

IBM 2Q 2023 Earnings



July 19, 2023
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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 presentation materials, certain non-GAAP information including operating earnings and other "operating" financial measures, operating pre-tax income margin excluding the gains on the 2Q22 sale of healthcare software assets, free cash flow, net cash from operating activities excluding IBM

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 submitted to the SEC on July 19, 2023. The reconciliation of non-GAAP information to GAAP is included in the press release within Exhibit 99.1 to the company's Form 8-K submitted to the SEC on July 19, 2023, as well as on the slides entitled "Non-GAAP supplemental materials" in this presentation.

To provide better transparency, the company also discusses management performance metrics including annual recurring revenue, signings, and book-to-bill. The metrics are used to monitor the performance of the business and are viewed as useful decision-making information for management and stakeholders. The rationale for management's use of these performance metrics and their calculation are included in the Management Discussion section of the company's 2022 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 28, 2023. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-2Q23>

Arvind Krishna

Chairman and
Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO perspective

“Organizations are using our hybrid cloud and AI technology, and our consulting capabilities, to transform their operations.

We continue to respond to the needs of our clients who seek trusted, enterprise AI solutions, and we are particularly excited about the response to the recently launched watsonx AI platform. Finally, we remain confident in our revenue and free cash flow growth expectations for the full year.”

Arvind Krishna

IBM Chairman and CEO



2Q23
Performance



Hybrid cloud and
AI progress



Clients, ecosystem
and innovation

Financial highlights

2Q23

\$15.5B

Revenue

\$3.4B

Free Cash Flow YTD

“In the quarter, revenue performance was led by our growth vectors of software and consulting, and we continued to expand our gross profit margin, driven by our improving portfolio mix and productivity initiatives.

This year we have leveraged our strong cash position to invest for growth, announcing seven acquisitions to bolster our hybrid cloud and AI strategy, while continuing to return value to shareholders through dividends.”

James Kavanaugh

IBM SVP & CFO

Revenue growth rates @CC

~75%

Revenue mix
in software and consulting

8%

Software
revenue
growth

6%

Consulting
revenue
growth

~50%

Recurring revenue mix
led by high-value software

140bps

Gross margin expansion
(operating)

\$16.3B

Cash and marketable securities

Software

Solid and growing recurring revenue base;
ARR* of \$13.6 billion, +7% yr/yr

OpenShift annual recurring revenue
of \$1.1 billion

Gross and pre-tax margin expansion

\$6.6B

Revenue

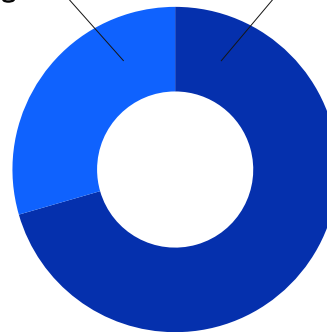
+8%

Revenue growth

Revenue categories

Transaction Processing
+10% yr/yr

Hybrid Platform
& Solutions
+7% yr/yr



Red Hat 11%
Automation 2%
Data & AI 11%
Security (1%)

2Q23 results; revenue growth rates @CC

*Annual recurring revenue for Hybrid Platform & Solutions, growth rate @CC

Consulting

Technology-driven transformations driving broad-based growth

Red Hat and strategic partnerships continue double-digit growth

Book-to-bill ratio of 1.1 for the last year

Gross and pre-tax margin expansion

\$5.0B

Revenue

+6%

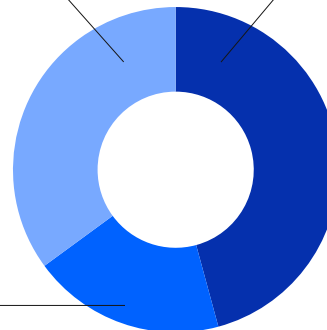
Revenue growth

Revenue categories

Application Operations
+8% yr/yr

Business Transformation
+5% yr/yr

Technology Consulting
+5% yr/yr



Infrastructure

Infrastructure performance reflects wrap on product innovation cycles

z16 revenue performance exceeding prior programs

Gross profit margin expansion; pre-tax margin impacted by currency

\$3.6B

Revenue

(14%)

Revenue growth

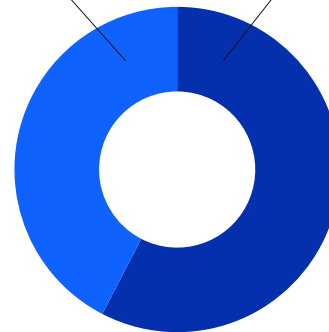
Revenue categories

Infrastructure Support
(6%) yr/yr

Hybrid
Infrastructure
(18%) yr/yr

zSystems (30%)

Distributed
Infrastructure (6%)



Summary

2Q23 Summary

Continued client demand for digital transformations

Momentum in growth vectors of software and consulting

Portfolio mix and productivity support improving margin dynamics

Higher-growth, higher-value business with strong cash generation

2023 Expectations

Revenue growth of 3% to 5% @CC

Free cash flow of ~\$10½ billion, up >\$1 billion yr/yr

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Supplemental material

- Revenue and P&L highlights
- Cash flow and balance sheet highlights
- Currency impact on revenue growth
- Software & Infrastructure segment details
- Consulting segment details
- Expense summary
- Balance sheet summary
- Cash flow summary
- Cash flow (ASC 230)
- Software segment revenue categories
- Consulting segment revenue categories
- Infrastructure segment revenue categories
- Non-GAAP supplemental materials

Revenue and P&L highlights

Revenue highlights	2Q23	B/(W) Yr/Yr
Revenue	\$15.5	Flat
Americas	\$8.0	Flat
Europe/ME/Africa	\$4.6	Flat
Asia Pacific	\$2.8	3%

Operating P&L highlights \$	2Q23	B/(W) Yr/Yr*
Gross profit	\$8.7	2%
Expense	\$6.3	(5%)
Pre-tax income	\$2.4	(5%)
Net income	\$2.0	(5%)
Earnings per share	\$2.18	(6%)

Operating P&L highlights %	2Q23	B/(W) Yr/Yr*
Gross profit margin	55.9%	1.4 pts
Expense E/R	40.4%	(2.1 pts)
Pre-tax income margin	15.5%	(0.7 pts)
Net income margin	12.9%	(0.6 pts)
Tax rate	16.4%	0.0 pts

Revenue growth rates @CC, \$ in billions

*Yr/Yr includes impact from the gains on the 2Q22 sale of healthcare software assets: Pre-tax income (9 pts), Net income (9 pts), EPS (9 pts), Pre-tax income margin (1.4 pts), Net income margin (1.2 pts)

Cash flow and balance sheet highlights

Cash flow	2Q23 YTD	Yr/Yr*
Net cash from operations**	\$4.4	\$0.2
Free cash flow***	\$3.4	\$0.1

Selected uses of cash	2Q23 YTD	Yr/Yr*
Net capital expenditures	\$0.9	\$0.1
Acquisitions	\$0.4	(\$0.6)
Dividends	\$3.0	\$0.0

Balance sheet	Jun 23	Dec 22	Jun 22
Cash & marketable securities	\$16.3	\$8.8	\$7.8
Total debt	\$57.5	\$50.9	\$50.3

Selected debt measures	Jun 23	Dec 22	Jun 22
IBM Financing debt	\$10.6	\$12.9	\$12.3
Core (non-IBM Financing) debt	\$46.9	\$38.1	\$38.0

\$ in billions

*2Q22 YTD includes immaterial cash flows from discontinued operations

**Non-GAAP financial measure; excludes Financing receivables

***Non-GAAP financial measure; adjusts for Financing receivables and net capital expenditures

Currency impact on revenue growth

Quarterly averages per US \$	1Q23	Yr/Yr	2Q23	Yr/Yr	Spot 7/18/23	3Q23	4Q23	FY23
Euro	0.93	(5%)	0.92	2%	0.89	10%	9%	4%
Pound	0.82	(10%)	0.80	(0%)	0.76	10%	10%	3%
Yen	132	(14%)	137	(6%)	139	(1%)	2%	(4%)
Revenue impact, future @ 7/18/23 Spot				(1 pts)		2-3 pts	~3 pts	~0 pts
<i>Prior view @ 4/18/23 Spot</i>				(0-1 pts)		2-3 pts	2-3 pts	~0 pts

	US \$B	Yr/Yr
Revenue as reported	\$15.5	(0.4%)
Currency impact	(\$0.1)	(0.8 pts)
Revenue @CC		0.4%

Software & Infrastructure segment details

Software segment	2Q23	B/(W) Yr/Yr
Revenue	\$6.6	8%
Hybrid Platform & Solutions	\$4.7	7%
Red Hat		11%
Automation		2%
Data & AI		11%
Security		(1%)
Transaction Processing	\$1.9	10%
Pre-tax income	\$1.5	9%
Pre-tax income margin	22.8%	0.5 pts
Annual recurring revenue*	\$13.6	7%

Infrastructure segment	2Q23	B/(W) Yr/Yr
Revenue	\$3.6	(14%)
Hybrid Infrastructure	\$2.3	(18%)
zSystems		(30%)
Distributed Infrastructure		(6%)
Infrastructure Support	\$1.4	(6%)
Pre-tax income	\$0.6	(16%)
Pre-tax income margin	17.5%	(0.4 pts)

Revenue growth rates @CC, \$ in billions

*Annual recurring revenue for Hybrid Platform & Solutions, growth rate @CC

Consulting segment details

Consulting segment	2Q23	B/(W) Yr/Yr
Revenue	\$5.0	6%
Business Transformation	\$2.3	5%
Technology Consulting	\$1.0	5%
Application Operations	\$1.8	8%
Gross profit margin	25.9%	1.8 pts
Pre-tax income	\$0.4	30%
Pre-tax income margin	8.9%	1.8 pts
Signings	\$5.7	24%
Book-to-bill ratio (TTM)	1.1	

Revenue & signings growth rates @CC, \$ in billions

Expense summary

Expense	2Q23	B/(W) Yr/Yr	Currency	Acq/ Divest**	Base***
SG&A – operating	\$4.7	(2%)	1 pts	1 pts	(3 pts)
RD&E	\$1.7	(1%)	1 pts	3 pts	(5 pts)
IP and custom development income	(\$0.2)	41%			
Other (income)/expense - operating	(\$0.3)	(37%)			
Interest expense	\$0.4	(42%)			
Operating expense & other income	\$6.3	(5%)*	(2 pts)	(2 pts)*	(1 pts)

\$ in billions

*Yr/Yr includes impact from the gains on the 2Q22 sale of healthcare software assets (4 pts)

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

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

Balance sheet summary

	Jun 23	Dec 22	Jun 22
Cash & marketable securities	\$16.3	\$8.8	\$7.8
Core (non-IBM Financing) assets*	\$103.4	\$103.4	\$105.4
IBM Financing assets	\$12.5	\$15.0	\$14.3
Total assets	\$132.2	\$127.2	\$127.5
Other liabilities	\$52.5	\$54.3	\$57.7
Core (non-IBM Financing) debt*	\$46.9	\$38.1	\$38.0
IBM Financing debt	\$10.6	\$12.9	\$12.3
Total debt	\$57.5	\$50.9	\$50.3
Total liabilities	\$109.9	\$105.2	\$108.0
Equity	\$22.3	\$22.0	\$19.5

\$ in billions

*includes eliminations of inter-company activity

Cash flow summary

	QTD 2Q23	B/(W) Yr/Yr*	YTD 2Q23	B/(W) Yr/Yr*
Net cash from operations	\$2.6	\$1.3	\$6.4	\$1.8
Less: IBM Financing receivables	\$0.1	\$1.3	\$2.0	\$1.7
Net cash from operations (excluding IBM Financing receivables)	\$2.6	\$0.0	\$4.4	\$0.2
Net capital expenditures	(\$0.5)	\$0.0	(\$0.9)	(\$0.1)
Free cash flow (excluding IBM Financing receivables)	\$2.1	\$0.0	\$3.4	\$0.1
Acquisitions	(\$0.3)	(\$0.1)	(\$0.4)	\$0.6
Divestitures	\$0.0	(\$1.2)	\$0.0	(\$1.3)
Dividends	(\$1.5)	(\$0.0)	(\$3.0)	(\$0.0)
Non-IBM Financing debt	(\$1.2)	\$1.8	\$8.5	\$6.8
Other (includes IBM Financing net A/R & IBM Financing debt)	(\$0.3)	\$1.3	(\$1.1)	\$1.1
Change in cash & marketable securities	(\$1.3)	\$1.7	\$7.5	\$7.3

\$ in billions

*2Q22 QTD/YTD includes immaterial cash flows from discontinued operations

Cash flow (ASC230)

	QTD	QTD	YTD	YTD
	2Q23	2Q22	2Q23	2Q22
Net income from operations	\$1.6	\$1.4	\$2.5	\$2.1
Depreciation / amortization of intangibles	\$1.1	\$1.2	\$2.2	\$2.5
Stock-based compensation	\$0.3	\$0.3	\$0.6	\$0.5
Working capital / other	(\$0.4)	(\$0.3)	(\$0.8)	(\$0.9)
IBM Financing A/R	\$0.1	(\$1.3)	\$2.0	\$0.4
Net cash provided by operating activities	\$2.6	\$1.3	\$6.4	\$4.6
Capital expenditures, net of payments & proceeds	(\$0.5)	(\$0.5)	(\$0.9)	(\$0.9)
Divestitures, net of cash transferred	\$0.0	\$1.2	\$0.0	\$1.3
Acquisitions, net of cash acquired	(\$0.3)	(\$0.3)	(\$0.4)	(\$1.0)
Marketable securities / other investments, net	\$0.8	(\$0.3)	(\$6.7)	(\$0.6)
Net cash provided by/(used in) investing activities	\$0.0	\$0.2	(\$8.0)	(\$1.2)
Debt, net of payments & proceeds	(\$1.1)	(\$2.5)	\$6.2	\$0.4
Dividends	(\$1.5)	(\$1.5)	(\$3.0)	(\$3.0)
Financing - other	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.3)
Net cash provided by/(used in) financing activities	(\$2.7)	(\$4.2)	\$3.0	(\$2.8)
Effect of exchange rate changes on cash	(\$0.0)	(\$0.3)	(\$0.0)	(\$0.3)
Net change in cash, cash equivalents & restricted cash	(\$0.1)	(\$3.0)	\$1.4	\$0.3

\$ in billions
 2Q22 QTD/YTD includes immaterial cash flows from discontinued operations

Software segment categories

Revenue categories

Hybrid Platform & Solutions

Software, infused with AI, to help clients operate, manage, and optimize their IT resources and business processes within hybrid, multi-cloud environments

Red Hat: incl. RHEL, OpenShift, Ansible

Automation: incl. business automation, AIOps and management, integration, and application servers

Data & AI: incl. data fabric, customer care, data management, business analytics, dataops & governance, asset & supply chain management, information exchange and weather

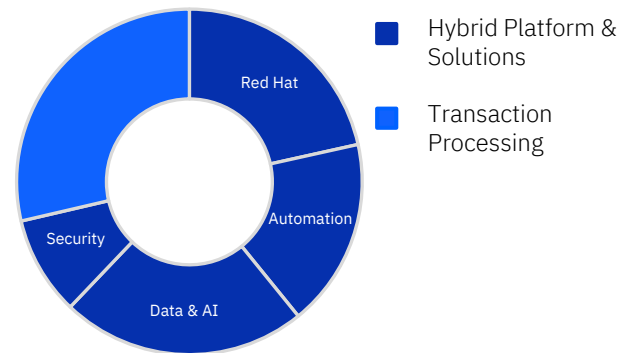
Security: incl. software and services for threat, data and identity

Transaction Processing

Software that supports clients' mission-critical on-premise workloads in industries such as banking, airlines and retail

incl. transaction processing software such as Customer Information Control System and storage software, and analytics and integration software running on IBM operating systems (e.g., DB2 and WebSphere running on z/OS)

Revenue categories – FY 2022



Consulting segment categories

Revenue categories

Business Transformation

Strategy, process design, system implementation and operations services to improve and transform key business processes.

Deploys AI and automation in business processes to exploit the value of data and includes an ecosystem of partners alongside IBM technology, which includes strategic partnerships with Adobe, Oracle, Salesforce and SAP, among others

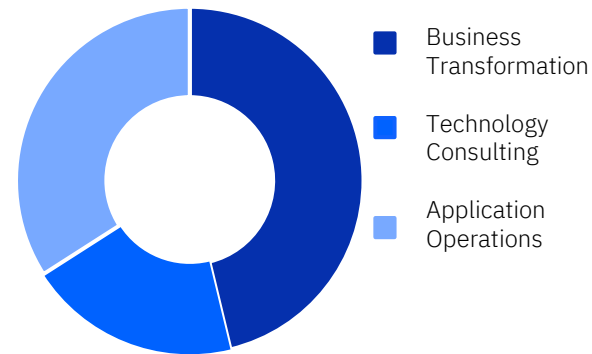
Technology Consulting

Skills to architect and implement cloud platforms, including Amazon, Microsoft and IBM, and strategies to transform the enterprise experience and enable innovation, including application modernization for hybrid cloud with Red Hat OpenShift

Application Operations

Application and cloud platform services required to operationalize and run cloud platforms. Facilitates clients' efforts to manage, optimize and orchestrate application and data workloads across platforms and environments through both custom applications and ISV packages

Revenue categories – FY 2022



Infrastructure segment categories

Revenue categories

Hybrid Infrastructure

Innovative infrastructure platforms to help meet the new requirements of hybrid multi-cloud and enterprise AI workloads leveraging flexible and as-a-service consumption models

zSystems: incl. hardware and operating system

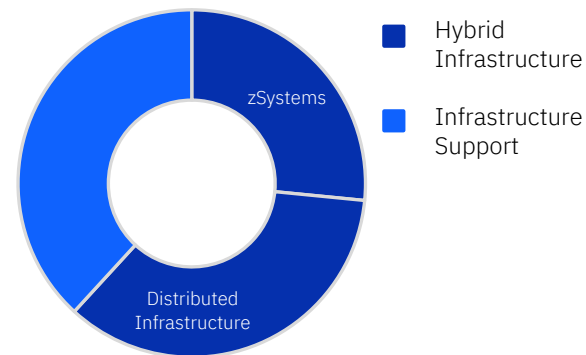
Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

Infrastructure Support

Comprehensive, proactive and AI enabled services to maintain and improve the availability and value of clients' IT infrastructure (hardware and software) both on-premises and in the cloud

incl. maintenance for IBM products and other technology platforms

Revenue categories – FY 2022



Non-GAAP supplemental materials

Reconciliation of revenue performance - 2Q 2023

	2Q23 Yr/Yr	
	GAAP	@CC
Total revenue	Flat	Flat
Americas	(1%)	Flat
Europe/ME/Africa	2%	Flat
Asia Pacific	(1%)	3%

The above reconciles the non-GAAP financial information contained in the “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 19, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of segment revenue performance - 2Q 2023

	2Q23 Yr/Yr			2Q23 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Software	7%	8%	Consulting	4%	6%
Hybrid Platform & Solutions	6%	7%	Business Transformation	3%	5%
Red Hat	11%	11%	Technology Consulting	4%	5%
Automation	1%	2%	Application Operations	6%	8%
Data & AI	10%	11%			
Security	(2%)	(1%)	Infrastructure	(15%)	(14%)
Transaction Processing	9%	10%	Hybrid Infrastructure	(18%)	(18%)
			zSystems	(30%)	(30%)
			Distributed Infrastructure	(6%)	(6%)
			Infrastructure Support	(8%)	(6%)

The above reconciles the non-GAAP financial information contained in the “Financial highlights”, “Software”, “Consulting”, “Infrastructure”, “Software & Infrastructure segment details”, “Consulting 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 19, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of expense summary - 2Q 2023

	GAAP	2Q23 Non-GAAP adjustments	Operating (non-GAAP)
SG&A			
Currency	0 pts	0 pts	1 pts
Acquisitions/divestitures	1 pts	0 pts	1 pts
Base*	(3 pts)	(1 pts)	(3 pts)
RD&E			
Currency	1 pts	0 pts	1 pts
Acquisitions/divestitures	3 pts	0 pts	3 pts
Base*	(5 pts)	0 pts	(5 pts)
Operating expense & other income			
Currency	(1 pts)	0 pts	(2 pts)
Acquisitions/divestitures	(2 pts)	0 pts	(2 pts)
Base*	4 pts	(5 pts)	(1 pts)

*represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures.

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 19, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of continuing operations - 2Q 2023

	2Q23					
	GAAP	Acquisition- related adjustments	Retirement- related adjustments	Tax reform impacts	Kyndryl- related impact	Operating (non-GAAP)
Gross profit	\$8,501	\$150	—	—	—	\$8,650
Gross profit margin	54.9%	1.0 pts	—	—	—	55.9%
SG&A	4,900	(245)	—	—	—	4,655
Other (income) & expense	(261)	(0)	(1)	—	—	(262)
Total expense	6,501	(246)	(1)	—	—	6,254
Pre-tax income	2,000	395	1	—	—	2,396
Pre-tax income margin	12.9%	2.6 pts	0.0 pts	—	—	15.5%
Tax rate	21.0%	0.2 pts	(0.2 pts)	(4.6 pts)	—	16.4%
Net income	1,581	308	5	110	—	2,003
Net income margin	10.2%	2.0 pts	0.0 pts	0.7 pts	—	12.9%
Earnings per share	\$1.72	\$0.34	\$0.00	\$0.12	—	\$2.18

\$ in millions (except EPS which is in whole dollars)

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights”, “Expense summary” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 19, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of Pre-tax income margin – 2Q 2023

	2Q23 Yr/Yr Pre-tax income margin B/(W)
GAAP	1.8 pts
Non-operating adjustments *	(2.6 pts)
Operating (non-GAAP)	(0.7 pts)
Adjusted to exclude gains on the 2Q22 sale of healthcare software assets	1.4 pts
Operating (non-GAAP), excl. gains on the 2Q22 sale of healthcare software assets	0.7 pts

*Excludes effects of certain acquisition-related charges, non-operating retirement-related cost/(income), and Kyndryl related impacts. For details on these adjustments, see slide entitled “Reconciliation of continuing operations – 2Q 2023” in this presentation.

The above reconciles the non-GAAP financial information contained in the “Prepared remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 19, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of Pre-tax margin – FY 2023 expectations

	GAAP B/(W)	Operating (non-GAAP) B/(W)
Pre-tax Income Margin Yr/Yr	~12 pts *	~0.5 pts

*Yr/Yr reflects a one-time non-cash pension settlement charge of \$5.9 billion in 2022.

The above reconciles the non-GAAP financial information contained in the “Prepared remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 19, 2023, for additional information on the use of these Non-GAAP financial measures.

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