

IBM 2Q 2022 Earnings



July 18, 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. All references to revenue impacts from sales to Kyndryl are incremental sales post-separation.

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 July 18, 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 July 18, 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-2q22>

Arvind Krishna

Chairman and
Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations,
Chief Financial Officer

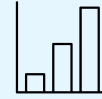


CEO perspective

“In the quarter we delivered good revenue performance with balanced growth across our geographies, driven by client demand for our hybrid cloud and AI offerings. The IBM team executed our strategy well.

With our first half results, we continue to expect full-year revenue growth at the high end of our mid-single digit model.”

Arvind Krishna
IBM Chairman and CEO



2Q22
Performance



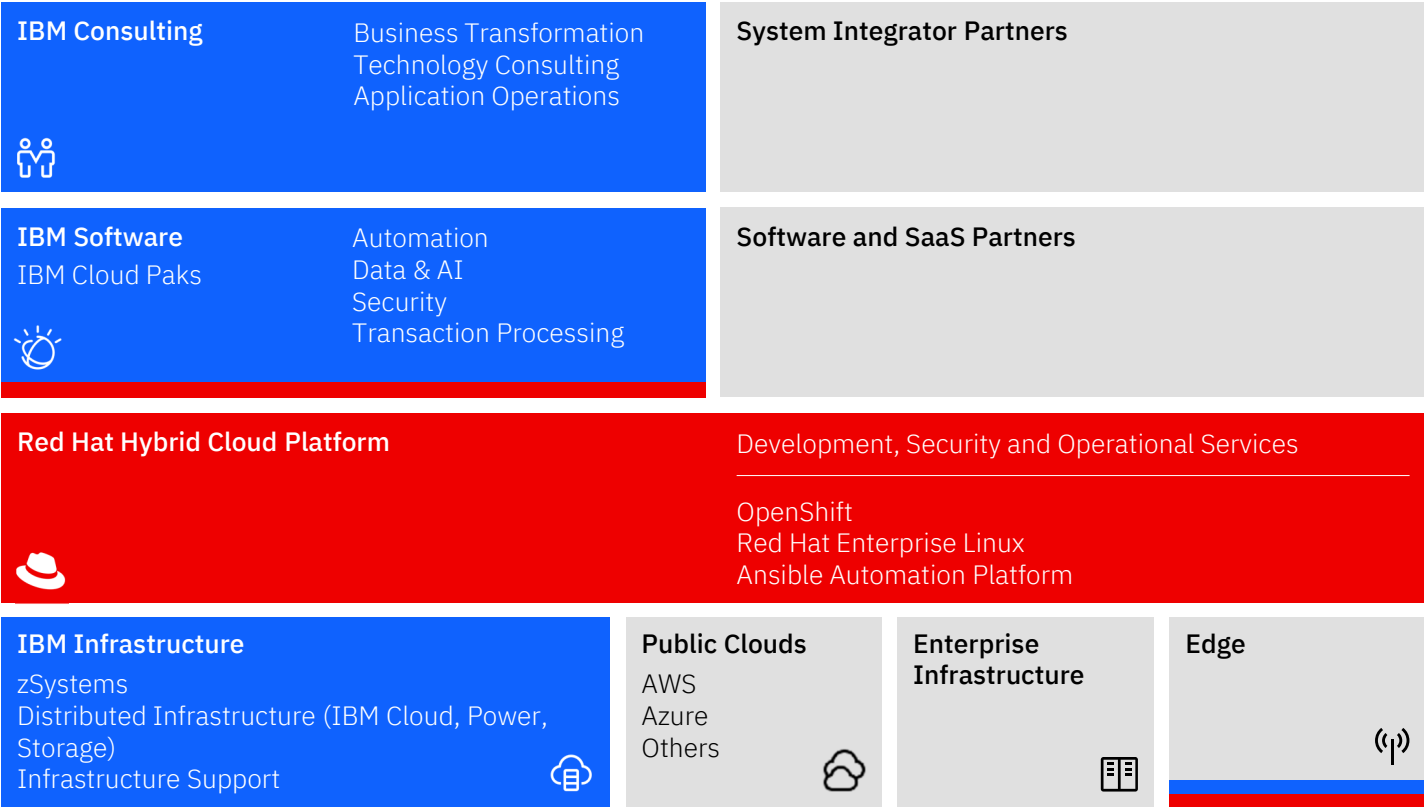
Hybrid cloud and
AI progress



Clients, ecosystem
and innovation

Hybrid cloud and AI progress

Our platform approach



Accelerating client adoption

Expanding partner ecosystem

Delivering innovation

Financial highlights

2022

\$15.5B

Revenue

\$3.3B

Free Cash Flow (YTD)

“We are a faster-growing, focused, disciplined company with sound business fundamentals.

Our recurring revenue stream and solid cash generation position us well to continue to invest in R&D, acquire new companies, and strengthen our talent in every part of the business, while also returning value to shareholders through our dividend.”

James Kavanaugh

IBM SVP & CFO

Revenue growth rates @CC

16%

Revenue growth
incl. nearly 5 pts from
sales to Kyndryl

>70%

Revenue mix
in software and consulting

\$21.7B

Hybrid cloud revenue (TTM),
+19% yr/yr

420bps

Pre-tax margin expansion
(Operating)

\$7.8B

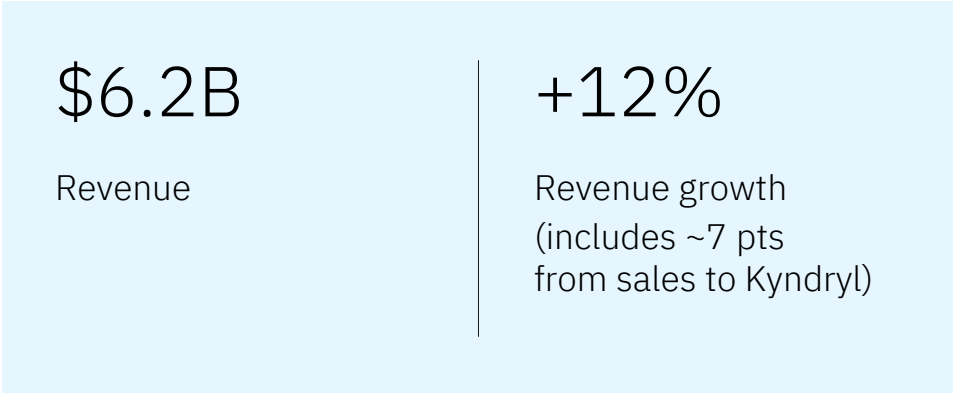
Cash on hand,
incl. marketable securities

Software

Broad-based growth across Hybrid Platform & Solutions

Annual recurring revenue* of \$12.9B, +8% yr/yr

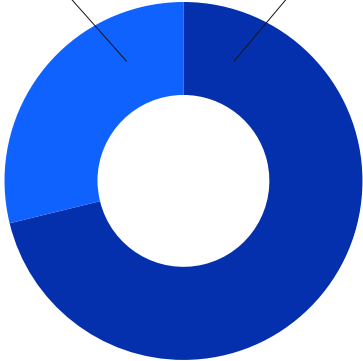
Investments in innovation and go to market



Revenue categories

Transaction Processing
+19% yr/yr
~22 pts sales to Kyndryl

Hybrid Platform & Solutions
+9% yr/yr
~1.5 pts sales to Kyndryl



Red Hat 17%
Automation 8%
Data & AI 4%
Security 5%

2Q22 results; revenue and annual recurring revenue growth rates @CC
*Annual recurring revenue for Hybrid Platform & Solutions

Consulting

Pervasive double-digit revenue growth

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

Strength in Red Hat and strategic partner practices

Investments in skills and capabilities; competitive labor market

\$4.8B

Revenue

+18%

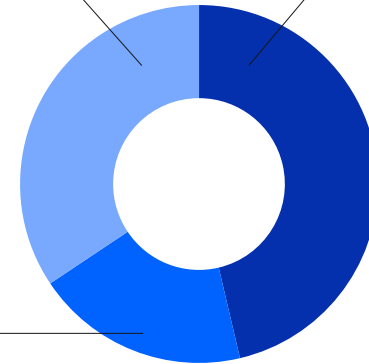
Revenue growth

Revenue categories

Application Operations
+17% yr/yr

Business Transformation
+16% yr/yr

Technology Consulting
+23% yr/yr

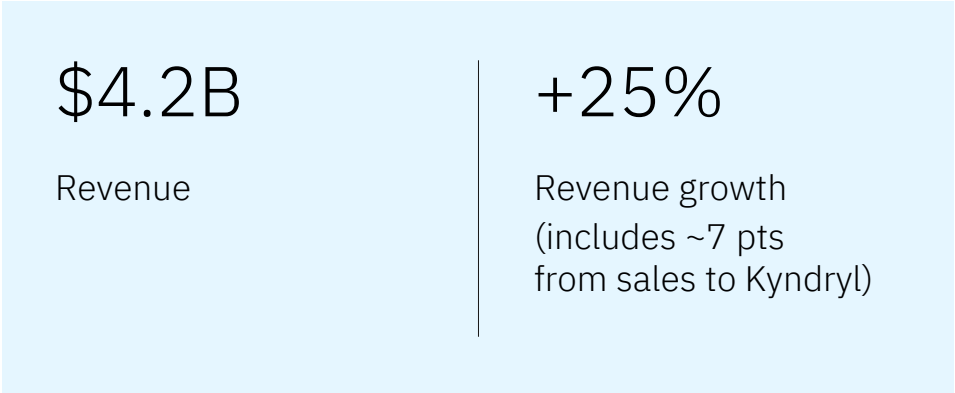


Infrastructure

Solid z16 launch

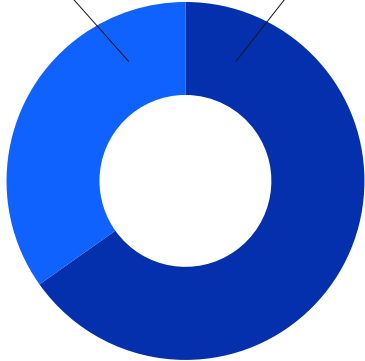
Distributed Infrastructure growth driven by storage and high-end Power

Pre-tax margin reflects mix benefit from zSystems growth



Revenue categories

Infrastructure Support
+5% yr/yr
~8 pts sales to Kyndryl



Hybrid Infrastructure
+41% yr/yr
~7 pts sales to Kyndryl

zSystems Distributed Infrastructure
+77%

Summary

2Q 2022 Progress

Executing a focused hybrid cloud
and AI strategy

Broad-based revenue performance

Investing in innovation, ecosystem,
talent

2022 Expectations

Revenue growth @CC at high-end
of mid-single digit model,
plus ~3.5 pts from sales to Kyndryl

Free cash flow of ~\$10 billion

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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

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	2Q22	B/(W) Yr/Yr	sales to KD benefit
Revenue	\$15.5	16%	~ 5 pts
Hybrid cloud	\$5.9	24%	~ 1 pts
Hybrid cloud (TTM)	\$21.7	19%	

Geography revenue	2Q22	B/(W) Yr/Yr	sales to KD benefit
Americas	\$8.1	15%	~ 3 pts
Europe/ME/Africa	\$4.5	17%	~ 6 pts
Asia Pacific	\$2.9	15%	~ 6 pts

Operating P&L highlights \$	2Q22	B/(W) Yr/Yr
Gross profit	\$8.5	5%
Expense	\$6.0	6%
Pre-tax income	\$2.5	48%
Net income	\$2.1	45%
Earnings per share	\$2.31	43%

Operating P&L highlights %	2Q22	B/(W) Yr/Yr
Gross profit margin	54.5%	(2.0 pts)
Expense E/R	38.3%	6.2 pts
Pre-tax income margin	16.2%	4.2 pts
Net income margin	13.5%	3.3 pts
Tax rate	16.4%	(1.9 pts)

Revenue growth rates @CC, \$ in billions

Cash flow and balance sheet highlights

Cash flow	2Q22	Yr/Yr
Consolidated net cash from operations*	\$2.6	\$0.9
Consolidated free cash flow**	\$2.1	\$1.1

Selected uses of cash	2Q22
Net capital expenditures	\$0.5
Acquisitions	\$0.3
Dividends	\$1.5

Balance sheet	Jun 22	Dec 21	Jun 21
Cash & marketable securities	\$7.8	\$7.6	\$8.2
Total debt	\$50.3	\$51.7	\$55.2

Selected debt measures	Jun 22	Dec 21	Jun 21
IBM Financing debt	\$12.3	\$13.9	\$17.5
Core (non-IBM Financing) debt	\$38.0	\$37.8	\$37.7

\$ in billions

*Non-GAAP financial measure; excludes Financing receivables

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

Currency impact on growth

Quarterly averages per US \$	1Q22	Yr/Yr	2Q22	Yr/Yr	Spot 7/15/22	3Q22	4Q22	FY22
Euro	0.89	(7%)	0.94	(13%)	0.99	(17%)	(13%)	(13%)
Pound	0.75	(3%)	0.80	(11%)	0.84	(16%)	(14%)	(11%)
Yen	116	(10%)	130	(19%)	139	(26%)	(22%)	(19%)
Revenue impact, future @ 7/15/22 Spot				(6 pts)		~(8 pts)	~(6 pts)	~(6 pts)
<i>Prior view @ 4/18/22 Spot</i>				~(5 pts)		~(4 pts)	(2-3 pts)	(3-4 pts)

	US \$B	Yr/Yr
Revenue as reported	\$15.5	9.3%
Currency impact	(\$0.9)	(6 pts)
Revenue @CC		15.6%

Software & Infrastructure segment details

Includes sales to Kyndryl

Software segment	2Q22	B/(W) Yr/Yr	Infrastructure segment	2Q22	B/(W) Yr/Yr
Revenue	\$6.2	12%	Revenue	\$4.2	25%
Hybrid Platform & Solutions	\$4.4	9%	Hybrid Infrastructure	\$2.8	41%
Red Hat		17%	zSystems		77%
Automation		8%	Distributed Infrastructure		17%
Data & AI		4%	Infrastructure Support	\$1.5	5%
Security		5%	Pre-tax income	\$0.8	55%
Transaction Processing	\$1.8	19%	Pre-tax income margin	17.9%	4.1 pts
Pre-tax income	\$1.4	30%	Hybrid cloud revenue (TTM)	\$3.7	(5%)
Pre-tax income margin	22.3%	4.0 pts			
Hybrid cloud revenue (TTM)	\$9.0	23%			
Annual recurring revenue*	\$12.9	8%			

Revenue and annual recurring revenue growth rates @CC, \$ in billions

*Annual recurring revenue for Hybrid Platform & Solutions

Consulting segment details

Consulting segment	2Q22	B/(W) Yr/Yr
Revenue	\$4.8	18%
Business Transformation	\$2.2	16%
Technology Consulting	\$0.9	23%
Application Operations	\$1.7	17%
Gross profit margin	24.2%	(3.4 pts)
Pre-tax income	\$0.3	27%
Pre-tax income margin	7.1%	1.0 pts
Hybrid cloud revenue (TTM)	\$8.6	32%
Signings	\$4.7	7%
Book-to-bill ratio (TTM)	1.1	

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

Expense summary

Expense	2Q22	B/(W) Yr/Yr	Currency	Acq/ Divest**	Base***
SG&A – operating	\$4.6	Flat	4 pts	(2 pts)	(3 pts)
RD&E	\$1.7	(2%)	2 pts	0 pts	(4 pts)
IP and custom development income	(\$0.2)	32%			
Other (income)/expense - operating	(\$0.4)*	NM			
Interest expense	\$0.3	(5%)			
Operating expense & other income	\$6.0	6%	7 pts	2 pts	(3 pts)

\$ in billions

*includes ~(\$0.230B) gain on divestiture of our healthcare software assets and ~(\$0.145B) net exchange gain which mitigates currency impact throughout the P&L

**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

	Jun 22	Dec 21	Jun 21
Cash & marketable securities	\$7.8	\$7.6	\$8.2
Core (non-IBM Financing) assets*	\$105.4	\$108.9	\$119.2
IBM Financing assets	\$14.3	\$15.5	\$19.4
Total assets	\$127.5	\$132.0	\$146.8
Other liabilities	\$57.7	\$61.3	\$69.6
Core (non-IBM Financing) debt*	\$38.0	\$37.8	\$37.7
IBM Financing debt	\$12.3	\$13.9	\$17.5
Total debt	\$50.3	\$51.7	\$55.2
Total liabilities	\$108.0	\$113.0	\$124.7
Equity	\$19.5	\$19.0	\$22.1

\$ in billions

*includes eliminations of inter-company activity

Cash flow summary

Consolidated

	QTD 2Q22	B/(W) Yr/Yr	YTD 2Q22	B/(W) Yr/Yr
Net cash from operations	\$1.3	(\$1.3)	\$4.6	(\$3.0)
Less: IBM Financing receivables	(\$1.3)	(\$2.2)	\$0.4	(\$3.4)
Net cash from operations (excluding IBM Financing receivables)	\$2.6	\$0.9	\$4.2	\$0.4
Net capital expenditures	(\$0.5)	\$0.2	(\$0.9)	\$0.3
Free cash flow (excluding IBM Financing receivables)	\$2.1	\$1.1	\$3.3	\$0.8
Acquisitions	(\$0.3)	\$1.5	(\$1.0)	\$1.9
Divestitures	\$1.2	\$1.2	\$1.3	\$1.3
Dividends	(\$1.5)	(\$0.0)	(\$3.0)	(\$0.0)
Non-IBM Financing debt	(\$2.9)	(\$2.3)	\$1.7	\$4.1
Other (includes IBM Financing net A/R & IBM Financing debt)*	(\$1.6)	(\$1.3)	(\$2.2)	(\$1.7)
Change in cash & marketable securities	(\$3.0)	\$0.1	\$0.2	\$6.3

\$ in billions

Cash flow (ASC230)

Consolidated

	QTD 2Q22	QTD 2Q21	YTD 2Q22	YTD 2Q21
Net income from operations	\$1.4	\$1.3	\$2.1	\$2.3
Depreciation / amortization of intangibles	\$1.2	\$1.7	\$2.5	\$3.4
Stock-based compensation	\$0.3	\$0.2	\$0.5	\$0.5
Working capital / other	(\$0.3)	(\$1.5)	(\$0.9)	(\$2.3)
IBM Financing A/R	(\$1.3)	\$0.9	\$0.4	\$3.8
Net cash provided by operating activities	\$1.3	\$2.6	\$4.6	\$7.5
Capital expenditures, net of payments & proceeds	(\$0.5)	(\$0.7)	(\$0.9)	(\$1.2)
Divestitures, net of cash transferred	\$1.2	(\$0.0)	\$1.3	(\$0.0)
Acquisitions, net of cash acquired	(\$0.3)	(\$1.7)	(\$1.0)	(\$2.9)
Marketable securities / other investments, net	(\$0.3)	(\$0.2)	(\$0.6)	(\$0.6)
Net cash provided by/(used in) investing activities	\$0.2	(\$2.7)	(\$1.2)	(\$4.7)
Debt, net of payments & proceeds	(\$2.5)	(\$1.5)	\$0.4	(\$5.8)
Dividends	(\$1.5)	(\$1.5)	(\$3.0)	(\$2.9)
Common stock repurchases	-	-	-	-
Financing - other	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.2)
Net cash provided by/(used in) financing activities	(\$4.2)	(\$3.1)	(\$2.8)	(\$8.9)
Effect of exchange rate changes on cash	(\$0.3)	\$0.1	(\$0.3)	(\$0.1)
Net change in cash, cash equivalents & restricted cash	(\$3.0)	(\$3.1)	\$0.3	(\$6.1)

\$ 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

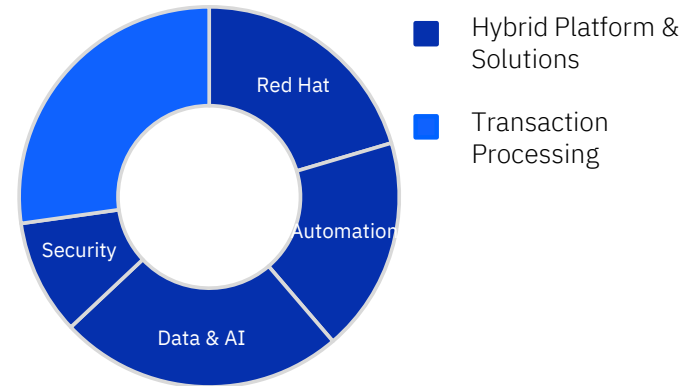
Security: incl. software and services for threat, data and identity

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

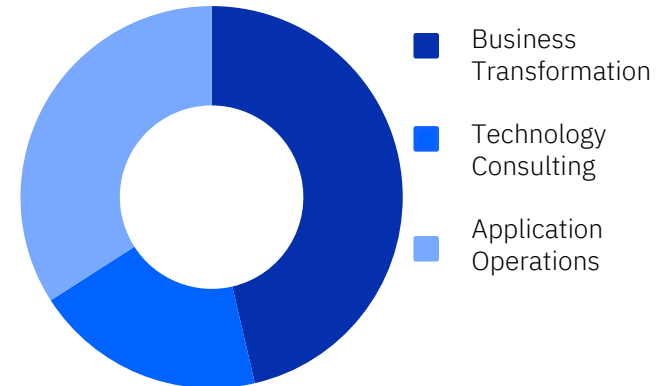
The skills to architect and implement cloud platforms and strategies to transform enterprise experience and enable innovation, including application modernization on the hybrid cloud with Red Hat OpenShift

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

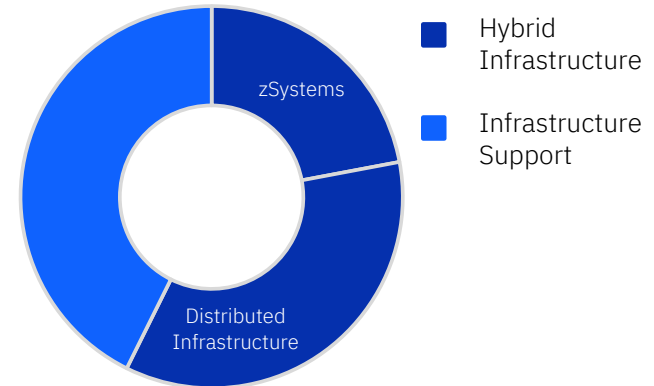
Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

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 - 2Q 2022

	2Q22 Yr/Yr	
	GAAP	@CC
Total revenue	9%	16%
Total hybrid cloud	18%	24%
Total hybrid cloud (TTM)	16%	19%
Americas	14%	15%
Europe/ME/Africa	5%	17%
Asia Pacific	3%	15%

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 18, 2022, for additional information on the use of these Non-GAAP financial measures

Non-GAAP supplemental materials

Reconciliation of segment revenue performance - 2Q 2022

	2Q22 Yr/Yr			2Q22 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Software	6%	12%	Consulting	10%	18%
Hybrid Platform & Solutions	4%	9%	Business Transformation	9%	16%
Red Hat	12%	17%	Technology Consulting	14%	23%
Automation	4%	8%	Application Operations	9%	17%
Data & AI	Flat	4%	Hybrid cloud revenue (TTM)	28%	32%
Security	Flat	5%	Infrastructure	19%	25%
Transaction Processing	12%	19%	Hybrid Infrastructure	34%	41%
Hybrid cloud revenue (TTM)	20%	23%	zSystems	69%	77%
			Distributed Infrastructure	11%	17%
			Infrastructure Support	(2%)	5%
			Hybrid cloud revenue (TTM)	(7%)	(5%)

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 July 18, 2022, for additional information on the use of these Non-GAAP financial measures.

Non-GAAP supplemental materials

Reconciliation of expense summary - 2Q 2022

	GAAP	2Q22 Non-GAAP Adjustments	Operating (Non-GAAP)
SG&A			
Currency	4 pts	0 pts	4 pts
Acquisitions/divestitures	(2 pts)	0 pts	(2 pts)
Base*	(3 pts)	0 pts	(3 pts)
RD&E			
Currency	2 pts	0 pts	2 pts
Acquisitions/divestitures	0 pts	0 pts	0 pts
Base*	(4 pts)	0 pts	(4 pts)
Operating expense & other income			
Currency	5 pts	2 pts	7 pts
Acquisitions/divestitures	2 pts	0 pts	2 pts
Base*	(2 pts)	(1 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 18, 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 - 2Q 2022

	2Q22					
	GAAP	Acquisition- related adjustments	Retirement- related adjustments	Tax reform impacts	Kyndryl- related impact	Operating (non-GAAP)
Gross profit	\$8,290	\$180	—	—	—	\$8,470
Gross profit margin	53.4%	1.2 pts	—	—	—	54.5%
SG&A	4,855	(279)	—	—	(0)	4,576
Other (income) & expense	(81)	(1)	(192)	—	(145)	(418)
Total expense	6,568	(280)	(192)	—	(145)	5,952
Pre-tax income	1,722	460	192	—	145	2,518
Pre-tax income margin	11.1%	3.0 pts	1.2 pts	—	0.9 pts	16.2%
Tax rate	14.9%	1.8 pts	0.7 pts	(0.2 pts)	(0.9 pts)	16.4%
Net income	1,465	345	146	4	145	2,105
Net income margin	9.4%	2.2 pts	0.9 pts	0.0 pts	0.9 pts	13.5%
Earnings per share	\$1.61	\$0.38	\$0.16	\$0.00	\$0.16	\$2.31

\$ 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 18, 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 3Q21 to 3Q22	~3 pts**	~2 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 third quarter 2022 of the Kyndryl retained shares as we cannot forecast the Kyndryl stock price

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 18, 2022, for additional information on the use of this Non-GAAP financial measure.

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