

## IBM Reports 2018 Fourth-Quarter and Full-Year Results

### Margin Expansion Year to Year in Fourth Quarter; Return to Full-Year Revenue Growth

#### London, UK - 01 Jan 2019: Fourth Quarter:

- GAAP EPS from continuing operations of \$2.15
  - Includes charge of \$1.9 billion related to the U.S. Tax Cuts and Jobs Act of 2017
- Operating (non-GAAP) EPS of \$4.87
- Revenue of \$21.8 billion, down 3 percent (down 1 percent adjusting for currency)
  - Global Business Services and Cognitive Solutions revenue grew year to year
- Gross profit margin up 10 basis points year to year; pre-tax income margin up more than 50 basis points year to year
  - Continued strong services gross profit margin expansion year to year

#### Full Year:

- GAAP EPS from continuing operations of \$9.51
  - Includes charge of \$2.0 billion related to the U.S. Tax Cuts and Jobs Act of 2017
- Operating (non-GAAP) EPS of \$13.81
- Revenue of \$79.6 billion, up 1 percent (flat year to year adjusting for currency)
- Strategic imperatives revenue of \$39.8 billion, up 9 percent
- Cloud revenue of \$19.2 billion, up 12 percent
  - As-a-service annual exit run rate for cloud revenue of \$12.2 billion in the quarter, up 18 percent year to year (up 21 percent adjusting for currency)

#### 2019 Expectations:

- GAAP EPS of at least \$12.45; Operating (non-GAAP) EPS of at least \$13.90
- Free cash flow of approximately \$12 billion

ARMONK, N.Y., January 22, 2019 . . . IBM (NYSE: [IBM](#)) today announced fourth-quarter and full-year 2018 earnings results.

"In 2018 we returned to full-year revenue growth, reflecting growing demand for our services and leadership solutions in hybrid cloud, AI, analytics and security," said Ginni Rometty, IBM chairman, president and chief executive officer. "Major clients worldwide, such as BNP Paribas, are turning to the IBM Cloud and our unmatched industry expertise to transform their businesses and drive innovation."

#### FOURTH QUARTER 2018

	Diluted	Net	Pre-tax	Pre-tax	Gross
	EPS	Income	Income	Income	Profit
				Margin	Margin
<b>GAAP from Continuing Operations *</b>	<b>\$2.15</b>	<b>\$2.0B</b>	<b>\$4.4B</b>	<b>20.4%</b>	<b>49.1%</b>
Year/Year	289%	286%	-1%	0.6Pts	0.1Pts
<b>Operating (Non-GAAP)</b>	<b>\$4.87</b>	<b>\$4.4B</b>	<b>\$5.0B</b>	<b>23.1%</b>	<b>49.5%</b>
Year/Year	-5%	-8%	-1%	0.5Pts	0.1Pts

\* Diluted EPS and Net Income include charges related to the U.S. Tax Cuts and Jobs Act of 2017 of \$1.9 billion in the fourth quarter of 2018, and \$5.5 billion in the fourth quarter of 2017.

"In the quarter we expanded both gross margin and pre-tax income margin," said James Kavanaugh, IBM senior vice president and chief

financial officer. "In 2018 we repositioned our business model and delivered revenue, operating profit and EPS growth along with strong free cash flow realization. We continue to optimize our portfolio for the high-value, emerging segments of our industry, while returning capital to our shareholders."

### **Cash Flow and Balance Sheet**

In the fourth quarter, the company generated net cash from operating activities of \$4.1 billion, or \$7.3 billion, excluding Global Financing receivables. IBM's free cash flow was \$6.5 billion. IBM returned \$3.5 billion to shareholders through \$1.4 billion in dividends and \$2.0 billion in gross share repurchases. At the end of December 2018, IBM had \$3.3 billion remaining in the current share repurchase authorization.

The company generated full-year free cash flow of \$11.9 billion, excluding Global Financing receivables, and returned \$10.1 billion to shareholders through \$5.7 billion in dividends and \$4.4 billion of gross share repurchases.

IBM ended the fourth quarter with \$12.2 billion of cash on hand. Debt totaled \$45.8 billion, including Global Financing debt of \$31.2 billion. The balance sheet remains strong and is well positioned for the long term.

### **Segment Results for Fourth Quarter**

- *Cognitive Solutions (includes solutions software and transaction processing software)* --revenues of \$5.5 billion, flat year to year (up 2 percent adjusting for currency), led by growth in solutions software, including analytics and AI.
- *Global Business Services (includes consulting, application management and global process services)* -- revenues of \$4.3 billion, up 4 percent (up 6 percent adjusting for currency), with growth across consulting, application management and global process services. Gross profit margin increased 300 basis points.
- *Technology Services & Cloud Platforms (includes infrastructure services, technical support services and integration software)* -- revenues of \$8.9 billion, down 3 percent (flat year to year adjusting for currency), with growth in hybrid cloud revenue. Gross profit margin increased more than 140 basis points.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$2.6 billion, down 21 percent (down 20 percent adjusting for currency), with growth in Power, offset by the impact of the IBM Z product cycle dynamics.
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$402 million, down 11 percent (down 9 percent adjusting for currency).

### **Tax Rate**

As a result of the enactment of the U.S. Tax Cuts and Jobs Act of 2017, IBM recorded charges of \$2.0 billion in 2018, including \$1.9 billion in the fourth quarter, primarily related to deferred taxes for the new Global Intangible Low-Taxed Income (GILTI) tax. This is in addition to the charge of \$5.5 billion the company recorded in the fourth quarter of 2017 related to the one-time U.S. transition tax, foreign tax costs on undistributed foreign earnings and the remeasurement of deferred taxes. These charges are included in the GAAP results for the fourth quarter and full year for 2017 and 2018.

IBM's reported GAAP tax rate, which includes the charge, for the fourth quarter was 56 percent in 2018 compared with 124 percent in 2017; and for the full year was 23 percent compared with 49 percent in 2017.

IBM's operating (non-GAAP) earnings and tax rate for 2018 exclude the charges. IBM's reported operating (non-GAAP) tax rate for the fourth quarter was 12 percent in 2018 compared with 6 percent in 2017; and for the full year was 8 percent in 2018 compared with 7 percent in 2017.

### **Full-Year 2018 Results**

Consolidated diluted earnings per share from continuing operations was \$9.51 compared with \$6.14 for 2017, up 55 percent year to year. Consolidated net income was \$8.7 billion, up 52 percent. Revenues for the full year totaled \$79.6 billion, an increase of 1 percent year to year (flat year to year adjusting for currency), compared with \$79.1 billion for the full-year 2017.

Operating (non-GAAP) diluted earnings per share from continuing operations was \$13.81 compared with \$13.66 per diluted share for 2017, an increase of 1 percent. Operating (non-GAAP) net income for the full year was \$12.7 billion compared with \$12.8 billion in the year-ago period,

a decrease of 1 percent.

Strategic imperatives revenue for the full year was \$39.8 billion, up 9 percent. Full-year cloud revenue was \$19.2 billion, up 12 percent, with \$11.3 billion delivered as a service and \$7.8 billion for cloud-related hardware, software and services to enable IBM clients to implement cloud solutions across public, private and multi-cloud environments. The annual exit run rate for as-a-service revenue increased in the quarter to \$12.2 billion, up 18 percent (up 21 percent adjusting for currency).

#### FULL YEAR 2018

	Diluted	Net	Pre-tax	Pre-tax	Gross
	EPS	Income	Income	Income	Profit
				Margin	Margin
<b>GAAP from Continuing Operations *</b>	<b>\$9.51</b>	<b>\$8.7B</b>	<b>\$11.3B</b>	<b>14.3%</b>	<b>46.4%</b>
Year/Year	55%	51%	-1%	-0.2Pts	-0.3Pts
<b>Operating (Non-GAAP)</b>	<b>\$13.81</b>	<b>\$12.7B</b>	<b>\$13.7B</b>	<b>17.3%</b>	<b>46.9%</b>
Year/Year	1%	-1%	0%	-0.1Pts	-0.4Pts

\* Diluted EPS and Net Income include charges related to the U.S. Tax Cuts and Jobs Act of 2017 of \$2.0 billion in 2018, and \$5.5 billion in 2017.

#### Full-Year 2019 Expectations

The company expects GAAP diluted earnings per share of at least \$12.45, and operating (non-GAAP) diluted earnings per share of at least \$13.90. Operating (non-GAAP) diluted earnings per share 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.

IBM expects free cash flow of approximately \$12 billion, with a realization rate of approximately 100 percent of GAAP Net Income.

#### 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. EST, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/earnings/4q18.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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