

[Table of Contents](#)

54

Management Discussion

International Business Machines Corporation and Subsidiary Companies

Cloud & Cognitive Software, cloud revenue of \$4.2 billion grew 40 percent as reported and 42 percent adjusted for currency compared to the prior year.

(\$ in millions)

For the year ended December 31:	2019 *	2018 *	Yr.-to-Yr. Percent/ Margin Change **
Cloud & Cognitive Software			
External gross profit	\$17,650	\$17,068	3.4 %
External gross profit margin	77.1 %	78.1 %	(1.0)pts.
Pre-tax income	\$ 7,811	\$ 8,914	(12.4)%
Pre-tax margin	30.4 %	35.6 %	(5.2)pts.

* Recast to reflect segment changes.

** 2019 results were impacted by Red Hat purchase accounting and acquisition-related activity.

The Cloud & Cognitive Software gross profit margin decline was driven by the purchase price accounting impacts from the Red Hat acquisition. The decline in pre-tax income reflected the acquisition of Red Hat, ongoing investments in key strategic areas and lower income from IP partnership agreements.

Global Business Services

(\$ in millions)

For the year ended December 31:	2019	2018	Yr.-to-Yr. Percent Change	Yr.-to-Yr. Percent Change Adjusted for Currency
Global Business Services external revenue				
	\$16,798 *	\$16,795 *	0.0 %	2.2 %
Consulting	\$ 8,157 *	\$ 7,906 *	3.2 %	5.1 %
Application Management	7,646	7,852	(2.6)	(0.3)
Global Process Services	995	1,037	(4.1)	(1.3)

* Recast to reflect segment changes.

GBS revenue was flat as reported, but grew adjusted for currency in 2019 compared to the prior year. This performance was driven by strong growth in Consulting led by offerings that enabled each phase of our clients' digital journey. These offerings included cognitive technology and data platform services, application modernization and next-generation enterprise applications and offerings that use AI to help clients unlock new opportunities and realize productivity improvements. Application Management declined as reported, but was flat adjusted for currency. We had growth in offerings that help clients develop and manage cloud applications and modernize and automate their application portfolio, offset by continued decline in the more traditional application management engagements. GPS revenue decreased year to year as demand shifted away from traditional Business Process Outsourcing (BPO) offerings to new business platforms around intelligent workflows. Within GBS, cloud revenue of \$5.2 billion grew 10 percent as reported and 13 percent adjusted for currency compared to the prior year.

(\$ in millions)

For the year ended December 31:	2019 *	2018 *	Yr.-to-Yr. Percent/ Margin Change
Global Business Services			
External gross profit	\$4,655	\$4,519	3.0 %
External gross profit margin	27.7 %	26.9 %	0.8 pts.
Pre-tax income	\$1,623	\$1,602	1.3 %
Pre-tax margin	9.5 %	9.4 %	0.1 pts.

* Recast to reflect segment changes.