

## IBM Reports 2018 Third-Quarter Results

### Best Year-to-Year Gross Margin Performance in 3 Years, Reflecting Higher Value Business

#### London, UK - 16 Oct 2018: Highlights

- GAAP EPS from continuing operations of \$2.94; Operating (non-GAAP) EPS of \$3.42
- Revenue of \$18.8 billion, down 2 percent (flat adjusting for currency)
- Strategic imperatives revenue of \$39.5 billion over last 12 months, up 13 percent (up 11 percent adjusting for currency)
- Cloud revenue of \$19.0 billion over last 12 months, up 20 percent (up 18 percent adjusting for currency)
- As-a-service annual exit run rate for cloud revenue of \$11.4 billion in the quarter, up 21 percent year to year (up 24 percent adjusting for currency)
- Strong services gross profit margin expansion year to year
- Maintains full-year operating (non-GAAP) EPS and free cash flow expectations

IBM today announced third-quarter results.

"IBM's progress and momentum this year in the emerging, high-value segments of the IT industry are driven by our innovative technology, deep industry expertise and commitment to trust and security," said Ginni Rometty, IBM chairman, president and chief executive officer. "Our leadership in the technology and services that deliver hybrid cloud, AI, blockchain, analytics and security has helped drive our overall performance, and is helping our clients unleash the full business value of these innovations."

#### THIRD QUARTER 2018

	Diluted EPS	Net Income	Pre-tax Income	Pre-tax Income Margin	Gross Profit Margin
GAAP from Continuing Operations	\$2.94	\$2.7B	\$3.0B	16.0%	46.9%
Year/Year	1%	-1%	-2%	0.0Pts	0.0Pts
Operating (Non-GAAP)	\$3.42	\$3.1B	\$3.6B	19.2%	47.4%
Year/Year	5%	3%	1%	0.5Pts	0.0Pts

"In the quarter, we again expanded our overall operating pre-tax income margin year to year, and produced our strongest year-to-year gross margin performance in three years," said James Kavanaugh, IBM senior vice president and chief financial officer. "At the same time, with our strong cash generation, we increased our capital investment in the business through the first three quarters and continued to return capital to

shareholders."

## **Strategic Imperatives Revenue**

Strategic imperatives revenue over the last 12 months was \$39.5 billion, up 13 percent (up 11 percent adjusting for currency). Total cloud revenue over the last 12 months was \$19.0 billion, up 20 percent (up 18 percent adjusting for currency), with \$8.1 billion from hardware, software and services to enable IBM clients to implement hybrid cloud solutions across public, private and multi-cloud environments, and \$10.9 billion delivered as a service. The annual exit run rate for as-a-service revenue increased in the quarter to \$11.4 billion, up 21 percent (up 24 percent adjusting for currency).

## **Cash Flow and Balance Sheet**

In the third quarter, the company generated net cash from operating activities of \$4.2 billion, or \$3.1 billion, excluding Global Financing receivables. IBM's free cash flow was \$2.2 billion. IBM returned \$2.1 billion to shareholders through \$1.4 billion in dividends and \$0.6 billion in gross share repurchases. At the end of September 2018, IBM had \$1.4 billion remaining in the current share repurchase authorization.

IBM ended the third quarter with \$14.7 billion of cash on hand. Debt totaled \$46.9 billion, including Global Financing debt of \$30.4 billion. The balance sheet remains strong and is well positioned for the long term.

## **Segment Results for Third Quarter**

- *Cognitive Solutions (includes solutions software and transaction processing software)* --revenues of \$4.1 billion, down 6 percent (down 5 percent adjusting for currency), with growth in Watson health, security solutions, and key strategic areas in analytics.
- *Global Business Services (includes consulting, application management and global process services)* - revenues of \$4.1 billion, up 1 percent (up 3 percent adjusting for currency), led by consulting. Gross profit margin increased 270 basis points.
- *Technology Services & Cloud Platforms (includes infrastructure services, technical support services and integration software)* -- revenues of \$8.3 billion, down 2 percent (flat year to year adjusting for currency), with growth in cloud revenue. Gross profit margin increased 120 basis points.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$1.7 billion, up 1 percent (up 2 percent adjusting for currency), driven by growth in Power and IBM Z.
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$388 million, down 9 percent (down 7 percent adjusting for currency).

## **Full-Year 2018 Expectations**

The company expects operating (non-GAAP) diluted earnings per share of at least \$13.80, and GAAP diluted earnings per share of at least \$11.60. Operating (non-GAAP) diluted earnings per share exclude \$2.20 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, retirement-related charges and any one-time impacts from the enactment of U.S. Tax Reform. GAAP expectations exclude any fourth-quarter one-time impacts from the enactment of U.S. Tax Reform.

IBM expects free cash flow of approximately \$12 billion, with a realization rate greater than 100 percent.

## **Year-To-Date 2018 Results**

Consolidated diluted earnings per share from continuing operations was \$7.36 compared to \$7.24, up 2 percent year to year. Consolidated net income was \$6.8 billion, flat year to year. Revenues for the nine-month period totaled \$57.8 billion, an increase of 2 percent year to year (flat year to year adjusting for currency), compared with \$56.6 billion for the first nine months of 2017.

Operating (non-GAAP) diluted earnings per share from continuing operations was \$8.96 compared with \$8.54 per diluted share for the 2017 period, an increase of 5 percent. Operating (non-GAAP) net income for the nine months ended September 30, 2018 was \$8.2 billion compared with \$8.0 billion in the year-ago period, an increase of 3 percent.

## **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; damage to the company's reputation; 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 employees 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/3q18.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).

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