

IBM 4Q 2020 Earnings

January 21, 2021
ibm.com/investor

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, adjusted 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 submitted to the SEC on January 21, 2021. 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 submitted to the SEC on January 21, 2021. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-4q20>

Arvind Krishna

Chairman and Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO Perspective

“We made progress in 2020 growing our hybrid cloud platform as the foundation for our clients’ digital transformations while dealing with the broader uncertainty of the macro environment.”

“The actions we are taking to focus on hybrid cloud and AI will take hold, giving us confidence we can achieve revenue growth in 2021.”

- Arvind Krishna, IBM Chairman and CEO



Hybrid Cloud and AI Strategy



Actions to Accelerate Change



Driving Growth

Hybrid Cloud and AI Strategy

Hybrid Cloud Value

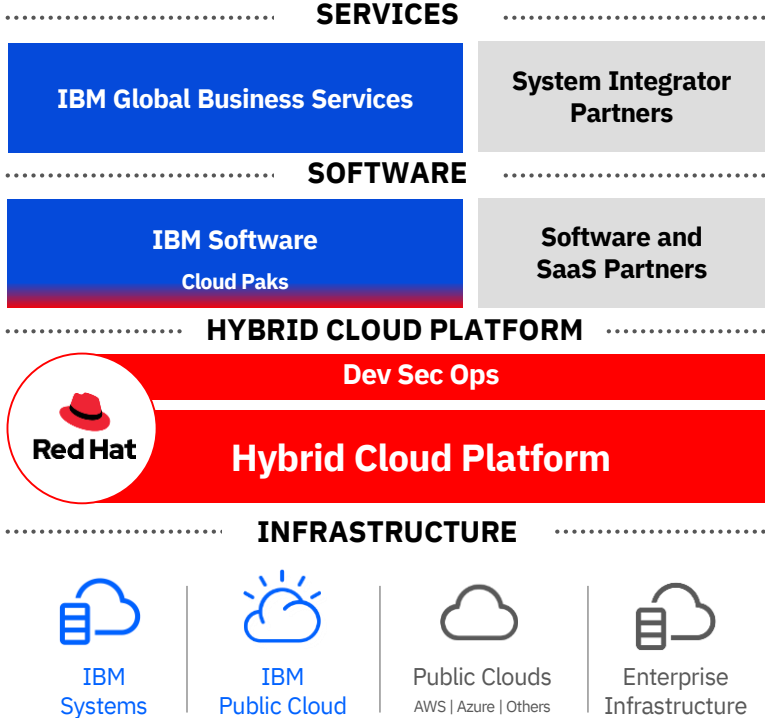
\$1T

Hybrid cloud market opportunity

2.5x

Hybrid cloud value vs. public only

IBM's Hybrid Cloud and AI Solutions



AI Differentiation

Automation



Language



Trust



76%

AI professionals cite trust as critically or very important to their business

Actions to Accelerate Change



Separate Managed
Infrastructure Services



Increase
investment



Expand
ecosystem



Redesign
go-to-market model



Optimize
capital structure



Advance culture and
growth mindset

Accelerating IBM's Performance



4Q20 Highlights

\$20.4B

Revenue

\$2.07

Operating (non-GAAP) EPS

\$10.8B

Free Cash Flow (FY)



**Cloud
Strength**

20% @CC
Revenue Growth (FY)

\$25B
Revenue (FY)



**Red Hat
Momentum**

17% @CC
Revenue Growth

2,800+
Hybrid Cloud
Platform Clients



**Enabling
Investments**

70 bps
Gross Margin Expansion

\$2.04B
Structural Actions
Charge



**Strong Liquidity
Position**

\$14B
Cash Balance

143%
FCF Realization (FY)

Cloud & Cognitive Software

Demand led by Red Hat, Cloud Paks and Security

Performance reflects seasonally large transactional base and 4Q19 compare (+10%)

Clients opting for shorter duration ELAs in current environment

Strong renewal rates for subscription and support

Revenue

\$6.8B

(7%) yr/yr

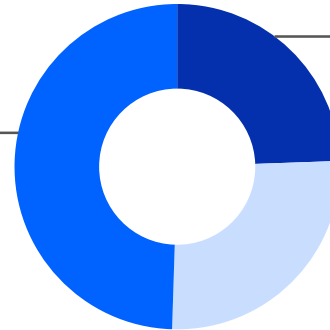
Gross Margin Expansion

+20 bps

yr/yr

Segment Elements

Cloud &
Data Platforms
+6% yr/yr



Cognitive
Applications
(2%) yr/yr

Transaction
Processing
Platforms
(26%) yr/yr

Global Business Services

Strong book-to-bill contributes to backlog growth

Consulting signings up 8% driven by application modernization

Growth in Red Hat engagements

Continuing to invest, with 5 acquisitions announced since October

Revenue

\$4.2B

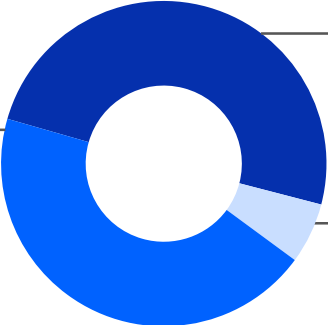
(5%) yr/yr

Gross Margin Expansion

+260 bps

yr/yr

Segment Elements



Consulting
(3%) yr/yr

Application Management
(9%) yr/yr

Global Process Services
+4% yr/yr

Systems

Performance reflects product cycle dynamics

IBM Z revenue up for the year; expect z15 performance consistent with past cycles

Strong gross margin performance

Revenue

\$2.5B

(19%) yr/yr

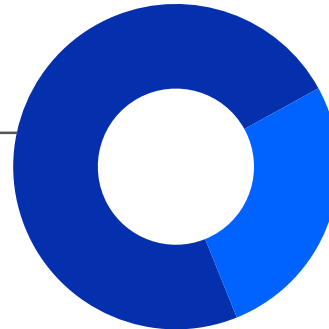
Gross Margin Expansion

+380 bps

yr/yr

Segment Elements

Systems Hardware
(20%) yr/yr



Operating
Systems
Software
(14%) yr/yr

Global Technology Services

Strong new client additions and renewal rates

Client volumes down in current environment

Restructuring contracts to improve financial profile

Managed Infrastructure Services separation remains on track for end of 2021

Revenue

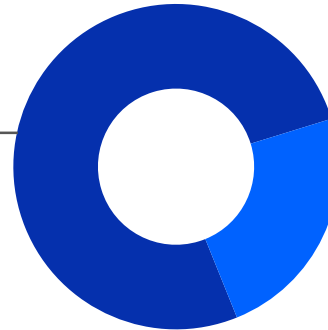
\$6.6B
(8%) yr/yr

Gross Margin Expansion

+70 bps
yr/yr

Segment Elements

Infrastructure &
Cloud Services
(8%) yr/yr



Technology
Support
Services
(7%) yr/yr

NewCo: #1 Managed Infrastructure Services Company

End-to-end Capabilities to Manage and Modernize Client-owned Infrastructures

...with Unparalleled Scale and Expertise



Hosting &
Network Services



Services
Management



Infrastructure
Modernization



Hybrid Multi-cloud
Management

\$19B revenue*, **2x** size of next largest provider

\$60B services backlog, of which ~45% is cloud**

~4,600 clients, including >75% of the Fortune 100

~115 countries

~90,000 employees including deep technical skills

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

**As of June 30, 2020

Summary

Accelerating IBM's Performance

- Focus on hybrid cloud and AI strategy
- Actions across portfolio, operating model, capital structure to accelerate change
- Improving financial profile - company expects:
 - Full year 2021 revenue growth based on current spot rates
 - Adjusted free cash flow* of \$11-12 billion in 2021 and \$12-13 billion in 2022

*adjusted FCF excludes cash impacts from structural actions and transaction costs associated with the separation of managed infrastructure services business; company expects ~\$4B over the next 18 months, with ~\$3B in 2021



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Supplemental Materials

- Currency – Impact on Revenue Growth
- Revenue and P&L Highlights
- Services Segments Details
- Software and Systems Segment Details
- Expense Summary
- Balance Sheet Summary
- Cash Flow Summary
- Cash Flow (ASC 230)
- Revenue and P&L Highlights – FY 2020
- Services Segments Details –FY 2020
- Software and Systems Segment Details – FY 2020
- Retirement - Related Summary
- Non-GAAP Supplemental Materials

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



Currency – Impact on Revenue Growth

Quarterly Averages per US \$	4Q20	Yr/Yr	1/20/2021	1Q21	2Q21	3Q21	4Q21	FY21
			Spot					
Euro	0.84	7%	0.83	9%	9%	3%	1%	6%
Pound	0.76	3%	0.73	6%	9%	5%	3%	6%
Yen	104	4%	104	5%	4%	2%	1%	3%
Revenue Impact, Future @ 1/20/21 Spot		2.2 pts		3-4 pts	~4 pts	1-2 pts	0-1 pts	~2 pts
	US\$B	Yr/Yr						
Revenue As Reported	\$20.4	(6%)						
Currency Impact	\$0.5	2 pts						
Revenue @CC		(9%)						

Revenue and P&L Highlights

Results include the impact of \$2.04B pre-tax charge for structural actions

Revenue Highlights	4Q20	B/(W) Yr/Yr[*]
Revenue	\$20.4	(8%)
Cloud	\$7.5	8%

Geography Revenue	4Q20	B/(W) Yr/Yr[*]
Americas	\$9.4	(10%)
Europe/ME/Africa	\$6.9	(8%)
Asia Pacific	\$4.1	(5%)

Revenue growth rates @CC, \$ in billions

*Yr/Yr excludes impact of divested businesses

**includes impact of \$2.04B pre-tax charge for structural actions

Supplemental Materials

Operating P&L Highlights \$	4Q20	B/(W) Yr/Yr
Gross Profit	\$10.7	(5%)
Expense ^{**}	\$8.6	(31%)
Pre-Tax Income ^{**}	\$2.1	(56%)
Net Income ^{**}	\$1.9	(56%)
Earnings Per Share ^{**}	\$2.07	(56%)

Operating P&L Highlights %	4Q20	B/(W) Yr/Yr
Gross Profit Margin	52.5%	0.7 pts
Expense E/R ^{**}	42.3%	(12.1 pts)
Pre-Tax Income Margin ^{**}	10.2%	(11.4 pts)
Net Income Margin ^{**}	9.1%	(10.2 pts)
Tax Rate	10.4%	0.1 pts

Services Segments Details

GBS Segment	4Q20	B/(W) Yr/Yr	GTS Segment	4Q20	B/(W) Yr/Yr
Revenue (External)	\$4.2	(5%)	Revenue (External)	\$6.6	(8%)
Consulting	\$2.1	(3%)	Infrastructure & Cloud Services	\$5.0	(8%)
Application Management	\$1.8	(9%)	Technology Support Services	\$1.6	(7%)
Global Process Services	\$0.3	4%	Gross Profit Margin (External)	35.9%	0.7 pts
Gross Profit Margin (External)	30.1%	2.6 pts	Pre-Tax Income	(\$0.4)	(155%)
Pre-Tax Income	\$0.1	(68%)	<i>impact of structural actions</i>	(\$0.9)	(134 pts)
<i>impact of structural actions</i>	(\$0.4)	(79 pts)	Pre-Tax Income Margin	(5.1%)	(14.1 pts)
Pre-Tax Income Margin	3.5%	(7.3 pts)	<i>impact of structural actions</i>	(13 pts)	(13 pts)
<i>impact of structural actions</i>	(9 pts)	(9 pts)	Cloud Revenue (External)	\$2.5	1%
Cloud Revenue (External)	\$1.7	14%			
			Services Signings & Backlog	4Q20	B/(W) Yr/Yr
			Signings	\$12.1	(18%)
			Backlog	\$110.8	(4%)
			Backlog Yr/Yr @Actual		(1%)

Revenue & Signings growth rates @CC, \$ in billions, Services Backlog calculated using Dec 31 currency spot rates, Signings & Backlog includes Security Services
Supplemental Materials



Software and Systems Segment Details

Cloud & Cognitive Software Segment	4Q20	B/(W) Yr/Yr	Systems Segment	4Q20	B/(W) Yr/Yr
Revenue (External)	\$6.8	(7%)	Revenue (External)	\$2.5	(19%)
Cloud & Data Platforms	\$3.4	6%	Systems Hardware	\$2.1	(20%)
Cognitive Applications	\$1.5	(2%)	IBM Z		(24%)
Transaction Processing Platforms	\$1.9	(26%)	Power		(16%)
Pre-Tax Income	\$1.9	(31%)	Storage		(17%)
<i>impact of structural actions</i>	(\$0.6)	(23 pts)	Operating Systems Software	\$0.4	(14%)
Pre-Tax Income Margin	24.9%	(9.8 pts)	Gross Profit Margin (External)	59.9%	3.8 pts
<i>impact of structural actions</i>	(8 pts)	(8 pts)	Systems Hardware	55.1%	4.3 pts
Cloud Revenue (External)	\$2.2	36%	Operating Systems Software	83.1%	(0.7 pts)
			Pre-Tax Income	\$0.5	(43%)
			<i>impact of structural actions</i>	(\$0.2)	(20 pts)
			Pre-Tax Income Margin	16.9%	(7.9 pts)
			<i>impact of structural actions</i>	(6 pts)	(6 pts)
			Cloud Revenue (External)	\$1.1	(19%)

Revenue growth rates @CC, \$ in billions
Supplemental Materials



Expense Summary

Expense	4Q20	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
SG&A – Operating	\$6.9	(35%)	(4 pts)	2 pts	(33 pts)
<i>impact of structural actions</i>	\$2.0	40 pts			40 pts
RD&E	\$1.6	(1%)	(1 pts)	1 pts	(1 pts)
IP and Custom Development Income	(\$0.2)	9%			
Other (Income)/Expense - Operating	(\$0.0)	NM			
Interest Expense	\$0.3	11%			
Operating Expense & Other Income	\$8.6	(31%)	(5 pts)	(1 pts)	(25 pts)
<i>impact of structural actions</i>	\$2.0	31 pts			31 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

	Dec 20	Dec 19
Cash & Marketable Securities	\$14.3	\$9.0
Core (non-GF) Assets*	\$118.5	\$115.3
Global Financing Assets	\$23.2	\$27.9
Total Assets	\$156.0	\$152.2
Other Liabilities	\$73.7	\$68.3
Core (non-GF) Debt*	\$40.4	\$38.2
Global Financing Debt	\$21.2	\$24.7
Total Debt	\$61.5	\$62.9
Total Liabilities	\$135.2	\$131.2
Equity	\$20.7	\$21.0

\$ in billions

*includes eliminations of inter-company activity

Supplemental Materials



Cash Flow Summary

	4Q20	B/(W) Yr/Yr	FY20	B/(W) Yr/Yr
Net Cash from Operations	\$5.9	\$2.4	\$18.2	\$3.4
Less: Global Financing Receivables	(\$1.0)	\$2.2	\$4.3	\$3.9
Net Cash from Operations (excluding GF Receivables)	\$6.8	\$0.2	\$13.8	(\$0.4)
Net Capital Expenditures	(\$0.8)	(\$0.1)	(\$3.0)	(\$0.7)
Free Cash Flow (excluding GF Receivables)	\$6.1	\$0.0	\$10.8	(\$1.1)
Acquisitions	(\$0.3)	(\$0.3)	(\$0.3)	\$32.3
Divestitures	(\$0.0)	(\$0.2)	\$0.5	(\$0.6)
Dividends	(\$1.5)	(\$0.0)	(\$5.8)	(\$0.1)
Share Repurchases (Gross)	-	-	-	\$1.4
Non-GF Debt	(\$4.8)	\$0.9	\$0.2	(\$22.6)
Other (includes GF Net A/R & GF Debt)	(\$1.0)	\$0.0	(\$0.1)	(\$0.8)
Change in Cash & Marketable Securities	(\$1.5)	\$0.5	\$5.3	\$8.5

Cash Flow (ASC 230)

	4Q20	4Q19	FY20	FY19
Net Income from Operations	\$1.4	\$3.7	\$5.6	\$9.4
Depreciation / Amortization of Intangibles	\$1.7	\$1.6	\$6.7	\$6.1
Stock-based Compensation	\$0.3	\$0.2	\$0.9	\$0.7
Working Capital / Other	\$3.5	\$1.1	\$0.6	(\$1.9)
Global Financing A/R	(\$1.0)	(\$3.2)	\$4.3	\$0.5
Net Cash provided by Operating Activities	\$5.9	\$3.5	\$18.2	\$14.8
Capital Expenditures, net of payments & proceeds	(\$0.8)	(\$0.6)	(\$3.0)	(\$2.4)
Divestitures, net of cash transferred	(\$0.0)	\$0.1	\$0.5	\$1.1
Acquisitions, net of cash acquired	(\$0.3)	-	(\$0.3)	(\$32.6)
Marketable Securities / Other Investments, net	\$0.5	\$0.6	(\$0.2)	\$7.0
Net Cash provided by/(used in) Investing Activities	(\$0.6)	\$0.1	(\$3.0)	(\$26.9)
Debt, net of payments & proceeds	(\$4.8)	(\$4.2)	(\$3.7)	\$16.3
Dividends	(\$1.5)	(\$1.4)	(\$5.8)	(\$5.7)
Common Stock Repurchases	-	-	-	(\$1.4)
Common Stock Transactions - Other	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)
Net Cash provided by/(used in) Financing Activities	(\$6.3)	(\$5.7)	(\$9.7)	\$9.0
Effect of Exchange Rate changes on Cash	\$0.1	\$0.2	(\$0.1)	(\$0.2)
Net Change in Cash, Cash Equivalents & Restricted Cash	(\$0.9)	(\$1.9)	\$5.4	(\$3.3)

\$ in billions

Supplemental Materials



Revenue and P&L Highlights – FY 2020

Results include the impact of \$2.04B pre-tax charge for structural actions in 4Q20

Revenue Highlights	FY20	B/(W) Yr/Yr*
Revenue	\$73.6	(4%)
Cloud	\$25.1	20%

Geography Revenue	FY20	B/(W) Yr/Yr*
Americas	\$34.1	(4%)
Europe/ME/Africa	\$23.6	(4%)
Asia Pacific	\$15.9	(4%)

Revenue growth rates @CC, \$ in billions

*Yr/Yr excludes impact of divested businesses

**includes impact of \$2.04B pre-tax charge for structural actions in 4Q20

Supplemental Materials

Operating P&L Highlights \$	FY20	B/(W) Yr/Yr
Gross Profit	\$36.3	(2%)
Expense**	\$28.6	(17%)
Pre-Tax Income**	\$7.7	(39%)
Net Income**	\$7.8	(32%)
Earnings Per Share**	\$8.67	(32%)

Operating P&L Highlights %	FY20	B/(W) Yr/Yr
Gross Profit Margin	49.3%	1.3 pts
Expense E/R**	38.9%	(7.1 pts)
Pre-Tax Income Margin**	10.4%	(5.8 pts)
Net Income Margin**	10.6%	(4.3 pts)
Tax Rate	(1.5%)	10.0 pts

Services Segments Details – FY 2020

GBS Segment	FY20	B/(W) Yr/Yr	GTS Segment	FY20	B/(W) Yr/Yr
Revenue (External)	\$16.2	(4%)	Revenue (External)	\$25.8	(5%)
Consulting	\$8.1	(1%)	Infrastructure & Cloud Services	\$19.7	(5%)
Application Management	\$7.1	(7%)	Technology Support Services	\$6.1	(6%)
Global Process Services	\$0.9	(5%)	Gross Profit Margin (External)	34.8%	Flat
Gross Profit Margin (External)	29.7%	2.0 pts	Pre-Tax Income*	\$0.1	(93%)
Pre-Tax Income*	\$1.4	(17%)	Pre-Tax Income Margin*	0.4%	(5.3 pts)
Pre-Tax Income Margin*	8.3%	(1.2 pts)	Cloud Revenue (External)	\$9.4	10%
Cloud Revenue (External)	\$5.8	11%			

Revenue & Signings growth rates @CC, \$ in billions

* includes impact of pre-tax charge for structural actions in 4Q20

Supplemental Materials



Software and Systems Segment Details – FY 2020

Cloud & Cognitive Software Segment			Systems Segment		
	FY20	B/(W) Yr/Yr		FY20	B/(W) Yr/Yr
Revenue (External)	\$23.4	2%	Revenue (External)	\$7.0	(9%)
Cloud & Data Platforms	\$11.5	20%	Systems Hardware	\$5.5	(8%)
Cognitive Applications	\$5.3	(3%)	IBM Z		1%
Transaction Processing Platforms	\$6.6	(17%)	Power		(23%)
Pre-Tax Income*	\$6.4	(19%)	Storage		(7%)
Pre-Tax Income Margin*	24.0%	(6.4 pts)	Operating Systems Software	\$1.5	(11%)
Cloud Revenue (External)	\$7.0	67%	Gross Profit Margin (External)	55.9%	2.8 pts
			Systems Hardware	48.7%	4.4 pts
			Operating Systems Software	82.3%	(1.5 pts)
			Pre-Tax Income*	\$0.4	(36%)
			Pre-Tax Income Margin*	5.8%	(2.7 pts)
			Cloud Revenue (External)	\$2.9	(3%)

Revenue growth rates @CC, \$ in billions

* includes impact of pre-tax charge for structural actions in 4Q20

Supplemental Materials



Expense Summary – FY 2020

Expense Metrics	FY20	B/(W) Yr/Yr	Acq/ Divest**		
			Currency	Base***	Divest**
SG&A – Operating*	\$21.9	(12%)	0 pts	(3 pts)	(9 pts)
RD&E – Operating	\$6.3	(7%)	0 pts	(5 pts)	(1 pts)
IP and Custom Development Income	(\$0.6)	(3%)			
Other (Income)/Expense - Operating	(\$0.3)	NM			
Interest Expense - Operating	\$1.3	(15%)			
Operating Expense & Other Income*	\$28.6	(17%)	(2 pts)	(8 pts)	(7 pts)

\$ in billions

*includes impact of \$2.04B pre-tax charge for structural actions in 4Q20

**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

Retirement Related Summary

Key Assumptions and Metrics	2019	2020	2021	Cost and Contributions	Expected	
					2020	2021
Funded Status at Year end*				Operating Cost	1.5	1.5
US	107%	108%		Non-operating Cost	1.1	1.4
WW	102%	102%		Total Cost	2.6	2.9
Discount Rate at Year end				Contributions**	2.2	2.3
US	3.1%	2.2%				
WW	2.2%	1.5%				
Expected ROA at Prior Year end						
US	5.3%	4.5%	3.8%			
WW	4.9%	4.0%	3.4%			
Actual ROA						
US	14.9%	12.2%				
WW	13.6%	9.6%				

\$ in billions

*Qualified defined benefit plans

**includes cash and non-cash contributions

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 4Q 2020

	4Q20 Yr/Yr	
	GAAP	@CC
Cloud & Cognitive Software	(5%)	(7%)
Cloud & Data Platforms	9%	6%
Cognitive Applications	Flat	(2%)
Transaction Processing Platforms	(24%)	(26%)
Cloud	39%	36%
Global Business Services	(3%)	(5%)
Consulting	Flat	(3%)
Application Management	(6%)	(9%)
Global Process Services	6%	4%
Cloud	16%	14%

	4Q20 Yr/Yr	
	GAAP	@CC
Global Technology Services	(5%)	(8%)
Infrastructure & Cloud Services	(5%)	(8%)
Technology Support Services	(6%)	(7%)
Cloud	4%	1%
Systems	(18%)	(19%)
Systems Hardware	(19%)	(20%)
IBM Z	(23%)	(24%)
Power	(15%)	(16%)
Storage	(15%)	(17%)
Operating Systems Software	(12%)	(14%)
Cloud	(18%)	(19%)

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 and 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 January 21, 2021 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - FY 2020

	FY20 Yr/Yr	
	GAAP	@CC
Cloud & Cognitive Software	2%	2%
Cloud & Data Platforms	21%	20%
Cognitive Applications	(3%)	(3%)
Transaction Processing Platforms	(17%)	(17%)
Cloud	67%	67%
Global Business Services	(4%)	(4%)
Consulting	(1%)	(1%)
Application Management	(7%)	(7%)
Global Process Services	(5%)	(5%)
Cloud	11%	11%

	FY20 Yr/Yr	
	GAAP	@CC
Global Technology Services	(6%)	(5%)
Infrastructure & Cloud Services	(5%)	(5%)
Technology Support Services	(7%)	(6%)
Cloud	10%	10%
Systems	(8%)	(9%)
Systems Hardware	(7%)	(8%)
IBM Z	2%	1%
Power	(22%)	(23%)
Storage	(6%)	(7%)
Operating Systems Software	(11%)	(11%)
Cloud	(3%)	(3%)

The above reconciles the Non-GAAP financial information contained in the “Services Segments Details – FY 2020”, “Software and Systems Segment Details – FY 2020”, and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 21, 2021 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 4Q & FY 2020

	4Q20 Yr/Yr				FY20 Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted	GAAP	Divest impact	Currency impact	Adjusted
Total Revenue	(6%)	0 pts	(2 pts)	(8%)	(5%)	1 pts	(0 pts)	(4%)
Americas	(11%)	0 pts	1 pts	(10%)	(6%)	1 pts	1 pts	(4%)
Europe/ME/Africa	(3%)	0 pts	(6 pts)	(8%)	(3%)	1 pts	(1 pts)	(4%)
Asia Pacific	(2%)	0 pts	(4 pts)	(5%)	(3%)	1 pts	(1 pts)	(4%)
Total Cloud	10%	1 pts	(3 pts)	8%	19%	1 pts	(0 pts)	20%

The above reconciles the Non-GAAP financial information contained in the “4Q20 Highlights”, “Revenue and P&L Highlights”, “Revenue and P&L Highlights – FY 2020”, and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 21, 2021 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Continuing Operations - 4Q 2020

	4Q20					
	GAAP	Acquisition- Related Adjustments	Retirement- Related Adjustments	Tax Reform Impacts	Spin-off- Related Charges	Adjusted
Gross Profit	\$10,523	\$177	—	—	\$1	\$10,700
Gross Profit Margin	51.7%	0.9 pts	—	—	0.0 pts	52.5%
SG&A	7,232	(287)	—	—	(28)	6,917
Total Expense	9,234	(288)	(295)	—	(28)	8,623
Pre-tax Income	1,289	465	295	—	28	2,077
Pre-tax Income Margin	6.3%	2.3 pts	1.4 pts	—	0.1 pts	10.2%
Tax Rate	1.9%	4.6 pts	4.4 pts	(0.9 pts)	0.3 pts	10.4%
Net Income	1,264	359	198	18	21	1,861
Net Income Margin	6.2%	1.8 pts	1.0 pts	0.1 pts	0.1 pts	9.1%
Earnings Per Share	\$1.41	\$0.40	\$0.22	\$0.02	\$0.02	\$2.07

\$ in millions (except EPS which is in whole dollars)

The above reconciles the Non-GAAP financial information contained in the “4Q20 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 January 21, 2021 for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 4Q & FY 2020

	4Q20			FY20		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A						
Currency	(4 pts)	0 pts	(4 pts)	0 pts	0 pts	0 pts
Acquisitions/Divestitures	2 pts	0 pts	2 pts	(4 pts)	2 pts	(3 pts)
Base*	(31 pts)	(2 pts)	(33 pts)	(7 pts)	(2 pts)	(9 pts)
RD&E						
Currency	(1 pts)	0 pts	(1 pts)	0 pts	0 pts	0 pts
Acquisitions/Divestitures	1 pts	0 pts	1 pts	(5 pts)	0 pts	(5 pts)
Base*	(1 pts)	0 pts	(1 pts)	0 pts	(1 pts)	(1 pts)
Operating Expense & Other Income						
Currency	(4 pts)	0 pts	(5 pts)	(2 pts)	0 pts	(2 pts)
Acquisitions/Divestitures	(1 pts)	0 pts	(1 pts)	(9 pts)	1 pts	(8 pts)
Base*	(24 pts)	(1 pts)	(25 pts)	(7 pts)	0 pts	(7 pts)

The above reconciles the Non-GAAP financial information contained in the “Expense Summary” and “Expense Summary – FY 2020” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 21, 2021 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 Realization - FY 2020

	FY	FY Excluding Structural Actions*
Free Cash Flow Realization	196%	143%

The above reconciles the Non-GAAP financial information contained in the “4Q20 Highlights” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated January 21, 2021 for additional information on the use of these Non-GAAP financial measures.

* Adjusted for \$2.04B charge for structural actions in 4Q20.



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