

IBM Investor Discussion

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June 2016

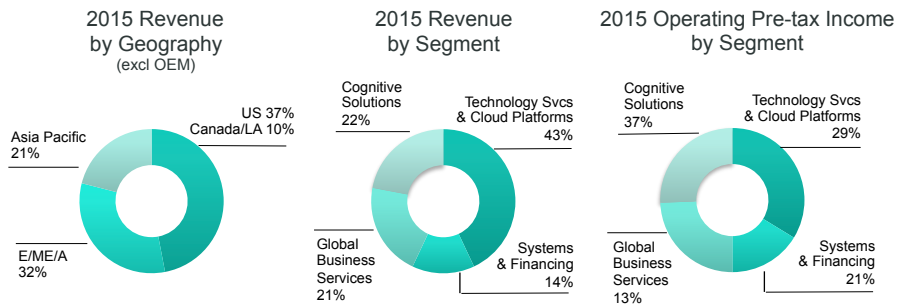


Certain comments made in this presentation may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the Company's current assumptions regarding future business and financial performance. These statements by their nature address matters that are uncertain to different degrees and 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 in these presentation materials speaks only as of the date on which it is made. The Company assumes no obligation to update or revise any forward-looking statement. These charts and the associated remarks and comments are integrally related, and they 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), these materials contain certain non-GAAP information including operating pre-tax income and margin, operating gross profit margin, revenue growth and strategic imperatives revenue growth, each at constant currency and excluding divestitures, and other free cash flow financial measures. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are included in Attachment II to the Company's Form 8-K dated January 19, 2016 and the Non-GAAP Supplemental Materials in the Chief Financial Officer's Financial Overview Presentation, which is Attachment I to the Company's Form 8-K dated February 25, 2016. For reconciliation to GAAP and other information about FY 2010-2013 non-GAAP measures of free cash flow refer to page 66 of the Company's 2014 Annual Report which is Exhibit 13 to the Form 10-K submitted to the SEC on February 24, 2015.

IBM by the numbers

1911 Founded	46 Companies acquired in the last 5 years	#1 in Enterprise IT	\$82B 2015 Revenue
1913 First Dividend	\$7B Annual revenue divested in the last 5 years	~380K Employees	80% of 2015 revenue from clients with cross-brand solutions
1915 IPO	70% of the world's business data managed	~175 Countries, ~100 Currencies	\$18B 2015 Operating Pre-tax Income



Long-term financial model:

- Low single-digit revenue growth / Mid single-digit profit growth / High single-digit EPS growth
- Free cash flow realization in the 90's

Agenda

01

IBM Continuous
Transformation

02

IBM Strategy

03

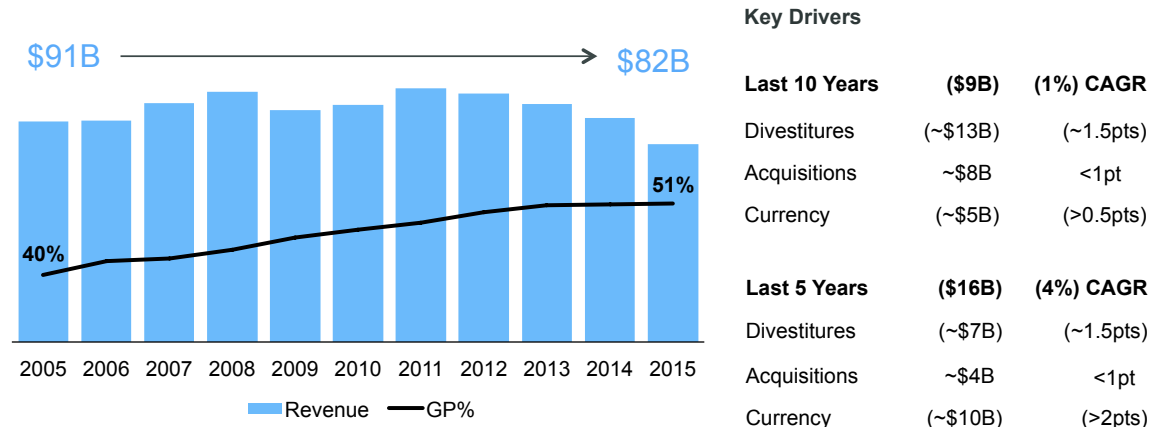
IBM Segments,
Capital Deployment
& Longer Term Model



IBM Continuous Transformation

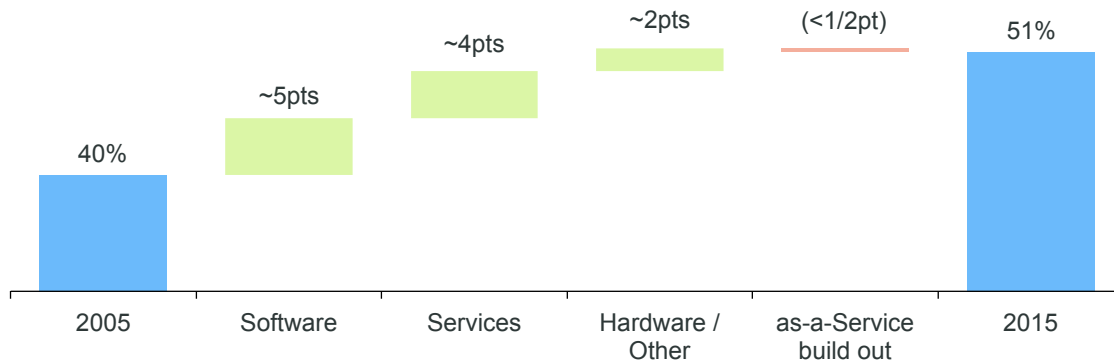
Financial performance over the last 10 years

IBM's revenue and gross profit margin reflect continuous transformation of the business



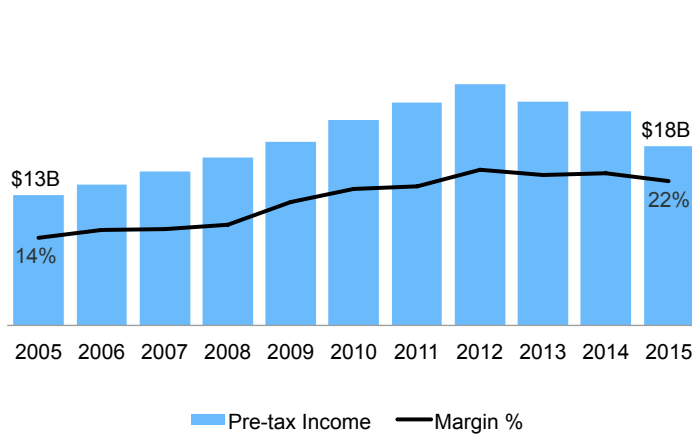
2010-2015 Revenue from Continuing Operations
2006-2015 Operating GP%, 2010-2015 from Continuing Operations

Significant gross margin improvement driven by mix to higher value and productivity



2006-2015 Operating GP%, 2010-2015 from Continuing Operations

Pre-tax Income reflects shift to higher value and repositioning of hardware business



Key Drivers

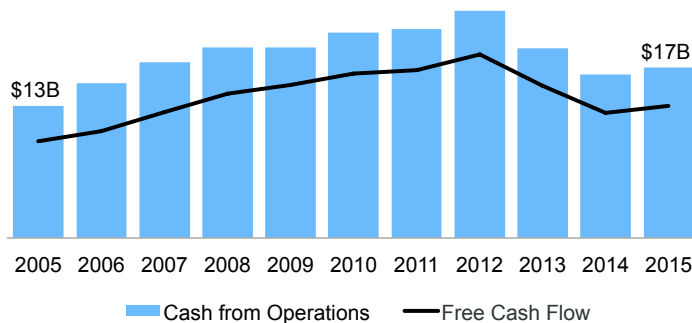
Last 10 Years	~\$5B
Software & Services	>\$5B
Hardware	(~\$1.5B)
Currency	<\$1B
Last 5 Years	(~\$2.5B)
Hardware	(>\$1B)
Currency	(<\$1B)

2005-2015 Operating PTI, 2010-2015 from Continuing Operations

Cash Flow supports both reinvestment and return to shareholders

Over the last 10 years

- Cash from Operations: \$186B
- Free Cash Flow: \$144B



Reinvestment

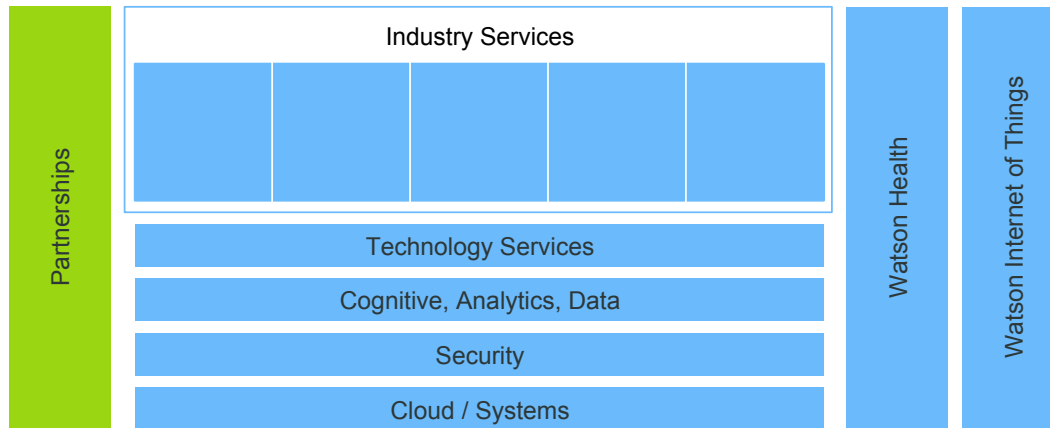
Capital	\$42B
Net Acquisitions	\$27B
R&D (income statement)	\$58B

Return to shareholders

Dividends	\$33B
Share count reduction	37%

Cash from Operations excludes Global Financing receivables
 Share count reduction 2006-2015, reflects weighted average shares outstanding
 R&D 2010-2015 from Continuing Operations

IBM has a broad set of capabilities, with ~80% of IBM's revenue from clients who have deployed cross-IBM solutions



IBM Continuous Transformation Summary

- Significant IBM transformation over the last 10 years
- Stable revenue performance
 - Divested lower margin businesses
 - Invested for higher value
- Cash flow supports both reinvestment and return to shareholders

Longer-term financial model

- Low single-digit revenue growth
- Mid single-digit pre-tax income growth
- High single-digit EPS growth with return to shareholders
- Free Cash Flow realization in the 90%'s

IBM Strategy

Emerging as a Cognitive Solutions and Cloud Platform company

Three shifts are transforming IBM's industry, clients, and the company

SHIFT 1

Data is becoming the world's new **natural resource**, transforming industries and professions

OUR POINT OF VIEW

Data is the new basis of competitive advantage

SHIFT 2

The emergence of **cloud** is transforming IT and business processes into digital services

OUR POINT OF VIEW

Cloud is the path to new business models

SHIFT 3




Mobile and social are transforming individual **engagement** – creating expectations of security, trust and value in return for personal information

OUR POINT OF VIEW

A systematic approach to engagement is now required

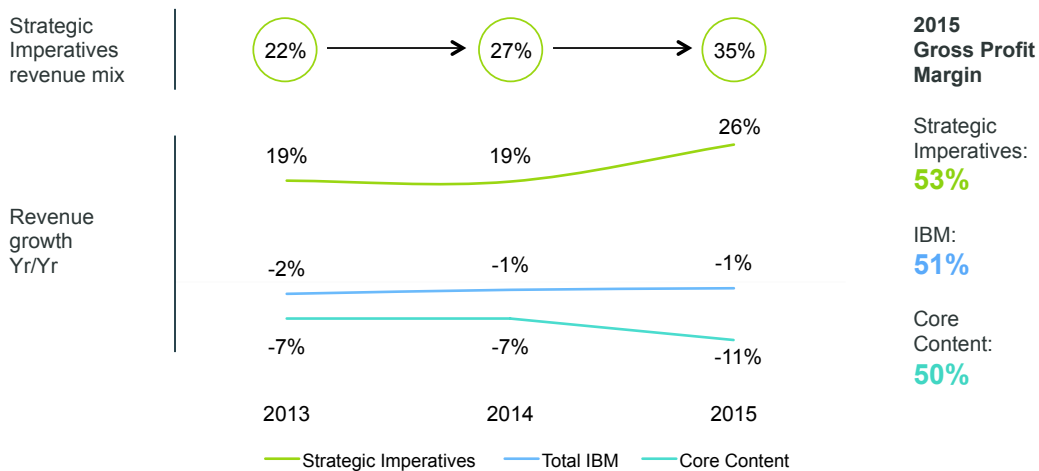
Data, Cloud, Engagement → IBM's Strategic Imperatives

IBM is investing in its Strategic Imperatives to address these shifts... together they generated \$29B of revenue in 2015

	Over the last 3 years ...	2015 Revenue
 Analytics	>\$6B Investment 13 Acquisitions 200K Developers & 1,500 Partners	\$18B
 Cloud	>\$7B Investment 15 Acquisitions 46 Cloud Datacenters 1M Bluemix users	\$10B \$5.3B as-a-Service exit run rate
 Engagement	\$3B Investment 6 Acquisitions ~10K Mobile, Security, Social specialists	\$3B Mobile \$2B Security \$1B Social

Investment = Development + Capex + Acquisition spend
 Developers include data scientists

Strategic Imperatives represented 35% of IBM's revenue in 2015, with a higher gross margin than overall IBM



Revenue Yr/Yr @CC from Continuing Operations, excluding divested businesses
 Operating GP% from Continuing Operations
 Strategic Imperatives and Core content margins are approximate

IBM is becoming a Cloud Platform company

A new paradigm for technology

- Yes, cost efficient...
- ...but much more—innovation
- Enabling clients to focus on higher business value

Platforms vs. Products

- Scale through ecosystems

Hybrid, hybrid, hybrid

- On-Premise
- Public cloud
- Private cloud



IBM is becoming a Cognitive Solutions company

┌ A new paradigm, not just a single product

┌ Learned vs. programmed

┌ Confer “thinking-like” ability
— sense, predict, infer

┌ Illuminate dark data
(80% of all)

┌ AUGMENT human
intelligence

“born cognitive”



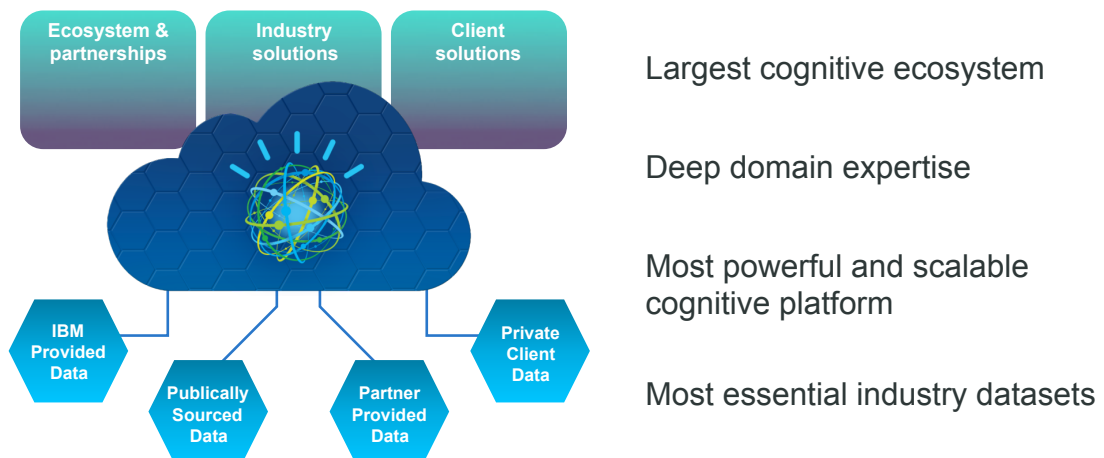
Built in a strong industry context

Cognitive opens new opportunities beyond traditional IT

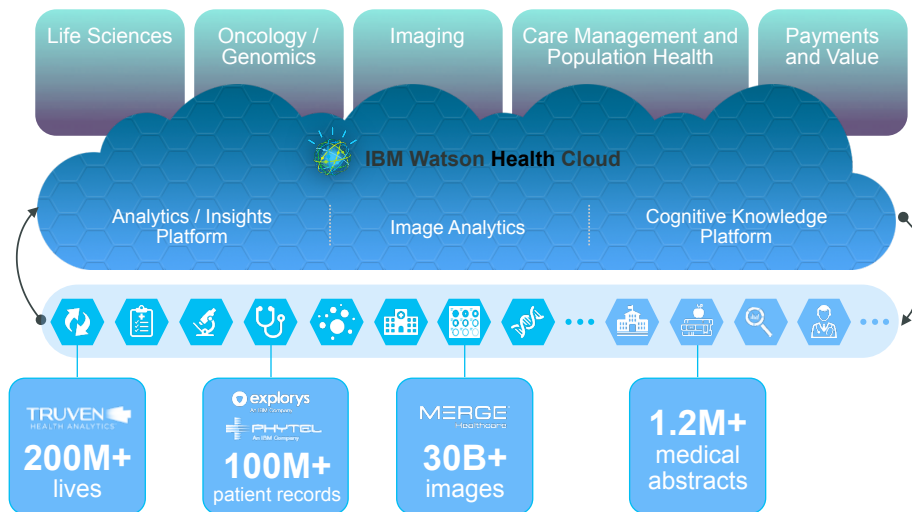


Source GMV 1H16, McKinsey Global Institute May 2013

IBM is building an innovation platform for Cognitive business



Watson Health Cloud is a platform for innovation



IBM Strategy Summary

IBM's new capabilities are leading and differentiated

- Cognitive Solutions
- Cloud Platform
- Industry Focus

IBM's core capabilities are a tremendous asset

- Modernize
- Bridge clients to new era
- Synergy

Cognitive Solutions
&
Cloud Platform ...

“two sides
of the same coin”

IBM Segments, Capital Deployment & Longer Term Model

2016 segment structure reflects IBM's management system and is consistent with the company's platform and solutions focus

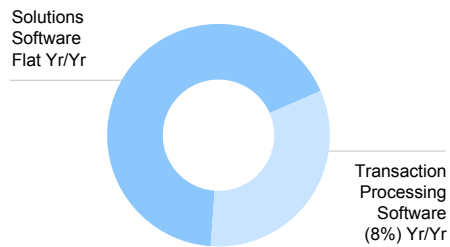
2015 Structure	Software value shifting to new areas	2016 Structure	
Software <ul style="list-style-type: none"> • Key Branded Middleware • Other Middleware • Operating Systems 	<ul style="list-style-type: none"> • Solutions Software • Transaction Processing Software • Integration Software • Operating Systems 	Cognitive Solutions <ul style="list-style-type: none"> • Solutions Software • Transaction Processing Software 	} Cognitive Solutions & Industry Services
Global Business Services		Global Business Services	
Global Technology Services		Technology Services & Cloud Platforms <ul style="list-style-type: none"> • Integration Software 	
Systems Hardware		Systems <ul style="list-style-type: none"> • Operating Systems 	
Global Financing		Global Financing	

Cognitive Solutions Segment

2015 Performance	2015	Yr/Yr
Revenue	\$17.8	(3%)
Gross Margin	85.1%	(2 pts)
PTI	\$7.2	(12%)
PTI Margin	36.1%	(1 pt)

- Cognitive capabilities significantly expand market opportunity
- Building platforms for Watson, Watson Health and Watson Internet of Things

Segment Revenue Elements



\$ in billions
Revenue Yr/Yr @CC

2015 Strategic Imperatives Revenue

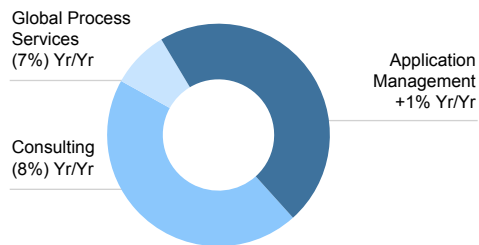
	Revenue	Yr/Yr
Strategic Imperatives	\$11.0	4%
Cloud	\$1.4	52%
as-a-Service run rate	\$1.2	\$0.2

Global Business Services Segment

2015 Performance	2015	Yr/Yr
Revenue	\$17.2	(4%)
Gross Margin	28.2%	(2 pts)
PTI	\$2.6	(22%)
PTI Margin	14.7%	(2 pts)

- Industry centric skills, depth of design thinking drives client value
- Lead with cognitive capabilities across offerings

Segment Revenue Elements



\$ in billions
Revenue Yr/Yr @CC

2015 Strategic Imperatives Revenue

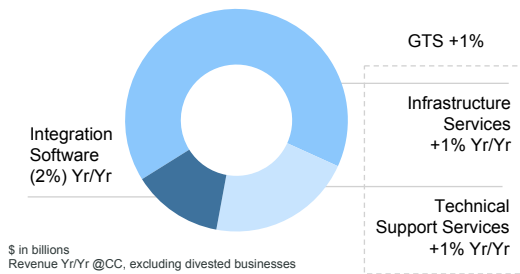
	Revenue	Yr/Yr
Strategic Imperatives	\$7.7	44%
Cloud	\$1.8	83%
as-a-Service run rate	\$0.7	\$0.5

Technology Services & Cloud Platforms Segment

2015 Performance	2015	Yr/Yr
Revenue	\$35.1	Flat
Gross Margin	42.7%	(2 pts)
PTI	\$5.7	(20%)
PTI Margin	15.8%	(2 pts)

- Transforming GTS model from systems integration to services integration
- Enabling clients digital transformation through the cloud – Hybrid, Private, Public
- Software enabled to integrate with cloud platforms

Segment Revenue Elements



2015 Strategic Imperatives Revenue

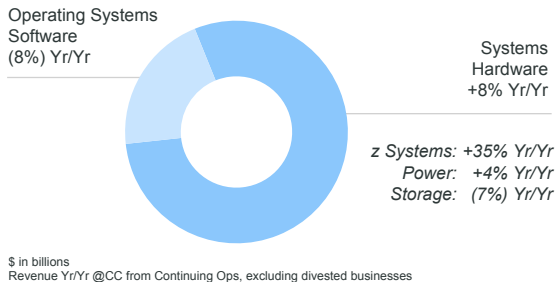
	Revenue	Yr/Yr
Strategic Imperatives	\$6.3	59%
Cloud	\$4.0	59%
as-a-Service run rate	\$3.5	\$1.1

Systems Segment

2015 Performance	2015	Yr/Yr
Revenue	\$9.5	4%
Gross Margin	55.8%	7 pts
PTI	\$1.7	24%
PTI Margin	16.7%	6 pts

- Transforming Systems for growth – IBM OpenPOWER, IBM FlashSystem, IBM Spectrum Storage, Object Storage for cloud
- New cognitive and cloud centric capabilities

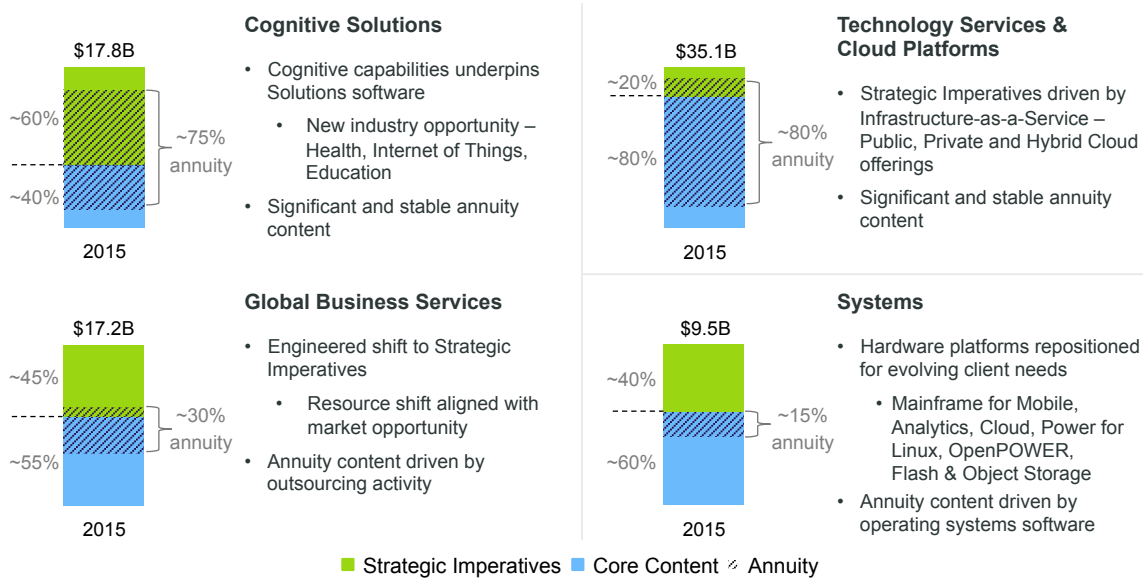
Segment Revenue Elements



2015 Strategic Imperatives Revenue

	Revenue	Yr/Yr
Strategic Imperatives	\$4.0	41%
Cloud	\$3.0	45%
as-a-Service run rate	\$0	-

Strategic Imperatives and Core Content Revenue by Segment

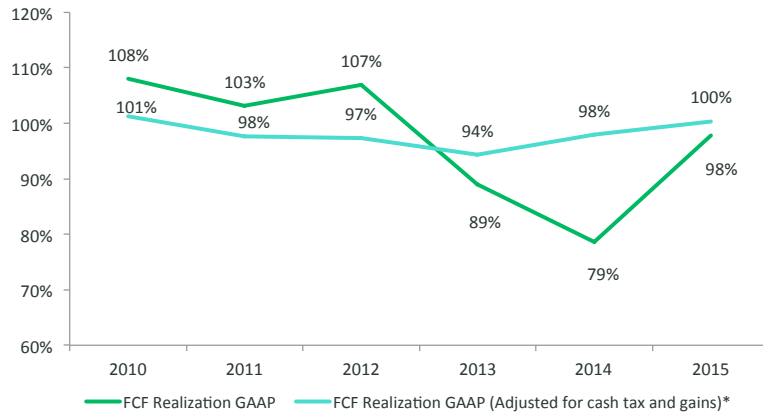


IBM utilizes various models to deploy capital to build capabilities and generate high returns

	2011–2015 Investments	Returns	
Organic Research and Development, Capital Expenditures	\$48B	High	<ul style="list-style-type: none"> Build on existing competencies Create new markets
Acquisitions	\$13B	Well above Cost of Capital	<ul style="list-style-type: none"> Address shorter-term portfolio gaps Leverage IBM scale for growth
Partnerships and Ecosystems	Shift in run rate spending Limited capital required	High	<ul style="list-style-type: none"> Leverage mutual strengths to address client needs Expand industry and client base

Free Cash Flow realization in the 90's over the longer term

- Historical Free Cash Flow realization in the 90's adjusting for book/cash tax differential and cash from gains
- Free Cash Flow realization below 100% driven by the impact of
 - Pensions
 - Investments



Longer-term: Free Cash Flow Realization in the 90's

Free Cash Flow realization = Free Cash Flow / GAAP Net Income from Continuing Operations

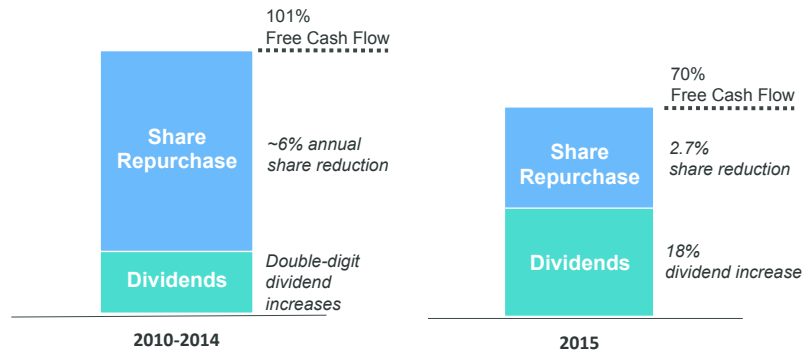
Free Cash Flow supports investment and returns to shareholders

2010-2014:

- Free Cash Flow/Net Income: 97%
- Returned over 100% to shareholders

2015:

- Free Cash Flow/Net Income: 98%
- Returned 70% to shareholders



Longer-term: Continued dividend increases, 2% - 3% annual share reduction

Free Cash Flow realization = Free Cash Flow / GAAP Net Income from Continuing Operations
Annual share reduction reflects weighted average shares outstanding

Segments, Capital Deployment and Longer Term Model Summary

- 2016 segment structure reflective of management system and consistent with IBM's platform and solutions focus
- Significant investment levels over the last couple of years to drive returns in the future

Longer-term financial model

- Low single-digit revenue growth
- Mid single-digit pre-tax income growth
- High single-digit EPS growth with return to shareholders
- Free Cash Flow realization in the 90%'s

IBM