

# Q3FY19 Earnings Announcement



# Forward Looking Statement

This presentation contains “forward-looking statements” which are statements that refer to expectations and plans for the future and include, without limitation, statements regarding Lenovo’s future results of operations, financial condition or business prospects as well as other statements based on projections, estimates and assumptions. In some cases, these statements can be identified by terms such as "expect," "intend," "plan," "believe," "estimate," "may," "will," "should" and comparable words (including the negative of such words). These forward-looking statements, reflect the current expectations and plans of the directors and management of Lenovo, which may not materialize or may change. Many risks, uncertainties and other factors, some of which are unpredictable and beyond Lenovo’s control, could affect the matters discussed in these forward-looking statements. These factors include, without limitation, economic and business conditions globally and in the countries where we operate, Lenovo’s ability to predict and respond quickly to market developments, consumer demand, pricing trends and competition; changes in applicable laws and regulations (including applicable tax and tariff rates). Any variance from the expectations or plans on which these forward-looking statements are based could cause Lenovo’s actual results or actions to differ materially from those expressed or implied in these statements. These forward-looking statements are not guarantees of future performance and you are cautioned not to place undue reliance on these statements. Lenovo undertakes no obligation to update any forward-looking statements in this presentation, whether as a result of new information or any subsequent change, development or event. All forward-looking statements in this presentation are qualified by reference to this paragraph.

# Yuanqing Yang

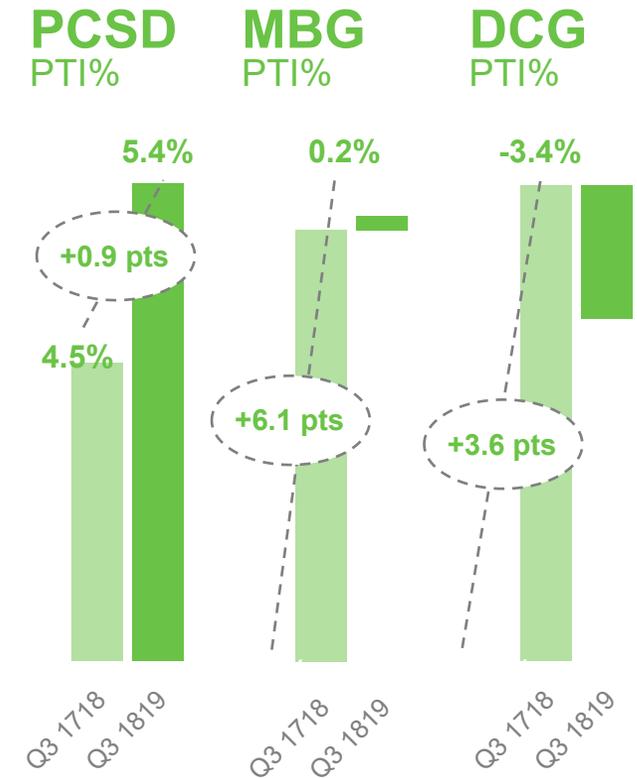
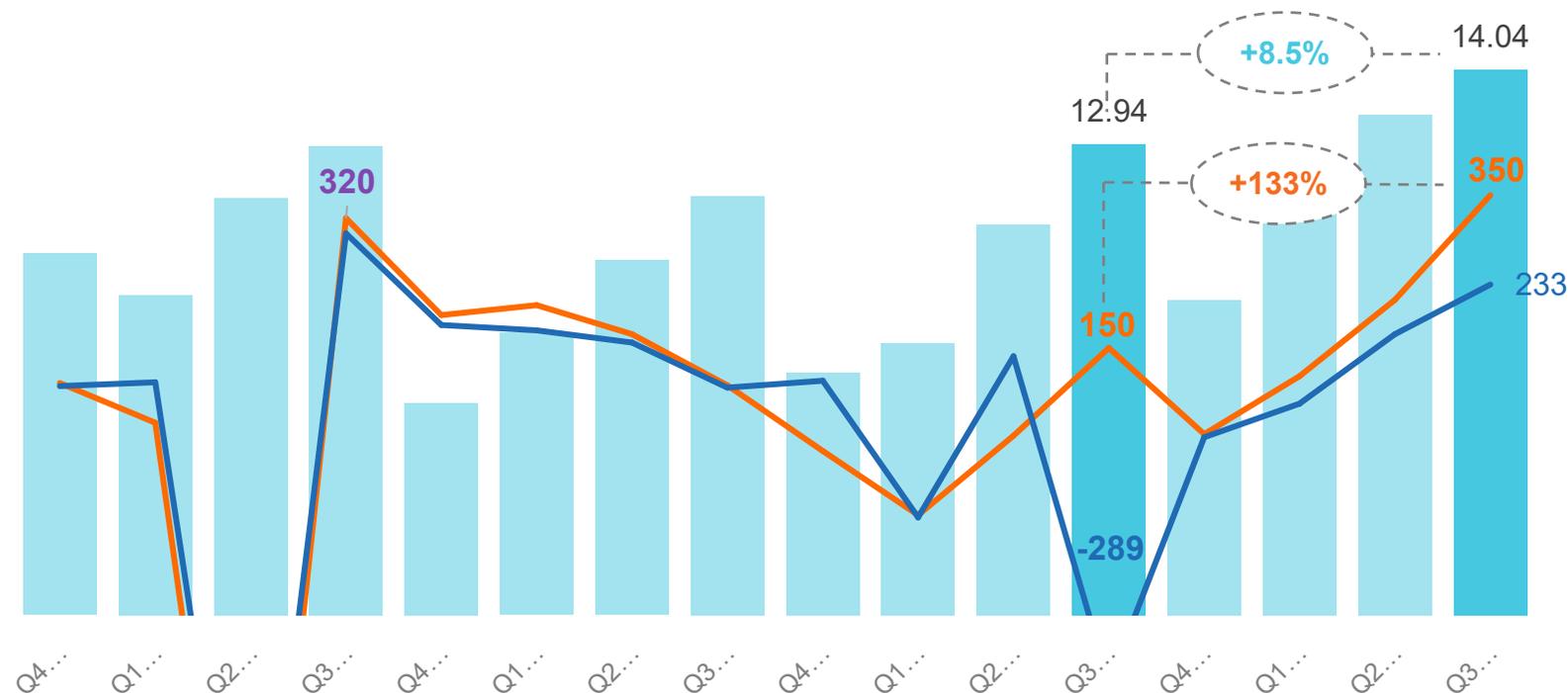
Chairman & CEO



# Strong Performance Across All Businesses

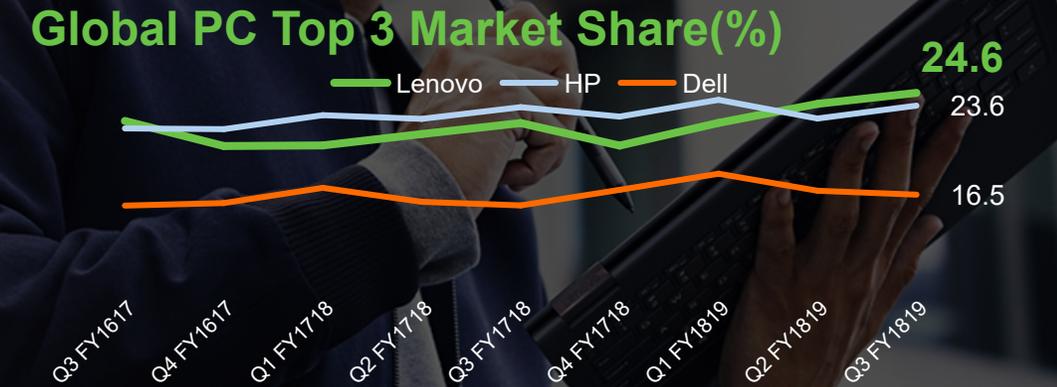
- Group Revenue reached **\$14 billion**, up **8.5%** YOY, highest in four years
- Pre-Tax Income: **Record high \$350 million**, up **133%** YOY
- Profitability improved across all businesses
- Net Income improved from a \$289 million loss to **\$233 million** profit

Revenue (\$B), PTI (\$M), Net Income (\$M)

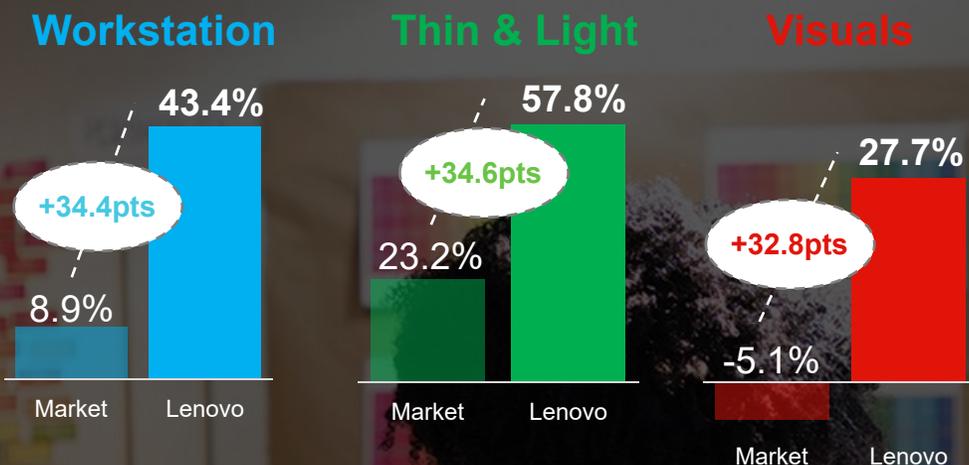


# IDG: PC & PCD (PC+Tablet)

- **Record** revenue and profit for PC
- PC revenue grew by **16%**, **17-point** premium to market YOY
- PC PTI margin improved by 1 point YOY
- Remain Undisputed **#1** in PC and PCD
  - PC record market share of **24.6%**
  - PCD market share **17%**

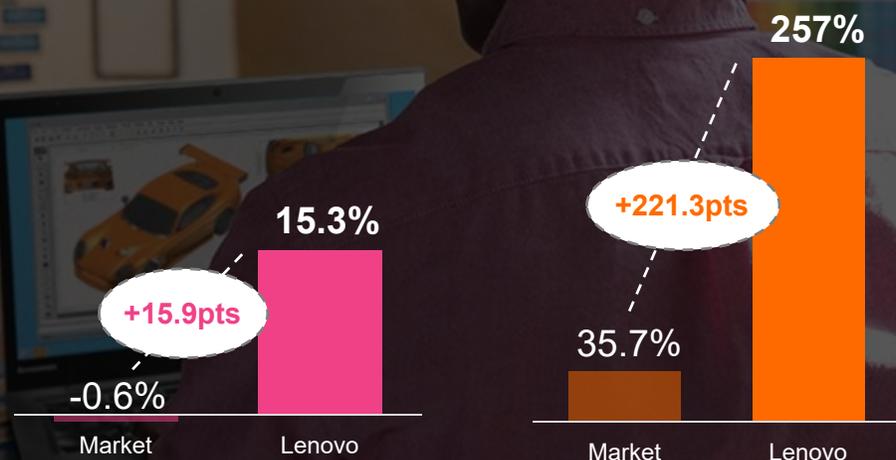


## Segment Revenue YoY Growth vs Market



### Gaming

### Chromebook

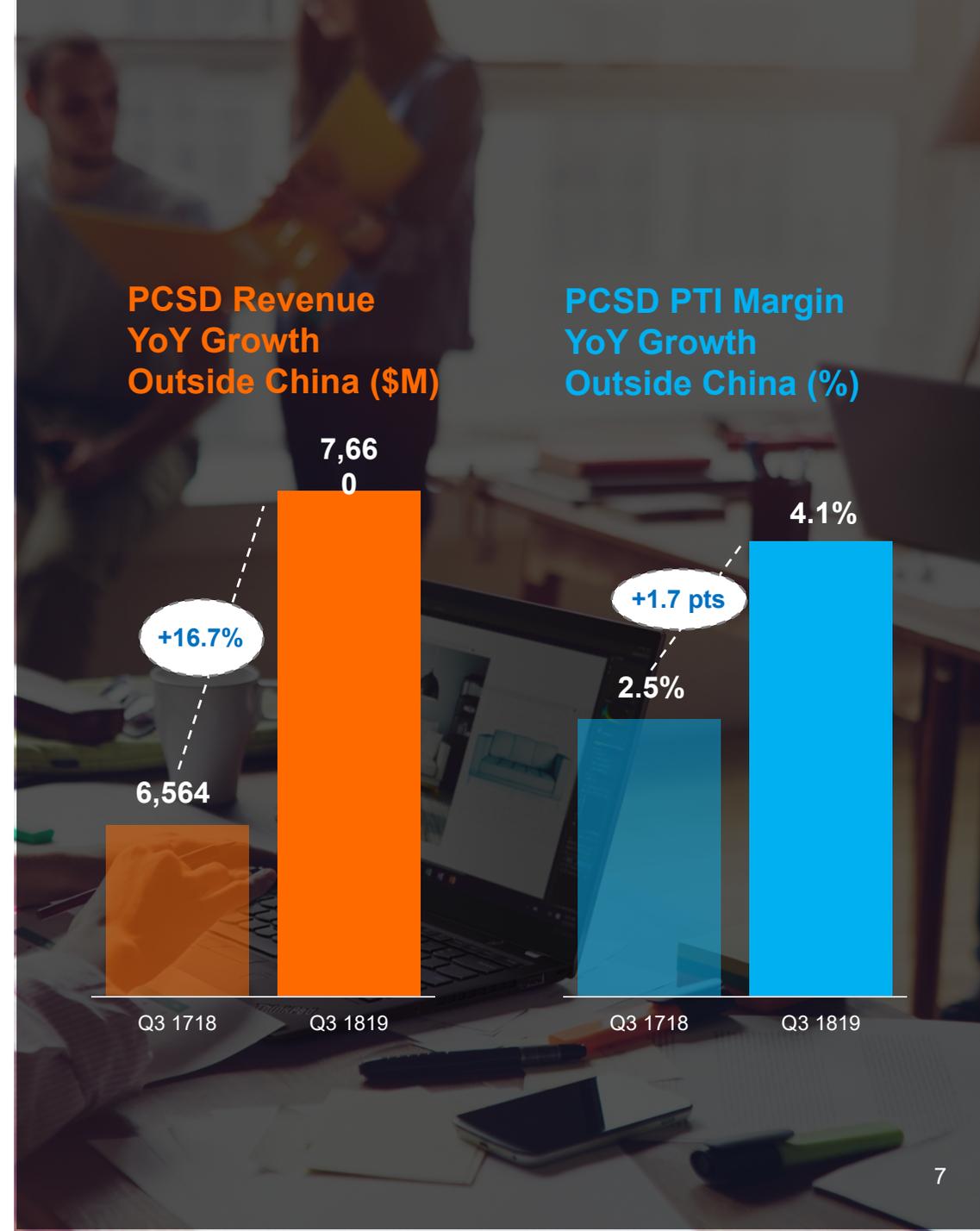


## IDG: PC & PCD (PC+Tablet)

- Focus on high-growth and premium segments, revenue outgrew the market in
  - Workstations, Thin & Light, Visuals by over **30** points
  - Gaming by **16** points
  - Chromebook by **220+** points

# IDG: PCSD (PC, Tablet & Smart Devices)

- Outside China: Revenue grew faster and improved profitability
- In China: Maintained revenue & profitability



# IDG: PC & PCD Outlook

- Confident in continuing to outgrow the market
  - Invest in high-growth segments
  - Focus on customer centricity
  - Drive the convergence of computing, communication and intelligent technologies



Yoga S940

# IDG: Mobile

- **Breakthrough – Profitable worldwide**  
1<sup>st</sup> time since Motorola acquisition
- Results from strong execution of strategy
  - Expense reduction
  - Simplified product portfolio
  - Focus on selected markets:
    - Latin America: Maintained profitability and **#2**
    - North America: Volume outgrew market by **40+ points**, profit improved **\$90 million+** YOY
    - China: **Quadrupled** revenue YOY
  - Innovation: Moto Z3 and 5G Mod announced as Verizon's first 5G solution

## Latin America Mobile

Market Share (%)

— Lenovo — Samsung — Huawei — Apple — LG



## North America Mobile

Volume YTY Growth (%)

— Lenovo — Market



## China Mobile

Revenue YTY Growth (%)

— Lenovo — Market



# IDG: Mobile Outlook

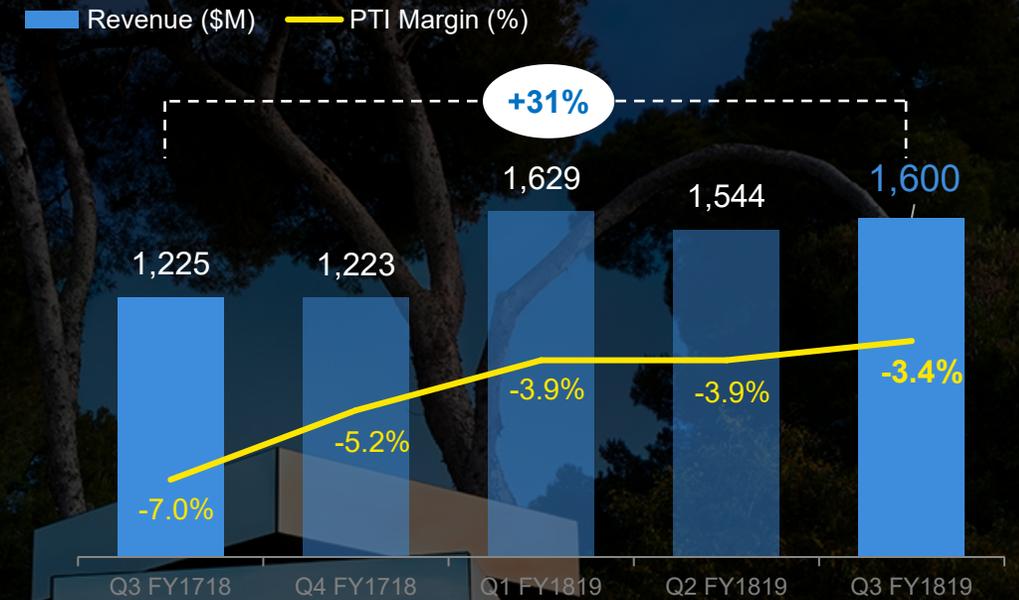
- Resume profitable growth
- Continue to innovate and execute current strategy



# Data Center

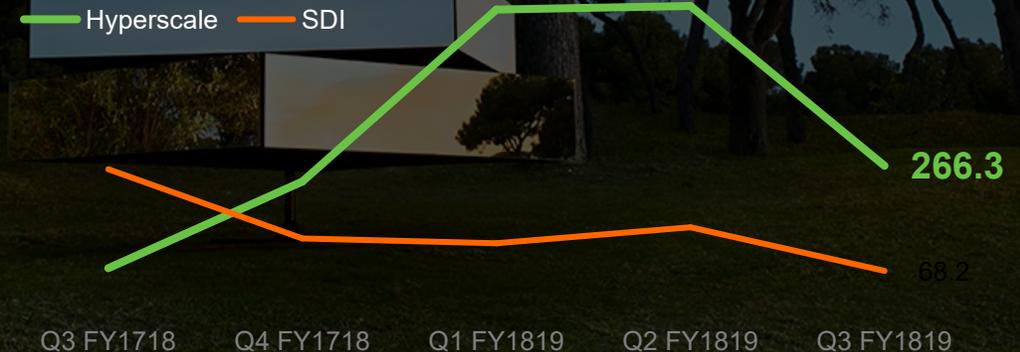
- Revenue: Strong double-digit YoY growth
- Profitability: Improved for **5<sup>th</sup>** consecutive quarter YOY
- Triple-digit growth of Hyperscale driven by majority of new projects now designed, manufactured in house
- Software Defined revenue grew **~70%** YOY
- Remained **#1** in Top 500 supercomputer rankings

## DCG Revenue and PTI Margin



## DCG Segments

Revenue Growth YOY(%)





# Data Center Outlook

Will continue to:

- Invest in technology leadership
- Building end-to-end product portfolio
- Joint venture with NetApp in China expands our business
- Develop capabilities in Software Defined with aim to lead

# Driving Intelligent Transformation

- Driving Smart IoT, Smart Infrastructure, and Smart Vertical Solutions
- Smart IoT at CES
  - Making traditional devices smarter
  - Developing new smart devices
- Drive Smart Infrastructure by DCG
- Big Data & Verticals revenue grew ~70% YOY
- Software & Services reached \$638 million





Once we reach  
one peak,  
we aim at an even  
higher one.  
We never give up.

# Wong Wai Ming

Chief Financial Officer

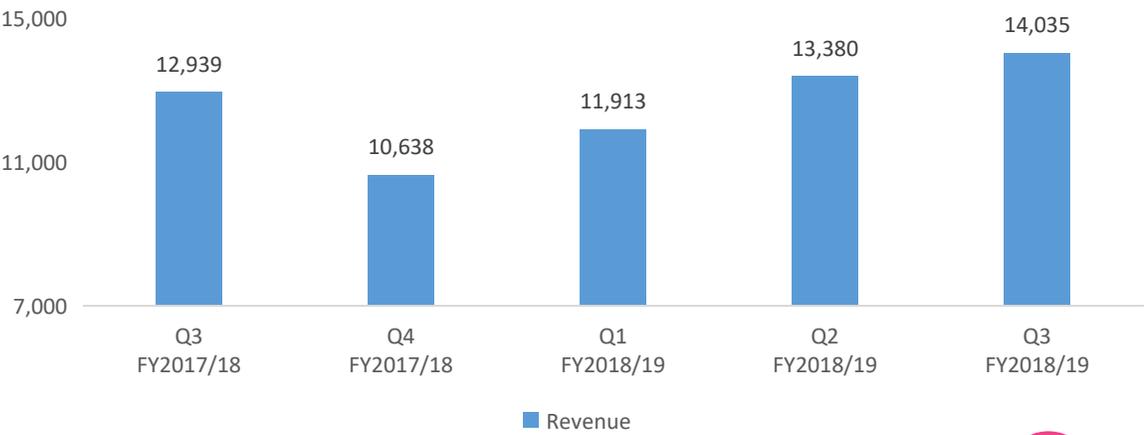


# Financial Highlights

US\$ Million

## Revenue

1



**1 Record high revenue in constant currency; 6<sup>th</sup> consecutive quarter of YTY growth**

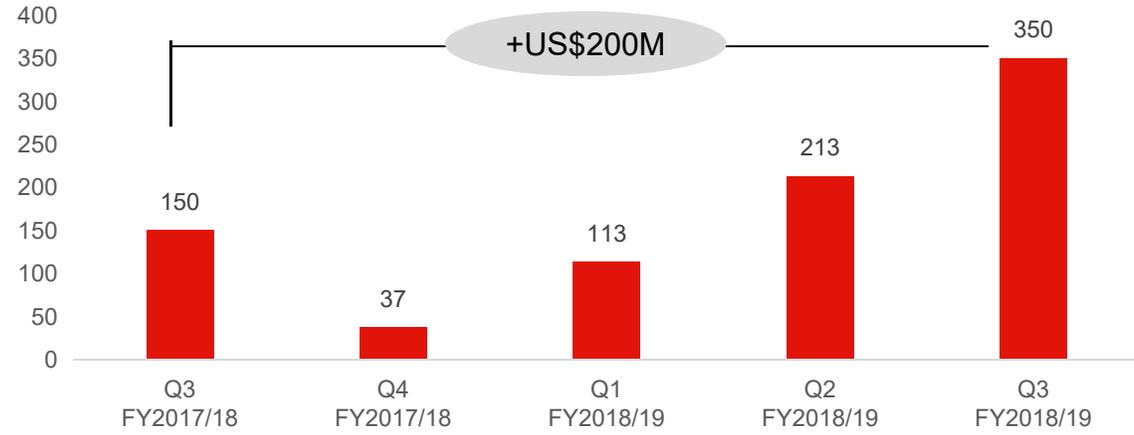
**2 Record high reported PTI, more than doubled YTY; consistent YTY improvement for 5 consecutive quarters**

**3 Gross profit margin improved to 14.6%, highest in 10 quarters**

US\$ Million

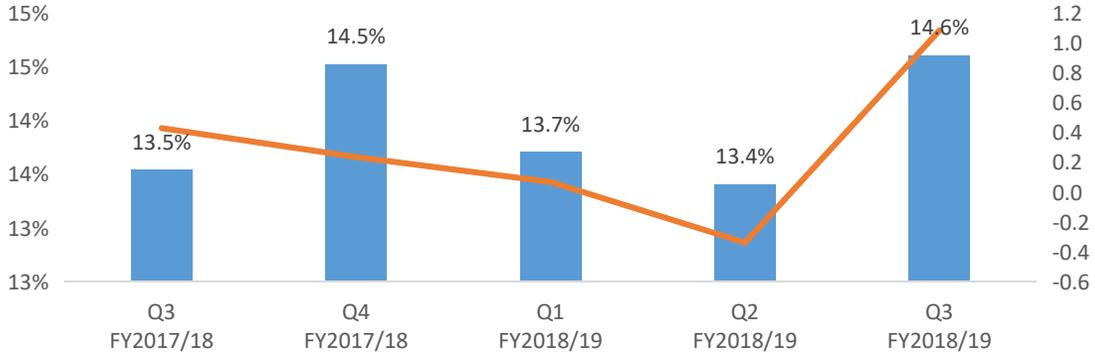
## Pre-Tax Income

2



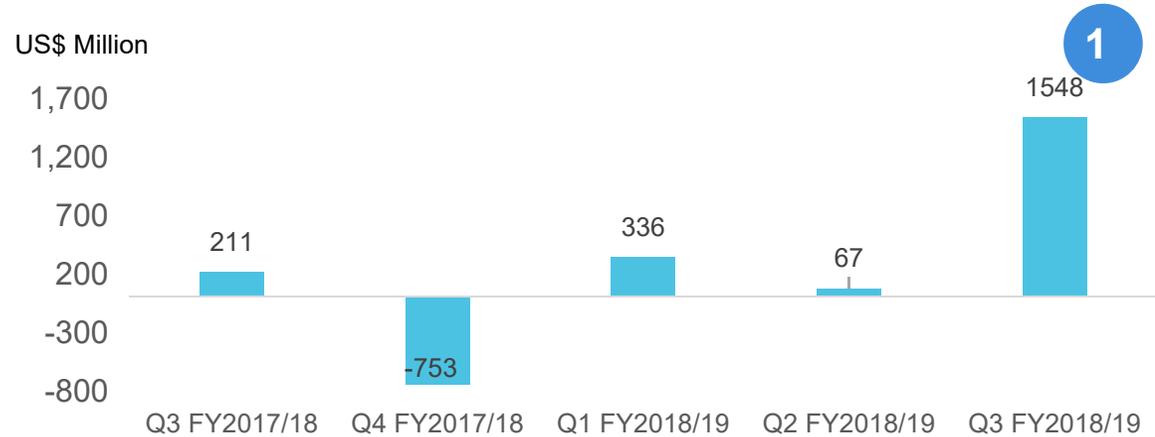
## Gross Margin and YTY pts changes

3



# Cash and Working Capital

Net cash generated from/(used in) operating activities

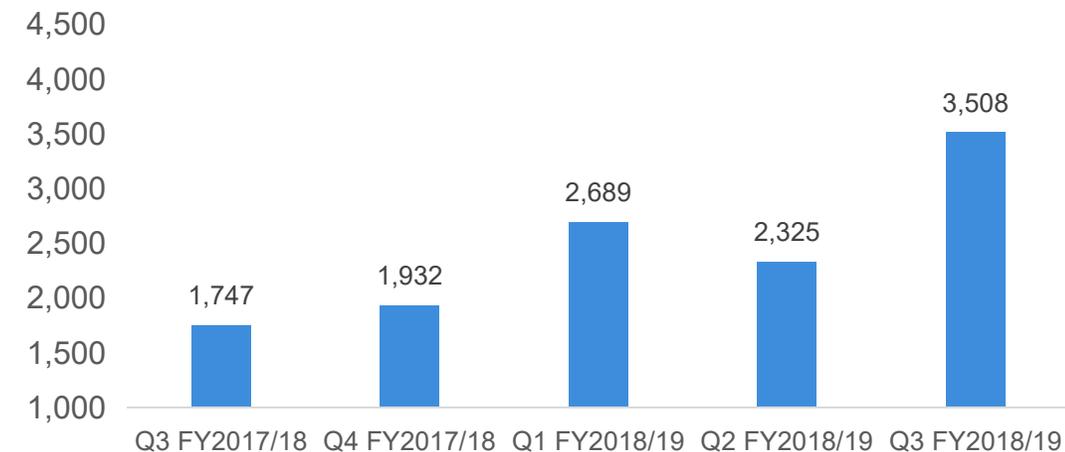


## Q3 Highlights

- 1 Improvement in working capital management; Better terms of account payable**
- 2 Inventory reduction in both finished goods and parts**

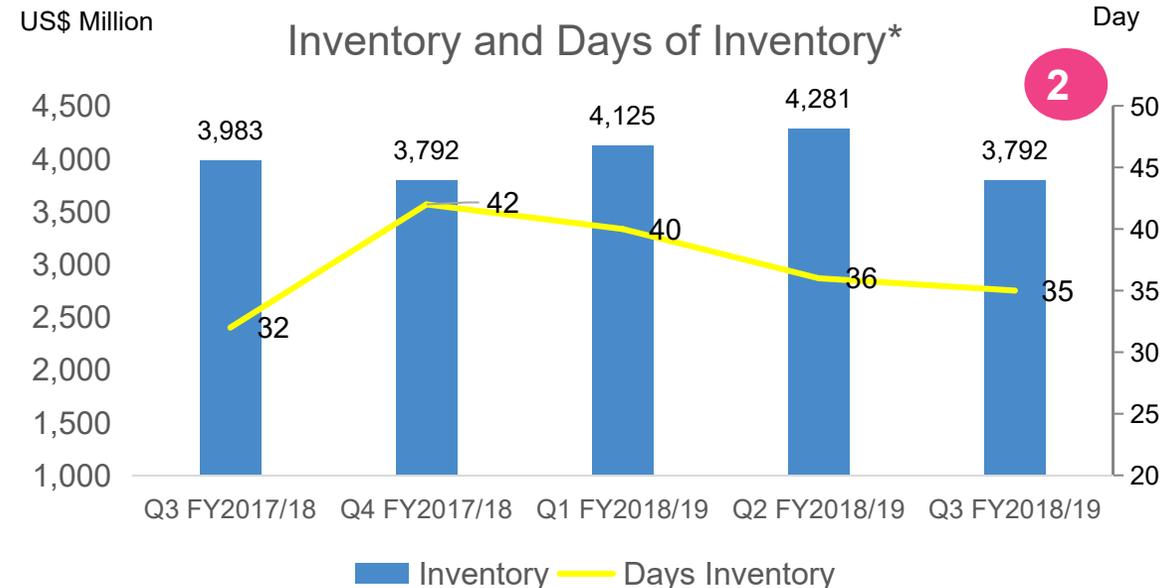
US\$ Million

### Bank Deposits and Cash

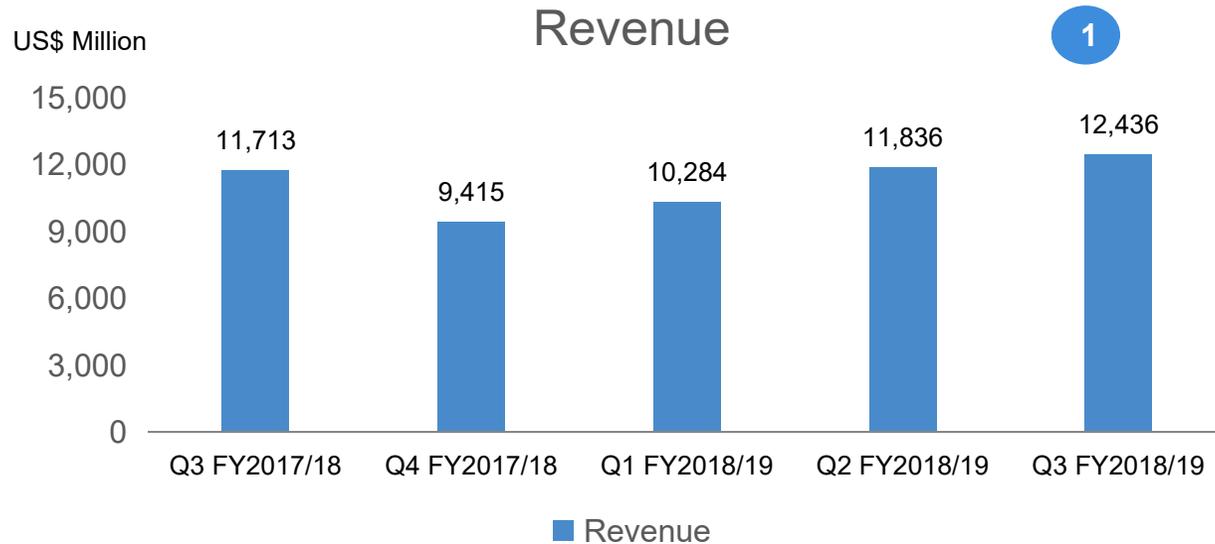


US\$ Million

### Inventory and Days of Inventory\*

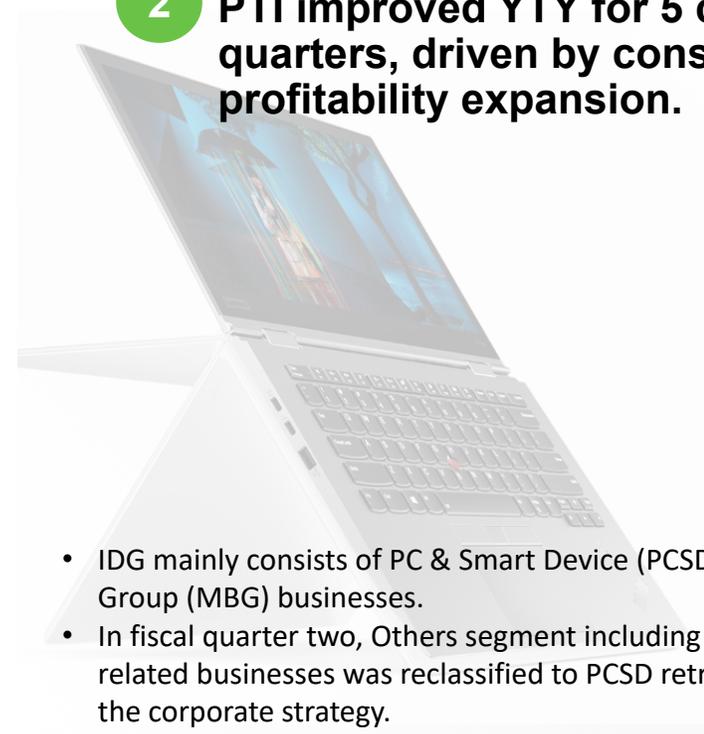


# Intelligent Devices Business Group (IDG)\*

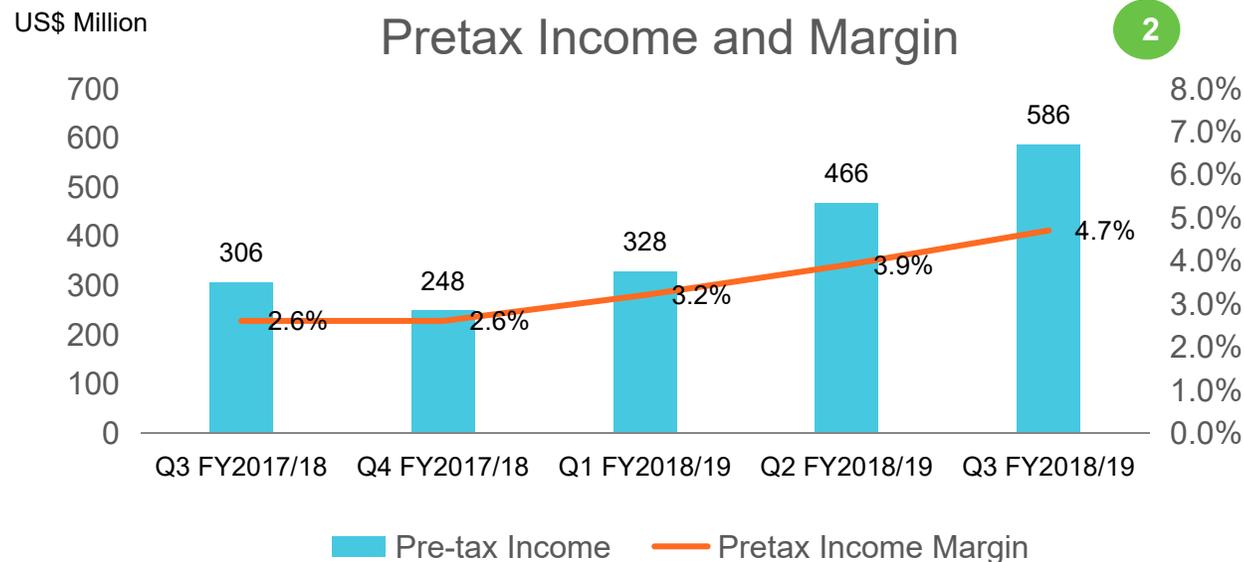


## Q3 Highlights

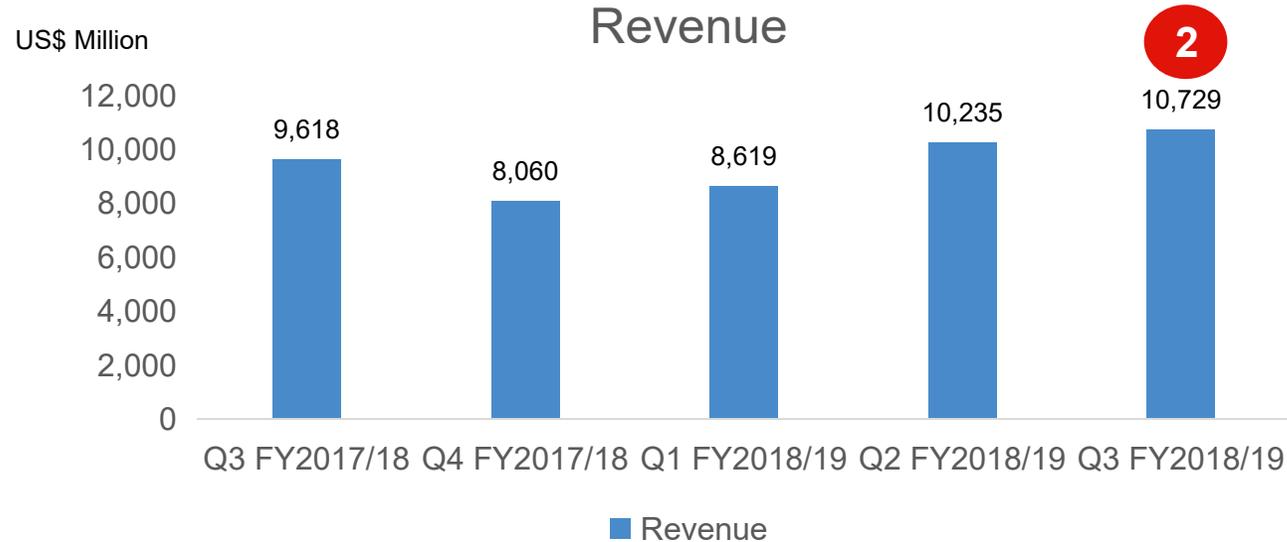
- 1 Robust revenue growth driven by strong PC performance**
- 2 PTI improved YTY for 5 consecutive quarters, driven by consistent profitability expansion.**



- IDG mainly consists of PC & Smart Device (PCSD) and Mobile Business Group (MBG) businesses.
- In fiscal quarter two, Others segment including consumer electronic related businesses was reclassified to PCSD retrospectively to align with the corporate strategy.

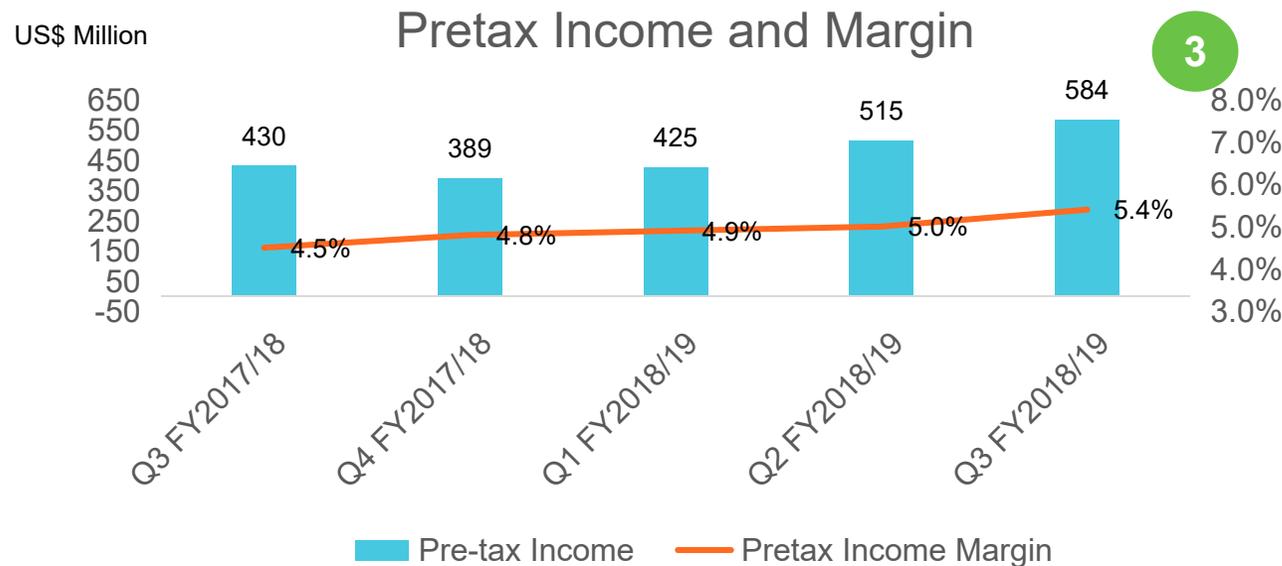


# IDG - PC & Smart Device Business Group (PCSD)



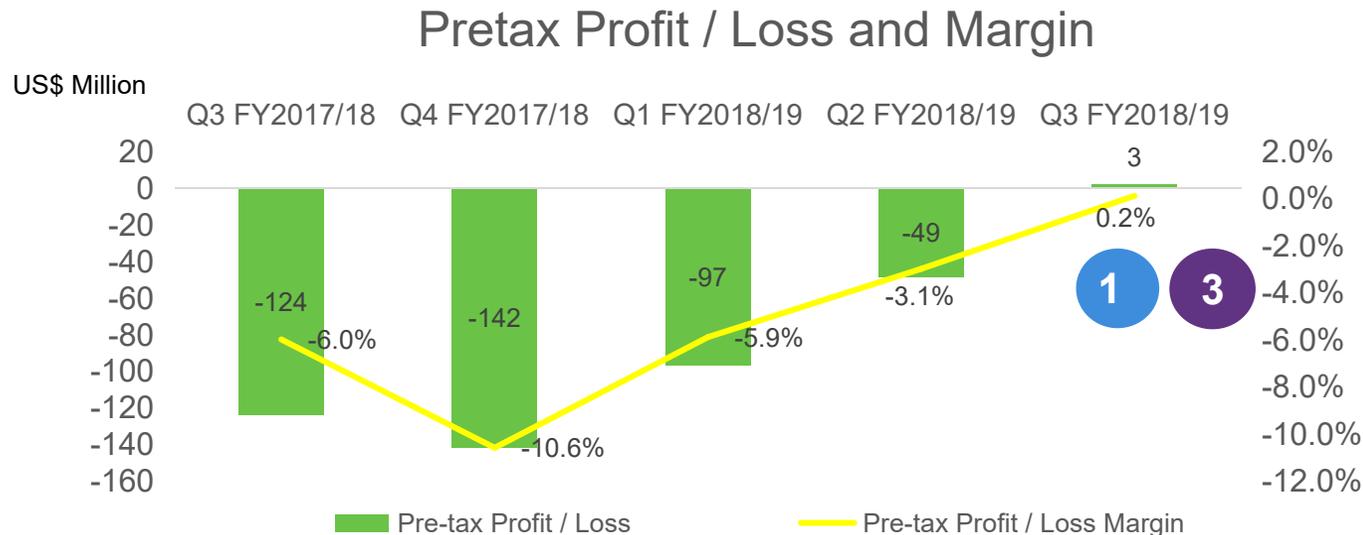
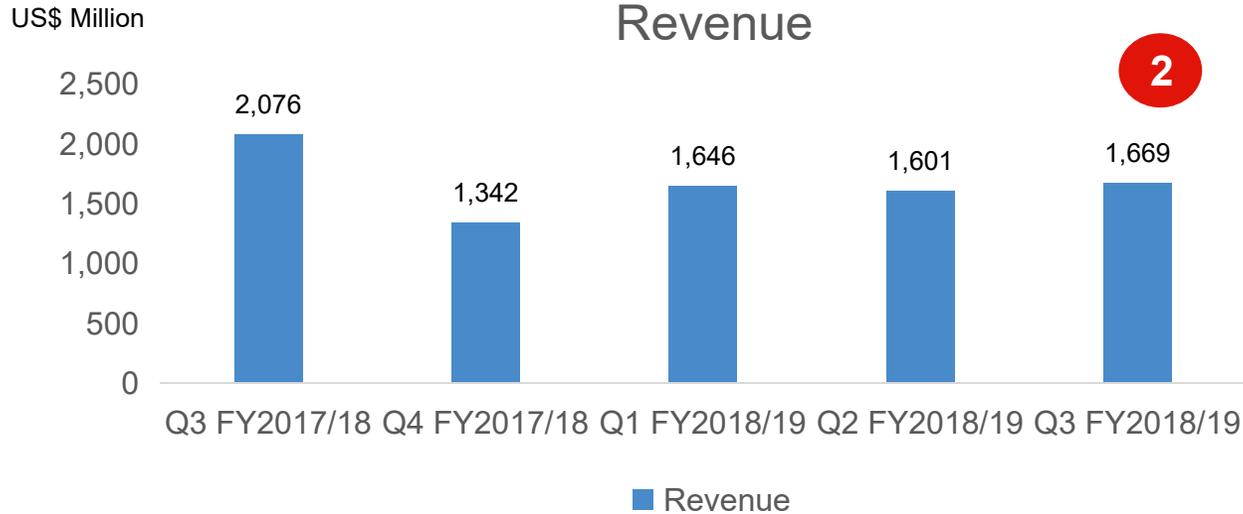
## Q3 Highlights

- 1 Record high revenue; reinforced market leadership in premium & high-growth segments**
- 2 Double-digit revenue growth for 4<sup>th</sup> consecutive quarter; premium to market revenue growth of 12 pts YTY**
- 3 Another PTI margin expansion to 5.4% due to favorable mix shift and higher services attach rate**
- 4 Services and Solutions business continued to gain traction; strong momentum in Device as a Service**



In fiscal quarter two, Others segment like those consumer electronic related businesses was reclassified to PCSD retrospectively to align with the corporate strategy.

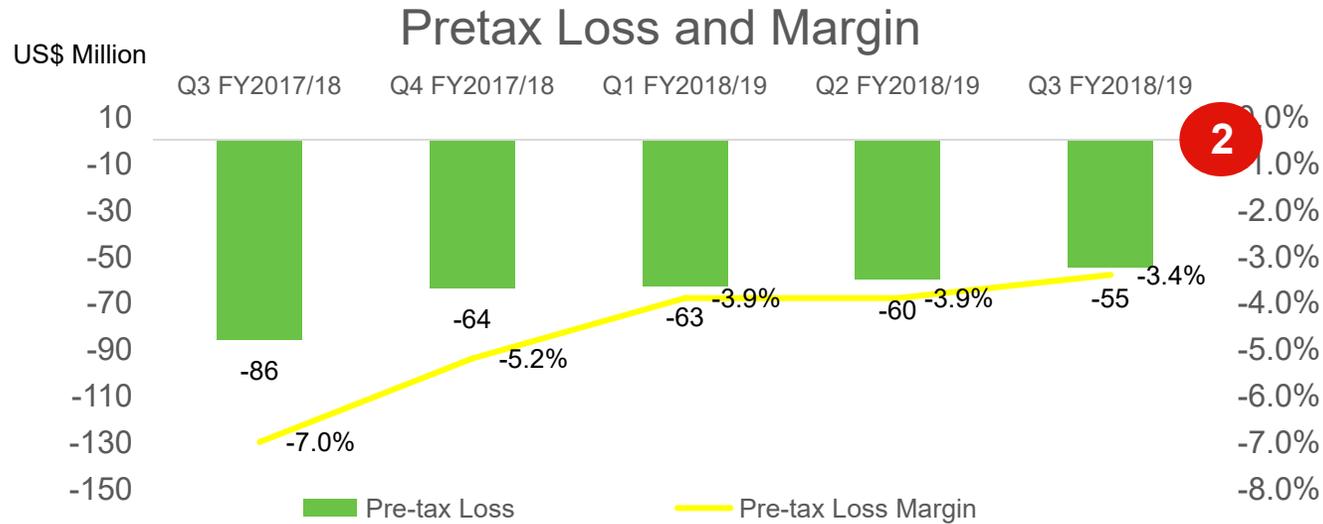
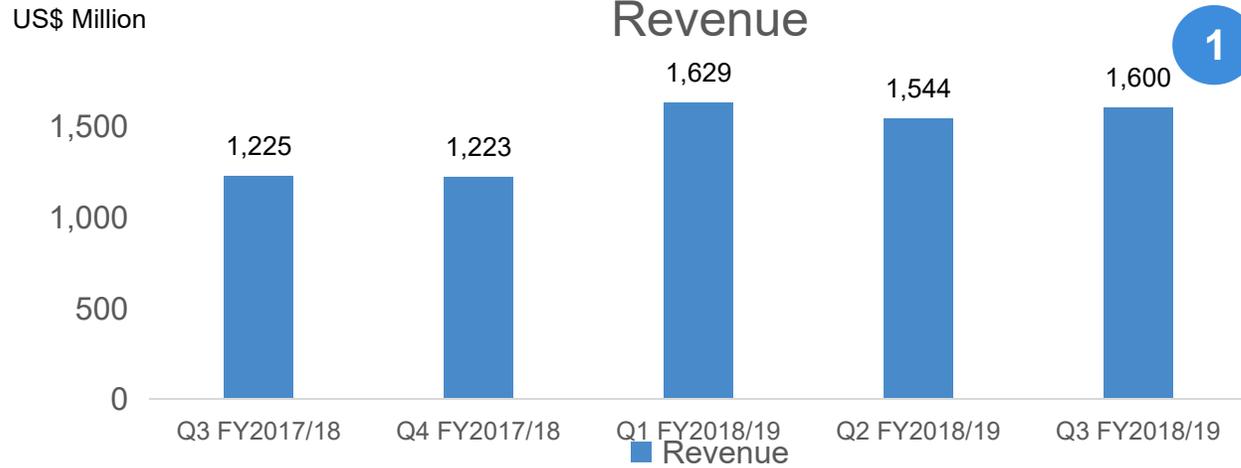
# IDG - Mobile Business Group (MBG)



## Q3 Highlights

- 1** PTI profit for the first time since acquisition, a result of strong execution in focused markets, streamlined portfolio and cost control
- 2** Focus on core markets: NA continued to show solid momentum; LA continued profitable with solid market position
- 3** Efficient cost structure and improved PTI margin thanks to well executed expense reduction
- 4** Streamlined product portfolio to reduce complexity and help to expand scale in the mainstream segments, i.e. Moto Z, G & E

# Data Center Business Group (DCG)



## Q3 Highlights

- 1 **5<sup>th</sup> consecutive quarter of strong double-digit YTY revenue growth, driven by Software Defined Infrastructure and Hyperscale segments**
- 2 **5 consecutive quarters of YTY PTI margin improvement**
- 3 **Strong growth in fast-growing segments:**
  - Lenovo was the fastest growing out of the tier 1 vendors in the Hyperconverged System
  - HPC grew double-digits YTY, and maintained WW # 1
  - Flash Array shipments grew triple-digits for 4 consecutive quarters

# Outlook

- **IDG: To deliver premium-to-market growth with strong profitability while building smart devices capabilities**
  - **PCSD:** Continue to drive premium to market revenue growth while maintain industry-leading profitability
  - **MBG:** Leverage competitive cost structure and investing in innovation to resume revenue growth in key strategic markets while sustaining profitability
- **DCG: To drive premium-to-market and sustainable healthy growth**
  - Strengthen total solution capabilities (i.e. strengthen storage portfolio, drive more Services, etc.)
  - Continue to accelerate high-growth segments – Hyperscale, SDI, AI/HPC, NFV and IoT solutions
  - Optimize Hyperscale business model with in-house design and manufacturing
  - Global strategic partnership with NetApp, including a JV in China
- **Intelligent Transformation:** To accelerate growth in Software and Service, Big Data, and Verticals Solutions business with customer centric offerings

# Appendix

- Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement



# Financial Summary-As Reported

US\$ Million	Q3 FY2018/19	Q3 FY2017/18	Y/Y%	Q2 FY2018/19
Revenue	<b>14,035</b>	12,939	8%	13,380
Gross Profit	<b>2,050</b>	1,751	17%	1,794
Operating Expenses	<b>(1,616)</b>	(1,547)	4%	(1,504)
Operating Profit	<b>434</b>	204	112%	290
Other Non-Operating Expenses	<b>(84)</b>	(54)	55%	(77)
Pre-tax Income	<b>350</b>	150	133%	213
Taxation	<b>(85)</b>	(425)	(80%)	(40)
Profit/(loss) for the period	<b>265</b>	(275)	N/A	173
Non-controlling interests	<b>(32)</b>	(14)	125%	(5)
Profit attributable to Equity Holders	<b>233</b>	(289)	N/A	168
EPS (US cents)				
- Basic	1.96	(2.53)	N/A	1.41
- Diluted	1.92	(2.53)	N/A	1.40
Dividend per share (HK cents)				6.00

	Q3 FY2018/19	Q3 FY2017/18	Q2 FY2018/19
Gross margin	<b>14.6%</b>	13.5%	13.4%
E/R ratio	<b>11.5%</b>	12.0%	11.2%
Operating margin	<b>3.1%</b>	1.6%	2.2%
PTI margin	<b>2.5%</b>	1.2%	1.6%
Net margin attributable to Equity Holders	<b>1.7%</b>	-2.2%	1.3%

# Condensed Consolidated Income Statement

<i>US\$ Million</i>	<b>Q3 FY2018/19</b>	<b>Q3 FY2017/18</b>
Revenue	<b>14,035</b>	12,939
Cost of sales	<b>(11,985)</b>	(11,188)
Gross profit	<b>2,050</b>	1,751
Selling and distribution expenses	<b>(702)</b>	(741)
Administrative expenses	<b>(616)</b>	(453)
Research and development expenses	<b>(273)</b>	(344)
Other operating expense - net	<b>(25)</b>	(9)
Operating profit	<b>434</b>	204
Finance income	<b>6</b>	7
Finance costs	<b>(86)</b>	(60)
Share of losses of associated companies and joint ventures	<b>(4)</b>	(1)
Profit/(loss) before taxation	<b>350</b>	150
Taxation	<b>(85)</b>	(425)
Profit/(loss) for the period	<b>265</b>	(275)
Profit/(Loss) attributable to:		
Equity holders of the company	<b>233</b>	(289)
Perpetual securities holders	<b>13</b>	13
Other non-controlling interests	<b>19</b>	1
Earnings/(Loss) per share (US cents)		
- Basic	<b>1.96</b>	(2.53)
- Diluted	<b>1.92</b>	(2.53)

# Condensed Consolidated Balance Sheet

*US\$ Million*

	<b>As at Dec 31, 2018</b>	As at Sep 30, 2018
Non-current assets	<b>12,799</b>	12,560
Property, plant and equipment	<b>1,411</b>	1,232
Intangible assets	<b>8,297</b>	8,286
Others	<b>3,091</b>	3,042
Current assets	<b>18,480</b>	18,327
Bank deposits and cash	<b>3,508</b>	2,325
Trade, notes and other receivables	<b>10,948</b>	11,431
Inventories	<b>3,792</b>	4,281
Others	<b>232</b>	290
Current liabilities	<b>22,784</b>	22,592
Borrowings	<b>2,641</b>	2,640
Trade, notes, other payables, accruals and provisions	<b>19,055</b>	18,956
Others	<b>1,088</b>	996
Net current liabilities	<b>(4,304)</b>	(4,265)
Non-current liabilities	<b>4,625</b>	4,342
Total equity	<b>3,870</b>	3,953

# Condensed Consolidated Cash Flow Statement

US\$ Million	Q3 FY2018/19	Q3 FY2017/18	Q2 FY2018/19
Net cash generated from operating activities	1,548	211	67
Net cash used in investing activities	(217)	(103)	(103)
Net cash (used in)/generated from financing activities	(165)	395	(318)
Increase/(Decrease) in cash and cash equivalents	1,166	503	(354)
Effect of foreign exchange rate changes	21	14	(46)
Cash and cash equivalents at the beginning of the period	2,213	1,144	2,613
Cash and cash equivalents at the end of the period	3,400	1,661	2,213

**thanks.**

**Different is better**

