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International Business Machines Corporation and Subsidiary Companies

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differ from similarly titled measures reported by other companies. Refer to the "Operating (non-GAAP) Earnings" section for management's rationale for presenting operating earnings information.

(\$ in millions)

	GAAP	Acquisition- Related Adjustments	Operating (non-GAAP)
<b>For the year ended December 31:</b>			
<b>2019</b>			
Gross profit	\$36,488	\$547	\$37,035
Gross profit margin	47.3 %	0.7 pts.	48.0 %
<b>2018</b>			
Gross profit	\$36,936	\$372	\$37,307
Gross profit margin	46.4 %	0.5 pts.	46.9 %

**OTHER INFORMATION****Looking Forward**

IBM is redefining our future as a hybrid cloud platform and AI company. To accelerate our strategy, we have taken a number of actions that span our portfolio, our operating model and our capital structure.

On October 8, 2020, we announced our plan to separate the managed infrastructure services unit of our GTS segment into a new public company, currently referred to as NewCo. The separation is expected to be achieved through a U.S. federal tax-free spin-off to IBM shareholders, and be completed by the end of 2021. This creates two industry-leading companies, each with strategic focus and flexibility to capitalize on their respective missions and drive client and shareholder value. Client buying needs for application and infrastructure services are diverging, while adoption of our hybrid cloud platform is accelerating. This change in clients' needs makes it the right time to create two market-leading companies focused on what they do best. IBM will accelerate our open hybrid cloud platform growth strategy and AI capabilities to drive clients' digital transformations. NewCo will design, run and modernize the infrastructure of the world's most important organizations. Both IBM and NewCo will have greater agility to focus on their operating and financial models, have more freedom to partner with others and both will align their investments and capital structure to their strategic focus areas. We remain on track to complete the separation by the end of 2021.

IBM's focus will be on our open hybrid cloud platform, which represents a \$1 trillion market opportunity. We are unlocking the full value of the cloud for clients, further accelerating their digital transformations and adoption of the platform. This platform facilitates the deployment of powerful AI capabilities to enable the power of data, application modernization services and systems. These are all underpinned by the security, unmatched expertise in industry verticals, and deep commitment to open source innovation that clients expect from us. Our approach is platform-centric and differentiated by Red Hat OpenShift, our market-leading open platform, along with a vast software portfolio modernized to run cloud-native and our GBS expertise that drives platform adoption. This platform allows clients to "write-once/run-anywhere," and enables a hybrid cloud approach that drives up to 2.5 times more value for clients than a public cloud-only solution. Our unique full-stack capabilities and the large ecosystem of partners and global coalition of best of breed independent software vendors we have brought together should accelerate adoption of our platform. Our software portfolio, focused on data and AI, automation, and security, enables the widest access to innovation through open source. Our business, strategy and technology consultants help clients transform by modernizing their existing applications, and by building new AI-infused data analysis capabilities on the leading open hybrid cloud platform. The secure, mission-critical IBM public cloud is designed to provide all required regulatory controls, and offers clients a foundation of open source software, security leadership, and enterprise-grade infrastructure. Our Systems business, integrated with the hybrid cloud platform, allows cloud-native developers to capitalize on the unique capabilities of our hardware. Leveraging our long-term relationships with clients, we will continue to drive the innovation in hardware that enterprises rely on for their most mission-critical computing needs.

NewCo will immediately be the world's leading managed infrastructure services provider, focused on managing and modernizing client IT environments, a \$500 billion market opportunity. It will leverage its unrivaled expertise to offer services and solutions that include resiliency, security and network capabilities to enable high performance of mission-critical systems and services to help clients in their