

Smarter technology for all

Q3FY23 Earnings Announcement

February 17, 2023

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

February 17, 2023

Lenovo

Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

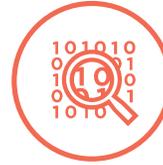
- Challenges persisted in the market
- Maintained **solid profitability**
- Strong growth of diversified engines
 - Non-PC businesses **41%** mix of total revenue
- PC kept leadership
- Operational excellence ensured resilience
- Investment on innovation & sustainability



Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

Opportunities



Continued acceleration of Digital/Intelligent transformations:

- Total IT spending back to moderate growth in mid-long term
- Sustainable customers' need for:
 - Smart devices/IoT
 - ICT infrastructure
 - Solutions and services

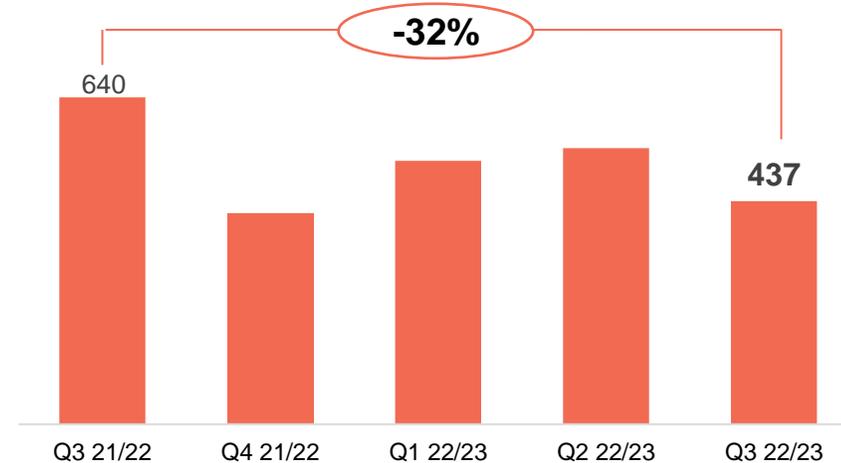
Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

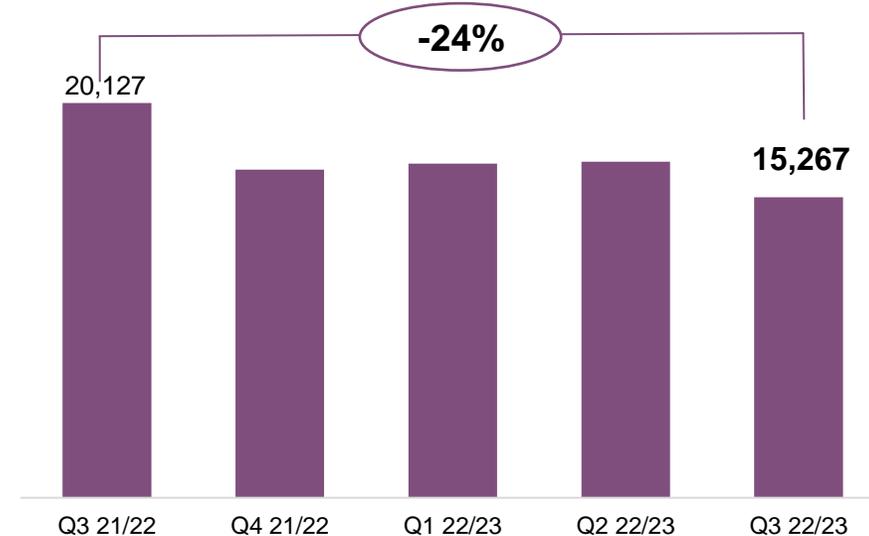
- Net income \$437 million, declined 32% YTY
- Revenue \$15.3 billion, declined 24% YTY, or 18% YTY in constant currency
- All main businesses achieved **5th consecutive quarter of operating profit**

Performance

Group Net Income (\$M)



Group Revenue (\$M)



Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

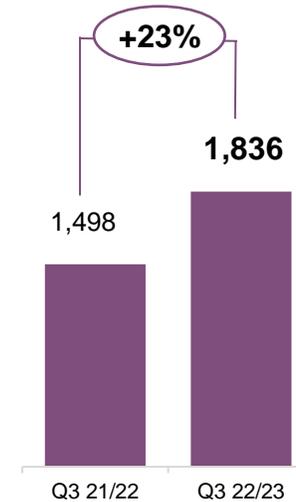
- New diversified growth engines saw high double-digit revenue growth YTY
 - SSG¹: up 23% YTY
 - ISG²: up 48% YTY
- Further drove operational excellence:
 - Higher efficiency & lower expense
 - Stronger cash position
 - Improved cash conversion cycle
 - Reduced channel inventory

¹ SSG: Solutions & Services Group

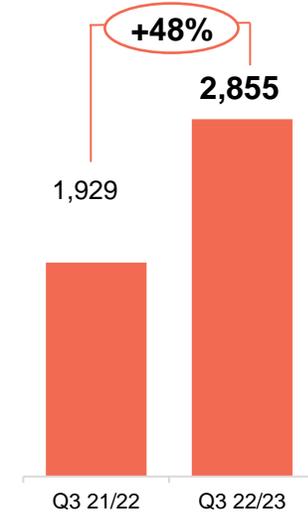
² ISG: Infrastructure Solutions Group

Performance

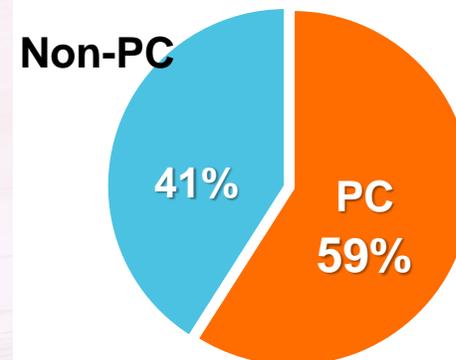
SSG Revenue (\$M)



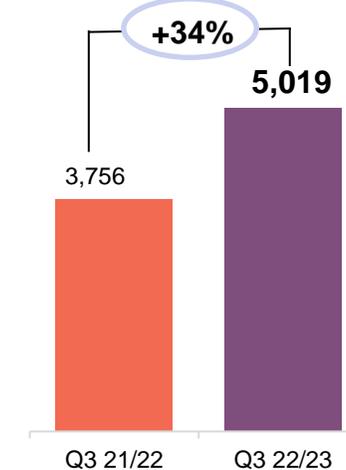
ISG Revenue (\$M)



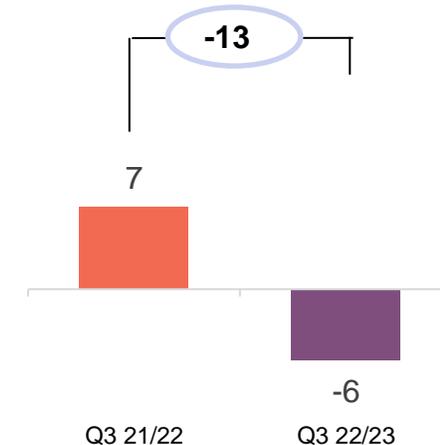
PC & Non-PC Revenue Mix (%)



Group Cash Position (\$M)



Group Cash Conversion Cycle (Days)



Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

Sustainable growth

- Continue investment in R&D around New IT architecture
- Drive internal digital & intelligent transformation
- Accelerate ESG efforts
- Strengthen One Lenovo sales platform

SSG

Solutions & Services Group:

Record Revenue, High Margin

Opportunities



Trillion-dollar IT services market to remain strong in mid-long term

- Strong growth in Managed Services
- Hybrid infrastructure solutions essential
- Spending on vertical solutions & services remain growth



Lenovo's strategic intent:

Scale with high profitability in 3 segments:

- Support Services
- Managed Services
- Project & Solution Services

SSG

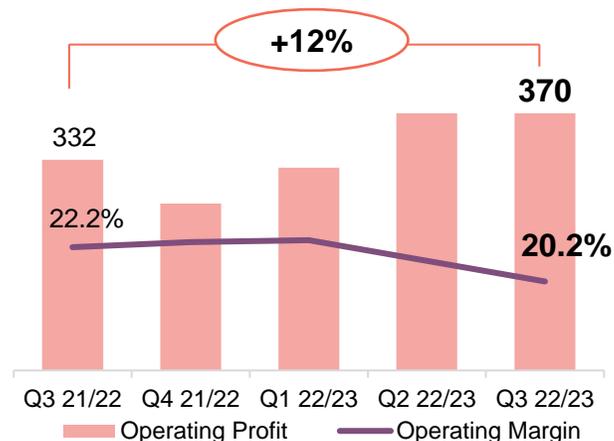
Solutions & Services Group:

Record Revenue, High Margin

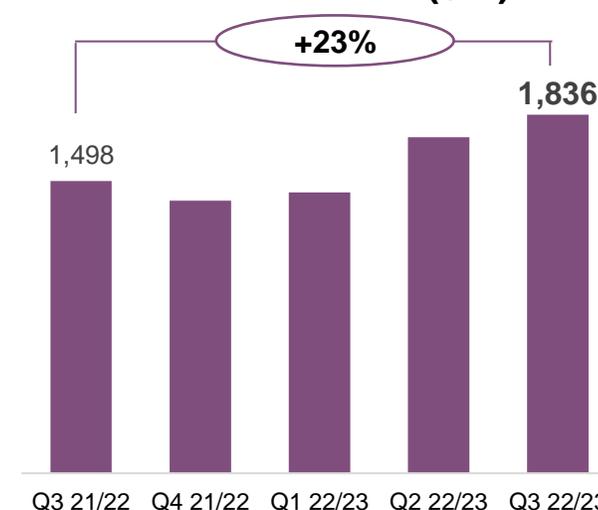
- Operating margin 20.2%, Operating profit up 12% YTY
- Revenue up 23% YTY
- All segments delivered high profitability and strong growth
- Managed Services, Project & Solution Services account for 53% of SSG revenue

Performance

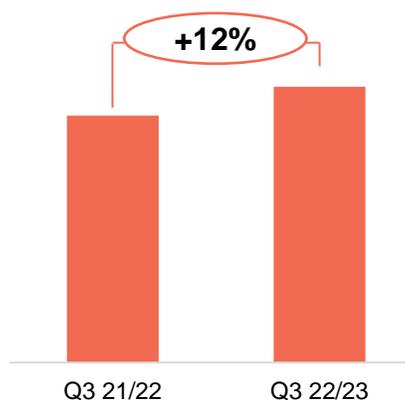
SSG Operating Profit (\$M) & Margin (%)



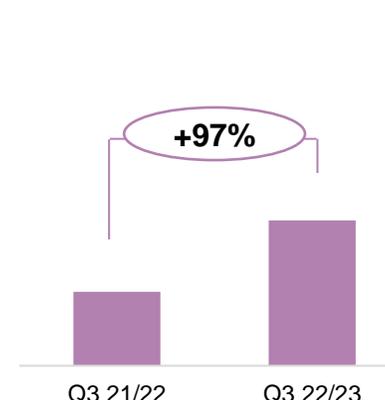
SSG Revenue (\$M)



Support Services Revenue YTY Growth (%)



Managed Services Revenue YTY Growth (%)



Project & Solution Services Revenue YTY Growth (%)



SSG

Solutions & Services Group:

Record Revenue, High Margin

Sustainable growth

- Invest in building scalable and repeatable horizontal and vertical solutions with Lenovo IPs
- Enrich digital workplace solutions
- Strengthen hybrid cloud portfolio
- Expand sustainability offerings

ISG

Infrastructure Solutions Group:

Record Revenue, Record Profit

Lenovo

2023 Lenovo Internal. All rights reserved.

Opportunities



ICT Infrastructure upgrade continues

By 2025:

- Server to reach \$135 billion
- Edge infrastructure to reach \$37 billion
- Storage to reach \$35 billion



Lenovo's strategic intent:

Comprehensive infrastructure solutions provider from Edge to Cloud including hardware, software, solutions & services



Infrastructure Solutions Group:

Record Revenue, Record Profit

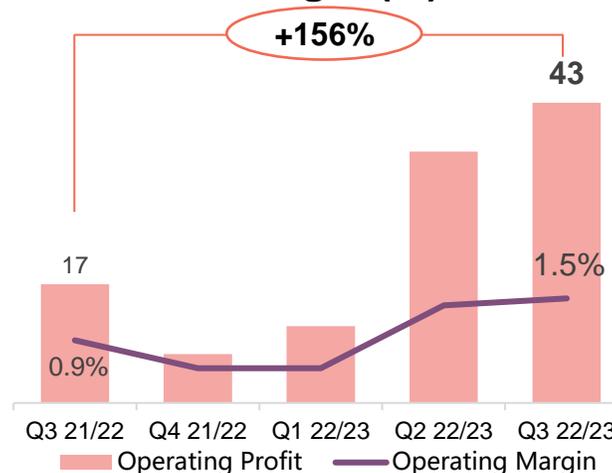
- Record operating profit \$43 million, YTY improvement for 7 straight quarters
- Record revenue \$2.9billion, up 48% YTY
- Server: Record revenue, up 35% YTY, now #3 in the world
- Storage: Record revenue, up 345% YTY, now #5 in the world
- Software: Record revenue, up 52% YTY



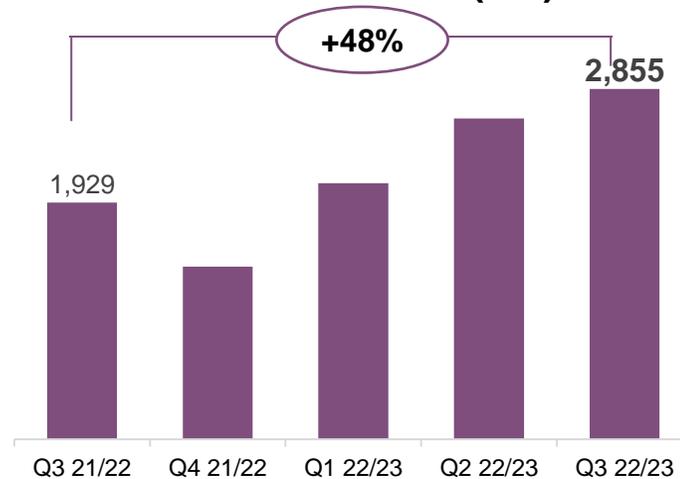
2023 Lenovo Internal. All rights reserved.

Performance

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

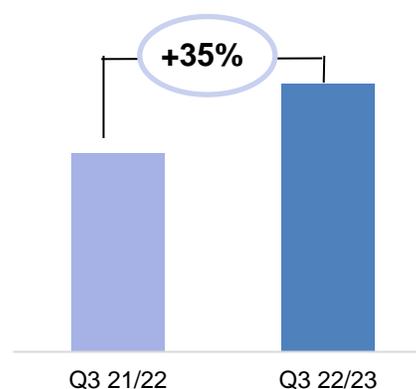


ISG Revenue (\$M)



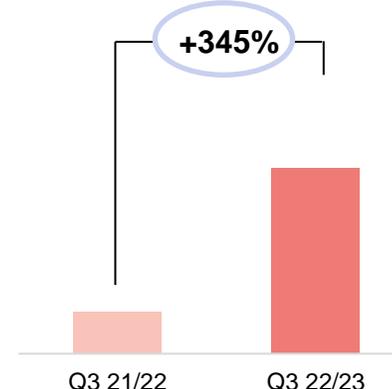
Server Business

Revenue YTY Growth (%)



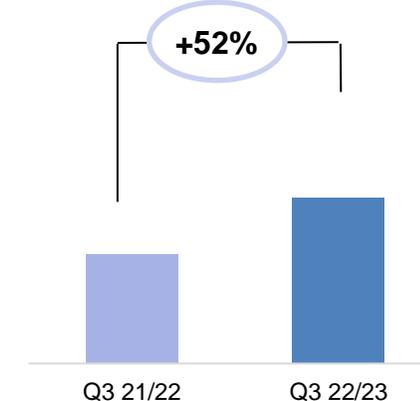
Storage Business

Revenue YTY Growth (%)



Software Business

Revenue YTY Growth (%)



Source: Internal, IDC

ISG

Infrastructure Solutions Group:

Record Revenue, Record Profit

Sustainable growth

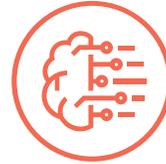
- Enhance comprehensive infrastructure portfolio
- Invest in innovations, particularly in A.I. empowered edge computing & hybrid cloud
- Balance scale & profitability

IDG

Intelligent Devices Group:

Solid Profitability, Expansion into Growth Areas

Opportunities



Digitalization & Hybrid work model bring growth opportunities

- PC: shipment to stabilize at higher than pre-pandemic level in 2H 2023
- Smart spaces solutions steadily grow



Lenovo's strategic intent:

- Invest in innovation & premium segments
- Expand business beyond PCs (adjacent devices, IoTs, Smart Spaces)

IDG

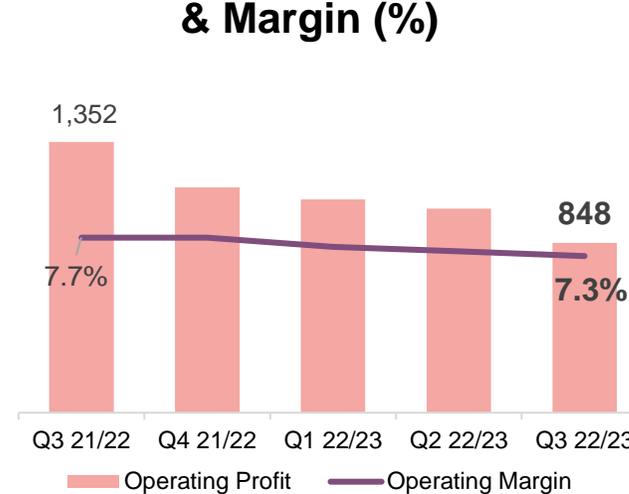
Intelligent Devices Group:

Solid Profitability, Expansion into Growth Areas

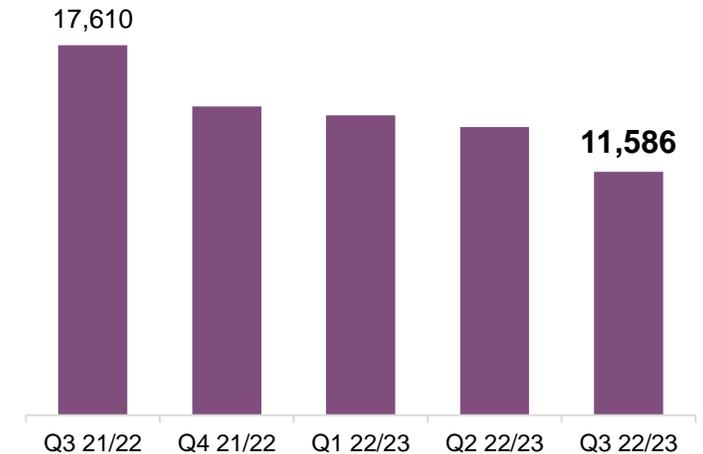
- Maintained industry leading profitability, operating margin 7.3%
- PC: solid #1, market share 23.1%
- Smartphone: profitable for 11 straight quarters
- Tablet: expanded premium product mix to 33%
- Smart Spaces solutions: strong growth potential

Performance

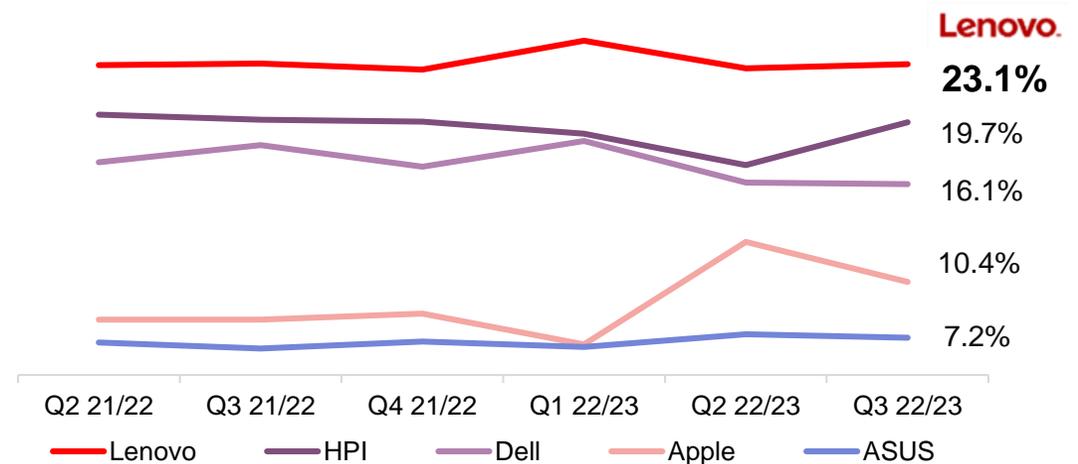
IDG Operating Profit (\$M) & Margin (%)



IDG Revenue (\$M)



PC Market Share (%)



IDG

Intelligent Devices Group:

Solid Profitability, Expansion into Growth Areas

Sustainable growth

- Reduce expense, improve efficiency to ensure business healthiness
- Invest in innovation: premier PC, adjacent devices & accessories, software & ecosystem
- Drive the evolution from smart devices to smart spaces to improve user experience in hybrid workspace

Strong Execution of Strategy Transcend the Cycle

- Diversified growth engines
- Operational resilience
- Healthy liquidity
- Innovation investment in New IT

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

February 17, 2023

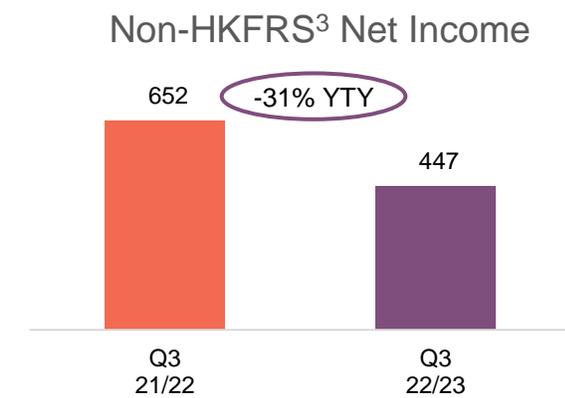
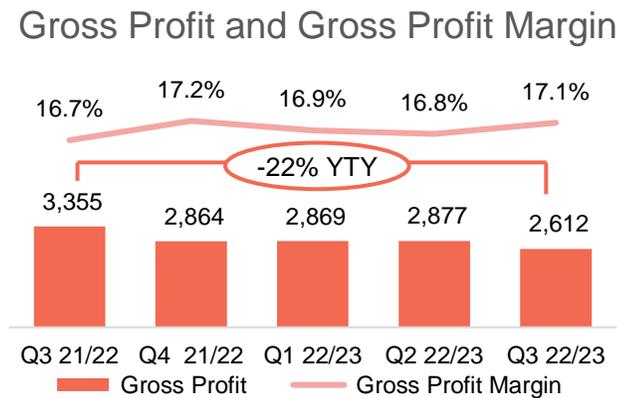
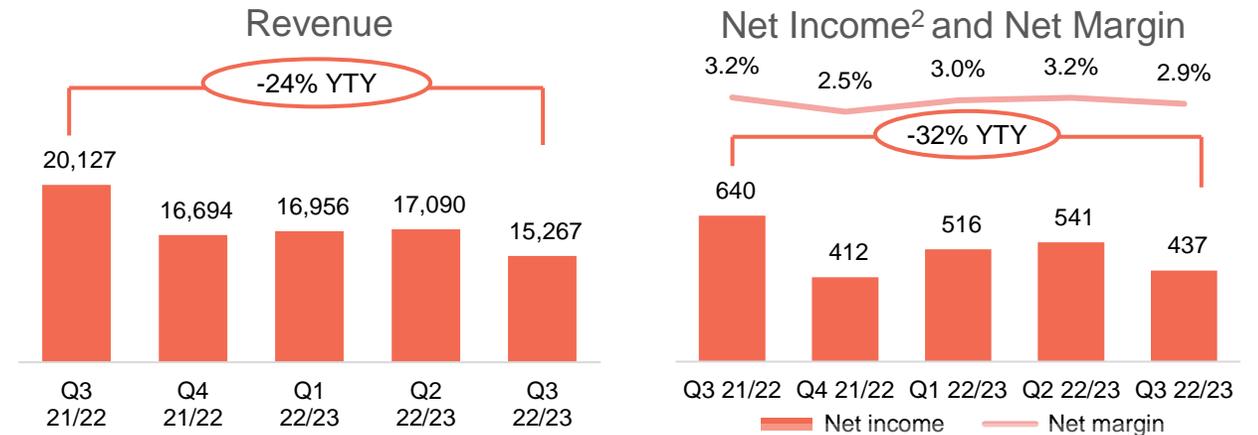
Lenovo

Stable Earnings; On-going Transformation

- Record gross margin and operating margin in Q3 despite persistent market headwinds thanks to operational excellence and non-PC¹ strength
- Non-PC¹ sales made up 41% of Group revenue, up 9pts YTY; combined ISG and SSG profit grew 19% YTY
- The Group maintained industry leading profitability in PC despite a trough in IDG

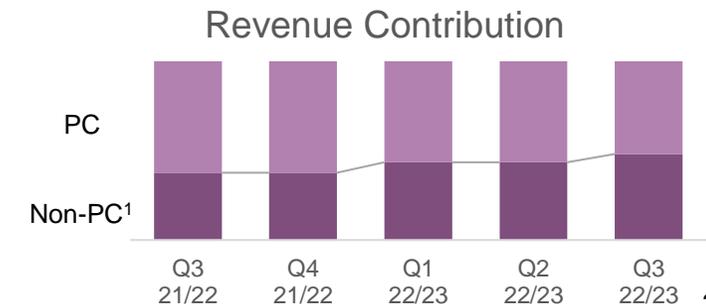
¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG ² Profit attributable to equity holders; ³ Non-HKFRS measure were adjusted by excluding (i) net fair value changes on financial assets at fair value through profit or loss, (ii) amortization of intangible assets resulting from mergers and acquisitions, and (iii) mergers and acquisitions related charges; and the corresponding income tax effects, if any

Performance



Revenue Contribution (%) by Geography

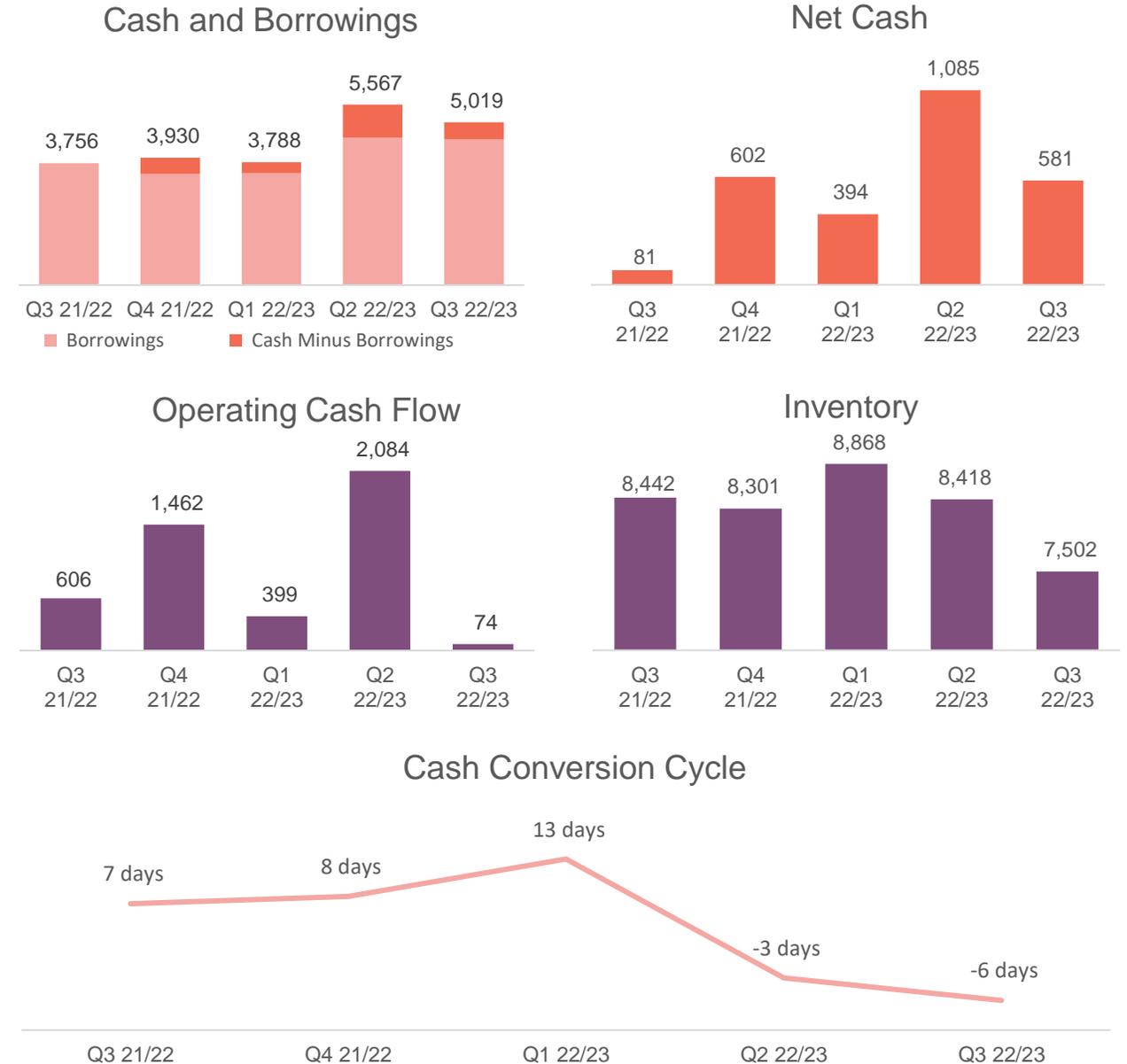
| | | |
|--------------|----|----------|
| China | 28 | -22% YTY |
| Asia Pacific | 16 | -23% YTY |
| Americas | 33 | -18% YTY |
| EMEA | 23 | -35% YTY |



Strong Working Capital Management

- Our cash balance exceeded \$5 billion at the end of the quarter, up 34% year-on-year
- Net cash reached \$581mn and grew by \$500mn YTY, a testament to the Group's operational excellence
- Cash conversion cycle improved by 13 days YTY
- Inventory level reduced by 11% QTQ and YTY to \$7.5bn with accelerated inventory adjustments
- Solid operating cash flow from progress in optimizing operations to support business agility amid macro challenges

Performance

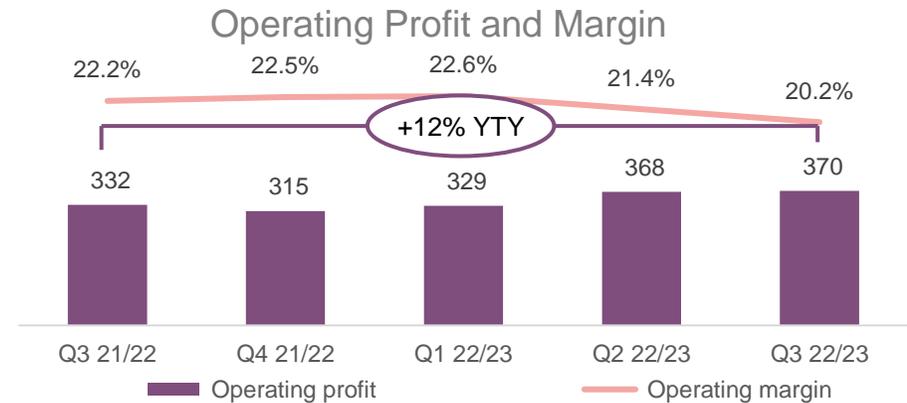
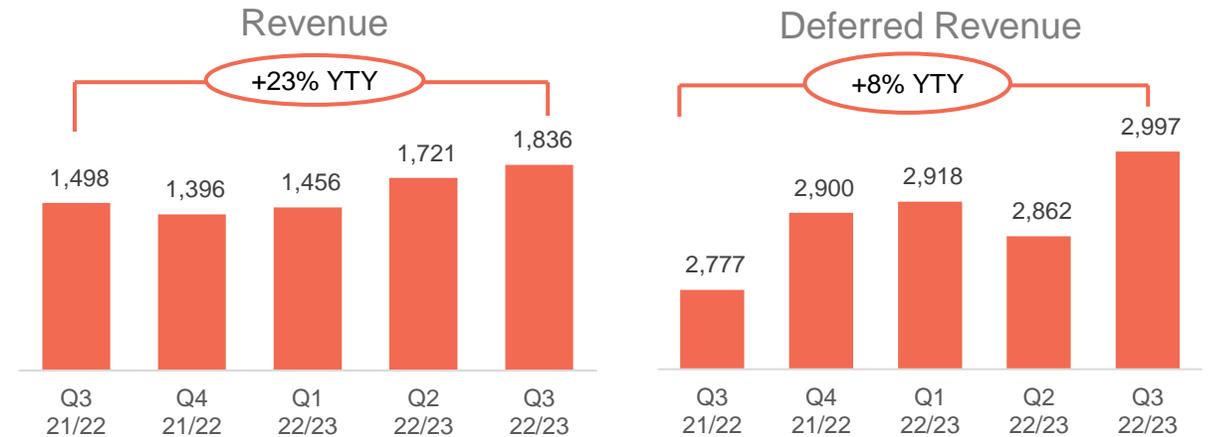


SSG

Solutions & Services Group

- Record revenue, up 23% YTY. Operating profit up 12% YTY to \$370mn.
- Profitability remained high across three service segments; operating margin significantly higher than Group average
- Deferred revenue nearly \$3bn to reflect recurring revenue momentum
- Managed Services and Project and Solution Services made up 53% of SSG revenue (record high), up 4pts YTY while Managed Service revenue almost doubled YTY

Performance



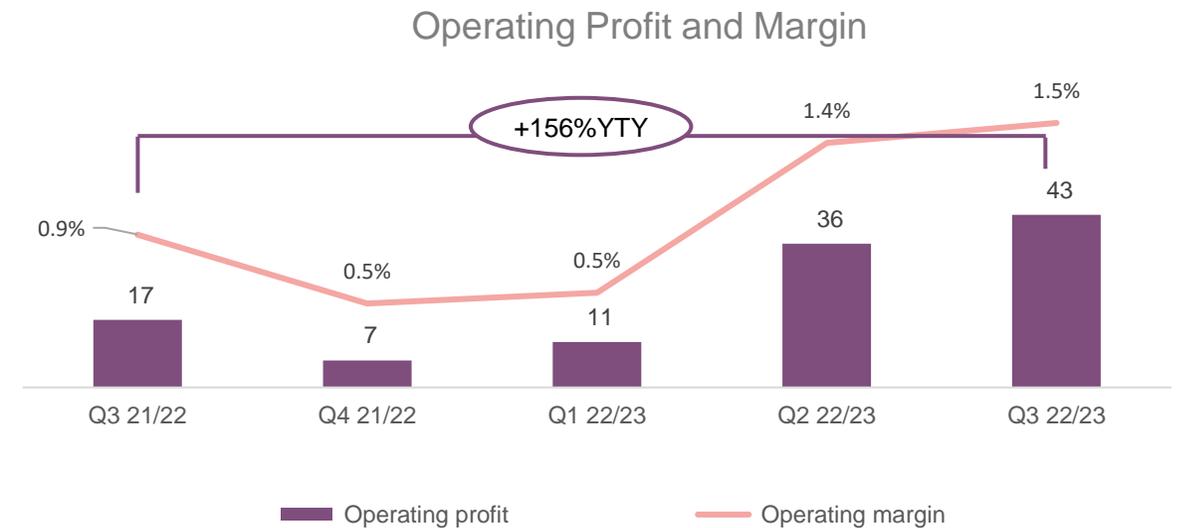
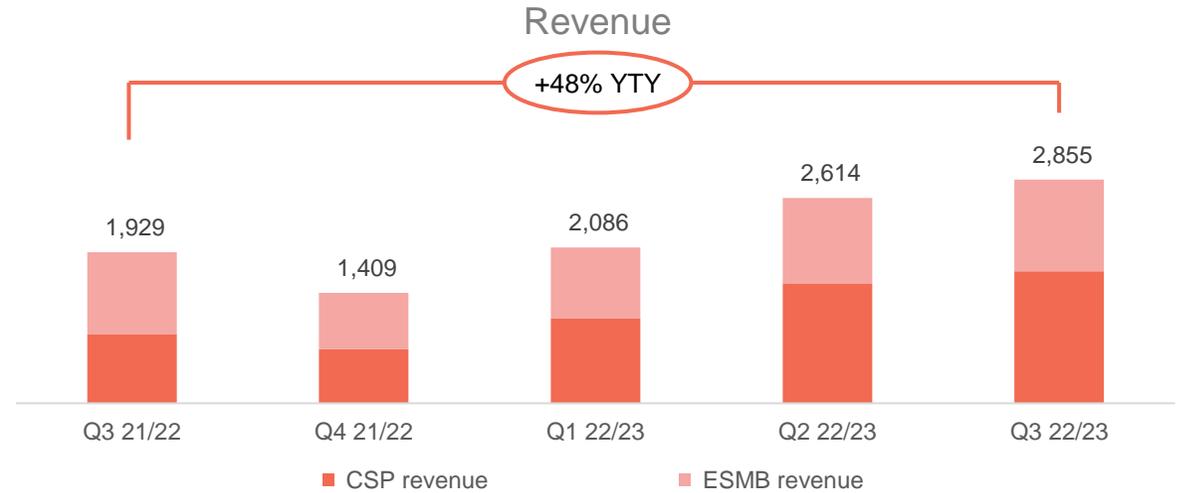
Record high penetration rate in Support Services drove revenue up **12%** YTY despite device market decline

Managed Services achieved **97%** revenue growth YTY thanks to **strong as-a-Service momentum**

Project & Solution Services recorded **7%** revenue growth YTY over growing adoption of **Solutions with Lenovo IPs**

- Consistently outperforming the market with new milestones:
 - Record revenue and operating profit**
 - 3rd consecutive quarters of revenue and profit records;
 - 3rd and 7th consecutive quarters of revenue and operating profit YTY increase;
 - Record revenue** in CSP – high double-digit growth YTY
 - Record revenue** in ESMB – double-digit growth YTY
 - Record revenue** for North America and EMEA
 - All-time-high sales** in Server, Storage, Software and AI Edge led to a 156% YTY growth in operating profit

Performance

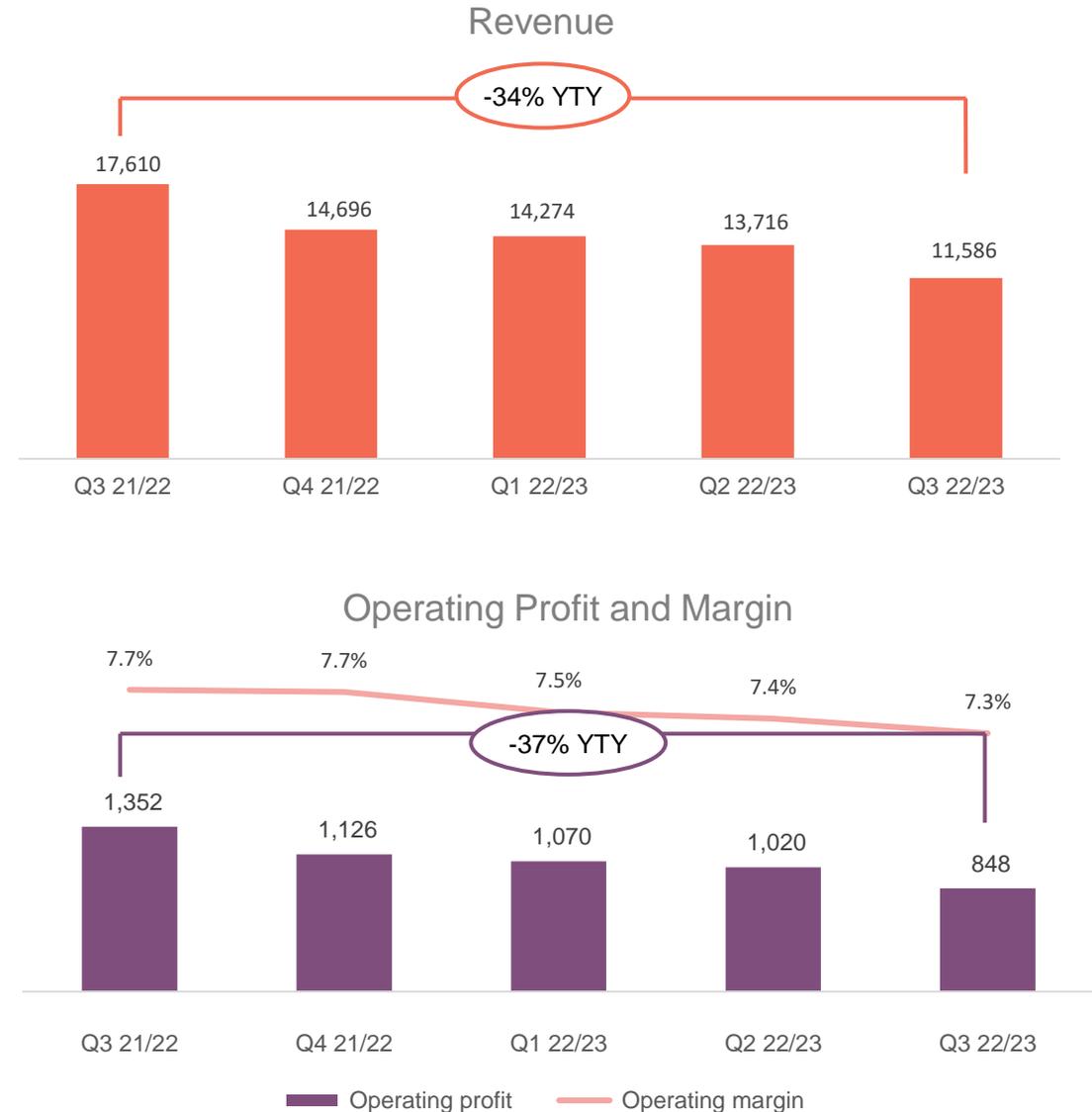


IDG

Intelligent Devices Group¹

- IDG revenue decreased 34% YTY amid a tough market with operating profit margin at 7.3% thanks to operational excellence and disciplined expense control
- Non-PC² driving long-term growth:
 - **Smartphone:** profitable for 11 consecutive quarters
 - **Tablet:** premium products reaching 33% of the mix
 - **Smart Collaboration Solutions:** key wins across geographical and global accounts

Performance



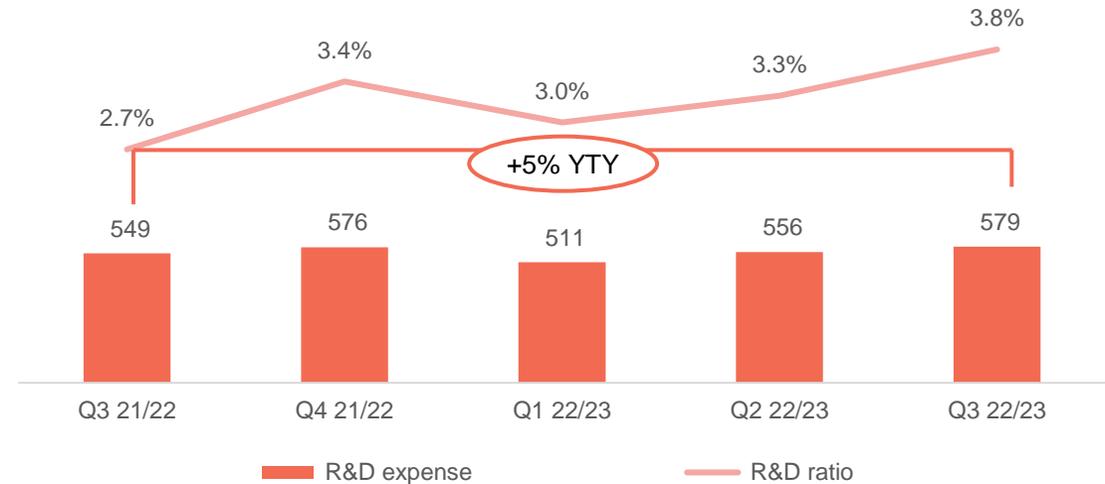
¹ IDG mainly consists of PC, tablet, smartphone, and smart devices business ² Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

Continued R&D Investment to Drive Innovation

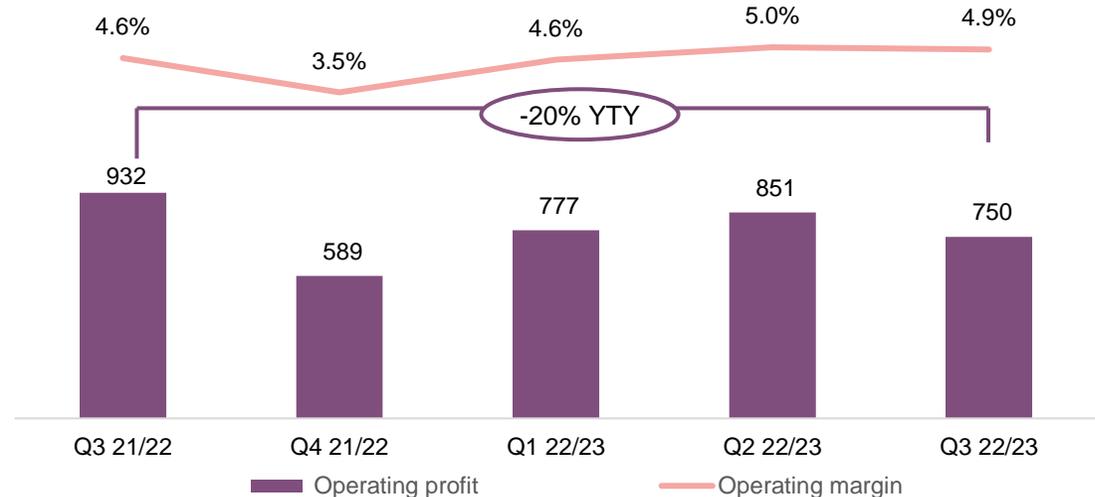
- R&D spending grew 5% YTY to support future investments. Total operating expenses dropped 23% YTY
- Investments in technology leadership and differentiation:
 - High value-added products and key components
 - Edge, Multi-Cloud, and Cloud-related software and hardware
 - 5G networking capabilities
 - AI-enabled solutions and service offerings
 - ESG innovations and services

Performance

R&D Expenses and Ratio to Revenue



Group Operating Profit and Margin



ESG Achievements

| | | | |
|---|---|---|---|
|  <p>Environmental</p> | <p>First group of 139 companies with validated¹ net-zero targets</p> | <p>Leader in both CDP Climate Change and Water Security with ‘A-’ ranking</p> | <p>Muse 2022 Silver Award for reduction in packaging² by 35% through AI</p> |
|  <p>Social</p> | <p>SC.ESG Awards³ commendation for social capital concepts in ESG and sustainability policies</p> | <p>On track to exceed KPI of impacting 15 million lives by 2025</p> | <p>62,605 beneficiaries of Lenovo’s annual global employee volunteer event</p> |
|  <p>Governance</p> | <p>Ranked #24 in Boston Consulting Group’s list of Top 50 Innovative Companies</p> | <p>Achieved AAA rating by MSCI (Morgan Stanley Capital International)</p> | <p>Corporate Governance Excellence Award⁴ for Hang Seng Index Constituent Companies</p> |

1. Targets validated by Science Based Targets Initiative by the Net-Zero Standard;

2. Lenovo’s Service Supply Chain achieved higher density packaging through a new "IP System Intelligent Excessive Pre-alert" system in our WW hub. Artificial Intelligence (AI) system makes packaging recommendations, further reducing our cost and carbon emissions in shipping.

3. By the Community Investment and Inclusion Fund (CIIF) of the Home and Youth Affairs Bureau in collaboration with Hong Kong Quality Assurance Agency (HKQAA).

4. By the Chamber of Hong Kong Listed Companies (CHKLC) & Centre for Corporate Governance & Financial Policy (CCGFP) of Hong Kong Baptist University (HKBU).

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 | Q3 21/22 | Q3 22/23 | Y/Y% |
|--|----------|----------------|------|
| Revenue | 20,127 | 15,267 | -24% |
| Gross profit | 3,355 | 2,612 | -22% |
| Operating expenses | (2,423) | (1,862) | -23% |
| Operating profit | 932 | 750 | -20% |
| Operating profit (non-HKFRS) | 920 | 729 | -21% |
| Other non-operating income/(expenses), net | (77) | (145) | 88% |
| Profit before taxation | 855 | 605 | -29% |
| Profit before taxation (non-HKFRS) | 845 | 587 | -31% |
| Taxation | (173) | (123) | -29% |
| Profit for the period | 682 | 482 | -29% |
| Profit for the period (non-HKFRS) | 672 | 464 | -31% |
| Profit attributable to | | | |
| Other non-controlling interests | 42 | 45 | 6% |
| Equity holders of the Company | 640 | 437 | -32% |
| Equity holders of the Company (non-HKFRS) | 652 | 447 | -31% |
| EPS (US cents) | | | |
| Basic | 5.50 | 3.65 | -34% |
| Diluted | 4.92 | 3.44 | -30% |
| | Q3 21/22 | Q3 22/23 | |
| Gross margin | 16.7% | 17.1% | |
| Operating margin | 4.6% | 4.9% | |
| E/R ratio | 12.0% | 12.2% | |
| PTI margin | 4.2% | 4.0% | |
| Net margin | 3.2% | 2.9% | |

Condensed Consolidated Income Statement

| US\$ Million | Q3 21/22 | Q3 22/23 |
|---|----------|----------|
| Revenue | 20,127 | 15,267 |
| Cost of sales | (16,772) | (12,655) |
| Gross profit | 3,355 | 2,612 |
| Selling and distribution expenses | (1,012) | (871) |
| Administrative expenses | (730) | (480) |
| Research and development expenses | (549) | (579) |
| Other operating income/(expenses) – net | (132) | 68 |
| Operating profit | 932 | 750 |
| Finance income | 15 | 42 |
| Finance costs | (91) | (185) |
| Share of losses of associates and joint venture | (1) | (2) |
| Profit before taxation (PTI) | 855 | 605 |
| Taxation | (173) | (123) |
| Profit for the period | 682 | 482 |
| Profit attributable to | | |
| Other non-controlling interests | 42 | 45 |
| Equity holders of the Company | 640 | 437 |
| Per share data | | |
| Earnings per share (US cents) – Basic | 5.50 | 3.65 |
| Earnings per share (US cents) – Diluted | 4.92 | 3.44 |

Condensed Consolidated Balance Sheet

| <i>US\$ Million</i> | As of Dec 31, 2021 | As of Dec 31, 2022 |
|---|--------------------|--------------------|
| Current assets | 30,483 | 26,131 |
| Bank deposits and cash | 3,829 | 5,081 |
| Trade, notes and other receivables | 17,847 | 13,222 |
| Inventories | 8,442 | 7,502 |
| Others | 365 | 326 |
| Non-current assets | 15,164 | 15,617 |
| Property, plant and equipment | 1,583 | 1,927 |
| Intangible assets | 8,138 | 8,185 |
| Others | 5,443 | 5,505 |
| Current liabilities | 33,701 | 28,917 |
| Borrowings | 434 | 608 |
| Trade, notes, other payables, accruals and provisions | 31,301 | 25,940 |
| Deferred revenue | 1,347 | 1,600 |
| Others | 619 | 769 |
| Non-current liabilities | 7,154 | 7,028 |
| Borrowings | 3,314 | 3,891 |
| Deferred revenue | 1,430 | 1,397 |
| Others | 2,410 | 1,740 |
| Total equity | 4,792 | 5,803 |

Condensed Consolidated Cash Flow Statement

| US\$ Million | Q3 21/22 | Q3 22/23 |
|--|----------|--------------|
| Net cash generated from operating activities | 606 | 74 |
| Net cash used in investing activities | (389) | (407) |
| Net cash used in financing activities | (110) | (301) |
| Increase/(decrease) in cash and cash equivalents | 107 | (634) |
| Effect of foreign exchange rate changes | 2 | 86 |
| Cash and cash equivalents at the beginning of the period | 3,647 | 5,567 |
| Cash and cash equivalents at the end of the period | 3,756 | 5,019 |

Supplemental Non-HKFRS Measures

| US\$ Million | Q3 21/22 | | | | Q3 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 |
| As reported | 932 | 855 | 682 | 640 | 750 | 605 | 482 | 437 |
| Non-HKFRS adjustments | | | | | | | | |
| Net fair value changes on financial assets at fair value through profit or loss | (75) | (75) | (61) | (39) | (74) | (74) | (64) | (36) |
| Amortization of intangible assets resulting from mergers and acquisitions | 63 | 63 | 49 | 49 | 53 | 53 | 43 | 43 |
| Mergers and acquisitions related charges | - | 2 | 2 | 2 | - | 3 | 3 | 3 |
| Non-HKFRS | 920 | 845 | 672 | 652 | 729 | 587 | 464 | 447 |

**Smarter
technology
for all**

Lenovo

thanks.