

IBM Reports 2017 Third-Quarter Results

ARMONK, N.Y. - 17 Oct 2017:

Highlights

- Diluted EPS from continuing operations: GAAP of \$2.92; Operating (non-GAAP) of \$3.30
- Revenue of \$19.2 billion
- Strategic imperatives revenue of \$34.9 billion over the trailing 12 months, up 10 percent; represents 45 percent of IBM revenue
 - Third-quarter revenue up 11 percent (up 10 percent adjusting for currency)
- Cloud revenue of \$15.8 billion over the trailing 12 months, up 25 percent year to year (up 26 percent adjusting for currency)
 - As-a-service annual exit run rate of \$9.4 billion in the quarter, up 25 percent year to year (up 24 percent adjusting for currency)
- Maintains full-year EPS and free cash flow expectations

IBM (NYSE: [IBM](#)) today announced third-quarter earnings results.

"In the third quarter we achieved double-digit growth in our strategic imperatives, extended our enterprise cloud leadership, and expanded our cognitive solutions business," said Ginni Rometty, IBM chairman, president and chief executive officer.

"There was enthusiastic adoption of IBM's new z Systems mainframe, which delivers breakthrough security capabilities to our clients."

	THIRD QUARTER			
	2017			
	Diluted EPS	Net Income	Gross Profit Margin	
GAAP from Continuing Operations	\$2.92	\$2.7B	45.9%	
Year/Year	-2%	-4%	-0.9Pts	
Operating (Non- GAAP)	\$3.30	\$3.1B	47.6%	
Year/Year	0%	-2%	-0.4Pts	
REVENUE	Total IBM	Strategic Imperatives	Cloud	As-a-service annual exit run rate
As reported (US\$)	\$19.2B	\$8.8B	\$4.1B	\$9.4B
Year/Year	0%	11%	20%	25%
Year/Year adjusting for currency	-1%	10%	20%	24%

"During the first three quarters of the year, our strong free cash flow has enabled us to maintain our R&D investments and to expand IBM's cloud and cognitive capabilities through capital investments," said Martin Schroeter, IBM senior vice president and chief financial officer. "In addition, we have returned nearly \$8 billion to shareholders through dividends and share repurchases."

Strategic Imperatives Revenue

Third-quarter cloud revenues increased 20 percent to \$4.1 billion. Cloud revenue over the last 12 months was \$15.8 billion, including \$8.8 billion delivered as-a-service and \$7.0 billion for hardware, software and services to enable IBM clients to implement comprehensive cloud solutions. The annual exit run rate for as-a-service revenue increased to \$9.4 billion from \$7.5 billion in the third quarter of 2016. In the quarter, revenues from analytics increased 5 percent. Revenues from mobile increased 7 percent and revenues from security increased 51 percent (up 49 percent adjusting for currency).

Full-Year 2017 Expectations

The company continues to expect operating (non-GAAP) diluted earnings per share of at least \$13.80 and GAAP diluted earnings per share of at least \$11.95. Operating (non-GAAP) diluted earnings per share exclude \$1.85 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges. IBM continues to expect free cash flow to be relatively flat year to year.

Cash Flow and Balance Sheet

In the third quarter, the company generated net cash from operating activities of \$3.6 billion, or \$3.3 billion excluding Global Financing receivables. IBM's free cash flow was \$2.5 billion. IBM returned \$1.4 billion in dividends and \$0.9 billion of gross share repurchases to shareholders. At the end of September 2017, IBM had \$1.5 billion remaining in the current share repurchase authorization.

IBM ended the third quarter of 2017 with \$11.5 billion of cash on hand. Debt totaled \$45.6 billion, including Global Financing debt of \$29.4 billion. The balance sheet remains strong and is well positioned over the long term.

Segment Results for Third Quarter

- *Cognitive Solutions (includes solutions software and transaction processing software)* --revenues of \$4.4 billion, up 4 percent (up 3 percent adjusting for currency), driven by solutions software, including security and analytics, and transaction processing software.
- *Global Business Services (includes consulting, global process services and application management)* --revenues of \$4.1 billion, down 2 percent. Strategic imperatives revenue grew 10 percent led by the cloud practice.
- *Technology Services & Cloud Platforms (includes infrastructure services, technical support services and integration software)* -- revenues of \$8.5 billion, down 3 percent (down 4 percent adjusting for currency). Strategic imperatives revenue grew 12 percent, driven by hybrid cloud services, security and mobile.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$1.7 billion, up 10 percent, driven by growth in z Systems and storage.
- *Global Financing (includes financing and used equipment sales)* --revenues of \$427 million, up 4 percent (up 3 percent adjusting for currency).

Expense and Other Income

Third-quarter GAAP expense and other income year-to-year performance reflects lower IP income of \$221 million, an impact of \$105 million year to year related to several commercial disputes and a benefit of \$91 million resulting from the favorable resolution of pension-related litigation in the U.K.

Operating (non-GAAP) expense and other income for the third quarter of 2017 compared to 2016 reflects lower IP income of \$221 million and an impact of \$105 million year to year related to several commercial disputes.

Tax Rate

IBM's third-quarter effective GAAP and operating (non-GAAP) tax rates were 11.0 percent and 14.7 percent, respectively. The company continues to expect a full-year effective operating (non-GAAP) tax rate of 15 percent, plus or minus 3 points,

excluding discrete items.

Year-To-Date 2017 Results

Consolidated diluted earnings per share were \$7.24 compared to \$7.67, down 6 percent year to year. Consolidated net income was \$6.8 billion compared to \$7.4 billion in the year-ago period, a decrease of 8 percent. Revenues from continuing operations for the nine-month period totaled \$56.6 billion, a decrease of 3 percent year to year (decrease of 2 percent adjusting for currency) compared with \$58.1 billion for the first nine months of 2016.

Operating (non-GAAP) diluted earnings per share from continuing operations were \$8.64 compared with \$8.59 per diluted share for the 2016 period, an increase of 1 percent. Operating (non-GAAP) net income for the nine months ended September 30, 2017 was \$8.1 billion compared with \$8.3 billion in the year-ago period, a decrease of 2 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; 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 personnel 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/3q17.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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