

LENOVO GROUP: FIRST QUARTER RESULTS 2023/24

Service-led business achieving strong growth; Group investing further US\$1 billion in AI innovation

August 17, 2023– **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced first quarter results, reporting Group revenue of US\$12.9 billion and net income of US\$191 million on a non-Hong Kong Financial Reporting Standards (HKFRS)^[1] basis.

Revenue from the non-PC businesses accounted for 41% of Group revenue, with the service-led business achieving strong growth and sustained profitability – further demonstrating the effectiveness of Lenovo’s intelligent transformation strategy.

The Group continues to take proactive actions to keep its Expenses-to-Revenue (E/R) ratio resilient and drive sustainable profitability, whilst also investing for growth and transformation. It remains committed to doubling investment in innovation in the mid-term, including an additional US\$1 billion investment over three years to accelerate artificial intelligence (AI) deployment for businesses around the world – specifically AI devices, AI infrastructure, and AI solutions.

Despite the past quarter’s challenging market and unfavorable macroeconomic conditions, Lenovo sees signs of market stabilization and improvement, component prices bottoming out, and believes the client device market can be expected to recover and resume growth in the second half of this fiscal year.

Financial Highlights:

	Q1 FY 23/24 US\$ millions	Q1 FY 22/23 US\$ millions	Change
Group Revenue	12,900	16,956	(24%)
Pre-tax income	228	691	(67%)
Net Income (profit attributable to equity holders)	177	516	(66%)
Net Income (profit attributable to equity holders – non-HKFRS) ^[1]	191	556	(66%)
Basic earnings per share (US cents)	1.48	4.39	(2.91)

Chairman and CEO quote – Yuanqing Yang:

“Last quarter, the macro environment presented challenges, and our hardware business remained in a phase of adjustment, but we persisted in executing our strategy. Our service-led business achieved strong growth and sustained profitability. Our non-PC revenue mix of the group revenue further increased year on year – demonstrating the effectiveness of our diversified growth engines and I remain cautiously optimistic about our business recovery over the next several quarters. As we continue to drive innovation and intelligent transformation, I am confident in the long-term position to deliver sustainable profitability and growth in the future.”



Further US\$1 billion Investment in AI builds on existing leadership

Lenovo continues to embrace AI from all aspects, having built its advantages in computing power from client to edge to cloud and network. Breakthroughs in Large Language Models and AI generated content mark a major leap in AI development and application and serve as a catalyst and accelerator that are boosting the adoption of AI. Over the next three years, Lenovo is committing a further US\$1 billion in investment for AI that will focus on providing AI devices, AI-ready and AI-optimized computing infrastructure, and embedded AI generated content into the intelligent solutions of vertical industries to help customers improve their productivity.

The Infrastructure Solutions Group (ISG) business' [comprehensive AI portfolio](#) has seen it ranked number three in the world for AI hardware infrastructure. It is also leading the way in designing the next generation of AI systems powered by NVIDIA. The [Lenovo ThinkSystem SR675 V3 server](#) will soon include the newly announced NVIDIA L40S GPUs that will help professionals worldwide advance AI and bring generative AI applications like intelligent chatbots, search, and summarization tools to users across industries. ISG is investing US\$100 million to further grow its AI innovators program which has already delivered >150 cutting edge AI solutions, over 70 AI-optimized platforms, with 45 ISV partners in its first year.

The Solutions and Services Group (SSG) is using AI extensively across its portfolio, including AI-powered device intelligence for predictive support, generative AI agents embedded in its services desk offering, and vertical solutions augmented by AI.

The Intelligent Devices Group (IDG) business has integrated AI across all aspects of its device lifecycle, from using AI to mine user insights to be used in product design and analysis; pre-production screening for code vulnerabilities; manufacturing, including parts planning, quality inspections, and optimization. Looking ahead, Lenovo is leading the transformative shift in personal computing – where, to meet the needs of new generative AI workloads, the PC will also need to transform itself into an AI PC. Lenovo sees the future of AI PCs as a disruptive, hybrid blend of client, edge, and cloud technologies, ushering in enhanced functionality, speed, creativity, and immersive realistic experiences.

At an operations level, Lenovo uses [AI across the company's smart manufacturing](#), supply chain, customer service, and more to drive efficiency, forecasting, and decision-making.

Solutions and Services Group (SSG): high margin, strong growth

Opportunity:

Over the next three years, the trend of digital and intelligent transformation will continue to drive strong growth of global IT spending, especially in IT services. At the same time, overall demand for vertical solutions, including smart city, smart manufacturing, smart education, and smart retail is expecting strong growth through 2026.

Q1 FY23/24 performance:

- SSG is delivering strong growth and high profitability, with revenue of US\$1.7 billion, up 18% year-on-year with a high operating margin of more than 21%.
- The support services business was protected as the core profit engine, while at the same time significant progress was made in expanding Managed Services, and Projects and Solutions services, which together now make up more than half of SSG's revenue (up 4 points year-on-year).

- SSG continues to build a strong pipeline of business for Digital Workplace Solutions.

Sustainable Growth:

- SSG is embracing the trend in aaS (as-a-Service), digital workplace, sustainability services, and hybrid cloud, scaling its hero offerings and incubating these horizontal building blocks into vertical solutions to help customers improve employee experience and productivity.

Infrastructure Solutions Group (ISG): delivering growth in key areas

Opportunity:

Driven by strong AI demand, the ICT infrastructure upgrade is accelerating even further. There is also strong growth expected in services, edge, and enterprise software.

Q1 FY23/24 performance:

- Revenue declined year-on-year (US\$1.9 billion, down 8% year-on-year) due to the overall Cloud Service Provider (CSP) server compute demand softness, GPU constraints impacting full AI demand and the industry's slower than expected transition to the next-generation platform.
- ISG achieved hyper-growth in Storage, Software, Services, and High-Performance Computing (HPC) – with storage achieving triple-digit year-on-year growth, making Lenovo the 4th largest storage provider in the world.
- [ISG continues to excel in AI](#), with triple-digit growth in the second half of 2022 with industry research ranking the business as number three in the world for AI hardware infrastructure.

Sustainable Growth:

- Lenovo will continue to invest in developing AI-ready and AI-optimized infrastructure, such as AI Edge, AI Hybrid Cloud, and server and storage that support AI-centric workloads.
- ISG remains focused on extending its vision as the most trusted infrastructure partner for customers in their digital and intelligent transformation.

Intelligent Devices Group (IDG): maintaining leadership

Opportunity:

While the smart devices market remains under pressure, there are new opportunities in the smart spaces market and next generation of AI devices.

Q1 FY23/24 performance:

- Revenue declined year-to-year to US\$10.3 billion (down 28% year-on-year) due to market challenges, but Lenovo maintained its global No.1 market share position in PCs (23.2%).
- The smartphone business achieved a 10-year record for Q1 activations and further strengthened its premium and 5G offerings with the launch of the new motorola [razr](#) family.
- Demonstrated great growth potential in smart collaboration and smart home areas.

Sustainable Growth:

- Committed to investing in innovation to build long-term competitiveness, including building the next generation of AI devices.



- The smartphone three-year growth plan is helping to achieve premium growth in strongholds of North America and Latin America, as well as hypergrowth across Asia Pacific and EMEA.
- IDG continues to expand to a more diversified smart devices portfolio, including enriched software and services to further build the IDG ecosystem.

[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.

About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$62 billion revenue global technology powerhouse, ranked #217 in the Fortune Global 500, employing 77,000 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 growth areas that fuel the advancement of 'New IT' technologies (client, edge, cloud, network, and intelligence) including server, storage, mobile, software, solutions, and services. This transformation together with Lenovo's world-changing innovation is building a more inclusive, trustworthy, and smarter future 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 quarter ended June 30, 2023 (in US\$ millions, except per share data)

	Q1 23/24	Q1 22/23	Y/Y CHG
Revenue	12,900	16,956	(24)%
Gross profit	2,252	2,869	(22)%
Gross profit margin	17.5%	16.9%	0.6 pts
Operating expenses	(1,862)	(2,092)	(11)%
R&D expenses (included in operating expenses)	(451)	(511)	(12)%
Expenses-to-revenue ratio	14.4%	12.3%	2.1 pts
Operating profit	390	777	(50)%
Other non-operating income/(expenses) - net	(162)	(86)	87%
Pre-tax income	228	691	(67)%
Taxation	(45)	(152)	(70)%
Profit for the period	183	539	(66)%
Non-controlling interests	(6)	(23)	(71)%
Profit attributable to equity holders	177	516	(66)%
Profit attributable to equity holders- non-HKFRS [1]	191	556	(66)%
EPS (US cents)			
Basic	1.48	4.39	(2.91)
Diluted	1.43	4.01	(2.58)

