3QFY22 Earnings Announcement

Feb 23, 2022
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Yuanqing Yang
Chairman & CEO
Feb 23, 2022
Sustainable Profitability Increases

OPPORTUNITIES

PERFORMANCE

SUSTAINABLE GROWTH
Investments in digital transformation will increase 16.5% annually over the next 3 years.

Significant Opportunities from Digital/Intelligent transformations:

- Investments in digital transformation will increase 16.5% annually over the next 3 years.
- New IT architecture of Client-Edge-Cloud-Network-Intelligence.
Group:
Record Results amid Digital & Intelligent transformations
• All-time record Net Income of $640 million, up 62% YTY
• Net Income margin, up 0.9 pts YTY, on track to double in 3 years
• All-time record Revenue of $20.1 billion, up 17% YTY
• All key businesses had double-digit growth
• All geographies had double-digit growth, except for Asia Pacific

PERFORMANCE

Group Net Income ($M)

Group Revenue ($M)

GEO Revenue Mix (%) & Revenue YTY Growth (%)

Source: Internal

1 EMEA: Europe-Middle East-Africa
Double investment in R&D along Client-Edge-Cloud-Network-Intelligence architecture

Enhance digital foundation to support business growth

Compete as One Lenovo with pocket-to-cloud offerings, global footprint and organizational efficiency

Deliver ESG commitments
SSG
Solutions & Services Group:
Higher margin, strong growth

OPPORTUNITIES

New IT Reshaping the Industry
• Digital and cloud services each expected to reach 20% of the trillion-dollar global IT services by 2025
• 47% of workforce working-from-home driving demand for customized services
• as-a-Service substantial room for growth

Lenovo’s strategic intent:
Drive high growth in 3 high margin service segments:
• Support services
• Managed services
• Project services & solutions

Source: IDC, Gartner, McKinsey
SSG Solutions & Services Group: Higher margin, strong growth

- Operating margin 22%, operating profit up 44% YTY
- Revenue up 25% YTY
- Support Services: revenue up 21% YTY
- Managed Services: revenue up 50% YTY, driven by TruScale
- Project Services & Solutions: revenue up 23% YTY

Source: Internal
Capture opportunities in remote work trend
Leverage the global service footprint to provide accessibility/flexibility to customers
Invest in TruScale as-a-Service and hybrid cloud solutions with own IP
Expand sustainability offerings
ICT Infrastructure upgrade continues, a $250 billion market through 2025

- Edge infrastructure exceed $41 billion with hypergrowth

**Lenovo’s strategic intent:**

- Build capabilities for sustainable 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

Source: IDC
ISG Infrastructure Solutions Group: Profitable with strong premium-to-market growth

**Milestone**: Turned profitable for the first time since IBM x86 acquisition

- Revenue grew at double-digit premium to the market for the 4th quarter
- CSP\(^1\): Revenue up 38% YTY
- Enterprise/SMB: Revenue up 7% YTY

\(^1\) Cloud Service Provider

1,622
1,929

Source: Internal
**Profitable with strong premium-to-market growth**

**SUSTAINABLE GROWTH**

- Leverage full customer segment coverage to balance scale & profitability
- Optimize security/reliability and agility/flexibility through hybrid infrastructure solutions
- Invest to expand in Edge
IDG
Intelligent Devices Group:
Strong Growth, Stronger Profitability

OPPORTUNITIES

• **PC:** Remain strong and stable, shifting to commercial/premium
• **Smartphone:** Leverage market reshuffling
• **Emerging Smart Devices:** Growth potential in IoT (Embedded Computing), AR/VR (Metaverse), Smart Home, Smart Collaboration, etc. driven by 5G penetration & “Edge-Cloud-Network-Intelligence” development

Lenovo’s strategic intent:
• Invest in innovation & premium segments
• Expand non-PC businesses

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

- Record Operating profit, up 21% YTY
- Record Revenue, up 16% YTY
- Non-PC mix at 18.7%, up 1 point YTY
IDG
Intelligent Devices Group:
Strong Growth, Stronger Profitability

• PC: Strong growth in Premium PC
• Mobile: Healthy profit for seven consecutive quarters, revenue up 46% YTY
• Smart Collaboration solutions revenue nearly doubled YTY
SUSTAINABLE GROWTH

- PC: Invest in innovation, premium segments and core components
- Mobile: Strengthen product portfolio and marketing, expand in Europe/Asia Pacific markets
- Capture the emerging opportunities in IoT (Embedded Computing), Metaverse (AR/VR), Smart Home, Smart Collaboration, etc.
Sustainable Profitability Increase & Growth

Expanding Market Coverage
Grasp the opportunities of New IT

Capabilities Developing
Efficiency, Innovation

Strategy Execution Paying Off
Drive the service-led intelligent transformation
Wong Wai Ming
Chief Financial Officer
Feb 23, 2022
On Pace to Double Net Margin

- Record performance with revenue exceeding $20 billion; robust strength across geographical markets
- On pace to double net margin, which rose 0.89 pts YTY near all-time high; Net income* surged by 62%
- Profit expanded across all business groups. ISG turned profitable for the first time**; strong double-digit sales and earnings growth by IDG and SSG

* Profit attributable to equity holders; ** Since the acquisition of System X business
Double-Down on R&D to Drive Sustainable Growth

- Boosted R&D spending by 38% YTY to facilitate “Client-Edge-Cloud-Network-Intelligence” architecture
- Global R&D resource by headcount rose 40% YTY to accelerate project development on Premium devices, Edge servers, service solutions & IPs*, and drive innovation with ESG features and designs
- Operating margin up 0.6 pts YTY
Cash and Working Capital

- Net cash generated from operating activities was US$606 million
- Higher working capital required to build strategic component inventory amid shortage; Higher accounts payables and receivables due to unusual skewness in quarterly sales and disruption in global logistics
- Net debt reduced by US$1bn year-to-date; 17% YTY saving in financing costs
- Financial leverage improved consistently, turning net cash

**Operating Cashflow**

<table>
<thead>
<tr>
<th>Year</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>YTD 20/21</th>
<th>YTD 21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash in Q3</td>
<td>1,473</td>
<td>2,210</td>
<td>3,653</td>
<td>3,051</td>
<td>2,615</td>
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</table>

**Inventory**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>3Q 20/21</th>
<th>3Q 21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>5,786</td>
<td>8,442</td>
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</table>

**Account Receivables**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>3Q 20/21</th>
<th>3Q 21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Receivables</td>
<td>9,279</td>
<td>12,349</td>
</tr>
</tbody>
</table>

**Account Payables**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>3Q 20/21</th>
<th>3Q 21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Payables</td>
<td>9,968</td>
<td>12,517</td>
</tr>
</tbody>
</table>

17% finance cost saving YTY

Net debt* reduced by US$3.2B over last 10 quarters

* Net debt reduction and repurchases of perpetual securities
SSG Solutions & Services Group

- Strong revenue growth of 25% YTY to $1.5bn; Booking and deferred revenue up 25-26% YTY
- Service opportunities driven by New IT trend, hybrid work model, commercial recovery, and ESG awareness; Robust growth across all segments
  - **Support Services**: Revenue +21% YTY with strong profitability; PC penetration rate rose further with service portfolio expansion
  - **Managed Services**: Revenue +50% YTY; Enlarge scale and profitability; TruScale received strong customer traction and launched 4 new offerings
  - **Project Services & Solutions**: Revenue +23% YTY; Expand footprint in EMEA and Smart Retail deals
- New engines to drive Group profitability; Operating profit up 44% YTY with margin expanding by 2.9pts YTY to 22.2%
Achieved profitability for first time since acquisition; Operating profit up $28 million YTY; Revenue grew 19% YTY

Demand empowered by a strong infrastructure upgrade cycle from cloud and enterprise customers, coupled with accelerated growth in Edge, hybrid cloud and AI deployment

Growth at significant premium to market on enhanced full-stack capabilities covering both CSP and ESMB* segments

CSP revenue up 38% YTY thanks to design wins in next Gen products and new Next Wave customer acquisitions

ESMB revenue hit its highest level in last 5 years, supported by enhanced portfolio

* CSP: Cloud Service Provider. ESMB: Enterprise & Small and Medium Business

Revenue

ISG Operation turned profitable

Operating Profit

Operating Margin
**PERFORMANCE**

- All-time high revenue and operating profit; Record operating margin
- Sector leadership benefitting from commercial recovery and demand strength in premium products**
- Commercial PC*** revenue up 25% YTY; premium segment sales grew 25-50% YTY
- Non-PC revenue up 22% YTY, contributing 19% of IDG revenue; Strong product portfolio and broader carrier ranging led to market share gains and hypergrowth in smartphone
- Accelerating device innovations to enable improved hybrid working, gaming & entertainment; ESG features and adoption of green materials provided opportunities for growth and profitability

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* IDG mainly consists of PC, tablet, smartphone, and smart devices business;
** Premium segments including gaming, ThinkPad X1, ThinkBook, and Workstation etc
***Excluding sales of Chromebook
ESG - A Smarter Future for All

- Recognized at Leadership Level by CDP for climate change and water security
- Exploring path to Net-Zero emissions by 2050
  - Completed road-test of SBTi’s Net-Zero methodology; conducting internal sizing
  - Founding member of China Net-Zero Network
- Sustainable Aviation Fuel used on select cargo flights from Shanghai to Frankfurt
- Lenovo is an SBTN Corporate Engagement Program participant, pledging alignment with SBTN’s goals and vision and contributing advice and end-user insights to the development of SBTN methods and tools

- Recent ESG recognitions:
  - Awarded Gold in HKICPA’s Best Corporate Governance & ESG Awards
  - Included in Corporate Knight’s Global 100 list
  - Selected for 2022 Bloomberg Gender Equality Index
- Launched Lenovo 360 ESG Circle Program: ESG partnership for Channel
- Initiated additional supplier due diligence using EcoVadis sustainability rating tool

Recent Recognitions

- Awarded Gold in HKICPA’s Best Corporate Governance & ESG Awards
- Included in Corporate Knight’s Global 100 list
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- Initiated additional supplier due diligence using EcoVadis sustainability rating tool
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 comprehensive as-a-Service portfolio to capture strong market demand
- Rising ESG priorities in C-Suite agenda opens up new service opportunities

ISG: Build 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 capture profitable opportunities and drive profit improvement

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

- Sustainable profitability increase via investing in innovation, premium segments, and adjacent areas; Leverage market leadership to consistently deliver operational excellence and supply chain management
- PC: Strong momentum in commercial and premium segments; Continue to drive sector leadership and profitability
- Non-PC: Riding on IoT’s strong potentials to expand; Enhance a differentiated smartphone portfolio to accelerate growth

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Supplemental Financial Materials

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

<table>
<thead>
<tr>
<th>US$ Million</th>
<th>Q3 21/22</th>
<th>Q3 20/21</th>
<th>Y/Y%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>20,127</td>
<td>17,245</td>
<td>16.7%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>3,355</td>
<td>2,786</td>
<td>20.4%</td>
</tr>
<tr>
<td>Operating expense</td>
<td>(2,423)</td>
<td>(2,085)</td>
<td>16.2%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>932</td>
<td>701</td>
<td>33.0%</td>
</tr>
<tr>
<td>Other non-operating expenses</td>
<td>(77)</td>
<td>(110)</td>
<td>(29.4%)</td>
</tr>
<tr>
<td>Pre-tax income</td>
<td>855</td>
<td>591</td>
<td>44.6%</td>
</tr>
<tr>
<td>Taxation</td>
<td>(173)</td>
<td>(160)</td>
<td>8.4%</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>682</td>
<td>431</td>
<td>58.0%</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(42)</td>
<td>(36)</td>
<td>16.0%</td>
</tr>
<tr>
<td>Profit attributable to equity holders</td>
<td>640</td>
<td>395</td>
<td>61.9%</td>
</tr>
<tr>
<td>EPS (US cents)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Basic</td>
<td>5.50</td>
<td>3.31</td>
<td>66.2%</td>
</tr>
<tr>
<td>- Diluted</td>
<td>4.92</td>
<td>3.08</td>
<td>59.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Q3 21/22</th>
<th>Q3 20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>16.7%</td>
<td>16.2%</td>
</tr>
<tr>
<td>E/R ratio</td>
<td>12.0%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>4.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>PTI margin</td>
<td>4.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Net margin</td>
<td>3.2%</td>
<td>2.3%</td>
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</table>
## Condensed Consolidated Income Statement

<table>
<thead>
<tr>
<th></th>
<th>Q3 21/22</th>
<th>Q3 20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>20,127</td>
<td>17,245</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(16,772)</td>
<td>(14,459)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>3,355</td>
<td>2,786</td>
</tr>
<tr>
<td><strong>Selling and distribution expenses</strong></td>
<td>(1,012)</td>
<td>(863)</td>
</tr>
<tr>
<td><strong>Administrative expenses</strong></td>
<td>(730)</td>
<td>(859)</td>
</tr>
<tr>
<td><strong>Research and development expenses</strong></td>
<td>(549)</td>
<td>(398)</td>
</tr>
<tr>
<td><strong>Other operating expense – net</strong></td>
<td>(132)</td>
<td>35</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>932</td>
<td>701</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>(91)</td>
<td>(110)</td>
</tr>
<tr>
<td><strong>Share of loss of associated companies and joint ventures</strong></td>
<td>(1)</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>855</td>
<td>591</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>(173)</td>
<td>(160)</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td>682</td>
<td>431</td>
</tr>
<tr>
<td><strong>Profit attributable to equity holders of the Company</strong></td>
<td>640</td>
<td>395</td>
</tr>
<tr>
<td><strong>Perpetual securities holders</strong></td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td><strong>Other non-controlling interests</strong></td>
<td>42</td>
<td>30</td>
</tr>
<tr>
<td><strong>Earnings per share (US cents) – Basic</strong></td>
<td>5.50</td>
<td>3.31</td>
</tr>
<tr>
<td><strong>Earnings per share (US cents) – Diluted</strong></td>
<td>4.92</td>
<td>3.08</td>
</tr>
<tr>
<td><strong>US$ Million</strong></td>
<td>As at Dec 31, 2021</td>
<td>As at Sep 30, 2021</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>--------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>15,164</td>
<td>15,003</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,583</td>
<td>1,556</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>8,138</td>
<td>8,239</td>
</tr>
<tr>
<td>Others</td>
<td>5,443</td>
<td>5,208</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>30,483</td>
<td>27,572</td>
</tr>
<tr>
<td>Bank deposits and cash</td>
<td>3,829</td>
<td>3,731</td>
</tr>
<tr>
<td>Trade, notes and other receivables</td>
<td>17,847</td>
<td>14,569</td>
</tr>
<tr>
<td>Inventories</td>
<td>8,442</td>
<td>8,728</td>
</tr>
<tr>
<td>Others</td>
<td>365</td>
<td>544</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>33,701</td>
<td>31,345</td>
</tr>
<tr>
<td>Borrowings</td>
<td>434</td>
<td>482</td>
</tr>
<tr>
<td>Trade, notes, other payables, accruals and provisions</td>
<td>31,301</td>
<td>28,853</td>
</tr>
<tr>
<td>Others</td>
<td>1,996</td>
<td>2,010</td>
</tr>
<tr>
<td><strong>Net current (liabilities)</strong></td>
<td>(3,218)</td>
<td>(3,773)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>7,154</td>
<td>7,091</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>4,792</td>
<td>4,139</td>
</tr>
</tbody>
</table>
# Condensed Consolidated Cash Flow Statement

<table>
<thead>
<tr>
<th></th>
<th>Q3 21/22</th>
<th>Q3 20/21</th>
<th>Q2 21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash generated from operating activities</td>
<td>606</td>
<td>1,963</td>
<td>1,561</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(389)</td>
<td>(197)</td>
<td>(343)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(110)</td>
<td>(1,525)</td>
<td>(717)</td>
</tr>
<tr>
<td>Increase in cash and cash equivalents</td>
<td>107</td>
<td>241</td>
<td>501</td>
</tr>
<tr>
<td>Effect of foreign exchange rate changes</td>
<td>2</td>
<td>100</td>
<td>(30)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>3,647</td>
<td>3,699</td>
<td>3,176</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the period</td>
<td>3,756</td>
<td>4,040</td>
<td>3,647</td>
</tr>
</tbody>
</table>
thanks.