

# 1Q 2025 Earnings



# Forward-looking statements and non-GAAP information

Certain comments made in this presentation may be characterized as forward looking under 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. Those statements by their nature address matters that are uncertain to different degrees. Those statements involve a number of factors that could cause actual results to differ materially. Additional information concerning these factors is contained in the Company's filings with the SEC. Copies are available from the SEC, from the IBM website, or from IBM Investor Relations. Any forward-looking statement made during this presentation speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements except as required by law; these charts and the associated remarks and comments are integrally related and are intended to be presented and understood together.

In an effort to provide additional and useful information regarding the company's financial results and other financial information as determined by generally accepted accounting principles (GAAP), the company also discusses, in its earnings press release and presentation materials, certain non-GAAP information including operating earnings and other "operating" financial measures, free cash flow, net cash from operating activities excluding IBM Financing receivables,

adjusted EBITDA and adjustments for currency. The rationale for management's use of this non-GAAP information is included as Exhibit 99.2 to the company's Form 8-K submitted to the SEC on April 23, 2025. The reconciliation of non-GAAP information to GAAP is included in the press release within Exhibit 99.1 to the company's Form 8-K submitted to the SEC on April 23, 2025, as well as on the slides entitled "Non-GAAP supplemental materials" in this presentation.

To provide better transparency, the company also discusses management performance metrics including annual recurring revenue, annual bookings, signings, and book-to-bill. The metrics are used to monitor the performance of the business and are viewed as useful decision-making information for management and stakeholders. The rationale for management's use of these performance metrics and their calculation, as well as other information including the definition of book of business, are included in Exhibit 99.2 to the company's Form 8-K submitted to the SEC on April 23, 2025, or in the Management Discussion section of the company's 2024 Annual Report, which is Exhibit 13 to the Form 10-K submitted with the SEC on February 25, 2025. For other related information please visit the Company's investor relations website at:

<https://www.ibm.com/investor/events/earnings-1Q25>



Arvind Krishna

Chairman, President and  
Chief Executive Officer



James Kavanaugh

SVP, Finance & Operations  
and Chief Financial Officer

# CEO perspective

“We exceeded expectations for revenue, profitability and free cash flow in the quarter, led by strength across our Software portfolio. There continues to be strong demand for generative AI and our book of business stands at more than \$6 billion inception-to-date, up more than \$1 billion in the quarter.

We remain bullish on the long-term growth opportunities for technology and the global economy. While the macroeconomic environment is fluid, based on what we know today, we are maintaining our full-year expectations for revenue growth and free cash flow.”

**Arvind Krishna**

*IBM Chairman, President and CEO*

# Financial highlights

1Q25

\$14.5B

Revenue

\$2.0B

Free cash flow

“Revenue growth, once again led by Software, combined with our productivity initiatives, drove significant gross margin expansion and operating leverage in the quarter.

With our focus on the fundamentals of our business, we continue to maintain a strong liquidity position and yield solid free cash flow. This enables us to both invest in our business and return value to shareholders through dividends.”

**James Kavanaugh**  
*IBM SVP & CFO*

2%

Revenue growth yr/yr

9%

Software revenue growth yr/yr

190bps

Gross margin expansion  
(operating)

~240bps

Adjusted EBITDA margin  
expansion

12%

Adjusted EBITDA growth

\$17.6B

Cash on hand,  
incl. marketable securities

# Software

Growth of 9% including ~6 points of organic contribution

Red Hat high-teens annual bookings growth and 6-month revenue under contract up mid-teens

Solid recurring revenue base; ARR of \$21.7 billion, +11% yr/yr

Strong segment profit margin expansion of over 370bps

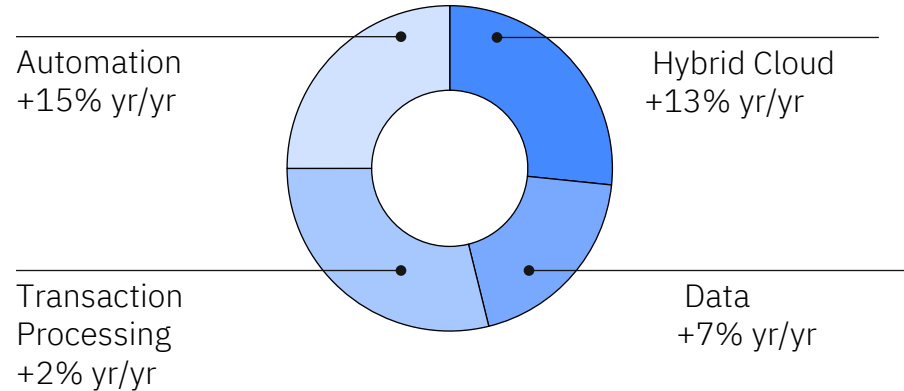
\$6.3B

Revenue

+9%

Revenue growth

## Revenue categories-1Q25



# Consulting

Continued growth in generative AI bookings

Solid backlog performance

Client reprioritization and spend constraints continued to impact yield

Strong profit margin expansion of 280bps

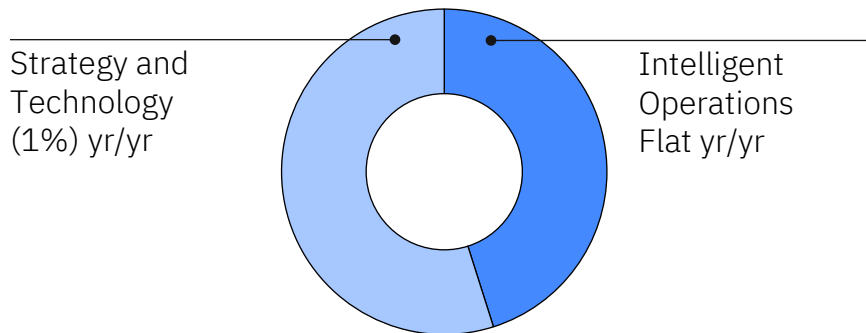
\$5.1B

Revenue

Flat

Revenue growth

## Revenue categories-1Q25



# Infrastructure

Infrastructure performance reflects product cycle dynamics

Broad-based growth across the storage portfolio

Announced IBM z17 with multi-model AI capabilities, new security features, and tools for improved usability

Ongoing investment in innovation

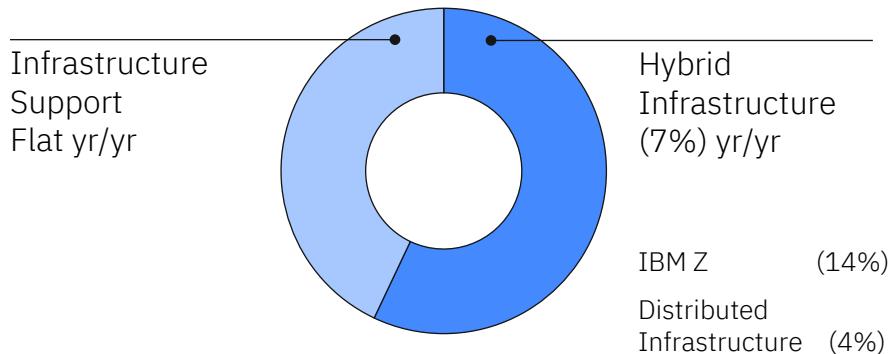
\$2.9B

Revenue

(4%)

Revenue growth

## Revenue categories-1Q25





# Summary

## 1Q25 Summary

Exceeded our expectations across revenue, profitability, and cash flow

Generative AI book of business greater than \$6 billion inception-to-date

Accelerated productivity initiatives drove strong adjusted EBITDA margin expansion

Generated \$2 billion of free cash flow, our highest first quarter free cash flow in many years

Continue to maintain a strong liquidity position and solid investment grade balance sheet

## 2025 Expectations

Based on what we know today, maintaining our full-year guidance

Revenue growth @CC inflecting higher to 5%+

Operating pre-tax operating margin to expand by over half a point

Full-year free cash flow ~\$13.5 billion

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# Supplemental material

Revenue and P&L highlights

Adjusted EBITDA performance

Cash flow and balance sheet highlights

Currency impact on revenue growth

Software & Infrastructure segment details

Consulting segment details

Expense summary

Balance sheet summary

Free cash flow summary

Cash flow (ASC 230)

Software segment categories

Consulting segment categories

Infrastructure segment categories

Non-GAAP supplemental materials

# Revenue and P&L highlights

Revenue highlights	1Q25	B/(W) Yr/Yr
Revenue	\$14.5	2%
Americas	\$7.2	Flat
Europe/ME/Africa	\$4.6	8%
Asia Pacific	\$2.8	Flat

Operating P&L highlights \$	1Q25	B/(W) Yr/Yr
Gross profit	\$8.2	4%
Expense	\$6.5	(4%)
Pre-tax income	\$1.7	5%
Net income	\$1.5	(3%)
Earnings per share	\$1.60	(5%)

Adjusted EBITDA	\$3.4	12%
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Operating P&L highlights %	1Q25	B/(W) Yr/Yr
Gross profit margin	56.6%	1.9 pts
Expense E/R	44.7%	(1.4 pts)
Pre-tax income margin	12.0%	0.5 pts
Net income margin	10.4%	(0.4 pts)
Tax rate	12.7%	(7.1 pts)

# Adjusted EBITDA performance

	1Q25	Yr/Yr
Operating (non-GAAP) pre-tax income from continuing operations	\$1.7	\$0.1
Net interest expense	\$0.3	\$0.0
Depreciation/Amortization of non-acquired intangible assets	\$0.7	(\$0.0)
Stock-based compensation	\$0.4	\$0.1
Workforce rebalancing charges	\$0.3	(\$0.1)
Corporate (gains) and charges*	\$0.0	\$0.2
Adjusted EBITDA	\$3.4	\$0.4

\$ in billions

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

# Cash flow and balance sheet highlights

Cash flow	1Q25	Yr/Yr
Net cash from operations*	\$2.3	\$0.0
Free cash flow**	\$2.0	\$0.1

Select uses of cash	1Q25	Yr/Yr
Net capital expenditures	\$0.3	(\$0.0)
Acquisitions	\$7.1	\$7.0
Dividends	\$1.5	\$0.0

Balance sheet	Mar 25	Dec 24	Mar 24
Cash & marketable securities	\$17.6	\$14.8	\$19.3
Total debt	\$63.3	\$55.0	\$59.5

Select debt measures	Mar 25	Dec 24	Mar 24
IBM Financing debt	\$10.0	\$12.1	\$9.9
Core (non-IBM Financing) debt	\$53.3	\$42.9	\$49.6

\$ in billions

\*Non-GAAP financial measure; excludes Financing receivables

\*\*Non-GAAP financial measure; adjusts for Financing receivables and net capital expenditures

# Currency impact on revenue growth

Quarterly averages per US \$	1Q25	Yr/Yr	Spot @2Q Earnings	2Q25	3Q25	4Q25	FY25
Euro	0.95	(3%)	0.87	6%	4%	7%	4%
Pound	0.79	(1%)	0.75	5%	3%	4%	3%
Yen	152	(3%)	141	9%	6%	8%	5%
Revenue impact, future @2Q Earnings Spot		(1.8 pts)		2-2.5 pts	~1.5 pts	~3 pts	1-1.5 pts
Revenue impact, future @April 1st Spot				~0 pts	~(1 pts)	~0.5 pts	~(0.5 pts)
Revenue impact, future @1Q Earnings Spot		(2.5-3 pts)		(1.5-2 pts)	~(3 pts)	(1-1.5 pts)	~(2 pts)
	US \$B	Yr/Yr					
Revenue as reported	\$14.5	1%					
Currency impact	(\$0.3)	(1.8 pts)					
Revenue @CC		2%					

# Software & Infrastructure segment details

Software segment	1Q25	B/(W) Yr/Yr
Revenue	\$6.3	9%
Hybrid Cloud	\$1.7	13%
Automation	\$1.6	15%
Data	\$1.2	7%
Transaction Processing	\$1.8	2%
Segment profit	\$1.8	23%
Segment profit margin	29.1%	3.7 pts
Annual recurring revenue	\$21.7	11%

Infrastructure segment	1Q25	B/(W) Yr/Yr
Revenue	\$2.9	(4%)
Hybrid Infrastructure	\$1.6	(7%)
IBM Z		(14%)
Distributed Infrastructure		(4%)
Infrastructure Support	\$1.2	Flat
Segment profit	\$0.2	(20%)
Segment profit margin	8.6%	(1.5 pts)

\$ in billions

Revenue & ARR growth rates @CC, ARR includes annualized March 2025 HashiCorp recurring revenue



# Consulting segment details

Consulting segment	1Q25	B/(W) Yr/Yr
Revenue	\$5.1	Flat
Strategy and Technology	\$2.8	(1%)
Intelligent Operations	\$2.3	Flat
Gross profit margin	27.3%	1.9 pts
Segment profit	\$0.6	32%
Segment profit margin	11.0%	2.8 pts
Signings	\$4.9	(9%)
Book-to-bill ratio (TTM)	>1.15	

# Expense summary

Expense	1Q25	B/(W) Yr/Yr	Acq/ Divest**		
			Currency	Base***	
Operating expense & other income*	\$6.5	(4%)	1 pts	(6 pts)	1 pts
SG&A – operating	\$4.5	4%	1 pts	(2 pts)	5 pts
R&D – operating	\$1.9	(8%)	1 pts	(3 pts)	(7 pts)
IP and custom development income	(\$0.3)	17%			
Other (income)/expense - operating*	(\$0.2)	(60%)			
Interest expense	\$0.5	(5%)			

\$ in billions

\*Yr/Yr reflects 1Q24 pre-tax net impact of \$0.2B related to divestiture dynamics

\*\*Includes acquisitions in the last twelve months net of non-operating acquisition-related charges and includes impact of closed divested businesses

\*\*\*Represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures

# Balance sheet summary

	Mar 25	Dec 24	Mar 24
Cash & marketable securities	\$17.6	\$14.8	\$19.3
Core (non-IBM Financing) assets*	\$116.8	\$108.9	\$106.4
IBM Financing assets	\$11.3	\$13.5	\$11.5
Total assets	\$145.7	\$137.2	\$137.2
Other liabilities	\$55.4	\$54.8	\$54.3
Core (non-IBM Financing) debt*	\$53.3	\$42.9	\$49.6
IBM Financing debt	\$10.0	\$12.1	\$9.9
Total debt	\$63.3	\$55.0	\$59.5
Total liabilities	\$118.7	\$109.8	\$113.8
Equity	\$27.0	\$27.4	\$23.3

\$ in billions

\*Includes eliminations of inter-company activity

# Free cash flow summary

	1Q25	B/(W) Yr/Yr
Net cash from operations	\$4.4	\$0.2
Less: IBM Financing receivables	\$2.1	\$0.2
Net cash from operations (excluding IBM Financing receivables)	\$2.3	\$0.0
Net capital expenditures	(\$0.3)	\$0.0
Free cash flow (excluding IBM Financing receivables)	\$2.0	\$0.1

# Cash flow (ASC230)

	1Q25	1Q24
Net income from operations	\$1.1	\$1.6
Depreciation / amortization of intangibles*	\$1.2	\$1.1
Stock-based compensation	\$0.4	\$0.3
Operating assets and liabilities / other, net	(\$0.4)	(\$0.8)
IBM Financing A/R	\$2.1	\$1.9
Net cash provided by operating activities	\$4.4	\$4.2
Capital expenditures, net of payments & proceeds	(\$0.3)	(\$0.4)
Divestitures, net of cash transferred	(\$0.0)	\$0.7
Acquisitions, net of cash acquired	(\$7.1)	(\$0.1)
Marketable securities / other investments, net	(\$5.6)	(\$4.5)
Net cash provided by/(used in) investing activities	(\$13.0)	(\$4.2)
Debt, net of payments & proceeds	\$7.1	\$3.4
Dividends	(\$1.5)	(\$1.5)
Financing - other	(\$0.1)	\$0.0
Net cash provided by/(used in) financing activities	\$5.4	\$1.9
Effect of exchange rate changes on cash	\$0.2	(\$0.2)
Net change in cash, cash equivalents & restricted cash	(\$3.0)	\$1.7

\$ in billions

\*Includes operating lease right-of-use assets amortization

# Software segment categories

## Revenue categories

The Software portfolio delivers end-to-end enterprise capabilities for Hybrid Cloud and AI:

**Hybrid Cloud**

incl. RHEL, OpenShift, Ansible, Red Hat AI

**Automation**

incl. application development & integration, infrastructure lifecycle management  
incl. HashiCorp, network management, security software for identity access management and threat management, observability, FinOps, IT financial management, asset lifecycle management

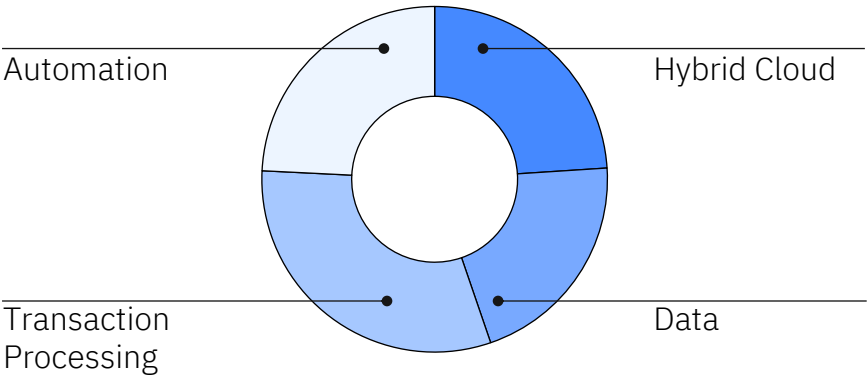
**Data**

incl. AI assistants, AI tools and governance, databases, data intelligence, data integration, data security

**Transaction Processing**

incl. Customer Information Control System and storage software, analytics and integration software on IBM operating systems, AI assistants for Z, security software for Z

## Revenue categories – FY 2024



# Consulting segment categories

## Revenue categories

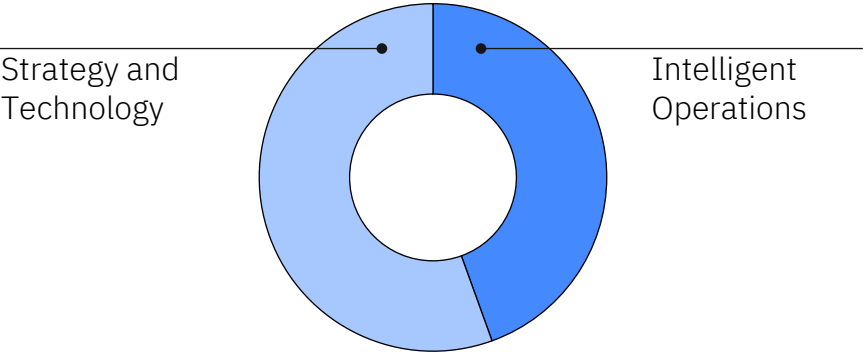
### Strategy and Technology

Provides strategy, process design, system implementation, cloud architecture and implementation services to help clients transform their businesses for growth and enable innovation. These services ensure clients benefit from the latest technologies to meet their objectives by leveraging AI and an ecosystem of strategic partners alongside IBM technology and Red Hat, including Adobe, AWS, Microsoft, Oracle, Palo Alto Networks, Salesforce, and SAP, among others.

### Intelligent Operations

Focuses on application, cloud platform, and operations services that bring efficiency to clients' processes by operationalizing and running hybrid cloud platforms, managing core business processes, and addressing security holistically across business functions and the IT landscape. These services help clients manage, optimize, and orchestrate custom and ISV packaged applications, enhancing operations through AI-powered solutions for faster, more efficient client outcomes.

## Revenue categories – FY 2024



# Infrastructure segment categories

## Revenue categories

### Hybrid Infrastructure

Innovative infrastructure platforms to help meet the new requirements of hybrid multi-cloud and enterprise AI workloads leveraging flexible and as-a-service consumption models:

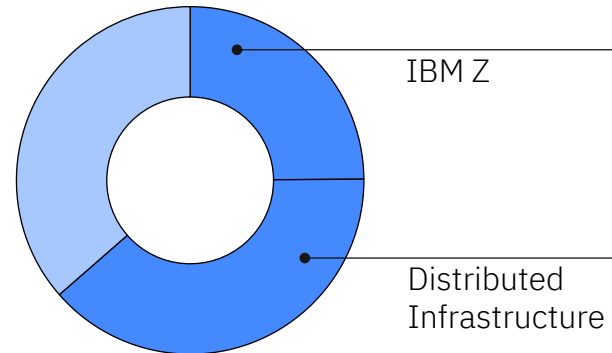
- IBM Z: incl. hardware and operating system
- Distributed Infrastructure: incl. Power hardware and operating system, storage hardware, IBM Cloud IaaS, OEM asset recovery service

### Infrastructure Support

Comprehensive, proactive and AI enabled services to maintain and improve the availability and value of clients' IT infrastructure (hardware and software) both on-premises and in the cloud incl. maintenance for IBM products and other technology platforms.

## Revenue categories – FY 2024

- Hybrid Infrastructure
- Infrastructure Support





# Non-GAAP supplemental materials

## Reconciliation of revenue performance – 1Q 2025

	1Q25 Yr/Yr	
	GAAP	@CC
Total revenue	1%	2%
Americas	(1%)	Flat
Europe/ME/Africa	6%	8%
Asia Pacific	(2%)	Flat

The above reconciles the non-GAAP financial information contained in the “Financial highlights”, “Revenue and P&L highlights”, and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of these non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of segment revenue performance – 1Q 2025

	1Q25 Yr/Yr			1Q25 Yr/Yr	
	GAAP	@CC		GAAP	@CC
Software	7%	9%	Consulting	(2%)	Flat
Hybrid Cloud	12%	13%	Strategy and Technology	(3%)	(1%)
Automation	14%	15%	Intelligent Operations	(2%)	Flat
Data	5%	7%			
Transaction Processing	Flat	2%	Infrastructure	(6%)	(4%)
			Hybrid Infrastructure	(9%)	(7%)
Software revenue organic growth	~4 pts	~6 pts	IBM Z	(15%)	(14%)
			Distributed Infrastructure	(5%)	(4%)
			Infrastructure Support	(3%)	Flat

The above reconciles the non-GAAP financial information contained in the “Software”, “Consulting”, “Infrastructure”, “Software & Infrastructure segment details”, “Consulting segment details” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of these non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of expense summary – 1Q 2025

		1Q25	
	GAAP	Non-GAAP adjustments	Operating (non-GAAP)
SG&A			
Currency	1 pts	0 pts	1 pts
Acquisitions/divestitures	(2 pts)	0 pts	(2 pts)
Base*	3 pts	2 pts	5 pts
R&D			
Currency	1 pts	0 pts	1 pts
Acquisitions/divestitures	(3 pts)	0 pts	(3 pts)
Base*	(7 pts)	0 pts	(7 pts)
Operating expense & other income			
Currency	2 pts	(1 pts)	1 pts
Acquisitions/divestitures	(6 pts)	0 pts	(6 pts)
Base*	1 pts	0 pts	1 pts

\*Represents the percentage change after excluding the impact of currency translation & hedges, acquisitions and divestitures

The above reconciles the non-GAAP financial information contained in the “Expense summary” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of these non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of continuing operations – 1Q 2025

		1Q25			
	GAAP	Acquisition- related adjustments	Retirement- related adjustments	Tax reform impacts	Operating (non-GAAP)
Gross profit	\$8,031	\$201	—	—	\$8,232
Gross profit margin	55%	1.4 pts	—	—	57%
SG&A	4,886	(353)	—	—	4,533
R&D	1,950	(4)	—	—	1,946
Other (income) & expense	(165)	0	(23)	—	(187)
Total expense	6,873	(357)	(23)	—	6,494
Pre-tax income	1,158	557	23	—	1,738
Pre-tax income margin	8.0%	3.8 pts	0.2 pts	—	12.0%
Tax rate	8.9%	4.5 pts	(0.8 pts)	0.1 pts	12.7%
Net income	1,054	429	35	(2)	1,517
Net income margin	7.3%	3.0 pts	0.2 pts	(0.0 pts)	10.4%
Earnings per share	\$1.12	\$0.45	\$0.04	(\$0.00)	\$1.60

\$ in millions (except EPS which is in whole dollars)

The above reconciles the non-GAAP financial information contained in the “Revenue and P&L highlights”, “Expense summary” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of these non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of GAAP net income to adjusted EBITDA

	1Q25	Yr/Yr
Net income as reported (GAAP)	\$1.1	(\$0.5)
Less: income/(loss) from discontinued operations, net of tax	\$0.0	(\$0.0)
Income from continuing operations	\$1.1	(\$0.5)
Provision for/(Benefit from) income taxes from continuing operations	\$0.1	\$0.6
Pre-tax income from continuing operations (GAAP)	\$1.2	\$0.1
Non-operating adjustments (before tax)		
Acquisition-related charges*	\$0.6	\$0.1
Non-operating retirement-related costs/(income)	\$0.0	(\$0.1)
Operating (non-GAAP) pre-tax income from continuing operations	\$1.7	\$0.1
Net interest expense	\$0.3	\$0.0
Depreciation/Amortization of non-acquired intangible assets	\$0.7	(\$0.0)
Stock-based compensation	\$0.4	\$0.1
Workforce rebalancing charges	\$0.3	(\$0.1)
Corporate (gains) and charges**	\$0.0	\$0.2
Adjusted EBITDA	\$3.4	\$0.4

\$ in billions

\*Primarily consists of amortization of acquired intangible assets

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

Adjusted EBITDA margin utilized in the “Financial highlights” discussion in the company’s earnings presentation is calculated by dividing Adjusted EBITDA by total revenue

The above reconciles the non-GAAP financial information contained in the “Financial highlights”, “Revenue and P&L highlights”, “Adjusted EBITDA performance” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of these non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of net cash from operations to adjusted EBITDA

	1Q25	1Q24
Net cash provided by operating activities	\$4.4	\$4.2
Add:		
Net interest expense	\$0.3	\$0.2
Provision for/(Benefit from) income taxes from continuing operations	\$0.1	(\$0.5)
Less change in:		
Financing receivables	\$2.1	\$1.9
Other assets and liabilities/other, net*	(\$0.7)	(\$1.0)
Adjusted EBITDA	\$3.4	\$3.0

\$ in billions

\*Other assets and liabilities/other, net mainly consists of operating assets and liabilities/other, net in the “Cash flow (ASC230)” discussion, workforce rebalancing charges, non-operating impacts and corporate (gains) and charges

The above reconciles the non-GAAP financial information contained in the “Prepared remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of this non-GAAP financial measure.

# Non-GAAP supplemental materials

## Reconciliation of Pre-tax income margin – 1Q 2025

Pre-tax margin yr/yr	B/(W)
GAAP	0.5 pts
Non-operating adjustments*	0.0 pts
Operating (non-GAAP)	0.5 pts
Adjusted to exclude workforce rebalancing and divestiture dynamics**	(1.3) pts
Operating (non-GAAP) excl. impacts of workforce rebalancing and divestiture dynamics	1.8 pts

\*Excludes the effects of certain acquisition-related charges, non-operating retirement related (income)/expense and tax reform impact. For details on these adjustments, see slide entitled “Reconciliation of continuing operations – 1Q 2025” in this presentation

\*\*Yr/Yr impacts of workforce rebalancing and divestiture dynamics

The above reconciles the non-GAAP financial information contained in the “Prepared remarks” discussion in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of these non-GAAP financial measures.

# Non-GAAP supplemental materials

## Reconciliation of Pre-tax income margin – FY 2025 expectations

	GAAP	Operating (non-GAAP)
FY 2025	>5 pts*	>0.5 pts

\*Includes the impact of one-time, non-cash, U.S. and non-U.S. pension settlement charges in 2024

The above reconciles the non-GAAP financial information contained in the “Summary” and “Prepared remarks” discussions in the company’s earnings presentation. See Exhibit 99.2 included in the company’s Form 8-K dated April 23, 2025, for additional information on the use of this non-GAAP financial measure.



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