

# Q2FY20 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.

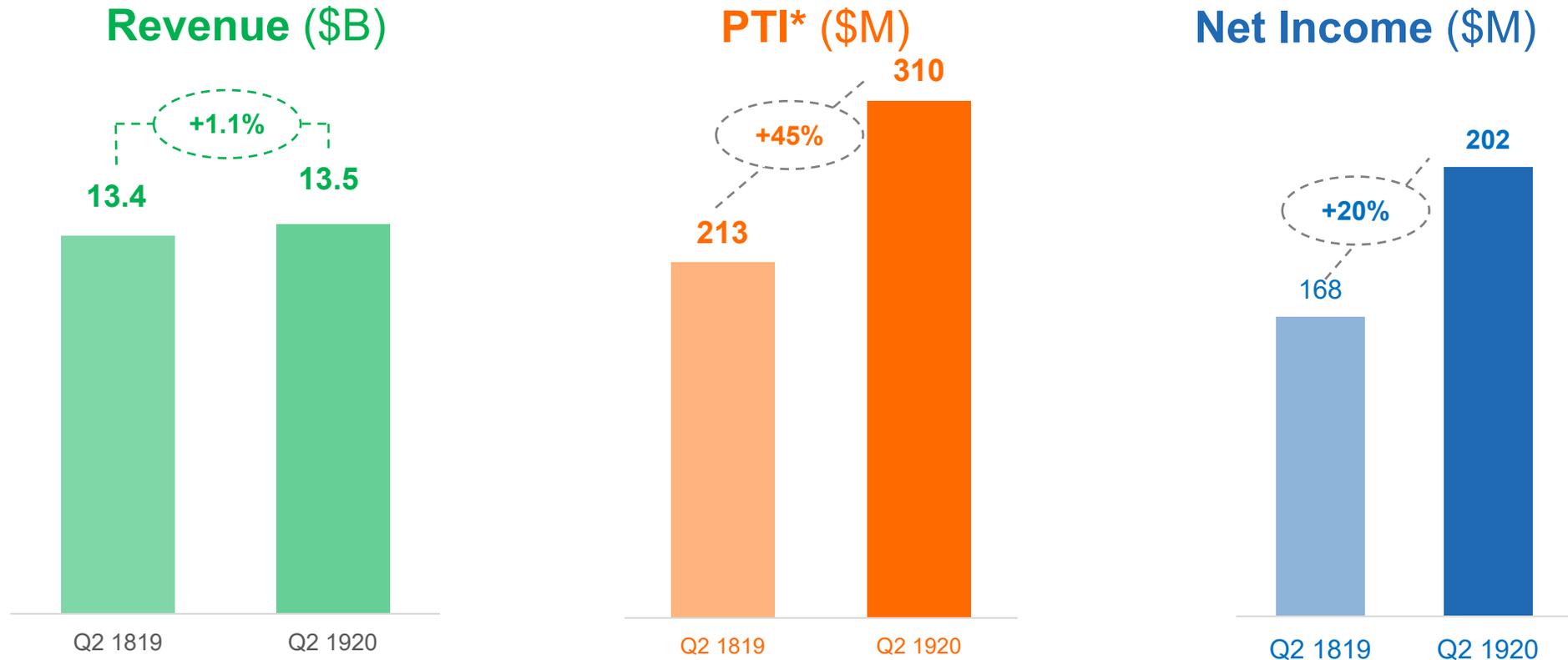
# Yuanqing Yang

Chairman & CEO



# Solid Group Performance – Revenue & Profit Growth

- Revenue: **\$13.5B**, up YOY for **9<sup>th</sup>** consecutive quarter
- Pre-Tax Income: **\$310M**, up **45%** YOY
- Net income: **\$202M**, up **20%** YOY

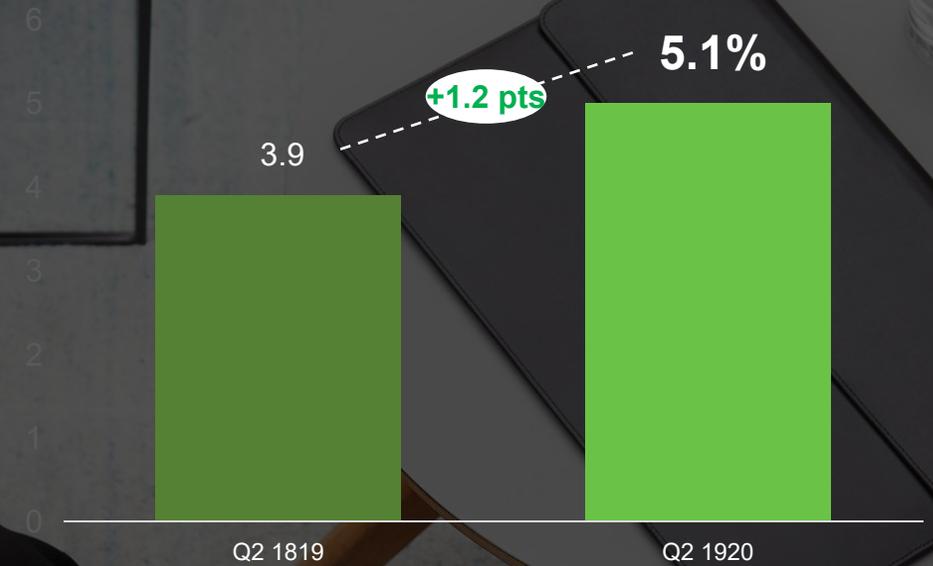


\* PTI: Pre-tax Income

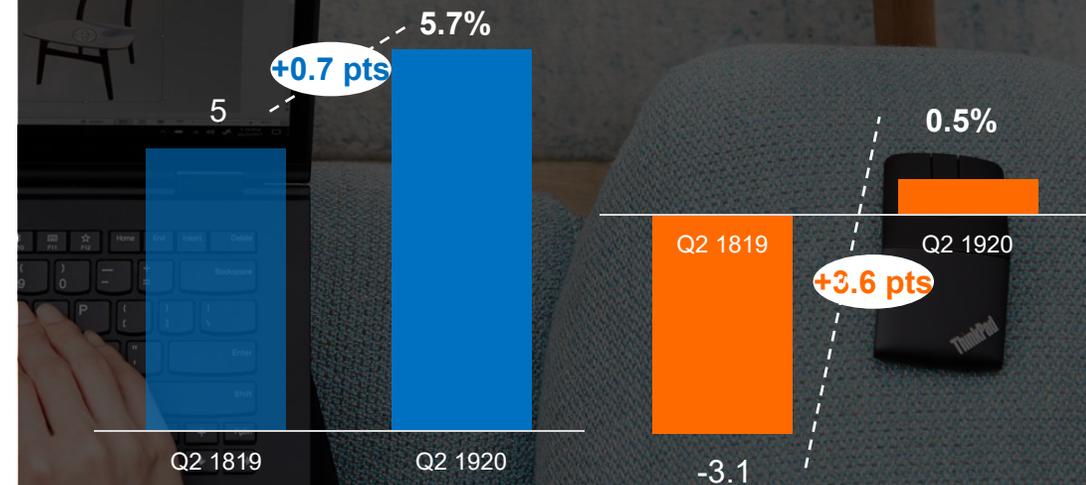
# IDG\* – Record Profit Margin

- PTI margin up **1.2 points** YOY, reached **5.1%** for the first time
- Solid profit contribution from both PCSD\* and Mobile businesses

IDG PTI Margin (%)



PCSD PTI Margin (%), Mobile PTI Margin (%)

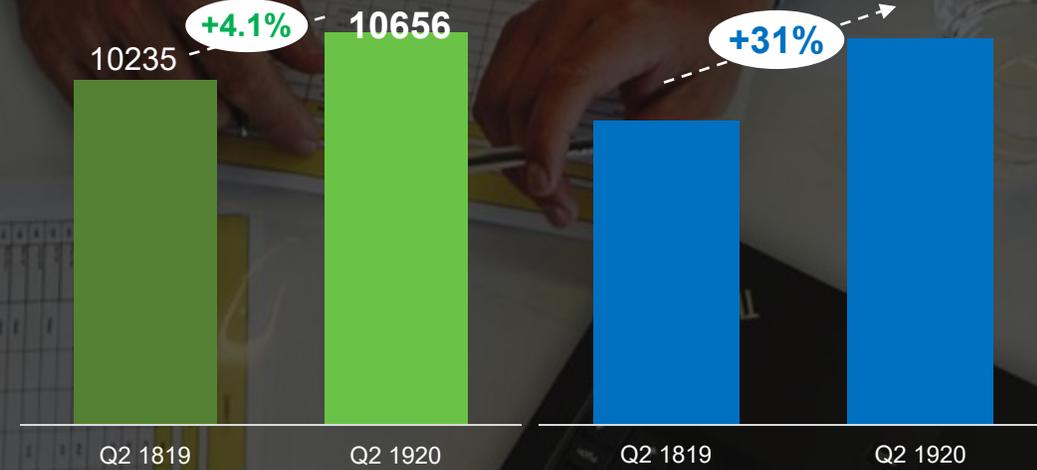


\* IDG: Intelligent Devices Group; PCSD: PC & Smart Devices

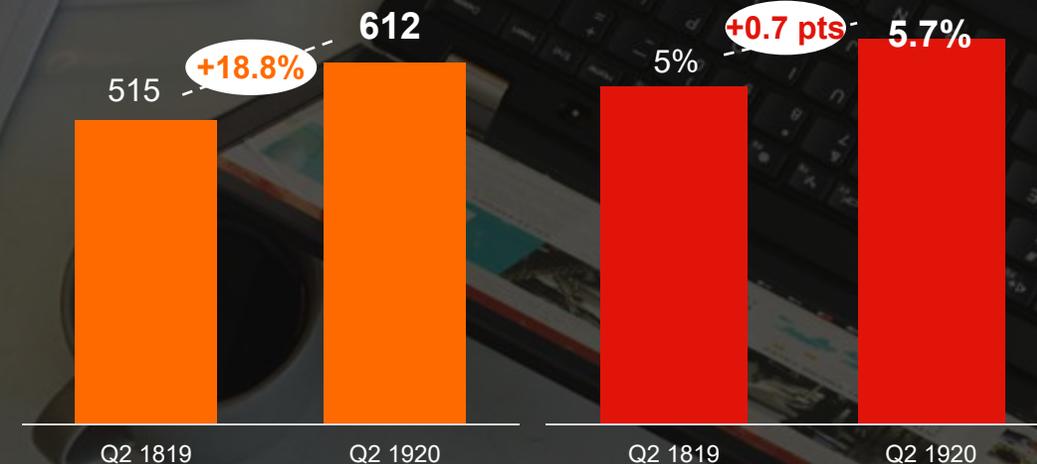
# IDG PCSD – Profitable Growth

- Strong PTI margin of **5.7%**, up 0.7 points
- Revenue up **4.1%** YOY
- Software & Services revenue\* up **31%** YOY

PCSD Revenue (\$M), PCSD Software & Services Revenue Growth YOY (%)



PCSD PTI (\$M), PCSD PTI margin (%)



\* Invoiced Revenue



Source: Internal Data

# IDG PC – maintained leadership

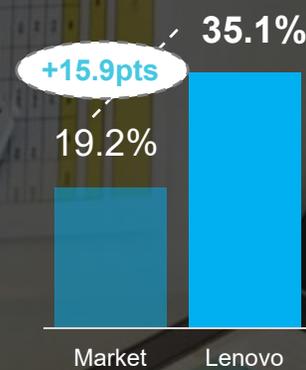
- **#1** in PC again with **record shipments**, outgrew market by **3.5** points
- Outgrew market by **double-digits** across high-growth, premium categories

## Global PC Volume Growth YOY (%)

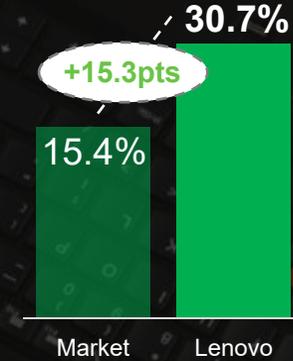


## Segment Volume Growth vs Market YOY (%)

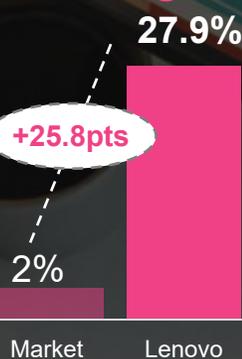
### Workstation



### Thin & Light



### Gaming



### Visuals





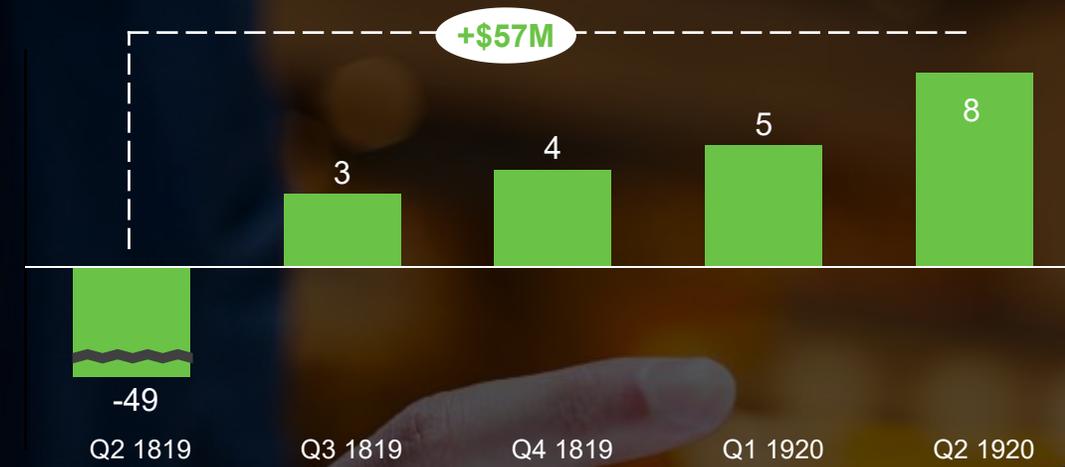
# IDG PCSD - Outlook

- Continue to drive premium-to-market growth and industry-leading profitability through
  - Innovation
  - Operational excellence
  - Lead in high-growth and premium categories
  - Transform business model and grow in software & services.

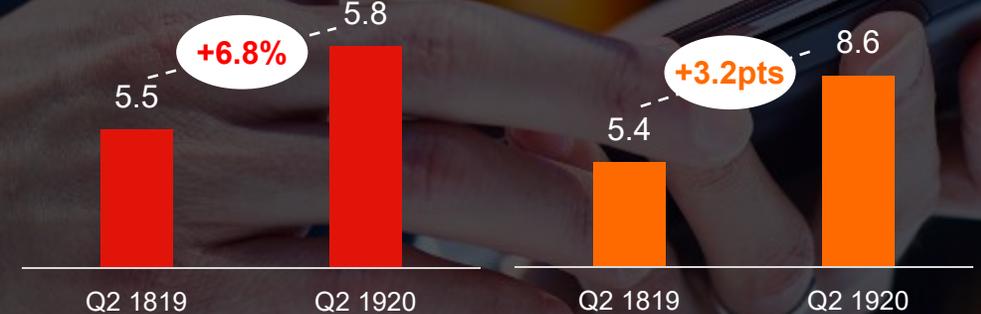
# IDG Mobile – Further Enhanced Profitability

- **4<sup>th</sup> straight** profitable quarter
- PTI improved by **\$57M** YOY
- Latin America:
  - Activations up **6.8%** YOY
  - Revenue, profit and market share all grew YOY
  - Profit margin improved by **3.2 points** YOY
- North America:
  - Activations up **4.6%** YOY
  - Revenue again outgrew the market
  - Profit margin improved **6.5 points** YOY

## Mobile PTI (\$M)



## LÀ Mobile Activations (M), PTI Margin (%)



## NA Mobile Activations (M), PTI Margin (%)



MotorolaOne Macro



## IDG Mobile - Outlook

- Further enhance profitability
- Seek opportunities to drive growth in new markets
- Invest in innovation and technological leadership

Moto G8 Plus

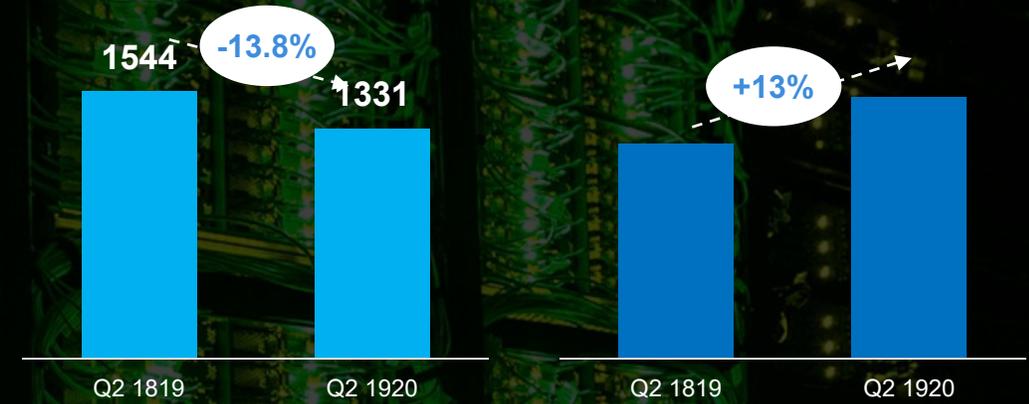


# Data Center – Preparing for New Growth

- Profit improved YOY for 9<sup>th</sup> quarter
- Revenue declined due to component price drop and lower demand from key hyperscale customers
- Revenue excluding hyperscale grew **13%** YOY.
  - Revenue excluding hyperscale in China grew **46.5%**
- High double-digit growth in HPC\*, SDI\*, and Storage

\* SDI: Software Defined Infrastructure; HPC: High Performance Computing

### DCG Revenue (\$M), Non-Hyperscale Revenue Growth YOY(%)



### DCG Segments Revenue Growth YOY(%)





# Data Center - Outlook

- Improve revenue and profitability
- Accelerate in fast growing segments
- Expand hyperscale customer base
- Invest in Edge, Telco, AI infrastructure

# Intelligent Transformation – Strong Momentum

- Smart IoT revenue grew **423%** YOY
  - Driven by Consumer Smart IoT, AR/VR
- Smart Vertical revenue **tripled** YOY
  - Data Intelligence business grew **76%** YOY
  - Breakthrough in Smart Education
  - Established Commercial IoT Business Unit



# Intelligent Transformation – Strong Momentum

- Software & Services revenue\*  
**+35% YOY, reaching \$883M**
- Over **30** LCIG\* portfolio companies helping Lenovo drive intelligent transformation strategy

\* Invoiced Revenue; LCIG: Lenovo Capital and Incubator Group

**Lenovo**

Source: Internal Data

**Lenovo**

**Services**

**Lenovo**

**Modern IT**

**Lenovo**

**Premier  
Support**

**Lenovo**

**DaaS**  
Device as  
a Service

# Continue Transformation Reaching new heights

# Wong Wai Ming

Chief Financial Officer



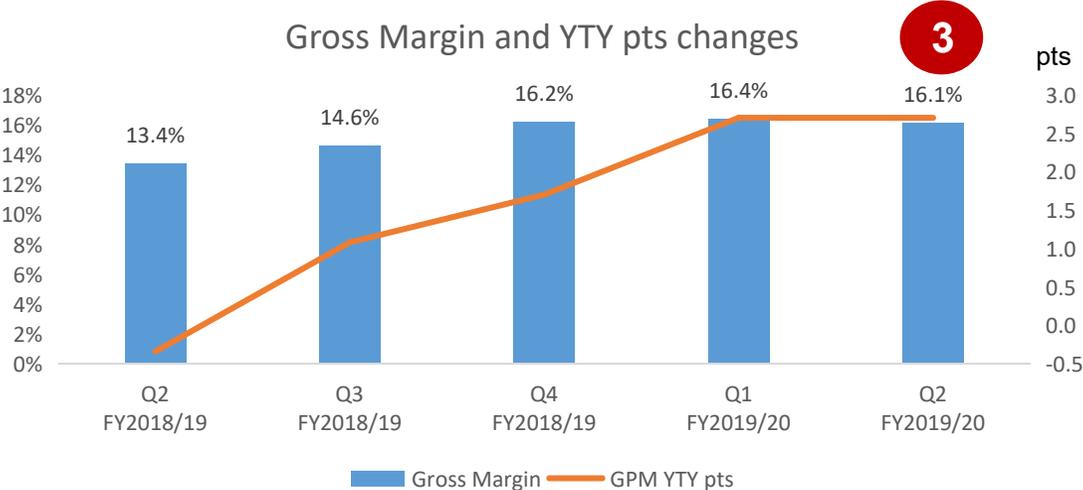
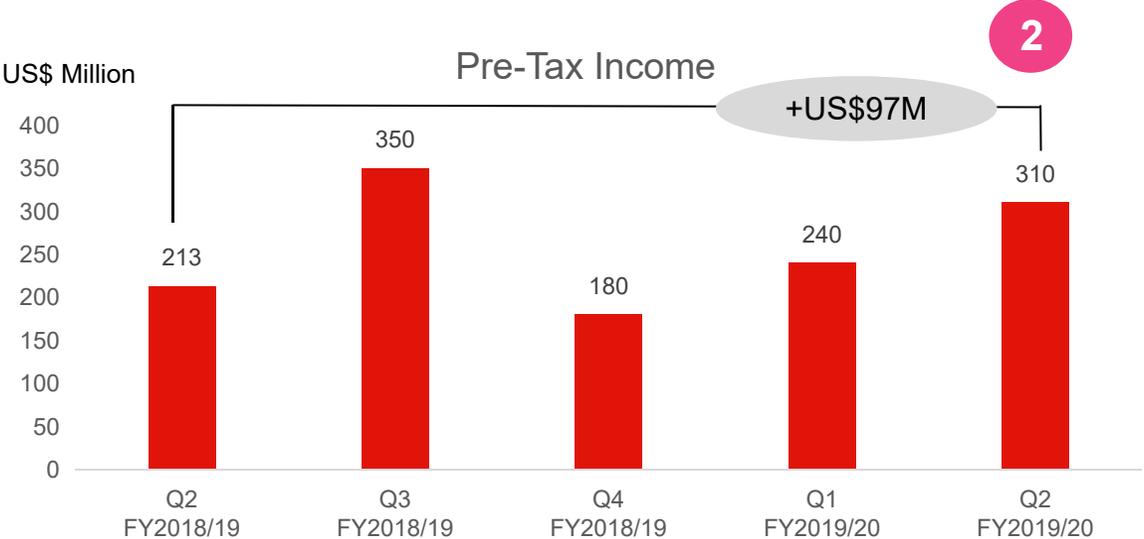
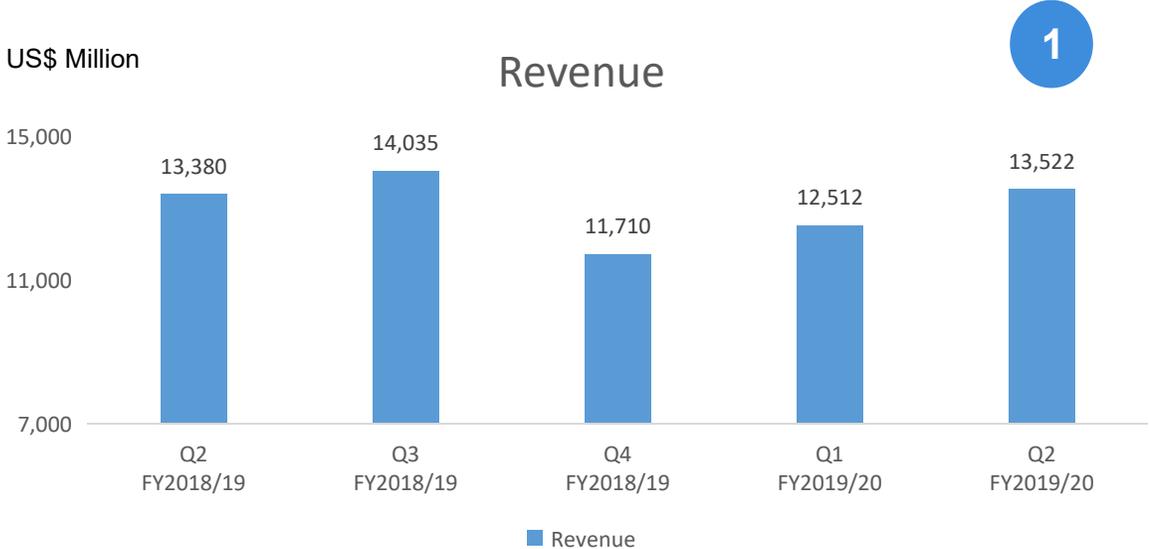
# Financial Highlights

## Q2 Highlights

**1 Sustained revenue growth despite economy uncertainties and component shortage; software and services revenue up strong double-digits**

**2 Strong 45% YTY growth and the highest PTI in a FYQ2 since acquisitions\*; PTI margin expansion across all businesses YTY**

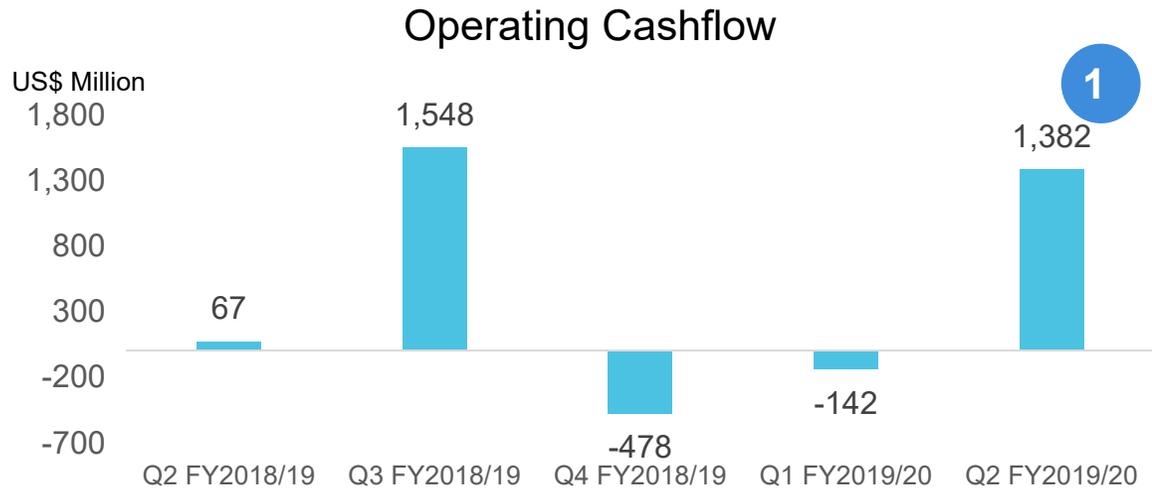
**3 Gross profit margin up 2.7pts YTY to 16.1%**



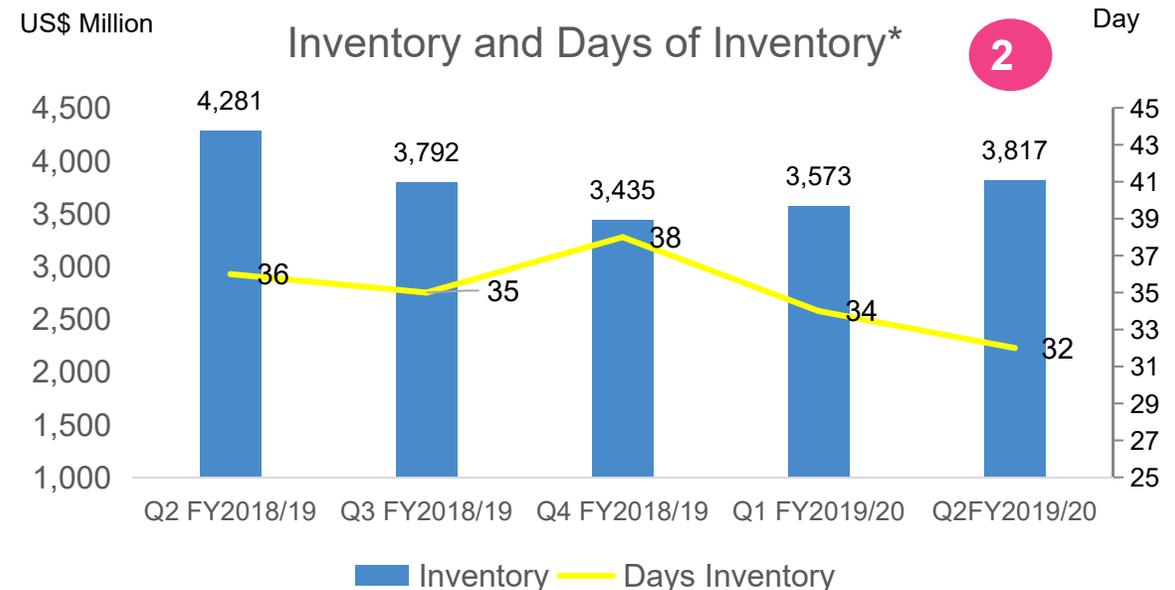
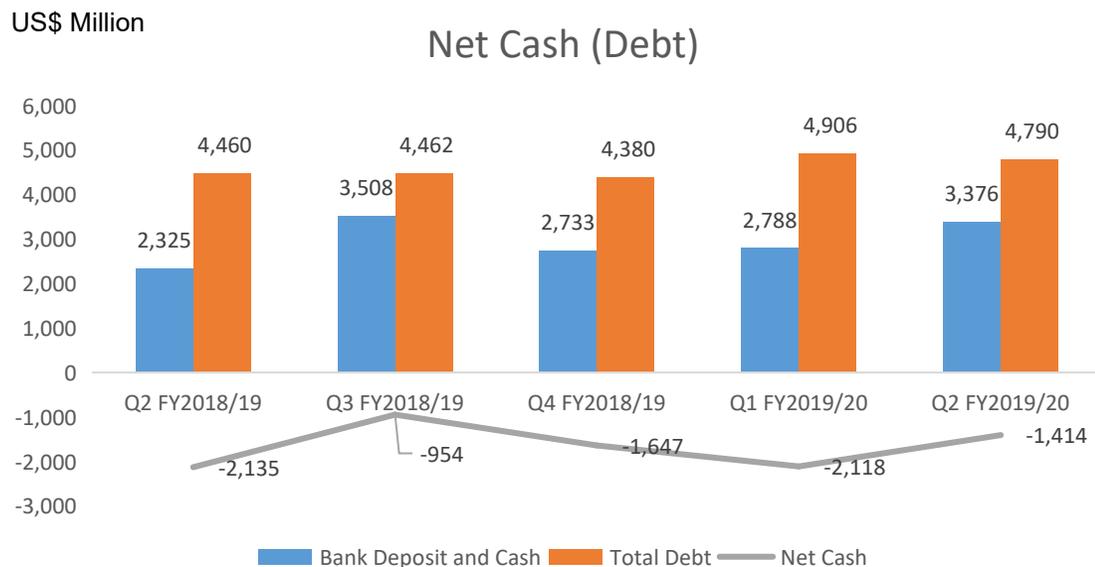
\*Reflecting acquisitions of Motorola and IBM x86 businesses

# Cash and Working Capital

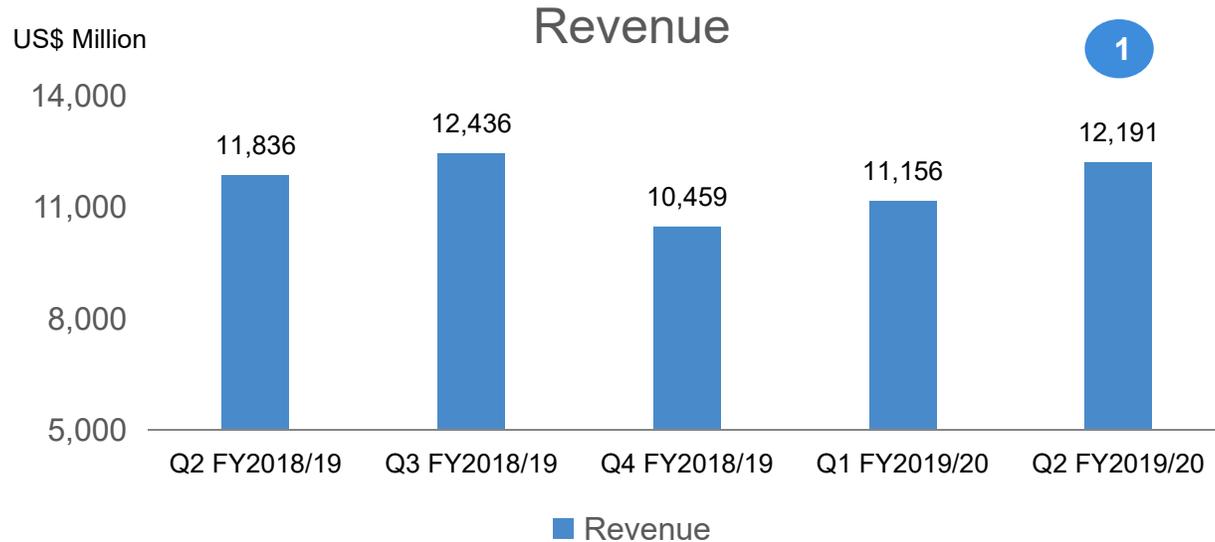
## Q2 Highlights



- 1 Significant reduction in net debt due to improved working capital and healthy operating cashflow**
- 2 Further reduction of inventory days reflecting disciplined business control**



# Intelligent Devices Business Group (IDG)\*



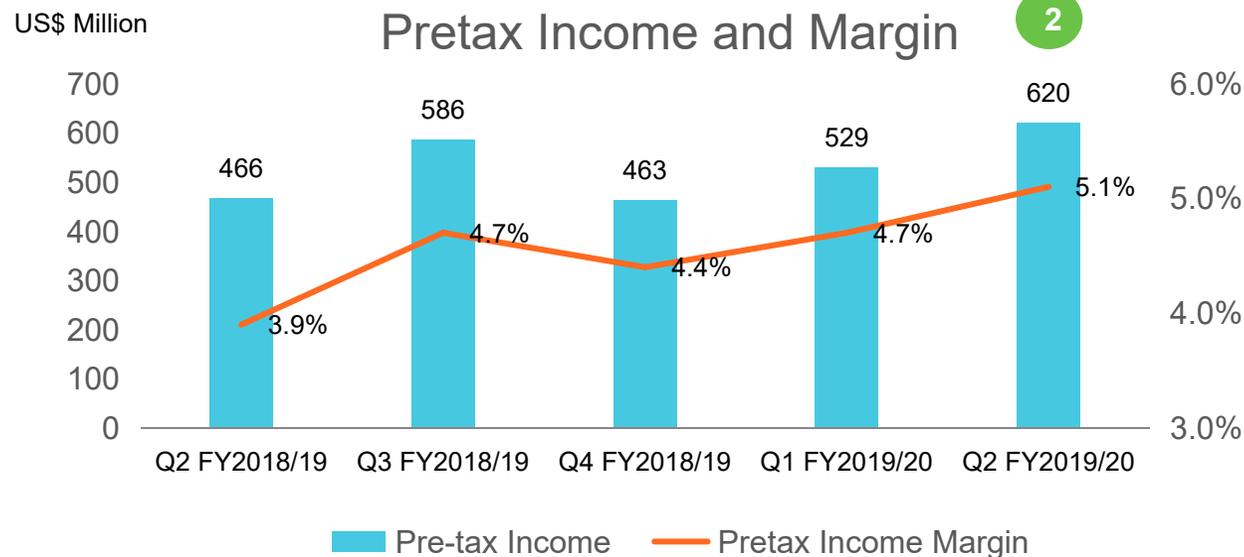
## Q2 Highlights

**1** Solid revenue performance thanks to PCSD share gain in premium and high-growth segments, as well as rising attach rate in software and services business

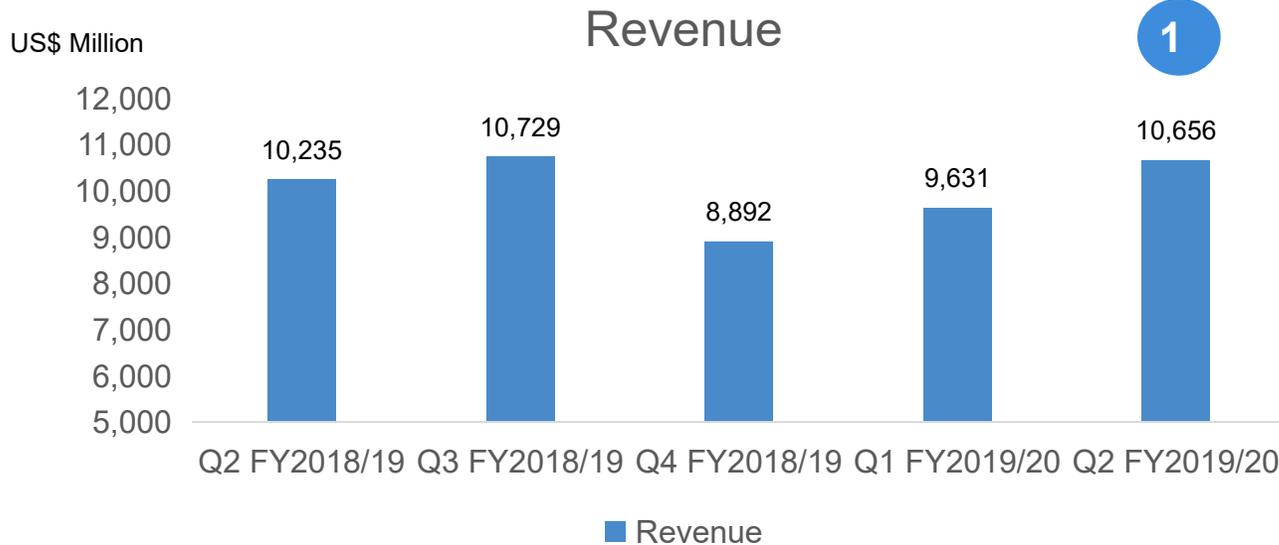
**2** Record pre-tax margin achieved by PCSD and continued margin improvement in MBG, suggesting consistent profitability improvement across business groups



- IDG mainly consists of PC & Smart Device (PCSD) and Mobile Business Group (MBG) businesses.

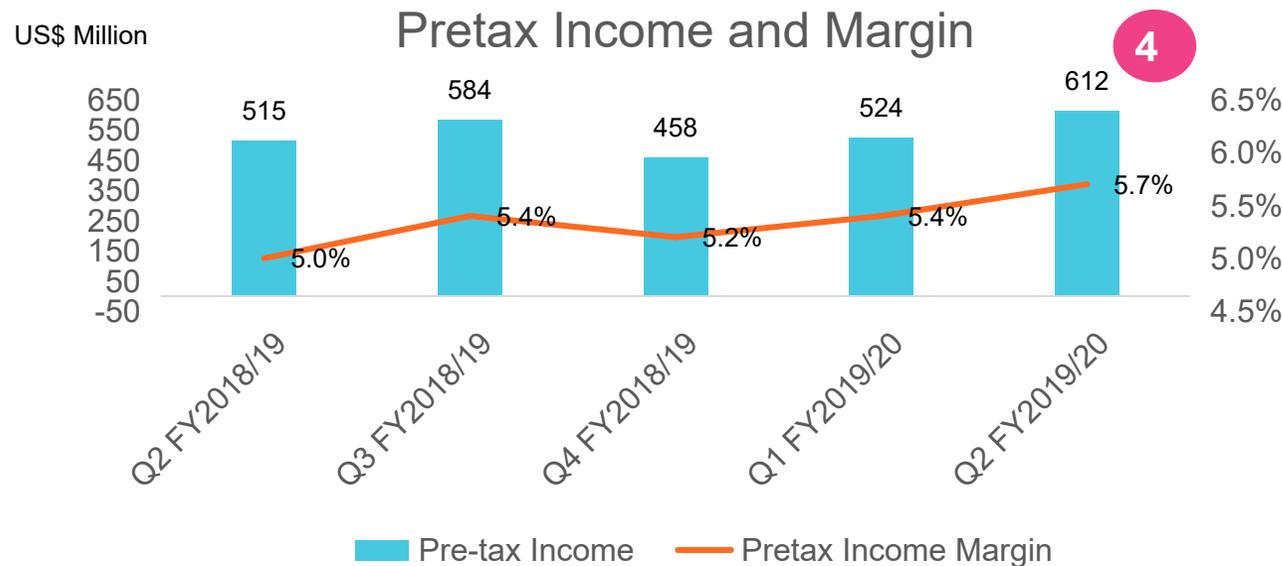


# IDG - PC & Smart Device Business Group (PCSD)

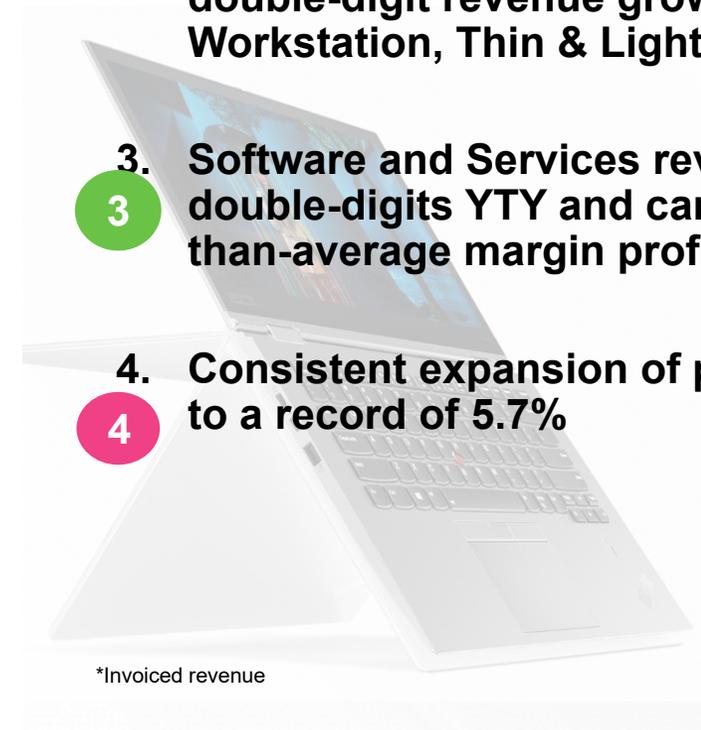


## Q2 Highlights

1. PCSD revenue up 4% YTY, despite constraint of component supply
2. Continuing share gain trajectory in high-growth and premium segments which now contributing to over 50% of PCSD revenue; double-digit revenue growth across Workstation, Thin & Light, and Gaming PC

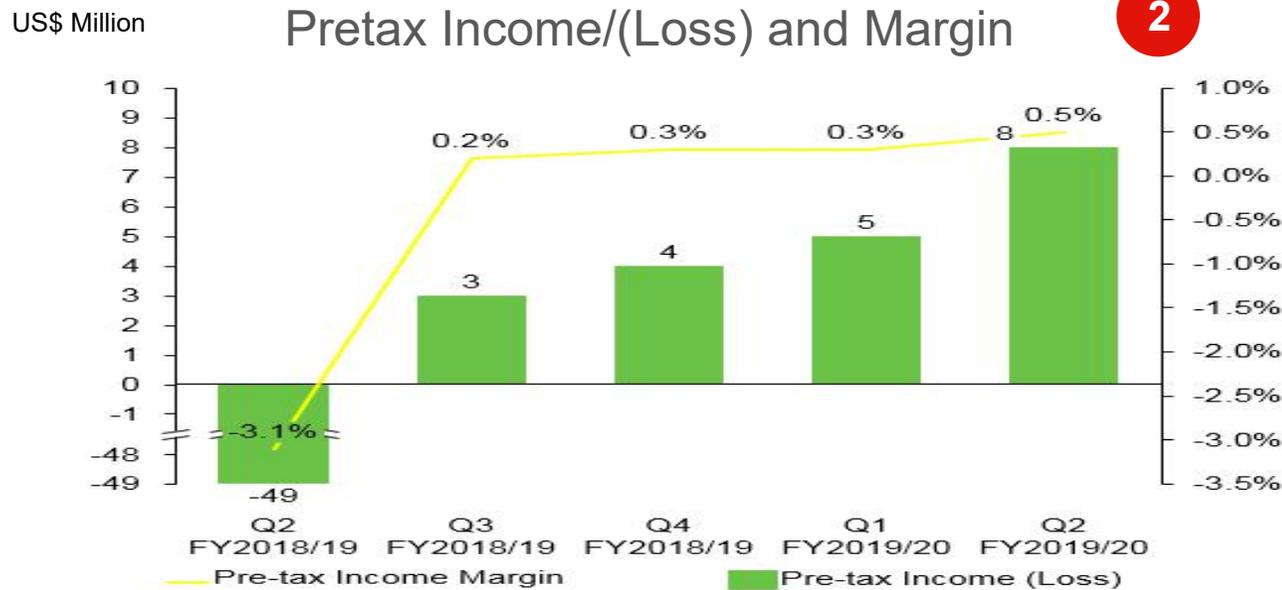
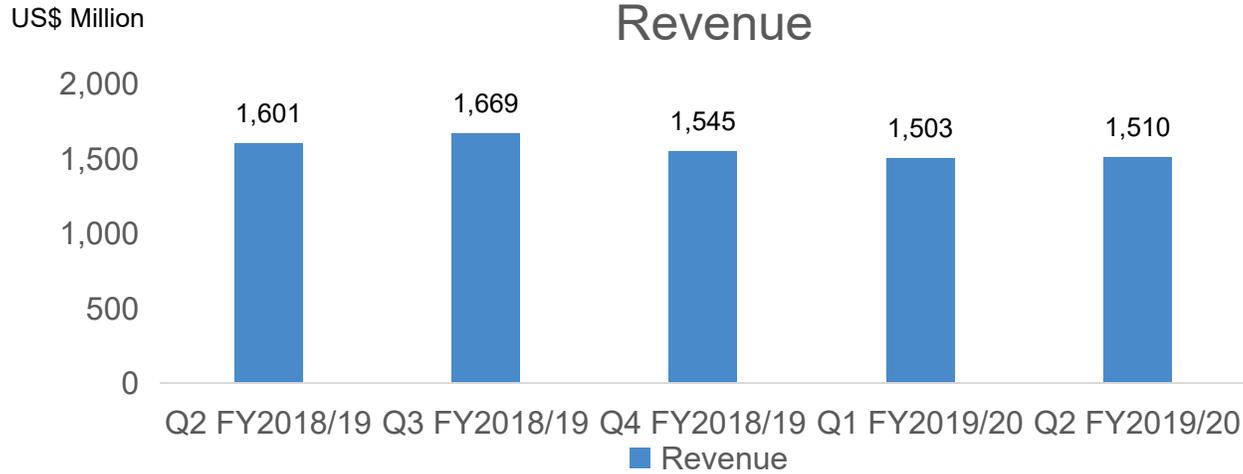


3. Software and Services revenue\* up strong double-digits YTY and carrying higher-than-average margin profile
4. Consistent expansion of pre-tax margin to a record of 5.7%



\*Invoiced revenue

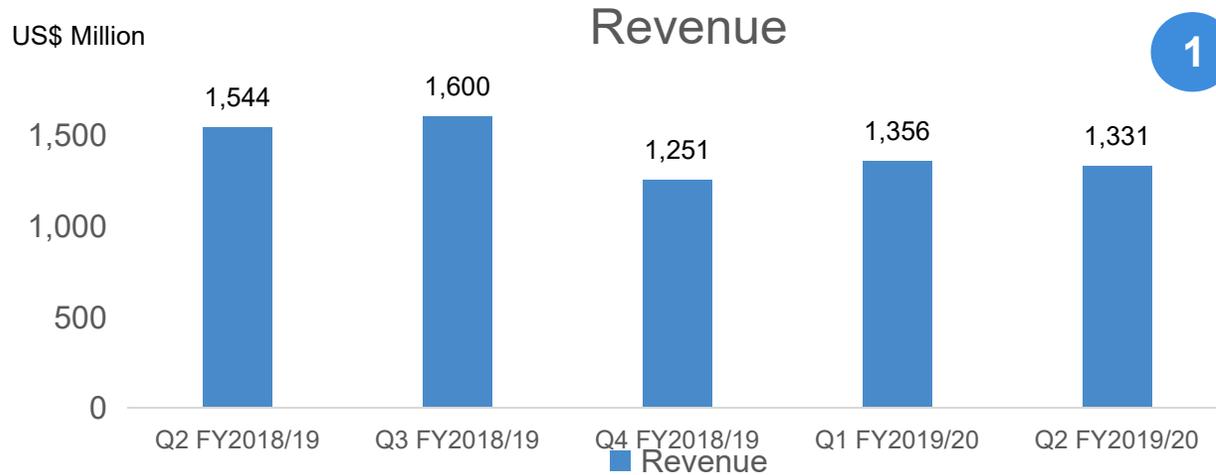
# IDG - Mobile Business Group (MBG)



## Q2 Highlights

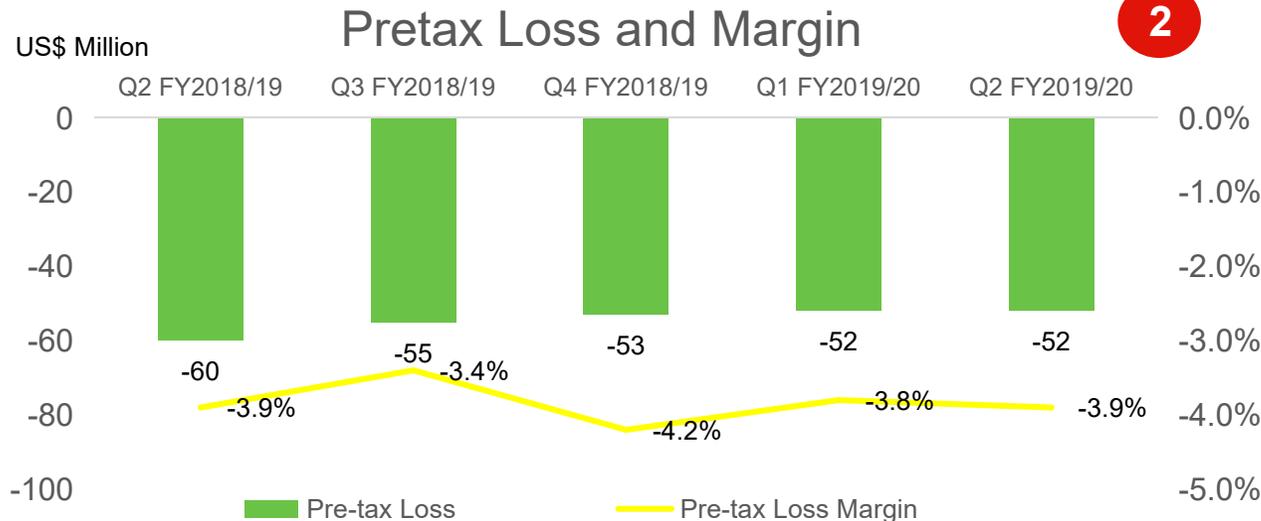
- 1 Effective execution of focused strategy led to margin expansion in core markets and the highest PTI margin since acquisition
- 2 Continue growth in profitability; 4<sup>th</sup> consecutive quarter of profitability
- 3 Continued investment in innovations across multiple price-tiers as evidenced in recent launch of four new models

# Data Center Business Group (DCG)



## Q2 Highlights

- 1 Sharply lowered commodity price and lingering softness in hyperscale orders negatively impacted DCG revenue
- 2 Business continuing to make progress in narrowing PTI losses by \$9 million YTY despite top-line challenge
- 3 Encouraging strong double-digit YTY growth on Storage, Software Defined Infrastructure (SDI), and High Performance Computing (HPC)





# Outlook Statement

- **Group Mission is to be the Leader and Enabler of Intelligent Transformation**
- **IDG: Deliver premium-to-market growth with strong profitability; build Smart IoT business and expand services franchise**
  - **PCSD:** target to maintain premium to market growth with industry-leading profitability; drive sales in high-growth and premium segments
  - **Mobile:** to sustain growth in core markets and improve profitability while extend our technology leadership
  - **Smart IoT:** drive solution sales and super charge the growth in services business
- **DCG: Drive premium-to-market growth while improving profitability**
  - Accelerate market share gain in Enterprise Server, SDI, HPC, Storage, and Software and Services
  - Expand efforts to acquire new hyperscale customers leveraging our differentiated in-house design for large scale applications; significant results to bode well for CY20 growth
- **3S Strategy: Accelerate Intelligent Transformation by bringing Smarter technology for all in the connected world; drive Smart IoT, Smart Infrastructure and Smart Vertical while leading customer-centric transformation**
  - Continue to exploring and improving smart vertical solutions in the promising verticals across smart education, smart city, and smart health care

# Appendix

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

# + Financial Summary

US\$ Million	Q2 FY2019/20	Q2 FY2018/19	Y/Y%	1H FY2019/20	Y/Y%
Revenue	13,522	13,380	1%	26,034	3%
Gross Profit	2,183	1,794	22%	4,231	24%
Operating Expenses	(1,741)	(1,504)	16%	(3,447)	17%
Operating Profit	442	290	53%	784	67%
Other Non-Operating Expenses	(132)	(77)	73%	(234)	63%
Pre-tax Income	310	213	45%	550	69%
Taxation	(66)	(40)	67%	(114)	70%
Profit for the period	244	173	40%	436	68%
Non-controlling interests	(42)	(5)	716%	(72)	433%
Profit attributable to Equity Holders	202	168	20%	364	48%
EPS (US cents)					
- Basic	1.69	1.41	0.28	3.06	1.00
- Diluted	1.62	1.40	0.22	2.94	0.88
Dividend per share (HK cents)	6.30	6.00	5%	6.30	5%

	Q2 FY2019/20	Q2 FY2018/19	1H FY2019/20	1H FY2018/19
Gross margin	16.1%	13.4%	16.3%	13.5%
E/R ratio	12.9%	11.2%	13.2%	11.7%
Operating margin	3.3%	2.2%	3.0%	1.9%
PTI margin	2.3%	1.6%	2.1%	1.3%
Net margin attributable to Equity Holders	1.5%	1.3%	1.4%	1.0%

# Condensed Consolidated Income Statement

<i>US\$ Million</i>	<b>Q2 FY2019/20</b>	<b>Q2 FY2018/19</b>
Revenue	<b>13,522</b>	13,380
Cost of sales	<b>(11,339)</b>	(11,586)
Gross profit	<b>2,183</b>	1,794
Selling and distribution expenses	<b>(778)</b>	(655)
Administrative expenses	<b>(585)</b>	(515)
Research and development expenses	<b>(318)</b>	(312)
Other operating expense - net	<b>(60)</b>	(22)
Operating profit	<b>442</b>	290
Finance income	<b>10</b>	6
Finance costs	<b>(136)</b>	(82)
Share of loss of associated companies and joint ventures	<b>(6)</b>	(1)
Profit before taxation	<b>310</b>	213
Taxation	<b>(66)</b>	(40)
Profit for the period	<b>244</b>	173
Profit attributable to:		
Equity holders of the company	<b>202</b>	168
Perpetual securities holders	<b>14</b>	13
Other non-controlling interests	<b>28</b>	(8)
Dividend per share (HK cents)	<b>6.3</b>	6.0
Earnings per share (US cents)		
- Basic	<b>1.69</b>	1.41
- Diluted	<b>1.62</b>	1.40

# Condensed Consolidated Balance Sheet

*US\$ Million*

	As at Sep 30, 2019	As at Jun 30, 2019
Non-current assets	<b>13,274</b>	13,404
Property, plant and equipment	<b>1,683</b>	1,684
Intangible assets	<b>8,197</b>	8,391
Others	<b>3,394</b>	3,329
Current assets	<b>20,116</b>	19,009
Bank deposits and cash	<b>3,376</b>	2,788
Trade, notes and other receivables	<b>12,625</b>	12,422
Inventories	<b>3,817</b>	3,573
Others	<b>298</b>	226
Current liabilities	<b>24,039</b>	22,846
Borrowings	<b>2,648</b>	2,769
Trade, notes, other payables, accruals and provisions	<b>20,255</b>	19,020
Others	<b>1,136</b>	1,057
Net current liabilities	<b>(3,923)</b>	(3,837)
Non-current liabilities	<b>5,336</b>	5,310
Total equity	<b>4,015</b>	4,257

# Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 FY2019/20	Q2 FY2018/19	Q1 FY2019/20
Net cash generated from/(used in) operating activities	1,382	67	(142)
Net cash used in investing activities	(200)	(103)	(303)
Net cash (used in)/generated from financing activities	(524)	(318)	512
Increase/(decrease) in cash and cash equivalents	658	(354)	67
Effect of foreign exchange rate changes	(64)	(46)	(13)
Cash and cash equivalents at the beginning of the period	2,717	2,613	2,663
Cash and cash equivalents at the end of the period	3,311	2,213	2,717

**thanks.**

**Different is better**

