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Management Discussion

International Business Machines Corporation and Subsidiary Companies

strong returns on equity. Global Financing also maintains a long-term partnership with IBM's clients through various stages of the IT asset life cycle—from initial purchase and technology upgrades to asset disposition decisions.

Global Financing comprises the following business areas:

Client Financing: lease, installment payment plan and loan financing to end users and internal clients for terms up to seven years. Assets financed are primarily new and used IT hardware, software and services where we have expertise. Internal financing is predominantly in support of Global Technology Services' long-term client service contracts. All internal financing arrangements are at arm's-length rates and are based upon market conditions.

Commercial Financing: short-term working capital financing to suppliers, distributors and resellers primarily of IBM products. In 2019, we wound down the Original Equipment Manufacturer (OEM) IT portion of our commercial financing operations. In the fourth-quarter 2020, Global Financing expanded its financial flexibility by entering into an agreement with a third-party investor to sell up to \$3 billion of its IBM commercial financing receivables, at any one time, on a revolving basis over the agreement's three-year term.

Remanufacturing and Remarketing: assets include used equipment returned from lease transactions, or used and surplus equipment acquired internally or externally. These assets may be refurbished or upgraded, and sold or leased to new or existing clients both externally and internally. Externally remarketed equipment revenue represents sales or leases to clients and resellers. Internally remarketed equipment revenue primarily represents used equipment that is sold internally to Global Technology Services. Systems may also sell the equipment that it purchases from Global Financing to external clients.

IBM Worldwide Organizations

The following worldwide organizations play key roles in IBM's delivery of value to its clients:

- Global Markets
- Research, Development and Intellectual Property

Global Markets

IBM operates in more than 175 countries with a broad distribution of revenue. To manage this global footprint, Global Markets leads our dedicated country-based IBM operations in order to serve clients, develop markets, and ultimately, ensure IBM is led through a client lens.

These teams serve our clients locally, complemented by digital capabilities, global talent and resources, and an extensive partner ecosystem. These country teams have client leaders, IBM consultants, solution specialists, delivery professionals and business partners all working on behalf of clients. Their mission is to provide insights and innovation and co-create with clients to help them address their most pressing business challenges and opportunities.

In this way, we serve as a trusted partner to clients, establishing and maintaining relationships that deliver long-term value based on industry expertise, innovative technologies and an ability to deliver mission critical capabilities to an enterprise at scale.

Research, Development and Intellectual Property

Our research and development (R&D) operations differentiate us from our competitors. In 2020, we invested approximately 9 percent of total revenue for R&D, focusing on high-growth, high-value opportunities. IBM Research works with clients and our business units through global labs on near- and mid-term innovations. It delivers many new technologies to our portfolio every year and helps clients address their most difficult challenges. IBM Research scientists are conducting pioneering work in hybrid cloud, AI, quantum computing, security, systems and more—applying these technologies across industries including financial services, healthcare, automotive, pharmaceuticals and energy.

We actively continue to seek IP protection for our innovations. Some of our technological breakthroughs are used exclusively in IBM products, while others are licensed and may be used in IBM products and/or the products of the licensee. As part of our business model, we license certain of our