

IBM 3Q 2023 Earnings



October 25, 2023
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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 presentation materials, certain non-GAAP information including operating earnings and other "operating" financial measures, free cash flow, net cash from operating activities excluding IBM 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 October 25, 2023. The reconciliation of non-GAAP information to GAAP is included in the press release within Exhibit 99.1 to the company's Form 8-K submitted to the SEC on October 25, 2023, as well as on the slides entitled "Non-GAAP supplemental materials" in this presentation.

To provide better transparency, the company also discusses management performance metrics including annual recurring revenue, signings, and book-to-bill. The metrics are used to monitor the performance of the business and are viewed as useful decision-making information for management and stakeholders. The rationale for management's use of these performance metrics and their calculation are included in the Management Discussion section 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 other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-3Q23>

Arvind Krishna

Chairman and
Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO perspective

“Technology remains a critical source of competitive differentiation and progress for organizations around the world.

Clients are increasingly adopting our watsonx AI and data platform along with our hybrid cloud solutions to unlock productivity and operational efficiency. This is helping drive solid growth in our software and consulting businesses. As a result, we remain confident in our revenue and free cash flow growth expectations for the full year.”

Arvind Krishna

IBM Chairman and CEO



3Q23
Performance








Generative AI



Innovation, portfolio
and productivity

IBM's generative AI tech stack and expertise

 <p>AI assistants</p>	<p>Empower individuals to do work without expert knowledge across a variety of business processes and applications.</p>	<p>watsonx Code Assistant watsonx Assistant watsonx Orchestrate watsonx Orders</p>												
 <p>SDKs and APIs</p>	<p>Use programmatic interfaces to embed watsonx platform capabilities in assistants and applications.</p>	<p>Ecosystem integrations</p>												
 <p>AI and data platform</p>	<p>Leverage generative AI and machine learning — tuned with your data — with responsibility, transparency and explainability.</p>	<table border="0"> <tr> <td>watsonx</td> <td>Foundation models</td> </tr> <tr> <td>watsonx.ai</td> <td>Granite <i>IBM</i></td> </tr> <tr> <td>watsonx.governance</td> <td>Open Source <i>Hugging Face</i></td> </tr> <tr> <td>watsonx.data</td> <td>Llama 2 <i>Meta AI</i></td> </tr> <tr> <td></td> <td>Geospatial <i>IBM + NASA</i></td> </tr> <tr> <td></td> <td>...</td> </tr> </table>	watsonx	Foundation models	watsonx.ai	Granite <i>IBM</i>	watsonx.governance	Open Source <i>Hugging Face</i>	watsonx.data	Llama 2 <i>Meta AI</i>		Geospatial <i>IBM + NASA</i>		...
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	...													
 <p>Data services</p>	<p>Access data fabric services to define, organize, manage, and deliver trusted data to train and tune models.</p>	<p>Data fabric services</p>												
 <p>Hybrid cloud AI tools</p>	<p>Build on a consistent, scalable foundation based on open-source technology.</p>	<p>Red Hat OpenShift AI (e.g., Ray, Pytorch)</p>												

Consulting
 Generative AI strategy, experience, technology, operations

Ecosystem
 System Integrators, Software and SaaS partners, Public Cloud providers

Financial highlights

3Q23

+3.5%

Revenue growth yr/yr

+\$1B

Free cash flow ytd yr/yr

“Our continued focus on the fundamentals of our business is driving solid revenue growth, profit margin expansion, and strong cash generation.

That cash generation has enabled us to increase our investment in R&D and acquisitions, strengthening our future AI and hybrid cloud capabilities, while supporting continued shareholder returns through our dividend.”

James Kavanaugh

IBM SVP & CFO

\$14.8B

Revenue

~75%

Revenue mix
in software and consulting

~50%

Recurring revenue mix
led by high-value software

170bps

Pre-tax margin expansion
(operating)

\$5.1B

Free cash flow ytd

\$11.0B

Cash and marketable securities

Software

Revenue growth reflects hybrid cloud and AI value

Solid and growing recurring revenue base; ARR* of \$14 billion, +7% yr/yr

Gross and pre-tax margin expansion

Launched watsonx and acquired Apptio

\$6.3B

Revenue

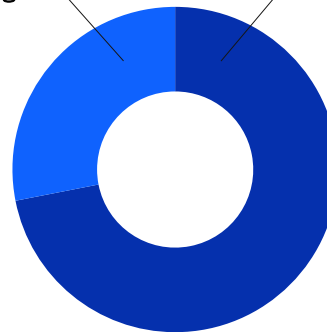
+6%

Revenue growth

Revenue categories

Transaction Processing
+5% yr/yr

Hybrid Platform & Solutions
+7% yr/yr



Red Hat Automation 13%
Data & AI 6%
Security (3%)

3Q23 results; revenue growth rates @CC

*Annual recurring revenue for Hybrid Platform & Solutions, growth rate @CC

Consulting

Growth across all revenue categories and geographies

Strength in Red Hat and strategic partner practices

Book-to-bill ratio of >1.15 for the last year

Continued gross and pre-tax margin expansion

\$5.0B

Revenue

+5%

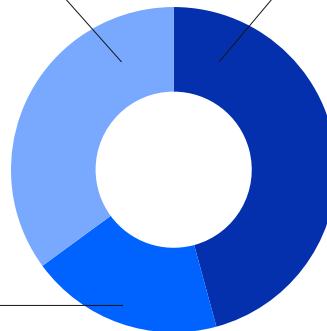
Revenue growth

Revenue categories

Application Operations
+7% yr/yr

Technology Consulting
+1% yr/yr

Business Transformation
+5% yr/yr

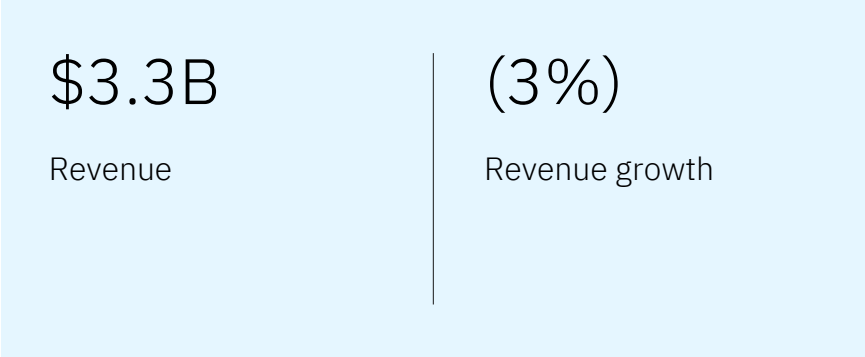


Infrastructure

zSystems revenue growth reflects enduring platform

Distributed Infrastructure performance reflects Power growth offset by storage declines

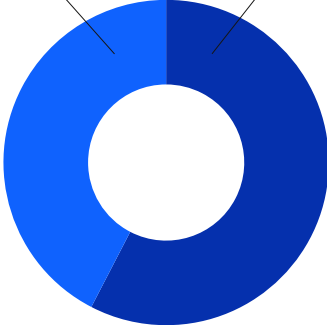
Strong gross and pre-tax margin performance



Revenue categories

Infrastructure Support
(7%) yr/yr

Hybrid
Infrastructure
Flat yr/yr



zSystems +9%

Distributed
Infrastructure (6%)

Summary

3Q23 Summary

Executing a focused hybrid cloud & AI strategy to address today's client needs

Continued strong performance in growth vectors of software and consulting

Portfolio mix and productivity drive improving margin

Higher-growth, higher-value business with strong cash generation

2023 Expectations

Revenue growth of 3% to 5% @CC

Free cash flow of ~\$10½ billion, up >\$1 billion yr/yr

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Supplemental material

- Revenue and P&L highlights
- Cash flow and balance sheet highlights
- Currency impact on revenue growth
- Software & Infrastructure segment details
- Consulting segment details
- Expense summary
- Balance sheet summary
- Cash flow summary
- Cash flow (ASC 230)
- Software segment revenue categories
- Consulting segment revenue categories
- Infrastructure segment revenue categories
- Non-GAAP supplemental materials

Revenue and P&L highlights

Revenue highlights	3Q23	B/(W) Yr/Yr
Revenue	\$14.8	3%
Americas	\$7.7	4%
Europe/ME/Africa	\$4.2	Flat
Asia Pacific	\$2.8	7%

Operating P&L highlights \$	3Q23	B/(W) Yr/Yr
Gross profit	\$8.2	8%
Expense	\$5.9	(5%)
Pre-tax income	\$2.3	17%
Net income	\$2.0	23%
Earnings per share	\$2.20	22%

Operating P&L highlights %	3Q23	B/(W) Yr/Yr
Gross profit margin	55.5%	1.6 pts
Expense E/R	39.9%	Flat
Pre-tax income margin	15.6%	1.7 pts
Net income margin	13.8%	2.0 pts
Tax rate	11.7%	4.2 pts

Cash flow and balance sheet highlights

Cash flow	3Q23 YTD	Yr/Yr*
Net cash from operations**	\$6.3	\$0.9
Free cash flow***	\$5.1	\$1.0

Selected uses of cash	3Q23 YTD	Yr/Yr*
Net capital expenditures	\$1.2	(\$0.1)
Acquisitions	\$4.9	\$3.9
Dividends	\$4.5	\$0.1

Balance sheet	Sep 23	Dec 22	Sep 22
Cash & marketable securities	\$11.0	\$8.8	\$9.7
Total debt	\$55.2	\$50.9	\$50.9

Selected debt measures	Sep 23	Dec 22	Sep 22
IBM Financing debt	\$9.9	\$12.9	\$11.2
Core (non-IBM Financing) debt	\$45.4	\$38.1	\$39.7

\$ in billions

*3Q22 YTD includes immaterial cash flows from discontinued operations

**Non-GAAP financial measure; excludes Financing receivables

***Non-GAAP financial measure; adjusts for Financing receivables and net capital expenditures

Currency impact on revenue growth

Quarterly averages per US \$	3Q23	Yr/Yr	Spot 10/24/23	4Q23	FY23	1Q24	2Q24	FY24
Euro	0.92	7%	0.94	4%	2%	(1%)	(3%)	(2%)
Pound	0.79	7%	0.82	4%	0%	0%	(3%)	(2%)
Yen	145	(5%)	150	(6%)	(7%)	(13%)	(9%)	(6%)
Revenue impact, future @ 10/24/23 Spot		1.1 pts		(0-1 pts)	~(1 pts)	(2-2.5 pts)	(2-2.5 pts)	(1-2 pts)
<i>Prior view @ 7/18/23 Spot</i>		2-3 pts		~3 pts	~0 pts			
	US \$B	Yr/Yr						
Revenue as reported	\$14.8	4.6%						
Currency impact	\$0.2	1.1 pts						
Revenue @CC		3.5%						

Software & Infrastructure segment details

Software segment	3Q23	B/(W) Yr/Yr
Revenue	\$6.3	6%
Hybrid Platform & Solutions	\$4.5	7%
Red Hat		8%
Automation		13%
Data & AI		6%
Security		(3%)
Transaction Processing	\$1.8	5%
Pre-tax income	\$1.5	14%
Pre-tax income margin	23.7%	1.2 pts
Annual recurring revenue*	\$14.0	7%

Infrastructure segment	3Q23	B/(W) Yr/Yr
Revenue	\$3.3	(3%)
Hybrid Infrastructure	\$1.9	Flat
zSystems		9%
Distributed Infrastructure		(6%)
Infrastructure Support	\$1.3	(7%)
Pre-tax income	\$0.4	38%
Pre-tax income margin	11.8%	3.5 pts

Revenue growth rates @CC, \$ in billions

*Annual recurring revenue for Hybrid Platform & Solutions, growth rate @CC

Consulting segment details

Consulting segment	3Q23	B/(W) Yr/Yr
Revenue	\$5.0	5%
Business Transformation	\$2.3	5%
Technology Consulting	\$1.0	1%
Application Operations	\$1.7	7%
Gross profit margin	27.4%	1.5 pts
Pre-tax income	\$0.5	10%
Pre-tax income margin	10.2%	0.4 pts
Signings	\$5.8	32%
Book-to-bill ratio (TTM)	>1.15	

Expense summary

Expense	3Q23	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
Operating expense & other income	\$5.9	(5%)	(5 pts)	(1 pts)	1 pts
SG&A – operating	\$4.2	(1%)	(1 pts)	(1 pts)	0 pts
RD&E	\$1.7	(5%)	0 pts	(1 pts)	(4 pts)
IP and custom development income	(\$0.2)	56%			
Other (income)/expense - operating	(\$0.2)	(31%)			
Interest expense	\$0.4	(39%)			

\$ in billions

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

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

Balance sheet summary

	Sep 23	Dec 22	Sep 22
Cash & marketable securities	\$11.0	\$8.8	\$9.7
Core (non-IBM Financing) assets*	\$106.8	\$103.4	\$102.9
IBM Financing assets	\$11.5	\$15.0	\$13.2
Total assets	\$129.3	\$127.2	\$125.8
Other liabilities	\$50.9	\$54.3	\$54.8
Core (non-IBM Financing) debt*	\$45.4	\$38.1	\$39.7
IBM Financing debt	\$9.9	\$12.9	\$11.2
Total debt	\$55.2	\$50.9	\$50.9
Total liabilities	\$106.2	\$105.2	\$105.7
Equity	\$23.2	\$22.0	\$20.1

\$ in billions

*includes eliminations of inter-company activity

Cash flow summary

	QTD 3Q23	B/(W) Yr/Yr	YTD 3Q23	B/(W) Yr/Yr*
Net cash from operations	\$3.1	\$1.2	\$9.5	\$3.0
Less: IBM Financing receivables	\$1.1	\$0.4	\$3.1	\$2.0
Net cash from operations (excluding IBM Financing receivables)	\$2.0	\$0.8	\$6.3	\$0.9
Net capital expenditures	(\$0.3)	\$0.2	(\$1.2)	\$0.1
Free cash flow (excluding IBM Financing receivables)	\$1.7	\$0.9	\$5.1	\$1.0
Acquisitions	(\$4.6)	(\$4.5)	(\$4.9)	(\$3.9)
Divestitures	(\$0.0)	(\$0.0)	(\$0.0)	(\$1.3)
Dividends	(\$1.5)	(\$0.0)	(\$4.5)	(\$0.1)
Non-IBM Financing debt	(\$0.9)	(\$3.9)	\$7.6	\$2.9
Other (includes IBM Financing net A/R & IBM Financing debt)	\$0.0	\$0.2	(\$1.1)	\$1.3
Change in cash & marketable securities	(\$5.3)	(\$7.3)	\$2.2	(\$0.0)

\$ in billions

*3Q22 YTD includes immaterial cash flows from discontinued operations

Cash flow (ASC230)

	QTD 3Q23	QTD 3Q22	YTD 3Q23	YTD 3Q22
Net income from operations	\$1.7	(\$3.2)	\$4.2	(\$1.1)
Pension settlement charges	-	\$5.9	-	\$5.9
Depreciation / amortization of intangibles	\$1.1	\$1.2	\$3.2	\$3.7
Stock-based compensation	\$0.3	\$0.3	\$0.8	\$0.7
Working capital / other	(\$1.1)	(\$2.9)	(\$2.0)	(\$3.8)
IBM Financing A/R	\$1.1	\$0.7	\$3.1	\$1.1
Net cash provided by operating activities	\$3.1	\$1.9	\$9.5	\$6.5
Capital expenditures, net of payments & proceeds	(\$0.3)	(\$0.4)	(\$1.2)	(\$1.3)
Divestitures, net of cash transferred	(\$0.0)	\$0.0	(\$0.0)	\$1.3
Acquisitions, net of cash acquired	(\$4.6)	(\$0.1)	(\$4.9)	(\$1.0)
Marketable securities / other investments, net	\$2.9	(\$1.2)	(\$3.7)	(\$1.8)
Net cash provided by/(used in) investing activities	(\$2.0)	(\$1.7)	(\$9.9)	(\$2.9)
Debt, net of payments & proceeds	(\$1.5)	\$2.1	\$4.6	\$2.6
Dividends	(\$1.5)	(\$1.5)	(\$4.5)	(\$4.5)
Financing - other	(\$0.1)	\$0.1	(\$0.3)	(\$0.2)
Net cash provided by/(used in) financing activities	(\$3.1)	\$0.7	(\$0.2)	(\$2.1)
Effect of exchange rate changes on cash	(\$0.1)	(\$0.2)	(\$0.1)	(\$0.5)
Net change in cash, cash equivalents & restricted cash	(\$2.1)	\$0.7	(\$0.7)	\$1.0

\$ in billions

3Q22 YTD includes immaterial cash flows from discontinued operations

Software segment categories

Revenue categories

Hybrid Platform & Solutions

Software, infused with AI, to help clients operate, manage, and optimize their IT resources and business processes within hybrid, multi-cloud environments

Red Hat: incl. RHEL, OpenShift, Ansible

Automation: incl. business automation, AIOps and management, integration, and application servers

Data & AI: incl. data fabric, customer care, data management, business analytics, dataops & governance, asset & supply chain management, information exchange and weather

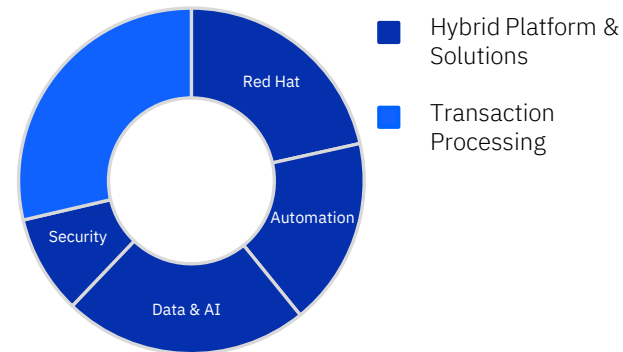
Security: incl. software and services for threat, data and identity

Transaction Processing

Software that supports clients' mission-critical on-premise workloads in industries such as banking, airlines and retail

incl. transaction processing software such as Customer Information Control System and storage software, and analytics and integration software running on IBM operating systems (e.g., DB2 and WebSphere running on z/OS)

Revenue categories – FY 2022



Consulting segment categories

Revenue categories

Business Transformation

Strategy, process design, system implementation and operations services to improve and transform key business processes.

Deploys AI and automation in business processes to exploit the value of data and includes an ecosystem of partners alongside IBM technology, which includes strategic partnerships with Adobe, Oracle, Salesforce and SAP, among others

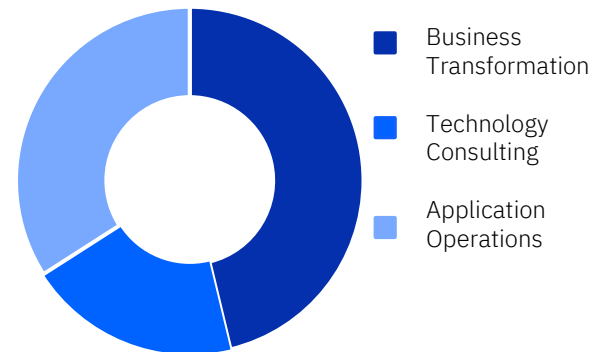
Technology Consulting

Skills to architect and implement cloud platforms, including Amazon, Microsoft and IBM, and strategies to transform the enterprise experience and enable innovation, including application modernization for hybrid cloud with Red Hat OpenShift

Application Operations

Application and cloud platform services required to operationalize and run cloud platforms. Facilitates clients' efforts to manage, optimize and orchestrate application and data workloads across platforms and environments through both custom applications and ISV packages

Revenue categories – FY 2022



Infrastructure segment categories

Revenue categories

Hybrid Infrastructure

Innovative infrastructure platforms to help meet the new requirements of hybrid multi-cloud and enterprise AI workloads leveraging flexible and as-a-service consumption models

zSystems: incl. hardware and operating system

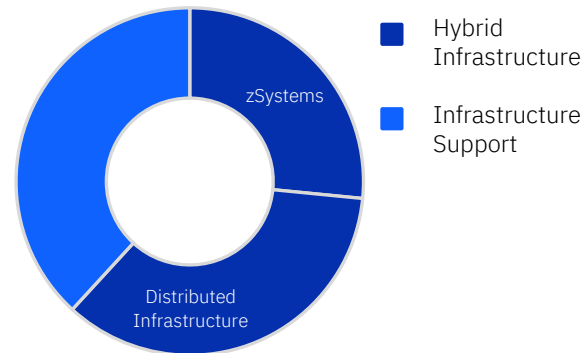
Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

Infrastructure Support

Comprehensive, proactive and AI enabled services to maintain and improve the availability and value of clients' IT infrastructure (hardware and software) both on-premises and in the cloud

incl. maintenance for IBM products and other technology platforms

Revenue categories – FY 2022



Non-GAAP supplemental materials

Reconciliation of revenue performance - 3Q 2023

	3Q23 Yr/Yr	
	GAAP	@CC
Total revenue	5%	3%
Americas	4%	4%
Europe/ME/Africa	7%	Flat
Asia Pacific	4%	7%

The above reconciles the non-GAAP financial information contained in the “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 25, 2023, for additional information on the use of these Non-GAAP financial measures. 25

Non-GAAP supplemental materials

Reconciliation of segment revenue performance - 3Q 2023

	3Q23 Yr/Yr			3Q23 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Software	8%	6%	Consulting	6%	5%
Hybrid Platform & Solutions	8%	7%	Business Transformation	6%	5%
Red Hat	9%	8%	Technology Consulting	2%	1%
Automation	14%	13%	Application Operations	7%	7%
Data & AI	6%	6%			
Security	(2%)	(3%)	Infrastructure	(2%)	(3%)
Transaction Processing	7%	5%	Hybrid Infrastructure	1%	Flat
			zSystems	9%	9%
			Distributed Infrastructure	(4%)	(6%)
			Infrastructure Support	(6%)	(7%)

The above reconciles the non-GAAP financial information contained in the “Software”, “Consulting”, “Infrastructure”, “Software & Infrastructure segment details”, “Consulting 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 25, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of expense summary - 3Q 2023

	GAAP	3Q23 Non-GAAP adjustments	Operating (non-GAAP)
SG&A			
Currency	(1 pts)	0 pts	(1 pts)
Acquisitions/divestitures	(1 pts)	0 pts	(1 pts)
Base*	0 pts	1 pts	0 pts
RD&E			
Currency	0 pts	0 pts	0 pts
Acquisitions/divestitures	(1 pts)	0 pts	(1 pts)
Base*	(4 pts)	0 pts	(4 pts)
Operating expense & other income			
Currency	(1 pts)	(3 pts)	(5 pts)
Acquisitions/divestitures	0 pts	(1 pts)	(1 pts)
Base*	50 pts	(49 pts)	1 pts

*represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures.

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 25, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of continuing operations - 3Q 2023

		3Q23			
	GAAP	Acquisition- related adjustments	Retirement- related adjustments	Tax reform impacts	Operating (non-GAAP)
Gross profit	\$8,023	\$162	—	—	\$8,185
Gross profit margin	54.4%	1.1 pts	—	—	55.5%
SG&A	4,458	(277)	—	—	4,181
Other (income) & expense	(215)	0	12	—	(203)
Total expense	6,150	(277)	12	—	5,885
Pre-tax income	1,873	438	(12)	—	2,299
Pre-tax income margin	12.7%	3.0 pts	(0.1 pts)	—	15.6%
Tax rate	8.5%	2.7 pts	(0.5 pts)	1.0 pts	11.7%
Net income	1,714	340	1	(24)	2,031
Net income margin	11.6%	2.3 pts	0.0 pts	(0.2 pts)	13.8%
Earnings per share	\$1.86	\$0.37	\$0.00	(\$0.03)	\$2.20

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

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights”, “Expense summary” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 25, 2023, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of Pre-tax income margin – FY 2023 expectations

	GAAP B/(W)	Operating (non-GAAP) B/(W)
Pre-tax income margin Yr/Yr	~12 pts *	~0.5 pts

*Yr/Yr reflects a one-time non-cash pension settlement charge of \$5.9 billion in 2022.

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