

### Snapshot

In the fourth quarter of 2019, we reported \$21.8 billion in revenue, \$3.7 billion in income from continuing operations and operating (non-GAAP) earnings of \$4.2 billion, resulting in diluted earnings per share from continuing operations of \$4.11 as reported and \$4.71 on an operating (non-GAAP) basis. We also generated \$3.5 billion in cash from operations, \$6.0 billion in free cash flow and delivered shareholder returns of \$1.4 billion in dividends. We had solid transactional performance across our high-value software and systems. In addition, benefits from the synergies of IBM and Red Hat drove growth in our services to migrate, build and manage hybrid cloud environments. Overall, performance resulted in revenue growth, margin expansion and strong free cash flow generation in the quarter.

Total consolidated revenue increased 0.1 percent as reported and 1 percent adjusted for currency compared to the prior year. Excluding divested businesses, revenue was up 2.2 percent as reported and 3 percent adjusted for currency. Cloud & Cognitive Software increased 8.7 percent as reported and 9 percent adjusted for currency with growth across all three lines of business. Cloud & Data Platforms, which includes Red Hat, grew 19.0 percent (20 percent adjusted for currency), Cognitive Applications grew 0.6 percent (1 percent adjusted for currency) and Transaction Processing Platforms increased 2.9 percent (4 percent adjusted for currency). GBS decreased 0.6 percent as reported and was flat adjusted for currency. There was continued growth in Consulting which grew 3.5 percent (4 percent adjusted for currency) driven by services that enable each phase of our clients' digital journeys. GTS decreased 4.8 percent as reported and 4 percent adjusted for currency, with declines in Infrastructure & Cloud Services and Technology Support Services. While there was continued year-to-year growth in our cloud offerings within GTS, there were declines in client-based volumes, in some of the more traditional labor-based managed services. Systems increased 16.0 percent as reported and 16 percent adjusted for currency with growth in IBM Z and Storage Systems, partially offset by a decline in Power Systems. IBM Z had strong growth of 62.3 percent (63 percent adjusted for currency) in the first full quarter of z15 shipments. Storage Systems increased 2.8 percent (3 percent adjusted for currency) year to year led by growth in the high end, while Power Systems declined 23.7 percent (23 percent adjusted for currency) compared with strong performance in the prior year. Across the segments, total IBM cloud revenue of \$6.8 billion in the fourth quarter of 2019 grew 21 percent as reported and adjusted for currency.

From a geographic perspective, Americas revenue increased 2.3 percent year to year as reported (3 percent adjusted for currency) and 6 percent excluding divested businesses and adjusted for currency. EMEA increased 0.1 percent (2 percent adjusted for currency) and 4 percent excluding divested businesses and adjusted for currency. Asia Pacific declined 5.2 percent year to year as reported (7 percent adjusted for currency) and 6 percent excluding divested businesses and adjusted for currency.

The consolidated gross margin of 51.0 percent increased 1.9 points year to year reflecting contribution from our high-value software and systems, partially offset by impacts related to Red Hat (deferred revenue adjustment and amortization of intangibles). The operating (non-GAAP) gross margin of 51.8 percent increased 2.3 points versus the prior year, primarily driven by the same factors, excluding the amortization of intangibles.

Total expense and other (income) increased 13.7 percent in the fourth quarter of 2019 versus the prior year primarily driven by higher spending including Red Hat operational spending, higher interest expense from debt issuances to fund the acquisition, continued investment in innovation and go-to-market capabilities, higher acquisition-related charges and higher amortization of acquired intangibles. These increases were partially offset by divestiture-related gains and lower non-operating retirement-related costs. Total operating (non-GAAP) expense and other (income) increased 14.7 percent year to year, driven primarily by the higher spending and investment, partially offset by the divestiture-related gains described above.

Pre-tax income from continuing operations of \$4.0 billion, decreased 10.0 percent and the pre-tax margin was 18.3 percent, a decrease of 2.0 points versus the prior-year period reflecting the purchase accounting deferred revenue adjustment for Red Hat (lower revenue without an equivalent adjustment to cost and expense) and acquisition-related activity. The continuing operations effective tax rate for the fourth quarter of 2019 was 8.1 percent and net income from continuing operations was \$3.7 billion. This is compared with net income from continuing operations of \$2.0 billion in the fourth quarter of 2018, which included a \$1.9 billion charge for tax reform. Our net income margin from continuing operations was 16.8 percent, an increase of 7.9 points year to year.

Operating (non-GAAP) pre-tax income from continuing operations of \$4.7 billion decreased 6.6 percent year to year and the operating (non-GAAP) pre-tax margin from continuing operations decreased 1.5 points to 21.6 percent. The operating (non-GAAP) effective tax rate from continuing operations in the fourth quarter of 2019 was 10.5 percent versus 12.2 percent in the prior year. Operating (non-GAAP) income from continuing operations of \$4.2 billion decreased 4.8 percent with an operating (non-GAAP) income margin from continuing operations of 19.3 percent, down 1.0 points year to year.

Diluted earnings per share from continuing operations of \$4.11 in the fourth quarter of 2019 increased 91.2 percent, primarily due to the prior-year tax reform charge. Operating (non-GAAP) diluted earnings per share of \$4.71 decreased 3.3 percent versus the fourth quarter of 2018.