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Management Discussion

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International Business Machines Corporation and Subsidiary Companies

As discussed in the “Operating (non-GAAP) Earnings” section, we characterize certain retirement-related costs as operating and others as non-operating. Utilizing this characterization, operating retirement-related costs in 2020 were \$1,494 million, an increase of \$37 million compared to 2019. Non-operating costs of \$1,123 million in 2020 increased \$508 million year to year, driven primarily by the same factors as above.

Income Taxes

The continuing operations effective tax rate for 2020 was (18.6) percent compared to 7.2 percent in 2019. The decrease in the effective tax rate was primarily driven by a net tax benefit of \$0.9 billion related to an intra-entity sale of certain of the company’s intellectual property and related impacts in the first quarter of 2020, and a benefit of \$0.2 billion related to a foreign tax law change. The operating (non-GAAP) effective tax rate for 2020 was (1.5) percent compared to 8.5 percent in 2019. The current year operating (non-GAAP) benefit from income taxes was primarily driven by the net tax benefit from the intra-entity IP sale. For more information, see note G, “Taxes.”

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and stock awards.

	2020	2019	Yr.-to-Yr. Percent Change
For the year ended December 31:			
Earnings per share of common stock from continuing operations			
Assuming dilution	\$6.13 *	\$10.57	(42.0)%
Basic	\$6.18 *	\$10.63	(41.9)%
Diluted operating (non-GAAP)	\$8.67 *	\$12.81	(32.3)%
Weighted-average shares outstanding (in millions)			
Assuming dilution	896.6	892.8	0.4 %
Basic	890.3	887.2	0.4 %

* The \$2.0 billion pre-tax charge for structural actions in the fourth quarter resulted in an impact of (\$1.84) to diluted earnings per share from continuing operations and diluted operating (non-GAAP) earnings per share. The impact to basic earnings per share was (\$1.85).

Actual shares outstanding at December 31, 2020 and 2019 were 892.7 million and 887.1 million, respectively. The year-to-year increase was primarily the result of the common stock issued under employee plans. The average number of common shares outstanding assuming dilution was 3.8 million shares higher in 2020 versus 2019.

Financial Position
Dynamics

At December 31, 2020, our balance sheet remained strong with flexibility to support the business. We continue to manage the investment portfolio to meet our capital preservation and liquidity objectives. In this unprecedented environment as a result of the COVID-19 pandemic, while we are supporting our clients and improving the flexibility and competitive position of our operations, we took actions to enhance our balance sheet strength and liquidity position.

Cash, restricted cash and marketable securities at December 31, 2020 were \$14,275 million, an increase of \$5,265 million compared to prior year end. Through strategic mitigation actions and re-focus of our Global Financing portfolio, financing receivables declined \$4,925 million to \$17,979 million as of December 31, 2020. Total debt of \$61,538 million decreased \$1,361 million from prior year-end. During 2020, we completed bond issuances totaling \$8,117 million, with terms ranging from 7 to 30 years, and interest rates ranging from 0.325 to 2.95 percent depending on maturity. We have reduced total debt \$11,501 million since the end of the second quarter of 2019 (immediately preceding the Red Hat acquisition). We have consistently generated strong cash flow from operations