

Smarter technology for all

2QFY22 Earnings Announcement

Nov 4, 2021



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Smarter technology for all

Yuanqing Yang

Chairman & CEO

Nov 4, 2021





**Sustainable
Profitability Increases**

OPPORTUNITIES

PERFORMANCE

SUSTAINABLE GROWTH

Group: Enabling customers' Digital & Intelligent transformations

Client



Edge-Cloud-
Network



Intelligence



Smart
Devices/IoT

Smart
Infrastructure

Smart Vertical

OPPORTUNITIES



New IT architecture of Client-Edge-Cloud-Network-Intelligence

Lenovo's strategic intent & unique advantage:



Help customers realize digital & intelligent transformation through execution of 3S strategy

- Smart Devices/IoT
- Smart Infrastructure
- Smart Verticals



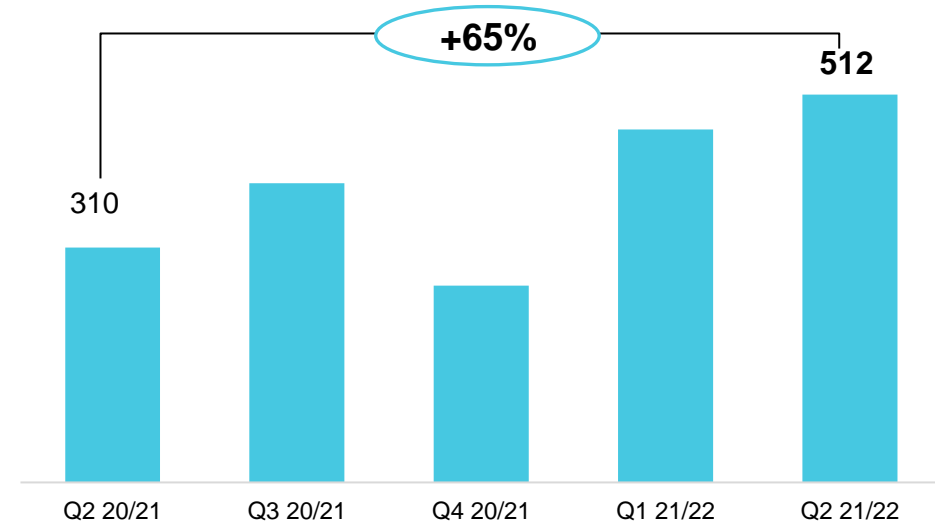
Well positioned to capture opportunities, improve profitability

Group: Enabling customers' Digital & Intelligent transformations

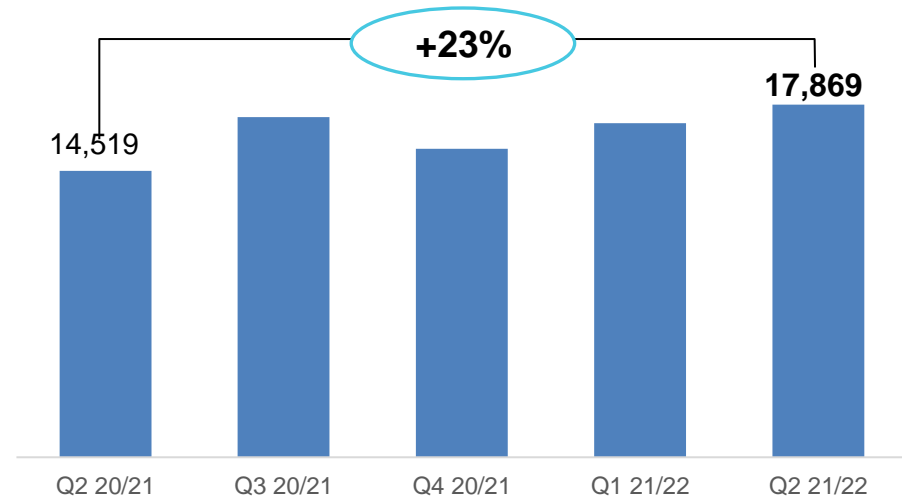
- All-time record Net Income of \$512 million, up 65% YTY
- Net Income margin, up 0.7 pts YTY, on track to double in 3 years
- All-time record revenue of \$17.9 billion, up 23% YTY
- Operating cashflow doubled
- R&D spending up 57% YTY

PERFORMANCE

Group Net Income (\$M)



Group Revenue (\$M)



Group:
Enabling customers'
Digital & Intelligent
transformations

SUSTAINABLE GROWTH

- 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

SSG

Solutions & Services Group:

Higher margin, strong growth

OPPORTUNITIES



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

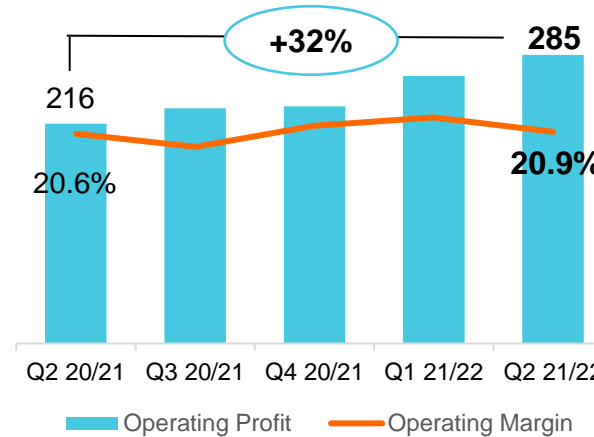
Solutions & Services Group:

Higher margin, strong growth

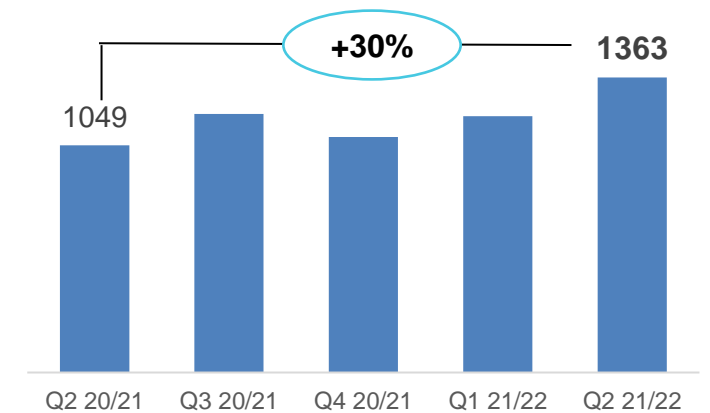
- Operating margin 21%, operating profit up 32% YTY
- Revenue up 30% YTY
- Support Services: revenue up 23% YTY, improved penetration rates
- Managed Services: revenue up 88% YTY, launched TruScale
- Project Services & Solutions: revenue up 22% YTY

PERFORMANCE

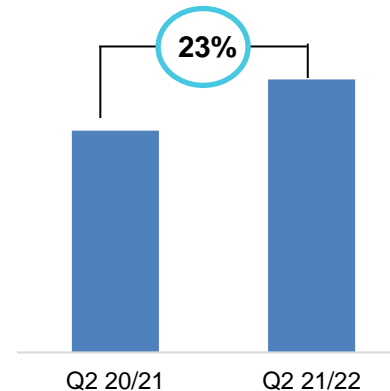
SSG Operating Profit (\$M) & Margin (%)



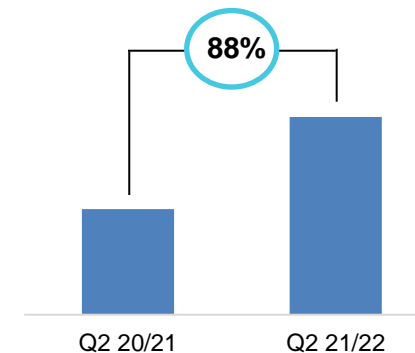
SSG Revenue (\$M)



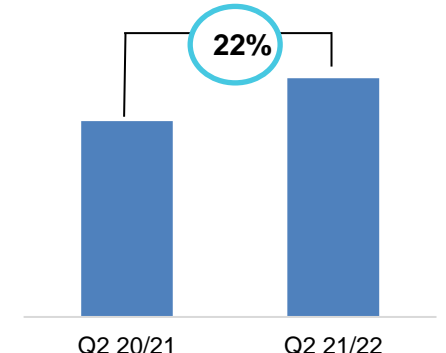
Support Services
Revenue YTY Growth



Managed Services
Revenue YTY Growth



Project Services &
Solutions Revenue YTY
Growth



SSG

Solutions & Services Group:

**Higher margin,
strong growth**

SUSTAINABLE GROWTH

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:

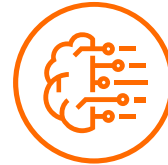
- Turn the proven internal digital capabilities into solution offerings with IT function integrated
- Scale through repeatable solutions with own IP

ISG

Infrastructure Solutions Group:

Driving to profitability, outperforming growing market

OPPORTUNITIES



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



Infrastructure Solutions Group:

Driving to profitability, outperforming growing market

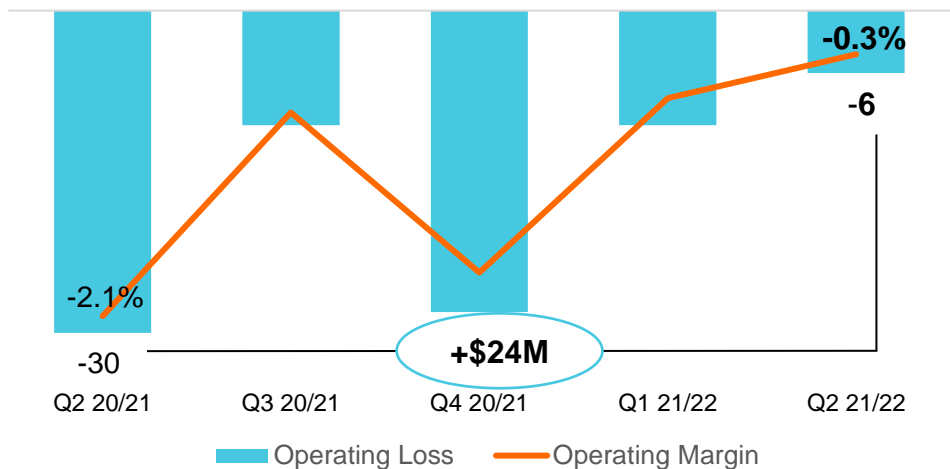
- Record revenue, up 34% YTY
- Operating results improved by \$24 million YTY
- CSP¹: Record revenue, up 52% YTY
- Enterprise/SMB: Revenue up 20% YTY
- Higher margin businesses continued strong performance: Storage, HPC

¹ Cloud Service Provider

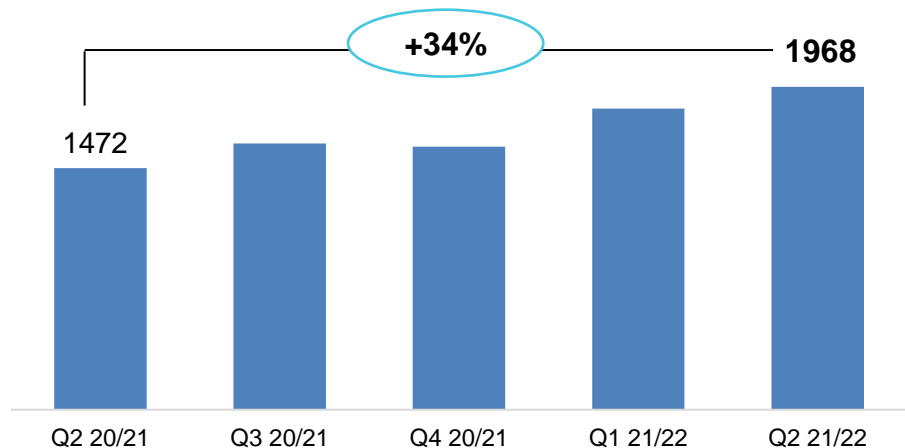


PERFORMANCE

ISG Operating Results (\$M) & Margin(%)



ISG Revenue (\$M)



ISG

Infrastructure Solutions Group:

**Driving to profitability,
outperforming
growing market**

SUSTAINABLE GROWTH

Continue to invest in competitiveness and drive to profitability

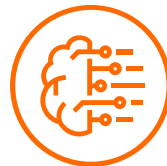
- Increase investments in Edge computing, Hybrid cloud solutions, 5G cloud-network
- Further enhance in-house design & manufacturing capabilities to drive profitability improvements
- Become the largest and most trusted ICT infrastructure solution provider

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

IDG

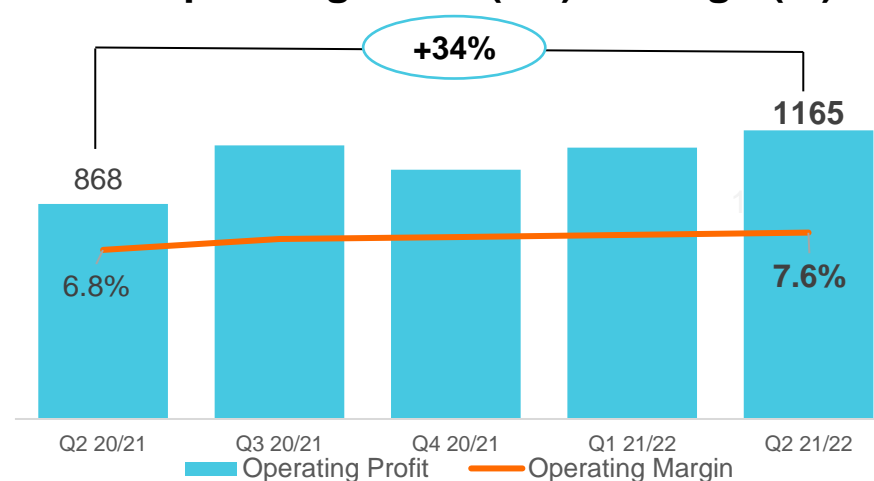
Intelligent Devices Group:

Strong Growth, Stronger Profitability

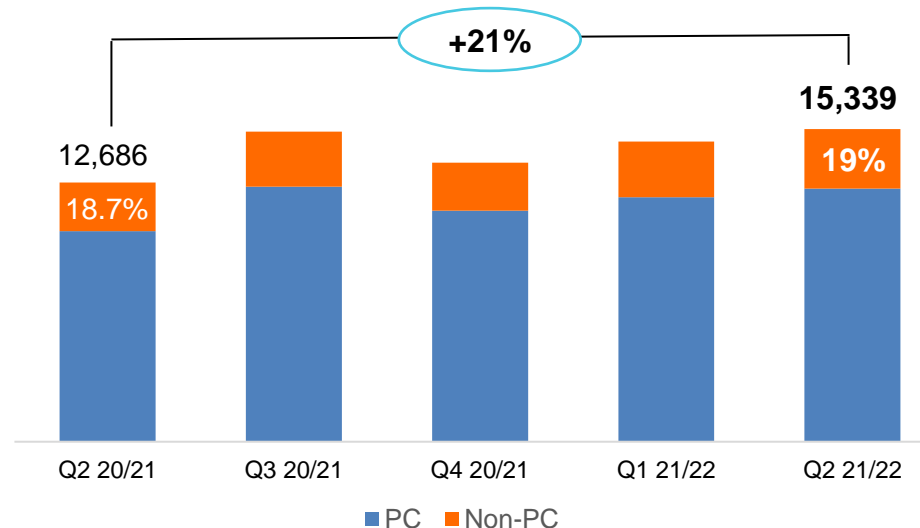
- Operating profit up 34% YTY
- Revenue up 21% YTY

PERFORMANCE

IDG Operating Profit (\$M) & Margin(%)



IDG Revenue (\$M)

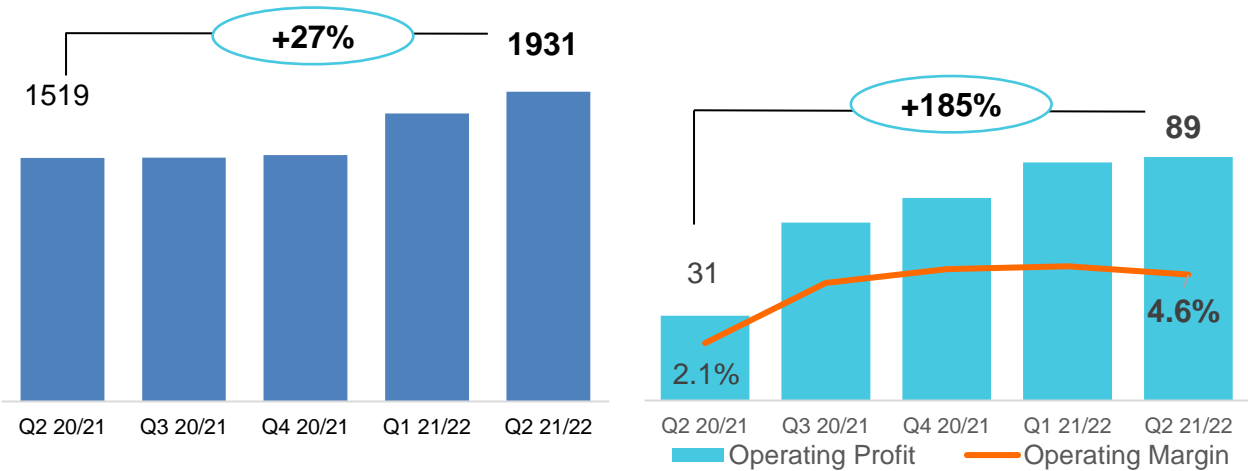


Strong Growth, Stronger Profitability

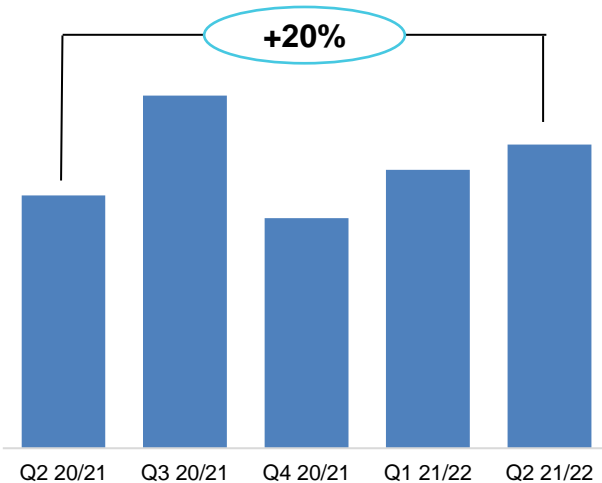
- PC: Premium Yoga, Workstations revenue each doubled; Commercial PC revenue up 29% YTY, SMB revenue up 48% YTY
- Smartphone: record profit, highest revenue & volume in 15 quarters
- Tablet revenue up 20% YTY
- Accessory revenue up 31% YTY

PERFORMANCE

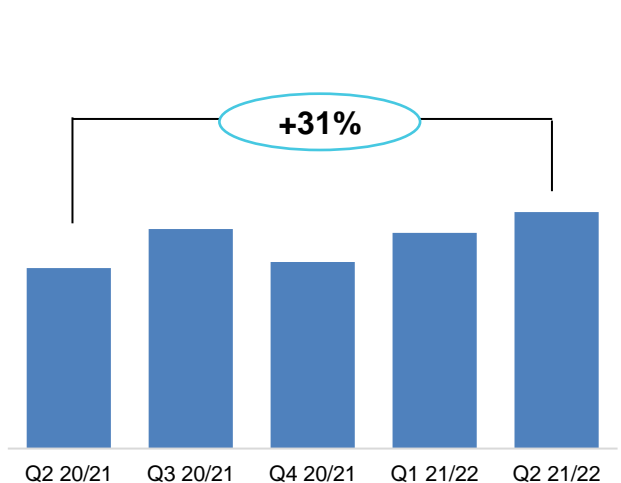
Smartphone Revenue(\$M), Operating Profit (\$M) & Margin(%)



Tablet Revenue YTY Growth



Accessories Revenue YTY Growth



IDG

Intelligent Devices Group:

**Strong Growth,
Stronger
Profitability**

SUSTAINABLE GROWTH

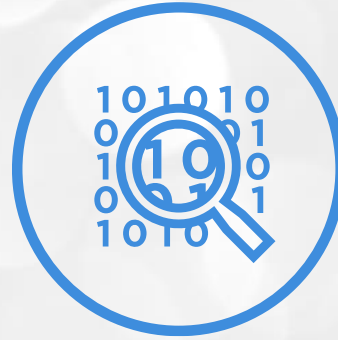
- Invest in premium PC segments to improve Average Selling Price & profitability
- Cross sell adjacent non-PC products (smartphones, tablets, smart meeting collaboration, embedded computing), increase non-PC business mix

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

Smarter technology for all

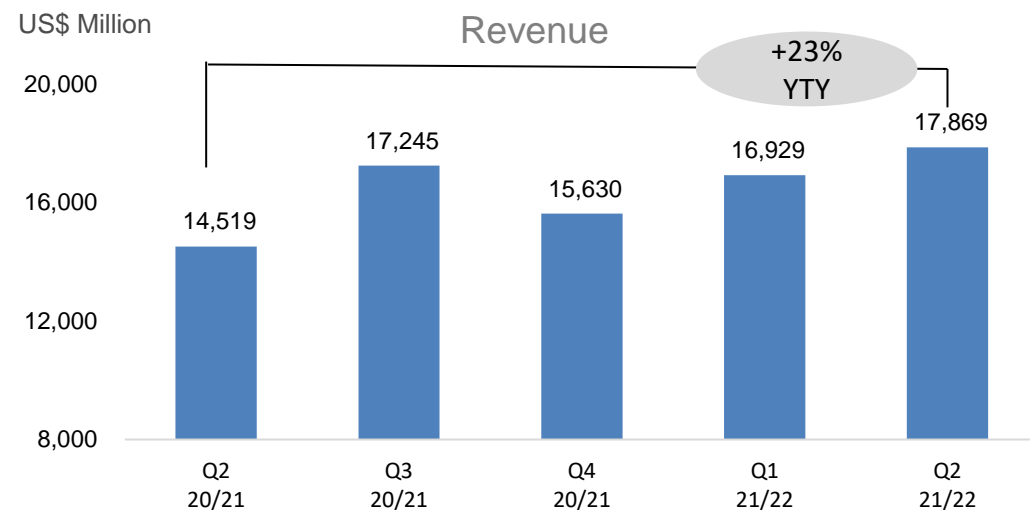
Wong Wai Ming

Chief Financial Officer

Nov 4, 2021



Financial Highlights

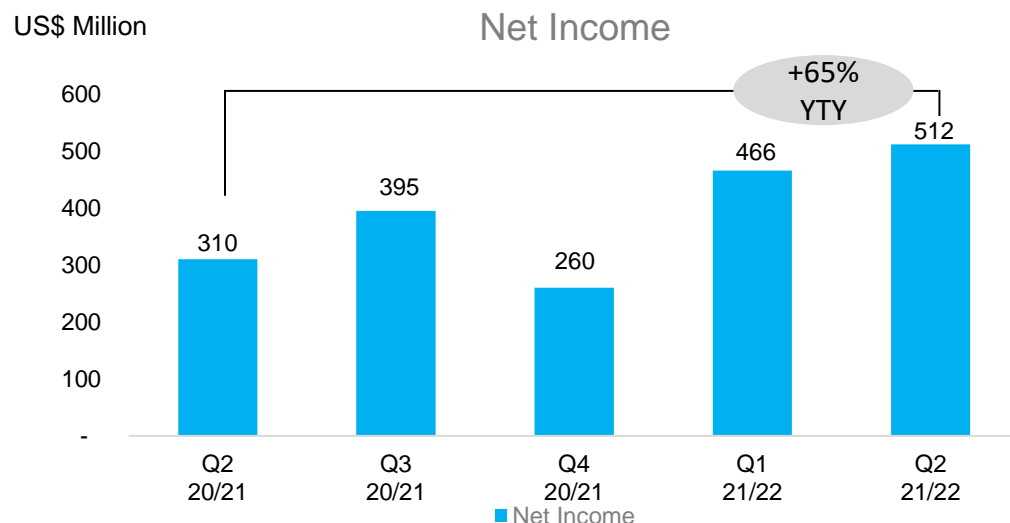


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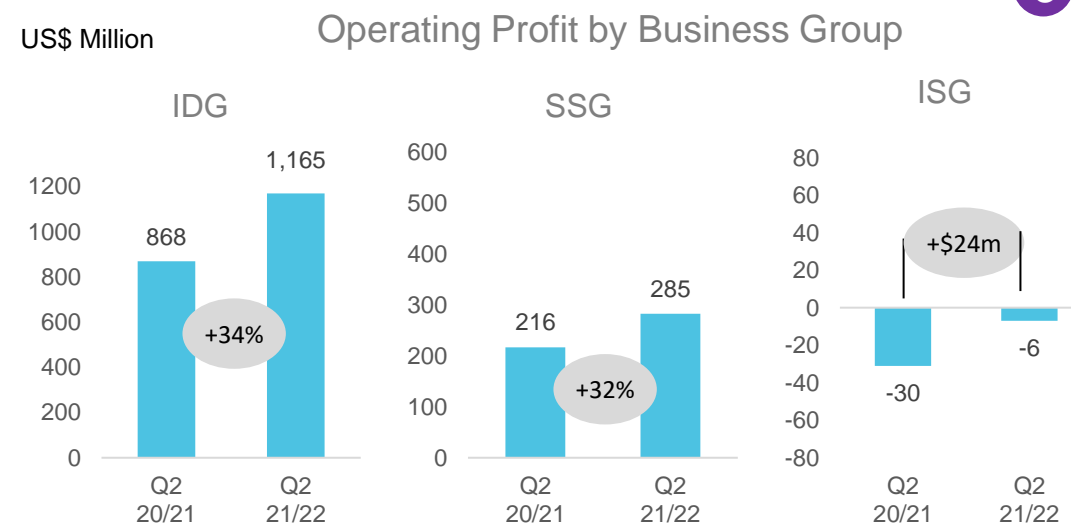
1 Group revenue up 23% YTY to a new record of \$17.9 billion

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



2

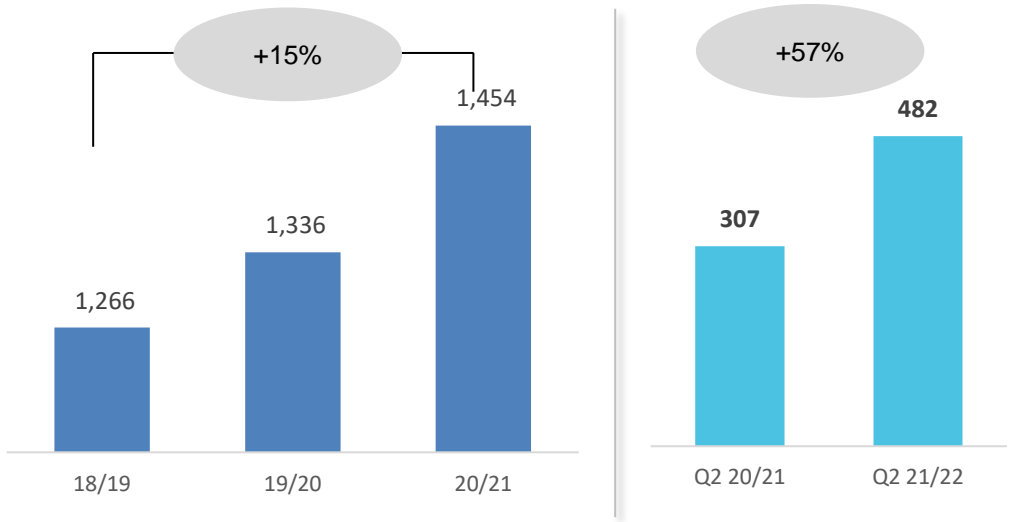


3

Double-down on R&D to drive sustainable growth

US\$ Million

R&D Spending

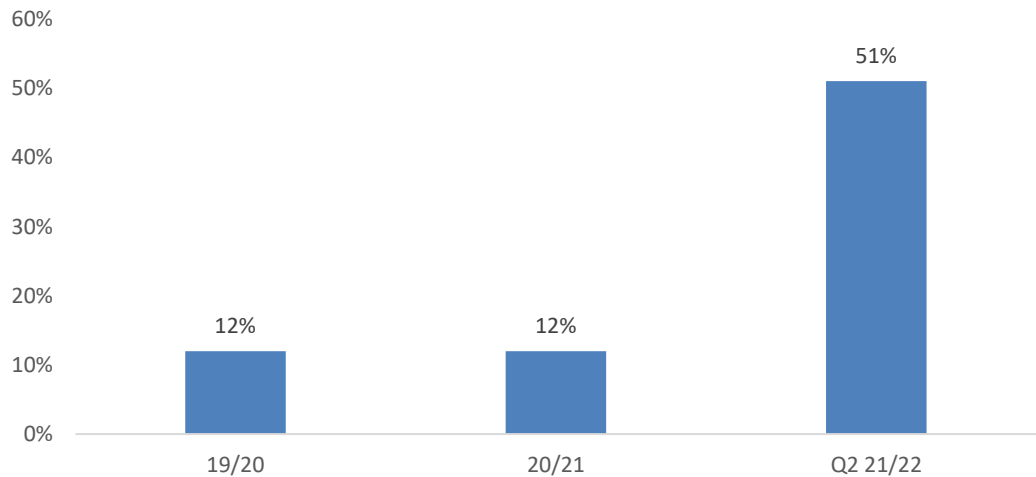


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2Q HIGHLIGHTS

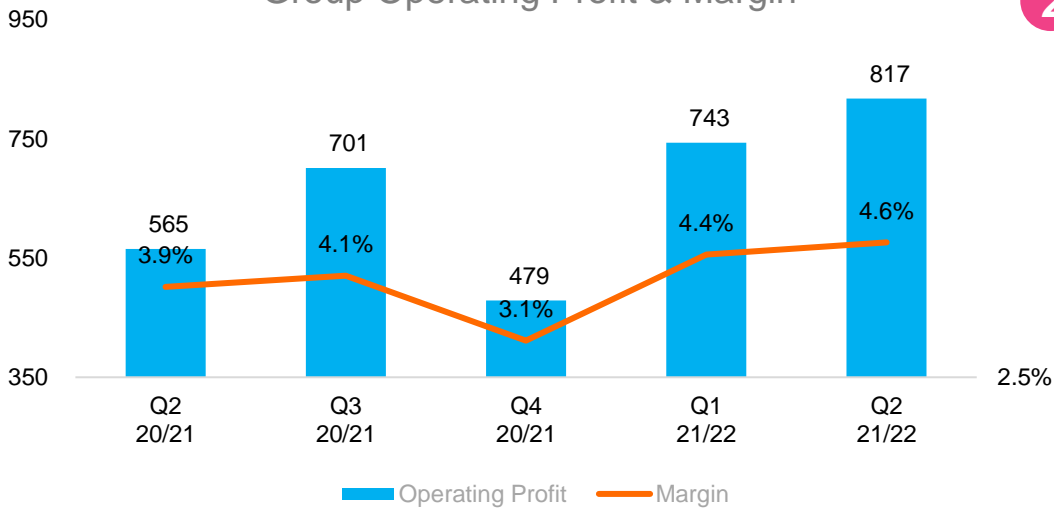
- 1 FY20/21 R&D spending reached \$1.5 billion; 2QFY22 R&D spending up by 57% YTY; R&D headcount grew by 51% YTY to support New IT investments
- 1 R&D projects include Premium, Gaming, and Workstation PCs, Edge servers, Storage, HPC*, and Lenovo Brain AI
- 2 Operating margin up 0.7pts YTY

R&D Headcounts YTY Increase (%)



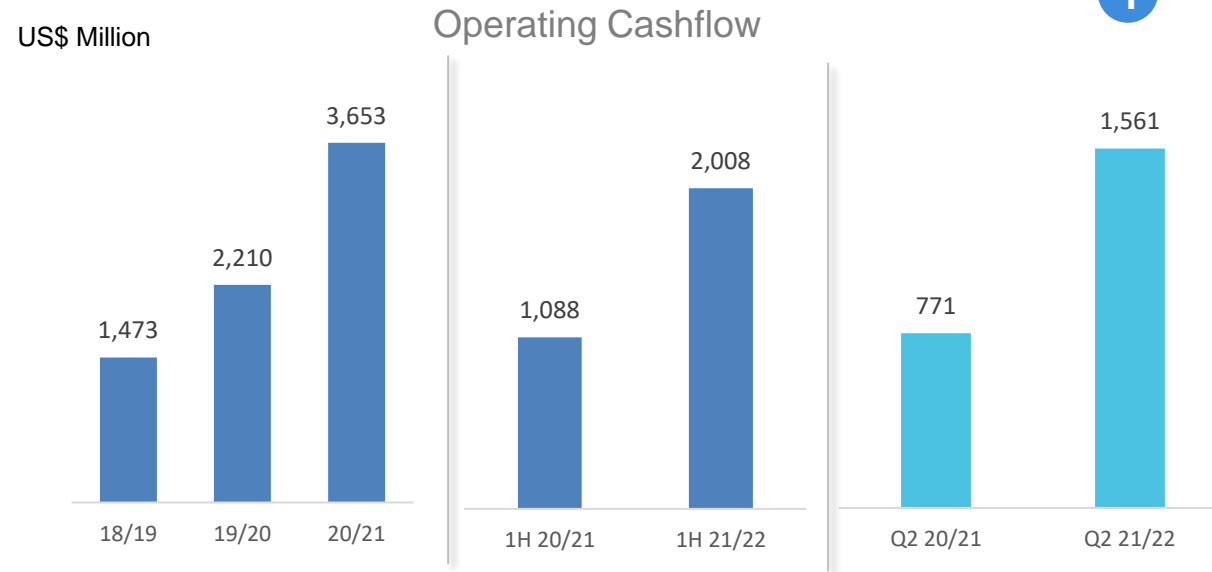
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Group Operating Profit & Margin



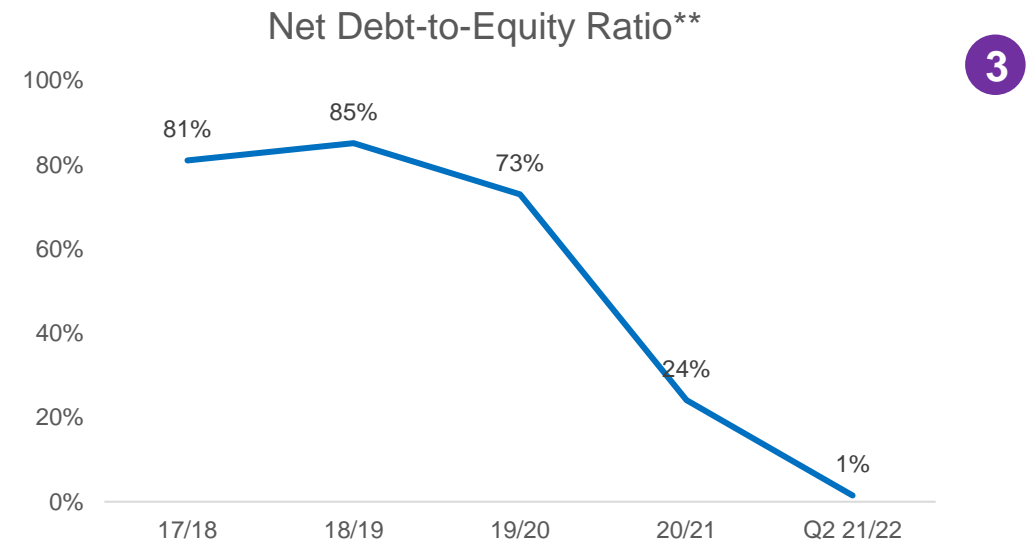
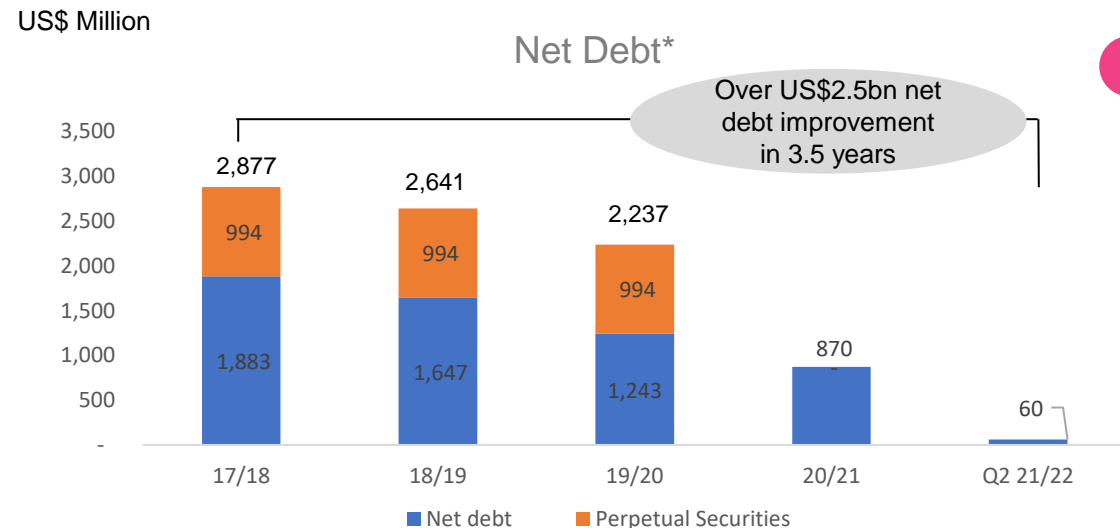
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Strong Cashflow and Balance Sheet

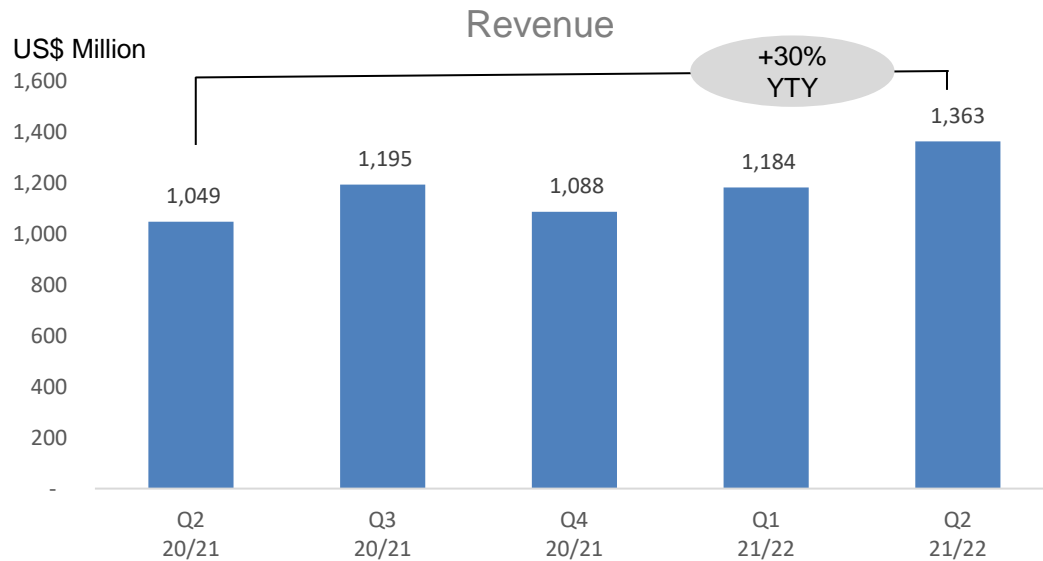


2Q HIGHLIGHTS

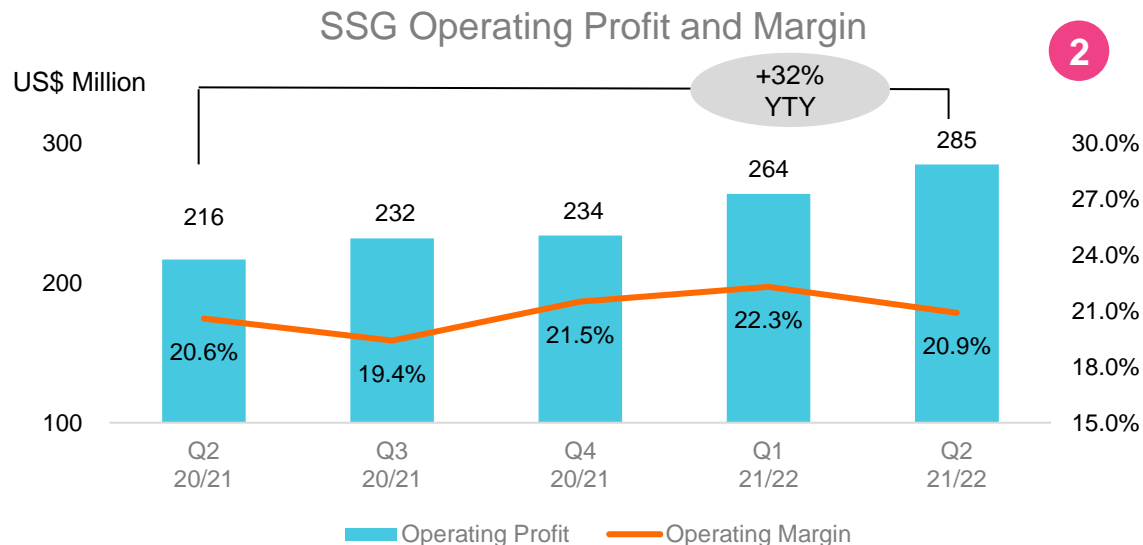
- 1 Strong cashflow generation to support investment for future; Operating cashflow increased by US\$790 million YTY to US\$1.6 billion on strong profitability**
- 2 Net debt reduced by US\$1bn+ YTY to US\$60 million; Net debt improvement* of over \$2.5 billion in 3.5 years**
- 3 Net debt-to-equity ratio** lowered from a peak of 85% in FY18/19 to nearly zero in the most recent quarter**



Solutions and Services Group (SSG)



1



2

2Q HIGHLIGHTS

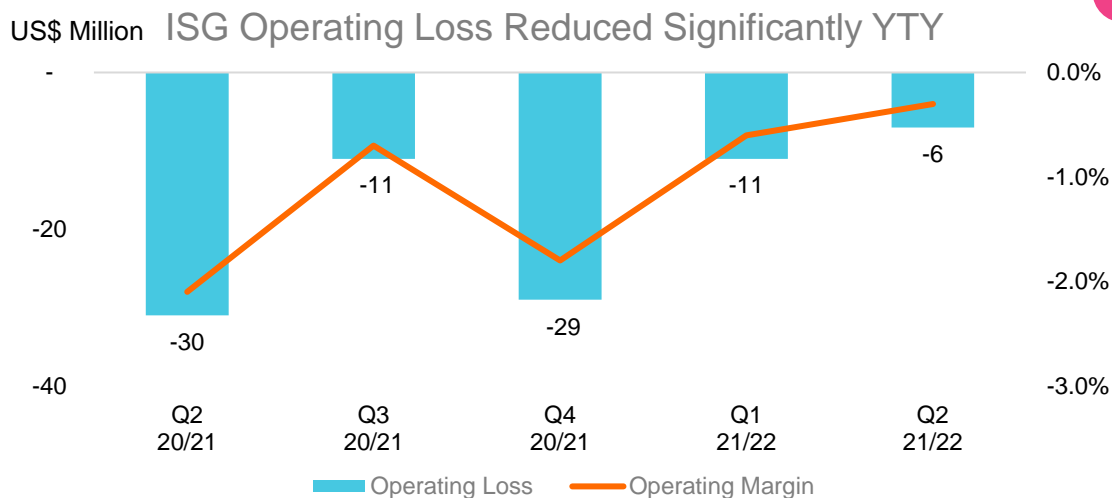
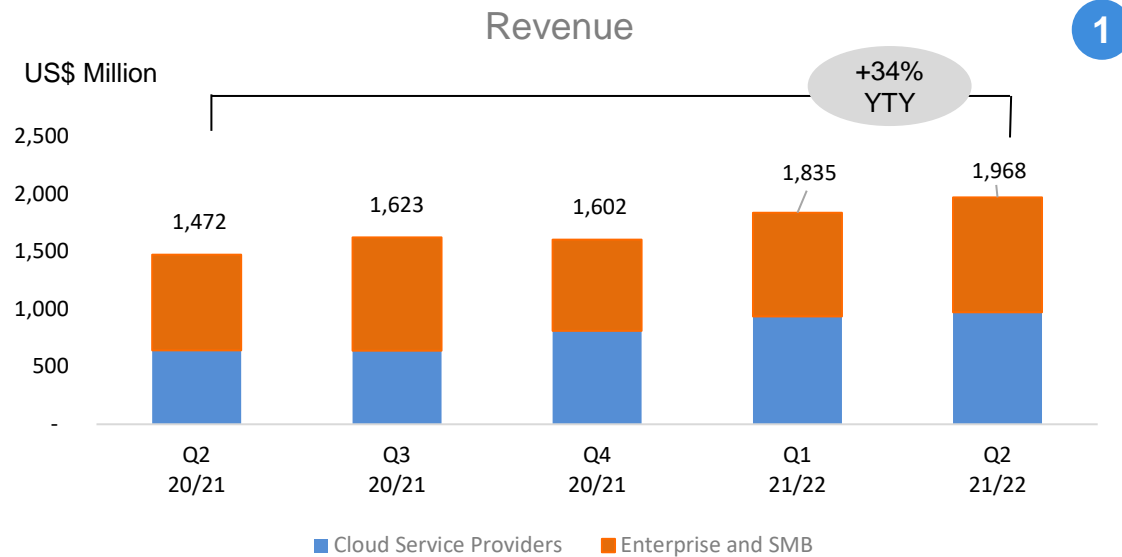
1 Robust growth across all segments

- **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

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

2 Operating profit up 32% YTY to US\$285 million with margin expanding by 0.3pts YTY to 20.9%

Infrastructure Solutions Group (ISG)



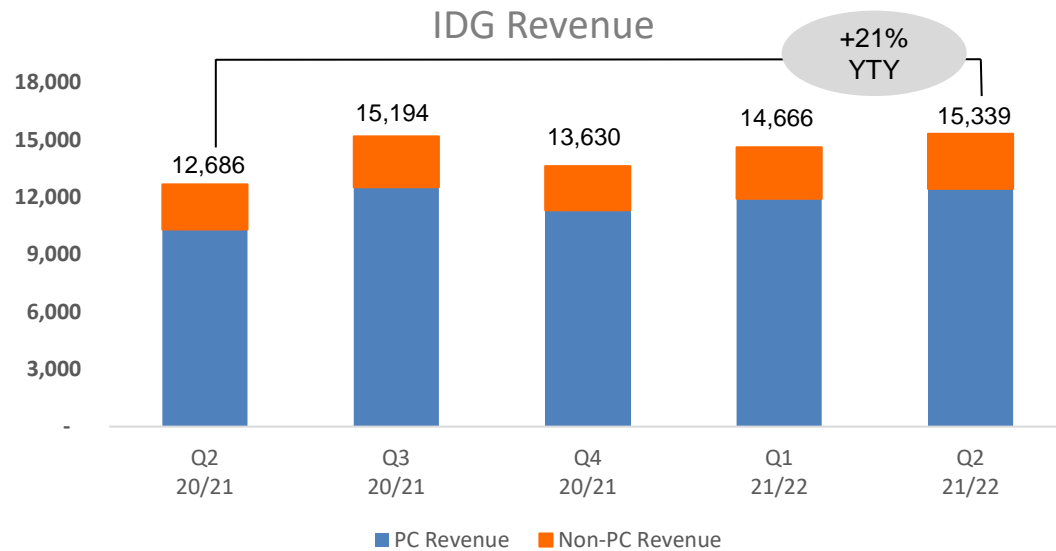
Q2 HIGHLIGHTS

- 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***

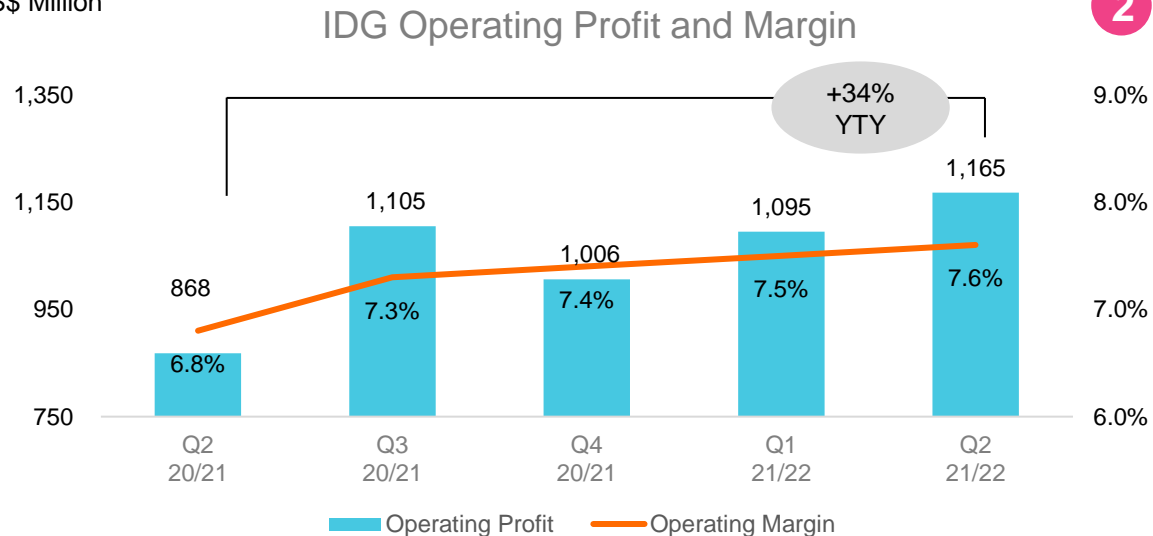
* CSP: Cloud Service Provider. ESMB: Enterprise & Small and Medium Business
 ** ODM+ model: provides a total solution to CSP customers encompassing a fully integrated operation including motherboard design, system, and full-rack assembly across server and storage products
 *** Price band 1-4

Intelligent Devices Group (IDG*)

US\$ Million



US\$ Million



Q2 HIGHLIGHTS

- 1 Revenue set a new 2QFY22 record with operating margin reaching all-time high of 7.6%
- 1 Strong demand trajectory for commercial and high value-added products** driving better ASP and higher profitability; Operating margin YTY improvement for 16th consecutive quarter***
- 1 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
- 2 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.

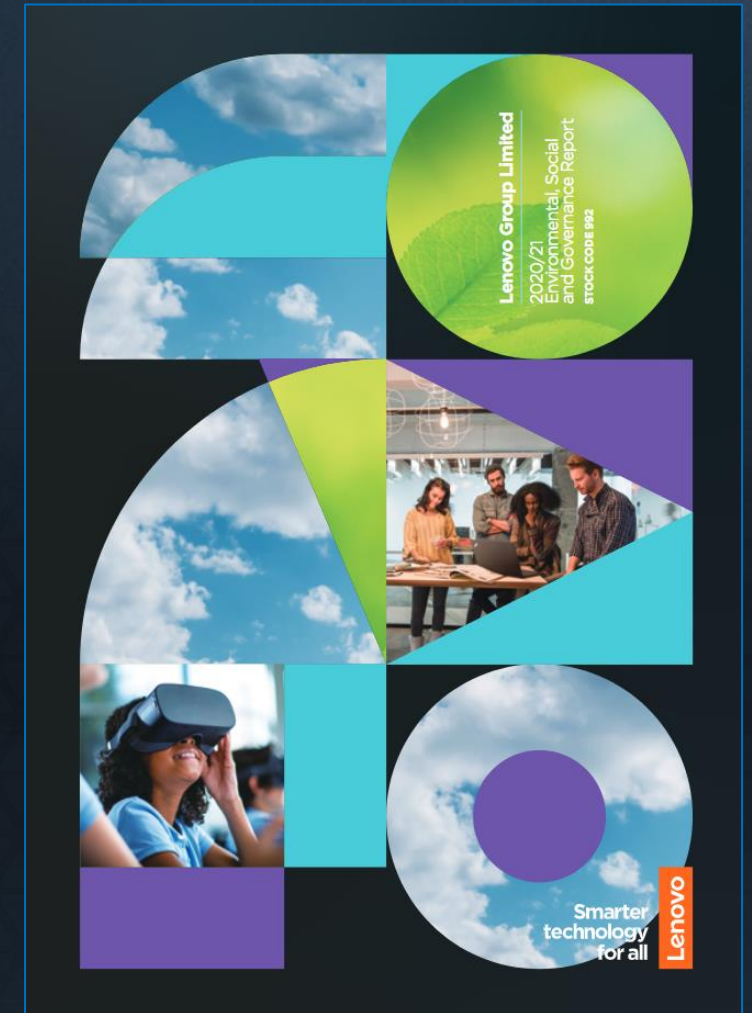
ESG - A More Sustainable Future for All

ESG: Commitment and innovation as a responsible industry leader

- ✓ Embracing clean energy and driving climate change mitigation
 - 90% of global operations electricity from renewable sources¹ 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 products²
- ✓ Innovation with ESG: SSG as-a-Service and sustainability services
- ✓ Increase executive representation of women within our organization around the world

¹May be accomplished through installation of onsite renewable energy generation, entry into power purchase agreements and/or purchase of renewable energy credits.

²Cumulative 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

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

	Q2 21/22	Q2 20/21
Gross margin	16.8%	15.5%
E/R ratio	12.3%	11.6%
Operating margin	4.6%	3.9%
PTI margin	4.2%	3.2%
Net margin	2.9%	2.1%

Condensed Consolidated Income Statement

US\$ Million	Q2 21/22	Q2 20/21
Revenue	17,869	14,519
Cost of sales	(14,863)	(12,266)
Gross profit	3,006	2,253
Selling and distribution expenses	(924)	(726)
Administrative expenses	(700)	(643)
Research and development expenses	(482)	(307)
Other operating expense – net	(83)	(12)
Operating profit	817	565
Finance income	13	9
Finance costs	(86)	(92)
Share of loss of associated companies and joint ventures	(2)	(12)
Profit before taxation	742	470
Taxation	(185)	(120)
Profit for the period	557	350
Profit attributable to equity holders of the Company	512	310
Perpetual securities holders	-	14
Other non-controlling interests	45	26
Per share data		
Earnings per share (US cents) – Basic	4.42	2.59
Earnings per share (US cents) – Diluted	3.96	2.48

Condensed Consolidated Balance Sheet

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

Condensed Consolidated Cash Flow Statement

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

Smarter
technology
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Lenovo

thanks.