

Divestitures**2019**

Select IBM Software Products—On December 6, 2018, IBM and HCL Technologies Limited (HCL) announced a definitive agreement, in which HCL would acquire select standalone Cloud & Cognitive Software products for \$1,775 million, inclusive of \$150 million of contingent consideration. The transaction included commercial software, intellectual property and services offerings. In addition, the transaction includes transition services for IT and other services.

The transaction closed on June 30, 2019. The company received cash of \$812 million at closing and \$40 million of the contingent consideration in the third quarter of 2019. The company expects to receive an additional \$813 million (net of any additional contingent consideration) within 12 months of closing. The outstanding contingent consideration is expected to be earned within 24 months of the closing. IBM will remit payment to HCL predominantly for servicing certain customer contracts until such contracts are terminated or entitlements are assumed by HCL. Cash of \$174 million was remitted in the fourth quarter of 2019 related to deferred revenue that existed prior to closing. IBM expects to remit an additional \$325 million of cash to HCL by the end of 2021. The company recognized pre-tax gains on the sale of \$556 million at closing and \$72 million in the third quarter of 2019. The total pre-tax gain on the transaction for the year ended December 31, 2019 was \$626 million. The total gain on sale may change in the future due to contingent consideration or changes in other transaction estimates, however, material changes are not expected.

Select IBM Marketing Platform and Commerce Offerings—On April 4, 2019, IBM and Centerbridge Partners, L.P. (Centerbridge) announced a definitive agreement, in which Centerbridge would acquire select marketing platform and commerce offerings from IBM. The transaction included commercial software and services offerings. In addition, the company is providing Centerbridge with transition services including IT, supply chain management, and other services. Upon closing, Centerbridge announced that this business would be re-branded under the name Acoustic. The closing completed for the U.S. on June 30, 2019. The company expects a subsequent closing for the remaining countries to occur within 12 months of the U.S. closing. The timing of the subsequent closing is subject to change as more information becomes available. The company received a net cash payment of \$240 million at the U.S. closing and expects to receive an additional \$150 million within 36 months of the U.S. closing.

The company recognized an immaterial pre-tax gain on the sale on June 30, 2019. The amount of the pre-tax gain for the remaining countries will not be determinable until the valuation of the final balance sheet transferred is completed, however, it is not expected to be material.

The above two divested businesses are reported in Other—divested businesses. Refer to note D, “Segments” for additional information.

IBM Risk Analytics and Regulatory Offerings—On September 24, 2019, IBM and SS&C Technologies Holdings, Inc. (SS&C) entered into a definitive agreement in which SS&C would acquire certain Algorithmics and related assets from IBM. The content is reported in the Cloud & Cognitive Software segment. The transaction closed in the fourth quarter of 2019. The company recognized an immaterial pre-tax gain on the sale for the year ended December 31, 2019.

IBM Sales Performance Management Offerings—On November 20, 2019, IBM and Varicent Parent Holdings Corporation (Varicent) entered into a definitive agreement in which Varicent would acquire certain sales performance management assets from IBM. The content is reported in the Cloud & Cognitive Software segment. The initial closing of certain countries was completed on December 31, 2019. The company expects a subsequent closing for the remaining countries to occur within the first half of 2020. The company received a net cash payment of \$230 million and recognized a pre-tax gain on the sale of \$136 million for the year ended December 31, 2019. The amount of the pre-tax gain for the remaining countries will not be determinable until the valuation of the final balance sheet transferred is completed, however, it is not expected to be material.

In addition to the above, the company completed three divestitures reported in the Global Financing segment, the Global Business Services segment and the Other—divested businesses. The financial terms related to each of these transactions were not material.

The pre-tax gain recognized on the divestitures above was recorded in other (income) and expense in the Consolidated Income Statement.

2018 and 2017

The company had no divestitures in 2018. The company completed five divestitures in 2017, four of which were reported in the Cloud & Cognitive Software segment and one was a research-related divestiture. The financial terms related to these transactions were not material. Overall, the company recognized a pre-tax gain of \$31 million related to these transactions in 2017.

NOTE F. RESEARCH, DEVELOPMENT & ENGINEERING

RD&E expense was \$5,989 million in 2019, \$5,379 million in 2018 and \$5,590 million in 2017.

The company incurred total expense of \$5,657 million, \$5,027 million and \$5,170 million in 2019, 2018 and 2017, respectively, for scientific research and the application of scientific advances to the development of new and improved products and their uses, as well as services and their application. Within these amounts, software-related expense was \$3,541 million, \$3,050 million and \$3,145 million in 2019, 2018 and 2017, respectively.

Expense for product-related engineering was \$334 million, \$352 million and \$420 million in 2019, 2018 and 2017, respectively.