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International Business Machines Corporation and Subsidiary Companies

segments, total IBM cloud revenue of \$7.5 billion in the fourth quarter of 2020 grew 10 percent as reported (7 percent adjusted for currency) and 8 percent excluding divested businesses and adjusted for currency.

From a geographic perspective, Americas revenue decreased 10.5 percent year to year as reported (10 percent excluding divested businesses and adjusted for currency). EMEA decreased 3.1 percent (8 percent excluding divested businesses and adjusted for currency). Asia Pacific declined 2.0 percent year to year as reported (5 percent excluding divested businesses and adjusted for currency).

The consolidated gross margin of 51.7 percent increased 0.7 points year to year and the operating (non-GAAP) gross margin of 52.5 percent increased 0.7 points with margin expansion across software, services and systems.

Total expense and other (income) increased 29.9 percent in the fourth quarter of 2020 versus the prior-year period primarily driven by the workforce rebalancing charge, lower gains from divestitures and the impact of currency. These increases were partially offset by lower spending including reduced travel and other expenses associated with COVID-19 restrictions. Total operating (non-GAAP) expense and other (income) increased 30.8 percent year to year, driven primarily by the same factors.

Pre-tax income from continuing operations of \$1.3 billion decreased 67.7 percent and the pre-tax margin was 6.3 percent, a decrease of 12.0 points versus the prior-year period, primarily due to the workforce rebalancing charge. The continuing operations effective tax rate for the fourth quarter of 2020 was 1.9 percent compared to an effective tax rate of 8.1 percent in the fourth quarter of 2019. Net income from continuing operations was \$1.3 billion, a decrease of 65.5 percent year to year. The net income margin from continuing operations was 6.2 percent, a decrease of 10.6 points from the prior-year period.

Operating (non-GAAP) pre-tax income from continuing operations of \$2.1 billion decreased 55.8 percent year to year and the operating (non-GAAP) pre-tax margin from continuing operations decreased 11.4 points to 10.2 percent, primarily due to the workforce rebalancing charge. The operating (non-GAAP) effective tax rate from continuing operations in the fourth quarter of 2020 was 10.4 percent versus 10.5 percent in the prior year. Operating (non-GAAP) income from continuing operations of \$1.9 billion decreased 55.8 percent with an operating (non-GAAP) income margin from continuing operations of 9.1 percent, down 10.2 points year to year.

Diluted earnings per share from continuing operations of \$1.41 in the fourth quarter of 2020 decreased 65.7 percent and operating (non-GAAP) diluted earnings per share of \$2.07 decreased 56.1 percent versus the fourth quarter of 2019.