

IBM 2Q 2018 Earnings

July 18, 2018

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Forward Looking Statements and Non-GAAP Information

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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 July 18, 2018. 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/2q18.html>



Overview

2Q18

\$20.0B

Revenue

\$3.08

Operating EPS

\$12.6B

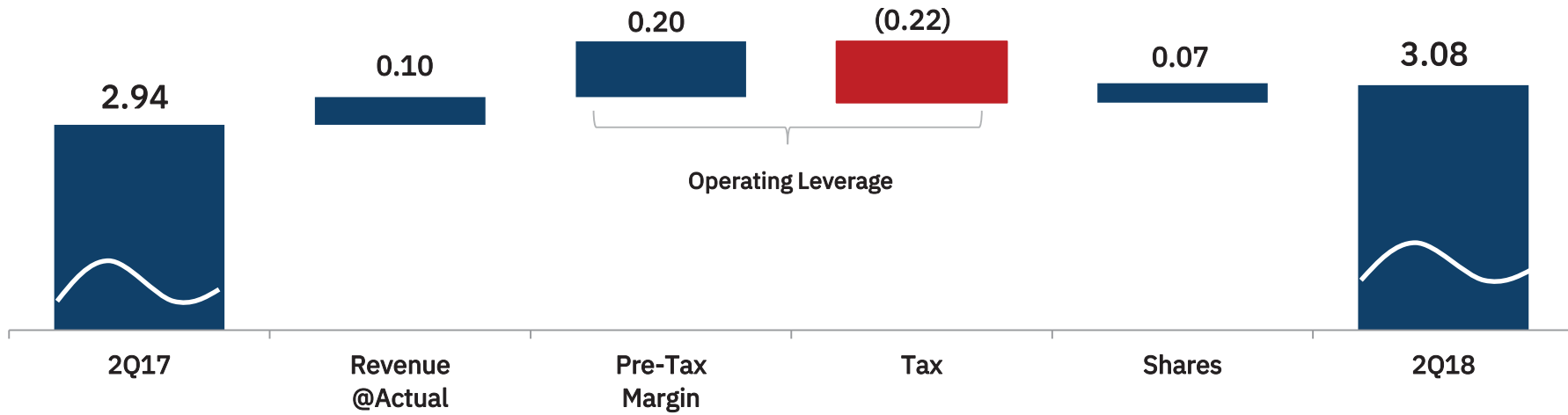
Free Cash Flow

Last 12 Months

- Revenue up 4% yr/yr, up 2% at constant currency
 - Strategic imperatives revenue growth accelerated to 13% @cc, led by cloud and security
 - Cloud driven by as-a-Service growth of 24% @cc; total cloud revenue now \$18.5B over last 12 months
- Strong profit performance and operating leverage
 - Operating pre-tax profit up 11%, operating pre-tax margin up 110 basis points
 - Pre-tax profit growth driven by gross profit and expense efficiencies
- Clients value IBM's innovative technology + industry expertise + trust and security
- Maintaining full-year expectations for operating earnings per share and free cash flow



Operating Earnings per Share Drivers – 2Q17 to 2Q18



- Growth in revenue, operating gross profit, pre-tax income
- Solid pre-tax operating leverage
- Significant tax headwind driven by 2Q17 discrete tax benefit
- Mid-single digit EPS growth

Sum of the components may not add due to the use of rounded numbers



Key Financial Metrics

| P&L Highlights | 2Q18 | B/(W) Yr/Yr |
|-----------------------------------|--------|----------------|
| Revenue | \$20.0 | 2% |
| GP - Operating | \$9.3 | 2% |
| Expense - Operating | \$5.9 | 2% |
| PTI - Operating | \$3.4 | 11% |
| NI - Operating | \$2.8 | 3% |
| EPS - Operating | \$3.08 | 5% |
| P&L Ratios (Operating) | | |
| GP Margin | 46.5% | (0.6 pts) |
| Expense E/R | 29.6% | 1.7 pts |
| PTI Margin | 16.9% | 1.1 pts |
| Tax Rate | 16.0% | (6.7 pts) |
| NI Margin | 14.2% | (0.1 pts) |

| Cash Highlights | 2Q18 | Last 12 Months |
|--|--------|-------------------|
| Free Cash Flow (excl. GF Receivables) | \$1.9 | \$12.6 |
| Share Repurchase (Gross) | \$1.0 | \$3.4 |
| Dividends | \$1.4 | \$5.6 |
| Cash Balance @ June 30 | \$11.9 | |

- Broad-based revenue growth across geographies and sectors
- Strong pre-tax profit growth with 2/3 from gross profit
- Gross margin performance driven by mix and investments; productivity benefits from 1Q18 actions to ramp in second half
- Expense performance reflects operational efficiency while maintaining high investment levels
- Free cash flow performance impacted by cash tax and capital investments

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



Cognitive Solutions Segment

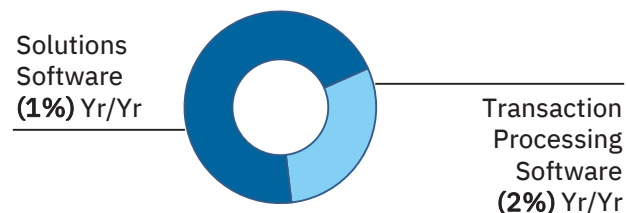
| Segment Results | 2Q18 | Yr/Yr |
|--------------------|-------|---------|
| Revenue (External) | \$4.6 | (1%) |
| PTI | \$1.8 | 9% |
| PTI Margin | 33.2% | 2.4 pts |

Highlights

- Solutions Software reflects growth in analytics and industry verticals; repositioning of some offerings
- Transaction Processing Software performance impacted by decline in storage software
- Margin expansion driven by operational efficiencies, mitigated by impact of investments and mix

Revenue growth rates @CC, \$ in billions

Segment Revenue Elements



| Strategic Imperatives Revenue within Cognitive Solutions | 2Q18 | Yr/Yr |
|--|-------|-------|
| Strategic Imperatives | \$3.0 | Flat |
| Cloud | \$0.6 | (1%) |
| as-a-Service annual run rate | \$2.0 | |



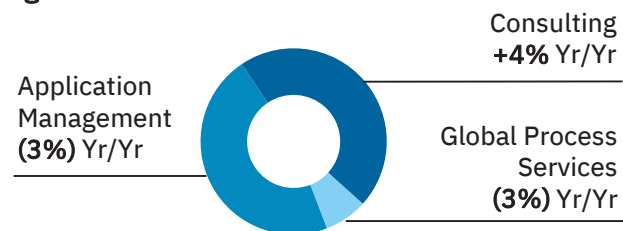
Global Business Services Segment

| Segment Results | 2Q18 | Yr/Yr |
|-------------------------|-------|---------|
| Revenue (External) | \$4.2 | Flat |
| Gross Margin (External) | 25.9% | 1.3 pts |
| PTI | \$0.4 | 24% |
| PTI Margin | 9.0% | 1.6 pts |

Highlights

- Continued improvement in revenue performance
- Consulting growth reflects strength in digital offerings
- Gross margin expansion driven by revenue mix and productivity

Segment Revenue Elements



| Strategic Imperatives Revenue within Global Business Services | 2Q18 | Yr/Yr |
|---|-------|-------|
| Strategic Imperatives | \$2.7 | 6% |
| Cloud | \$1.1 | 8% |
| as-a-Service annual run rate | \$1.4 | |



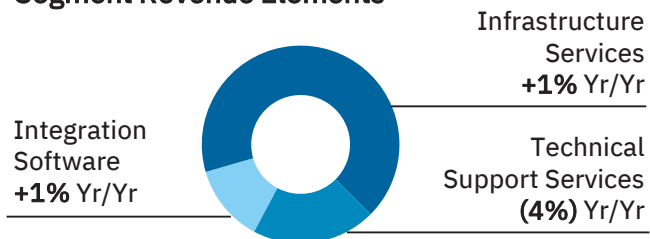
Technology Services and Cloud Platforms Segment

| Segment Results | 2Q18 | Yr/Yr |
|-------------------------|-------|-----------|
| Revenue (External) | \$8.6 | Flat |
| Gross Margin (External) | 39.4% | (1.0 pts) |
| PTI | \$0.9 | (11%) |
| PTI Margin | 10.1% | (1.5 pts) |

Highlights

- Returned to modest growth led by Infrastructure Services, moving clients to hybrid cloud
- Technical Support Services reflects strong IBM Z cycle
- Gross margin performance impacted by revenue mix and cloud investments

Segment Revenue Elements



| Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms | 2Q18 | Yr/Yr |
|--|-------|-------|
| Strategic Imperatives | \$3.1 | 24% |
| Cloud | \$2.2 | 27% |
| as-a-Service annual run rate | \$7.6 | |



Systems Segment

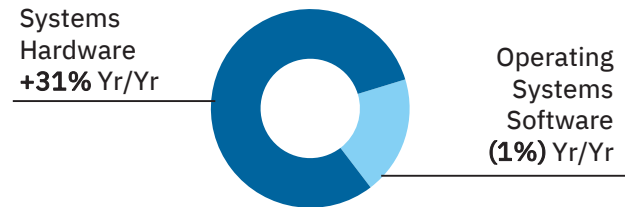
| Segment Results | 2Q18 | Yr/Yr |
|--------------------|-------|----------|
| Revenue (External) | \$2.2 | 23% |
| PTI | \$0.3 | \$0.3 |
| PTI Margin | 14.3% | 10.5 pts |

Highlights

- Growth in all three brands; overall Systems share gain
- IBM Z up > 100% yr/yr reflects high adoption rate of z14, and strong demand for new workloads
- Power grew, driven by strong POWER9 acceptance
- Storage returned to growth, led by Flash
- Strong profit growth; margin dynamics reflect mix

Revenue growth rates @CC, \$ in billions

Segment Revenue Elements



| Strategic Imperatives Revenue within Systems | 2Q18 | Yr/Yr |
|--|-------|-------|
| Strategic Imperatives | \$1.2 | 55% |
| Cloud | \$0.8 | 28% |



Cash Flow and Balance Sheet Highlights

| Cash Flow | 2Q18 | Yr/Yr | Last 12 Months |
|------------------------------|-------|---------|----------------|
| Net Cash from Operations* | \$2.9 | (\$0.4) | \$16.2 |
| Free Cash Flow* | \$1.9 | (\$0.7) | \$12.6 |
| Selected Uses of Cash | | | |
| Net Capital Expenditures | \$1.0 | | \$3.6 |
| Acquisitions | \$0.1 | | \$0.4 |
| Dividends/Share Repurchase | \$2.4 | | \$9.0 |

| Balance Sheet | Jun 18 | Dec 17 | Jun 17 |
|---------------------------------|--------|--------|--------|
| Cash & Marketable Securities*** | \$11.9 | \$12.8 | \$12.5 |
| Total Debt | \$45.5 | \$46.8 | \$45.7 |
| Global Financing Debt | \$31.1 | \$31.4 | \$29.0 |
| Global Financing Leverage | 9.0 | 9.0 | 9.0 |
| Non-GF Debt | \$14.4 | \$15.4 | \$16.6 |

- Free cash flow reflects solid working capital performance, offset by higher cash taxes and capital expenditures
- Free cash flow realization ~111%** over last 12 months

- Positioned to support business over the longer term

\$ in billions

*Excludes Global Financing receivables

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

***Reflects adoption of the FASB guidance on restricted cash, Dec 17 and Jun 17 recast



Summary

- IBM's differentiated value proposition is driven by innovative technologies, industry expertise, trust and security, delivered through an integrated model
- Strong revenue and profit performance in second quarter
- Maintaining full-year expectations of at least \$13.80 of operating EPS and \$12 billion of free cash flow





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Supplemental Materials

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

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



Currency – Impact on Revenue Growth

| Quarterly Averages per US \$ | 1Q18 | Yr/Yr | 2Q18 | Yr/Yr | 7/17/18 Spot | 3Q18 | 4Q18 | FY18 |
|---------------------------------------|------|-------|------|-------|-----------------|-----------|----------|--------|
| Euro | 0.81 | 13% | 0.84 | 8% | 0.86 | 0% | (1%) | 5% |
| Pound | 0.72 | 11% | 0.74 | 6% | 0.76 | 1% | (1%) | 4% |
| Yen | 108 | 5% | 109 | 2% | 113 | (2%) | 0% | 1% |
| Revenue Impact, Future @ 7/17/18 Spot | | 5 pts | | 2 pts | | (1-2 pts) | ~(1 pts) | ~1 pts |
| Prior View @ 4/16/18 Spot | | | | 4 pts | | ~2 pts | ~2 pts | ~3 pts |

| | US\$B | Yr/Yr |
|---------------------|--------|---------|
| Revenue As Reported | \$20.0 | 3.7% |
| Currency Impact | \$0.4 | 2.1 pts |
| Revenue @ CC | | 1.6% |

Supplemental Materials



Strategic Imperatives Revenue

| Strategic Imperatives Revenue | 2Q18 | Yr/Yr |
|-------------------------------|---------------|------------|
| Total | \$10.1 | 13% |
| Analytics | \$5.4 | 5% |
| Cloud | \$4.7 | 18% |
| <i>aaS annual run rate</i> | <i>\$11.1</i> | <i>24%</i> |
| Mobile | \$1.3 | 3% |
| Security | \$1.0 | 79% |
| Social | \$0.2 | (18%) |

- Growth accelerated in 2Q18, led by security and cloud
- Strategic Imperatives revenue of \$39B over last 12 months, 48% of IBM revenue
- Cloud revenue of \$18.5B over last 12 months, up 23% at actual rates, 23% of IBM revenue

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud

Supplemental Materials



Geographic Revenue

| Geography Revenue | 2Q18 | Yr/Yr |
|--------------------------|-------------|--------------|
| Americas | \$9.2 | 1% |
| Europe/ME/Africa | \$6.4 | 4% |
| Asia Pacific | \$4.4 | Flat |

- Broad-based performance across geographies and markets
- Americas reflects continued growth in Latin America and modest growth in US
- E/ME/A accelerated to 4%, led by Germany, UK, France, Spain, and growth across business areas
- Asia Pacific yr/yr performance consistent with 1Q18, Japan improved to +1%

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Segment Revenue & Gross Profit

| Segment Revenue & Gross Profit Metrics - 2Q18 | 2Q18 Revenue | Yr/Yr | 2Q18 GP% | Yr/Yr |
|--|-----------------|-------------|--------------|------------------|
| Cognitive Solutions | \$4.6 | (1%) | 77.7% | (1.3 pts) |
| Solutions Software | \$3.2 | (1%) | | |
| Transaction Processing Software | \$1.4 | (2%) | | |
| Global Business Services | \$4.2 | Flat | 25.9% | 1.3 pts |
| Consulting | \$1.9 | 4% | | |
| Global Process Services | \$0.3 | (3%) | | |
| Application Management | \$1.9 | (3%) | | |
| Technology Services & Cloud Platforms | \$8.6 | Flat | 39.4% | (1.0 pts) |
| <i>Global Technology Services</i> | <i>\$7.5</i> | <i>Flat</i> | <i>33.2%</i> | <i>(1.2 pts)</i> |
| Infrastructure Services | \$5.8 | 1% | | |
| Technical Support Services | \$1.7 | (4%) | | |
| Integration Software | \$1.1 | 1% | 81.9% | (0.1 pts) |
| Systems | \$2.2 | 23% | 50.6% | (2.1 pts) |
| Systems Hardware | \$1.8 | 31% | 42.9% | 1.1 pts |
| Operating Systems Software | \$0.4 | (1%) | 82.4% | (4.7 pts) |
| Global Financing | \$0.4 | (6%) | 26.6% | (4.2 pts) |

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Additional Revenue & Backlog Information

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| | 2Q18 | Yr/Yr |
|---------------------------------|--------------|------------|
| Systems Hardware Revenue | \$1.8 | 31% |
| IBM Z | | 112% |
| Power | | 4% |
| Storage | | 2% |

| | 2Q18 | Yr/Yr |
|-------------------------|---------------|-------------|
| Signings | \$11.5 | 6% |
| Services Backlog | \$116 | (1%) |
| Backlog Yr/Yr @Actual | | (2%) |

Growth rates @CC, \$ in billions, Services Backlog calculated using June 30 currency spot rates

Supplemental Materials



Expense Summary

| Expense Metrics | 2Q18 | B/(W) | Currency | Acq.* | Base** |
|---|--------------|-----------|----------------|--------------|--------------|
| | | Yr/Yr | | | |
| SG&A – Operating | \$4.7 | 3% | (1 pts) | 0 pts | 5 pts |
| RD&E – Operating | \$1.4 | 5% | (1 pts) | 0 pts | 6 pts |
| IP and Custom Development Income | (\$0.3) | (31%) | | | |
| Other (Income)/Expense | (\$0.1) | 44% | | | |
| Interest Expense | \$0.2 | (18%) | | | |
| Operating Expense & Other Income | \$5.9 | 2% | (2 pts) | 0 pts | 4 pts |

- Continuing to invest to build innovation pipeline in areas including AI, security, blockchain
- Yr/yr performance reflects operational efficiencies in SG&A and RD&E, mitigated by currency impact and lower level of IP income

\$ 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

| | Jun 18 | Dec 17 | Jun 17 |
|-------------------------------|---------|---------|---------|
| Cash & Marketable Securities* | \$11.9 | \$12.8 | \$12.5 |
| Non-GF Assets*, ** | \$72.4 | \$74.2 | \$73.9 |
| Global Financing Assets* | \$37.3 | \$38.3 | \$34.1 |
| Total Assets | \$121.6 | \$125.4 | \$120.5 |
| Other Liabilities | \$57.5 | \$60.8 | \$56.3 |
| Non-GF Debt** | \$14.4 | \$15.4 | \$16.6 |
| Global Financing Debt | \$31.1 | \$31.4 | \$29.0 |
| Total Debt | \$45.5 | \$46.8 | \$45.7 |
| Total Liabilities | \$103.0 | \$107.6 | \$102.0 |
| Equity | \$18.6 | \$17.7 | \$18.5 |
| Global Financing Leverage | 9.0 | 9.0 | 9.0 |

\$ in billions

*Reflects adoption of the FASB guidance on restricted cash, Dec 17 and Jun 17 recast

**includes eliminations of inter-company activity

Supplemental Materials



Cash Flow Summary

| | QTD 2Q18 | B/(W) Yr/Yr | YTD 2Q18 | B/(W) Yr/Yr |
|--|--------------|----------------|--------------|----------------|
| Net Cash from Operations | \$2.3 | (\$1.2) | \$6.9 | (\$0.5) |
| Less: Global Financing Receivables | (\$0.6) | (\$0.7) | \$1.8 | (\$0.4) |
| Net Cash from Operations (excluding GF Receivables) | \$2.9 | (\$0.4) | \$5.1 | (\$0.1) |
| Net Capital Expenditures | (\$1.0) | (\$0.3) | (\$1.9) | (\$0.3) |
| Free Cash Flow (excluding GF Receivables) | \$1.9 | (\$0.7) | \$3.2 | (\$0.4) |
| Acquisitions | (\$0.1) | \$0.0 | (\$0.1) | \$0.0 |
| Divestitures | \$0.0 | (\$0.0) | \$0.0 | (\$0.0) |
| Dividends | (\$1.4) | (\$0.0) | (\$2.8) | (\$0.1) |
| Share Repurchases (Gross) | (\$1.0) | \$0.4 | (\$1.8) | \$1.0 |
| Non-GF Debt | (\$0.1) | (\$2.2) | (\$0.6) | (\$3.0) |
| Other (includes GF Net A/R & GF Debt)* | (\$0.6) | (\$0.4) | \$1.2 | (\$2.2) |
| Change in Cash & Marketable Securities* | (\$1.2) | (\$2.9) | (\$0.9) | (\$4.7) |

\$ in billions

*Reflects adoption of the FASB guidance on restricted cash, 2017 recast

Supplemental Materials



Cash Flow (ASC 230)

| | QTD 2Q18 | QTD 2Q17 | YTD 2Q18 | YTD 2Q17 |
|---|----------------|----------------|----------------|----------------|
| Net Income from Operations | \$2.4 | \$2.3 | \$4.1 | \$4.1 |
| Depreciation / Amortization of Intangibles | \$1.1 | \$1.1 | \$2.2 | \$2.2 |
| Stock-based Compensation | \$0.1 | \$0.1 | \$0.2 | \$0.3 |
| Working Capital / Other | (\$0.8) | (\$0.3) | (\$1.4) | (\$1.4) |
| Global Financing A/R | (\$0.6) | \$0.2 | \$1.8 | \$2.2 |
| Net Cash provided by Operating Activities | \$2.3 | \$3.5 | \$6.9 | \$7.4 |
| Capital Expenditures, net of payments & proceeds | (\$1.0) | (\$0.7) | (\$1.9) | (\$1.6) |
| Divestitures, net of cash transferred | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Acquisitions, net of cash acquired | (\$0.1) | (\$0.1) | (\$0.1) | (\$0.2) |
| Marketable Securities / Other Investments, net* | \$0.4 | (\$0.9) | (\$0.4) | \$0.3 |
| Net Cash used in Investing Activities* | (\$0.6) | (\$1.7) | (\$2.4) | (\$1.4) |
| Debt, net of payments & proceeds | (\$0.0) | \$2.3 | (\$0.8) | \$2.8 |
| Dividends | (\$1.4) | (\$1.4) | (\$2.8) | (\$2.7) |
| Common Stock Repurchases | (\$1.0) | (\$1.4) | (\$1.8) | (\$2.7) |
| Common Stock Transactions - Other | (\$0.1) | (\$0.1) | (\$0.1) | (\$0.0) |
| Net Cash used in Financing Activities | (\$2.5) | (\$0.6) | (\$5.4) | (\$2.7) |
| Effect of Exchange Rate changes on Cash | (\$0.4) | \$0.4 | (\$0.3) | \$0.5 |
| Net Change in Cash & Cash Equivalents* | (\$1.3) | \$1.6 | (\$1.3) | \$3.9 |

\$ in billions

*Reflects adoption of the FASB guidance on restricted cash, 2Q17 recast

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Operating Earnings Per Share

2018

Expectations

| | |
|--------------------------|------------------|
| GAAP Diluted EPS | at least \$11.60 |
| Operating EPS (Non-GAAP) | at least \$13.80 |

Adjustments

| | |
|--|--------|
| Acquisition-Related Charges* | \$0.78 |
| Non-Operating Retirement-Related Items | \$1.32 |
| Tax Reform Enactment Charge Adjustment | \$0.10 |

*Includes acquisitions as of June 30, 2018

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 July 18, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 2Q 2018

| | 2Q18 Yr/Yr | |
|------------------|------------|------|
| | GAAP | @CC |
| Americas | Flat | 1% |
| Europe/ME/Africa | 11% | 4% |
| Asia Pacific | 2% | Flat |
| U.S. | Flat | Flat |
| Japan | 3% | 1% |
| LA | (3%) | 3% |

The above reconciles the Non-GAAP financial information contained in the “Geographic Revenue” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated July 18, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 2Q 2018

| | 2Q18 Yr/Yr | |
|----------------------------|------------|-------|
| | GAAP | @CC |
| Strategic Imperatives | 15% | 13% |
| Analytics | 7% | 5% |
| Cloud | 20% | 18% |
| <i>aaS annual run rate</i> | 26% | 24% |
| Mobile | 5% | 3% |
| Security | 81% | 79% |
| Social | (17%) | (18%) |

The above reconciles the Non-GAAP financial information contained in the “Strategic Imperatives Revenue” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated July 18, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 2Q 2018

| | 2Q18 Yr/Yr | | | 2Q18 Yr/Yr | |
|---------------------------------|-------------|-------------|--|-------------|-------------|
| | GAAP | @CC | | GAAP | @CC |
| Cognitive Solutions | Flat | (1%) | Tech Svcs & Cloud Platforms | 2% | Flat |
| Solutions Software | 1% | (1%) | Global Technology Services | 2% | Flat |
| Transaction Processing Software | Flat | (2%) | Infrastructure Services | 4% | 1% |
| Strategic Imperatives | 1% | Flat | Technical Support Services | (2%) | (4%) |
| Cloud | Flat | (1%) | Integration Software | 3% | 1% |
| Global Business Services | 2% | Flat | Strategic Imperatives | 26% | 24% |
| Consulting | 6% | 4% | Cloud | 30% | 27% |
| Global Process Services | (1%) | (3%) | Systems | 25% | 23% |
| Application Management | (1%) | (3%) | Systems Hardware | 32% | 31% |
| Strategic Imperatives | 8% | 6% | z Systems | 114% | 112% |
| Cloud | 10% | 8% | Power | 5% | 4% |
| | | | Storage | 4% | 2% |
| | | | Operating Systems Software | Flat | (1%) |
| | | | Strategic Imperatives | 57% | 55% |
| | | | Cloud | 30% | 28% |
| | | | Global Financing | (5%) | (6%) |

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, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 2Q 2018

| | 2Q18 Yr/Yr | |
|---|------------|-----|
| | GAAP | @CC |
| as-a-Service - Global Business Services | 27% | 25% |
| as-a-Service - Tech Services & Cloud Platform | 33% | 30% |

The above reconciles the Non-GAAP financial information contained in the “2Q18 Prepared Remarks” and “Technology Services & Cloud Platforms Segment” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated July 18, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 2Q 2018

| | GAAP | Non-GAAP Adjustments | Operating (Non-GAAP) |
|---|---------|-------------------------|-------------------------|
| SG&A | | | |
| Currency | (1 pts) | 0 pts | (1 pts) |
| Acquisitions | 0 pts | 0 pts | 0 pts |
| Base * | 5 pts | 0 pts | 5 pts |
| RD&E | | | |
| Currency | (1 pts) | 0 pts | (1 pts) |
| Acquisitions | 0 pts | 0 pts | 0 pts |
| Base * | 6 pts | 0 pts | 6 pts |
| Operating Expense & Other Income | | | |
| Currency | (2 pts) | 0 pts | (2 pts) |
| Acquisitions | 0 pts | 0 pts | 0 pts |
| Base* | 4 pts | 1 pts | 4 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 July 18, 2018 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 Jun 2018 |
|--|--------------------------------|
| Net Cash from Operating Activities per GAAP: | \$16.2 |
| Less: the change in Global Financing (GF) Receivables | (\$0.0) |
| Net Cash from Operating Activities (Excluding GF Receivables) | \$16.2 |
| Capital Expenditures, Net | (\$3.6) |
| Free Cash Flow (Excluding GF Receivables) | \$12.6 |

\$ 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, 2018 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

| | LTM | LTM Excluding Tax Reform* |
|----------------------------|------|------------------------------|
| Free Cash Flow Realization | 219% | ~111% |

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 July 18, 2018 for additional information on the use of these Non-GAAP financial measures.

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

Supplemental Materials





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