

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$17.10B	\$16.83B	+1.6%
Operating EPS	\$2.95	\$2.86	+3.1%
SEGMENT REVENUE			
Software revenue	\$7.80B	\$7.64B	+2.1%
Consulting revenue	\$5.34B	\$5.39B	-0.9%
Infrastructure revenue	\$3.71B	\$3.57B	+3.9%
Financing revenue	\$192M	\$194.5M	-1.3%

2 | GUIDANCE AND OUTLOOK

IBM reaffirmed full-year constant-currency revenue growth of 4% to 5%, still below the greater-than-5% outlook cut in July. Full-year Software growth guidance rose to approximately 7% to 8%, the floor lifted from 6%, with Hybrid Cloud above 10% and Transaction Processing now expected flat. Free cash flow growth guidance increased from approximately \$1 billion to more than \$1 billion. Operating pretax margin expansion remains approximately 100 basis points, the tax rate in the mid teens; no 2027 guidance was issued.

3 | EARNINGS ANALYSIS

THE BEAT WAS SOFTWARE-LED. Revenue of \$17.10 billion beat the \$16.83 billion consensus by approximately 1.6%, operating EPS of \$2.95 beat \$2.86 by 3.1%, and free cash flow of \$3.03 billion beat \$2.63 billion by approximately 15%. Software and Infrastructure produced approximately 96% of the revenue increase; Consulting revenue of \$5.335 billion missed \$5.39 billion consensus, and adjusted gross margin of 58.5% missed the 59.3% consensus. Software growth recovered to 9% at constant currency after 5% in Q2, with Transaction Processing reversing a 9% decline to grow 10%.

EARNINGS QUALITY WAS MIXED. Operating pretax margin expanded 70 basis points to 19.3% on approximately 90 basis points of expense-ratio leverage, while gross margin compression continued. Software segment margin expanded 210 basis points to 35.0%; Consulting margin fell to 12.2% as segment profit declined approximately 5%. Tax contributed materially: at the prior-year 17.0% rate, operating EPS would have been approximately \$2.87 rather than \$2.95, and acquisition-related pretax adjustments rose to \$707 million.

CASH FLOW WAS THE STANDOUT. Free cash flow rose approximately 28% to \$3.027 billion, a 17.7% margin, and year-to-date free cash flow reached \$7.787 billion. The raised outlook implies full-year free cash flow above approximately \$15.734 billion, requiring more than \$7.947 billion in Q4. Liquidity was \$11.1 billion against total debt of \$63.8 billion, including \$12.7 billion of Financing debt; year-to-date acquisition spending was \$11.4 billion against \$4.8 billion of dividends.

ORGANIC PROOF IS STILL MISSING. Software grew approximately 9% at constant currency, but slightly more than 4 points were organic; the rest came substantially from acquisitions, including Confluent. Management's deferred-deal bridge does not reconcile: approximately 25% of the acceleration attributed to delayed deals sits uneasily with more than \$250 million of approximately \$400 million in delayed deals closed. Automation revenue declined 3% and Consulting signings fell 2%. Existing exposure can be maintained; an earnings-driven increase requires stronger evidence on repeatable organic growth.

4 | KEY READ-THROUGHS

AI ADOPTION DOES NOT YET SUPPORT A BROAD REVENUE OR MARGIN INFLECTION
Accenture (ACN), Cognizant (CTSH), Infosys (INFY) | Negative | Moderate for near-term expectations of an AI-led sector acceleration
AI was approximately 30% of Consulting revenue and 35% of backlog, yet Consulting revenue grew only 2%, signings declined 2%, segment profit fell approximately 5% and gross margin dropped 190 basis points to 27.4%. AI work can replace labor-linked revenue rather than add to it, so AI bookings are not yet a proxy for incremental sector revenue or earnings.

VIRTUALIZATION ALTERNATIVES ARE BECOMING A MATERIAL COMPETITIVE CHANNEL
Broadcom (AVGO), Nutanix (NTNX) | Negative | Moderate for VMware's retention and pricing flexibility; substantially smaller at consolidated Broadcom
IBM disclosed nearly \$800 million of virtualization contracts signed since early 2024, up from approximately \$680 million in Q2, plus approximately \$750 million of pipeline. OpenShift ARR reached \$2.4 billion, growing above 30%. VMware renewal customers have a credible alternative, pressuring renewal scope and pricing and contesting migration budgets Nutanix targets.

AGENT IDENTITY CREATES A SPENDING REQUIREMENT THAT DOES NOT DEPEND ON EMPLOYEE GROWTH
Palo Alto Networks (PANW), SailPoint (SAIL) | Positive | Moderate longer-duration opportunity for identity security
As agents multiply, enterprises must know who each agent is, what authority it has and what it can access. IBM described registering, authorizing, auditing and revoking agents and securing credentials through HashiCorp Vault; Consulting cybersecurity revenue grew nearly 10%. Deployment creates identity controls for CyberArk and SailPoint even when headcount is flat.

PRIVATE INFERENCE BROADENS THE CUSTOMER BASE FOR INTEGRATED SYSTEMS
Dell Technologies (DELL), Hewlett Packard Enterprise (HPE), NVIDIA (NVDA) | Positive | Moderate for the enterprise AI systems opportunity at Dell and HPE
Sovereign AI is becoming a much larger conversation as enterprises weigh control over proprietary data, code, models and logs, and some large deployments could begin with approximately 2-3 racks rather than hyperscale installations. Private inference requires integrated servers, networking, storage and support, a direct route to revenue for Dell, HPE and NVIDIA.