

**Smarter technology for all**

# **Q2FY23 Earnings Announcement**

November 3, 2022

**Lenovo**

# 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**

November 3, 2022

**Lenovo**

# Group:

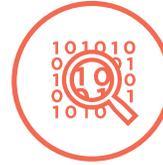
## Diversified Engines Driving Growth & Profitability

- Multiple challenges and uncertainties persist in the macro context
- Solid performance and **improved profitability**
- Non-PC businesses become solid **new growth engines**, **37.4%** mix of total revenue



# Group: Diversified Engines Driving Growth & Profitability

## Opportunities



### Accelerated Digital/Intelligent transformations:

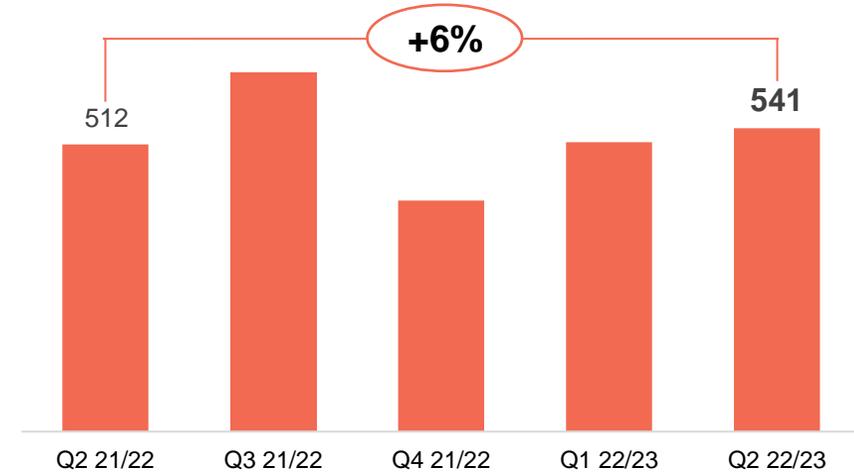
- Digitalization and hybrid work model driving strong growth of global spending
- Strong, sustainable customers' need for:
  - Smart devices/IoT(module)
  - ICT infrastructure
  - Solutions and services

# Group: Diversified Engines Driving Growth & Profitability

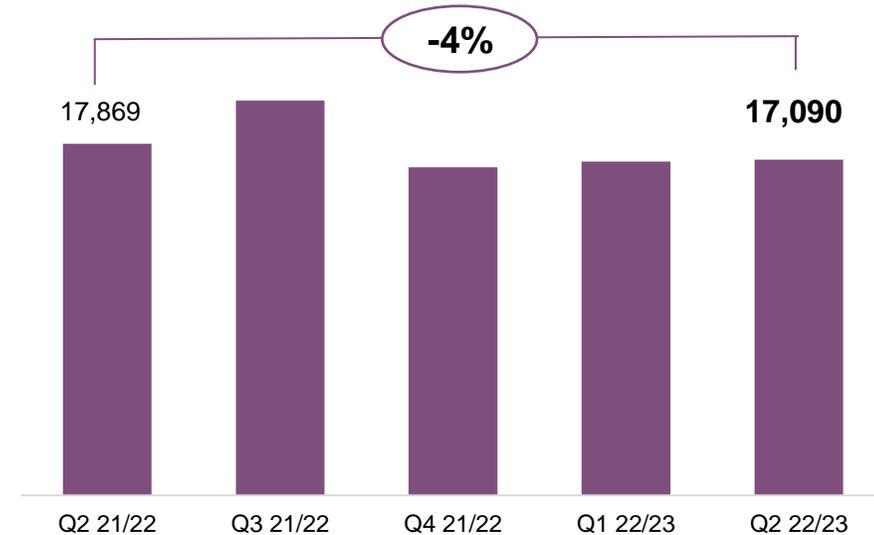
- Net income \$541 million, up 6% YTY; net margin up 0.3 points YTY; both achieved **10th consecutive quarter YTY growth**
- Revenue \$17.1 billion, declined 4% YTY, **up 3% YTY in constant currency**

## Performance

Group Net Income (\$M)



Group Revenue (\$M)



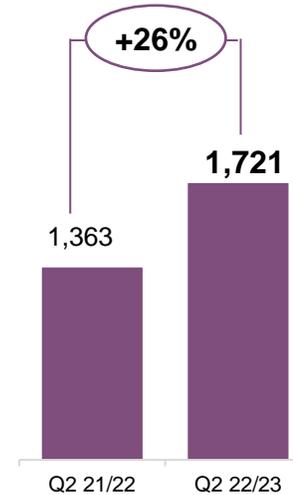
# Group: Diversified Engines Driving Growth & Profitability

- New diversified growth engines saw high double-digit revenue growth YTY
  - SSG<sup>1</sup>: up 26% YTY
  - ISG<sup>2</sup>: up 33% YTY
- Healthy growth in cash balance with net cash almost tripled QTQ

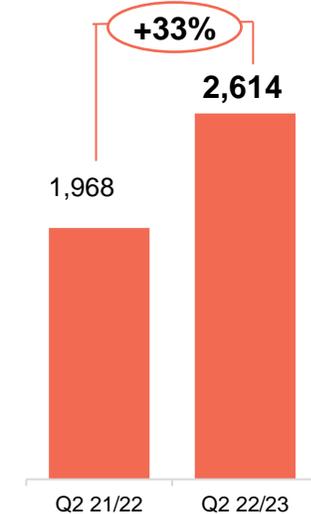
<sup>1</sup> SSG: Solutions & Services Group  
<sup>2</sup> ISG : Infrastructure Solutions Group

## Performance

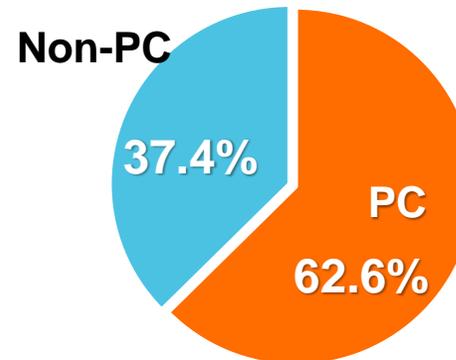
SSG Revenue (\$M)



ISG Revenue (\$M)

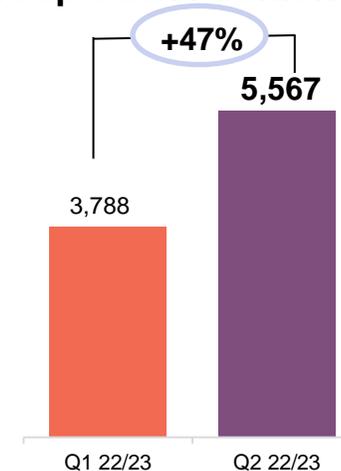


PC & Non-PC Revenue Mix (%)

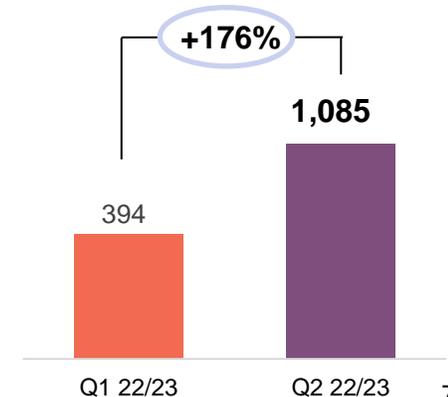


Source: Internal

Group Cash Position (\$M)



Group Net Cash (\$M)



# Group:

## Diversified Engines Driving Growth & Profitability

### Sustainable growth

- Committed to doubling R&D investments in medium term, R&D expense up 15% YTY, headcount up 26% YTY
- Accelerate ESG efforts
- Strengthen One Lenovo platform

# SSG

Solutions & Services Group:

## Strong Growth, Higher Profitability

Lenovo

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## Opportunities



**Trillion-dollar IT services market grows steadily**

- Faster growth in DaaS and Managed Services
- Spending on vertical solutions & services remain strong



**Lenovo's strategic intent:**

Drive high growth in 3 high margin service segments:

- Support Services
- Managed Services
- Project & Solution Services

# SSG

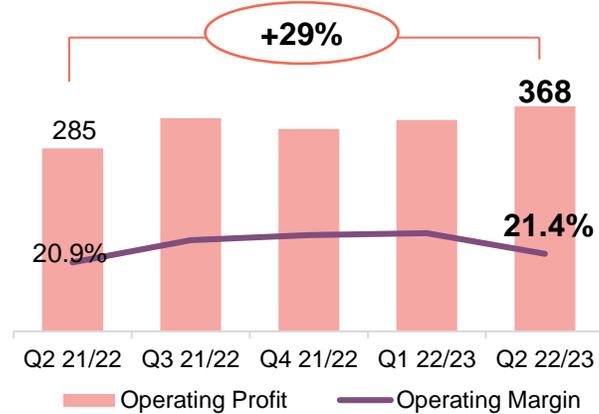
Solutions & Services Group:

## Strong Growth, Higher Profitability

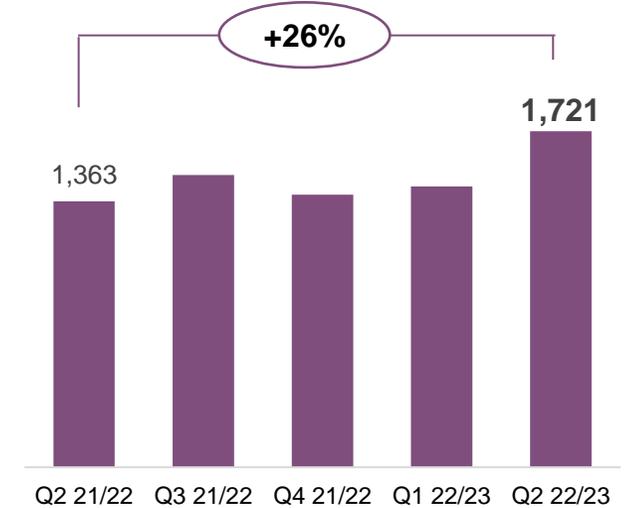
- Operating margin 21.4%, operating profit up 29% YTY
- Revenue up 26% YTY
- All segments revenue grew by high double digits YTY
- Managed Services, Project & Solution Services accounts for 52% of SSG revenue

### Performance

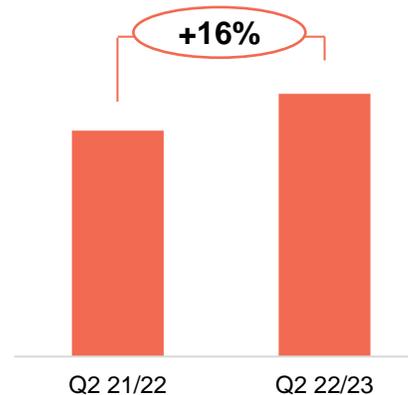
#### SSG Operating Profit (\$M) & Margin (%)



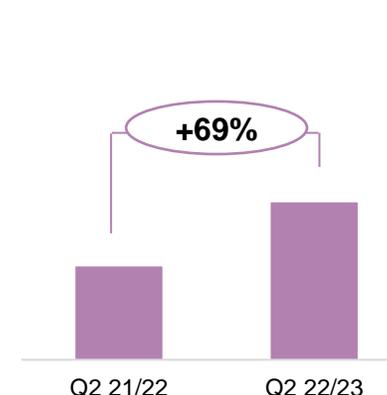
#### SSG Revenue (\$M)



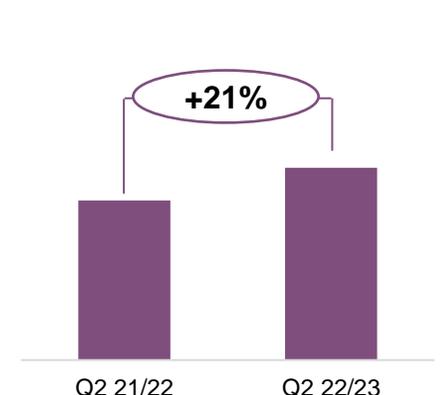
#### Support Services Revenue YTY Growth (%)



#### Managed Services Revenue YTY Growth (%)



#### Project & Solution Services Revenue YTY Growth (%)



# SSG

Solutions & Services Group:

**Strong Growth,  
Higher Profitability**

## Sustainable growth

- Build comprehensive horizontal solutions for vertical industries
- Expand sustainability offerings
- Lenovo PCCW Solutions achieving initial success on business synergy

# ISG

Infrastructure Solutions Group:

## Record Revenue, Record Profitability

## Opportunities



### ICT Infrastructure upgrade continues

By 2025:

- Server to reach \$134 billion
- Edge infrastructure to reach \$47 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, Record Profitability

- Revenue \$2.6 billion, up 33% YTY
- Operating profit \$36 million, record high, profitable for 4 straight quarters
- CSP<sup>1</sup> & E/SMB<sup>2</sup> : Both reached record revenue, outgrew overall market forecast<sup>3</sup> by large premium
- Edge: Record revenue, up 297% YTY
- Storage: Record revenue, up 115% YTY

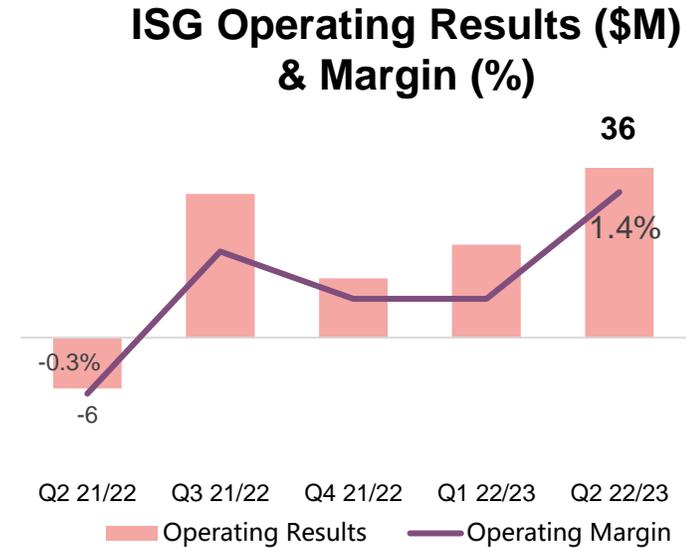
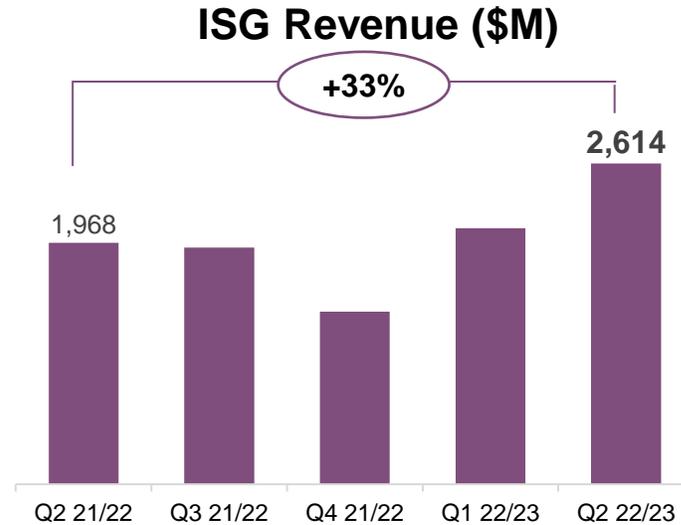
<sup>1</sup> Cloud Service Provider; <sup>2</sup> Enterprise/SMB;

<sup>3</sup> Source: IDC forecast, September 2022

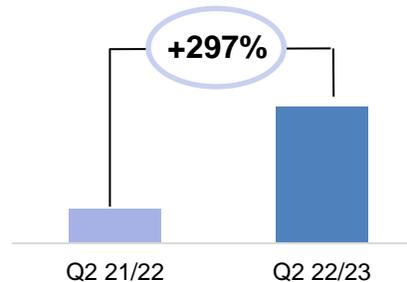


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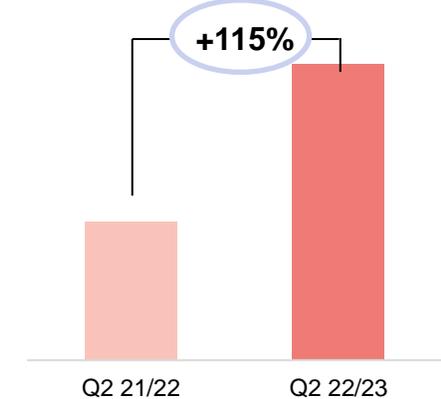
## Performance



### Edge Business Revenue YTY Growth (%)



### Storage Business Revenue YTY Growth (%)



Source: Internal, IDC

# ISG

Infrastructure Solutions Group:

## Record Revenue, Record Profitability

### Sustainable growth

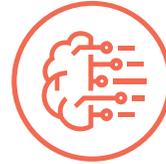
- End-to-end infrastructure solutions provider
- Enhance comprehensive portfolio
- Invest in innovations, particularly in Edge & Services
- Strengthen operational resilience
- Balance scale & profitability

# IDG

Intelligent Devices Group:

## Strong Profitability, Outperforming Competition

## Opportunities



### Hybrid work model brings growth opportunities

- PC & tablet: market size stably remain higher than pre-pandemic level in long term
- Scenario-based solutions steadily grow



### Lenovo's strategic intent:

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

# IDG

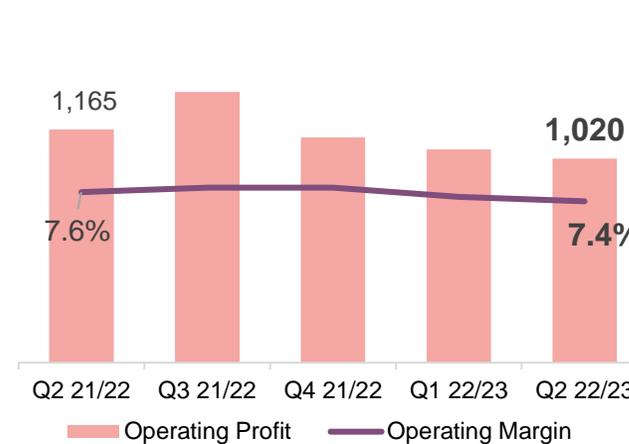
Intelligent Devices Group:

## Strong Profitability, Outperforming Competition

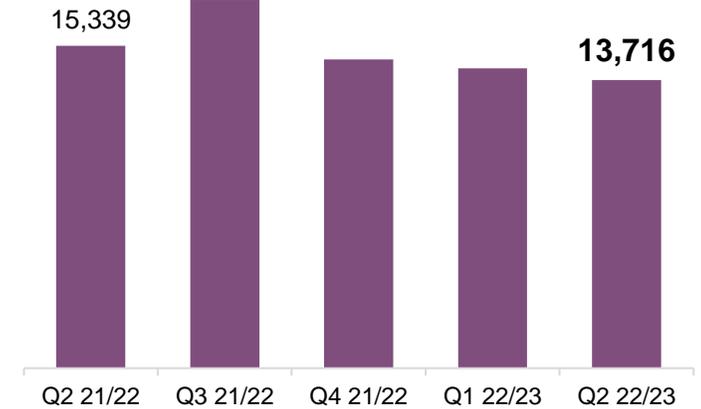
- Industry leading profitability at 7.4%
- PC: 22.8% market share, enlarged gaps with key competitors; clear #1 in 4 out of 5 geographies; undisputed #1 in commercial segment
- Smart Phone: profitable for 10 straight quarters; defended #2 in LA, #3 in NA; hypergrowth in expansion markets
- Smart Collaboration: high double-digit growth YTY

## Performance

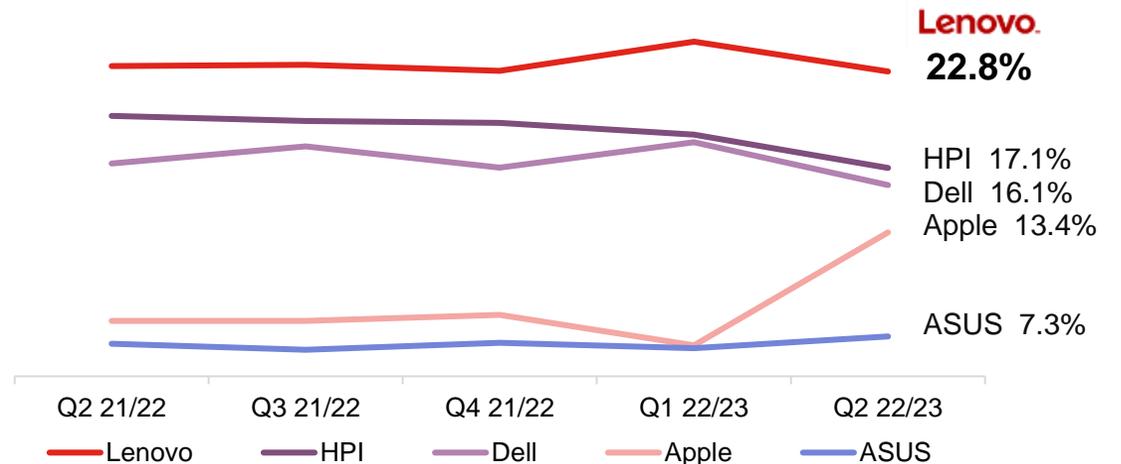
### IDG Operating Profit (\$M) & Margin (%)



### IDG Revenue (\$M)



### PC Market Share (%)



# IDG

Intelligent Devices Group:

**Strong Profitability,  
Outperforming Competition**

## Sustainable growth

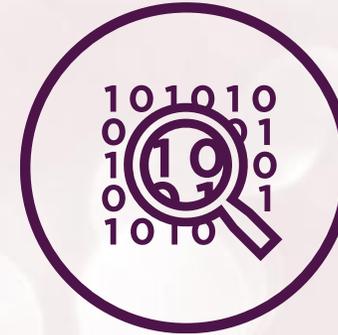
- Invest in innovation from smart devices to smart spaces
- Replicate PC success to grow business beyond PC and win in more markets

# Stay Agile to the Changes, Ensure Ongoing Profitability



## Strategic Execution

Continue to invest in diversified growth engines



## Ensure Profitability

Rebalance resources, drive for efficiency and expense reduction

# Best Positioned to Lead in Digital & Intelligent Transformation with All Assets of New IT Architecture



**Client**



**Edge-Cloud  
-Network**



**Intelligence**

**Smart Devices/IoT**

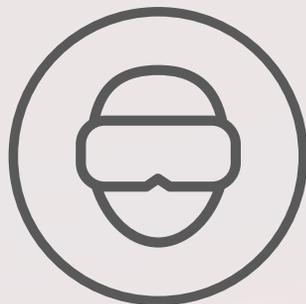
**Smart Infrastructure**

**Smart Vertical**

# Horizontal building blocks for vertical solutions



**IoT**  
solution



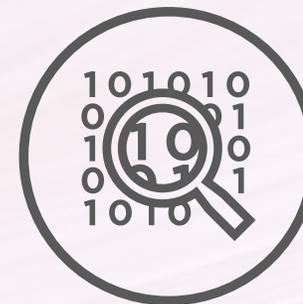
**Metaverse**  
solution



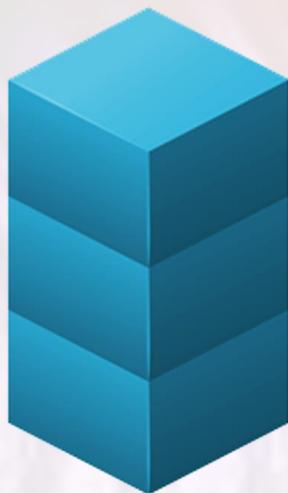
**Edge**  
solution



**Hybrid/multi-cloud**  
solution



**A.I.**  
solution



# Fulfill commitment, Transcend the Cycle

- High-quality innovative portfolio
- Strong hybrid manufacturing driven supply chain
- Unique global/local principle & capability
- Healthy liquidity

**Smarter technology for all**

# Wong Wai Ming

Chief Financial Officer

November 3, 2022

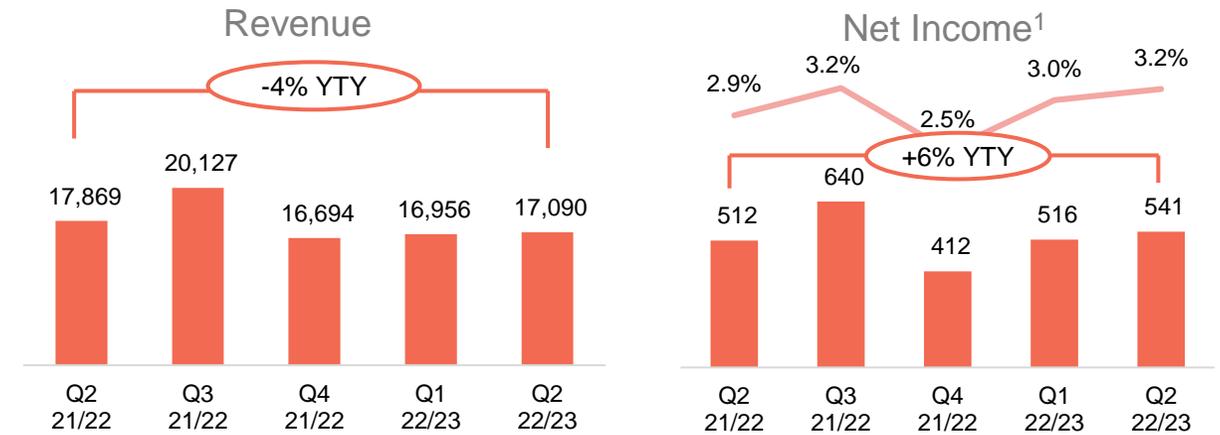
**Lenovo**

# Resilient Growth and Profitability

- Group revenue down 4% YTY (up 3% YTY in constant currency), robust performance in a challenging market
- Net income<sup>1</sup> rose 6% and net margin grew 0.3 pts YTY, furthering progress towards the Group's medium-term plan to double net margin
- Strong growth in non-PC, with sales now making up 37% of Group revenue
- Combined ISG and SSG profit up 45% YTY

<sup>1</sup> Profit attributable to equity holders; <sup>2</sup> Non-HKFRS measure were adjusted by excluding (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

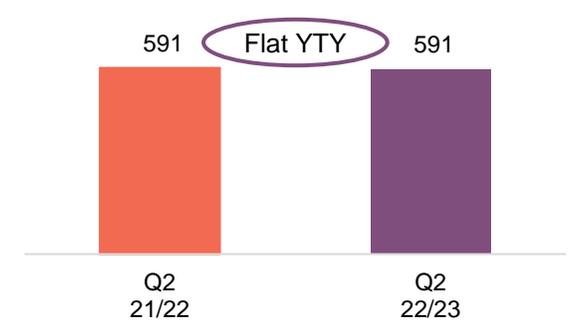
## Performance



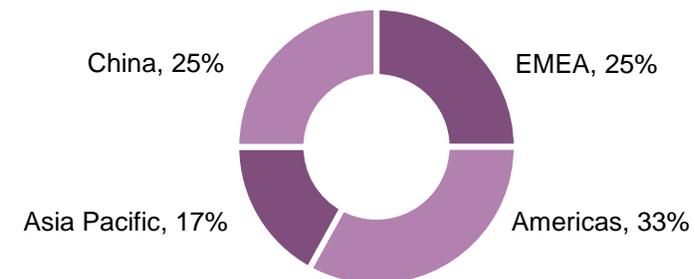
Non-HKFRS<sup>2</sup> Group Operating Profit



Non-HKFRS<sup>2</sup> Net Income



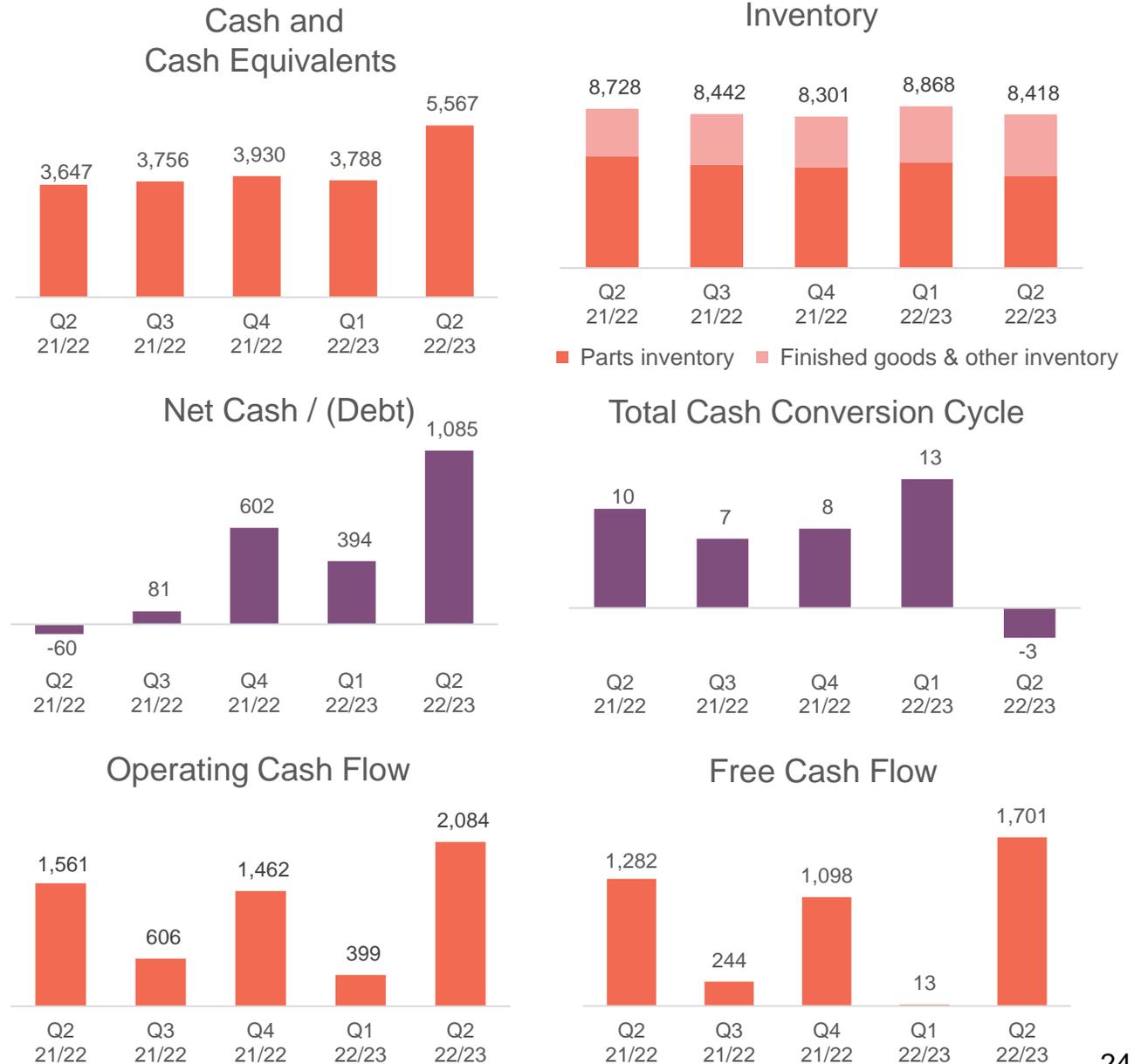
Revenue Contribution by Geography



# Strong Working Capital Management

- Total cash reached \$5.6 bn while net cash position improved by \$1.1bn YTY to \$1.1bn despite market headwinds
- Cash conversion cycle improved by 13 days YTY and 16 days QTTQ
- Operating cash flow and free cash flow improved by over \$523mn and \$419mn respectively YTY
- Now included in the Bloomberg MSCI Green Bond Index, a key global benchmark for ESG investments

## Performance

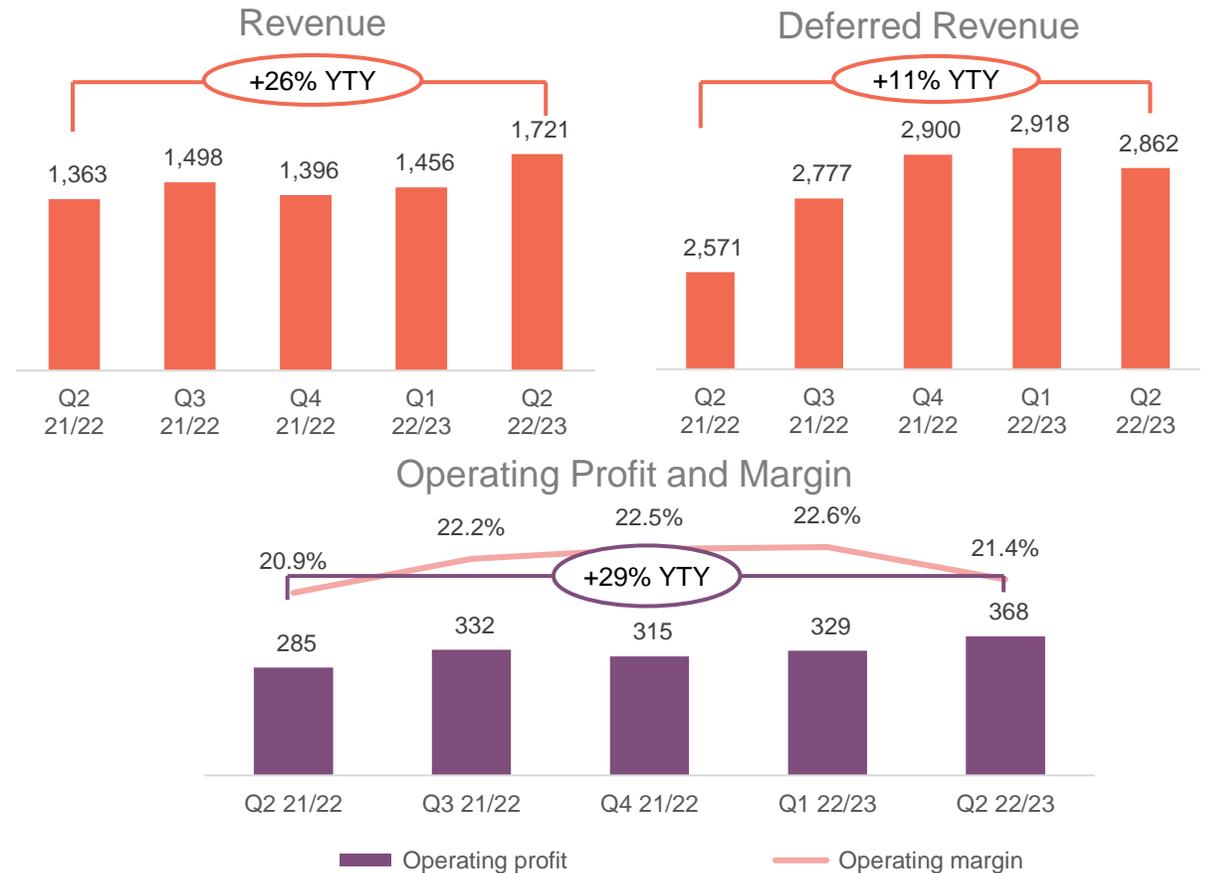


- Revenue grew 26% YTY; operating profit at a record high and operating margin up 0.5pts YTY to 21.4%
- Deferred revenue balance at \$2.9bn, maintaining strong momentum<sup>1</sup>
- Managed Services and Project & Solution Services now accounting for 52% of revenue mix, up 4 pts YTY
- Signature wins in Smart Manufacturing and education supported by Lenovo IP<sup>2</sup>

<sup>1</sup>Sequential decline primarily due to foreign exchange impact;

<sup>2</sup>IP: intelligent property

## Performance



**Record high**

penetration rate in Support Services thanks to **highest-ever** level of premier booking

Managed Services achieved

**69%**

hypergrowth YTY thanks to large multi-national **DaaS deal win**

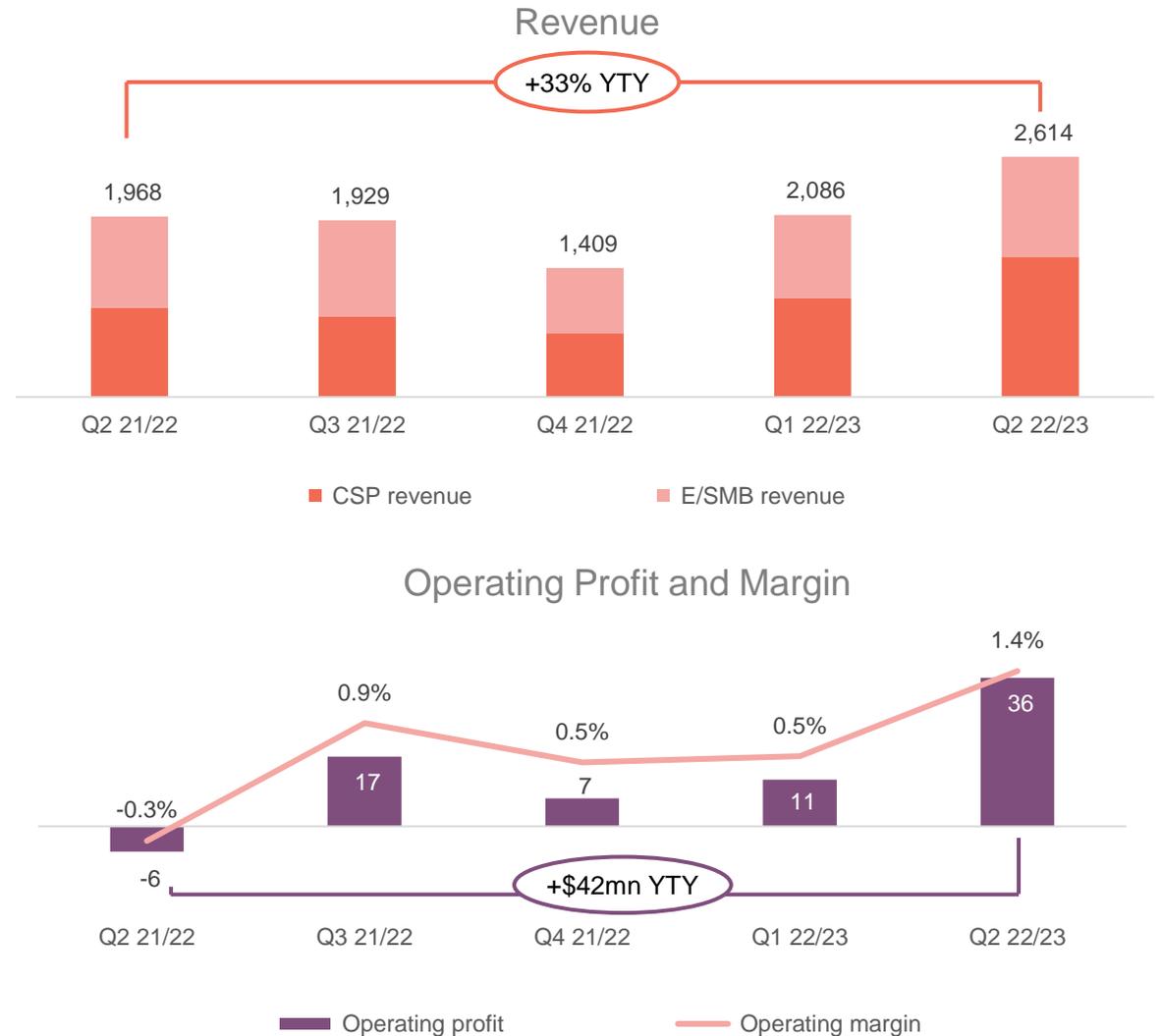
Vertical Solutions saw

**resilient**

YTY growth in total contract value for **New IT architecture**

- Multiple records set
  - **Record revenue and operating profit** – revenue grew 33% YTY while operating profit increased \$42mn YTY
  - **Record revenue** in CSP – outgrew market forecast<sup>1</sup> by 48 pts
  - **Record Q2 revenue** in E/SMB – outgrew market forecast<sup>1</sup> by 5 pts
  - **Record revenue** for Asia Pacific, EMEA and the Americas
  - **Record revenue** in high-margin, high-tech portfolio – **storage, server** and **Edge AI server** all outperformed market forecast<sup>1</sup> by 20-105 pts
- Unveiled a comprehensive infrastructure portfolio including 50+ new products, services, and solutions

## Performance



<sup>1</sup>Source: IDC forecast, September 2022

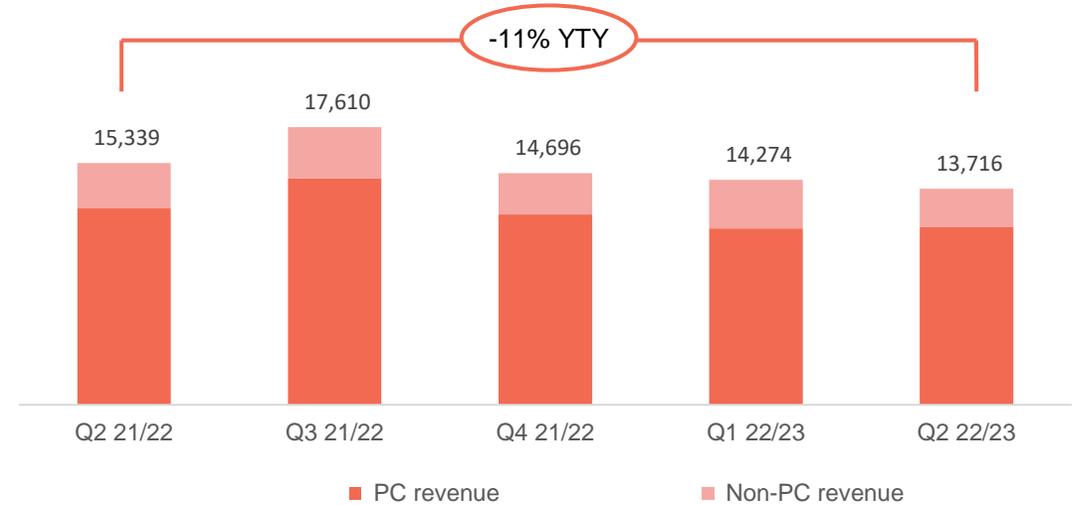
# IDG

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

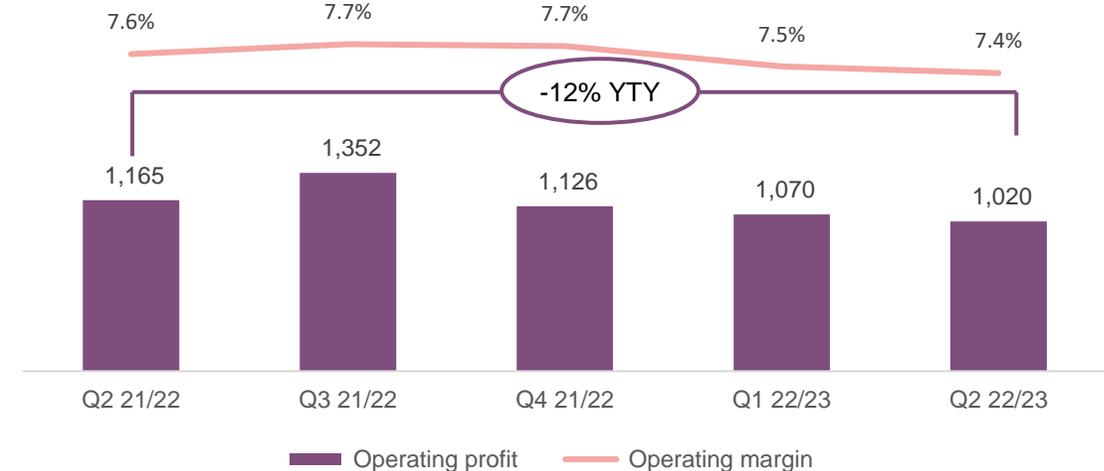
- Maintained #1 PC position while extending lead over competitors despite exacerbated market headwinds
- Real market demand, as measured by global PC activation data, more re-assuring than shipment data
- Smartphone business remained profitable for the 10<sup>th</sup> consecutive quarter
- Operating margin largely remained robust, thanks to operational excellence and improved premium sales mix with revenue up 4% YTY
  - Sales from gaming PC, the front runner of the premium segment, jumped 34% YTY
- Smart Collaboration Solutions grew by double-digits, securing wins across regions

## Performance

### Revenue



### Operating Profit and Margin



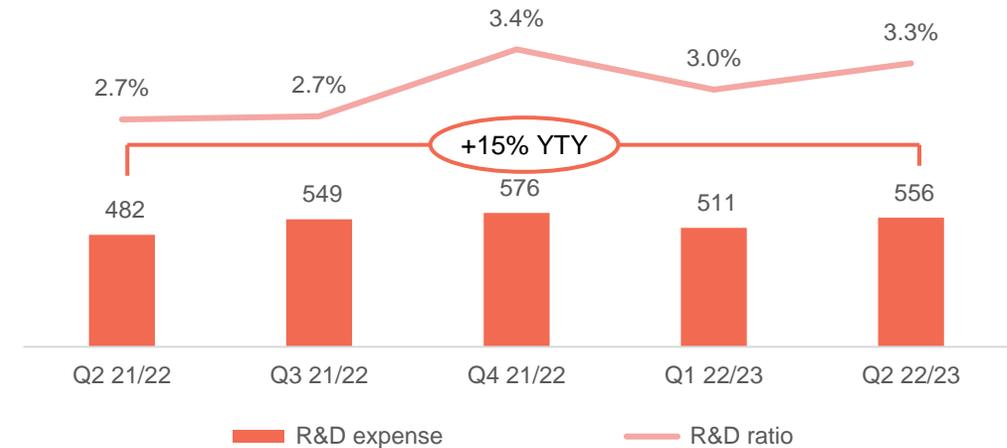
<sup>1</sup>IDG mainly consists of PC, tablet, smartphone, and smart devices business

# Improved R&D Spending to Drive Innovation and Margin Growth

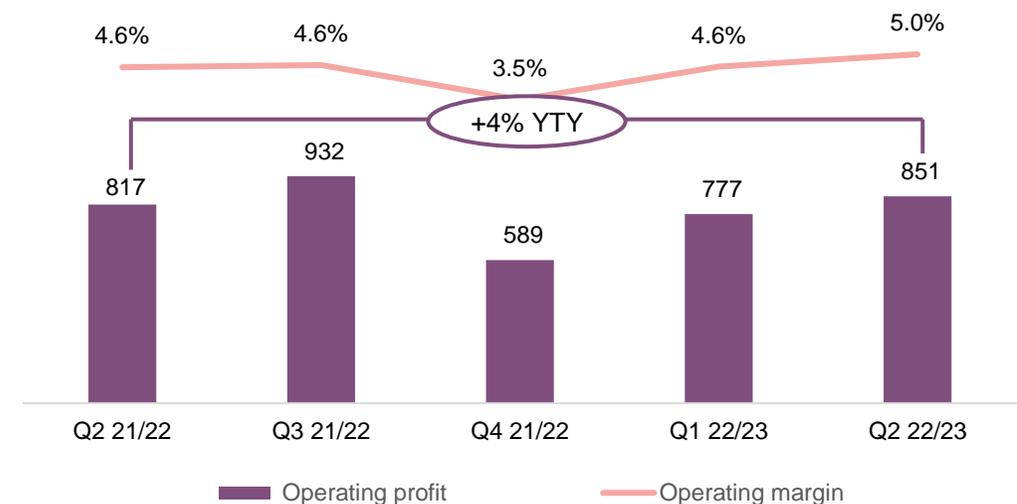
- R&D spending grew 15% YTY
- Innovative effort, combined with disciplined cost control, boosted operating margin to a record 5%
- Investments in technology leadership and differentiation:
  - High value-added products and key components
  - Edge, Multi-Cloud, and Cloud-related software and hardware
  - 5G networking capabilities
  - AI-enabled solutions and service offerings
  - ESG features and services across all Business Groups

## Performance

R&D Expenses and Ratio to Revenue



Group Operating Profit and Margin



# ESG Updates

 <p><b>Environmental</b></p>	<p>Committed to a vision of <b>net-zero by 2050</b><sup>1</sup></p>	<p>Introduced <b>certified recycled metal</b> in the covers of four notebooks<sup>2</sup></p>	<p><b>Plastic-free packaging</b> for ThinkPad X1 &amp; Z series</p>
 <p><b>Social</b></p>	<p>Established a partnership with <b>Leping Foundation</b> for product accessibility</p>	<p><b>30,000 beneficiaries</b> for our annual global employee volunteer event</p>	<p>Launched the 2<sup>nd</sup> annual TransforMe campaign for <b>STEM upskilling of adults</b></p>
 <p><b>Governance</b></p>	<p>Included in the <b>MSCI Green Bond Index</b></p>	<p>87% of suppliers achieved <b>RBA VAP recognition</b><sup>3</sup></p>	<p><b>Best score within the IT industry</b> on the Hang Seng Corporate Sustainability Index (AA+)</p>

1.Targets under review for validation by the Science Based Targets Initiative

2.75% recycled aluminum for the A/C covers of the ThinkPad Z13 Gen 1 and the ThinkPad Z16 Gen 1; 50% recycled aluminum for the A cover of the Yoga 6 Gen 7; 90% recycled magnesium for the A/C covers of the ThinkPad X13s Gen 1

3.By spend for FY21/22

# Outlook

## Group Mission is to Lead and Enable Intelligent Transformation

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

### SSG: Serve as a 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 CSP 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-HKFRS Measures

# Financial Summary

US\$ Million	Q2 21/22	Q2 22/23	Y/Y%
Revenue	17,869	<b>17,090</b>	-4%
Gross profit	3,006	<b>2,877</b>	-4%
Operating expenses	(2,189)	<b>(2,026)</b>	-7%
Operating profit	817	<b>851</b>	4%
Operating profit (non-HKFRS)	900	<b>907</b>	1%
Other non-operating expenses	(75)	<b>(141)</b>	89%
Profit before taxation	742	<b>710</b>	-4%
Profit before taxation (non-HKFRS)	829	<b>768</b>	-7%
Taxation	(185)	<b>(156)</b>	-16%
Profit for the period	557	<b>554</b>	-1%
Profit for the period (non-HKFRS)	616	<b>598</b>	-3%
Profit attributable to			
Other non-controlling interests	45	<b>13</b>	-72%
Equity holders of the Company	512	<b>541</b>	6%
Equity holders of the Company (non-HKFRS)	591	<b>591</b>	(0%)
EPS (US cents)			
Basic	4.42	<b>4.54</b>	3%
Diluted	3.96	<b>4.23</b>	7%
Dividend (HKD cents)	8.00	<b>8.00</b>	0%
	Q2 21/22	Q2 22/23	
Gross margin	16.8%	<b>16.8%</b>	
Operating margin	4.6%	<b>5.0%</b>	
E/R ratio	12.3%	<b>11.9%</b>	
PTI margin	4.2%	<b>4.2%</b>	
Net margin	2.9%	<b>3.2%</b>	

# Condensed Consolidated Income Statement

US\$ Million	Q2 21/22	Q2 22/23
Revenue	17,869	<b>17,090</b>
Cost of sales	(14,863)	<b>(14,213)</b>
Gross profit	3,006	<b>2,877</b>
Selling and distribution expenses	(924)	<b>(886)</b>
Administrative expenses	(700)	<b>(546)</b>
Research and development expenses	(482)	<b>(556)</b>
Other operating income/(expenses) – net	(83)	<b>(38)</b>
Operating profit	817	<b>851</b>
Finance income	13	<b>38</b>
Finance costs	(86)	<b>(175)</b>
Share of losses of associates and joint venture	(2)	<b>(4)</b>
Profit before taxation (PTI)	742	<b>710</b>
Taxation	(185)	<b>(156)</b>
Profit for the period	557	<b>554</b>
Profit attributable to		
Other non-controlling interests	45	<b>13</b>
Equity holders of the Company	512	<b>541</b>
<b>Per share data</b>		
Earnings per share (US cents) – Basic	4.42	<b>4.54</b>
Earnings per share (US cents) – Diluted	3.96	<b>4.23</b>

# Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Sept 30, 2021	As of Sept 30, 2022
Current assets	27,572	<b>28,118</b>
Bank deposits and cash	3,731	<b>5,628</b>
Trade, notes and other receivables	14,569	<b>13,445</b>
Inventories	8,728	<b>8,418</b>
Others	544	<b>627</b>
Non-current assets	15,003	<b>15,175</b>
Property, plant and equipment	1,556	<b>1,581</b>
Intangible assets	8,239	<b>8,049</b>
Others	5,208	<b>5,545</b>
Current liabilities	31,345	<b>30,775</b>
Borrowings	482	<b>606</b>
Trade, notes, other payables, accruals and provisions	28,852	<b>27,886</b>
Deferred revenue	1,237	<b>1,528</b>
Others	774	<b>755</b>
Non-current liabilities	7,091	<b>6,891</b>
Borrowings	3,309	<b>3,937</b>
Deferred revenue	1,335	<b>1,335</b>
Others	2,447	<b>1,619</b>
Total equity	4,139	<b>5,627</b>

# Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 21/22	Q2 22/23
Net cash generated from operating activities	1,561	<b>2,084</b>
Net cash used in investing activities	(343)	<b>(806)</b>
Net cash generated from/(used) in financing activities	(717)	<b>625</b>
Increase in cash and cash equivalents	501	<b>1,903</b>
Effect of foreign exchange rate changes	(30)	<b>(124)</b>
Cash and cash equivalents at the beginning of the period	3,176	<b>3,788</b>
Cash and cash equivalents at the end of the period	3,647	<b>5,567</b>

# Supplemental Non-HKFRS Measures

US\$ Million	Q2 21/22				Q2 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>817</b>	<b>742</b>	<b>557</b>	<b>512</b>	<b>851</b>	<b>710</b>	<b>554</b>	<b>541</b>
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	21	21	8	29	(15)	(15)	(15)	(10)
Amortization of intangible assets resulting from mergers and acquisitions	62	63	48	47	60	60	46	47
Mergers and acquisitions related charges	-	3	3	3	11	13	13	13
<b>Non-HKFRS</b>	<b>900</b>	<b>829</b>	<b>616</b>	<b>591</b>	<b>907</b>	<b>768</b>	<b>598</b>	<b>591</b>

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