

IBM RELEASES FOURTH-QUARTER RESULTS

Revenue growth in all segments; Strong margin expansion and cash generation

ARMONK, N.Y., Jan. 24, 2024 /PRNewswire/ -- IBM (NYSE:IBM) today announced fourth-quarter 2023 earnings results.

"In the fourth quarter, we grew revenue in all of our segments, driven by continued adoption of our hybrid cloud and AI offerings. Client demand for AI is accelerating and our book of business for watsonx and generative AI roughly doubled from the third to the fourth quarter," said Arvind Krishna, IBM chairman and chief executive officer. "For the year, revenue growth was in line with our expectations, and we exceeded our free cash flow objective. Based on the strength of our portfolio and demonstrated track record of innovation, for 2024 we expect revenue performance in line with our mid-single digit model and about \$12 billion in free cash flow."

Fourth-Quarter Highlights

- Revenue
 - Revenue of \$17.4 billion, up 4 percent, up 3 percent at constant currency
 - Software revenue up 3 percent, up 2 percent at constant currency
 - Consulting revenue up 6 percent, up 5 percent at constant currency
 - Infrastructure revenue up 3 percent, up 2 percent at constant currency
- Profit Margin
 - Gross Profit Margin: GAAP: 59.1 percent, up 1.4 points; Operating (Non-GAAP): 60.1 percent, up 1.4 points
 - Pre-Tax Income Margin: GAAP: 21.6 percent, up 1.8 points; Operating (Non-GAAP): 24.0 percent, up 1.1 points

Full-Year Highlights

- Revenue of \$61.9 billion, up 2 percent, up 3 percent at constant currency
 - Software revenue up 5 percent
 - Consulting revenue up 5 percent, up 6 percent at constant currency
 - Infrastructure revenue down 5 percent, down 4 percent at constant currency
- Profit Margin
 - Gross Profit Margin: GAAP: 55.4 percent, up 1.4 points; Operating (Non-GAAP): 56.5 percent, up 1.3 points
 - Pre-Tax Income Margin: GAAP: 14.0 percent, up 12.1 points; Operating (Non-GAAP): 16.7 percent, up 0.4 points
- Cash Flow
 - Net cash from operating activities of \$13.9 billion, up \$3.5 billion; free cash flow of \$11.2 billion, up \$1.9 billion

Cash Flow and Balance Sheet

In the fourth quarter, the company generated net cash from operating activities of \$4.5 billion, up \$0.5 billion year to year. Net cash from operating activities excluding IBM Financing receivables was \$6.3 billion. IBM's free cash flow was \$6.1 billion, up \$0.9 billion year to year. The company returned \$1.5 billion to shareholders in dividends in the fourth quarter.

For the year, the company generated net cash from operating activities of \$13.9 billion, up \$3.5 billion year to year. Net cash from operating activities excluding IBM Financing receivables was \$12.7 billion. IBM's free cash flow was \$11.2 billion, up \$1.9 billion year to year.

IBM ended the fourth quarter with \$13.5 billion of cash and marketable securities, up \$4.6 billion from year-end 2022. Debt, including IBM Financing debt of \$11.9 billion, totaled \$56.5 billion, up \$5.6 billion since the end of 2022.

Full-Year 2023 Results

FULL-YEAR 2023 INCOME STATEMENT SUMMARY

| | | | | | Pre-tax | | Diluted |
|-------------------|--------------------|-----------|---------|-------------------|-------------------------|-------------------|---------------------|
| | | Gross | | Pre-tax | Income | Net | Earnings |
| | Revenue | Profit | Profit | Income | Margin | Income | Per Share |
| | | | Margin | | | | |
| GAAP from | | | | | | | |
| Continuing | | | | | | | |
| Operations | \$ 61.9 B | \$ 34.3 B | 55.4 % | \$ 8.7 B | 14.0 % | \$ 7.5 B | \$ 8.15 |
| Year/Year | 2 % ⁽¹⁾ | 5 % | 1.4 Pts | NM ⁽²⁾ | 12.1 Pts ⁽²⁾ | NM ⁽²⁾ | NM % ⁽²⁾ |
| <hr/> | | | | | | | |
| Operating | | | | | | | |
| (Non-GAAP) | | \$ 34.9 B | 56.5 % | \$ 10.3 B | 16.7 % | \$ 8.9 B | \$ 9.62 |
| Year/Year | | 5 % | 1.3 Pts | 5 % | 0.4 Pts | 7 % | 5 % |

(1) 3% at constant currency

(2) GAAP YTY results include the impact of a one-time, non-cash pension settlement charge related to the transfer of a portion of the company's U.S. defined benefit pension obligations and related plan assets to third-party insurers in third-quarter 2022.

Full-Year 2024 Expectations

- Revenue: The company expects constant currency revenue growth consistent with its mid-single digit model. At current foreign exchange rates, currency is expected to be about a one-point headwind to revenue growth
- Free cash flow: The company expects about \$12 billion in free cash flow

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; 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; 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; fluctuations in financial results; impact of local legal, economic, political, health and other conditions; the company's failure to meet growth and productivity objectives; ineffective internal controls; the company's use of accounting estimates; impairment of the company's goodwill or amortizable intangible assets; 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; reliance on third party distribution channels and ecosystems; cybersecurity and data privacy considerations; adverse effects related to climate change and environmental matters; tax matters; legal proceedings and investigatory risks; the company's pension plans; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; potential failure of the separation of Kyndryl Holdings, Inc. to qualify for tax-free treatment; 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 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 —

- adjusting for currency (i.e., at constant currency);
- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- free cash flow;
- net cash from operating activities excluding IBM Financing receivables;
- adjusted EBITDA.

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.

For watsonx and generative AI, book of business includes Software transactional revenue, SaaS Annual Contract Value and Consulting signings.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 5:00 p.m. ET, today. The Webcast may be accessed via a link at <https://www.ibm.com/investor/events/earnings-4q23>. 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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INTERNATIONAL BUSINESS MACHINES CORPORATION

COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

| | Three Months Ended | | Year Ended | |
|----------------------------|--------------------|---------------|---------------|---------------------|
| | December 31, | | December 31, | |
| | 2023 | 2022 | 2023 | 2022 ⁽¹⁾ |
| REVENUE BY SEGMENT | | | | |
| Software | \$ 7,514 | \$ 7,288 | \$ 26,308 | \$ 25,037 |
| Consulting | 5,048 | 4,770 | 19,985 | 19,107 |
| Infrastructure | 4,604 | 4,483 | 14,593 | 15,288 |
| Financing | 175 | 172 | 741 | 645 |
| Other | 41 | (22) | 233 | 453 |
| TOTAL REVENUE | 17,381 | 16,690 | 61,860 | 60,530 |
| GROSS PROFIT | 10,267 | 9,632 | 34,300 | 32,687 |
| GROSS PROFIT MARGIN | | | | |
| Software | 81.7 % | 81.2 % | 80.1 % | 79.6 % |
| Consulting | 27.7 % | 27.4 % | 26.6 % | 25.5 % |
| Infrastructure | 60.6 % | 54.9 % | 56.0 % | 52.8 % |
| Financing | 50.2 % | 47.1 % | 48.1 % | 38.3 % |

| | | | | |
|----------------------------------|--------|--------|--------|--------|
| TOTAL GROSS PROFIT MARGIN | 59.1 % | 57.7 % | 55.4 % | 54.0 % |
|----------------------------------|--------|--------|--------|--------|

EXPENSE AND OTHER INCOME

| | | | | |
|---|--------------|--------------|---------------|---------------|
| S,G&A | 4,791 | 4,765 | 19,003 | 18,609 |
| R,D&E | 1,748 | 1,604 | 6,775 | 6,567 |
| Intellectual property and custom development income | (242) | (245) | (860) | (663) |
| Other (income) and expense | (193) | (118) | (914) | 5,803 |
| Interest expense | 405 | 313 | 1,607 | 1,216 |
| TOTAL EXPENSE AND OTHER INCOME | <u>6,509</u> | <u>6,320</u> | <u>25,610</u> | <u>31,531</u> |

INCOME FROM CONTINUING OPERATIONS

| | | | | |
|---|----------|----------|----------|----------|
| BEFORE INCOME TAXES | 3,759 | 3,312 | 8,690 | 1,156 |
| Pre-tax margin | 21.6 % | 19.8 % | 14.0 % | 1.9 % |
| Provision for/(Benefit from) income taxes | 474 | 443 | 1,176 | (626) |
| Effective tax rate | 12.6 % | 13.4 % | 13.5 % | (54.2) % |
| INCOME FROM CONTINUING OPERATIONS | \$ 3,285 | \$ 2,869 | \$ 7,514 | \$ 1,783 |

DISCONTINUED OPERATIONS

| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Income/(loss) from discontinued operations, net of taxes | 3 | (159) | (12) | (143) |
| NET INCOME | <u>\$ 3,288</u> | <u>\$ 2,711</u> | <u>\$ 7,502</u> | <u>\$ 1,639</u> |

EARNINGS/(LOSS) PER SHARE OF COMMON STOCK

Assuming Dilution

| | | | | |
|-------------------------|----------------|----------------|----------------|----------------|
| Continuing Operations | \$ 3.54 | \$ 3.13 | \$ 8.15 | \$ 1.95 |
| Discontinued Operations | \$ 0.00 | \$ (0.17) | \$ (0.01) | \$ (0.16) |
| TOTAL | <u>\$ 3.55</u> | <u>\$ 2.96</u> | <u>\$ 8.14</u> | <u>\$ 1.80</u> |

Basic

| | | | | | | | | |
|-------------------------|----|------|----|--------|----|--------|----|--------|
| Continuing Operations | \$ | 3.59 | \$ | 3.17 | \$ | 8.25 | \$ | 1.97 |
| Discontinued Operations | \$ | 0.00 | \$ | (0.18) | \$ | (0.01) | \$ | (0.16) |
| TOTAL | \$ | 3.59 | \$ | 2.99 | \$ | 8.23 | \$ | 1.82 |

**WEIGHTED-AVERAGE NUMBER OF COMMON
SHARES OUTSTANDING (M's)**

| | | | | |
|-------------------|-------|-------|-------|-------|
| Assuming Dilution | 927.3 | 915.9 | 922.1 | 912.3 |
| Basic | 914.7 | 905.8 | 911.2 | 902.7 |

(1) Includes a one-time, non-cash, pre-tax pension settlement charge of \$5.9 billion (\$4.4 billion net of tax).

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

| (Dollars in Millions) | At | |
|--|----------------------|----------------------|
| | December 31, 2023 | December 31, 2022 |
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 13,068 | \$ 7,886 |
| Restricted cash | 21 | 103 |
| Marketable securities | 373 | 852 |
| Notes and accounts receivable - trade, net | 7,214 | 6,541 |
| Short-term financing receivables, net | 6,793 | 7,790 |
| Other accounts receivable, net | 640 | 817 |
| Inventories | 1,161 | 1,552 |
| Deferred costs | 998 | 967 |
| Prepaid expenses and other current assets | 2,639 | 2,611 |

| | | |
|--------------------------------------|-------------------|-------------------|
| Total Current Assets | 32,908 | 29,118 |
| Property, plant and equipment, net | 5,501 | 5,334 |
| Operating right-of-use assets, net | 3,220 | 2,878 |
| Long-term financing receivables, net | 5,766 | 5,806 |
| Prepaid pension assets | 7,506 | 8,236 |
| Deferred costs | 842 | 866 |
| Deferred taxes | 6,656 | 6,256 |
| Goodwill | 60,178 | 55,949 |
| Intangibles, net | 11,036 | 11,184 |
| Investments and sundry assets | 1,626 | 1,617 |
| Total Assets | \$ 135,241 | \$ 127,243 |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Taxes | \$ 2,270 | \$ 2,196 |
| Short-term debt | 6,426 | 4,760 |
| Accounts payable | 4,132 | 4,051 |
| Deferred income | 13,451 | 12,032 |
| Operating lease liabilities | 820 | 874 |
| Other liabilities | 7,022 | 7,592 |
| Total Current Liabilities | 34,122 | 31,505 |
| Long-term debt | 50,121 | 46,189 |
| Retirement related obligations | 10,808 | 9,596 |
| Deferred income | 3,533 | 3,499 |
| Operating lease liabilities | 2,568 | 2,190 |
| Other liabilities | 11,475 | 12,243 |
| Total Liabilities | 112,628 | 105,222 |

EQUITY:**IBM Stockholders' Equity:**

| | | |
|---|-------------------|-------------------|
| Common stock | 59,643 | 58,343 |
| Retained earnings | 151,276 | 149,825 |
| Treasury stock — at cost | (169,624) | (169,484) |
| Accumulated other comprehensive income/(loss) | (18,761) | (16,740) |
| Total IBM Stockholders' Equity | 22,533 | 21,944 |
| Noncontrolling interests | 80 | 77 |
| Total Equity | 22,613 | 22,021 |
| Total Liabilities and Equity | \$ 135,241 | \$ 127,243 |

INTERNATIONAL BUSINESS MACHINES CORPORATION**CASH FLOW ANALYSIS**

(Unaudited)

| (Dollars in Millions) | Three Months Ended | | Year Ended | |
|---|--------------------|-----------------|------------------|---------------------|
| | December 31, | | December 31, | |
| | 2023 | 2022 | 2023 | 2022 ⁽¹⁾ |
| Net Cash from Operations per GAAP | \$ 4,463 | \$ 3,965 | \$ 13,931 | \$ 10,435 |
| Less: change in IBM Financing receivables | (1,887) | (1,788) | 1,233 | (717) |
| Capital Expenditures, net | (263) | (544) | (1,488) | (1,860) |
| Free Cash Flow | 6,087 | 5,209 | 11,210 | 9,291 |
| Acquisitions | (137) | (1,329) | (5,082) | (2,348) |
| Divestitures | — | 1 | (4) | 1,272 |
| Dividends | (1,518) | (1,494) | (6,040) | (5,948) |
| Non-Financing Debt | (2,025) | (2,777) | 5,547 | 1,909 |

| | | | | |
|---|----|-------|---------|---------|
| Other (includes IBM Financing net receivables and debt) | 59 | (498) | (1,009) | (2,893) |
|---|----|-------|---------|---------|

Change in Cash, Cash Equivalents, Restricted Cash and Short-term

| | | | | | | | | |
|------------------------------|----|-------|----|-------|----|-------|----|-------|
| Marketable Securities | \$ | 2,466 | \$ | (888) | \$ | 4,622 | \$ | 1,283 |
|------------------------------|----|-------|----|-------|----|-------|----|-------|

(1) Includes immaterial cash flows from discontinued operations.

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW

(Unaudited)

| (Dollars in Millions) | Three Months Ended December 31, | | Year Ended December 31, | |
|--|------------------------------------|------------|----------------------------|---------------------|
| | 2023 | 2022 | 2023 | 2022 ⁽¹⁾ |
| Net Income from Operations | \$ 3,288 | \$ 2,711 | \$ 7,502 | \$ 1,639 |
| Pension Settlement Charge | - | - | - | 5,894 |
| Depreciation/Amortization of Intangibles | 1,152 | 1,137 | 4,395 | 4,802 |
| Stock-based Compensation | 291 | 248 | 1,133 | 987 |
| Operating assets and liabilities / Other, net ⁽²⁾ | 1,619 | 1,657 | (332) | (2,170) |
| IBM Financing A/R | (1,887) | (1,788) | 1,233 | (717) |
| Net Cash Provided by Operating Activities | \$ 4,463 | \$ 3,965 | \$ 13,931 | \$ 10,435 |
| Capital Expenditures, net of payments & proceeds | (263) | (544) | (1,488) | (1,860) |
| Divestitures, net of cash transferred | - | 1 | (4) | 1,272 |
| Acquisitions, net of cash acquired | (137) | (1,329) | (5,082) | (2,348) |
| Marketable Securities / Other Investments, net | 3,236 | 553 | (496) | (1,265) |
| Net Cash Provided by/(Used in) Investing Activities | \$ 2,837 | \$ (1,318) | \$ (7,070) | \$ (4,202) |
| Debt, net of payments & proceeds | (122) | (1,350) | 4,497 | 1,221 |
| Dividends | (1,518) | (1,494) | (6,040) | (5,948) |

| | | | | | | | | |
|---|-----------|----------------|-----------|----------------|-----------|----------------|-----------|----------------|
| Financing - Other | | 26 | | (8) | | (226) | | (231) |
| Net Cash Provided by/(Used in) Financing Activities | \$ | (1,615) | \$ | (2,852) | \$ | (1,769) | \$ | (4,958) |
| Effect of Exchange Rate changes on Cash | | 128 | | 219 | | 9 | | (244) |
| Net Change in Cash, Cash Equivalents and Restricted Cash | \$ | 5,814 | \$ | 13 | \$ | 5,101 | \$ | 1,032 |

(1) Includes immaterial cash flows from discontinued operations.

(2) Full-year 2022 includes a \$1.5 billion tax effect associated with the one-time, non-cash, pension settlement charge.

INTERNATIONAL BUSINESS MACHINES CORPORATION
GAAP NET INCOME TO ADJUSTED EBITDA RECONCILIATION

(Unaudited)

| (Dollars in Billions) | Three Months Ended | | | Year Ended | | |
|---|--------------------|---------------|---------------|---------------|---------------|---------------|
| | December 31, | | | December 31, | | |
| | 2023 | 2022 | Yr/Yr | 2023 | 2022 | Yr/Yr |
| Net Income as reported (GAAP) | \$ 3.3 | \$ 2.7 | \$ 0.6 | \$ 7.5 | \$ 1.6 | \$ 5.9 |
| Less: Income/(loss) from discontinued operations, net of tax | 0.0 | (0.2) | 0.2 | 0.0 | (0.1) | 0.1 |
| Income from continuing operations | 3.3 | 2.9 | 0.4 | 7.5 | 1.8 | 5.7 |
| Provision for/(Benefit from) income taxes from continuing ops. | 0.5 | 0.4 | 0.0 | 1.2 | (0.6) | 1.8 |
| Pre-tax income from continuing operations (GAAP) | 3.8 | 3.3 | 0.4 | 8.7 | 1.2 | 7.5 |
| Non-operating adjustments (before tax) | | | | | | |
| Acquisition-related charges ⁽¹⁾ | 0.4 | 0.4 | 0.0 | 1.7 | 1.8 | (0.1) |
| Non-operating retirement-related costs/(income) ⁽²⁾ | 0.0 | 0.1 | (0.1) | 0.0 | 6.5 | (6.6) |
| Kyndryl-related impacts | — | 0.0 | 0.0 | — | 0.4 | (0.4) |
| Operating (non-GAAP) pre-tax income from continuing ops. | 4.2 | 3.8 | 0.3 | 10.3 | 9.8 | 0.5 |
| Net interest expense | 0.3 | 0.2 | 0.0 | 0.9 | 1.1 | (0.1) |

| | | | | | | |
|---|---------------|---------------|---------------|----------------|----------------|---------------|
| Depreciation/Amortization of non-acquired intangible assets | 0.7 | 0.7 | 0.0 | 2.8 | 3.1 | (0.3) |
| Stock-based compensation | 0.3 | 0.2 | 0.0 | 1.1 | 1.0 | 0.1 |
| Workforce rebalancing charges | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.4 |
| Corporate (gains) and charges ⁽³⁾ | 0.0 | 0.0 | 0.0 | (0.1) | (0.3) | 0.3 |
| Adjusted EBITDA | \$ 5.5 | \$ 5.0 | \$ 0.4 | \$ 15.5 | \$ 14.6 | \$ 0.9 |

(1) Primarily consists of amortization of acquired intangible assets.

(2) Full-year 2022 includes a one-time, non-cash, pre-tax pension settlement charge of \$5.9 billion.

(3) Corporate (gains) and charges primarily consists of unique corporate actions such as gains on divestitures.

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

Three Months Ended December 31, 2023

| (Dollars in Millions) | Software | Consulting | Infrastructure | Financing |
|--|----------|------------|----------------|-----------|
| Revenue | \$ 7,514 | \$ 5,048 | \$ 4,604 | \$ 175 |
| Pre-tax Income from Continuing Operations ⁽¹⁾ | \$ 2,417 | \$ 582 | \$ 1,185 | \$ 117 |
| Pre-tax Margin ⁽¹⁾ | 32.2 % | 11.5 % | 25.7 % | 67.3 % |
| Change YTY Revenue | 3.1 % | 5.8 % | 2.7 % | 1.8 % |
| Change YTY Revenue - Constant Currency | 2.0 % | 5.5 % | 2.0 % | 0.3 % |

Three Months Ended December 31, 2022

| (Dollars in Millions) | Software | Consulting | Infrastructure | Financing |
|-----------------------|----------|------------|----------------|-----------|
| Revenue | \$ 7,288 | \$ 4,770 | \$ 4,483 | \$ 172 |

| | | | | | | |
|--|--------|----|--------|--------|----|--------|
| | \$ | | \$ | | \$ | |
| Pre-tax Income from Continuing Operations | 2,347 | \$ | 523 | 1,026 | \$ | 75 |
| Pre-tax Margin | 32.2 % | | 11.0 % | 22.9 % | | 43.6 % |

(1) The fourth-quarter 2023 pre-tax charge of approximately \$0.03 billion for workforce rebalancing is not included in the measure of segment pre-tax income, consistent with the company's management system.

Year Ended December 31, 2023

| (Dollars in Millions) | Software | Consulting | Infrastructure | Financing |
|--|-----------|------------|----------------|-----------|
| Revenue | \$ 26,308 | \$ 19,985 | \$ 14,593 | \$ 741 |
| Pre-tax Income from Continuing Operations⁽¹⁾ | \$ 6,571 | \$ 1,918 | \$ 2,421 | \$ 374 |
| Pre-tax Margin⁽¹⁾ | 25.0 % | 9.6 % | 16.6 % | 50.5 % |
| Change YTY Revenue | 5.1 % | 4.6 % | (4.5) % | 14.8 % |
| Change YTY Revenue - Constant Currency | 5.2 % | 6.1 % | (3.9) % | 15.0 % |

Year Ended December 31, 2022

| (Dollars in Millions) | Software | Consulting | Infrastructure | Financing |
|--|-----------|------------|----------------|-----------|
| Revenue | \$ 25,037 | \$ 19,107 | \$ 15,288 | \$ 645 |
| Pre-tax Income from Continuing Operations | \$ 6,162 | \$ 1,677 | \$ 2,262 | \$ 340 |
| Pre-tax Margin | 24.6 % | 8.8 % | 14.8 % | 52.6 % |

(1) The full-year 2023 pre-tax charge of approximately \$0.4 billion for workforce rebalancing is not included in the measure of segment pre-tax income, consistent with the company's management system.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING (Non-GAAP) RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

Three Months Ended December 31, 2023

Continuing Operations

| | GAAP | Acquisition- Related Adjustments ⁽¹⁾ | Retirement- Related Adjustments ⁽²⁾ | Tax Reform Impacts | Kyndryl- Related Impacts | Operating (Non- GAAP) |
|---|-----------|---|--|--------------------------|--------------------------------|-----------------------------|
| Gross Profit | \$ 10,267 | \$ 172 | \$ — | \$ — | \$ — | \$ 10,439 |
| Gross Profit Margin | 59.1 % | 1.0 pts. | — pts. | — pts. | — pts. | 60.1 % |
| S,G&A | \$ 4,791 | \$ (271) | \$ — | \$ — | \$ — | \$ 4,520 |
| Other (Income) & Expense | (193) | 12 | 22 | — | — | (159) |
| Total Expense & Other (Income) | 6,509 | (259) | 22 | — | — | 6,272 |
| Pre-tax Income from Continuing Operations | 3,759 | 431 | (22) | — | — | 4,167 |
| Pre-tax Income Margin from Continuing Operations | 21.6 % | 2.5 pts. | (0.1) pts. | — pts. | — pts. | 24.0 % |
| Provision for/(Benefit from) Income Taxes ⁽⁴⁾ | \$ 474 | \$ 91 | \$ 19 | \$ (4) | \$ — | \$ 580 |
| Effective Tax Rate | 12.6 % | 0.9 pts. | 0.5 pts. | (0.1) pts. | — pts. | 13.9 % |
| Income from Continuing Operations | \$ 3,285 | \$ 339 | \$ (41) | \$ 4 | \$ — | \$ 3,587 |
| Income Margin from Continuing Operations | 18.9 % | 2.0 pts. | (0.2) pts. | 0.0 pts. | — pts. | 20.6 % |
| Diluted Earnings Per Share: Continuing Operations | \$ 3.54 | \$ 0.37 | \$ (0.04) | \$ 0.00 | \$ — | \$ 3.87 |

Three Months Ended December 31, 2022

Continuing Operations

| | Acquisition- Related GAAP | Acquisition- Related Adjustments ⁽¹⁾ | Retirement- Related Adjustments ⁽²⁾ | Tax Reform Impacts | Kyndryl- Related Impacts ⁽³⁾ | Operating (Non- GAAP) |
|---|---------------------------------|---|--|--------------------------|---|-----------------------------|
| Gross Profit | \$ 9,632 | \$ 156 | \$ — | \$ — | \$ — | \$ 9,788 |
| Gross Profit Margin | 57.7 % | 0.9 pts. | — pts. | — pts. | — pts. | 58.6 % |
| S,G&A | \$ 4,765 | \$ (262) | \$ — | \$ — | \$ 0 | \$ 4,503 |
| Other (Income) & Expense | (118) | (1) | (93) | — | 2 | (210) |
| Total Expense & Other (Income) | 6,320 | (263) | (93) | — | 2 | 5,965 |
| Pre-tax Income from Continuing Operations | 3,312 | 419 | 93 | — | (2) | 3,823 |
| Pre-tax Income Margin from Continuing Operations | 19.8 % | 2.5 pts. | 0.6 pts. | — pts. | 0.0 pts. | 22.9 % |
| Provision for/(Benefit from) Income Taxes ⁽⁴⁾ | \$ 443 | \$ 109 | \$ 16 | \$ (42) | \$ — | \$ 526 |
| Effective Tax Rate | 13.4 % | 1.4 pts. | 0.1 pts. | (1.1) pts. | 0.0 pts. | 13.8 % |
| Income from Continuing Operations | \$ 2,869 | \$ 310 | \$ 77 | \$ 42 | \$ (2) | \$ 3,296 |
| Income Margin from Continuing Operations | 17.2 % | 1.9 pts. | 0.5 pts. | 0.3 pts. | 0.0 pts. | 19.8 % |
| Diluted Earnings Per Share: Continuing Operations | \$ 3.13 | \$ 0.34 | \$ 0.08 | \$ 0.05 | \$ 0.00 | \$ 3.60 |

(1) Includes amortization of purchased intangible assets, in process R&D, transaction costs, applicable restructuring and related expenses, tax charges related to acquisition integration and pre-closing charges, such as financing costs. 2023 also includes a gain of \$12 million on foreign exchange call option contracts related to the company's planned acquisition of StreamSets and webMethods from Software AG.

(2) Includes amortization of prior service costs, interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements and pension insolvency costs and other costs.

(3) Primarily relates to fair value changes in shares of Kyndryl common stock that were retained by IBM and the related cash-settled swap.

(4) Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the As Reported pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING (Non-GAAP) RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

Year Ended December 31, 2023

Continuing Operations

| | GAAP | Acquisition- Related Adjustments ⁽¹⁾ | Retirement- Related Adjustments ⁽²⁾ | Tax Reform Impacts | Kyndryl- Related Impacts | Operating (Non- GAAP) |
|---|-----------|---|--|--------------------------|--------------------------------|-----------------------------|
| Gross Profit | \$ 34,300 | \$ 631 | \$ — | \$ — | \$ — | \$ 34,931 |
| Gross Profit Margin | 55.4 % | 1.0 pts. | — pts. | — pts. | — pts. | 56.5 % |
| S,G&A | \$ 19,003 | \$ (1,039) | \$ — | \$ — | \$ — | \$ 17,964 |
| Other (Income) & Expense | (914) | 10 | 39 | — | — | (866) |
| Total Expense & Other (Income) | 25,610 | (1,029) | 39 | — | — | 24,620 |
| Pre-tax Income from Continuing Operations | 8,690 | 1,660 | (39) | — | — | 10,311 |
| Pre-tax Income Margin from Continuing Operations | 14.0 % | 2.7 pts. | (0.1) pts. | — pts. | — pts. | 16.7 % |
| Provision for/(Benefit from) Income Taxes ⁽⁴⁾ | \$ 1,176 | \$ 368 | \$ (8) | \$ (95) | \$ — | \$ 1,441 |
| Effective Tax Rate | 13.5 % | 1.4 pts. | 0.0 pts. | (0.9) pts. | — pts. | 14.0 % |
| Income from Continuing Operations | \$ 7,514 | \$ 1,292 | \$ (30) | \$ 95 | \$ — | \$ 8,870 |
| Income Margin from Continuing Operations | 12.1 % | 2.1 pts. | 0.0 pts. | 0.2 pts. | — pts. | 14.3 % |
| Diluted Earnings Per Share: Continuing Operations | \$ 8.15 | \$ 1.40 | \$ (0.03) | \$ 0.10 | \$ — | \$ 9.62 |

Year Ended December 31, 2022

Continuing Operations

| | Acquisition- Related | | Retirement- Related | | Tax Reform | Kyndryl- Related | Operating (Non- GAAP) |
|---|-------------------------|----------------------------|----------------------------|------------|---------------|------------------------|-----------------------------|
| | GAAP | Adjustments ⁽¹⁾ | Adjustments ⁽²⁾ | | Impacts | Impacts ⁽³⁾ | |
| Gross Profit | \$ 32,687 | \$ 682 | \$ — | \$ — | \$ — | \$ — | \$ 33,370 |
| Gross Profit Margin | 54.0 % | 1.1 pts. | — pts. | — pts. | — pts. | — pts. | 55.1 % |
| S,G&A | \$ 18,609 | \$ (1,080) | \$ — | \$ — | \$ — | \$ 0 | \$ 17,529 |
| Other (Income) & Expense | 5,803 | (3) | (6,548) | — | — | (351) | (1,099) |
| Total Expense & Other (Income) | 31,531 | (1,083) | (6,548) | — | — | (351) | 23,549 |
| Pre-tax Income from Continuing Operations | 1,156 | 1,765 | 6,548 | — | — | 351 | 9,821 |
| Pre-tax Income Margin from Continuing Operations | 1.9 % | 2.9 pts. | 10.8 pts. | — pts. | — pts. | 0.6 pts. | 16.2 % |
| Provision for/(Benefit from) Income Taxes ⁽⁴⁾ | \$ (626) | \$ 436 | \$ 1,615 | \$ 70 | \$ — | \$ — | \$ 1,495 |
| Effective Tax Rate | (54.2) % | 14.2 pts. | 52.6 pts. | 0.7 pts. | — | 1.9 pts. | 15.2 % |
| Income from Continuing Operations | \$ 1,783 | \$ 1,329 | \$ 4,933 | \$ (70) | \$ — | \$ 351 | \$ 8,326 |
| Income Margin from Continuing Operations | 2.9 % | 2.2 pts. | 8.1 pts. | (0.1) pts. | — | 0.6 pts. | 13.8 % |
| Diluted Earnings Per Share: Continuing Operations | \$ 1.95 | \$ 1.46 | \$ 5.41 | \$ (0.08) | \$ — | \$ 0.38 | \$ 9.13 |

(1) Includes amortization of purchased intangible assets, in process R&D, transaction costs, applicable restructuring and related expenses, tax charges related to acquisition integration and pre-closing charges, such as financing costs. 2023 also includes a gain of \$12 million on foreign exchange call option contracts related to the company's planned acquisition of StreamSets and webMethods from Software AG.

(2) Includes amortization of prior service costs, interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements and pension insolvency costs and other costs. 2022 also includes a one-time, non-cash, pre-tax pension settlement charge of \$5.9 billion (\$4.4 billion net of tax).

(3) Primarily relates to fair value changes in shares of Kyndryl common stock that were retained by IBM and the related cash-settled swap.

(4) Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the As Reported pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

INTERNATIONAL BUSINESS MACHINES CORPORATION

GAAP OPERATING CASH FLOW TO ADJUSTED EBITDA RECONCILIATION

(Unaudited)

| (Dollars in Billions) | Three Months | | Year Ended | |
|---|--------------|--------------|--------------|---------|
| | Ended | | December 31, | |
| | December 31, | December 31, | 2023 | 2022 |
| | 2023 | 2022 | 2023 | 2022 |
| Net Cash Provided by Operating Activities | \$ 4.5 | \$ 4.0 | \$ 13.9 | \$ 10.4 |
| Add: | | | | |
| Net interest expense | 0.3 | 0.2 | 0.9 | 1.1 |
| Provision for / (Benefit from) income taxes from continuing operations ⁽¹⁾ | 0.5 | 0.4 | 1.2 | (0.6) |
| Less change in: | | | | |
| Financing receivables | (1.9) | (1.8) | 1.2 | (0.7) |
| Other assets and liabilities / Other, net ⁽¹⁾⁽²⁾ | 1.6 | 1.4 | (0.7) | (3.1) |
| Adjusted EBITDA | \$ 5.5 | \$ 5.0 | \$ 15.5 | \$ 14.6 |

(1) Full-year 2022 includes a \$1.5 billion tax effect associated with the one-time, non-cash pension settlement charge.

(2) Other assets and liabilities / Other, net mainly consists of Operating assets and liabilities / Other, net in the Cash flow chart, workforce rebalancing charges, non-operating impacts and corporate (gains) and charges.

<https://stage.mediaroom.com/ibmnewsroom/2024-01-24-IBM-RELEASES-FOURTH-QUARTER-RESULTS>