

# 2016/17 Q1 Earnings Announcement

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# Yuanqing Yang

Chairman and CEO



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# Markets Remain Challenging

- PC, Tablet markets declined; Smartphone, Server markets flat
- Currency fluctuations, especially RMB



# • Q1 Group Performance

- Revenue decreased 6% YTY, or 4% excluding currency impact
- PTI up 297% YTY; excluding M&A and restructuring charges, PTI up 97% YTY

### **Revenue and PTI (US\$ Millions)**



\* Excluding M&A and restructuring charges

# PCSD: Performance

- Improved PTI margins by half a point YTY
- Share and profitability improved in all Geos except EMEA



# PCSD: Performance

- Tablets: Outgrew market by 14 points, returned to #3
- PC + Tablet: Now clear #1 with 15.5% worldwide share



# • PCSD: Strategies

- Leverage industry consolidation to gain share
- Focus on fast growing segments
  - Detachables, Gaming PCs, Chromebook



# Mobile: Strategies

- Integrate teams
  - Optimize cost & expenses
  - Strengthen cohesiveness, consistent culture
- Enhance product portfolio
  - Mainstream
    - Ensure competitiveness
    - New Moto G4; ZUK Z2 models
  - High end
    - Focus on Innovation
    - Moto Z and Moto Mods
- Expand channels, invest in marketing and branding



# • Mobile: Performance

- Business stabilizing, revenue almost flat YTY, only declining 1% excluding currency impact
- Higher ASP leading to revenue growing faster than volume, transition to higher end products working
- **3-point** improvement in operating margin YTY
- Strong momentum in Asia Pacific, Eastern Europe and Latin America

# <sup>o</sup> DCG: Performance

- Strengthened #1 position China, grew China revenue 14% YTY
- Grew Global Accounts revenue
   45% YTY

China DCG Revenue (\$Million) 550 455 425 450 420 372 350 321 350 298 250 150 50 Q3 14/15 Q4 14/15 Q1 15/16 Q2 15/16 Q3 15/16 Q4 15/16 Q1 16/17 -50

Source: Internal Data

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# GLOBAL ACCOUNTS UP 45% YTY

- DCG: Strategies
  - Strengthen sales coverage in US and EMEA
  - Improve product competitiveness
  - Increase attach rates of services and options
  - Build capabilities in storage, networking, hypercoverged technology



# Innovate. Disrupt.

- At Tech World in June
  - PHAB2 Pro
  - Bendable phone and foldable tablet concepts & prototypes
  - Moto Z and Moto Mods
- At IFA, will showcase more one-of-a-kind innovation



## Device + Cloud

- Lead in IoT
- Uniquely positioned to build a balanced "Device + Cloud" model
- Will create seamless user experience at home, at work and on the go



# Never Stand Still

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# Wong Wai Ming

**Chief Financial Officer** 

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# Financial Highlights

- Group revenue was stabilizing: US\$10.1B, up 10% QTQ; YTY decline narrowed and down by 6% YTY, or down 4% YTY excluding currency impact, driven by business transformation progress
- PTI (excluding non-cash M&A-related accounting charges) increased 97% YTY to US\$281M
- Reported PTI increased 297% YTY to US\$206M
- Net Income up 64% YTY to US\$173M

# • Financial Summary

US\$ Million	Q1 FY2016/17	Q1 FY2015/16	Y/Y%	Q4 FY2015/16	Q/Q%
Revenue	10,056	10,716	-6%	9,133	10%
Gross Profit	1,534	1,647	-7%	1,518	1%
Operating Expenses	(1,289)	(1,551)	-17%	(1,270)	2%
Operating Profit	245	96	157%	248	-1%
Other Non-Operating Expenses – Net	(39)	(44)	-9%	(55)	-28%
Pre-tax Income	206	52	297%	193	6%
Taxation	(38)	50	NA	(17)	121%
Profit for the period	168	102	65%	176	-5%
Non-controlling interests	5	3	62%	4	34%
Profit attributable to Equity Holders	173	105	64%	180	-4%
EPS (US cents)					
- Basic	1.57	0.95	0.62	1.63	(0.06)
- Diluted	1.56	0.94	0.62	1.62	(0.06)
	Q1 FY2016/17	Q1 FY2015/16	Q4 FY2015/16		
Bross margin	15.3%	15.4%	16.6%		
/R ratio	12.8%	14.5%	13.9%		
Dperating margin	2.4%	0.9%	2.7%		
PTI margin	2.0%	0.5%	2.1%		
Net margin attributable to Equity Holders	1.7%	1.0%	2.0%		

## Condensed Balance Sheet

US\$ Million	As at	As at
	Jun 30, 2016	Mar 31, 2016
Non-current assets	11,976	11,966
Property, plant and equipment	1,344	1,391
Intangible assets	8,631	8,661
Others	2,001	1,914
Current assets	13,243	12,967
Bank deposits and cash	2,064	2,079
Trade, notes and other receivables	8,374	8,083
Inventories	2,577	2,637
Others	228	168
Current liabilities	15,750	15,760
Borrowings	741	746
Trade, notes, other payables and provisions	14,055	13,964
Others	954	1,050
Net current liabilities	(2,507)	(2,793)
Non-current liabilities	6,158	6,147
Total equity	3,311	3,026

# Cash and Working Capital

US\$ Million	Q1 FY2016/17	Q1 FY2015/16	Q4 FY2015/16
Bank Deposits and Cash	2,064	2,893	2,079
Total Borrowings	3,231	3,441	3,251
Net Debt	(1,167)	(548)	(1,172)
Net Cash Generated from / (used in) Operating Activities Net cash generated from / (used in) investing activities	8 34	(310) (147)	(700) (376)
Days Inventory	29	32	34
Days Receivable	38	42	45
Days Payable	67	69	79
Cash Conversion Cycle (day)	0	5	0

## Performance by Business Group

#### PC & Smart Devices (PCSD)

- WW PC share at 21.1%, up 0.4pts YTY, share gain across all geos except EMEA
- Tablet: Profitable with double-digit growth premium to the market
- WW #1 in PC+tablet and widened the gap with #2
- PTI growth with margin improvement

### **Data Center (DCG)**

- PRC Rev grew by 14% YTY
- NA & EMEA businesses remain relatively slower as we focus on investing in product portfolio and building sales force while competition stayed very keen
- Losses incurred during the quarter mainly due to business transition and competition in hyperscale business in China

#### Mobile (MBG)

- Gaining shipments and revenue traction QTQ due to shift of focus from volume to revenue
- Outgrew market in AP and Eastern Europe; continued strong performance in India and Indonesia; declined in NA in Q1 due to simplify product portfolio
- In China, focus on mid-to-high price band & user experience improvement; successful launch of ZUK Z2 models received good initial market feedback; continue to expand retailer coverage and online channels
- Increased branding & marketing to prepare for new products (Moto Z & Moto Mods)

			Revenue US\$ Million			Segment Pretax Income/(Loss) US\$ Million			Segment Pretax Income Margin		
		Q1 FY17	Q1 FY16	Q4 FY16	Q1 FY17	Q1 FY16	Q4 FY16	Q1 FY17	Q1 FY16	Q4 FY16	
DCCD	Operational	6,992	7,557	6,371	370	361	302	5.3%	4.8%	4.7%	
PCSD	Reported*				370	361	302	5.3%	4.8%	4.7%	
MBG	Operational	1 706	1 0 1 5	1,546	(163)	(229)	(79)	-9.6%	-12.6%	-5.1%	
WIDG	Reported*	1,706	1,815		(206)	(273)	(123)	-12.1%	-15.0%	-8.0%	
DCC	Operational	1 096	1 077	005	(31)	7	17	-2.9%	0.6%	1.7%	
DCG	Reported*	1,086	1,077	985	(64)	(40)	(16)	-5.9%	-3.8%	-1.6%	

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# • Performance by Geography

### China

- PC: PTI margin remained solid with market share gain amidst softness
- **Mobile:** Focus on mid-to-high price band & user experience improvement; successful launch of ZUK Z2 models received good initial market feedback
- Enterprise: Rev grew 14% YTY, continued to drive the business growth from hyperscale and new growth opportunities through partnerships

### AP

- **PC:** Continue market share gain (16.4%, +0.4pt YTY)
- Mobile: Outgrew market in key countries including ASEAN & India
- Enterprise: Accelerating integration to drive future profitability improvement

#### **EMEA**

- PC: Continue actions to improve channel inventory to drive future growth
- **Mobile:** Gain traction from previous quarter despite slow YTY performance due to product transition
- Enterprise: Business transition resulted in YTY rev decline; further actions to stabilize business have been taken

#### AG (Americas)

- PC: Share up 1.4pt YTY to 14.4% driven by strong growth in NA; Brazil profitability continued to improve
- Mobile: Shipments decline in NA due to product transition while stabilizing in LA
- Enterprise: Remains relatively slower as building up field sales force through integration process while competition stayed very keen

		Revenue US\$ Million			Pretax Incor US\$ Million	ne/ (Loss)	Segment Pretax Income Margin (%)			
	Q1 FY17	Y/Y	Q/Q	Q1 FY17	Q1 FY16	Q4 FY16	Q1 FY17	Q1 FY16	Q4 FY16	
China	2,854	(311)	503	138	153	107	4.8%	4.8%	4.5%	
AP	1,680	60	95	17	35	13	1.0%	2.2%	0.8%	
EMEA	2,467	(195)	(11)	(49)	40	5	-2.0%	1.5%	0.2%	
AG	3,055	(214)	336	38	(131)	8	1.3%	-4.0%	0.3%	

#### \* Excluded non-cash M&A-related accounting charges

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# Appendix

- → Summary : "PTI (As Reported) " Vs "PTI Before Non-Cash M&A Related Accounting Charges"
  - Condensed Consolidated Income Statement
  - Condensed Consolidated Cash Flow Statement
  - Pro-Forma FY16 Quarterly Performance by Business Group under the new organization structure effective from April 1, 2016

**O** Summary : "PTI (As Reported) " Vs "PTI Before Non-Cash M&A Related Accounting Charges"

	Q1 FY16/17	Q1 FY15/16	Change (YTY)
Accounting Operating Profit (As-Reported)	245	96	157%
Other Non-Operating Expenses	(39)	(44)	-9%
Pre-tax Income (As-Reported)	206	52	297%
<ul> <li>Non-Cash M&amp;A-related Accounting Charges</li> </ul>	75	91	-17%
PTI Before Non-Cash M&A-related Accounting Charges	281	143	97%
• Tax	(38)	50	NA
Non-Controlling Interests	5	3	62%
<ul> <li>Non-Cash M&amp;A-related Accounting Charges</li> </ul>	(75)	(91)	-17%
Net Income (As-Reported)	173	105	64%

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## Condensed Consolidated Income Statement

US\$ Million	Q1 FY2016/17	Q1 FY2015/16
Revenue	10,056	10,716
Cost of sales	(8,522)	(9,069)
Gross profit	1,534	1,647
Other income – net	-	2
Selling and distribution expenses	(589)	(566)
Administrative expenses	(458)	(566)
Research and development expenses	(356)	(389)
Other operating income / (expenses) – net	114	(32)
Operating profit	245	96
Finance income	6	9
Finance costs	(55)	(51)
Share of profits / (losses) of associates and joint ventures	10	(2)
Profit before taxation	206	52
Taxation	(38)	50
Profit for the period	168	102
Profit / (loss) attributable to:		
Equity holders of the Company	173	105
Non-controlling interests	(5)	(3)
Earnings per share attributable to equity holders of the Company		
(US cents) - Basic	1.57	0.95
- Diluted	1.56	0.95

## Condensed Consolidated Cash Flow Statement

US\$ Million	Q1 FY2016/17	Q1 FY2015/16	Q4 FY2015/16
Net cash generated from / (used in) operating activities	8	(310)	(700)
Net cash generated from / (used in) investing activities	34	(147)	(376)
Net cash (used in) / generated from financing activities	(41)	317	426
Increase / (decrease) in cash and cash equivalents	1	(140)	(650)
Effect of foreign exchange rate changes	(22)	4	25
Cash and cash equivalents at the beginning of the period	1,927	2,855	2,551
Cash and cash equivalents at the end of the period	1,906	2,719	1,926

Pro-forma FY16 Quarterly Performance by Business Group under the new organization structure effective from April 1, 2016

		Revenue				Pretax Income / (Loss)				Pretax Income / (Loss)			
	US\$ Million			US\$ Million				%					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<b>DAAD</b>	FY16	FY16	FY16	FY16	FY16	FY16	FY16	FY16	FY16	FY16	FY16	FY16	
PCSD	7,557	8,468	8,400	6,371	361	391	404	302	4.8%	4.6%	4.8%	4.7%	
MBG	1,815	2,336	2,851	1,546	(273)	(219)	(47)	(123)	-15.0%	-9.4%	-1.7%	-8.0%	
DCG	1,077	1,177	1,314	985	(40)	(33)	(14)	(16)	-3.8%	-2.8%	-1.0%	-1.6%	



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