Broadridge

Ready for Next

INVESTOR PRESENTATION

MARCH 3, 2020

Forward-Looking Statements

This presentation and other written or oral statements made from time to time by representatives of Broadridge Financial Solutions, Inc. ("Broadridge" or the "Company") may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, and which may be identified by the use of words such as “expects,” “assumes,” “projects,” “anticipates,” “estimates,” “we believe,” “could be” and other words of similar meaning, are forward-looking statements. In particular, information appearing in the “Fiscal Year 2020 Guidance” section are forward-looking statements.

These statements are based on management’s expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. These risks and uncertainties include those risk factors discussed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (the “2019 Annual Report”), as they may be updated in any future reports filed with the Securities and Exchange Commission. All forward-looking statements speak only as of the date of this presentation and are expressly qualified in their entirety by reference to the factors discussed in the 2019 Annual Report.

These risks include:

- the success of Broadridge in retaining and selling additional services to its existing clients and in obtaining new clients;
- Broadridge’s reliance on a relatively small number of clients, the continued financial health of those clients, and the continued use by such clients of Broadridge’s services with favorable pricing terms;
- a material security breach or cybersecurity attack affecting the information of Broadridge's clients;
- changes in laws and regulations affecting Broadridge’s clients or the services provided by Broadridge;
- declines in participation and activity in the securities markets;
- the failure of Broadridge's key service providers to provide the anticipated levels of service;
- a disaster or other significant slowdown or failure of Broadridge’s systems or error in the performance of Broadridge’s services;
- overall market and economic conditions and their impact on the securities markets;
- Broadridge’s failure to keep pace with changes in technology and demands of its clients;
- Broadridge’s ability to attract and retain key personnel;
- the impact of new acquisitions and divestitures; and
- competitive conditions.

Broadridge disclaims any obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

Use of Material Contained Herein

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Use of Non-GAAP Financial Measures

Explanation and Reconciliation of the Company's Use of Non-GAAP Financial Measures

The Company's results in this presentation are presented in accordance with U.S. generally accepted accounting principles ("GAAP") except where otherwise noted. In certain circumstances, results have been presented that are not generally accepted accounting principles measures ("Non-GAAP"). These Non-GAAP measures are Adjusted Operating income, Adjusted Operating income margin, Adjusted Net earnings, Adjusted earnings per share, and Free cash flow. These Non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results.

The Company believes our Non-GAAP financial measures help investors understand how management plans, measures and evaluates the Company's business performance. Management believes that Non-GAAP measures provide consistency in its financial reporting and facilitates investors' understanding of the Company's operating results and trends by providing an additional basis for comparison. Management uses these Non-GAAP financial measures to, among other things, evaluate our ongoing operations, for internal planning and forecasting purposes and in the calculation of performance-based compensation. In addition, and as a consequence of the importance of these Non-GAAP financial measures in managing our business, the Company's Compensation Committee of the Board of Directors incorporates Non-GAAP financial measures in the evaluation process for determining management compensation.

Adjusted Operating Income, Adjusted Operating Income Margin, Adjusted Net Earnings and Adjusted Earnings Per Share

These Non-GAAP measures reflect Operating income, Operating income margin, Net earnings, and Diluted earnings per share, as adjusted to exclude the impact of certain costs, expenses, gains and losses and other specified items that management believes are not indicative of our ongoing operating performance. These adjusted measures exclude the impact of: (i) Amortization of Acquired Intangibles and Purchased Intellectual Property, (ii) Acquisition and Integration Costs, and (iii) IBM Private Cloud Charges. Amortization of Acquired Intangibles and Purchased Intellectual Property represents non-cash amortization expenses associated with the Company's acquisition activities. Acquisition and Integration Costs represent certain transaction and integration costs associated with the Company's acquisition activities. IBM Private Cloud Charges represent a charge on the hardware assets to be transferred to International Business Machines Corporation ("IBM") and other charges related to the information technology agreement for private cloud services the Company entered into with IBM.

We exclude IBM Private Cloud Charges from our Adjusted Operating income and other earnings measures because excluding such information provides us with an understanding of the results from the primary operations of our business and this item does not reflect ordinary operations or earnings. We also exclude the impact of Amortization of Acquired Intangibles and Purchased Intellectual Property, as these non-cash amounts are significantly impacted by the timing and size of individual acquisitions and do not factor into the Company's capital allocation decisions, management compensation metrics or multi-year objectives. Furthermore, management believes that this adjustment enables better comparison of our results as Amortization of Acquired Intangibles and Purchased Intellectual Property will not recur in future periods once such intangible assets have been fully amortized. Although we exclude Amortization of Acquired Intangibles and Purchased Intellectual Property from our adjusted earnings measures, our management believes that it is important for investors to understand that these intangible assets contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Any future acquisitions may result in the amortization of additional intangible assets.

Free Cash Flow

In addition to the Non-GAAP financial measures discussed above, we provide Free cash flow information because we consider Free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated that could be used for dividends, share repurchases, strategic acquisitions, other investments, as well as debt servicing. Free cash flow is a Non-GAAP financial measure and is defined by the Company as Net cash flows provided by operating activities less Capital expenditures as well as Software purchases and capitalized internal use software.

Reconciliations of such Non-GAAP measures to the most directly comparable financial measures presented in accordance with GAAP can be found in the tables that are part of this presentation.

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The Broadridge Story

Strong market position across Governance, Capital Markets, and Wealth Management

Platform-based business model creates unique value for our clients

Significant growth opportunity supported by long-term trends of mutualization, digitization, and data & analytics

Strong business model and long-term focus should sustain continued growth and strong Total Shareholder Returns

$2.8B

FY19 Recurring Fee Revenue

7-9%

3-Year Total Recurring Revenue Growth Objective

98% (1)

Recurring fee revenue retention

14-18% (2)

3-Year Adjusted EPS Growth Objective
(**9-13%** pre-2018 Tax Act)

~45%

Target Dividend Payout Ratio (3)

27%

Annualized 3 Year Total Shareholder Return (June 30, 2017-June 30 2019)

#1

Most Admired Financial Data Services Company by FORTUNE® magazine in 2019

(1) As reported in Investor Day 2017
(2) FY17 - FY20 three year Adjusted EPS growth objective was updated from 9-13% on February 8th, 2018 to 14-18% as a result of changes from the 2018 U.S. Tax Act
(3) Dividend payout ratio is a percentage of prior year Adjusted Net Earnings and is subject to Board approval

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FY17 - FY20 Three Year Growth Objectives

Winning formula for top quartile TSR

Organic Recurring Fee Revenue Growth[1]	5-7%
Recurring Fee Revenue Growth[1]	7-9%
Adjusted Op Income Margin Expansion	~50bps/yr
Adjusted EPS Growth[2]	14-18% (post 2018 Tax Act) / 9-13% (pre 2018 Tax Act)

(1) Three Year objectives presented at 2017 Investor Day. Revenue growth rates represent compound annual growth rates (CAGRs).
(2) FY17 - FY20 three year Adjusted EPS growth objective was updated from 9-13% on February 8th, 2018 to 14-18% as a result of changes from the 2018 U.S. Tax Act.

The Industry's Leading Choice

GOVERNANCE

- Process 80% of outstanding shares in the United States, process in over 120 international markets
- Distribute approximately 80% of broker regulatory communications to 140M individual accounts
- Serve most brokers, funds, and public companies in North America
- Reach 80% of North American households

GROWING FRANCHISE[1]

CAPITAL MARKETS

- Clear and settle over $7T per day
- Serve 19 of 24 US primary dealers for fixed income
- Process Equities for 7 of the top 10 global investment banks
- Support clearance and settlement in over 90 countries

GROWING FRANCHISE

WEALTH MANAGEMENT

- Support 50M+ accounts through our technology platform
- 25%+ of US Financial Advisors utilize Broadridge's front office solutions
- Provide data aggregation service for 200K+ agents and advisors
- Maintain 100K+ retirement plans through Broadridge's mutual fund settlements platform

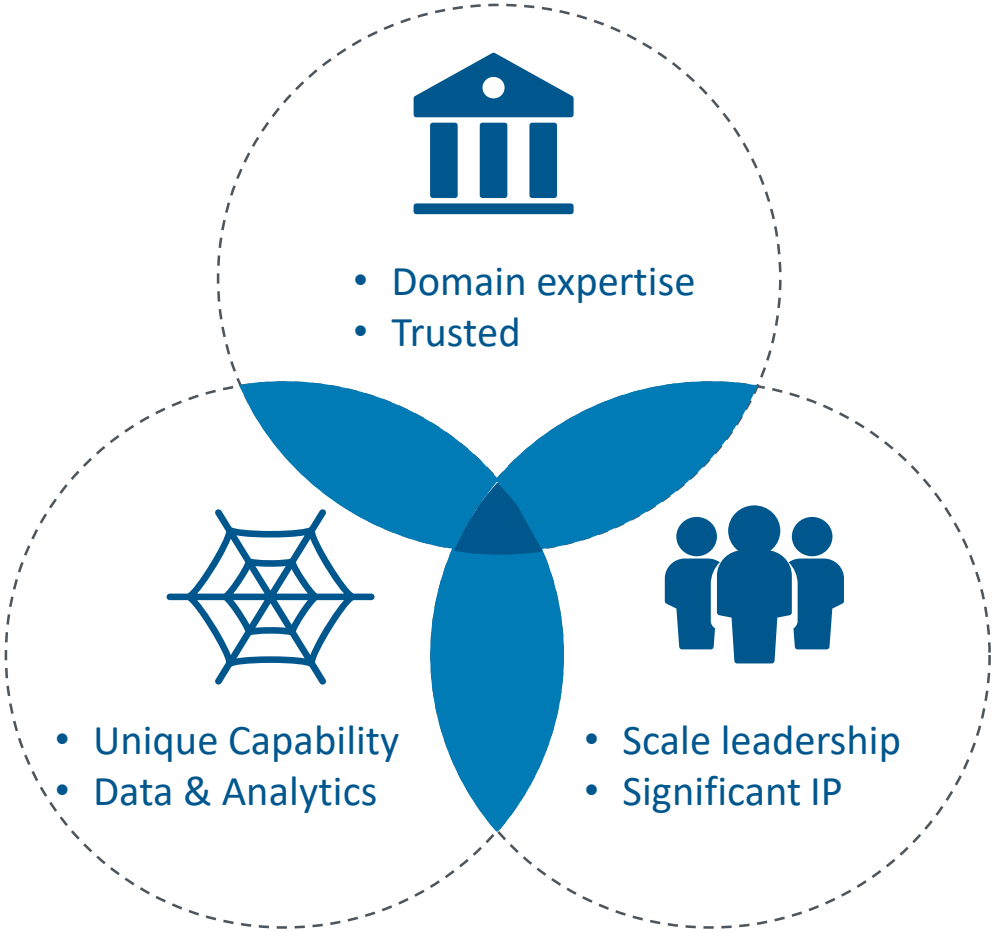
FRANCHISE OPPORTUNITY

(1) At Broadridge we define Franchise as a business that has a truly differentiated value proposition and, more importantly, as one that creates network value.

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Broadridge Platform-based Business Model Creates Unique Value

Deep financial services knowledge



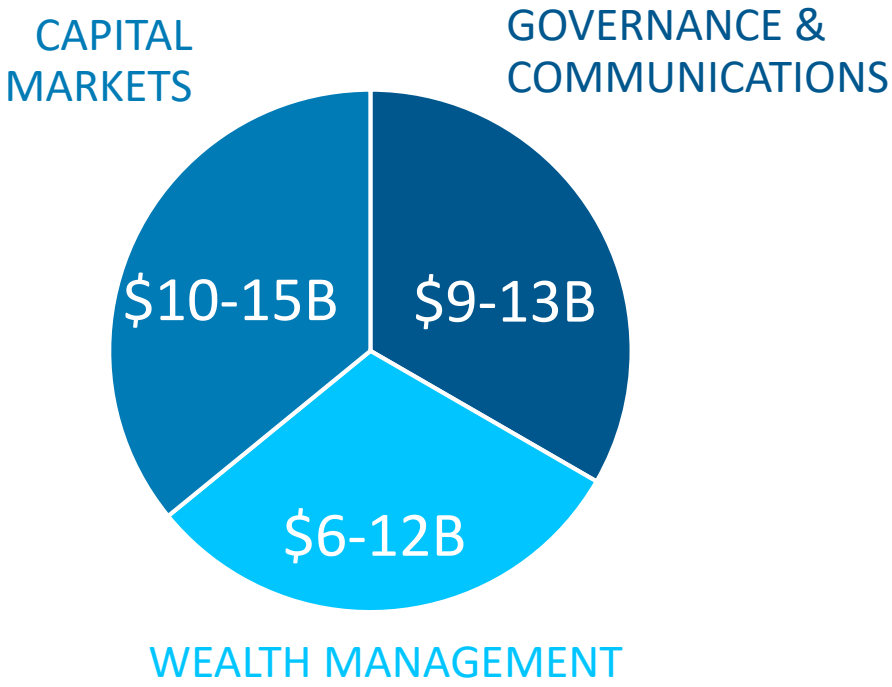
Network value

Multi-client managed services approach

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Broadridge's Directly Addressable Market is $25-40B

Large Growth Opportunity



100% = $25-40B

Key Market Trends

- MUTUALIZATION
- DIGITIZATION
- DATA & ANALYTICS

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Growth Opportunity: Extend Governance



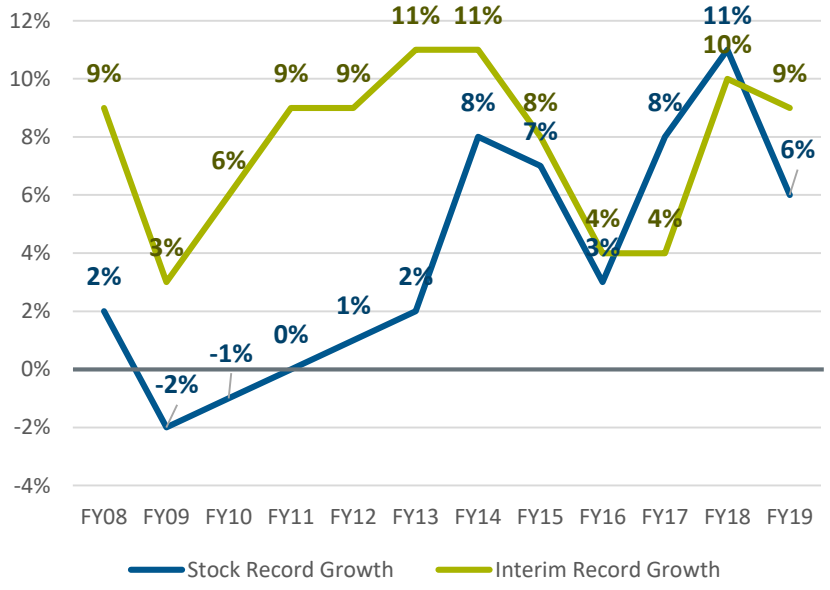
EXTEND GOVERNANCE Fee Revenue = $1.7B	DRIVE CAPITAL MARKETS	BUILD WEALTH MANAGEMENT
Drive Next-gen Regulatory Communications	**Grow suite of data & analytics and digital solutions**	**Extend services to corporate Issuers**
		Build Omni-channel communications

Note: Governance Fee revenues as of Broadridge's December 2017 Investor Day and are primarily derived from Investor Communication Solutions ("ICS") Segment.

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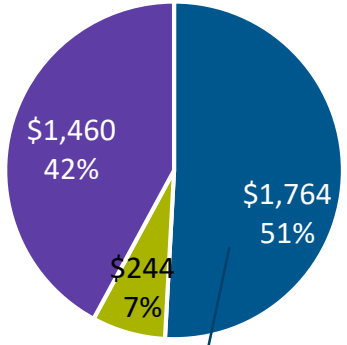
ICS Record Growth and FY19 Revenues

FY08-19 Record Growth[1]



FY19 ICS Total Revenues[2]

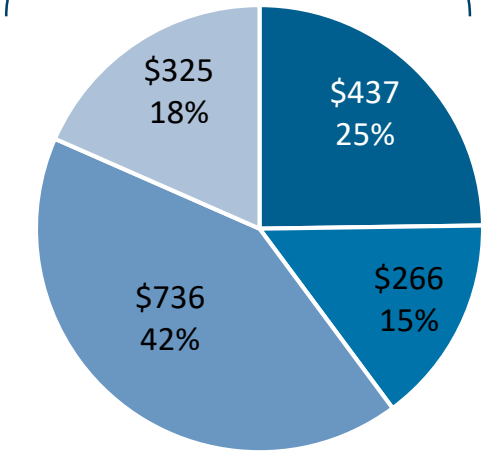
(Dollars in millions)



- ICS Recurring fee revenues
- Event-driven fee Revenue
- Distribution revenues

FY19 ICS Recurring Revenue by Product Line[2]

(Dollars in millions)



- Equity Proxy
- Mutual fund and ETF interims
- Customer comms. and fulfillment
- Other ICS

[1] *Stock record growth and interim record growth measure the annual change in total positions eligible for equity proxies and mutual fund & ETF interims, respectively, for equities and mutual fund position data reported to Broadridge in both the current and prior year periods.*

[2] *FY2019 revenues have been revised to reflect the Broadridge Advisor Solutions organizational change. This change had the effect of transferring revenues previously reported in the ICS segment to the GTO segment. In the aggregate, the Total revenues transferred in FY2019 were $42.8 million.*

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Event-Driven Revenue: Near Historic Low Q2

Dollars in millions

Q2							FY15-19
Type of Event Revenue	FY15	FY16	FY17	FY18	FY19	FY20	Average
Equity & Other	15.7	23.3	14.4	28.8	19.5	15.3	20.3
Mutual Fund	21.8	33.7	15.4	68.6	28.6	15.7	33.6
Total	**37.5**	**56.9**	**29.8**	**97.3**	**48.1**	**31.0**	**53.9**

YTD							FY15-19
Type of Event Revenue	FY15	FY16	FY17	FY18	FY19	FY20	Average
Equity & Other	28.3	39.7	32.1	59.5	43.6	32.8	40.6
Mutual Fund	44.2	55.3	35.2	97.1	81.4	38.3	62.6
Total	**72.4**	**94.9**	**67.3**	**156.6**	**125.1**	**71.1**	**103.3**

FY							FY15-19
Type of Event Revenue	FY15	FY16	FY17	FY18	FY19	FY20	Average
Equity & Other	71.4	82.8	86.4	134.4	107.3		96.5
Mutual Fund	101.4	116.7	132.5	149.4	137.2		127.4
Total	**172.8**	**199.4**	**218.9**	**283.9**	**244.5**	***$175- 195***	**223.9**

Note: Significant mutual fund proxy events were noted in FY17 Q4, FY18 Q2, and FY19 Q1.

Note: Amounts may not sum due to rounding.

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Regulatory Update

Mutual funds

Comments on modernization of mutual fund communications	• SEC staff said in public forums they are considering options for shorter/more streamlined regulatory communications, and in November 2019, this issue was moved to the SEC's short-term agenda. • BR in favor of any step to ensure main street investors have easy and actionable access to the information they need to invest with confidence.
SEC Approves Rule 30e-3 "Notice-and-access"	• Allows mutual funds to opt-in shareholders to receive "notice-and-access" beginning 2021. • BR is working with hundreds of fund families to prepare for 30e-3. • Financial impact to BR: modestly net positive impact on gross profit (higher recurring fee revenues with lower distribution revenues).
Comments on mutual fund interim fees	• BR comment letter in October 2018 laid out the company's strong track record of value ($400M+ annually) delivered to the mutual fund industry, and identified future savings. • Since BR's comment letter, interim fees were rolled into discussions for the proxy distribution working groups (meet periodically with no timeline for issuing a recommendation to the SEC).

Equity proxy

Proxy Roundtable	• BR working closely with SIFMA and other stakeholders to develop an industry consensus around end-to-end vote confirmation, a key priority for the SEC. • Little economic impact to BR, but the company believes any step that increases vote accuracy and confidence in the proxy voting process is a positive.

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Growth Opportunity: Drive Capital Markets

Strong market position

- Serve 19 of the 24 US Fixed Income primary dealers
- Process Equities for 7 of the top 10 global investment banks
- Clear and settle in over 90 markets globally

Unique managed services model

- Support 40+ clients for both technology and operations including 7 of 24 US Fixed Income primary dealers

Emerging capabilities

- Securities Financing & Collateral Management
- Corporate Actions
- Regulatory Reporting

Global market momentum

J.P.Morgan

SOCIETE GENERALE

BARCLAYS

NOMURA

EXTEND GOVERNANCE

DRIVE CAPITAL MARKETS
Fee Revenue = $0.5B

BUILD WEALTH MANAGEMENT

Scale Global Post-Trade Technology Platform of the Future

Build Network Value

Extend Additional Enterprise Capabilities

Note: Capital Markets Fee revenues as of Broadridge's December 2017 Investor Day and are primarily derived from Global Technology and Operations ("GTO") Segment

Growth Opportunity: Build Wealth Management

- Educational content
- Enriched, digital communications
- Trading and account servicing

- Wealth management tools
- Targeted marketing
- Wealth mobile portal



- Clearance & settlement
- Client and regulatory reporting
- Business process automation & workflows

EXTEND GOVERNANCE | DRIVE CAPITAL MARKETS | **BUILD WEALTH** Fee Revenue $0.4B

Extend Front-to-Back Platform of the Future

Drive Digital Wealth Solutions

Drive Best-of-Suite for Investment Managers

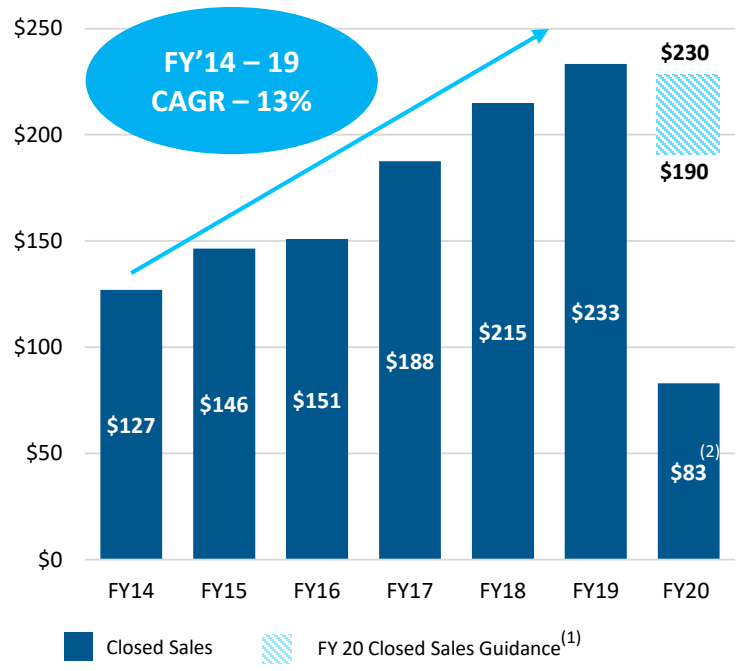
Note: Wealth Management Fee revenues as of Broadridge's December 2017 Investor Day and are derived across ICS and GTO Segments

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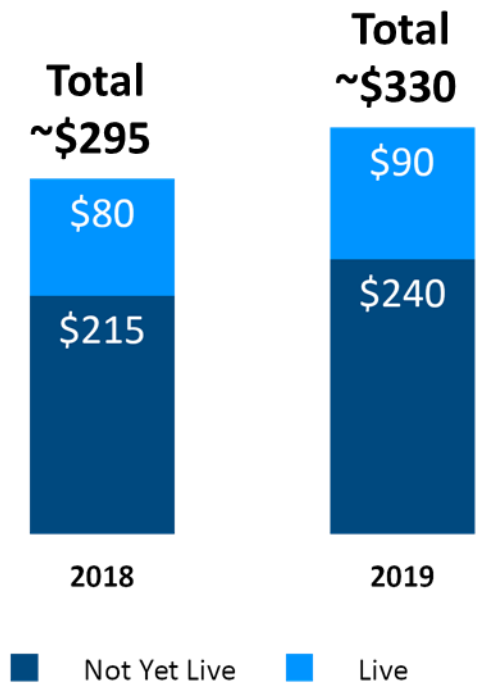
Record Sales Building Revenue Backlog

Dollars in millions

Annual Closed Sales Performance



Recurring Revenue Backlog as of June 30 [3,4]



(1) FY20 Closed sales Guidance Range as of August 1, 2019 Earnings Call.
(2) Year to Date actuals, as reported on January 31, 2020 Earnings Call.
(3) Recurring Revenue Backlog as of August 1, 2019 Earnings Call and are Broadridge estimates and subject to revision.
(4) Recurring Revenue Backlog represents an estimate of first year revenues from Closed sales that have not yet been recognized and are expected to be recognized. Not Yet Live represents the subset of the Backlog where none of the first year revenues from Closed sales have been recognized but are expected to be recognized. Live represents the subset of the Backlog where a portion of the first year revenues from Closed sales have been recognized in previous periods.

Broadridge Business Model is Strong

Sustainable Growth	• Large, recurring revenue base with good visibility aided by $330 million revenue backlog • Organic strength driven by large addressable market
Steady Margin Expansion	• Continued scale and operational leverage • Focus on operational efficiencies
Strong Free Cash Flow	• 100+% average free cash flow conversion • Largely predictable model
Balanced Capital Allocation	• Target ~45% dividend payout ratio[1] • Balance of targeted M&A and share repurchase

(1) Dividend payout ratio is a percentage of prior year Adjusted Net Earnings and is subject to Board approval.

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Executing Against Investor Day Themes

Extend Governance

- Driving next-gen regulatory communications
  - ✓ Strengthening digital products to enhance regulatory and other communications
  - ✓ Rule 30e-3 and Enhanced Content opportunities
- Growing data & analytics suite
- Broadening corporate issuer solution set
- Building omni-channel communications

Drive Capital Markets

- Extending global post trade technology platform
  - ✓ Continued progress onboarding major clients
  - ✓ New client wins further extend international reach
- Developing new products to drive network value in fixed income market
- Developing blockchain-enabled solution for repo market

Build Wealth Management

- On track to deliver front to back wealth management platform for UBS in CY21
- Continued strong interest from key clients in integrated Wealth platform
- RPM, Rockall, Shadow and ClearStructure acquisitions accelerate growth and broaden product suite
- Continuing penetration of existing products

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Fiscal Year 2020 Guidance – As Of January 31, 2020

Recurring fee revenue growth	8-10%
Total revenue growth	3-6%
Operating income margin – GAAP	~14%
Adjusted Operating income margin – Non-GAAP	~18%
Diluted earnings per share growth	(4) – 0%
Adjusted earnings per share growth – Non-GAAP	8-12%[(1)(2)]
Closed sales	$190 - $230M

(1) Expected to be at low end of range
(2) Broadridge estimates that Third Quarter Fiscal Year 2020 Adjusted EPS will be approximately one-third of Fiscal Year 2020 Adjusted EPS

Second Quarter Fiscal Year 2020 Financial Summary

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Second Quarter Highlights

- **7% Recurring fee revenue growth driven by strong contribution from recent acquisitions**
- **Event-Driven Revenue down 36% to near historic low drove lower EPS**
  - Adjusted EPS down 5% to $0.53 in seasonally small quarter
  - GAAP EPS down 79% to $0.09 driven by charges associated with the IBM Private Cloud Agreement and increased acquisition amortization
- **Recent M&A performing well**
- **Strong year-to-date Sales of $83M, up double digits excluding FY19 UBS deal**
- **FY20 Guidance on-track despite significant drop in event-driven revenue**
  - Recurring fee revenue growth of 8-10% driven by pick-up in organic growth in seasonally more important second half
  - Adjusted EPS growth of 8-12%, expected to be at low end of range
- **Broadridge remains on track for longer-term opportunity and continues to invest in new product with exciting milestones later this year**

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Second Quarter 2020 Operating Review

- **ICS Recurring revenues: continued growth**
  - Recurring fee revenue growth of 9% (organic growth of 4%) excluding Customer Communications in quarter
  - Customer Communications revenues declined 3% driven by lower mutual funds communications in quarter
- **Event-driven activity at decade lows**
- **GTO: on track for stronger growth**
  - Recurring fee revenue growth of 14% (organic growth of 4%)
  - Strong growth from new sales offset by lower equity trading volumes in 2Q, but set the stage for organic growth acceleration over balance of FY20
  - FY19 acquisitions performing well out of the gate
- **Closed sales remained strong**
  - Double digit increase on a year-to-date basis excluding FY19 UBS sale

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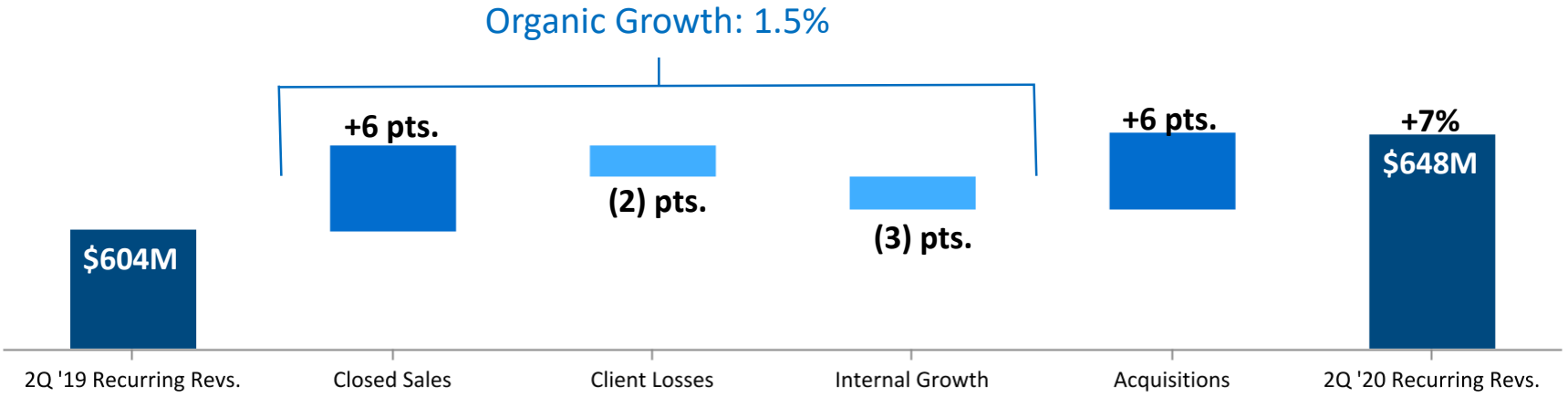
Business Update: Focused on Long-term Growth

- **Regulatory update**
- **Recent acquisitions strengthen core businesses**
  - **Wealth**: ClearStructure
  - **Governance**: FundsLibrary
- **Broadridge Private Cloud an important step forward in our cloud strategy enabling improved time-to-market, increased resilience, and enhanced focus on differentiated solutions**
- **Remain on track to deliver long-term growth**
  - Targeted M&A investment broadens product lineup
  - Continued reinvestment despite event-driven pressures
  - Strong pipeline of innovative new products

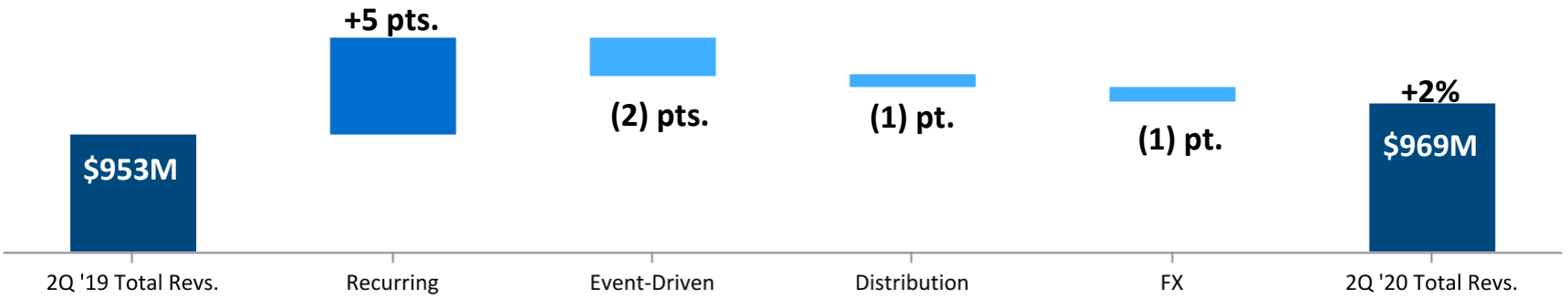
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Second Quarter 2020 Revenue Growth Drivers

- **Second Quarter 2020 Recurring fee revenues grew 7% to $648 million**



- **Second Quarter 2020 Total revenues grew 2% to $969 million**



Note: Amounts may not sum due to rounding.

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Second Quarter 2020 Segment Revenue Growth and Drivers

Dollars in millions

	2Q 2019	2Q 2020	Growth
Investor Communication Solutions Revenues[1]			
Recurring Fee Revenues	$ 357	$ 368	3 %
Event-Driven Fee Revenues	48	31	(36)%
Distribution Revenues	323	317	(2)%
Total ICS Revenues	**$ 728**	**$ 716**	**(2)%**
Global Technology and Operations Revenues[1]	**$ 247**	**$ 281**	**14 %**

	ICS	GTO
2Q FY20 Recurring Revenue Growth Drivers		
Net New Business	3 pts	6 pts
Internal Growth	(3) pts	(2) pts
Organic Recurring Fee Revenue Growth	**0 pt**	**4 pts**
Acquisitions	3 pts	10 pts
Recurring Fee Revenue Growth	**3 %**	**14 %**

(1) FY2019 revenues have been revised to reflect the Broadridge Advisor Solutions organizational change. This change had the effect of transferring revenues previously reported in the ICS segment to the GTO segment. In aggregate, the Total revenues transferred in 2Q FY2019 were $10.4 million.

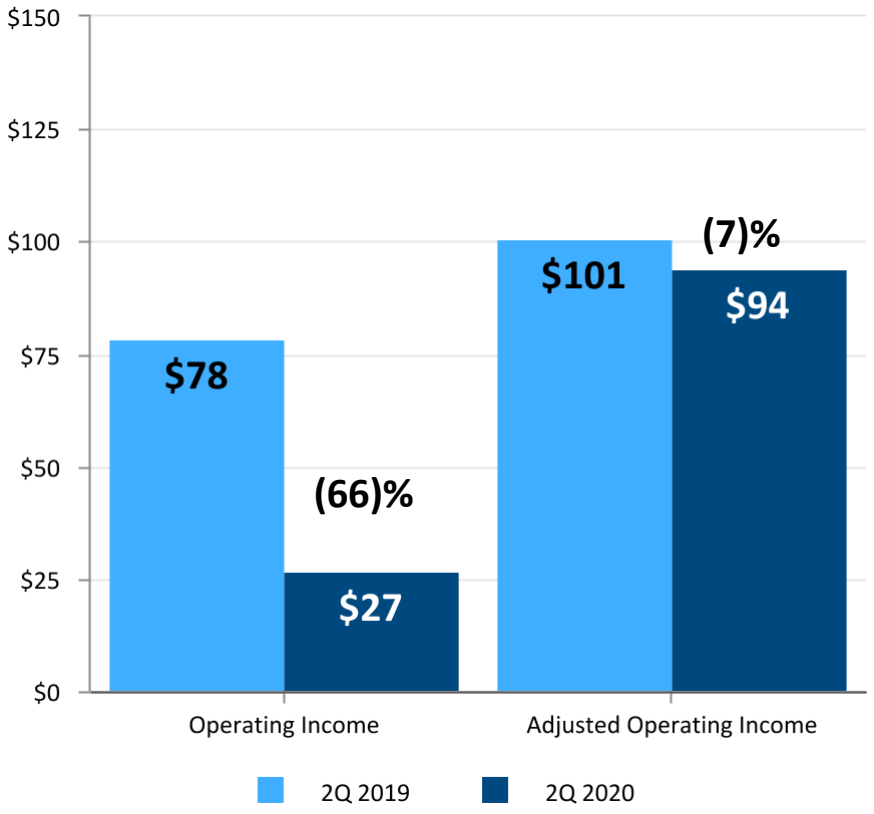
Note: Amounts may not sum due to rounding.

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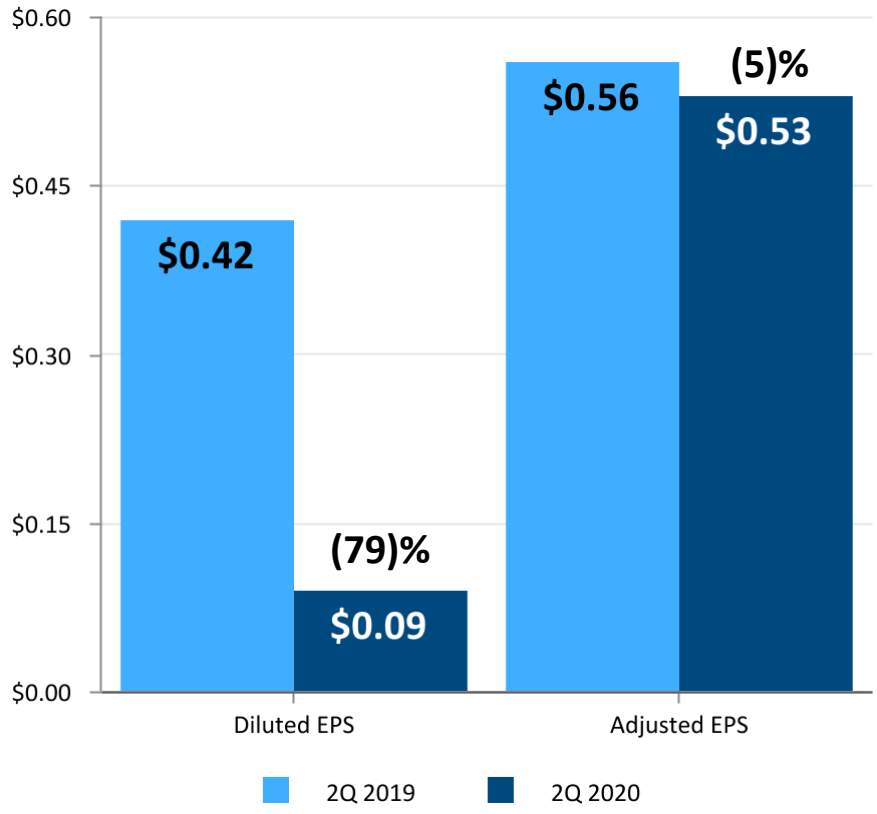
Second Quarter 2020 Operating Income and EPS

Dollars in millions, except per share amounts

Year-over-Year Change in Operating Income and Adjusted Operating Income



Year-over-Year Change in Diluted EPS and Adjusted EPS

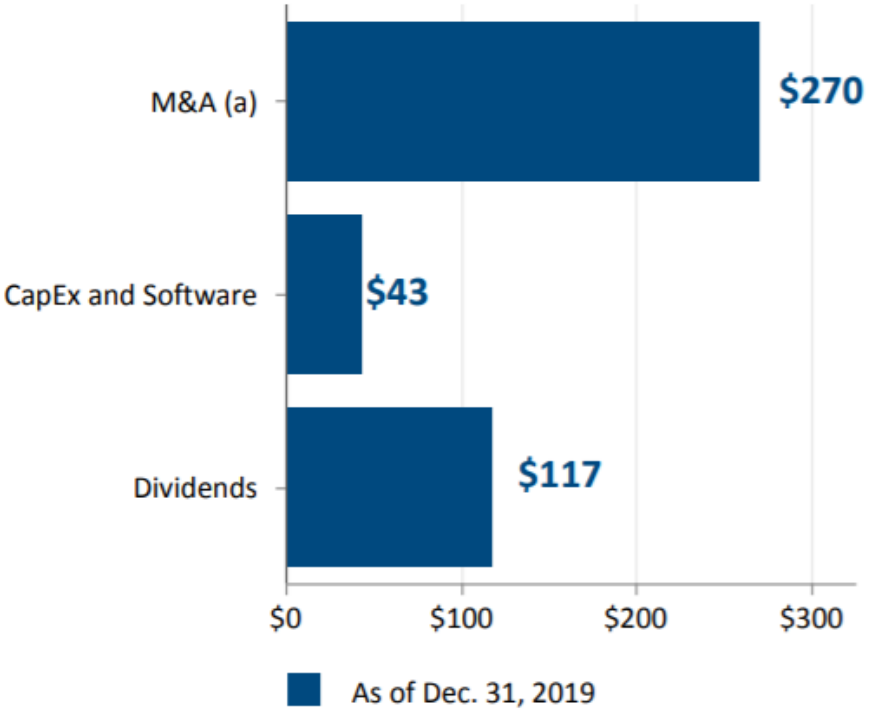


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Capital Allocation and Summary Balance Sheet

Dollars in millions

Select Uses of Cash Year to Date



Summary Balance Sheet as of December 31, 2019

Assets	
Cash and cash equivalents	$ 234
Other assets	4,151
Total assets	$ 4,385
Liabilities and Stockholders' Equity	
Current portion of long-term debt	$ 400
Long-term debt	1,449
Total debt outstanding	**1,849**
Other liabilities	1,410
Total liabilities	$ 3,259
Total stockholders' equity	$ 1,125

Notes:
(a) Includes deferred acquisition payments of $41M related to Q4 2019 acquisitions.

Note: Amounts may not sum due to rounding.

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Supplemental Reporting Detail - Product Line Reporting[1]

Dollars in millions	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2019 FY	2Q 2020 2Q	2Q 2020 % Growth
Investor Communication Solutions ("ICS")							
Equity proxy	$ 31.0	$ 41.7	$ 152.9	$ 211.4	$ 437.0	$ 42.2	1 %
Mutual fund and ETF interims	57.8	60.7	82.1	65.3	265.9	65.1	7 %
Customer communications and fulfillment	174.9	182.6	201.1	177.8	736.4	176.6	(3)%
Other ICS	73.4	71.9	83.5	95.9	324.8	83.5	16 %
Total ICS recurring fee revenues	**$ 337.1**	**$ 357.0**	**$ 519.6**	**$ 550.4**	**$ 1,764.0**	**$ 367.5**	**3 %**
Equity and other	$ 24.1	$ 19.5	$ 35.4	$ 28.3	$ 107.3	$ 15.3	(22)%
Mutual funds	52.8	28.6	33.1	22.7	137.2	15.7	(45)%
Total Event-driven fee revenues	**$ 76.9**	**$ 48.1**	**$ 68.4**	**$ 51.0**	**$ 244.5**	**$ 31.0**	**(36)%**
Distribution	341.0	322.7	417.9	378.2	1,459.8	317.0	(2)%
Total ICS revenues	**$ 755.0**	**$ 727.8**	**$ 1,005.9**	**$ 979.6**	**$ 3,468.3**	**$ 715.6**	**(2)%**
Global Technology and Operations ("GTO")							
Equities and other	$ 198.4	$ 206.8	$ 206.7	$ 219.7	$ 831.7	$ 237.2	15 %
Fixed income	40.0	40.1	41.1	43.4	164.6	43.7	9 %
Total GTO recurring fee revenues	**$ 238.4**	**$ 247.0**	**$ 247.8**	**$ 263.1**	**$ 996.3**	**$ 280.9**	**14 %**
Foreign currency exchange	(20.7)	(21.4)	(28.9)	(31.5)	(102.4)	(27.8)	30 %
Total revenues	**$ 972.8**	**$ 953.4**	**$ 1,224.8**	**$ 1,211.2**	**$ 4,362.2**	**$ 968.7**	**2 %**
Revenues by Type							
Recurring fee revenues	$ 575.5	$ 603.9	$ 767.4	$ 813.5	$ 2,760.3	$ 648.4	7 %
Event-driven fee revenues	76.9	48.1	68.4	51.0	244.5	31.0	(36)%
Distribution revenues	341.0	322.7	417.9	378.2	1,459.8	317.0	(2)%
Foreign currency exchange	(20.7)	(21.4)	(28.9)	(31.5)	(102.4)	(27.8)	30 %
Total revenues	**$ 972.8**	**$ 953.4**	**$ 1,224.8**	**$ 1,211.2**	**$ 4,362.2**	**$ 968.7**	**2 %**

(1) FY2019 revenues have been revised to reflect the Broadridge Advisor Solutions organizational change. This change had the effect of transferring revenues previously reported in the ICS segment to the GTO segment. In the aggregate, the Total revenues transferred in FY2019 were $42.8 million.

Note: Amounts may not sum due to rounding.

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Reconciliation of GAAP to Non-GAAP Measures

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Reconciliation of GAAP to Non-GAAP Measures

(Unaudited)

Dollars in millions	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Operating income (GAAP)	$ 26.8	$ 78.2	$ 99.9	$ 178.3
Adjustments:				
Amortization of Acquired Intangibles and Purchased Intellectual Property	30.3	21.3	58.4	43.2
Acquisition and Integration Costs	3.4	1.3	5.9	2.2
IBM Private Cloud Charges	$ 33.4	$ —	$ 33.4	$ —
Adjusted Operating income (Non-GAAP)	$ 93.9	$ 100.8	$ 197.5	$ 223.7
Operating income margin (GAAP)	2.8 %	8.2 %	5.2 %	9.3 %
Adjusted Operating income margin (Non-GAAP)	9.7 %	10.6 %	10.3 %	11.6 %

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Net earnings (GAAP)	$ 10.1	$ 49.9	$ 66.0	$ 126.6
Adjustments:				
Amortization of Acquired Intangibles and Purchased Intellectual Property	30.3	21.3	58.4	43.2
Acquisition and Integration Costs	3.4	1.3	5.9	2.2
IBM Private Cloud Charges	33.4	—	33.4	—
Taxable adjustments	67.1	22.6	97.7	45.4
Tax impact of adjustments (a)	(14.8)	(5.3)	(21.3)	(10.3)
Adjusted Net earnings (Non-GAAP)	$ 62.4	$ 67.2	$ 142.3	$ 161.8

(a) Calculated using the GAAP effective tax rate, adjusted to exclude $2.2 million and $7.9 million of excess tax benefits associated with stock-based compensation for the three and six months ended December 31, 2019, and $0.8 million and $7.9 million of excess tax benefits associated with stock compensation for the three and six months ended December 31, 2018, respectively. For purposes of calculating Adjusted earnings per share, the same adjustments were made on a per share basis.

Note: Amounts may not sum due to rounding.

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Reconciliation of GAAP to Non-GAAP Measures

(Unaudited)

Dollars in millions, except per share amounts	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Diluted earnings per share (GAAP)	$ 0.09	$ 0.42	$ 0.56	$ 1.06
Adjustments:				
Amortization of Acquired Intangibles and Purchased Intellectual Property	0.26	0.18	0.50	0.36
Acquisition and Integration Costs	0.03	0.01	0.05	0.02
IBM Private Cloud Charges	0.28	—	0.28	—
Taxable adjustments	0.57	0.19	0.83	0.38
Tax impact of adjustments (a)	(0.13)	(0.04)	(0.18)	(0.09)
Adjusted earnings per share (Non-GAAP)	$ 0.53	$ 0.56	$ 1.22	$ 1.35

	Six Months Ended December 31,	
	2019	2018
Net cash flows provided by operating activities (GAAP)	$ 11.5	$ 82.1
Capital expenditures and Software purchases and capitalized internal use software	(43.0)	(30.3)
Free cash flow (Non-GAAP)	$ (31.5)	$ 51.8

(a) Calculated using the GAAP effective tax rate, adjusted to exclude $2.2 million and $7.9 million of excess tax benefits associated with stock-based compensation for the three and six months ended December 31, 2019, and $0.8 million and $7.9 million of excess tax benefits associated with stock-based compensation, for the three and six months ended December 31, 2018. For purposes of calculating Adjusted earnings per share, the same adjustments were made on a per share basis.

Note: Amounts may not sum due to rounding.

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Reconciliation of GAAP to Non-GAAP Measures - FY20 Guidance

(Unaudited)

FY20 Adjusted Earnings Per Share Growth Rate (a)	
Diluted earnings per share growth (GAAP)	(4) - 0%
Adjusted earnings per share growth (Non-GAAP)	8% - 12%

FY20 Adjusted Operating Income Margin (b)	
Operating income margin % (GAAP)	~14%
Adjusted Operating income margin % (Non-GAAP)	~18%

(a) Adjusted earnings per share growth (Non-GAAP) is adjusted to exclude the projected impact of Amortization of Acquired Intangibles and Purchased Intellectual Property, Acquisition and Integration Costs, and IBM Private Cloud Charges, and is calculated using diluted shares outstanding. Fiscal year 2020 Non-GAAP Adjusted earnings per share guidance estimates exclude Amortization of Acquired Intangibles and Purchased Intellectual Property, Acquisition and Integration Costs, and IBM Private Cloud Charges, net of taxes, of approximately $1.11 per share.

(b) Adjusted Operating income margin (Non-GAAP) is adjusted to exclude the projected impact of Amortization of Acquired Intangibles and Purchased Intellectual Property, Acquisition and Integration Costs, and IBM Private Cloud Charges. Fiscal year 2020 Non-GAAP Adjusted Operating income margin guidance estimates exclude Amortization of Acquired Intangibles and Purchased Intellectual Property, Acquisition and Integration Costs, and IBM Private Cloud Charges of approximately $170 million.

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