

# FY15/16 Earnings Announcement

May 26, 2016

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# + Forward Looking Statement

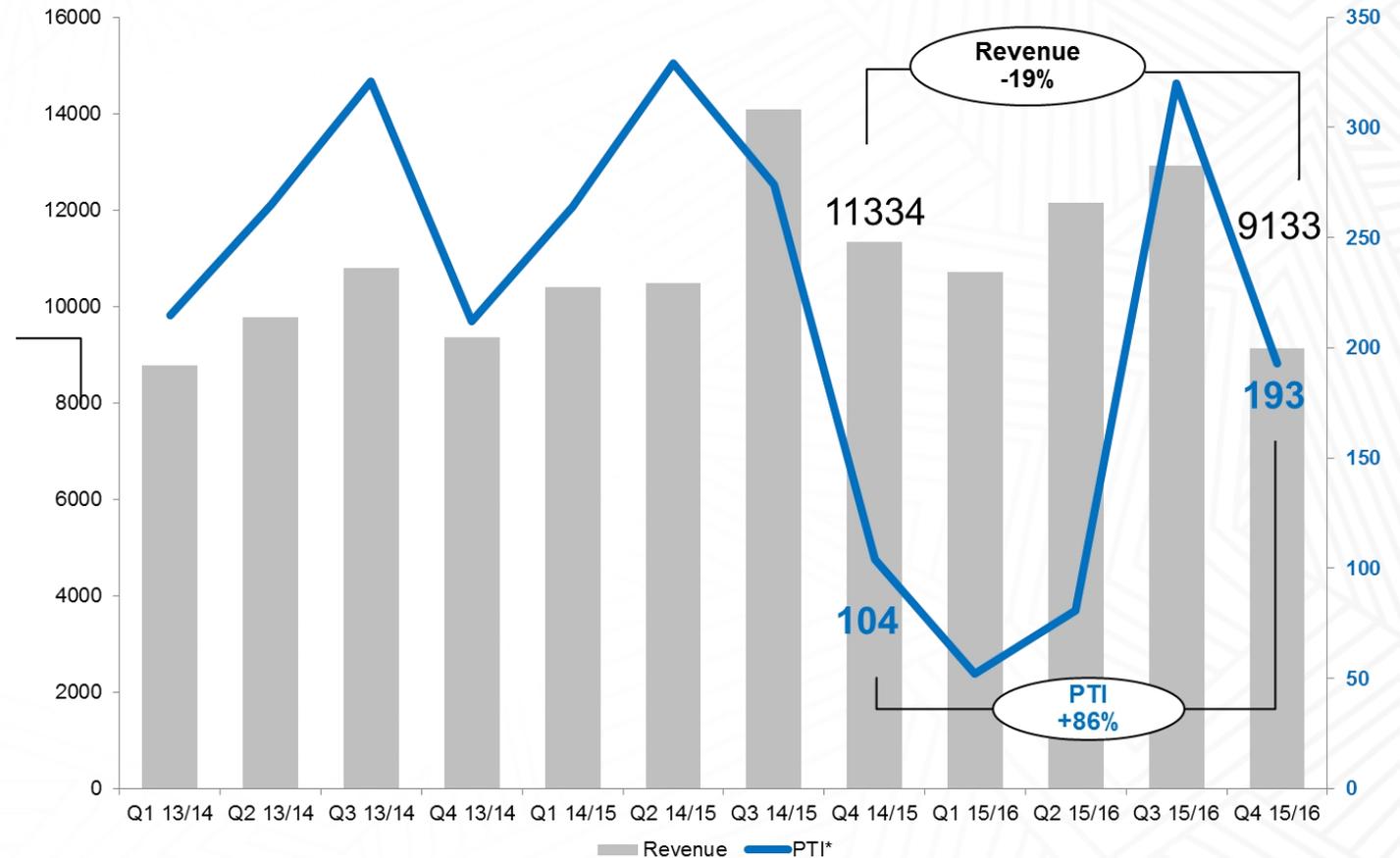
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# + Q4 Performance

- Revenue declined 19% YTY
- PTI up **86%** YTY
- Net Income up **80%** YTY

Revenue and PTI (US\$ Millions)

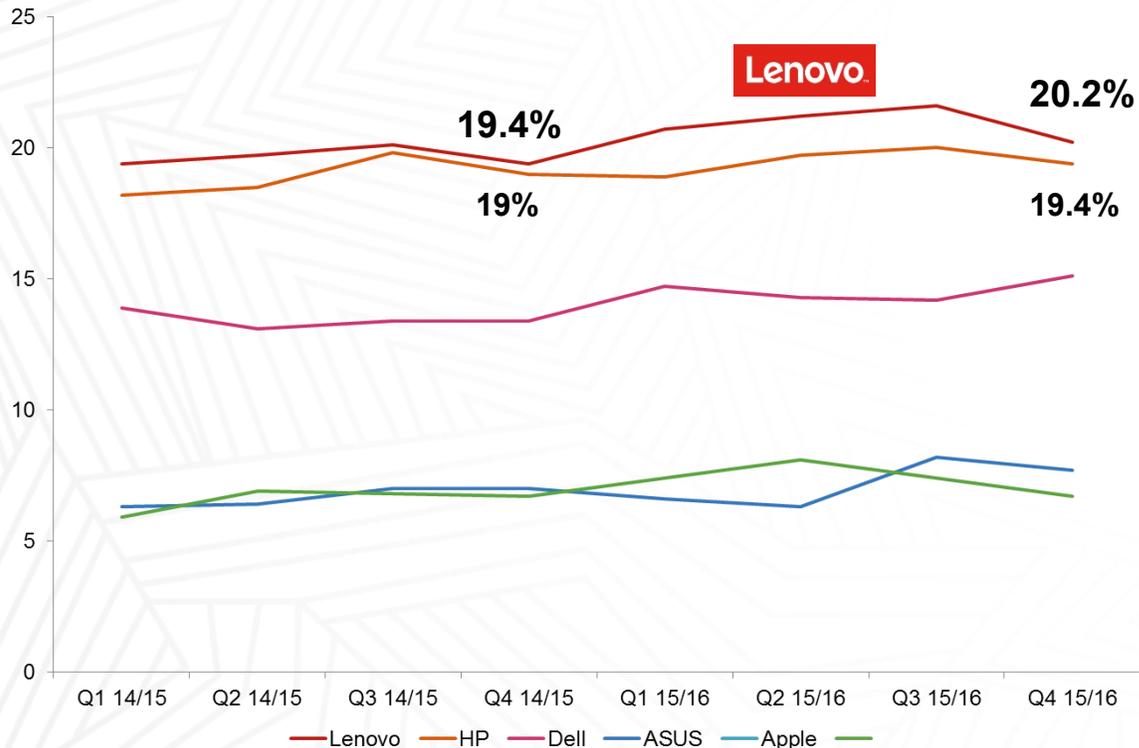


\* excluding one-time restructuring costs & one-time charges of \$923M in Q2 FY 15/16

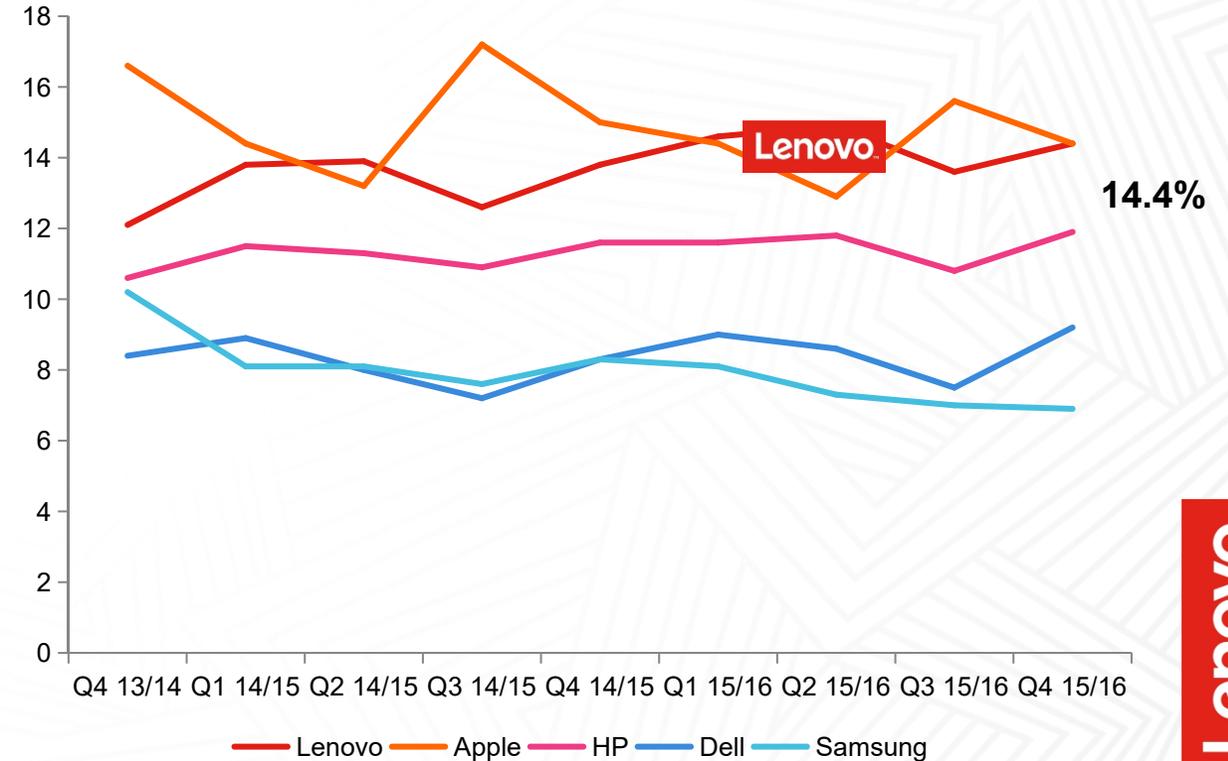
# + Q4 Performance: PC

- Strengthened **#1** position with PTI margins at **5%**
- PC + Tablet: Now tied for **#1** with **14.4%** worldwide share

WW PC Market Share (%)



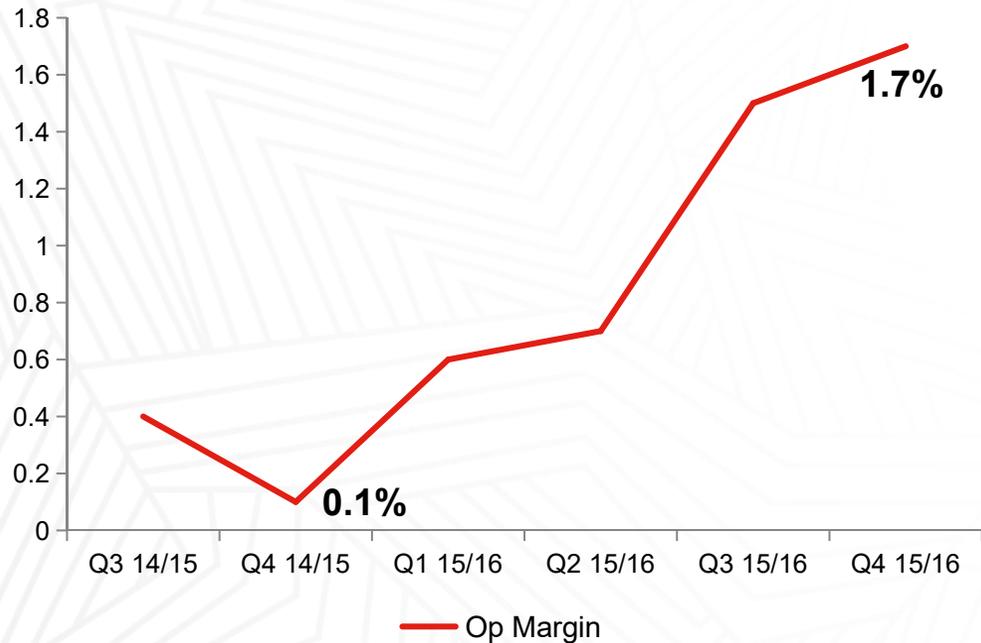
WW PC+Tablet Share (%)



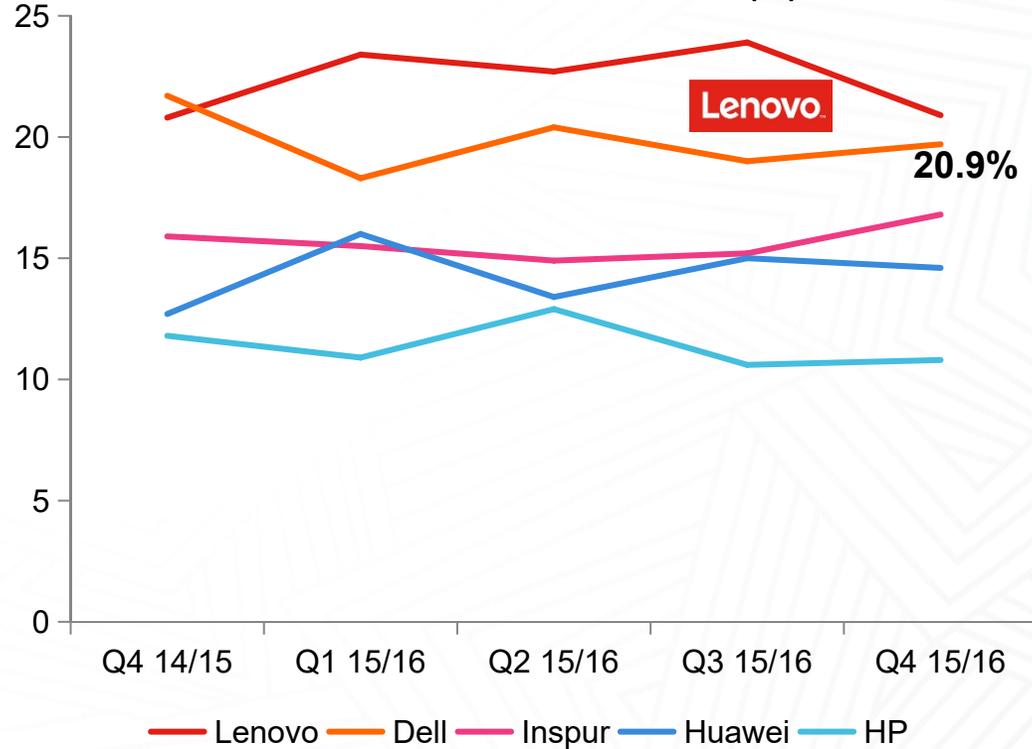
# + Q4 Performance: EBG

- Operational margin up to **1.7%**
- **#1** in China with **20.9%** share, and **8%** YTY revenue growth

EBG Operational PTI Margin (%)



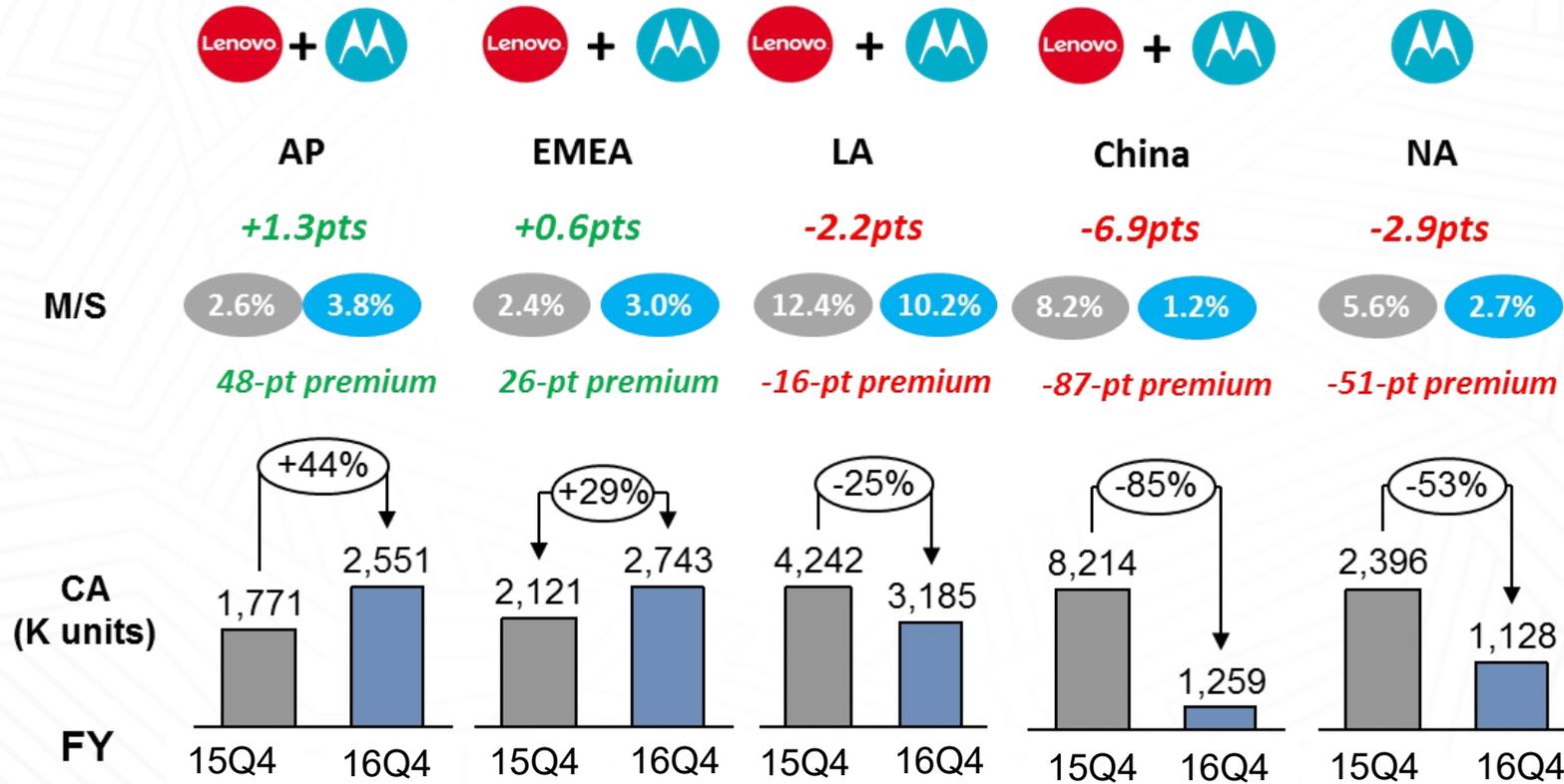
China Server Market Share (%)



# + Q4 Performance: MBG

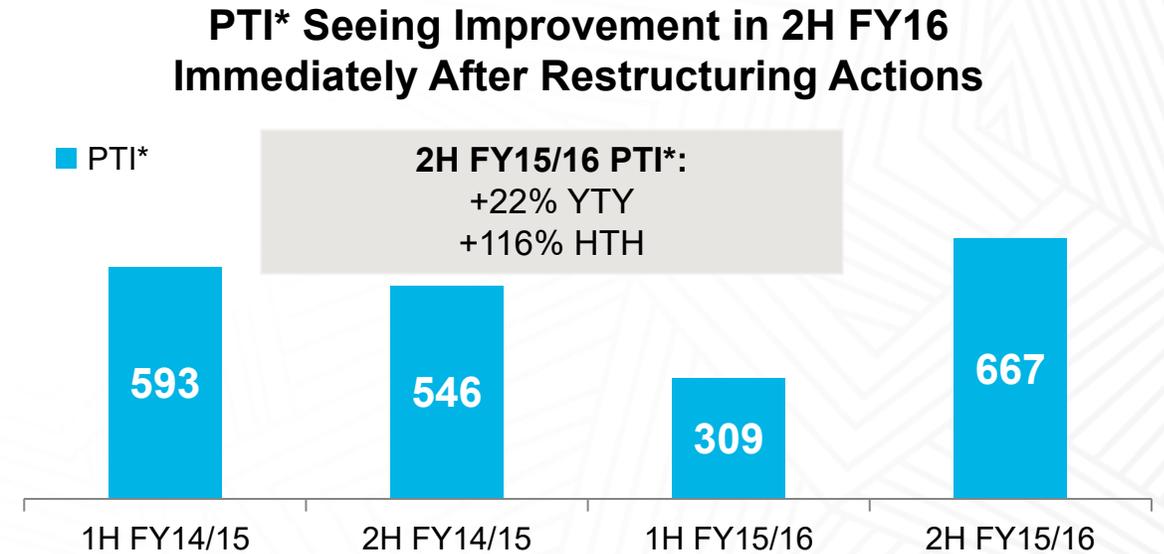
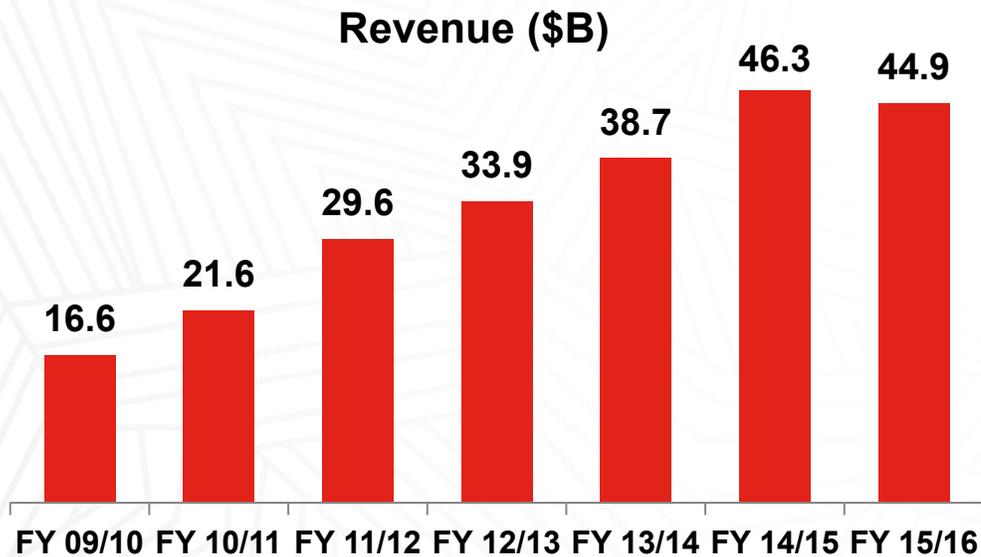
- Outgrew market in AP and EMEA, maintained strong LA position
- China volume dropped due to market shift

## SP Performance Across 5 Geos



# + FY 15/16 Performance

- Revenue: \$44.9B, -3% YTY
  - Up **3%** YTY excluding currency impact
- Decisive actions improved profitability
  - PTI in second half **116%** higher than first half, and **22%** higher YTY

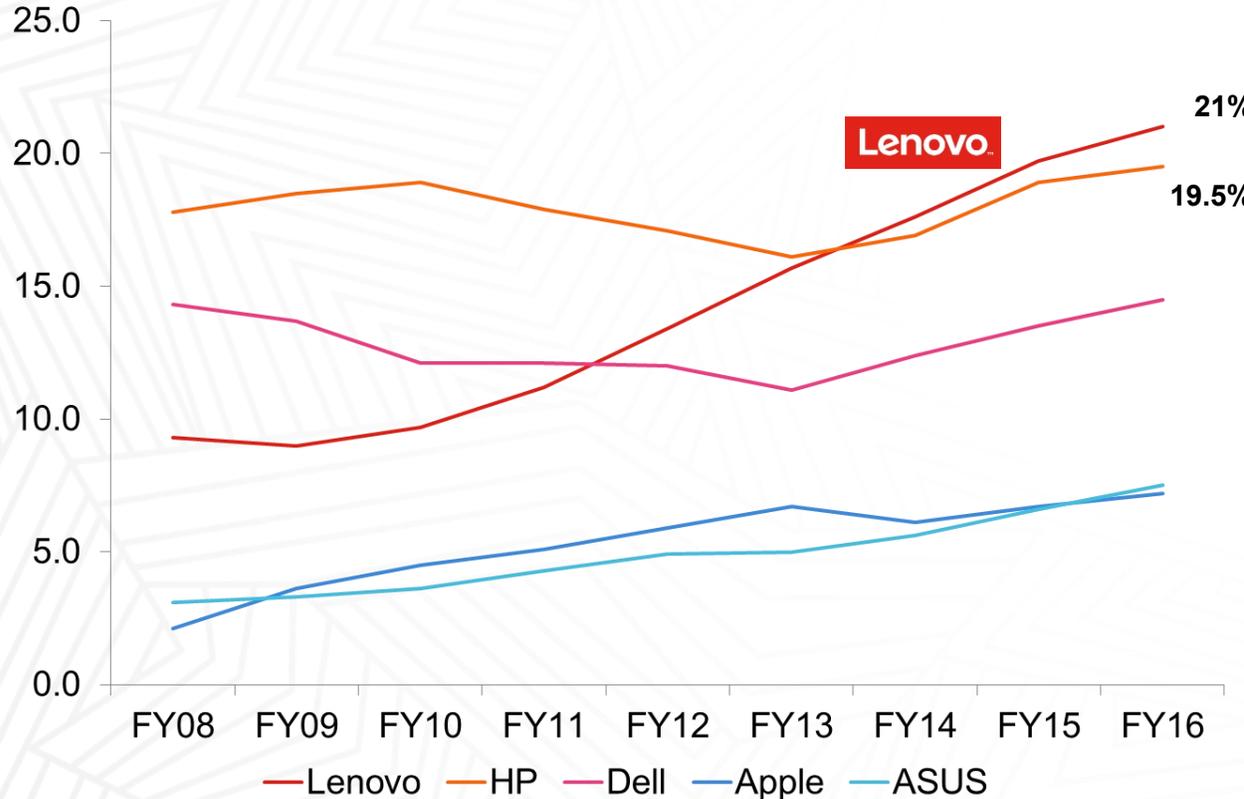


\* excluding restructuring charges & one-time costs, and non-cash M&A accounting charges

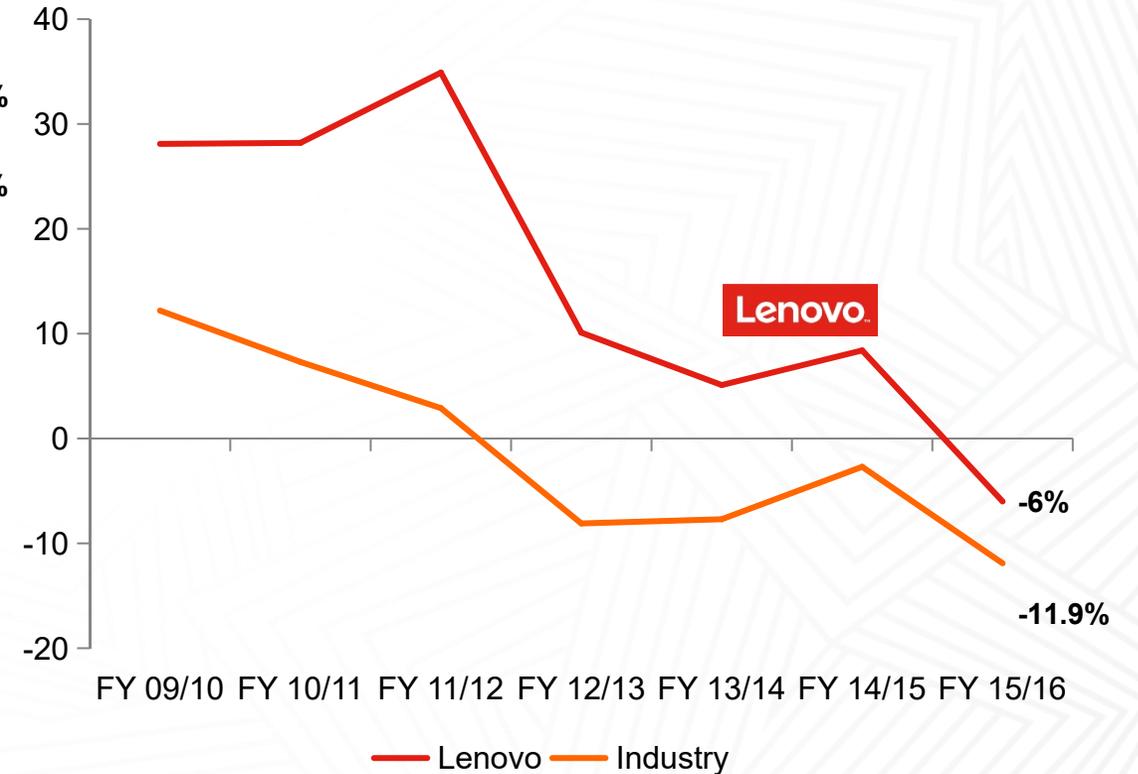
# + FY 15/16 Performance: PC

- Kept **#1** position for 3 years
- Record market share of **21%**
- Outperformed market by almost **6** points, maintained strong PTI margin of **5%**

WW PC Market Share for FY (%)

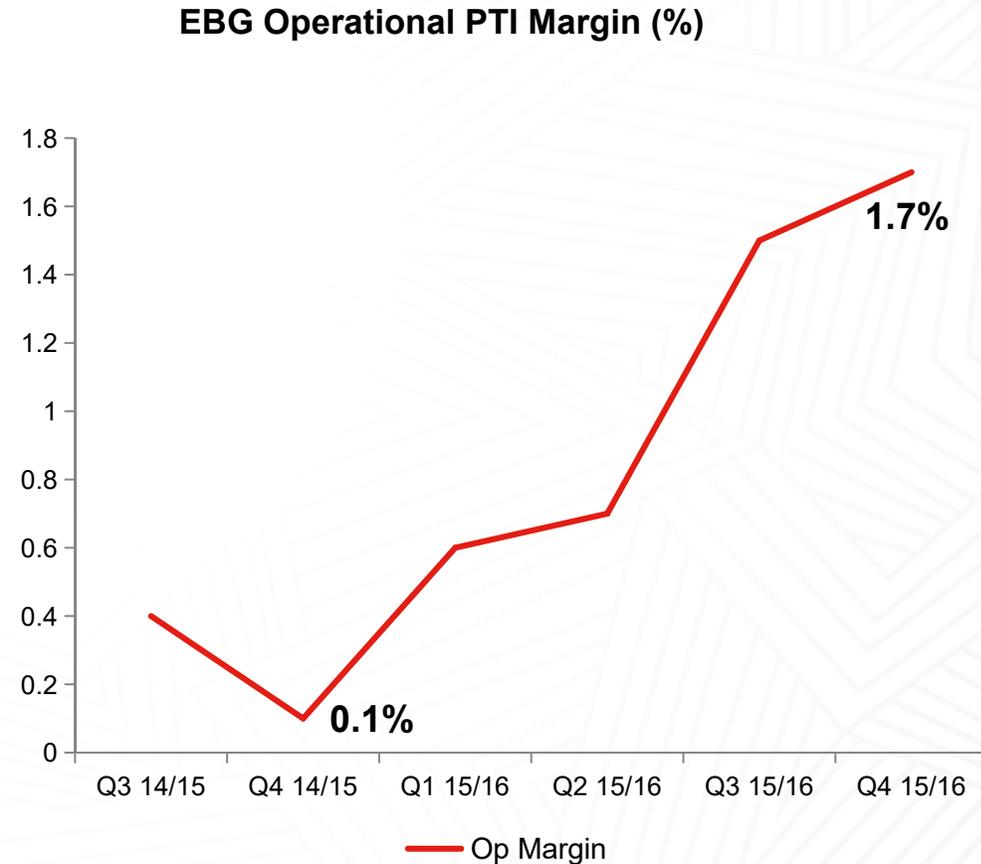
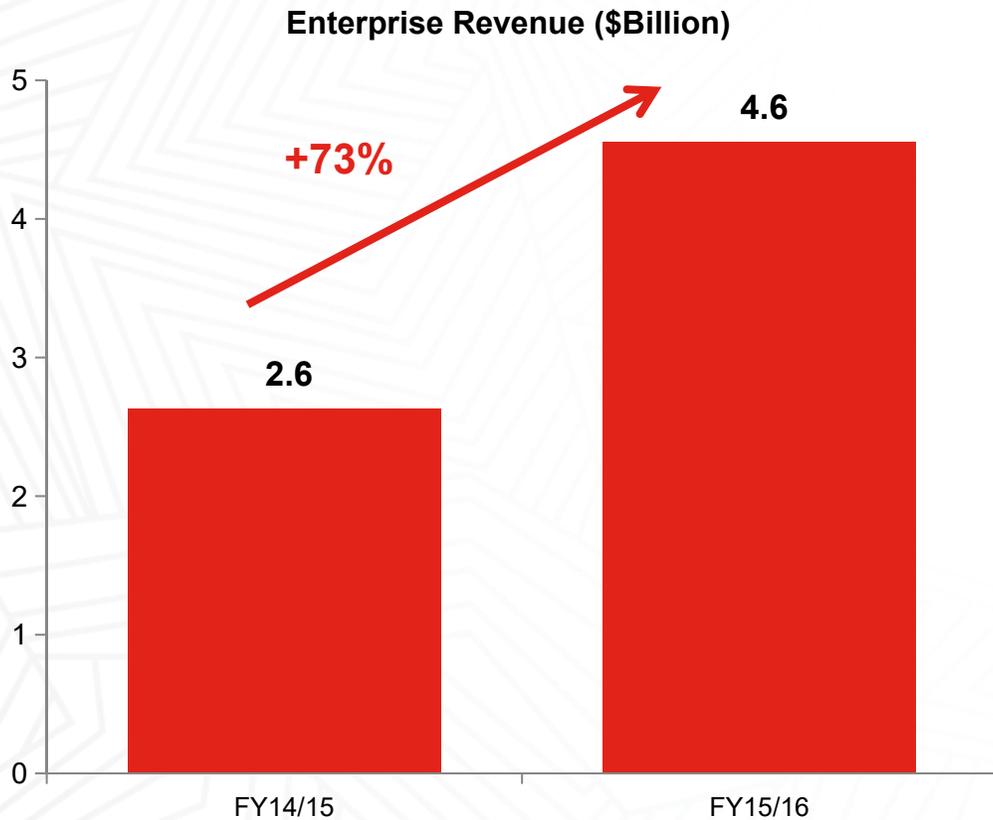


PC YTY Growth Rates (%)



# + FY 15/16 Performance: EBG

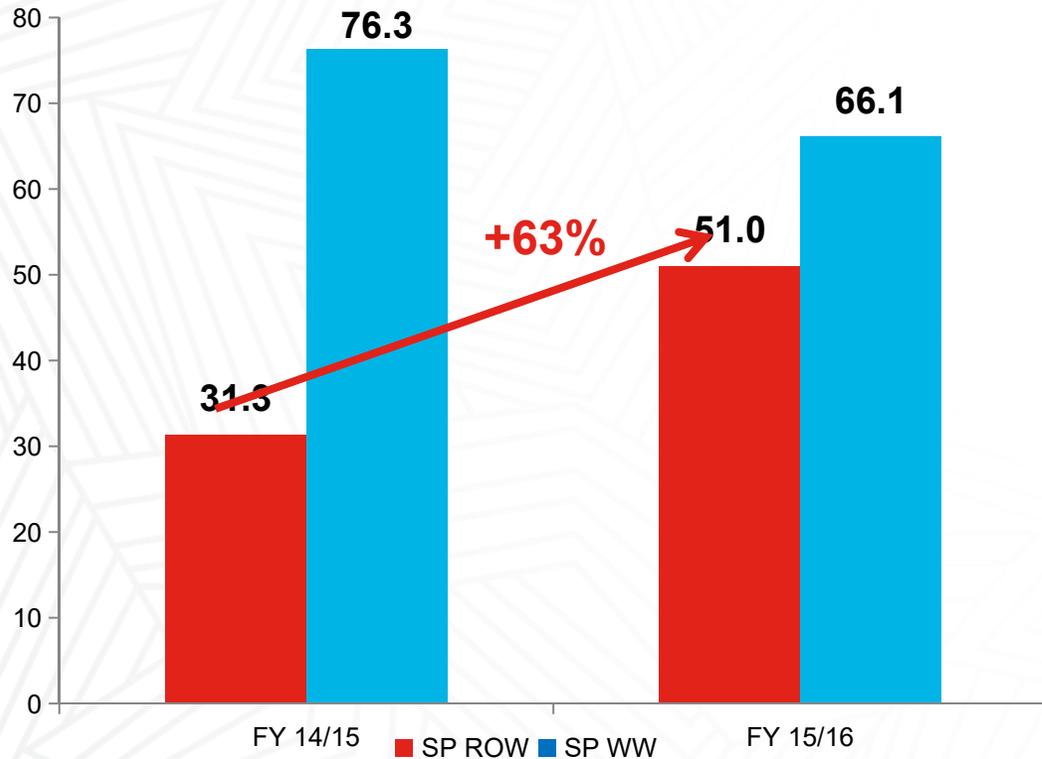
- Revenue up **73%** YTY led by China
- Operational PTI keeps improving



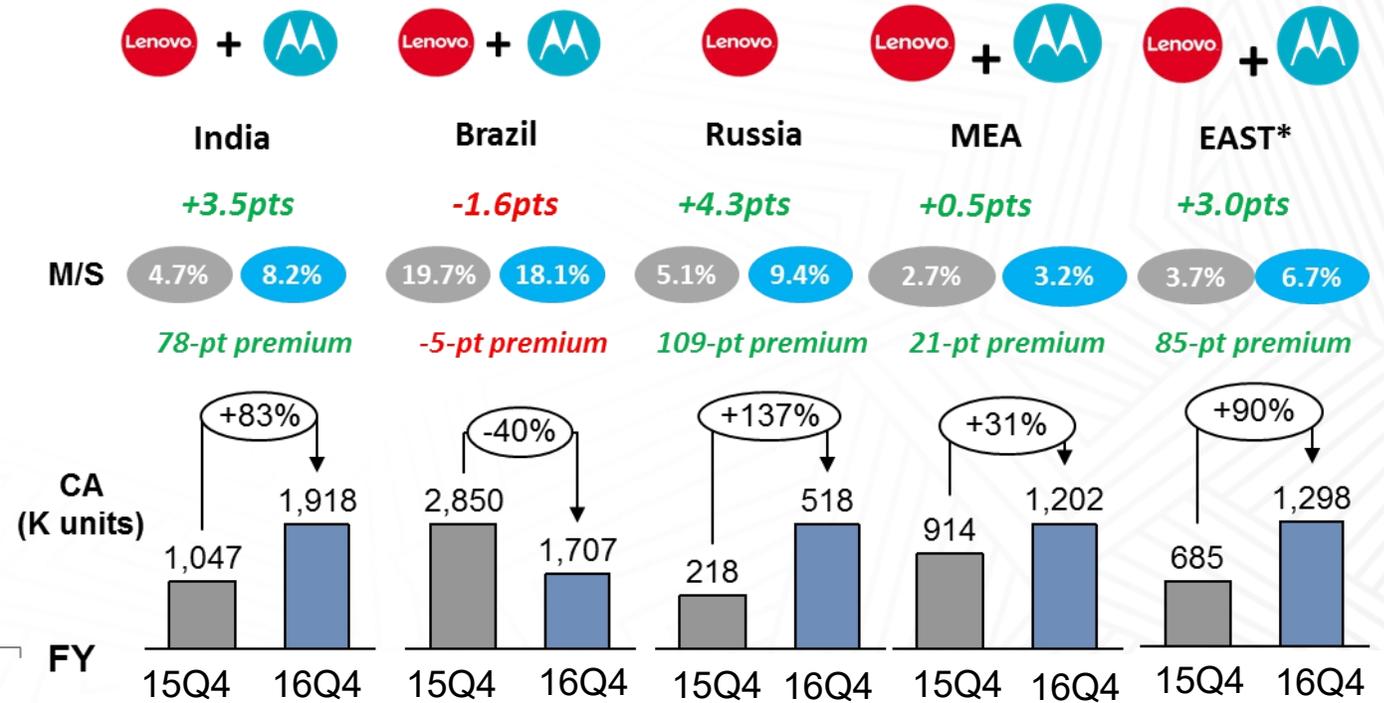
# + FY 15/16 Performance: MBG

- Smartphone volume outside China grew **63%** YTY
- Strong positions in key emerging markets

Smartphone Volume: WW and ROW (M units)



Smartphone Key Emerging Markets



\* EAST region includes Russia

# + Facing our Challenges

- MBG
  - Need to resume growth in China and North America
- Data Center
  - Need to grow top line in mature markets
- We are committed to Mobile and Data Center businesses for the long term



# + Resume MBG growth

- Organizational
  - China; ROW
- Leadership
  - Dedicated Co-Presidents
- ROW
  - Keep high growth in emerging markets
  - Get US back on track
    - Invest in brand
    - Broaden channels
    - Launch innovative products
- China
  - Drive shift to open market
  - Leverage ZUK model



# + Multi-Business Operating System

- Some 100% owned by Lenovo, while some could receive external investment
- Some leverage platform more, while some more independent
- Some rewarded for profit, while some for growth

## Stage of Lenovo business today

PROFIT ENGINE

PROFITABLE GROWTH

INVESTMENT



## Synergy with Core

CORE

STRATEGIC EXPANSION

EXPLORATORY

# + Vision for New Device + Cloud Model

- From “Device Only”, to “Device Primary and Cloud Secondary”, to “Device + Cloud” balanced model
- Protect general-purposed device business, but develop specific-purposed devices based on customer scenarios
- Lenovo Tech World, June 9<sup>th</sup>, Silicon Valley





WOW

Never  
Stand  
Still

Lenovo™

# Wong Wai Ming

Chief Financial Officer

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May 26, 2016



# + FY16 Financial Highlights

- Group revenue of US\$44.9B, down 3% YTY, up 3% YTY excluding currency impact
- Decisive actions to realign business in Q2 FY16 to enhance competitiveness in tough markets
- PTI (excluding restructuring charges & one-time costs, and non-cash M&A accounting charge) in 2H FY16 already seeing benefits from restructuring actions
- Restructuring savings achieved; but faster than expected decline in revenue resulted in E/R worsening in Q4 (vs. Q3)

# + Financial Summary

<i>US\$ Million</i>	<b>FY2015/16</b>	<b>Y/Y%</b>	<b>Q4 FY2015/16</b>	<b>Q4 FY2014/15</b>	<b>Y/Y%</b>	<b>Q/Q%</b>
<b>Revenue</b>	<b>44,912</b>	-3%	<b>9,133</b>	11,334	-19%	-29%
<b>Gross Profit</b>	<b>6,624</b>	-1%	<b>1,518</b>	1,779	-15%	-19%
<b>Operating Expenses</b>	<b>(6,686)</b>	20%	<b>(1,270)</b>	(1,652)	-23%	-10%
<b>Operating (Loss)/Profit</b>	<b>(62)</b>	NA	<b>248</b>	127	95%	-35%
<b>Other Non-Operating Expenses</b>	<b>(215)</b>	56%	<b>(55)</b>	(23)	133%	-6%
<b>Pre-tax (Loss) / Income</b>	<b>(277)</b>	NA	<b>193</b>	104	86%	-40%
<b>Taxation</b>	<b>132</b>	NA	<b>(17)</b>	(7)	156%	-34%
<b>(Loss)/Profit for the year/period</b>	<b>(145)</b>	NA	<b>176</b>	97	81%	-40%
<b>Non-controlling interests</b>	<b>17</b>	NA	<b>4</b>	3	40%	-38%
<b>(Loss)/Profit attributable to Equity Holders</b>	<b>(128)</b>	NA	<b>180</b>	100	80%	-40%
<b>EPS (US cents)</b>						
- Basic	<b>(1.16)</b>	NA	<b>1.63</b>	0.91	0.72	(1.08)
- Diluted	<b>(1.16)</b>	NA	<b>1.62</b>	0.90	0.72	(1.08)
<b>Dividend per share (HK cents)</b>	<b>26.50</b>	-				

	<b>FY2015/16</b>	<b>FY2014/15</b>	<b>Q4 FY2015/16</b>	<b>Q4 FY2014/15</b>	<b>Q3 FY2015/16</b>
<b>Gross margin</b>	<b>14.8%</b>	14.4%	<b>16.6%</b>	15.7%	14.6%
<b>E/R ratio</b>	<b>14.9%</b>	12.0%	<b>13.9%</b>	14.6%	11.7%
<b>Operating margin</b>	<b>(0.1%)</b>	2.4%	<b>2.7%</b>	1.1%	2.9%
<b>PTI margin</b>	<b>(0.6%)</b>	2.1%	<b>2.1%</b>	0.9%	2.5%
<b>Net margin attributable to Equity Holders</b>	<b>(0.3%)</b>	1.8%	<b>2.0%</b>	0.9%	2.3%



# Condensed Balance Sheet

*US\$ Million*

	<b>As at Mar 31, 2016</b>	<b>As at Mar 31, 2015</b>
<b>Non-current assets</b>	<b>11,966</b>	11,889
Property, plant and equipment	1,391	1,443
Intangible assets	8,661	9,226
Others	1,914	1,220
<b>Current assets</b>	<b>12,967</b>	15,507
Bank deposits and cash	2,079	3,026
Trade, notes, other receivables, deposits, and prepayments	8,083	9,205
Inventories	2,637	2,954
Others	168	322
<b>Current liabilities</b>	<b>15,760</b>	17,448
Borrowings	746	1,168
Trade, notes, other payables, accruals, and provisions	13,964	15,337
Others	1,050	943
<b>Net current liabilities</b>	<b>(2,793)</b>	(1,941)
<b>Non-current liabilities</b>	<b>6,147</b>	5,842
<b>Total equity</b>	<b>3,026</b>	4,106

# + Cash and Working Capital

US\$ Million	<u>FY2015/16</u>	<u>FY2014/15</u>	<u>Q4 FY2015/16</u>	<u>Q4 FY2014/15</u>
Bank Deposits and Cash	2,079	3,026	2,079	3,026
Total Borrowings	3,251	3,054	3,251	3,054
Net Debt	(1,172)	(28)	(1,172)	(28)
Net Cash Generated from/ (Used in) Operating Activities	292	238	(700)	(1,103)
Days Inventory	29	29	34	32
Days Receivable	38	35	45	44
Days Payable	66	66	79	73
Cash Conversion Cycle	1 days	-2 days	0 days	3 days

# + FY16 Performance by Business Group

## PC

- Record high market share of 21.0%, up 1.3pt YTY
- Premium growth to the market (Lenovo: -6.0% vs. market: -11.9% YTY)
- Record share across all GEOs; became #1 in AP & strong growth in NA & AG
- PC margin sustained at 5.0% despite market challenges

## Mobile

- Market turned softer (turned to negative growth in Q4) while competition remains fierce
- Among the 5 GEOs, we have strong growth in EMEA, AP & LA, driven by solid momentum in the fast growing emerging market regions; Actions in place to drive growth in PRC and NA

## Enterprise

- Revenue grew 73% YTY; Solid China Revenue growth of 76% YTY
- Achieved Operational profitable with margin improvement for 6<sup>th</sup> consecutive quarters since acquisition closed
- Integration System X acquisition, won datacenter deals in China and established partnerships for new growth opportunities

Excluding restructuring costs & one-time charges		Revenue US\$ Million		Segment Pretax Income/(Loss) US\$ Million		Segment Pretax Income Margin	
		FY16	FY15 <sup>#</sup>	FY16	FY15 <sup>#</sup>	FY16	FY15 <sup>#</sup>
PC	Operational	29,646	33,346	1,491	1,772	5.0%	5.3%
	Reported*			1,491	1,772	5.0%	5.3%
Enterprise	Operational	4,553	2,627	53	(29)	1.2%	(1.1%)
	Reported*			(102)	(121)	(2.3%)	(4.6%)
Mobile	Operational	9,779	9,142	(469)	(295)	(4.8%)	(3.2%)
	Reported*			(644)	(370)	(6.6%)	(4.0%)

# Included 5 months Motorola and two quarters of System X performances

\* Included non-cash M&A-related accounting charges, restructuring savings, and others

# + FY16 Performance by Geography

## China

- Protected profit pool despite market challenges
- PC:** Market share continued to improve by 0.2pts to 36.5%, with strong and stable margin
- Mobile:** Actions in place to simplify product portfolios, strengthen channel partnership and brand strategy to turnaround the business; Focus on product mix and ASP improvement
- Enterprise:** #1 position with Rev growth by 76% YTY

## AP

- Rev grew 9% YTY; Operating margin at 1.2%
- PC:** Attained #1 with record market share of 17.5%, up 1.7pt
- Mobile:** Strong smartphone shipments growth of 96.4% driven by SEA and India
- Enterprise:** Leveraging Lenovo channel expertise and ecosystems to accelerate business

## EMEA

- Operating margin at 1.1%, with revenue at US\$11.8B
- PC:** Maintained #2, gained 0.6pt share to 20.0% leveraging on market consolidation
- Mobile:** Strong smartphone shipments growth of 83% driven by EE & MEA
- Enterprise:** Continued focus and full integration of EBG operation and new partnerships to drive opportunities

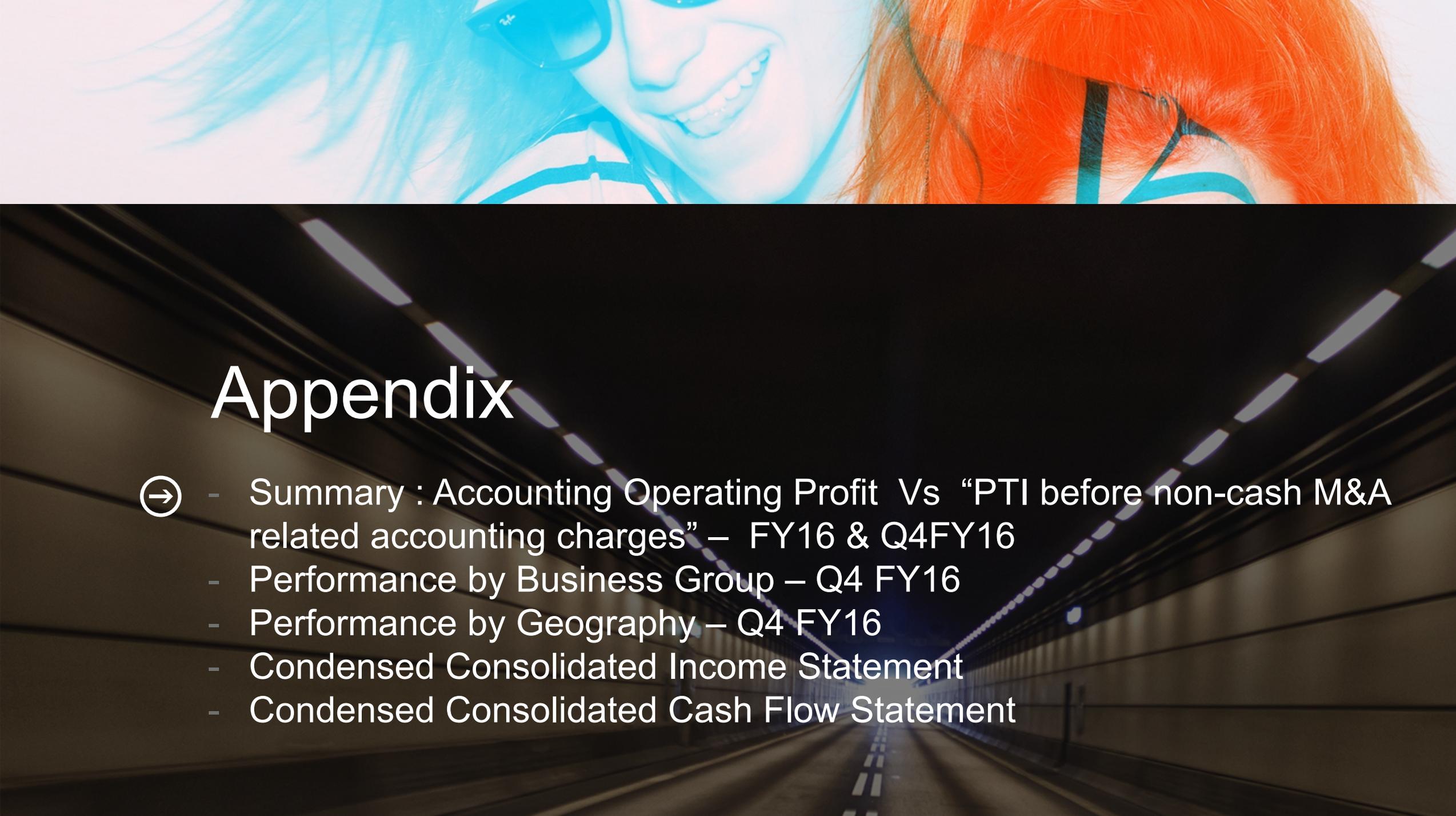
## AG (Americas)

- Revenue grew 11% YTY
- PC:** Maintained #3, gained 2.0pt share to 13.7%; Strong shipments growth for NA at 17.1% YTY and became #3; Brazil profitability continued to improve
- Mobile:** Continued to pave more solid foundation for future growth
- Enterprise:** New partnerships to drive new opportunities for growth

Excluding restructuring costs & one-time charges	Revenue US\$ Million		Segment Pretax Income/(Loss)* US\$ Million		Segment Pretax Income* Margin	
	FY16	FY15#	FY16	FY15#	FY16	FY15#
China	12,358	14,700	563	795	4.6%	5.4%
AP	7,155	6,549	89	302	1.2%	4.6%
EMEA	11,795	12,804	126	411	1.1%	3.2%
AG	13,604	12,243	(121)	8	(0.9%)	0.1%

# Included 5 months Motorola and two quarters of System X performances

\* Excluded non-cash M&A-related accounting charges, restructuring savings, and others



# Appendix

- ➔ - Summary : Accounting Operating Profit Vs “PTI before non-cash M&A related accounting charges” – FY16 & Q4FY16
- Performance by Business Group – Q4 FY16
- Performance by Geography – Q4 FY16
- Condensed Consolidated Income Statement
- Condensed Consolidated Cash Flow Statement

## + Summary : “PTI (As Reported) ” Vs “Run Rate PTI”

	FY15/16	FY14/15	Change
<b>Accounting Operating (Loss)/Profit (As-Reported)</b>	<b>(62)</b>	<b>1,108</b>	<b>NA</b>
• Other Non-Operating Expenses	(215)	(137)	133%
<b>Pre-tax (Loss)/Income (As-Reported)</b>	<b>(277)</b>	<b>971</b>	<b>NA</b>
• Restructuring Costs and One-time Items	923	-	NA
<b>PTI Before restructuring and one-time items</b>	<b>646</b>	<b>971</b>	<b>(33%)</b>
• Non-Cash M&A Related Accounting Charges	<b>330</b>	<b>168</b>	<b>97%</b>
<b>Run Rate PTI</b>	<b>976</b>	<b>1,139</b>	<b>(14%)</b>
• Tax	132	(134)	NA
• Non-Controlling Interests	17	(8)	NA
• Restructuring Costs and One-time Items	(923)	-	NA
• Non-Cash M&A Related Accounting Charges	(330)	(168)	97%
<b>Net (Loss)/Income (As-Reported)</b>	<b>(128)</b>	<b>829</b>	<b>NA</b>

## + Summary : “PTI (As Reported) ” Vs “PTI Before Non-Cash M&A Related Accounting Charges”

	Q4 FY15/16	Q4 FY14/15	Change (YTY)
<b>Accounting Operating Profit (As-Reported)</b>	<b>248</b>	<b>127</b>	<b>95%</b>
• Other Non-Operating Expenses	(55)	(23)	133%
<b>Pre-tax Income (As-Reported)</b>	<b>193</b>	<b>104</b>	<b>86%</b>
• Non-Cash M&A Related Accounting Charges	<b>77</b>	<b>94</b>	<b>-18%</b>
<b>PTI Before Non-Cash M&amp;A Related Accounting Charges</b>	<b>270</b>	<b>198</b>	<b>37%</b>
• Tax	(17)	(7)	156%
• Non-Controlling Interests	4	3	40%
• Non-Cash M&A Related Accounting Charges	(77)	(94)	-18%
<b>Net Income (As-Reported)</b>	<b>180</b>	<b>100</b>	<b>80%</b>

# + Q4FY16 Performance by Business Group

## PC

- WW share at 20.2%, up 0.8pts YTY
- Returned #1 in expanded PC market (PC, slate tablet & detachable)
- Strong shipments growth in NA
- PTI margin stayed solid at 5.0% despite market challenges

## Enterprise

- PRC Rev grew by 8% YTY
- NA business remains relatively slower as we are building up field sales force through integration process while competition stayed very keen
- Some wins in the pipeline not yet reflected in Q4 are set to benefit Rev in future Qtrs
- Operational profitable for 6 straight qtrs since closing, margin improved YTY/QTQ

## Mobile

- Solid momentum in fast growing EMs (e.g. EMEA, LA & AP)
- PRC declined due to continuous business transformation as planned: product transition, shifting focus to open market & higher main stream price band
- Decline in NA in Q4 due to miss of a key window of opportunity due to slower-than-expected product transition
- Better cost structure while continued to streamline product mix towards higher ASP to lay a more solid foundation to drive future growth

		Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million			Segment Pretax Income Margin		
		Q4 FY16	Y/Y	Q/Q	Q4 FY16	Q4 FY15	Q3 FY16	Q4 FY16	Q4 FY15	Q3 FY16
PC	Operational	6,188	(972)	(1,845)	312	391	405	5.0%	5.5%	5.0%
	Reported*				312	391	405	5.0%	5.5%	5.0%
Enterprise	Operational	985	(81)	(329)	17	1	20	1.7%	0.1%	1.5%
	Reported*				(16)	(45)	(14)	(1.6%)	(4.2%)	(1.0%)
Mobile	Operational	1,737	(1,109)	(1,508)	(62)	(171)	14	(3.5%)	(6.0%)	0.4%
	Reported*				(105)	(218)	(30)	(6.1%)	(7.7%)	(0.9%)

\* Included non-cash M&A-related accounting charges, restructuring savings, and others

# + Q4FY16 Performance by Geography

## China

- **PC:** PTI margin remained stable amidst PC market softness
- **Mobile:** Actions in place to strengthen channel partnership and brand strategy to turnaround the business; Focus on product mix and ASP improvement
- **Enterprise:** Rev grew 8% YTY, continued to drive the business growth from hyperscale and new growth opportunities through partnerships

## AP

- **PC:** #1 with market share at 15.6% (-0.2pt YTY)
- **Mobile:** Strong smartphone shipments growth of 44% YTY driven by strong momentum in ASEAN and India
- **Enterprise:** Wins in the pipeline; business transition in process with new DCG organization and leadership team

## EMEA

- **PC:** Maintained #2 with 20.7% market share
- **Mobile:** Strong smartphone shipments growth of 29% YTY driven by strong momentum in EE & MEA
- **Enterprise:** Wins in the pipeline; business transition in process with new DCG organization and leadership team

## AG (Americas)

- **PC:** Share up 3.0pt YTY to 14.8% driven by strong growth in NA & LA; Brazil profitability continued to improve
- **Mobile:** Decline due to product transition
- **Enterprise:** Remains relatively slower as building up field sales force through integration process while competition stayed very keen

	Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million*			Segment Pretax Income Margin* (%)		
	Q4 FY16	Y/Y	Q/Q	Q4 FY16	Q4 FY15	Q3 FY16	Q4 FY16	Q4 FY15	Q3 FY16
China	2,351	(720)	(1,167)	107	134	167	4.5%	4.4%	4.7%
AP	1,585	(107)	(395)	13	78	19	0.8%	4.6%	1.0%
EMEA	2,478	(488)	(974)	5	80	57	0.2%	2.7%	1.7%
AG	2,719	(886)	(1,244)	8	(9)	76	0.3%	(0.2%)	1.9%

\* Excluded non-cash M&A-related accounting charges, restructuring savings, and others

# + Condensed Consolidated Income Statement

<i>US\$ Million</i>	FY2015/16	FY2014/15	Q4 FY2015/16	Q4 FY2014/15
Revenue	44,912	46,296	9,133	11,334
Cost of sales	(38,288)	(39,614)	(7,615)	(9,555)
Gross profit	6,624	6,682	1,518	1,779
Other income - net	2	1	-	-
Selling and distribution expenses	(2,373)	(2,303)	(536)	(658)
Administrative expenses	(2,109)	(1,883)	(476)	(546)
Research and development expenses	(1,491)	(1,220)	(352)	(424)
Other operating (expense)/income - net	(715)	(169)	94	(24)
Operating (loss)/profit	(62)	1,108	248	127
Finance income	33	31	8	7
Finance costs	(237)	(185)	(58)	(52)
Share of (losses)/profits of associated companies and joint ventures	(11)	17	(5)	22
(Loss)/Profit before taxation	(277)	971	193	104
Taxation	132	(134)	(17)	(7)
(Loss)/Profit for the year/period	(145)	837	176	97
(Loss)/Profit attributable to:				
Equity holders of the company	(128)	829	180	100
Non-controlling interests	(17)	8	(4)	(3)
Dividend	379	380	-	-
(Loss)/Earnings per share (US cents)				
- Basic	(1.16)	7.77	1.63	0.91
- Diluted	(1.16)	7.69	1.62	0.90

# + Condensed Consolidated Cash Flow Statement

US\$ Million	FY2015/16	FY2014/15	Q4 FY2015/16	Q4 FY2014/15
Net cash generated from/(used in) operating activities	<b>292</b>	238	<b>(700)</b>	(1,103)
Net cash (used in) investing activities	<b>(854)</b>	(3,282)	<b>(376)</b>	(237)
Net cash (used in)/generated from financing activities	<b>(305)</b>	2,143	<b>426</b>	334
(Decrease)/Increase in cash and cash equivalents	<b>(867)</b>	(901)	<b>(650)</b>	(1,006)
Effect of foreign exchange rate changes	<b>(62)</b>	(102)	<b>25</b>	(20)
Cash and cash equivalents at the beginning of the period	<b>2,855</b>	3,858	<b>2,551</b>	3,881
Cash and cash equivalents at the end of the period	<b>1,926</b>	2,855	<b>1,926</b>	2,855



thanks.

Lenovo™