

## LENOVO'S THIRD QUARTER FY 2016/17 RESULTS LED BY GROWTH IN PC BUSINESS



- Revenue was US\$12.2 billion
- Pre-tax income was US\$101 million
- Net income was US\$98 million
- Lenovo's PC business outperformed the industry with revenue growth at two percent year-over-year
- Record PC market share of 22.4 percent worldwide
- Basic EPS of 0.90 US cents or 6.98 HK cents

**HONG KONG, February 16, 2017** – Lenovo Group (HKSE: 992) (ADR: LNVGY) today announced results for its third fiscal quarter ended December 31, 2016. Quarterly revenue was US\$12.2 billion, a six percent decrease year-over-year. Third quarter pre-tax income was US\$101 million, a 68 percent decline year-over-year. Net income fell 67 percent year-over-year to US\$98 million.

Lenovo faced sizeable challenges in its three main lines of business, namely data center, mobile devices, and PCs and smart devices, all three industries that according to analysts' reports continued to experience either slow growth or no growth during the quarter ended December 31, 2016.

"Despite ongoing macro-economic uncertainties and the two new businesses still in transition, Lenovo delivered a solid performance last quarter," said Yang Yuanqing, Lenovo Chairman and Chief Executive Officer. "Our PC business remains strong, our Mobile business has made steady progress, and our Data Center business now has a clear improvement plan in place. Although it takes time to build the core competence in these two new growth engines, we are confident to achieve breakeven and profitable growth in them."

The Company's gross profit for the third fiscal quarter decreased 15 percent year-over-year to US\$1.6 billion, with gross margin at 13.1 percent. Operating profit for the third quarter was US\$138 million, down 64 percent year-over-year. Basic earnings per share for the quarter was 0.90 US cents, or 6.98 HK cents. As of December 31, 2016, Lenovo's net cash was US\$155 million.

### **Business Group Overview**

In the third fiscal quarter, sales in our **PC and Smart Devices** (PCSD) Business Group, which includes PCs and tablets, was US\$8.6 billion, an increase of two percent year-over-year. Quarter-to-quarter, our PCSD business grew a healthy 10.2 percent.

Pre-tax income was US\$431 million, an increase of seven percent year-over-year. Pre-tax income margin improved by 0.2 points year-over-year to five percent.

Helped by strong growth in North America, where Lenovo increased its shipments by 14 percent year-over-year, the Company shipped a total of 15.7 million PCs worldwide during the quarter. This is an increase of two percent year-over-year, and four points better than the industry as a whole, when compared to a total industry decrease of two percent for the same period. With record-high market share in China, Europe/Middle East/Africa region and Latin America, Lenovo remained the worldwide PC market leader with a record 22.4 percent market share.

Lenovo also saw strong growth in tablets, up ten percent year-over-year, outperforming the market by 29 points, as well as significant year-over-year increases in high-growth product lines such as gaming PC (up 71 percent), Chromebook (up 76 percent), and detachables (up 91 percent). These are all product lines that Lenovo is ramping up, typified by our new Legion-branded series of gaming laptops launched last month at CES.

In our **Mobile Business Group**, which includes Moto and Lenovo-branded smartphones, Lenovo's quarterly sales were US\$2.2 billion, a decrease year-over-year of 23 percent, but an indicative seven percent increase over last quarter, driven by strong growth in mature markets. Pre-tax loss margin for the quarter improved by 0.6 points quarter-to-quarter to 7.1 percent.

With 15 million smartphones shipped in the third quarter, Lenovo improved seven percent quarter-to-quarter, including a 20 percent increase in shipments of Moto-branded products. Moto G shipments were up 12 percent year-over-year, aided by an increase in Latin America alone of 23 percent. In India, the world's third-largest smartphone market, Lenovo was a strong smartphone supplier with 9.9 percent market share in the third quarter.

For Lenovo's **Data Center Group (DCG)**, which includes servers, storage, software and services, sales in the third fiscal quarter were US\$1.1 billion, down 20 percent year-over-year, and three percent quarter-to-quarter. With large quarter-to-quarter revenue gains in North America (up 27 percent), Latin America (up ten percent), and Europe/Middle East/Africa region (up nine percent), Lenovo's DCG business showed signs of improvement quarter to quarter.

Lenovo continued its focus on the transformative actions that will help drive long-term DCG competitiveness, such as strengthening our sales teams, investing in the channel, revamping our product lines, building our brand strategy, and adding new partnerships. For example, we have fortified our Global Accounts team, our sales



group that services Fortune 500 clients, and saw growth in our DCG business there for the quarter grow 37 percent year-over-year.

## Geographic Overview

In **China**, in the third fiscal quarter, Lenovo recorded consolidated sales of US\$3.5 billion, a two percent decrease year-over-year, but an eight percent increase quarter-to-quarter. China represented 28.5 percent of the Company's total worldwide third quarter sales. Pre-tax income in China increased eight percent to US\$180 million year-over-year, with pre-tax income margin gaining half-a point to 5.2 percent.

In **Asia Pacific**, Lenovo had consolidated sales in the third fiscal quarter of US\$1.7 billion, a decrease of 14 percent year-over-year, representing 14 percent of the Company's total worldwide sales. The region had a pre-tax loss of US\$41 million and a pre-tax loss margin of 2.4 percent.

In **Europe, Middle East and Africa**, consolidated sales in the third fiscal quarter declined 2.7 percent year-over-year to US\$3.4 billion, but increased a robust 23 percent quarter-to-quarter, or 27.6 percent of the Company's total worldwide sales. The pre-tax loss was US\$102 million with a pre-tax loss margin of three percent.

In the **Americas**, consolidated sales were US\$3.6 billion, down eight percent year-over-year, or 29.9 percent of Lenovo's total worldwide sales during the third fiscal quarter. Pre-tax income was US\$39 million, with a pre-tax income margin of 1.1 percent.

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## About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$45 billion global Fortune 500 company and a leader in providing innovative consumer, commercial, and enterprise technology. Our portfolio of high-quality, secure products and services covers PCs (including the legendary Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products like smartphones (including the Motorola brand), tablets and apps. Join us on [LinkedIn](#), follow us on [Facebook](#) or Twitter ([@Lenovo](#)) or visit us at [www.lenovo.com](http://www.lenovo.com).

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**LENOVO GROUP**  
**FINANCIAL SUMMARY**  
**For the fiscal quarter ended December 31, 2016**  
(in US\$ millions, except per share data)

	<b>Q3 16/17</b>	<b>Q3 15/16</b>	<b>Y/Y CHG</b>
Revenue	12,169	12,913	-6%
Gross profit	1,595	1,885	-15%
Gross profit margin	13.1%	14.6%	-1.5pts
Operating expenses	(1,457)	(1,506)	-3%
Expenses-to-revenue ratio	12.0%	11.7%	0.3pts
Operating profit	138	379	-64%
Other non-operating expenses	(37)	(59)	-37%
Pre-tax income	101	320	-68%
Taxation	6	(26)	N/A
Profit for the period	107	294	-64%
Non-controlling interests	(9)	6	N/A
Profit attributable to equity holders	98	300	-67%
EPS (US cents)			
Basic	0.90	2.71	-1.81
Diluted	0.90	2.70	-1.80