LENOVO GROUP: SECOND QUARTER RESULTS 2023/24

Lenovo sees signs of recovery across technology sector - delivers quarter-on-quarter performance improvements and further accelerates AI leadership

November 16, 2023 – Lenovo Group Limited (HKSE: 992) (ADR: LNVGY), together with its subsidiaries (“the Group”), today announced second quarter results reporting Group revenue of US$14.4 billion and net income of US$273 million on a non-Hong Kong Financial Reporting Standards (HKFRS)[1] basis. Gross profit margin improved year-on-year to 17.5%, a record high for a second quarter. The Group’s diversified growth engines continued to deliver strong performance, with revenue from the non-PC businesses accounted for 40% of Group revenue, up three points year-on-year.

The Group is seeing clear signs of recovery across the technology sector, noting the strong execution of its strategy, operational excellence, and continuous investment in innovation as key contributors to its quarter-on-quarter performance improvements. Looking ahead, Lenovo will further leverage the opportunities created by AI, where it is uniquely positioned to succeed given its hybrid AI model, pocket-to-cloud portfolio, strong ecosystem and partnerships, and growing portfolio of AI technologies and capabilities. Its ongoing investment in innovation and in particular AI, will further bolster Lenovo’s ability to capture the exponential growth from AI and drive sustainable growth and profitability for the business. The Group is confident in its ability to resume year-on-year growth very soon.

Financial Highlights:

<table>
<thead>
<tr>
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<th>Q2 FY 23/24 US$ millions</th>
<th>Q2 FY 22/23 US$ millions</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Revenue</td>
<td>14,410</td>
<td>17,090</td>
<td>(16%)</td>
</tr>
<tr>
<td>Pre-tax income</td>
<td>358</td>
<td>710</td>
<td>(50%)</td>
</tr>
<tr>
<td>Net Income (profit attributable to equity holders)</td>
<td>249</td>
<td>541</td>
<td>(54%)</td>
</tr>
<tr>
<td>Net Income (profit attributable to equity holders – non-HKFRS)[1]</td>
<td>273</td>
<td>591</td>
<td>(54%)</td>
</tr>
<tr>
<td>Basic earnings per share (US cents)</td>
<td>2.09</td>
<td>4.54</td>
<td>(2.45)</td>
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Lenovo’s Board of Directors declared an interim dividend of 8.0 HK cents per share.

Chairman and CEO quote – Yuanqing Yang:

“Last quarter, despite macro challenges, we saw clear signs of recovery across the technology sector. Thanks to our strong execution, operational excellence, and continuous investment in innovation, we delivered consecutive quarter-on-quarter performance improvements, indicating an encouraging trajectory to recovery. With continuous execution of our intelligent transformation strategy, and with our AI ecosystem and partnership further strengthened, we will leverage our full-stack AI capabilities from pocket to cloud to enable hybrid AI applications for every enterprise and every individual, ultimately driving sustainable growth for our business.”
Accelerating AI leadership

AI is not new for Lenovo and has long been a focus of its digital and intelligent transformation strategy. The company outlined its vision of ‘AI for All’ at its annual Tech World innovation event in October, focusing in particular on its model for hybrid AI where public, private, and personal foundation models co-exist in order to enable AI for All, while respecting security and privacy. Lenovo’s vision included a rich smart device portfolio including AI-enabled PCs, smartphones, and tablets, as well as AI-ready and AI-optimized infrastructure, solutions, and services. Lenovo is uniquely positioned to capture the exponential growth from AI given its pocket-to-cloud portfolio, strong eco-system and partnerships (including an expansion of the company’s partnership with NVIDIA), and growing portfolio of AI technologies and capabilities.

Lenovo Chairman and CEO Yuanqing Yang was joined on stage at Tech World by leaders from Lenovo’s global partners, including NVIDIA Founder, President and CEO, Jensen Huang; AMD Chair and CEO, Dr. Lisa Su, and Formula 1® President and CEO, Stefano Domenicali. Microsoft Chairman and CEO, Satya Nadella, Qualcomm CEO and President, Cristiano Amon, and Intel CEO, Pat Gelsinger joined Tech World via video link.

As announced last quarter, Lenovo is committing a further US$1 billion in investment for AI-driven innovation that will not only ensure it can realize its vision for ‘AI for All’, but that it can drive sustainable growth for the entire business.

Solutions and Services Group (SSG): Record revenue and operating profit, accumulating AI solutions and services

Q2 FY23/24 performance:
- SSG broke records in the second quarter for both revenue and profit, with revenue of US$1.9 billion and an operating margin of 20%.
- Support services and software were the core profit engine for the SSG group.
- Managed services and project and solutions services further expanded in the second quarter, together now making up 56% of SSG’s revenue, up three points year-on-year.

Opportunities and Sustainable Growth:
- SSG has strong momentum for its hero offerings, including Digital Workplaces Solutions (DWS), Hybrid Cloud, and sustainability solutions and services.
- SSG focused its hero offerings to support specific vertical industries with smart solutions and services, winning breakthrough customer deals in multiple markets.
- Lenovo’s new hybrid AI Professional Services Practice is also enabling enterprises to use Hybrid infrastructure and AI to transform their business.

Infrastructure Solutions Group (ISG): Tackling market headwinds, building hybrid AI infrastructure

Q2 FY23/24 performance:
- ISG’s revenue declined year-on-year to US$2 billion, an inevitable impact of wider macro-economic industry headwinds, economic slowdown, and platform migration.
ISG delivered strong performance in storage, software and services, and drove High Performance Computing (HPC) and Edge growth.

The storage business reached an all-time revenue record, making Lenovo the third largest storage provider in the world.

**Opportunities and Sustainable Growth:**

- As hybrid AI develops further it will drive the future growth and diversification of the global ICT infrastructure market which Lenovo is well positioned to address given its rich portfolio of infrastructure products and solutions.
- ISG will continue to strengthen its portfolio competitiveness, as well as operational excellence and is confident to resume growth and profitability as soon as possible.

**Intelligent Devices Group (IDG): Solidifying market leadership, capturing AI device opportunities**

**Q2 FY23/24 performance:**

- IDG maintained its global No.1 position in the second quarter for both PC shipments and activations, despite market challenges.
- Revenue declined year-on-year to US$11.5 billion, but profitability resilience was maintained with an industry-leading operating margin of 7.4%.
- The smartphone business achieved double-digit premium to market shipment growth year-on-year, although overall the market was flat. The business enhanced its overall competitiveness of products and optimized its portfolio with a higher mix of premium products, with a record high mix of premium products driven by sales of razr.

**Opportunities and Sustainable Growth:**

- Looking ahead, IDG will fully leverage generative AI to accelerate the launch of next generation AI devices, including the launch of an AI PC next year.
- Lenovo will further invest in technology innovation for growth and long-term competitiveness.

**ESG highlights**

Lenovo has been recognized for several ESG achievements over the past quarter, including:

- Being included in the 2023 [Hang Seng Corporate Sustainability Index](https://www.hang-seng.com/en/About-Hang-Seng/Corporate-Sustainability/ESG-Ratings/), where it achieved the strongest score in the IT industry for environmental and social achievements.
- The Group was also awarded ‘Champion’ status in the Canalys Global Sustainability Ecosystems Leadership matrix.
- The Group was named as an [EPEAT Climate Champion](https://www.epeat.org/), with more than 400 products registered as part of the first EPEAT Climate+ designated products listing. EPEAT is the premier global ecolabel for electronics and technology products.
- In September Lenovo joined the [UN Global Compact Forward Faster initiative](https://www.un.org/sg/fwd) to accelerate private sector action for the UN’s 17 Sustainable Development Goals in order to meet the 2030 agenda.

[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 is a US$62 billion revenue global technology powerhouse, ranked #217 in the Fortune Global 500, employing 77,000 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 growth areas that fuel the advancement of ‘New IT’ technologies (client, edge, cloud, network, and intelligence) including server, storage, mobile, software, solutions, and services. This transformation together with Lenovo’s world-changing innovation is building a more inclusive, trustworthy, and smarter future for everyone, everywhere. Lenovo is listed on the stock exchange of Hong Kong under Lenovo Group Limited (HKSE: 992)(ADR: LNVGY). 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, 2023
(in US$ millions, except per share data)

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<th>Q2 23/24</th>
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<th>Y/Y CHG</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>14,410</td>
<td>17,090</td>
<td>(16)%</td>
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<tr>
<td>Gross profit</td>
<td>2,522</td>
<td>2,877</td>
<td>(12)%</td>
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<tr>
<td>Gross profit margin</td>
<td>17.5%</td>
<td>16.8%</td>
<td>0.7 pts</td>
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<tr>
<td>Operating expenses</td>
<td>(2,008)</td>
<td>(2,026)</td>
<td>(1)%</td>
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<tr>
<td>R&amp;D expenses</td>
<td>(498)</td>
<td>(556)</td>
<td>(10)%</td>
</tr>
<tr>
<td>Expenses-to-revenue ratio</td>
<td>13.9%</td>
<td>11.9%</td>
<td>2.0 pts</td>
</tr>
<tr>
<td>Operating profit</td>
<td>514</td>
<td>851</td>
<td>(40)%</td>
</tr>
<tr>
<td>Other non-operating income/(expenses) - net</td>
<td>(156)</td>
<td>(141)</td>
<td>11%</td>
</tr>
<tr>
<td>Pre-tax income</td>
<td>358</td>
<td>710</td>
<td>(50)%</td>
</tr>
<tr>
<td>Taxation</td>
<td>(69)</td>
<td>(156)</td>
<td>(56)%</td>
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<tr>
<td>Profit for the period</td>
<td>289</td>
<td>554</td>
<td>(48)%</td>
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<tr>
<td>Non-controlling interests</td>
<td>(40)</td>
<td>(13)</td>
<td>215%</td>
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<td>Profit attributable to equity holders</td>
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<td>EPS (US cents)</td>
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<td>Basic</td>
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<tr>
<td>Diluted</td>
<td>1.99</td>
<td>4.23</td>
<td>(2.24)</td>
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