

Smarter technology for all

Q1 FY24 Earnings Announcement

Aug 17, 2023

Lenovo

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Smarter technology for all

Yuanqing Yang

Chairman & CEO

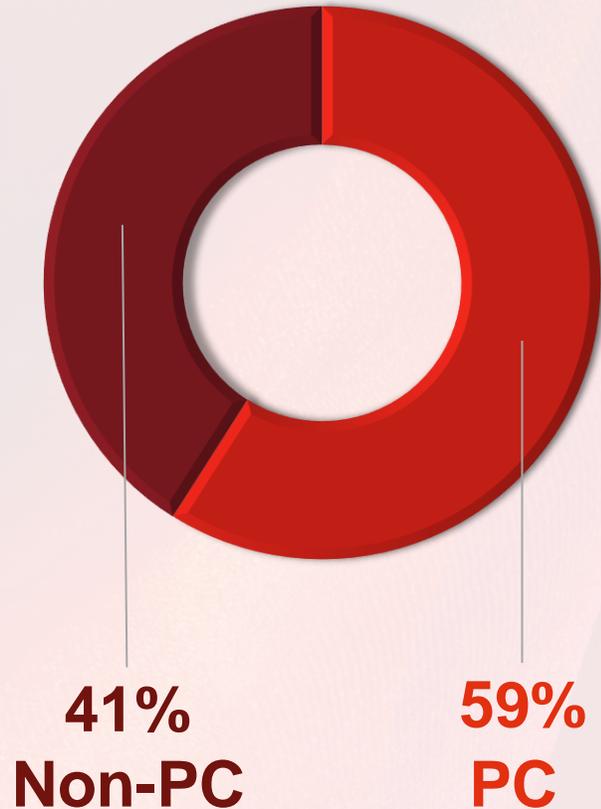
August 17, 2023

Lenovo

Group:

Rise to the Challenges & Persist in Transformation

PC & Non-PC
Revenue Mix (%)



Performance

- Macro environment and industry still challenging
- Revenue \$12.9B, net income \$191M (non-HKFRS)
- Service-led business strong growth and high profitability
- Solid progress of diversified growth engines, Non-PC revenue mix 41%, up 4.3 pts YTY

Group:

Rise to the Challenges & Persist in Transformation

Opportunities & Sustainable growth

- **Cautiously optimistic over next few quarters**
 - Client device market recovering
 - Component price bottoming
 - With cost saving plan, keeping E/R ratio resilient and profitability healthy
- **Digital & intelligent transformation continues to accelerate**
 - AIGC* propels adoption of A.I. across industries
 - Doubling R&D investment in mid-term on New IT
 - Additional \$1B investment over next 3 years on A.I. deployment

SSG

Solutions & Services Group: High Margin, Strong Growth



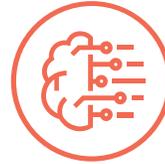
Performance

- Continuously delivered strong revenue growth and high profitability
- Support Services business profitability improved with stable revenue
- Managed Services, Project & Solution Services grew faster, accounting for 51% of SSG revenue, +4 points YTY

SSG

Solutions & Services Group: High Margin, Strong Growth

Opportunities & Sustainable growth



Through 2026:

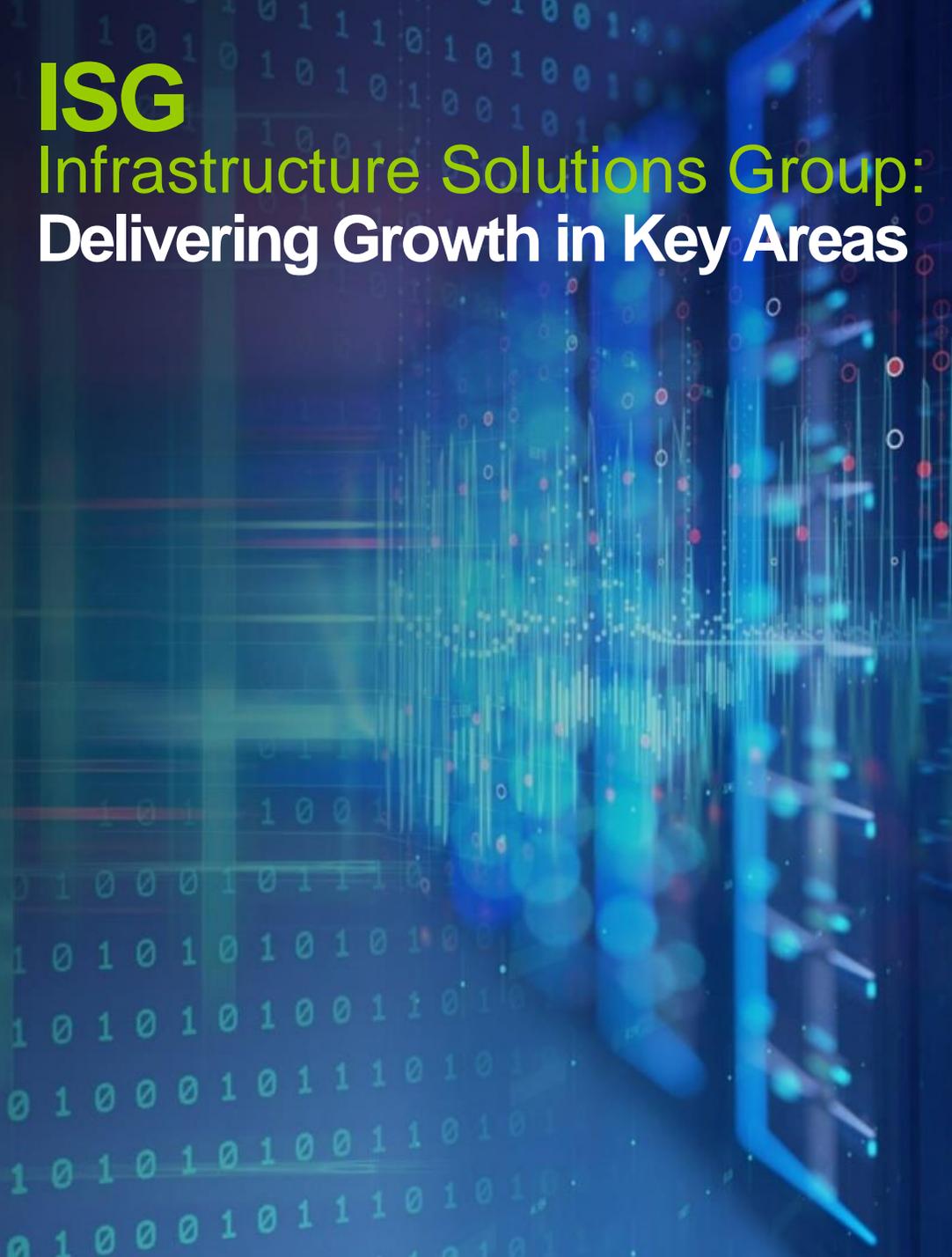
- Double-digit CAGR in IT services
- Fast growth in vertical solutions of smart city, smart manufacturing, smart education, smart retail, etc.



Drive high profitability and strong growth in fast-growing “New IT” service market

Scale horizontal building block offerings and incubate into vertical solutions:

- Digital Workplace Solutions
- Hybrid Cloud Solutions
- Sustainability Solutions & Services

The image features a dark blue background with a grid of glowing server racks. Overlaid on this are various digital elements, including binary code (0s and 1s) in a light blue color, some of which are slightly blurred to create a sense of depth. The overall aesthetic is high-tech and futuristic.

ISG

Infrastructure Solutions Group: Delivering Growth in Key Areas

Performance

- Server: revenue & profitability down due to market pressure
- Storage: revenue +120% YTY, now global #4
- Software: revenue +50% YTY
- Services: revenue +11% YTY
- HPC*: revenue +45% YTY
- A.I. hardware infrastructure: hyper growth, now global #3

* High Performance Computing

Source: Internal, IDC

ISG

Infrastructure Solutions Group: Delivering Growth in Key Areas

Opportunities & Sustainable growth



- AIGC* breakthrough driving ICT infrastructure upgrade acceleration



- Invest in A.I. infrastructure innovations
- Drive competitive differentiation to resume premium to market growth and sustainable profitability
- Extend the vision to be the most trusted infrastructure partner for our customers in digital and intelligent transformation

IDG

Intelligent Devices Group: Maintaining leadership



Performance

- Revenue & profitability impacted by device market decline
- PC: maintained global #1, market share 23.2%, inventory back to healthy level
- Mobile: record Q1 activation in 10 years, improved channel inventory, new products strengthened premium & 5G market position
- Smart Collaboration, Smart Home: customer wins

IDG

Intelligent Devices Group: Maintaining leadership

Opportunities & Sustainable growth



- Hybrid work model continues
- AIGC* driving adoption of intelligent technologies



- Invest in innovations, build the next generation A.I. devices
- Execute three-year growth plan for smartphone business
- Enrich portfolio and ecosystem

Anchor Technologies: Computing & A.I.



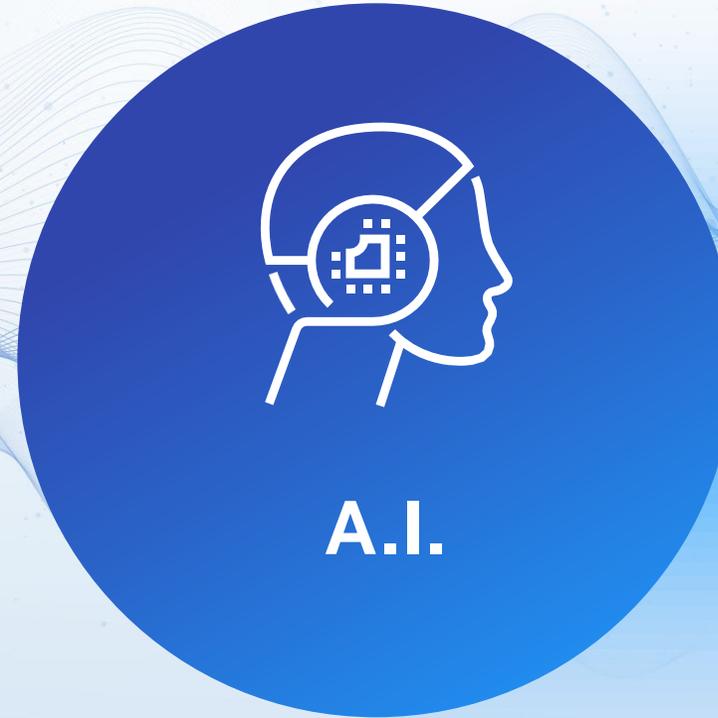
Client Computing



Edge Computing
Cloud Computing



Computing
Solutions & Services



Data



Computing Power



Algorithm



Lenovo
Tech World '23

AI for all

Powered by Lenovo Computing

October 24, 2023 | Austin, TX & Virtual
#LenovoTechWorld

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Control Expenses & Mitigate Risks

Drive Innovation & Intelligent Transformation

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

Aug 17, 2023

Lenovo

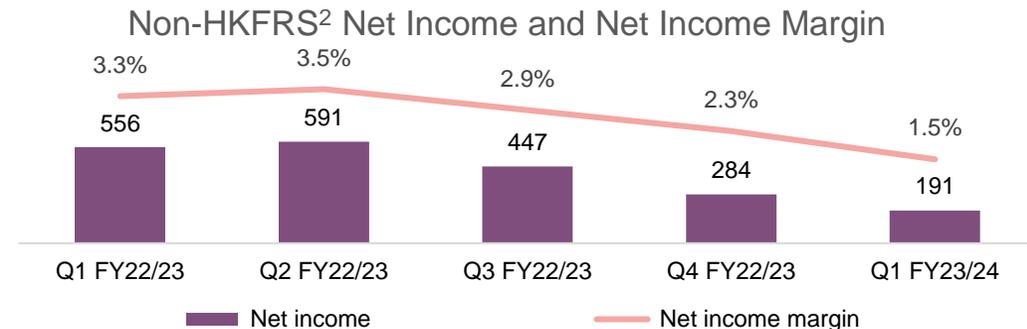
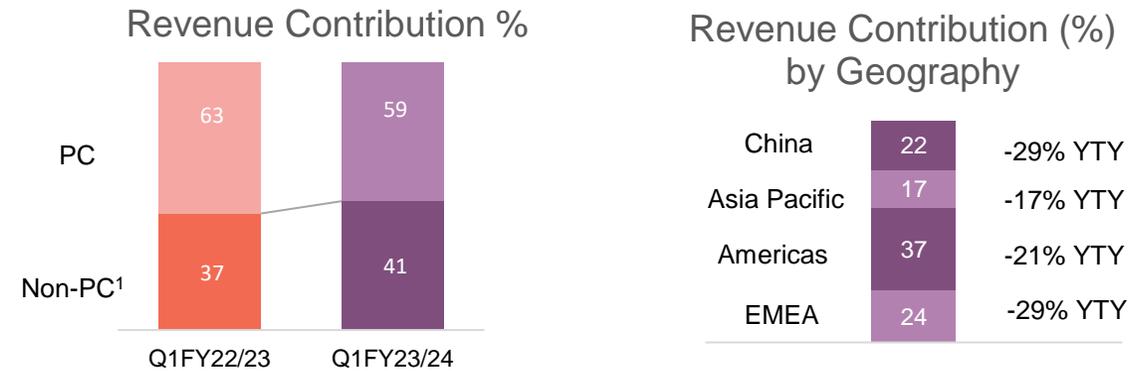
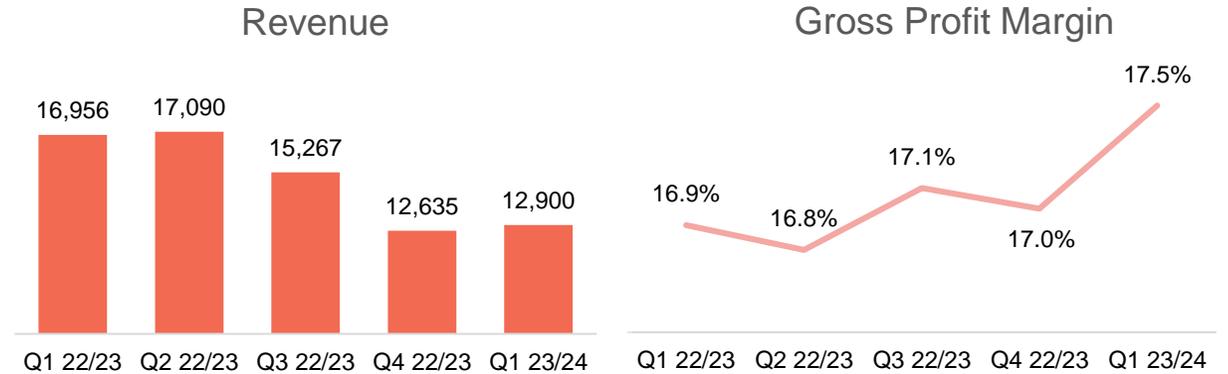
Positioning for Recovery

- Service-led Transformation continued with SSG revenue up 18% YTY and non-PC¹ sales up to 41% of business group revenue mix
- Progress in inventory reduction and strong balance sheet bolstered agility to capture future growth opportunities
- Strong 1Q gross margin on increasing contribution from high-margin services
- Operating expenses lowered by 11%; Group revenue decline of 24% was heavier than expected, leading to a higher E/R ratio. Non-HKFRS² net margin down 1.8 pts to 1.5%

¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG

² Please refer to the penultimate slide – Supplemental Non-HKFRS Measures – in this presentation for more details.

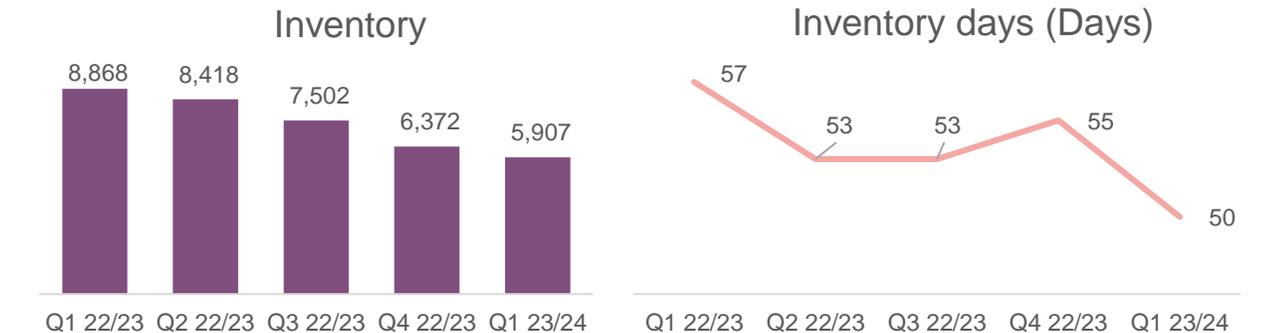
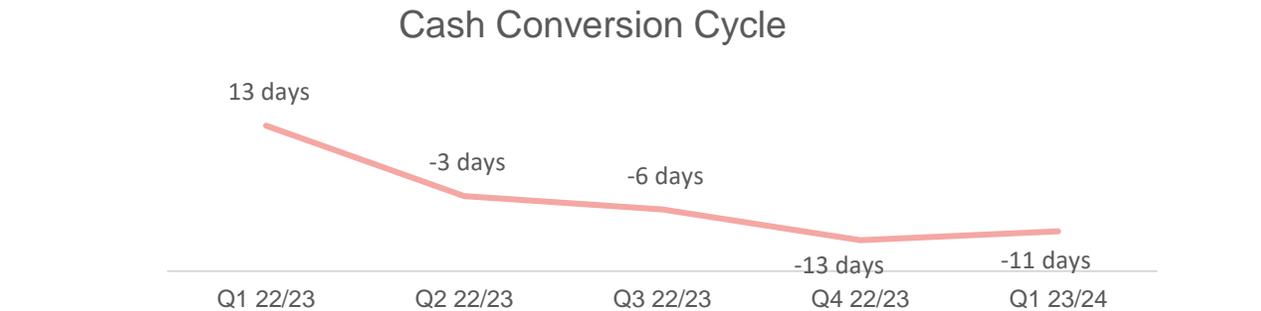
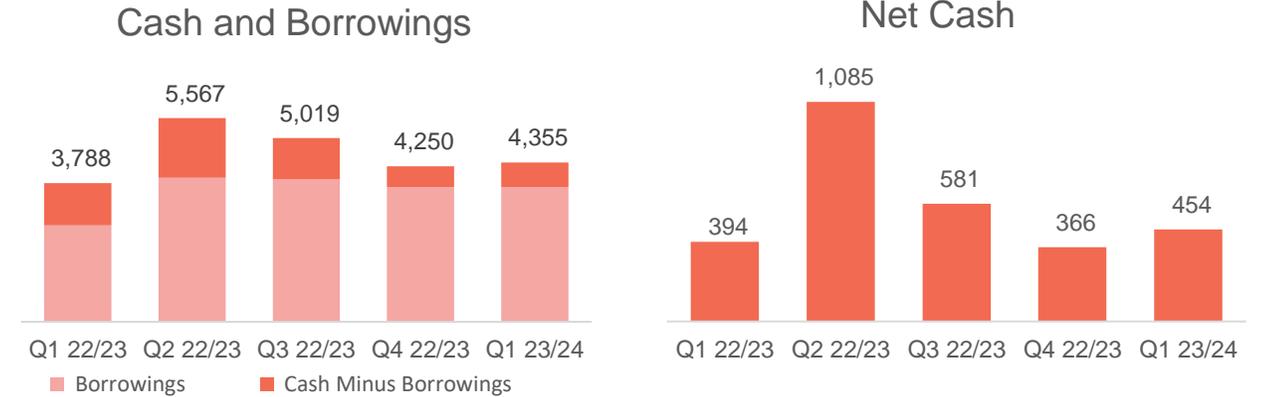
Performance



Strong Working Capital Management

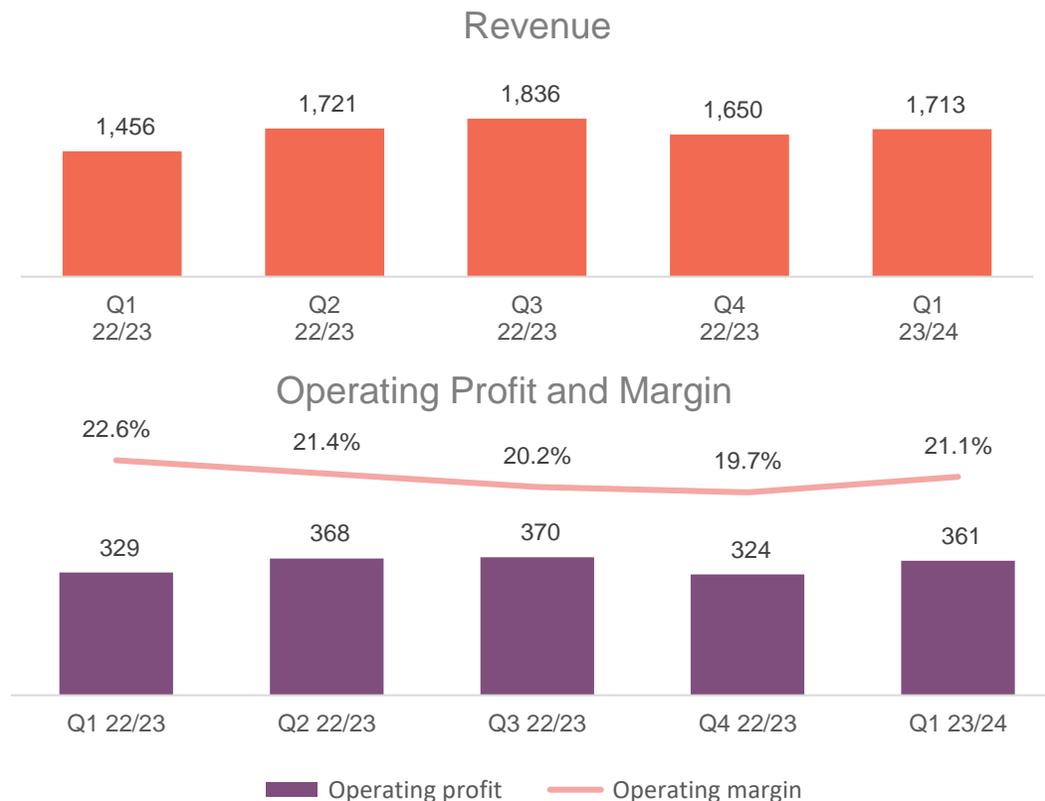
- Maintained net cash position at \$454mn with cash levels at \$4.4bn, up \$567mn YTY, enhancing business agility
- Cash conversion cycle shortened by 24 days YTY to -11 days
- Inventory level reduced by nearly \$3.0bn YTY to \$5.9bn with accelerated adjustments in raw materials
- Days of accounts payable and receivable together improved by 17 days YTY

Performance



- Record 1Q revenue, up 18% YTY
- Operating profit margin of 21% demonstrated resilience and robust profitability
- Managed Services capitalized on strong demand for as-a-service solutions, including first TruScale wins in Gulf countries
- High value-added services such as Premier Support and Sustainability offerings drove up penetration rate, leading to a 9% increase in Support Services revenue

Performance



9th

consecutive quarter of **double-digit** revenue growth and profit margin

54%

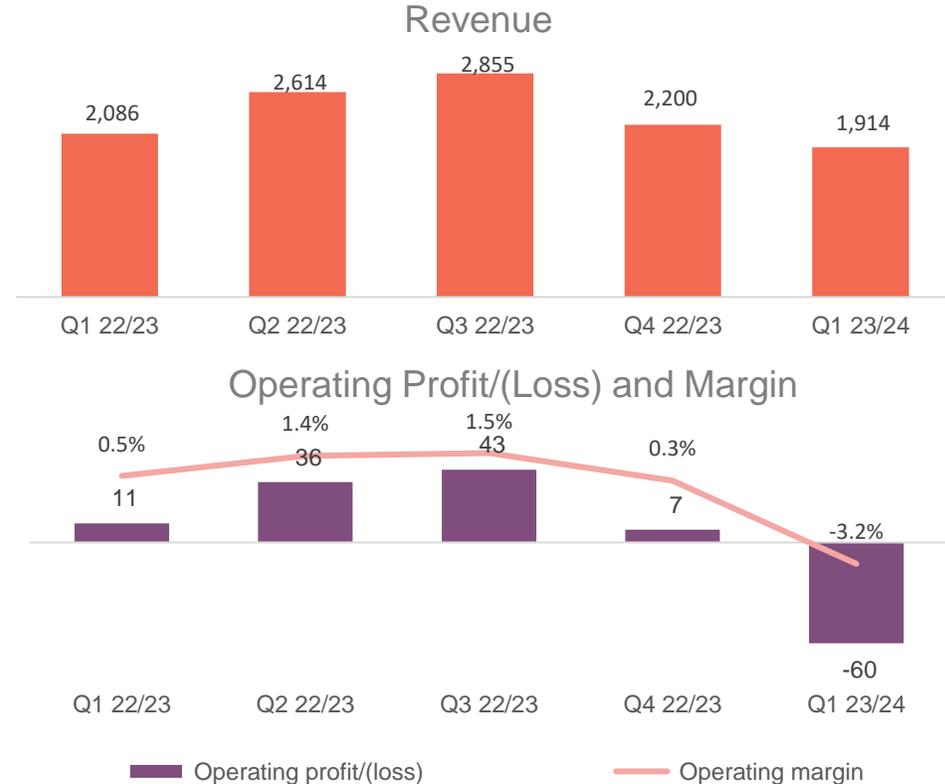
YTY revenue growth in **Managed Services**

50%+

of SSG's revenue from **non-hardware centric business**

- Strong growth in multiple products offset by sluggish infrastructure sector demand and slow platform transition. Revenue declined by 8% YTY and segment loss reached \$60mn
- Storage revenue more than doubled YTY; #1 in entry price model**
- ThinkEdge achieved 9 consecutive quarters of growth
- HPC and software grew by 45% and 50%, respectively
- New ThinkSystem models launched with 8 GPU support increase Lenovo to >65 AI systems amidst market-wide GPU constraints
- Lead hardware partner for NVIDIA AI Omniverse Platform on Microsoft Azure cloud

Performance



#1
in market share
in Top 500 HPC*

#1
in Storage Price Band
1-4 Ranking**

\$1B
investment to accelerate
AI deployment for
businesses around the
world

* Lenovo is the world's #1 supercomputer provider, according to TOP500.org

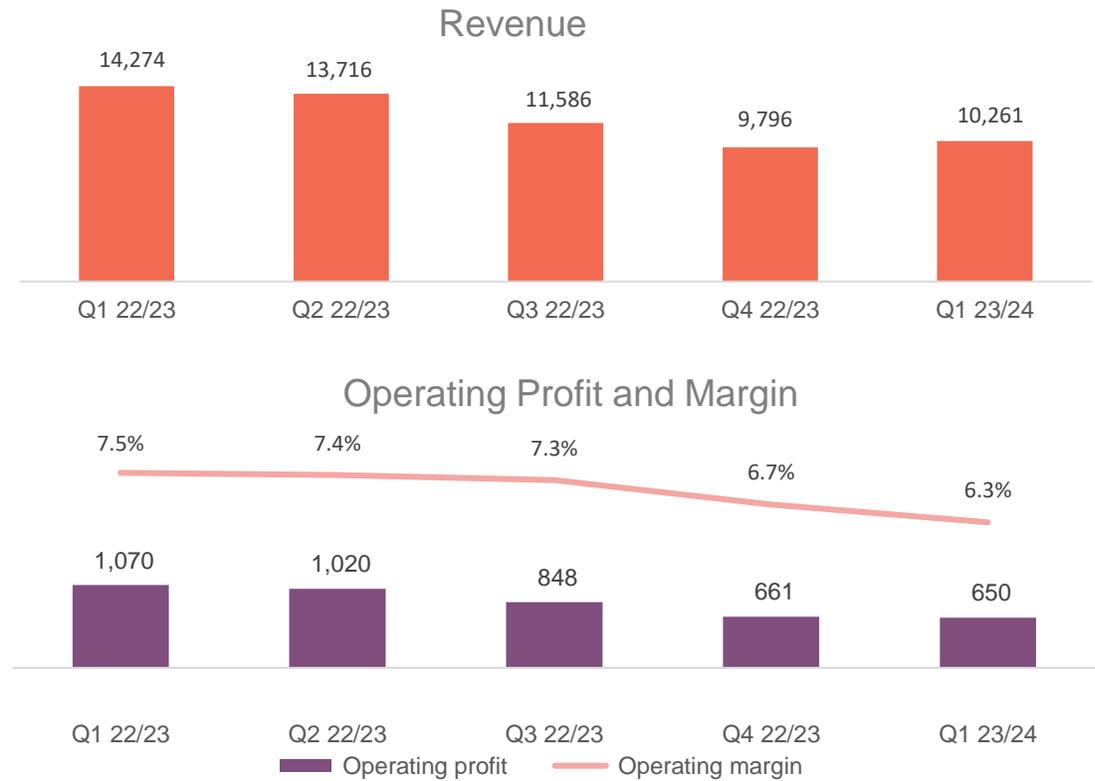
** Price Band 1-4 Storage <25K Storage per IDC ESS tracker

IDG

Intelligent Devices Group¹

- Revenue fell 28% YTY with operating margin down to 6.3% amid pricing pressure due to inventory clearance
- The magnitude of IDG's shipment decline was substantially moderated in 1Q; the trends of PC shipments and activations are now more consistent
- Non-PC² driving diversified portfolio:
 - **Smartphones:** Record premium mix at 18%, +8pts YTY, driven by successful Razer launch; 10-year record activation for 1Q
 - **IDG Ecosystems:** Strong traction in Digital Workspace Solutions

Performance



#1
in PC market share (23%)

Smartphone record premium mix
↑ 8pts
YTY to
18%

¹ IDG mainly consists of PC, tablet, smartphone, and smart devices business

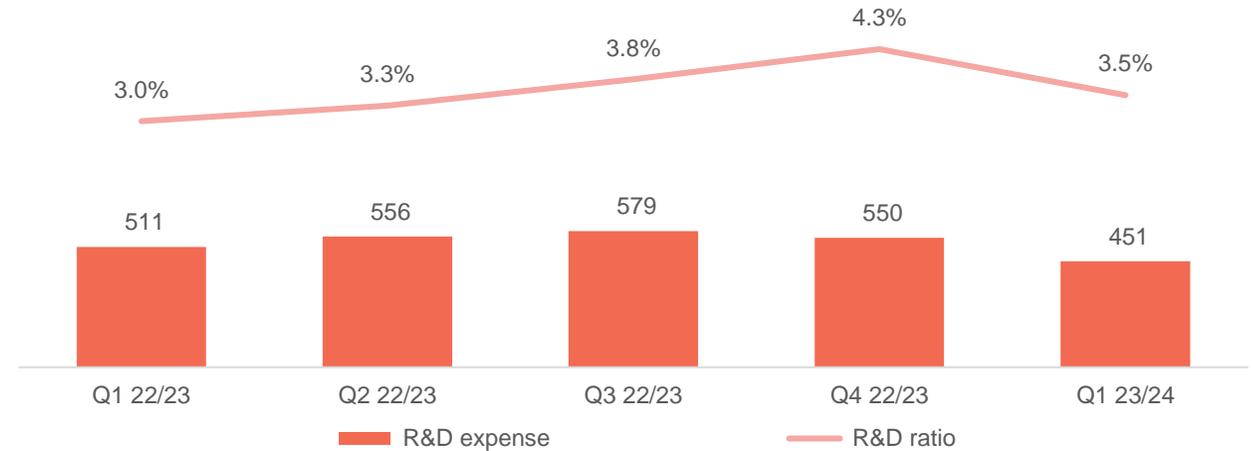
² Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

Continued R&D Investment to Drive Innovation

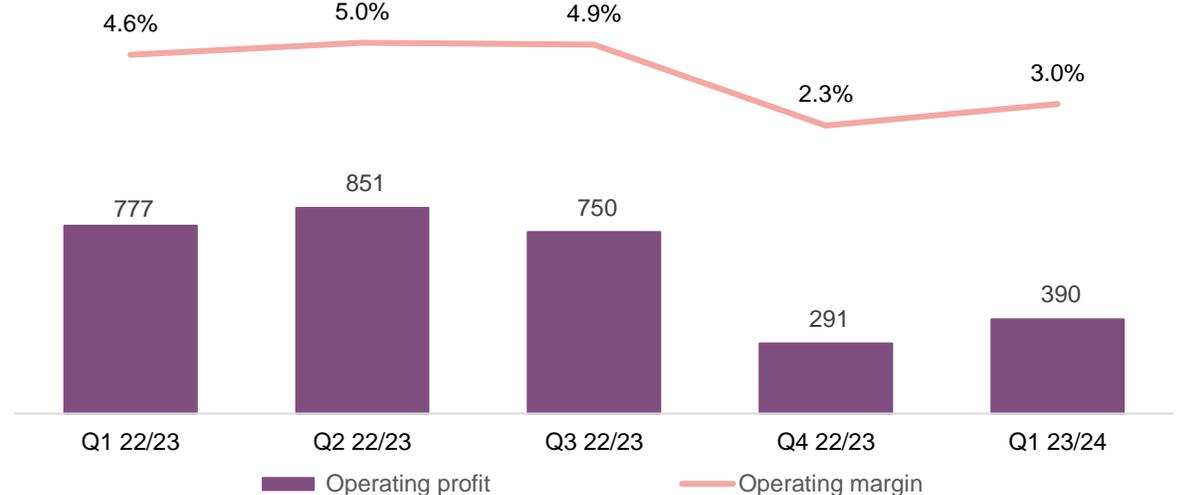
- R&D expense to revenue ratio increased to 3.5% in 1Q, from 3.0% a year ago
- Strategic investments to drive technology leadership and differentiation:
 - \$1B investment over the next three years to accelerate AI deployment, with A.I devices, A.I. infrastructure and A.I. solutions
 - Collaboration with key partners to develop next-gen product roadmap and solution portfolios together

Performance

R&D Expenses and Ratio to Revenue



Group Operating Profit and Margin



ESG Updates

 <p>Environmental</p>	<p>#1</p> <p>on Green500 list of most power-efficient supercomputers in world¹ for a second time in June 2023</p>	<p>1st PC and smartphone maker</p> <p>to have an SBTi² validated Net Zero target by 2050</p>	<p>>3x</p> <p>solar energy generation from FY 2018/19³</p>
 <p>Social</p>	<p>4th year</p> <p>included in the Bloomberg Gender Equality Index</p>	<p>10x</p> <p>Growth in global philanthropy investments since 2018/19</p>	<p>Top Score</p> <p>in the Disability Equality Index from Disability:IN for 2nd year in 2023⁴</p>
 <p>Governance</p>	<p>#8 in Top 25</p> <p>Gartner's 2023 Global Supply Chain ranking (rising one place from #9 in 2022)</p>	<p>RBA VAP certification</p> <p>renewed for six⁵ in-house manufacturing sites</p>	<p>Outstanding Program Leadership Award</p> <p>from Ecovadis for excellence in sustainable procurement⁶</p>

1. Supercomputer operated by the Flatiron Institute in New York City powered by Lenovo and NVIDIA technology. Ranked #1 in Nov 2022 for the first time on this biannual ranking for supercomputers.

2. Science Based Targets Initiative.

3. 13,333 MWh solar energy generated in FY 2022/23 (was at 3,938 MWh in FY 2018/19).

4. This is the third consecutive year that Lenovo has been ranked as a best place to work for disability inclusion, and the second year the company received a 100% score on the index.

5. We have total 11 sites in Responsible Business Alliance (RBA) scope of which 6 were audited in FY 22/23 and 5 other sites maintained their Validated Audit Program (VAP) certifications.

6. EcoVadis Sustainable Procurement Leadership Awards announced during the EcoVadis Sustain 2023 conference. EcoVadis is a widely recognized global provider of sustainability ratings and assessments.

Outlook

Group Mission is to Lead and Enable Intelligent Transformation

Improve net income margin in the medium-term; Turbocharge innovation; Increase brand premium; Mitigate short-term challenges amid macro uncertainties; Leverage Digital Transformation to drive secular growth

SSG: Serve as a New Growth Engine with High Profitability

- Driving scalable growth and profitability with a focus on key verticals and building repeatable solutions with Lenovo IP
- Capturing strong demand from hybrid working, hybrid cloud, and sustainability services
- Increasing penetration in the commercial PC and ESMB infrastructure segments
- Establishing TruScale as a comprehensive as-a-Service portfolio to capture fast-growing demand

ISG: Continue to Drive Hypergrowth and Ever-improving Profitability

- Deliver differentiated technology solutions in hybrid cloud, High Performance Computing (HPC), data management, AI and edge computing, all featuring an “As a Service” option
- Make AI an essential element in everything we do to drive growth
- Leverage unique ODM+ business and manufacturing model to capture demand and improve profit

IDG: Maintain #1 Position in PC with Leading Profitability and Accelerate Non-PC Growth

- Leveraging the popularity of hybrid working to continuously drive premium-to-market growth in the large PC, tablets, and smartphone markets through innovation, efficiency, and the Global Local model
- Expanding the non-PC product portfolio through innovation
- Capitalizing on double-digit growth opportunities in the Enterprise Collaboration and Smart Home segments with scenario-based solutions

Supplemental Financial Materials

- Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement
- Supplemental Non-HKFRS Measures

Condensed Consolidated Income Statement

US\$ Million	Q1 22/23	Q1 23/24
Revenue	16,956	12,900
Cost of sales	(14,087)	(10,648)
Gross profit	2,869	2,252
Selling and distribution expenses	(879)	(799)
Administrative expenses	(686)	(597)
Research and development expenses	(511)	(451)
Other operating income/(expenses) – net	(14)	(15)
Operating profit	777	390
Finance income	19	40
Finance costs	(100)	(197)
Share of losses of associates and joint venture	(5)	(5)
Profit before taxation (PTI)	691	228
Taxation	(152)	(45)
Profit for the period	539	183
Profit attributable to		
Other non-controlling interests	23	6
Equity holders of the Company	516	177
Per share data		
Earnings per share (US cents) – Basic	4.39	1.48
Earnings per share (US cents) – Diluted	4.01	1.43

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Jun 30, 2022	As of Jun 30, 2023
Current assets	29,105	22,274
Bank deposits and cash	3,846	4,423
Trade, notes and other receivables	15,917	11,478
Inventories	8,868	5,907
Others	474	466
Non-current assets	15,143	15,650
Property, plant and equipment	1,571	1,929
Intangible assets	7,850	8,191
Others	5,722	5,530
Current liabilities	32,969	25,378
Borrowings	814	280
Trade, notes, other payables, accruals and provisions	30,049	23,158
Deferred revenue	1,531	1,568
Others	575	372
Non-current liabilities	5,694	6,689
Borrowings	2,638	3,689
Deferred revenue	1,387	1,354
Others	1,669	1,646
Total equity	5,585	5,857

Condensed Consolidated Cash Flow Statement

US\$ Million	Q1 22/23	Q1 23/24
Net cash generated from operating activities	399	650
Net cash used in investing activities	(388)	(200)
Net cash used in financing activities	(8)	(283)
Increase in cash and cash equivalents	2	167
Effect of foreign exchange rate changes	(145)	(62)
Cash and cash equivalents at the beginning of the period	3,930	4,250
Cash and cash equivalents at the end of the period	3,788	4,355

Supplemental Non-HKFRS Measures

US\$ Million	Q1 22/23				Q1 23/24			
	Operating profit	Profit before taxation	Profit for the period	Profit attributable to equity holders	Operating profit	Profit before taxation	Profit for the period	Profit attributable to equity holders
As reported	777	691	539	516	390	228	183	177
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	(25)	(25)	(21)	(11)	(31)	(31)	(25)	(21)
Amortization of intangible assets resulting from mergers and acquisitions	61	61	49	49	43	43	34	34
Mergers and acquisitions related charges	-	2	2	2	-	1	1	1
Non-HKFRS	813	729	569	556	402	241	193	191

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Lenovo

thanks.