IBM Strategy and Financial Model 2015

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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), these materials contain certain non-GAAP information including "operating earnings" and other "operating" financial measures. The rationale for management’s use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are included as Attachment II (“Non-GAAP Supplemental Materials”) to the Company’s Forms 8-Ks dated January 20, 2015 and February 26, 2015.
The new IT era is defined by three market shifts

**SHIFT 1**
**Data**
Data is becoming the world’s new natural resource, transforming industries and professions.

**SHIFT 2**
**Cloud**
The emergence of cloud is transforming IT and business processes into digital services.

**SHIFT 3**
**Engagement**
Mobile and social are transforming individual engagement – creating expectations of security, trust and value in return for personal information.

**Our Point of View**
Data is the new basis of competitive advantage

**Our Point of View**
Cloud is the path to new business models.

**Our Point of View**
A systematic approach to engagement is now required.

Data, Cloud, Engagement → IBM’s Strategic Imperatives
IBM’s Strategy addresses these shifts, and continues our focus on delivering high value to our clients

<table>
<thead>
<tr>
<th>STRATEGIC IMPERATIVES</th>
<th>DIFFERENTIATED VALUE FOR OUR CLIENTS</th>
<th>FOCUS ON HIGHER VALUE</th>
<th>RUNNING OUR ENTERPRISE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerate our shift to Data, Cloud &amp; Engagement</td>
<td>Clients need to manage “new” technologies and core systems together → Hybrid Open Partnerships IBM uniquely capable and differentiated</td>
<td>Move up the value stack through software, solutions, automation of services… → … deep industry offerings and expertise</td>
<td>Run our enterprise with speed, agility &amp; eliminate complexity → Revamp how we engage with our clients</td>
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<tr>
<td><strong>Portfolio</strong></td>
<td><strong>Strategic Imperatives</strong></td>
<td><strong>Core Portfolio</strong></td>
<td><strong>Longer-term Financial Model</strong></td>
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</tbody>
</table>
| Well positioned to deliver value in enterprise IT | • Data, Cloud and Engagement  
  • Scaling businesses | • Deep client relationships, solutions based  
  • Innovation drives value | • Segment models  
  • Capital deployment and Free Cash Flow |
|  | Differentiation driven growth and value | High value, essential client IT |  |
PORTFOLIO —
Well positioned to deliver value in enterprise IT
IBM Portfolio includes:

- **Strategic Imperatives**
  - Data, Cloud and Engagement

- **Recurring Core Franchises**
  - Annuity businesses in Services, Software and Financing
  - Highly recurring portions of our Hardware, Software and Services transactional businesses

- **High Value Transactional Businesses**

- **Divested Content**
  - Customer Care BPO, System x and Discontinued Microelectronics

These areas of the portfolio cut across all business segments
Portfolio is well positioned to deliver value in enterprise IT

**Strategic Imperatives**
- Continued momentum with strong double-digit growth
- Shifting $4 billion of spending, investments continue to be focused on Imperatives
- Solution units focused on specific markets and industries
- Partnerships and ecosystems

**Recurring Core Franchises**
- Next generation mainframe
- Strategic Outsourcing backlog positioned to deliver stable performance

**High Value Transactional Businesses**
- High End Power 8 launched

**Divested Content**
- Announced divestiture of Microelectronics in 4Q’14
- Completed sale of the x86 business in 4Q’14
- Completed sale of the Customer Care BPO business in 1Q’14
STRATEGIC IMPERATIVES — Differentiation driven growth and value
Strategic Imperative performance

Revenue growth above market

IBM / Market Strategic Imperatives Revenue growth

Strategic Imperatives Revenue mix

2014 Revenue of $25 billion with mix more than doubling since 2010

High software content drives value

2014 Segment mix

IBM Strategic Imperatives @ CC
IBM Strategic Imperatives @ Actual
Served Market Strategic Imperatives @ CC

Note 1
## Strategic Imperatives capabilities and investments

<table>
<thead>
<tr>
<th>Data</th>
<th>Cloud</th>
<th>Mobile &amp; Social</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000 Consultants and 400 mathematicians</td>
<td>18 Acquired companies including SoftLayer</td>
<td>Partnerships</td>
<td>Scale</td>
</tr>
<tr>
<td>$26B Invested in Big Data &amp; Analytics capabilities</td>
<td>80% Of Fortune 500 companies use IBM’s Cloud capabilities</td>
<td>Transforming enterprise mobility with Apple</td>
<td>15B Security events monitored daily across 130 countries</td>
</tr>
<tr>
<td>500+ Analytics patents generated each year</td>
<td>$8B Invested to date to build Cloud capabilities</td>
<td>6,000 Mobile specialists</td>
<td>6,000 Security specialists</td>
</tr>
<tr>
<td>Watson</td>
<td>46 Cloud data centers planned by the end of 2015</td>
<td>2,800 Social business specialists</td>
<td>9/10 Top banks use IBM Security solutions</td>
</tr>
<tr>
<td>$1B investment</td>
<td></td>
<td>30+ Mobile solutions in the cloud marketplace</td>
<td>27 Security Labs globally</td>
</tr>
</tbody>
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### Differentiators:
- **Data**: Domain Expertise, Real-Time, Structured and Unstructured
- **Cloud**: Hybrid, Security, Designed for Data
- **Mobile & Social**: Understanding Workflow, Hybrid, Security Intelligence

### Engagement
- **Mobile & Social**
  - Partnerships
  - Transforming enterprise mobility with Apple
  - 6,000 Mobile specialists
  - 2,800 Social business specialists
  - 30+ Mobile solutions in the cloud marketplace
- **Security**
  - Scale
  - 15B Security events monitored daily across 130 countries
  - 6,000 Security specialists
  - 9/10 Top banks use IBM Security solutions
  - 27 Security Labs globally
IBM Analytics

2014 Analytics Revenue
$17B, +7% Yr/Yr
Growth ahead of market

IBM ranked a leader in Gartner Magic Quadrant for Advanced Analytics Platforms & Data Integration tools
July 2014

IBM is a leader in the Forrester wave for business intelligence professional services market
November 2014

2018 Market Opportunity
~$315B, 7% CAGR

2014 Segment Revenue Mix

- Hardware ~10%
- Software ~55%
- Services ~35%

Analytics Offerings
Domain Expertise, Real-Time, Structured and Unstructured

- Industry Solutions
- Analytics Platform
- Cloud Data Services
- Internet of Things
- Insight as a Service
- Analytics Consulting Services
IBM Cloud

2014 Cloud Revenue
$7B, +60% Yr/Yr
Growth ahead of market
Annual “as-a-Service” run rate
~$3.5B /Yr

IBM is ranked as the #1 hybrid and private cloud provider for the enterprise
February 2015

IBM is ranked #1 for current hybrid cloud implementations
June 2014

2018 Market Opportunity
~$400B, 23% CAGR

Cloud Offerings — Public, Private and Hybrid
Hybrid, Security, Designed for Data

PUBLIC
Value Driver: Standardization, Scale

HYBRID
Value Driver: Innovation

PRIVATE
Value Driver: Customization

IT INFRASTRUCTURE

2014 “as-a-Service” Segment Revenue Mix
Software ~30%
Services ~70%
For the fifth consecutive year, IDC ranked IBM number one in worldwide market share for enterprise social software
April 2014

IBM is #1 in market share for Security Intelligence & is the only leader in the magic quadrant for managed mobility services
July 2014

2014 Engagement Revenue
Mobile ~$1B, Social ~$1B
Security >$1.5B
Revenue Growth >35% Yr/Yr
Growth ahead of market

2018 Market Opportunity
~$290B, 10% CAGR

Engagement Offerings
Understanding Workflow, Hybrid, Security Intelligence

IBM Mobile
IBM MobileFirst — Cross IBM mobile initiative
- Platform
- Protect
- Solutions

IBM Social
- IBM Verse
- IBM Smarter Workforce
- IBM Connections

IBM Security
- Incident Forensics and Analytics
- Data Security
- Advanced Fraud Protection
Strategic Imperatives grow to ~ $40 billion by 2018

Continued double-digit revenue growth longer-term

Mix increases to more than 40% of IBM

$4B spending shift in 2015 drives growth

13% → 27% → >40%

Note 2
Strategic Imperatives – Differentiation driven growth and value

Core portfolio provides a broad platform for scaling businesses

~80% of IBM revenue is from clients who have deployed cross-IBM solutions of Services, Software and Hardware

Strategic Imperatives have scaled rapidly

**Cloud**
2014 annual ‘as-a-Service’ revenue run-rate of $3.5B
~100% CAGR over last four years

**Mobile**
2014 Revenue: >200% Yr/Yr
~$50M to $1B of revenue over last four years

**Security**
2014 Revenue: >$1.5B, +19% Yr/Yr
~$700M of growth over last four years

Innovation and recent partnerships drive growth

Watson

2H’14 Partnerships

Apple  SAP
Twitter  Tencent

Long-term model reflects double-digit growth in Strategic Imperatives with high software content
CORE PORTFOLIO—
High value, essential client IT
The scope of what we manage for clients spans many industries…

More than 90 of the top 100 banks worldwide use IBM solutions to run their business

9 of the top 10 oil and gas companies in the world are IBM clients

IBM serves 9 of the top 10 electronics companies in the world

80% of the global top 50 retailers run their business on IBM IT systems

92 of the world’s top 100 healthcare organizations work with IBM

22 of the top 25 consumer product companies use IBM products to run their IT system

IBM serves 9 of the top 10 telecom companies in the world

More than 225 state and local governments worldwide rely on an IBM Mainframe to support police and fire departments, utilities, sanitation, parks and hospitals
... and geographies

49 of the top 50 healthcare organizations in the US work with IBM

In the UK, 1/3 of the FTSE 100 use IBM mainframes, as do the top 8 retail banks and the top 5 supermarkets

5 of the top banks in China use IBM to run their daily banking operations

IBM serves the top 3 telecommunications companies in India

17 out of the 22 banks in Nigeria run all their core banking applications on IBM Power platforms

4 of the top 5 retailers in Brazil use IBM technology
Re-inventing the Core: Banking example

Banking transactions growth of ~10% CAGR over ten years

Mainframe capacity deployment continues to grow

Re-invention of Mainframe drives consistent performance

Historical Performance
Eight quarters following announcement

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Gross Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>z10 ('08-'09) Baseline</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>z196 ('10-'12)</td>
<td>102%</td>
<td>103%</td>
</tr>
<tr>
<td>z12 ('12-'14)</td>
<td>99%</td>
<td>101%</td>
</tr>
</tbody>
</table>

Notes 2 and 3
Client environment evolution across industries

**Banking**
- Banking transactions

**Telecommunications**
- Mobile data traffic
- Total (uplink + downlink) monthly traffic (PetaBytes)

**Travel**
- US Mobile and Desktop travel bookings

Notes 2, 4 and 5
Core Portfolio – High value, essential client IT

- The scope of what we manage for clients across industries and geographies is essential
- Portfolio constantly re-invented to address evolving client needs around core IT processes and systems
- High value to clients and IBM
- Ongoing investment shifts to the Strategic Imperatives
  - Continued innovation in the core portfolio
  - Long-term model reflects continued high value and moderating revenue declines
  - Market not expected to grow
LONGER TERM MODEL —
Capital deployment and
segment models
# Capital Deployment

<table>
<thead>
<tr>
<th>Model</th>
<th>‘10 –’14 Investments</th>
<th>Returns</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic Research and Development, Capital Expenditures</td>
<td>$48B</td>
<td>High</td>
<td>• Build on existing competencies&lt;br&gt;• Create new markets</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>$15B</td>
<td>Well above Cost of Capital</td>
<td>• Address shorter-term portfolio gaps&lt;br&gt;• Leverage IBM scale for growth</td>
</tr>
<tr>
<td>Partnerships and Ecosystems</td>
<td>Shift in run rate spending, Limited capital required</td>
<td>High</td>
<td>• Leverage mutual strengths to address client needs&lt;br&gt;• Expand industry and client base</td>
</tr>
</tbody>
</table>
Historic Free Cash Flow Performance

- Historical Free Cash Flow realization in the 90’s adjusting for book/cash tax differential and cash from gains

- Free Cash Flow realization below 100% driven by the impact of
  - Pensions
  - Investments

**Longer-term:** Free Cash Flow Realization in the 90’s
Free Cash Flow realization supports model

**Last 5 Years**
Over 100% of Free Cash Flow returned to shareholders

**Longer Term**
75% - 85% of Free Cash Flow returned to shareholders

**Free Cash Flow / Net Income : 97%**

- **Share Repurchase (net)**
  - 101% Free Cash Flow
  - ~6% annual share reduction

- **Dividends**
  - Double-digit dividend increases

**Free Cash Flow / Net Income : 90’s**

- **Return to Shareholders**
  - 75% - 85% Free Cash Flow

**Longer-term**:
Continued dividend increases, 2% - 3% annual share reduction
## Segment longer-term financial models

| Services       | • Low single-digit revenue growth  
|                | • Mid single-digit pre-tax income growth |
| Hardware       | • Stable, profitable and contributes to IBM financial model |
| Software       | • Low single-digit revenue growth  
|                | • Mid single-digit pre-tax income growth |
| Global Financing | • Grow asset base  
|                | • Maintain high Return on Equity |
IBM Financial Model

**Revenue**
- Strategic Imperatives deliver double-digit growth – opportunity, investments, partnerships
- Core Portfolio performance moderates driven by continuous reinvention

**Pre-Tax Income**
- Services margin expansion through automation, global delivery, flexible labor model
- Software content drives margin expansion
- Spending growth supports investments

**Earnings Per Share**
- 2% – 3% annual share count reduction

**Free Cash Flow**
- 75% – 85% of Free Cash Flow returned to shareholders
  - Includes annual dividend increases

**Longer Term**
- Low single-digit growth

**Mid single-digit growth**

**High single-digit growth**

**Realization in the 90%’s**
Served market growth source: IBM Market Insights
Historical Strategic Imperative Revenue measured on consistent basis
Growth rates reflect constant/modeled currency excluding System x

Adapted from Oppenheimer report “The Brick & Mortar Bank Branch”, 12/5/2013
Source: Bofl Holding, Tower Group, McKinsey & Co., Novantas

Performance estimate — adjusted for currency

Adapted from Ericsson Mobility Report June 2014

Adapted from ‘Skift’ 2014 State of Travel Report
Source: Business Intelligence / WYSE Travel Confederation 2014