

IBM 2Q 2020 Earnings

July 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 July 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 July 20, 2020. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/ibm-2q-2020-earnings-announcement>

Arvind Krishna

Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO Perspective

“Our clients see the value of IBM’s hybrid cloud platform, based on open technologies, at a time of unprecedented business disruption.

We are committed to building, with a growing ecosystem of partners, an enduring hybrid cloud platform that will serve as a powerful catalyst for innovation for our clients and the world.”

- Arvind Krishna, IBM CEO



Current Environment



Hybrid Cloud Platform



Progress on
Strategic Priorities

Positioned for the Current Environment and Beyond

Client Base & Portfolio

- Large enterprise incumbency
- Favorable industry concentration
- Broad geographic footprint
- Recurring revenue base

Operating Model

- Simplifying go-to-market
- Enabling virtual selling
- Creating dynamic delivery model
- Expanding ecosystem

Financial Profile

- High-value business model
- Strong balance sheet
- Ample liquidity & access to capital
- Increased dividend

2Q20 Highlights

\$18.1B

Revenue

\$2.18

Operating (non-GAAP) EPS

\$11.5B

Free Cash Flow LTM



**Cloud
Strength**

+34% @cc
Revenue Growth

\$23B
LTM Revenue



**Red Hat
Momentum**

+18% @cc
Revenue Growth

>2,400
Container platform
clients



**High Value
Model**

60%
Recurring Revenue

1.6 pts
Gross Margin Expansion



**Solid Cash
Generation**

\$14B
Cash Balance

146%
FCF Realization (LTM)

Cloud & Cognitive Software

Growth in Cloud & Data Platform led by Red Hat and Cloud Paks

Cognitive Applications and Transaction Processing Platforms impacted by economic environment

Profit reflects Red Hat purchase accounting and other transaction-related adjustments

Revenue

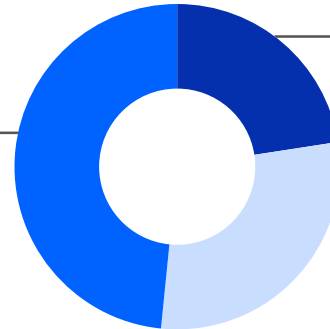
\$5.7B

Revenue Growth

5%

Segment Elements

Cloud & Data Platforms
+30% yr/yr
includes Red Hat



Cognitive Applications
(8%) yr/yr

Transaction Processing Platforms
(14%) yr/yr

Global Business Services

Digital transformation drives acceleration in cloud

Continued scaling of Red Hat engagements

Clients deprioritizing discretionary spending and projects with longer-term paybacks

Strong gross margin expansion

Revenue

\$3.9B

(6%) yr/yr

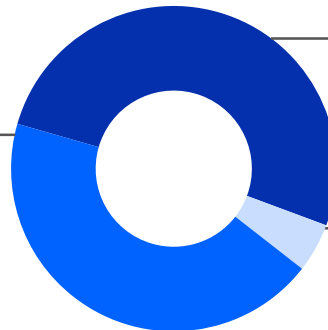
Gross Margin

28.4%

+2.4 pts yr/yr

Segment Elements

Application Management
(8%) yr/yr



Consulting
(3%) yr/yr

Global Process Services
(12%) yr/yr

Global Technology Services

Revenue impacted by lower volumes in challenged industries

Digital transformation drives cloud revenue growth

Continued signings momentum with 2Q signings and 1H signings growth

Revenue

\$6.3B

(5%) yr/yr

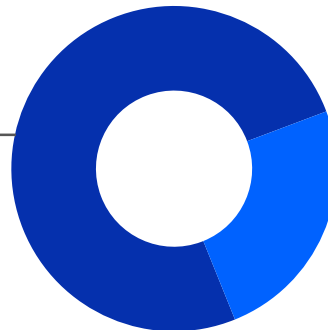
Gross Margin

34.2%

(0.3) pts yr/yr

Segment Elements

Infrastructure &
Cloud Services
(5%) yr/yr



Technology
Support
Services
(6%) yr/yr

Systems

IBM Z and Storage growth reflects client demand for resiliency and offering innovation

Power performance driven by product cycle dynamics

Gross margin expansion benefits from IBM Z and Storage product cycle

Revenue

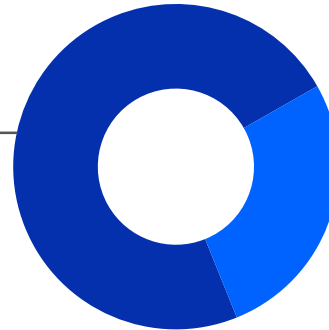
\$1.9B

Revenue Growth

6%

Segment Elements

Systems Hardware
+13% yr/yr



Operating
Systems
Software
(13%) yr/yr

Summary

Positioned to Emerge Stronger

- Current environment provides near-term challenges and longer-term opportunities
- Compelling offerings aligned to hybrid cloud and AI
- Strong second half pipeline; results will be influenced by rate and pace of economic recovery
- Solid financial profile and ample liquidity



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Supplemental Materials

- Currency – Impact on Revenue Growth
- Revenue and P&L Highlights
- Services Segments Details
- Software & Systems Segment Details
- 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
Supplemental Materials



Currency – Impact on Revenue Growth

Quarterly Averages per US \$	1Q20	Yr/Yr	2Q20	Yr/Yr	7/17/2020	3Q20	4Q20	FY20
					Spot			
Euro	0.91	(3%)	0.91	(2%)	0.88	3%	3%	0%
Pound	0.78	(2%)	0.81	(4%)	0.80	2%	(3%)	(2%)
Yen	109	1%	108	2%	107	0%	1%	1%
Revenue Impact, Future @ 7/17/20 Spot				(1.5 pts)		(0-1 pts)	(0-1 pts)	(1-1.5 pts)

	US\$B	Yr/Yr
Revenue As Reported	18.1	(5.4%)
Currency Impact	(0.3)	(1.5 pts)
Revenue @ CC		(3.9%)

Revenue and P&L Highlights

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

Revenue Highlights	2Q20	B/(W) Yr/Yr*
Revenue	\$18.1	(1.9%)
Cloud	\$6.3	34%

Geography Revenue	2Q20	B/(W) Yr/Yr*
Americas	\$8.5	Flat
Europe/ME/Africa	\$5.7	(3%)
Asia Pacific	\$4.0	(4%)

Operating P&L Highlights \$	2Q20	B/(W) Yr/Yr
Gross Profit	\$8.9	(2%)
Expense	\$6.6	(11%)
Pre-Tax Income	\$2.3	(27%)
Net Income	\$1.9	(31%)
Earnings Per Share	\$2.18	(31%)

Operating P&L Highlights %	2Q20	B/(W) Yr/Yr
Gross Profit Margin	49.0%	1.6 pts
Expense E/R	36.3%	(5.4 pts)
Pre-Tax Margin	12.8%	(3.8 pts)
Net Income	10.8%	(4.0 pts)
Tax Rate	15.9%	(4.9 pts)

Revenue growth rates @CC, \$ in billions

*Yr/Yr excludes impact of divested businesses

Supplemental Materials



Services Segments Details

GBS Segment	2Q20	B/(W) Yr/Yr	GTS Segment	2Q20	B/(W) Yr/Yr
Revenue (External)	\$3.9	(6%)	Revenue (External)	\$6.3	(5%)
Consulting	\$1.9	(3%)	Infrastructure & Cloud Services	\$4.8	(5%)
Global Process Services	\$0.2	(12%)	Technology Support Services	\$1.5	(6%)
Application Management	\$1.7	(8%)	Gross Profit Margin (External)	34.2%	(0.3 pts)
Gross Profit Margin (External)	28.4%	2.4 pts	Pre-Tax Income	\$0.2	6%
Pre-Tax Income	\$0.4	25%	<i>impact of workforce rebalancing</i>	(\$0.1)	33 pts
<i>impact of workforce rebalancing</i>		18 pts	Pre-Tax Income Margin	3.8%	0.5 pts
Pre-Tax Income Margin	9.2%	2.4 pts	<i>impact of workforce rebalancing</i>	(1 pts)	2 pts
<i>impact of workforce rebalancing</i>	(1 pts)	1 pts	Cloud Revenue (External)	\$2.4	20%
Cloud Revenue (External)	\$1.4	13%			
					B/(W)
			Services Signings & Backlog	2Q20	Yr/Yr
			Signings	\$8.2	(14%)
			Backlog	\$107.1	(1%)
			Backlog Yr/Yr @Actual		(4%)

Revenue & Signings growth rates @CC, \$ in billions, Services Backlog calculated using June 30 currency spot rates, Signings & Backlog includes Security Services
 Supplemental Materials



Software and Systems Segment Details

Cloud & Cognitive Software Segment	2Q20	B/(W) Yr/Yr	Systems Segment	2Q20	B/(W) Yr/Yr
Revenue (External)	\$5.7	5%	Revenue (External)	\$1.9	6%
Cognitive Applications	\$1.2	(8%)	Systems Hardware	\$1.5	13%
Cloud & Data Platforms	\$2.8	30%	IBM Z		68%
Transaction Processing Platforms	\$1.7	(14%)	Power		(28%)
Pre-Tax Income	\$1.7	(15%)	Storage		3%
<i>impact of workforce rebalancing</i>		4 pts	Operating Systems Software	\$0.4	(13%)
Pre-Tax Income Margin	26.3%	(6.2 pts)	Gross Profit Margin (External)	57.8%	4.3 pts
<i>impact of workforce rebalancing</i>		2 pts	Systems Hardware	51.9%	8.3 pts
Cloud Revenue (External)	\$1.6	116%	Operating Systems Software	82.0%	(2.3 pts)
			Pre-Tax Income	\$0.2	305%
			<i>impact of workforce rebalancing</i>		123 pts
<i>Segment results reflect impact of transaction-related adjustments associated with the Red Hat acquisition</i>			Pre-Tax Income Margin	11.8%	8.7 pts
			<i>impact of workforce rebalancing</i>		1 pts
			Cloud Revenue (External)	\$0.8	22%

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Expense Summary

Expense	2Q20	B/(W) Yr/Yr	Currency	Acq/ Divest**	Base***
SG&A – Operating	\$5.0*	6%*	1 pts	(7 pts)	12 pts
RD&E	\$1.6	(12%)	1 pts	(13 pts)	0 pts
IP and Custom Development Income	(\$0.2)	(9%)			
Other (Income)/Expense - Operating	(\$0.1)	(88%)*			
Interest Expense – Operating	\$0.3	(80%)			
Operating Expense & Other Income	\$6.6	(11%)	0 pts	(22 pts)	11 pts

\$ in billions

*2Q20 SG&A includes ~\$140M workforce rebalancing; 2Q19 SG&A includes \$495M workforce rebalancing and ~\$85M other charges offset by ~\$580M divestiture gains in Other (Income)/Expense

**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

Balance Sheet Summary

	Jun 20	Dec 19	Jun 19^{**}
Cash & Marketable Securities	\$14.3	\$9.0	\$46.4
Core (non-GF) Assets*	\$115.2	\$115.3	\$79.0
Global Financing Assets	\$24.7	\$27.9	\$29.3
Total Assets	\$154.2	\$152.2	\$154.7
Other Liabilities	\$68.8	\$68.3	\$63.8
Core (non-GF) Debt*	\$42.8	\$38.2	\$48.1
Global Financing Debt	\$21.9	\$24.7	\$25.0
Total Debt	\$64.7	\$62.9	\$73.0
Total Liabilities	\$133.5	\$131.2	\$136.9
Equity	\$20.7	\$21.0	\$17.8

\$ in billions

*includes eliminations of inter-company activity

**pre-Red Hat acquisition close

Supplemental Materials



Cash Flow Summary

	QTD 2Q20	B/(W) Yr/Yr	YTD 2Q20	B/(W) Yr/Yr
Net Cash from Operations	\$3.6	\$0.6	\$8.1	\$0.4
Less: Global Financing Receivables	\$0.6	\$0.5	\$3.0	\$0.4
Net Cash from Operations (excluding GF Receivables)	\$3.0	\$0.2	\$5.1	(\$0.0)
Net Capital Expenditures	(\$0.7)	(\$0.3)	(\$1.4)	(\$0.4)
Free Cash Flow (excluding GF Receivables)	\$2.3	(\$0.1)	\$3.6	(\$0.4)
Acquisitions	(\$0.0)	\$0.0	(\$0.0)	\$0.0
Divestitures	\$0.7	(\$0.1)	\$0.8	(\$0.1)
Dividends	(\$1.5)	(\$0.0)	(\$2.9)	(\$0.1)
Share Repurchases (Gross)	-	\$0.3	-	\$1.2
Non-GF Debt	\$0.5	(\$27.1)	\$4.0	(\$29.4)
Other (includes GF Net A/R & GF Debt)	\$0.2	\$0.9	(\$0.2)	(\$0.1)
Change in Cash & Marketable Securities	\$2.2	(\$26.0)	\$5.2	(\$28.9)

Cash Flow (ASC 230)

	QTD 2Q20	QTD 2Q19	YTD 2Q20	YTD 2Q19
Net Income from Operations	\$1.4	\$2.5	\$2.5	\$4.1
Depreciation / Amortization of Intangibles	\$1.7	\$1.3	\$3.3	\$2.7
Stock-based Compensation	\$0.2	\$0.1	\$0.4	\$0.2
Working Capital / Other	(\$0.3)	(\$1.1)	(\$1.2)	(\$2.0)
Global Financing A/R	\$0.6	\$0.1	\$3.0	\$2.6
Net Cash provided by Operating Activities	\$3.6	\$2.9	\$8.1	\$7.7
Capital Expenditures, net of payments & proceeds	(\$0.7)	(\$0.4)	(\$1.4)	(\$1.0)
Divestitures, net of cash transferred	\$0.7	\$0.9	\$0.8	\$0.9
Acquisitions, net of cash acquired	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)
Marketable Securities / Other Investments, net	(\$1.3)	\$3.8	(\$1.4)	\$3.5
Net Cash provided by/(used in) Investing Activities	(\$1.2)	\$4.2	(\$2.1)	\$3.3
Debt, net of payments & proceeds	(\$0.0)	\$22.8	\$1.3	\$27.1
Dividends	(\$1.5)	(\$1.4)	(\$2.9)	(\$2.8)
Common Stock Repurchases	-	(\$0.3)	-	(\$1.2)
Common Stock Transactions - Other	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.1)
Net Cash provided by/(used in) Financing Activities	(\$1.6)	\$21.0	(\$1.7)	\$22.9
Effect of Exchange Rate changes on Cash	\$0.1	\$0.1	(\$0.3)	\$0.0
Net Change in Cash, Cash Equivalents & Restricted Cash	\$0.8	\$28.3	\$3.9	\$33.9

\$ in billions

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 2Q 2020

	2Q20 Yr/Yr	
	GAAP	@CC
Cloud & Cognitive Software	3%	5%
Cognitive Applications	(9%)	(8%)
Cloud & Data Platforms	29%	30%
Transaction Processing Platforms	(16%)	(14%)
Cloud	114%	116%
Global Business Services	(7%)	(6%)
Consulting	(4%)	(3%)
Global Process Services	(14%)	(12%)
Application Management	(10%)	(8%)
Cloud	12%	13%

	2Q20 Yr/Yr	
	GAAP	@CC
Global Technology Services	(8%)	(5%)
Infrastructure & Cloud Services	(7%)	(5%)
Technology Support Services	(10%)	(6%)
Cloud	18%	20%
Systems	6%	6%
Systems Hardware	12%	13%
IBM Z	69%	68%
Power	(29%)	(28%)
Storage	2%	3%
Operating Systems Software	(14%)	(13%)
Cloud	22%	22%

The above reconciles the Non-GAAP financial information contained in the “Cloud & Cognitive Software”, “Global Business Services”, “Global Technology Services”, “Systems”, “Services Segments 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 July 20, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 2Q 2020

	2Q20 Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted
Total Revenue	(5.4%)	2 pts	2 pts	(1.9%)
Americas	(4%)	2 pts	2 pts	Flat
Europe/ME/Africa	(7%)	2 pts	2 pts	(3%)
Asia Pacific	(5%)	1 pts	1 pts	(4%)
Total Cloud	30%	2 pts	2 pts	34%

The above reconciles the Non-GAAP financial information contained in the “2Q20 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 July 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 - 2Q 2020

Red Hat Revenue, Normalized for Historical Comparability	Three Months Ended		Yr/Yr	Yr/Yr@CC
	Jun 30 2020	Jun 30 2019		
Red Hat revenue as reported in IBM consolidated results (1)	\$867	\$ -		
Add: Red Hat revenue prior to acquisition (2)	-	936		
Add: Purchase accounting deferred revenue and intercompany adjustments (3)	<u>227</u>	<u>-</u>		
Red Hat revenue normalized for historical comparability (non-GAAP)	\$1,094	\$936	17%	18%

- (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 June 30, 2019 represents pre-acquisition Red Hat standalone revenue and is included for comparative purposes.
- (3) Represents the second-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 “2Q20 Highlights” and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 20, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 2Q 2020

	2Q20		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	1 pts	0 pts	1 pts
Acquisitions/Divestitures	(11 pts)	4 pts	(7 pts)
Base*	13 pts	(1 pts)	12 pts
RD&E			
Currency	1 pts	0 pts	1 pts
Acquisitions/Divestitures	(12 pts)	(1 pts)	(13 pts)
Base*	(1 pts)	1 pts	0 pts
Operating Expense & Other Income			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	(25 pts)	2 pts	(22 pts)
Base*	10 pts	1 pts	11 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 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
Jun 2020**

Net Cash from Operating Activities per GAAP:	\$15.1
Less: change in Global Financing (GF) Receivables	\$0.9
Net Cash from Operating Activities (Excluding GF Receivables)	\$14.2
Capital Expenditures, Net	(\$2.8)
Free Cash Flow (Excluding GF Receivables)	\$11.5

\$ in billions

The above reconciles the Non-GAAP financial information contained in the “2Q20 Highlights” and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 20, 2020 for additional information on the use of these Non-GAAP financial measures.



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