

## IBM Reports 2017 First-Quarter Results

### Continued Strong Growth in Strategic Imperatives Led by IBM Cloud

#### ARMONK, N.Y. - 18 Apr 2017: Highlights

- Diluted EPS from continuing operations: GAAP of \$1.85; Operating (non-GAAP) of \$2.38
- Revenue from continuing operations of \$18.2 billion
- Strategic imperatives revenue of \$7.8 billion in the quarter, up 12 percent (up 13 percent adjusting for currency)
- Strategic imperatives revenue of \$33.6 billion over the last 12 months represents 42 percent of IBM revenue
- Cloud revenue of \$14.6 billion over the last 12 months
  - Cloud as-a-Service annual exit run rate of \$8.6 billion in the quarter, up 59 percent year to year (up 61 percent adjusting for currency)
- Maintains full-year EPS and free cash flow expectations.

IBM (NYSE: [IBM](#)) today announced first-quarter earnings results.

"In the first quarter, both the IBM Cloud and our cognitive solutions again grew strongly, which fueled robust performance in our strategic imperatives," said Ginni Rometty, IBM chairman, president and chief executive officer. "In addition, we are developing and bringing to market emerging technologies such as blockchain and quantum, revolutionizing how enterprises will tackle complex business problems in the years ahead."

#### FIRST QUARTER 2017

	<b>Diluted EPS</b>	<b>Net Income</b>	<b>Gross Profit Margin</b>
<b>GAAP from Continuing Operations</b>	<b>\$1.85</b>	<b>\$1.8B</b>	<b>42.8%</b>
Year/Year	-11%	-13%	-3.7Pts
<b>Operating (Non-GAAP)</b>	<b>\$2.38</b>	<b>\$2.3B</b>	<b>44.5%</b>
Year/Year	1%	-1%	-3.0Pts
<b>REVENUE</b>	<b>Total IBM</b>	<b>Strategic Imperatives</b>	<b>Cloud</b>
<b>As reported (US\$)</b>	<b>\$18.2B</b>	<b>\$7.8B</b>	<b>\$3.5B</b>
Year/Year	-3%	12%	33%
Year/Year adjusting for currency	-2%	13%	35%

"We continued to make investments in the first quarter to expand our cognitive and cloud platform and we increased our research and development spending," said Martin Schroeter, IBM senior vice president and chief financial officer. "At the same time we returned more than \$2.6 billion to shareholders through dividends and gross share repurchases."

#### Strategic Imperatives

First-quarter cloud revenues increased 33 percent (up 35 percent adjusting for currency) to \$3.5 billion. Cloud revenue over the last 12 months was \$14.6 billion. The annual exit run rate for cloud as-a-service revenue increased to \$8.6 billion from \$5.4 billion in the first quarter of 2016. Revenues from analytics increased 6 percent (up 7 percent adjusting for currency). Revenues from mobile increased 20 percent (up 22 percent adjusting for currency) and revenues from security increased 9 percent (up 10 percent adjusting for currency).

## **Full-Year 2017 Expectations**

The company continues to expect operating (non-GAAP) diluted earnings per share of at least \$13.80 and GAAP diluted earnings per share of at least \$11.95. Operating (non-GAAP) diluted earnings per share exclude \$1.85 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges. IBM continues to expect free cash flow to be relatively flat year to year.

## **Cash Flow and Balance Sheet**

In the first quarter, the company generated net cash from operating activities of \$4.0 billion, or \$1.9 billion excluding Global Financing receivables. IBM's free cash flow was \$1.1 billion, down year to year consistent with the amount of the Japan tax refund received in the first quarter of 2016. IBM returned \$1.3 billion in dividends and \$1.3 billion of gross share repurchases to shareholders. At the end of March 2017, IBM had \$3.8 billion remaining in the current share repurchase authorization.

IBM ended the first quarter of 2017 with \$10.7 billion of cash on hand. Debt, including Global Financing debt of \$28.5 billion, totaled \$42.8 billion. Core (non-Global Financing) debt totaled \$14.3 billion. The balance sheet remains strong and is well positioned to support the business over the long term.

## **Segment Results for First Quarter**

- *Cognitive Solutions (includes Solutions Software and Transaction Processing Software)* --revenues of \$4.1 billion, up 2.1 percent (up 2.8 percent adjusting for currency) were driven by growth in analytics and security, which include Watson-related offerings.
- *Global Business Services (includes Consulting, Global Process Services and Application Management)* - revenues of \$4.0 billion, down 3.0 percent (down 1.9 percent adjusting for currency). Strategic imperatives grew double digits led by the cloud and mobile practices.
- *Technology Services & Cloud Platforms (includes Infrastructure Services, Technical Support Services and Integration Software)* -- revenues of \$8.2 billion, down 2.5 percent (down 2.0 percent adjusting for currency) with strong growth in strategic imperatives driven by hybrid cloud services.
- *Systems (includes Systems Hardware and Operating Systems Software)* -- revenues of \$1.4 billion, down 16.8 percent (down 16.1 percent adjusting for currency).
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$405 million, down 1.2 percent (down 2.1 percent adjusting for currency).

## **Tax Rate**

For the first quarter, IBM's ongoing effective GAAP tax rate was approximately 12 percent. The ongoing effective operating (non-GAAP) tax rate was approximately 15 percent, which is within the expected range of 15 percent plus or minus 3 points provided earlier this year. IBM's reported tax rates include the effect from a discrete tax benefit disclosed earlier this year.

## **Forward-Looking and Cautionary Statements**

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of 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 involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and client spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers; product quality issues; impacts of business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels and ecosystems; the company's ability to successfully manage acquisitions, alliances and dispositions; risks from legal proceedings; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Qs, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. Any forward-looking statement in this release speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements.

## **Presentation of Information in this Press Release**

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM results --

- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

Free cash flow guidance is derived using an estimate of profit, working capital and operational cash outflows. The company views Global Financing receivables as a profit-generating investment, which it seeks to maximize and therefore it is not considered when formulating guidance for free cash flow. As a result, the company does not estimate a GAAP Net Cash from Operations expectation metric.

The rationale for management's use of these non-GAAP measures is included in Exhibit 99.2 in the Form 8-K that includes this press release and is being submitted today to the SEC.

### **Conference Call and Webcast**

IBM's regular quarterly earnings conference call is scheduled to begin at 5:00 p.m. EDT, today. The webcast may be accessed via a link at <http://www.ibm.com/investor/events/earnings/1q17.html>. Presentation charts will be available shortly before the webcast.

**Financial Results Below** (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

Contact(s) information

### **John Galvez**

UK External Relations 07734-104275 [john.galvez@uk.ibm.com](mailto:john.galvez@uk.ibm.com)

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