

IBM Reports 2017 Fourth-Quarter and Full-Year Results

Armonk, NY - 18 Jan 2018: Highlights

- Fourth-quarter GAAP EPS from continuing operations of \$(1.14)
 - Includes a one-time charge of \$5.5 billion associated with the enactment of U.S. tax reform
- Fourth-quarter operating (non-GAAP) EPS of \$5.18
 - Excludes the one-time charge of \$5.5 billion associated with the enactment of U.S. tax reform
 - Consistent with the basis of previously-provided 2017 expectations
- Fourth-quarter revenue of \$22.5 billion, up 4 percent (up 1 percent adjusting for currency)
- Full-year strategic imperatives revenue of \$36.5 billion, up 11 percent; represents 46 percent of IBM revenue
 - Fourth-quarter strategic imperatives revenue up 17 percent (up 14 percent adjusting for currency)
- Full-year cloud revenue of \$17.0 billion, up 24 percent year to year
 - As-a-service annual exit run rate of \$10.3 billion in the quarter, up 20 percent year to year (up 18 percent adjusting for currency)

IBM (NYSE: [IBM](#)) today announced fourth-quarter and full-year 2017 earnings results.

"Our strategic imperatives revenue again grew at a double-digit rate and now represents 46 percent of our total revenue, and we are pleased with our overall revenue growth in the quarter," said Ginni Rometty, IBM chairman, president and chief executive officer. "During 2017, we strengthened our position as the leading enterprise cloud provider and established IBM as the blockchain leader for business. Looking ahead, we are uniquely positioned to help clients use data and AI to build smarter businesses."

FOURTH QUARTER 2017

	Diluted Net Income EPS	(Loss)	Gross Profit Margin	
GAAP from Continuing Operations	\$(1.14)	\$(1.1B) *	48.2%	
Year/Year	-124% *	-123% *	-1.9Pts	
Operating (Non- GAAP)	\$5.18	\$4.8B	49.5%	
Year/Year	3%	1%	-1.4Pts	
REVENUE	Total IBM	Strategic Imperatives	Cloud	As-a-service annual exit run rate
As reported (US\$)	\$22.5B	\$11.1B	\$5.5B	\$10.3B
Year/Year	4%	17%	30%	20%
Year/Year adjusting for currency	1%	14%	27%	18%

* Includes a one-time charge of \$5.5 billion associated with the enactment of U.S. tax reform.

"Over the past several years we have invested aggressively in technology and our people to reposition IBM," said James

Kavanaugh, IBM senior vice president and chief financial officer. "2018 will be all about reinforcing IBM's leadership position in key high-value segments of the IT industry, including cloud, AI, security and blockchain."

Strategic Imperatives Revenue

Fourth-quarter cloud revenues increased 30 percent to \$5.5 billion (up 27 percent adjusting for currency). Cloud revenue over the last 12 months was \$17.0 billion, including \$9.3 billion delivered as-a-service and \$7.8 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 \$10.3 billion from \$8.6 billion in the fourth quarter of 2016. In the quarter, revenues from analytics increased 9 percent (up 6 percent adjusting for currency). Revenues from mobile increased 23 percent (up 21 percent adjusting for currency) and revenues from security increased 132 percent (up 127 percent adjusting for currency).

Full-Year 2018 Expectations

The company will discuss 2018 expectations during today's quarterly earnings conference call.

Cash Flow and Balance Sheet

In the fourth quarter, the company generated net cash from operating activities of \$5.7 billion, or \$7.8 billion excluding Global Financing receivables. IBM's free cash flow was \$6.8 billion. IBM returned \$1.4 billion in dividends and \$0.7 billion of gross share repurchases to shareholders. At the end of December 2017, IBM had \$3.8 billion remaining in the current share repurchase authorization.

The company generated full-year free cash flow of \$13.0 billion, excluding Global Financing receivables. The company returned \$9.8 billion to shareholders through \$5.5 billion in dividends and \$4.3 billion of gross share repurchases.

IBM ended the fourth quarter of 2017 with \$12.6 billion of cash on hand. Debt totaled \$46.8 billion, including Global Financing debt of \$31.4 billion. The balance sheet remains strong and is well positioned over the long term.

Segment Results for Fourth Quarter

- *Cognitive Solutions (includes solutions software and transaction processing software)* --revenues of \$5.4 billion, up 3 percent (flat adjusting for currency), driven by security and transaction processing software.
- *Global Business Services (includes consulting, global process services and application management)* --revenues of \$4.2 billion, up 1 percent (down 2 percent adjusting for currency). Strategic imperatives revenue grew 9 percent led by the cloud practice, mobile and analytics.
- *Technology Services & Cloud Platforms (includes infrastructure services, technical support services and integration software)* -- revenues of \$9.2 billion, down 1 percent (down 4 percent adjusting for currency). Strategic imperatives revenue grew 15 percent, driven by hybrid cloud services, security and mobile.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$3.3 billion, up 32 percent (up 28 percent adjusting for currency) driven by growth in IBM Z, Power Systems and storage.
- *Global Financing (includes financing and used equipment sales)* --revenues of \$450 million, up 1 percent (down 2 percent adjusting for currency).

Tax Rate

The enactment of the Tax Cuts and Jobs Act in December 2017 resulted in a one-time charge of \$5.5 billion in the fourth quarter. The charge encompasses several elements, including a tax on accumulated overseas profits and the revaluation of deferred tax assets and liabilities. As a result, IBM's reported GAAP tax rate, which includes the one-time charge, was 124 percent for the fourth quarter, and 49 percent for the full year. IBM's operating (non-GAAP) tax rate, which excludes the one-time charge, was 6 percent for the fourth quarter; and 7 percent for the full year, which includes the effect of discrete tax

benefits in the first and second quarters. Without discrete tax items, the full-year operating (non-GAAP) tax rate was 12 percent, at the low end of the company's previously estimated range.

Full-Year Results

- Full-year GAAP EPS from continuing operations of \$6.14
 - Includes a one-time charge of \$5.5 billion associated with the enactment of U.S. tax reform
- Full-year operating (non-GAAP) EPS of \$13.80
 - Excludes the one-time charge of \$5.5 billion associated with the enactment of U.S. tax reform
- Full-year revenue of \$79.1 billion, down 1 percent

FULL YEAR 2017

	Diluted EPS	Net Income	Gross Profit Margin	
GAAP from Continuing Operations	\$6.14 *	\$5.8B *	45.8%	
Year/Year	-50% *	-52% *	-2.1Pts	
Operating (Non-GAAP)	\$13.80	\$12.9B	47.4%	
Year/Year	2%	-1%	-1.6Pts	
REVENUE	Total IBM	Strategic Imperatives	Cloud	As-a-service annual exit run rate
As reported (US\$)	\$79.1B	\$36.5B	\$17.0B	\$10.3B
Year/Year	-1%	11%	24%	20%
Year/Year adjusting for currency	-1%	11%	24%	18%

* Includes a one-time charge of \$5.5 billion associated with the enactment of U.S. tax reform.

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. EST, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/earnings/4q17.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).

Contact(s) information

Ian Colley

IBM

1 (914) 434-3043

colley@us.ibm.com

John Bukovinky

IBM

1 (732) 618-3531

jbuko@us.ibm.com

 [Download PDF](#)
(62 KB)
