

[Table of Contents](#)

48

**Management Discussion**

International Business Machines Corporation and Subsidiary Companies

**Segment Details**

The following is an analysis of the fourth quarter of 2020 versus the fourth quarter of 2019 reportable segment external revenue and gross margin results. Segment pre-tax income includes transactions between the segments that are intended to reflect an arm's-length transfer price and excludes certain unallocated corporate items.

(\$ in millions)

For the fourth quarter:	2020	2019	Yr.-to-Yr. Percent/ Margin Change	Yr.-to-Yr. Percent Change Adjusted for Currency
<b>Revenue</b>				
Cloud & Cognitive Software	\$ 6,837	\$ 7,160 *	(4.5)%	(6.6)%
Gross margin	79.8 %	79.5 %*	0.2 pts.	
Global Business Services	4,170	4,285 *	(2.7)%	(5.2)%
Gross margin	30.1 %	27.6 %*	2.6 pts.	
Global Technology Services	6,568	6,949	(5.5)%	(7.8)%
Gross margin	35.9 %	35.2 %	0.7 pts.	
Systems	2,501	3,042	(17.8)%	(19.4)%
Gross margin	59.9 %	56.0 %	3.8 pts.	
Global Financing	286	301	(4.8)%	(6.0)%
Gross margin	33.8 %	35.6 %	(1.8)pts.	
Other	6	40 *	(84.8)%	(84.1)%
Gross margin	NM	(84.2)%*	NM	
<b>Total consolidated revenue</b>	<b>\$20,367</b>	<b>\$21,777</b>	<b>(6.5)**</b>	<b>(8.6)%</b>
<b>Total consolidated gross profit</b>	<b>\$10,523</b>	<b>\$11,100</b>	<b>(5.2)%</b>	
Total consolidated gross margin	51.7 %	51.0 %	0.7 pts.	
<b>Non-operating adjustments</b>				
Amortization of acquired intangible assets	177	189	(6.5)%	
Spin-off-related charges	1	—	NM	
<b>Operating (non-GAAP) gross profit</b>	<b>\$10,700</b>	<b>\$11,289</b>	<b>(5.2)%</b>	
Operating (non-GAAP) gross margin	52.5 %	51.8 %	0.7 pts.	

\* Recast to reflect segment changes.

\*\* (8.4) percent excluding divested businesses and adjusted for currency.

NM—Not meaningful

**Cloud & Cognitive Software**

Cloud & Cognitive Software revenue of \$6,837 million decreased 4.5 percent as reported (7 percent adjusted for currency) in the fourth quarter of 2020 compared to the prior year. The year-to-year decline in our software performance reflects the continued challenging transactional environment due to the macroeconomic environment in the fourth quarter of 2020. Since the fourth quarter is seasonally our largest transactional quarter, this was more impactful than in other quarters in 2020. Additionally, we had strong software performance in the fourth quarter of 2019, the peak in our enterprise license agreement (ELA) cycle, where clients renew, on average, about every three years. With the uncertainty our clients are facing in the current environment, many clients opted for shorter duration ELAs. This dynamic, in combination with the large seasonal volume of ELAs in the fourth quarter, impacted our software revenue performance. We had strong year-to-year renewal rates for subscription and support in the fourth-quarter 2020, reflecting our clients' commitment to our critical software solutions. We had solid growth in Cloud & Data Platforms led by Red Hat's continued strong performance. Cognitive Applications grew slightly as reported, but declined adjusted for currency. Transaction Processing Platforms declined as reported and adjusted for currency. We had double-digit growth in total cloud revenue within the segment as reported and adjusted for currency.

In the fourth quarter, Cloud & Data Platforms revenue of \$3,373 million increased 8.8 percent as reported (6 percent adjusted for currency) compared to the prior year, reflecting clients' adoption of our hybrid cloud and AI solutions, including Red Hat and Cloud Paks. Red Hat continued its strong