

Arvind Krishna
Chairman and Chief Executive Officer
2023 IBM Annual Shareholder Meeting
April 25, 2023

Introduction

2022 marked another pivotal year for IBM, as we executed our strategy with speed, focus and consistency.

Last year, we sharpened our focus on IBM's unique ability to integrate technology and business expertise for our clients and partners. And we strengthened our go-to-market approach, which brings together the necessary software, consulting, and infrastructure our clients require, leveraging IBM's capabilities and our expanding ecosystem of partners.

As a result, I'm pleased to share that our business is growing, our confidence is expanding, and our company is gaining momentum.

The challenges organizations face today underscore the indispensable role of IBM. Whether it's inflation, supply chain disruption, tight labor markets, sustainability, or cybersecurity, our clients and partners want technology that provides solutions and gives them a competitive advantage. That's why they are eager to work with IBM to help increase their productivity, reduce costs, drive innovation, and fuel business growth.

Today, I would like to discuss three topics with you:

- I'll begin with an overview of our financial performance in 2022.
- Then, I'll talk about the progress we've made on executing our strategy.
- Finally, I'll comment on IBM's commitment to advance science, innovation, and responsible stewardship.

2022 Financial Performance

So, let's begin with financial performance. IBM's results last year were an outcome of our hard work to build a stronger company that is more closely aligned with the needs of our clients and partners.

For the year, we generated \$60.5 billion in revenue and \$9.3 billion of consolidated free cash flow. We delivered 12% revenue growth at constant currency, including about four points of revenue growth from incremental sales to a business that we spun off, called Kyndryl. Our business and financial model is strong, with a recurring revenue base that represents about 50% of IBM's total revenue. Today, more than 70% of our annual revenue is in higher growth segments of Software and Consulting.

I'm happy to share that in 2022 our revenue growth was broad-based across IBM's portfolio:

- IBM Software grew 12% at constant currency, including about six points of revenue from incremental sales to Kyndryl.
- IBM Consulting grew 15% at constant currency.
- and IBM Infrastructure grew 14% at constant currency, including about six points of revenue growth from incremental sales to Kyndryl.

With our ability to grow revenue and generate cash, we were able to make important investments to strengthen our business. For example, we spent more than \$2 billion to acquire eight companies last year. I'm also pleased to say that our strong financial performance allowed us to return capital to you, our shareholders, in the form of nearly \$6 billion in dividends.

And today, I am pleased to share with you that the board approved a regular quarterly cash dividend of \$1.66 per common share. We are proud to have raised the dividend for 28 consecutive years.

Next, let me now walk you through the progress we've made on executing our strategy.

Strategy and Execution

The reasons for IBM's improved financial performance are clear. Our portfolio is built around hybrid cloud and artificial intelligence, the two most transformative technologies of our time.

Hybrid cloud has become the leading architecture for enterprises that want to unify their data and applications across multiple clouds, on premise, and at the edge. This hybrid approach delivers many more benefits than relying on a single, public cloud alone, including greater scale, security, ease of use, flexibility, seamless experiences, and faster innovation cycles.

Let me give you an example. The Canadian Imperial Bank of Commerce (CIBC) adopted an IBM hybrid cloud approach that uses Red Hat technology to manage and scale its infrastructure with greater speed and flexibility. As a result, they delivered hundreds of new applications while reducing provisioning time by 95% and deployment time by 50%. And I could list many other companies, like Bharti Airtel, Charles Schwab, Samsung Electronics, and the U.S. Department of Education, that are working with IBM to realize the value of hybrid cloud.

These powerful, hybrid cloud environments also allow clients to infuse AI across their business operations. By 2030, AI is predicted to unlock \$16 trillion in value from the global economy including a significant increase in productivity. We are collaborating with clients to apply the power of AI in areas such as IT, finance, HR, and customer service.

For instance, we are working with McDonald's to automate their drive-thru experience with AI. We've also teamed up with the U.S. Department of Veterans Affairs to streamline the delivery of pension benefits and speed up claims. Or take BBC Studios, which uses our AIOps software to manage its IT infrastructure more efficiently.

To help power hybrid cloud environments, and the AI that runs on them, IBM introduced the z16 platform with an integrated on-chip AI accelerator in 2022. We also unveiled IBM's next generation LinuxONE servers, which help clients dramatically reduce data center energy consumption in support of their sustainability goals.

But our strategy is not based on technology alone. IBM Consulting provides the knowledge and experience our clients need to bring these offerings to life. Our experts help clients modernize and maintain applications in a hybrid cloud environment, automate tasks using data and AI, and address security and regulatory needs.

To complement these offerings, IBM continued to make strategic acquisitions. We added software and consulting capabilities to address specific client challenges. For example, Envizi for environmental performance management software. Randori for cybersecurity attack surface management. And Octo for digital transformation services for the U.S. federal government.

We also made many important changes to the way we engage with clients and partners. Our go-to-market model is based on two central tenets: experiential selling, and co-creation. And we are embracing our partner ecosystem as a strategic advantage in delivering value to our clients. In 2022, we bolstered these partnerships with a new skills program that equips partners with the same training and enablement as IBMers. The increasing value of our strategic partners is evident, with SAP, Microsoft and AWS all over \$1 billion in revenue for the year.

Commitment to Science, Innovation, and Responsible Stewardship

In the areas that matter the most to our clients, IBM continues to push the boundaries of technology through groundbreaking research. Our engineers, scientists and researchers are working hard to advance the future of computing. Their work spans hybrid cloud, data and AI, automation, security, semiconductors, and quantum computing.

We were proud to unveil many breakthrough innovations last year. For example, the IBM Telum Processor, which features on-chip acceleration for AI inferencing in real-time. Today it powers the AI capabilities of the IBM z16, allowing clients to identify fraud at scale in milliseconds. Or consider Project Wisdom for Red Hat Ansible, which uses foundational AI models and generative AI to help developers generate high-quality code, using plain English, across multiple clouds.

We also continued to make major advances in quantum computing, unveiling the 433-qubit IBM Osprey processor, which will help us move forward on our roadmap to deliver a 1,000-plus qubit system this year, and a 4,000-plus qubit system in 2025. Our IBM Quantum Network now has more than 200 members, with companies like Boeing, HSBC, and Mitsubishi Chemical pursuing potentially industry-changing research.

Our work on technology has always gone hand-in-hand with making a positive impact on the world. This includes protecting the environment, advocating for inclusion, and fostering trust and transparency in the way we do business and deploy technology.

We continued to move forward with our goal of net-zero operational greenhouse gas emissions by 2030. In fact, by the end of 2021, we have reduced those emissions by 61% since 2010. And we are using IBM Sustainability solutions to simplify and automate our sustainability reporting processes. During the year, we were recognized by Boston Consulting Group and TIME Magazine for helping clients turn their sustainability ambitions into actions.

We also continued to make progress on diversity and inclusion. IBM had a year-over-year increase in representation for women globally and Black and Hispanic employees in the U.S. In our work to narrow the STEM skills gap, we added many partners to our IBM SkillsBuild initiative, which aims to provide access to education and training for 30 million people worldwide by 2030.

Taken together, I firmly believe these actions demonstrate IBM's innovation and impact.

Conclusion

Let me close now by sharing the immense confidence I have in IBM's future. I believe the world needs IBM today more than ever.

There is, of course, always more to be done. But I'm proud to say that today's IBM is a much stronger company. Our portfolio is resonating with our clients and partners. Our engagement model is simpler and more effective. Our partnerships are expanding and allowing us to amplify our reach.

I'm particularly proud of all the IBMers around the world and their dedication to make a positive impact on business and society. You can see this impact every day. When they help a pharmacy administer more vaccines. When they help reduce the carbon footprint of a retailer. Or when they help prevent a cyberattack on a bank.

I want to close my remarks by thanking you – our shareholders – for your continued confidence in IBM.

I'm grateful for your support as we position IBM to be the catalyst that makes the world work better for decades to come.

Information about non-GAAP financial measures and report on company.

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 non-GAAP financial measures on a continuing operations basis, including revenue growth rates adjusted for constant currency. Free cash flow is presented on a consolidated basis, which includes activity from discontinued operations. The rationale for management's use of this non-GAAP information is included on page 6 and 34 of the company's 2022 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 28, 2023. For reconciliation of these non-GAAP financial measures to GAAP and other information, please refer to pages 17 and 34 of the company's 2022 Annual Report.