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INTERNATIONAL BUSINESS MACHINES CORP

Form 8-K

November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: November 13, 2002
(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

| | | |
|--------------------------|--------------------------|--------------------------------------|
| New York | 1-2360 | 13-0871985 |
| ----- | ----- | ----- |
| (State of Incorporation) | (Commission File Number) | (IRS employer Identification No.) |

| | |
|--|------------|
| ARMONK, NEW YORK | 10504 |
| ----- | ----- |
| (Address of principal executive offices) | (Zip Code) |

914-499-1900

(Registrant's telephone number)

Item 5. Other Events

Attachments I and II of this Form 8-K are certain remarks delivered by IBM's Chief Financial Officer, John R. Joyce, at IBM's Fall 2002 Securities Analysts meeting on Wednesday, November 13, 2002. Attachments III through VI are the charts for presentations at that meeting by (i) John R. Joyce, (ii) Ginni Rometty, GM, IBM Business Consulting Services and (iii) Dr. John E. Kelly III, Senior Vice President and Group Executive, Technology Group.

IBM's web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: November 13, 2002

By: /s/ Robert F. Woods

(Robert F. Woods)
Vice President and Controller

Attachment I

John Joyce's remarks included the following comments:

"Now, as promised, 2003. The street's current average for revenue expectations sees us getting back to some growth next year. And in light of the current GDP estimates we think this is a reasonable objective.

And based on that revenue growth and coupled with all that we discussed here today the street's average estimate for growth and earnings per share for 2003 is also reasonable.

So we are going into 2003 based on all the things that you heard today in a very, very good position to gain share regardless of the opportunity. But, when this industry does turn around, we are going to be the one company that can do all of this."

ATTACHMENT II

The Q&A session included the following comments:

QUESTION: "Just want to follow up on a question that was asked about the pension issue. Some people were surprised recently when you filed to contribute shares into the pension fund to cover your liability.

And given that IBM's been generally a purchaser of your own shares as opposed to an issuer, two things. One, can you tell us what's the message that you were trying to convey there? I mean, you haven't issued shares; you just have the option of doing it.

And two, does this prevent you from doing your own share repurchase or any other things like acquisitions? And on my second question, why don't you address that first?"

ANSWER FROM JOHN JOYCE: "First, the consideration to use stock was simply to give us flexibility. We decided that as I stated in our October meeting, that we would fund our pension plans and we were considering contributing \$1.5 billion a year until the US plan is fully funded by 2005. That's what I said.

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You know, and I had different options. We have different options. One of those options is to use stock. And so that's what we thought. But it was simply for the flexibility. And we'll make that decision as we go through time.

Now, the decision on the amount and timing, we still have...we have not decided yet. I'm telling you where we are at this point in time. And any decision is obviously dependent on many variables, and there are a number of alternatives on timing and on the amount. And so that's where we are today relative to the pension.

Now, to your second point, \$21 billion of free cash flow over the last couple of years. We think that we have a strong balance sheet and that we will be able to deal with any of these issues as we go forward."

ATTACHMENT III

[IBM LOGO]

Fall Security Analyst Meeting

JOHN R. JOYCE
SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

IBM Fall Security Analyst Meeting / November 13, 2002 (C) 2002 IBM Corporation

Certain comments made in this presentation may be characterized as forward looking under the Private Securities Litigation Reform Act of 1995.

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 filing with the SEC. Copies are available from the SEC, from the IBM Web site, or from IBM Investor Relations.

Agenda

John Joyce - Introduction
Mike Lawrie - Customer-Driven Go-to-Market Strategy
Ginni Rometty - Creating Value with Business Consulting Services
Linda Sanford - IBM e-business On Demand Transformation
Bob Moffat - Supply Chain Management across IBM
John Kelly - Technology Group: The New Business Model
John Joyce - Closing Remarks

ATTACHMENT IV

[IBM LOGO]

CREATING VALUE WITH
BUSINESS CONSULTING SERVICES

GINNI ROMETTY
GENERAL MANAGER

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IBM BUSINESS CONSULTING SERVICES

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What Distinguishes IBM Business Consulting Services

INNOVATIVE THINKING + RAPID, EFFECTIVE EXECUTION + REDUCED RISK = GREATER CLIENT VALUE

- IDEAS TO BENEFITS -- A SINGLE, TRUSTED PARTNER ACCOUNTABLE FOR RESULTS
- UNMATCHED BREADTH OF CAPABILITIES AND PROCESS SKILLS TO LEAD CLIENTS TO ON DEMAND
- NEW CATEGORY FOR GROWTH -- BUSINESS TRANSFORMATION OUTSOURCING
- GLOBAL, INDUSTRY-FOCUSED OPERATING AND GO-TO-MARKET MODEL
- ON TRACK, RAPID INTEGRATION OF PWC CONSULTING

Leading Clients to the On Demand Era

ON DEMAND
BUSINESS

RESPONSIVE

VARIABLE

[AVENTIS LOGO]

[BP LOGO]

RESILIENT

[EMPIRE BLUECROSS BLUESHIELD LOGO]

FOCUSED

A New Category: Business Transformation Outsourcing

PROCESS & INTEGRATION

APPLICATIONS

IT OUTSOURCING

BUSINESS TRANSFORMATION OUTSOURCING

PROCESS TRANSFORMATION

APPLICATION OUTSOURCING

INFRASTRUCTURE OUTSOURCING

VALUE BUSINESS PROCESS OUTSOURCING
ADD -----

Strong Market Opportunity Is Emerging

[GRAPH]

"Omitted graphic is available on IBM's website (www.ibm.com)."

The global market for BPO is forecast to grow 10% annually from \$124B in 2000 to \$179B in 2005

SOURCE: Gartner Dataquest, "Outsourcing Forecast Update: Feeling the Pain,"
July 2002

Our Global Operating Model

IBM Business Consulting Services

"Omitted graphic is available on IBM's website (www.ibm.com)."

Unrivaled Depth in 18 Industries: Pharmaceuticals Industry-leading intellectual property

[PICTURES]

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"Omitted graphic is available on IBM's website (www.ibm.com)."

Unrivaled Depth in 18 Industries: Pharmaceuticals Specialized practitioners

[MAP]

"Omitted graphic is available on IBM's website (www.ibm.com)."

Unrivaled Depth in 18 Industries: Pharmaceuticals Solutions that fuse business insight & technology

- GXPHARMA
- DISCOVERYLINK
- CLINICAL INFORMATION EXCHANGE
- DRUG DISCOVERY FACTORY
- SPEEDTRIAL (E-CLINICAL)
- KNOWLEDGE MANAGEMENT
- REGULATORY COMPLIANCE

Unrivaled Depth in 18 Industries: Pharmaceuticals
Marquee clients

[LOGOS]

"Omitted graphics are available on IBM's website (www.ibm.com)."

UNRIVALED DEPTH IN 18 INDUSTRIES...

- INDUSTRY-LEADING INTELLECTUAL PROPERTY
- SPECIALIZED PRACTITIONERS
- SOLUTIONS THAT FUSE BUSINESS INSIGHT & TECHNOLOGY
- MARQUEE CLIENTS

. . . GLOBALLY

Integration of PwC Consulting Is on Track

- PHASE I: ONE FACE TO THE CLIENT
 - Completed on target - October 2
- PHASE II: ONE TEAM
 - On track - January 1
- INTEGRATION PRINCIPLES
 1. Prioritize clients first
 2. Adopt and go
 3. Move with speed

Creating Value with Business Consulting Services

- KEY ACTIONS IN 4Q TO DRIVE BUSINESS PERFORMANCE
 - Reestablish relationships with prior PwC audit clients
 - Maintain objectivity and enhance channel relationships
 - Restructure to capture synergies
- BCS WILL MATURE OVER 2003 & 2004
 - Serve clients with deep industry expertise
 - Build out industry solutions and derive full benefit from ISV relationships
 - Lead client migration to On Demand and BTO
 - Leverage the breadth of IBM
 - Exploit flexible labor sourcing
- BUSINESS MODEL OBJECTIVES
 - Within two years:
 - Double-digit revenue growth
 - Pre-tax profit margins of 10%

ATTACHMENT V

[IBM logo]

IBM TECHNOLOGY GROUP

DR. JOHN E. KELLY III
SENIOR VICE PRESIDENT AND GROUP EXECUTIVE
TECHNOLOGY GROUP

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TECHNOLOGY GROUP OBJECTIVES

- LEADERSHIP TECHNOLOGY
- SUPPORT IBM SYSTEMS DIVISIONS
- OEM BUSINESS FOR GROWTH AND SCALE
- MANAGE PORTFOLIO FOR PROFITABILITY

Power 4+ Processor

Increasing our lead:

| | |
|--------------|---------|
| Transistors | 184M |
| Ground rules | 130nm |
| Cache | 1.5MB |
| GHz | 1.45 |
| | 8 CPUs |
| | 4 Chips |

Brings together IBM advances in:

- Copper interconnects
- SOI
- Advanced packaging
- Advanced architecture
- System-on-chip
- 130nm

TG OEM EVOLUTION

HIGH VOLUME

COMMODITY
(PC DRIVEN)

PORTFOLIO SHIFT >

HIGH VALUE

(IP) CUSTOM
OFFERINGS

1993

2002

LAUNCH AND
GROW OEM
BUSINESS

GROW
- ASICS #1
- CUSTOM LOGIC
- IP INCOME
EXIT
- DRAMS - DISPLAYS - HDDS

REFOCUS MD
- INCREASE ASICS LEAD
- POWERPC
- HIGH PERFORMANCE FOUNDRY
ENGINEERING &
TECHNOLOGY SERVICES

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Driving to a Balanced OEM Portfolio

Segments

| | | | | | |
|-----|-----|-----|-----|-----|-----|
| IT | 77% | IT | 49% | PVC | 42% |
| PVC | 19% | NW | 28% | IT | 34% |
| NW | 4% | PVC | 23% | NW | 23% |

[Pie Charts]

Offerings

| | | | | | |
|----------|-----|----------|-----|----------|-----|
| STD PROD | 74% | STD PROD | 57% | ASIC/SOC | 38% |
| FOUNDRY | 18% | ASIC/SOC | 22% | FOUNDRY | 36% |
| ASIC | 8% | FOUNDRY | 21% | STD PROD | 26% |

[Pie Charts]

1996
Results

2000
Results

2004
Target

Intellectual Property (IP) Assets

Skills

Know How
Patents

| | | |
|---------------|-------|------|
| 2001 Patents* | IBM | 1126 |
| | MICRO | |

[Bar Chart]

| | |
|----------|-----|
| INTEL | 809 |
| TI | 799 |
| MOTOROLA | 778 |

- IBM ranked #1 in U.S. patents from 1993 to 2001
- IBM generated over 3400 patents in 2001

*US Patent Office/IBM

Technology Know How

[Graph]

"Omitted graphic is available on IBM's website (www.ibm.com)."

Optimized High Performance / Low Power

Ramping the World's Most Advanced 300mm Fab

[Graph]

"Omitted graphic is available on IBM's website (www.ibm.com)."

POWERPC The World's Most Scalable Architecture

[Graphic]

"Omitted graphic is available on IBM's website (www.ibm.com)."

POWERPC The World's Most Scalable Architecture

[Graphic]

"Omitted graphic is available on IBM's website (www.ibm.com)."

Engineering & Technology Services (ETS)

Skills
Know How
Patents

ETS Portfolio of Practices

Chip Solutions

- SoC Design Services
- Custom Circuit Design Services
- Technology Optimization and Migration Services

System Solutions

- System Architecture and Design Services
- High Performance Packaging Services
- Power and Mechanical Design Services

Business Solutions

- Manufacturing Process Consulting
- IP Management Consulting
- Verification and e-Design

Design Outsourcing Services

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Strength of IBM's Global Resource Team

"Omitted graphic is available on IBM's website (www.IBM.com)."

TG CORE BUSINESS MODEL OBJECTIVES

- WE HAVE TAKEN THE NECESSARY ACTIONS TO POSITION THE BUSINESS GOING FORWARD
 - PORTFOLIO SHIFTED
 - MICROELECTRONICS RESTRUCTURED / REFOCUSED
 - LAUNCHED TECHNOLOGY-BASED SERVICES BUSINESS

- IMPROVING SHORT-TERM FINANCIAL PERFORMANCE
 - 3Q IMPROVED SEQUENTIALLY AND YTY
 - TARGETING 4Q PROFITABILITY
 - EXPECT 2003 PROFITABILITY

- STEADY-STATE BUSINESS MODEL OBJECTIVES
 - EXTERNAL REVENUE GROWTH >10% PER YEAR
 - GROSS MARGINS >30%
 - PRE-TAX MARGIN >10%
 - POSITIVE CASH FLOW

IBM TECHNOLOGY

ATTACHMENT VI

[IBM LOGO]

Fall Security Analyst Meeting

John R. Joyce
Senior Vice President & Chief Financial Officer

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Fundamentals of Financial Strength

- Industry attractiveness
- Leadership position
- Consistent superior returns
- Strategic investments
- Focus on improved profitability
- Ability to generate cash

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IT Industry Remains Attractive

IT Industry Growth vs. WW GDP Growth

[Graph]

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Fundamentals of Financial Strength

- Industry attractiveness
- LEADERSHIP POSITION
- Consistent superior returns
- Strategic investments
- Focus on improved profitability
- Ability to generate cash

Well Positioned in the Industry

| SECTOR LEADERSHIP | INDUSTRY LEADERSHIP |
|----------------------------|-----------------------------------|
| #1 Financial Services | #1 Strategic Outsourcing |
| #1 Communications | #1 Integrated Technology Services |
| #1 Distribution | #1 Business Consulting Services |
| #1 Public | #1 Middleware |
| #2 Industrial | #1 WebSphere |
| #3 Small & Medium Business | #1 Data Management |
| | #1 Servers |
| | #1 ASIC |
| | #2 Storage |
| | #3 PCs |

Fundamentals of Financial Strength

- Industry attractiveness
- Leadership position
- CONSISTENT SUPERIOR RETURNS
- Strategic investments
- Focus on improved profitability
- Ability to generate cash

Historical Return on Invested Capital

[Graph]

"Omitted graphic is available on IBM's website (www.ibm.com)."

Target Investments to High ROIC Segments

[Graph]

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Fundamentals of Financial Strength

- Industry attractiveness
- Leadership position
- Consistent superior returns
- STRATEGIC INVESTMENTS
- Focus on improved profitability
- Ability to generate cash

Focused Investment for Growth

| Research & Development: \$5B | Capital Expenditures: \$5B | Acquisitions: \$5B |
|---|--|---|
| - Leading products <ul style="list-style-type: none">- WebSphere- DB2- Servers- Storage Systems- ASIC | - Technology <ul style="list-style-type: none">- 300mm | - Services <ul style="list-style-type: none">- PwCC- Mainspring |
| - Emerging growth areas <ul style="list-style-type: none">- e-Sourcing- Grid- Autonomic- Linux- Life Sciences | - Services <ul style="list-style-type: none">- Strategic Outsourcing | - Software <ul style="list-style-type: none">- Informix- ACCESS360- CrossWorlds- Trellisoft- Holosofx- Metamerge |
| | - Global financing | |

Fundamentals of Financial Strength

- Industry attractiveness
- Leadership position
- Consistent superior returns
- Strategic investments
- FOCUS ON IMPROVED PROFITABILITY
- Ability to generate cash

Aggressive Cost and Expense Management

- Focus on end-to-end cost management
 - Integrated Supply Chain initiative
 - Global Services scale advantage
 - Selective manufacturing outsourcing
- Continue to drive expense improvements
 - Leverage RD&E across platforms
 - Continuously improve productivity
 - Generate IP income
- Divest non-strategic businesses
 - HDD, DBU, Optical, Consumer PC Channel

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Fundamentals of Financial Strength

- Industry attractiveness
- Leadership position
- Consistent superior returns
- Strategic investments
- Focus on improved profitability
- ABILITY TO GENERATE CASH

Summary

- IT industry to grow faster than WW GDP
- Positioned to outpace industry
 - Leverage leadership positions and On Demand initiatives to grow share
- Disciplined investment in faster growing, higher ROIC segments of the market
 - Research & development, capital expenditures, strategic acquisitions
- Continue to drive down cost & expense
- Generate sustainable free cash flow
 - \$21B free cash flow from 1999-2001