

# IBM 1Q 2022 Earnings



April 19, 2022  
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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.

Unless otherwise specified, results are presented on a continuing operations basis.

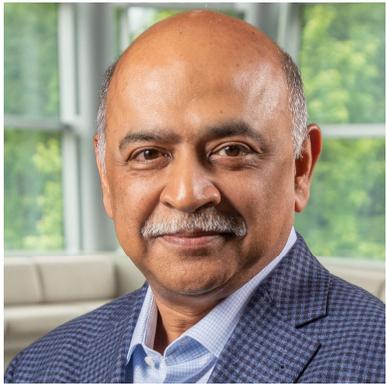
In an effort to provide additional and useful information regarding the company's financial results and other financial information as determined by generally accepted accounting principles (GAAP), the company also discusses, in its earnings press release and presentation materials, certain non-GAAP information

including operating earnings and other "operating" financial measures, consolidated 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 April 19, 2022. 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 April 19, 2022.

To provide better transparency, the company also discusses management performance metrics including hybrid cloud revenue, 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 2021 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 22, 2022. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-1q22>

Arvind Krishna  
Chairman and  
Chief Executive Officer



James Kavanaugh  
SVP, Finance & Operations,  
Chief Financial Officer

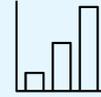


## CEO Perspective

“Demand for hybrid cloud and AI drove growth in both Software and Consulting in the first quarter. Today we’re a more focused business and our results reflect the execution of our strategy.

We are off to a solid start for the year, and we now see revenue growth for 2022 at the high end of our model.”

**Arvind Krishna**  
*IBM Chairman and CEO*



1Q22  
Performance



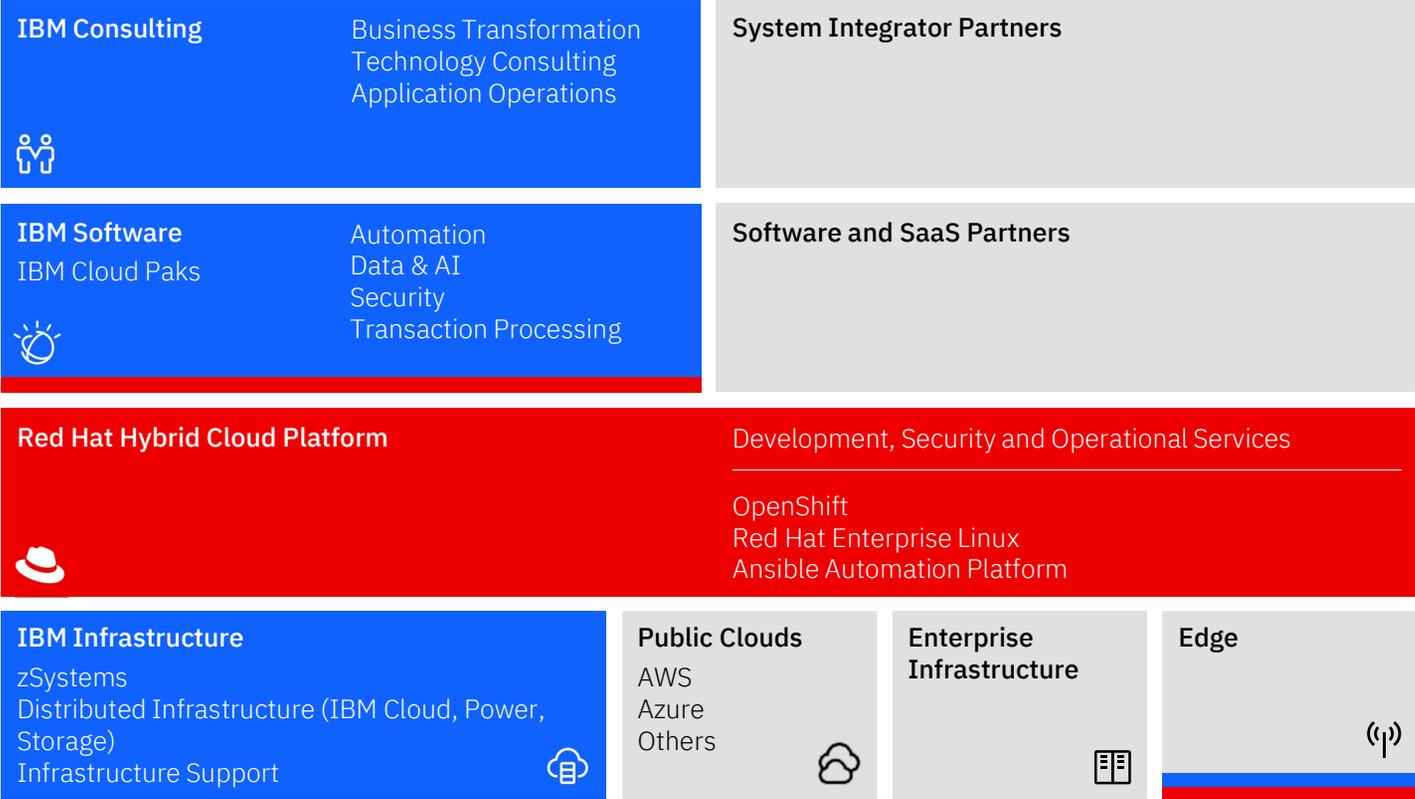
Hybrid cloud and  
AI progress



Clients, ecosystem  
and innovation

# Hybrid Cloud and AI Progress

## Our platform approach



Accelerating client adoption

Expanding partner ecosystem

Delivering innovation

# Financial Highlights

1Q22

**\$14.2B**

Revenue

**\$1.2B**

Free Cash Flow

“In the first quarter we continued to strengthen the fundamentals of our business, consistent with our medium-term model.

We are a faster growing, more profitable company with a higher-value business mix, a significant recurring revenue base and strong cash generation.”

**James Kavanaugh**

*IBM SVP & CFO*

Revenue growth rates @CC

**11%**

Revenue growth  
incl. over 5 pts from  
incremental sales to Kyndryl

**>70%**

Revenue mix  
in software and consulting

**\$20.8B**

Hybrid cloud revenue (TTM),  
+17% yr/yr

**280bps**

Pre-tax margin expansion  
(Operating)

**\$10.8B**

Cash on hand,  
incl marketable securities

# Software

Pervasive revenue growth across Hybrid Platform & Solutions

Over 4,000 clients using hybrid cloud platform

Annual Recurring Revenue\*  
+9% yr/yr

\$5.8B

Revenue

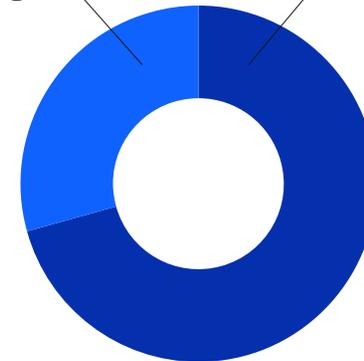
+15%

Revenue growth  
(includes over 8 pts from incremental sales to Kyndryl)

## Revenue categories

Transaction Processing  
+31% yr/yr  
~28 pts incremental Kyndryl

Hybrid Platform & Solutions  
+10% yr/yr  
~1.5 pts incremental Kyndryl



Red Hat 21%  
Automation 5%  
Data & AI 4%  
Security 8%

1Q22 Results; Revenue growth rates @CC  
\*Annual Recurring Revenue for Hybrid Platform & Solutions

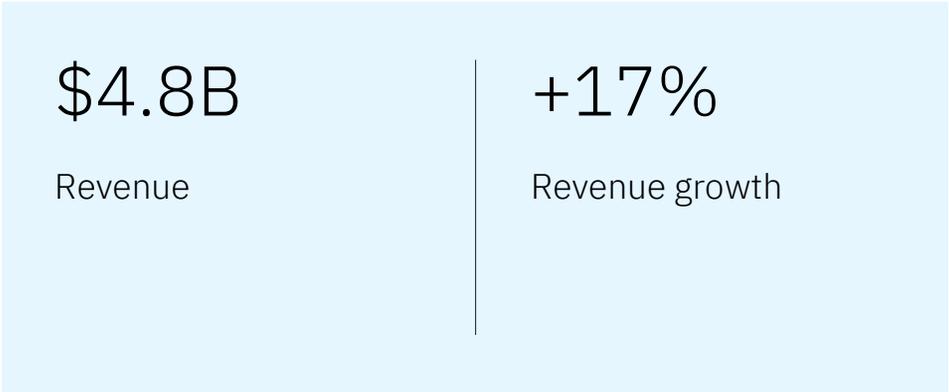
# Consulting

Double-digit revenue growth across all revenue categories and geographies

Hybrid cloud and strategic partnerships fueling growth

Book-to-bill ratio of 1.1 for the quarter and past year

Competitive labor environment

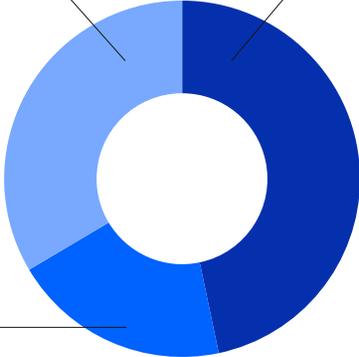


### Revenue categories

Application Operations  
+14% yr/yr

Business Transformation  
+19% yr/yr

Technology Consulting  
+19% yr/yr



# Infrastructure

zSystems performance reflects product cycle

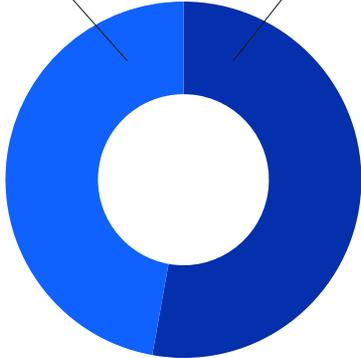
Announced IBM z16 with embedded AI, cyber-resilient security, cloud-native

Distributed Infrastructure growth driven by high-end Power

<b>\$3.2B</b> Revenue	<b>Flat</b> Revenue growth (includes over 8 pts from incremental sales to Kyndryl)
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### Revenue categories

Infrastructure Support  
**+4% yr/yr**  
~8 pts incremental Kyndryl



Hybrid Infrastructure  
**(2%) yr/yr**  
~8 pts incremental Kyndryl

zSystems (18%)  
Distributed Infrastructure 8%

# Summary

## 1Q 2022 Progress

Executing a focused hybrid cloud and AI strategy

Strong revenue growth led by Software and Consulting

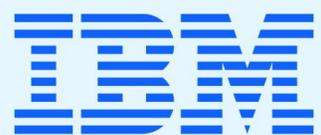
Investing in innovation, ecosystem, talent

## 2022 Expectations

Mid-single digit revenue growth @cc plus ~3.5 pts from incremental sales to Kyndryl

Free cash flow of \$10–\$10.5 billion

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## Supplemental Material

- Revenue and P&L Highlights
  - Cash Flow and Balance Sheet Highlights
  - Historical Free Cash Flow Attainment
  - 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

Unless otherwise specified, results are presented on a continuing operations basis.  
Some columns and rows in these materials, including the supplemental exhibits, may not add due to rounding

## Revenue and P&L Highlights

Revenue highlights	1Q22	B/(W) Yr/Yr	incr. KD benefit
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Revenue	\$14.2	11%	> 5 pts
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Hybrid Cloud	\$5.0	17%	~ 2 pts
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Geography revenue	1Q22	B/(W) Yr/Yr	incr. KD benefit
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Americas	\$7.1	9%	~ 4 pts
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Europe/ME/Africa	\$4.2	14%	~ 7 pts
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Asia Pacific	\$2.9	11%	~ 6 pts
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Operating P&L highlights \$	1Q22	B/(W) Yr/Yr
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Gross Profit	\$7.5	4%
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Expense	\$6.0	3%
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Pre-Tax Income	\$1.5	46%
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Net Income	\$1.3	25%
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Earnings Per Share	\$1.40	25%
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Operating P&L highlights %	1Q22	B/(W) Yr/Yr
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Gross Profit Margin	52.9%	(1.7 pts)
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Expense E/R	42.3%	4.5 pts
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Pre-Tax Income Margin	10.7%	2.8 pts
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Net Income Margin	9.0%	1.3 pts
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Tax Rate	16.1%	(13.6 pts)
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Revenue growth rates @CC, \$ in billions

## Cash Flow and Balance Sheet Highlights

Cash flow	1Q22	Yr/Yr
Consolidated Net Cash from Operations*	\$1.6	(\$0.4)
Consolidated Free Cash Flow**	\$1.2	(\$0.3)

Selected uses of cash	
Net Capital Expenditures	\$0.4
Acquisitions	\$0.7
Dividends	\$1.5

Balance sheet	Mar 22	Dec 21	Mar 21
Cash & Marketable Securities	\$10.8	\$7.6	\$11.3
Total Debt	\$54.2	\$51.7	\$56.4

Selected debt measures			
IBM Financing Debt	\$12.2	\$13.9	\$18.2
Core (non-IBM Financing) Debt	\$42.1	\$37.8	\$38.2

\$ in billions

\*Non-GAAP financial measure; excludes Financing receivables

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

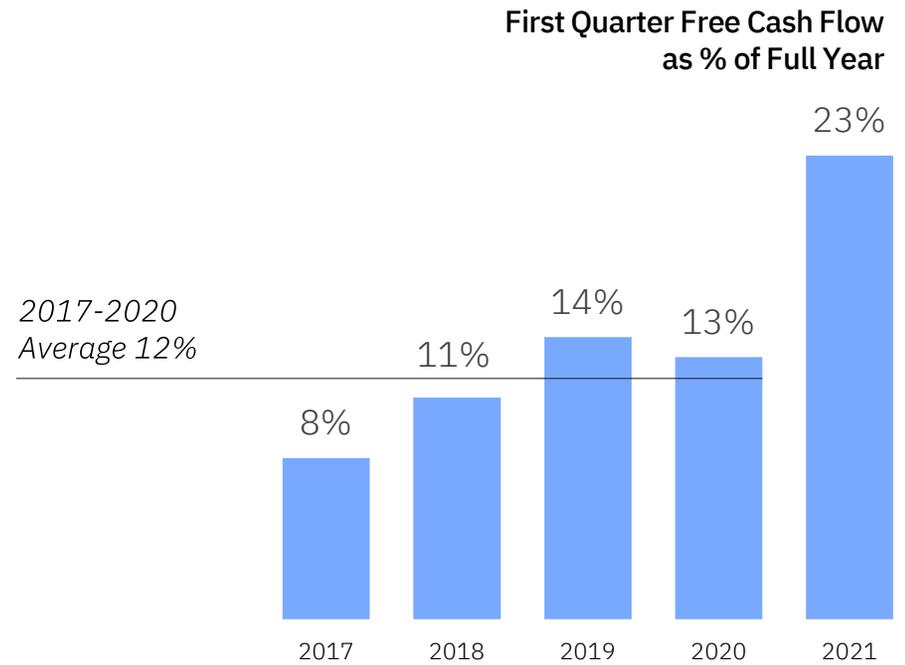
# Historical Free Cash Flow Attainment

\$1.2B of Free Cash Flow in 1Q 2022

Represents ~12% of full-year expected range, consistent with history

2021 an anomaly, reflecting Kyndryl separation dynamics

Free cash flow consolidated



## Currency Impact on Growth

Quarterly averages per US \$	1Q22	Yr/Yr	Spot 4/18/22	2Q22	3Q22	4Q22	FY22
Euro	0.89	(7%)	0.93	(11%)	(9%)	(6%)	(8%)
Pound	0.75	(3%)	0.77	(7%)	(6%)	(4%)	(5%)
Yen	116	(10%)	127	(15%)	(15%)	(11%)	(13%)
Revenue impact, future @ 4/18/22 Spot		~(3 pts)		~(5 pts)	~(4 pts)	(2-3 pts)	(3-4 pts)
<i>Prior view @ 1/21/22 Spot</i>		~(3 pts)		~(3 pts)	~(2 pts)	~0 pts	~(2 pts)
	US \$B	Yr/Yr					
Revenue as reported	\$14.2	7.7%					
Currency impact	(\$0.4)	(3 pts)					
Revenue @CC		10.9%					

## Software & Infrastructure Segment Details

*Includes incremental sales to Kyndryl*

Software segment	1Q22	B/(W) Yr/Yr	Infrastructure segment	1Q22	B/(W) Yr/Yr
Revenue	\$5.8	15%	Revenue	\$3.2	Flat
Hybrid Platform & Solutions	\$4.1	10%	Hybrid Infrastructure	\$1.7	(2%)
Transaction Processing	\$1.7	31%	zSystems		(18%)
Pre-Tax Income	\$1.1	72%	Distributed Infrastructure		8%
Pre-Tax Income Margin	19.7%	6.8 pts	Infrastructure Support	\$1.5	4%
Hybrid Cloud Revenue	\$2.1	25%	Pre-Tax Income	\$0.2	(32%)
Annual Recurring Revenue*	\$12.9	9%	Pre-Tax Income Margin	6.2%	(2.7 pts)
			Hybrid Cloud Revenue	\$0.7	(18%)

Revenue and Annual Recurring Revenue growth rates @CC, \$ in billions

\*Annual Recurring Revenue for Hybrid Platform & Solutions

## Consulting Segment Details

Consulting segment	1Q22	B/(W) Yr/Yr
Revenue	\$4.8	17%
Business Transformation	\$2.3	19%
Technology Consulting	\$1.0	19%
Application Operations	\$1.6	14%
Gross Profit Margin (External)	24.3%	(3.5 pts)
Pre-Tax Income	\$0.3	26%
Pre-Tax Income Margin	7.2%	0.7 pts
Hybrid Cloud Revenue	\$2.1	29%
Signings	\$5.1	41%
Book-to-bill ratio	1.1	

Revenue and signings growth rates @CC, \$ in billions

## Expense Summary

Expense	1Q22	B/(W) Yr/Yr	Currency	Acq/ Divest*	Base**
SG&A – Operating	\$4.3	2%	2 pts	(2 pts)	2 pts
RD&E	\$1.7	(4%)	1 pts	(1 pts)	(4 pts)
IP and Custom Development Income	(\$0.1)	(17%)			
Other (Income)/Expense - Operating	(\$0.2)	NM			
Interest Expense	\$0.3	(11%)			
Operating Expense & Other Income	\$6.0	3%	4 pts	(1 pts)	0 pts

\$ 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, acquisitions and divestitures

# Balance Sheet Summary

## Consolidated

	Mar 22	Dec 21	Mar 21
Cash & Marketable Securities	\$10.8	\$7.6	\$11.3
Core (non-IBM Financing) Assets*	\$108.9	\$108.9	\$117.3
IBM Financing Assets	\$13.6	\$15.5	\$20.1
Total Assets	\$133.3	\$132.0	\$148.6
Other Liabilities	\$59.9	\$61.3	\$70.7
Core (non-IBM Financing) Debt*	\$42.1	\$37.8	\$38.2
IBM Financing Debt	\$12.2	\$13.9	\$18.2
Total Debt	\$54.2	\$51.7	\$56.4
Total Liabilities	\$114.2	\$113.0	\$127.1
Equity	\$19.1	\$19.0	\$21.5

\$ in billions

\*includes eliminations of inter-company activity

# Cash Flow Summary

## Consolidated

	QTD 1Q22	B/(W) Yr/Yr
Net Cash from Operations	\$3.2	(\$1.7)
Less: IBM Financing Receivables	\$1.6	(\$1.2)
Net Cash from Operations (excluding IBM Financing Receivables)	\$1.6	(\$0.4)
Net Capital Expenditures	(\$0.4)	\$0.2
Free Cash Flow (excluding IBM Financing Receivables)	\$1.2	(\$0.3)
Acquisitions	(\$0.7)	\$0.4
Divestitures	\$0.1	\$0.1
Dividends	(\$1.5)	(\$0.0)
Non-IBM Financing Debt	\$4.7	\$6.4
Other (includes IBM Financing Net A/R & IBM Financing Debt)*	(\$0.5)	(\$0.3)
Change in Cash & Marketable Securities	\$3.2	\$6.2

\$ in billions

# Cash Flow (ASC230)

## Consolidated

	QTD 1Q22	QTD 1Q21
Net Income from Operations	\$0.7	\$1.0
Depreciation / Amortization of Intangibles	\$1.3	\$1.7
Stock-based Compensation	\$0.2	\$0.2
Working Capital / Other	(\$0.6)	(\$0.8)
IBM Financing A/R	\$1.6	\$2.9
Net Cash provided by Operating Activities	\$3.2	\$4.9
Capital Expenditures, net of payments & proceeds	(\$0.4)	(\$0.5)
Divestitures, net of cash transferred	\$0.1	(\$0.0)
Acquisitions, net of cash acquired	(\$0.7)	(\$1.1)
Marketable Securities / Other Investments, net	(\$0.3)	(\$0.3)
Net Cash provided by/(used in) Investing Activities	(\$1.4)	(\$2.0)
Debt, net of payments & proceeds	\$2.9	(\$4.3)
Dividends	(\$1.5)	(\$1.5)
Common Stock Repurchases	-	-
Financing - Other	(\$0.1)	(\$0.0)
Net Cash provided by/(used in) Financing Activities	\$1.4	(\$5.8)
Effect of Exchange Rate changes on Cash	(\$0.0)	(\$0.1)
Net Change in Cash, Cash Equivalents & Restricted Cash	\$3.3	(\$3.0)

\$ in billions

# 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

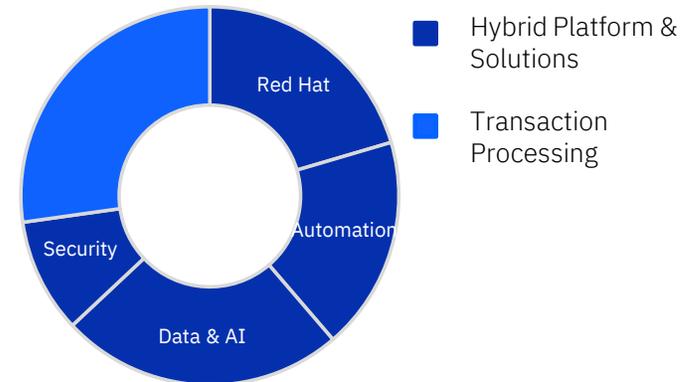
Security: incl. software and services for threat, data and identity

### 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 2021



# Consulting Segment Categories

## Revenue categories

### Business Transformation

Services that enable clients to apply technologies at scale to transform key workflows, processes and domains end-to-end

incl. finance & supply chain, talent, strategy, business process design and operations, data and analytics, and system integration

These services deploy AI in business processes to exploit the value of data

incl. a full ecosystem of partners: SAP, Adobe, Salesforce and Oracle, among others

### Technology Consulting

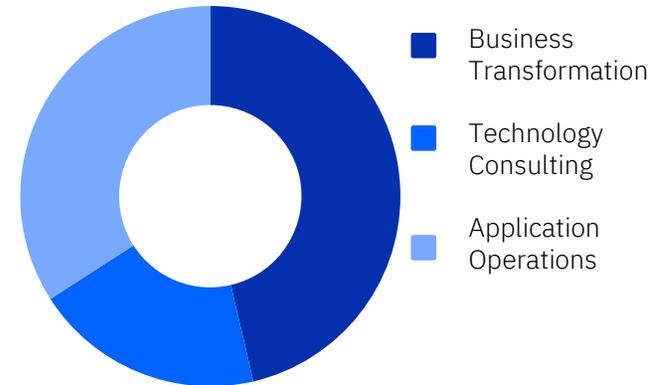
The skills to architect and implement cloud platforms and strategies to transform enterprise experience and enable innovation, including application modernization on the hybrid cloud with Red Hat OpenShift

### Application Operations

Application and cloud platform services required to operationalize and run cloud platforms

Manage, optimize, and orchestrate application and data workloads across environments through both custom applications and ISV/ERP packages

## Revenue categories – FY 2021



# 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

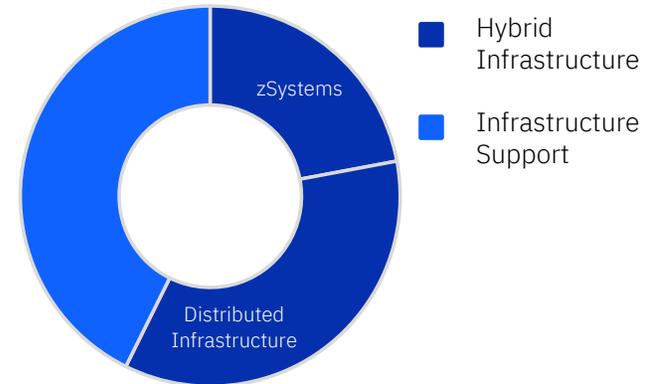
Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

### 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 2021



## Non-GAAP Supplemental Materials

### Reconciliation of Revenue Performance - 1Q 2022

	1Q22 Yr/Yr	
	GAAP	@CC
Software	12%	15%
Hybrid Platform & Solutions	7%	10%
Red Hat	18%	21%
Automation	3%	5%
Data & AI	2%	4%
Security	5%	8%
Transaction Processing	26%	31%
Hybrid Cloud Revenue	22%	25%

	1Q22 Yr/Yr	
	GAAP	@CC
Consulting	13%	17%
Business Transformation	15%	19%
Technology Consulting	14%	19%
Application Operations	10%	14%
Hybrid Cloud Revenue	24%	29%
Infrastructure	(2%)	Flat
Hybrid Infrastructure	(5%)	(2%)
zSystems	(19%)	(18%)
Distributed Infrastructure	5%	8%
Infrastructure Support	Flat	4%
Hybrid Cloud Revenue	(20%)	(18%)

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 April 19, 2022, for additional information on the use of these Non-GAAP financial measures.

## Non-GAAP Supplemental Materials

### Reconciliation of Revenue Performance - 1Q 2022

	1Q22 Yr/Yr	
	GAAP	@CC
Total Revenue	8%	11%
Americas	9%	9%
Europe/ME/Africa	8%	14%
Asia Pacific	5%	11%
Total Hybrid Cloud	14%	17%

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 April 19, 2022, for additional information on the use of these Non-GAAP financial measures

# Non-GAAP Supplemental Materials

## Reconciliation of Expense Summary - 1Q 2022

	GAAP	1Q22 Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	2 pts	0 pts	2 pts
Acquisitions/Divestitures	(2 pts)	0 pts	(2 pts)
Base*	2 pts	0 pts	2 pts
RD&E			
Currency	1 pts	0 pts	1 pts
Acquisitions/Divestitures	(1 pts)	0 pts	(1 pts)
Base*	(4 pts)	0 pts	(4 pts)
Operating Expense & Other Income			
Currency	3 pts	0 pts	4 pts
Acquisitions/Divestitures	(1 pts)	0 pts	(1 pts)
Base*	(1 pts)	2 pts	0 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 April 19, 2022, 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 - 1Q 2022

	1Q22					
	GAAP	Acquisition- Related Adjustments	Retirement- Related Adjustments	Tax Reform Impacts	Kyndryl- Related Impact	Operating (Non-GAAP)
Gross Profit	\$7,335	\$181	—	—	\$0	\$7,516
Gross Profit Margin	51.7%	1.3 pts	—	—	0.0 pts	52.9%
SG&A	4,597	(286)	—	—	(0)	4,311
Other (Income) & Expense	246	(1)	(202)	—	(222)	(179)
Total Expense	6,712	(287)	(202)	—	(222)	6,001
Pre-tax Income	623	468	202	—	222	1,515
Pre-tax Income Margin	4.4%	3.3 pts	1.4 pts	—	1.6 pts	10.7%
Tax Rate	(6.3%)	9.1 pts	4.6 pts	7.7 pts	0.9 pts	16.1%
Net Income	662	359	144	(116)	222	1,271
Net Income Margin	4.7%	2.5 pts	1.0 pts	(0.8 pts)	1.6 pts	9.0%
Earnings Per Share	\$0.73	\$0.39	\$0.16	(\$0.13)	\$0.24	\$1.40

\$ 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 April 19, 2022, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## Reconciliation of Tax Rate and Pre-tax Income Margin - Expectations

	GAAP	Operating (Non-GAAP)
Tax rate	B/(W)	B/(W)
Full-Year 2022*	Mid Teens	Mid-High Teens
<hr/>		
Pre-tax margin		
Improvement Yr/Yr from 2Q21 to 2Q22 ***	5-6 pts**	4-5 pts

\*includes estimate of discrete tax events for the year; actual events will be recorded as they occur

\*\*does not assume a mark-to-market impact in the second quarter 2022 of the Kyndryl retained shares as we cannot forecast the Kyndryl stock price

\*\*\*This reconciliation was revised subsequent to the 8-K filing with SEC on April 19, 2022 to correct the time period labeling on Pre-tax margin improvement

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 April 19, 2022, for additional information on the use of this Non-GAAP financial measure.

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