

IBM Reports 2019 Second-Quarter Results

Growth in Software, Consulting and Cloud Revenue; Continued Margin Expansion

Highlights

Second Quarter:

- GAAP EPS from continuing operations of \$2.81
 - Operating (non-GAAP) EPS of \$3.17
 - Revenue of \$19.2 billion, down 4.2 percent (down 1.6 percent adjusting for currency)
 - Revenue growth in Cloud & Cognitive Software, and Global Business Services segments
- Cloud & Cognitive Software up 3.2 percent (up 5.4 percent adjusting for currency)
- Global Business Services up 0.5 percent (up 3.4 percent adjusting for currency)
- Cloud revenue of \$19.5 billion over the last 12 months, up 5 percent (up 8 percent adjusting for currency)
 - Gross profit margin up 100 basis points; largest year-to-year expansion in more than 5 years
 - Net cash from operating activities of \$16.1 billion over the last 12 months; free cash flow of \$12.7 billion over the last 12 months
 - Through the second quarter, on track to achieve full-year 2019 EPS and free cash flow expectations excluding impact of Red Hat acquisition

Full-Year Expectations Update:

- Company to update full-year 2019 expectations, including the impact of Red Hat acquisition, on August 2
- Continues to expect Red Hat, including related activity, to be accretive to free cash flow in the first year, and accretive to operating (non-GAAP) earnings per share by the end of the second year after closing, as previously stated

ARMONK, N.Y., July 17, 2019 . . . IBM (NYSE: [IBM](#)) today announced second-quarter results.

“In the second quarter, we continued to grow in the high-value areas of the business, led by a strong performance across our Cloud and Cognitive Software segment,” said Ginni Rometty, IBM chairman, president and chief executive officer. “With the completion of our acquisition of Red Hat, we will provide

the only true open hybrid multicloud platform in the industry, strengthening our leadership position and uniquely helping clients succeed in chapter 2 of their digital reinventions.”

SECOND QUARTER 2019

	Diluted	Net	Pre-tax	Pre-tax	Gross
	<u>EPS</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Profit</u>
				<u>Margin</u>	<u>Margin</u>
GAAP from Continuing Operations	\$2.81	\$2.5B	\$2.8B	14.4%	47.0%
Year/Year	8%	4%	0%	0.6 Pts	1.0 Pts
Operating (Non-GAAP)	\$3.17	\$2.8B	\$3.2B	16.6%	47.4%
Year/Year	3%	0%	(6)%	(0.3) Pts	1.0 Pts

“We maintained our momentum in the second quarter, again expanding gross profit margin and growing free cash flow, driven to a great extent by our increasing mix of high-value offerings for clients,” said James Kavanaugh, IBM senior vice president and chief financial officer. “On August 2, we will discuss how the acquisition of Red Hat will accelerate IBM's revenue growth, contribute to our high-value model and enhance our free cash flow generation going forward.”

Cash Flow and Balance Sheet

In the second quarter, the company generated net cash from operating activities of \$2.9 billion, or \$2.8 billion, excluding Global Financing receivables. IBM's free cash flow was \$2.4 billion. IBM returned \$1.8 billion to shareholders through \$1.4 billion in dividends and \$0.3 billion in gross share repurchases. The company suspended its share repurchase program on July 9.

IBM ended the second quarter with \$46.4 billion of cash on hand, of which approximately \$34 billion was used in July to close the acquisition of Red Hat. Debt totaled \$73.0 billion, including Global Financing debt of \$25.0 billion.

Segment Results for Second Quarter

- *Cloud & Cognitive Software (includes cloud and data platforms, cognitive applications and transaction processing platforms)* -- revenues of \$5.6 billion, up 3.2 percent (up 5.4 percent adjusting for currency), with growth in cloud and data platforms, up 5 percent (up 7 percent adjusting for currency); cognitive applications, up 3 percent (up 5 percent adjusting for currency); and transaction processing platforms, up 2 percent (up 4 percent adjusting for currency).
- *Global Business Services (includes consulting, application management and global process services)* - - revenues of \$4.2 billion, up 0.5 percent (up 3.4 percent adjusting for currency), with broad-based strength led by growth in consulting, up 2 percent (up 5 percent adjusting for currency).

- *Global Technology Services (includes infrastructure and cloud services and technology support services)* -- revenues of \$6.8 billion, down 6.7 percent (down 3.5 percent adjusting for currency). Gross profit margin increased 120 basis points.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$1.8 billion, down 19.5 percent (down 18.0 percent adjusting for currency), with growth in Power, more than offset by the impact of product cycle dynamics in IBM Z and Storage.
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$351 million, down 11.0 percent (down 8.5 percent adjusting for currency), reflects the wind-down of OEM commercial financing.

Full-Year 2019 Expectations

Through the second quarter, IBM remains on track to achieve GAAP diluted earnings per share of at least \$12.45, operating (non-GAAP) diluted earnings per share of at least \$13.90 and free cash flow of approximately \$12 billion, all excluding the impact of Red Hat and related activity. Operating (non-GAAP) diluted earnings per share expectations exclude \$1.45 per share of charges for amortization of purchased intangible assets and other acquisition-related charges, including pre-closing charges, such as financing costs associated with the Red Hat acquisition; retirement-related charges; and tax reform enactment impacts. It does not include any other amounts for Red Hat or Red Hat related activity. The company will provide an update to these full-year expectations (including GAAP EPS expectations) on August 2, 2019 to reflect the addition of the recently-closed Red Hat acquisition. IBM continues to expect Red Hat, including related activity, to be accretive to free cash flow in the first year; accretive to operating (non-GAAP) earnings per share by the end of the second year after closing; and dilutive to full-year 2019 earnings per share due primarily to a non-cash purchase accounting adjustment.

Year-To-Date 2019 Results

Consolidated diluted earnings per share was \$4.58 compared to \$4.43, up 3 percent year to year.

Consolidated net income was \$4.1 billion, flat year to year. Revenues for the six-month period ended June 30, 2019 totaled \$37.3 billion, a decrease of 4 percent year to year (down 1 percent adjusting for currency) compared with \$39.1 billion for the first six months of 2018.

Operating (non-GAAP) diluted earnings per share from continuing operations was \$5.42 compared with \$5.53 per diluted share for the 2018 period, a decrease of 2 percent. Operating (non-GAAP) net income for the six months ended June 30, 2019 was \$4.8 billion compared with \$5.1 billion in the prior-year period, a decrease of 5 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, but not limited to, 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, including integration challenges, failure to achieve objectives, the assumption of liabilities, and higher debt levels; legal proceedings and investigatory risks; 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. Except as required by law, 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;
- net cash from operating activities, excluding Global Financing receivables;
- 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/2q19.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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