

# 2015/16 Q3 Results

Lenovo®



# + Forward Looking Statement

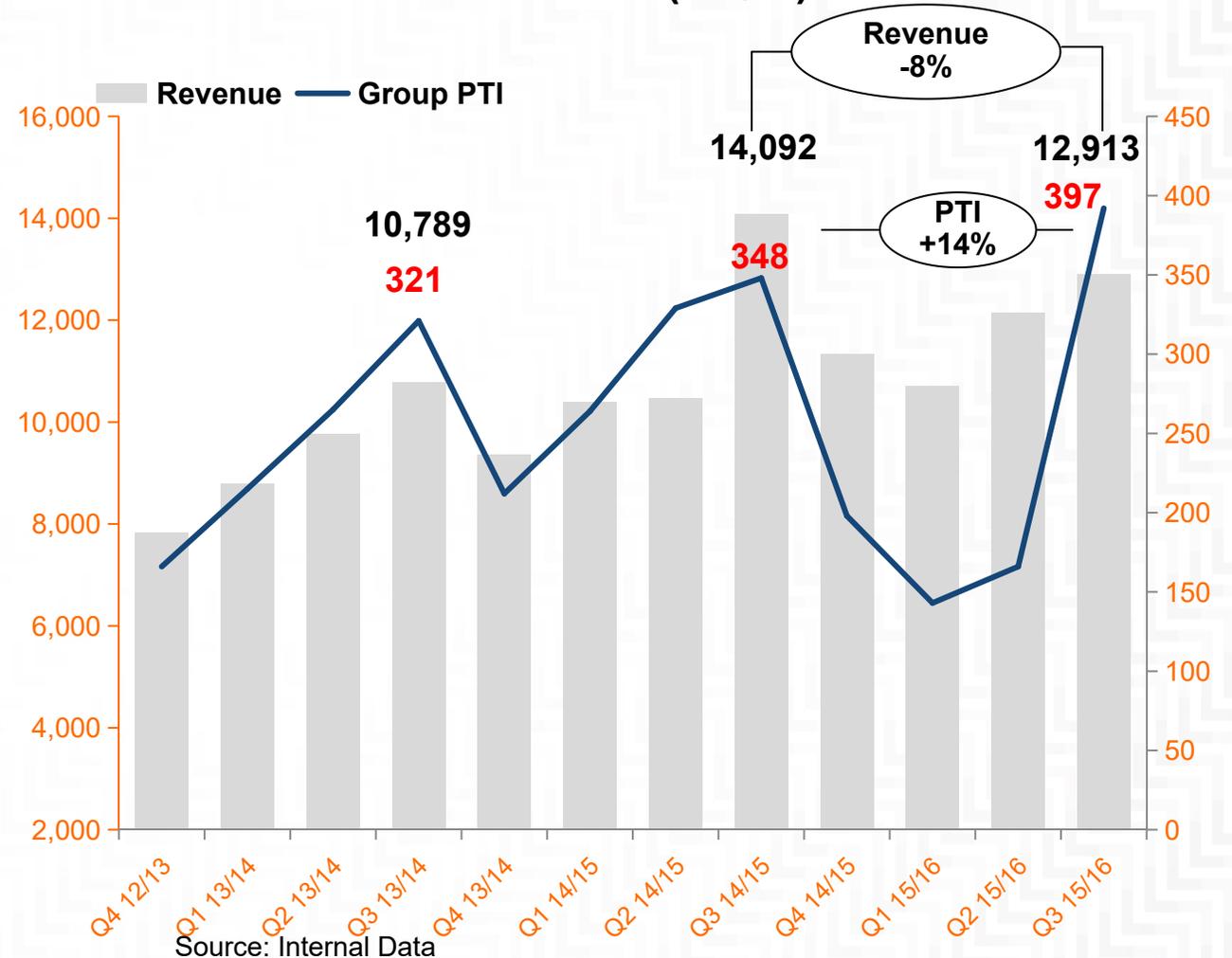
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# + Strong Performance in Challenging Market

- Revenue -8% YTY to **\$12.9B**; -2% YTY excluding currency impact
- Record PTI was **\$397M\***, up **14%** YTY
- Net Income was **\$300M**, up **19%** YTY

Revenue and PTI (in \$M)

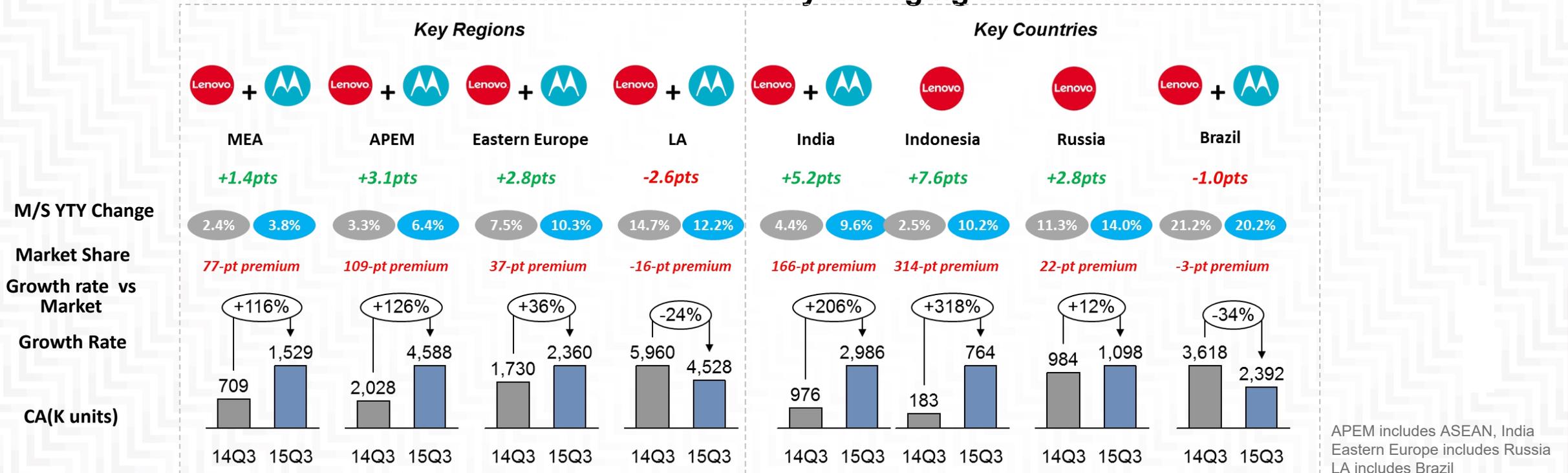


\*Excluding non-cash M&A-related accounting charges of \$77M

# + Successfully Turned Around Mobile Business

- Mobile business reached operational breakeven
  - Delivered our **commitment to turn business around** 4-6 quarters after acquisition of Motorola
  - Improved PTI margin by **7.2 points** quarter-to-quarter
  - **Strategic shift** to Emerging Markets outside China paid off

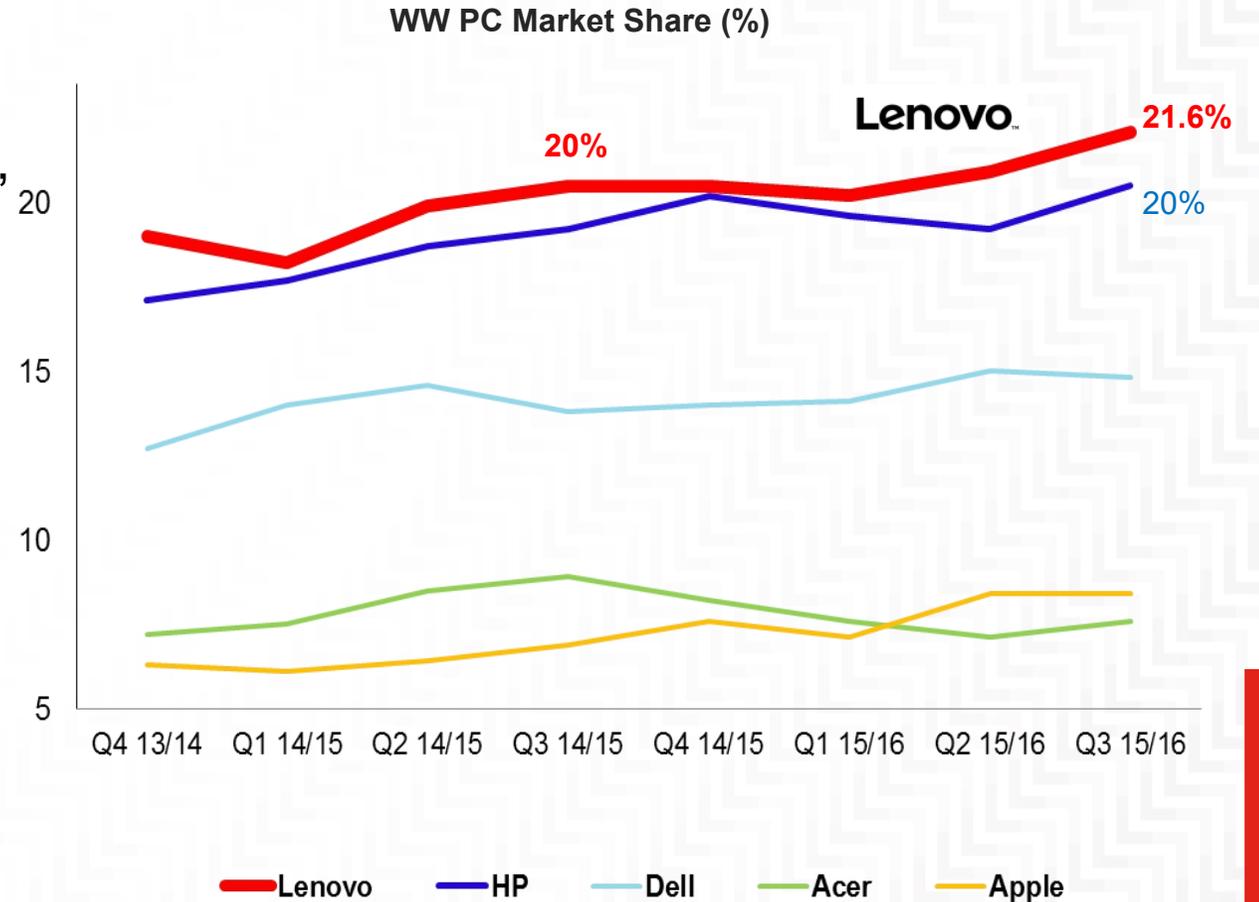
## Growth and Share in Key Emerging Markets



# + Expanded Leadership in PC

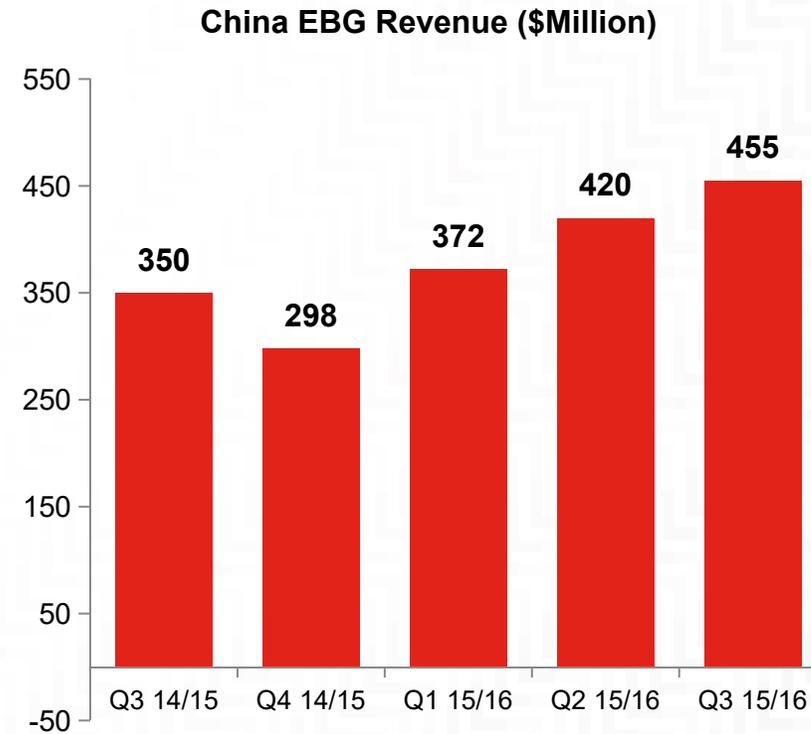
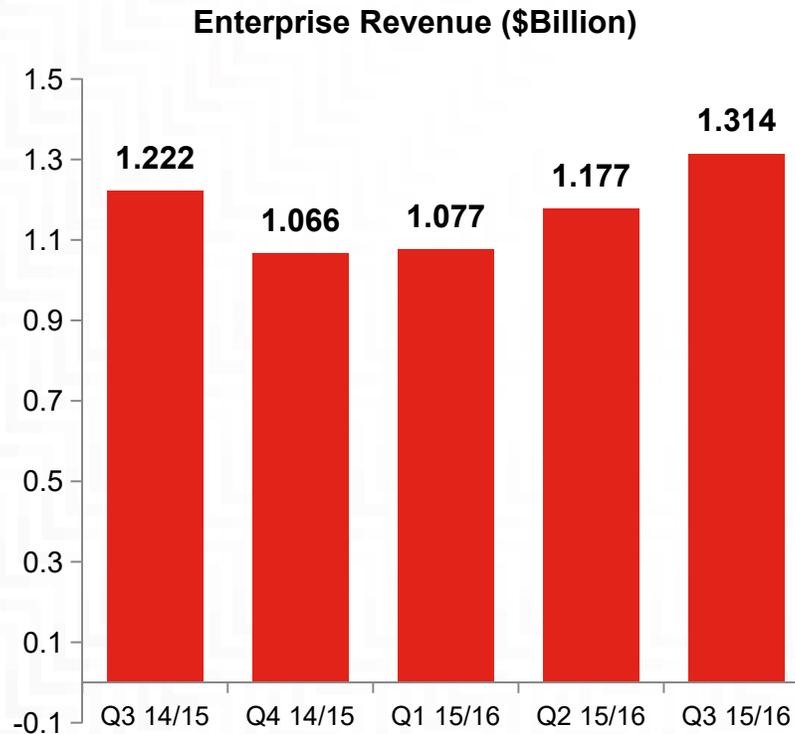
- **PC: Record** worldwide share of **21.6%**, maintaining stable margin

- Strong share growth in North America (**12.8%**, up 2.7 pts YTY), Asia Pacific (**18.9%**, up 2.8 pts YTY) and particularly record share in China (**40%**, up 1.7 pts YTY)
- Tablet business achieved operational profitability



# + Revenue and Profit Growth for Enterprise

- **Enterprise:** Consistently improved top line and profitability each quarter after acquisition, now in **full attack mode**
  - Revenue grew **12%** QTQ, and **8%** YTY ; China revenue growth of **30%** YTY
  - Operational PTI margin increased to **1.5%**



Source: IDC

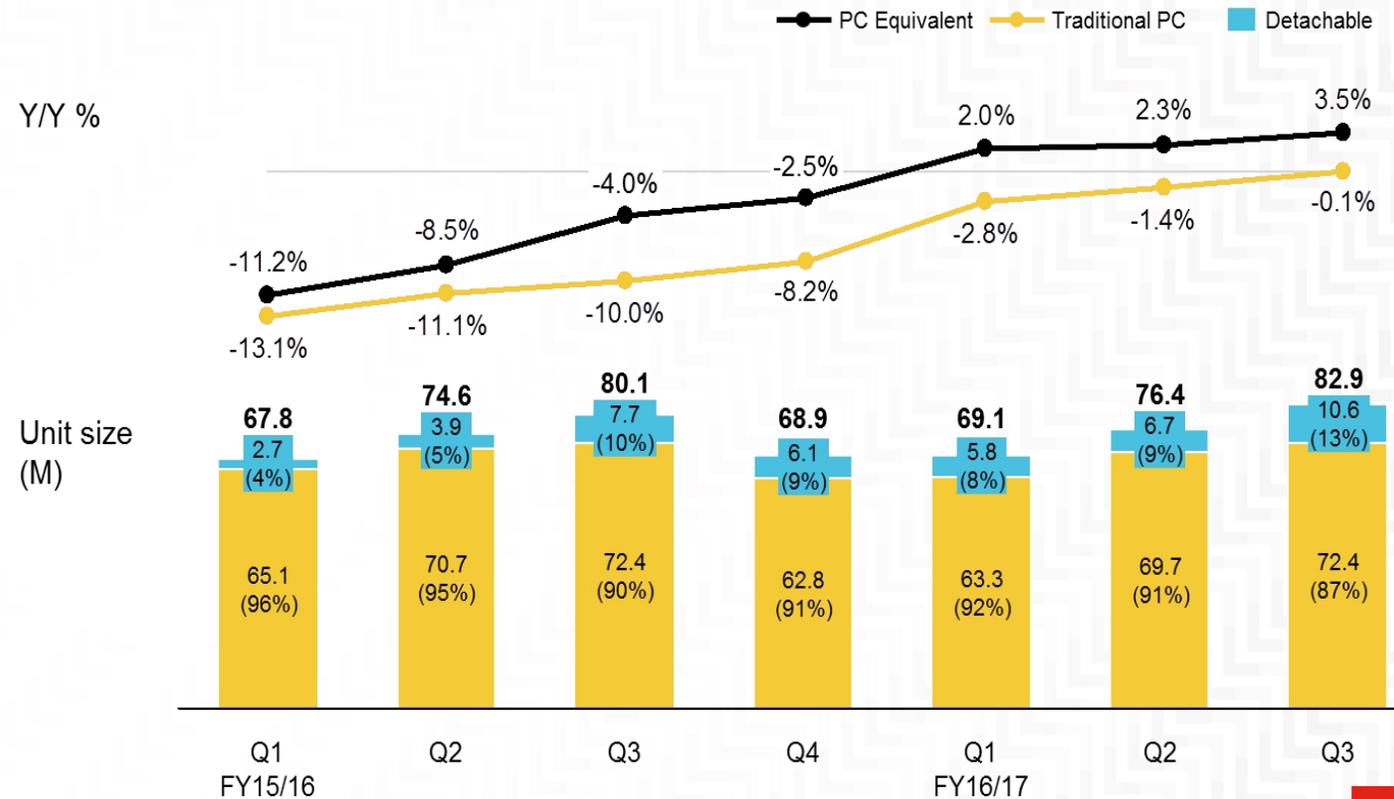
# + Drive Continued Growth Across Business

- Seeing benefits of strategic actions of restructuring
- On schedule to realize **\$1.35B** in full-year run-rate savings
- Competitive cost structure across **all our businesses**
- Continue to decisively, steadily **execute** our strategy

# + Drive Continued Growth Across Business

## PCs

- Leverage consolidation trend to **expand leadership**
- Windows 10 acceptance by commercial customers will lead to wave of replacement
- Innovation in detachables, convertibles generating excitement and demand
- Leverage **innovation** and **efficiency** to achieve goal of **30%** market share

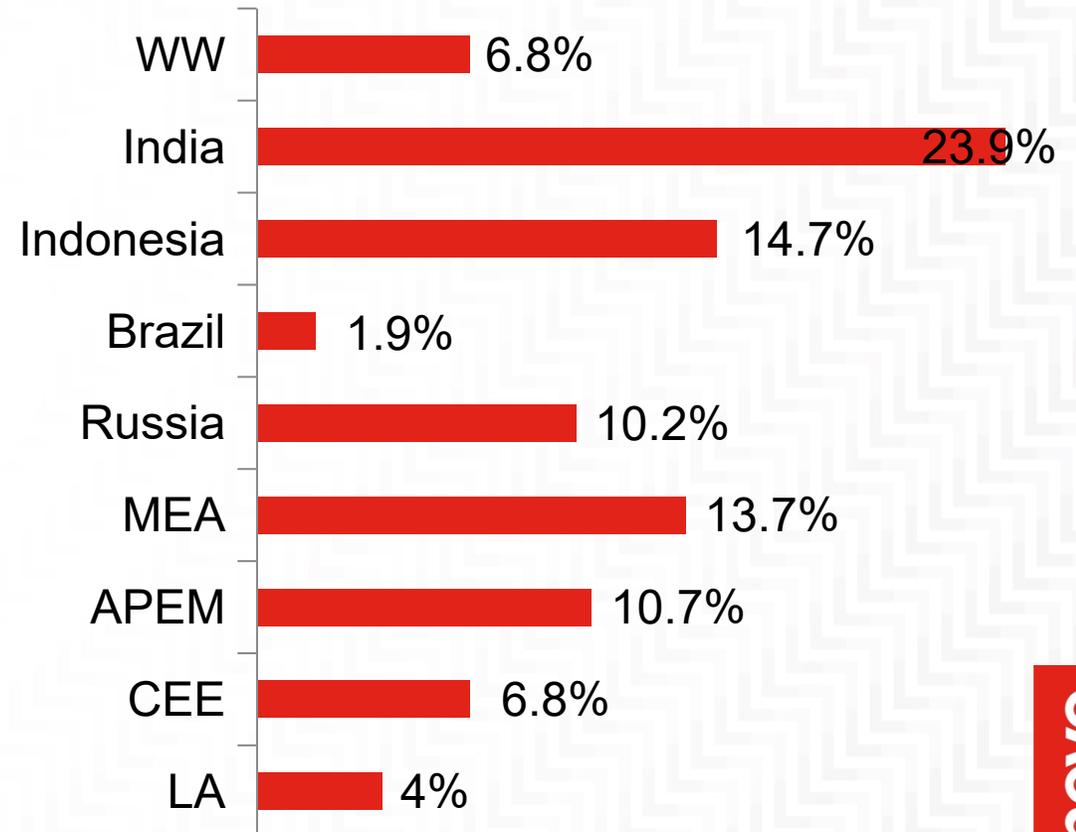


# + Drive Continued Growth Across Business

## Mobile

- Play different games in different markets
  - Emerging Markets: Leverage **scale, efficiency** to accelerate growth and improve profitability gradually
  - Mature Markets: Break through with **innovative products, premium brands**
  - China: Expand in **retail** and **open market** with stronger product portfolio
- Goal: Pursue long-term, **profitable growth** in Mobile

Smartphone Projected CAGR in Key Markets, 2015-2019



Note: 1) APEM excludes India, Indonesia  
2) CEE excludes Russia  
3) LA excludes Brazil  
Source: IDC Nov forecast

# + Drive Continued Growth Across Business

## Enterprise

- Strengthen competitiveness through **strategic partnerships** with industry leaders
- To achieve **profitable growth**

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Introducing **Lenovo HX Series**

**Lenovo®**

# + Transforming for the Future

- Continue to drive our **business model** transformation
- Transform our **organizations** and **processes**
- Become more **customer-centric**
- Better address our “**Device + Cloud**” strategy







# + Q3FY16 Financial Highlights

- Group revenue of US\$12.9B, down 8% YTY, down 2% YTY excluding currency impact
- Group PTI\* up 14% YTY to record high US\$397M
- Group reported PTI was US\$320M, up 17% YTY
- Group Net Income of US\$300M, up 19% YTY
- Achieved planned savings target from business realignment plan for Q3FY16. On track to achieve the total savings of \$650M in 2H, and about \$1.35B on an annual basis
- Continue to enhance our competitiveness with a faster, stronger, and more efficient organization, leading industry cost structure & healthier channel inventory, to drive revenue and profit growth

*\*Excluding non-cash M&A-related accounting charges of \$77M*

# + Q3 Financial Summary

US\$ Million	Q3 FY2015/16	Q3 FY2014/15	Y/Y%	Q2 FY2015/16*	Q/Q%
Revenue	12,913	14,092	-8%	12,150	6%
Gross Profit	1,885	2,097	-10%	1,575	20%
Operating Expenses	(1,506)	(1,772)	-15%	(2,359)	-36%
Operating Profit / (Loss)	379	325	17%	(784)	N/A
Other Non-Operating Expenses - Net	(59)	(51)	16%	(58)	0%
Pre-tax Income / (Loss)	320	274	17%	(842)	N/A
Taxation	(26)	(17)	50%	125	N/A
Profit / (Loss) for the period	294	257	14%	(717)	N/A
Non-controlling interests	6	(4)	N/A	3	126%
Profit / (Loss) attributable to Equity Holders	300	253	19%	(714)	N/A
EPS (US cents)					
- Basic	2.71	2.32	0.39	(6.43)	N/A
- Diluted	2.70	2.30	0.40	(6.43)	N/A

	Q3 FY2015/16	Q3 FY2014/15	Q2 FY2015/16*
Gross margin	14.6%	14.9%	13.0%
E/R ratio	11.7%	12.6%	19.4%
Operating margin	2.9%	2.3%	-6.5%
PTI margin	2.5%	1.9%	-6.9%
Net margin attributable to Equity Holders	2.3%	1.8%	-5.9%

\* Including restructuring and one-time charges of total of \$923M in Q2

# + Condensed Balance Sheet

US\$ Million

	As at Dec 31, 2015	As at Sep 30, 2015
<b>Non-current assets</b>	<b>11,615</b>	11,912
Property, plant and equipment	1,377	1,306
Intangible assets	8,531	9,026
Others	1,707	1,580
<b>Current assets</b>	<b>15,217</b>	15,412
Bank deposits and cash	2,701	2,953
Trade, notes and other receivables	9,654	9,569
Inventories	2,695	2,721
Others	167	169
<b>Current liabilities</b>	<b>17,753</b>	18,108
Short-term bank loans	235	574
Trade, notes, other payables and provisions	16,679	16,627
Others	839	907
<b>Net current liabilities</b>	<b>2,536</b>	2,696
<b>Non-current liabilities</b>	<b>6,164</b>	6,206
<b>Total equity</b>	<b>2,915</b>	3,010

# + Cash and Working Capital

US\$ Million	Q3 FY2015/16	Q3 FY2014/15	Q2 FY2015/16
Bank Deposits and Cash	2,701	3,991	2,953
Total Bank Borrowings	2,750	2,719	3,093
Net (Debt) / Cash Reserves	(49)	1,271	(140)
Net Cash Generated from Operating Activities	393	738	909
Days Inventory	24	25	25
Days Receivable	37	34	35
Days Payable	63	61	61
Cash Conversion Cycle	-2 days	-2 days	-1 days

# + Q3FY16 Performance by Business Group

## PC

- Record WW share at 21.6%, up 1.5pts YTY
- Market premium at 7pt (-4.2% vs. mkt: -10.9% YTY)
- Rev declined by 12% YTY due to FX impacts and slower demand (Rev declined by 6% YTY under constant currency)
- PTI margin at 5.0% amidst the tough market environment

## Enterprise

- Revenue up 8% YTY; YTY growth for 2<sup>nd</sup> consecutive Qtrs
- Continuous solid China Rev growth of 30% YTY
- Operational profitable for 5<sup>th</sup> consecutive Qtrs; margin improved both YTY/QTQ
- Traditional IT business continued to stabilize & attack into fast growing opportunities with new partnerships

## Mobile

- Achieved operationally breakeven for MBG, with significant PTI margin improvement by 7.2pts QTQ
- Regained momentum with revenue up 21% QTQ (down 4% YTY) driven by solid growth outside China business
- Smartphones shipments up 7% QTQ to 20.2M (down 18% YTY)
- New Moto product (e.g. innovative Moto X Force) launch gaining good traction
- Tablet shipments grew 4% QTQ to 3.2M; launched new innovative products, e.g. ThinkPad X1 Tablet

Excluding restructuring costs & one-time charges	Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million			Segment Pretax Income Margin (%)		
	Q3 FY16	Y/Y#	Q/Q	Q3 FY16	Q3 FY15#	Q2 FY16	Q3 FY16	Q3 FY15#	Q2 FY16
<b>PC</b>	<b>8,033</b>	(1,113)	(110)	<b>405</b>	494	406	<b>5.0%</b>	5.4%	5.0%
<b>Enterprise</b>	<b>1,314</b>	92	137	<b>(14)</b>	(42)	(33)	<b>-1.0%</b>	-3.4%	-2.8%
<b>Mobile</b>	<b>3,245</b>	(145)	562	<b>(30)</b>	(89)	(217)	<b>-0.9%</b>	-2.6%	-8.1%

\* Included non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others

# Including 2 month Motorola and full quarter of System X performances

# + Q3FY16 Performance by Geography

## China

- **PC:** Record-high market share with stable margin performance (40.0%, up 1.7pts YTY)
- **Mobile:** Consolidation trend has started; Refreshed strategy to strengthen open channel, enhance product portfolio with dual brand strategy, healthier inventory position to drive profitable growth
- **Enterprise:** Strong Rev growth of 30% YTY driven by the successful attack in hyperscale business

## AP

- **PC:** Remained #1 with strong 16-pt premium growth to market & continuous share gain (18.9%, up 2.8pts YTY)
- **Mobile:** Strong smartphone shipments growth (+123%) driven by strong momentum in India, Indonesia and ASEAN
- **Enterprise:** Continued to grow with improved profitability

## EMEA

- **PC:** Maintained #2 with 19.4% market share
- **Mobile:** Record 4.7M smartphone shipments (+48% YTY)
- **Enterprise:** Enhancing competitiveness with better resource to stabilizing the business further

## AG (Americas)

- **PC:** Strong 16-pt growth premium & share gain (13.1%, up 1.9pts YTY); Strong NA shipments growth of 21% YTY; Brazil profitability continued to improve
- **Mobile:** Moto new phones drove strong QTQ shipments improvements in NA (NA: +52% QTQ) with improved profitability QTQ
- **Enterprise:** Attack mode and continued to stabilize the business

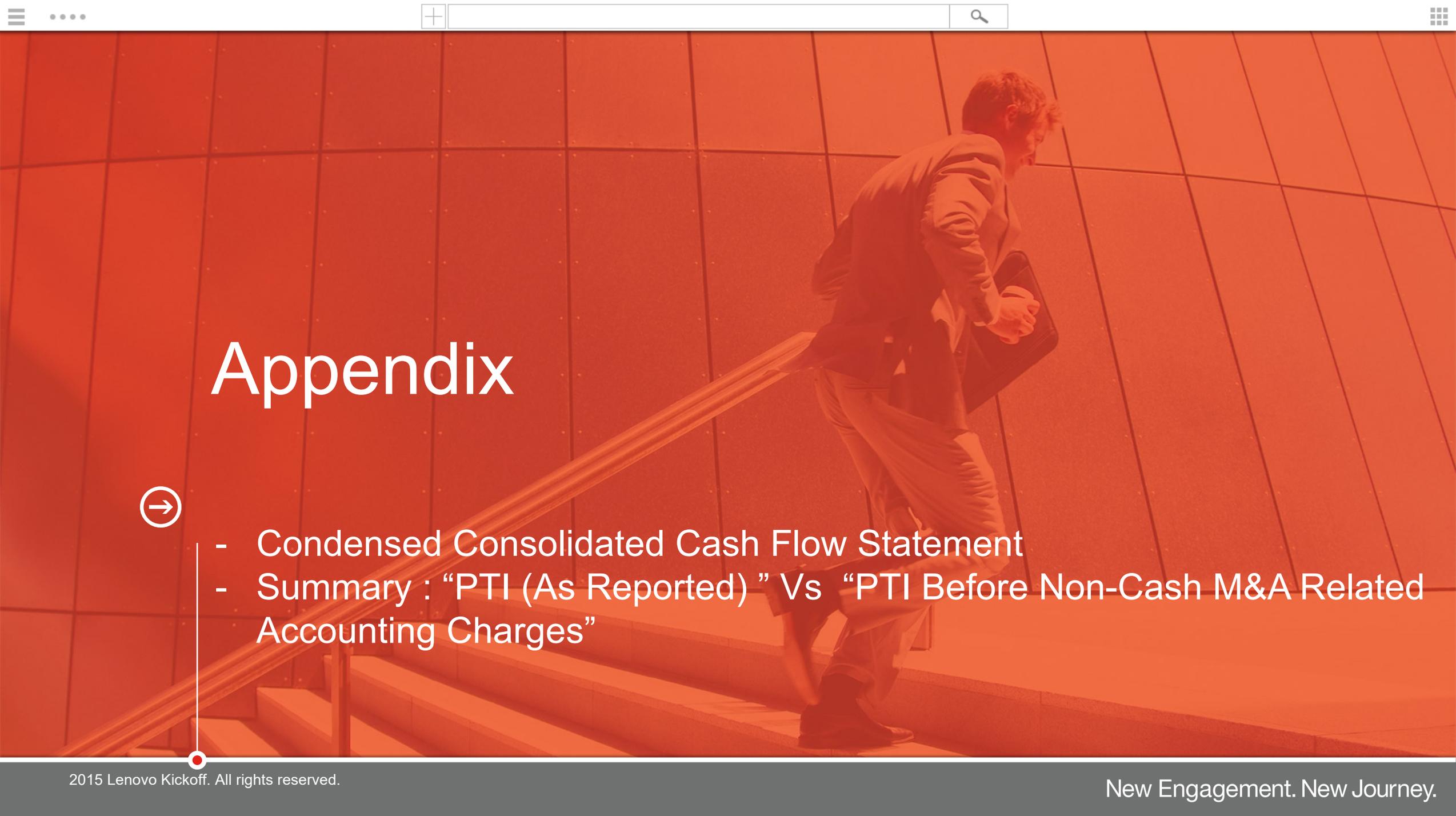
Excluding restructuring costs & one-time charges	Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million			Segment Pretax Income Margin (%)		
	Q3 FY16	Y/Y#	Q/Q	Q3 FY16	Q3 FY15#	Q2 FY16	Q3 FY16	Q3 FY15#	Q2 FY16
China	3,518	(565)	193	167	233	136	4.7%	5.7%	4.1%
AP	1,980	261	10	19	92	22	1.0%	5.4%	1.1%
EMEA	3,452	(586)	250	57	122	23	1.7%	3.0%	0.7%
AG	3,963	(289)	310	76	(22)	(73)	1.9%	-0.5%	-2.0%

# Including 2 month Motorola and full quarter of System X performances

## + Realized Planned Savings Driven by Strong Execution Capability

- Savings for Q3FY16: \$346m
- On track to target full year run rate savings: \$1.35b

- All business re-alignment actions on schedule
- PCG: Maintained industry leading cost structure
- MBG: Re-aligned two teams while improving operating efficiency with better expenses control
- EBG: Fully integrated team to drive sales momentum



# Appendix



- Condensed Consolidated Cash Flow Statement
- Summary : “PTI (As Reported) ” Vs “PTI Before Non-Cash M&A Related Accounting Charges”

# + Condensed Consolidated Cash Flow Statement

<i>US\$ Million</i>	Q3 2015/16	Q3 2014/15	Q2 2015/16
Net cash generated from operating activities	393	738	909
Net cash used in investing activities	(142)	(2,532)	(188)
Net cash (used in) / generated from financing activities	(427)	471	(621)
(Decrease)/Increase in cash and cash equivalents	(176)	(1,323)	100
Effect of foreign exchange rate changes	(34)	(25)	(58)
Cash and cash equivalents at the beginning of the period	2,761	5,229	2,719
Cash and cash equivalents at the end of the period	2,551	3,881	2,761

## + Summary : “PTI (As Reported) ” Vs “PTI Before Non-Cash M&A Related Accounting Charges”

	Q3 FY15/16	Q3 FY14/15	Change (YTY)
<b>Accounting Operating Profit (As-Reported)</b>	<b>379</b>	<b>325</b>	<b>17%</b>
• Other Non-Operating Expenses	(59)	(51)	16%
<b>Pre-tax Income (As-Reported)</b>	<b>320</b>	<b>274</b>	<b>17%</b>
• Non-Cash M&A Related Accounting Charges	<b>77</b>	<b>74</b>	<b>4%</b>
<b>PTI Before Non-Cash M&amp;A Related Accounting Charges</b>	<b>397</b>	<b>348</b>	<b>14%</b>
• Tax	(26)	(17)	50%
• Non-Controlling Interests	6	(4)	NA
• Non-Cash M&A Related Accounting Charges	(77)	(74)	4%
<b>Net Income (As-Reported)</b>	<b>300</b>	<b>253</b>	<b>19%</b>



# THANK YOU

DAKUJEM DANK BEDANKT MERCI TAKK 謝謝  
ありがとう СПАСИБО GRACIAS DZIĘKUJĘ DANKE  
OBRIGADO БЛАГОДАРЯ GRAZIE GRACIAS

