

LENOVO GROUP: FULL YEAR FINANCIAL RESULTS 2022/23



Lenovo delivers stable profitability in year of accelerating transformation

May 24, 2023– **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced full-year results, reporting Group revenue of US\$62 billion and net income of US\$1.6 billion, or US\$1.9 billion on a non-Hong Kong Financial Reporting Standards (HKFRS) ^[1] basis. Profitability was stable with gross margin and operating margin both delivering 18-year highs and non-HKFRS net margin flat year-to-year. While Group revenue was impacted due to the softness in the device market, revenue from non-PC businesses reached a fiscal year high of nearly 40%, fueled by Lenovo’s diversified growth engines of Solutions and Services Group (SSG) and Infrastructure Solutions Group (ISG) growing revenue to record highs of US\$6.7 billion and US\$9.8 billion respectively, up 22% and 37% year-on-year.

After a year of industry and global uncertainties, Lenovo sees positive signs of the market stabilizing. The Group expects the entire PC and smart devices market to resume year-to-year growth in the second half of 2023, and for the IT services market to resume relatively high growth - together these will drive the total IT market in 2023 back to moderate growth. In the mid-to-long term, digital and intelligent transformation will continue to accelerate, leading to a big growth potential for cloud and computing infrastructure.

Lenovo’s cash position remains strong, and its cash conversion cycle has further improved. This healthy liquidity has seen the Group continue to invest in R&D around ‘New IT’ (client, edge, cloud, network, and intelligence) to build its future core competencies. During the last year, Lenovo increased its full year investment in R&D to US\$2.2 billion, up 6% year-to-year.

In Q4, the Group recognized a one-time restructuring and other charges of US\$249M, among various other actions, to deliver around US\$850M of annual run-rate group expense savings, helping to establish a solid foundation for the Group’s operations in a challenging market, and position it for future growth.

Lenovo’s Board of Directors declared a final dividend of 3.8 US cents or 30.0 HK cents per share for the fiscal year ended March 31, 2023.

Financial Highlights:

	FY 22/23 US\$ millions	FY 21/22 US\$ millions	Change
Group Revenue	61,947	71,618	(14%)
Pre-tax income	2,136	2,768	(23%)
Net Income (profit attributable to equity holders)	1,608	2,030	(21%)
Net Income (profit attributable to equity holders – non-HKFRS) ^[1]	1,878	2,164	(13%)
Basic earnings per share (US cents)	13.50	17.45	(3.95)

Chairman and CEO quote – Yuanqing Yang:

“Lenovo has delivered stable profitability in the last fiscal year as our diversified growth engines continue to hit new milestones. Their momentum is driving steady progress in our services-led transformation, and our non-PC businesses’ revenue mix increased to nearly 40%. Our clear strategy is working, and our operation is resilient, even in the face of global uncertainties. Going forward, we will continue to invest in R&D to capture the next wave of growth opportunities, so we are well prepared for the future.”

Solutions and Services Group (SSG): high margin, strong growth

Opportunity:

The ‘New IT’ services segments within the trillion-dollar IT services market continue to expand, with Device-as-a-Service (DaaS) and cloud solutions expected to grow at double digits CAGR by 2025. Spending in solutions and services will remain strong, in particular in education, smart retail, smart city, and manufacturing.

FY22/23 performance:

- SSG continues to be the growth engine for the Group and an important profit contributor.
- Revenue reached an all-time record, up 22% year-to-year to US\$6.7 billion, with a high operating margin of 21%.
- High double-digit growth across all segments, with the revenue mix from non-hardware-centric solutions and services now accounting for more than half of SSG’s revenue.

Sustainable Growth:

- SSG continues to invest in building scalable and repeatable horizontal solutions or building blocks that can be deployed in any industry, leveraging Lenovo IP.
- In addition, SSG enriched its digital workplace solutions and TruScale hybrid cloud solutions portfolio.
- Scaled TruScale for SAP with Private Edition Customer Data Center (PE CDC) and expanded exclusive partnership to provide technical managed service for SAP PE CDC customers in China.

Infrastructure Solutions Group (ISG): record revenue, record profit, hypergrowth

Opportunity:

ISG continues to benefit from the ongoing ICT infrastructure upgrade. By 2025, the server market alone is expected to surpass US\$132 billion, with storage expected to reach US\$36 billion and edge infrastructure US\$37 billion.

FY22/23 performance:

- Historic full year performance for ISG as a profitable high-growth engine. Revenue grew to almost US\$10 billion, up 37% year-to-year, with record operating profit of US\$98 million.
- Revenue from the server business grew by almost 30% year-to-year to a record high, making Lenovo the third largest server provider in the world.
- Storage also reached a record high revenue, tripling the previous fiscal year’s results and moving from the #8 position in the world to #5. Software revenue grew 25% year-to-year, another record.

Sustainable Growth:

- ISG continues to enhance its full stack capabilities that cover both the Cloud Service Provider and Enterprise and SMB segments.
- At the same time, ISG is investing in infrastructure innovations empowered by artificial intelligence (AI), such as AI-powered edge computing and hybrid cloud.
- Inhouse manufacturing and cost competitiveness has been bolstered with the addition of an inhouse facility in Budapest, Hungary.

Intelligent Devices Group (IDG): leading market position and profitability**Opportunity:**

The business was impacted by several quarters of device market softness due to channel inventory digestion. With PCs the essential productivity tool in today's digital era, Lenovo anticipates that the PC market will return to growth in the 2nd half of calendar year 2023. The digitalization trend and hybrid work model continue to drive steady growth in smart spaces solutions.

FY22/23 performance:

- IDG revenue declined year-on-year to US\$49.4 billion, but successfully maintained the #1 position in the PC market with 23.2% market share globally and maintained its industry-leading profitability of 7.3%.
- Revenue mix from premium products increased to nearly 30%.
- The smartphone business has been profitable for three consecutive years and achieved premium-to-market revenue growth in most markets.

Sustainable Growth:

- IDG will closely manage expense and further sharpen its operational excellence.
- It will continue to invest in technology innovations focusing on premium offerings and adjacent areas, while at the same time enhancing smart space solutions for hybrid work models.

Q4 Performance

Fiscal year Q4 was the most challenging quarter of the year given pressures from both the PC market and the global economy. Lenovo closed the quarter with revenue of US\$12.6 billion, down 24% year-to-year. Revenue from IDG declined 33% year-to-year, while the strong momentum from the growth engines of SSG and ISG helped offset the device market softness. SSG revenue was up 18% YTY to US\$1.6 billion, and ISG revenue was up 56% to US\$2.2 billion. Non-PC revenue mix during the quarter reached a historic high of 43%, up 12 points year-to-year.

Q4 Operational highlights

Environmental, Social, Governance - Lenovo's Environmental, Social and Governance Rating score was [recently upgraded to AAA by MSCI](#), the international ratings agency. This upgrade represents the highest possible rating for corporations leading in ESG programs. In addition, EcoVadis recognized Lenovo for its [excellence in sustainable procurement](#) at its 7th annual Sustainable Procurement Leadership Awards. The company was also recently recognized by Forbes as one of the [Best Employers for Diversity in 2023](#), evaluated based on direct recommendations, indirect recommendations, and research on the key performance indicators.

[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; restructuring and other charges; and the corresponding income tax effects, if any.



About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$62 billion revenue global technology powerhouse, ranked #171 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. To find out more visit <https://www.lenovo.com>, and read about the latest news via our [StoryHub](#).

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FINANCIAL SUMMARY For the quarter and year ended March 31, 2023 (in US\$ millions, except per share data)



	Q4 FY22/23	Q4 FY21/22	Y/Y CHG	FY22/23	FY21/22	Y/Y CHG
Revenue	12,635	16,694	(24)%	61,947	71,618	(14)%
Gross profit	2,143	2,864	(25)%	10,501	12,049	(13)%
Gross profit margin	17.0%	17.2%	(0.2) pts	17.0%	16.8%	0.2 pts
Operating expenses	(1,852)	(2,275)	(19)%	(7,832)	(8,968)	(13)%
R&D expenses (included in operating expenses)	550	576	(5)%	2,195	2,073	6%
Expenses-to-revenue ratio	14.7%	13.6%	1.1 pts	12.6%	12.5%	0.1 pts
Operating profit	291	589	(51)%	2,669	3,081	(13)%
Other non-operating income/(expenses) – net	(161)	(69)	134%	(533)	(313)	70%
Pre-tax income	130	520	(75)%	2,136	2,768	(23)%
Taxation	(24)	(99)	(75)%	(455)	(623)	(27)%
Profit for the period/year	106	421	(75)%	1,681	2,145	(22)%
Non-controlling interests	8	(9)	N/A	(73)	(115)	(37)%
Profit attributable to equity holders	114	412	(72)%	1,608	2,030	(21)%
Profit attributable to equity holders – non-HKFRS ^[1]	284	507	(44)%	1,878	2,164	(13)%
Earnings per share (US cents)						
Basic	0.95	3.52	(2.57)	13.50	17.45	(3.95)
Diluted	0.93	3.20	(2.27)	12.74	15.77	(3.03)