

European Works Council

Statement - Significant investment required to position NewCo and RemainCo in highly competitive markets

"Every IBMer can be proud of where we are today and be excited about where we are going; there is a massive opportunity ahead of us", General Manager of Worldwide Managed Infrastructure Services Bart Van den Daele said. "It feels as if a family member leaves home, but he will always remain with us in heart and mind", IBM Europe's Chief Operating Officer David Stokes added. "With the acquisition of Red Hat and the spin-off of NewCo we are both positioned to move forward with a lot of confidence. We will continue to work closely together as strategic and preferred partners, combining the best of both worlds", they emphasised.

On October 8 2020, IBM CEO Arvind Krishna announced IBM's corporate decision to spin-off its Managed Infrastructure Services (IS) business, which **supports the backbone of the world's economy** by serving 4.600 customers globally across all major industries. Of the 90.000 IS employees worldwide, the IBM EWC estimates that around one fifth are based in Europe, with most visible footprints in our European Delivery Centres in Poland, the Czech Republic and Hungary. Managed IS delivers \$19 billion of revenue worldwide, of which a very significant part is generated in Europe. The IBM EWC concludes that IBM's rationale of spinning-off Managed IS primarily relates to its different financial and margin profile, especially compared to IBM's strategic Cloud and Cognitive Software business. With RemainCo, IBM wants to accelerate and focus primarily on becoming a leading company in hybrid cloud and AI, and gain share in a fast growing market.

At today's Extraordinary Meeting, the IBM EWC was informed of **optimistic market scenarios** for both NewCo and RemainCo, including the overall strategic outline and organisational implications. The team received high level data regarding market dynamics, the financial and business rationale, the strategic direction and also regarding the offerings and position of both companies versus the competition around Europe. Furthermore, the general guiding principles and scoping criteria regarding the transfer of employment were outlined. IBM senior management stated that the spin-off is a very complicated and broad project comprising many different dynamics and dimensions, although it is hoped that this will be completed before the end of 2021. The membership requests that IBM senior management urgently shares additional, more specific data e.g. on the proportion and breakdown of the global addressable market opportunity of \$1 trillion that relates to Europe and on actionable plans showing how both RemainCo and NewCo can benefit the most from this opportunity in their respective markets.

IBM senior management explained that as a separate and independent company, NewCo can focus better on its core business, is able to make **autonomous decisions and investments**, and is free to partner with other IT and cloud vendors that compete with IBM. The IBM EWC notes that NewCo will primarily operate in a declining traditional IT services market, focusing on growing cloud-related services. Any insight or evidence regarding IBM's assessment and business case that a spin-off can deliver both companies more growth perspective and add significant value to customers, was not provided. Specific and tangible information on the rules and governance regarding the future working relation between NewCo and RemainCo and its partners could not be shared in more detail at this stage.

Based on the **tight connection and interdependence of operating models and pricing mechanisms** of both companies, as well as the important contribution of Managed IS in the generation of cloud strategic imperative revenue around Europe, the IBM EWC is not immediately convinced that both companies are better positioned as separate entities. Former IBM CEO Lou Gerstner concluded years ago that the sum of the individual parts of our company was worth more than the mathematical outcome. Today, IS offers an attractive portfolio of services, for example to develop and manage hybrid cloud infrastructures and to migrate critical workloads to the cloud. These services are, in the view of the membership, important differentiators for growth in a highly competitive European market. The membership requests that IBM senior management provides additional insight in the go-to-market model and governance i.e. how both companies can optimise and orchestrate teamwork and how conflicts of interest can be minimised.

At the global announcement of the spin-off, it was highlighted that IBM Managed IS holds the #1 position in the global services market, with a market share of twice its nearest competitor. Historically, **Europe has been a typical services market** and the IBM EWC estimates that in most European countries the share of services as part of IBM's revenue lies above IBM's corporate model. The membership observes that there is much variety in the competitive services landscapes around Europe. In several European countries, local competitors are important and often dominant players, who have also established leading positions. In this context, the IBM EWC is not convinced that NewCo will automatically have or establish a leading position.

It was explained at the meeting that the global **sixty days scoping exercise and workload assessment** is still ongoing, with the results expected in early 2021. Comparable with divestitures, employees who have spent more than 50% of their time supporting IS business during the last 12 months, will most likely be in scope for the spin-off. Legal compliance processes govern the scoping exercise. IBM senior management stated that as a result, at this stage no headcount data or additional employment implications could be shared. The IBM EWC requests a full insight to the scoping results for Europe, broken down by country and legal entity, as soon as these metrics become available. Furthermore, the membership requests that IBM senior management ensures that clarity is provided to employees meeting the scoping criteria as a matter of urgency and establishes an appeals process for employees who wish to challenge scoping decisions.

The IBM EWC requests that IBM senior management ensures that the current **Terms & Conditions** of employees in scope of the NewCo spin-off, as well as supporting IBM tooling and processes, will be fully harmonised as per the date of transfer, without any capping or limitation to a specific period. IBM's plan to offer employees transferring to NewCo a work guarantee is welcomed, but the membership requests to broaden this guarantee to all employees of both companies for a period of at least 24 months from the point of the spin-off. The IBM EWC welcomes the time that local teams are given well into 2021 to make proper plans to ensure IBMers' engagement and continuity of operations. We would also suggest that equities or RSU's are granted to all employees of both NewCo and RemainCo, to support a positive start of the new organisations and to further improve engagement and retention of employees. The team also requests that IBM senior management actively supports and promotes the establishment of a European Works Council at NewCo, by adopting the agreement and internal regulation of the current IBM EWC.

The IBM EWC realises that IBM's corporate decision to spin-off Managed IS is firm and irreversible. The EWC is convinced that **significant and long term investments are crucial** to build and establish a renewed and distinct footprint, corporate culture, identity and brand image reputation for both NewCo and RemainCo in their respective markets. In the view of the EWC, investments are also needed to preserve their attractiveness and visibility as new employers, to revise current go-to-market models, to carefully build up an ecosystem and to ensure that relationships with current and new customers can be maintained and developed. The IBM EWC requests that IBM senior management actively supports these investments and designs and implements legal mechanisms that avoid a possible future hostile takeover of both NewCo and RemainCo. The membership also believes that it is crucial to offer employees, customers and partners an attractive and compelling perspective and outlook, to ensure buy-in and thereby secure the viability of both companies.

The IBM EWC appreciated today's open and constructive dialogue on a complex project with many dimensions and implications. A broad range of topics and aspects was discussed and the membership felt encouraged to raise questions and to make comments. In the view of the membership, today's session was the start of an ongoing **information and consultation** process that has not been concluded and that **should continue in 2021**, as ongoing preparatory work and many data points and insights could not yet be provided. The team welcomes IBM's commitment to continue a constructive and regular dialogue throughout the New Year and requests that IBM senior management allows all country representatives to attend these update sessions.

2020 has been an intense and hectic year for all IBMers and their families and loved ones; the IBM EWC wishes everyone a Merry Christmas and will keep you informed on further developments in the New Year.

IBM European Works Council
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