

At December 31, 2019, we continued to have the financial flexibility to support the business. Cash, restricted cash and marketable securities at year end were \$9.0 billion, a decrease of \$3.2 billion from December 31, 2018 as we had built up our cash position in advance of the closing of the Red Hat acquisition. Goodwill and intangible assets increased \$34.1 billion and total debt increased \$17.1 billion since December 31, 2018, primarily due to the Red Hat acquisition. With strong cash flow from operating activities and free cash flow, and disciplined financial management, we significantly deleveraged in the second half of 2019.

Total assets increased \$28.8 billion (increased \$29.0 billion adjusted for currency) from December 31, 2018 primarily driven by:

- Increases in goodwill of \$22.0 billion and net intangible assets of \$12.1 billion primarily associated with the acquisition of Red Hat; and
- An increase in operating right-of-use assets of \$5.0 billion resulting from the adoption of the new leasing standard on January 1, 2019; partially offset by
- A decrease in financing receivables of \$8.6 billion primarily due to the wind down of OEM IT commercial financing operations.

Total liabilities increased \$24.7 billion (increased \$25.0 billion adjusted for currency) from December 31, 2018 driven by:

- An increase in total debt of \$17.1 billion primarily driven by new issuances to finance the Red Hat acquisition; and
- An increase in operating lease liabilities of \$5.3 billion resulting from the adoption of the new leasing standard.

Total equity of \$21.0 billion increased \$4.1 billion from December 31, 2018 as a result of:

- Increases from net income of \$9.4 billion and retirement related plans of \$1.4 billion; partially offset by
- Decreases from dividends of \$5.7 billion and gross share repurchases of \$1.3 billion.

Cash provided by operating activities was \$14.8 billion in 2019, a decrease of \$0.5 billion compared to 2018, driven primarily by an increase in cash income tax payments (\$0.3 billion), an increase in interest payments on debt (\$0.3 billion) driven by incremental debt used to fund the acquisition of Red Hat, and performance-related declines within net income, including lower operating cash flows due to businesses divested in 2019; partially offset by an increase in cash provided by financing receivables (\$0.8 billion).

Net cash used in investing activities of \$26.9 billion was \$22.0 billion higher than the prior year, primarily driven by an increase in net cash used for acquisitions (\$32.5 billion) driven by the acquisition of Red Hat. This was partially offset by an increase in cash provided by net non-operating finance receivables (\$7.2 billion) primarily driven by the wind down of the OEM IT commercial financing operations, a decrease in cash used for net capital expenditures (\$1.3 billion) and an increase in cash provided by divestitures (\$1.1 billion).

Financing activities were a net source of cash of \$9.0 billion in 2019 compared to a net use of cash of \$10.5 billion in 2018. The year-to-year increase in cash flow of \$19.5 billion was driven by an increase in net cash sourced from debt transactions (\$16.6 billion) primarily driven by net issuances to fund the Red Hat acquisition and a decrease in cash used for gross common stock repurchases (\$3.1 billion).

In January 2020, the company disclosed that it is expecting GAAP earnings per share from continuing operations of at least \$10.57 and operating (non-GAAP) earnings of at least \$13.35 per diluted share for 2020. The company expects free cash flow to be approximately \$12.5 billion in 2020. Refer to the Looking Forward section for additional information on the company's expectations.

DESCRIPTION OF BUSINESS

Please refer to IBM's Annual Report on Form 10-K filed with the SEC on February 25, 2020, for Item 1A, entitled "Risk Factors."

We create value for clients by providing integrated solutions and products that leverage: data, information technology, deep expertise in industries and business processes, with trust and security and a broad ecosystem of partners and alliances. IBM solutions typically create value by enabling new capabilities for clients that transform their businesses and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud, digital and cognitive offerings, and enterprise systems and software which are all bolstered by one of the world's leading research organizations.

IBM Strategy

IBM's strategy begins with our clients. IBM is distinguished as being first and foremost an Enterprise company, serving the world's leaders in their industries.

Serving enterprises requires a distinct set of skills as our clients entrust us with building, integrating and running the world's mission-critical systems. These are systems that cannot fail, systems that require the highest levels of privacy and security. They are built with our software and on our systems, designed and managed by IBM services. For example, we manage approximately ninety percent of the credit card transactions and half of the world's wireless connections. We do this with an unparalleled commitment to our clients' data security.

We are unique in bringing innovative technology and industry expertise on a foundation of trust and security as an *integrated proposition* to our clients. This integrated proposition allows us to deliver business impact that matters to our clients, impact that *requires* bringing together technologies such as hybrid cloud, data and AI insight with workflow and advanced industry skills. This integrated proposition helps our clients transform themselves from traditional businesses to what we call Cognitive Enterprises.