

IBM 3Q 2017 Earnings

October 17, 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 October 17, 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/3q17.html>



Overview

3Q17

\$19.2B

Revenue

\$3.30

Operating EPS

\$10.9B

*Free Cash Flow
Last 12 Months*

- Improved revenue trajectory
 - Revenue roughly flat yr/yr, -1% yr/yr at constant currency
 - Growth in Cognitive Solutions and Systems segments
 - Double-digit growth in Strategic Imperatives revenue
- Sequential improvement in gross and pre-tax margins
- Solid expense management while maintaining high investment levels
- Strong cash flow performance
- Maintaining full-year expectations for earnings per share and free cash flow



A Cognitive Solutions & Cloud Platform Company

- Embedding cloud and cognitive capabilities across our business to build new capabilities and to reinvent existing businesses
- Strategic Imperatives revenue up 10% in 3Q and over last twelve months
- Cloud revenue now 20% of IBM revenue over last twelve months
- New partnerships and ecosystems important to building and scaling new businesses

Last
12 months

\$35B

*Strategic Imperatives
Revenue*

45%

*of IBM
Revenue*

Strategic Imperatives Revenue	3Q17	Yr/Yr
Total	\$8.8	10%
Analytics	\$5.0	5%
Cloud	\$4.1	20%
<i>aaS annual run rate</i>	<i>\$9.4</i>	<i>24%</i>
Mobile	\$1.2	7%
Security	\$0.7	49%
Social	\$0.2	Flat

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud



Key Financial Metrics

P&L Highlights	3Q17	B/(W) Yr/Yr
Revenue	\$19.2	(1%)
Expense - Operating	\$5.5	1%
PTI - Operating	\$3.6	(2%)
NI - Operating	\$3.1	(2%)
EPS - Operating	\$3.30	Flat

P&L Ratios (Operating)

GP Margin	47.6%	(0.4 pts)
Expense E/R	28.8%	0.1 pts
PTI Margin	18.8%	(0.2 pts)
Tax Rate	14.7%	(0.5 pts)
NI Margin	16.1%	(0.3 pts)

Cash Highlights	3Q17	Last 12 Months
Free Cash Flow (excl. GF Receivables)	\$2.5	\$10.9
Share Repurchase (Gross)	\$0.9	\$4.5
Dividends	\$1.4	\$5.4
Cash Balance @ Sept 30	\$11.5	

- Significant sequential improvement in yr/yr gross and pre-tax margin performance
- Expense yr/yr improvement reflects continued efficiency, while maintaining investments in strategic areas
- Strong free cash flow performance supports investments and shareholder returns



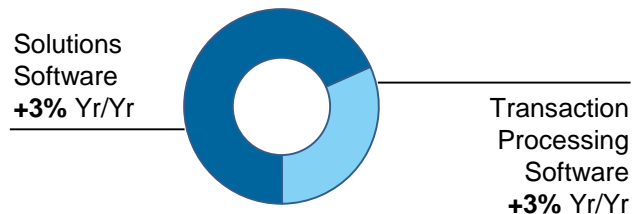
Cognitive Solutions Segment

Segment Results	3Q17	Yr/Yr
Revenue (External)	\$4.4	3%
Gross Margin (External)	78.7%	(1.7 pts)
PTI	\$1.6	5%
PTI Margin	32.8%	0.7 pts

Highlights

- Revenue growth in both Solutions Software and Transaction Processing Software
- Solutions Software growth led by analytics and security
- Annuity content continues to grow, driven by SaaS; strong software transactional performance
- Better than balanced performance

Segment Revenue Elements



Strategic Imperatives Revenue within Cognitive Solutions	3Q17	Yr/Yr
Strategic Imperatives	\$2.9	5%
Cloud	\$0.6	10%
as-a-Service annual run rate	\$2.0	



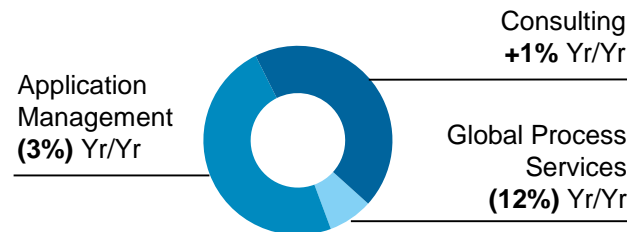
Global Business Services Segment

Segment Results	3Q17	Yr/Yr
Revenue (External)	\$4.1	(2%)
Gross Margin (External)	27.3%	(1.5 pts)
PTI	\$0.5	(17%)
PTI Margin	10.8%	(1.9 pts)

Highlights

- Revenue and gross profit trajectory similar to last quarter
- Consulting returned to growth with strong performance in digital offerings
- Application Management focused on helping clients implement cloud-centric architectures; revenue decline driven by areas not as differentiated

Segment Revenue Elements



Strategic Imperatives Revenue within Global Business Services	3Q17	Yr/Yr
Strategic Imperatives	\$2.5	11%
Cloud	\$1.0	35%
as-a-Service annual run rate	\$1.2	



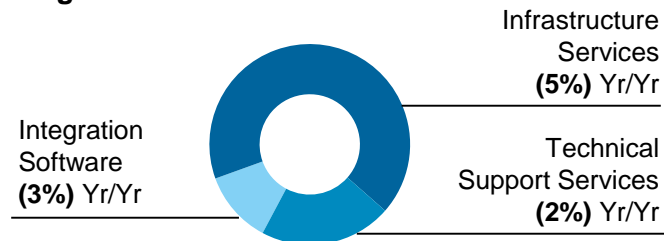
Technology Services and Cloud Platforms Segment

Segment Results	3Q17	Yr/Yr
Revenue (External)	\$8.5	(4%)
Gross Margin (External)	41.1%	(1.0 pts)
PTI	\$1.2	(7%)
PTI Margin	13.8%	(0.6 pts)

Highlights

- Revenue and gross profit trajectory similar to last quarter
- Infrastructure Services revenue impacted by yr/yr headwinds and shift away from lower value work
- GTS signings up over 25% with continued momentum in cloud offerings; Infrastructure Services backlog growth
- Profit margin reflects continued investment in cloud platforms; 2 point sequential improvement in PTI margin

Segment Revenue Elements



Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms	3Q17	Yr/Yr
Strategic Imperatives	\$2.6	12%
Cloud	\$1.8	16%
as-a-Service annual run rate	\$6.2	



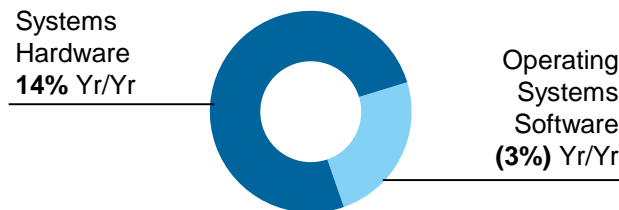
Systems Segment

Segment Results	3Q17	Yr/Yr
Revenue (External)	\$1.7	10%
Gross Margin (External)	53.6%	2.6 pts
PTI	\$0.3	150%
PTI Margin	17.4%	9.6 pts

Highlights

- Successful launch of z14 with pervasive encryption capabilities drove strong z Systems performance
- Third consecutive quarter of growth in Storage
- Gross margin expanded, led by z Systems and Storage

Segment Revenue Elements



Strategic Imperatives Revenue within Systems	3Q17	Yr/Yr
Strategic Imperatives	\$0.9	25%
Cloud	\$0.7	23%



Cash Flow and Balance Sheet Highlights

Cash Flow	3Q17	Yr/Yr	Last 12 Months
Net Cash from Operations*	\$3.3	\$0.0	\$14.2
Free Cash Flow*	\$2.5	\$0.1	\$10.9
Selected Uses of Cash			
Net Capital Expenditures	\$0.8		\$3.3
Acquisitions	\$0.3		\$0.7
Dividends/Share Repurchase	\$2.3		\$10.0

- Strong free cash flow generation reflects solid working capital performance
- Free Cash Flow realization 96% over last 12 months

\$ in billions

*Excludes Global Financing receivables

Balance Sheet	Sep 17	Dec 16	Sep 16
Cash & Marketable Securities	\$11.5	\$8.5	\$10.0
<hr/>			
Total Debt	\$45.6	\$42.2	\$42.5
Global Financing Debt	\$29.4	\$27.9	\$26.1
Global Financing Leverage	9.0	7.3	7.3
Non-GF Debt	\$16.2	\$14.3	\$16.4
Non-GF Debt/Capital	50%	50%	55%

- Positioned to support business over the longer term



Summary

- Sequential improvement in year-to-year revenue and margin performance
- Embedding cognitive and cloud across the business fuels shift to strategic imperatives revenue
- Continuing to invest while driving efficiency in spend base
- Strong free cash flow generation supports investment and shareholder returns
- Maintaining full-year 2017 expectations
 - Operating EPS of at least \$13.80
 - Free cash flow relatively 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 \$	2Q17	Yr/Yr	3Q17	Yr/Yr	10/16/17 Spot	4Q17	FY17	FY18
Euro	0.91	(3%)	0.85	5%	0.85	9%	2%	4%
Pound	0.78	(12%)	0.76	(0%)	0.75	6%	(5%)	3%
Yen	111	(3%)	111	(8%)	112	(2%)	(3%)	0%
Revenue Impact, Future @ 10/16/17 Spot	(1.4 pts)		0.6 pts			~3 pts	0-1 pt	~1 pt
with FX movements @ 1Std Deviation						+/- 2 pts		
IBM Revenue Impact @ 5 Yr Historical Average FX movements						~2 pts		

	US\$B	Yr/Yr
Revenue As Reported	\$19.2	(0.4%)
Currency Impact	\$0.1	0.6 pts
Revenue @ CC	\$19.0	(1.0%)



Geographic Revenue

Geography Revenue	3Q17	Yr/Yr
Americas	\$8.9	(2%)
Europe/ME/Africa	\$6.0	(1%)
Asia Pacific	\$4.2	2%

- Broad-based improvement in yr/yr geographic performance
- Americas reflects sequential improvement in US yr/yr performance (-3%), Latin America declined vs. strong 3Q16
- E/ME/A includes growth in Germany, France, Italy, Spain; decline in UK
- Asia Pacific growth driven by Japan (+4%) and China



Segment Revenue & Gross Profit

Segment Revenue & Gross Profit Metrics	3Q17 Revenue	Yr/Yr	3Q17 GP%	Yr/Yr
Cognitive Solutions*	\$4.4	3%	78.7%	(1.7) pts
Solutions Software	\$3.0	3%		
Transaction Processing Software	\$1.4	3%		
Global Business Services	\$4.1	(2%)	27.3%	(1.5) pts
Consulting	\$1.8	1%		
Global Process Services	\$0.3	(12%)		
Application Management	\$2.0	(3%)		
Technology Services & Cloud Platforms	\$8.5	(4%)	41.1%	(1.0) pts
<i>Global Technology Services**</i>	<i>\$7.5</i>	<i>(4%)</i>	<i>35.7%</i>	<i>(0.8) pts</i>
Infrastructure Services	\$5.7	(5%)		
Technical Support Services	\$1.8	(2%)		
Integration Software*	\$1.0	(3%)	81.3%	(2.4) pts
Systems	\$1.7	10%	53.6%	2.6 pts
Systems Hardware	\$1.3	14%	42.9%	5.9 pts
Operating Systems Software*	\$0.4	(3%)	87.0%	(1.2) pts
Global Financing	\$0.4	3%	25.2%	(12.6) pts

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

	3Q17	Yr/Yr
Systems Hardware Revenue	\$1.3	14%
z Systems		62%
Power		(8%)
Storage		4%

	3Q17	Yr/Yr
Signings	\$10.4	15%
Services Backlog	\$119	(2%)
Currency Impact Year to Year		\$1
Currency Impact Quarter to Quarter	\$2	

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



Expense Summary

Expense Metrics	3Q17	B/(W) Yr/Yr	Currency	Acq.*	Base**
SG&A – Operating	\$4.5	2%	(1 pts)	(1 pts)	3 pts
RD&E – Operating	\$1.3	7%	(1 pts)	0 pts	8 pts
IP and Custom Development Income	(\$0.3)	(42%)			
Other (Income)/Expense	(\$0.1)	NM			
Interest Expense	\$0.2	(6%)			
Operating Expense & Other Income	\$5.5	1%	0 pts	0 pts	1 pts

- Expense yr/yr improvement reflects continued efficiency, while maintain investments in strategic areas
- SG&A – Operating includes \$0.1B yr/yr impact associated with commercial disputes

\$ in billions

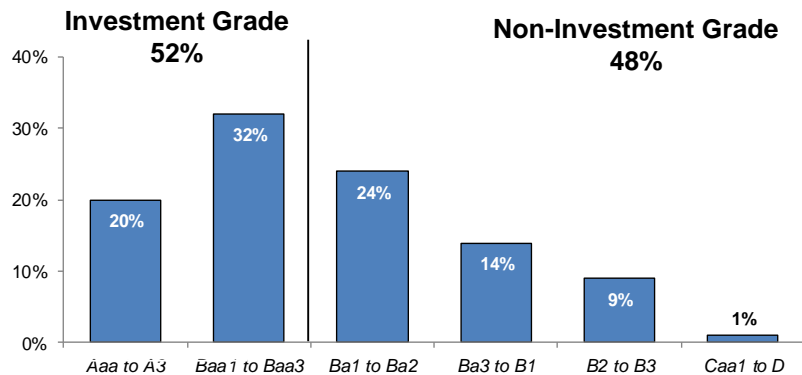
*includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges

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



Global Financing Portfolio

3Q17 – \$26.1B Net External Receivables



Global Financing Metrics

Global Financing Metrics	3Q17	2Q17	3Q16
Identified Loss Rate	1.0%	1.1%	2.1%
Anticipated Loss Rate	0.4%	0.4%	0.5%
Reserve Coverage	1.3%	1.5%	2.6%
Client Days Delinquent Outstanding	6.9	4.9	3.9
Commercial A/R > 30 days	\$33M	\$31M	\$19M



Balance Sheet Summary

	Sep 17	Dec 16	Sep 16
Cash & Marketable Securities	\$11.5	\$8.5	\$10.0
Non-GF Assets*	\$75.5	\$74.4	\$74.3
Global Financing Assets	\$34.6	\$34.6	\$31.3
Total Assets	\$121.6	\$117.5	\$115.6
Other Liabilities	\$56.3	\$56.9	\$56.0
Non-GF Debt*	\$16.2	\$14.3	\$16.4
Global Financing Debt	\$29.4	\$27.9	\$26.1
Total Debt	\$45.6	\$42.2	\$42.5
Total Liabilities	\$101.9	\$99.1	\$98.4
Equity	\$19.8	\$18.4	\$17.2
Non-GF Debt / Capital	50%	50%	55%
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 3Q17	B/(W) Yr/Yr	YTD 3Q17	B/(W) Yr/Yr
Net Cash from Operations *,**	\$3.6	(\$0.5)	\$11.0	(\$2.1)
Less: Global Financing Receivables **	\$0.3	(\$0.6)	\$2.5	(\$0.9)
Net Cash from Operations (excluding GF Receivables) *	\$3.3	\$0.0	\$8.5	(\$1.2)
Net Capital Expenditures	(\$0.8)	\$0.1	(\$2.3)	\$0.5
Free Cash Flow (excluding GF Receivables) *	\$2.5	\$0.1	\$6.2	(\$0.8)
Acquisitions	(\$0.3)	(\$0.2)	(\$0.4)	\$5.0
Divestitures	\$0.0	\$0.0	\$0.0	(\$0.0)
Dividends	(\$1.4)	(\$0.1)	(\$4.1)	(\$0.2)
Share Repurchases (Gross)	(\$0.9)	(\$0.1)	(\$3.7)	(\$1.0)
Non-GF Debt	(\$0.5)	\$1.2	\$1.9	(\$1.5)
Other (includes GF A/R & GF Debt) *	(\$0.2)	(\$1.1)	\$3.1	(\$0.3)
Change in Cash & Marketable Securities	(\$0.8)	(\$0.1)	\$3.0	\$1.2

\$ in billions

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

**Revised classification of certain financing receivables for 3Q16 (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 3Q17	QTD 3Q16	YTD 3Q17	YTD 3Q16
Net Income from Operations	\$2.7	\$2.9	\$6.8	\$7.4
Depreciation / Amortization of Intangibles	\$1.2	\$1.1	\$3.4	\$3.3
Stock-based Compensation	\$0.1	\$0.1	\$0.4	\$0.4
Working Capital / Other *	(\$0.7)	(\$0.8)	(\$2.1)	(\$1.3)
Global Financing A/R **	\$0.3	\$0.8	\$2.5	\$3.3
Net Cash provided by Operating Activities *,**	\$3.6	\$4.1	\$11.0	\$13.1
Capital Expenditures, net of payments & proceeds	(\$0.8)	(\$0.9)	(\$2.3)	(\$2.8)
Divestitures, net of cash transferred	\$0.0	\$0.0	\$0.0	\$0.0
Acquisitions, net of cash acquired	(\$0.3)	(\$0.0)	(\$0.4)	(\$5.4)
Marketable Securities / Other Investments, net **	(\$0.9)	(\$0.1)	(\$0.5)	\$0.9
Net Cash used in Investing Activities**	(\$1.9)	(\$1.0)	(\$3.3)	(\$7.3)
Debt, net of payments & proceeds	(\$0.4)	(\$2.0)	\$2.3	\$1.9
Dividends	(\$1.4)	(\$1.3)	(\$4.1)	(\$3.9)
Common Stock Repurchases	(\$0.9)	(\$0.9)	(\$3.7)	(\$2.6)
Common Stock Transactions - Other *	\$0.0	\$0.0	(\$0.0)	\$0.1
Net Cash used in Financing Activities *	(\$2.8)	(\$4.2)	(\$5.5)	(\$4.6)
Effect of Exchange Rate changes on Cash	\$0.3	\$0.0	\$0.9	\$0.2
Net Change in Cash & Cash Equivalents	(\$0.8)	(\$1.0)	\$3.1	\$1.4

\$ in billions

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

**Revised classification of certain financing receivables for 3Q16 (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
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Adjustments	
Acquisition-Related Charges*	\$0.75
Non-Operating Retirement-Related Items	\$1.10

*Includes acquisitions through September 30, 2017

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 October 17, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 3Q 2017

	3Q17 Yr/Yr	
	GAAP	@CC
Americas	(2%)	(2%)
Europe/ME/Africa	2%	(1%)
Asia Pacific	(1%)	2%
U.S.	(3%)	(3%)
Japan	(4%)	4%

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 October 17, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 3Q 2017

	3Q17 Yr/Yr	
	GAAP	@CC
Strategic Imperatives	11%	10%
Analytics	5%	5%
Cloud	20%	20%
<i>aaS annual run rate</i>	25%	24%
Mobile	7%	7%
Security	51%	49%
Social	2%	0%

The above reconciles the Non-GAAP financial information contained in the “A Cognitive Solutions & Cloud Platform Company” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated October 17, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 3Q 2017

	3Q17 Yr/Yr	
	GAAP	@CC
Cognitive Solutions	4%	3%
Solutions Software	4%	3%
Transaction Processing Software	4%	3%
Strategic Imperatives	5%	5%
Cloud	10%	10%
Global Business Services	(2%)	(2%)
Consulting	0%	1%
Global Process Services	(11%)	(12%)
Application Management	(3%)	(3%)
Strategic Imperatives	10%	11%
Cloud	35%	35%

	3Q17 Yr/Yr	
	GAAP	@CC
Tech Svcs & Cloud Platforms	(3%)	(4%)
Global Technology Services	(3%)	(4%)
Infrastructure Services	(4%)	(5%)
Technical Support Services	(2%)	(2%)
Integration Software	(3%)	(3%)
Strategic Imperatives	12%	12%
Cloud	16%	16%
Systems	10%	10%
Systems Hardware	15%	14%
z Systems	64%	62%
Power	(7%)	(8%)
Storage	5%	4%
Operating Systems Software	(2%)	(3%)
Strategic Imperatives	26%	25%
Cloud	24%	23%
Global Financing	4%	3%

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 October 17, 2017 for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 3Q 2017

	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	(1 pts)	0 pts	(1 pts)
Acquisitions	(1 pts)	0 pts	(1 pts)
Base *	3 pts	0 pts	3 pts
RD&E			
Currency	(1 pts)	0 pts	(1 pts)
Acquisitions	0 pts	0 pts	0 pts
Base *	5 pts	3 pts	8 pts
Operating Expense & Other Income			
Currency	0 pts	0 pts	0 pts
Acquisitions	0 pts	0 pts	0 pts
Base*	1 pts	0 pts	1 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 October 17, 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 Debt-to-Capital Ratio

	Sep 2017	Dec 2016	Sep 2016
Non-Global Financing Debt/Capital	50%	50%	55%
IBM Consolidated Debt/Capital	70%	70%	71%

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 October 17, 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 Sep 2017
Net Cash from Operating Activities per GAAP:	\$15.0
Less: the change in Global Financing (GF) Receivables	\$0.8
Net Cash from Operating Activities (Excluding GF Receivables)	\$14.2
Capital Expenditures, Net	(\$3.3)
Free Cash Flow (Excluding GF Receivables)	\$10.9

\$ 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 October 17, 2017 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials





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