



# IBM 3Q 2019 Earnings

Oct 16, 2019  
[ibm.com/investor](http://ibm.com/investor)

# 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 web site, 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 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, 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 filed with the SEC on October 16, 2019. 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 filed with the SEC on October 16, 2019. For other related information please visit the Company's investor relations web site at:

<http://www.ibm.com/investor/events/earnings/3q19.html>





# Overview

3Q19

**\$18.0B**

Revenue

**\$2.68**

Operating (non-GAAP) EPS

**\$12.3B**

Free Cash Flow  
Last 12 Months

- Strong performance in cloud, data/AI, security and digital
  - Led by Cloud & Cognitive Software and Global Business Services
- Momentum in hybrid cloud
  - Cloud revenue +14% yr/yr @CC\*, \$20 billion cloud revenue over last 12 months
  - >60% growth in cloud signings
  - Red Hat revenue growth accelerated to 20% yr/yr @CC\*\*
- Investing to deliver innovation
  - Launched z15 at the end of September
  - Modernized software portfolio to be cloud native
- Strong cash generation and balance sheet
  - \$6.7 billion debt reduction in the quarter

\*Yr/Yr excludes impact of divested businesses

\*\* Normalized for comparability to Red Hat historical performance





# Red Hat Update

- Completed acquisition of Red Hat on July 9
- Red Hat revenue growth accelerated to 20% yr/yr @CC\*
  - Double-digit growth in Infrastructure, led by RHEL
  - Continued strong growth in App Dev & emerging tech, led by OpenShift and Ansible
- Bringing innovation to market, leveraging Linux + containers + Kubernetes
  - Standardized on Red Hat OpenShift platform
  - Modernized IBM middleware portfolio to be cloud native; introduced Cloud Paks
  - Announced OpenShift on IBM Cloud and IBM Z
  - Introduced consulting and technology services for Red Hat
- Adding new OpenShift clients and expanding in existing Red Hat clients
- Aggressive hiring to address client demand, with stable employee attrition

\* Normalized for comparability to Red Hat historical performance





# Key Financial Metrics

- Expanded operating gross margin, excluding impact of divested businesses
- Solid free cash flow performance, with normalized free cash flow realization of 126% over the last 12 months

## Financial results reflect impact of transaction-related adjustments associated with the acquisition of Red Hat

Revenue Highlights	3Q19	B/(W)	P&L Highlights (Operating)	3Q19	B/(W)
		Yr/Yr			Yr/Yr
Revenue	\$18.0	(0.6%)*	Gross Profit Margin	47.4%	Flat
Cloud & Cognitive Software	\$5.3	8%	Expense	\$6.1	(16%)
Global Business Services	\$4.1	2%	Tax Rate	0.1%	12.7 pts
Global Technology Services	\$6.7	(4%)	Net Income	\$2.4	(24%)
Systems	\$1.5	(14%)	Earnings Per Share	\$2.68	(22%)
Cloud Revenue	\$5.0	14%*	<b>Cash Highlights</b>		<b>LTM</b>
			Free Cash Flow (excl. GF Receivables)	\$1.8	\$12.3
			Share Repurchase (Gross)	\$0.1	\$3.4
			Dividends	\$1.4	\$5.7
			Cash Balance @ September 30	\$11.0	

Revenue growth rates @CC, \$ in billions

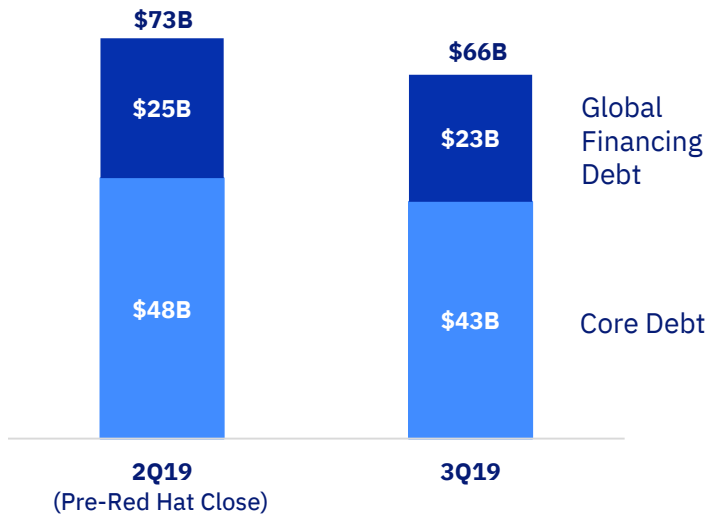
\*Yr/Yr excludes impact of divested businesses





# Debt Update

## Total Debt



- Debt reduction of nearly \$7 billion since Red Hat close
- Suspended share repurchase to focus on debt reduction
- Committed to achieving leverage ratio consistent with mid to high single-A credit rating within a couple of years





# Cloud & Cognitive Software Segment

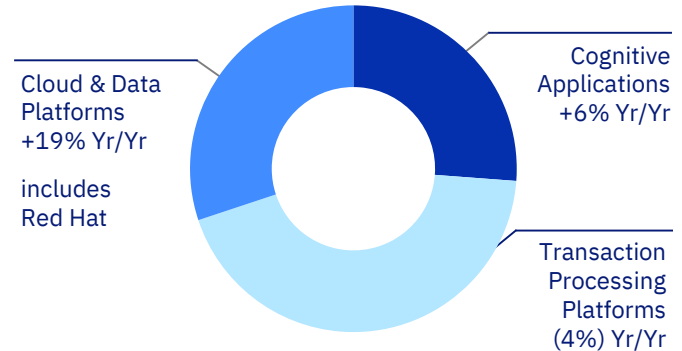
- Cloud & Data Platforms growth driven by hybrid cloud strategy, including Red Hat
- Cognitive Applications performance led by integrated security solutions and verticals such as IoT
- Pre-tax income reflects investments for software innovation and impacts from transaction-related adjustments

**Segment results reflect impact of transaction-related adjustments associated with the acquisition of Red Hat**

## Segment Results Overview

Segment	3Q19	B/(W) Yr/Yr
Revenue (External)	\$5.3	8%
Pre-Tax Income	\$1.3	(37%)
Pre-Tax Income Margin	21.5%	(14.2 pts)
Cloud Revenue	\$1.1	63%

## Segment Revenue Elements





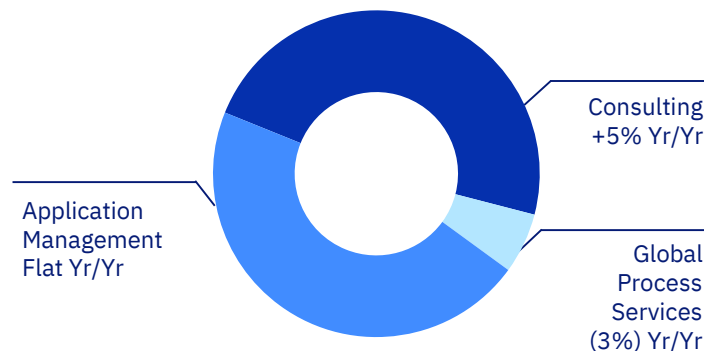
# Global Business Services Segment

- Revenue growth driven by application modernization for the cloud and next-generation enterprise apps
- Early progress with Red Hat with over 20 deals signed in 3Q19
- Gross margin expansion reflects shift to higher value, leveraging global delivery footprint and productivity actions

## Segment Results Overview

Segment	3Q19	B/(W) Yr/Yr
Revenue (External)	\$4.1	2%
Gross Profit Margin (External)	31.1%	1.1 pts
Pre-Tax Income	\$0.6	1%
Pre-Tax Income Margin	13.7%	0.1 pts
Cloud Revenue	\$1.3	10%

## Segment Revenue Elements





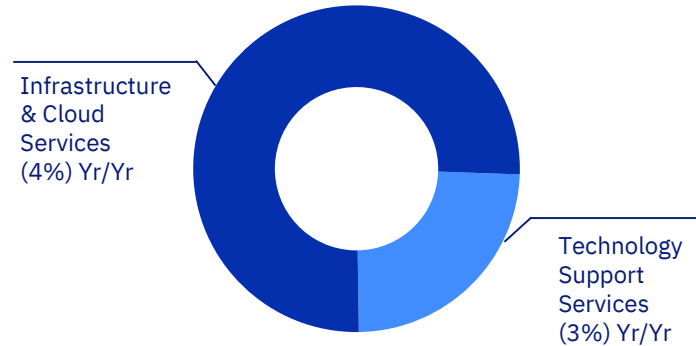


# Global Technology Services Segment

- Revenue and gross margin impacted by in-period client business volumes
- Signings growth of 20% contributed to sequential improvement in yr/yr backlog growth
- Cloud signings grew over 60% yr/yr; cloud now represents over 40% of outsourcing backlog

<b>Segment Results Overview</b>		<b>B/(W)</b>
<b>Segment</b>	<b>3Q19</b>	<b>Yr/Yr</b>
Revenue (External)	\$6.7	(4%)
Gross Profit Margin (External)	35.8%	(1.2 pts)
Pre-Tax Income	\$0.5	(19%)
Pre-Tax Income Margin	7.0%	(1.2 pts)
Cloud Revenue	\$2.1	10%

## Segment Revenue Elements





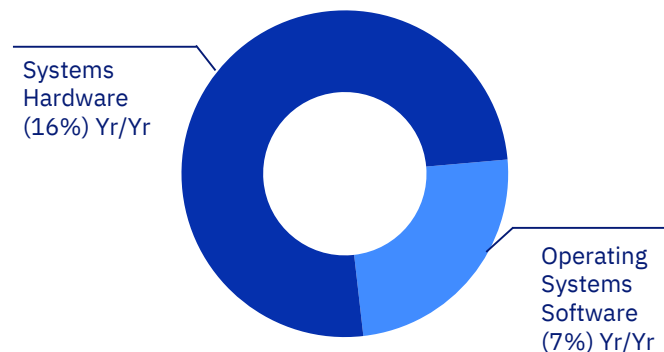
# Systems Segment

- IBM Z revenue performance reflects back end of z14 cycle; new z15 shipments in last week of the quarter
- Power performance driven by challenging yr/yr compare
- Margin reflects mix headwinds and investments for portfolio innovation

## Segment Results Overview

Segment	3Q19	B/(W)
		Yr/Yr
Revenue (External)	\$1.5	(14%)
Pre-Tax Income	\$0.0	(81%)
Pre-Tax Income Margin	2.3%	(8.6 pts)
Cloud Revenue	\$0.5	(19%)

## Segment Revenue Elements





# Cash Flow and Balance Sheet Highlights

- Free cash flow up \$0.5 billion year-to-date; 3Q19 yr/yr impacted by cash tax payments
- Free cash flow realization 126%\* over last 12 months
- Debt reduction of nearly \$7 billion since Red Hat close

<b>Cash Flow</b>	<b>3Q19</b>	<b>Yr/Yr</b>	<b>LTM</b>	<b>Balance Sheet</b>	<b>Sep 19</b>	<b>Dec 18</b>	<b>Sep 18</b>
Net Cash from Operations**	\$2.5	(\$0.7)	\$14.9	Cash & Marketable Securities	\$11.0	\$12.2	\$14.7
Free Cash Flow**	\$1.8	(\$0.4)	\$12.3	Global Financing Debt	\$23.1	\$31.2	\$30.4
<b>Selected Uses of Cash</b>				Core (non-GF) Debt	\$43.2	\$14.6	\$16.6
Net Capital Expenditures	\$0.7		\$2.6	Total Debt	\$66.3	\$45.8	\$46.9
Acquisitions	\$32.6		\$32.6				
Dividends/Share Repurchase	\$1.6		\$9.1				

\$ in billions

\*Adjusted for charges associated with enactment of U.S. tax reform

\*\*Non-GAAP metrics; excludes Global Financing receivables





# Summary

- Strong performance in cloud, data/AI, security and digital
- Momentum in hybrid cloud across IBM, including Red Hat
- Investing to deliver innovation
- Strong cash generation and balance sheet
- Continue to expect at least \$12.80 of operating earnings per share, and approximately \$12 billion of free cash flow





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# Supplemental Materials

- Currency – Impact on Revenue Growth
- Additional Revenue Information
- Additional Revenue, Gross Profit & Backlog Information
- Global Technology Services Revenue Dynamics
- Expense Summary
- Balance Sheet Summary
- Cash Flow Summary
- Cash Flow (ASC 230)
- Non-GAAP Supplemental Materials



# Currency – Impact on Revenue Growth

Quarterly Averages per US \$	3Q19	Yr/Yr	10/15/2019	4Q19	FY19	1Q20	FY20
			Spot				
Euro	0.90	(5%)	0.91	(3%)	(6%)	(3%)	(1%)
Pound	0.81	(6%)	0.78	(1%)	(5%)	(2%)	0%
Yen	107	4%	109	4%	1%	1%	0%
Revenue Impact, Future @ 10/15/19 Spot		(1.3 pts)		~(1-1.5 pts)	~(2 pts)	~(1-2 pts)	~(1 pts)
<i>Prior View @ 7/16/19 Spot</i>		~(1 pts)		0 pts	~(2 pts)		
	US\$B	Yr/Yr					
Revenue As Reported	\$18.0	(3.9%)					
Currency Impact	(\$0.2)	(1.3 pts)					
Revenue @ CC		(2.6%)					



# Additional Revenue Information

<b>Segment Revenue</b>	<b>3Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Cloud &amp; Cognitive Software</b>	<b>\$5.3</b>	<b>8%</b>
Cognitive Applications	\$1.4	6%
Cloud & Data Platforms	\$2.3	19%
Transaction Processing Platforms	\$1.6	(4%)
<b>Global Business Services</b>	<b>\$4.1</b>	<b>2%</b>
Consulting	\$2.0	5%
Global Process Services	\$0.2	(3%)
Application Management	\$1.9	Flat
<b>Global Technology Services</b>	<b>\$6.7</b>	<b>(4%)</b>
Infrastructure & Cloud Services	\$5.1	(4%)
Technology Support Services	\$1.6	(3%)
<b>Systems</b>	<b>\$1.5</b>	<b>(14%)</b>
Systems Hardware	\$1.1	(16%)
Operating Systems Software	\$0.4	(7%)
<b>Global Financing</b>	<b>\$0.3</b>	<b>(11%)</b>

<b>Geography Revenue</b>	<b>3Q19</b>	<b>B/(W) Yr/Yr*</b>
Americas	\$8.5	(1%)
Europe/ME/Africa	\$5.5	Flat
Asia Pacific	\$4.0	(1%)
		<b>B/(W)</b>
<b>Cloud Revenue</b>	<b>Revenue</b>	<b>Yr/Yr*</b>
Total Cloud - 3Q19	\$5.0	14%
Total Cloud - LTM	\$20.0	

Revenue growth rates @CC, \$ in billions

\*Yr/Yr excludes impact of divested businesses

Supplemental Materials





# Additional Revenue, Gross Profit & Backlog Information

<b>Systems Revenue</b>	<b>3Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Systems Hardware Revenue</b>	<b>\$1.1</b>	<b>(16%)</b>
IBM Z		(20%)
Power		(27%)
Storage		(4%)

<b>Systems Gross Profit</b>	<b>3Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Systems Gross Profit</b>	<b>52.6%</b>	<b>Flat</b>
Systems Hardware	42.8%	(0.2 pts)
Operating Systems Software	82.6%	(2.4 pts)

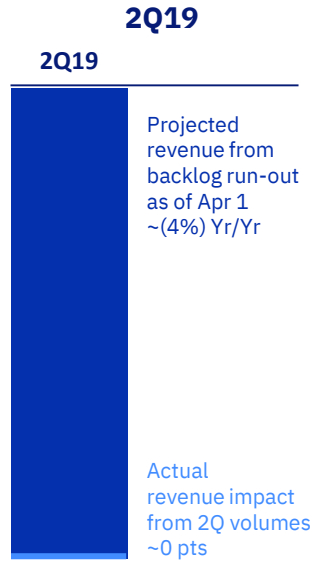
<b>Signings &amp; Backlog*</b>	<b>3Q19</b>	<b>B/(W) Yr/Yr</b>
<b>Signings</b>	<b>\$9.0</b>	<b>15%</b>
<b>Backlog</b>	<b>\$107.6</b>	<b>(2%)</b>
Backlog Yr/Yr @Actual		(5%)

Growth rates @CC, \$ in billions, Services Backlog calculated using September 30 currency spot rates

\*Signings & Backlog includes Global Technology Services, Global Business Services and Security Services; consistent with 2018 reporting

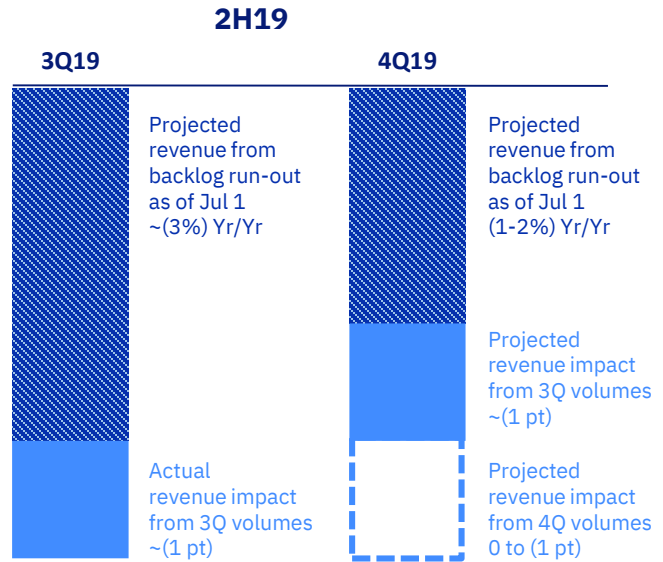


# Global Technology Services Revenue Dynamics



(4%) Yr/Yr Revenue

- Revenue (4%) Yr/Yr, consistent with opening backlog run-out



(4%) Yr/Yr Revenue

- 3Q19 client business volumes impact 2H19 revenue growth

## 3Q19 Infrastructure Services Revenue Dynamics

- Revenue impacted by lower in-period client business volumes

### Positioned to win in chapter 2 of cloud

- 3Q19 cloud signings >60% yr/yr
- >40% of GTS outsourcing backlog is cloud
- Robust pipeline of cloud opportunities
- Repositioning portfolio with continued investment in cloud



# Expense Summary

<b>Expense</b>	<b>3Q19</b>	<b>B/(W) Yr/Yr</b>	<b>Currency</b>	<b>Acq./ Divest*</b>	<b>Base**</b>
SG&A – Operating	\$4.6	(8%)	2 pts	(10 pts)	1 pts
RD&E – Operating	\$1.5	(20%)	1 pts	(12 pts)	(8 pts)
IP and Custom Development Income	(\$0.2)	(40%)			
Other (Income)/Expense - Operating	(\$0.2)	45%			
Interest Expense - Operating	\$0.4	(113%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$6.1</b>	<b>(16%)</b>	<b>2 pts</b>	<b>(14 pts)</b>	<b>(4 pts)</b>

\$ 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

	<b>Sep 19</b>	<b>Dec 18</b>	<b>Sep 18</b>
Cash & Marketable Securities	\$11.0	\$12.2	\$14.7
Core (non-GF) Assets*	\$113.3	\$71.7	\$71.3
Global Financing Assets	\$25.4	\$39.5	\$36.0
Total Assets	\$149.6	\$123.4	\$122.0
Other Liabilities	\$65.2	\$60.6	\$55.2
Core (non-GF) Debt*	\$43.2	\$14.6	\$16.6
Global Financing Debt	\$23.1	\$31.2	\$30.4
Total Debt	\$66.3	\$45.8	\$46.9
Total Liabilities	\$131.5	\$106.5	\$102.1
Equity	\$18.1	\$16.9	\$19.9

\$ in billions

\*includes eliminations of inter-company activity

Supplemental Materials



# Cash Flow Summary

	QTD 3Q19	B/(W) Yr/Yr	YTD 3Q19	B/(W) Yr/Yr
Net Cash from Operations	\$3.6	(\$0.6)	\$11.3	\$0.2
Less: Global Financing Receivables	\$1.1	\$0.0	\$3.7	\$0.8
<b>Net Cash from Operations (excluding GF Receivables)</b>	<b>\$2.5</b>	<b>(\$0.7)</b>	<b>\$7.6</b>	<b>(\$0.6)</b>
Net Capital Expenditures	(\$0.7)	\$0.3	(\$1.7)	\$1.1
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>\$1.8</b>	<b>(\$0.4)</b>	<b>\$5.9</b>	<b>\$0.5</b>
Acquisitions	(\$32.6)	(\$32.6)	(\$32.6)	(\$32.5)
Divestitures	\$0.0	\$0.0	\$0.9	\$0.9
Dividends	(\$1.4)	(\$0.0)	(\$4.3)	(\$0.0)
Share Repurchases (Gross)	(\$0.1)	\$0.5	(\$1.4)	\$1.0
Non-GF Debt	(\$5.0)	(\$7.2)	\$28.4	\$26.8
Other (includes GF Net A/R & GF Debt)	\$1.8	\$1.4	\$1.8	\$0.2
Change in Cash & Marketable Securities	(\$35.5)	(\$38.2)	(\$1.3)	(\$3.1)

\$ in billions

Supplemental Materials



# Cash Flow (ASC 230)

	QTD 3Q19	QTD 3Q18	YTD 3Q19	YTD 3Q18
<b>Net Income from Operations</b>	<b>\$1.7</b>	<b>\$2.7</b>	<b>\$5.8</b>	<b>\$6.8</b>
Depreciation / Amortization of Intangibles	\$1.7	\$1.1	\$4.4	\$3.4
Stock-based Compensation	\$0.2	\$0.1	\$0.5	\$0.4
Working Capital / Other	(\$1.1)	(\$0.8)	(\$3.0)	(\$2.3)
Global Financing A/R	\$1.1	\$1.1	\$3.7	\$2.9
<b>Net Cash provided by Operating Activities</b>	<b>\$3.6</b>	<b>\$4.2</b>	<b>\$11.3</b>	<b>\$11.1</b>
Capital Expenditures, net of payments & proceeds	(\$0.7)	(\$0.9)	(\$1.7)	(\$2.8)
Divestitures, net of cash transferred	\$0.0	\$0.0	\$0.9	\$0.0
Acquisitions, net of cash acquired	(\$32.6)	(\$0.0)	(\$32.6)	(\$0.1)
Marketable Securities / Other Investments, net	\$2.9	(\$2.0)	\$6.4	(\$2.4)
<b>Net Cash provided by/(used in) Investing Activities</b>	<b>(\$30.4)</b>	<b>(\$3.0)</b>	<b>(\$27.1)</b>	<b>(\$5.4)</b>
Debt, net of payments & proceeds	(\$6.6)	\$1.6	\$20.5	\$0.8
Dividends	(\$1.4)	(\$1.4)	(\$4.3)	(\$4.2)
Common Stock Repurchases	(\$0.1)	(\$0.6)	(\$1.4)	(\$2.4)
Common Stock Transactions - Other	(\$0.0)	\$0.0	(\$0.1)	(\$0.1)
<b>Net Cash provided by/(used in) Financing Activities</b>	<b>(\$8.2)</b>	<b>(\$0.4)</b>	<b>\$14.7</b>	<b>(\$5.9)</b>
Effect of Exchange Rate changes on Cash	(\$0.4)	(\$0.1)	(\$0.4)	(\$0.4)
<b>Net Change in Cash, Cash Equivalents &amp; Restricted Cash</b>	<b>(\$35.3)</b>	<b>\$0.8</b>	<b>(\$1.4)</b>	<b>(\$0.5)</b>

\$ in billions

Supplemental Materials



# Non-GAAP Supplemental Materials

## Reconciliation of Operating Earnings Per Share

	<b>2019 Full-Year Expectations</b>
GAAP Diluted EPS	at least \$10.58
Operating EPS (Non-GAAP)	at least \$12.80
Adjustments	
Acquisition-Related Charges*	\$1.52
Non-Operating Retirement-Related Items	\$0.51
Tax Reform Enactment Impacts	\$0.19

\*Includes acquisitions as of September 30, 2019.

The above reconciles the Non-GAAP financial information contained in the “3Q19 Prepared Remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Performance - 3Q 2019

	3Q19 Yr/Yr			3Q19 Yr/Yr	
	GAAP	@CC		GAAP	@CC
<b>Cloud &amp; Cognitive Software</b>	<b>6%</b>	<b>8%</b>	<b>Global Technology Services</b>	<b>(6%)</b>	<b>(4%)</b>
Cognitive Applications	4%	6%	Infrastructure & Cloud Services	(6%)	(4%)
Cloud & Data Platforms	17%	19%	Technology Support Services	(5%)	(3%)
Transaction Processing Platforms	(5%)	(4%)	Cloud	8%	10%
Cloud	61%	63%	<b>Systems</b>	<b>(15%)</b>	<b>(14%)</b>
<b>Global Business Services</b>	<b>1%</b>	<b>2%</b>	Systems Hardware	(17%)	(16%)
Consulting	4%	5%	IBM Z	(21%)	(20%)
Global Process Services	(5%)	(3%)	Power	(27%)	(27%)
Application Management	(1%)	Flat	Storage	(6%)	(4%)
Cloud	8%	10%	Operating Systems Software	(8%)	(7%)
			Cloud	(20%)	(19%)
			<b>Global Financing</b>	<b>(12%)</b>	<b>(11%)</b>

The above reconciles the Non-GAAP financial information contained in the “Key Financial Metrics”, “Cloud & Cognitive Software Segment”, “Global Business Services Segment”, “Global Technology Services Segment”, “Systems Segment”, “Additional Revenue Information”, “Additional Revenue, Gross Profit & Backlog Information”, and “3Q19 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.





# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Performance - 3Q 2019

### 3Q19 Yr/Yr

	<b>GAAP</b>	<b>Divest impact</b>	<b>Currency impact</b>	<b>Adjusted</b>
Americas	(4%)	3 pts	0 pts	(1%)
Europe/ME/Africa	(6%)	2 pts	4 pts	Flat
Asia Pacific	(1%)	1 pts	(1 pts)	(1%)

### 3Q19 Yr/Yr

	<b>GAAP</b>	<b>Divest impact</b>	<b>Currency impact</b>	<b>Adjusted</b>
Total Cloud Revenue	11%	2 pts	2 pts	14%

The above reconciles the Non-GAAP financial information contained in the “Additional Revenue Information” and “3Q19 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Performance - 3Q 2019

	3Q19 Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted
Revenue	(3.9%)	2.0 pts	1.3 pts	(0.6%)

The above reconciles the Non-GAAP financial information contained in the “Key Financial Metrics”, and “3Q19 Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue for Red Hat, Normalized - 3Q 2019

Revenue for Red Hat, Normalized for Historical Comparability	Three Months Ended		Yr/Yr	Yr/Yr@CC
	Sep 30 2019	Sep 30 2018		
<b>Red Hat revenue as reported in IBM consolidated results (1)</b>	<b>\$371</b>	<b>\$ -</b>		
Add: Red Hat revenue prior to acquisition (2)	84	829		
Add: Purchase accounting deferred revenue and intercompany adjustments (3)	531	-		
<b>Red Hat revenue normalized for historical comparability (non-GAAP)</b>	<b>\$987</b>	<b>\$829</b>	<b>19%</b>	<b>20%</b>

- (1) Represents GAAP Revenue as reported by IBM, which is included in the Cloud & Cognitive Software segment.
- (2) Red Hat revenue was included in IBM's consolidated results beginning on July 9, 2019. Revenue for July 1- July 8, 2019 and the three months ended September 30, 2018 represents pre-acquisition Red Hat standalone revenue and is included for comparative purposes.
- (3) Represents the third-quarter 2019 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 "Red Hat Update" and "3Q19 Prepared Remarks" discussions in the company's earnings presentation. See Exhibit 99.2 included in the company's Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Expense Summary - 3Q 2019

	3Q19		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
<b>SG&amp;A</b>			
Currency	2 pts	0 pts	2 pts
Acquisitions/Divestitures	(18 pts)	8 pts	(10 pts)
Base*	1 pts	0 pts	1 pts
<b>RD&amp;E</b>			
Currency	1 pts	0 pts	1 pts
Acquisitions/Divestitures	(17 pts)	4 pts	(12 pts)
Base*	(8 pts)	0 pts	(8 pts)
<b>Operating Expense &amp; Other Income</b>			
Currency	2 pts	0 pts	2 pts
Acquisitions/Divestitures	(20 pts)	6 pts	(14 pts)
Base*	1 pts	(5 pts)	(4 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 October 16, 2019 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 Free Cash Flow - Last 12 Months

**12 Months  
Ended  
Sep 2019**

<b>Net Cash from Operating Activities per GAAP:</b>	<b>\$15.4</b>
Less: change in Global Financing (GF) Receivables	\$0.5
<b>Net Cash from Operating Activities (Excluding GF Receivables)</b>	<b>\$14.9</b>
Capital Expenditures, Net	(\$2.6)
<b>Free Cash Flow (Excluding GF Receivables)</b>	<b>\$12.3</b>

\$ in billions

The above reconciles the Non-GAAP financial information contained in the “Overview”, “Key Financial Metrics”, “Cash Flow and Balance Sheet Highlights” and “3Q Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.

Supplemental Materials



# Non-GAAP Supplemental Materials

## Reconciliation of Free Cash Flow Realization - Last 12 Months

	<b>LTM</b>	<b>LTM Excluding Tax Reform*</b>
Free Cash Flow Realization	160%	126%

The above reconciles the Non-GAAP financial information contained in the “Key Financial Metrics”, “Cash Flow and Balance Sheet Highlights” and “3Q Prepared Remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.

\* Adjusted for the charges associated with enactment of U.S. tax reform



# Non-GAAP Supplemental Materials

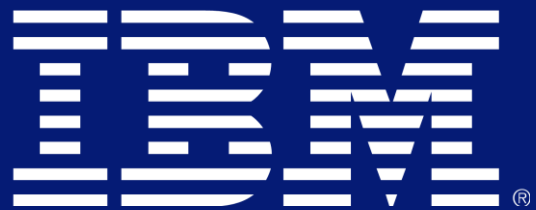
## Reconciliation of Tax Rate

<b>Tax Rate Expectation</b>	<b>GAAP</b>	<b>Non-GAAP</b>
Full Year 2019*	8-9%	9-10%

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

The above reconciles the Non-GAAP financial information contained in the “3Q Prepared Remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated October 16, 2019 for additional information on the use of these Non-GAAP financial measures.





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