

The acquisition of Red Hat settled a pre-existing vendor/customer relationship in which the company had historically paid in advance for purchases of Red Hat products. Because the terms of the agreements were determined to approximate fair value at the acquisition date, the company did not recognize any gain or loss separately from the acquisition, and \$60 million was transferred on the acquisition date as a part of the fair value consideration.

The Consolidated Income Statement includes revenue and a pre-tax loss attributable to Red Hat since the date of acquisition for the year ended December 31, 2019 of \$945 million and \$1,658 million, respectively. The pre-tax loss was primarily driven by the deferred revenue fair value adjustment, retention expenses, intangible asset amortization and deal fees. The pre-tax loss excludes interest expense.

The table below presents the supplemental consolidated financial results of the company on an unaudited pro forma basis, as if the acquisition had been consummated on January 1, 2018 through the periods shown below. The primary adjustments reflected in the pro forma results relate to: (1) the debt used to fund the acquisition, (2) changes driven by acquisition accounting, including amortization of intangible assets and the deferred revenue fair value adjustment, (3) employee retention plans, (4) elimination of intercompany transactions between IBM and Red Hat, and (5) the presentation of acquisition-related costs. Acquisition-related costs are non-recurring in nature and the pro forma net income amounts shown below include \$374 million of these costs.

The unaudited pro forma financial information presented below does not purport to represent the actual results of operations that IBM and Red Hat would have achieved had the companies been combined during the periods presented and is not intended to project the future results of operations that the combined company may achieve after the acquisition. Historical fiscal periods are not aligned under this presentation. The unaudited pro forma financial information does not reflect any potential cost savings, operating efficiencies, long-term debt pay down estimates, suspension of IBM's share repurchase program, financial synergies or other strategic benefits that may be realized as a result of the acquisition and also does not reflect any restructuring costs to achieve those benefits.

(Unaudited)

(\$ in millions)

For the year ended December 31:	2019	2018
Revenue	\$79,628	\$81,360
Net income	\$ 9,723	\$ 5,702

## 2018

In 2018, the company completed two acquisitions at an aggregate cost of \$49 million. One acquisition was completed by the Cloud & Cognitive Software segment and one acquisition by the Global Business Services segment. These acquisitions did not have a material impact on the Consolidated Financial Statements.

## 2017

In 2017, the company completed five acquisitions for an aggregate cost of \$134 million.

The Global Technology Services segment completed acquisitions of three businesses: in the first quarter, Agile 3 Solutions, LLC, a privately held business; in the third quarter, the cloud and managed hosting services business from a large U.S. telecommunications company, and Cloudigo Ltd., a privately held business. The Cloud & Cognitive Software segment completed the acquisition of one privately held business: in the second quarter, XCC Web Content & Custom Apps Extension from TIMETOACT Software & Consulting GmbH. Global Business Services completed the acquisition of one privately held business: in the fourth quarter, Vivant Digital.

The following table reflects the purchase price related to these acquisitions and the resulting purchase price allocations as of December 31, 2017.

(\$ in millions)

	Amortization Life (in Years)	Total Acquisitions
Current assets		\$ 18
Fixed assets/noncurrent assets		69
Intangible assets		
Goodwill	N/A	16
Completed technology	5	9
Client relationships	5–7	64
Patents/trademarks	1–5	1
<b>Total assets acquired</b>		<b>\$177</b>
Current liabilities		(9)
Noncurrent liabilities		(34)
<b>Total liabilities assumed</b>		<b>\$ (43)</b>
<b>Total purchase price</b>		<b>\$134</b>

N/A—Not applicable

The overall weighted-average life of the identified amortizable intangible assets acquired was 6.6 years. These identified intangible assets are amortized on a straight-line basis over their useful lives. Goodwill of \$13 million and \$3 million was assigned to the Global Technology Services segment and the Cloud & Cognitive Software segment, respectively. It was expected that approximately 50 percent of the goodwill will be deductible for tax purposes.