

IBM 3Q 2022 Earnings



October 19, 2022
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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.

Unless otherwise specified, results are presented on a continuing operations basis. All references to revenue impacts from sales to Kyndryl are incremental sales post-separation.

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, consolidated 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 October 19, 2022. 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 October 19, 2022, 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 hybrid cloud revenue, 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 2021 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 22, 2022. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-3q22>

Arvind Krishna

Chairman and
Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO perspective

“IBM delivered strong revenue growth in the quarter, reflecting our continued focus on the execution of our strategy. Globally, clients view technology as an opportunity to enhance their business, which is evident in the results across our portfolio.

With our year-to-date performance, we now expect full-year revenue growth above our mid-single digit model.”

Arvind Krishna

IBM Chairman and CEO



3Q22
Performance



Hybrid cloud and
AI progress



Clients, ecosystem
and innovation

Hybrid cloud and AI progress

Our platform approach

IBM Consulting
Business Transformation
Technology Consulting
Application Operations



System Integrator Partners

IBM Software
IBM Cloud Paks
Automation
Data & AI
Security
Transaction Processing




Software and SaaS Partners

Red Hat Hybrid Cloud Platform
Development, Security and Operational Services

OpenShift
Red Hat Enterprise Linux
Ansible Automation Platform



IBM Infrastructure
zSystems
Distributed Infrastructure (IBM Cloud, Power, Storage)
Infrastructure Support




Public Clouds
AWS
Azure
Others



Enterprise Infrastructure



Edge



Accelerating client adoption

Expanding partner ecosystem

Delivering innovation

Financial highlights

3Q22

\$14.1B

Revenue

\$4.1B

Free Cash Flow (YTD)

“Both our revenue growth and operating profit profile for the first three quarters of the year align to the investment thesis we outlined last fall.

Our portfolio mix, business fundamentals, strong recurring revenue stream and solid cash generation allow us to invest for continued growth and return value to shareholders through dividends.”

James Kavanaugh

IBM SVP & CFO

Revenue growth rates @CC

15%

Revenue growth
incl. ~5 pts from
sales to Kyndryl

>70%

Revenue mix
in software and consulting

\$22.2B

Hybrid cloud revenue (TTM),
+20% yr/yr

180bps

Pre-tax margin expansion
(Operating)

\$9.7B

Cash on hand,
incl. marketable securities

Software

Strong and growing software recurring revenue base

Annual recurring revenue* of \$13B, +9% yr/yr

Pre-tax margin reflects solid revenue performance

\$5.8B

Revenue

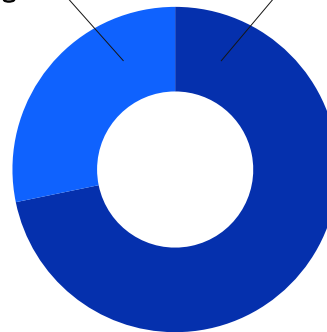
+14%

Revenue growth (includes ~8 pts from sales to Kyndryl)

Revenue categories

Transaction Processing
+33% yr/yr
~26 pts sales to Kyndryl

Hybrid Platform & Solutions
+8% yr/yr
~1.5 pts sales to Kyndryl



Red Hat 18%
Automation 3%
Data & AI 4%
Security 6%

3Q22 results; revenue growth rates @CC

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

Consulting

Pervasive growth driven by demand for digital transformations

Strength in Red Hat and strategic partner practices

Book-to-bill ratio of 1.05 for the last year

Profit reflects continued labor cost inflation; sequential margin improvement

\$4.7B

Revenue

+16%

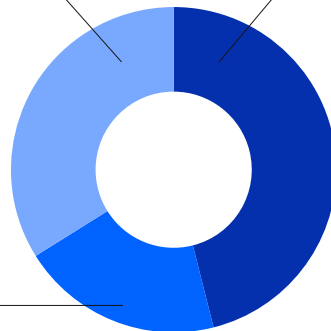
Revenue growth

Revenue categories

Application Operations
+17% yr/yr

Business Transformation
+14% yr/yr

Technology Consulting
+17% yr/yr



Infrastructure

zSystems performance fueled by new workloads and demand for zSystems in a hybrid cloud environment

Distributed Infrastructure growth driven by Power and storage innovation

Pre-tax margin reflects zSystems mix benefit

\$3.4B

Revenue

+23%

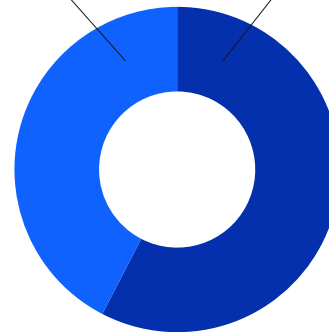
Revenue growth
(includes ~9 pts from sales to Kyndryl)

Revenue categories

Infrastructure Support
+5% yr/yr
~7 pts sales to Kyndryl

Hybrid Infrastructure
+41% yr/yr
~11 pts sales to Kyndryl

zSystems +98%
Distributed Infrastructure +21%



Summary

3Q 2022 Progress

Executing a focused hybrid cloud and AI strategy

Broad-based revenue growth

Portfolio mix contributes to profit and margin

Generated >\$4B of free cash flow year to date

FY 2022 Expectations

Revenue growth @CC above mid-single digit model, plus ~3.5 pts from sales to Kyndryl

Free cash flow of ~\$10 billion

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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

Unless otherwise specified, results are presented on a continuing operations basis.
Some columns and rows in these materials, including the supplemental exhibits, may not add due to rounding

Revenue and P&L highlights

Revenue highlights	3Q22	B/(W) Yr/Yr	sales to KD benefit
Revenue	\$14.1	15%	~ 5 pts
Hybrid cloud	\$5.2	19%	~ 2 pts
Hybrid cloud (TTM)	\$22.2	20%	

Geography revenue	3Q22	B/(W) Yr/Yr	sales to KD benefit
Americas	\$7.4	13%	~ 4 pts
Europe/ME/Africa	\$4.0	16%	~ 6 pts
Asia Pacific	\$2.7	16%	~ 5 pts

Operating P&L highlights \$	3Q22	B/(W) Yr/Yr
Gross profit	\$7.6	4%
Expense	\$5.6	1%
Pre-tax income	\$2.0	23%
Net income	\$1.7	(1%)
Earnings per share	\$1.81	(2%)

Operating P&L highlights %	3Q22	B/(W) Yr/Yr
Gross profit margin	53.8%	(1.2 pts)
Expense E/R	39.9%	3.0 pts
Pre-tax income margin	13.9%	1.8 pts
Net income margin	11.7%	(0.9 pts)
Tax rate	15.9%	(20.1 pts)

Cash flow and balance sheet highlights

Cash flow	3Q22	Yr/Yr	YTD
Consolidated net cash from operations*	\$1.2	(\$0.0)	\$5.4
Consolidated free cash flow**	\$0.8	\$0.1	\$4.1
Selected uses of cash	3Q22		YTD
Net capital expenditures	\$0.4		\$1.3
Acquisitions	\$0.1		\$1.0
Dividends	\$1.5		\$4.5

Balance sheet	Sep 22	Dec 21	Sep 21
Cash & marketable securities	\$9.7	\$7.6	\$8.4
Total debt	\$50.9	\$51.7	\$54.5
Selected debt measures	Sep 22	Dec 21	Sep 21
IBM Financing debt	\$11.2	\$13.9	\$15.9
Core (non-IBM Financing) debt	\$39.7	\$37.8	\$38.6

\$ in billions

*Non-GAAP financial measure; excludes Financing receivables

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

Currency impact on growth

Quarterly averages per US \$	3Q22	Yr/Yr	Spot 10/18/22	4Q22	FY22	1Q23	2Q23	3Q23	FY23
Euro	0.99	(17%)	1.02	(16%)	(14%)	(14%)	(8%)	(2%)	(6%)
Pound	0.85	(17%)	0.88	(19%)	(13%)	(19%)	(11%)	(4%)	(8%)
Yen	138	(26%)	149	(31%)	(21%)	(28%)	(15%)	(8%)	(12%)
Revenue impact, future @ 10/18/22 Spot		(8.2 pts)		(8-9 pts)	~(7 pts)	~(8 pts)	~(5 pts)	(2-3 pts)	~(4 pts)
<i>Prior view @ 7/15/22 Spot</i>		~(8 pts)		~(6 pts)	~(6 pts)				
	US \$B	Yr/Yr							
Revenue as reported	\$14.1	6.5%							
Currency impact	(\$1.1)	(8.2 pts)							
Revenue @CC		14.6%							

Software & Infrastructure segment details

Includes sales to Kyndryl

Software segment	3Q22	B/(W) Yr/Yr	Infrastructure segment	3Q22	B/(W) Yr/Yr
Revenue	\$5.8	14%	Revenue	\$3.4	23%
Hybrid Platform & Solutions	\$4.2	8%	Hybrid Infrastructure	\$1.9	41%
Red Hat		18%	zSystems		98%
Automation		3%	Distributed Infrastructure		21%
Data & AI		4%	Infrastructure Support	\$1.4	5%
Security		6%	Pre-tax income	\$0.3	34%
Transaction Processing	\$1.6	33%	Pre-tax income margin	8.3%	1.2 pts
Pre-tax income	\$1.3	32%	Hybrid cloud revenue (TTM)	\$3.9	6%
Pre-tax income margin	22.5%	4.2 pts			
Hybrid cloud revenue (TTM)	\$9.2	20%			
Annual recurring revenue*	\$13.0	9%			

3Q22 results; revenue growth rates @CC

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

Consulting segment details

Consulting segment	3Q22	B/(W) Yr/Yr
Revenue	\$4.7	16%
Business Transformation	\$2.2	14%
Technology Consulting	\$0.9	17%
Application Operations	\$1.6	17%
Gross profit margin	26.0%	(3.5 pts)
Pre-tax income	\$0.5	(1%)
Pre-tax income margin	9.8%	(0.6 pts)
Hybrid cloud revenue (TTM)	\$8.9	28%
Signings	\$4.5	(2%)
Book-to-bill ratio (TTM)	1.05	

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

Expense summary

Expense	3Q22	B/(W) Yr/Yr	Acq/ Divest*		
			Currency	Divest*	Base**
SG&A – operating	\$4.1	(3%)	5 pts	0 pts	(8 pts)
RD&E	\$1.6	Flat	3 pts	5 pts	(8 pts)
IP and custom development income	(\$0.1)	(21%)			
Other (income)/expense - operating	(\$0.3)	NM			
Interest expense	\$0.3	(2%)			
Operating expense & other income	\$5.6	1%	7 pts	1 pts	(7 pts)

\$ in billions

*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, acquisitions and divestitures

Balance sheet summary

Consolidated

	Sep 22	Dec 21	Sep 21
Cash & marketable securities	\$9.7	\$7.6	\$8.4
Core (non-IBM Financing) assets*	\$102.9	\$108.9	\$117.8
IBM Financing assets	\$13.2	\$15.5	\$18.0
Total assets	\$125.8	\$132.0	\$144.2
Other liabilities	\$54.8	\$61.3	\$67.4
Core (non-IBM Financing) debt*	\$39.7	\$37.8	\$38.6
IBM Financing debt	\$11.2	\$13.9	\$15.9
Total debt	\$50.9	\$51.7	\$54.5
Total liabilities	\$105.7	\$113.0	\$121.9
Equity	\$20.1	\$19.0	\$22.4

\$ in billions

*includes eliminations of inter-company activity

Cash flow summary

Consolidated

	QTD 3Q22	B/(W) Yr/Yr	YTD 3Q22	B/(W) Yr/Yr
Net cash from operations	\$1.9	(\$0.8)	\$6.5	(\$3.8)
Less: IBM Financing receivables	\$0.7	(\$0.8)	\$1.1	(\$4.2)
Net cash from operations (excluding IBM Financing receivables)	\$1.2	(\$0.0)	\$5.4	\$0.4
Net capital expenditures	(\$0.4)	\$0.2	(\$1.3)	\$0.5
Free cash flow (excluding IBM Financing receivables)	\$0.8	\$0.1	\$4.1	\$0.9
Acquisitions	(\$0.1)	\$0.1	(\$1.0)	\$2.0
Divestitures	\$0.0	(\$0.0)	\$1.3	\$1.2
Dividends	(\$1.5)	(\$0.0)	(\$4.5)	(\$0.1)
Non-IBM Financing debt	\$2.9	\$1.8	\$4.7	\$5.8
Other (includes IBM Financing net A/R & IBM Financing debt)	(\$0.2)	(\$0.2)	(\$2.4)	(\$1.9)
Change in cash & marketable securities	\$1.9	\$1.7	\$2.2	\$8.0

\$ in billions

Cash flow (ASC230)

Consolidated

	QTD 3Q22	QTD 3Q21	YTD 3Q22	YTD 3Q21
Net income/(loss) from operations	(\$3.2)	\$1.1	(\$1.1)	\$3.4
Pension settlement charges	\$5.9	-	\$5.9	-
Depreciation / amortization of intangibles	\$1.2	\$1.7	\$3.7	\$5.0
Stock-based compensation	\$0.3	\$0.3	\$0.7	\$0.7
Working capital / other	(\$2.9)	(\$1.8)	(\$3.8)	(\$4.1)
IBM Financing A/R	\$0.7	\$1.5	\$1.1	\$5.2
Net cash provided by operating activities	\$1.9	\$2.7	\$6.5	\$10.3
Capital expenditures, net of payments & proceeds	(\$0.4)	(\$0.6)	(\$1.3)	(\$1.9)
Divestitures, net of cash transferred	\$0.0	\$0.1	\$1.3	\$0.0
Acquisitions, net of cash acquired	(\$0.1)	(\$0.2)	(\$1.0)	(\$3.0)
Marketable securities / other investments, net	(\$1.2)	\$0.1	(\$1.8)	(\$0.5)
Net cash provided by/(used in) investing activities	(\$1.7)	(\$0.6)	(\$2.9)	(\$5.3)
Debt, net of payments & proceeds	\$2.1	(\$0.3)	\$2.6	(\$6.1)
Dividends	(\$1.5)	(\$1.5)	(\$4.5)	(\$4.4)
Common stock repurchases	-	-	-	-
Financing - other	\$0.1	\$0.0	(\$0.2)	(\$0.2)
Net cash provided by/(used in) financing activities	\$0.7	(\$1.7)	(\$2.1)	(\$10.7)
Effect of exchange rate changes on cash	(\$0.2)	(\$0.1)	(\$0.5)	(\$0.2)
Net change in cash, cash equivalents & restricted cash	\$0.7	\$0.2	\$1.0	(\$5.9)

\$ in billions

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

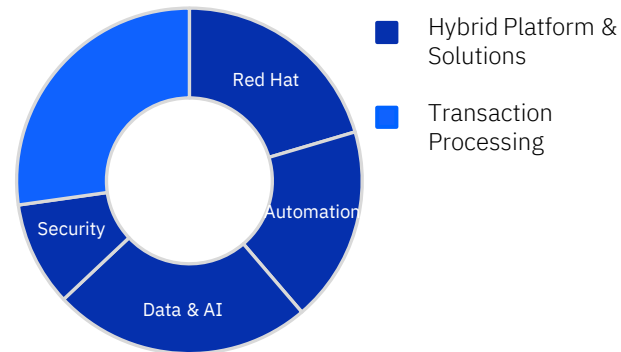
Security: incl. software and services for threat, data and identity

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 2021



Consulting segment categories

Revenue categories

Business Transformation

Services that enable clients to apply technologies at scale to transform key workflows, processes and domains end-to-end

incl. finance & supply chain, talent, strategy, business process design and operations, data and analytics, and system integration

These services deploy AI in business processes to exploit the value of data

incl. a full ecosystem of partners: SAP, Adobe, Salesforce and Oracle, among others

Technology Consulting

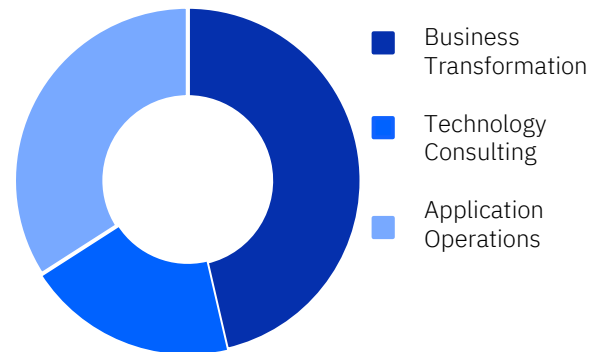
The skills to architect and implement cloud platforms and strategies to transform enterprise experience and enable innovation, including application modernization on the hybrid cloud with Red Hat OpenShift

Application Operations

Application and cloud platform services required to operationalize and run cloud platforms

Manage, optimize, and orchestrate application and data workloads across environments through both custom applications and ISV/ERP packages

Revenue categories – FY 2021



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

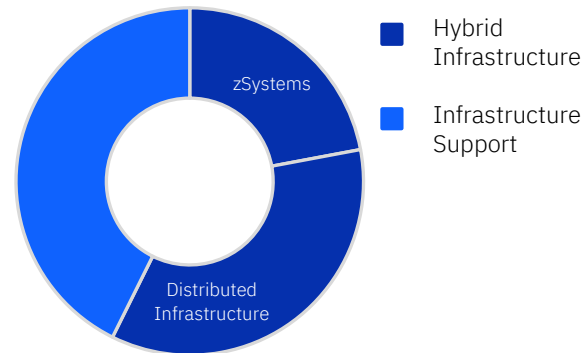
Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

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 2021



Non-GAAP supplemental materials

Reconciliation of revenue performance - 3Q 2022

	3Q22 Yr/Yr	
	GAAP	@CC
Total revenue	6%	15%
Total hybrid cloud	11%	19%
Total hybrid cloud (TTM)	15%	20%
Americas	13%	13%
Europe/ME/Africa	1%	16%
Asia Pacific	Flat	16%

The above reconciles the non-GAAP financial information contained in the “Financial 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 October 19, 2022, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of segment revenue performance - 3Q 2022

	3Q22 Yr/Yr	
	GAAP	@CC
Software	7%	14%
Hybrid Platform & Solutions	2%	8%
Red Hat	12%	18%
Automation	(2%)	3%
Data & AI	(1%)	4%
Security	(1%)	6%
Transaction Processing	23%	33%
Hybrid cloud revenue (TTM)	16%	20%

	3Q22 Yr/Yr	
	GAAP	@CC
Consulting	5%	16%
Business Transformation	5%	14%
Technology Consulting	6%	17%
Application Operations	6%	17%
Hybrid cloud revenue (TTM)	21%	28%
Infrastructure	15%	23%
Hybrid Infrastructure	33%	41%
zSystems	88%	98%
Distributed Infrastructure	13%	21%
Infrastructure Support	(3%)	5%
Hybrid cloud revenue (TTM)	3%	6%

The above reconciles the non-GAAP financial information contained in the “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 October 19, 2022, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of expense summary - 3Q 2022

	GAAP	3Q22 Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	5 pts	0 pts	5 pts
Acquisitions/divestitures	0 pts	0 pts	0 pts
Base*	(7 pts)	(1 pts)	(8 pts)
RD&E			
Currency	3 pts	0 pts	3 pts
Acquisitions/divestitures	5 pts	0 pts	5 pts
Base*	(8 pts)	0 pts	(8 pts)
Operating expense & other income			
Currency	6 pts	0 pts	7 pts
Acquisitions/divestitures	3 pts	(2 pts)	1 pts
Base*	(99 pts)	92 pts	(7 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 19, 2022, 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 continuing operations - 3Q 2022

	3Q22					
	GAAP	Acquisition- related adjustments	Retirement- related adjustments*	Tax reform impacts	Kyndryl- related impact	Operating (non-GAAP)
Gross profit	\$7,430	\$165	—	—	—	\$7,595
Gross profit margin	52.7%	1.2 pts	—	—	—	53.8%
SG&A	4,391	(253)	—	—	(0)	4,138
Other (income) & expense	5,755	(1)	(6,062)	—	14	(293)
Total expense	11,931	(253)	(6,062)	—	14	5,630
Pre-tax income	(4,501)	418	6,062	—	(14)	1,965
Pre-tax income margin	(31.9%)	3.0 pts	43.0 pts	—	(0.1 pts)	13.9%
Tax rate	28.6%	(0.8 pts)	(12.1 pts)	0.0 pts	0.2 pts	15.9%
Net income	(3,214)	315	4,566	—	(14)	1,653
Net income margin	(22.8%)	2.2 pts	32.4 pts	0.0 pts	(0.1 pts)	11.7%
Earnings per share**	(\$3.55)	\$0.35	\$5.05	\$0.00	-\$0.02	\$1.81

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

*Includes a one-time non-cash pre-tax pension settlement charge of \$5.9 billion (\$4.4 billion net of tax)

**Operating (non-GAAP) EPS was calculated using 912.8 million shares, which includes 8.8 million dilutive potential shares under our stock-based compensation plans and contingently issuable shares. Due to the GAAP net loss for the three months ended September 30, 2022, these dilutive potential shares were excluded from the GAAP loss per share calculation as the effect would have been antidilutive. The difference in share count resulted in an additional (\$0.02) reconciling item.

The above reconciles the non-GAAP financial information contained in the “Financial highlights”, “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 October 19, 2022, for additional information on the use of these Non-GAAP financial measures.

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