

**Smarter technology for all**

# **Q1 FY23 Earnings Announcement**

August 10, 2022

# Forward-Looking Statement

This presentation contains “forward-looking statements”, which are statements that refer to the 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 negative variants 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**

August 10, 2022

**Lenovo**

# Group: New Engines Driving Growth & Profitability

- 9 consecutive quarters of revenue & profitability improvement
- 37% revenue mix of Non-PC



# Group: New Engines Driving Growth & Profitability

## Opportunities



### Accelerated Digital/Intelligent transformations:

- Hybrid work model to stay
- Strong, sustainable demand for:
  - Smart devices/IoT
  - Smart infrastructure
  - Intelligent applications and services

# Group: New Engines Driving Growth & Profitability

- Net income \$516 million, up 11% YTY; Non-HKFRS net income<sup>1</sup> \$556 million, up 35% YTY
- Revenue \$17 billion, up 0.2% YTY, up 5% in constant currency

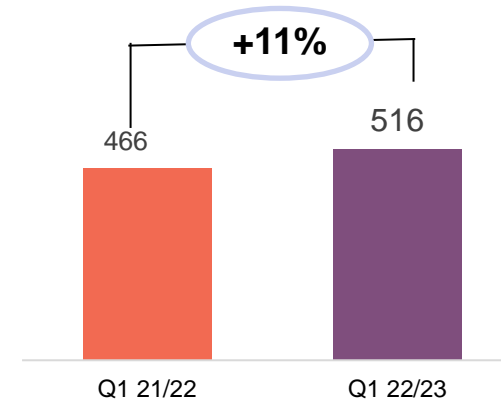
<sup>1</sup> Adjusted net income is not prepared in accordance with the Hong Kong Financial Reporting Standards



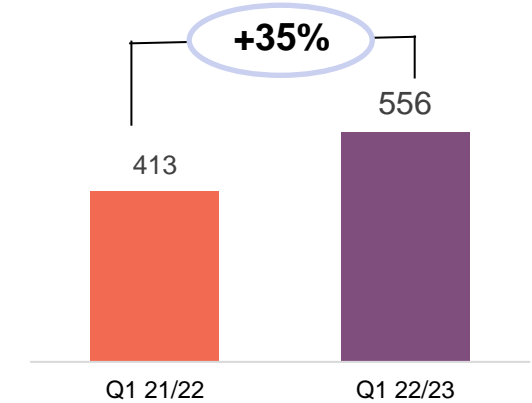
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## Performance

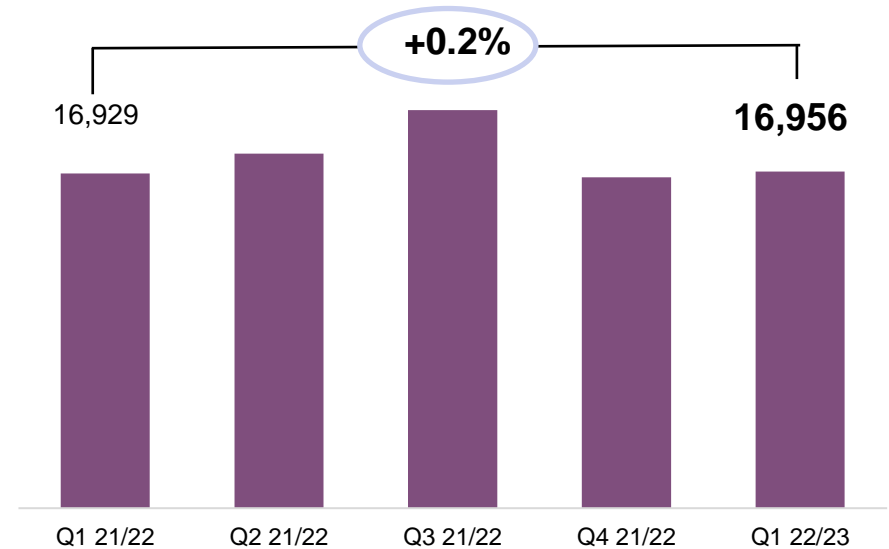
Group Net Income (\$M)



Non-HKFRS Net Income<sup>1</sup> (\$M)



Group Revenue (\$M)



Source: Internal



# Group: New Engines Driving Growth & Profitability

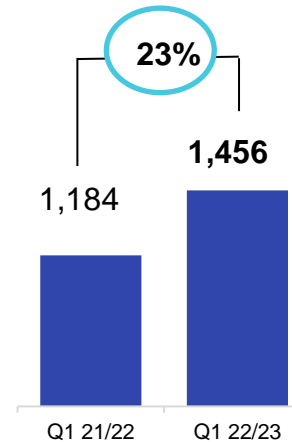
- New growth engines all saw double-digit revenue YTY growth
  - SSG<sup>1</sup>: up 23% YTY
  - ISG<sup>2</sup>: up 14% YTY
  - MBG<sup>3</sup>: up 21% YTY

<sup>1</sup> SSG: Solutions & Services Group; <sup>2</sup> ISG : Infrastructure Solutions Group;

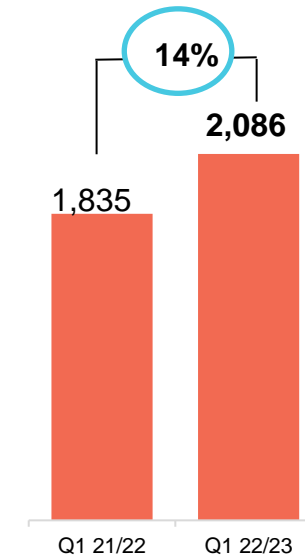
<sup>3</sup> MBG: Mobile Business Group

## Performance

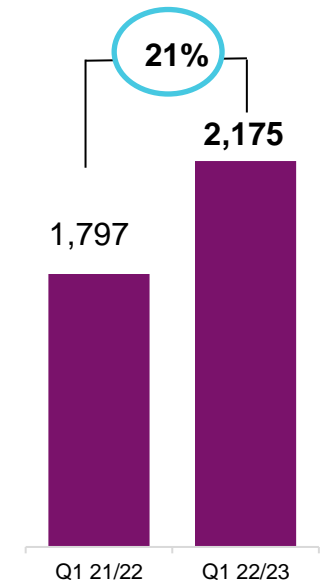
SSG Revenue(\$M)



ISG Revenue(\$M)



MBG Revenue(\$M)



# **Group:** **New Engines Driving Growth & Profitability**

## **Sustainable growth**

- R&D investment up 10% YTY, headcount up 29% YTY
- Realizing ESG goals
- Strengthen One Lenovo platform

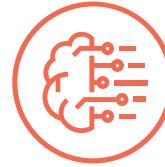


# SSG

Solutions & Services Group:

## Strong Growth, Higher Margin

## Opportunities



### Trillion-dollar IT services market keeps expanding

- Hybrid work model drives Premier & Custom fulfillment services demand
- Digital workplace drives as-a-Service demand
- Smart vertical solutions grow at double-digit CAGR through 2025



### Lenovo's strategic intent:

Drive high growth in 3 high margin service segments:

- Support Services
- Managed Services
- Project & Solution Services

# SSG

Solutions & Services Group:

## Strong Growth, Higher Margin

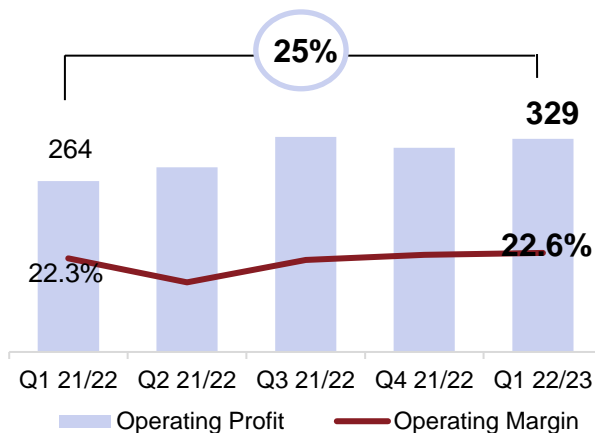
- Operating margin 22.6%, operating profit up 25% YTY
- Revenue up 23% YTY
- Segments all grew by double digits
- Managed Services, Project & Solution Services mix 48% of SSG revenue

Lenovo

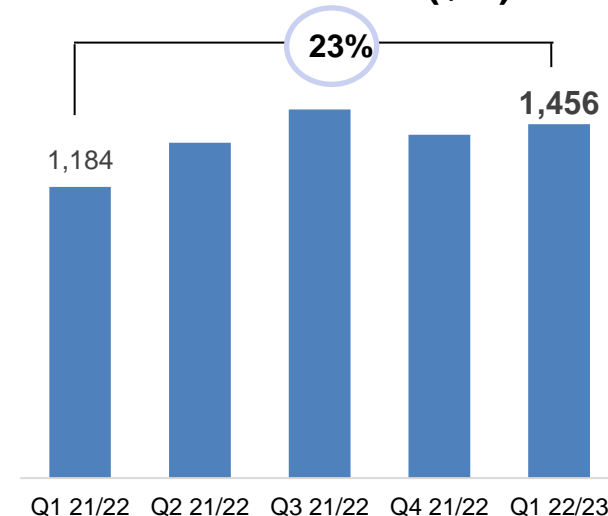
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## Performance

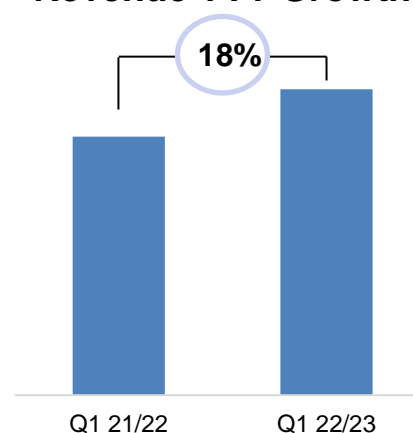
SSG Operating Profit (\$M) & Margin (%)



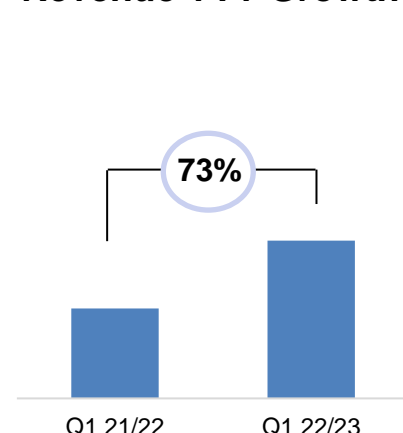
SSG Revenue (\$M)



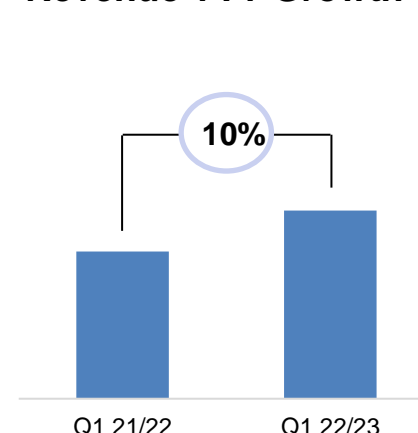
Support Services  
Revenue YTY Growth



Managed Services  
Revenue YTY Growth



Project & Solution Services  
Revenue YTY Growth



# SSG

Solutions & Services Group:

## Strong Growth, Higher Margin

### Sustainable growth

- Invest in software tools, platforms and vertical solutions
- Expand TruScale portfolio to Digital Workplace solutions market
- Launch hybrid/multi-cloud solutions
- Develop sustainability offerings
- Expand footprint with PCCW strategic partnership

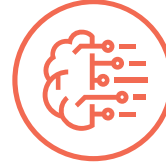


# ISG

Infrastructure Solutions Group:

## Record Revenue, Steady Profit Improvement

## Opportunities



### ICT Infrastructure upgrade continues

By 2025:

- Server growth at double-digit CAGR
- Edge infrastructure to exceed \$41 billion
- Storage to reach \$36 billion



### Lenovo's strategic intent:

Full-stack infrastructure provider from edge to cloud including hardware, software & services



Infrastructure Solutions Group:

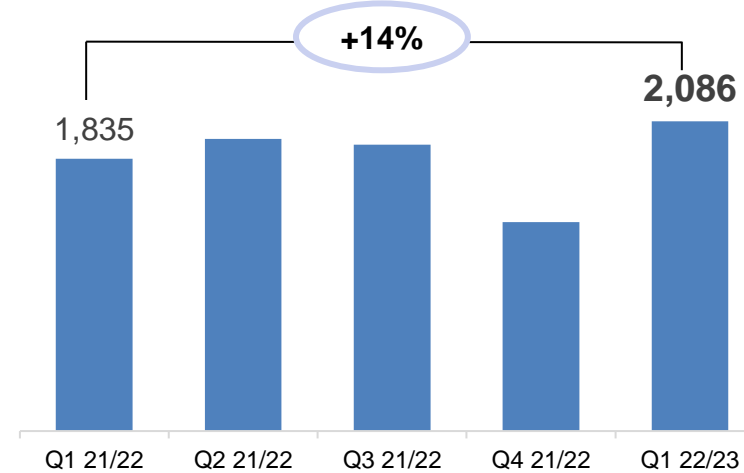
# Record Revenue, Steady Profit Improvement

- First **\$2 billion** revenue quarter, up 14% YTY
- Profitable for 3 straight quarters
- CSP<sup>1</sup>: Record revenue, outgrew market
- Server & Storage: Record revenue, outgrew market
- Edge: Record revenue, up 92% YTY
- HPC: Maintained Top500 lead

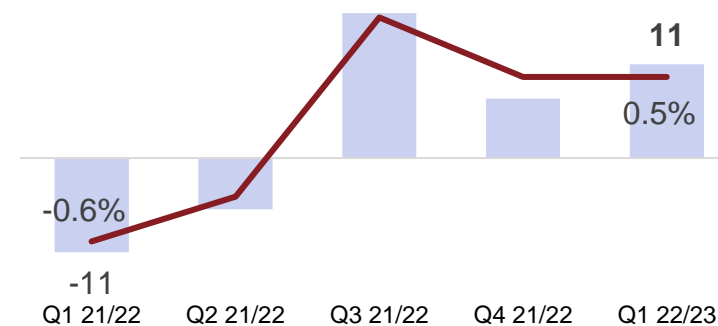
<sup>1</sup> Cloud Service Provider

## Performance

ISG Revenue (\$M)



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



Operating Results Operating Margin





Infrastructure Solutions Group:

# Record Revenue, Steady Profit Improvement

## Sustainable growth

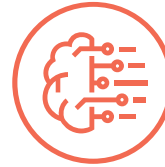
- End-to-end infrastructure provider
- Invest in portfolio & innovation, particularly in Edge & Services
- Drive in-house motherboard design & manufacturing
- Balance scale & profitability

# IDG

Intelligent Devices Group:

## Market Leader Driven by Innovation

### Opportunities



#### Hybrid work model brings growth opportunities

- PC: TAM to be higher than pre-pandemic level in longer term
- Smartphone/Tablet: Expansion opportunity
- Smart Collaboration: expected to exceed \$80 billion by 2025



#### Lenovo's strategic intent:

- Invest in innovation & premium segments
- Expand business beyond PCs

# IDG

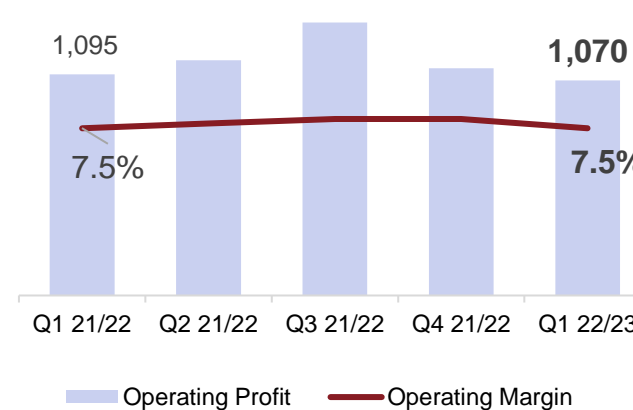
Intelligent Devices Group:

## Market Leader Driven by Innovation

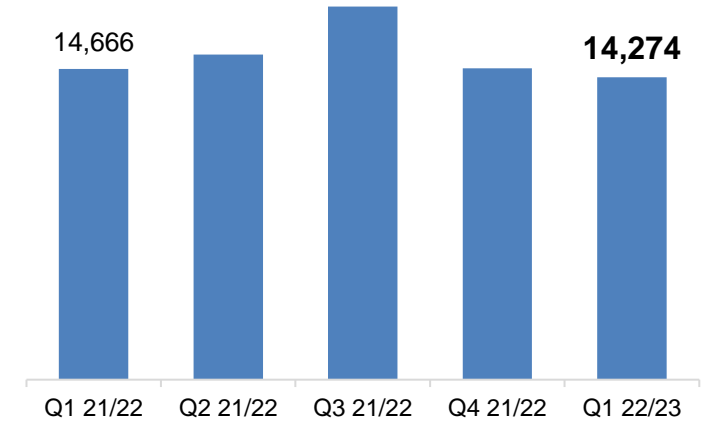
- Operating profit over \$1 billion, maintained leading profitability
- PC: solid #1, enlarged gap with #2, premium segment revenue grew 8% YTY
- Beyond-PC: revenue mix 22% of IDG revenue

### Performance

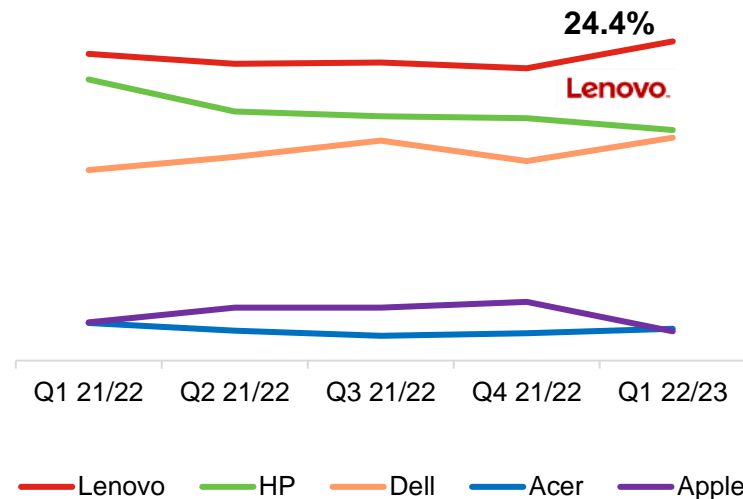
IDG Operating Profit (\$M)  
& Margin(%)



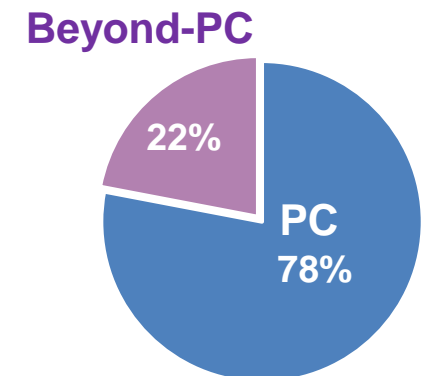
IDG Revenue (\$M)



PC Market Share(%)



PC & Beyond-PC  
Revenue Mix (%)





# IDG

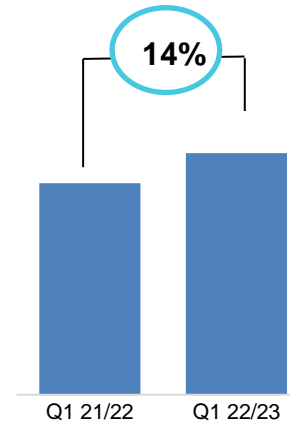
Intelligent Devices Group:

## Market Leader Driven by Innovation

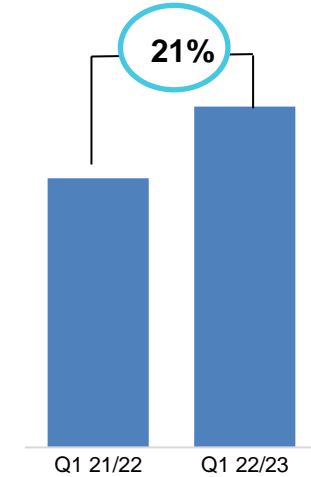
- Mobile: revenue up 21% YTY
  - NA: up 14% YTY
  - LA: up 21% YTY
  - EMEA: up 24% YTY
  - AP: up 56% YTY

## Performance

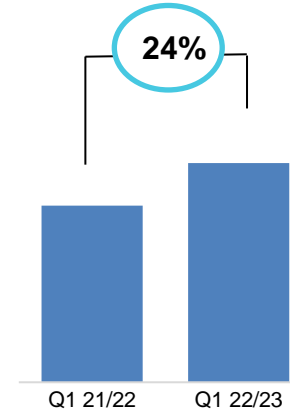
NA MBG Revenue  
YTY growth



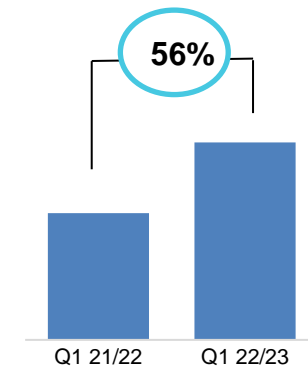
LA MBG Revenue  
YTY growth



EMEA MBG Revenue  
YTY growth



AP MBG Revenue  
YTY growth



# IDG

Intelligent Devices Group:

## **Market Leader Driven by Innovation**

### Sustainable growth

- Invest in innovation from smart devices to smart collaboration to smart spaces
- Focused on innovative form-factors, extreme performance, adaptive intelligence, security, etc.
- Provide seamless connection & collaboration for digital workspace



Based on **New IT** architecture of  
“Client-Edge-Cloud-Network-Intelligence”

- Smart Devices to Smart Spaces
- Computer to Computing
- Traditional IT to Digital Industries
- Human to Planet

Lenovo  
**Tech World** '22

**Smarter** technology  
empowering a changing world

October 18, 2022  
#LenovoTechWorld



# Transcend the Cycle

The background features a series of concentric circles in shades of purple and red, creating a tunnel-like effect. Overlaid on this are two wavy lines, one red and one white, that oscillate across the frame, suggesting a cycle or a path.

- **Right Strategy & Strong Execution**
- **Agility & Resilience**

**Smarter technology for all**

# Wong Wai Ming

Chief Financial Officer

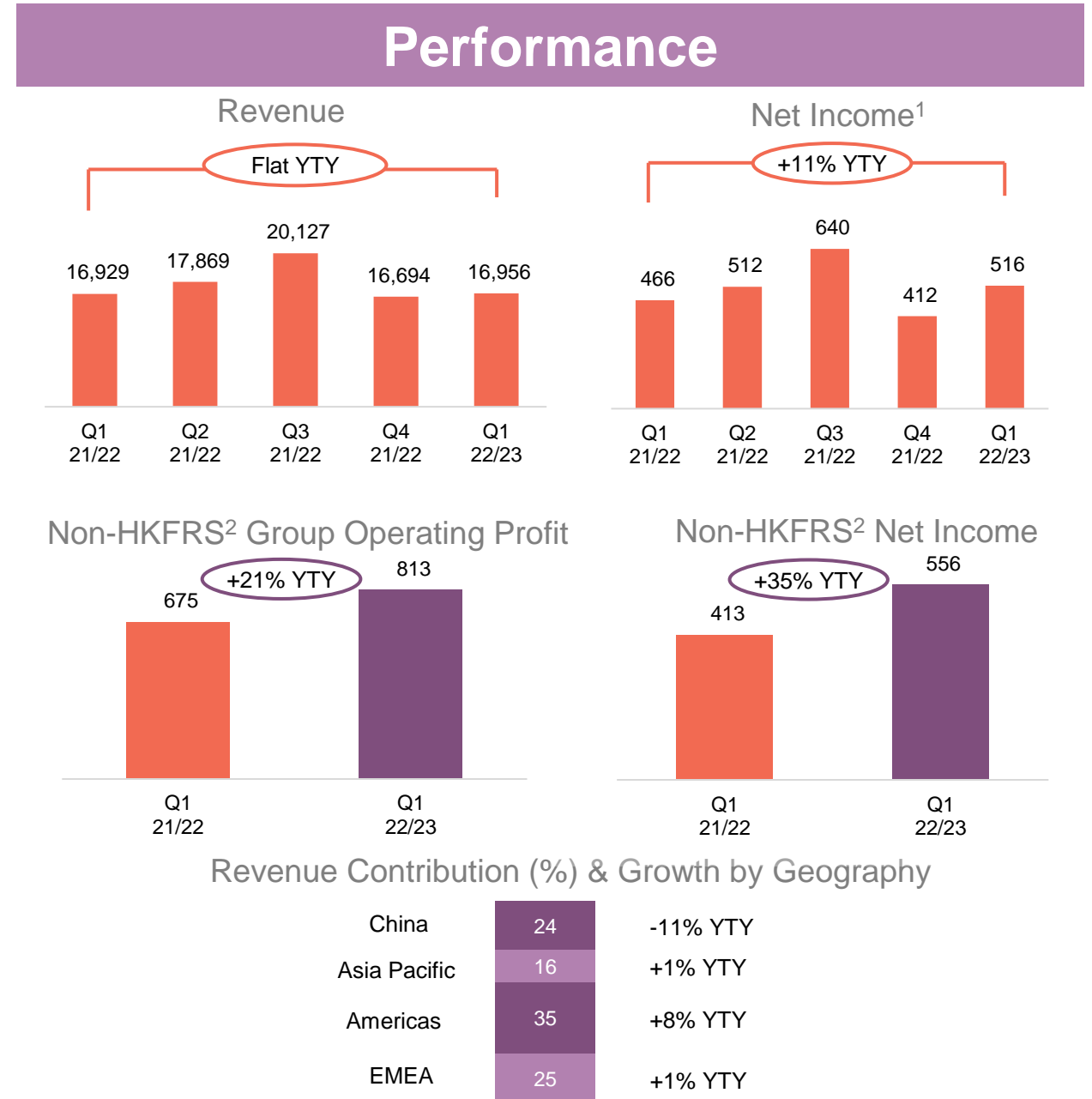
August 10, 2022



# Resilient Growth Amid Challenges

- Digital Transformation was a strong driver for structural growth despite short-term headwinds; revenue remained stable – 5% YTY growth in constant currency
- Record net income<sup>1</sup> for Q1; non-HKFRS<sup>2</sup> net income up 35% on robust profitability
- Net margin continued to improve YTY for the 9<sup>th</sup> consecutive quarter, thanks to operational excellence
- Strong expansion beyond PC; non-PC businesses made up over 1/3 of Group sales

<sup>1</sup> Profit attributable to equity holders; <sup>2</sup> Non-HKFRS measure was adjusted by adding back (i) net fair value changes on financial assets at fair value through profit or loss, (ii) amortization of intangible assets resulting from mergers and acquisitions, and (iii) mergers and acquisitions related charges; and the corresponding income tax effects, if any

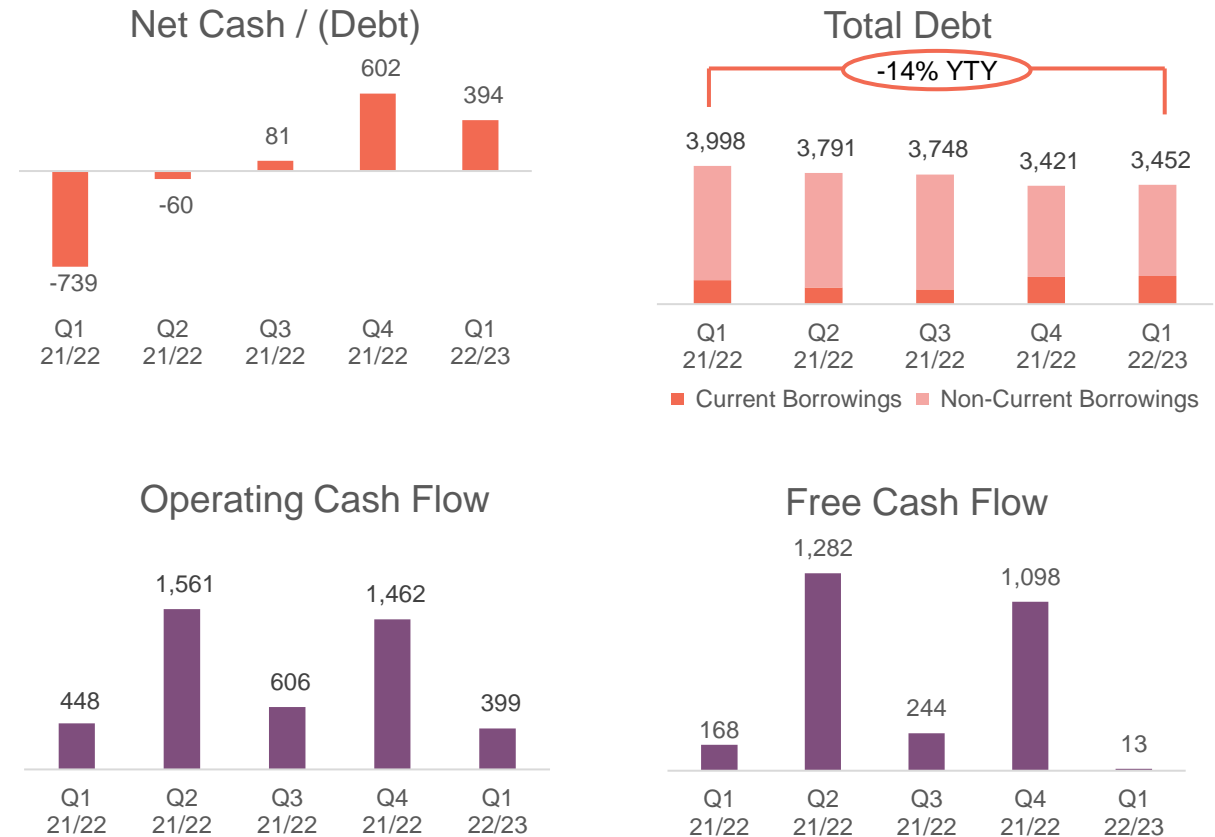




# Robust Working Capital Management

- Maintained robust net cash position for the 3<sup>rd</sup> consecutive quarter at \$394mn
- Extended the average debt maturity by 2 years after completing bond offering and syndicated loan facility
- Reduced total debt by 14% YTY
- COVID-lockdowns led to higher quarter-end inventory and accounts receivables; impact is largely mitigated now and cash conversion cycle is on pace for improvement

## Performance



Bond Issuing

## \$1.25bn Bond Offering



5.5-year \$625mn  
senior unsecured  
notes

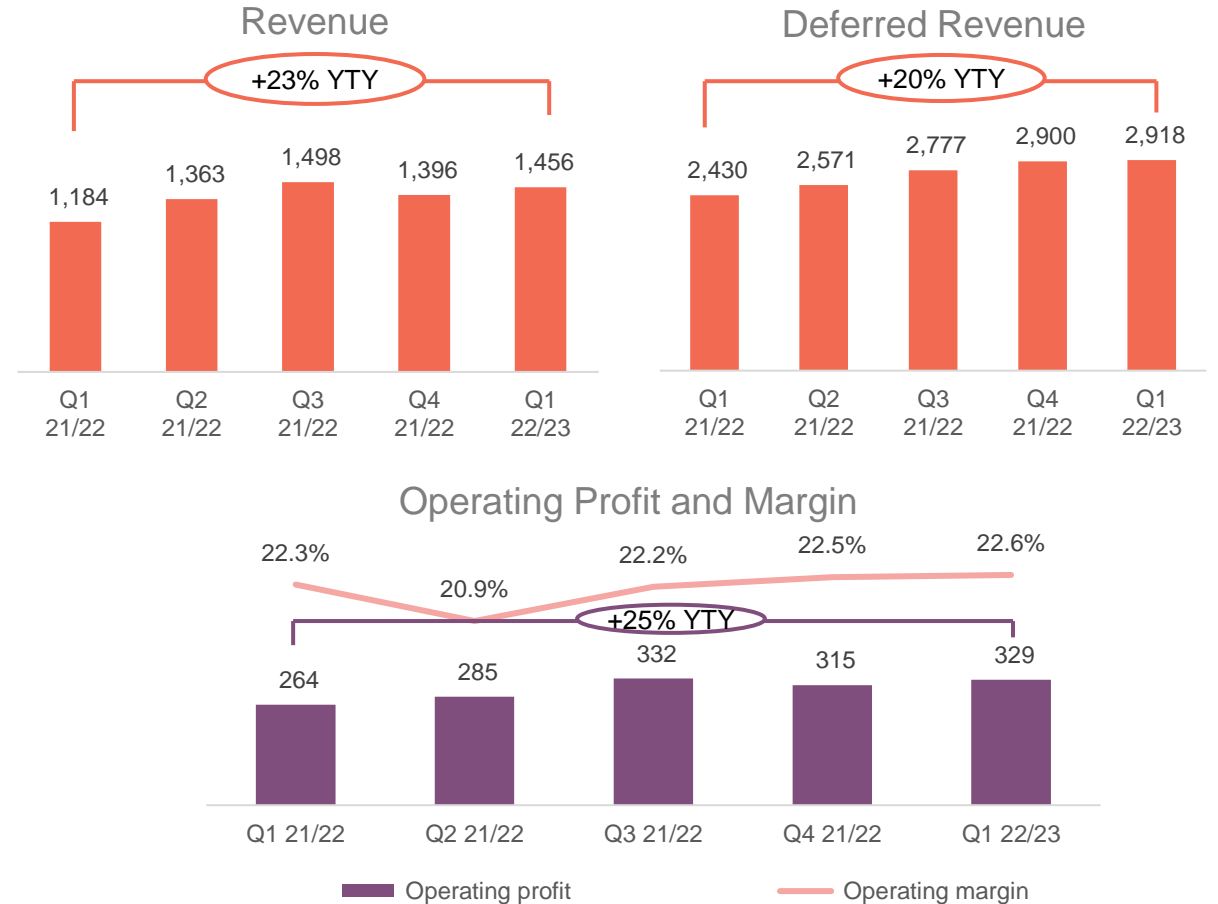


10-year \$625mn  
senior unsecured  
Green Bond



- Revenue and operating profit maintained strong growth above 20% YTY; double-digit YTY revenue growth for all three services segments
- Record operating profit margin showcases resilience and robust profitability
- Deferred revenue up 20% YTY
- Strategic partnership with PCCW to accelerate market penetration and growth potential

## Performance



**Rising Rate**

of penetration in Support Services & enhanced portfolio

Managed Services achieved

**73%**

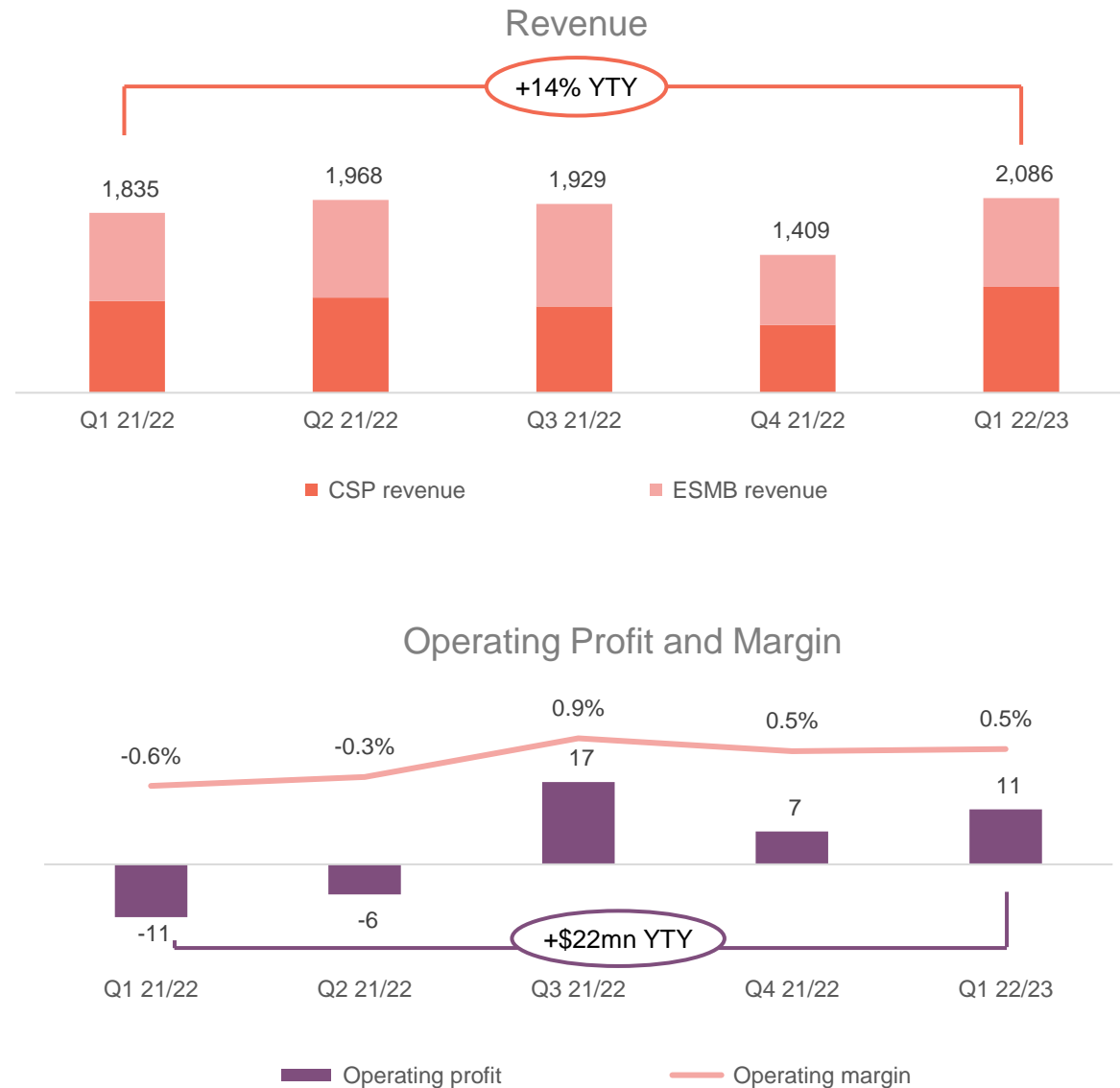
hypergrowth YTY thanks to strong **as-a-Service** momentum

**Double Digit**

YTY growth in total contract value for Vertical Solutions

- Multiple records in Q1:
  - **All-time record revenue** – 1<sup>st</sup> time over \$2 billion
  - **Record revenue** in CSP – outperformed market by 11 pts
  - **Record revenue** in Server – double-digit YTY growth
  - **Record revenue** in Storage – a top-3 player in the volume storage segment
  - **Record revenue** and **units shipped** in Edge AI server – 8<sup>th</sup> consecutive quarter for growth

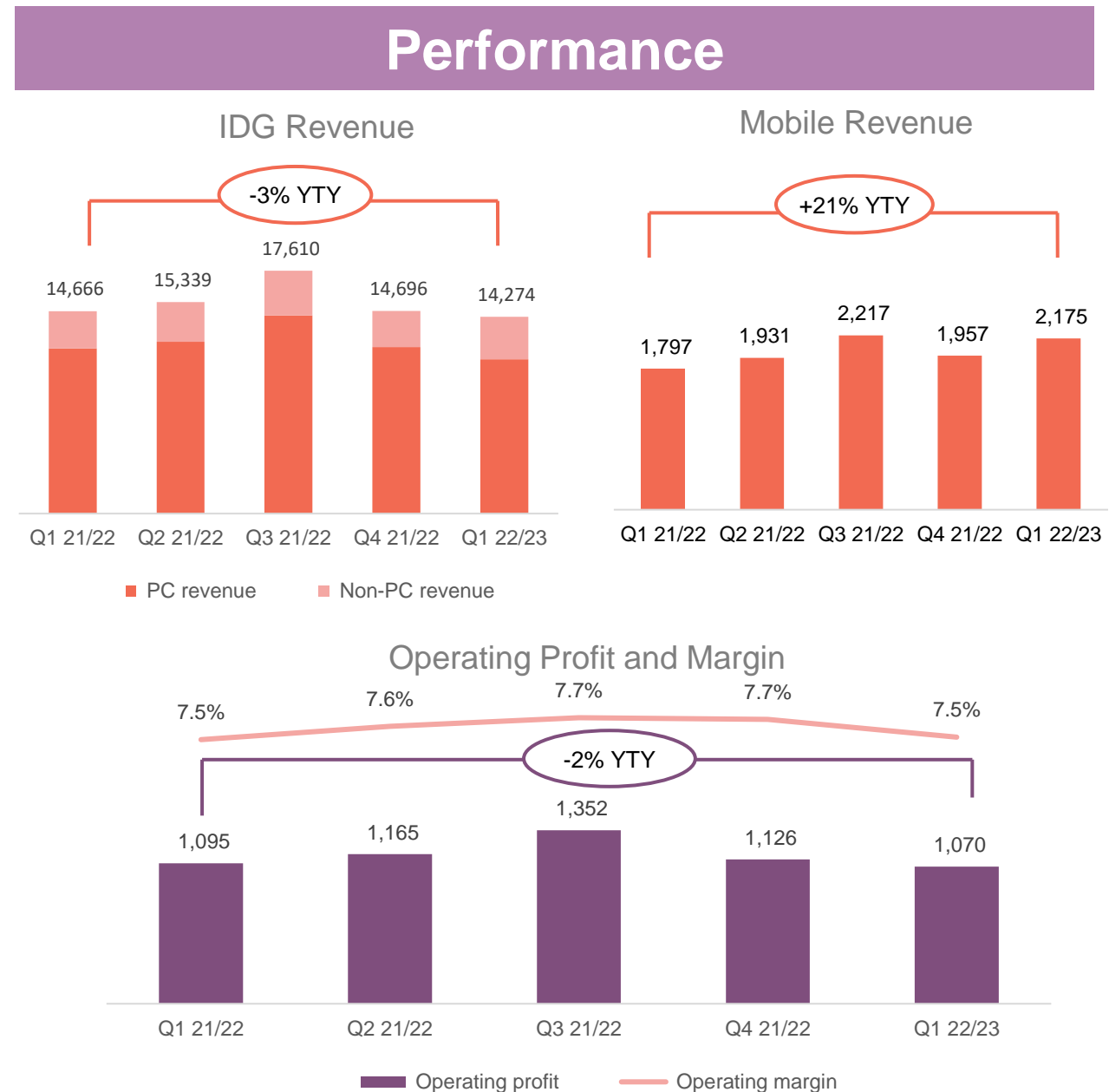
## Performance



# IDG

## Intelligent Devices Group<sup>1</sup>

- Premium-to-market growth for the PC segment despite challenges in supply and consumer demand
- Operating profit margin remained robust, thanks to an enriched commercial and premium sales mix
- Non-PC sales grew 12% YTY to contribute 22% of the IDG mix, based on its strength in smartphone, accessories, visual and Smart Collaboration Solutions
- Mobile revenue grew 21% YTY
- Smart Collaboration Solutions grew by high double-digits, securing key wins across all regions



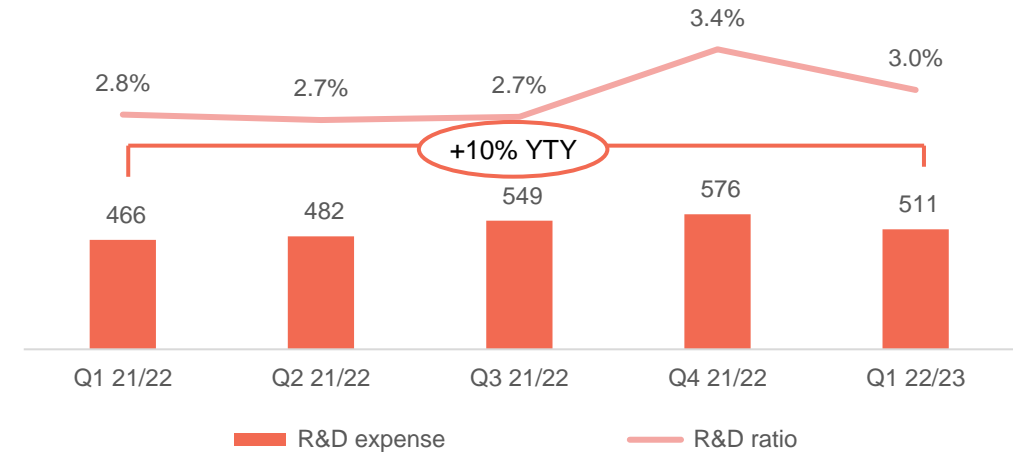
<sup>1</sup> IDG mainly consists of PC, tablet, smartphone, and smart devices business <sup>2</sup> Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

# Continuous R&D Spending to Drive Innovation and Margin Improvement

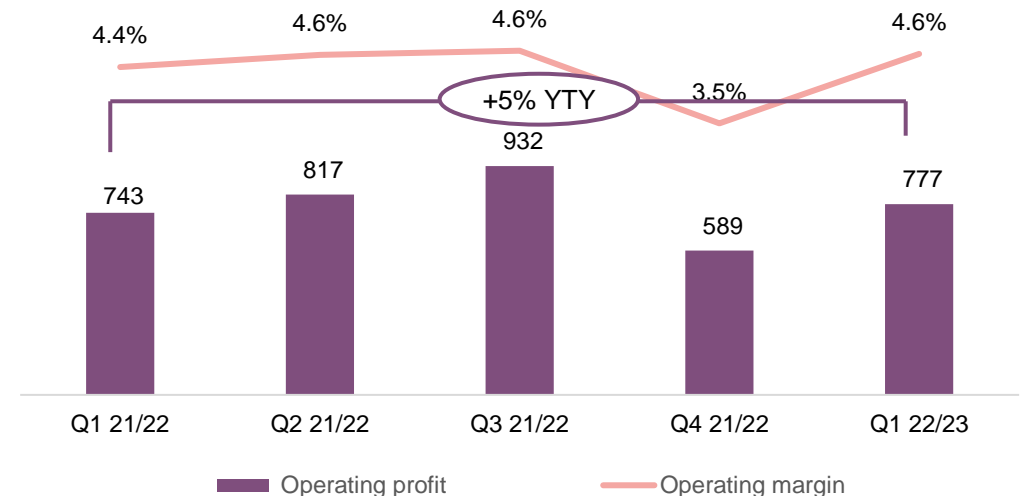
- R&D spending grew 10%, contributing to operating margin improvement
- R&D spending areas:
  - High-value added products and key components
  - Edge, Multi-Cloud and Cloud-related software and hardware
  - 5G networking capabilities
  - AI enabled solutions and service offerings

## Performance

R&D Expenses and Ratio to Revenue





Group Operating Profit & Margin





# ESG Updates

 <p><b>Environmental</b></p>	<p>Expanded use of Closed-loop post-consumer recycled (PCR) content to</p> <p><b>248 products</b></p> <p>in FY21/22</p>	<p><b>100%</b></p> <p>of PC products will contain PCR content by FY 25/26</p>	<p><b>90%</b></p> <p>of our global operations' electricity will be obtained from renewable sources by FY 25/26<sup>1</sup></p>
 <p><b>Social</b></p>	<p>Began Global Partnership with</p> <p><b>Wine to Water</b></p>	<p><b>8</b></p> <p>manufacturing sites received the RBA Factory of Choice Award<sup>2</sup></p>	<p><b>75%</b></p> <p>of our products will be vetted for inclusive design by FY 25/26</p>
 <p><b>Governance</b></p>	<p><b>\$625mn</b></p> <p>Green Bond offering – largest ESG bond debut in the technology sector in 2022 so far</p>	<p><b>15</b></p> <p>distributors and resellers joined the Lenovo 360 Circle Partnership as of FY 21/22</p>	<p><b>99%</b></p> <p>employees<sup>3</sup> completed Information Security and Privacy Basics training in FY 21/22</p>

<sup>1</sup>May be accomplished through the installation of onsite renewable energy generation, entry into power purchase agreements (PPA) with power providers and /or the purchase of renewable energy credits.

<sup>2</sup>Eight sites have received RBA FoC as of FY21/22, including Lenovo owned and joint venture manufacturing sites.

<sup>3</sup>Includes computer-based employees

# Outlook

## Group Mission is to Lead and Enable Intelligent Transformation

*Improve net income margin in medium term; Drive R&D to turbocharge innovation; Increase brand premium; Mitigate short-term challenges from supply disruption and macro uncertainties; Leverage IT spending on Digital Transformation*

### SSG: Serve as New Growth Engine with High Profitability

- Driving scalable growth and profitability with a focus on key verticals and building repeatable solutions with Lenovo IP
- Capturing strong demand from hybrid working, hybrid cloud and sustainability services
- Increasing penetration in the commercial PC and ESMB infrastructure segments
- Establishing TruScale as a comprehensive as-a-Service portfolio to capture fast-growing demand

### ISG: Continue to Drive Profit Improvement and Premium-to-Market Growth in ESMB and CSP markets

- Delivering industry-leading end-to-end infrastructure solutions and expanding from server to full stack offerings
- Expanding ESMB from servers to higher profitability offerings – storage, SDI, software, and services, with new coverage in the Edge, AI and Communication Service Provider segments
- Fully integrating the ODM+ model to capture demand in the Cloud Service Provider segment and drive profit improvement

### IDG: Maintain #1 Position in PC with Leading Profitability and Accelerate Non-PC Growth

- Leveraging the popularity of hybrid working to continuously drive premium-to-market growth in the large PC, tablets, and smartphone markets through innovation, efficiency, and the Global Local model
- Expanding the non-PC product portfolio through innovation
- Capitalizing on the double-digit growth opportunities in the Enterprise Collaboration and Smart Home segments with scenario-based solutions

# Supplemental Financial Materials

- Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement
- Supplemental Non-HKRFS Measures

# Financial Summary

US\$ Million	Q1 21/22	Q1 22/23	Y/Y%
Revenue	16,929	<b>16,956</b>	0%
Gross profit	2,824	<b>2,869</b>	2%
Operating expenses	(2,081)	<b>(2,092)</b>	1%
Operating profit	743	<b>777</b>	5%
Operating profit (non-HKRFS)	675	<b>813</b>	21%
Other non-operating expenses	(93)	<b>(86)</b>	-8%
Profit before taxation	650	<b>691</b>	6%
Profit before taxation (non-HKRFS)	585	<b>729</b>	25%
Taxation	(165)	<b>(152)</b>	-8%
Profit for the period	485	<b>539</b>	11%
Profit for the period (non-HKRFS)	428	<b>569</b>	33%
Profit attributable to			
Other non-controlling interests	19	<b>23</b>	24%
Equity holders of the Company	466	<b>516</b>	11%
Equity holders of the Company (non-HKRFS)	413	<b>556</b>	35%
EPS (US cents)			
Basic	4.02	<b>4.39</b>	9%
Diluted	3.53	<b>4.01</b>	14%
	Q1 21/22	Q1 22/23	
Gross margin	16.7%	<b>16.9%</b>	
Operating margin	4.4%	<b>4.6%</b>	
E/R ratio	12.3%	<b>12.3%</b>	
PTI margin	3.8%	<b>4.1%</b>	
Net margin	2.8%	<b>3.0%</b>	



# Condensed Consolidated Income Statement

US\$ Million	Q1 21/22	Q1 22/23
Revenue	16,929	<b>16,956</b>
Cost of sales	(14,105)	<b>(14,087)</b>
Gross profit	2,824	<b>2,869</b>
Selling and distribution expenses	(847)	<b>(879)</b>
Administrative expenses	(812)	<b>(688)</b>
Research and development expenses	(466)	<b>(511)</b>
Other operating income/(expenses) – net	44	<b>(14)</b>
Operating profit	743	<b>777</b>
Finance income	9	<b>19</b>
Finance costs	(101)	<b>(100)</b>
Share of losses of associates and joint venture	(1)	<b>(5)</b>
Profit before taxation (PTI)	650	<b>691</b>
Taxation	(165)	<b>(152)</b>
Profit for the period	485	<b>539</b>
Profit attributable to		
Other non-controlling interests	19	<b>23</b>
Equity holders of the Company	466	<b>516</b>
Per share data		
Earnings per share (US cents) – Basic	4.02	<b>4.39</b>
Earnings per share (US cents) – Diluted	3.53	<b>4.01</b>

# Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Jun 30, 2021	As of Jun 30, 2022
Current assets	25,510	<b>29,105</b>
Bank deposits and cash	3,259	<b>3,846</b>
Trade, notes and other receivables	14,028	<b>15,917</b>
Inventories	7,826	<b>8,868</b>
Others	397	<b>474</b>
Non-current assets	14,951	<b>15,143</b>
Property, plant and equipment	1,562	<b>1,571</b>
Intangible assets	8,448	<b>7,850</b>
Others	4,941	<b>5,722</b>
Current liabilities	29,219	<b>32,969</b>
Borrowings	694	<b>814</b>
Trade, notes, other payables, accruals and provisions	26,857	<b>30,049</b>
Deferred revenue	1,146	<b>1,531</b>
Others	522	<b>575</b>
Non-current liabilities	7,082	<b>5,694</b>
Borrowings	3,304	<b>2,638</b>
Deferred revenue	1,284	<b>1,387</b>
Others	2,494	<b>1,669</b>
Total equity	4,160	<b>5,585</b>

# Condensed Consolidated Cash Flow Statement

US\$ Million	Q1 21/22	Q1 22/23
Net cash generated from operating activities	448	<b>399</b>
Net cash used in investing activities	(192)	<b>(388)</b>
Net cash used in financing activities	(180)	<b>(8)</b>
Increase in cash and cash equivalents	76	<b>3</b>
Effect of foreign exchange rate changes	32	<b>(145)</b>
Cash and cash equivalents at the beginning of the period	3,068	<b>3,930</b>
Cash and cash equivalents at the end of the period	3,176	<b>3,788</b>

# Supplemental Non-HKRFS Measures

US\$ Million		Q1 21/22				Q1 22/23			
		Operating profit	Profit before taxation	Profit for the period	Profit attributable to equity holders	Operating profit	Profit before taxation	Profit for the period	Profit attributable to equity holders
<b>As reported</b>		<b>743</b>	<b>650</b>	<b>485</b>	<b>466</b>	<b>777</b>	<b>691</b>	<b>539</b>	<b>516</b>
Non-HKFRS adjustments									
Net fair value changes on financial assets at fair value through profit or loss		(131)	(131)	(111)	(107)	(25)	(25)	(21)	(11)
Amortization of intangible assets resulting from mergers and acquisitions		63	63	51	51	61	61	49	49
Mergers and acquisitions related charges		-	3	3	3	-	2	2	2
<b>Non-HKFRS</b>		<b>675</b>	<b>585</b>	<b>428</b>	<b>413</b>	<b>813</b>	<b>729</b>	<b>569</b>	<b>556</b>



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