

IBM

2Q 2021

Earnings

July 19, 2021
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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, 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 July 19, 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 July 19, 2021. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-2q21>

Arvind Krishna

Chairman and Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer



CEO Perspective

“In the second quarter client adoption of our hybrid cloud platform contributed to strong performance in Global Business Services and software and drove improved overall revenue growth. At the same time, we continued to help clients infuse our AI-based technology offerings into their core business workflows.

We are pleased with our progress, and we remain on track to deliver full-year revenue growth and meet our cash flow objective.”

- Arvind Krishna, IBM Chairman and CEO



2Q21 Performance



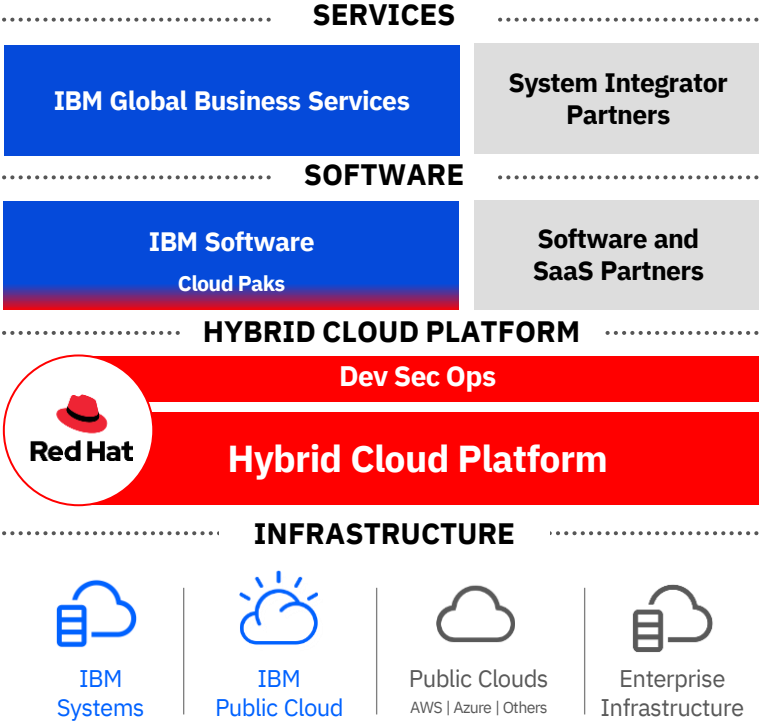
Hybrid Cloud and AI Progress



Clients, Ecosystems and Innovation

Hybrid Cloud & AI Progress

Our Platform Approach



 **Accelerating client adoption of hybrid cloud & AI**

 **Leveraging go-to-market changes and expanding partner ecosystem**

 **Delivering innovation and enhancing portfolio**

 **Executing actions to drive change**

Financial Highlights

2Q21

\$18.7B

Revenue

\$11.0B

Free Cash Flow,
Adjusted (LTM)

“We expanded operating margins and grew profit dollars in the quarter, providing a key contribution to our cash performance.

In the first half of the year we increased adjusted free cash flow, invested in strategic acquisitions to strengthen our hybrid cloud and AI capabilities, continued to deleverage and, consistent with our commitment, again increased our dividend.”

– James Kavanaugh, IBM SVP & CFO

Cloud growth @CC excludes impact of divested businesses; Gross margin expansion is operating; Adjusted FCF excludes cash impacts related to structural actions initiated in 4Q20 and separation related costs; Cash includes marketable securities



Continued progress in revenue growth

Services & Software
growth rates improved

13%
Cloud revenue growth
(LTM)



Solid business model fundamentals

30 bps
Gross margin expansion

\$3.8B
Adjusted FCF (YTD)



Strong balance sheet & liquidity

\$8B
Cash balance

\$6B
Debt reduction (YTD)

Cloud & Cognitive Software

Cloud & Data Platforms growth led by Red Hat and Cloud Pak strength

Cognitive Applications growth driven by Security and supply chain

Transaction Processing Platforms impacted by preference for opex over capex

Strong renewal rates for subscription and support

Revenue

\$6.1B

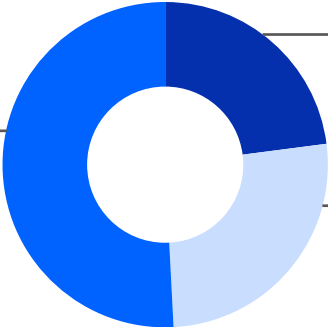
+2% yr/yr

C&CS Cloud Revenue Growth

+25%

yr/yr

Segment Elements



Cloud & Data Platforms
+8% yr/yr

Cognitive Applications
+8% yr/yr

Transaction Processing Platforms
(11%) yr/yr

Global Business Services

Revenue returns to pre-pandemic levels

Continued momentum in Red Hat engagements

Consulting double-digit growth driven by ecosystem and cloud offerings

Gross margin (-60 bps yr/yr) reflects increased investment

Revenue

\$4.3B

+7% yr/yr

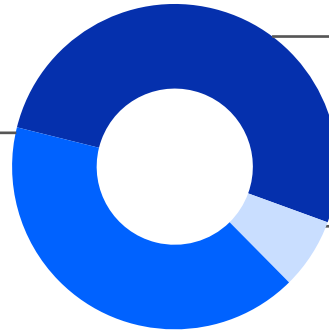
GBS Cloud Revenue Growth

+30%

yr/yr

Segment Elements

Application Management
+1% yr/yr



Consulting
+11% yr/yr

Global Process Services
+25% yr/yr

Systems

IBM Z, Storage and Power impacted by product cycle dynamics

Strong z15 program performance: secure, scalable, reliable

Gross margin up in IBM Z and Power; segment yr/yr margin reflects mix

Revenue

\$1.7B

(10%) yr/yr

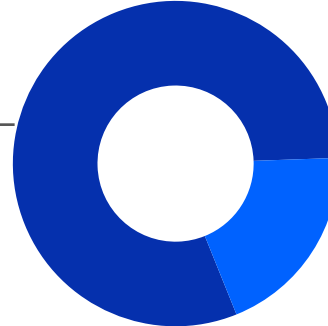
IBM Z Program Revenue

>100%

z15 vs. z14

Segment Elements

Systems Hardware
(10%) yr/yr



Operating
Systems
Software
(12%) yr/yr

Global Technology Services

Margin expansion reflects actions to improve profit profile

Improved trends in client-based business volumes and project activity

Strong and improving renewal rate

Kyndryl separation remains on track to be completed by the end of 2021

Revenue

\$6.3B
(4%) yr/yr

Gross Margin Expansion

+110 bps
yr/yr

Segment Elements

Infrastructure & Cloud Services
(4%) yr/yr



Technology Support Services
(4%) yr/yr

Summary

Accelerating IBM's Performance

Focus on hybrid cloud and AI strategy

Continued progress in revenue trajectory; solid business model fundamentals

Executing actions to accelerate change

Maintaining expectations for full-year 2021

- Revenue growth based on mid-July spot rates
- Adjusted free cash flow* of \$11-12 billion

*Adjusted FCF excludes cash impacts of ~\$3B in 2021 from structural actions initiated in 4Q20 and transaction costs associated with the separation of Kyndryl



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Supplemental Materials

- Revenue and P&L Highlights
- Cash Flow and Balance Sheet Highlights
- Currency – Impact on Revenue Growth
- Services Segments Details
- Software and 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

Revenue and P&L Highlights

Revenue Highlights	2Q21	B/(W) Yr/Yr*
Revenue	\$18.7	Flat
Cloud	\$7.0	9%
Cloud (LTM)	\$27.0	13%

Geography Revenue	2Q21	B/(W) Yr/Yr*
Americas	\$8.8	3%
Europe/ME/Africa	\$6.0	(3%)
Asia Pacific	\$3.9	(4%)

Revenue growth rates @CC, \$ in billions

*Yr/Yr excludes impact of divested businesses

Supplemental Materials

Operating P&L Highlights \$	2Q21	B/(W) Yr/Yr
Gross Profit	\$9.2	4%
Expense	\$6.7	(2%)
Pre-Tax Income	\$2.5	9%
Net Income	\$2.1	8%
Earnings Per Share	\$2.33	7%

Operating P&L Highlights %	2Q21	B/(W) Yr/Yr
Gross Profit Margin	49.3%	0.3 pts
Expense E/R	35.8%	0.5 pts
Pre-Tax Income Margin	13.5%	0.7 pts
Net Income Margin	11.2%	0.5 pts
Tax Rate	17.0%	(1.1 pts)

Cash Flow and Balance Sheet Highlights

Cash Flow	2Q21	Yr/Yr	LTM	Balance Sheet	Jun 21	Dec 20	Jun 20
Net Cash from Operations*	\$1.7	(\$1.3)	\$12.5	Cash & Marketable Securities	\$8.2	\$14.3	\$14.3
Adjusted Free Cash Flow**	\$1.6	(\$0.7)	\$11.0	Total Debt	\$55.2	\$61.5	\$64.7
Selected Uses of Cash				Selected Debt Measures			
Net Capital Expenditures	\$0.7		\$2.8	Global Financing Debt	\$17.5	\$21.2	\$21.9
Acquisitions	\$1.7		\$3.2	Core (non-GF) Debt	\$37.7	\$40.4	\$42.8
Dividends	\$1.5		\$5.8				

\$ in billions

*Non-GAAP financial measures; excludes financing receivables

**Non-GAAP financial measures; excludes cash impacts incurred in the period related to structural actions initiated in 4Q20 and separation related costs

Currency – Impact on Revenue Growth

Quarterly Averages per US \$	1Q21	Yr/Yr	2Q21	Yr/Yr	7/16/2021	3Q21	4Q21	FY21
					Spot			
Euro	0.83	9%	0.83	9%	0.85	1%	(1%)	4%
Pound	0.73	7%	0.72	11%	0.73	6%	4%	7%
Yen	106	3%	109	(2%)	110	(4%)	(5%)	(2%)

Revenue Impact, Future @ 7/16/21 Spot				4 pts		0-1 pts	~(1 pts)	1-2 pts
<i>Prior View @ 4/16/21 Spot</i>				~3 pts		~1 pts	(1)-0 pts	1-2 pts

	US\$B	Yr/Yr
Revenue As Reported	\$18.7	3%
Currency Impact	\$0.7	4 pts
Revenue @CC		(1%)

Software and Systems Segment Details

Cloud & Cognitive Software Segment	2Q21	B/(W) Yr/Yr	Systems Segment	2Q21	B/(W) Yr/Yr
Revenue (External)	\$6.1	2%	Revenue (External)	\$1.7	(10%)
Cloud & Data Platforms	\$3.1	8%	Systems Hardware	\$1.4	(10%)
Cognitive Applications	\$1.4	8%	IBM Z		(13%)
Transaction Processing Platforms	\$1.6	(11%)	Power		(5%)
Pre-Tax Income	\$1.7	1%	Storage		(10%)
Pre-Tax Income Margin	25.2%	(1.1 pts)	Operating Systems Software	\$0.3	(12%)
Cloud Revenue (External)	\$2.1	25%	Gross Profit Margin (External)	55.1%	(2.7 pts)
			Systems Hardware	49.1%	(2.8 pts)
			Operating Systems Software	80.2%	(1.8 pts)
			Pre-Tax Income	\$0.2	(29%)
			Pre-Tax Income Margin	9.0%	(2.8 pts)
			Cloud Revenue (External)	\$0.7	(19%)

Revenue growth rates @CC, \$ in billions

Expense Summary

Expense	2Q21	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
SG&A – Operating	\$4.9	1%	(3 pts)	0 pts	4 pts
RD&E	\$1.7	(5%)	(2 pts)	0 pts	(2 pts)
IP and Custom Development Income	(\$0.1)	(33%)			
Other (Income)/Expense - Operating	(\$0.0)	(86%)			
Interest Expense	\$0.3	13%			
Operating Expense & Other Income	\$6.7	(2%)	(4 pts)	(1 pts)	3 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

	Jun 21	Dec 20	Jun 20
Cash & Marketable Securities	\$8.2	\$14.3	\$14.3
Core (non-GF) Assets*	\$119.1	\$118.5	\$115.2
Global Financing Assets	\$19.5	\$23.2	\$24.7
Total Assets	\$146.8	\$156.0	\$154.2
Other Liabilities	\$69.6	\$73.7	\$68.8
Core (non-GF) Debt*	\$37.7	\$40.4	\$42.8
Global Financing Debt	\$17.5	\$21.2	\$21.9
Total Debt	\$55.2	\$61.5	\$64.7
Total Liabilities	\$124.7	\$135.2	\$133.5
Equity	\$22.1	\$20.7	\$20.7

\$ in billions

*includes eliminations of inter-company activity

Cash Flow Summary

	2Q21	B/(W) Yr/Yr	YTD 2Q21	B/(W) Yr/Yr
Net Cash from Operations	\$2.6	(\$1.0)	\$7.5	(\$0.5)
Less: Global Financing Receivables	\$0.9	\$0.3	\$3.8	\$0.8
Net Cash from Operations (excluding GF Receivables)	\$1.7	(\$1.3)	\$3.8	(\$1.3)
Net Capital Expenditures	(\$0.7)	\$0.0	(\$1.2)	\$0.2
Free Cash Flow (excluding GF Receivables)	\$1.0	(\$1.3)	\$2.6	(\$1.1)
Structural actions initiated in 4Q20 & separation charges*	\$0.6	\$0.6	\$1.2	\$1.2
Adjusted Free Cash Flow	\$1.6	(\$0.7)	\$3.8	\$0.1
Free Cash Flow (excluding GF Receivables)	\$1.0	(\$1.3)	\$2.6	(\$1.1)
Acquisitions	(\$1.7)	(\$1.7)	(\$2.9)	(\$2.8)
Divestitures	(\$0.0)	(\$0.7)	(\$0.0)	(\$0.8)
Dividends	(\$1.5)	(\$0.0)	(\$2.9)	(\$0.0)
Non-GF Debt	(\$0.6)	(\$1.0)	(\$2.3)	(\$6.3)
Other (includes GF Net A/R & GF Debt)	(\$0.3)	(\$0.5)	(\$0.5)	(\$0.3)
Change in Cash & Marketable Securities	(\$3.1)	(\$5.3)	(\$6.1)	(\$11.4)

\$ in billions

*includes cash impacts incurred in the period related to structural actions initiated in 4Q20 and separation related costs

Cash Flow (ASC 230)

	QTD 2Q21	QTD 2Q20	YTD 2Q21	YTD 2Q20
Net Income from Operations	\$1.3	\$1.4	\$2.3	\$2.5
Depreciation / Amortization of Intangibles	\$1.7	\$1.7	\$3.4	\$3.3
Stock-based Compensation	\$0.2	\$0.2	\$0.5	\$0.4
Working Capital / Other	(\$1.5)	(\$0.3)	(\$2.3)	(\$1.2)
Global Financing A/R	\$0.9	\$0.6	\$3.8	\$3.0
Net Cash provided by Operating Activities	\$2.6	\$3.6	\$7.5	\$8.1
Capital Expenditures, net of payments & proceeds	(\$0.7)	(\$0.7)	(\$1.2)	(\$1.4)
Divestitures, net of cash transferred	(\$0.0)	\$0.7	(\$0.0)	\$0.8
Acquisitions, net of cash acquired	(\$1.7)	(\$0.0)	(\$2.9)	(\$0.0)
Marketable Securities / Other Investments, net	(\$0.2)	(\$1.3)	(\$0.6)	(\$1.4)
Net Cash provided by/(used in) Investing Activities	(\$2.7)	(\$1.2)	(\$4.7)	(\$2.1)
Debt, net of payments & proceeds	(\$1.5)	(\$0.0)	(\$5.8)	\$1.3
Dividends	(\$1.5)	(\$1.5)	(\$2.9)	(\$2.9)
Common Stock Repurchases	-	-	-	-
Common Stock Transactions - Other	(\$0.2)	(\$0.1)	(\$0.2)	(\$0.2)
Net Cash provided by/(used in) Financing Activities	(\$3.1)	(\$1.6)	(\$8.9)	(\$1.7)
Effect of Exchange Rate changes on Cash	\$0.1	\$0.1	(\$0.1)	(\$0.3)
Net Change in Cash, Cash Equivalents & Restricted Cash	(\$3.1)	\$0.8	(\$6.1)	\$3.9

\$ in billions

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 2Q 2021

	2Q21 Yr/Yr			2Q21 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Cloud & Cognitive Software	6%	2%	Global Technology Services	Flat	(4%)
Cloud & Data Platforms	12%	8%	Infrastructure & Cloud Services	Flat	(4%)
Cognitive Applications	12%	8%	Technology Support Services	Flat	(4%)
Transaction Processing Platforms	(7%)	(11%)	Cloud	(1%)	(5%)
Cloud	29%	25%	Systems	(7%)	(10%)
Global Business Services	12%	7%	Systems Hardware	(7%)	(10%)
Consulting	16%	11%	IBM Z	(11%)	(13%)
Application Management	5%	1%	Power	(2%)	(5%)
Global Process Services	28%	25%	Storage	(7%)	(10%)
Cloud	35%	30%	Operating Systems Software	(9%)	(12%)
			Cloud	(16%)	(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 July 19, 2021, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Performance - 2Q 2021

	2Q21 Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted
Total Revenue	3%	0 pts	(4 pts)	(0%)
Americas	4%	0 pts	(1 pts)	3%
Europe/ME/Africa	6%	0 pts	(9 pts)	(3%)
Asia Pacific	(2%)	0 pts	(2 pts)	(4%)
Total Cloud	13%	0 pts	(4 pts)	9%

The above reconciles the Non-GAAP financial information contained in the “Financial 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 July 19, 2021, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue for Red Hat, Normalized - 2Q 2021

Revenue, Normalized for Historical Comparability	2Q21 Yr/Yr Red Hat
Revenue GAAP growth rate*	36%
Impact from purchase accounting deferred revenue and intercompany adjustments**	(16 pts)
Revenue growth rate, normalized for historical comparability (non-GAAP)	20%
Impact from currency	(3 pts)
Revenue growth rate, normalized for historical comparability and adjusting for currency (non-GAAP)	17%

*Represents change in GAAP revenue as reported by IBM. Red Hat is included in the Cloud & Cognitive Software segment.

**Represents change in the second-quarter 2021 impact of the deferred revenue purchase accounting adjustment and adjustments to add back revenue which was eliminated for sales between Red Hat and IBM. This line represents revenue that would have been recognized by Red Hat under GAAP if the acquisition had not occurred but was not recognized by IBM due to purchase accounting and intercompany adjustments.

The above reconciles the Non-GAAP financial information contained in the “Prepared Remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 19, 2021, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Expense Summary - 2Q 2021

	2Q21		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	(3 pts)	0 pts	(3 pts)
Acquisitions/Divestitures	0 pts	0 pts	0 pts
Base*	2 pts	3 pts	4 pts
RD&E			
Currency	(2 pts)	0 pts	(2 pts)
Acquisitions/Divestitures	0 pts	0 pts	0 pts
Base*	(2 pts)	0 pts	(2 pts)
Operating Expense & Other Income			
Currency	(4 pts)	0 pts	(4 pts)
Acquisitions/Divestitures	(1 pts)	0 pts	(1 pts)
Base*	0 pts	3 pts	3 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 July 19, 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 Continuing Operations - 2Q 2021

	2Q21					
	GAAP	Acquisition- Related Adjustments	Retirement- Related Adjustments	Tax Reform Impacts	Separation- Related Charges	Adjusted
Gross Profit	\$9,004	\$180	—	—	\$58	\$9,242
Gross Profit Margin	48.0%	1.0 pts	—	—	0.3 pts	49.3%
SG&A	5,334	(298)	—	—	(116)	4,919
RD&E	1,657	—	—	—	(0)	1,656
Other (Income) & Expense	315	(1)	(328)	—	—	(14)
Total Expense	7,451	(299)	(328)	—	(117)	6,708
Pre-tax Income	1,552	479	328	—	175	2,534
Pre-tax Income Margin	8.3%	2.6 pts	1.7 pts	—	0.9 pts	13.5%
Tax Rate	14.7%	1.4 pts	0.7 pts	(0.5 pts)	0.7 pts	17.0%
Net Income	1,325	373	261	14	131	2,103
Net Income Margin	7.1%	2.0 pts	1.4 pts	0.1 pts	0.7 pts	11.2%
Earnings Per Share	\$1.47	\$0.41	\$0.29	\$0.01	\$0.15	\$2.33

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

The above reconciles the Non-GAAP financial information contained in the “Financial Highlights”, “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 July 19, 2021, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Free Cash Flow – YTD and Last 12 Months

	YTD	12 Months Ended
	Jun 2021	Jun 2021
Net Cash from Operating Activities per GAAP:	\$7.5	\$17.7
Less: change in Global Financing (GF) Receivables	\$3.8	\$5.1
Net Cash from Operating Activities (Excluding GF Receivables)	\$3.8	\$12.5
Capital Expenditures, Net	(\$1.2)	(\$2.8)
Free Cash Flow (Excluding GF Receivables)	\$2.6	\$9.7
Structural actions initiated in 4Q20 & separation charges*	\$1.2	\$1.3
Adjusted Free Cash Flow	\$3.8	\$11.0

\$ in billions

*includes cash impacts incurred in the period related to structural actions initiated in 4Q20 and separation related costs

The above reconciles the Non-GAAP financial information contained in the “Financial Highlights”, “Cash Flow and Balance Sheet Highlights”, “Cash Flow Summary” and “Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated July 19, 2021, for additional information on the use of these Non-GAAP financial measures.



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