

LENOVO GROUP: FIRST QUARTER RESULTS 2021/22



Lenovo delivers record first quarter, doubling net income as strategy continues to drive sustainable profitability increases and long-term growth

HONG KONG, August 11, 2021 – **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced record fiscal first quarter results for the Group. Opportunities created by accelerated digitalization, intelligent transformation and IT upgrades in devices, infrastructure, and applications around the world continue to fuel the Group’s long-term and sustainable profitability increases.

Seizing these opportunities, Lenovo’s performance delivered significant year-on-year profitability improvements, with pre-tax income almost doubling to US\$650 million (up 96%), and net income also more than doubled (up 119%), as net income margin reached 2.8%, the highest in many years. First quarter Group revenue continued hypergrowth to US\$16.9 billion, up 27% year-on-year.

Looking ahead, the company sees continued opportunities for sustainable growth and profitability improvements across its business, in areas such as vertical solutions, infrastructure solutions, premium PCs, and adjacent non-PC devices such as tablets, smartphones, embedded computing, and other smart devices. Additionally, innovation will continue to help drive profitable, sustainable growth. Having increased R&D expense in the first quarter by 40% year-on-year, Lenovo will further invest in innovation and double its R&D investments over the next three years.

This quarter is the first time the company is reporting under the new business group structure of Solutions and Services Group (SSG), Infrastructure Solutions Group (ISG), and Intelligent Devices Group (IDG) that was [announced](#) earlier this year.

Financial Highlights:

	Q1 21/22 US\$ millions	Q1 20/21 US\$ millions	Change
Group Revenue	16,929	13,348	27%
Pre-tax income	650	332	96%
Net Income (profit attributable to equity holders)	466	213	119%
Basic earnings per share (US cents)	4.02	1.80	2.22

Chairman and CEO quote – Yuanqing Yang:

“The accelerated digital and intelligent transformation has created significant market opportunities globally. Lenovo is successfully seizing these as we transform from a device company to a services and solutions provider. The proof is in our performance - this quarter alone we’ve doubled profitability year-on-year while net income margin reached the highest in many years,” said Yuanqing Yang, Lenovo Chairman and CEO. “Going forward, we will continue to increase R&D investment, aiming to double it

over the next three years; we will further improve our operational excellence; and we remain committed to green innovation and corporate citizenship to achieve long-term sustainable profitability increases.”

Solutions and Services Group (SSG): driving increased Group profitability in rapid growth sectors

The industry is transforming with customers needing more sophisticated IT services, creating huge opportunities for solution services and managed services, including the subscription-based as-a-Service model. It’s estimated that the IT services market will be worth over US\$1 trillion through 2025.

Q1 performance:

- Significant Q1 revenue growth (38% year-on-year to US\$1.18 billion) across three key segments of SSG (support services, managed services/as-a-Service, vertical solutions) with an operating margin of 22%, much higher than the traditional hardware businesses.
- Support services profitability was up almost three points year-on-year; revenue from managed service/as-a-Service achieved double-digit growth year-on-year, and contract value for vertical solutions achieved triple digit growth year-on-year.
- Success has come from several new high profile smart city and smart retail deals, as well as hybrid cloud solutions using Lenovo IP.

Looking ahead:

- Against this backdrop, Lenovo will improve penetration rates for support services and leverage the increasing device install base, especially as the commercial sector rebounds to growth. For as-a-Service the company is aggressively investing in capabilities, platforms, and tools, as well as driving scale through building more repeatable vertical solutions using Lenovo’s own IP and through strategic partnerships.
- The significantly higher margins of the three key segments for SSG will drive higher profitability for the Group overall in the quarters and years to come.

Infrastructure Solutions Group (ISG): accelerating profitability and significantly outgrowing the market quarter after quarter

ICT infrastructure is the foundation to digital and intelligent transformation, with ICT infrastructure predicted to be a near US\$250 billion market through 2025. After investing in building a strong foundation, Lenovo is well positioned as a “full-stack” ICT provider.

Q1 performance:

- ISG delivered record revenue of US\$1.8 billion, has outperformed the market for six straight quarters, while achieving the best results in five years.
- Now #3 in the global x86 Server market and #2 in mainstream storage.
- Higher margin businesses – storage, software, and Hybrid Cloud solutions – continue strong growth year-on-year, with Hybrid Cloud Solutions growing high double-digit year-on-year.

Looking ahead:

- The Group will continue to invest to grow the business with a vision to become the largest data center infrastructure solutions provider, by increasing investments in edge computing, Hybrid cloud solutions, and 5G cloud-network convergence. The company will continue to strengthen in-house design and manufacturing capabilities, improve efficiencies, and expand strategic partnerships to enable more solutions.
- Ongoing investment in overall ISG competitiveness will further drive profitability and overall competitiveness for the business group.

Intelligent Devices Group (IDG): record profit, further growing non-PC businesses

The pandemic has changed how people live and work, with PCs returning to the center of digital lives. The PC refreshment cycle has shortened, the penetration rate has increased and the total PC demand until 2025 will at least remain at current levels, with commercial demand rebounding quickly. At the same time, the IoT market is expected to surge by 11% CAGR through 2025. And new opportunities in non-PC businesses are growing rapidly.

Q1 performance:

- Record first quarter for both profit and revenue. Profit of US\$1.1 billion, up 43% year-on-year and revenue of US\$14.7 billion, up 28% year-on-year - driven by a combination of strong performance in PCs and growing performance of non-PC segments, which now account for 18% of IDG's total revenue.
- Average Selling Price and profitability continue to trend up, thanks to ongoing investment in premium and high growth PC segments like Gaming, Workstation, Thin & Light.
- Lenovo strengthened its #2 position in the global Android tablet market, and the smartphone business delivered over 60% revenue growth year-on-year and is now a self-sustainable healthy business, with record operating margin for the quarter of almost 5%.

Looking ahead:

- Lenovo will further invest in smarter devices, core component technologies, and next generation computing platforms.
- Lenovo will leverage its broad customer base to cross sell non-PC products, to drive sustainable profitability increases.

Operational highlights and investing for the future

- Q1 R&D expense increased 40% year-on-year, with a commitment to **double R&D investment over the next three years**.
- The company recently climbed 65 places to be [ranked #159](#) on the **Fortune Global 500 list**, an all-time high ranking
- The Group's **operational excellence and global supply chain** continue to be [best-in-class](#), helping the business to navigate ongoing global component supply challenges.
- The Group continues to **focus across ESG**, through both its [science-based climate targets](#) and by driving green innovation; supporting communities and businesses in need as a result of COVID challenges, and empowering under-represented communities with access to technology and STEM education through the [Lenovo Foundation](#). The Group's annual **ESG report** will be published in September 2021. Lenovo has also recently been named [best workplace for disability inclusion](#) by the Disability:IN 2021 equality index.



About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$60 billion revenue Fortune Global 500 company serving customers in 180 markets around the world. Focused on a bold vision to deliver smarter technology for all, we are developing world-changing technologies that power (through devices and infrastructure) and empower (through solutions, services and software) millions of customers every day and together create a more inclusive, trustworthy and sustainable digital society 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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LENOVO GROUP
FINANCIAL SUMMARY
For the fiscal quarter ended June 30, 2021
(in US\$ millions, except per share data)



	Q1 21/22	Q1 20/21	Y/Y CHG
Revenue	16,929	13,348	27%
Gross profit	2,824	2,041	38%
Gross profit margin	16.7%	15.3%	1.4 pts
Operating expenses	(2,081)	(1,605)	30%
Expenses-to-revenue ratio	12.3%	12.0%	0.3 pts
Operating profit	743	436	70%
Other non-operating expenses - net	(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