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Management Discussion

International Business Machines Corporation and Subsidiary Companies

Consolidated Fourth-Quarter Results

(\$ and shares in millions except per share amounts)

	2020	2019	Yr.-to-Yr. Percent/ Margin Change
For the fourth quarter:			
Revenue	\$20,367	\$21,777	(6.5)%*
Gross profit margin	51.7 %	51.0 %	0.7 pts.
Total expense and other (income)	\$ 9,234 **	\$ 7,107	29.9 %
Income from continuing operations before income taxes	\$ 1,289 **	\$ 3,993	(67.7)%
Provision for income taxes from continuing operations	\$ 25	\$ 324	(92.3)%
Income from continuing operations	\$ 1,264 **	\$ 3,669	(65.5)%
Income from continuing operations margin	6.2 %	16.8 %	(10.6)pts.
Income from discontinued operations, net of tax ⁺	\$ 92	\$ 0	NM
Net income	\$ 1,356 **	\$ 3,670	(63.0)%
Earnings per share from continuing operations—assuming dilution	\$ 1.41 **	\$ 4.11	(65.7)%
Weighted-average shares outstanding—assuming dilution	899.0	893.7	0.6 %

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

** Includes a \$2.0 billion pre-tax charge for structural actions resulting in an impact to diluted earnings per share from continuing operations of (\$1.84).

⁺ Relates to discontinued operations of Microelectronics, divested in 2015.

NM—Not meaningful

The following table provides operating (non-GAAP) earnings for the fourth quarter of 2020 and 2019. See page 52 for additional information.

(\$ in millions except per share amounts)

	2020	2019	Yr.-to-Yr. Percent Change
For the fourth quarter:			
Net income as reported	\$1,356 *	\$3,670	(63.0)%
Income from discontinued operations, net of tax**	92	0	NM
Income from continuing operations	\$1,264 *	\$3,669	(65.5)%
Non-operating adjustments (net of tax)			
Acquisition-related charges	359	376	(4.4)
Non-operating retirement-related costs/(income)	198	175	13.4
U.S. tax reform impacts	18	(14)	NM
Spin-off-related charges	21	—	NM
Operating (non-GAAP) earnings	\$1,861 *	\$4,206	(55.8)%
Diluted operating (non-GAAP) earnings per share	\$ 2.07 *	\$ 4.71	(56.1)%

* Includes a \$2.0 billion pre-tax charge for structural actions resulting in an impact to diluted operating (non-GAAP) earnings per share of (\$1.84).

** Relates to discontinued operations of Microelectronics, divested in 2015.

NM—Not meaningful

Snapshot

In the fourth quarter of 2020, we reported \$20.4 billion in revenue and income from continuing operations of \$1.3 billion, which included a \$2.0 billion pre-tax charge for structural actions (primarily workforce rebalancing) to simplify and optimize our operating model. Fourth quarter operating (non-GAAP) earnings were \$1.9 billion, which also included the charge for workforce rebalancing. Diluted earnings per share from continuing operations was \$1.41 as reported and \$2.07 on an operating (non-GAAP) basis. We generated \$5.9 billion in cash from operations, \$6.1 billion in free cash flow and delivered shareholder returns of \$1.5 billion in dividends. While challenges related to macroeconomic