

Global Financing encompasses two primary businesses: financing, primarily conducted through IBM Credit LLC (IBM Credit), and remanufacturing and remarketing. IBM Credit is a wholly owned subsidiary of IBM that accesses the capital markets directly. IBM Credit, through its financing solutions, facilitates IBM clients' acquisition of information technology systems, software and services in the areas where we have expertise. The financing arrangements are predominantly for products or services that are critical to the end users' business operations. Global Financing conducts a comprehensive credit evaluation of its clients prior to extending financing. As a captive financier, Global Financing has the benefit of both deep knowledge of its client base and a clear insight into the products and services financed. These factors allow the business to effectively manage two of the major risks associated with financing, credit and residual value, while generating strong returns on equity. Global Financing also maintains a long-term partnership with IBM's clients through various stages of the IT asset life cycle—from initial purchase and technology upgrades to asset disposition decisions.

Global Financing Capabilities

Client Financing: lease, installment payment plan and loan financing to end users and internal clients for terms up to seven years. Assets financed are primarily new and used IT hardware, software and services where we have expertise. Internal financing is predominantly in support of Global Technology Services' long-term client service contracts. All internal financing arrangements are at arm's-length rates and are based upon market conditions.

Commercial Financing: short-term working capital financing to suppliers, distributors and resellers of IBM. Beginning in the second quarter of 2019 and continuing throughout the year, we wound down the portion of our commercial financing operations which provides short-term working capital solutions for Original Equipment Manufacturer (OEM) IT suppliers, distributors and resellers. This wind down is consistent with IBM's capital allocation strategy and high-value focus. Commercial Financing also includes internal activity where Global Financing factors a selected portion of IBM's accounts receivable primarily for cash management purposes, at arm's-length rates. This program was suspended in the second quarter of 2019.

Remanufacturing and Remarketing: assets include used equipment returned from lease transactions, or used and surplus equipment acquired internally or externally. These assets may be refurbished or upgraded, and sold or leased to new or existing clients both externally and internally. Externally remarketed equipment revenue represents sales or leases to clients and resellers. Internally remarketed equipment revenue primarily represents used equipment that is sold internally to Global Technology Services. Systems may also sell the equipment that it purchases from Global Financing to external clients.

IBM Worldwide Organizations

The following worldwide organizations play key roles in IBM's delivery of value to its clients:

- Global Markets
- Research, Development and Intellectual Property

Global Markets

IBM operates in more than 175 countries with a broad distribution of revenue. To manage this global footprint, Global Markets leads our dedicated country-based IBM operations in order to serve clients, develop markets, and ultimately, ensure IBM is led through a client lens.

These integrated teams serve our clients locally, complemented by digital capabilities, global talent and resources, and an extensive partner ecosystem. These country teams have client relationship managers at their center, who integrate teams of IBM consultants, solution specialists, delivery professionals and business partners on behalf of clients. Their mission is to provide insights and innovation and co-create with clients to help them address their most pressing business challenges and opportunities.

In this way, we serve as a trusted partner to clients, establishing and maintaining relationships that deliver long-term value based on industry expertise, innovative technologies and an ability to deliver mission critical capabilities to an enterprise at scale.

Research, Development and Intellectual Property

Our research and development (R&D) operations differentiate us from our competitors. In 2019, we invested approximately 8 percent of total revenue for R&D, focusing on high-growth, high-value opportunities. IBM Research works with clients and our business units through global labs on near- and mid-term innovations. It delivers many new technologies to our portfolio every year and helps clients address their most difficult challenges. IBM Research scientists are conducting pioneering work in artificial intelligence, quantum computing, security, cloud, systems and more—applying these technologies across industries including financial services, healthcare, manufacturing and automotive.

In 2019, for the 27th consecutive year, IBM was awarded more U.S. patents than any other company. IBM's 9,262 patents awarded in 2019 represent a diverse range of inventions in strategic growth areas for the company, including more than 4,500 patents related to work in artificial intelligence, cloud, cybersecurity and quantum computing.

We actively continue to seek IP protection for our innovations, while increasing emphasis on other initiatives designed to leverage our IP leadership. Some of our technological breakthroughs are used exclusively in IBM products, while others are licensed and may be used in IBM products and/or the products of the licensee. As part of our business model, we license certain of our IP assets, which constitute high-value technology, but may be applicable in more mature markets. The licensee drives the future development of the IP and ultimately expands the customer base. This generates IP income for IBM both upon licensing, and with any ongoing royalty arrangements between it and the licensee. While our various proprietary IP rights are important to our success, we believe our business as a whole is not materially dependent on any particular patent or license, or any particular group of patents or licenses. IBM owns or is licensed under a number of patents, which vary in duration, relating to its products.