

# IBM 4Q 2018 Earnings

January 22, 2019

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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 January 22, 2019. 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/4q18.html>



# Overview

4Q18	<b>\$21.8B</b>	<b>\$ 4.87</b>	
FY18	<b>\$79.6B</b>	<b>\$13.81</b>	<b>\$11.9B</b>
	<i>Revenue</i>	<i>Operating EPS</i>	<i>Free Cash Flow</i>

- Full year performance reflects growth in revenue, operating pre-tax income, and operating earnings per share
- Continued growth in high value offerings that address hybrid cloud and analytics/AI
  - Strong software performance with growth across Cognitive Solutions and Integration Software
  - Services revenue growth and margin expansion led by consulting
  - Cloud driven by as-a-Service growth of 21% @cc in the fourth quarter
- Improved margin performance throughout the year; expanded gross and pre-tax margin in the fourth quarter
- Announced Red Hat acquisition to accelerate leadership in hybrid cloud



# Key Financial Metrics

- Revenue growth in software and services, offset by IBM Z product cycle (3 point impact)
- Gross and pre-tax margin expansion, led by services
- Net income and operating earnings per share reflects yr/yr tax headwinds
- Free cash flow performance supports investment and shareholder returns

<b>P&amp;L Highlights</b>	4Q18	B/(W) Yr/Yr
Revenue	\$21.8	(1%)
Cognitive Solutions		2%
Global Business Services		6%
Technology Svcs & Cloud Platforms		Flat
Systems		(20%)
GP - Operating	\$10.8	(3%)
Expense - Operating	\$5.7	5%
PTI - Operating	\$5.0	(1%)
NI - Operating	\$4.4	(8%)
EPS - Operating	\$4.87	(5%)

<b>P&amp;L Ratios (Operating)</b>	4Q18	B/(W) Yr/Yr
GP Margin	49.5%	0.1 pts
Expense E/R	26.4%	0.5 pts
PTI Margin	23.1%	0.5 pts
Tax Rate	12.2%	(6.1 pts)
NI Margin	20.3%	(0.9 pts)

<b>Cash Highlights</b>	4Q18	FY
Free Cash Flow (excl. GF Receivables)	\$6.5	\$11.9
Share Repurchase (Gross)	\$2.0	\$4.4
Dividends	\$1.4	\$5.7
Cash Balance @ Dec 31	\$12.2	

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



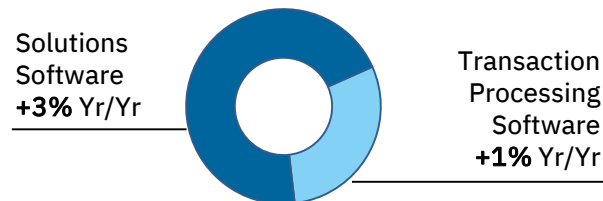
# Cognitive Solutions Segment

Segment Results	4Q18	Yr/Yr
Revenue (External)	\$5.5	2%
PTI	\$2.4	7%
PTI Margin	40.3%	2.9 pts

## Highlights

- Solutions Software growth led by analytics and AI offerings
- Transaction Processing Software growth reflects clients' long-term commitment to our platform
- Pre-tax margin expansion driven by revenue growth, operating efficiencies, and mix
- Announced divestiture of select products, improves revenue profile over time

## Segment Revenue Elements



Strategic Imperatives Revenue within Cognitive Solutions	4Q18	Yr/Yr
Strategic Imperatives	\$3.7	9%
Cloud	\$0.7	5%
as-a-Service annual run rate	\$2.0	



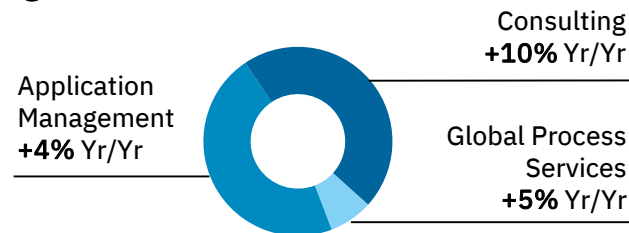
# Global Business Services Segment

Segment Results	4Q18	Yr/Yr
Revenue (External)	\$4.3	6%
Gross Margin (External)	27.6%	3.0 pts
PTI	\$0.6	73%
PTI Margin	12.9%	5.2 pts

## Highlights

- Strong revenue performance, with growth across all three business areas
- Consulting growth driven by Digital Strategy, CRM, and next generation Enterprise Application offerings
- Gross margin expansion driven by operating leverage, mix to higher value offerings and productivity

## Segment Revenue Elements



Strategic Imperatives Revenue within Global Business Services	4Q18	Yr/Yr
Strategic Imperatives	\$2.9	14%
Cloud	\$1.4	34%
as-a-Service annual run rate	\$2.1	



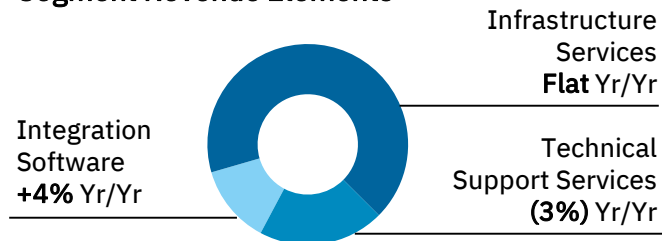
# Technology Services and Cloud Platforms Segment

Segment Results	4Q18	Yr/Yr
Revenue (External)	\$8.9	Flat
Gross Margin (External)	42.3%	1.5 pts
PTI	\$1.4	(3%)
PTI Margin	15.2%	(0.2 pts)

## Highlights

- Continued momentum in hybrid cloud with signings growth and increased adoption of IBM Cloud Private
- Gross margin expansion driven by productivity
- Continued investment to capture hybrid cloud opportunity

## Segment Revenue Elements



Strategic Imperatives Revenue within Technology Svcs & Cloud Platforms	4Q18	Yr/Yr
Strategic Imperatives	\$3.2	13%
Cloud	\$2.4	22%
as-a-Service annual run rate	\$8.0	



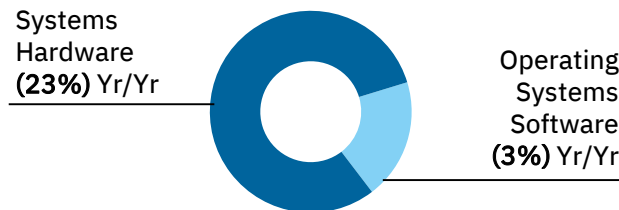
# Systems Segment

Segment Results	4Q18	Yr/Yr
Revenue (External)	\$2.6	(20%)
PTI	\$0.6	(39%)
PTI Margin	19.3%	(6.5 pts)

## Highlights

- IBM Z performance reflects expected wrap on robust 4Q17, continued strong demand for new workloads
- Power strength driven by POWER9 adoption
- Margin dynamics reflect mix headwind from IBM Z

## Segment Revenue Elements



Strategic Imperatives Revenue within Systems	4Q18	Yr/Yr
Strategic Imperatives	\$1.6	(22%)
Cloud	\$1.1	(31%)





# Cash Flow and Balance Sheet Highlights

Cash Flow	4Q18	Yr/Yr	FY
Net Cash from Operations*	\$7.3	(\$0.4)	\$15.6
Free Cash Flow*	\$6.5	(\$0.4)	\$11.9
<b>Selected Uses of Cash</b>			
Net Capital Expenditures	\$0.9		\$3.7
Acquisitions	\$0.0		\$0.1
Dividends/Share Repurchase	\$3.5		\$10.1

- Full-year free cash flow performance reflects expected yr/yr headwinds in capex, working capital, and cash tax
- Committed to continued dividend increases
- Free cash flow realization ~111%\*\* for the year

\$ in billions

\*Excludes Global Financing receivables

\*\*Adjusted for the charges associated with enactment of U.S. tax reform

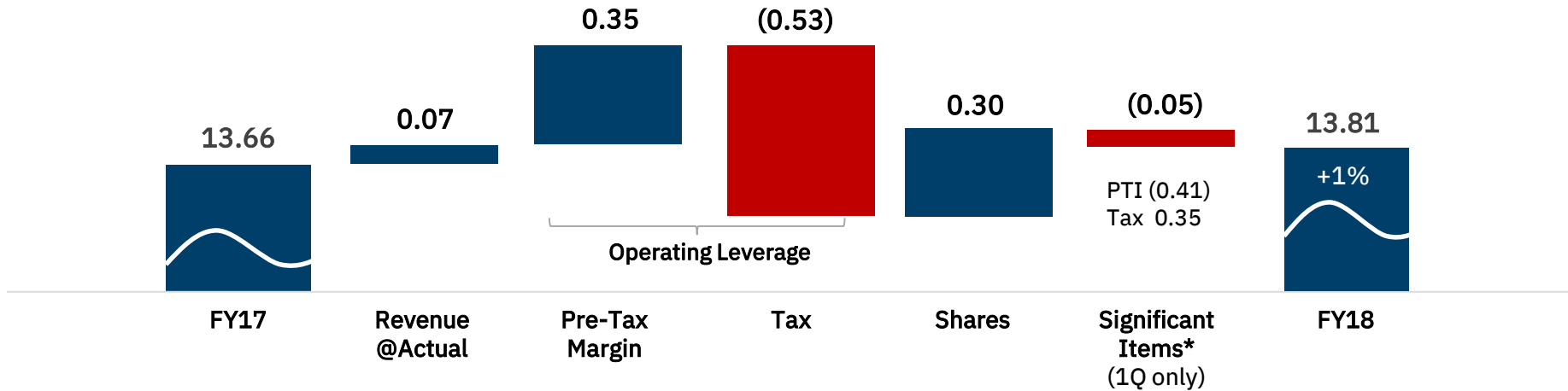
\*\*\*Reflects adoption of the FASB guidance on restricted cash, Dec 17 recast

Balance Sheet	Dec 18	Dec 17
Cash & Marketable Securities***	\$12.2	\$12.8
<b>Total Debt</b>		
	\$45.8	\$46.8
<b>Global Financing Debt</b>		
	\$31.2	\$31.4
<b>Global Financing Leverage</b>		
	9.0	9.0
<b>Non-GF Debt</b>		
	\$14.6	\$15.4

- Positioned to support business over the longer term
- Committed to strong investment grade credit rating
- Pension plans remain well-funded



# Operating Earnings per Share Drivers – FY17 to FY18



4Q17					4Q18
5.14	(0.16)	0.11	(0.34)	0.12	4.87

- Full year performance reflects growth in revenue, operating pre-tax income, and operating earnings per share, with margin expansion in the second half

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



# Summary

- Full year performance reflects growth in revenue, operating pre-tax income, and operating earnings per share, with solid free cash flow realization
  - Continued momentum in Global Business Services
  - Strong finish in software
  - Successful IBM Z and Power programs
  - Operating leverage and productivity drove margin expansion
- Executing strategic investments and disciplined portfolio management
  - IBM + Red Hat creates leading hybrid cloud provider
  - Software and services divestitures improve revenue profile going forward and support shift to higher value
- Expect at least \$13.90 of operating earnings per share, and approximately \$12 billion of free cash flow for 2019





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# Supplemental Materials

- Currency – Impact on Revenue Growth
- Divested Businesses – 2019 Implications
- 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)
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- Strategic Imperatives & Geographic Revenue – FY 2018
- Segment Revenue & Gross Profit – FY 2018
- Expense Summary – FY 2018
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# Currency – Impact on Revenue Growth

<b>Quarterly Averages per US \$</b>	3Q18	Yr/Yr	4Q18	Yr/Yr	1/18/2019 Spot	1Q19	2Q19	3Q19	4Q19	FY19
Euro	0.86	(1%)	0.88	(3%)	0.88	(8%)	(5%)	(2%)	0%	(4%)
Pound	0.77	0%	0.78	(3%)	0.77	(8%)	(5%)	(1%)	0%	(3%)
Yen	111	0%	113	0%	110	(1%)	(0%)	2%	3%	1%
Revenue Impact, Future @ 1/18/19 Spot		(2 pts)		(2.3 pts)		~(4 pts)	~(2 pts)	(0-1 pts)	0-1 pts	(1-2 pts)

	US\$B	Yr/Yr
Revenue As Reported	\$21.8	(3%)
Currency Impact	(\$0.5)	(2 pts)
Revenue @ CC		(1%)



# Divested Businesses - 2019 Implications

- Announced divestiture of collaboration and on-premise marketing and commerce software, and Seterus mortgage servicing business
- Improves revenue and profit profile over the longer term
  - 2019 expectations include a headwind to revenue and free cash flow, and minimal impact to profit and earnings per share

	1Q	2Q	3Q	4Q	FY
<b>2018 Revenue Base</b>	<b>\$0.4</b>	<b>\$0.4</b>	<b>\$0.4</b>	<b>\$0.4</b>	<b>\$1.5</b>
Select Software (Solutions SW)	0.3	0.3	0.3	0.3	1.3
Seterus (Global Process Svcs)	0.06	0.06	0.05	0.05	0.2

	Revenue Growth	Profit & EPS	Free Cash Flow
<b>2019 Implications *</b>	<b>~(1 pt)</b>	<b>~neutral</b>	<b>negative</b>
Foregone profit		-	-
Stranded costs		-	-
Gain/Loss on Sale		+	not included
Charges to address stranded costs		-	-
Savings from actions		+	+

\$ in billions; \* assumes divestiture of select software products closes mid-2019, Seterus closes 1Q19



# Strategic Imperatives Revenue

	4Q18	Yr/Yr	Excluding IBM Z Yr/Yr
<b>Total Strategic Imperatives</b>	<b>\$11.5</b>	<b>5%</b>	<b>11%</b>
Analytics	\$6.4	8%	11%
Cloud	\$5.7	6%	19%
<i>aaS annual run rate</i>	<i>\$12.2</i>	<i>21%</i>	<i>21%</i>
Mobile	\$1.2	(7%)	(7%)
Security	\$1.4	(3%)	17%
Social	\$0.2	(7%)	(7%)

- Strategic imperatives revenue of \$39.8 billion in 2018, half of IBM revenue
- Strategic imperatives revenue growth impacted by IBM Z cycle; double-digit growth across analytics, cloud, and security excluding IBM Z
- Continued strong growth in cloud revenue delivered as-a-Service
- Analytics growth across software and GBS, as clients leverage data for competitive advantage

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud

Supplemental Materials





# Geographic Revenue

<b>Geography Revenue</b>	<b>4Q18</b>	<b>Yr/Yr</b>
Americas	\$10.2	(4%)
Europe/ME/Africa	\$7.1	2%
Asia Pacific	\$4.5	(1%)

- Americas reflects strong growth in Latin America offset by a decline in the US, reflecting IBM Z cycle dynamics
- E/ME/A accelerated to 2% growth, led by Germany, UK, Spain, and Italy
- Asia Pacific yr/yr performance consistent with 3Q18, with 5% growth in Japan



# Segment Revenue & Gross Profit

Segment Revenue & Gross Profit Metrics - 4Q18	4Q18	Yr/Yr	4Q18	Yr/Yr
	Revenue		GP%	
<b>Cognitive Solutions</b>	<b>\$5.5</b>	<b>2%</b>	<b>79.4%</b>	<b>0.2 pts</b>
Solutions Software	\$3.8	3%		
Transaction Processing Software	\$1.6	1%		
<b>Global Business Services</b>	<b>\$4.3</b>	<b>6%</b>	<b>27.6%</b>	<b>3.0 pts</b>
Consulting	\$2.0	10%		
Global Process Services	\$0.3	5%		
Application Management	\$2.0	4%		
<b>Technology Services &amp; Cloud Platforms</b>	<b>\$8.9</b>	<b>Flat</b>	<b>42.3%</b>	<b>1.5 pts</b>
<i>Global Technology Services</i>	<i>\$7.5</i>	<i>(1%)</i>	<i>34.9%</i>	<i>1.5 pts</i>
Infrastructure Services	\$5.8	Flat		
Technical Support Services	\$1.7	(3%)		
Integration Software	\$1.4	4%	82.1%	(1.2 pts)
<b>Systems</b>	<b>\$2.6</b>	<b>(20%)</b>	<b>50.8%</b>	<b>(4.9 pts)</b>
Systems Hardware	\$2.2	(23%)	43.6%	(7.5 pts)
Operating Systems Software	\$0.4	(3%)	86.2%	1.6 pts
<b>Global Financing</b>	<b>\$0.4</b>	<b>(9%)</b>	<b>29.1%</b>	<b>(0.3 pts)</b>

Revenue growth rates @CC, \$ in billions

Supplemental Materials



# Additional Revenue & Backlog Information

	4Q18	Yr/Yr
<b>Systems Hardware Revenue</b>	\$2.2	(23%)
IBM Z		(44%)
Power		10%
Storage		(7%)

	4Q18	Yr/Yr
<b>Signings</b>	\$15.8	21%
<b>Services Backlog</b>	\$116	(1%)
Backlog Yr/Yr @Actual		(4%)

Growth rates @CC, \$ in billions, Services Backlog calculated using December 31 currency spot rates



# Expense Summary

Expense Metrics	4Q18	B/(W)	Currency	Acq.*	Base**
		Yr/Yr			
SG&A – Operating	\$4.6	6%	3 pts	0 pts	4 pts
RD&E	\$1.4	1%	1 pts	0 pts	0 pts
IP and Custom Development Income	(\$0.2)	(47%)			
Other (Income)/Expense - Operating	(\$0.2)	NM			
Interest Expense	\$0.2	(18%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$5.7</b>	<b>5%</b>	<b>5 pts</b>	<b>0 pts</b>	<b>1 pts</b>

- Yr/yr performance reflects operational efficiencies in SG&A and RD&E, mitigated by lower level of IP income
- Continued to invest in high growth opportunities
- Currency reflects translation and yr/yr hedging benefits, which mitigate currency impacts through P&L

\$ 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

	Dec 18	Dec 17
Cash & Marketable Securities*	\$12.2	\$12.8
Non-GF Assets*, **	\$71.7	\$74.2
Global Financing Assets*	\$39.5	\$38.3
Total Assets	\$123.4	\$125.4
Other Liabilities	\$60.6	\$60.8
Non-GF Debt**	\$14.6	\$15.4
Global Financing Debt	\$31.2	\$31.4
Total Debt	\$45.8	\$46.8
Total Liabilities	\$106.5	\$107.6
Equity	\$16.9	\$17.7
Global Financing Leverage	9.0	9.0

\$ in billions

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

\*\*includes eliminations of inter-company activity

Supplemental Materials



# Cash Flow Summary

	4Q18	B/(W) Yr/Yr	FY18	B/(W) Yr/Yr
Net Cash from Operations	\$4.1	(\$1.6)	\$15.2	(\$1.5)
Less: Global Financing Receivables	(\$3.2)	(\$1.2)	(\$0.3)	(\$0.8)
<b>Net Cash from Operations (excluding GF Receivables)</b>	<b>\$7.3</b>	<b>(\$0.4)</b>	<b>\$15.6</b>	<b>(\$0.7)</b>
Net Capital Expenditures	(\$0.9)	\$0.1	(\$3.7)	(\$0.4)
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>\$6.5</b>	<b>(\$0.4)</b>	<b>\$11.9</b>	<b>(\$1.1)</b>
Acquisitions	(\$0.0)	\$0.0	(\$0.1)	\$0.4
Divestitures	\$0.0	\$0.2	\$0.0	\$0.2
Dividends	(\$1.4)	(\$0.0)	(\$5.7)	(\$0.2)
Share Repurchases (Gross)	(\$2.0)	(\$1.4)	(\$4.4)	(\$0.1)
Non-GF Debt	(\$2.1)	(\$1.3)	(\$0.5)	(\$1.6)
Other (includes GF Net A/R & GF Debt)*	(\$3.3)	(\$0.7)	(\$1.7)	(\$2.3)
Change in Cash & Marketable Securities*	(\$2.4)	(\$3.5)	(\$0.6)	(\$4.7)

\$ in billions

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

Supplemental Materials



# Cash Flow (ASC 230)

	4Q18	4Q17	FY18	FY17
<b>Net Income from Operations</b>	<b>\$2.0</b>	<b>(\$1.1)</b>	<b>\$8.7</b>	<b>\$5.8</b>
Depreciation / Amortization of Intangibles	\$1.1	\$1.1	\$4.5	\$4.5
Stock-based Compensation	\$0.1	\$0.1	\$0.5	\$0.5
Working Capital / Other	\$4.1	\$7.5	\$1.9	\$5.5
Global Financing A/R	(\$3.2)	(\$2.0)	(\$0.3)	\$0.4
<b>Net Cash provided by Operating Activities</b>	<b>\$4.1</b>	<b>\$5.7</b>	<b>\$15.2</b>	<b>\$16.7</b>
Capital Expenditures, net of payments & proceeds	(\$0.9)	(\$1.0)	(\$3.7)	(\$3.3)
Divestitures, net of cash transferred	\$0.0	(\$0.2)	\$0.0	(\$0.2)
Acquisitions, net of cash acquired	(\$0.0)	(\$0.1)	(\$0.1)	(\$0.5)
Marketable Securities / Other Investments, net*	\$1.3	(\$2.6)	(\$1.1)	(\$3.1)
<b>Net Cash used in Investing Activities*</b>	<b>\$0.5</b>	<b>(\$3.8)</b>	<b>(\$4.9)</b>	<b>(\$7.1)</b>
Debt, net of payments & proceeds	(\$1.1)	\$1.1	(\$0.3)	\$3.4
Dividends	(\$1.4)	(\$1.4)	(\$5.7)	(\$5.5)
Common Stock Repurchases	(\$2.0)	(\$0.7)	(\$4.4)	(\$4.3)
Common Stock Transactions - Other	\$0.0	(\$0.0)	(\$0.1)	(\$0.0)
<b>Net Cash used in Financing Activities</b>	<b>(\$4.6)</b>	<b>(\$0.9)</b>	<b>(\$10.5)</b>	<b>(\$6.4)</b>
Effect of Exchange Rate changes on Cash	(\$0.1)	\$0.1	(\$0.5)	\$0.9
<b>Net Change in Cash &amp; Cash Equivalents*</b>	<b>(\$0.1)</b>	<b>\$1.1</b>	<b>(\$0.6)</b>	<b>\$4.2</b>

\$ in billions

\*Reflects adoption of the FASB guidance on restricted cash, 4Q17 & FY17 recast

Supplemental Materials



# Key Financial Metrics – FY 2018

<b>P&amp;L Highlights</b>	<b>FY18</b>	<b>B/(W) Yr/Yr</b>
Revenue	\$79.6	Flat
Cognitive Solutions		Flat
Global Business Services		2%
Technology Svcs & Cloud Platforms		Flat
Systems		(2%)
GP - Operating	\$37.3	Flat
Expense - Operating	\$23.6	Flat
PTI - Operating	\$13.7	Flat
NI - Operating	\$12.7	(1%)
EPS - Operating	\$13.81	1%

<b>P&amp;L Ratios (Operating)</b>	<b>FY18</b>	<b>B/(W) Yr/Yr</b>
GP Margin	46.9%	(0.4 pts)
Expense E/R	29.6%	0.3 pts
PTI Margin	17.3%	(0.1 pts)
Tax Rate	7.9%	(1.1 pts)
NI Margin	15.9%	(0.3 pts)

<b>Cash Highlights</b>	<b>4Q18</b>	<b>FY</b>
Free Cash Flow (excl. GF Receivables)	\$6.5	\$11.9
Share Repurchase (Gross)	\$2.0	\$4.4
Dividends	\$1.4	\$5.7
Cash Balance @ Dec 31	\$12.2	

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

Supplemental Materials





# Strategic Imperatives & Geographic Revenue – FY 2018

	FY18	Yr/Yr	Excluding IBM Z Yr/Yr
<b>Total Strategic Imperatives</b>	<b>\$39.8</b>	<b>9%</b>	<b>9%</b>
Analytics	\$21.7	5%	5%
Cloud	\$19.2	12%	15%
<i>aaS annual run rate</i>			
Mobile	\$5.0	3%	3%
Security	\$4.1	28%	12%
Social	\$0.8	(15%)	(15%)

	FY18	Yr/Yr
<b>Geography Revenue</b>		
Americas	\$37.0	(1%)
Europe/ME/Africa	\$25.5	1%
Asia Pacific	\$17.1	Flat

Revenue growth rates @CC, \$ in billions

Overlap in Strategic Imperatives revenue primarily reflects solutions delivered via cloud

Supplemental Materials



# Segment Revenue & Gross Profit – FY 2018

Segment Revenue & Gross Profit Metrics - FY18	FY18 Revenue	Yr/Yr	FY18 GP%	Yr/Yr
<b>Cognitive Solutions</b>	<b>\$18.5</b>	<b>Flat</b>	<b>77.5%</b>	<b>(1.1 pts)</b>
Solutions Software	\$12.9	Flat		
Transaction Processing Software	\$5.6	(2%)		
<b>Global Business Services</b>	<b>\$16.8</b>	<b>2%</b>	<b>26.7%</b>	<b>1.7 pts</b>
Consulting	\$7.7	5%		
Global Process Services	\$1.3	(1%)		
Application Management	\$7.9	(1%)		
<b>Technology Services &amp; Cloud Platforms</b>	<b>\$34.5</b>	<b>Flat</b>	<b>40.5%</b>	<b>0.2 pts</b>
<i>Global Technology Services</i>	\$30.0	Flat	34.4%	0.2 pts
Infrastructure Services	\$23.0	1%		
Technical Support Services	\$7.0	(3%)		
Integration Software	\$4.5	2%	81.3%	(0.4 pts)
<b>Systems</b>	<b>\$8.0</b>	<b>(2%)</b>	<b>49.8%</b>	<b>(3.4 pts)</b>
Systems Hardware	\$6.4	(2%)	40.7%	(3.8 pts)
Operating Systems Software	\$1.7	(2%)	84.5%	(1.9 pts)
<b>Global Financing</b>	<b>\$1.6</b>	<b>(7%)</b>	<b>29.1%</b>	<b>(0.2 pts)</b>

Revenue growth rates @CC, \$ in billions

Supplemental Materials



# Expense Summary – FY 2018

<b>Expense Metrics</b>	<b>FY18</b>	<b>B/(W) Yr/Yr</b>	<b>Currency</b>	<b>Acq.*</b>	<b>Base**</b>
SG&A – Operating	\$18.9	1%	0 pts	0 pts	2 pts
RD&E	\$5.4	4%	0 pts	0 pts	4 pts
IP and Custom Development Income	(\$1.0)	(30%)			
Other (Income)/Expense - Operating	(\$0.4)	65%			
Interest Expense	\$0.7	(18%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$23.6</b>	<b>Flat</b>	<b>0 pts</b>	<b>0 pts</b>	<b>0 pts</b>

\$ 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



# Retirement-Related Summary

Key Assumptions and Metrics	2017	2018	2019
<b>Funded Status at Year-end*</b>			
US	104%	104%	
WW	100%	99%	
<b>Discount Rate at Year-end</b>			
US	3.4%	4.1%	
WW	2.6%	3.0%	
<b>Expected ROA at Prior Year-end</b>			
US	5.8%	5.3%	5.3%
WW	4.9%	4.5%	4.9%
<b>Actual ROA</b>			
US	9.6%	(1.8%)	
WW	8.3%	(1.9%)	

Cost and Contributions	Expected	
	2018	2019
Operating Cost	\$1.5	\$1.5
Non-operating Cost**	\$1.6	\$0.6
Total Cost	\$3.1	\$2.0
<hr/>		
Contributions***	\$2.3	\$2.4

\$ in billions

\*Tax Qualified Defined Benefit Plans

\*\*2019 non-operating cost reflects ~\$900 million reduction due to change in amortization period for actuarial losses in US defined benefit pension plans; no changes to operating results or free cash flow; will reduce FCF realization as a percent of GAAP net income

\*\*\*includes cash and non-cash contributions

Supplemental Materials



# Non-GAAP Supplemental Materials

## Reconciliation of Operating Earnings Per Share

	2019 Expectations
GAAP Diluted EPS	at least \$12.45
Operating EPS (Non-GAAP)	at least \$13.90
<hr/>	
Adjustments	
Acquisition-Related Charges*	\$0.91
Non-Operating Retirement-Related Items	\$0.45
Tax Reform Enactment Impacts	\$0.09

\*Includes acquisitions as of December 31, 2018, and pre-closing charges such as financing costs, associated with the Red Hat acquisition

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 January 22, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 4Q & FY 2018

	4Q18 Yr/Yr		FY18 Yr/Yr	
	GAAP	@CC	GAAP	@CC
Americas	(5%)	(4%)	(2%)	(1%)
Europe/ME/Africa	(1%)	2%	4%	1%
Asia Pacific	(3%)	(1%)	Flat	Flat
Japan	6%	5%	3%	1%

The above reconciles the Non-GAAP financial information contained in the “Geographic Revenue” and “Strategic Imperatives & Geographic Revenue – FY 2018” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated January 22, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 4Q & FY 2018

	4Q18 Yr/Yr		FY18 Yr/Yr	
	GAAP	@CC	GAAP	@CC
Strategic Imperatives	3%	5%	9%	9%
Analytics	6%	8%	5%	5%
Cloud	3%	6%	12%	12%
<i>aaS annual run rate</i>	<i>18%</i>	<i>21%</i>		
Mobile	(9%)	(7%)	4%	3%
Security	(4%)	(3%)	29%	28%
Social	(8%)	(7%)	(14%)	(15%)

The above reconciles the Non-GAAP financial information contained in the “Strategic Imperatives Revenue” and “Strategic Imperatives and Geographic Revenue – FY 2018” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated January 22, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 4Q & FY 2018

	Excluding IBM Z 4Q18 Yr/Yr		Excluding IBM Z FY18 Yr/Yr	
	GAAP	@CC	GAAP	@CC
Strategic Imperatives	9%	11%	9%	9%
Analytics	9%	11%	6%	5%
Cloud	15%	19%	16%	15%
<i>aaS annual run rate</i>	18%	21%		
Mobile	(9%)	(7%)	4%	3%
Security	15%	17%	13%	12%
Social	(8%)	(7%)	(14%)	(15%)

The above reconciles the Non-GAAP financial information contained in the “Strategic Imperatives Revenue” and “Strategic Imperatives and Geographic Revenue – FY 2018” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated January 22, 2019 for additional information on the use of these Non-GAAP financial measures.





# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 4Q 2018

	4Q18 Yr/Yr	
	GAAP	@CC
<b>Cognitive Solutions</b>	<b>Flat</b>	<b>2%</b>
Solutions Software	1%	3%
Transaction Processing Software	(1%)	1%
Strategic Imperatives	7%	9%
Cloud	4%	5%
<b>Global Business Services</b>	<b>4%</b>	<b>6%</b>
Consulting	7%	10%
Global Process Services	2%	5%
Application Management	1%	4%
Strategic Imperatives	11%	14%
Cloud	30%	34%

	4Q18 Yr/Yr	
	GAAP	@CC
<b>Tech Svcs &amp; Cloud Platforms</b>	<b>(3%)</b>	<b>Flat</b>
Global Technology Services	(4%)	(1%)
Infrastructure Services	(3%)	Flat
Technical Support Services	(6%)	(3%)
Integration Software	2%	4%
Strategic Imperatives	10%	13%
Cloud	19%	22%
<b>Systems</b>	<b>(21%)</b>	<b>(20%)</b>
Systems Hardware	(24%)	(23%)
IBM Z	(45%)	(44%)
Power	9%	10%
Storage	(8%)	(7%)
Operating Systems Software	(4%)	(3%)
Strategic Imperatives	(23%)	(22%)
Cloud	(32%)	(31%)
<b>Global Financing</b>	<b>(11%)</b>	<b>(9%)</b>

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 January 22, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - FY 2018

	FY18 Yr/Yr	
	GAAP	@CC
<b>Cognitive Solutions</b>	<b>Flat</b>	<b>Flat</b>
Solutions Software	1%	Flat
Transaction Processing Software	(1%)	(2%)
<b>Global Business Services</b>	<b>3%</b>	<b>2%</b>
Consulting	6%	5%
Global Process Services	Flat	(1%)
Application Management	Flat	(1%)
<b>Technology Services &amp; Cloud Platforms</b>	<b>1%</b>	<b>Flat</b>
Global Technology Services	Flat	Flat
Infrastructure Services	1%	1%
Technical Support Services	(3%)	(3%)
Integration Software	2%	2%
<b>Systems</b>	<b>(2%)</b>	<b>(2%)</b>
Systems Hardware	(2%)	(2%)
Operating Systems Software	(2%)	(2%)
<b>Global Financing</b>	<b>(6%)</b>	<b>(7%)</b>

The above reconciles the Non-GAAP financial information contained in the “Segment Revenue & Gross Profit – FY 2018” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated January 22, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Growth - 4Q 2018

	4Q18 Yr/Yr	
	GAAP	@CC
Total Services Revenue	(1%)	2%
Total Software Revenue	Flat	2%

The above reconciles the Non-GAAP financial information contained in the “4Q18 Prepared Remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated January 22, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Expense Summary - 4Q & FY 2018

	4Q18			FY18		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
<b>SG&amp;A</b>						
Currency	3 pts	0 pts	3 pts	0 pts	0 pts	0 pts
Acquisitions	0 pts	0 pts	0 pts	0 pts	0 pts	0 pts
Base *	4 pts	0 pts	4 pts	2 pts	0 pts	2 pts
<b>RD&amp;E</b>						
Currency	1 pts	0 pts	1 pts	0 pts	0 pts	0 pts
Acquisitions	0 pts	0 pts	0 pts	0 pts	0 pts	0 pts
Base *	0 pts	0 pts	0 pts	4 pts	0 pts	4 pts
<b>Operating Expense &amp; Other Income</b>						
Currency	4 pts	0 pts	5 pts	0 pts	0 pts	0 pts
Acquisitions	0 pts	0 pts	0 pts	0 pts	0 pts	0 pts
Base*	1 pts	0 pts	1 pts	0 pts	1 pts	0 pts

The above reconciles the Non-GAAP financial information contained in the “Expense Summary” and “Expense Summary – FY 2018” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the Company’s Form 8-K dated January 22, 2019 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 Realization - FY 2018

	FY	FY Excluding Tax Reform*
Free Cash Flow Realization	136%	~111%

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 January 22, 2019 for additional information on the use of these Non-GAAP financial measures.

\* Adjusted for the charges associated with enactment of U.S. tax reform





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