

IBM 3Q 2020 Earnings

October 19, 2020
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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.

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 year to year change in revenue for Red Hat normalized for historical comparability, revenue adjusting for divested businesses and currency, operating earnings, other "operating" financial measures, including free cash flow, net cash from operating activities excluding Global 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 filed with the SEC on October 19, 2020. The reconciliation of non-GAAP information to GAAP is included on the slides entitled "Non-GAAP Supplemental Materials" in this presentation, as well as in Exhibit 99.1 to the company's Form 8-K filed with the SEC on October 19, 2020. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-3q20>

Arvind Krishna

Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO Perspective

“The strong performance of our cloud business, led by Red Hat, underscores the growing client adoption of our open hybrid cloud platform.”

“Separating the managed infrastructure services business creates a market-leading standalone company and further sharpens our focus on IBM’s open hybrid cloud platform and AI capabilities. This will accelerate our growth strategy and better position IBM to seize the \$1 trillion hybrid cloud opportunity.”

- Arvind Krishna, IBM CEO



Strategic Update



Hybrid Cloud Platform



Current Environment

Accelerating IBM's Hybrid Cloud Platform Growth Strategy



Creating value through focus

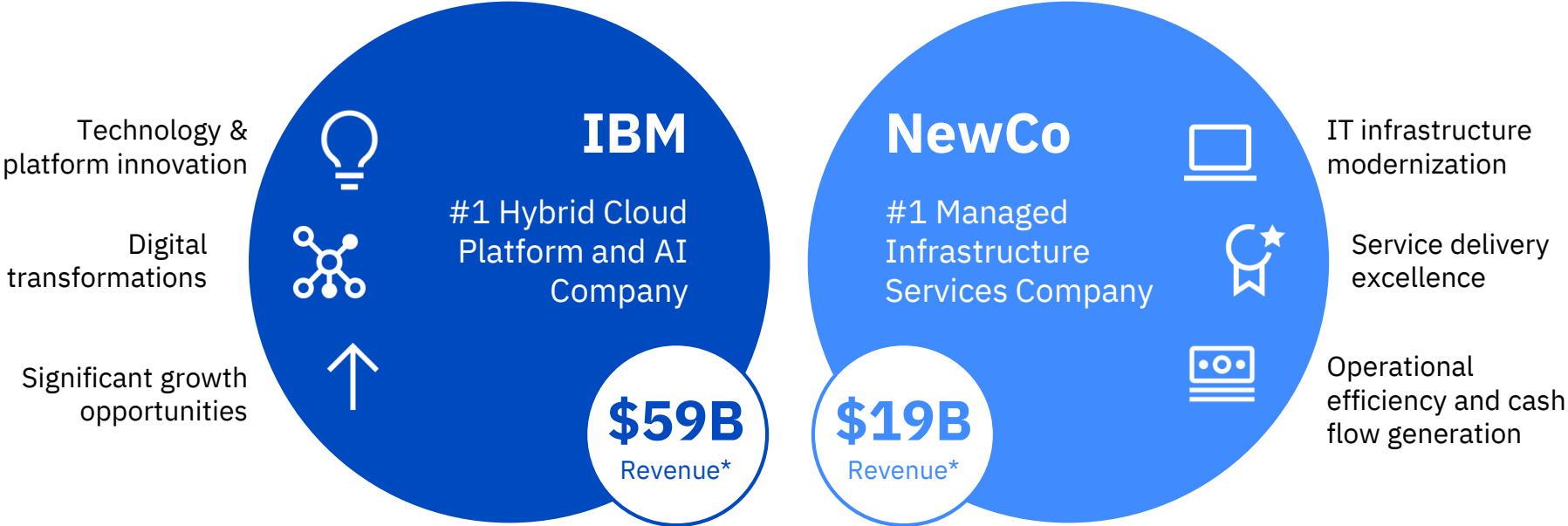


Establishing the #1 Managed Infrastructure Services Company



Improving growth trajectory of both businesses

Creating Two Market-Leading Companies



IBM and NewCo will have a strong strategic relationship

*TTM revenue through June 30, 2020, adjusted to reflect estimated historical sales between IBM and NewCo

IBM's Hybrid Cloud Platform Leadership

Hybrid Cloud Value



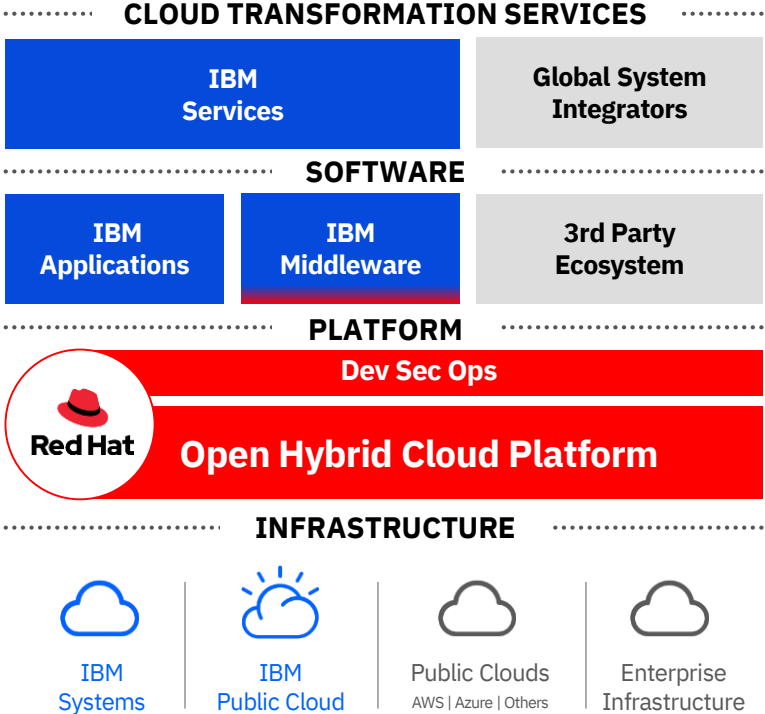
2.5x

Hybrid cloud value vs. public only

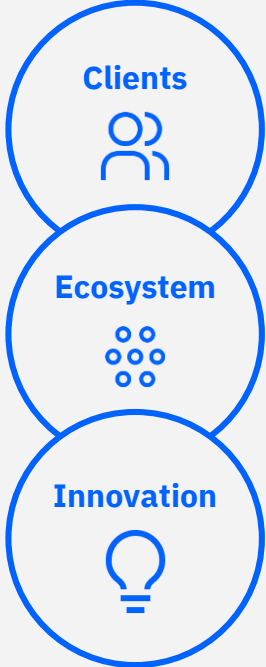
\$1T

Hybrid cloud market opportunity

Platform Approach



3Q20 Progress



3Q20 Highlights

\$17.6B

Revenue

\$2.58

Operating (non-GAAP) EPS

\$10.8B

Free Cash Flow LTM



**Cloud
Strength**

+19% @cc
Revenue Growth

\$24B
Revenue (LTM)



**Red Hat
Momentum**

+16% @cc
Revenue Growth

~2,600
Container platform
clients



**High Value
Model**

1.6 pts
Gross Margin Expansion

1.4 pts
PTI Margin Expansion



**Solid Cash
Generation**

\$16B
Cash Balance

136%
FCF Realization (LTM)

Cloud & Cognitive Software

Revenue growth led by Red Hat, Cloud Paks and Security

Transaction Processing Platforms impacted by client buying behaviors in current economic environment

Profit reflects strong Red Hat contribution

Revenue

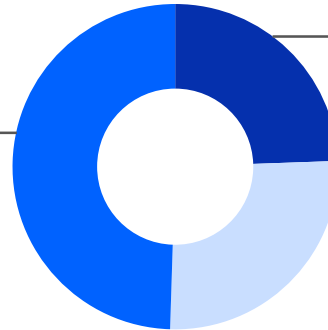
\$5.6B

Revenue Growth

6%

Segment Elements

Cloud & Data Platforms
+19% yr/yr
includes Red Hat



Cognitive Applications
Flat yr/yr

Transaction Processing Platforms
(9%) yr/yr

Global Business Services

Double-digit signings growth, backlog returned to growth

Continued scaling of Red Hat client engagements

Revenue reflects strength in application modernization offset by project delays

Gross margin expansion with continued investment

Revenue

\$4.0B

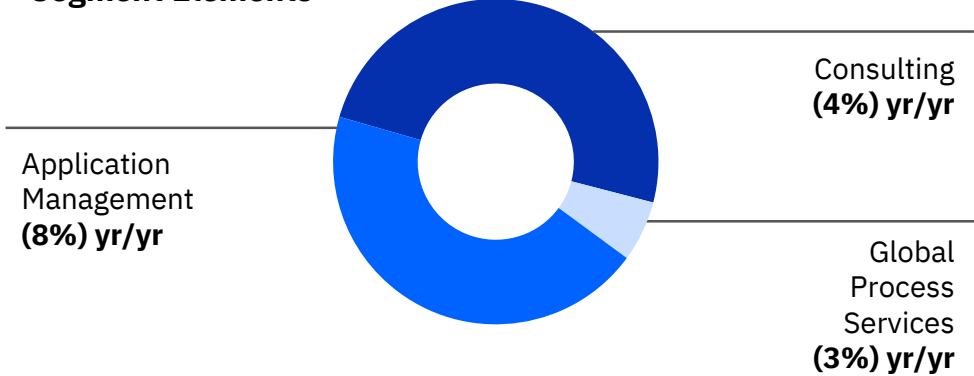
(6%) yr/yr

Gross Margin

32.9%

+1.9 pts yr/yr

Segment Elements



Global Technology Services

Revenue impacted by lower volumes

Margins reflect revenue mix and higher investment in IBM Cloud

Closed 8 deals over \$100M as clients continue to make long-term commitments

Revenue

\$6.5B

(4%) yr/yr

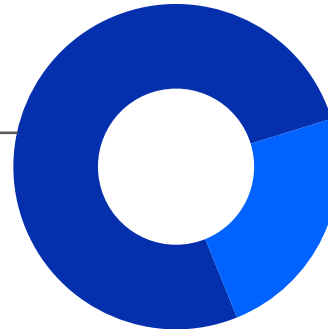
Gross Margin

35.0%

(0.8) pts yr/yr

Segment Elements

Infrastructure &
Cloud Services
(4%) yr/yr



Technology
Support
Services
(6%) yr/yr

Systems

IBM Z reflects product cycle in the current economic environment

Storage performance driven by high-end declines

Gross margin performance in line with product cycle dynamics

Revenue

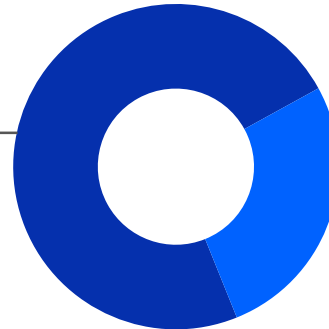
\$1.3B

Revenue Growth

(16%)

Segment Elements

Systems Hardware
(19%) yr/yr



Operating
Systems
Software
(8%) yr/yr

Summary



Current environment provides near-term challenges and longer-term opportunities



Accelerating hybrid cloud platform strategy



Creating value through focus



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Supplemental Materials

- Currency – Impact on Revenue Growth
- Revenue and P&L Highlights
- Services Segments Details
- Software & Systems Segment Details
- Expense Summary
- Balance Sheet Summary
- Cash Flow Summary
- Cash Flow (ASC 230)
- Non-GAAP Supplemental Materials

Some columns and rows in these materials, including the supplemental exhibits, may not add due to rounding
Supplemental Materials



Currency – Impact on Revenue Growth

Quarterly Averages per US \$	3Q20	Yr/Yr	10/16/2020	4Q20	FY20	1Q21	FY21
			Spot				
Euro	0.86	5%	0.85	6%	1%	6%	3%
Pound	0.77	5%	0.77	0%	(0%)	1%	1%
Yen	106	1%	105	3%	2%	3%	1%
Revenue Impact, Future @ 10/16/20 Spot		0.9 pts		0-1 pts	(0.5-1 pts)	1-2 pts	0-1 pts
	US\$B	Yr/Yr					
Revenue As Reported	\$17.6	(3%)					
Currency Impact	\$0.2	1 pts					
Revenue @CC		(3%)					

Revenue and P&L Highlights

Revenue Highlights	3Q20	B/(W) Yr/Yr*
Revenue	\$17.6	(3%)
Cloud	\$6.0	19%

Geography Revenue	3Q20	B/(W) Yr/Yr*
Americas	\$8.1	(3%)
Europe/ME/Africa	\$5.6	(2%)
Asia Pacific	\$3.9	(5%)

Revenue growth rates @CC, \$ in billions
*Yr/Yr excludes impact of divested businesses

Supplemental Materials

Operating P&L Highlights \$	3Q20	B/(W) Yr/Yr
Gross Profit	\$8.6	1%
Expense	\$6.0	2%
Pre-Tax Income	\$2.6	8%
Net Income	\$2.3	(3%)
Earnings Per Share	\$2.58	(4%)

Operating P&L Highlights %	3Q20	B/(W) Yr/Yr
Gross Profit Margin	49.0%	1.6 pts
Expense E/R	34.4%	(0.2 pts)
Pre-Tax Income Margin	14.7%	1.4 pts
Net Income	13.2%	(0.1 pts)
Tax Rate	10.2%	(10.1 pts)

Services Segments Details

GBS Segment	3Q20	B/(W) Yr/Yr	GTS Segment	3Q20	B/(W) Yr/Yr
Revenue (External)	\$4.0	(6%)	Revenue (External)	\$6.5	(4%)
Consulting	\$2.0	(4%)	Infrastructure & Cloud Services	\$4.9	(4%)
Application Management	\$1.8	(8%)	Technology Support Services	\$1.5	(6%)
Global Process Services	\$0.2	(3%)	Gross Profit Margin (External)	35.0%	(0.8 pts)
Gross Profit Margin (External)	32.9%	1.9 pts	Pre-Tax Income	\$0.4	(19%)
Pre-Tax Income	\$0.6	1%	Pre-Tax Income Margin	5.9%	(1.1 pts)
Pre-Tax Income Margin	14.2%	0.8 pts	Cloud Revenue (External)	\$2.3	8%
Cloud Revenue (External)	\$1.4	9%			
					B/(W)
			Services Signings & Backlog	3Q20	Yr/Yr
			Signings	\$9.5	5%
			Backlog	\$108.0	(1%)
			Backlog Yr/Yr @Actual		Flat

Revenue & Signings growth rates @CC, \$ in billions, Services Backlog calculated using Sep 30 currency spot rates, Signings & Backlog includes Security Services
Supplemental Materials



Software and Systems Segment Details

Cloud & Cognitive Software Segment	3Q20	B/(W) Yr/Yr	Systems Segment	3Q20	B/(W) Yr/Yr
Revenue (External)	\$5.6	6%	Revenue (External)	\$1.3	(16%)
Cloud & Data Platforms	\$2.8	19%	Systems Hardware	\$0.9	(19%)
Cognitive Applications	\$1.3	Flat	IBM Z		(20%)
Transaction Processing Platforms	\$1.5	(9%)	Power		(16%)
Pre-Tax Income	\$1.8	42%	Storage		(20%)
Pre-Tax Income Margin	28.5%	6.6 pts	Operating Systems Software	\$0.3	(8%)
Cloud Revenue (External)	\$1.8	63%	Gross Profit Margin (External)	51.2%	(1.4 pts)
			Systems Hardware	40.4%	(2.5 pts)
			Operating Systems Software	80.9%	(1.7 pts)
			Pre-Tax Income	\$0.0	(195%)
			Pre-Tax Income Margin	(2.5%)	(4.8 pts)
			Cloud Revenue (External)	\$0.5	(4%)

Expense Summary

Expense	3Q20	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
SG&A – Operating	\$4.4	5%	0 pts	2 pts	3 pts
RD&E – Operating	\$1.5	(1%)	0 pts	1 pts	(2 pts)
IP and Custom Development Income	(\$0.1)	(19%)			
Other (Income)/Expense - Operating	(\$0.0)	(77%)			
Interest Expense – Operating	\$0.3	21%			
Operating Expense & Other Income	\$6.0	2%	(1 pts)	1 pts	2 pts

\$ in billions

*includes acquisitions in the last twelve months net of non-operating acquisition-related charges and includes impact of divested businesses

**represents the percentage change after excluding the impact of currency, acquisitions and divestitures

Balance Sheet Summary

	Sep 20	Dec 19	Sep 19
Cash & Marketable Securities	\$15.8	\$9.0	\$11.0
Core (non-GF) Assets*	\$115.7	\$115.3	\$113.3
Global Financing Assets	\$22.7	\$27.9	\$25.4
Total Assets	\$154.1	\$152.2	\$149.6
Other Liabilities	\$67.4	\$68.3	\$65.2
Core (non-GF) Debt*	\$44.5	\$38.2	\$43.2
Global Financing Debt	\$20.9	\$24.7	\$23.1
Total Debt	\$65.4	\$62.9	\$66.3
Total Liabilities	\$132.8	\$131.2	\$131.5
Equity	\$21.3	\$21.0	\$18.1

\$ in billions

*includes eliminations of inter-company activity

Supplemental Materials



Cash Flow Summary

	QTD 3Q20	B/(W) Yr/Yr	YTD 3Q20	B/(W) Yr/Yr
Net Cash from Operations	\$4.3	\$0.7	\$12.3	\$1.0
Less: Global Financing Receivables	\$2.4	\$1.2	\$5.3	\$1.6
Net Cash from Operations (excluding GF Receivables)	\$1.9	(\$0.6)	\$7.0	(\$0.6)
Net Capital Expenditures	(\$0.8)	(\$0.1)	(\$2.3)	(\$0.5)
Free Cash Flow (excluding GF Receivables)	\$1.1	(\$0.7)	\$4.8	(\$1.1)
Acquisitions	(\$0.0)	\$32.6	(\$0.0)	\$32.6
Divestitures	(\$0.2)	(\$0.3)	\$0.5	(\$0.4)
Dividends	(\$1.5)	(\$0.0)	(\$4.3)	(\$0.1)
Share Repurchases (Gross)	-	\$0.1	-	\$1.4
Non-GF Debt	\$1.0	\$6.0	\$5.0	(\$23.5)
Other (includes GF Net A/R & GF Debt)	\$1.1	(\$0.7)	\$0.9	(\$0.9)
Change in Cash & Marketable Securities	\$1.5	\$37.0	\$6.7	\$8.0

\$ in billions
Supplemental Materials



Cash Flow (ASC 230)

	QTD 3Q20	QTD 3Q19	YTD 3Q20	YTD 3Q19
Net Income from Operations	\$1.7	\$1.7	\$4.2	\$5.8
Depreciation / Amortization of Intangibles	\$1.7	\$1.7	\$5.0	\$4.4
Stock-based Compensation	\$0.2	\$0.2	\$0.7	\$0.5
Working Capital / Other	(\$1.7)	(\$1.1)	(\$2.9)	(\$3.0)
Global Financing A/R	\$2.4	\$1.1	\$5.3	\$3.7
Net Cash provided by Operating Activities	\$4.3	\$3.6	\$12.3	\$11.3
Capital Expenditures, net of payments & proceeds	(\$0.8)	(\$0.7)	(\$2.3)	(\$1.7)
Divestitures, net of cash transferred	(\$0.2)	\$0.0	\$0.5	\$0.9
Acquisitions, net of cash acquired	(\$0.0)	(\$32.6)	(\$0.0)	(\$32.6)
Marketable Securities / Other Investments, net	\$0.8	\$2.9	(\$0.7)	\$6.4
Net Cash provided by/(used in) Investing Activities	(\$0.3)	(\$30.4)	(\$2.5)	(\$27.1)
Debt, net of payments & proceeds	(\$0.3)	(\$6.6)	\$1.1	\$20.5
Dividends	(\$1.5)	(\$1.4)	(\$4.3)	(\$4.3)
Common Stock Repurchases	-	(\$0.1)	-	(\$1.4)
Common Stock Transactions - Other	\$0.0	(\$0.0)	(\$0.2)	(\$0.1)
Net Cash provided by/(used in) Financing Activities	(\$1.7)	(\$8.2)	(\$3.4)	\$14.7
Effect of Exchange Rate changes on Cash	\$0.1	(\$0.4)	(\$0.2)	(\$0.4)
Net Change in Cash, Cash Equivalents & Restricted Cash	\$2.4	(\$35.3)	\$6.2	(\$1.4)

\$ in billions

Supplemental Materials



Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 3Q 2020

	3Q20 Yr/Yr	
	GAAP	@CC
Cloud & Cognitive Software	7%	6%
Cloud & Data Platforms	20%	19%
Cognitive Applications	1%	Flat
Transaction Processing Platforms	(8%)	(9%)
Cloud	64%	63%
Global Business Services	(5%)	(6%)
Consulting	(2%)	(4%)
Application Management	(7%)	(8%)
Global Process Services	(3%)	(3%)
Cloud	10%	9%

	3Q20 Yr/Yr	
	GAAP	@CC
Global Technology Services	(4%)	(4%)
Infrastructure & Cloud Services	(3%)	(4%)
Technology Support Services	(6%)	(6%)
Cloud	9%	8%
Systems	(15%)	(16%)
Systems Hardware	(18%)	(19%)
IBM Z	(19%)	(20%)
Power	(15%)	(16%)
Storage	(19%)	(20%)
Operating Systems Software	(7%)	(8%)
Cloud	(4%)	(4%)

The above reconciles the Non-GAAP financial information contained in the “Cloud & Cognitive Software”, “Global Business Services”, “Global Technology Services”, “Systems”, “Services Segments Details”, “Software & Systems 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, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 3Q 2020

	3Q20 Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted
Total Revenue	(3%)	0 pts	(1 pts)	(3%)
Americas	(4%)	0 pts	1 pts	(3%)
Europe/ME/Africa	2%	0 pts	(4 pts)	(2%)
Asia Pacific	(4%)	0 pts	(1 pts)	(5%)
Total Cloud	19%	1 pts	(1 pts)	19%

The above reconciles the Non-GAAP financial information contained in the “3Q20 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, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue for Red Hat, Normalized - 3Q 2020

	Three Months Ended September 30, 2020
Red Hat Revenue, Normalized for Historical Comparability	Yr/Yr
Red Hat Revenue GAAP Growth Rate	163%
Impact from Red Hat revenue prior to acquisition	(26 pts)
Impact from purchase accounting deferred revenue and intercompany adjustments	(120 pts)
Red Hat revenue growth rate, normalized for historical comparability (non-GAAP)	17%
Impact from currency	(1 pt)
Red Hat revenue growth rate, normalized for historical comparability and adjusting for currency (non-GAAP)	16%

The above reconciles the Non-GAAP financial information contained in the “3Q20 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, 2020 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 3Q 2020

	3Q20		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	2 pts	0 pts	2 pts
Base*	6 pts	(3 pts)	3 pts
RD&E			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	1 pts	0 pts	1 pts
Base*	2 pts	(4 pts)	(2 pts)
Operating Expense & Other Income			
Currency	(1 pts)	0 pts	(1 pts)
Acquisitions/Divestitures	1 pts	0 pts	1 pts
Base*	3 pts	(1 pts)	2 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, 2020 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 Free Cash Flow - Last 12 Months

**12 Months
Ended
Sep 2020**

Net Cash from Operating Activities per GAAP:	\$15.8
Less: change in Global Financing (GF) Receivables	\$2.1
Net Cash from Operating Activities (Excluding GF Receivables)	\$13.7
Capital Expenditures, Net	(\$2.9)
Free Cash Flow (Excluding GF Receivables)	\$10.8

\$ in billions

The above reconciles the Non-GAAP financial information contained in the “3Q20 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, 2020 for additional information on the use of these Non-GAAP financial measures.



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