

Smarter technology for all

# 3QFY22 Earnings Announcement

Feb 23, 2022



# 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.

Smarter technology for all

# Yuanqing Yang

Chairman & CEO

Feb 23, 2022



**Sustainable  
Profitability Increases**

**O**PPORTUNITIES

**P**ERFORMANCE

**S**USTAINABLE GROWTH

# Group: Record Results amid Digital & Intelligent transformations

Client



Edge-Cloud-  
Network



Intelligence



Smart  
Devices/IoT

Smart  
Infrastructure

Smart Vertical

## OPPORTUNITIES



### Significant Opportunities from Digital/Intelligent transformations:

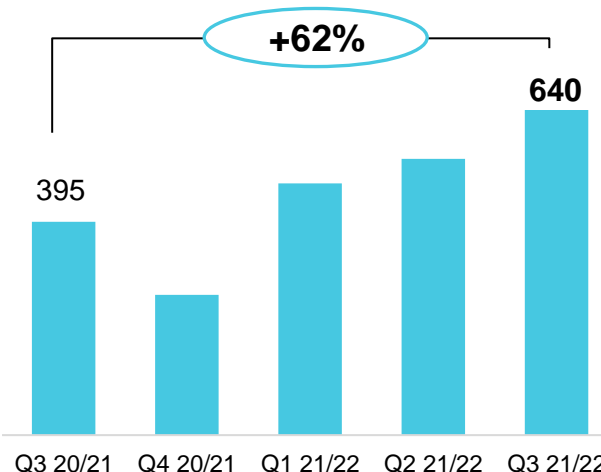
- Investments in digital transformation will increase 16.5% annually over next 3 years
- New IT architecture of Client-Edge-Cloud-Network-Intelligence

# Group: Record Results amid Digital & Intelligent transformations

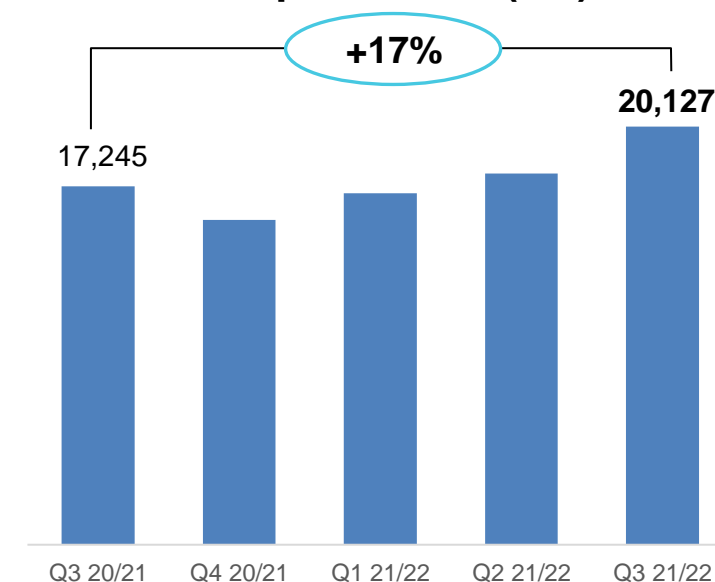
- All-time record Net Income of \$640 million, up 62% YTY
- Net Income margin, up 0.9 pts YTY, on track to double in 3 years
- All-time record Revenue of \$20.1 billion, up 17% YTY
- All key businesses had double-digit growth
- All geographies had double-digit growth, except for Asia Pacific

## PERFORMANCE

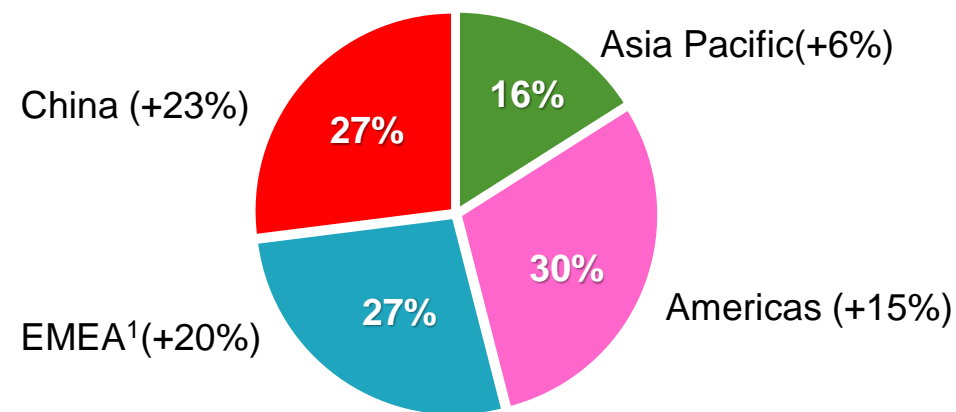
Group Net Income (\$M)



Group Revenue (\$M)



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





# **Group:** **Record Results amid Digital & Intelligent transformations**

## **SUSTAINABLE GROWTH**

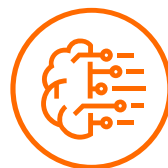
- Double investment in R&D along Client-Edge-Cloud-Network-Intelligence architecture
- Enhance digital foundation to support business growth
- Compete as One Lenovo with pocket-to-cloud offerings, global footprint and organizational efficiency
- Deliver ESG commitments

# 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



# SSG

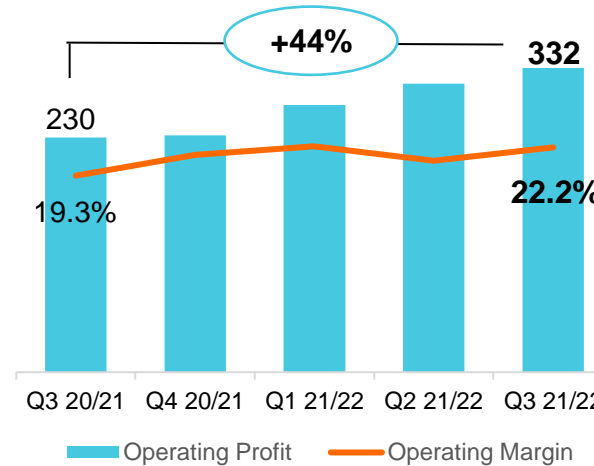
Solutions & Services Group:

## Higher margin, strong growth

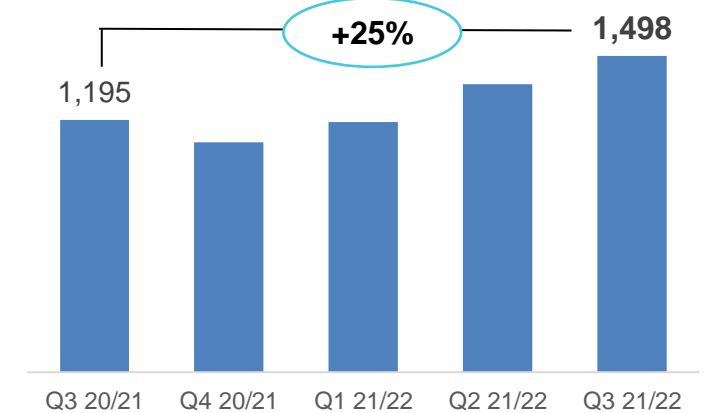
- Operating margin 22%, operating profit up 44% YTY
- Revenue up 25% YTY
- Support Services: revenue up 21% YTY
- Managed Services: revenue up 50% YTY, driven by TruScale
- Project Services & Solutions: revenue up 23% YTY

## PERFORMANCE

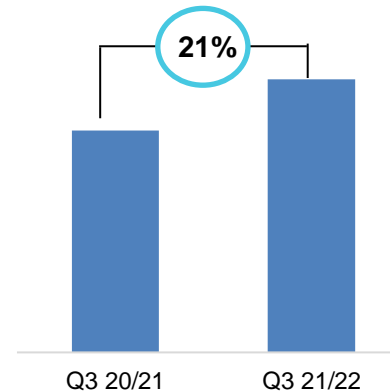
SSG Operating Profit (\$M) & Margin (%)



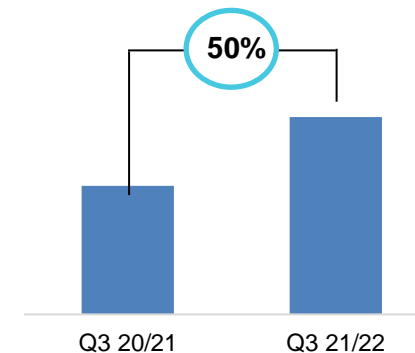
SSG Revenue (\$M)



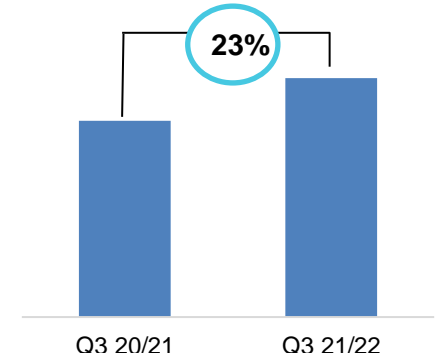
Support Services  
Revenue YTY Growth



Managed Services  
Revenue YTY Growth



Project Services &  
Solutions Revenue YTY  
Growth



# SSG

Solutions & Services Group:

**Higher margin,  
strong growth**

## SUSTAINABLE GROWTH

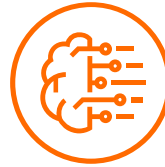
- Capture opportunities in remote work trend
- Leverage the global service footprint to provide accessibility/flexibility to customers
- Invest in TruScale as-a-Service and hybrid cloud solutions with own IP
- Expand sustainability offerings

# ISG

Infrastructure Solutions Group:

## Profitable with strong premium-to-market growth

## OPPORTUNITIES



**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

# ISG

Infrastructure Solutions Group:

## Profitable with strong premium-to-market growth

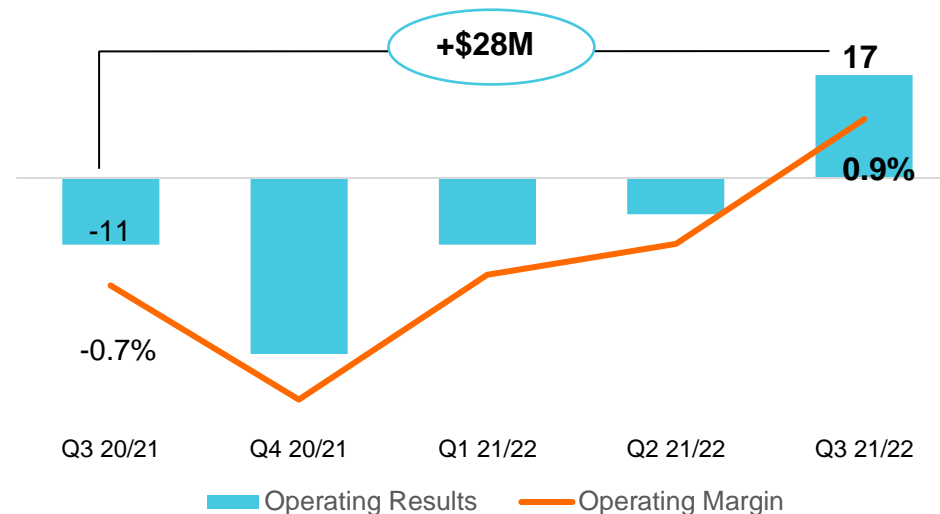
- **Milestone**: Turned profitable for the first time since IBM x86 acquisition
- Revenue grew at double-digit premium to the market for the 4th quarter
- CSP<sup>1</sup>: Revenue up 38% YTY
- Enterprise/SMB: Revenue up 7% YTY

<sup>1</sup> Cloud Service Provider

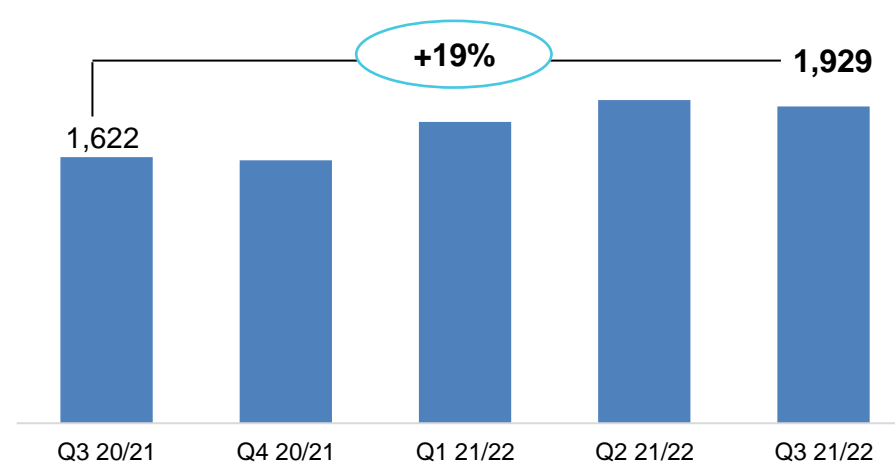


## PERFORMANCE

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



ISG Revenue (\$M)



# ISG

Infrastructure Solutions Group:

**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

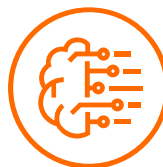


# IDG

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:



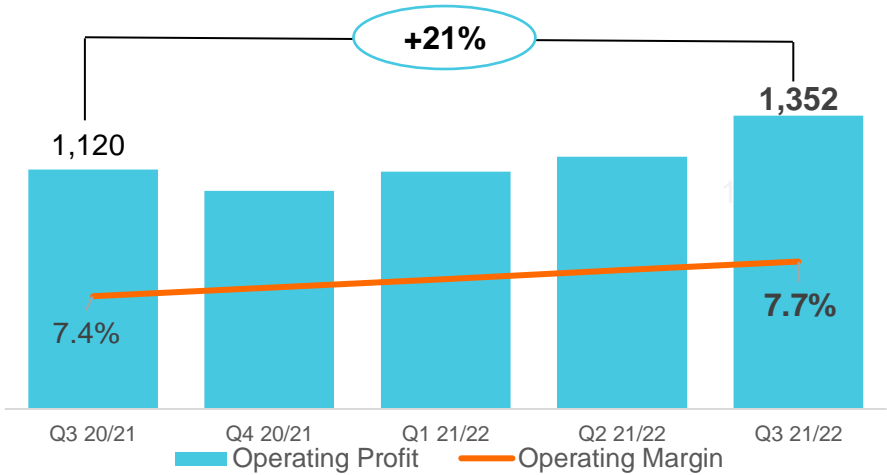
- Invest in innovation & premium segments
- Expand non-PC businesses

# Strong Growth, Stronger Profitability

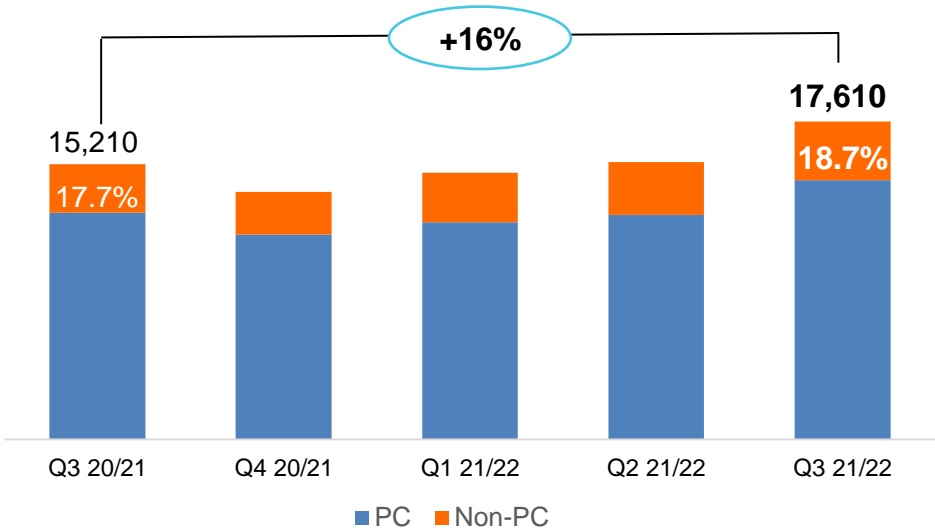
- Record Operating profit, up 21% YTY
- Record Revenue, up 16% YTY
- Non-PC mix at 18.7%, up 1 point YTY

## PERFORMANCE

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



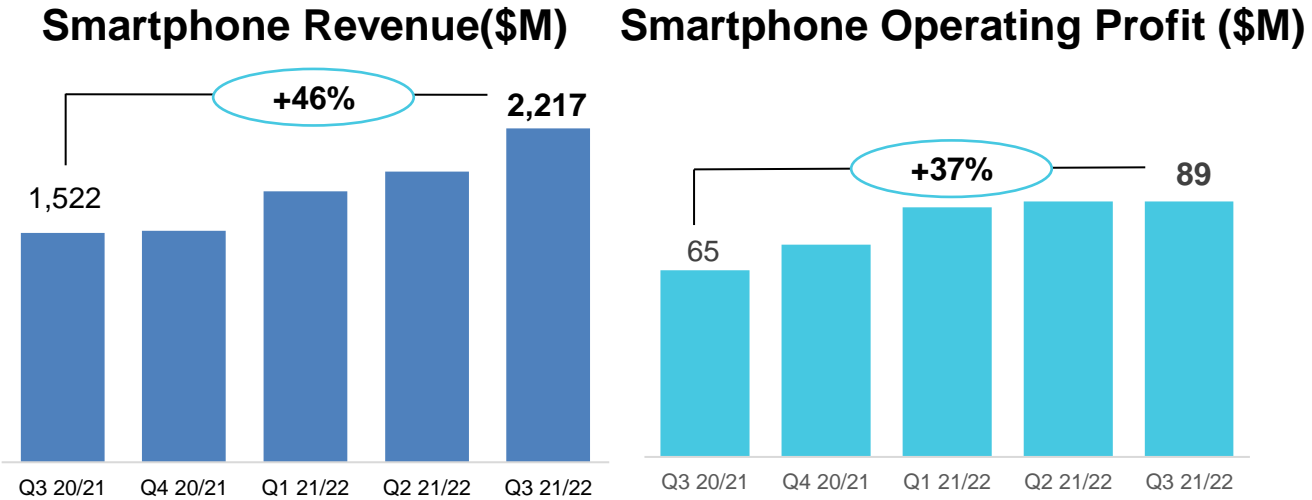
IDG Revenue (\$M)



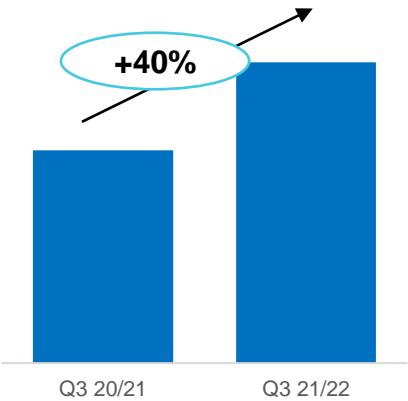
# Strong Growth, Stronger Profitability

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

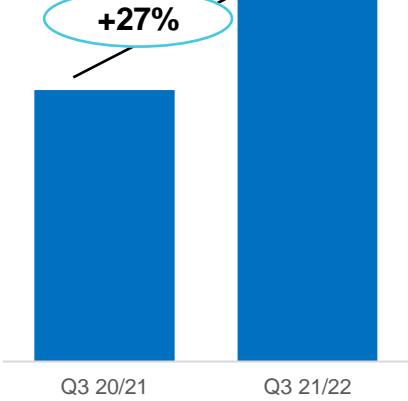
## PERFORMANCE



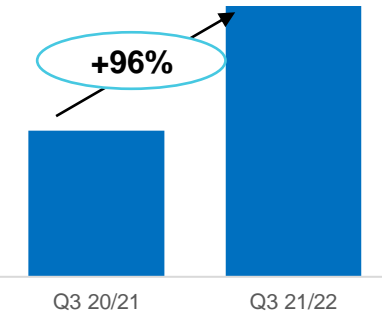
**Workstation Revenue YTY Growth (%)**



**Gaming PC Revenue YTY Growth (%)**



**Smart Collaboration solutions Revenue YTY Growth (%)**



# IDG

Intelligent Devices Group:

## **Strong Growth, Stronger Profitability**

### 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



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# Wong Wai Ming

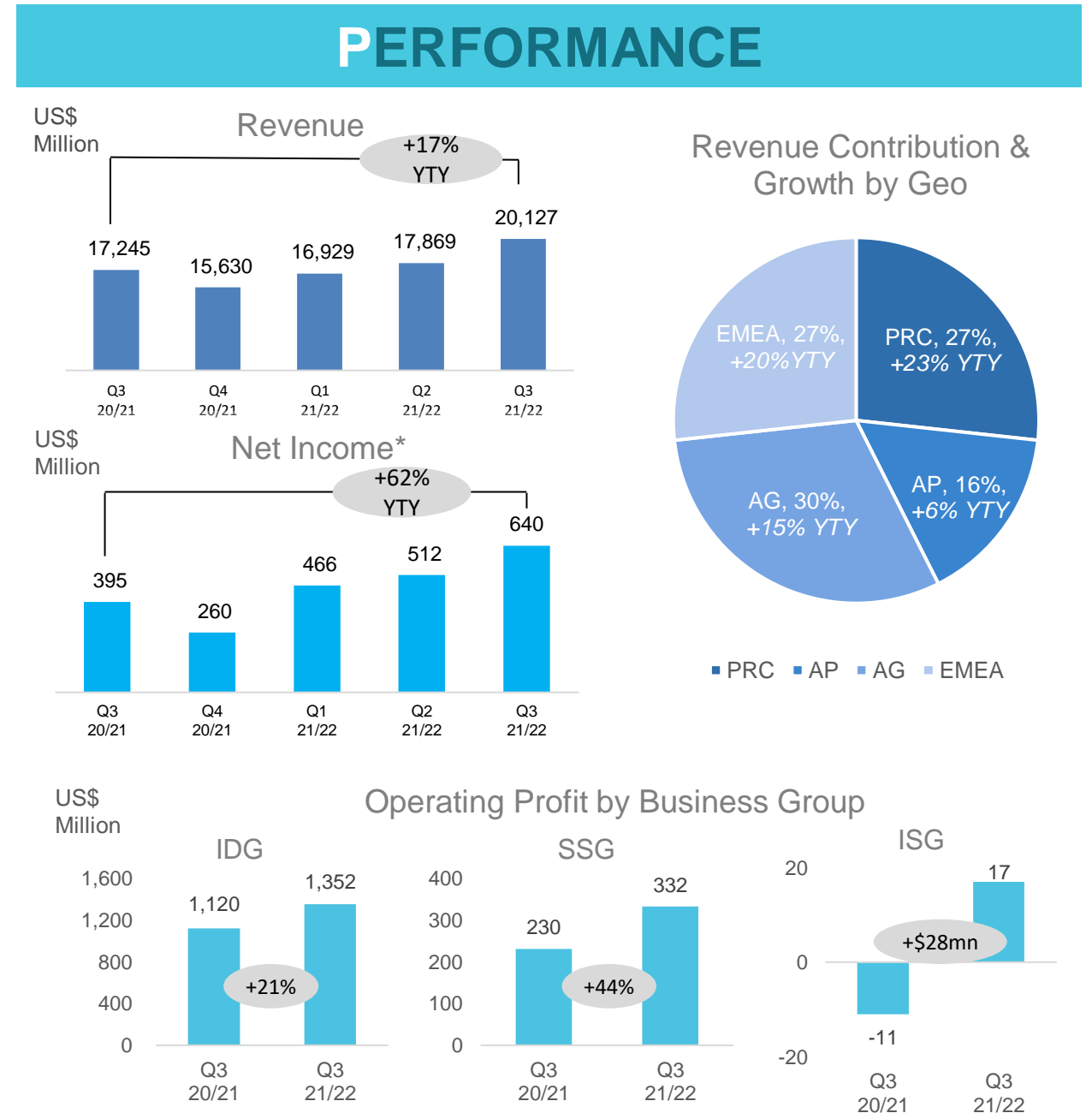
Chief Financial Officer

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

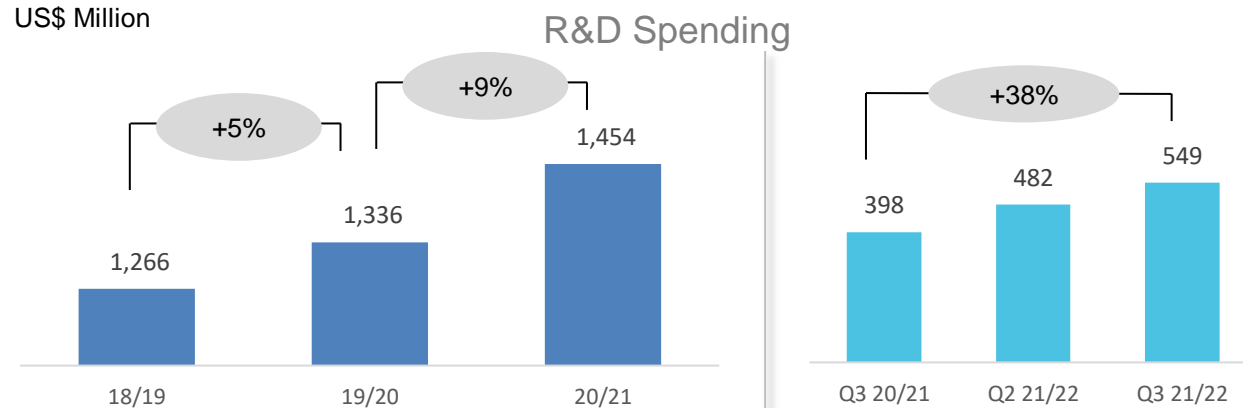


# Double-Down on R&D to Drive Sustainable Growth

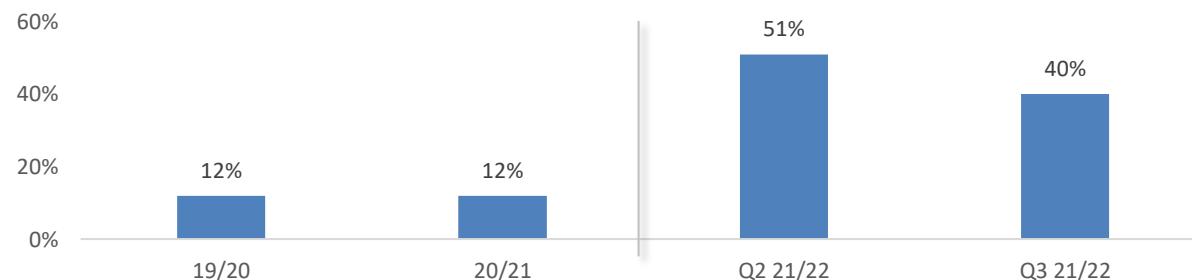
- Boosted R&D spending by 38% YTY to facilitate “Client-Edge-Cloud-Network-Intelligence” architecture
- Global R&D resource by headcount rose 40% YTY to accelerate project development on Premium devices, Edge servers, service solutions & IPs\*, and drive innovation with ESG features and designs
- Operating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

## PERFORMANCE

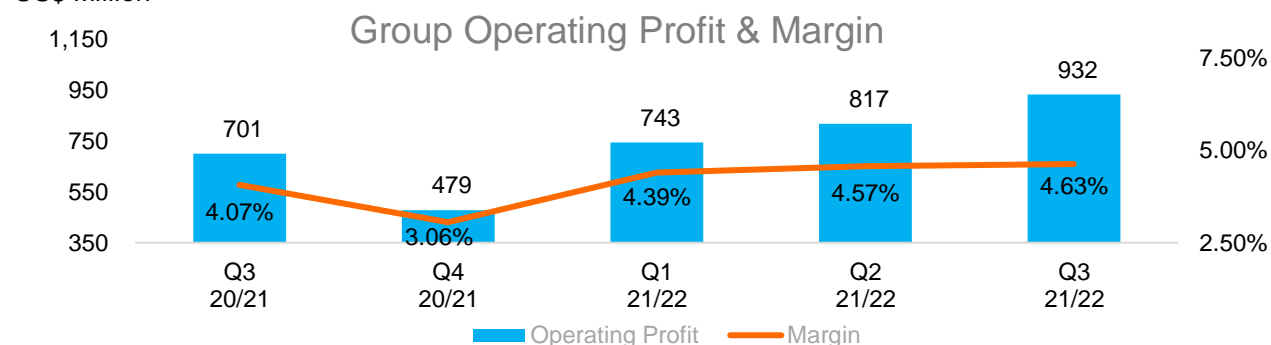
US\$ Million



R&D Headcounts YTY Increase (%)



US\$ Million



\* IP: Intellectual Property



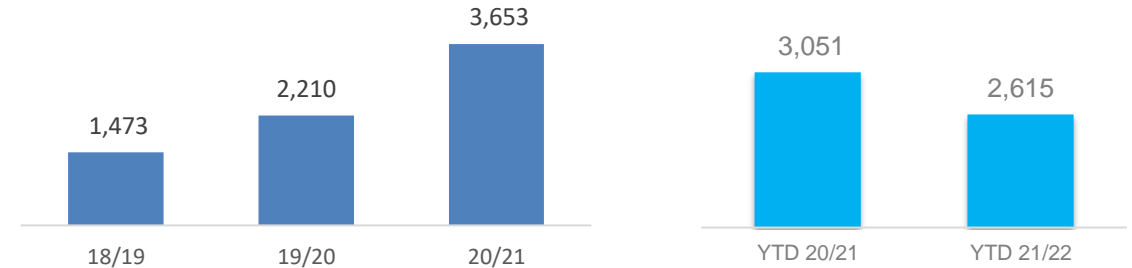
# Cash and Working Capital

- 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

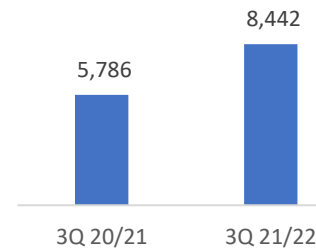
## PERFORMANCE

US\$ Million

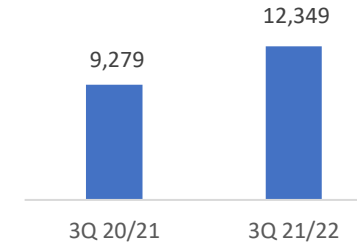
Operating Cashflow



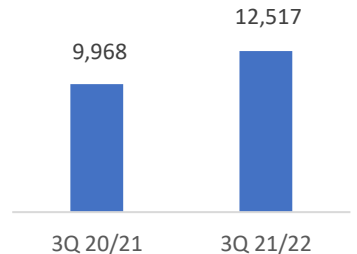
Inventory



Account Receivables



Account Payables



**Net cash in Q3**



**17% finance cost saving YTY**



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

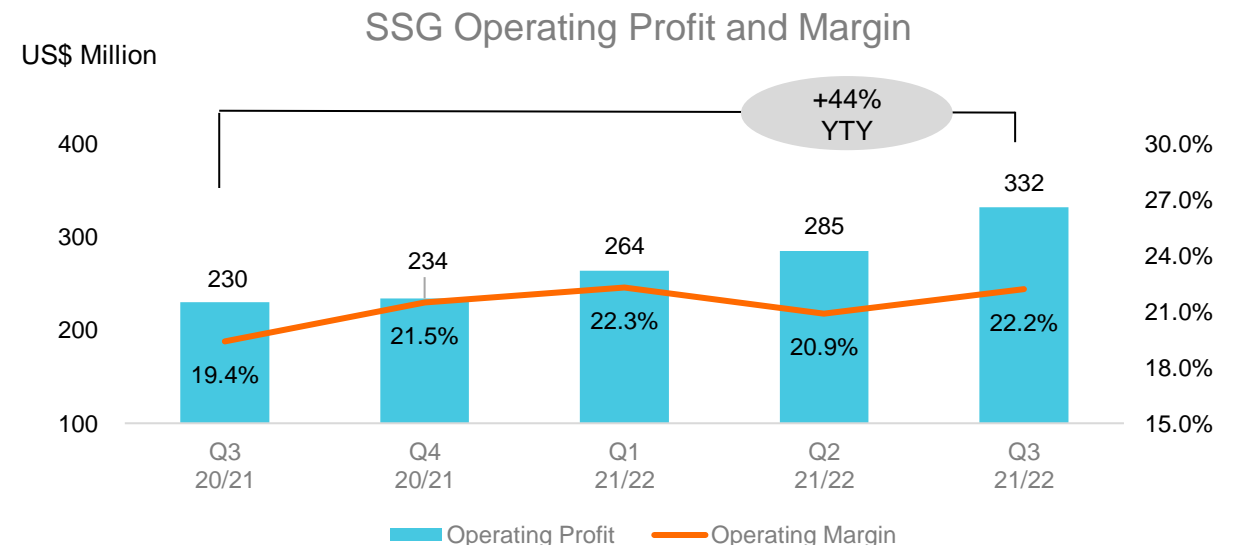
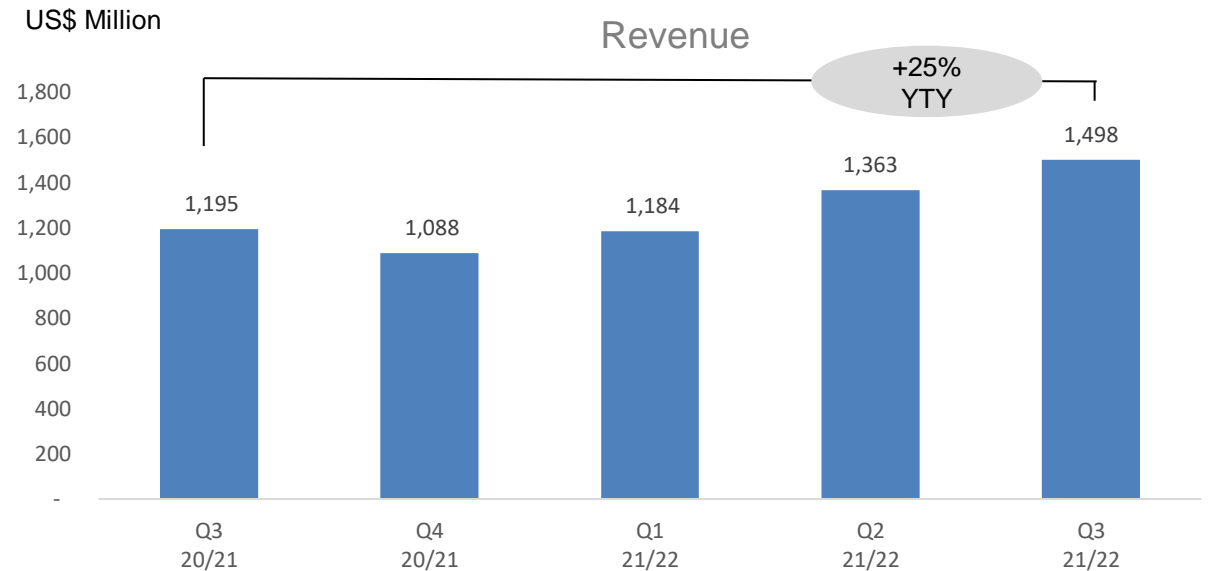
\* Net debt reduction and repurchases of perpetual securities

# 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%

## PERFORMANCE



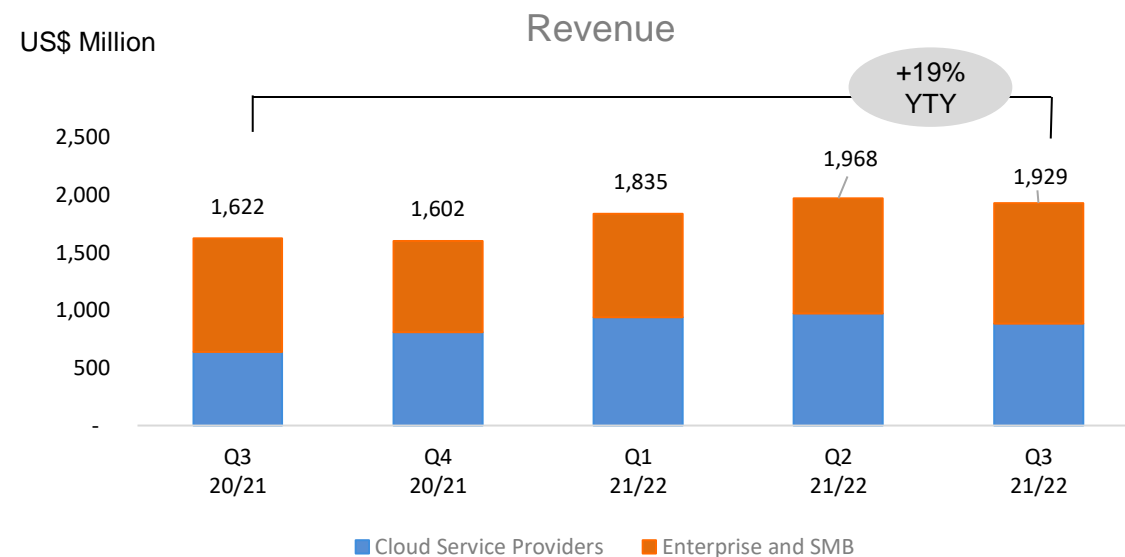


# ISG

## Infrastructure Solutions Group

- 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

## PERFORMANCE

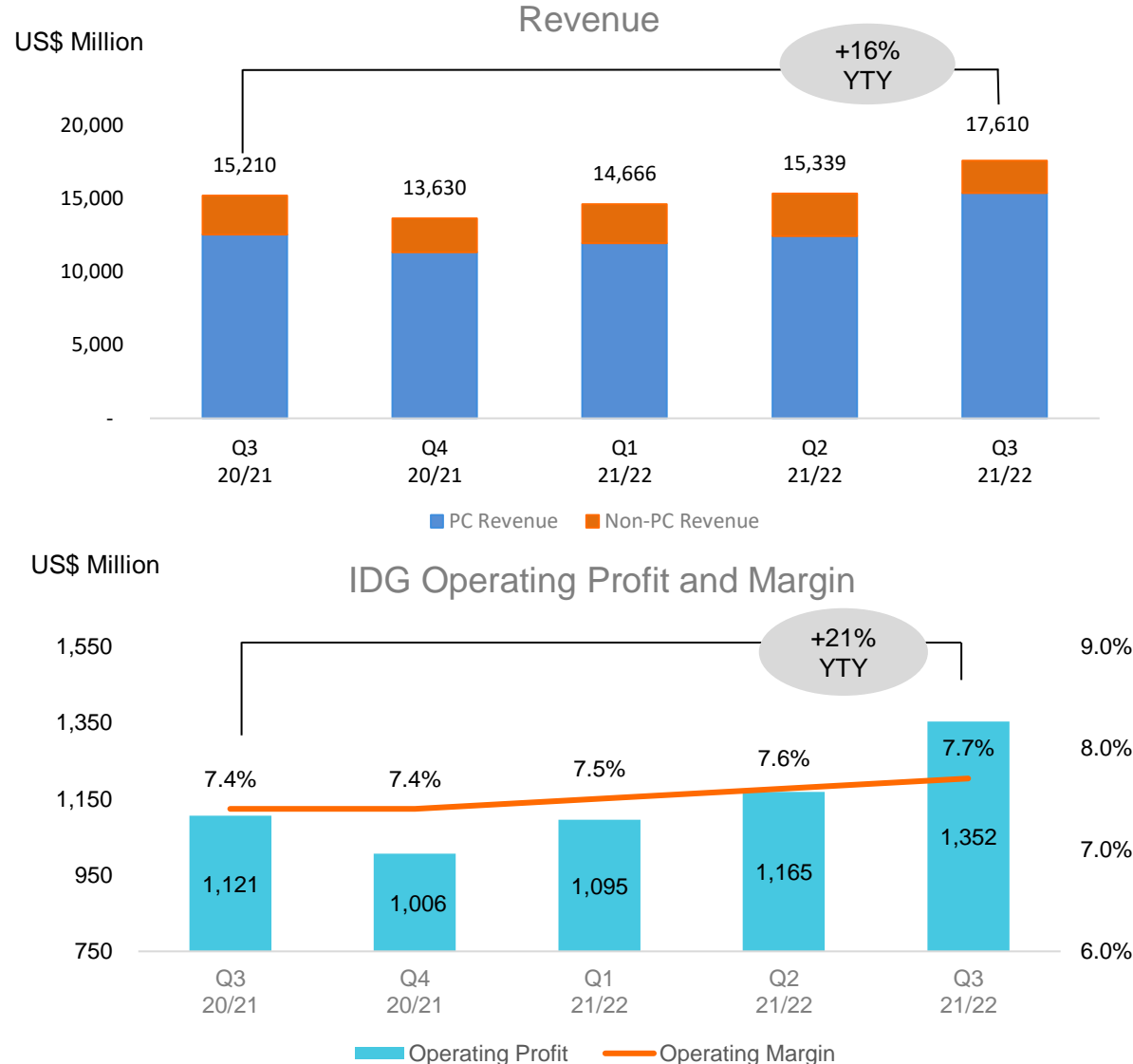


# IDG

## Intelligent Devices Group\*

- 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

## PERFORMANCE



\* 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

## Environmental

- ✓ 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

## Governance

- ✓ 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



2021 Climate: A-  
2021 Water: A



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

Gold Award

Corporate Knights Global 100 list  
for 2022

Lenovo

# 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 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

# Supplemental Financial Materials

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



# Financial Summary

US\$ Million	Q3 21/22	Q3 20/21	Y/Y%
Revenue	20,127	17,245	16.7%
Gross profit	3,355	2,786	20.4%
Operating expense	(2,423)	(2,085)	16.2%
Operating profit	932	701	33.0%
Other non-operating expenses	(77)	(110)	(29.4%)
Pre-tax income	855	591	44.6%
Taxation	(173)	(160)	8.4%
Profit for the period	682	431	58.0%
Non-controlling interests	(42)	(36)	16.0%
Profit attributable to equity holders	640	395	61.9%
EPS (US cents)			
-Basic	5.50	3.31	66.2%
-Diluted	4.92	3.08	59.7%
	Q3 21/22	Q3 20/21	
Gross margin	16.7%	16.2%	
E/R ratio	12.0%	12.1%	
Operating margin	4.6%	4.1%	
PTI margin	4.3%	3.4%	
Net margin	3.2%	2.3%	

# Condensed Consolidated Income Statement

US\$ Million	Q3 21/22	Q3 20/21
Revenue	20,127	17,245
Cost of sales	(16,772)	(14,459)
Gross profit	3,355	2,786
Selling and distribution expenses	(1,012)	(863)
Administrative expenses	(730)	(859)
Research and development expenses	(549)	(398)
Other operating expense – net	(132)	35
Operating profit	932	701
Finance income	15	7
Finance costs	(91)	(110)
Share of loss of associated companies and joint ventures	(1)	(7)
Profit before taxation	855	591
Taxation	(173)	(160)
Profit for the period	682	431
Profit attributable to equity holders of the Company	640	395
Perpetual securities holders	-	6
Other non-controlling interests	42	30
Per share data		
Earnings per share (US cents) – Basic	5.50	3.31
Earnings per share (US cents) – Diluted	4.92	3.08

# Condensed Consolidated Balance Sheet

<b>US\$ Million</b>	<b>As at Dec 31, 2021</b>	<b>As at Sep 30, 2021</b>
Non-current assets	15,164	15,003
Property, plant and equipment	1,583	1,556
Intangible assets	8,138	8,239
Others	5,443	5,208
Current assets	30,483	27,572
Bank deposits and cash	3,829	3,731
Trade, notes and other receivables	17,847	14,569
Inventories	8,442	8,728
Others	365	544
Current liabilities	33,701	31,345
Borrowings	434	482
Trade, notes, other payables, accruals and provisions	31,301	28,853
Others	1,996	2,010
Net current (liabilities)	(3,218)	(3,773)
Non-current liabilities	7,154	7,091
Total equity	4,792	4,139

# Condensed Consolidated Cash Flow Statement

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



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thanks.