

LENOVO GROUP: THIRD QUARTER RESULTS 2022/23



Lenovo delivers solid results as diversified growth engines and operational excellence drive profitability

February 17, 2023— **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced third quarter results, reporting Group revenue of US\$15.3 billion and net income of US\$437 million. Group revenue from non-PC businesses reached a high of 41% and profitability remained solid as Lenovo’s diversified growth engines of Solutions and Services Group (SSG) and Infrastructure Solutions Group (ISG) grew revenue to record highs of US\$1.8 billion and US\$2.9 billion respectively, up 23% and 48% year-on-year. All main business groups contributed operating profit for the fifth consecutive quarter.

While the industry faces significant macroeconomic pressures, Lenovo sees long-term opportunities ahead as the global trends of digitalization and intelligent transformation continue to accelerate and IT spending is expected to recover to a moderate growth rate in the mid-to-long term. In the PC sector, real demand, as reflected by the activation data in 2022, is much better than the industry shipment data indicates as the channel consumes excess inventory. The Group expects year-on-year growth to resume in the second half of the calendar year with end-user demand to be higher than pre-Covid levels.

The Group continues to take proactive actions to further strengthen its cost competitiveness. It will do this by investing in high-margin growth engines as well as reducing run rate operational expenses. Lenovo’s cash balance remains strong, the cash conversion cycle continues to improve, channel inventory has reduced, and the company continues to invest in R&D and sustainability – remaining committed to doubling profitability in the medium-term.

Financial Highlights:

	Q3 22/23 US\$ millions	Q3 21/22 US\$ millions	Change
Group Revenue	15,267	20,127	(24%)
Pre-tax income	605	855	(29%)
Net Income (profit attributable to equity holders)	437	640	(32%)
Net Income (profit attributable to equity holders – non-HKFRS) ^[1]	447	652	(31%)
Basic earnings per share (US cents)	3.65	5.50	(1.85)

Chairman and CEO quote – Yuanqing Yang:

“Today’s solid results demonstrate that our service-led transformation strategy is paying off. Our diversified growth engines of non-PC business now account for over 40% of our group revenue and are driving solid profitability. Despite the complex macro environment, we retained our market leadership in PCs. I remain confident that our clear strategy, operational resilience, healthy liquidity, and continued investment in innovation will ensure we can deliver long-term sustainable growth and improved profitability.”

Solutions and Services Group (SSG): record revenue and high margin

Opportunity:

The trillion-dollar IT services market is expected to remain strong in the mid-to-long term with growth in managed services for cloud, on-prem, and edge expected to increase 7% CAGR. Spending in vertical solutions and services in education, smart retail, smart city, and manufacturing is almost double-digit CAGR.

Q3 FY22/23 performance:

- In the last quarter, SSG revenue grew by 23% year-on-year to US\$1.8 billion, with an operating margin of 20.2% and operating profit up 12% year-on-year.
- All segments once again delivered high profitability and strong revenue growth.
- The revenue mix from non-hardware-centric solutions and services achieved a record of 53%, with managed services almost doubling year-on-year, driven by TruScale Everything as a Service.

Sustainable Growth:

- SSG continues to invest in building scalable and repeatable horizontal and vertical solutions with Lenovo IP.
- In addition, SSG enriched its digital workplace solutions, strengthened its hybrid cloud portfolio, and further expanded its sustainability offerings.

Infrastructure Solutions Group (ISG): record revenue, record profit

Opportunity:

By 2025, the server market alone is expected to reach US\$135 billion. In the same time frame, the edge infrastructure market will grow 17% CAGR to reach US\$37 billion, and the storage market will exceed US\$35 billion.

Q3 FY22/23 performance:

- ISG revenue for the quarter increased by 48% year-on-year to a historic high of US\$2.9 billion.
- Operating profit more than doubled year-on-year to an all-time high of US\$43 million, marking seven straight quarters of year-on-year improvements.
- Server revenue grew 35% YTY to a new record, making Lenovo the 3rd largest server company in the world. Storage revenue more than tripled (now #5 in the world), and software grew by 52% - both reaching all-time highs.

Sustainable Growth:

- ISG continues to enhance its comprehensive infrastructure portfolio and invest in innovation, particularly in AI powered edge computing and hybrid cloud.
- ISG remains focused on being one of the fastest growing and ultimately the largest end-to-end infrastructure solutions provider in the world, at the same time balancing scale and profitability.

Intelligent Devices Group (IDG): solid profitability, expansion into growth areas**Opportunity:**

Despite the PC market decline, real demand, as reflected by the activation data in 2022, is much better than the industry shipment data indicates with the market expected to stabilize at a higher than pre-pandemic level in the second half of 2023.

Q3 FY22/23 performance:

- IDG successfully maintained the #1 position in the PC market with 23.1% market share. It also maintained industry-leading profitability of 7.3%, driven by strong product competitiveness reflected in leading Windows activations and resulting in improved inventory levels.
- The smartphone business was profitable for the 11th consecutive quarter. Activations from the premium product motorola edge grew by 74% year-on-year.
- Premium product mix in the tablet portfolio expanded and smart spaces solutions continued to demonstrate growth potential with key wins.

Sustainable Growth:

- Innovation continued to drive the evolution from smart devices to smart spaces.
- The Lenovo Yoga Book 9i won a historic 50 awards at the recent CES show as the first^[2] full-sized OLED dual screen laptop in the world, and the Lenovo ThinkPhone by Motorola, the company's first B2B focused smartphone, won 15 "Best of CES" awards thanks to its strong positioning around security and productivity.
- Enhanced digital workplace solutions are improving user experiences in hybrid workspaces.

Operational highlights and investing for the future

Environmental, Social, Governance - Lenovo recently became part of the first group of companies to receive [net-zero validation from Science Based Targets initiative](#), a partnership between the UN Global Compact, CDP, World Resources Institute, and World Wide Fund for Nature, making it the first PC and smartphone maker with targets validated by the Net-Zero Standard. As part of its wider sustainability commitments, Lenovo has [teamed up with Kuehne+Nagel](#) to design a sustainable logistics solution to help customers reduce their carbon footprint. The company [was listed](#) in the 2023 Bloomberg Gender-Equality Index (GEI) for the fourth year. The Bloomberg Gender-Equity Index framework tracks the progress of 484 companies, in 11 sectors and 45 countries and regions around the world in women's empowerment and equality in the workplace.



Supply Chain excellence – At this year’s World Economic Forum in Davos, Lenovo’s Hefei factory, LCFC, was [recognized as one of 18 additional sites added to the Forum’s Global Lighthouse Network](#) of 132 leading manufacturers, each chosen for their leadership and integration of fourth Industrial revolution technologies (4IR). Established in 2011, LCFC is one of the most advanced smart manufacturing factories in the world and the largest for intelligent computing devices (PCs, servers, edge computing, smart Internet of Things). It is the flagship in Lenovo’s network of 35+ manufacturing sites across nine markets and ships products to 126 markets around the world. This is done while managing 300K individual pieces of materials and parts every day, 300 discreet new products every year, and more than 200,000 different product configurations.

Industry Accolades – [Fortune magazine](#) recently published its annual list of the World’s Most Admired Companies where Lenovo has risen 11 places in the listing to #189. The annual ranking evaluates the corporate reputations of global organizations and looks at the 1,000 largest U.S. companies alongside FORTUNE’s Global 500 companies with annual revenues of US\$10+ billion. Lenovo currently [ranks 171](#) on the FORTUNE Global 500 list. The list ranks global companies from 52 different industries. Within companies in the ‘computer industry’ sub-category, Lenovo was particularly recognized as “Most Admired,” scoring well for the quality of products and services, governance, innovation, and social responsibility.

Fast Company recently recognized [Lenovo’s Mixed Reality Education Technology as one of the “Next Big Things in Tech”](#). The panel of editors and writers investigate the world of technology to showcase what it believes to be the ‘Next Big Thing in Tech’ across companies of all sizes, from multinationals to start-ups. This year Lenovo was chosen, alongside 120 other companies, that demonstrated fresh thinking, and cutting-edge technology. Lenovo was highlighted as one of several companies trying to make the world a better place by tackling basic societal problems.

[1] non-HKFRS measure was adjusted by excluding net fair value changes on financial assets at fair value through profit or loss, amortization of intangible assets resulting from mergers and acquisitions, mergers and acquisitions related charges; and the corresponding income tax effects, if any.

[2] Based on internal research conducted as of December 2, 2022, of all major PC manufacturers shipping more than one million units worldwide annually.



About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$70 billion revenue global technology powerhouse, ranked #171 in the Fortune Global 500, employing 82,000 people around the world, and serving millions of customers every day in 180 markets. Focused on a bold vision to deliver smarter technology for all, Lenovo has built on its success as the world's largest PC company by further expanding into key growth areas including server, storage, mobile, solutions and services. This transformation together with Lenovo's world-changing innovation is building 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 quarter ended December 31, 2022

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

	Q3 22/23	Q3 21/22	Y/Y CHG
Revenue	15,267	20,127	(24%)
Gross profit	2,612	3,355	(22%)
Gross profit margin	17.1%	16.7%	0.4 pts
Operating expenses	(1,862)	(2,423)	(23%)
R&D expenses (included in operating expenses)	(579)	(549)	5%
Expenses-to-revenue ratio	12.2%	12.0%	0.2 pts
Operating profit	750	932	(20%)
Other non-operating income/(expenses) - net	(145)	(77)	88%
Pre-tax income	605	855	(29%)
Taxation	(123)	(173)	(29%)
Profit for the period	482	682	(29%)
Non-controlling interests	(45)	(42)	6%
Profit attributable to equity holders	437	640	(32%)
Profit attributable to equity holders- non-HKFRS ^[1]	447	652	(31%)
EPS (US cents)			
Basic	3.65	5.50	(1.85)
Diluted	3.44	4.92	(1.48)