2QFY22 Earnings Announcement

Nov 4, 2021
Forward Looking Statement

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Yuanqing Yang
Chairman & CEO
Nov 4, 2021
Sustainable Profitability Increases

OPPORTUNITIES

PERFORMANCE

SUSTAINABLE GROWTH
Group: Enabling customers’ Digital & Intelligent transformations

Lenovo’s strategic intent & unique advantage:
- Help customers realize digital & intelligent transformation through execution of 3S strategy
  - Smart Devices/IoT
  - Smart Infrastructure
  - Smart Verticals
- Well positioned to capture opportunities, improve profitability

New IT architecture of Client-Edge-Cloud-Network-Intelligence
Group: Enabling customers’ Digital & Intelligent transformations

- All-time record Net Income of $512 million, up 65% YTY
- Net Income margin, up 0.7 pts YTY, on track to double in 3 years
- All-time record revenue of $17.9 billion, up 23% YTY
- Operating cashflow doubled
- R&D spending up 57% YTY

Source: Internal
Focus on high margin businesses and segments

Double investment in R&D over 3 years, develop core technology along New IT architecture

Improve efficiency, profitability through internal digital/intelligent transformation
New IT Reshaping the Industry
• Technology architecture becoming more complex
• Need for more sophisticated IT services

Lenovo’s strategic intent:
Drive high growth in 3 high margin service segments:
• Support services
• Managed services
• Project services & solutions
SSG Solutions & Services Group:
Higher margin, strong growth

- Operating margin 21%, operating profit up 32% YTY
- Revenue up 30% YTY
- Support Services: revenue up 23% YTY, improved penetration rates
- Managed Services: revenue up 88% YTY, launched TruScale
- Project Services & Solutions: revenue up 22% YTY

Source: Internal
Support Services:
- Improve penetration rates, leverage commercial rebounds to grow

Managed Services & as-a-Service:
- Invest in platforms, tools & go-to-market capabilities
- Enhance the TruScale as-a-Service offerings

Projects & Solutions:
- Turn the proven internal digital capabilities into solution offerings with IT function integrated
- Scale through repeatable solutions with own IP
ICT Infrastructure upgrade continues and a $250 billion market through 2025

Lenovo’s strategic intent:

Build capabilities for profitable growth

• From server only to full-stack infrastructure of hardware, software & services provider

• From on-prem IT infrastructure to full hybrid infrastructure solutions provider
ISG Infrastructure Solutions Group:
Driving to profitability, outperforming growing market

- Record revenue, up 34% YTY
- Operating results improved by $24 million YTY
- CSP\(^1\): Record revenue, up 52% YTY
- Enterprise/SMB: Revenue up 20% YTY
- Higher margin businesses continued strong performance: Storage, HPC

\(^1\) Cloud Service Provider

Source: Internal
**SUSTAINABLE GROWTH**

Continue to invest in competitiveness and drive to profitability

- Increase investments in Edge computing, Hybrid cloud solutions, 5G cloud-network
- Further enhance in-house design & manufacturing capabilities to drive profitability improvements
- Become the largest and most trusted ICT infrastructure solution provider
IDG
Intelligent Devices Group:
Strong Growth, Stronger Profitability

**OPPORTUNITIES**

**PC:** Commercial demand recovering, Windows 11 expected to increase demand, TAM remains to be 340-355 million units for the next few years

**Smartphone:** market reshuffling

**IoT:** Market growth of 11% CAGR through 2025

**Lenovo’s strategic intent:**

- Expand non-PC businesses
- Invest in innovation & premium segments

Source: IDC
IDG
Intelligent Devices Group:
Strong Growth, Stronger Profitability

• Operating profit up 34% YTY
• Revenue up 21% YTY
IDG
Intelligent Devices Group:
Strong Growth, Stronger Profitability

- PC: Premium Yoga, Workstations revenue each doubled; Commercial PC revenue up 29% YTY, SMB revenue up 48% YTY
- Smartphone: record profit, highest revenue & volume in 15 quarters
- Tablet revenue up 20% YTY
- Accessory revenue up 31% YTY

. Source: Internal
SUSTAINABLE GROWTH

- Invest in premium PC segments to improve Average Selling Price & profitability
- Cross sell adjacent non-PC products (smartphones, tablets, smart meeting collaboration, embedded computing), increase non-PC business mix
Invest for the future, continue sustainable profitable growth

Clear Strategy
Strong Execution
Drive the service-led intelligent transformation

Operational Excellence
Improve efficiency through Digital & Intelligent Transformation

Innovation
Double R&D investment in 3 years
1. Group revenue up 23% YTY to a new record of $17.9 billion

2. Net income* up 65% YTY to an all-time high of $512 million; Operating cashflow doubled YTY to 1.6 billion US dollars

3. Consistent growth in profitability across businesses: Operating profit of IDG and SSG grew over 30%; ISG’s loss narrowed by $24 million YTY
Double-down on R&D to drive sustainable growth

FY20/21 R&D spending reached $1.5 billion; 2QFY22 R&D spending up by 57% YTY; R&D headcount grew by 51% YTY to support New IT investments.

R&D projects include Premium, Gaming, and Workstation PCs, Edge servers, Storage, HPC*, and Lenovo Brain AI.

Operating margin up 0.7pts YTY.

* HPC: High-Performance Computing
Strong Cashflow and Balance Sheet

1. Strong cashflow generation to support investment for future; Operating cashflow increased by US$790 million YTY to US$1.6 billion on strong profitability

2. Net debt reduced by US$1bn+ YTY to US$60 million; Net debt improvement* of over $2.5 billion in 3.5 years

3. Net debt-to-equity ratio** lowered from a peak of 85% in FY18/19 to nearly zero in the most recent quarter

* For calculation of net debt, debt including perpetual securities; ** Total equity excludes perpetual securities
Solutions and Services Group (SSG)

1. Robust growth across all segments
   - **Support Services**: Revenue up 23% YTY; Commercial recovery, demand for remote-working, and new service opportunity to boost service penetration rate
   - **Managed Services**: 88% revenue growth YTY thanks to as-a-Service momentum and portfolio enhancement
   - **Project Service & Solutions**: Revenue up 22% YTY; building in-house intellectual property and repeatable deals

2. Booking and deferred revenue up 34% and 31% YTY, respectively; Enlarged base of recurring revenue to support sustainable growth

3. Operating profit up 32% YTY to US$285 million with margin expanding by 0.3pts YTY to 20.9%
Infrastructure Solutions Group (ISG)

**Q2 HIGHLIGHTS**

1. Riding on infrastructure upgrade opportunities to grow revenue by 34% to an all-time high; Gaining market share in nearly every business segment

2. Operating loss reduced by 80% YTY to a mere $6 million, resulted from customer base expansion in CSP and favorable ESMB sales mix

1. Record-high CSP revenue on strong cloud demand and broadened client base; ODM+ model** offering important competitive advantage

1. ESMB revenue in 2QFY22 hit its highest in last 5 years; Expansion from server into storage, HPC, software and services
   - Storage revenue up by 52% YTY; Global no.2 in mainstream storage***

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**Note:**
- CSP: Cloud Service Provider. ESMB: Enterprise & Small and Medium Business
- **ODM+ model:** provides a total solution to CSP customers encompassing a fully integrated operation including motherboard design, system, and full-rack assembly across server and storage products
- ***Price band 1-4***
Intelligent Devices Group (IDG*)

Q2 HIGHLIGHTS

1. Revenue set a new 2QFY22 record with operating margin reaching all-time high of 7.6%

2. Strong demand trajectory for commercial and high value-added products** driving better ASP and higher profitability; Operating margin YTY improvement for 16th consecutive quarter***

3. Non-PC revenue up 23% YTY contributing 19% of IDG. Stellar performance of smartphone, driven by profitable growth across key markets; Promising outlook in accessories and tablets

4. Innovations to drive further upside in ASP and maintain industry-leading profitability; Leading launches in Windows 11 PCs, making progress in Thinkshield security, and deploying environmentally-conscious design for future growth

* IDG mainly consists of PC, tablet, smartphone, and smart devices business;
** High value-added segments including gaming, thin-and-light, premium Yoga PC, Workstation and etc.
*** Only exception in 4QFY19/20 due to disruption from COVID-19.
ESG - A More Sustainable Future for All

ESG: Commitment and innovation as a responsible industry leader

✓ Embracing clean energy and driving climate change mitigation
  • 90% of global operations electricity from renewable sources\(^1\) by FY25/26
  • Removing one million tons of greenhouse gas emissions from the supply chain

✓ Reducing environmental impact of products and packaging. FY25/26 targets:
  • 100% of PC products will contain post-consumer recycled content materials;
  • Use 300 million pounds of post consumer recycled content plastics in our products\(^2\)

✓ Innovation with ESG: SSG as-a-Service and sustainability services

✓ Increase executive representation of women within our organization around the world

\(^1\)May be accomplished through installation of onsite renewable energy generation, entry into power purchase agreements and/or purchase of renewable energy credits.
\(^2\)Cumulative total since 2005

Available at https://investor.Lenovo.com
Outlook

Group Mission is to lead and enable Intelligent Transformation

Enable net income margin improvement in medium term; drive R&D to turbocharge innovation; increase brand premium

SSG: Leverage powerful Group platform for high-margin service opportunities

- Extensive exposure to commercial PC and ESMB infrastructure growth offers huge solution and service potentials
- Establishing TruScale into integrated as-a-Service platform to capture strong market demand
- Rising ESG priorities to the top of C-Suite agenda opens new service opportunities

ISG: Building a profitable business and consistent premium-to-market growth in E/SMB and CSP markets

- Delivering industry-leading end-to-end infrastructure solutions and expansion from server to full stack offerings
- Expanding ESMB through servers into storage, SDI, software, and services, with rising profitability, and new segments coverage in Edge/AI and CommSP
- Cloud Service Provider: Fully integrated ODM+ model to expand profitable opportunities and drive QTQ profit improvement

IDG: Innovation, high value-added segments and non-PC to boost profit expansion

- Sustainable increase in profitability via investing in innovation, high value-added segments, and adjacent areas; Leverage leadership position to consistently deliver on operational excellence and supply chain management
- PC: Strong momentum in commercial and high value-added segments; Continue to drive better ASP and profitability
- Non-PC: Expecting rapid growth supported by AIoT’s double-digit growth potential*; Lenovo will take advantage of competitive landscape shift to further grow its smartphone business
Supplemental Financial Materials

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

<table>
<thead>
<tr>
<th></th>
<th>Q2 21/22</th>
<th>Q2 20/21</th>
<th>Y/Y%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>17,869</td>
<td>14,519</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>3,006</td>
<td>2,253</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Operating expense</strong></td>
<td>(2,189)</td>
<td>(1,688)</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>817</td>
<td>565</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Other non-operating expenses</strong></td>
<td>(75)</td>
<td>(95)</td>
<td>(21%)</td>
</tr>
<tr>
<td><strong>Pre-tax income</strong></td>
<td>742</td>
<td>470</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>(185)</td>
<td>(120)</td>
<td>53%</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td>557</td>
<td>350</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>(45)</td>
<td>(40)</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Profit attributable to equity holders</strong></td>
<td>512</td>
<td>310</td>
<td>65%</td>
</tr>
<tr>
<td><strong>EPS (US cents)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- <strong>Basic</strong></td>
<td>4.42</td>
<td>2.59</td>
<td>1.83</td>
</tr>
<tr>
<td>- <strong>Diluted</strong></td>
<td>3.96</td>
<td>2.48</td>
<td>1.48</td>
</tr>
<tr>
<td><strong>Dividend per share (HK cents)</strong></td>
<td>8.00</td>
<td>6.60</td>
<td></td>
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</tbody>
</table>

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<thead>
<tr>
<th></th>
<th>Q2 21/22</th>
<th>Q2 20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross margin</strong></td>
<td>16.8%</td>
<td>15.5%</td>
</tr>
<tr>
<td><strong>E/R ratio</strong></td>
<td>12.3%</td>
<td>11.6%</td>
</tr>
<tr>
<td><strong>Operating margin</strong></td>
<td>4.6%</td>
<td>3.9%</td>
</tr>
<tr>
<td><strong>PTI margin</strong></td>
<td>4.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Net margin</strong></td>
<td>2.9%</td>
<td>2.1%</td>
</tr>
<tr>
<td>US$ Million</td>
<td>Q2 21/22</td>
<td>Q2 20/21</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Revenue</td>
<td>17,869</td>
<td>14,519</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(14,863)</td>
<td>(12,266)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>3,006</td>
<td>2,253</td>
</tr>
<tr>
<td>Selling and distribution expenses</td>
<td>(924)</td>
<td>(726)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(700)</td>
<td>(643)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(482)</td>
<td>(307)</td>
</tr>
<tr>
<td>Other operating expense – net</td>
<td>(83)</td>
<td>(12)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>817</td>
<td>565</td>
</tr>
<tr>
<td>Finance income</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(86)</td>
<td>(92)</td>
</tr>
<tr>
<td>Share of loss of associated companies and joint ventures</td>
<td>(2)</td>
<td>(12)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>742</td>
<td>470</td>
</tr>
<tr>
<td>Taxation</td>
<td>(185)</td>
<td>(120)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>557</td>
<td>350</td>
</tr>
<tr>
<td>Profit attributable to equity holders of the Company</td>
<td>512</td>
<td>310</td>
</tr>
<tr>
<td>Perpetual securities holders</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Other non-controlling interests</td>
<td>45</td>
<td>26</td>
</tr>
<tr>
<td>Per share data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per share (US cents) – Basic</td>
<td>4.42</td>
<td>2.59</td>
</tr>
<tr>
<td>Earnings per share (US cents) – Diluted</td>
<td>3.96</td>
<td>2.48</td>
</tr>
</tbody>
</table>
## Condensed Consolidated Balance Sheet

<table>
<thead>
<tr>
<th>US$ Million</th>
<th>As at Sep 30, 2021</th>
<th>As at Jun 30, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>15,003</td>
<td>14,951</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,556</td>
<td>1,562</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>8,239</td>
<td>8,448</td>
</tr>
<tr>
<td>Others</td>
<td>5,208</td>
<td>4,941</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>27,572</td>
<td>25,510</td>
</tr>
<tr>
<td>Bank deposits and cash</td>
<td>3,731</td>
<td>3,259</td>
</tr>
<tr>
<td>Trade, notes and other receivables</td>
<td>14,569</td>
<td>14,027</td>
</tr>
<tr>
<td>Inventories</td>
<td>8,728</td>
<td>7,826</td>
</tr>
<tr>
<td>Others</td>
<td>544</td>
<td>398</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>31,345</td>
<td>29,219</td>
</tr>
<tr>
<td>Borrowings</td>
<td>482</td>
<td>694</td>
</tr>
<tr>
<td>Trade, notes, other payables, accruals and provisions</td>
<td>28,853</td>
<td>26,857</td>
</tr>
<tr>
<td>Others</td>
<td>2,010</td>
<td>1,668</td>
</tr>
<tr>
<td><strong>Net current (liabilities)</strong></td>
<td>(3,773)</td>
<td>(3,709)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>7,091</td>
<td>7,082</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>4,139</td>
<td>4,160</td>
</tr>
</tbody>
</table>
## Condensed Consolidated Cash Flow Statement

<table>
<thead>
<tr>
<th>US$ Million</th>
<th>Q2 21/22</th>
<th>Q2 20/21</th>
<th>Q1 21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash generated from operating activities</td>
<td>1,561</td>
<td>771</td>
<td>448</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(343)</td>
<td>(214)</td>
<td>(192)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(717)</td>
<td>(388)</td>
<td>(180)</td>
</tr>
<tr>
<td>Increase in cash and cash equivalents</td>
<td>501</td>
<td>169</td>
<td>76</td>
</tr>
<tr>
<td>Effect of foreign exchange rate changes</td>
<td>(30)</td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>3,176</td>
<td>3,496</td>
<td>3,068</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the period</td>
<td>3,647</td>
<td>3,699</td>
<td>3,176</td>
</tr>
</tbody>
</table>
thanks.