

LENOVO GROUP: SECOND QUARTER RESULTS 2022/23



Lenovo delivers 10th straight quarter of improved profitability year-on-year, as operational resilience and diversified growth engines continue to drive performance

November 3, 2022– **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced second quarter results for the Group, with profitability improving year-on-year for the 10th consecutive quarter. Second quarter net income grew 6% year-on-year to US\$541 million and Group revenue grew to US\$17.1 billion, up 3% year-on-year in constant currency.

All main businesses contributed positive operating profit, demonstrating further progress towards the Group's goal of doubling profitability in the medium-term. Additionally, the diversified growth engines continued to drive strong performance with both the solutions and services business, as well as the infrastructure business, seeing high double-digit year-on-year growth. Non-PC businesses now make up more than 37% of total group revenue. The Group's healthy cash balance means it remains committed to doubling investments in Research and Development (R&D) in the medium-term, having grown R&D spending 15% year-on-year in the quarter.

While current external challenges persist, Lenovo remains agile and focused on pursuing its strategy and ensuring ongoing profitability by rebalancing resources towards its diversified growth engines and driving efficiencies and expense reduction through the business. It sees long-term opportunities built on its foundation of New IT – client, edge, cloud, network, and intelligence - as the global trends of digitalization and intelligent transformation accelerate. Last quarter's results, as well as the past three years, have demonstrated that the combination of Lenovo's strategy, strong execution, and resilient operations are enabling it to transcend the industry cycle. This, combined with its high-quality and innovative portfolio, unique hybrid manufacturing and supply chain, global/local principle and capability, as well as healthy liquidity will help drive further opportunities to deliver sustainable growth, and improve profitability.

Financial Highlights:

	Q2 22/23 US\$ millions	Q2 21/22 US\$ millions	Change
Group Revenue	17,090	17,869	(4%)
Pre-tax income	710	742	(4%)
Net Income (profit attributable to equity holders)	541	512	6%
Net Income (profit attributable to equity holder – non-HKFRS) [1]	591	591	(0%)
Basic earnings per share (US cents)	4.54	4.42	0.12

Lenovo's Board of Directors declared an interim dividend of 8.0 HK cents per share.



Chairman and CEO quote – Yuanqing Yang:

“Lenovo once again delivered solid results, even in a challenging global market, achieving year-on-year profitability improvement for the tenth straight quarter and increasing revenue by nearly 3% (in constant currency) year on year. Our non-PC businesses are gaining momentum and now represent more than 37% of our revenue. Both solutions and services business and infrastructure business saw high double-digit revenue growth year on year,” says Yuanqing Yang, Chairman and CEO of Lenovo. “For Lenovo, these results prove that our strategic foresight, operational resilience, and consistent investment in diversified growth engines, have prepared us well for challenging times. Whether our traditional markets are booming or contracting, Lenovo consistently delivers on its commitments and outperforms market expectations.”

Solutions and Services Group (SSG): continued momentum, delivering strong growth and higher profitability for the Group

Opportunity:

The trillion-dollar IT services market continues to grow steadily, with faster growth to be expected in DaaS (Device as a Service), Managed Services for data center, as well as Cloud and Edge Environment through 2025. While at the same time the market for vertical solutions and services spending is expected to remain strong, including smart education, smart retail, smart city, and smart manufacturing.

Q2 FY22/23 performance:

- In the last quarter, SSG revenue grew by 26% year-on-year, further improving its operating margin to 21.4%.
- All segments again delivered high profitability and strong growth.
- For the first time, revenue from non-hardware-tied solutions and services accounts for more than half of SSG’s business.

Sustainable Growth:

- SSG continues to build comprehensive horizontal solutions for vertical industries, for example, SSG’s Digital Store solution embedded with Lenovo AI Edge Server is now powering one of the world’s largest food retailers to reduce over 75% of its self-checkout errors without the need for employee intervention.
- Development of SSG’s portfolio of sustainability offerings continues, with the CO₂ offset services extended to [more products](#).
- The newly formed Lenovo PCCW Solutions, [launched in August 2022](#), has achieved initial success with business synergies as it looks ahead to future opportunities.

Infrastructure Solutions Group (ISG): breakthrough year continues with record revenue and record profitability

Opportunity:

By 2025, the server market alone is expected to reach US\$134 billion. In the same time frame, the edge infrastructure market will grow over 21% CAGR to reach US\$47 billion, and the storage market will exceed US\$36 billion.

Q2 FY22/23 performance:

- Record revenue of US\$2.6 billion, up 33% year-on-year, with operating profit reaching an all-time high of US\$36 million, marking the 4th consecutive quarter of profitability.
- The Cloud Service Provider and Enterprise/SMB segments both outgrew the market forecast.
- Revenue from Edge Computing almost quadrupled and Storage more than doubled year-on-year, both setting new records.

Sustainable Growth:

- ISG continues to enhance its comprehensive infrastructure portfolio and invest in innovation, particularly in Edge and Services.
- Operational resilience was further strengthened, as production ramped up at new factories in China, [Hungary](#), and Mexico.
- ISG remains focused on being one of the fastest growing and ultimately the largest end-to-end infrastructure solutions provider in the world, while maintaining a sustainable, profitable business model.

Intelligent Devices Group (IDG): maintained strong profitability, outperforming the competition

Opportunity:

While the market size of PC and tablets declined in the short term, due to the macroeconomic environment, long-term it is still expected to remain higher than pre-pandemic levels. Alongside PCs, the scenario-based solutions market will continue to grow as Lenovo expands from smart devices to smart spaces.

Q2 FY22/23 performance:

- IDG maintained industry-leading profitability of 7.4%, driven by operational excellence and consistent investments in innovations, particularly in the high value-added premium segments.
- IDG outperformed key competitors and strengthened its global position as the #1 PC company in the world. It is now #1 in four out of five geographies, enlarging the gap with key competitors, and is clearly the undisputed #1 in the commercial segment which represents around 65% of Lenovo's PC revenue mix.
- The smartphone business achieved its tenth consecutive quarter of profitability as it continues to enrich its portfolio with innovative new products, at the same time defending its strong market positions of #2 and #3 in Latin America and North America respectively and achieving hyper-growth in expansion markets.
- Lenovo's scenario-based solutions continued to demonstrate growth potential with Smart Collaboration business continuing to grow at high double-digit year-on-year. Revenue from the Gaming scenario business set a new record.

Sustainable Growth:

- IDG continues to focus on innovation to drive the extension from smart devices to smart spaces.
- The Group is confident that success in the PC market can be replicated to grow the business beyond PC and win in more markets, particularly the smartphone space.



Operational highlights and investing for the future

Tech World '22 – At its annual [global innovation event](#), Lenovo shared its vision for the evolution of collaboration across users, spaces, and devices to unlock unlimited possibilities in both real-world applications and the Metaverse. Lenovo [unveiled](#) new concepts, solutions, and emerging innovations that will define the way we work, learn, and engage in the digital world. It also [unveiled the findings](#) of a global CTO research study that uncovered CTO's viewpoints on how traditional IT will continue to evolve into a 'New IT' architecture where client devices, edge computing, cloud computing, network and AI all work together to address common pain points and provide solutions that drive further global digitalization across all industries.

Environmental, Social, Governance - Lenovo recently published its [annual ESG report](#) outlining its progress, ambitions, and targets for the years ahead. At Tech World '22 Lenovo further shared its vision for net-zero emissions, and its first step toward that vision with near-term 2030 emissions reduction goals. Lenovo is aligning its emissions reduction goals to the Science Based Targets initiative in both the near and long-term to contribute to the goals of the Paris Agreement. External validation continues as Lenovo's [inaugural green bond](#) that launched in July was included in the [Bloomberg MSCI Green Bond Index](#), one of the most important global benchmarks for institutional ESG funds. Lenovo also received a [top AA+ rating in the 2022 Hang Seng Corporate Sustainability Index](#), receiving the best score in the IT industry for the 2nd year in a row.

Innovation - In September Lenovo was [ranked one of the world's most innovative companies](#) as part of Boston Consulting Group's annual index, ranking 24th. At Tech World '22 the Group demonstrated a number of [new innovative form factors and ideas](#), including its rollable proof of concepts for the smartphone and PC and immersive telepresence technology 'Cyber Spaces'. It also highlighted the innovations that will help it realize its vision for net-zero, and the actions the company is taking across products and manufacturing to lower its carbon footprint.

[1] non-HKFRS measure was adjusted by excluding net fair value changes on financial assets at fair value through profit or loss, amortization of intangible assets resulting from mergers and acquisitions, mergers and acquisitions related charges; and the corresponding income tax effects, if any.



About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$70 billion revenue global technology powerhouse, ranked #171 in the Fortune Global 500, employing 75,000 people around the world, and serving millions of customers every day in 180 markets. Focused on a bold vision to deliver smarter technology for all, Lenovo has built on its success as the world's largest PC company by further expanding into key growth areas including server, storage, mobile, solutions and services. This transformation together with Lenovo's world-changing innovation is building a more inclusive, trustworthy, and sustainable digital society for everyone, everywhere. To find out more visit <https://www.lenovo.com>, and read about the latest news via our [StoryHub](#).

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LENOVO GROUP

FINANCIAL SUMMARY

For the quarter ended September 30, 2022

(in US\$ millions, except per share data)

	Q2 22/23	Q2 21/22	Y/Y CHG
Revenue	17,090	17,869	(4%)
Gross profit	2,877	3,006	(4%)
Gross profit margin	16.8%	16.8%	0 pt
Operating expenses	(2,026)	(2,189)	(7%)
R&D expenses (included in operating expenses)	(556)	(482)	15%
Expenses-to-revenue ratio	11.9%	12.3%	(0.4) pts
Operating profit	851	817	4%
Other non-operating income/(expenses) - net	(141)	(75)	89%
Pre-tax income	710	742	(4%)
Taxation	(156)	(185)	(16%)
Profit for the period	554	557	(1%)
Non-controlling interests	(13)	(45)	(72%)
Profit attributable to equity holders	541	512	6%
Profit attributable to equity holders- non-HKFRS [1]	591	591	(0%)
EPS (US cents)			
Basic	4.54	4.42	0.12
Diluted	4.23	3.96	0.27

