

[Table of Contents](#)

32

Management Discussion

International Business Machines Corporation and Subsidiary Companies

as we continued to deliver efficiency and flexibility to our clients' processes by infusing innovative technology and redesigning intelligent workflows.

Within GBS, cloud revenue of \$5.8 billion grew 11 percent as reported and adjusted for currency. GBS continued to drive the adoption of our hybrid cloud platform to help our clients accelerate their digital reinventions by modernizing their application infrastructures and leveraging business transformation services built on hybrid cloud.

(\$ in millions)

			Yr.-to-Yr. Percent/ Margin Change
For the year ended December 31:	2020	2019 *	
Global Business Services			
External gross profit	\$4,795	\$4,655	3.0 %
External gross profit margin	29.7 %	27.7 %	2.0 pts.
Pre-tax income	\$1,351	\$1,623	(16.8)%
Pre-tax margin	8.3 %	9.5 %	(1.2)pts.

* Recast to reflect segment changes.

The GBS gross profit margin increased 2.0 points to 29.7 percent compared to the prior year, driven by margin improvements across all three areas of the business. The gross margin expansion reflects our shift to higher-value offerings, improved productivity and operational efficiency created by our investments in innovative delivery capabilities and our ability to leverage our variable and global delivery resource model. Pre-tax income of \$1,351 million decreased 16.8 percent compared to the prior year and the pre-tax margin declined 1.2 points to 8.3 percent. The year-to-year declines in pre-tax income and margin were driven by the higher workforce rebalancing charges year to year, which had 2.6 points of impact to pre-tax margin, partially offset by the gross margin expansion.

Global Technology Services

(\$ in millions)

			Yr.-to-Yr. Percent Change	Yr.-to-Yr. Percent Change Adjusted for Currency
For the year ended December 31:	2020	2019		
Global Technology Services external revenue				
Infrastructure & Cloud Services	\$19,669	\$20,736	(5.1)%	(5.2)%
Technology Support Services	6,144	6,625	(7.3)	(6.0)

GTS revenue of \$25,812 million decreased 5.7 percent as reported (5 percent adjusted for currency) in 2020 compared to the prior year. The revenue decline was driven by lower client business volumes primarily with clients in industries more impacted by the macroeconomic environment. However, cloud revenue grew as reported and adjusted for currency in 2020 compared to the prior year. We had strong contract renewals and added a number of new clients in the fourth quarter.

Infrastructure & Cloud Services revenue of \$19,669 million decreased 5.1 percent as reported (5 percent adjusted for currency) compared to the prior year. Revenue was impacted by lower client-based business volumes year to year in the more economically sensitive industries. Clients took a longer-term view, with a focus on modernizing their core infrastructure to create operational efficiency and move their mission-critical workloads to a hybrid cloud platform. These clients turn to GTS's managed infrastructure services with its deep expertise in managing clients' mission-critical infrastructures and next generation service delivery capabilities infused with AI and automation. As we prepare to separate our managed infrastructure services business in 2021, we are deeply engaged with our clients to ensure a smooth transition to NewCo, the world's leading provider of infrastructure services.

Technology Support Services (TSS) revenue of \$6,144 million decreased 7.3 percent as reported (6 percent adjusted for currency) in 2020, driven primarily by the Systems hardware product cycles and