

IBM Reports 2018 First-Quarter Results

Revenue Up 5 Percent Year to Year; Improving Gross Margin Trajectory

Highlights

- Revenue of \$19.1 billion, up 5 percent (flat adjusting for currency)
- Gross margin reflects broad-based improvement in year-to-year performance compared to fourth quarter
- GAAP EPS from continuing operations of \$1.81; Operating (non-GAAP) EPS of \$2.45, up 4 percent
- Strategic imperatives revenue of \$37.7 billion over last 12 months, up 12 percent (up 10 percent adjusting for currency); represents 47 percent of IBM revenue
- Cloud revenue of \$17.7 billion over last 12 months, up 22 percent (up 20 percent adjusting for currency)
- As-a-service annual exit run rate for cloud revenue of \$10.7 billion in the quarter, up 25 percent year to year (up 20 percent adjusting for currency)
- Maintains full-year operating (non-GAAP) EPS and free cash flow expectations

ARMONK, N.Y., April 17, 2018 . . . IBM (NYSE: [IBM](#)) today announced first-quarter results.

"In the first quarter we maintained momentum in our business, with reported revenue growth in total and across our major segments," said Ginni Rometty, IBM chairman, president and chief executive officer. "These results reinforce that our clients value our innovative technologies, our industry expertise and our commitment and actions for the responsible stewardship of their privacy and data. This is also reflected in our leadership positions in enterprise cloud, AI and security."

	FIRST QUARTER 2018			
	<u>Diluted</u> <u>EPS</u>	<u>Net Income</u>	<u>Pre-tax</u> <u>Income</u>	<u>Gross</u> <u>Profit</u> <u>Margin</u>
GAAP from Continuing Operations	\$1.81	\$1.7B	\$1.1B	43.2%
Year/Year	-2%	-4%	-20%	-0.5Pts
Operating (Non-GAAP)	\$2.45	\$2.3B	\$1.7B	43.7%
Year/Year (includes Significant Items)	4%	2%	-14%	-0.7Pts
Year/Year Impact of Significant Items	-4Pts *	-4Pts *	-21Pts **	-0.4Pts **
REVENUE	<u>Total</u> <u>IBM</u>	<u>Strategic</u> <u>Imperatives</u>	<u>Cloud</u>	<u>As-a-</u> <u>service</u> <u>annual</u> <u>exit run</u> <u>rate</u>
As reported (US\$)	\$19.1B	\$9.0B	\$4.2B	\$10.7B
Year/Year	5%	15%	20%	25%
Year/Year adjusting for currency	0%	10%	14%	20%

* Year-to-year impact of actions to continue to reposition the business and discrete

Year-to-year impact of actions to continue to reposition the business and discrete tax benefits

** Year-to-year impact of actions to continue to reposition the business

"The multi-year shift in our investment strategy is paying off as IBM leads in the emerging, high-value segments of the enterprise IT industry," said James Kavanaugh, IBM senior vice president and chief financial officer.

"Revenue, operating net income and free cash flow increased in the quarter, with broad-based improvement in our gross margin trajectory, as we continue to deliver shareholder value."

Significant Items Impacting Earnings Growth

For the first quarter of 2018, pre-tax income was \$1.1 billion and net income from continuing operations was \$1.7 billion. Operating (non-GAAP) pre-tax income was \$1.7 billion and operating (non-GAAP) net income was \$2.3 billion. The year-to-year decrease of 14 percent in operating (non-GAAP) pre-tax income includes a negative impact of 21 points from actions to continue to reposition the business. The year-to-year increase of 2 percent in operating (non-GAAP) net income includes a negative impact of 4 points from these actions and discrete tax benefits.

IBM's reported GAAP and operating (non-GAAP) tax rates for the first quarter include a \$0.8 billion discrete tax benefit. The company's reported GAAP tax rate also includes an additional provisional charge of \$0.1 billion as a result of guidance issued in January 2018 by the Internal Revenue Service related to the enactment of the Tax Cuts and Jobs Act in December 2017. This charge is in addition to the provisional charge of \$5.5 billion the company reported in its fourth-quarter 2017 earnings.

For the first quarter, IBM's ongoing GAAP and operating (non-GAAP) tax rates were approximately 14 percent and approximately 16 percent, respectively.

Strategic Imperatives Revenue

Strategic imperatives revenue over the last 12 months was \$37.7 billion, up 12 percent (up 10 percent adjusting for currency). Total cloud revenue over the last 12 months was \$17.7 billion, up 22 percent (up 20 percent adjusting for currency). The annual exit run rate for as-a-service revenue increased to \$10.7 billion, up 25 percent (up 20 percent adjusting for currency). In the first quarter of 2018, revenues from analytics increased 9 percent (up 4 percent adjusting for currency); revenues from mobile increased 19 percent (up 14 percent adjusting for currency); and revenues from security increased 65 percent (up 60 percent adjusting for currency).

Cash Flow and Balance Sheet

In the first quarter, the company generated net cash from operating activities of \$4.6 billion, or \$2.2 billion excluding Global Financing receivables. IBM's free cash flow was \$1.3 billion. IBM returned \$2.2 billion to shareholders through \$1.4 billion in dividends and \$0.8 billion in gross share repurchases. At the end of March 2018, IBM had \$3.0 billion remaining in the current share repurchase authorization.

IBM ended the first quarter of 2018 with \$13.2 billion of cash on hand. Debt totaled \$46.4 billion, including Global Financing debt of \$31.7 billion. The balance sheet remains strong and is well positioned over the long term.

Segment Results for First Quarter

- *Cognitive Solutions (includes solutions software and transaction processing software)* -- revenues of \$4.3

billion, up 6 percent (up 2 percent adjusting for currency), driven by solutions software, including security, analytics, and industry platforms; and transaction processing software.

- *Global Business Services (includes consulting, global process services and application management)* -- revenues of \$4.2 billion, up 4 percent (down 1 percent adjusting for currency). Strategic imperatives revenue grew 12 percent led by the cloud consulting practice, with double-digit growth in analytics and mobile.
- *Technology Services & Cloud Platforms (includes infrastructure services, technical support services and integration software)* -- revenues of \$8.6 billion, up 5 percent (down 1 percent adjusting for currency). Strategic imperatives revenue grew 24 percent, driven by hybrid cloud services, security and mobile.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$1.5 billion, up 8 percent (up 4 percent adjusting for currency) driven by growth in IBM Z and Power.
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$405 million, flat year to year (down 4 percent adjusting for currency).

Full-Year 2018 Expectations

The company continues to expect operating (non-GAAP) diluted earnings per share of at least \$13.80. The company expects GAAP diluted earnings per share of at least \$11.58. Operating (non-GAAP) diluted earnings per share exclude \$2.22 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges as well as ongoing impacts from the enactment of U.S. Tax Reform.

IBM continues to expect free cash flow of approximately \$12 billion, with a realization rate greater than 100 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/1q18.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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 [IBM Reports 2018 First-Quarter Results \(includes Financial Tables\)](#)

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