

IBM FQ1 2024 EARNINGS

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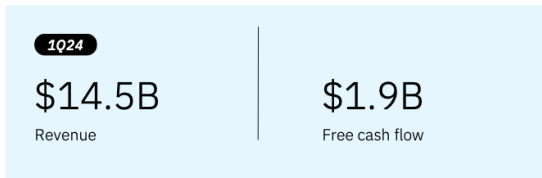
CONTEXT

IBM's fiscal Q1 2024 earnings show a steady trajectory of growth as IBM successfully executes its strategic shift towards hybrid cloud and AI. The technology giant's software and consulting segments led the charge, driving revenue increases and demonstrating the ongoing success of IBM's focus on enterprise solutions.

FINANCIAL PERFORMANCE

IBM's financial performance during the first quarter reflected a strong start to the year with solid revenue growth and significant cash flow generation.

Financial highlights



"In the quarter we continued to focus on the fundamentals of our business, growing revenue, expanding operating margins, improving profit performance and increasing productivity and operating leverage.

These fundamentals, combined with our strong cash generation, position us to invest both organically and through strategic acquisitions like today's announcement with HashiCorp. At the same time, we continue to return value to shareholders through our dividend."

James Kavanaugh
IBM SVP & CFO

Revenue growth rates @CC

3%
Revenue growth

\$0.6B
Free cash flow yr/yr

>75%
Revenue mix in software and consulting

100bps
Gross margin expansion (operating)

\$19.3B
Cash and marketable securities

130bps
Pre-tax margin expansion (operating)

Here's a summary of the key financial highlights:

- **Revenue:** IBM generated \$14.5 billion in revenue during the quarter, up 3% compared to last year. Software and infrastructure were the primary drivers of this growth while consulting revenue grew more modestly.

- **Adjusted EBITDA:** The company reported \$3 billion in adjusted EBITDA.
- **Operating Pretax Income and Earnings Per Share:** IBM's pretax income reached \$1.7 billion while operating EPS was \$1.68.
- **Free Cash Flow:** The company's free cash flow for the quarter was \$1.9 billion, approximately \$600 million higher than last year. This marked IBM's strongest first-quarter cash flow performance in many years.
- **Operating Margins:** IBM expanded its operating gross margin by 100 basis points and its operating pretax margin by 130 basis points, despite facing currency headwinds.
- **Segment Performance:**
 - **Software:** The software segment grew by 6%, driven by hybrid platforms and solutions and transaction processing. Red Hat, a key component of IBM's software portfolio, saw revenue growth of 9%.

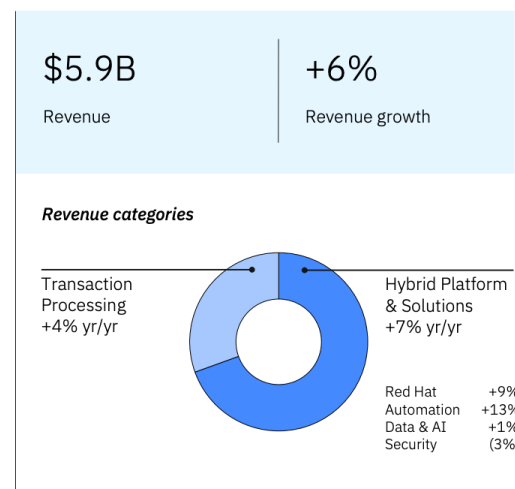
Software

Strong growth across Hybrid Platform & Solutions and Transaction Processing

Strength in OpenShift, Apptio and watsonx

Solid and growing recurring revenue base; ARR* of \$13.9 billion, +8% yr/yr

Continued investment in innovation



- **Consulting:** The consulting segment grew by 2%, with solid signings growth and a healthy backlog despite macroeconomic pressures affecting smaller projects.

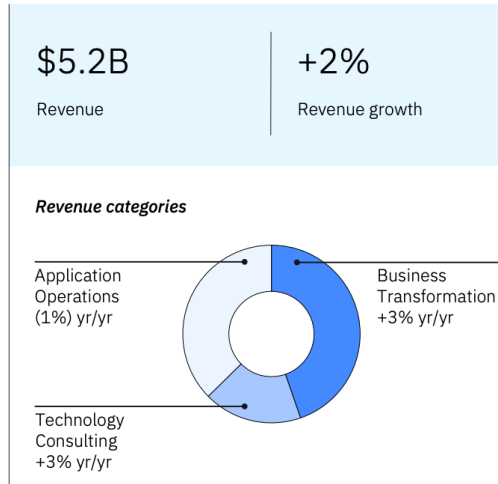
Consulting

Continued strength in technology-driven transformations

Growth in strategic partnerships and Red Hat practice

Book-to-bill ratio of >1.15 for the last year

Reduced yield as clients tightened discretionary spend



- **Infrastructure:** Infrastructure saw revenue growth of 6% in hybrid infrastructure, with IBM Z, Power, and storage contributing to this performance. However, infrastructure support revenue declined by 7%.

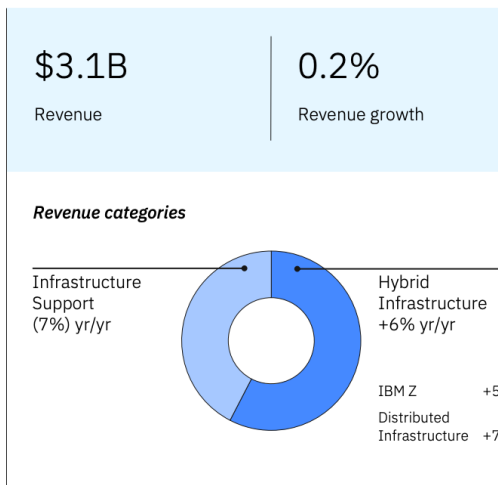
Infrastructure

Infrastructure benefitting from AI across IBM Z and storage

IBM Z drove revenue growth as z16 remains ahead of prior cycles

Distributed Infrastructure performance reflects strength in Power and storage

Gross and segment profit margin expansion



NON-FINANCIAL HIGHLIGHTS

IBM's non-financial highlights for the first quarter reflected strategic moves, key acquisitions, and continued focus on innovation and partnerships.:

- **Acquisition of HashiCorp:** IBM announced an agreement to acquire HashiCorp, a leading hybrid and multi-cloud infrastructure automation provider, for \$6.4 billion. HashiCorp's products, such as Terraform and Vault, have a large presence in the developer community and are widely used by over 85% of the Fortune 500. This acquisition aligns with IBM's hybrid cloud strategy and is expected to enhance Red Hat's capabilities by providing end-to-end automated infrastructure and security lifecycle management.

- **Hybrid Cloud and AI Strategy:** IBM continued to focus on its hybrid cloud and AI strategy. The IBM watsonx platform, designed for AI solutions, has gained traction, with a book of business related to generative AI exceeding \$1 billion. The company's infrastructure segment, including IBM Z (mainframe), is uniquely positioned for AI applications due to its on-chip AI acceleration capabilities, providing real-time AI inferencing.
- **Partnerships and Ecosystem:** IBM progressed strategic partnerships with industry leaders to strengthen its hybrid cloud and AI offerings. Consulting joined NVIDIA to accelerate clients' AI journeys while ServiceNow embedded watsonx AI capabilities into its platform. IBM also expanded its relationship with Adobe around OpenShift and watsonx for the Adobe Experience Platform.
- **Quantum Computing:** IBM continued to invest in quantum computing, installing a Quantum System One at Rensselaer Polytechnic Institute, the first on a college campus. This installation aims to advance research in areas like energy storage and financial modeling, showcasing IBM's leadership in quantum technology.

The company's focus on open-source AI, quantum computing, and key collaborations underscores its strategic direction and ongoing investments in emerging technologies.

OUTLOOK & GUIDANCE

IBM's outlook and guidance for the year are rooted in its strategic focus on hybrid cloud, artificial intelligence (AI), and emerging technologies like quantum computing:

- **Full-Year Revenue and Growth:** IBM projects constant currency revenue growth in line with its mid-single-digit model, prudently at the lower end.
- **Free Cash Flow:** IBM expects to generate about \$12 billion in free cash flow for the year, up from the \$11.8 billion generated over the last 12 months. This increase is attributed to growth in adjusted EBITDA.
- **Software and Consulting Growth:** In the software segment, IBM anticipates growth slightly above the high end of its mid-single-digit model. This growth is driven by Red Hat, IBM's hybrid platform and solutions, and transaction processing software. In consulting, IBM expects mid-single-digit revenue growth, with acceleration throughout the year.
- **Operating Margin Expansion:** IBM plans to expand its operating pretax margin by about half a point year-over-year, driven by operational leverage, product mix, and ongoing productivity initiatives. This improvement aligns with the company's guidance 90 days ago.

- **Currency Impact:** IBM expects a 150 to 200 basis point impact on revenue growth for the year due to currency fluctuations. This is approximately one point worse than IBM's outlook provided 90 days ago.
- **Tax Rate and Workforce Rebalancing:** IBM projects an operating tax rate for the year that is consistent with last year's, in the mid-teens range. The company took a workforce rebalancing charge in the first quarter, expecting the overall amount to be consistent with last year and to pay back by the end of the year.
- **Segment Guidance:**
 - **Infrastructure:** Given the IBM Z product cycle dynamics, IBM expects revenue to decline, impacting its overall growth by about half a point. The segment profit margin is expected to be lower year-over-year.
 - **Software:** IBM's software segment is expected to maintain growth, focusing on Red Hat, watsonx, and other high-value offerings.
 - **Consulting:** IBM's consulting business anticipates continued growth, driven by strong demand for large data and technology transformation projects.

Overall, IBM's guidance reflects steady growth, strong free cash flow generation, and continuous operational improvement. The company's outlook emphasizes its strategic focus on hybrid cloud and AI, with ongoing investments in emerging technologies and partnerships to support future growth.

ANALYSIS

In line with its mid-single-digit model, IBM reported steady revenue growth, showing consistent results through its software and consulting segments. The software business, driven by Red Hat and hybrid platform solutions, continues to be a strong growth engine, aligned with IBM's strategic pivot toward hybrid cloud and AI.

Its consulting segment also showed solid performance, with mid-single-digit growth for the year, as IBM successfully capitalized on the growing demand for enterprise technology transformation. IBM's focus on providing integrated solutions for clients' hybrid cloud journeys resonates well in the market.

Financially, IBM's outlook remains strong, projecting approximately \$12 billion in free cash flow for the year. This significant cash flow gives IBM flexibility in managing its operations, funding strategic initiatives, and returning value to shareholders through dividends or share buybacks. Additionally, IBM expects its operating pretax margin to expand yearly by about half a point, reflecting successful cost-management and productivity efforts.

IBM's earnings release reflects a solid performance with a clear strategic focus on hybrid cloud and AI. The company's steady growth in key segments positions it well for navigating the competitive landscape. While there are headwinds, IBM's diversified business model and commitment to innovation suggest it is on a stable path to continued success.



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