

Smarter technology for all

2QFY20/21 Earnings Announcement

Nov 3, 2020

The Lenovo logo is positioned vertically on the right side of the slide. It consists of the word "Lenovo" in white, sans-serif font, set against a vertical rectangular background that transitions from red at the top to orange at the bottom.

Lenovo

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.

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Yuanqing Yang

Chairman & CEO

Nov 3, 2020

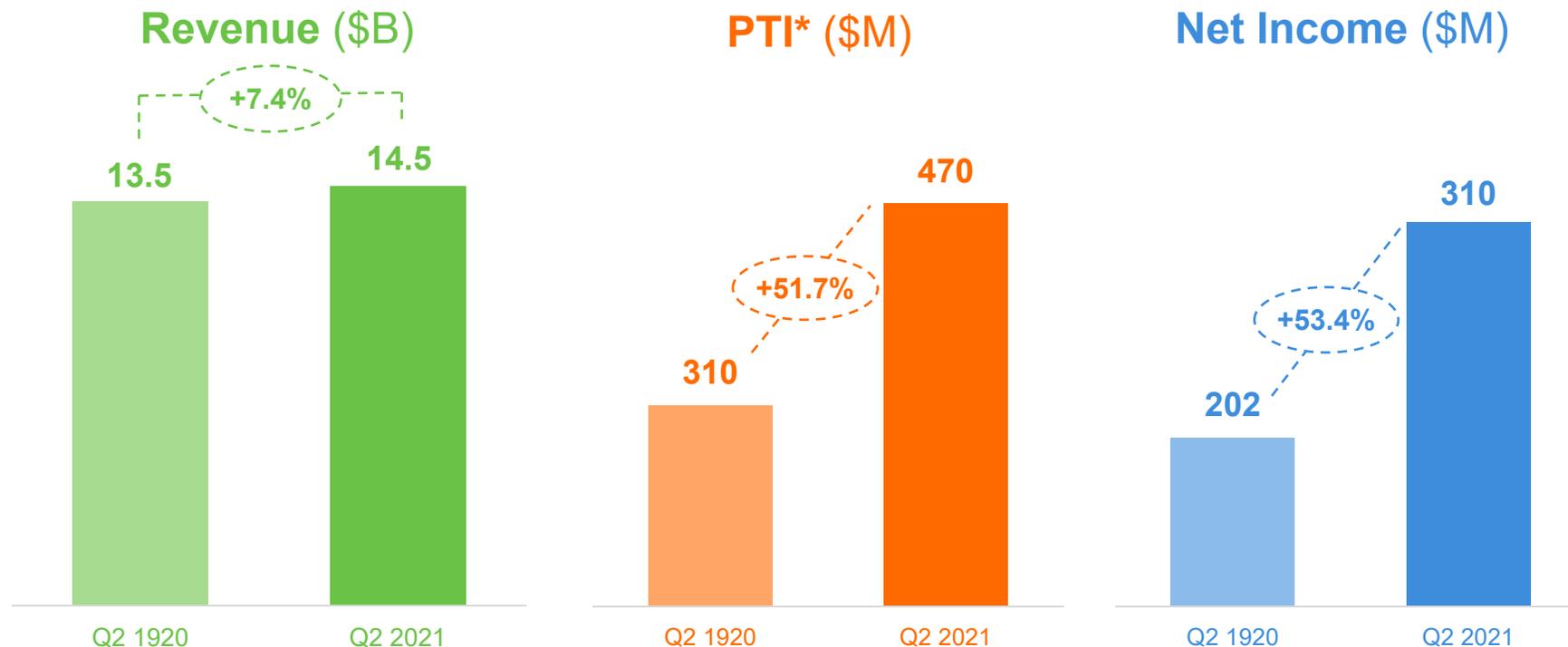


Group Performance: Record Results

- **Record Revenue, Pre-Tax Income, Net Income**

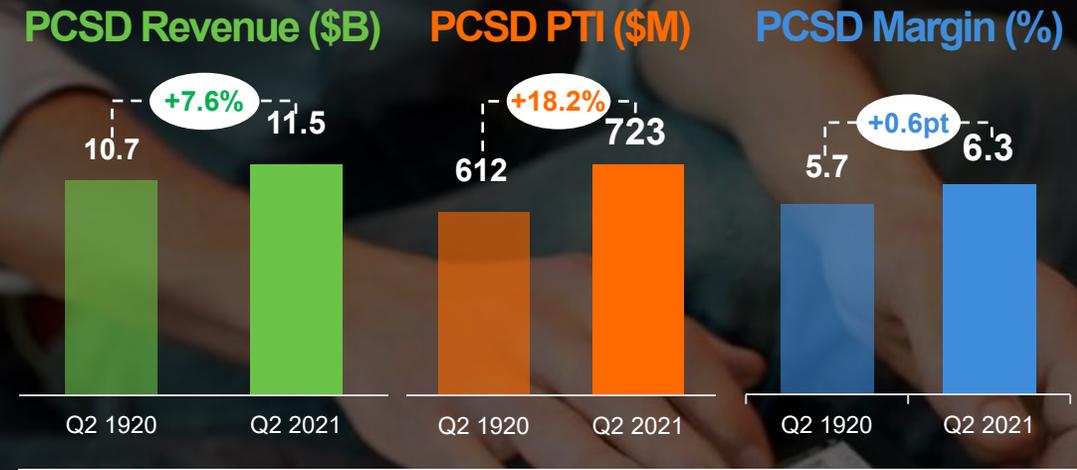
- Revenue: **\$14.5B**, up **7.4%** YOY; all core businesses delivered growth first time in 6 quarters
- Pre-Tax Income: **\$470M**, up **51.7%** YOY
- Net Income: **\$310M**, up **53.4%** YOY

- Lenovo given Strong Investment-Grade rating by top-three credit rating agencies

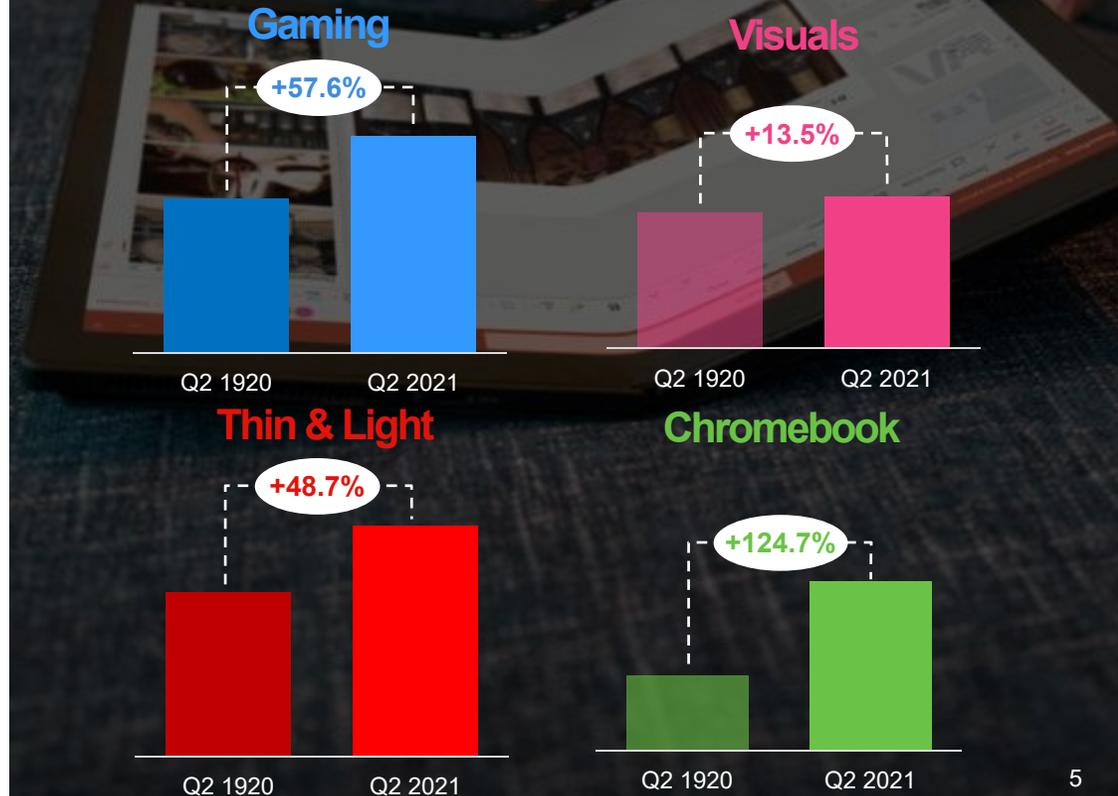


IDG PCSD*: Leading the Growth

- Revenue up **7.6%** YOY, **new record**
- PTI up **18.2%** YOY, **new record**
- PTI margin maintained **record 6.3%**, up **0.6 points** YOY
- PC returned to **#1** with **23.6%** share
- Focus on high-growth, premium segments continued to drive strong growth



PC Segment Volume Growth YOY (%)

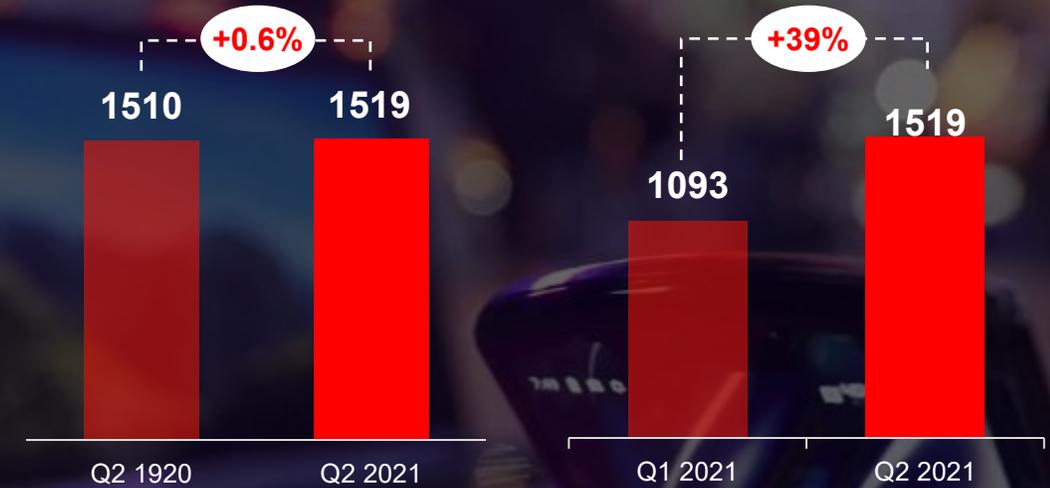


* IDG: Intelligent Devices Group; PCSD: PC & Smart Devices

IDG Mobile: Resumed Growth

- Revenue resumed YoY growth, improved **39%** quarter-to-quarter
- Solidifying Latin America, North America, while driving fast growth in Europe and Asia Pacific
- Launched **razr 5G** foldable and **Legion Gaming** phone, both well received

Mobile Revenue YTY, QTQ (\$M)



Motorola razr 5G

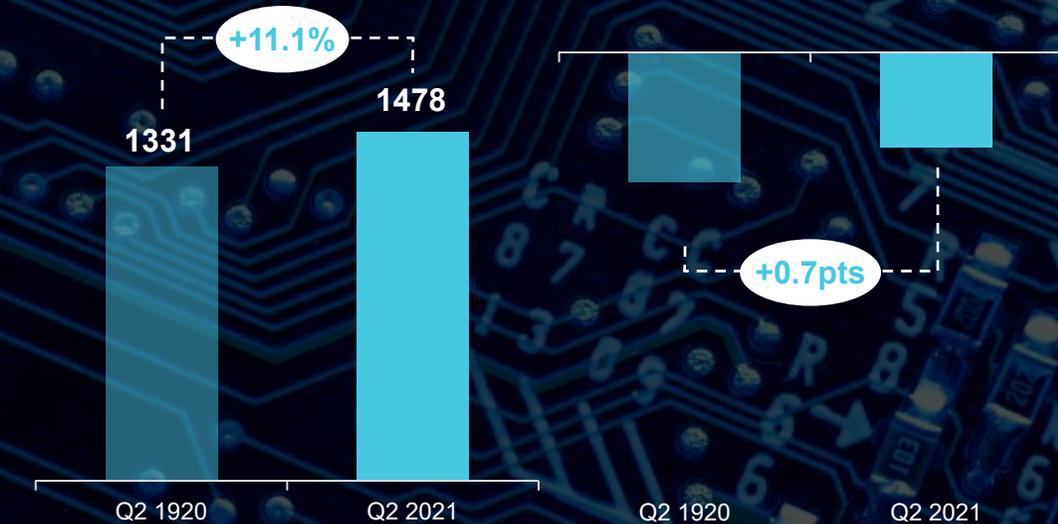
Legion Gaming Phone

Data Center: Continued Growth

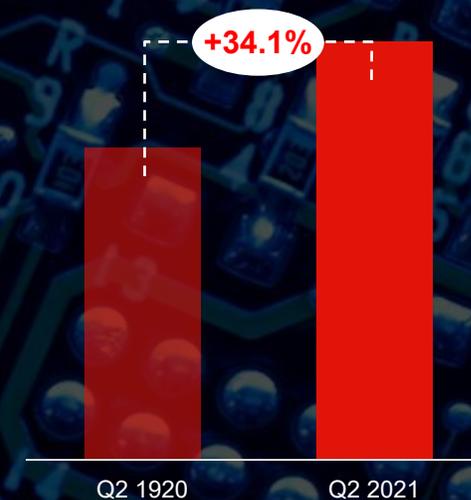
- Revenue grew **11.1%**, profitability up **0.7pts** YOY
- Cloud Service Provider*
 - Continued strong revenue growth, up **34.1%** YOY
 - Major motherboard and system design win with top cloud service provider
 - Expanded Data Center Factory in Monterrey, Mexico

* Cloud Service Provider (CSP): previously hyperscale.

DCG Revenue (\$M), PTI Margin (%)



DCG CSP* Revenue Growth YOY (%)



Data Center: Continued Growth

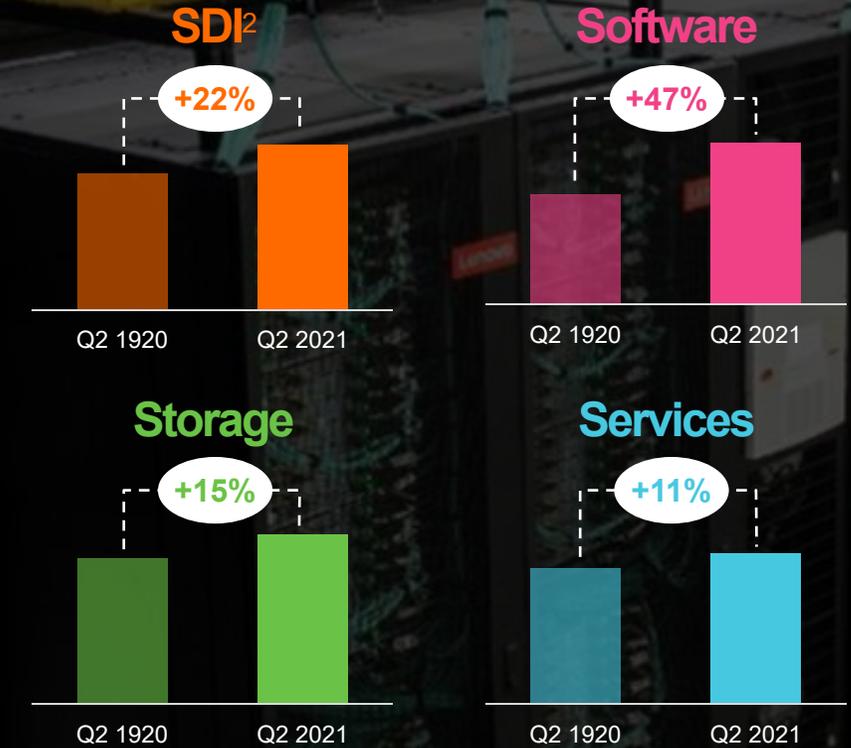
- Enterprise/SMB¹
 - Outgrew the market
 - **Double-digit** growth in SDI², Software, Storage and Services
- Partnership with SAP
 - Lenovo TruScale IaaS³ + SAP HANA Enterprise Cloud
 - Secure data on premise with pay-as-you-go consumption model

¹ Enterprise/SMB (ENT/SMB): previously non-hyperscale

² SDI: Software Defined Infrastructure

³ IaaS: Infrastructure-as-a-Service

DCG Segment Revenue Growth YOY (%)



Lenovo

+

SAP

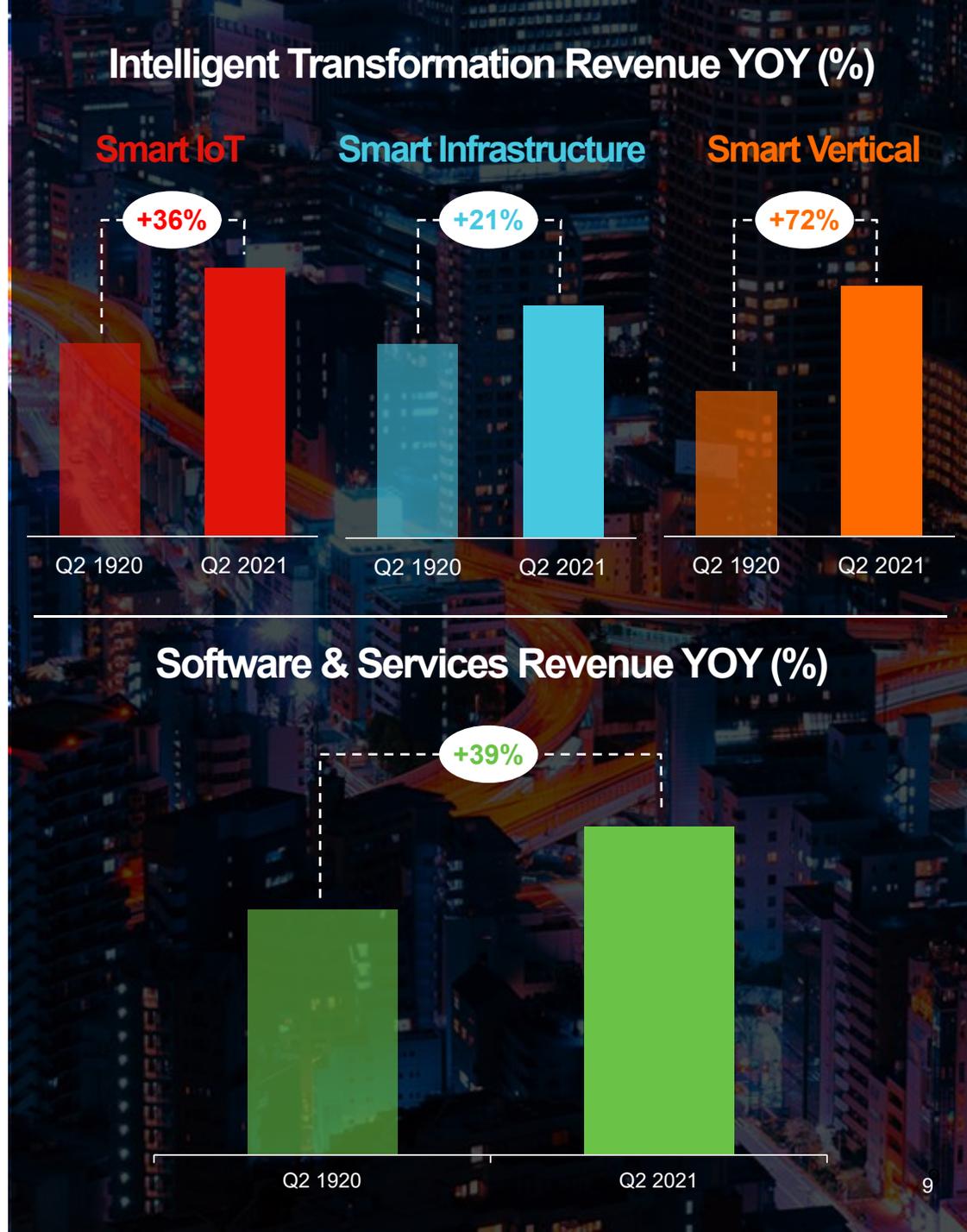
Intelligent Transformation: Strong Progress

- Smart IoT revenue¹ grew **36%** YOY
- Smart Infrastructure revenue grew **21%** YOY
- Smart Verticals revenue¹ grew **72%** YOY

- Software & Services revenue¹ to new record of over **\$1.2B**, up **39%** YOY, **8.5%** of group revenue
 - Attached Service up **25%** YOY
 - Managed Service up **91%** YOY, DaaS² grew **triple-digits**
 - Solutions up **68%** YOY
- E-commerce grew **41.8%** YOY

¹ Invoiced Revenue

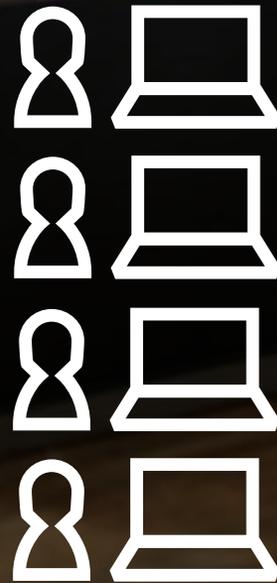
² Total contract value



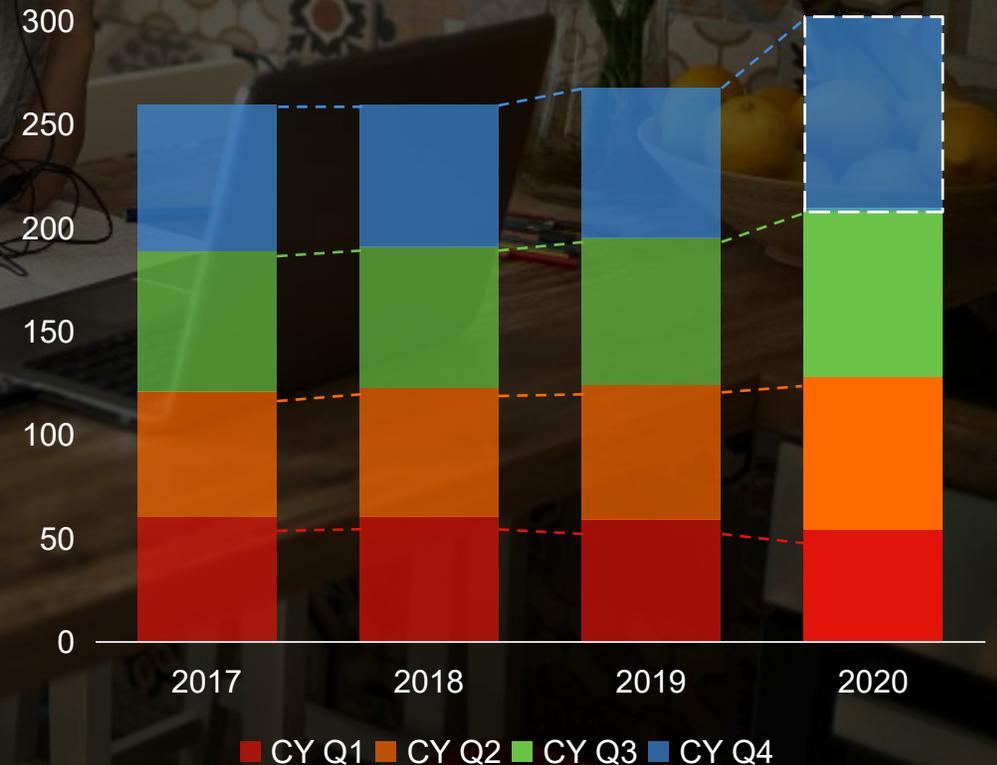
The New Normal

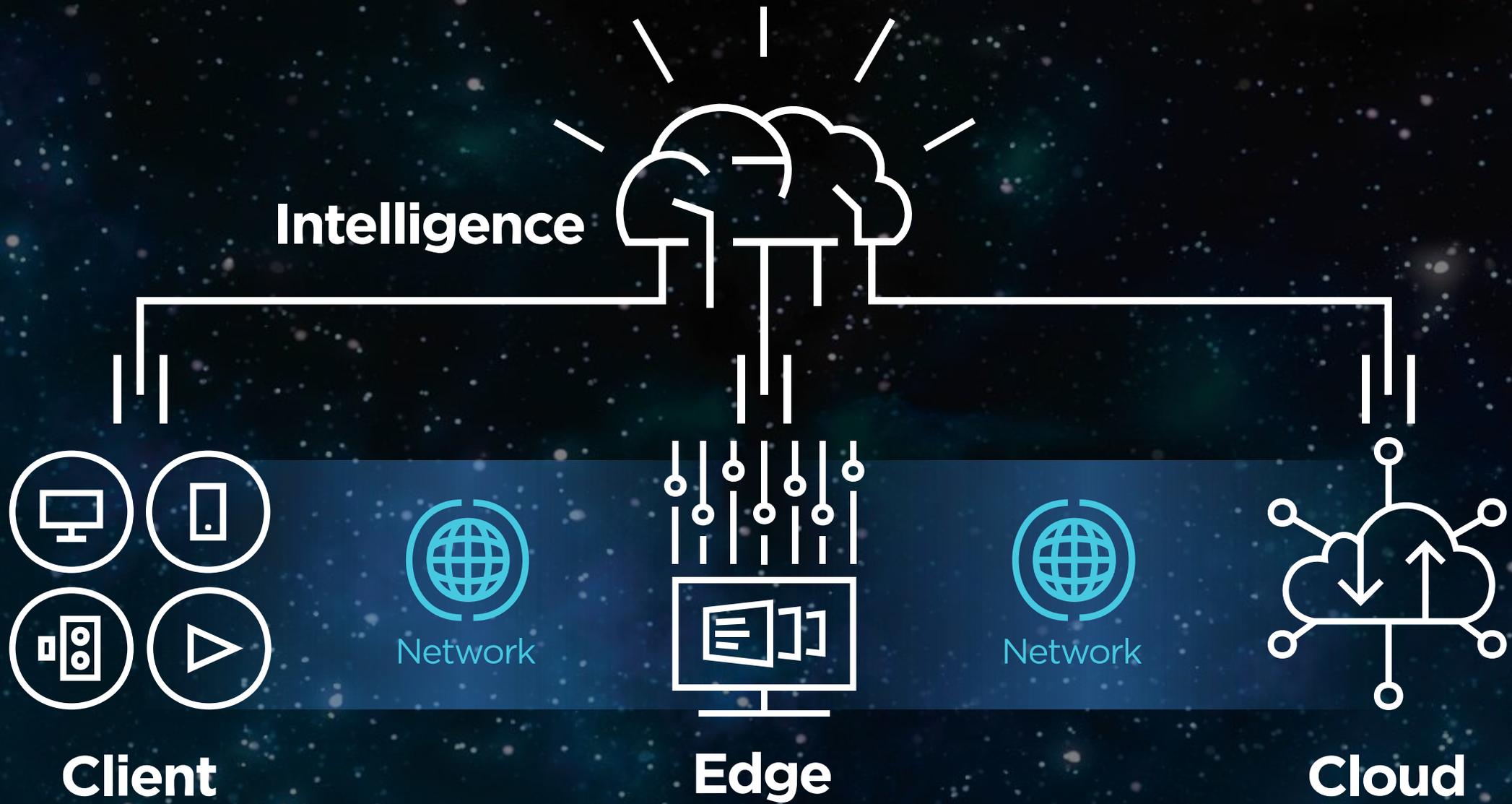
From
One Device
Per Family

To
One Device
Per Person



PC Market to ~300M in 2020







Transforming to **Thrive** in the “New Normal”

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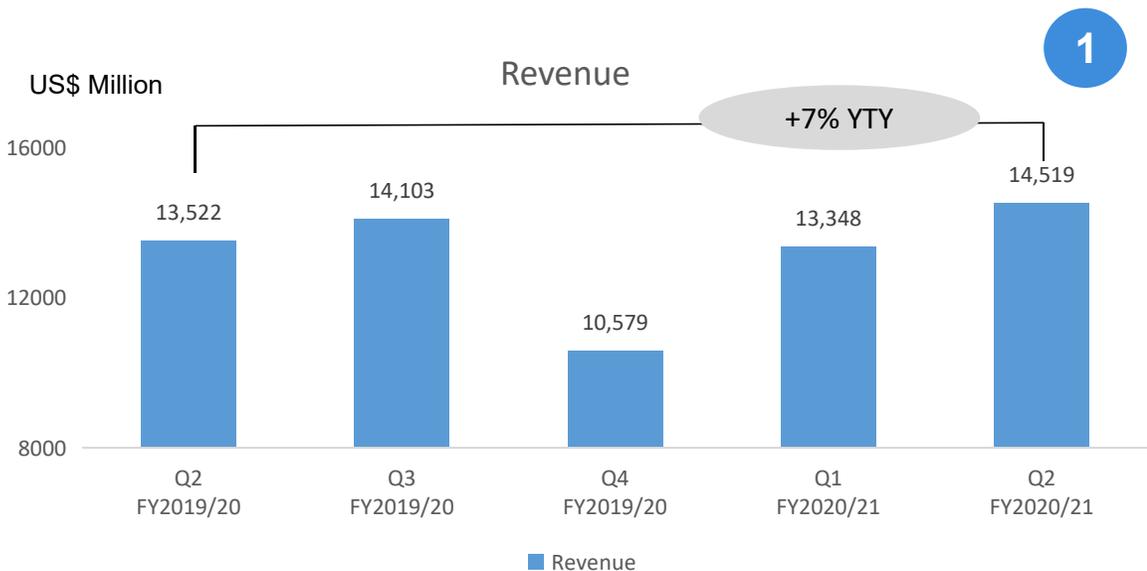
Wong Wai Ming

Chief Financial Officer

Nov 3, 2020



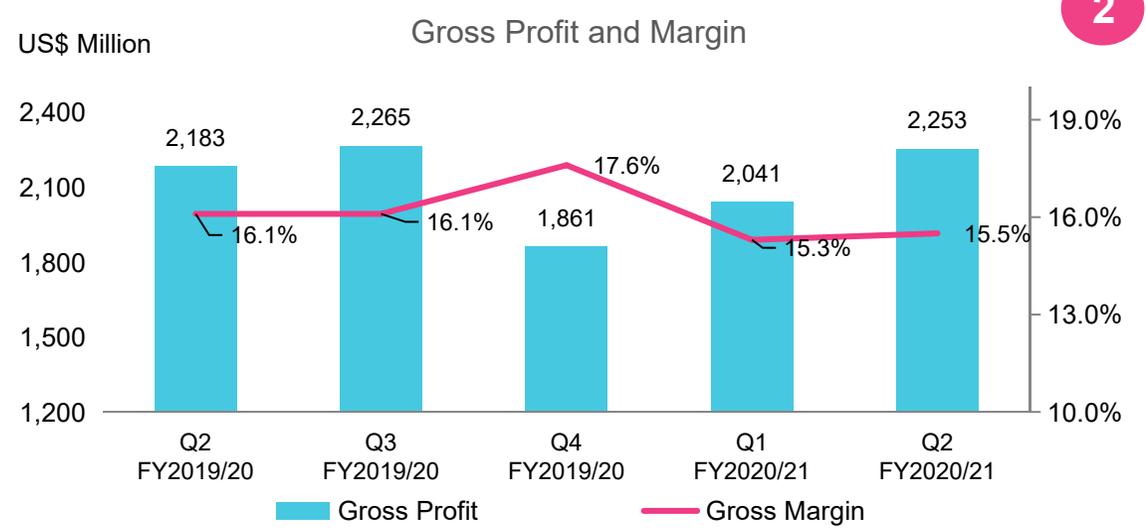
Financial Highlights



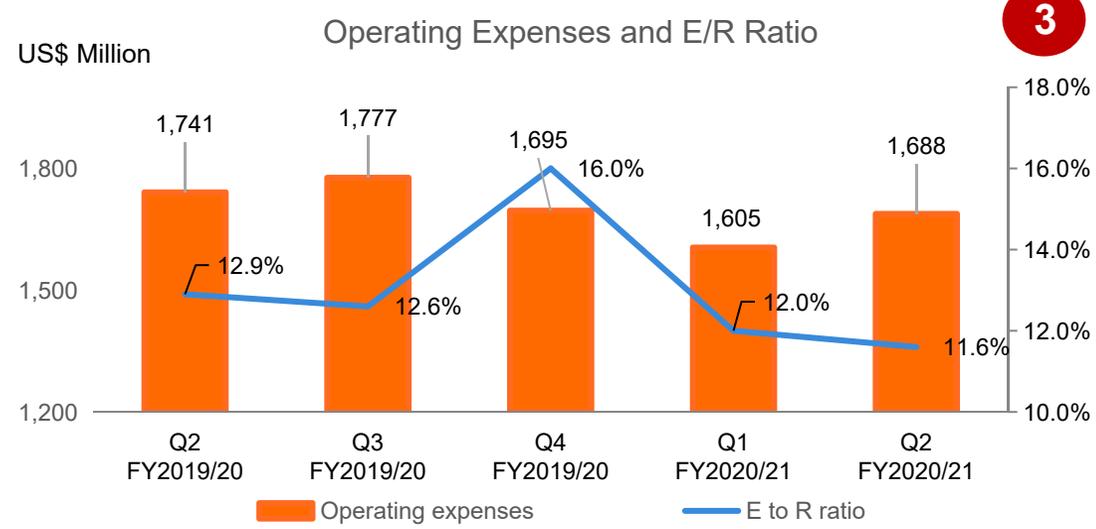
1

2Q HIGHLIGHTS

- 1 All-time high revenue and positive YTY revenue growth across three Business Groups; strong growth trajectory on Software and Services
- 2 Gross margin improved 0.2pts QTR thanks to strong high-growth/premium segment sales, improvement of segment profitability, and rising services/software contribution; COVID-led freight costs resulted in a moderate YTY decline
- 3 E to R ratio reduced by 1.2 percentage points YTY to 11.6%, leveraging disciplined expense control

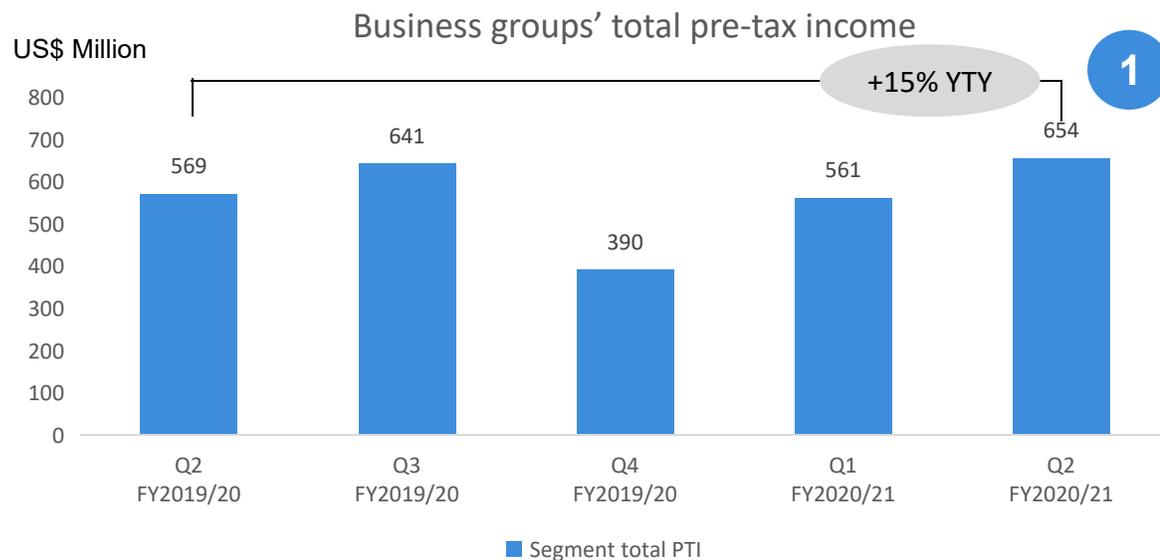


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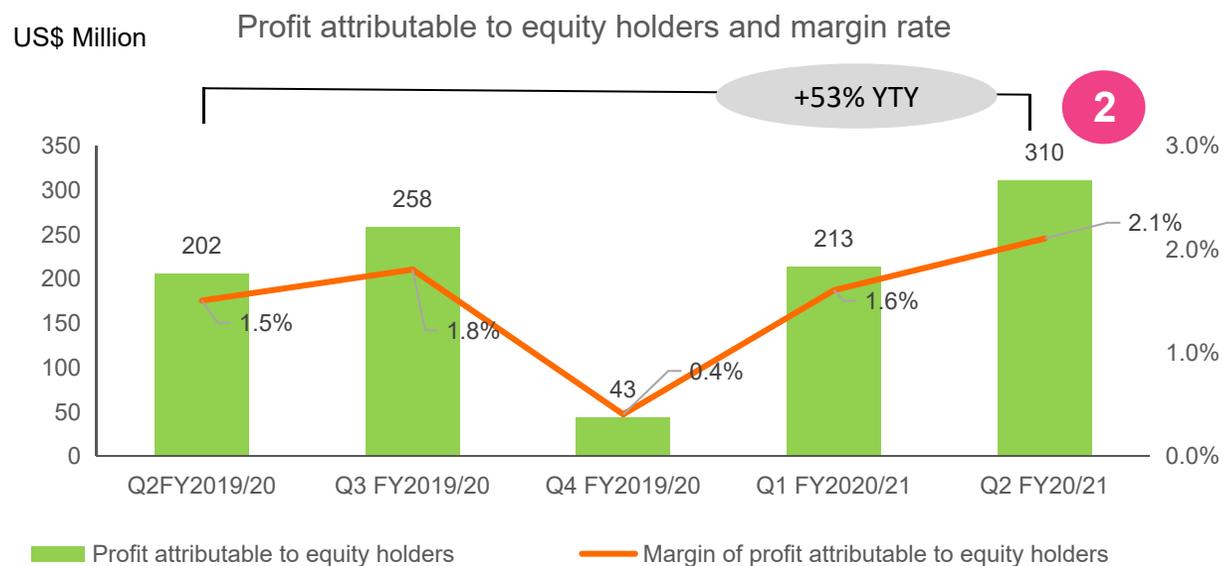
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Financial Performance

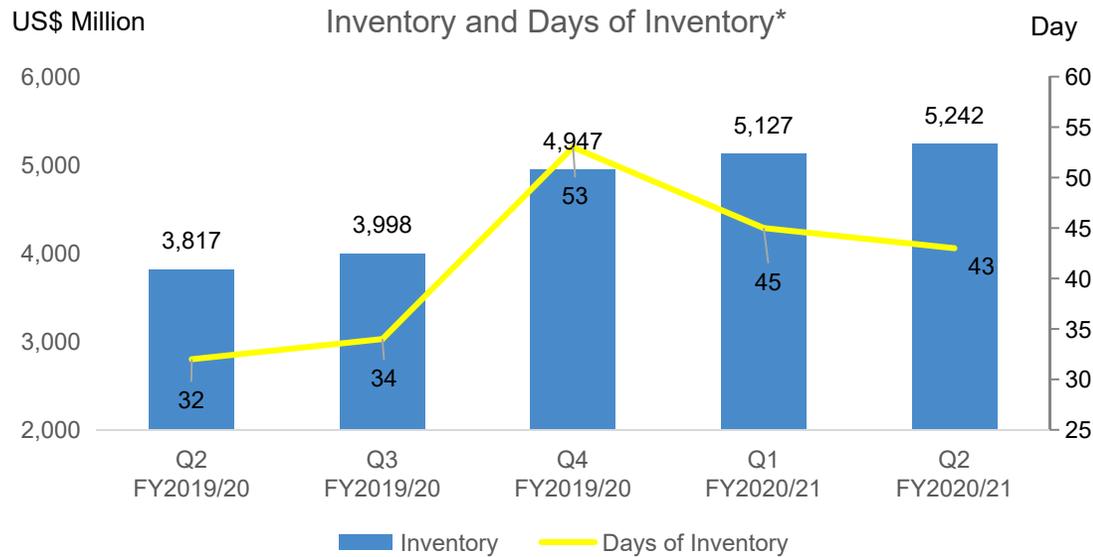


2Q HIGHLIGHTS

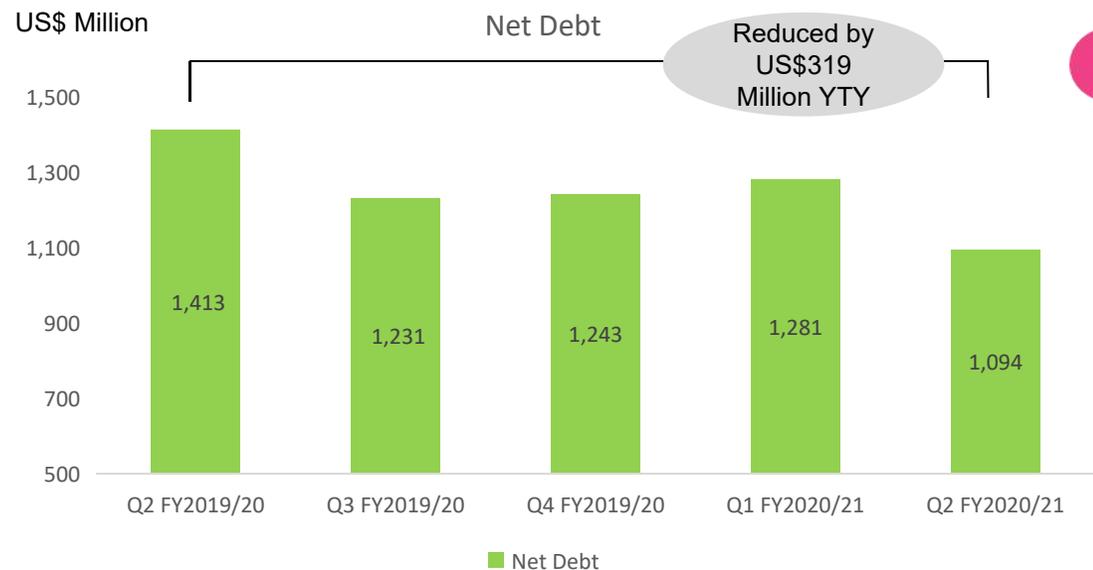
- 1 Business groups' pre-tax profit reached a new milestone with 15% YTY growth on record-breaking PCSD profit and DCG's improved profitability
- 2 Record-high net profit* with a 53% YTY growth



Cash and Working Capital



1



2

2Q HIGHLIGHTS

1

Inventory days improved sequentially thanks to robust demand; YTY increase on strategic buy-ahead actions

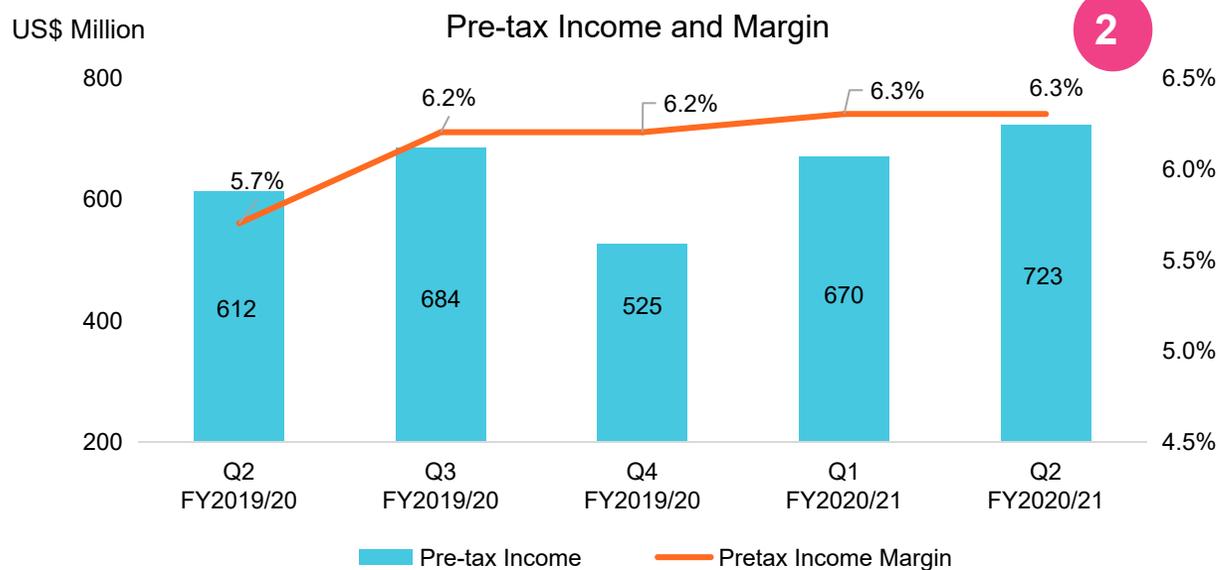
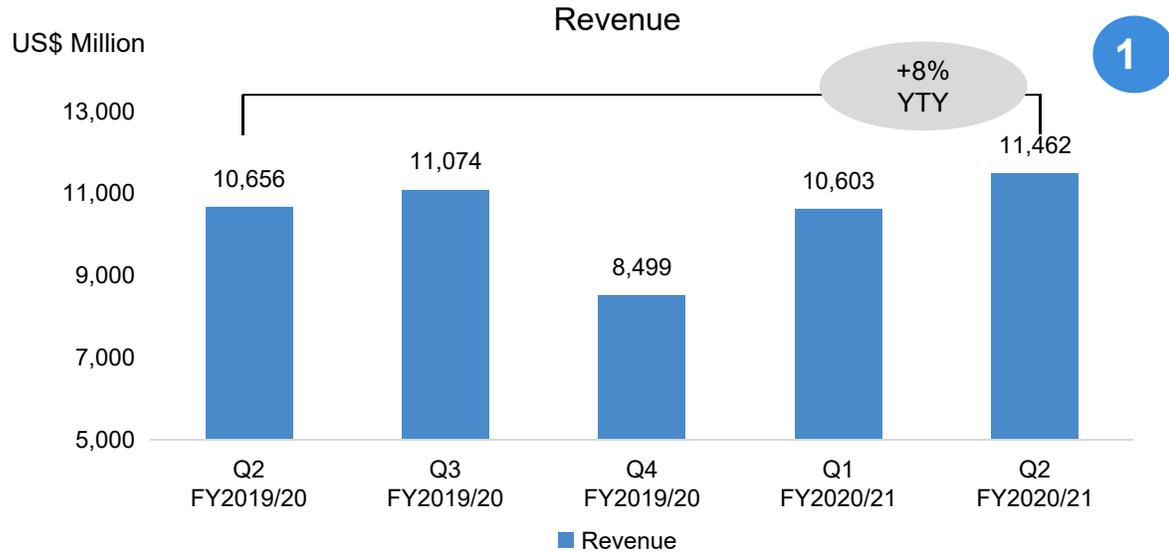
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Net debt reduced by US\$319 million YTY, driven by strong operating cashflow of US\$1.1 billion

3

Successful completion of first 144A US\$1 billion 10-year debt, whose proceeds will be used to retire a portion of outstanding perpetual securities and unsecured notes, reducing our financing costs and extending the debt tenure. Continued Financing cost reduction of US\$45 million or 33% YTY.

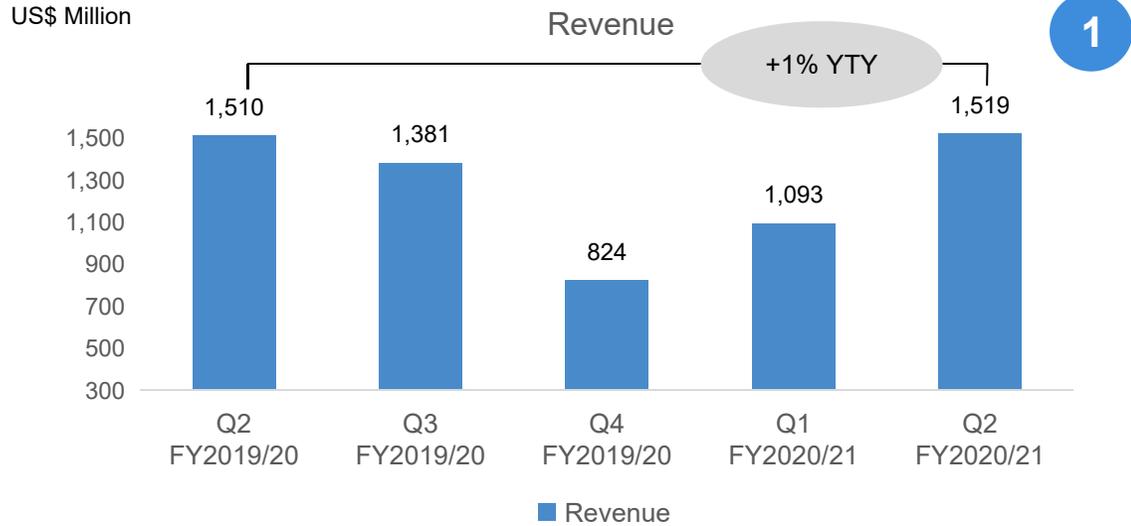
PC & Smart Device Business Group (PCSD)



2Q HIGHLIGHTS

- 1 Record-breaking revenue and pre-tax profit despite supply constraints
- 1 Revenue up 8% YTY on structural changes in PC demand including e-learning, WFH, play-from-home and e-Commerce
- 1 Continuing share gain trajectory in high-growth and premium segments: double-digit revenue growth on Thin & Light, Gaming PC, e-Commerce, and software/services
- 2 Sustaining PTI margin at record high of 6.3% due to improved segment profitability amid growing high-margin sales contribution and scaling benefits

Mobile Business Group (MBG)



1

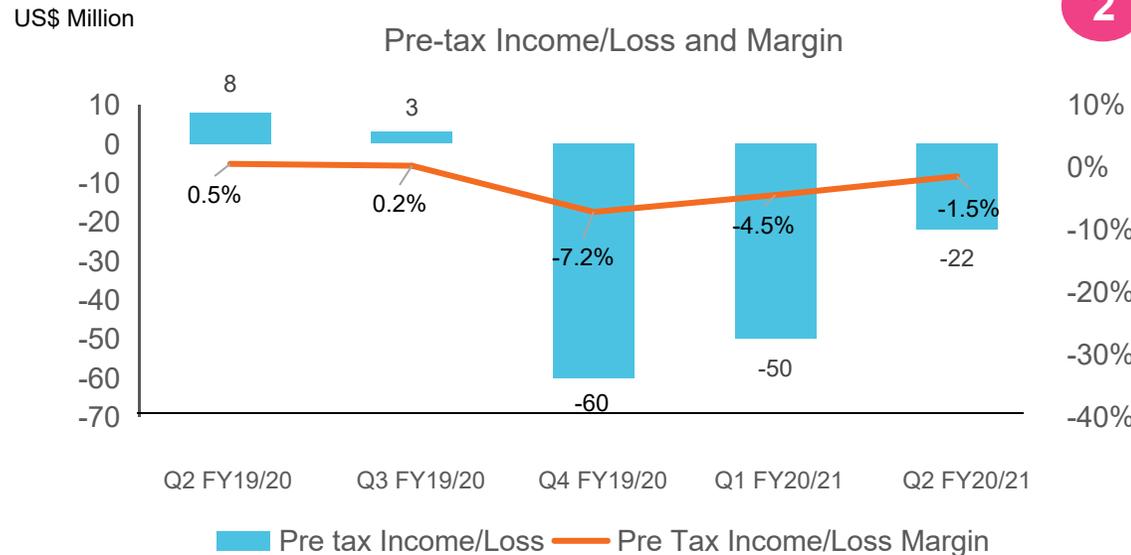
2Q HIGHLIGHTS

1

Strong rebound in revenue, up 39% QTQ and 1% YTY, due to recovery of market demand, increase of average selling prices and improved product portfolio

1

Expansion of product portfolio in premium and flagship segments, as well as broader carrier ranging

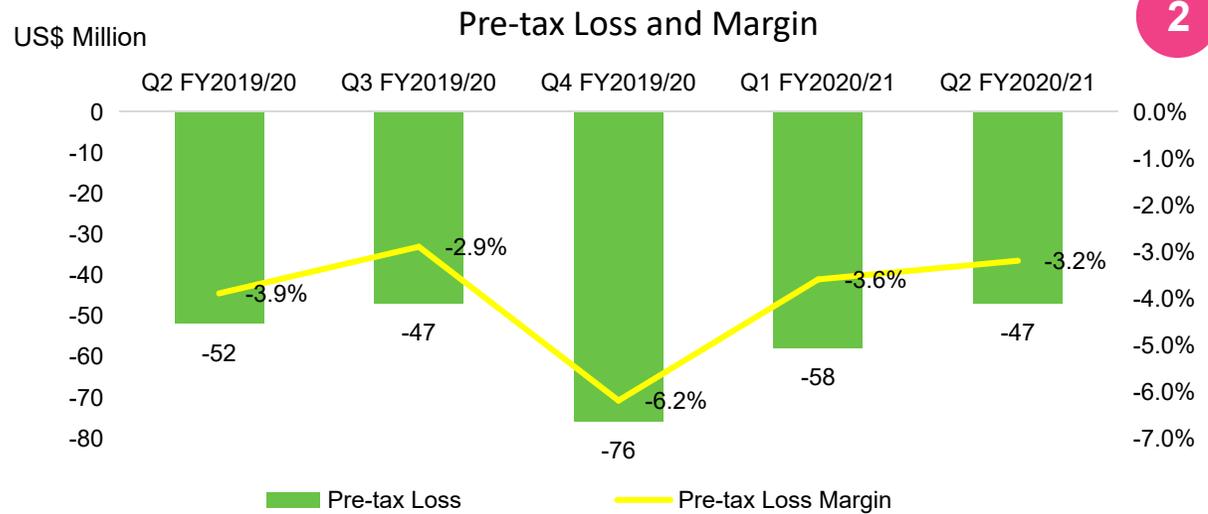
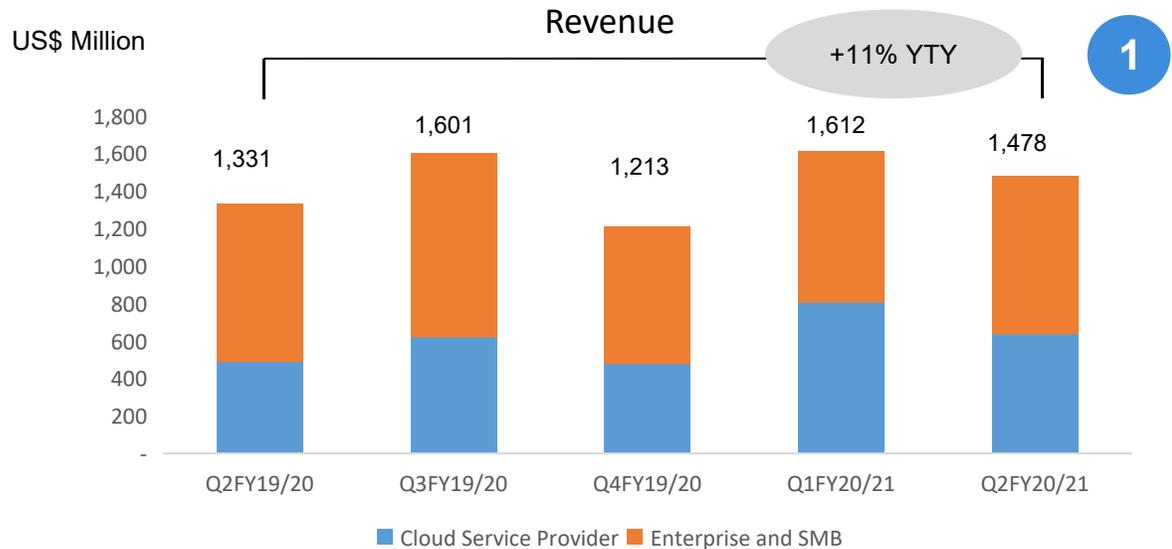
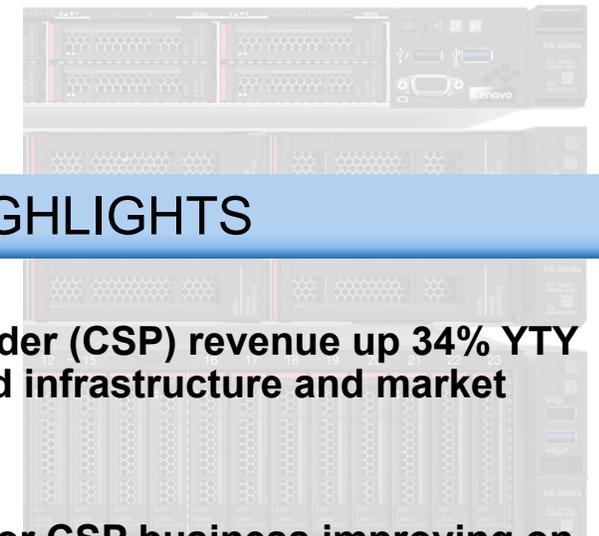


2

2

Pre-tax losses further narrowed by US\$28mn QTQ and turned cashflow positive* although higher freight costs still impacted YTY comparison; clear path to drive profitable growth

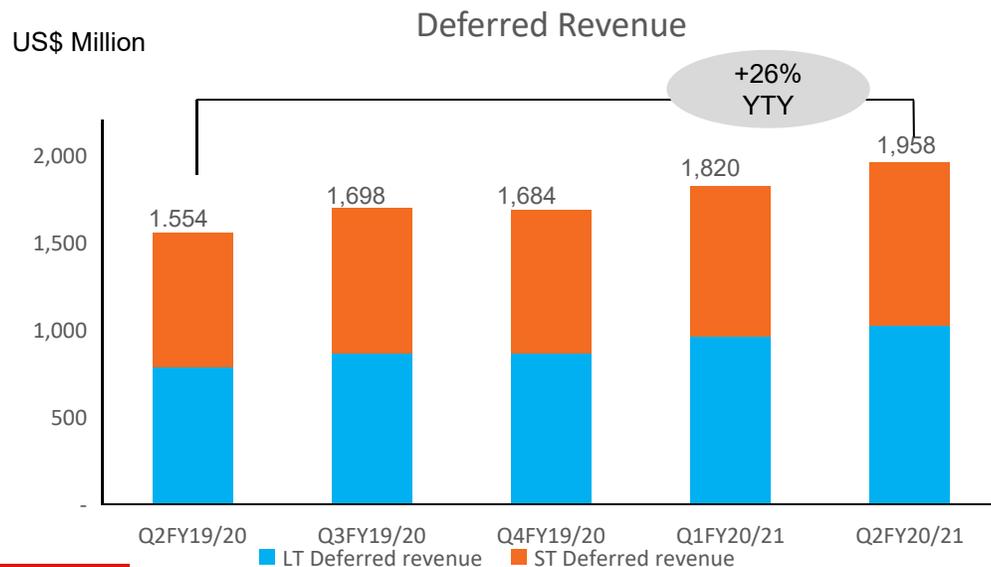
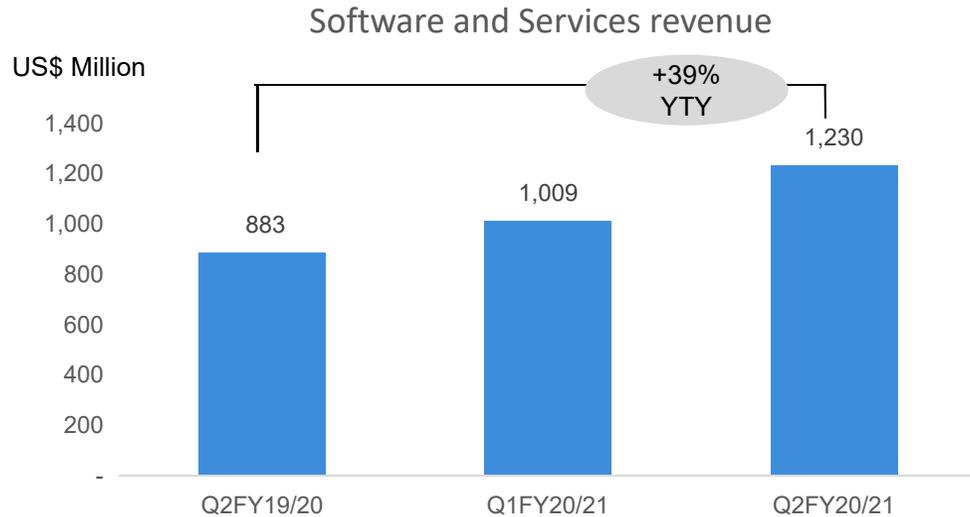
Data Center Business Group (DCG)



2Q HIGHLIGHTS

- 1 **Cloud Service Provider (CSP) revenue up 34% YTY on demand for cloud infrastructure and market share gain**
- 1 **Long-term outlook for CSP business improving on a richer mix of solutions and design wins leveraging in-house design and manufacturing**
- 1 **Enterprise & SMB outperformed sluggish market with 2% YTY revenue decline; double-digit growth of Software and Services, Storage, and Software Defined Infrastructure (SDI)**
- 2 **Continued improvement of operational results by US\$11 million QTQ and US\$4 million YTY; business aims to scale up and drive profitability**

Software and Services



2Q HIGHLIGHTS

Services and Software revenue* up 39% YTY to US\$1.2 billion; contributing 8.5% of Group Revenue

- ✓ Attached Services +25% YTY
- ✓ Managed Services incl. DaaS +91% YTY
- ✓ Complex Solutions +68% YTY

Deferred revenue up 26% YTY, adding to revenue and cash flow stability, and predictability

Lenovo & SAP partnership to provide on-premises managed infrastructure with cloud-like flexibility and financial agility to drive growth in TruScale services

+ Outlook Statement

Group Mission: Leader and Enabler of Intelligent Transformation

IDG: Drive growth with strong profitability; accelerate services and software

- **PCSD:** Drive premium to market growth and sales in high-growth/premium segments. Increase supply to meet strong demand.
- **Mobile:** Protect position in stronghold markets and drive profitable growth in all markets.
- **Services and software:** Supercharge solution and services growth.

DCG: Drive premium to market growth while improving profitability

- **Enterprise and SMB:** Grow high-margin services attach rate, upsell premier services and expand SDI solutions. Develop vertical solutions and new levels of automation to drive a paradigm shift with its edge-to-cloud solutions.
- **Cloud Service Provider:** Gain market share by leveraging our unique strengths in global supply chain and worldwide reach. Portfolio expansion to new platforms. Grow in-house design and manufacturing capabilities.

Intelligent Transformation: Grow Smart IoT, Smart Infrastructure and Smart Vertical growth while leading customer-centric transformation

- Full range of product offerings to drive hyper-growth in Software and Services, solutions and e-commerce.
- Explore and improve smart vertical solutions across smart education, smart city, and smart healthcare.

Appendix

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

Financial Summary

US\$ Million	Q2 FY2020/21	Q2 FY2019/20	Y/Y%	1H FY20/21	Y/Y%
Revenue	14,519	13,522	7%	27,867	7%
Gross profit	2,253	2,183	3%	4,294	1%
Operation expense	(1,688)	(1,741)	(3%)	(3,294)	(4%)
Operating profit	565	442	28%	1,000	28%
Other non-operating expenses	(95)	(132)	(29%)	(198)	(15%)
Pre-tax income	470	310	52%	802	46%
Taxation	(120)	(66)	82%	(206)	80%
Profit for the period	350	244	43%	596	37%
Non-controlling interests	(40)	(42)	(5%)	(73)	3%
Profit attributable to equity holders	310	202	53%	523	44%
EPS (US cents)					
-Basic	2.59	1.69	0.90	4.39	1.33
-Diluted	2.48	1.62	0.86	4.24	1.30
Dividend per share (HK cents)	6.60	6.30		6.60	
	Q2 FY2020/21	Q2 FY2019/20		1H FY20/21	1H FY19/20
Gross margin	15.5%	16.1%		15.4%	16.3%
E/R ratio	11.6%	12.9%		11.8%	13.2%
Operating margin	3.9%	3.3%		3.6%	3.0%
PTI margin	3.2%	2.3%		2.9%	2.1%
Net margin	2.1%	1.5%		1.9%	1.4%

Condensed Consolidated Income Statement

US\$ Million	Q2 FY2020/21	Q2 FY2019/20
Revenue	14,519	13,522
Cost of sales	(12,266)	(11,339)
Gross profit	2,253	2,183
Selling and distribution expenses	(726)	(778)
Administrative expenses	(643)	(585)
Research and development expenses	(307)	(318)
Other operating expense – net	(12)	(60)
Operating profit	565	442
Finance income	9	10
Finance costs	(92)	(136)
Share of loss of associated companies and joint ventures	(12)	(6)
Profit before taxation	470	310
Taxation	(120)	(66)
Profit for the period	350	244
Profit attributable to equity holders of the Company	310	202
Perpetual securities holders	14	14
Other non-controlling interests	26	28
Per share data		
Dividend per share (HK cents)	6.60	6.30.
Earnings per share (US cents) – Basic	2.59	1.69
Earnings per share (US cents) – Diluted	2.48	1.62

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As at Sep 30, 2020	As at Jun 30, 2020
Non-current assets	13,779	13,447
Property, plant and equipment	1,439	1,388
Intangible assets	7,980	7,992
Others	4,360	4,067
Current assets	21,305	20,048
Bank deposits and cash	3,753	3,546
Trade, notes and other receivables	12,024	11,128
Inventories	5,242	5,127
Others	286	247
Current liabilities	24,575	23,374
Borrowings	2,303	2,289
Trade, notes, other payables, accruals and provisions	20,939	19,903
Others	1,333	1,182
Net current (liabilities)	(3,270)	(3,326)
Non-current liabilities	6,052	5,891
Total equity	4,457	4,230

Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 FY2020/21	Q2 FY2019/20	Q1 FY2020/21
Net cash generated from operating activities	771	1,382	317
Net cash used in investing activities	(214)	(200)	(285)
Net cash used in financing activities	(388)	(524)	(91)
Increase/(decrease) in cash and cash equivalents	169	658	(59)
Effect of foreign exchange rate changes	34	(64)	4
Cash and cash equivalents at the beginning of the period	3,496	2,717	3,551
Cash and cash equivalents at the end of the period	3,699	3,311	3,496

thanks.

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