Introduction

Patricia Murphy
Vice President, Investor Relations
IBM
Agenda
Friday, August 2
10AM – 12:15PM

IBM + Red Hat: Strategic Overview

Ginni Rometty
Chairman, President and CEO, IBM

IBM + Red Hat: Better Together

Jim Whitehurst
Senior Vice President, IBM and CEO, Red Hat

Arvind Krishna
Senior Vice President, IBM Cloud & Cognitive Software

Mark Foster
Senior Vice President, IBM Cloud & Cognitive Software

IBM + Red Hat Financial Profile

James Kavanaugh
Senior Vice President and Chief Financial Officer, IBM

Q&A

With IBM Senior Executives
Forward-looking statements and non-GAAP information

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smart is open.

open is smart.
IBM + Red Hat: Better Together

Jim Whitehurst
Senior Vice President, IBM and CEO, Red Hat

Arvind Krishna
Senior Vice President, IBM Cloud & Cognitive Software

Mark Foster
Senior Vice President, IBM Services and Global Business Services

Martin Schroeter
Senior Vice President, IBM Global Markets
Better Together: Red Hat

Jim Whitehurst
Senior Vice President, IBM and CEO, Red Hat
Value of a platform in open source

Open source projects are winner takes all

Successful product becomes the reference standard (e.g. Linux)

- **GSIs**
  - Common skills to build
  - Large market of usage

- **ISVs**
  - Fewer stacks to support
  - More addressable market

- **Red Hat Enterprise Linux®**
  - Access more workloads
  - Simpler support matrix
  - A story for hybrid clients

- **OEMs**

- **Public Clouds**

- **Linux**
- **freeBSD®**
- **GlassFish**
- **openstack.**
- **kubernetes**
From servers to hybrid cloud

**LINUX**

Red Hat Enterprise Linux = default choice for the operating system (OS)

**CONTAINERS & KUBERNETES**

OpenShift = default choice for hybrid cloud

From OS to hybrid cloud = 10x opportunity
IBM acceleration of our hybrid, multicloud platform creates opportunity across the ecosystem

**SIs/VARs**

New transformation and application development opportunities

**ISVs**

Ability to address new and migrating workloads

**On-premise infrastructure**

New and migrated workloads

**Public Clouds**

Additional workloads, especially mission critical

**Developers**

Write once, run anywhere

- Accenture
- Wipro
- TATA
- Sysdig
- Dynatrace
- Aqua
- HP
- Dell
- Microsoft Azure
- Amazon Web Services
- Google Cloud
- NetApp
- Red Hat
- IBM
- Java
- Node
- Quarkus
Have an early lead, IBM can propel Red Hat

We have early hybrid cloud platform leadership

IBM brings massive momentum around workloads

**IBM’s commercial organizations** drive trial, adoption, marquee customers across its installed base

IBM software on OpenShift drives platform adoption and usage

GBS migrates and builds new workloads on OpenShift

GTS stands up and runs OpenShift at scale

**Systems** drives adoption on IBM platforms

...and will accelerate innovation in the platform
Better Together: Sell More Software

Arvind Krishna
Senior Vice President
IBM Cloud & Cognitive Software
IBM is the leading provider in a $1.2 trillion hybrid cloud opportunity

- **92%** of enterprises have hybrid environments*
- **58%** of enterprises have multicloud environments*
- **50%** of enterprises will have moved to ‘write once, run anywhere’ hybrid and multicloud environments by 2023*
IBM Cloud Software becomes the fuel of growth and innovation

How IBM drives more software revenue:

Middleware anywhere
Making IBM software cloud native – for private and public clouds

Preferred destination for mission-critical workloads
Red Hat OpenShift on IBM Cloud is the best end-to-end stack

IBM creates more opportunities for Red Hat
IBM will drive more Red Hat software through strategic solutioning and integration

New workloads
Our hybrid cloud strategy positions us to capture strategic new workloads

Source: IBM MD&I forecasts
IBM + Red Hat deliver the industry’s only true hybrid multicloud platform

IBM + Red Hat

IBM Public Cloud
OpenShift optimized

AWS

OpenShift

Limited feature support

Microsoft

Azure

OpenShift

Limited feature support

Google Cloud

OpenShift

Google Anthos

Limited connectivity

Private Cloud

IBM Private Cloud
OpenShift optimized

AWS Outposts

Limited connectivity in storage/data movement

Extensive multicloud governance / mgmt.

Public Cloud

Traditional workloads

Traditional on-premises
### Making IBM’s key software products cloud native for all clouds — middleware anywhere

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce dev time</td>
<td>up to 84%¹</td>
</tr>
<tr>
<td>Make data ready for AI</td>
<td>in hours vs. days</td>
</tr>
<tr>
<td>Eliminate 33% of integration cost</td>
<td>²</td>
</tr>
<tr>
<td>Reduce manual processes</td>
<td>up to 80%³</td>
</tr>
<tr>
<td>Reduce IT op expense</td>
<td>by up to 75%⁴</td>
</tr>
</tbody>
</table>

#### Cloud Pak for Applications
- Build, deploy and run applications

#### Cloud Pak for Data
- Collect, organize and analyze data

#### Cloud Pak for Integration
- Integrate applications, data, cloud services and APIs

#### Cloud Pak for Automation
- Transform business processes, decisions and content

#### Cloud Pak for Multicloud Management
- Multicloud visibility, governance and automation

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**IBM Containerized Software**

**On-premises**

**Private Cloud**

**IBM Public Cloud**

**AWS**

**Microsoft Azure**

**Google Cloud**

**Edge**

Certifying more than 100 software products on Red Hat

Optimized for Red Hat OpenShift

Instant deployment on IBM Cloud

Consistent management — runs on all public and private clouds

Available on all architectures; coming to IBM Z in 4Q'19

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Sources: 1, 4: Ovum white paper; 2: IBM Solution Brief; 3: Forrester study
A deeper look: Cloud Pak for Data

Full data and AI lifecycle platform for hybrid workloads

Allows clients to:

Virtualize their data 500% faster\(^1\)

Reduce data prep time by 80%\(^2\)

Automate 80% of data science effort with AutoAI\(^3\)

Deploy where the data resides, in hours vs. days\(^4\)

Sources: 1,4: IBM Solution Brief; 2,3: Harvard Business Review
The preferred destination for mission-critical workloads is Red Hat OpenShift on IBM Cloud

**Enterprise proven**
IBM Cloud is only public cloud developed with Kubernetes — fundamental to IBM businesses and used by more than 1,000 clients. Our public cloud manages over 16,000 production Kubernetes clusters today.

**Secure and compliant**
Built-in container level security, isolation, bare metal support and broad industry compliance (PCI, HIPAA, etc.)

**Automated global resiliency**
Built-in load balancing and multizone availability for simplified management and resiliency. Available in six global multizone regions and 35 datacenters.

**Instant deployment**
Cloud Paks are pre-loaded and certified for IBM’s public cloud
IBM’s hybrid cloud strategy positions us for >$50B in strategic new workloads
Sell More Software: Summary

- Making IBM software cloud native – for all private and public clouds
- Red Hat OpenShift on IBM Cloud is the best end-to-end stack for mission-critical workloads
- IBM will drive more Red Hat software through strategic solutioning and integration
- IBM’s hybrid cloud strategy positions us to capture new workloads

Cloud & Cognitive Software accelerating to double-digit revenue growth in 2020, enhanced by Red Hat
Better Together: Sell More Services

Mark Foster
Senior Vice President
IBM Services and Global Business Services
In Chapter 2, there is significant demand for business and technology services.

Transforming from the inside-out

Modernizing infrastructure; moving mission-critical applications to the cloud

Scaling AI across the enterprise
Red Hat reinforces and accelerates our ability to capture the hybrid cloud services opportunity

How IBM drives more services revenue:

Credibility and reach
IBM Services has unique scale, breadth, incumbency and relevance

Unique Cloud capabilities
Differentiated methods, capabilities and assets to de-risk the client cloud journey

Fuels OpenShift as “middleware of change”
Accelerate the adoption of OpenShift creating more entry points for IBM Services

2-5X For every $1 spent on public cloud infrastructure, enterprises are projected to spend between $2 - $5 on services

Sources: IBM MD&I forecasts; BCG and McKinsey research
IBM Services has unique scale, breadth, incumbency and relevance

IBM Services is the digital, cognitive and cloud partner for clients

- Largest combined Services player – $46 billion
- 250,000 highly-skilled professionals in 170 Countries
- Mission-critical incumbency
- Largest business design firm in the world
- Industry, process and analytics expertise
- Global delivery network with deep application and multicloud skills
- Leading-edge services orchestration and integration platforms
- Market-leading enterprise infrastructure provider
Differentiated methods, capabilities and assets to de-risk the client cloud journey

IBM Services is the trusted and credible partner for the open multicloud journey

- Meet clients where they are across Advise, Move, Build and Manage
- 80,000+ Cloud Application Services practitioners

Unified One IBM hybrid cloud capability delivers differentiated value

- Application Modernization Roadmap, Cloud Migration Factory, Multicloud Management Platform
- Global network of IBM Garages

Integrated IBM and Red Hat Services and Solutions stack as accelerators

- Largest team of Red Hat services skills
- Fully aligned Red Hat go to market and offering strategy
IBM Services incumbency will fuel Red Hat and OpenShift as the default hybrid cloud platform, creating more entry points for IBM Services.

**Accelerate the adoption of OpenShift**

- Migrate mission-critical workloads to OpenShift
- Build new workloads and applications on OpenShift
- Establish and run OpenShift at scale
- Set architecture standard with unique IBM Garage Method for Cloud
- Deploy Red Hat services skills base
- Leverage 5,000 services relationships and channels globally
Business transformation journey and services opportunity enabled by the cloud journey

Intelligent workflows

- AI/Machine Learning
- Robotic Process Automation
- 5G/Telco
- IoT
- Location-based Services
- Augmented Analytics
- Blockchain
- Wearables

Cloud Paks

On-premises
Private Cloud
IBM Public Cloud
AWS
Microsoft Azure
Google Cloud
Edge
## Sell More Services: Summary

| IBM Services + Red Hat = Trusted Cloud Journey Partner for the Enterprise | IBM Services has unique scale, breadth, incumbency and relevance | Differentiated methods, assets and capabilities create differentiation to de-risk the client cloud journey | Incumbency will accelerate the adoption of OpenShift creating more entry points for IBM Services |

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*Services improving revenue growth profile with margin expansion*
Better Together: Sell More Red Hat

Martin Schroeter
Senior Vice President
IBM Global Markets
Our Go-to-Market Priorities

Preserve Operating Independence

Red Hat drives its own go-to-market strategy through independent sales and services organization, management system and compensation plans.

Maintain Ecosystem Neutrality

Red Hat operates a separate partner program and continues to cultivate a distinct developer ecosystem. IBM will be engaged the same way as any other partner.

Mobilize IBM and Invest for Scale

All IBM client-facing teams and ecosystem partners are activated to leverage established relationships, expand reach and create new demand through combined offerings.
How we will accelerate Red Hat’s growth trajectory

**Grow Red Hat with IBM’s largest clients**

“We are constantly exploring emerging technology as we transform air travel; IBM + Red Hat will be an essential part of our digital transformation.”

- Airline CEO, USA

**Expand Red Hat in ~30 select countries**

“Very bold move that will be critical for us at the bank. Knowing IBM is making the investments to keep us open and safe helps us lose our fear of cloud.”

- Banking chairman, India

**Scale Red Hat in all other countries**

“Now that Red Hat has IBM behind it, we are even more confident in carrying out Open Source projects for Argentine banks.”

- Banking CIO, Argentina
Leverage relationships at IBM’s largest accounts to accelerate open hybrid cloud adoption

**Significant opportunity to accelerate Red Hat adoption in IBM’s largest clients**

Top accounts are enabled to win:

- Activated joint account planning within 30 days
- Received account-level insight and bespoke sales play recommendations

Indicative Distribution of annual Red Hat spend for IBM’s top 1,100 clients

- **~$20M/yr avg spend**
- **~$1M/yr avg spend**
- **~$1.0B** Annual opportunity for every 5% of clients to adopt Red Hat

- Clients with Limited or No Red Hat spend: ~1,040
- "Large" Red Hat clients: ~60
- Red Hat Enterprise Linux on thousands of servers

~60 Clients with Limited or No Red Hat spend

~1,040 Clients with Limited or No Red Hat spend

~$1.0B Annual opportunity for every 5% of clients to adopt Red Hat
Expand Red Hat in ~30 select countries with little or no presence

In these ~30 countries, IBM brings:
- 6,000 IBM sellers
- 100,000 services delivery professionals
- 27,000 Ecosystem Partners
- IBM Systems presence and industry expertise

To address opportunity with IBM-only clients:
- ~98% no significant OpenShift presence
- ~90% no significant Red Hat Enterprise Linux deployment

In these countries, Red Hat clients spend $300K per year, on average
Scale Red Hat in all other countries and clients

Most IBM clients are not substantial adopters of Red Hat, but when they are, they spend $450K per year on average.

To win the open hybrid cloud mandate in all 175 countries where IBM does business, IBM sellers are incentivized and enabled to drive growth:

— Hybrid multicloud and Red Hat education and sales assets
— Incremental incentives to identify, pass, and help close Red Hat opportunities

<table>
<thead>
<tr>
<th># of IBM clients</th>
<th># of Red Hat clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>~11,500 IBM only</td>
<td>~2,300 Common</td>
</tr>
<tr>
<td>~14,000</td>
<td>~7,500</td>
</tr>
</tbody>
</table>

~$500M Annual opportunity for every 10% of clients to adopt Red Hat
Better Together: Summary

**Red Hat**
- Accelerate OpenShift adoption
- Expand ecosystem
- IBM provides scale, expertise and workloads

**Sell More Software**
- Middleware anywhere
- Preferred destination
- Capture new workloads

**Sell More Services**
- Leverage credibility and reach
- Unique cloud capabilities
- Fuel OpenShift adoption

**Sell More Red Hat**
- Grow with top clients
- Expand geographically
- Scale everywhere

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**Accelerates revenue growth:**
200+ basis points to IBM revenue growth over 5 years
James Kavanaugh
Senior Vice President and Chief Financial Officer
IBM
Red Hat accelerates IBM’s revenue growth and shift to higher value

Value of Red Hat + IBM...

Red Hat is the leading platform for hybrid cloud

IBM brings incumbency, scale and expertise in mission-critical workloads

Together IBM + Red Hat are the leader in client digital reinventions and journeys to cloud

...aligns with the hybrid cloud opportunity...

>$1 Trillion hybrid cloud opportunity

Chapter 2 driven by mission-critical workloads to hybrid cloud

More attractive profit pools in hybrid cloud software

...to enhance IBM’s financial performance

Accelerates revenue growth
200+ basis points to IBM revenue growth over 5 years

Accelerates shift to higher value
Operating GP margin accretive in Year 1
Operating EPS accretive by end of Year 2

Enhances strong cash flow profile
Free cash flow accretive in Year 1
Continued dividend growth
IBM’s 2020-2021 financial performance accelerates across revenue, operating pre-tax income and free cash flow

<table>
<thead>
<tr>
<th>IBM 2020 – 2021</th>
<th>Sustained revenue growth trajectory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue @CC</td>
<td>Mid Single-digit growth</td>
</tr>
<tr>
<td>Operating Pre-tax Income</td>
<td>High Single-digit growth</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>&gt;100% Realization</td>
</tr>
<tr>
<td>Leverage Ratio</td>
<td>Consistent with mid to high single A range</td>
</tr>
</tbody>
</table>

— Cloud & Cognitive Software segment accelerating to double-digit revenue growth in 2020, enhanced by Red Hat

— Services improving revenue growth profile with margin expansion

— Systems performance fueled by new innovation

Continued margin expansion driven by shift to higher value and productivity

Adds ~$1.5 billion incremental free cash flow by the end of 2021

Note 1, 2, 4, 5, 6, 9
Red Hat is the leader in open source platforms with a high value model

Open source technology leader

OpenShift is the platform for hybrid cloud

Hybrid, multicloud platform creates opportunity across the ecosystem

Reflects reported results for last twelve months
Red Hat accelerates IBM’s revenue growth by 200+ basis points over 5 years

IBM incremental revenue fueled by shift to hybrid cloud
- Software middleware anywhere
- Services led journey to cloud

Red Hat and IBM incremental revenue contribution over the next 5 years:
- 2+ points IBM revenue growth
- 8+ points cloud revenue growth

Improves high-value mix of IBM revenue
Red Hat enhances strong free cash flow and adds ~$1.5 billion through 2021

Free cash flow contribution to IBM’s base business 2020/2021

IBM continues to expect ~$12B free cash flow in 2019 with Red Hat

2019

2020

$0.5B

2021

$1B

Free cash flow accretive in first twelve months, with nominal dilution in 2H’19

Red Hat increases IBM free cash flow realization

Note: Red Hat net of incremental interest and acquisition-related activity
Red Hat accretive to operating EPS by end of Year 2

Impact on total IBM operating (Non-GAAP) EPS

- >100% dilution driven by non-cash items
  - Deferred revenue adjustment
  - Share buyback suspension
  - Stock option amortization (equity)

Contributes to IBM growth in 2020

Note 7, 9
US GAAP non-cash purchase accounting for deferred revenue

~$2.8B
Red Hat deferred revenue balance
As of closing

~($2.2B)
80% adjustment
Non-cash purchase accounting adjustment to record deferred revenue at fair value

~$0.6B
Deferred revenue @ fair value
Post closing

Revenue expected to be replenished in future as contracts renew

Pay-in-advance subscription based business
High margin business
Remaining revenue runout
Very high renewal rates and stable client base
Red Hat standalone business adds to solid IBM base performance

Reduction driven by temporary, non-cash items

Immediately accretive to IBM GP margin

Red Hat-related profit impact and tax rate drives a 2 point tax reduction to IBM rate in 2019

Maintaining ~$12 billion free cash flow expectation

*US GAAP purchase accounting adjustment
Committed to maintaining strong balance sheet

Debt & Leverage Ratio*

- Suspended share repurchase to focus on debt reduction
- Remain committed to continued dividend growth
- Expect to achieve targeted leverage ratios within a couple of years
- Enables flexibility to continue to invest in the business

* Leverage Ratio reflects Moody’s methodology
IBM’s 2020-2021 financial performance accelerates across revenue, operating pre-tax income and free cash flow

| IBM  
| 2020 – 2021 |
|-----------------|-----------------|
| Revenue @CC     | **Mid** Single-digit growth |
| Operating Pre-Tax Income | **High** Single-digit growth |
| Free Cash Flow  | >**100%** Realization |
| Leverage Ratio  | Consistent with mid to high single A range |

- Sustained revenue growth trajectory
- Continued margin expansion driven by shift to higher value and productivity
- Adds ~$1.5 billion incremental free cash flow by the end of 2021

Note 1, 2, 4, 5, 6, 9
Q&A

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Notes

Note 1
Forward-looking revenue growth rates are provided at the spot rate as of August 2, 2019.

Note 2
Growth rate at constant currency is a non-GAAP measure. For additional information on this non-GAAP measure, please refer to Slide 54.

Note 3
Operating GP Margin is a non-GAAP measure. For additional information on this non-GAAP measure, please refer to Slide 51.

Note 4
Operating Pre-tax Income is a non-GAAP measure. For additional information on this non-GAAP measure, please refer to Slide 51.

Note 5
Free Cash Flow is a non-GAAP measure. For additional information on this non-GAAP measure, please refer to Slide 54.

Note 6
Free Cash Flow Realization equals Free Cash Flow divided by GAAP Net Income from Continuing Operations.

Note 7
Operating EPS is a non-GAAP measure. For additional information on this non-GAAP measure, please refer to Slide 53.

Note 8
IBM is unable to provide, without unreasonable efforts, an updated full-year expectation of GAAP diluted earnings per share at this time because it is unable to determine, with reasonable certainty, the purchase accounting valuations that will be utilized to establish the finite-lived intangible assets for the Red Hat acquisition and the expected amortization impact of those acquired intangibles. The operating (non-GAAP) earnings per share full-year expectation can be presented, as it does not include acquired intangible asset amortization. The valuation of acquired intangibles is not yet substantially complete and depends on various factors; as such, the variability in the estimate of the amortization of those intangibles could have a material impact on the GAAP reported results for the guidance period. All other known or estimated factors impacting the GAAP full-year expectations have been presented.

Note 9
Within this presentation and speaker materials, all references to “Operating” refers to Non-GAAP metrics.
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<table>
<thead>
<tr>
<th>Earnings Per Share</th>
<th>2019 Full-Year Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP Diluted EPS*</td>
<td>$XX.XX</td>
</tr>
<tr>
<td>Operating (Non-GAAP) EPS</td>
<td>At least $12.80</td>
</tr>
</tbody>
</table>

Adjustments

- Acquisition-related Charges: $(0.96)
- Non-Operating Retirement-Related Items: $(0.45)
- Tax Reform Enactment Impacts: $(0.24)
- Amortization of Red Hat Intangibles*: $(X.XX)
Non-GAAP Supplemental Materials
Reconciliation of Red Hat Revenue and Free Cash Flow – Last 12 Months

<table>
<thead>
<tr>
<th></th>
<th>GAAP</th>
<th>@ CC</th>
</tr>
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<tbody>
<tr>
<td>Revenue</td>
<td>14%</td>
<td>16%</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>12 Months ended May 2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Net Cash from Operations per GAAP</td>
<td>$1.1</td>
<td></td>
</tr>
<tr>
<td>Net Capital Expenditures</td>
<td>($0.1)</td>
<td></td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$1.0</td>
<td></td>
</tr>
</tbody>
</table>

$ in billions

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