



LENOVO GROUP: SECOND QUARTER RESULTS 2021/22

Lenovo delivers record quarter, as strategy continues to drive transformation and sustainable growth, with profitability on track to double in three years

HONG KONG, November 4, 2021 – **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced record quarterly results for the Group, with historic highs for both profit and revenue. The company’s operational excellence, innovation, and strong execution underpin the improvements across all key business groups, despite wider industry supply challenges. These, together with the 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.

Lenovo’s performance delivered significant year-on-year improvements, with net income growing 65% year-on-year to US\$512 million and net income margin improving by 0.7 points, on track towards the Group’s goal of doubling in three years. Pre-tax income was US\$742 million, up 58% year-on-year, and Group revenue continued its strong growth trajectory hitting US\$17.9 billion, up 23% year-on-year. Operating cashflow doubled year-on-year to US\$1.6 billion, and at the same time the Group’s R&D expenses for the quarter were up almost 60% owing to increased investments in innovation.

Looking ahead, the strategy to drive sustainable profit improvements and growth will continue to focus on high margin businesses and segments, at the same time doubling investments in R&D over three years as announced [last quarter](#). This focus will support the Group’s continued transformation, developing technology focused on the New IT opportunities and the technology architecture of ‘Client-Edge-Cloud-Network-Intelligence’ brought about by changing customer needs.

Financial Highlights:

	Q2 21/22 US\$ millions	Q2 20/21 US\$ millions	Change
Group Revenue	17,869	14,519	23%
Pre-tax income	742	470	58%
Net Income (profit attributable to equity holders)	512	310	65%
Basic earnings per share (US cents)	4.42	2.59	1.83

Lenovo’s Board of Directors declared an interim dividend of 8.0 HK cents per share.

Chairman and CEO quote – Yuanqing Yang:

“Lenovo’s New IT technology architecture of “Client-Edge-Cloud-Network-Intelligence” is gaining momentum and more accepted across the industry. Through the strong execution of our 3S strategy (Smart Devices/IoT, Smart Infrastructure, Smart Vertical), last quarter, both our net income and revenue achieved new records, and we are on track to double our net margin in three years. At the same time, our R&D investment greatly increased by almost 60%” said Yuanqing Yang, Lenovo Chairman and CEO.

“Looking ahead, we will continue to drive to our goal to double R&D spending over three years, and further drive our service-led intelligent transformation.”

Solutions and Services Group (SSG): delivering strong growth and high margins - driving higher overall profitability for the Group

Opportunity:

The Solutions and Services Group continues to drive strong profitability and growth in a rapidly expanding market. As the technology architecture becomes more complex, customers demand more sophisticated IT services, and the market is predicted to be worth over one trillion US dollars through 2025, with the fast growing and high-margin device-as-a-service market predicted to be US\$67 billion by 2025.

Q2 performance:

- Significant Q2 revenue growth (30% year-on-year to US\$1.36 billion), delivering 7.3% of overall Group revenue and with an operating margin of almost 21%.
- Support services penetration rates for PC customers and infrastructure customers both improved. Managed Services saw revenue up almost 90% year-on-year, and the Group saw repeatable solutions based on Lenovo’s own IP gaining traction, resulting in Project Services and Solutions achieving almost 22% year-on-year revenue growth.
- The Group announced an evolution in its consumption-based business model at its annual flagship innovation event [Tech World](#) with the [launch of TruScale](#) – a new portfolio that brings together all of Lenovo’s as-a-Service offerings under one umbrella to provide a truly global solution that makes everything from the pocket to the cloud available via a single contract framework.

Looking ahead:

- Against this backdrop, Lenovo will continue to drive both revenue growth and profitability. By integrating the company’s internal IT function into SSG it can improve the business group’s R&D delivery capability and turn proven internal digital capabilities into solution offerings for customers.
- In managed services, new platforms, tools, and go-to-market capabilities will be introduced to enhance the TruScale as-a-service offerings.
- In support services, the focus will be to increase penetration rates as the commercial segment rebounds.

Infrastructure Solutions Group (ISG): record quarter, outperforming a growing market

Opportunity:

Opportunities continue to expand for ISG as ICT infrastructure modernization continues around the world. The ICT infrastructure market is expected to become a US\$250 billion market through 2025, making it as big globally as the PC market.

Q2 performance:

- ISG delivered record performance, led by all-time high revenue of almost US\$2 billion, up almost 34% year-on-year. Profitability continued to improve by US\$24 million year-on-year, nearing break even.

- The business outgrew the market in nearly every segment. Cloud Service Provider reached historic high revenue with over 50% growth year-on-year; Enterprise/SMB revenue had strong growth of 20% year-on-year.
- In the higher margin segments, storage revenue grew over 50% year-on-year to a new record, and in High Performance Computing the Group delivered the fastest university high performance computer in China, powered by Lenovo Neptune water-cooling technology.

Looking ahead:

- The Group will continue to increase investments in fast-growing segments such as Edge computing, hybrid cloud solutions, and 5G cloud-network convergence.
- The Group will also continue to strengthen in-house design and manufacturing capabilities to drive profitability improvements as the business moves towards breakeven and beyond.
- The vision remains to become the largest and most trusted global ICT infrastructure solutions provider.

Intelligent Devices Group (IDG): strong revenue growth and stronger profitability, increasing contribution from non-PC businesses

Opportunity:

The demand for PCs and other smart devices remains strong. This is driven by commercial demand recovering, with market reports showing commercial PCs (excluding Chromebooks) growing 18% year-on-year last quarter, as well as increased demand expected from the launch of Windows 11. Lenovo expects PC demand to be in line with industry assessments of 340-355 million units a year for the next few years. The global smartphone market still presents tremendous opportunities to grow, as does the surging IoT market which is expecting to grow by 11% CAGR through 2025.

Q2 performance:

- Excellent results with revenue growth of 21% year-on-year to US\$15.3 billion, with even stronger profitability growth - up 34% year-on-year to US\$1.2 billion, on already high base.
- Premium PC segments delivered high growth with premium Yoga and workstation revenue each more than doubling year-on-year. Commercial PC revenue grew 29% year-on-year and SMB PC grew 48% year-on-year.
- Smartphones had its best quarter ever, with profit reaching a new historic high of US\$89 million, while revenue grew 27% year-on-year to the highest in 15 quarters. All geographies delivered high profitable growth – not only in the traditional strongholds of Latin America and North America, but also expansion markets of EMEA and Asia Pacific. Tablet revenue grew 20% year-on-year and accessories business grew 31% year-on-year.

Looking ahead:

- Lenovo will further invest in premium segments to drive increased profitability and average selling price. Adjacent non-PC products like smartphones, tablets, smart meeting collaboration, and embedded computing will further increase the non-PC business mix.



Operational highlights and investing for the future

- The Group continues to **focus significantly on ESG through all its operations**; setting [new climate change mitigation goals](#) in August 2021 as part of its [annual ESG report](#). The company has committed to removing one million tons of Green House Gas emissions from its supply chain by FY2025/26 as it makes progress toward its 2030 emissions reductions goals, approved by the Science-Based Targets Initiative. In addition, the company has committed to integrating post-consumer recycled materials into 100% of PC products by 2025 and reframed reset social impact goals so that women will account for 27% of global executive roles by 2025, up from 21% in 2020.
- The Group was recently recognized for its commitments and work across ESG, receiving its [highest ever rating](#) from the **Hang Seng Corporate Sustainability Index**, reaching an AA+ rating for the first time and the best overall technology industry score.
- Following the retirement of Corporate President and Chief Operation Officer Gianfranco Lanci, Lenovo [recently announced](#) Che Min (Jammi) Tu as **Group Operations Officer** of the company. In his role he will build on the company’s strengths in operational and supply chain excellence.

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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FINANCIAL SUMMARY

For the second quarter ended September 30, 2021

(in US\$ millions, except per share data)

	Q2 21/22	Q2 20/21	Y/Y CHG
Revenue	17,869	14,519	23%
Gross profit	3,006	2,253	33%
Gross profit margin	16.8%	15.5%	1.3 pts
Operating expenses	(2,189)	(1,688)	30%
R&D expenses (included in operating expenses)	(482)	(307)	57%
Expenses-to-revenue ratio	12.3%	11.6%	0.7 pts
Operating profit	817	565	45%
Other non-operating income/(expenses) - net	(75)	(95)	(21)%
Pre-tax income	742	470	58%
Taxation	(185)	(120)	53%
Profit for the period	557	350	59%
Non-controlling interests	(45)	(40)	15%
Profit attributable to equity holders	512	310	65%
EPS (US cents)			
Basic	4.42	2.59	1.83
Diluted	3.96	2.48	1.48

