IBM Provides Recast Historical Segment Financials To Reflect Offering Realignment

20 April 2020

In 2019, IBM updated its reportable segments and in 2020, this segment structure remains consistent. During the first quarter of 2020, the company realigned offerings and the related management system to reflect divestitures completed in the second half of 2019 and tighter integration of certain industry-related consulting services. Accordingly, IBM is updating its Cloud & Cognitive Software segment, Global Business Services segment and the Other – divested businesses category in the first quarter of 2020 and recasting historical information in these areas for consistency with the go-forward performance. To provide some context of the magnitude of these changes, total recast revenue in 2019 is approximately $0.3 billion of IBM's total $77 billion. There is no change to the Global Technology Services, Systems, or Global Financing segments, and there is no impact to IBM's consolidated results.

Management System Change	**Resulting Segment Implications**
Divestitures of IBM's risk analytics and regulatory offerings and sales performance management offerings	- Cloud & Cognitive Software (Cognitive Applications) + Other – divested businesses
Realignment of certain industry-related consulting offerings to the Global Business Services segment	- Cloud & Cognitive Software (Cognitive Applications) + Global Business Services (Consulting)

These changes are effective in the first quarter of 2020. Two years of historical recast data is provided in Appendix A. Subsequent to the first quarter, on April 6, 2020, Arvind Krishna became Chief Executive Officer of IBM and announced a number of management changes, which did not impact the company's reportable segments.

APPENDIX A

Exhibit 1: Recast External Revenue and Gross Profit Information

International Business Machines Corporation
External Revenue and Gross Profit

Note: Items in bold reflect changes from previously reported results

CLOUD & COGNITIVE SOFTWARE SEGMENT	**1Q'18**	**2Q'18**	**3Q'18**	**4Q'18**	**FY'18**	**1Q'19**	**2Q'19**	**3Q'19**	**4Q'19**	**FY'19**
Total External Revenue	**5,025**	**5,368**	**4,890**	**6,574**	**21,857**	**4,967**	**5,563**	**5,201**	**7,160**	**22,891**
Cognitive Applications	**1,195**	**1,311**	**1,252**	**1,522**	**5,280**	**1,238**	**1,372**	**1,305**	**1,542**	**5,456**
Cloud & Data Platforms	1,950	2,079	1,968	2,606	8,603	1,917	2,173	2,308	3,101	9,499
Transaction Processing Platforms	1,880	1,978	1,669	2,446	7,974	1,812	2,018	1,589	2,517	7,936
Gross Profit $ (External)	**3,870**	**4,206**	**3,750**	**5,243**	**17,068**	**3,753**	**4,325**	**3,876**	**5,695**	**17,650**
Gross Margin % (External)	**77.0%**	**78.4%**	**76.7%**	**79.8%**	**78.1%**	**75.6%**	**77.7%**	**74.5%**	**79.5%**	**77.1%**

GLOBAL BUSINESS SERVICES SEGMENT	**1Q'18**	**2Q'18**	**3Q'18**	**4Q'18**	**FY'18**	**1Q'19**	**2Q'19**	**3Q'19**	**4Q'19**	**FY'19**
Total External Revenue	**4,175**	**4,196**	**4,116**	**4,309**	**16,795**	**4,155**	**4,197**	**4,160**	**4,285**	**16,798**
Consulting	**1,927**	**1,992**	**1,940**	**2,047**	**7,906**	**2,001**	**2,020**	**2,016**	**2,120**	**8,157**
Application Management	2,002	1,946	1,915	1,989	7,852	1,908	1,919	1,897	1,922	7,646
Global Process Services	246	258	260	273	1,037	247	258	247	243	995
Gross Profit $ (External)	**985**	**1,098**	**1,235**	**1,200**	**4,519**	**1,087**	**1,093**	**1,293**	**1,181**	**4,655**
Gross Margin % (External)	**23.6%**	**26.2%**	**30.0%**	**27.9%**	**26.9%**	**26.2%**	**26.0%**	**31.1%**	**27.6%**	**27.7%**

No changes to Global Technology Services, Systems, or Global Financing historical amounts.

Exhibit 2: Recast Management System Segment View

International Business Machines Corporation
Management System Segment View

Note: Items in bold reflect changes from previously reported results

	CLOUD & COGNITIVE SOFTWARE	**GLOBAL BUSINESS SERVICES**	GLOBAL TECHNOLOGY SERVICES	SYSTEMS	GLOBAL FINANCING	**TOTAL SEGMENTS**
($M)						
2018						
TOTAL REVENUE	**25,047**	**17,121**				**84,235**
EXTERNAL REVENUE	**21,857**	**16,795**				**77,421**
INTERNAL REVENUE	3,190	326				6,813
SEGMENT PRE-TAX INCOME	**8,914**	**1,602**	No changes to previously reported information			**14,562**
PRE-TAX INCOME MARGIN	**36%**	**9%**				**17%**
REVENUE YR/YR CHANGE	**2.0%**	**3.0%**				**1.3%**
PRE-TAX INCOME YR/YR CHANGE	**10.0%**	**26.2%**				**1.2%**
($M)						
2019						
TOTAL REVENUE	**25,718**	**17,076**				**82,274**
EXTERNAL REVENUE	**22,891**	**16,798**				**76,054**
INTERNAL REVENUE	2,827	278				6,220
SEGMENT PRE-TAX INCOME	**7,811**	**1,623**	No changes to previously reported information			**12,835**
PRE-TAX INCOME MARGIN	**30%**	**10%**				**16%**
REVENUE YR/YR CHANGE	**2.7%**	**-0.3%**				**-2.3%**
PRE-TAX INCOME YR/YR CHANGE	**-12.4%**	**1.3%**				**-11.9%**

Reconciliations of IBM as Reported:

Note: Items in bold reflect changes from previously reported results

For the year ended December 31:	**2018**	**2019**
Revenue:		
Total reportable segments	**84,235**	**82,274**
Other - divested businesses	**1,961**	**930**
Other revenue	207	162
Elimination of internal transactions	(6,813)	(6,220)
Total IBM consolidated revenue	79,591	77,147
Pre-tax income from continuing operations:		
Total reportable segments	**14,562**	**12,835**
Amortization of acquired intangible assets	(809)	(1,298)
Acquisition-related charges	(16)	(423)
Non-operating retirement-related (costs)/income	(1,572)	(615)
Elimination of internal transactions	(725)	(290)
Other - divested businesses	**287**	**574**
Unallocated corporate amounts	(385)	(617)
Total pre-tax income from continuing operations	11,342	10,166

Exhibit 2 (Continued): Recast Management System Segment View

International Business Machines Corporation
Management System Segment View

Note: Items in bold reflect changes from previously reported results

	CLOUD & COGNITIVE SOFTWARE	**GLOBAL BUSINESS SERVICES**	GLOBAL TECHNOLOGY SERVICES	SYSTEMS	GLOBAL FINANCING	**TOTAL SEGMENTS**
($M)						
1Q18						
TOTAL REVENUE	**5,956**	**4,264**				**20,268**
EXTERNAL REVENUE	**5,025**	**4,175**				**18,526**
INTERNAL REVENUE	931	89				1,743
SEGMENT PRE-TAX INCOME	**1,691**	**121**	No changes to previously reported information			**2,052**
PRE-TAX INCOME MARGIN	**28%**	**3%**				**10%**
REVENUE YR/YR CHANGE	**6.6%**	**4.8%**				**5.3%**
PRE-TAX INCOME YR/YR CHANGE	**5.5%**	**-54.1%**				**-14.3%**
2Q18						
TOTAL REVENUE	**6,179**	**4,279**				**21,238**
EXTERNAL REVENUE	**5,368**	**4,196**				**19,460**
INTERNAL REVENUE	811	83				1,778
SEGMENT PRE-TAX INCOME	**2,032**	**368**	No changes to previously reported information			**3,554**
PRE-TAX INCOME MARGIN	**33%**	**9%**				**17%**
REVENUE YR/YR CHANGE	**2.9%**	**2.7%**				**5.4%**
PRE-TAX INCOME YR/YR CHANGE	**10.7%**	**27.5%**				**13.8%**
3Q18						
TOTAL REVENUE	**5,667**	**4,193**				**19,883**
EXTERNAL REVENUE	**4,890**	**4,116**				**18,231**
INTERNAL REVENUE	777	77				1,652
SEGMENT PRE-TAX INCOME	**2,067**	**556**	No changes to previously reported information			**3,747**
PRE-TAX INCOME MARGIN	**36%**	**13%**				**19%**
REVENUE YR/YR CHANGE	**-2.3%**	**0.7%**				**-0.9%**
PRE-TAX INCOME YR/YR CHANGE	**8.6%**	**32.8%**				**0.9%**
4Q18						
TOTAL REVENUE	**7,246**	**4,385**				**22,846**
EXTERNAL REVENUE	**6,574**	**4,309**				**21,206**
INTERNAL REVENUE	672	77				1,641
SEGMENT PRE-TAX INCOME	**3,125**	**556**	No changes to previously reported information			**5,208**
PRE-TAX INCOME MARGIN	**43%**	**13%**				**23%**
REVENUE YR/YR CHANGE	**1.2%**	**3.6%**				**-3.6%**
PRE-TAX INCOME YR/YR CHANGE	**13.3%**	**86.8%**				**0.9%**

Exhibit 2 (Continued): Recast Management System Segment View

International Business Machines Corporation
Management System Segment View

Note: Items in bold reflect changes from previously reported results

	CLOUD & COGNITIVE SOFTWARE	**GLOBAL BUSINESS SERVICES**	GLOBAL TECHNOLOGY SERVICES	SYSTEMS	GLOBAL FINANCING	**TOTAL SEGMENTS**
($M)						
1Q19						
TOTAL REVENUE	**5,808**	**4,229**				**19,398**
EXTERNAL REVENUE	**4,967**	**4,155**				**17,731**
INTERNAL REVENUE	841	74				1,668
SEGMENT PRE-TAX INCOME	**1,785**	**298**	No changes to previously reported information			**2,445**
PRE-TAX INCOME MARGIN	**31%**	**7%**				**13%**
REVENUE YR/YR CHANGE	**-2.5%**	**-0.8%**				**-4.3%**
PRE-TAX INCOME YR/YR CHANGE	**5.6%**	**145.7%**				**19.1%**
2Q19						
TOTAL REVENUE	**6,170**	**4,266**				**20,131**
EXTERNAL REVENUE	**5,563**	**4,197**				**18,701**
INTERNAL REVENUE	607	69				1,430
SEGMENT PRE-TAX INCOME	**2,007**	**290**	No changes to previously reported information			**2,832**
PRE-TAX INCOME MARGIN	**33%**	**7%**				**14%**
REVENUE YR/YR CHANGE	**-0.1%**	**-0.3%**				**-5.2%**
PRE-TAX INCOME YR/YR CHANGE	**-1.2%**	**-21.4%**				**-20.3%**
3Q19						
TOTAL REVENUE	**5,888**	**4,230**				**19,427**
EXTERNAL REVENUE	**5,201**	**4,160**				**17,886**
INTERNAL REVENUE	686	70				1,541
SEGMENT PRE-TAX INCOME	**1,290**	**567**	No changes to previously reported information			**2,661**
PRE-TAX INCOME MARGIN	**22%**	**13%**				**14%**
REVENUE YR/YR CHANGE	**3.9%**	**0.9%**				**-2.3%**
PRE-TAX INCOME YR/YR CHANGE	**-37.6%**	**1.9%**				**-29.0%**
4Q19						
TOTAL REVENUE	**7,853**	**4,350**				**23,318**
EXTERNAL REVENUE	**7,160**	**4,285**				**21,737**
INTERNAL REVENUE	692	65				1,581
SEGMENT PRE-TAX INCOME	**2,729**	**469**	No changes to previously reported information			**4,897**
PRE-TAX INCOME MARGIN	**35%**	**11%**				**21%**
REVENUE YR/YR CHANGE	**8.4%**	**-0.8%**				**2.1%**
PRE-TAX INCOME YR/YR CHANGE	**-12.7%**	**-15.8%**				**-6.0%**