

Smarter technology for all

Q4 and FY22/23 Earnings Announcement

May 24, 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

May 24, 2023

Lenovo

Group:

Stable Profitability, Steady Transformation

- Market condition evolved within our expectations among uncertainties
- **Steady progress** in service-led transformation and technology-driven innovation
- **Stable profitability** driven by diversified growth engines and operational resilience



Group:

Stable Profitability, Steady Transformation

Opportunities



Continued acceleration of Digital/Intelligent transformations:

- Device market inventory correction coming to an end to resume growth in 2H2023
- Cloud and the entire computing infrastructure demand increasing
- IT service market to resume relatively high growth
- Total IT market back to moderate growth

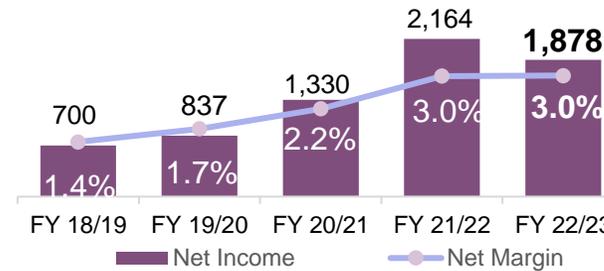
Group:

Stable Profitability, Steady Transformation

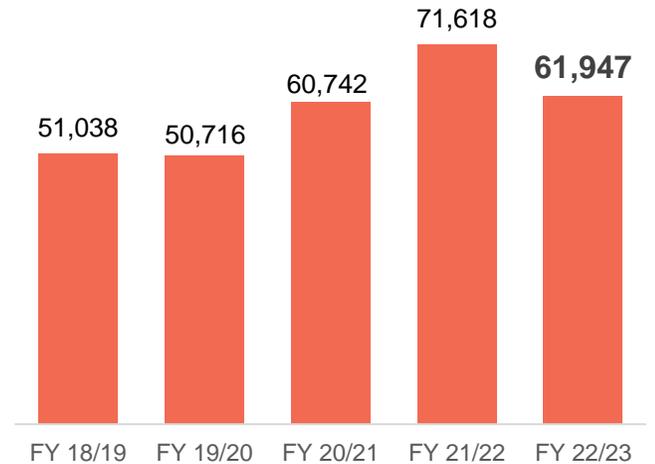
- Net margin **3%**, flat YTY (non-HKFRS)
- Strong revenue growth in diversified growth engines
- Non-PC revenue mix **39%**, up 7 pts YTY
- Further drove operational excellence with stronger cash position and improved cash conversion cycle

Performance of FY2022/2023

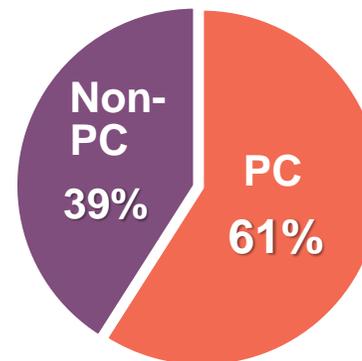
Group Net Income (\$M) & Net Margin (%) (non-HKFRS)



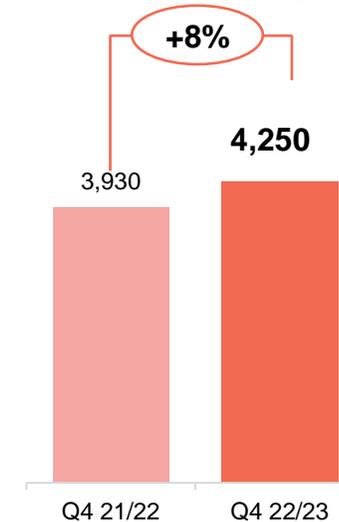
Group Revenue (\$M)



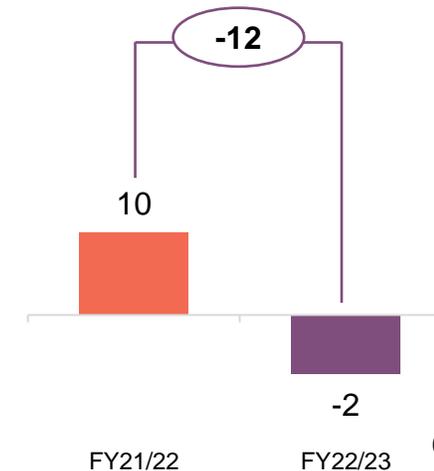
PC & Non-PC Revenue Mix (%)



Group Cash Position (\$M)



Group Cash Conversion Cycle (Days)



Group:

Stable Profitability, Steady Transformation

Sustainable growth

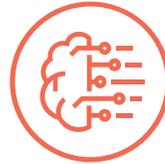
- Continue investment in R&D around New IT architecture
- Deepen ESG commitment
- Proactive expense actions to mitigate risks

SSG

Solutions & Services Group:

High Margin, Strong Growth

Opportunities



Trillion-dollar IT services market keeps expanding

By 2025:

- DaaS market to grow at double digits
- Cloud solution market to grow at 18% CAGR
- Vertical solutions & services spending steady growth



Lenovo's strategic intent:

Scale with high profitability in 3 segments:

- Enhance Support Services
- Enlarge Managed Services & aaS
- Grow Project & Solution Services with hero horizontal solution offerings

SSG

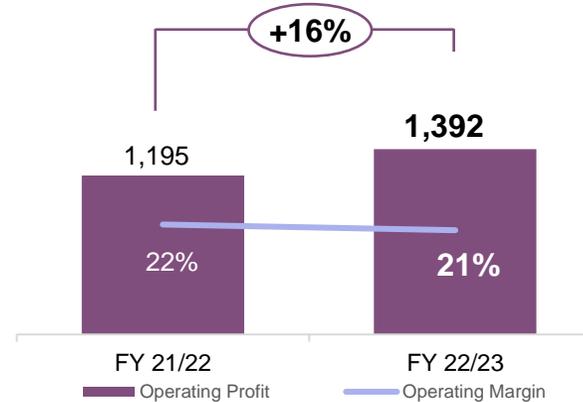
Solutions & Services Group:

High Margin, Strong Growth

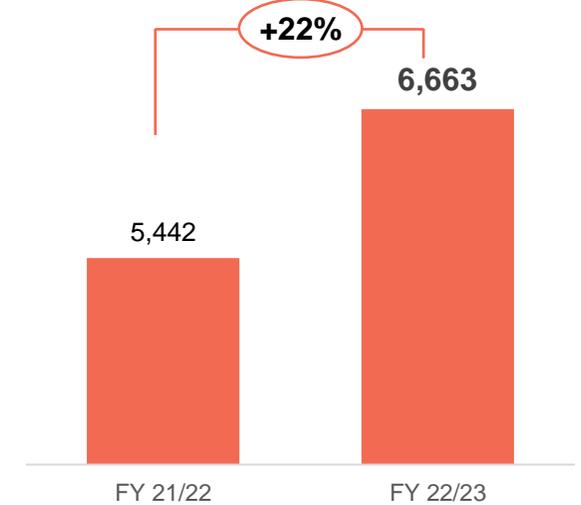
- Record revenue \$6.7 billion, up 22% YTY
- Operating margin 21%, operating profit up 16% YTY
- High double-digit revenue growth across all segments
- Managed Services, Project & Solution Services account for 51% of SSG revenue, +3 points YTY

Performance of FY2022/2023

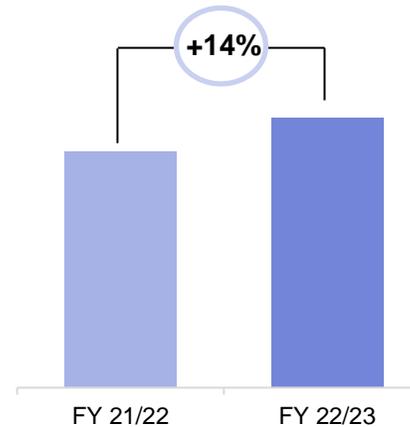
SSG Operating Profit (\$M) & Operating Margin (%)



SSG Revenue (\$M)



Support Services Revenue YTY Growth



Managed Services Revenue YTY Growth



Project & Solution Services Revenue YTY Growth



SSG

Solutions & Services Group:

High Margin, Strong Growth

Sustainable growth

- Build scalable and repeatable horizontal solutions with Lenovo IPs to deploy in vertical industries
 - Enrich Digital Workplace Solutions
 - Develop TruScale Hybrid Cloud solutions portfolio & other aaS
 - Grow sustainability solutions & services

ISG

Infrastructure Solutions Group:

Record Revenue, Record Profit and Hypergrowth

Lenovo

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Opportunities



ICT Infrastructure upgrade continues

By 2025:

- Server to reach \$132 billion
- Storage to reach \$36 billion
- Edge infrastructure to reach \$37 billion



Lenovo's strategic intent:

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



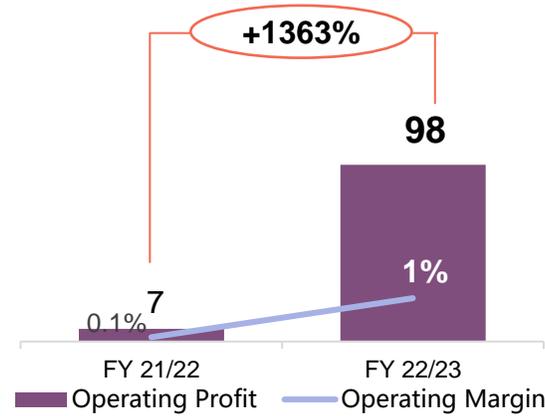
Infrastructure Solutions Group:

Record Revenue, Record Profit and Hypergrowth

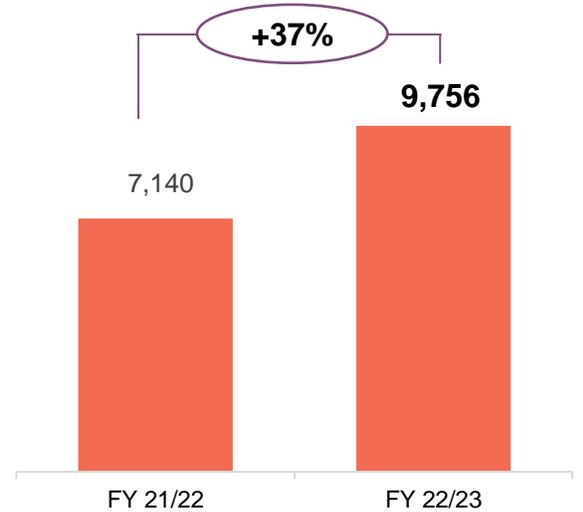
- Record operating profit \$98 million
- Record revenue \$9.8 billion, up 37% YTY
- Server: record revenue, +29% YTY, now global #3
- Storage: record revenue, +208% YTY, now global #5
- Software: record revenue, +25% YTY

Performance of FY2022/2023

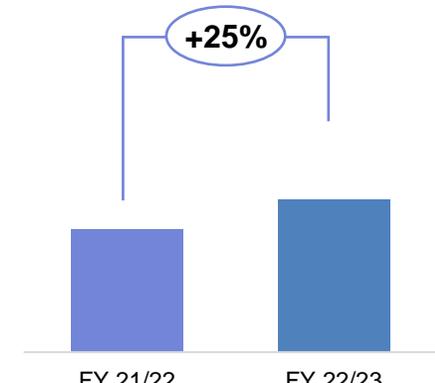
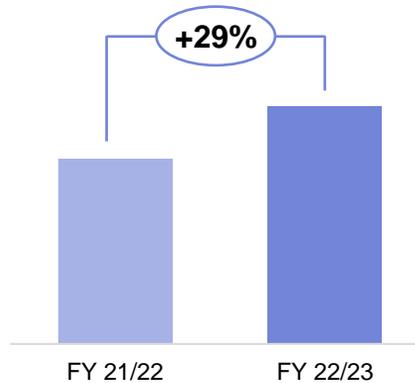
ISG Operating Profit (\$M) & Operating Margin (%)



ISG Revenue (\$M)



Server Business Revenue YTY Growth (%) **Storage Business** Revenue YTY Growth (%) **Software Business** Revenue YTY Growth (%)



ISG

Infrastructure Solutions Group:

Record Revenue, Record Profit and Hypergrowth

Sustainable growth

- Strengthen in-house manufacturing
- Improve full stack product capabilities supporting both CSP* & E/SMB**
- Invest in infrastructure innovations empowered by A.I.

IDG

Intelligent Devices Group:

Leading Market Position and Profitability

Opportunities



Digitalization & Hybrid work model bring growth opportunities

- Smart devices:
 - PC: return to YTY growth in 2H 2023 and accelerate in 2024
 - Smartphone: resume growth gradually
- Smart Spaces solutions steadily grow



Lenovo's strategic intent:

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

IDG

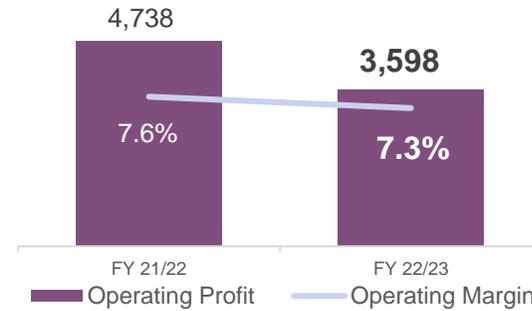
Intelligent Devices Group:

Leading Market Position and Profitability

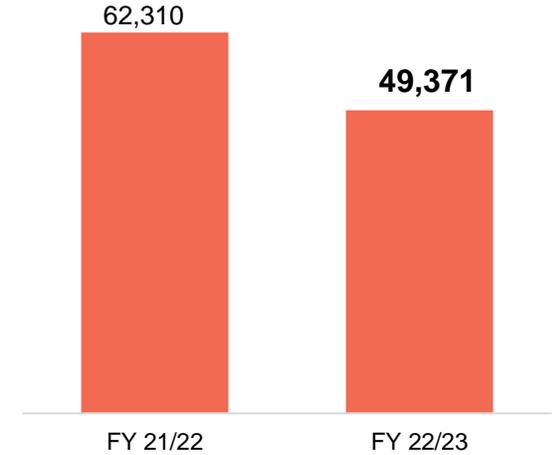
- PC: maintained global #1, premium mix 30%
- Mobile: profitable for the 3rd consecutive year, strong premium-to-market revenue growth in most geographies
- Smart Space solutions: great growth potential

Performance of FY2022/2023

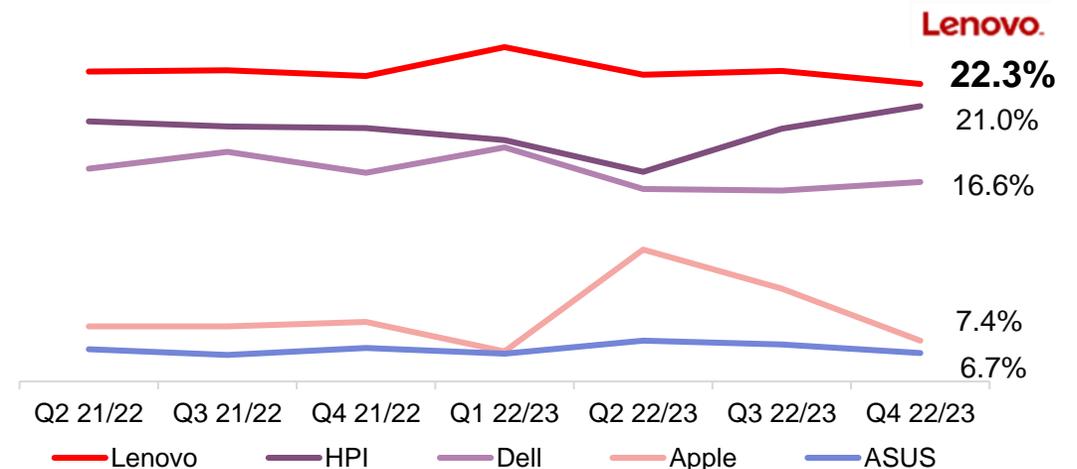
IDG Operating Profit (\$M) & Operating Margin(%)



IDG Revenue (\$M)



PC Market Share (%)



IDG

Intelligent Devices Group:

Leading Market Position and Profitability

Sustainable growth

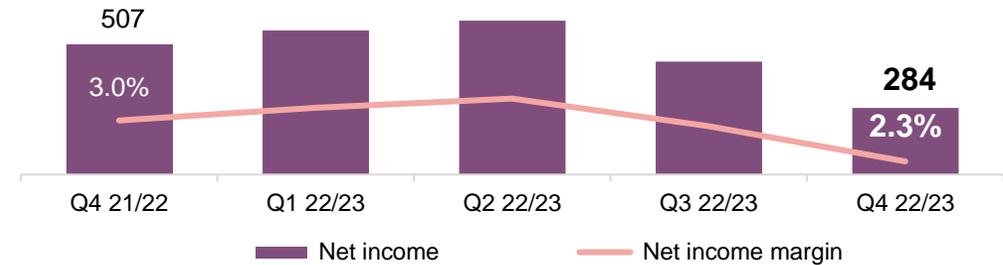
- Manage expense, sharpen operational excellence
- Invest in innovations of premium offerings & adjacent areas
- Enhance smart space solutions for hybrid work model

Q4: Holding Strong in a Challenging Market

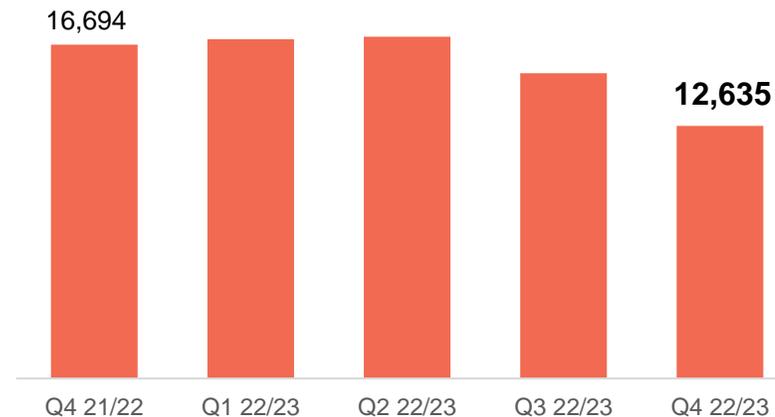
- Net margin 2.3% (non-HKFRS) despite the most challenging quarter of the year
- Diversified growth engines partly offset the device market softness
- Record high non-PC revenue mix 43%, up 12 pts YTY
- One-time restructuring and other charges to mitigate the risk & build a solid foundation for future growth

Performance of FY2022/2023 Q4

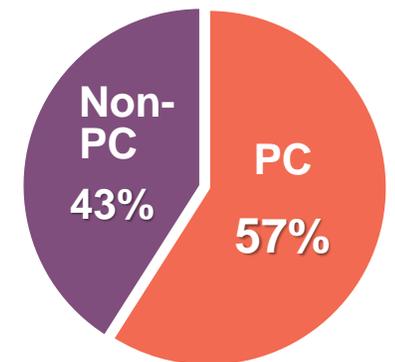
Group Net Income (\$M) & Net Margin (%)
(non-HKFRS)



Group Revenue (\$M)



PC & Non-PC
Revenue Mix (%)



Fully prepared to capture the next growth opportunities



**Clear
Strategy**



**Operational
Excellence**



**Invest for
the Future**

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

May 24, 2023

Lenovo

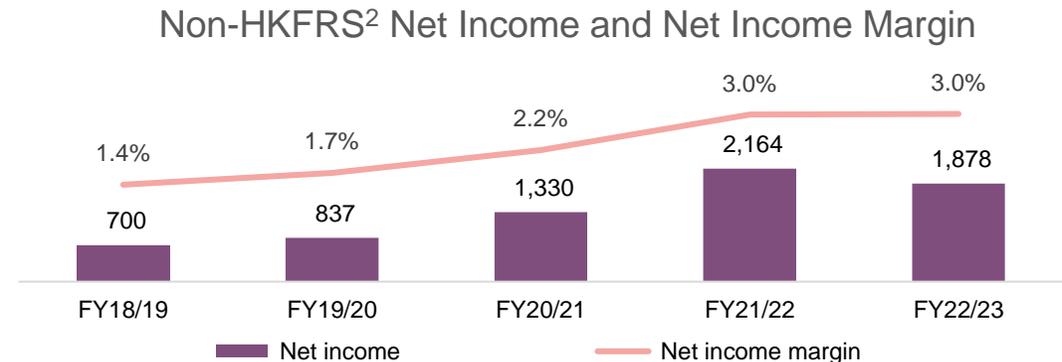
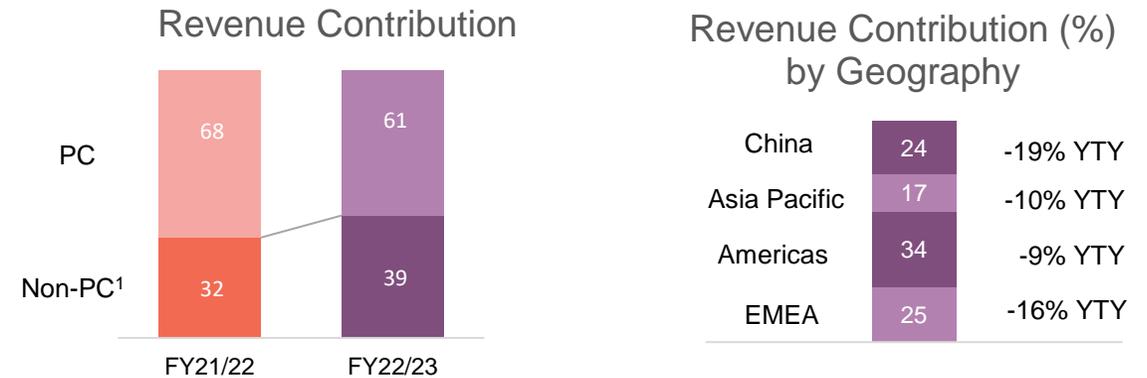
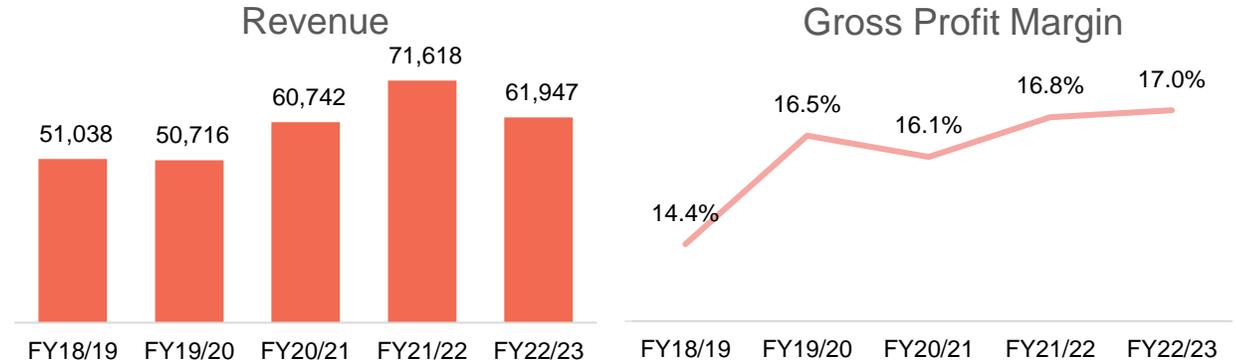
Diversified Growth Engines

- 18-year record gross and operating margin. Sustained steady YTY non-HKFRS net margin at 3%
- Non-PC¹ sales contribution to business group revenue mix increased by 7 pts YTY to nearly 40%, leveraging Transformation, Innovation & Execution
- ISG and SSG combined revenue and operating profit of rose 31% and 24% respectively
- Despite sector headwinds, IDG maintained leadership in sector market share and profitability

¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG

² Net income margin under HKFRS for FY22/23 was 2.6%. Please refer to the penultimate slide – Supplemental Non-HKFRS Measures – in this presentation for more details.

Performance – FY22/23



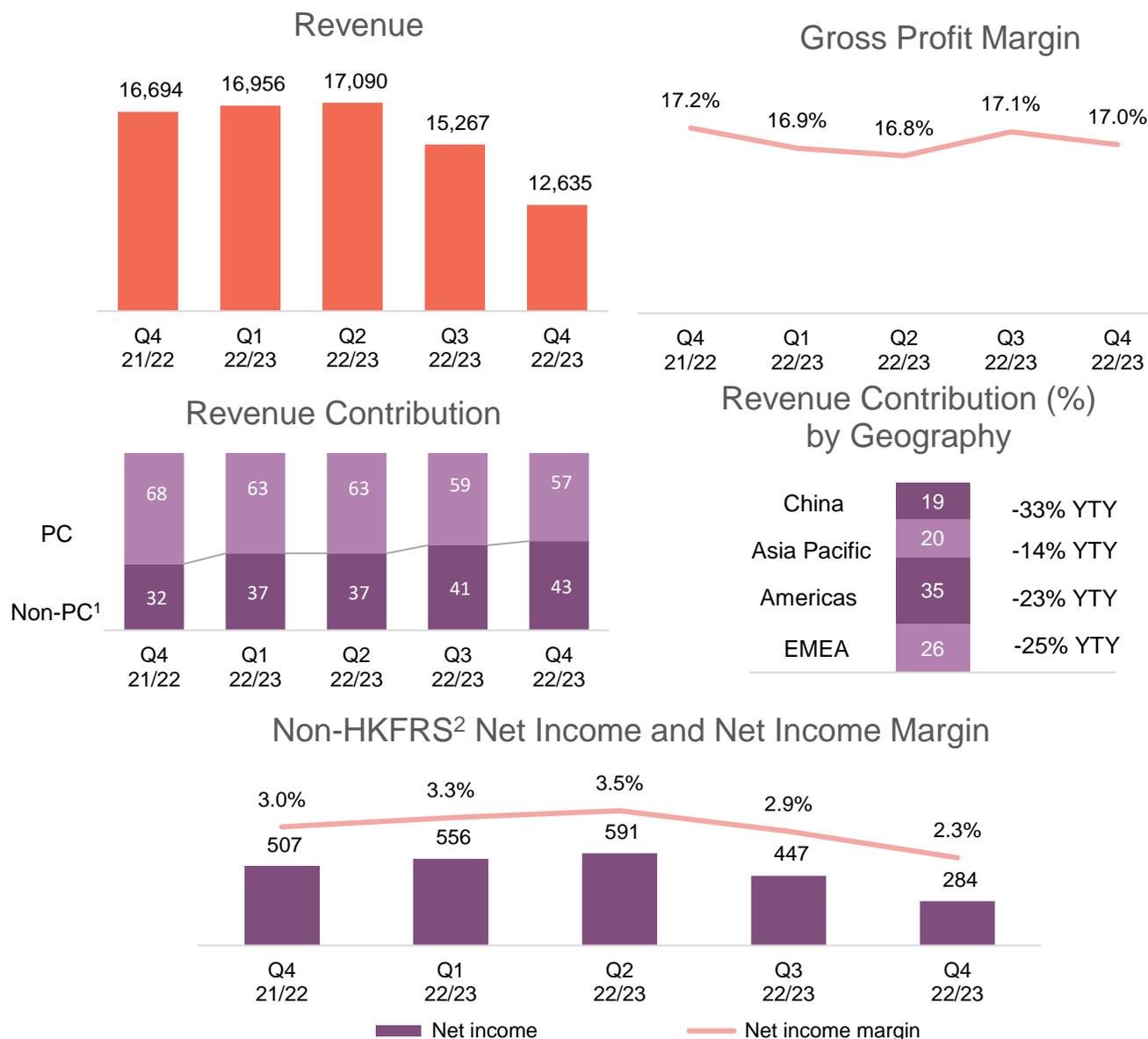
Accelerated Non-PC Growth Opportunities

- Non-PC¹ sales contribution to business group revenue mix rose sharply to 43%, up 12 pts YTY
- ISG and SSG combined revenue grew by 37% YTY to a new milestone, partly mitigating IDG's 33% decline in sales
- One-time restructuring and other charges at \$249mn, among various other actions, delivered about \$850mn annual in run-rate group expense savings
- Non-HKFRS² net margin was reported at 2.3%

¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG
² Net income margin under HKFRS for Q4FY22/23 was 0.9%. Please refer to the penultimate slide – Supplemental Non-HKFRS Measures – in this presentation for more details.



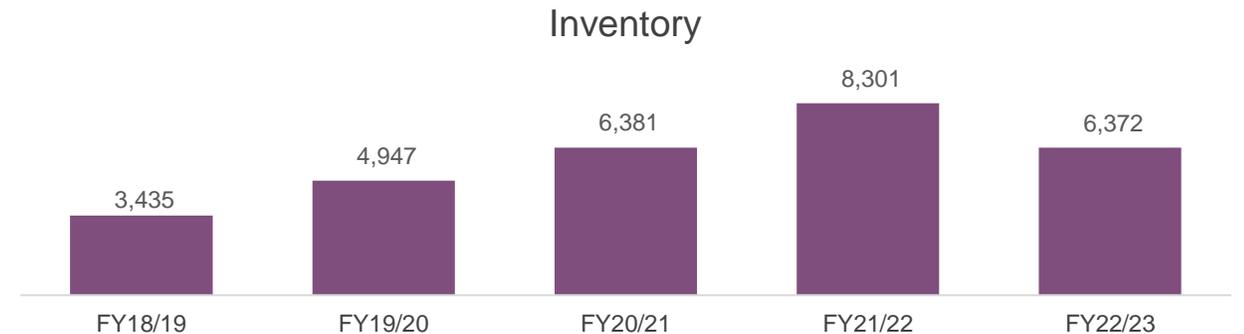
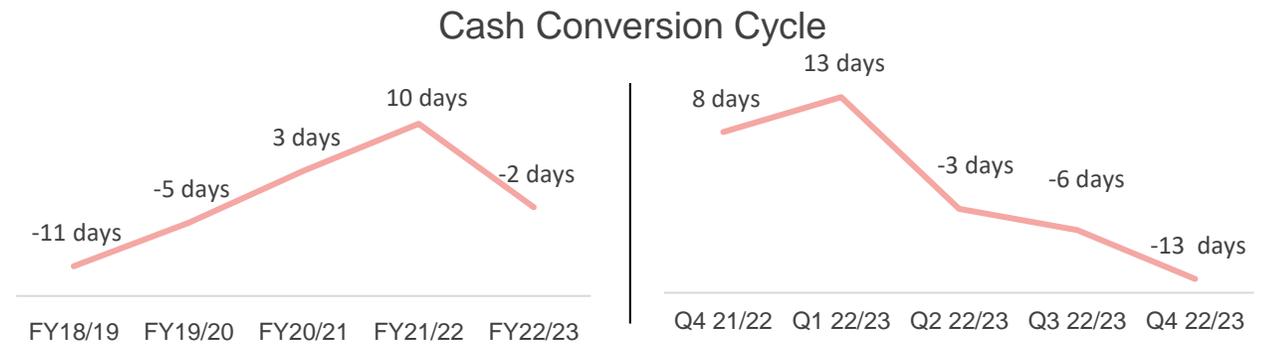
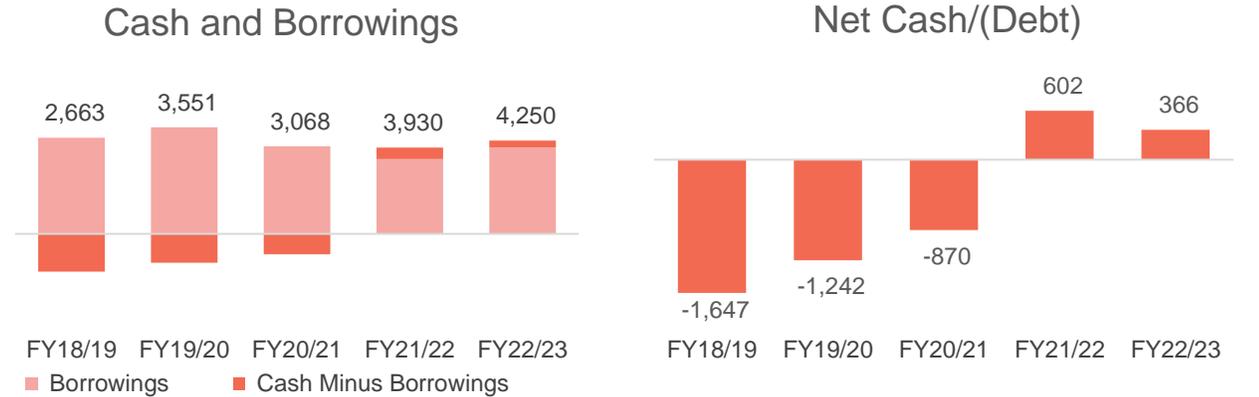
Performance – Q4 FY22/23



Strong Working Capital Management

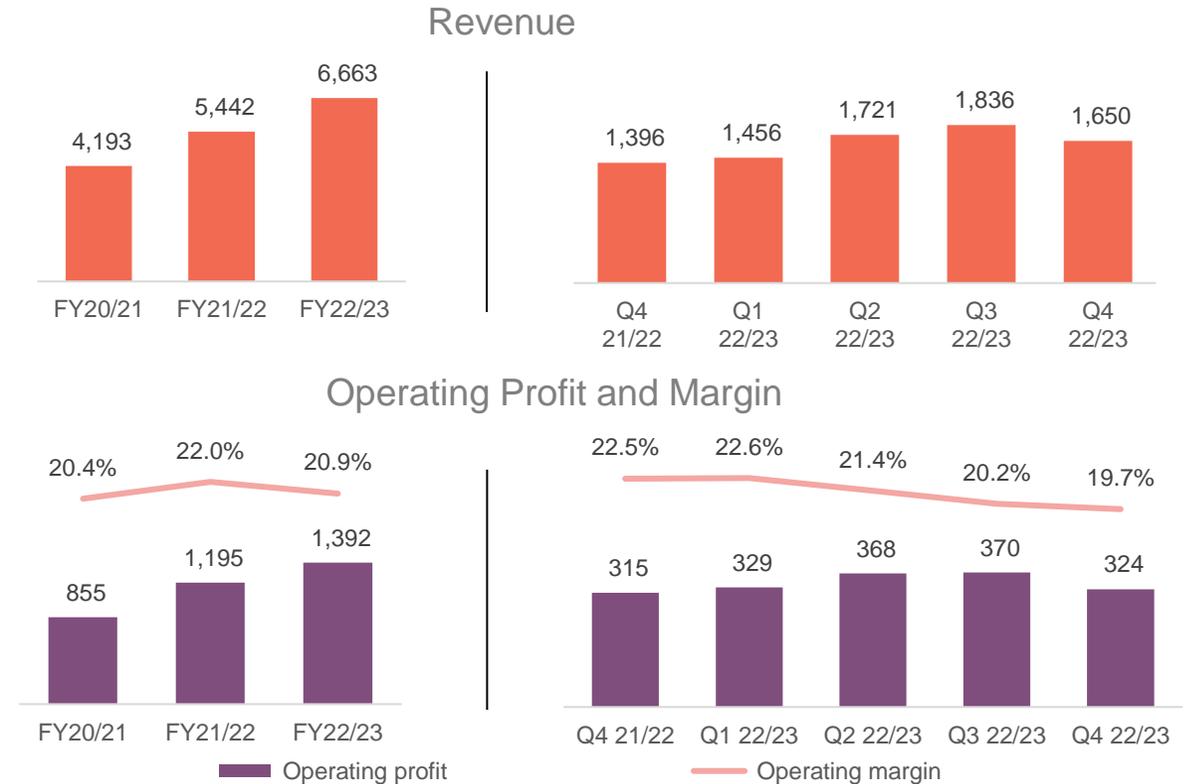
- Maintained net cash position at \$366mn in a volatile environment with cash levels over \$4bn, up \$320mn YTY
- Cash conversion cycle improved by 12 days YTY in FY23
- Inventory level dropped by 23% YTY to \$6.4bn with accelerated adjustments
- Stable operating cash flow from optimized operations to support business agility amid macro challenges

Performance



- Double-digit revenue growth and profit margin since formation of SSG
 - **Revenue** up 22%YTY in FY22/23
 - **Operating profit margin** at 21%, higher than Group average
- Double-digit revenue growth across three business segments, led by Managed Services' 67% YTY growth on the back of strong as-a-Service adoption
- Managed Services and Project & Solution Services made up over half of SSG's revenue
- Record high service penetration rate
- Launched AI-powered offerings such as Premier Support Plus and Digital Workplace Solutions

Performance



50%+
of SSG's revenue from non-hardware centric business

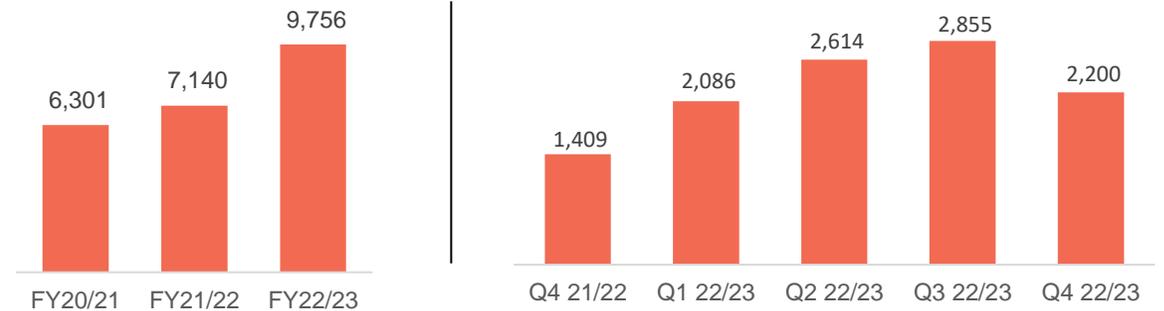
67%
YTY growth of Managed Services revenue

8th
consecutive quarter of double-digit revenue growth and profit margin

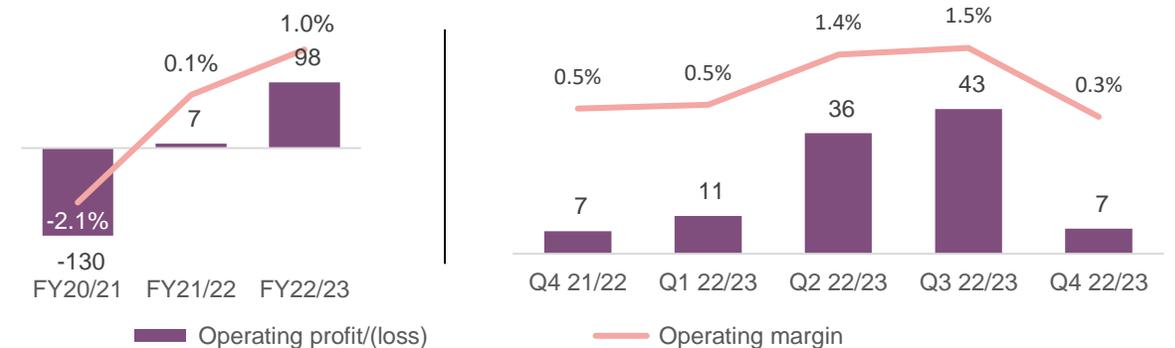
- Consistently outperforming the market with new milestones:
 - **Record revenue and operating profit**
 - Revenue up 37% YTY
 - 8th consecutive quarter with YTY profit improvement
 - **Record revenue** across all customer segments: CSP; Enterprise, Government, SMB; Communication Service Provider and High-Performance Computing
 - **Record revenue** in server, storage, and software, including ThinkEdge solutions
 - **Record revenue** for North America, EMEA, Asia Pacific and Latin America
 - **AI expansion** with enhanced full-stack capabilities

Performance

Revenue



Operating Profit/(Loss) and Margin



#1

in market share
in Top 500 HPC*

#1

provider in "Price
Bands 1-4 external
storage category**

50+

new products***,
solutions, services that
support next-Gen
CPUs

* Lenovo is the world's #1 supercomputer provider, according to TOP500.org

** Price Bands 1-4 (storage <25K) external storage category per IDC ESS tracker

*** Announced 50+ new products, solutions, and services, supported by next gen AMD and Intel processors

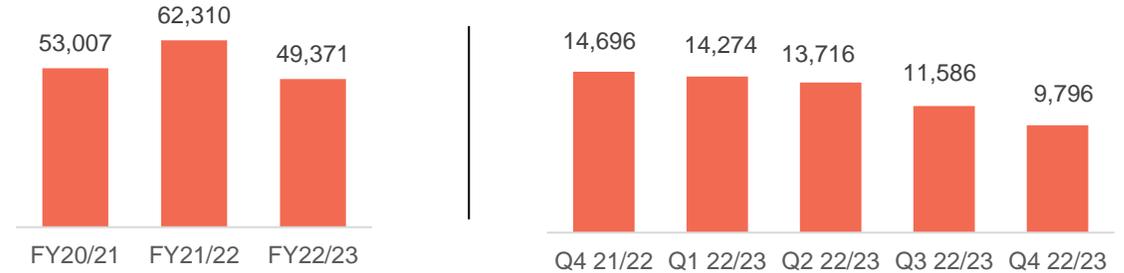
IDG

Intelligent Devices Group¹

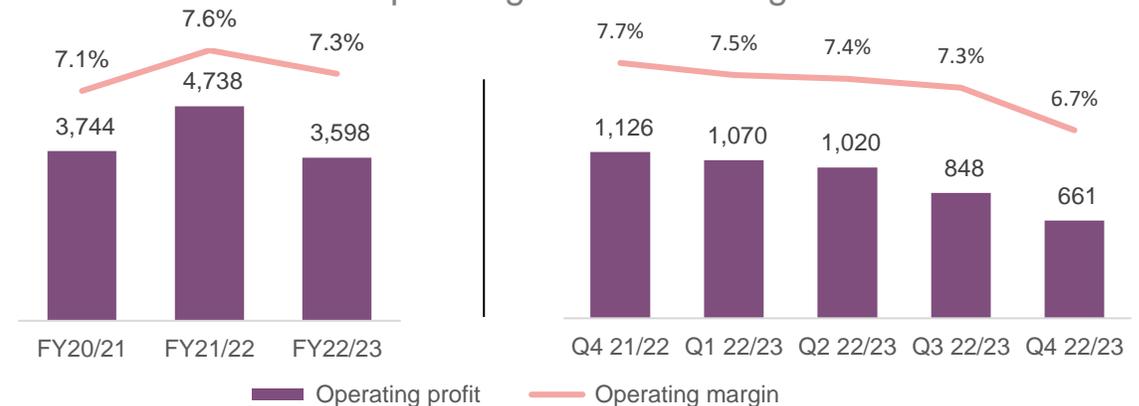
- Revenue fell 21% YTY while operating profit margin stabilized at 7.3% thanks to operational excellence and disciplined expense control
- Non-PC² business drives long-term growth:
 - **Smartphones:** profitable for 3rd consecutive year with strong premium-to-market growth in most geographical markets
 - **Smart Collaboration Solutions:** resilient double-digit growth with key wins across regions and global accounts
- Q4 revenue declined 33% YTY as the business made significant progress in clearing channel inventory

Performance

Revenue



Operating Profit and Margin



#1

in market share (23%) and sustainable operating profit margin

Premium product mix

↑ **2.5pts**
YTY to
29.5%

Non-PC² smart device revenue contribution

↑ **0.4pts**
YTY to
19.2%

¹ IDG mainly consists of PC, tablet, smartphone, and smart devices business

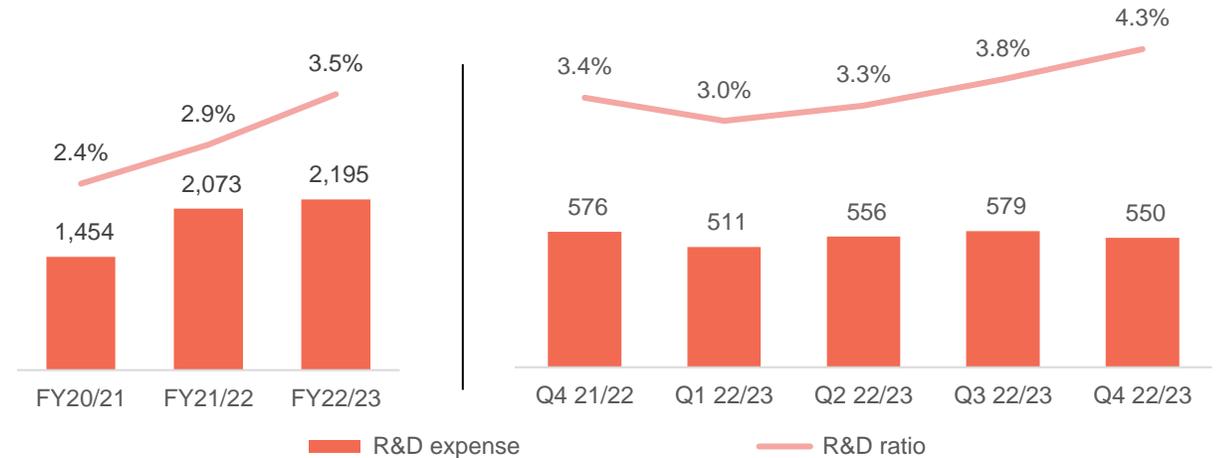
² Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

Continued R&D Investment to Drive Innovation

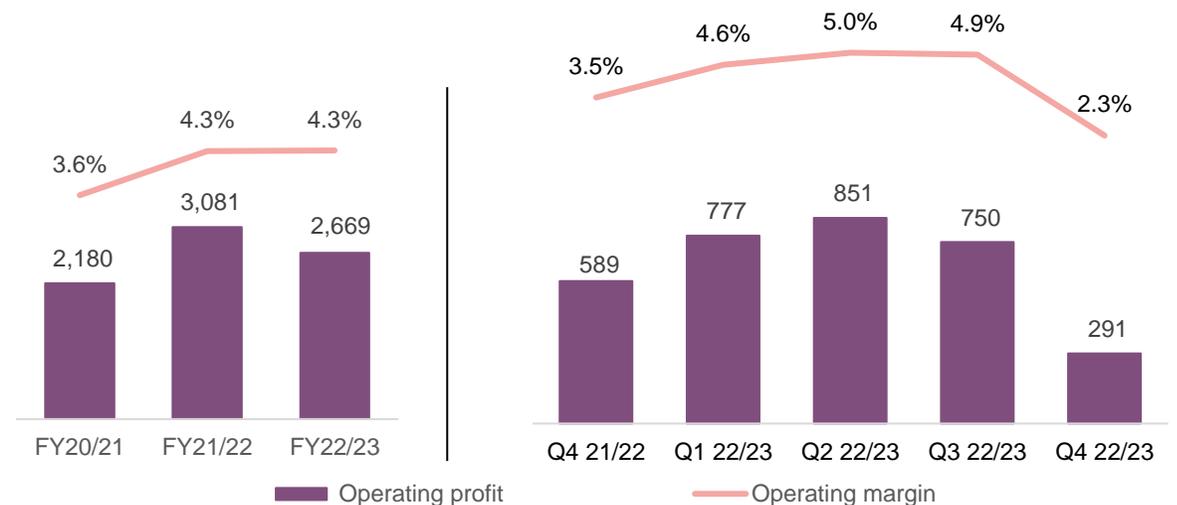
- R&D expense to revenue ratio jumped to 3.5% in FY23, from 2.9% a year ago
- Investments in technology leadership and differentiation:
 - High value-added products and key components
 - Edge, Multi-Cloud, and Cloud-related software and hardware
 - AI Innovators Program; AI-enabled solutions and services including enhanced TruScale portfolio
 - ESG innovations and services

Performance

R&D Expenses and Ratio to Revenue



Group Operating Profit and Margin



ESG Updates

 <p>Environmental</p>	<p>Among the first 139 companies with net-zero targets validated by SBTi¹</p>	<p>Recognized by CDP as Leader² in Climate Change, Water Security, Supplier Engagement for two consecutive years</p>	<p>Expanded the use of CL PCC plastic to 298 products³</p>
 <p>Social</p>	<p>Recognized by Bloomberg Gender Equality Index for Gender Inclusion</p>	<p>Aided 16.5 million people through programs, partnerships, and disaster response since 2020</p>	<p>250,000+ beneficiaries to date, of Lenovo's annual global employee volunteer event</p>
 <p>Governance</p>	<p>Completed inaugural green bond offering as part of \$1.25 billion dual-tranche</p>	<p>Received an AAA ESG Rating from MSCI⁴</p>	<p>In the Top 50 Innovative Companies list by the Boston Consulting Group (#24)</p>

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

2. Leadership recognition from CDP with A- ranking across all three categories. (CDP Supplier Engagement leadership for 5 consecutive years, CDP Climate Change for 4 consecutive years)

3. In 2022, the Company expanded the use of CL PCC (Closed Loop Post Consumer Content) plastic to 298 products, up from 248 products the previous year.

4. Morgan Stanley Capital International.

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

S&S: 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 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	Q4 21/22	Q4 22/23	Y/Y%	FY21/22	FY22/23	Y/Y%
Revenue	16,694	12,635	-24%	71,618	61,947	-14%
Gross profit	2,864	2,143	-25%	12,049	10,501	-13%
Operating expenses	(2,275)	(1,852)	-19%	(8,968)	(7,832)	-13%
Operating profit	589	291	-51%	3,081	2,669	-13%
Operating profit (non-HKFRS)	702	493	-30%	3,197	2,942	-8%
Other non-operating income/(expenses), net	(69)	(161)	134%	(313)	(533)	70%
Profit before taxation	520	130	-75%	2,768	2,136	-23%
Profit before taxation (non-HKFRS)	636	338	-47%	2,895	2,422	-16%
Taxation	(99)	(24)	-75%	(623)	(455)	-27%
Profit for the period/year	421	106	-75%	2,145	1,681	-22%
Profit for the period/year (non-HKFRS)	515	294	-43%	2,231	1,925	-14%
Profit attributable to						
Other non-controlling interests	9	(8)	N/A	115	73	-37%
Equity holders of the Company	412	114	-72%	2,030	1,608	-21%
Equity holders of the Company (non-HKFRS)	507	284	-44%	2,164	1,878	-13%
EPS (US cents)						
Basic	3.52	0.95	-73%	17.45	13.50	-23%
Diluted	3.20	0.93	-71%	15.77	12.74	-19%
Dividend (HKD cents)	30.00	30.00	-	38.00	38.00	-

	Q4 21/22	Q4 22/23	FY21/22	FY22/23
Gross margin	17.2%	17.0%	16.8%	17.0%
Operating margin	3.5%	2.3%	4.3%	4.3%
E/R ratio	13.6%	14.7%	12.5%	12.6%
PTI margin	3.1%	1.0%	3.9%	3.4%
Net margin	2.5%	0.9%	2.8%	2.6%

Condensed Consolidated Income Statement

US\$ Million	Q4 21/22	Q4 22/23	FY21/22	FY22/23
Revenue	16,694	12,635	71,618	61,947
Cost of sales	(13,829)	(10,492)	(59,569)	(51,446)
Gross profit	2,864	2,143	12,049	10,501
Selling and distribution expenses	(963)	(648)	(3,746)	(3,285)
Administrative expenses	(702)	(598)	(2,944)	(2,312)
Research and development expenses	(576)	(550)	(2,073)	(2,195)
Other operating income/(expenses) – net	(34)	(56)	(205)	(40)
Operating profit	589	291	3,081	2,669
Finance income	18	43	56	142
Finance costs	(84)	(198)	(362)	(658)
Share of losses of associates and joint ventures	(3)	(6)	(7)	(17)
Profit before taxation (PTI)	520	130	2,768	2,136
Taxation	(99)	(24)	(623)	(455)
Profit for the period/year	421	106	2,145	1,681
Profit attributable to				
Other non-controlling interests	9	(8)	115	73
Equity holders of the Company	412	114	2,030	1,608
Per share data				
Earnings per share (US cents) – Basic	3.52	0.95	17.45	13.50
Earnings per share (US cents) – Diluted	3.20	0.93	15.77	12.74

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Mar 31, 2022	As of Mar 31, 2023
Current assets	28,997	22,941
Bank deposits and cash	4,023	4,321
Trade, notes and other receivables	16,303	11,886
Inventories	8,301	6,372
Others	370	362
Non-current assets	15,514	15,979
Property, plant and equipment	1,637	2,006
Intangible assets	8,067	8,267
Others	5,810	5,706
Current liabilities	32,758	26,093
Borrowings	788	272
Trade, notes, other payables, accruals and provisions	29,909	23,727
Deferred revenue	1,440	1,582
Others	621	512
Non-current liabilities	6,358	6,780
Borrowings	2,633	3,683
Deferred revenue	1,460	1,389
Others	2,265	1,708
Total equity	5,395	6,047

Condensed Consolidated Cash Flow Statement

US\$ Million	Q4 21/22	Q4 22/23	FY21/22	FY22/23
Net cash generated from operating activities	1,462	244	4,077	2,801
Net cash used in investing activities	(574)	(314)	(1,499)	(1,914)
Net cash used in financing activities	(750)	(729)	(1,757)	(414)
Increase/(decrease) in cash and cash equivalents	138	(799)	821	473
Effect of foreign exchange rate changes	36	30	41	(153)
Cash and cash equivalents at the beginning of the period/year	3,756	5,019	3,068	3,930
Cash and cash equivalents at the end of the period/year	3,930	4,250	3,930	4,250

Supplemental Non-HKFRS Measures

US\$ Million	Q4 21/22				Q4 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	589	520	421	412	291	130	106	114
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	51	51	42	44	(89)	(89)	(67)	(82)
Amortization of intangible assets resulting from mergers and acquisitions	62	62	49	49	42	46	35	35
Mergers and acquisitions related charges	-	3	3	2	-	2	2	2
Restructuring and other charges	-	-	-	-	249	249	218	215
Non-HKFRS	702	636	515	507	493	338	294	284

US\$ Million	FY21/22				FY22/23			
	Operating profit	Profit before taxation	Profit for the year	Profit attributable to equity holders	Operating profit	Profit before taxation	Profit for the year	Profit attributable to equity holders
As reported	3,081	2,768	2,145	2,030	2,669	2,136	1,681	1,608
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	(135)	(135)	(122)	(74)	(203)	(203)	(168)	(139)
Amortization of intangible assets resulting from mergers and acquisitions	251	251	197	197	217	220	174	174
Mergers and acquisitions related charges	-	11	11	11	10	20	20	20
Restructuring and other charges	-	-	-	-	249	249	218	215
Non-HKFRS	3,197	2,895	2,231	2,164	2,942	2,422	1,925	1,878

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