

Smarter technology for all

1QFY22 Earnings Announcement

Aug 11, 2021



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Smarter technology for all

Yuanqing Yang

Chairman & CEO

Aug 11, 2021



**Sustainable
Profitability Increases**

OPPORTUNITIES

PERFORMANCE

SUSTAINABLE GROWTH

Group:
**Seizing opportunities
in accelerated
Digital & Intelligent
transformation**

OPPORTUNITIES



New Normal accelerating
Digital & Intelligent transformation



Upgrades in smart devices, ICT
infrastructure and applications

Lenovo's strategic intent:



Capture significant opportunities and
improve profitability with clear 3S
strategy and strong execution

- Smart IoT
- Smart Infrastructure
- Smart Verticals

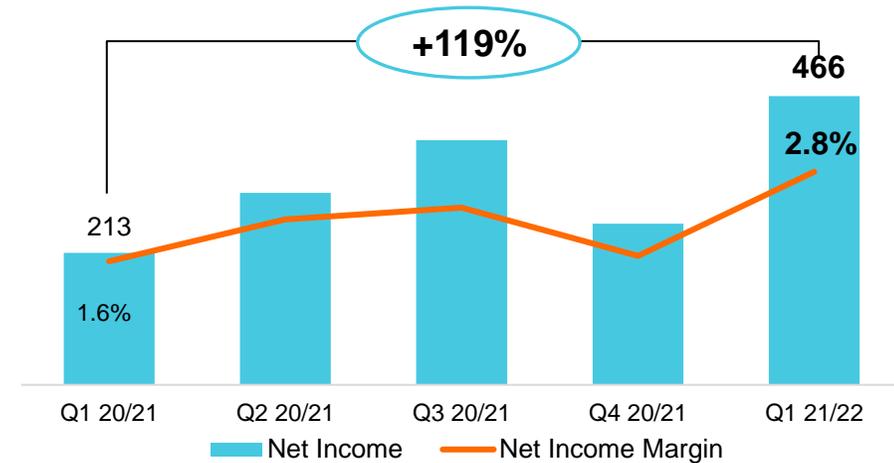
Group: Seizing opportunities in accelerated Digital & Intelligent transformation

Significant profitability improvement YTY with solid progress in Service-led transformation

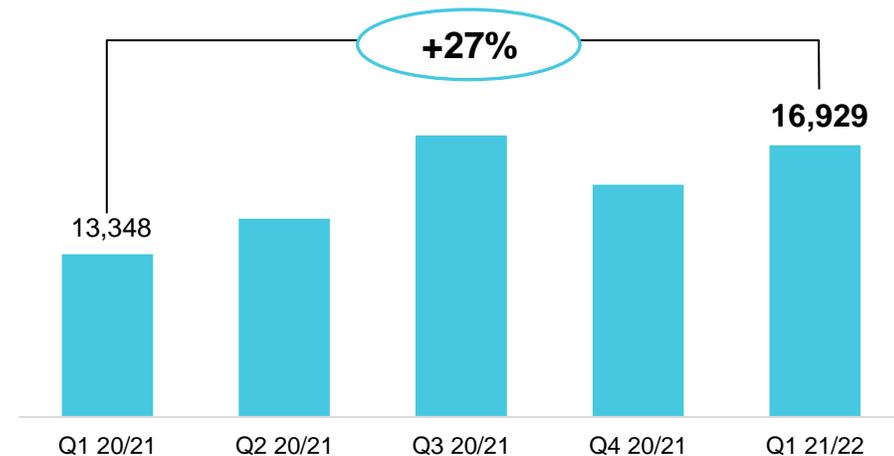
- Net Income more than doubled
- Net Income margin 2.8%, the highest in years
- Revenue hypergrowth of 27% year-on-year

PERFORMANCE

Group Net Income (\$M) & Margin (%)



Group Revenue (\$M)



Group:
**Seizing opportunities
in accelerated
Digital & Intelligent
transformation**

SUSTAINABLE GROWTH



Focus on high margin businesses

- Solutions & services, particularly as-a-Service & Smart Verticals
- ICT infrastructure upgrade
- Premium PC
- Adjacent non-PC devices



Increase investment in innovation

SSG

Solutions & Services Group:

High margin, high growth

OPPORTUNITIES



New IT Architecture:

“Client-Edge-Cloud-Network-Intelligence”

New IT Reshaping the Industry

- Need for more sophisticated services
- Shift to subscription-based, all-inclusive business model

Lenovo’s strategic intent:



Drive high growth in 3 high margin service segments:

- Support services
- Managed services & as-a-Service
- Vertical solutions

SSG

Solutions & Services Group:

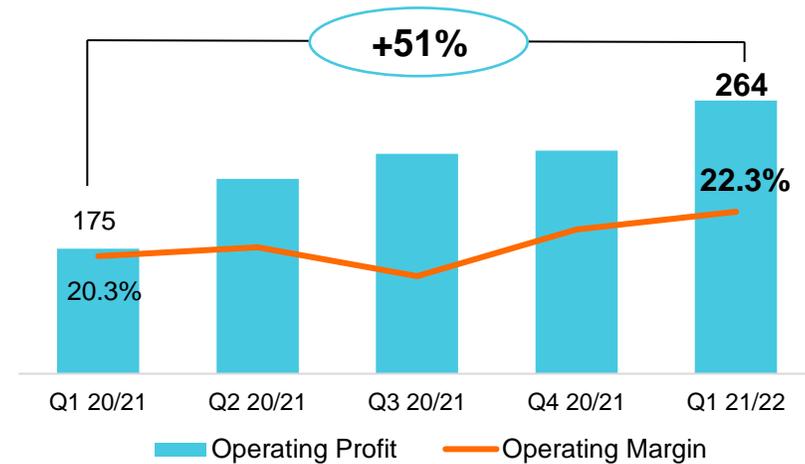
High margin, high growth

Strong initial results

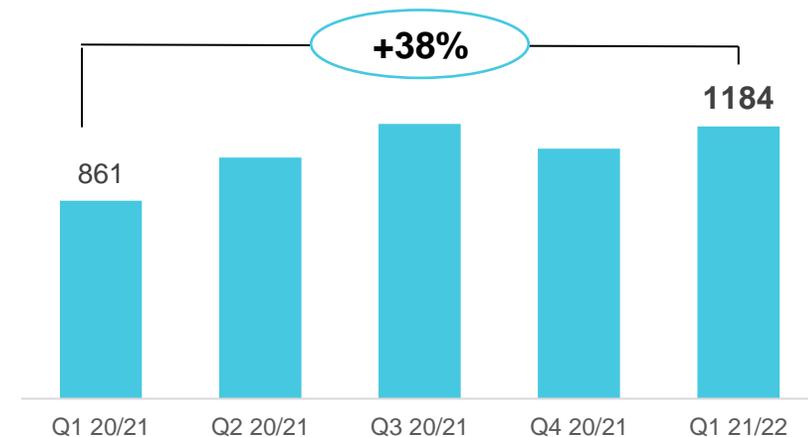
- Operating margin 22%, operating profit up 51% YTY
- Revenue up 38% YTY
- Support Services: revenue up 24%, profitability up 2.7 pts YTY
- Managed Services & as-a-Service: revenue up 64% YTY, profitability up 1.8 pts YTY
- Vertical Solutions: revenue up 56% YTY, profitability up 5.4 pts YTY

PERFORMANCE

SSG Operating Profit (\$M) & Margin (%)



SSG Revenue (\$M)



SSG

Solutions & Services Group:

**High margin,
high growth**

SUSTAINABLE GROWTH

Support Services:

Improve penetration rates, leverage commercial rebounds to grow

Managed Services & as-a-Service:

Invest in capability, platform and tools

Vertical Solutions:

Scale through repeatable solutions with own IP and partnerships

ISG

Infrastructure Solutions Group:

Drive to profitability, outgrowing the market

OPPORTUNITIES



ICT Infrastructure:

Foundation to Digital & Intelligent Transformation and a \$246 billion market through 2025

Lenovo's strategic intent:



Build capabilities for profitable growth

- From server only to full-stack (Storage, Software, Services, SDI¹) infrastructure provider
- From Enterprise IT infrastructure to public cloud and full hybrid cloud solutions provider



Infrastructure Solutions Group:

Drive to profitability, outgrowing the market

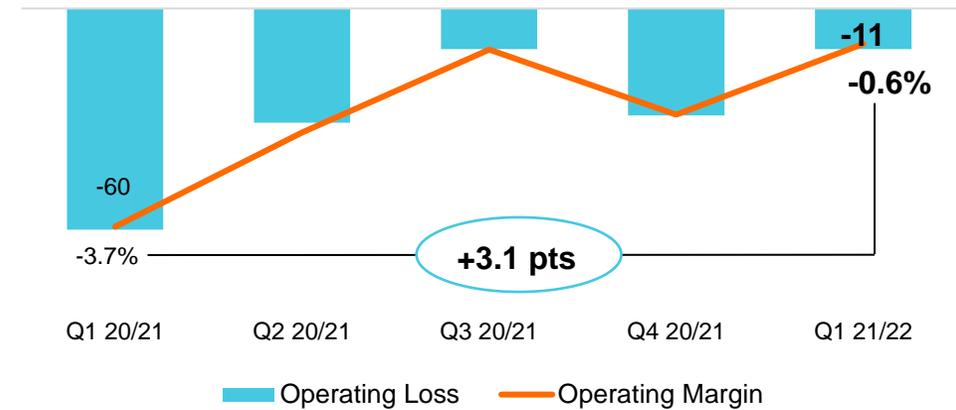
Investments paying off, close to turning profitable and generating return.

- Best results in last 5 years
- Record revenue, outperformed market for 6 straight quarters
- #3 in x86 Server, #2 in Mainstream storage worldwide
- Higher margin businesses continued strong growth YTY: Storage, Software, Hybrid Cloud solutions

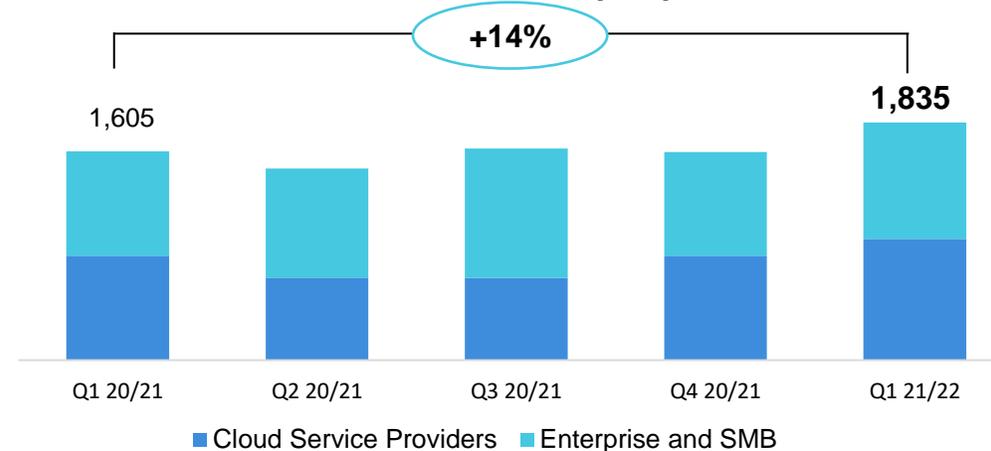


PERFORMANCE

ISG Operating Results (\$M) & Margin(%)



ISG Revenue (\$M)



ISG

Infrastructure Solutions Group:

**Drive to
profitability,
outgrowing
the market**

SUSTAINABLE GROWTH

Continue to invest in competitiveness and drive to profitability

- Increase investments in Edge computing, Hybrid cloud solutions, 5G cloud-network
- Strengthen in-house design & manufacturing capabilities to improve efficiency
- Expand strategic partnership to enable more solutions
- Become the largest ICT infrastructure solution provider

IDG

Intelligent Devices Group:

Strong profit increase, growing non-PC businesses

OPPORTUNITIES



PC: returned to the center of digital life, refresh cycle shortened, penetration rate up, market stable at 340-million-unit level through 2025

IoT: market surge by 11% CAGR through 2025

Lenovo's strategic intent:



Expand non-PC businesses

Invest in innovation and premium segments (workstation, gaming PC, thin & light, foldable notebook)

IDG

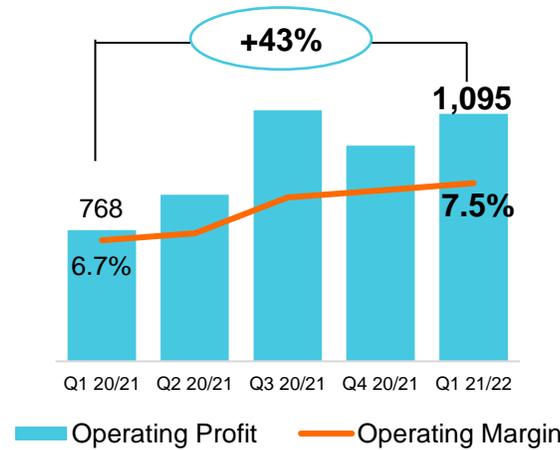
Intelligent Devices Group:

Strong profit increase, growing non-PC businesses

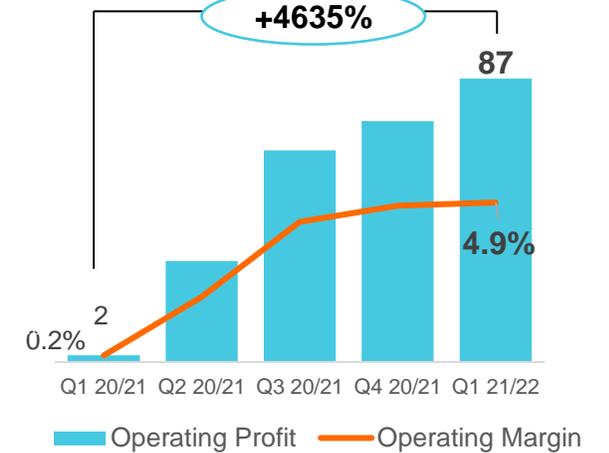
- Operating profit up 43%, Revenue up 28% YTY
- PC ASP¹ & profitability up thanks to investment in premium segments
- Non-PC business mix 18%
- Smartphone became hypergrowth business with healthy operating profit of 5%
- Android Tablets strengthened #2 position

PERFORMANCE

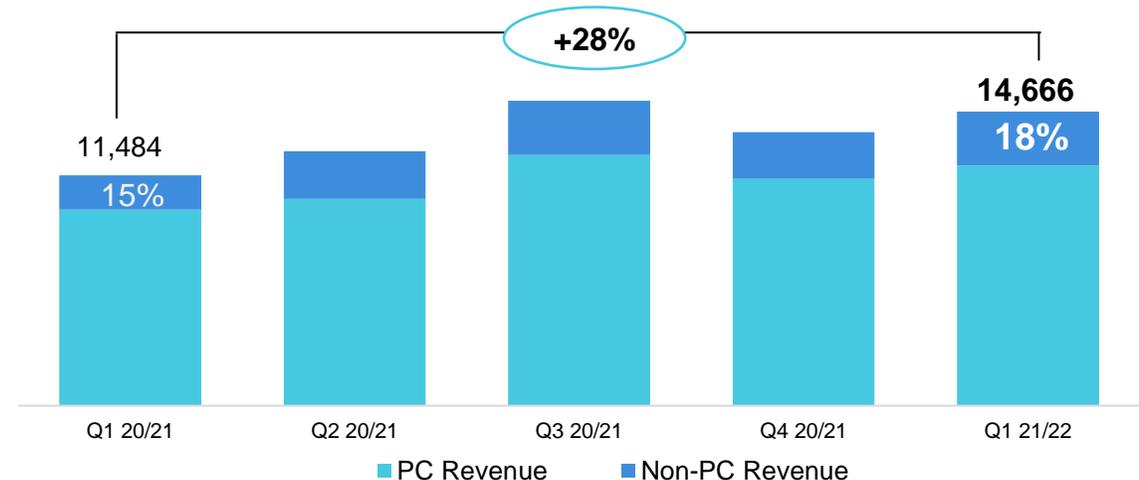
IDG Operating Profit (\$M) & Margin(%)



Smartphone Operating Profit (\$M) & Margin(%)



IDG Revenue (\$M)



IDG

Intelligent Devices Group:

**Strong profit
increase,
growing non-PC
businesses**

SUSTAINABLE GROWTH

- Invest in smarter devices, core technologies and next generation computing platform
- Focus on premium PC segments to improve ASP¹ and profitability
- Cross sell adjacent non-PC products, increase non-PC business mix

Invest for the future, continue sustainable profitable growth



R&D

Double investment
in 3 years



Operational Excellence

Continue to improve
efficiency through Digital &
Intelligent Transformation



ESG

Committed to sustainable
development

Lenovo Tech World '21

Lenovo

Smarter technology for all

Wong Wai Ming

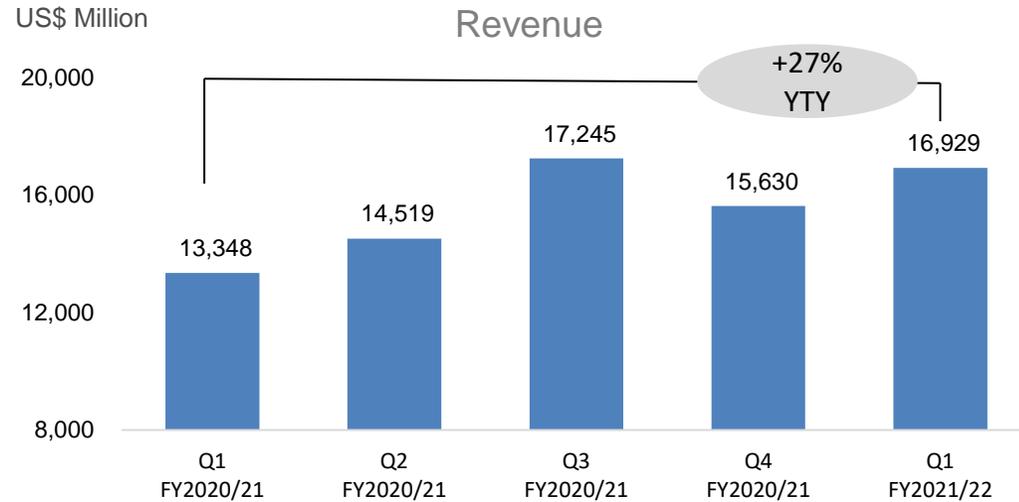
Chief Financial Officer

Aug 11, 2021



Financial Highlights

1Q HIGHLIGHTS

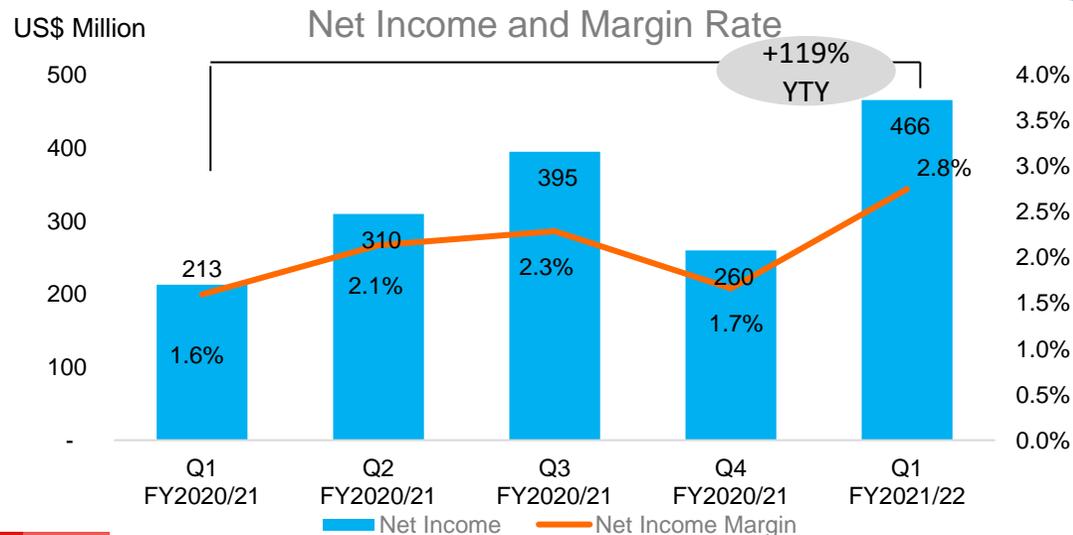


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1 Digital transformation fueled growth; Revenue up 27% YTY and outperformed market; Net income margin boosted by services to a new record of 2.8%; Net income* up 119% YTY

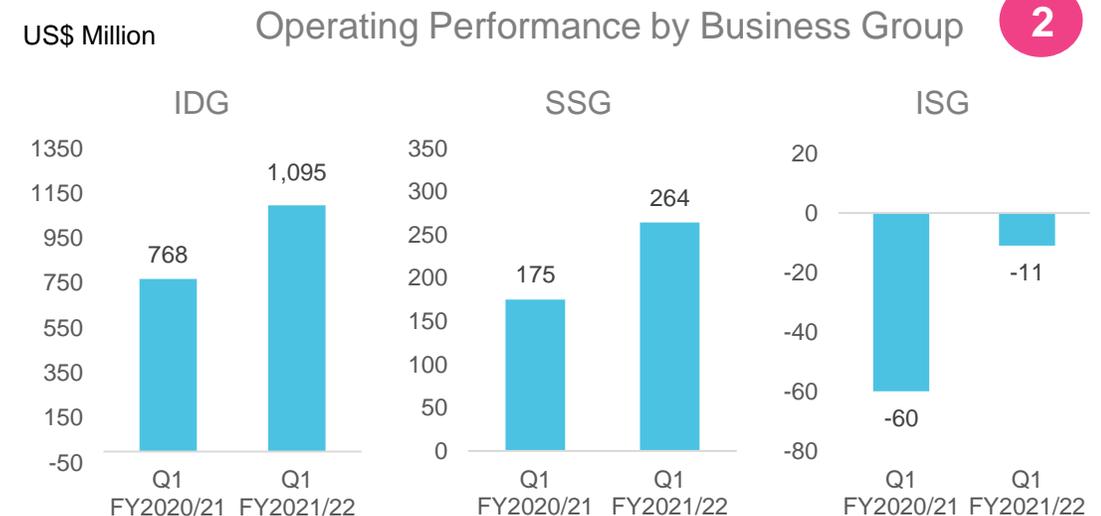
2 Improved profitability across all business groups; Intelligent Devices Group (IDG) and Solutions & Services Group (SSG) profit up by 43% and 51% YTY, respectively, while Infrastructure Solutions Group (ISG) showed the largest improvement of \$49 million

1 SSG's YTY revenue growth of 38% at the fastest rate among Business Groups; within IDG, non-PC growing 57% versus PC's robust 22% increase; ISG achieved record revenue (up 14% YTY) since x86 acquisition



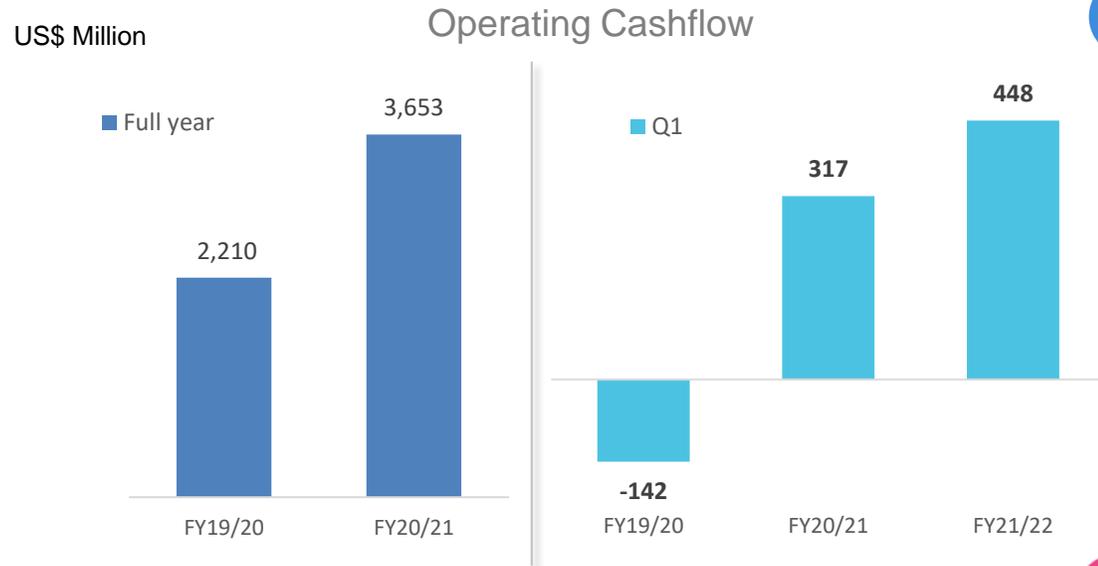
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1 Group R&D expense up 40% YTY to drive innovation



2

Cash and Working Capital

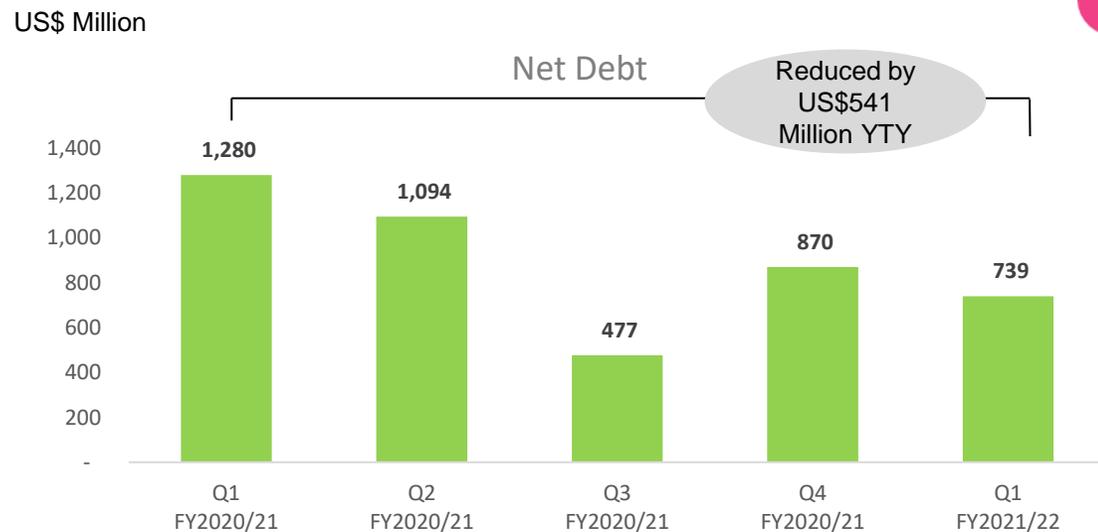


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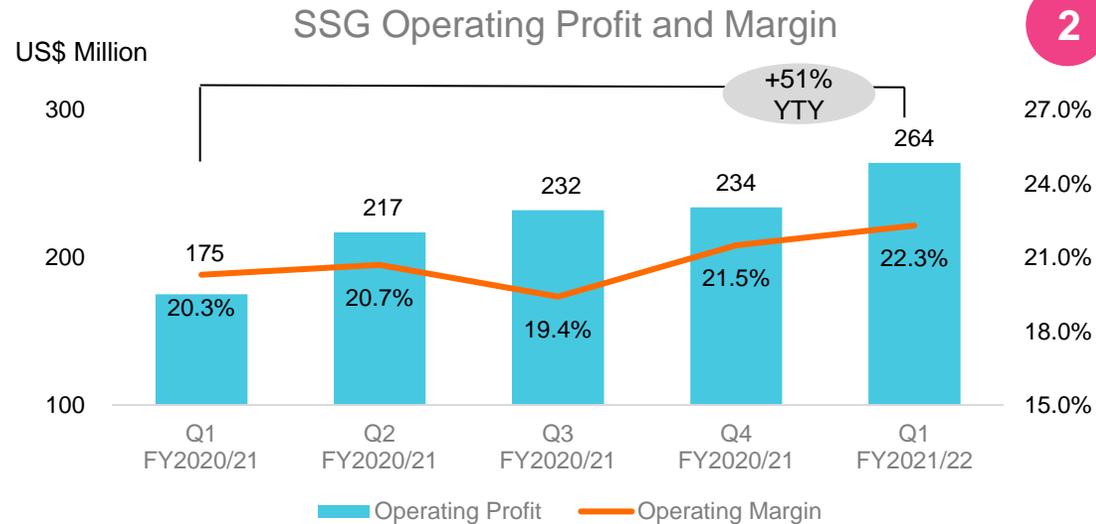
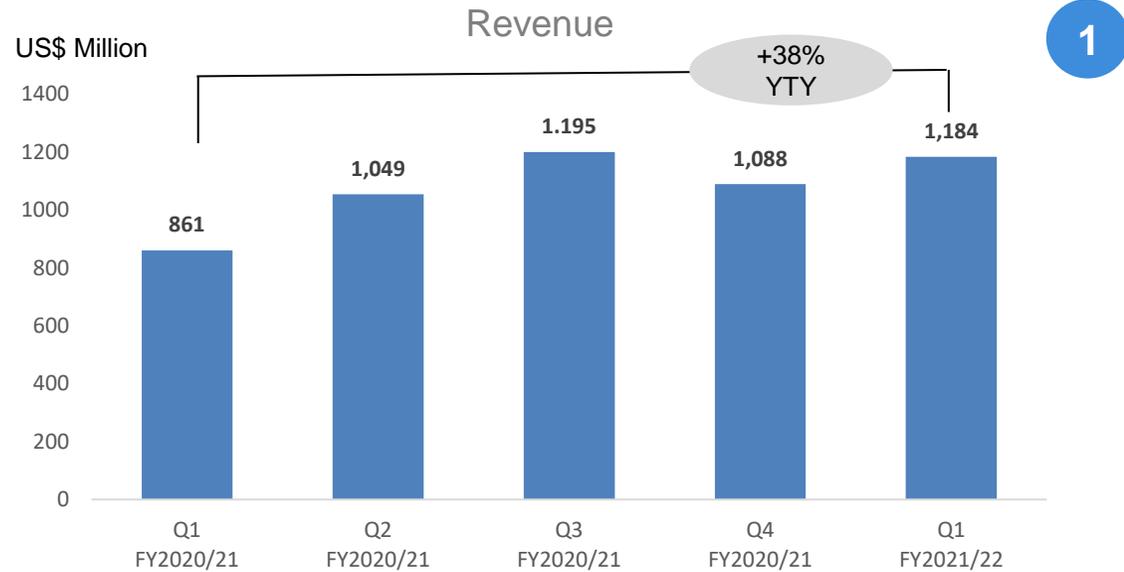
1Q HIGHLIGHTS

- 1 Operating cashflow expanded US\$131 million YTY to US\$448 million on strong profitability
- 2 Net debt reduced by US\$541 million YTY to US\$739 million
- 2 A YTY saving of 6% in financing costs in spite of strong revenue growth of 27%, thanks to continued bank loan reduction
- 3 Moody's and S&P upgraded Group's outlook to "positive", following Fitch's earlier upgrade to "BBB" rating

2



Solutions and Services Group (SSG)



1Q HIGHLIGHTS

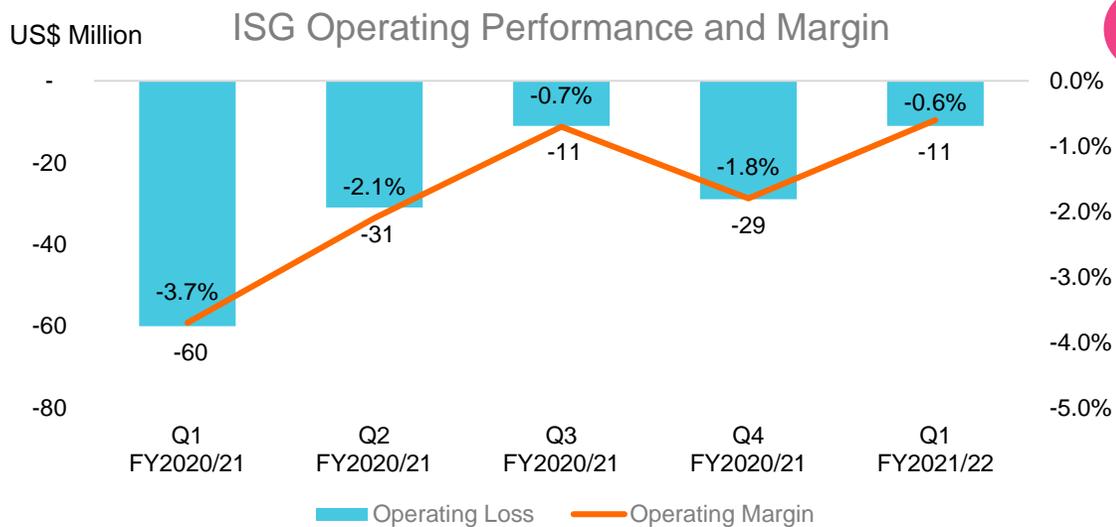
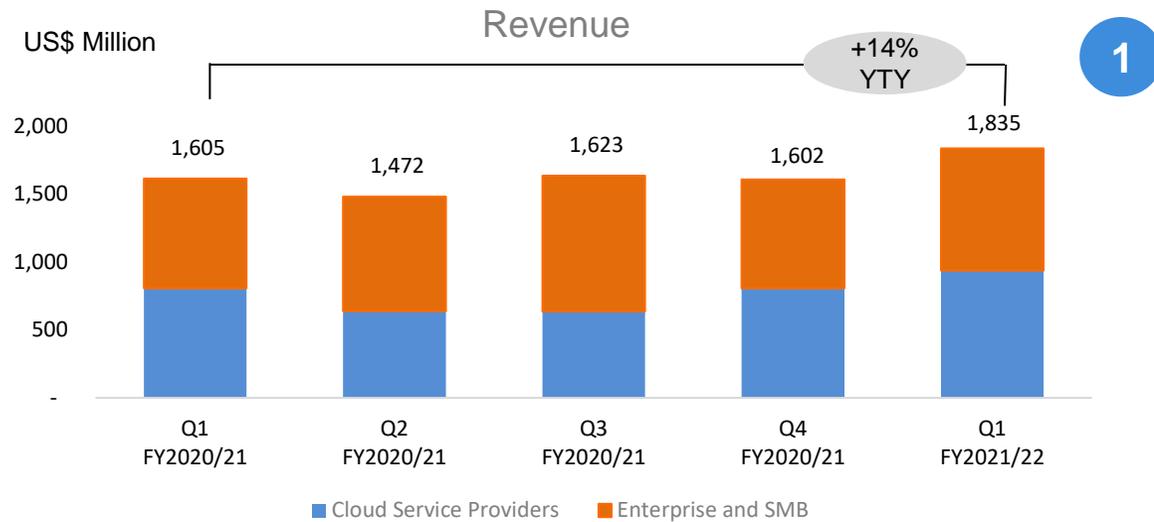
1 Revenue at US\$1.2bn, up 38% YTD, with robust growth across all segments

- Support Services up 24% YTD on back of rising penetration rate and strengthened solutions
- Managed Services rode on surging as-a-service demand, recording 64% revenue growth YTD; as-a-Service more than doubled
- Project & Solutions built scaling capability with repeatable deals, driving revenue up 56% YTD

1 Booking up 41% YTD. Deferred revenue amounted to \$2.4bn, up 34% YTD. Recurring revenue base to grow stronger to support sustainable growth.

2 SSG posted the strongest revenue and profit growth among all business groups; Operating profit up 51% YTD to US\$264 million with margin expansion of 2pts to 22.3%.

Infrastructure Solutions Group (ISG)



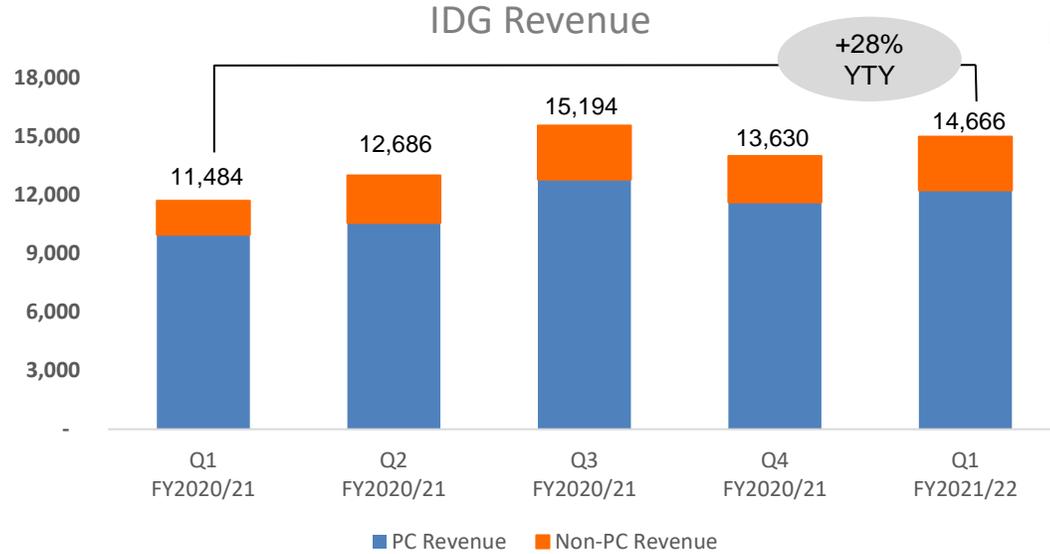
1Q HIGHLIGHTS

- 1 Record revenue since x86 acquisition; above-industry growth for 6 quarters in-a-row; Double-digit revenue growth in both CSP & ESMB*
- 2 Strongest YTY profit improvement of US\$49 million since 2QFY19/20, thanks to higher-margin CSP projects and favorable ESMB sales mix
- 1 Record CSP revenue on healthy cloud demand and broadened client base; Adding 12 new CSP next Wave clients; Design-in offerings expanded from 1 socket to 8 socket, server to storage & liquid cooling
- 1 ESMB reported the highest 1Q revenue in 5 years; High-margin segments (Storage, HPC & Hybrid Cloud) grew faster than market with record revenue; Securing global no.2 position in mainstream storage.



Intelligent Devices Group (IDG*)

US\$ Million

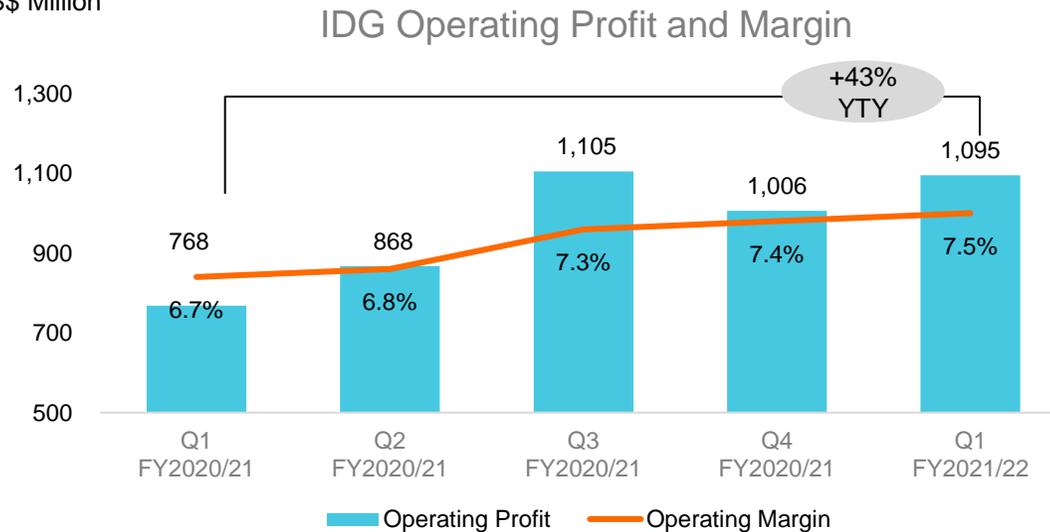


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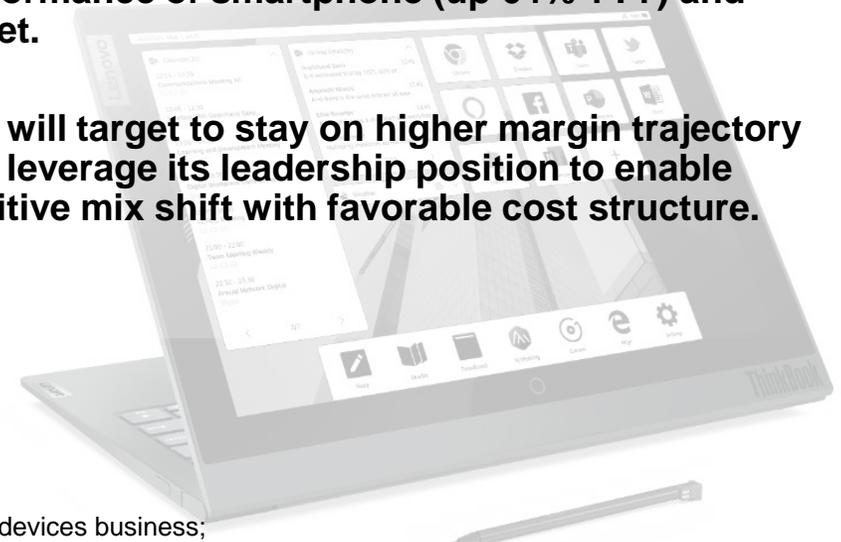
1Q HIGHLIGHTS

- 1 IDG revenue grew 28% YTY while segment operating profit up 43%
- 1 Thanks to buoyant IT spending cycle and demand for premium** segments, whose revenue increased 55%-128% YTY, IDG delivered profit margin expansion for the 14th consecutive quarter
- 1 Non-PC revenue contributed 18% of IDG revenue, up 57% YTY, mainly benefiting from stellar performance of smartphone (up 64% YTY) and tablet.
- 2 IDG will target to stay on higher margin trajectory and leverage its leadership position to enable positive mix shift with favorable cost structure.

US\$ Million



2



ESG in Action

• Environmental

- ✓ Exceeded 2020 climate change goals
- ✓ Set 2030 SBTi climate change goals
- ✓ Endorsed UN CEO Water Mandate

• Social

- ✓ Supported Covid-19 response with philanthropy
- ✓ Impacted 38,000+ during Global Month of Service
- ✓ Product Diversity Office announced

• Governance

- ✓ Established ESG Executive Oversight Committee
- ✓ Updated Privacy Policy
- ✓ Deployed new data privacy request platform

ESG: Recognitions



3-Leaf Certification



Hang Seng Corporate Sustainability Index

2020 Rating: AA



CCC B BB BBB A AA AAA



Best in ESG Awards



100% DISABILITY EQUALITY INDEX



2020 Climate: A

2020 Water: B

2020 Supplier Engagement: A



100% CORPORATE EQUALITY INDEX



Hong Kong Institute of Certified Public Accountants
香港會計師公會

Gold Award in Corporate Governance

ESG: Programs and Endorsements



Responsible Business Alliance

Advancing Sustainability Globally

Platinum VAP Audits
(Monterrey & Indaiatuba)



United Nations
Global Compact



Empowering
Sustainable
Decisions



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Outlook

Group Mission is to be the Leader and Enabler of Intelligent Transformation

Enable net income margin improvement in medium term; drive R&D to turbocharge innovation; increase brand premium

SSG: High-margin, high-growth transformation engine

- **High profitability and strong growth in a fast-growing “New IT” service market**
- Extensive exposure to commercial PC and ESMB infrastructure growth offers huge solution and service potentials; Well-positioned to capture the strong as-a-Service demand
- Building up solution portfolios with own Intellectual Property for repeatable businesses

ISG: Building a profitable business and consistent premium-to-market growth in E/SMB and CSP markets

- **Delivering industry-leading end-to-end infrastructure solutions and expansion from server to full stack offerings**
- Expanding **ESMB** through servers into storage, SDI, software, and services, with rising profitability, and new segments coverage in Edge/AI and CommSP
- **Cloud Service Provider:** Fully integrated ODM+ model to expand profitability opportunities and drive QTQ profit improvement

IDG: In the driver’s seat for sustainable profit expansion

- **Sustainable increase in profitability via investing in innovation, premium segments, and adjacent areas. Leverage leadership position to consistently deliver on operational excellence and supply chain management**
- PC: Digital transformation took a new turn as economies re-opened, creating a strong commercial demand/backlog; Premiumization could accelerate as remote learning/working models have raised the bar for designs include video/audio; Rising on a strong commercial demand, ASP and margin expansion should continue
- Non-PC: Expecting rapid growth supported by AIoT’s double-digit growth potential according to market research, while Lenovo will take advantage of competitor exit to further grow its smartphone business

Appendix

- Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement

Financial Summary

| US\$ Million | Q1 FY2021/22 | Q1 FY2020/21 | Y/Y% |
|---------------------------------------|--------------|--------------|-------|
| Revenue | 16,929 | 13,348 | 27% |
| Gross profit | 2,824 | 2,041 | 38% |
| Operating expense | (2,081) | (1,605) | 30% |
| Operating profit | 743 | 436 | 70% |
| Other non-operating expenses | (93) | (104) | (11%) |
| Pre-tax income | 650 | 332 | 96% |
| Taxation | (165) | (85) | 94% |
| Profit for the period | 485 | 247 | 97% |
| Non-controlling interests | (19) | (34) | (44%) |
| Profit attributable to equity holders | 466 | 213 | 119% |
| EPS (US cents) | | | |
| -Basic | 4.02 | 1.80 | 2.22 |
| -Diluted | 3.53 | 1.76 | 1.77 |

| | Q1 FY2021/22 | Q1 FY2020/21 |
|------------------|--------------|--------------|
| Gross margin | 16.7% | 15.3% |
| E/R ratio | 12.3% | 12.0% |
| Operating margin | 4.4% | 3.3% |
| PTI margin | 3.8% | 2.5% |
| Net margin | 2.8% | 1.6% |

Condensed Consolidated Income Statement

| US\$ Million | Q1 FY2021/22 | Q1 FY2020/21 |
|--|--------------|--------------|
| Revenue | 16,929 | 13,348 |
| Cost of sales | (14,105) | (11,307) |
| Gross profit | 2,824 | 2,041 |
| Selling and distribution expenses | (847) | (632) |
| Administrative expenses | (812) | (661) |
| Research and development expenses | (466) | (333) |
| Other operating income – net | 44 | 21 |
| Operating profit | 743 | 436 |
| Finance income | 9 | 8 |
| Finance costs | (101) | (107) |
| Share of loss of associated companies and joint ventures | (1) | (5) |
| Profit before taxation | 650 | 332 |
| Taxation | (165) | (85) |
| Profit for the period | 485 | 247 |
| Profit attributable to equity holders of the Company | 466 | 213 |
| Perpetual securities holders | - | 13 |
| Other non-controlling interests | 19 | 21 |
| Per share data | | |
| Earnings per share (US cents) – Basic | 4.02 | 1.80 |
| Earnings per share (US cents) – Diluted | 3.53 | 1.76 |

Condensed Consolidated Balance Sheet

| <i>US\$ Million</i> | As at Jun 30, 2021 | As at Jun 30, 2020 |
|---|--------------------|--------------------|
| Non-current assets | 14,951 | 13,447 |
| Property, plant and equipment | 1,562 | 1,388 |
| Intangible assets | 8,448 | 7,992 |
| Others | 4,941 | 4,067 |
| Current assets | 25,510 | 20,048 |
| Bank deposits and cash | 3,259 | 3,546 |
| Trade, notes and other receivables | 14,027 | 11,128 |
| Inventories | 7,826 | 5,127 |
| Others | 398 | 247 |
| Current liabilities | 29,219 | 23,374 |
| Borrowings | 694 | 2,289 |
| Trade, notes, other payables, accruals and provisions | 26,857 | 19,903 |
| Others | 1,668 | 1,182 |
| Net current (liabilities) | (3,709) | (3,326) |
| Non-current liabilities | 7,082 | 5,891 |
| Total equity | 4,160 | 4,230 |

Condensed Consolidated Cash Flow Statement

| US\$ Million | Q1 FY2021/22 | Q1 FY2020/21 | Q4 FY2020/21 |
|--|--------------|--------------|--------------|
| Net cash generated from operating activities | 448 | 317 | 601 |
| Net cash used in investing activities | (192) | (285) | (280) |
| Net cash used in financing activities | (180) | (91) | (1,225) |
| Increase/(Decrease) in cash and cash equivalents | 76 | (59) | (904) |
| Effect of foreign exchange rate changes | 32 | 4 | (68) |
| Cash and cash equivalents at the beginning of the period | 3,068 | 3,551 | 4,040 |
| Cash and cash equivalents at the end of the period | 3,176 | 3,496 | 3,068 |

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Lenovo

thanks.