

Management Discussion

International Business Machines Corporation and Subsidiary Companies

Global Financing Receivables and Allowances

The following table presents external Global Financing receivables excluding residual values, the allowance for credit losses and immaterial miscellaneous receivables:

(\$ in millions)		
At December 31:	2019	2018
Recorded investment⁽¹⁾	\$22,446	\$31,182
Specific allowance for credit losses	177	220
Unallocated allowance for credit losses	45	72
Total allowance for credit losses	221	292
Net financing receivables	\$22,224	\$30,890
Allowance for credit losses coverage	1.0%	0.9%

⁽¹⁾ Includes deferred initial direct costs which are eliminated in IBM's consolidated results.

The percentage of Global Financing receivables reserved was 1.0 percent at December 31, 2019, compared to 0.9 percent at December 31, 2018. The decline in the allowance for credit losses was driven by write-offs of \$64 million, primarily of receivables previously reserved, and net releases of \$7 million as a result of lower average asset balances in client and commercial financing. See note K, "Financing Receivables," for additional information.

Roll Forward of Global Financing Receivables Allowance for Credit Losses (included in Total IBM)

(\$ in millions)				
January 1, 2019	Additions/(Releases)*	Write-offs**	Other ⁺	December 31, 2019
\$292	\$(7)	\$(64)	\$0	\$221

* Additions for Allowance for Credit Losses are charged to expense.

** Refer to note A, "Significant Accounting Policies," for additional information regarding Allowance for Credit Loss write-offs.

⁺ Primarily represents translation adjustments.

Global Financing's bad debt expense was a release of \$7 million in 2019, compared to an addition of \$14 million in 2018, due to lower specific reserves and a higher unallocated reserve release in 2019.

Noncurrent Assets and Liabilities

(\$ in millions)		
At December 31:	2019	2018
Noncurrent assets	\$113,767	\$74,236
Long-term debt	\$ 54,102	\$35,605
Noncurrent liabilities (excluding debt)	\$ 39,398	\$32,621

The increase in noncurrent assets of \$39,531 million (\$39,470 million adjusted for currency) was driven by:

- A net increase in goodwill and net intangible assets of \$34,104 million (\$34,058 million adjusted for currency) due to the acquisition of Red Hat; and
- An increase in operating right-of-use assets of \$4,996 million (\$5,010 million adjusted for currency) as a result of the adoption of the new leasing standard on January 1, 2019; and

- An increase in prepaid pension assets of \$2,199 million (\$2,152 million adjusted for currency) driven by higher returns on plan assets and plan remeasurements; partially offset by
- A decrease in net property, plant and equipment of \$782 million (\$785 million adjusted for currency).

Long-term debt increased \$18,497 million (\$18,550 million adjusted for currency) primarily driven by:

- Issuances of \$26,081 million; partially offset by
- Reclassifications to short-term debt of \$7,592 million to reflect upcoming maturities.

Noncurrent liabilities (excluding debt) increased \$6,778 million (\$6,911 million adjusted for currency) primarily driven by:

- An increase in long-term operating lease liabilities of \$3,879 million (\$3,893 million adjusted for currency) as a result of the adoption of the new leasing standard on January 1, 2019; and
- An increase in other liabilities of \$2,352 million (\$2,320 million adjusted for currency), primarily driven by increases in deferred tax liabilities of \$1,534 million and income tax reserves of \$923 million.

Debt

Our funding requirements are continually monitored and we execute our strategies to manage the overall asset and liability profile. Additionally, we maintain sufficient flexibility to access global funding sources as needed.

(\$ in millions)		
At December 31:	2019	2018
Total company debt	\$62,899	\$45,812
Total Global Financing segment debt	\$24,727	\$31,227
Debt to support external clients	21,487	27,536
Debt to support internal clients	3,239	3,690
Non-Global Financing debt	38,173	14,585

Total debt of \$62,899 million increased \$17,087 million from December 31, 2018, driven by issuances of \$32,415 million; partially offset by debt maturities of \$12,673 million and a decrease in commercial paper of \$2,691 million.

Non-Global Financing debt of \$38,173 million increased \$23,587 million from prior year-end levels primarily driven by issuances to fund the Red Hat acquisition.

Global Financing debt of \$24,727 million decreased \$6,500 million from December 31, 2018, primarily due to the wind down of OEM IT commercial financing operations.

Global Financing provides financing predominantly for IBM's external client assets, as well as for assets under contract by other IBM units. These assets, primarily for GTS, generate long-term, stable revenue streams similar to the Global Financing asset portfolio. Based on their attributes, these GTS assets are leveraged with the balance of the Global Financing asset base.