

IBM 3Q 2018 Earnings

October 16, 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 October 16, 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/3q18.html>



Overview

3Q18

\$18.8B

Revenue

\$3.42

Operating EPS

\$12.2B

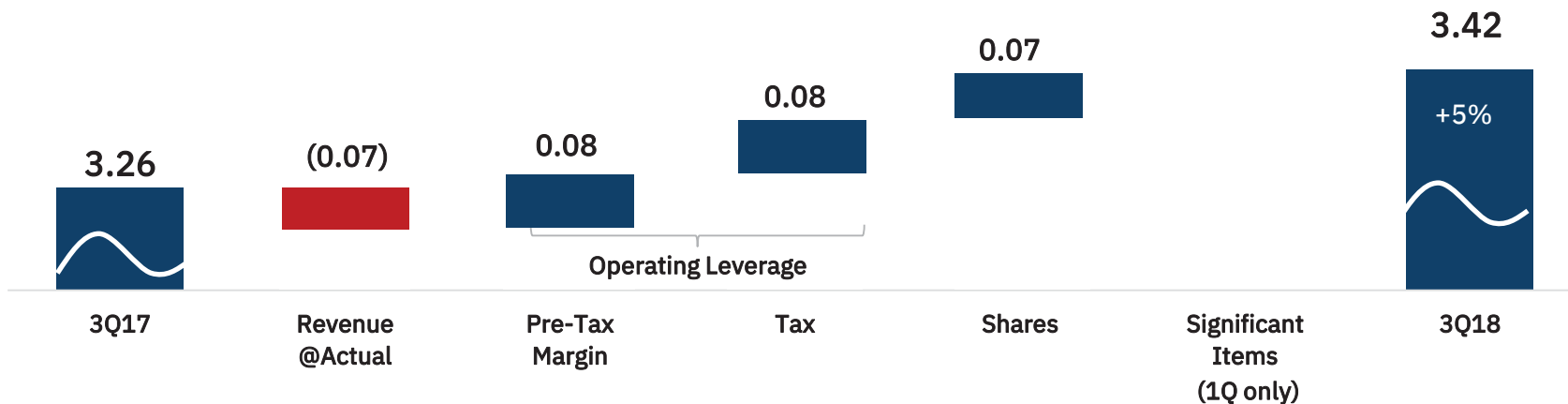
Free Cash Flow

Last 12 Months

- Solid profit performance and operating leverage
 - Gross margin flat yr/yr; services gross margins up 160 basis points
 - Pre-tax profit growth reflects operating efficiencies while maintaining high investment levels
- Growth in offerings that address hybrid cloud, security, digital and analytics/AI
 - Strategic imperatives revenue of \$39.5 billion over last 12 months, up 13%, 11% @CC
 - Cloud driven by as-a-Service growth of 24% @CC
- 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 – 3Q17 to 3Q18



3Q17 YTD	Revenue @Actual	Pre-Tax Margin	Tax	Shares	Significant Items (1Q only)	3Q18 YTD
8.54	0.17	0.28	(0.17)	0.19	(0.05)*	8.96

- Solid pre-tax margin expansion; tax reflects 3Q18 discrete benefit
- Mid-single digit operating EPS growth in third quarter and year to date

*Significant Items includes tax discretely and pre-tax charges as presented in 1Q18 earnings webcast



Key Financial Metrics

P&L Highlights	3Q18	B/(W) Yr/Yr
Revenue	\$18.8	Flat
GP - Operating	\$8.9	(2%)
Expense - Operating	\$5.3	4%
PTI - Operating	\$3.6	1%
NI - Operating	\$3.1	3%
EPS - Operating	\$3.42	5%

P&L Ratios (Operating)

GP Margin	47.4%	Flat
Expense E/R	28.3%	0.5 pts
PTI Margin	19.2%	0.5 pts
Tax Rate	12.8%	2.0 pts
NI Margin	16.7%	0.8 pts

Cash Highlights	3Q18	Last 12 Months
Free Cash Flow (excl. GF Receivables)	\$2.2	\$12.2
Share Repurchase (Gross)	\$0.6	\$3.1
Dividends	\$1.4	\$5.6
Cash Balance @ Sept 30	\$14.7	

- Growth in pre-tax profit and margin expansion
- Gross profit margin flat yr/yr, with productivity benefits offset by mix headwinds; services margin expanded
- Expense performance reflects operational efficiencies while maintaining high investment levels
- Free cash flow performance impacted by capital investments and cash taxes

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



Cognitive Solutions Segment

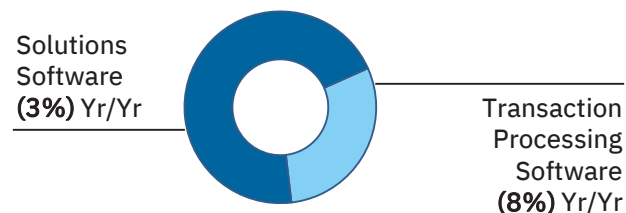
Segment Results	3Q18	Yr/Yr
Revenue (External)	\$4.1	(5%)
PTI	\$1.6	(1%)
PTI Margin	34.0%	1.3 pts

Highlights

- Solutions Software performance mixed, with growth in several key areas and repositioning of some horizontal applications
- Transaction Processing Software performance reflects Z middleware declines and challenging compare
- Pre-tax margin expansion driven by operating efficiencies, mitigated by investments and mix

Revenue growth rates @CC, \$ in billions

Segment Revenue Elements



Strategic Imperatives Revenue within Cognitive Solutions	3Q18	Yr/Yr
Strategic Imperatives	\$2.8	(4%)
Cloud	\$0.6	(2%)
as-a-Service annual run rate	\$2.0	



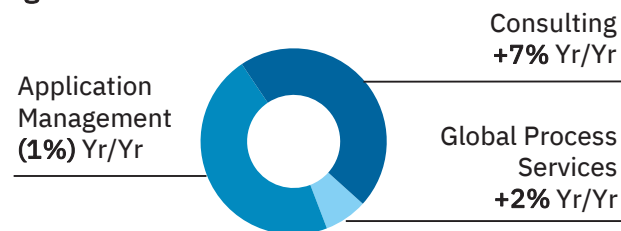
Global Business Services Segment

Segment Results	3Q18	Yr/Yr
Revenue (External)	\$4.1	3%
Gross Margin (External)	29.8%	2.7 pts
PTI	\$0.6	31%
PTI Margin	13.8%	3.2 pts

Highlights

- Revenue growth accelerated, with improved trajectory across all three business areas
- Consulting growth led by Digital Strategy and iX, and Cognitive Process Transformation
- Gross margin expansion driven by mix to higher value offerings and productivity

Segment Revenue Elements



Strategic Imperatives Revenue within Global Business Services	3Q18	Yr/Yr
Strategic Imperatives	\$2.7	9%
Cloud	\$1.2	18%
as-a-Service annual run rate	\$1.9	

Revenue growth rates @CC, \$ in billions



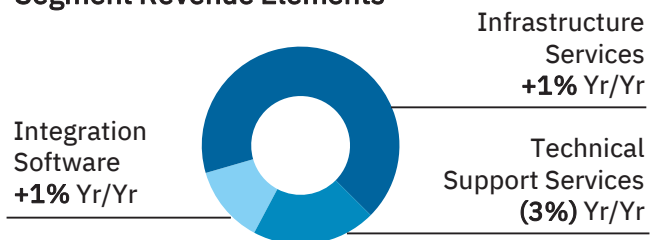
Technology Services and Cloud Platforms Segment

Segment Results	3Q18	Yr/Yr
Revenue (External)	\$8.3	Flat
Gross Margin (External)	42.1%	1.2 pts
PTI	\$1.1	(9%)
PTI Margin	12.6%	(1.1 pts)

Highlights

- Second consecutive quarter of revenue growth, led by hybrid cloud implementations
- Gross margin expansion driven by scale and operating efficiencies
- Continued investments in cloud innovations

Segment Revenue Elements



Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms	3Q18	Yr/Yr
Strategic Imperatives	\$2.9	16%
Cloud	\$2.1	22%
as-a-Service annual run rate	\$7.5	

Revenue growth rates @CC, \$ in billions



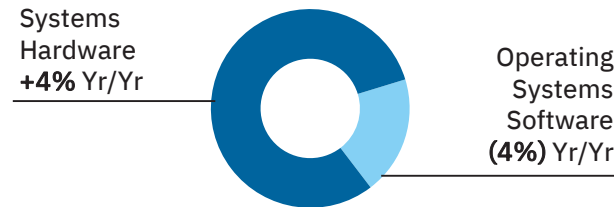
Systems Segment

Segment Results	3Q18	Yr/Yr
Revenue (External)	\$1.7	2%
PTI	\$0.2	(38%)
PTI Margin	10.9%	(6.4 pts)

Highlights

- IBM Z growth in fifth quarter of z14 cycle; most successful program in IBM’s history based on shipped capacity
- Power Systems double-digit growth driven by adoption of POWER9-based systems
- Profit dynamics reflect ongoing investment and lower IP income

Segment Revenue Elements



Strategic Imperatives Revenue within Systems	3Q18	Yr/Yr
Strategic Imperatives	\$0.9	5%
Cloud	\$0.6	(8%)

Revenue growth rates @CC, \$ in billions



Cash Flow and Balance Sheet Highlights

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Cash Flow	3Q18	Yr/Yr	Last 12 Months
Net Cash from Operations*	\$3.1	(\$0.2)	\$16.0
Free Cash Flow*	\$2.2	(\$0.3)	\$12.2
Selected Uses of Cash			
Net Capital Expenditures	\$0.9		\$3.8
Acquisitions	\$0.0		\$0.2
Dividends/Share Repurchase	\$2.1		\$8.7

Balance Sheet	Sep 18	Dec 17	Sep 17
Cash & Marketable Securities***	\$14.7	\$12.8	\$11.8
Total Debt	\$46.9	\$46.8	\$45.6
Global Financing Debt	\$30.4	\$31.4	\$29.4
Global Financing Leverage	9.0	9.0	9.0
Non-GF Debt	\$16.6	\$15.4	\$16.2

- Free cash flow performance through nine months reflects higher capital expenditures and cash taxes
- Free cash flow realization ~108%** over last 12 months

- Positioned to support business over the longer term

\$ in billions

*Excludes Global Financing receivables

**Adjusted for one-time charges associated with enactment of U.S. tax reform

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



Summary

- IBM's differentiated value proposition is driven by innovative technologies, industry expertise, trust and security, delivered through an integrated model
- Continued growth in offerings that address hybrid cloud, security, digital and analytics/AI
- Year-to-date performance reflects revenue and operating profit growth with improving yr/yr gross margin trajectory
- Maintaining full-year expectations of at least \$13.80 of operating EPS and approximately \$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 \$	2Q18	Yr/Yr	3Q18	Yr/Yr	10/15/2018 Spot	4Q18	FY18	FY19
Euro	0.84	8%	0.86	(1%)	0.86	(2%)	5%	(2%)
Pound	0.74	6%	0.77	0%	0.76	(1%)	4%	(2%)
Yen	109	2%	111	0%	112	1%	2%	(1%)
Revenue Impact, Future @ 10/15/18 Spot		2 pts		(2 pts)		~(2 pts)	0-1 pts	(1-2 pts)
Prior View @ 7/17/18 Spot				(1-2 pts)		~(1 pts)	~1 pts	

	US\$B	Yr/Yr
Revenue As Reported	\$18.8	(2%)
Currency Impact	(\$0.3)	(2 pts)
Revenue @ CC		Flat



Strategic Imperatives Revenue

Strategic Imperatives Revenue	3Q18	Yr/Yr
Total	\$9.3	7%
Analytics	\$5.0	2%
Cloud	\$4.6	13%
<i>aaS annual run rate</i>	<i>\$11.4</i>	<i>24%</i>
Mobile	\$1.3	5%
Security	\$0.9	34%
Social	\$0.2	(14%)

- Growth in 3Q18 led by security and cloud, with strong growth in as-a-Service mitigated by product cycle
- Strategic Imperatives revenue of \$39.5 billion over last 12 months
- Cloud revenue of \$19 billion over last 12 months, up 20% at actual rates, 24% of IBM revenue
- Continuing to deliver new innovation across cloud, AI and security

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud

Supplemental Materials



Geographic Revenue

Geography Revenue	3Q18	Yr/Yr
Americas	\$8.9	1%
Europe/ME/Africa	\$5.8	(2%)
Asia Pacific	\$4.1	(1%)

- Americas growth led by Canada and Latin America, and modest growth in US
- E/ME/A performance mixed, with solid growth in UK and Spain, offset by declines in Germany and France
- Asia Pacific down yr/yr, with modest growth in Japan

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Segment Revenue & Gross Profit

Segment Revenue & Gross Profit Metrics - 3Q18	3Q18 Revenue	Yr/Yr	3Q18 GP%	Yr/Yr
Cognitive Solutions	\$4.1	(5%)	76.0%	(2.7 pts)
Solutions Software	\$2.9	(3%)		
Transaction Processing Software	\$1.2	(8%)		
Global Business Services	\$4.1	3%	29.8%	2.7 pts
Consulting	\$1.9	7%		
Global Process Services	\$0.3	2%		
Application Management	\$1.9	(1%)		
Technology Services & Cloud Platforms	\$8.3	Flat	42.1%	1.2 pts
<i>Global Technology Services</i>	<i>\$7.3</i>	<i>Flat</i>	<i>36.9%</i>	<i>1.3 pts</i>
Infrastructure Services	\$5.6	1%		
Technical Support Services	\$1.7	(3%)		
Integration Software	\$1.0	1%	80.6%	(0.8 pts)
Systems	\$1.7	2%	52.7%	(1.0 pts)
Systems Hardware	\$1.3	4%	43.1%	0.2 pts
Operating Systems Software	\$0.4	(4%)	85.0%	(2.1 pts)
Global Financing	\$0.4	(7%)	26.3%	1.0 pts

Revenue growth rates @CC, \$ in billions

Supplemental Materials



Additional Revenue & Backlog Information

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	3Q18	Yr/Yr
Systems Hardware Revenue	\$1.3	4%
IBM Z		6%
Power		17%
Storage		(6%)

	3Q18	Yr/Yr
Signings	\$8.0	(21%)
Services Backlog	\$113	(3%)
Backlog Yr/Yr @Actual		(5%)

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

Supplemental Materials



Expense Summary

Expense Metrics	3Q18	B/(W)	Currency	Acq.*	Base**
		Yr/Yr			
SG&A – Operating	\$4.3	5%	2 pts	0 pts	3 pts
RD&E – Operating	\$1.3	3%	1 pts	0 pts	2 pts
IP and Custom Development Income	(\$0.3)	(11%)			
Other (Income)/Expense	(\$0.1)	Flat			
Interest Expense	\$0.2	(14%)			
Operating Expense & Other Income	\$5.3	4%	2 pts	0 pts	2 pts

- Continuing to invest to deliver innovation across areas including hybrid cloud, AI, security, blockchain
- Yr/yr “Base” performance reflects operational efficiencies in SG&A and RD&E, mitigated by 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

	Sep 18	Dec 17	Sep 17
Cash & Marketable Securities*	\$14.7	\$12.8	\$11.8
Non-GF Assets*, **	\$71.2	\$74.2	\$75.3
Global Financing Assets*	\$36.1	\$38.3	\$34.6
Total Assets	\$122.0	\$125.4	\$121.6
Other Liabilities	\$55.2	\$60.8	\$56.3
Non-GF Debt**	\$16.6	\$15.4	\$16.2
Global Financing Debt	\$30.4	\$31.4	\$29.4
Total Debt	\$46.9	\$46.8	\$45.6
Total Liabilities	\$102.1	\$107.6	\$101.9
Equity	\$19.9	\$17.7	\$19.8
Global Financing Leverage	9.0	9.0	9.0

\$ in billions

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

**includes eliminations of inter-company activity

Supplemental Materials



Cash Flow Summary

	QTD 3Q18	B/(W) Yr/Yr	YTD 3Q18	B/(W) Yr/Yr
Net Cash from Operations	\$4.2	\$0.7	\$11.1	\$0.1
Less: Global Financing Receivables	\$1.1	\$0.8	\$2.9	\$0.4
Net Cash from Operations (excluding GF Receivables)	\$3.1	(\$0.2)	\$8.3	(\$0.3)
Net Capital Expenditures	(\$0.9)	(\$0.2)	(\$2.8)	(\$0.5)
Free Cash Flow (excluding GF Receivables)	\$2.2	(\$0.3)	\$5.4	(\$0.8)
Acquisitions	(\$0.0)	\$0.3	(\$0.1)	\$0.3
Divestitures	\$0.0	(\$0.0)	\$0.0	(\$0.0)
Dividends	(\$1.4)	(\$0.0)	(\$4.2)	(\$0.1)
Share Repurchases (Gross)	(\$0.6)	\$0.3	(\$2.4)	\$1.3
Non-GF Debt	\$2.2	\$2.7	\$1.6	(\$0.3)
Other (includes GF Net A/R & GF Debt)*	\$0.4	\$0.6	\$1.6	(\$1.6)
Change in Cash & Marketable Securities*	\$2.7	\$3.5	\$1.8	(\$1.2)

\$ in billions

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

Supplemental Materials



Cash Flow (ASC 230)

	QTD 3Q18	QTD 3Q17	YTD 3Q18	YTD 3Q17
Net Income from Operations	\$2.7	\$2.7	\$6.8	\$6.8
Depreciation / Amortization of Intangibles	\$1.1	\$1.2	\$3.4	\$3.4
Stock-based Compensation	\$0.1	\$0.1	\$0.4	\$0.4
Working Capital / Other	(\$0.8)	(\$0.7)	(\$2.3)	(\$2.1)
Global Financing A/R	\$1.1	\$0.3	\$2.9	\$2.5
Net Cash provided by Operating Activities	\$4.2	\$3.6	\$11.1	\$11.0
Capital Expenditures, net of payments & proceeds	(\$0.9)	(\$0.8)	(\$2.8)	(\$2.3)
Divestitures, net of cash transferred	\$0.0	\$0.0	\$0.0	\$0.0
Acquisitions, net of cash acquired	(\$0.0)	(\$0.3)	(\$0.1)	(\$0.4)
Marketable Securities / Other Investments, net*	(\$2.0)	(\$0.9)	(\$2.4)	(\$0.5)
Net Cash used in Investing Activities*	(\$3.0)	(\$1.9)	(\$5.4)	(\$3.3)
Debt, net of payments & proceeds	\$1.6	(\$0.4)	\$0.8	\$2.3
Dividends	(\$1.4)	(\$1.4)	(\$4.2)	(\$4.1)
Common Stock Repurchases	(\$0.6)	(\$0.9)	(\$2.4)	(\$3.7)
Common Stock Transactions - Other	\$0.0	\$0.0	(\$0.1)	(\$0.0)
Net Cash used in Financing Activities	(\$0.4)	(\$2.8)	(\$5.9)	(\$5.5)
Effect of Exchange Rate changes on Cash	(\$0.1)	\$0.3	(\$0.4)	\$0.9
Net Change in Cash & Cash Equivalents*	\$0.8	(\$0.8)	(\$0.5)	\$3.1

\$ in billions

*Reflects adoption of the FASB guidance on restricted cash, 3Q17 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
YTD Tax Reform Enactment Charge Adjustment	\$0.10

*Includes acquisitions as of September 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 October 16, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 3Q 2018

	3Q18 Yr/Yr	
	GAAP	@CC
Americas	(1%)	1%
Europe/ME/Africa	(3%)	(2%)
Asia Pacific	(3%)	(1%)
United States	Flat	Flat
Japan	Flat	Flat
Latin America	(9%)	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 October 16, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 3Q 2018

	3Q18 Yr/Yr	
	GAAP	@CC
Strategic Imperatives	5%	7%
Analytics	1%	2%
Cloud	11%	13%
<i>aaS annual run rate</i>	21%	24%
Mobile	4%	5%
Security	33%	34%
Social	(15%)	(14%)

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 October 16, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth - 3Q 2018

	3Q18 Yr/Yr	
	GAAP	@CC
Cognitive Solutions	(6%)	(5%)
Solutions Software	(4%)	(3%)
Transaction Processing Software	(10%)	(8%)
Strategic Imperatives	(5%)	(4%)
Cloud	(3%)	(2%)
Global Business Services	1%	3%
Consulting	5%	7%
Global Process Services	Flat	2%
Application Management	(3%)	(1%)
Strategic Imperatives	8%	9%
Cloud	16%	18%
Total Services Revenue (TS&CP/GBS)	(1%)	1%

	3Q18 Yr/Yr	
	GAAP	@CC
Tech Svcs & Cloud Platforms	(2%)	Flat
Global Technology Services	(2%)	Flat
Infrastructure Services	(1%)	1%
Technical Support Services	(5%)	(3%)
Integration Software	Flat	1%
Strategic Imperatives	14%	16%
Cloud	19%	22%
Systems	1%	2%
Systems Hardware	3%	4%
z Systems	5%	6%
Power	16%	17%
Storage	(6%)	(6%)
Operating Systems Software	(6%)	(4%)
Strategic Imperatives	5%	5%
Cloud	(9%)	(8%)
Global Financing	(9%)	(7%)

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”, “Systems Segment” and “3Q18 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated October 16, 2018 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 3Q 2018

	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	2 pts	0 pts	2 pts
Acquisitions	0 pts	0 pts	0 pts
Base *	4 pts	0 pts	3 pts
RD&E			
Currency	1 pts	0 pts	1 pts
Acquisitions	0 pts	0 pts	0 pts
Base *	2 pts	0 pts	2 pts
Operating Expense & Other Income			
Currency	2 pts	0 pts	2 pts
Acquisitions	0 pts	0 pts	0 pts
Base*	0 pts	2 pts	2 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 16, 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 Sep 2018
Net Cash from Operating Activities per GAAP:	\$16.9
Less: the change in Global Financing (GF) Receivables	\$0.8
Net Cash from Operating Activities (Excluding GF Receivables)	\$16.0
Capital Expenditures, Net	(\$3.8)
Free Cash Flow (Excluding GF Receivables)	\$12.2

\$ 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 16, 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	214%	~108%

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 October 16, 2018 for additional information on the use of these Non-GAAP financial measures.

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

Supplemental Materials





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