

The debt used to fund Global Financing assets is composed of intercompany loans and external debt. Total debt changes generally correspond with the level of client and commercial financing receivables, the level of cash and cash equivalents, the change in intercompany and external payables and the change in intercompany investment from IBM. The terms of the intercompany loans are set by the company to substantially match the term, currency and interest rate variability underlying the financing receivable and are based on arm's-length pricing. The Global Financing debt-to-equity ratio remained at 9 to 1 at December 31, 2019.

As previously stated, we measure Global Financing as a stand-alone entity, and accordingly, interest expense relating to debt supporting Global Financing's external client and internal business is included in the "Global Financing Results of Operations" and in note D, "Segments." In the Consolidated Income Statement, the external debt-related interest expense supporting Global Financing's internal financing to IBM is reclassified from cost of financing to interest expense.

Equity

Total equity increased by \$4,055 million from December 31, 2018 as a result of net income of \$9,431 million, a decline in accumulated other comprehensive losses of \$893 million primarily due to retirement-related benefits plans, and an increase in common stock of \$745 million; partially offset by decreases from dividends of \$5,707 million, and an increase in treasury stock of \$1,342 million mainly due to share repurchases.

Cash Flow

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows on page 71 are summarized in the table below. These amounts include the cash flows associated with the Global Financing business.

(\$ in millions)

For the year ended December 31:	2019	2018
Net cash provided by/(used in) continuing operations		
Operating activities	\$ 14,770	\$ 15,247
Investing activities	(26,936)	(4,913)
Financing activities	9,042	(10,469)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(167)	(495)
Net change in cash, cash equivalents and restricted cash	\$ (3,290)	\$ (630)

Net cash provided by operating activities decreased \$477 million in 2019 driven by the following key factors:

- An increase in cash income tax payments of \$346 million;
- An increase in interest payments on debt of approximately \$300 million, 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 of \$836 million in cash provided by financing receivables.

Net cash used in investing activities increased \$22,023 million driven by:

- An increase in net cash used for acquisitions of \$32,491 million, primarily driven by the acquisition of Red Hat; offset by
- An increase of \$7,223 million in cash provided by net non-operating finance receivables primarily driven by the wind down of OEM IT commercial financing operations;
- A decrease in cash used for net capital expenditures of \$1,346 million; and
- An increase in cash provided by divestitures of \$1,076 million.

Financing activities were a net source of cash of \$9,042 million in 2019 compared to a net use of cash of \$10,469 million in 2018. The year-to-year increase in cash flow of \$19,512 million was driven by:

- An increase in net cash sourced from debt transactions of \$16,584 million primarily driven by net issuances to fund the Red Hat acquisition; and
- A decrease in cash used for gross common share repurchases of \$3,082 million.

Global Financing Return on Equity Calculation

(\$ in millions)

At December 31:	2019	2018
Numerator		
Global Financing after-tax income ^{(1)*}	\$ 765	\$1,065
Denominator		
Average Global Financing equity ^{(2)**}	\$2,968	\$3,460
Global Financing return on equity ^{(1)/(2)}	25.8%	30.8%

* Calculated based upon an estimated tax rate principally based on Global Financing's geographic mix of earnings as IBM's provision for income taxes is determined on a consolidated basis.

**Average of the ending equity for Global Financing for the last five quarters.