

# IBM 3Q 2021 Earnings

October 20, 2021  
[ibm.com/investor](https://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 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 normalized to exclude Kyndryl, 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 October 20, 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 October 20, 2021. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-3q21>

# Arvind Krishna

Chairman and Chief Executive Officer



# James Kavanaugh

SVP, Finance & Operations,  
Chief Financial Officer



# CEO Perspective

---

“With the separation of Kyndryl early next month, IBM takes the next step in our evolution as a platform-centric hybrid cloud and AI company.

We continue to make progress in our software and consulting businesses, which represent our higher growth opportunities. With our increased focus and agility to better serve clients, we are confident in achieving our medium-term objectives of mid-single-digit revenue growth and strong free cash flow generation.”

- Arvind Krishna, IBM Chairman and CEO



3Q21 Performance



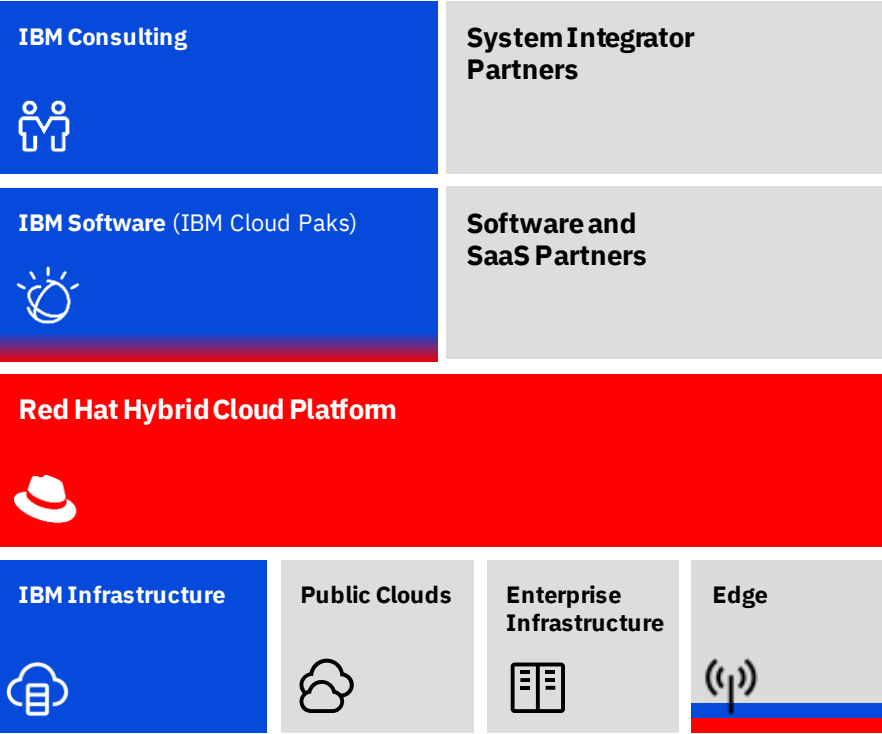
Hybrid Cloud and AI Progress




Clients, Ecosystems and Innovation


# Hybrid Cloud & AI Progress

## Our Platform Approach



 Accelerating client adoption of hybrid cloud & AI

 Leveraging partner ecosystem

 Delivering innovation and enhancing portfolio

# Financial Highlights

3Q21 .....

**\$17.6B**

Revenue

**\$11.1B**

Free Cash Flow,  
Adjusted (LTM)

“We again had solid cash generation for the quarter and over the last year, while maintaining a strong balance sheet and the liquidity to support our hybrid cloud and AI strategy.

Our post-separation portfolio mix is shifted toward our growth vectors, with a higher-value recurring revenue stream and strong cash generation, allowing us to continue to invest in the business and provide attractive shareholder returns.”

– James Kavanaugh, IBM SVP & CFO

Revenue growth @CC excludes impact of divested businesses; 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

**11% GBS & 2% Software**  
Revenue growth

**11% Cloud**  
Revenue growth (LTM)



Investing for Growth

**\$6.5B**  
R&D spending (LTM)

**\$3.0B**  
Acquisitions (YTD)



Strong balance sheet & liquidity

**\$8.4B**  
Cash balance

**\$7.0B**  
Debt reduction (YTD)

# Cloud & Cognitive Software

Software growth led by Red Hat, Security and Automation

Over 3,500 clients using hybrid cloud platform

Annual Recurring Revenue\* +7% yr/yr; Software renewal rates remain strong

Transaction Processing Platforms reflects continued preference for opex over capex

Revenue

**\$5.7B**

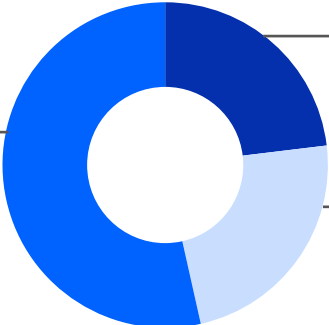
+2% yr/yr

C&CS Cloud Revenue Growth

**+20%**

yr/yr

Segment Elements



Cloud & Data Platforms  
**+9% yr/yr**

Cognitive Applications  
**(1%) yr/yr**

Transaction Processing Platforms  
**(9%) yr/yr**

3Q21 Results; Revenue growth rates @CC  
\*Annual Recurring Revenue for Cloud & Data Platforms and Cognitive Applications

# Global Business Services

Revenue growth acceleration driven by ecosystem and cloud offerings

Book-to-bill ratio of 1.1x (LTM)

Continued momentum in Red Hat engagements

Gross margin reflects increased investments and labor cost dynamics

Revenue

**\$4.4B**

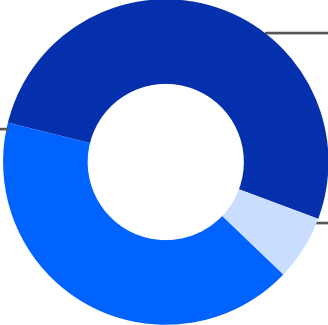
+11% yr/yr

GBS Cloud Revenue Growth

**+37%**

yr/yr

Segment Elements



Consulting  
**+16% yr/yr**

Global Process Services  
**+19% yr/yr**

Application Management  
**+5% yr/yr**



# Systems

IBM Z and Power impacted by product cycle dynamics

Growth in Storage driven by entry-level all-flash storage and tape

Segment profit margins reflect mix headwind

## Revenue

**\$1.1B**

(12%) yr/yr

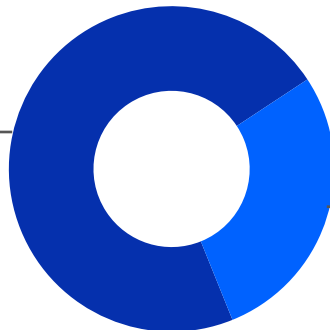
## IBM Z Program Revenue

**>100%**

z15 vs. z14

## Segment Elements

Systems Hardware  
(14%) yr/yr



Operating  
Systems  
Software  
(8%) yr/yr

# Global Technology Services

Kyndryl separation on track for November 3, 2021

Gross margin expansion reflects actions to improve profit profile

Revenue reflects clients pausing on projects in advance of separation

Revenue

**\$6.2B**

(5%) yr/yr

Gross Margin Expansion

**+120 bps**

yr/yr

Segment Elements

Infrastructure & Cloud Services  
(6%) yr/yr



Technology Support Services  
(5%) yr/yr

# Summary

## Continued Progress in Third Quarter

- Improving revenue trajectory led by Software and Consulting
- Increasing investments in skills, innovation, ecosystem
- Solid free cash flow generation

## Moving IBM to the Future

- Kyndryl separation creates value through focus
- Fourth quarter important milestone in the transition to future IBM
- Exit 2021 in position to deliver: mid-single-digit revenue growth and \$35 billion free cash flow in 2022-2024



[ibm.com/investor](https://ibm.com/investor)

# Supplemental Materials

- Future Investor Communications
- 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

Supplemental Materials



# Future IBM Investor Communications

Assumes Kyndryl distribution date of November 3, 2021

<b>Date (Estimated)</b>	<b>Communication</b>	<b>Content</b>
October 20, 2021	3Q 2021 Earnings Report	IBM results @ pre-separation of Kyndryl Estimated impact of KD separation to IBM 4Q 2021 Consolidated Results
November 3-4, 2021 (within 4 days of distribution date)	8-K Filing	IBM 2018/2019/2020/1H21 – Pro Forma I&E * IBM 6/30/21 – Pro Forma Balance Sheet  * Incl. Disc Ops adjustment for all periods, and transaction accounting adjustments for 2020/1H21
November 4-5, 2021	3Q 2021 10-Q Filing	IBM @ pre-separation
Late December, 2021	Investor Article & 8-K Filing (voluntary disclosure)	IBM 2019/2020/3QYTD – Continuing Ops I&E by quarter (GAAP & Operating) IBM 2020/3QYTD – New segment revenue and PTI by quarter
January 24, 2022	4Q 2021 Earnings Report	IBM @ post separation – Continuing Ops (GAAP & Operating), New segments
Late February, 2022	2021 10-K Filing	IBM 2019/2020/2021 – Disc Ops/Continuing Ops I&E IBM 2020/2021 – Disc Ops/Continuing Ops I&E by quarter IBM 2020/2021 – Disc Ops/Continuing Ops Balance Sheet IBM 2019/2020/2021 – Disc Ops/Continuing Ops Cash Flow

# Revenue and P&L Highlights

<b>Revenue Highlights</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr*</b>
Revenue	\$17.6	Flat
Cloud	\$6.7	12%
Cloud (LTM)	\$27.8	11%

<b>Geography Revenue</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr*</b>
Americas	\$8.2	Flat
Europe/ME/Africa	\$5.6	(1%)
Asia Pacific	\$3.8	Flat

Revenue growth rates @CC, \$ in billions  
\*Yr/Yr excludes impact of divested businesses

Supplemental Materials

<b>Operating P&amp;L Highlights \$</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>
Gross Profit	\$8.5	(2%)
Expense	\$6.1	Flat
Pre-Tax Income	\$2.4	(7%)
Net Income	\$2.3	(1%)
Earnings Per Share	\$2.52	(2%)

<b>Operating P&amp;L Highlights %</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>
Gross Profit Margin	48.0%	(1.0 pts)
Expense E/R	34.4%	Flat
Pre-Tax Income Margin	13.6%	(1.0 pts)
Net Income Margin	13.0%	(0.2 pts)
Tax Rate	4.8%	5.4 pts

# Cash Flow and Balance Sheet Highlights

<b>Cash Flow</b>	<b>3Q21</b>	<b>Yr/Yr</b>	<b>LTM</b>	<b>Balance Sheet</b>	<b>Sep 21</b>	<b>Dec 20</b>	<b>Sep 20</b>
Net Cash from Operations*	\$1.2	(\$0.7)	\$11.9	Cash & Marketable Securities	\$8.4	\$14.3	\$15.8
Adjusted Free Cash Flow**	\$1.2	\$0.1	\$11.1	Total Debt	\$54.5	\$61.5	\$65.4
<b>Selected Uses of Cash</b>				<b>Selected Debt Measures</b>			
Net Capital Expenditures	\$0.6		\$2.6	Global Financing Debt	\$15.9	\$21.2	\$20.9
Acquisitions	\$0.2		\$3.3	Core (non-GF) Debt	\$38.6	\$40.4	\$44.5
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 \$	3Q21	Yr/Yr	10/19/2021	4Q21	FY21	1Q22	2Q22
			Spot				
Euro	0.85	1%	0.86	(2%)	4%	(4%)	(4%)
Pound	0.73	6%	0.72	4%	7%	0%	(1%)
Yen	110	(4%)	114	(9%)	(3%)	(8%)	(4%)
Revenue Impact, Future @ 10/19/21 Spot		1 pts		(2-1 pts)	1-2 pts	~(2 pts)	~(2 pts)
<i>Prior View @ 7/16/21 Spot</i>		0-1 pts		~(1 pts)	1-2 pts		
	US\$B	Yr/Yr					
Revenue As Reported	\$17.6	0.3%					
Currency Impact	\$0.1	0.6 pts					
Revenue @CC		(0.3%)					

# Services Segments Details

<b>GBS Segment</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>
Revenue (External)	\$4.4	11%
Consulting	\$2.3	16%
Application Management	\$1.8	5%
Global Process Services	\$0.3	19%
Gross Profit Margin (External)	29.8%	(3.1 pts)
Pre-Tax Income	\$0.6	3%
Pre-Tax Income Margin	13.1%	(1.1 pts)
Cloud Revenue (External)	\$2.0	37%
Signings	\$5.0	3%

<b>GTS Segment</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>
Revenue (External)	\$6.2	(5%)
Infrastructure & Cloud Services	\$4.7	(6%)
Technology Support Services	\$1.5	(5%)
Gross Profit Margin (External)	36.2%	1.2 pts
Pre-Tax Income	\$0.4	(4%)
Pre-Tax Income Margin	5.9%	Flat
Cloud Revenue (External)	\$2.4	Flat

Revenue & Signings growth rates @CC, \$ in billions

Supplemental Materials



# Software and Systems Segment Details

<b>Cloud &amp; Cognitive Software Segment</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>	<b>Systems Segment</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>
Revenue (External)	\$5.7	2%	Revenue (External)	\$1.1	(12%)
Cloud & Data Platforms	\$3.0	9%	Systems Hardware	\$0.8	(14%)
Cognitive Applications	\$1.3	(1%)	IBM Z		(33%)
Transaction Processing Platforms	\$1.3	(9%)	Power		(25%)
Pre-Tax Income	\$1.7	(9%)	Storage		11%
Pre-Tax Income Margin	25.9%	(2.6 pts)	Operating Systems Software	\$0.3	(8%)
Cloud Revenue (External)	\$2.1	20%	Gross Profit Margin (External)	41.3%	(9.9 pts)
			Systems Hardware	26.6%	(13.8 pts)
			Operating Systems Software	79.0%	(1.8 pts)
			Pre-Tax Income	(\$0.2)	NM
			Pre-Tax Income Margin	(16.1%)	(13.6 pts)
			Cloud Revenue (External)	\$0.3	(43%)

Revenue growth rates @CC, \$ in billions

Supplemental Materials



# Expense Summary

<b>Expense</b>	<b>3Q21</b>	<b>B/(W) Yr/Yr</b>	<b>Currency</b>	<b>Acq/ Divest*</b>	<b>Base**</b>
SG&A – Operating	\$4.4	(1%)	0 pts	(2 pts)	1 pts
RD&E	\$1.6	(7%)	(1 pts)	(2 pts)	(4 pts)
IP and Custom Development Income	(\$0.2)	14%			
Other (Income)/Expense - Operating	(\$0.1)	144%			
Interest Expense	\$0.3	10%			
<b>Operating Expense &amp; Other Income</b>	<b>\$6.1</b>	<b>(0%)</b>	<b>0 pts</b>	<b>(1 pts)</b>	<b>1 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 21</b>	<b>Dec 20</b>	<b>Sep 20</b>
Cash & Marketable Securities	\$8.4	\$14.3	\$15.8
Core (non-GF) Assets*	\$117.8	\$118.5	\$115.7
Global Financing Assets	\$18.0	\$23.2	\$22.7
Total Assets	\$144.2	\$156.0	\$154.1
Other Liabilities	\$67.4	\$73.7	\$67.4
Core (non-GF) Debt*	\$38.6	\$40.4	\$44.5
Global Financing Debt	\$15.9	\$21.2	\$20.9
Total Debt	\$54.5	\$61.5	\$65.4
Total Liabilities	\$121.9	\$135.2	\$132.8
Equity	\$22.4	\$20.7	\$21.3

\$ in billions

\*includes eliminations of inter-company activity

# Cash Flow Summary

	QTD	B/(W)	YTD	B/(W)
	3Q21	Yr/Yr	3Q21	Yr/Yr
<b>Net Cash from Operations</b>	<b>\$2.7</b>	<b>(\$1.6)</b>	\$10.3	(\$2.1)
Less: Global Financing Receivables	\$1.5	(\$0.9)	\$5.2	(\$0.1)
<b>Net Cash from Operations (excluding GF Receivables)</b>	<b>\$1.2</b>	<b>(\$0.7)</b>	<b>\$5.0</b>	<b>(\$2.0)</b>
Net Capital Expenditures	(\$0.6)	\$0.2	(\$1.9)	\$0.4
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>\$0.6</b>	<b>(\$0.5)</b>	<b>\$3.2</b>	<b>(\$1.6)</b>
Structural actions initiated in 4Q20 & separation charges*	\$0.6	\$0.6	\$1.8	\$1.8
<b>Adjusted Free Cash Flow</b>	<b>\$1.2</b>	<b>\$0.1</b>	<b>\$5.0</b>	<b>\$0.2</b>
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>\$0.6</b>	<b>(\$0.5)</b>	<b>\$3.2</b>	<b>(\$1.6)</b>
Acquisitions	(\$0.2)	(\$0.1)	(\$3.0)	(\$3.0)
Divestitures	\$0.1	\$0.3	\$0.0	(\$0.5)
Dividends	(\$1.5)	(\$0.0)	(\$4.4)	(\$0.1)
Non-GF Debt	\$1.2	\$0.2	(\$1.1)	(\$6.1)
Other (includes GF Net A/R & GF Debt)	\$0.0	(\$1.1)	(\$0.5)	(\$1.4)
<b>Change in Cash &amp; Marketable Securities</b>	<b>\$0.2</b>	<b>(\$1.3)</b>	<b>(\$5.9)</b>	<b>(\$12.6)</b>

\$ 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 3Q21	QTD 3Q20	YTD 3Q21	YTD 3Q20
<b>Net Income from Operations</b>	<b>\$1.1</b>	<b>\$1.7</b>	<b>\$3.4</b>	<b>\$4.2</b>
Depreciation / Amortization of Intangibles	\$1.7	\$1.7	\$5.0	\$5.0
Stock-based Compensation	\$0.3	\$0.2	\$0.7	\$0.7
Working Capital / Other	(\$1.8)	(\$1.7)	(\$4.1)	(\$2.9)
Global Financing A/R	\$1.5	\$2.4	\$5.2	\$5.3
<b>Net Cash provided by Operating Activities</b>	<b>\$2.7</b>	<b>\$4.3</b>	<b>\$10.3</b>	<b>\$12.3</b>
Capital Expenditures, net of payments & proceeds	(\$0.6)	(\$0.8)	(\$1.9)	(\$2.3)
Divestitures, net of cash transferred	\$0.1	(\$0.2)	\$0.0	\$0.5
Acquisitions, net of cash acquired	(\$0.2)	(\$0.0)	(\$3.0)	(\$0.0)
Marketable Securities / Other Investments, net	\$0.1	\$0.8	(\$0.5)	(\$0.7)
<b>Net Cash provided by/(used in) Investing Activities</b>	<b>(\$0.6)</b>	<b>(\$0.3)</b>	<b>(\$5.3)</b>	<b>(\$2.5)</b>
Debt, net of payments & proceeds	(\$0.3)	(\$0.3)	(\$6.1)	\$1.1
Dividends	(\$1.5)	(\$1.5)	(\$4.4)	(\$4.3)
Common Stock Repurchases	-	-	-	-
Common Stock Transactions - Other	\$0.0	\$0.0	(\$0.2)	(\$0.2)
<b>Net Cash provided by/(used in) Financing Activities</b>	<b>(\$1.7)</b>	<b>(\$1.7)</b>	<b>(\$10.7)</b>	<b>(\$3.4)</b>
Effect of Exchange Rate changes on Cash	(\$0.1)	\$0.1	(\$0.2)	(\$0.2)
<b>Net Change in Cash, Cash Equivalents &amp; Restricted Cash</b>	<b>\$0.2</b>	<b>\$2.4</b>	<b>(\$5.9)</b>	<b>\$6.2</b>

\$ in billions

Supplemental Materials



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Performance - 3Q 2021

	3Q21 Yr/Yr	
	GAAP	@CC
<b>Cloud &amp; Cognitive Software</b>	<b>3%</b>	<b>2%</b>
Cloud & Data Platforms	10%	9%
Cognitive Applications	Flat	(1%)
Transaction Processing Platforms	(9%)	(9%)
Cloud	21%	20%
<b>Global Business Services</b>	<b>12%</b>	<b>11%</b>
Consulting	17%	16%
Application Management	5%	5%
Global Process Services	19%	19%
Cloud	38%	37%

	3Q21 Yr/Yr	
	GAAP	@CC
<b>Global Technology Services</b>	<b>(5%)</b>	<b>(5%)</b>
Infrastructure & Cloud Services	(5%)	(6%)
Technology Support Services	(4%)	(5%)
Cloud	1%	Flat
<b>Systems</b>	<b>(12%)</b>	<b>(12%)</b>
Systems Hardware	(13%)	(14%)
IBM Z	(33%)	(33%)
Power	(24%)	(25%)
Storage	11%	11%
Operating Systems Software	(8%)	(8%)
Cloud	(42%)	(43%)

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 October 20, 2021, for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplemental Materials

## Reconciliation of Revenue Performance - 3Q 2021

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

	3Q21 Yr/Yr				LTM Yr/Yr			
	GAAP	Divest impact	Currency impact	Adjusted	GAAP	Divest impact	Currency impact	Adjusted
Total Cloud	12%	0 pts	(1 pts)	12%	14%	0 pts	(3 pts)	11%

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 October 20, 2021, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## Reconciliation of Revenue normalized to exclude Kyndryl – 2021 & Last 12 months

	1Q21 Yr/Yr	2Q21 Yr/Yr	3Q21 Yr/Yr	LTM Yr/Yr
<b>Revenue, Normalized to Exclude Kyndryl</b>		<b>Total IBM</b>		<b>Cloud</b>
<b>Revenue as reported</b>	<b>0.9%</b>	<b>3.4%</b>	<b>0.3%</b>	<b>13.6%</b>
Impact from Kyndryl*	0.8 pts	1.0 pts	2.1 pts	5.5 pts
<b>Revenue normalized to exclude Kyndryl (non-GAAP)</b>	<b>1.7%</b>	<b>4.4%</b>	<b>2.5%</b>	<b>19.1%</b>
Impact from divested businesses	0.1 pts	0.1 pts	0.1 pts	0.5 pts
Currency impact	(3.1 pts)	(3.8 pts)	(0.7 pts)	(2.7 pts)
<b>Revenue normalized to exclude Kyndryl, adjusting for divested businesses and currency (non-GAAP)</b>	<b>(1.2%)</b>	<b>0.8%</b>	<b>1.9%</b>	<b>17.0%</b>

\*Estimated as of September 30, 2021

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 October 20, 2021, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## Reconciliation of Revenue for Red Hat, Normalized - 3Q 2021

<b>Revenue, Normalized for Historical Comparability</b>	<b>3Q21 Yr/Yr Red Hat</b>
<b>Revenue GAAP growth rate*</b>	<b>23%</b>
Impact from purchase accounting deferred revenue and intercompany adjustments**	(6 pts)
<b>Revenue growth rate, normalized for historical comparability (non-GAAP)</b>	<b>17%</b>
Impact from currency	(0 pts)
<b>Revenue growth rate, normalized for historical comparability and adjusting for currency (non-GAAP)</b>	<b>17%</b>

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

\*\*Represents change in the third-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 October 20, 2021, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## Reconciliation of Expense Summary - 3Q 2021

	3Q21		
	GAAP	Non-GAAP Adjustments	Operating (Non-GAAP)
<b>SG&amp;A</b>			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	(2 pts)	0 pts	(2 pts)
Base*	(3 pts)	4 pts	1 pts
<b>RD&amp;E</b>			
Currency	(1 pts)	0 pts	(1 pts)
Acquisitions/Divestitures	(2 pts)	0 pts	(2 pts)
Base*	(4 pts)	0 pts	(4 pts)
<b>Operating Expense &amp; Other Income</b>			
Currency	0 pts	0 pts	0 pts
Acquisitions/Divestitures	(1 pts)	0 pts	(1 pts)
Base*	(2 pts)	3 pts	1 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 20, 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 - 3Q 2021

	3Q21					
	GAAP	Acquisition- Related Adjustments	Retirement- Related Adjustments	Tax Reform Impacts	Separation- Related Charges	Adjusted
Gross Profit	\$8,171	\$184	—	—	\$108	\$8,463
Gross Profit Margin	46.4%	1.0 pts	—	—	0.6 pts	48.0%
SG&A	4,860	(293)	—	—	(169)	4,398
RD&E	1,621	—	—	—	(1)	1,620
Other (Income) & Expense	234	(1)	(328)	—	—	(94)
Total Expense	6,852	(294)	(328)	—	(169)	6,061
Pre-tax Income	1,319	478	328	—	277	2,402
Pre-tax Income Margin	7.5%	2.7 pts	1.9 pts	—	1.6 pts	13.6%
Tax Rate	14.3%	1.5 pts	0.4 pts	0.0 pts	-11.4 pts	4.8%
Net Income	1,130	375	271	—	510	2,286
Net Income Margin	6.4%	2.1 pts	1.5 pts	0.0 pts	2.9 pts	13.0%
Earnings Per Share	\$1.25	\$0.41	\$0.30	\$0.00	\$0.56	\$2.52

\$ 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 October 20, 2021, for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## Reconciliation of Free Cash Flow – Last 12 Months

	<b>12 Months Ended Sep 2021</b>
<b>Net Cash from Operating Activities per GAAP:</b>	<b>\$16.1</b>
Less: change in Global Financing (GF) Receivables	\$4.3
<b>Net Cash from Operating Activities (Excluding GF Receivables)</b>	<b>\$11.9</b>
Capital Expenditures, Net	(\$2.6)
<b>Free Cash Flow (Excluding GF Receivables)</b>	<b>\$9.2</b>
Structural actions initiated in 4Q20 & separation charges*	\$1.8
<b>Adjusted Free Cash Flow</b>	<b>\$11.1</b>

\$ 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”, “Summary”, “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 October 20, 2021, for additional information on the use of these Non-GAAP financial measures.



[ibm.com/investor](https://ibm.com/investor)