

[Table of Contents](#)

36

Management Discussion

International Business Machines Corporation and Subsidiary Companies

Total Expense and Other (Income)

(\$ in millions)

	2020	2019	Yr.-to-Yr. Percent/ Margin Change
For the year ended December 31:			
Total consolidated expense and other (income)	\$30,937 *	\$26,322	17.5 %
Non-operating adjustments			
Amortization of acquired intangible assets	(1,126)	(764)	47.3
Acquisition-related charges	(13)	(409)	(96.8)
Non-operating retirement-related (costs)/income	(1,123)	(615)	82.5
Spin-off-related charges	(28)	—	NM
Operating (non-GAAP) expense and other (income)	\$28,648 *	\$24,533	16.8 %
Total consolidated expense-to-revenue ratio	42.0 %	34.1 %	7.9 pts.
Operating (non-GAAP) expense-to-revenue ratio	38.9 %	31.8 %	7.1 pts.

* Includes a \$2.0 billion pre-tax charge for structural actions in the fourth quarter.

NM—Not meaningful

Total expense and other (income) year-to-year results for the year ended December 31, 2020 were impacted by the Red Hat acquisition which closed in July 2019. As a result, in the current year, there was a full year of expenses for Red Hat operational spending and amortization of acquired intangible assets associated with the transaction. The current year also included a fourth-quarter \$2.0 billion pre-tax charge for structural actions (primarily workforce rebalancing) to simplify and optimize our operating model.

Total expense and other (income) increased 17.5 percent in 2020 versus the prior year primarily driven by the fourth-quarter charge for workforce rebalancing, higher Red Hat operational spending, lower gains from divestitures and higher non-operating retirement-related costs, partially offset by lower spending including reductions in travel and other expenses associated with COVID-19 restrictions. Total operating (non-GAAP) expense and other (income) increased 16.8 percent year to year, driven primarily by the factors above excluding the higher non-operating retirement-related costs.

For additional information regarding total expense and other (income) for both expense presentations, see the following analyses by category.

Selling, General and Administrative Expense

(\$ in millions)

	2020	2019	Yr.-to-Yr. Percent Change
For the year ended December 31:			
Selling, general and administrative expense			
Selling, general and administrative—other	\$16,800	\$17,099	(1.8)%
Advertising and promotional expense	1,542	1,647	(6.3)
Workforce rebalancing charges	2,922 *	555	426.3
Amortization of acquired intangible assets	1,123	762	47.5
Stock-based compensation	586	453	29.5
Provision for/(benefit from) expected credit loss expense	109	89	22.4
Total consolidated selling, general and administrative expense	\$23,082 *	\$20,604	12.0 %
Non-operating adjustments			
Amortization of acquired intangible assets	(1,123)	(762)	47.5
Acquisition-related charges	(13)	(282)	(95.3)
Spin-off-related charges	(28)	—	NM
Operating (non-GAAP) selling, general and administrative expense	\$21,917 *	\$19,560	12.1 %

* Includes a \$2.0 billion pre-tax charge for structural actions in the fourth quarter.

NM—Not meaningful