

## **IBM Announces Initial Closing of the Sale of its Retail Store Solutions Business to Toshiba Tec; Toshiba Global Commerce Solutions Formed**

*August 1, 2012*

On July 31, 2012, IBM and Toshiba Tec completed the initial closing of the sale of IBM's Retail Store Solutions business to Toshiba Tec. A copy of the press release is available here <http://www.ibm.com/press/us/en/pressrelease/38491.wss>.

The agreement was announced on April 17, 2012.

### **Transaction Details and Business Relationships**

IBM is selling its Retail Store Solutions business operations to Toshiba Tec, a subsidiary of Toshiba Corporation. Toshiba Tec has established Toshiba Global Commerce Solutions Holding Corporation, a holding company owned 80.1 percent by Toshiba Tec and 19.9 percent by IBM. Under the holding company, Toshiba Tec also has established Toshiba Global Commerce Solutions, which has its worldwide headquarters in Raleigh, NC and will have sales offices throughout the world. The company has begun business operation in four countries: the United States, Canada, Mexico and Australia. With this transaction, Toshiba Tec will be the world's leading integrated in-store solutions company, offering products and solutions that provide new value to customers.

As part of the transaction, IBM and Toshiba Tec will enter a multi-year agreement in which Toshiba Tec will join IBM's business partner program as a Premier Business Partner for Smarter Commerce. This agreement will help ensure that IBM's portfolio of enterprise-level Smarter Commerce solutions and services, which extends from the corporate data center to the local retail store, and Toshiba Tec's customer-facing retail store solutions are available to customers worldwide to meet the growing demand for multi-channel commerce.

In an effort to ensure a smooth transition for the new company and for IBM's clients, IBM will provide a series of fee-based services under multi-year agreements.

- IBM will provide maintenance and warranty services to Retail Store Solutions clients under a service agreement. Over time, IBM's maintenance specialists are expected to join the new company, depending on local business conditions and completion of local information and consultation processes.
- IBM will also provide transition support services in IT and a variety of business process services.

The initial closing on July 31 includes four countries, and approximately 500 IBM Retail Store Solutions employees are joining local subsidiaries in these countries. Subsequent closings will occur in other countries as soon as is practical, subject to the satisfaction of regulatory requirements and customary closing conditions, as well as local agreements and the employee information and consultation process. The company expects additional countries to be closed later in the third quarter, with the balance by the end of the year.

## **Financial Implications**

### *Proceeds and Gain*

The transaction price is \$850 million and as consideration, IBM will receive approximately \$800 million in cash, net of working capital adjustments. IBM will acquire a 19.9 percent ownership for three years in the holding company.

A portion of the purchase price was paid by Toshiba Tec on July 31. A second portion will be paid on the first anniversary of the initial closing. The remaining portion will be paid on the third anniversary in exchange for IBM's equity interest. After a three year period, it is intended that Toshiba Global Commerce Solutions Holdings Corporation will become a wholly-owned subsidiary of Toshiba Tec.

IBM continues to expect to recognize a total pre-tax gain on the sale of between \$450 million and \$550 million. This gain will be recognized consistent with the closing schedule for the transaction. The tax rate on the gain is expected to be approximately 10 points higher than IBM's ongoing operating effective tax rate.

The exact amount of the gain and the breakdown by closing date is not yet determinable. The variables that can impact the final gain include the valuation of the final balance sheet transferred, the valuation of other related agreements and transaction-related expenses.

### *Revenue and Profit Impact*

While the timing of the gain will be recognized consistent with the closing schedule, IBM will lose 100% of the revenue and profit of the ongoing operations effective July 31, 2012.

IBM's Retail Store Solutions division is reported in IBM's Systems and Technology segment, and the associated maintenance operations are a part of the Global Technology Services business. In 2011, this combined business delivered \$1.15 billion of revenue.

(\$B)	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Full Year</u>
2011 Revenue	.3	.3	.3	.3	1.15

After closing, IBM's revenue will be reduced by almost a point of constant currency growth per quarter for the balance of the first year, net of the services agreement. Roughly 85% of the net revenue impact is in Systems and Technology, with the balance in Global Technology Services.

The ongoing operational impact post-divestiture, net of the services agreements, is not expected to be more than a one or two cent impact to earnings per share in any quarter.

The company provides this information to allow investors to update their financial models for the ongoing operational impact of the divestiture. The gain will depend on a number of factors, and will be disclosed and discussed in the third quarter earnings report in October 2012.

A copy of the April 2012 announcement press release and investor communication are available here <http://www.ibm.com/investor/ircorner/article/rss.wss>.