

**Arvind Krishna**  
**IBM Chief Executive Officer**  
**2020 IBM Annual Meeting of Stockholders**  
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Hello everyone. I would like to start by saying that my heart goes out to all those dealing with COVID-19.

It is my honor and privilege to share with you my first Report on your Company and our progress in 2019 as the new CEO of IBM. Today, I intend to cover four key topics:

- the impact of COVID-19 on IBM;
- our financial performance in 2019;
- our investments and progress; and
- the importance of trust and responsible stewardship.

First, I will begin by talking about COVID-19 and its impact on IBM. In this difficult time, the physical health and mental well being of employees is our top priority. We are doing all we can to protect our employees and to help our clients.

Very quickly, we moved nearly all of our 350,000 global employees to work remotely. For those who remain at client facilities or IBM centers, we are providing them masks and have put in place social distancing protocols. I am extremely grateful to them all.

Before I delve into the specifics of our performance, I have to pause for a moment and give my respect and gratitude to Ginni. Ginni has been a remarkable leader. She mobilized and reinvented IBM for this era and has been an incredible steward of this company. She grew the cloud business to become a \$22 billion business and has made significant investments in AI.

Now, I'll move on to discuss our financial performance in 2019. In 2019, IBM delivered a second consecutive year of revenue growth, excluding the impact of currency and divestitures. We ended the year on a strong note, with accelerating revenue growth and our strongest year-to-year increase in gross profit margins in over a decade.

For the full year, the company achieved \$77.1 billion in revenue; operating gross profit margins of 48 percent; and, operating earnings per share of \$12.81. We had strong cash generation with net cash from operating activities of \$14.8 billion and free cash flow of \$11.9 billion.

We returned \$7.1 billion in capital to our shareholders, including dividends of \$5.7 billion. And as you heard, we have once again raised our dividend this year, marking the 25th consecutive year of raising our dividend.

Our strong balance sheet allows IBM to return dividends to you, our shareholders, but also to devote significant capital to strengthening IBM's position in the marketplace. To that end, let me walk you through some of our investments and progress in key areas.

I will start with cloud. Cloud has grown to be a more than \$22 billion business offering enterprises public, private, and hybrid cloud solutions. Last year, we have completed a two-year journey to rebuild the IBM Cloud and launched an impressive array of new cloud products and services in hybrid cloud.

2019 was also the year IBM introduced the world's first financial services ready public cloud. The result is that clients with the most demanding regulatory and resiliency requirements -- like Bank of America and BNP Paribas -- are moving their most critical workloads to the IBM Cloud.

2019 was also a watershed moment in our journey. It was the year we completed the largest acquisition in our history: Red Hat. In Red Hat, we acquired a powerful growth engine and a company synonymous with the cloud and Open Source. Red Hat technology enables the seamless integration of multiple clouds from any vendor, addressing a hybrid cloud market opportunity of over a trillion dollars.

We have had a strong start. We significantly accelerated Red Hat's performance from mid-teens revenue growth before the announcement to 24 percent revenue growth on a normalized basis in the fourth quarter. Red Hat eclipsed a billion dollars in quarterly revenue in the fourth quarter for the first time.

Meanwhile, Red Hat backlog continues to grow, up approximately 20 percent from the same period last year; and, we ended the year with more than 2,000 clients using OpenShift and IBM's hybrid cloud platform.

AI, too, is a major focus of the company. On that front, IBM has also strengthened its leadership position and bolstered its capabilities. We have more than 30,000 Watson client engagements across 20 different industries. We're helping clients like Yara wbuild a digital farming platform; Woodside Energy to optimize its operations; and, Vodafone Idea to transform its core IT infrastructure.

On Systems, we launched IBM z15, which is our most secure and capable mainframe ever. In the area of security, IBM helped secure 95 percent of the Global Fortune 500 and manages more than 70 billion events every day.

On blockchain, IBM is the global leader in enterprise blockchain solutions with more than 20 large consortium networks that are reshaping entire industries, like the IBM Food Trust for reliable food supply and TradeLens for shipping.

On quantum, IBM introduced a 53-qubit quantum computer in 2019, the largest universal quantum computing system available for commercial use. Since the first quantum computer launched on the IBM Cloud four years ago, over 200,000 users have registered to execute over 140 billion circuits across our 16 open and premium quantum systems. I am convinced that quantum computing will be a truly important part of the future, and IBM is "the" leader.

All together, these important investments have positioned IBM for sustainable growth as we emerge from the pandemic. Combined with our deep industry expertise, IBM has distinct capabilities to help our clients in their digital transformation journeys.

This next technological era that IBM is building offers vast new opportunities, but to unleash them, it takes more than technology and more than business. It will take trust and positive societal impact.

This brings me to the next point: IBM's unwavering commitment to be a trusted partner and responsible steward. Trust is indeed our license to operate, and we have earned that trust for over a century. Diversity and inclusion are also essential to our business; in that regard, we have made strong progress.

In 2019, we achieved record diversity across all representation groups and best in class inclusion scores. P-TECH, our six-year high school education model, doubled the number of participating schools to 220 in 24 countries with a pipeline of 150,000 students.

Finally, I cannot talk about responsible stewardship without mentioning the incredible work that IBM is doing to help tackle COVID-19. A few examples:

- the computing power, over 360 petaflops, as well as the platforms like Micromedex, we have made available for researchers to develop new drugs and vaccines;
- The Weather Channel's county by county interactive map of COVID-19 cases;
- the AI assistants that answer citizens' questions about COVID-19; and
- the educational resources that we have now made available to anyone, anywhere.

Let me close by saying this. I love this company. In my almost 30 years with IBM, I have seen first-hand the tremendous talent and dedication that IBMers possess. IBM is a strong company. In our 109-year history, we have weathered numerous crises. Today, we are financially strong, and we have a loyal client base. When this crisis ends, I'm confident that IBM will emerge strong and we will be focused on growth.

Let me end by thanking you, our shareholders, for your continued confidence in IBM. I'm grateful for your support during this time as we embark on the next chapter of our journey together.

**Information about non-GAAP financial measures and report on company.**

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), this material contains a non-GAAP financial measures on a continuing operations basis, including operating earnings per share, operating gross profit margin, free cash flow, revenue adjusted for divested businesses and constant currency, and Red Hat Revenue, normalized for historical comparability. The rationale for management's use of this non-GAAP information is included in Exhibit 99.2 to the Form 8-K filed with the SEC on January 21, 2020. For reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures, and other information, please refer to Exhibit 99.1 to the Form 8-K filed with the SEC on January 21, 2020.