4.1</b>	<b>\$4.5</b>
Depreciation / Amortization of Intangibles	\$1.1	\$1.1	\$2.2	\$2.1
Stock-based Compensation	\$0.1	\$0.1	\$0.3	\$0.3
Working Capital / Other *	(\$0.3)	(\$0.5)	(\$1.4)	(\$0.4)
Global Financing A/R **	\$0.2	\$0.3	\$2.2	\$2.5
<b>Net Cash provided by Operating Activities *,**</b>	<b>\$3.5</b>	<b>\$3.5</b>	<b>\$7.4</b>	<b>\$9.0</b>
Capital Expenditures, net of payments & proceeds	(\$0.7)	(\$1.0)	(\$1.6)	(\$1.9)
Divestitures, net of cash transferred	\$0.0	(\$0.0)	\$0.0	\$0.0
Acquisitions, net of cash acquired	(\$0.1)	(\$2.8)	(\$0.2)	(\$5.4)
Marketable Securities / Other Investments, net **	(\$0.9)	(\$0.6)	\$0.4	\$1.0
<b>Net Cash used in Investing Activities**</b>	<b>(\$1.7)</b>	<b>(\$4.5)</b>	<b>(\$1.4)</b>	<b>(\$6.3)</b>
Debt, net of payments & proceeds	\$2.3	(\$1.0)	\$2.8	\$3.9
Dividends	(\$1.4)	(\$1.3)	(\$2.7)	(\$2.6)
Common Stock Repurchases	(\$1.4)	(\$0.8)	(\$2.7)	(\$1.8)
Common Stock Transactions - Other *	(\$0.1)	(\$0.0)	(\$0.0)	\$0.0
<b>Net Cash used in Financing Activities *</b>	<b>(\$0.6)</b>	<b>(\$3.2)</b>	<b>(\$2.7)</b>	<b>(\$0.4)</b>
Effect of Exchange Rate changes on Cash	\$0.4	(\$0.1)	\$0.5	\$0.1
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>\$1.6</b>	<b>(\$4.3)</b>	<b>\$3.9</b>	<b>\$2.3</b>

\$ in billions

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

\*\*Revised classification of certain financing receivables for 2Q16 (QTD/YTD) 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 June 30, 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 July 18, 2017 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 2Q 2017

	2Q17 Yr/Yr	
	GAAP	@CC
Americas	(3%)	(3%)
Europe/ME/Africa	(8%)	(5%)
Asia Pacific	(3%)	(1%)
U.S.	(5%)	(5%)
Japan	(2%)	1%
Canada	(2%)	2%

The above reconciles the Non-GAAP financial information contained in the “Geographic Revenue” and “2Q17 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated July 18, 2017 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials





# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 2Q 2017

	2Q17 Yr/Yr	
	GAAP	@CC
Strategic Imperatives	5%	7%
Analytics	4%	6%
Cloud	15%	17%
<i>aaS annual run rate</i>	30%	32%
Mobile	27%	29%
Security	4%	5%
Social	1%	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 July 18, 2017 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 2Q 2017

	2Q17 Yr/Yr	
	GAAP	@CC
<b>Cognitive Solutions</b>	<b>(2%)</b>	<b>(1%)</b>
Solutions Software	(1%)	0%
Transaction Processing Software	(5%)	(4%)
Strategic Imperatives	0%	1%
Cloud	23%	24%
<b>Global Business Services</b>	<b>(4%)</b>	<b>(2%)</b>
Consulting	(3%)	(1%)
Global Process Services	(8%)	(7%)
Application Management	(3%)	(1%)
Strategic Imperatives	8%	11%
Cloud	36%	39%
<b>Cognitive Solutions &amp; Industry Svcs</b>	<b>(3%)</b>	<b>(2%)</b>

	2Q17 Yr/Yr	
	GAAP	@CC
<b>Tech Svcs &amp; Cloud Platforms</b>	<b>(5%)</b>	<b>(4%)</b>
Global Technology Services	(5%)	(4%)
Infrastructure Services	(7%)	(5%)
Technical Support Services	(2%)	(1%)
Integration Software	(3%)	(1%)
Strategic Imperatives	20%	22%
Cloud	19%	21%
<b>Systems</b>	<b>(10%)</b>	<b>(10%)</b>
Systems Hardware	(11%)	(10%)
z Systems	(34%)	(33%)
Power	(3%)	(3%)
Storage	7%	8%
Operating Systems Software	(9%)	(8%)
Strategic Imperatives	(15%)	(15%)
Cloud	(18%)	(17%)
<b>Global Financing</b>	<b>(2%)</b>	<b>(2%)</b>

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 July 18, 2017 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



# Non-GAAP Supplemental Materials

## Reconciliation of Expense Summary - 2Q 2017

	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
<b>SG&amp;A</b>			
Currency	2 pts	0 pts	2 pts
Acquisitions	(1 pts)	0 pts	(1 pts)
Base *	3 pts	1 pts	4 pts
<b>RD&amp;E</b>			
Currency	1 pts	0 pts	1 pts
Acquisitions	0 pts	0 pts	0 pts
Base *	(2 pts)	3 pts	1 pts
<b>Operating Expense &amp; Other Income</b>			
Currency	3 pts	0 pts	3 pts
Acquisitions	(1 pts)	0 pts	(1 pts)
Base*	2 pts	1 pts	4 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 July 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 Software Revenue Growth - 2Q 2017

	2Q17 Yr/Yr	
	GAAP	@CC
Cognitive Solutions Annuity	1%	2%
Solutions Software Annuity	3%	4%

The above reconciles the Non-GAAP financial information contained in the “2Q17 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated July 18, 2017 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Debt-to-Capital Ratio

	Jun 2017	Dec 2016	Jun 2016
Non-Global Financing Debt/Capital	52%	50%	59%
IBM Consolidated Debt/Capital	71%	70%	74%

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 July 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 beginning in the first quarter of 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 Jun 2017
<b>Net Cash from Operating Activities per GAAP:</b>	<b>\$15.5</b>
Less: the change in Global Financing (GF) Receivables	\$1.4
<b>Net Cash from Operating Activities (Excluding GF Receivables)</b>	<b>\$14.1</b>
Capital Expenditures, Net	(\$3.3)
<b>Free Cash Flow (Excluding GF Receivables)</b>	<b>\$10.8</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 July 18, 2017 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials





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