

# 1QFY20/21 Earnings Announcement

Aug 13, 2020



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# Yuanqing Yang

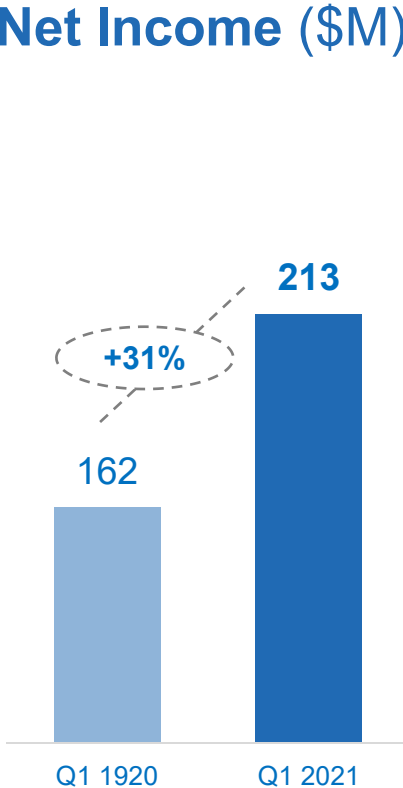
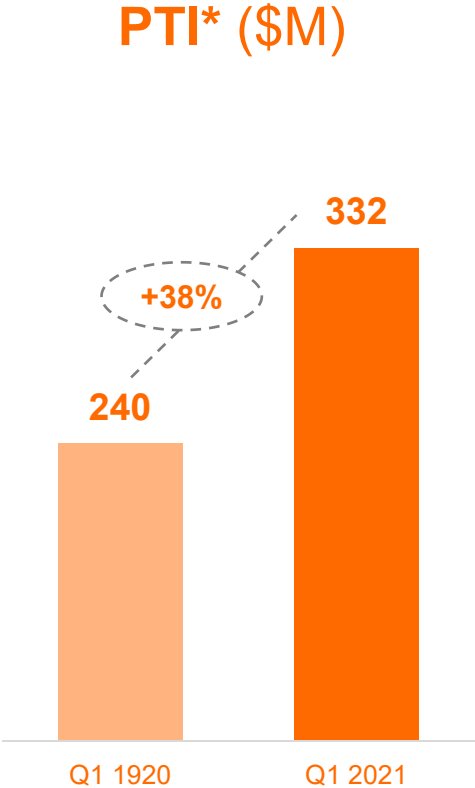
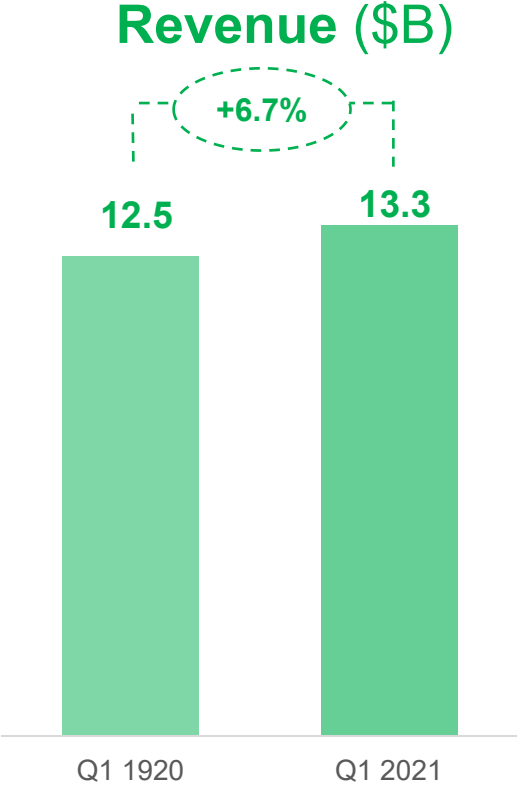
Chairman & CEO

Aug 13, 2020



# Group Performance: Outstanding Results

- Revenue: **\$13.3B**, up **6.7%** YOY, or up **10%** YOY in constant currency
- Pre-Tax Income: **\$332M**, up **38%** YOY
- Net income: **\$213M**, up **31%** YOY

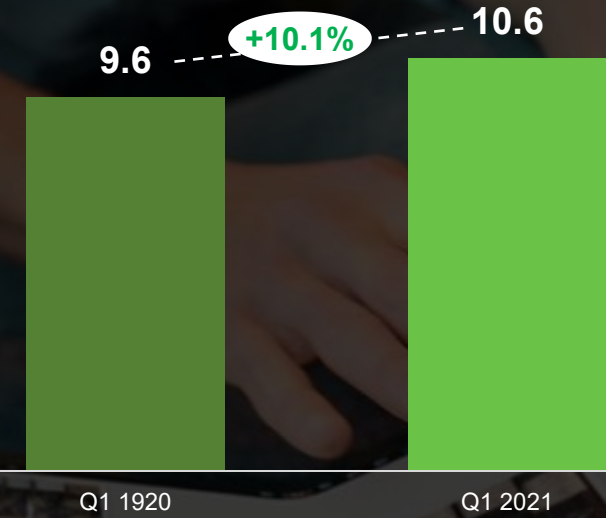


\* PTI: Pre-Tax Income

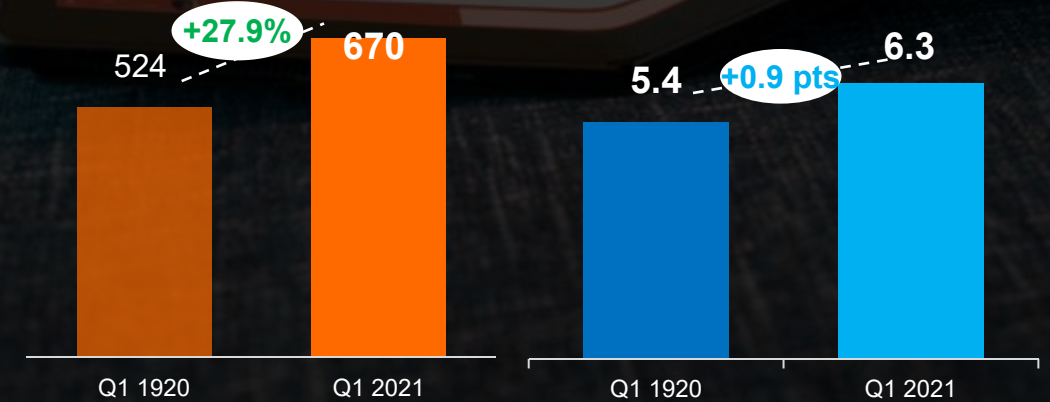
# IDG PCSD\*: Sustaining Growth

- Revenue: **\$10.6B**, up **10.1%** YOY
- PTI: **\$670M**, up **27.9%** YOY
- PTI margin: **record 6.3%**, **+0.9 points** YOY

## PCSD Revenue (\$B)



## PCSD PTI (\$M) , PTI Margin (%)



\* IDG: Intelligent Devices Group; PCSD: PC & Smart Devices



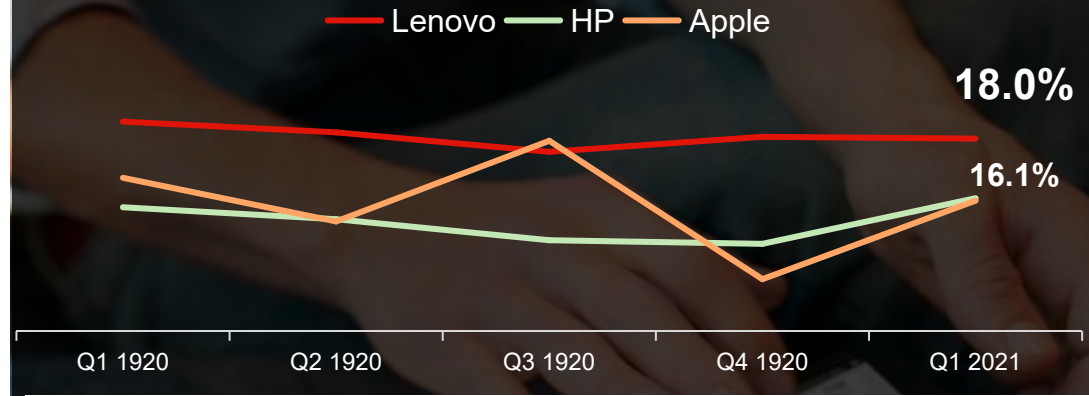
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Source: Internal Data

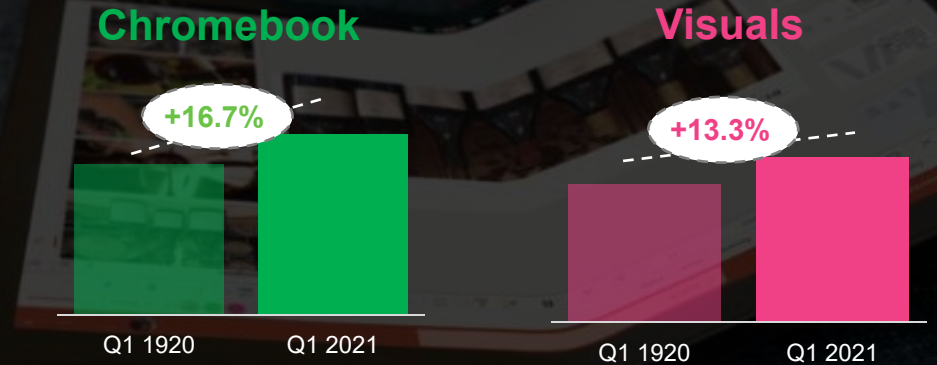
# IDG PCSD: Sustaining Growth

- Remained global **#1** in PC and Tablets
- Consumer segment strong growth: revenue **+45%** YOY, volume **+32%** YOY
- E-Commerce revenue: **53%** YOY
- EMEA and China revenue: Up **30%** and **18%** YOY, respectively
- Focus on high-growth, premium segments continues to drive results

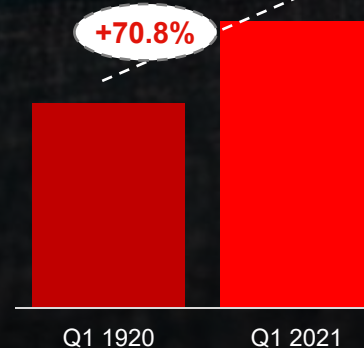
## PC + Tablet Market Share (%)



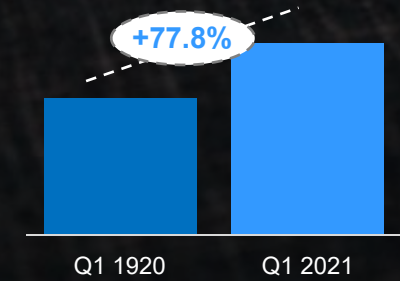
## PC Segment Volume Growth YOY (%)



## Thin & Light



## Gaming





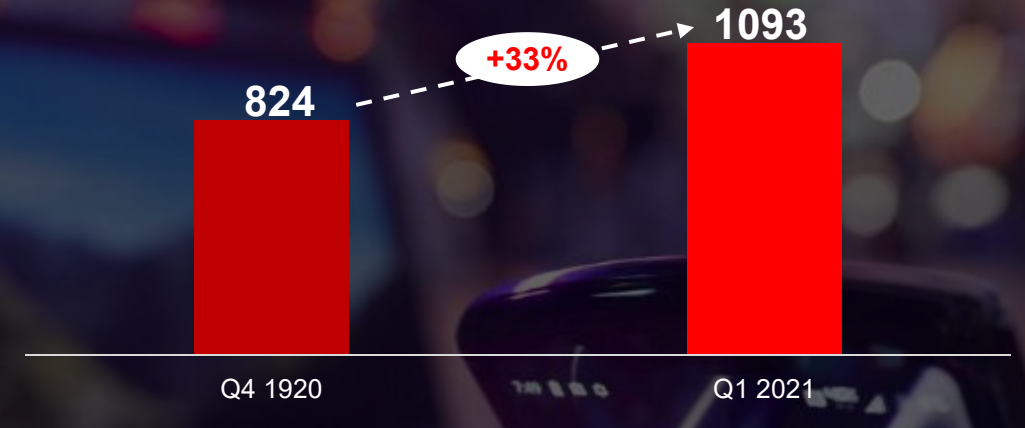
## IDG PCSD: Outlook

- Develop products adapted to new normal
- Strengthen global supply chain to meet growing demand
- Strengthen e-Commerce
- Focus on high-growth segments
- Deliver premium-to-market growth with leading profitability

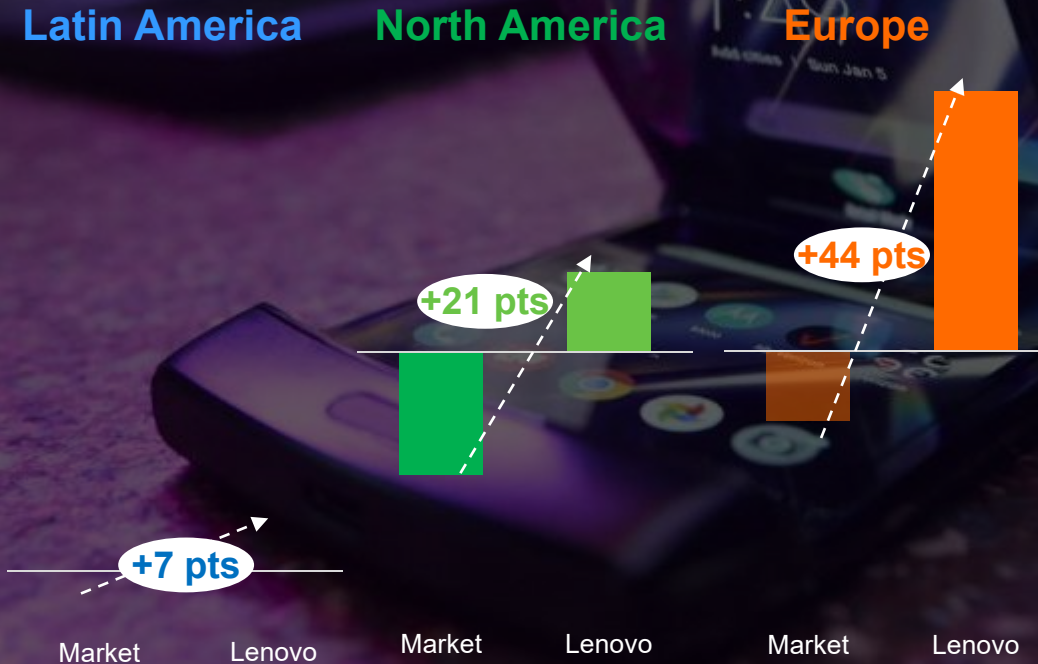
# IDG Mobile: Resumed Momentum

- Revenue improved 33% quarter-to-quarter
- Volume outgrew the market in key markets:
  - Latin America: **7.1** points PtM; historic share **19.4%**
  - North America: **21.4** points PtM; historic share **7.9%**
  - Europe: grew **35%** YOY, **44.3** points PtM

## Mobile Revenue Improvement QTQ (\$M)



## Mobile Volume Growth vs Market YOY (%)







**Moto Edge+  
5G Smartphone**

## IDG Mobile: Outlook

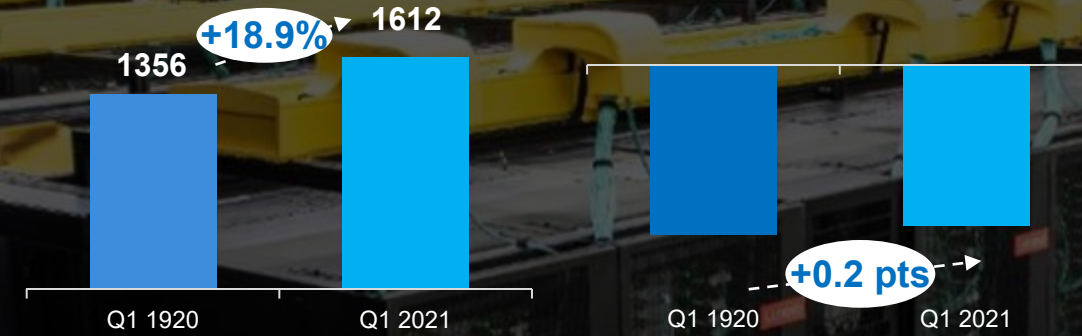
- Leverage strong product portfolio and 5G technology
- Expanding carrier ranging
- Resume profitable growth

# Data Center: Resumed Hypergrowth

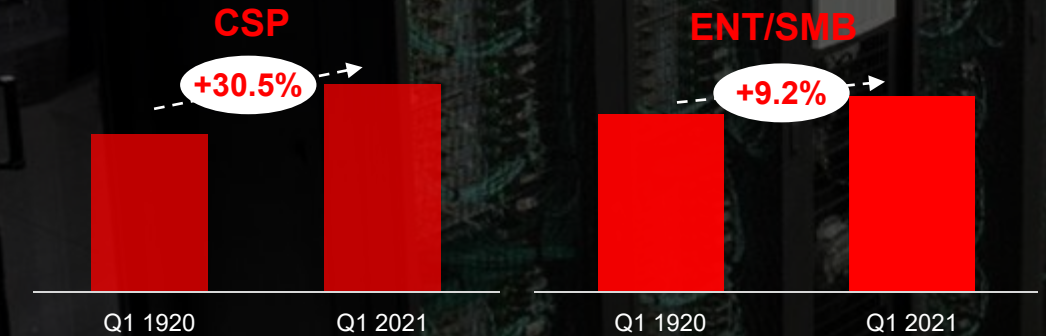
- Revenue **+18.9%**, profitability **+0.2pts** YOY
- Cloud Service Provider\*
  - **Record** revenue, up **30.5%** YOY
- Enterprise/SMB\*\*
  - Revenue up **9.2%** YOY
  - **Double-digit** growth in SDI\*\*\*, Services, and HPC

\* Cloud Service Provider (CSP): previously hyperscale.  
 \*\* Enterprise/SMB (ENT/SMB): previously non-hyperscale  
 \*\*\* SDI: Software Defined Infrastructure

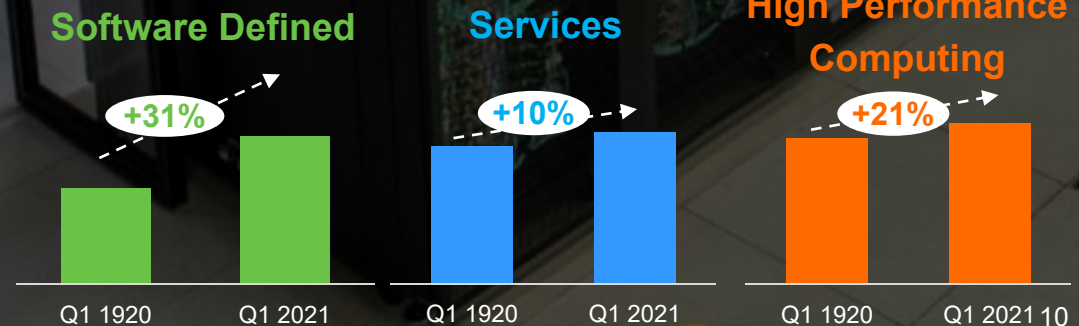
DCG Revenue (\$M), PTI Margin YOY (%)



CSP & ENT/SMB Rev Growth YOY (%)



SDI, Services, HPC Revenue Growth YOY (%)





# Data Center: Outlook

- Cloud Service Provider:
  - Long-term revenue growth
  - Add new, expanding share with existing customers
- Enterprise/SMB
  - Grow storage, software & services attach
  - Expand edge computing business
- Manage expense and cost to improve profitability

# Intelligent Transformation: Strong Progress

- Smart IoT revenue\* grew **39%** YOY
- Smart Infrastructure revenue grew **16%** YOY
- Smart Verticals revenue\* grew **65%** YOY
  
- Software & Services revenue\* up **38%** YOY, to over \$1B, around 7.6% of group revenue
  - Attached Service up **32%** YOY
  - Managed Service, DaaS up **48%** YOY
  - Solutions up **54%** YOY

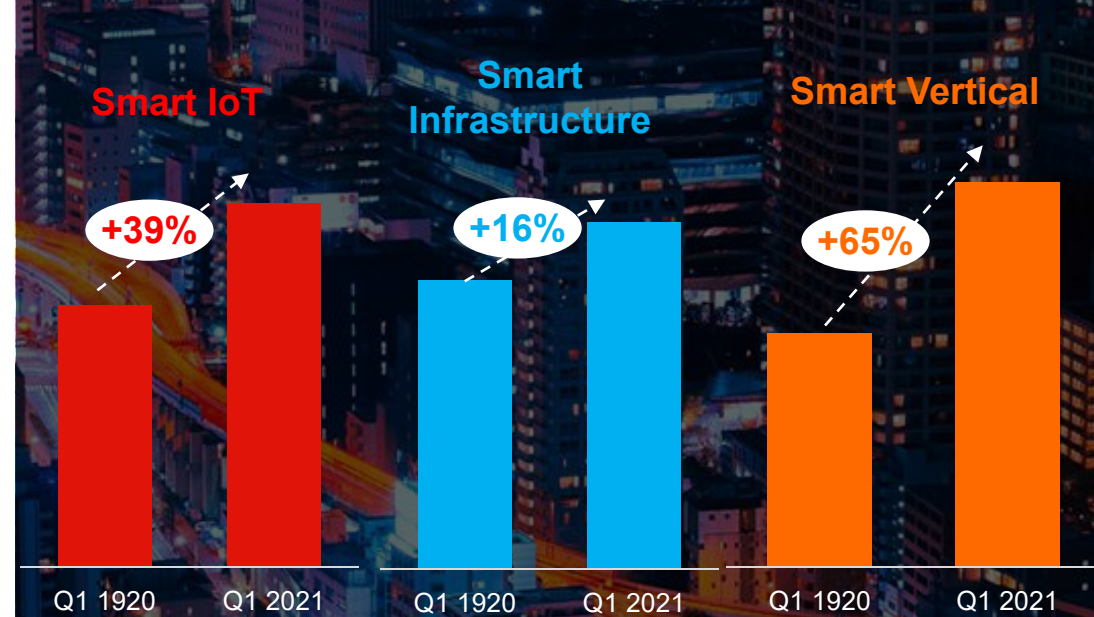
\* Invoiced Revenue



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Source: Internal Data

## Intelligent Transformation Revenue YOY (%)



## Software & Services Revenue YOY (%)



Leverage **core competencies**

**Capture** new opportunities

Drive **Service-led Intelligent Transformation**



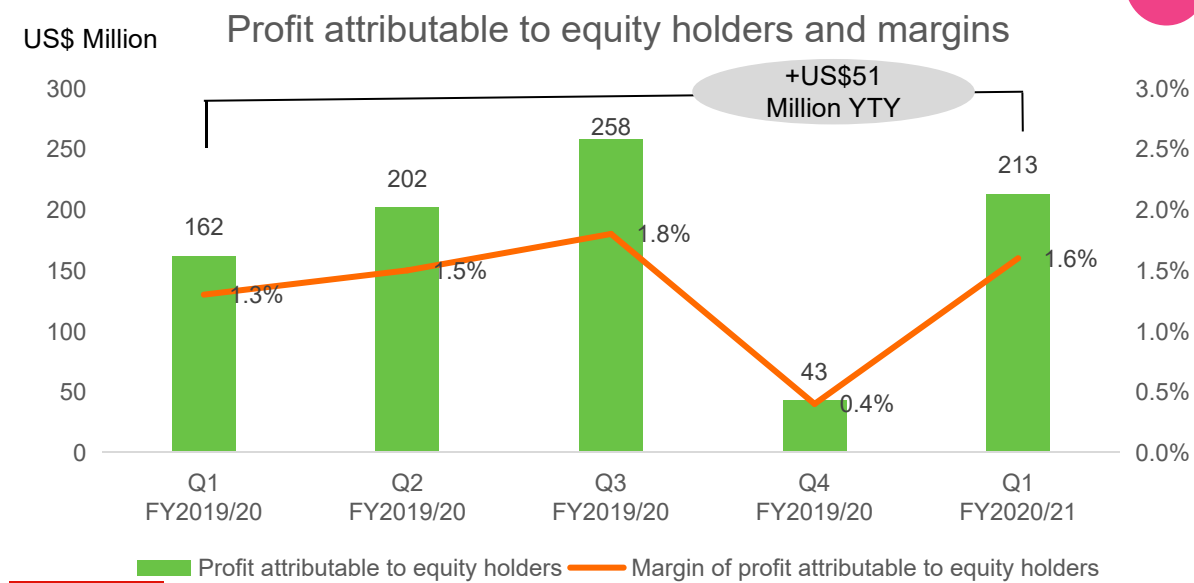
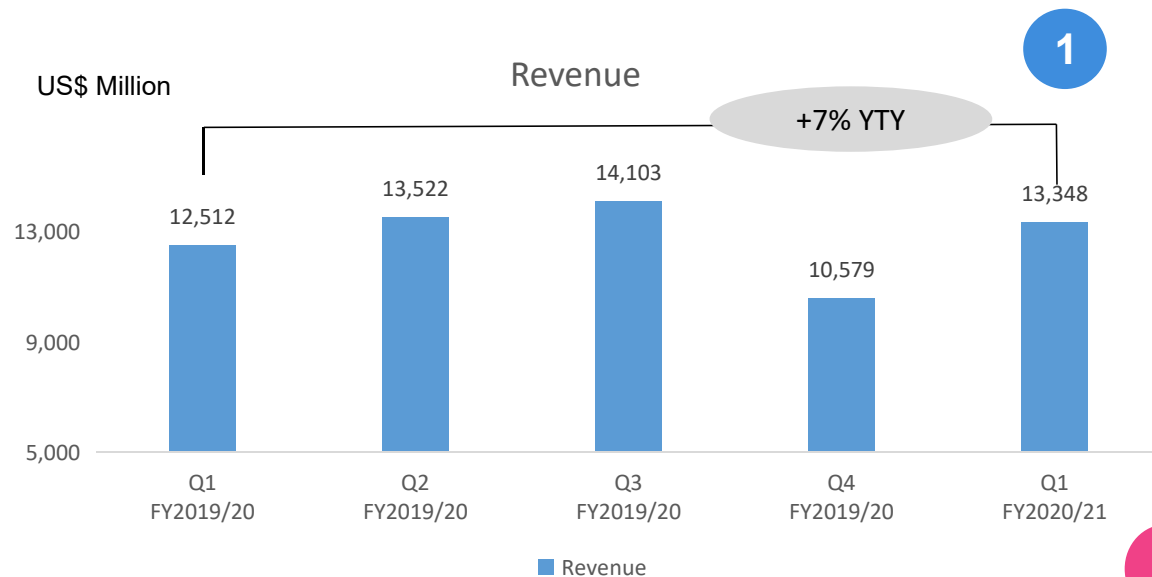
# Wong Wai Ming

Chief Financial Officer

Aug 13, 2020

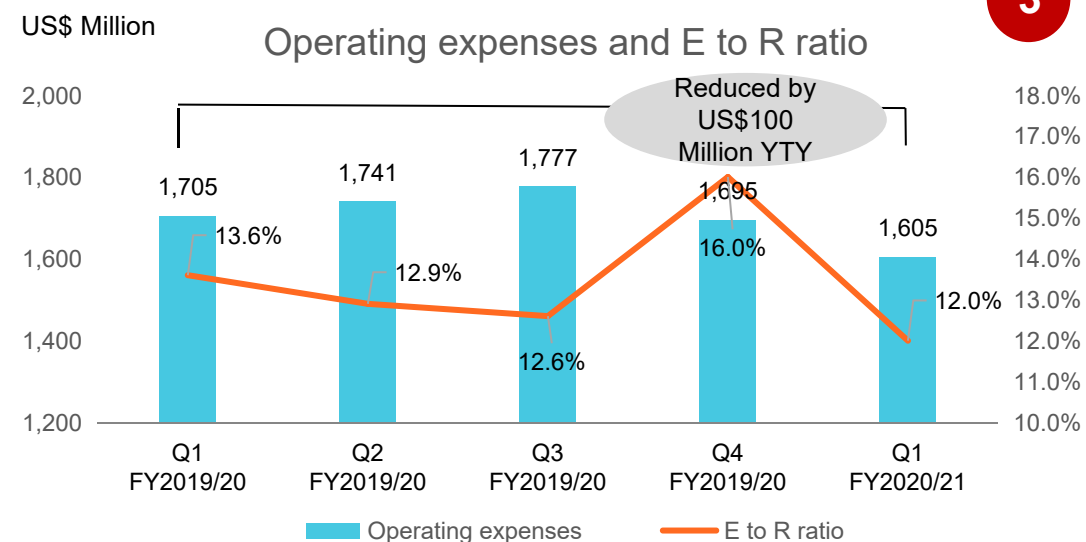


# Financial Highlights



## 1Q HIGHLIGHTS

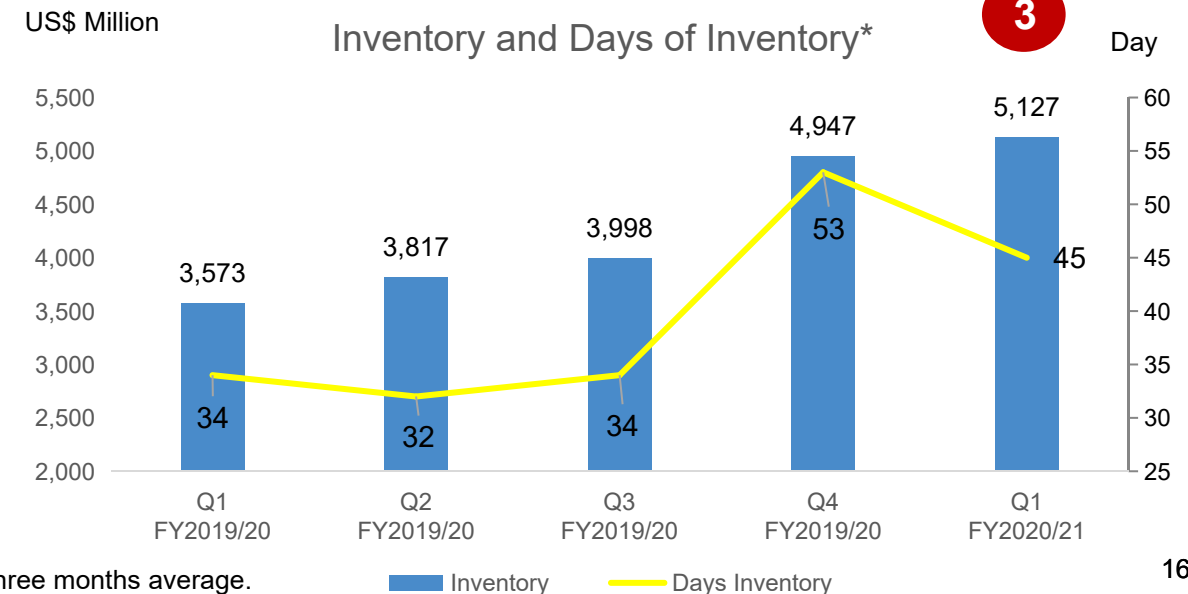
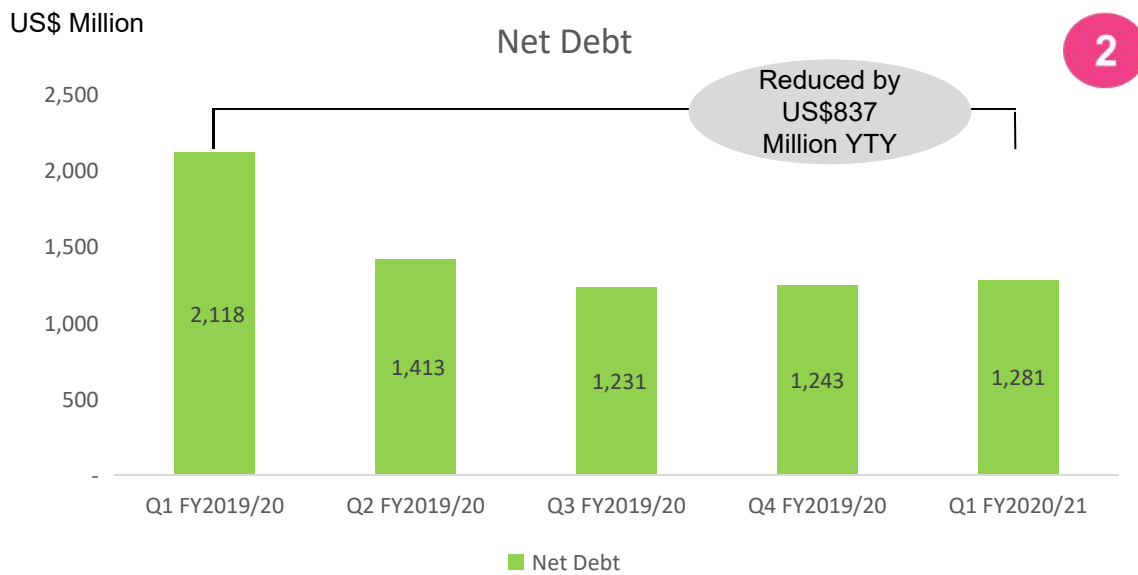
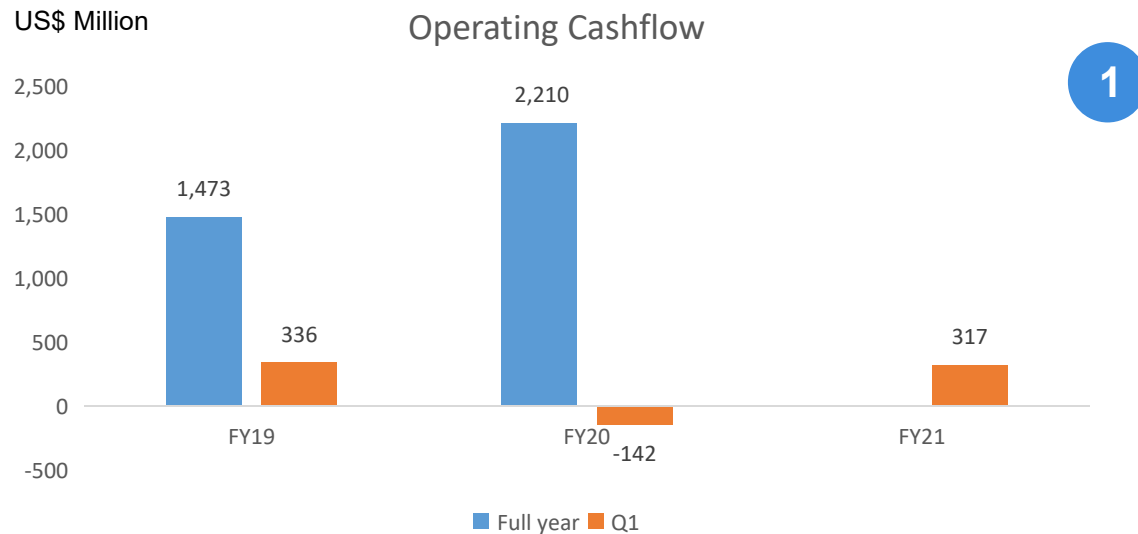
- Group revenue increased by 7% YTY on strong momentum from PCSD and DCG
- Profit attributable to equity holders grew by 31% YTY with 0.3 pts annual margin expansion; PCSD reported record-breaking pre-tax profit margin; Software and Services achieved strong revenue growth and carried the highest margin profile among all products
- E to R ratio was lowered by 1.6 points YTY to 12% on disciplined expense control



# Cash and Working Capital

## 1Q HIGHLIGHTS

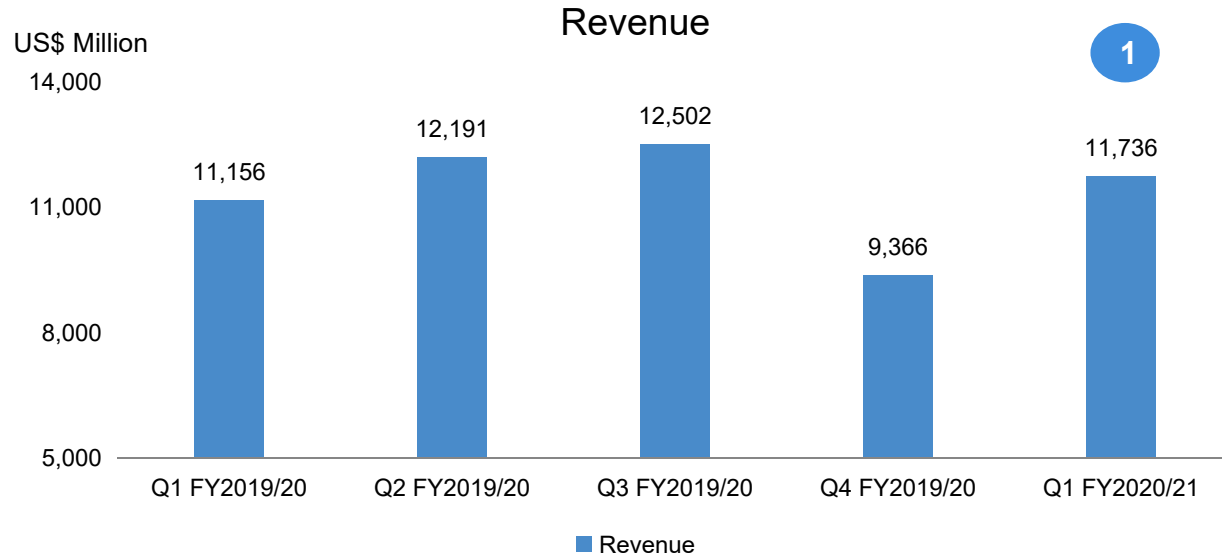
- 1** Operating cashflow expanded US\$459 million YTY, driven by stronger profitability and working capital management
- 2** Net debt reduced by US\$837 million year-on-year to US\$1.3 billion
- 3** Higher inventory days on strategic buy-ahead actions since Q4FY19/20 although continued order strength started to drive sequential decline





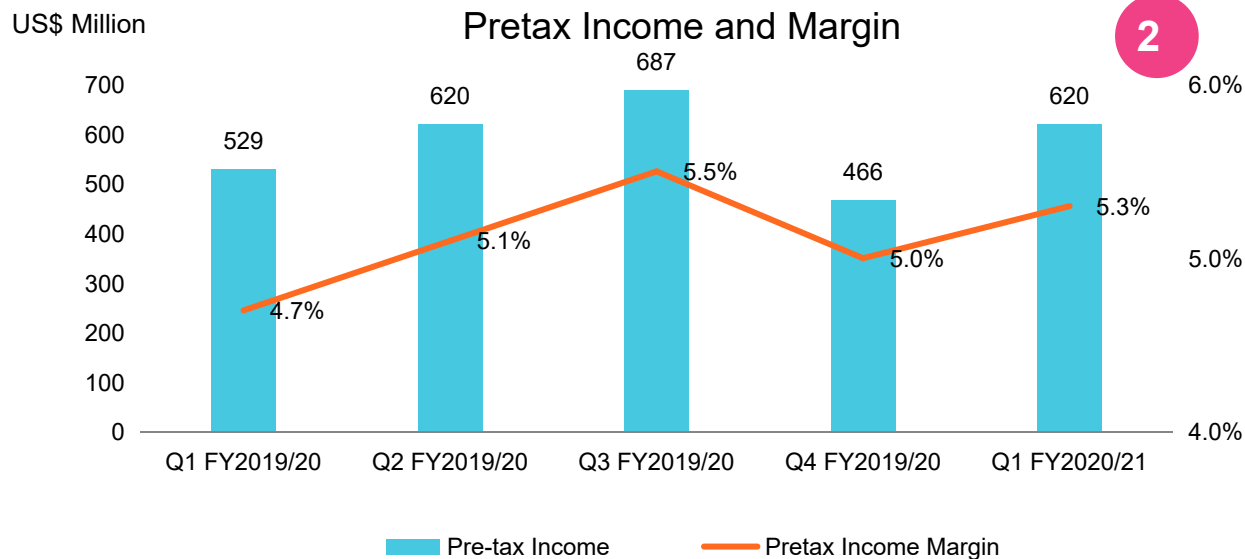
# Intelligent Devices Business Group (IDG)\*

## 1Q HIGHLIGHTS

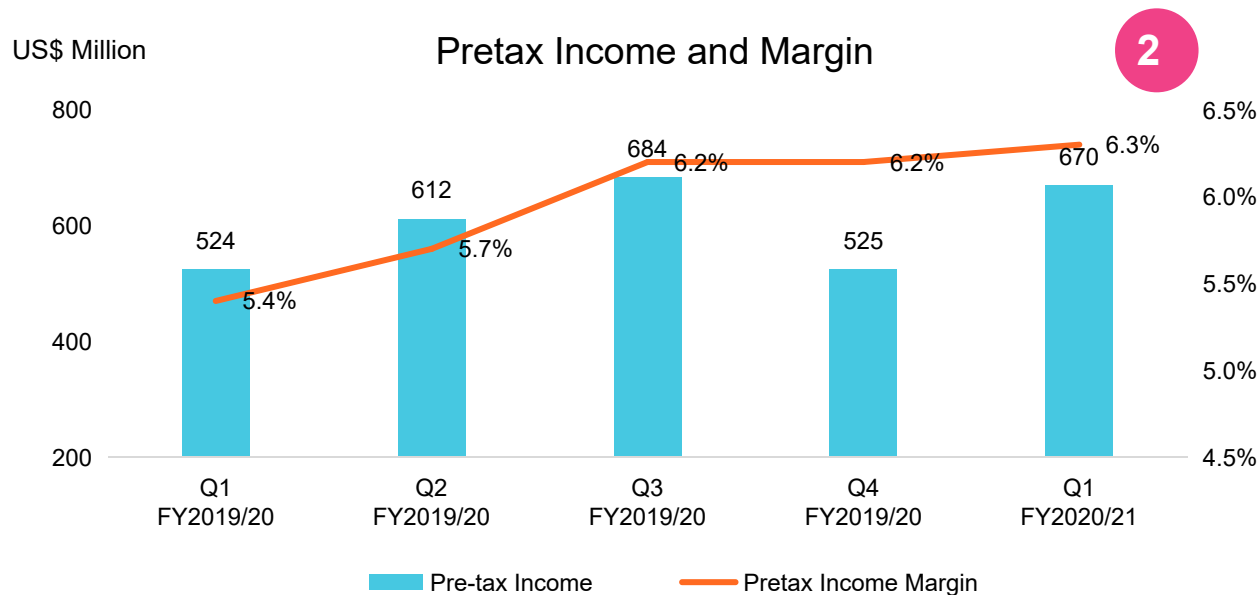
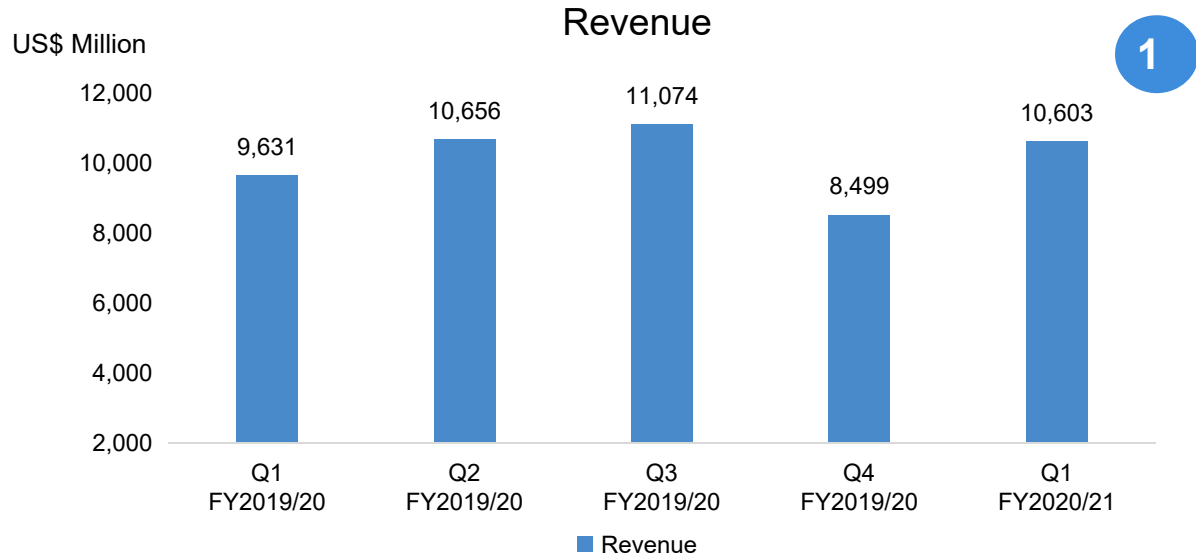


**1** Healthy YTY growth and strong sequential recovery of 25% in IDG revenue, a testament to the business group's strengths in weathering market uncertainties

**2** Pre-tax profit increased 17% YTY to US\$620 million



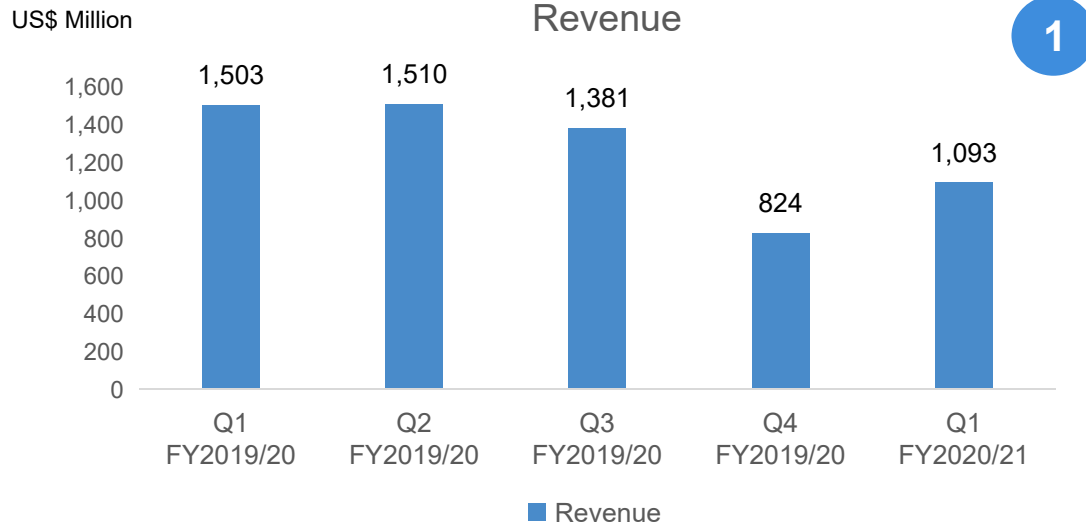
# IDG - PC & Smart Device Business Group (PCSD)



## 1Q HIGHLIGHTS

- 1 PCSD benefited from multiple catalysts including work-from-home, e-learning and play-from-home; revenue grew by 10% YTY
- 1 A growing number of transactions through on-line franchise drove e-commerce revenue up by 53% YTY
- 1 The Software and Services business under the PCSD Group grew revenue four times faster than the PCSD average and carried the highest margin among all products
- 2 All-time high PTI margin of 6.3% on improved segment profitability and fast-growing high-margin Software and Services business

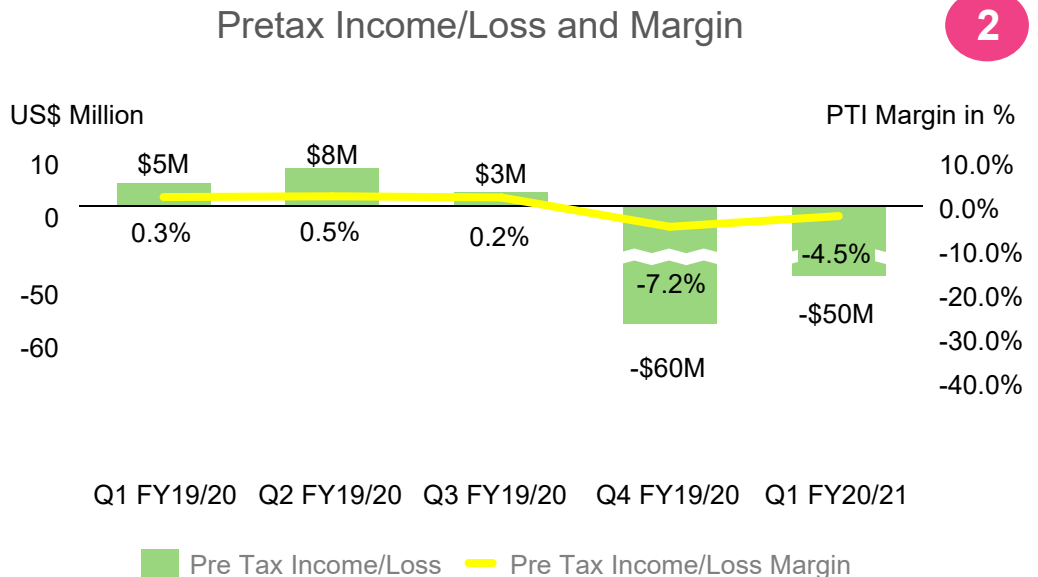
# IDG - Mobile Business Group (MBG)



1

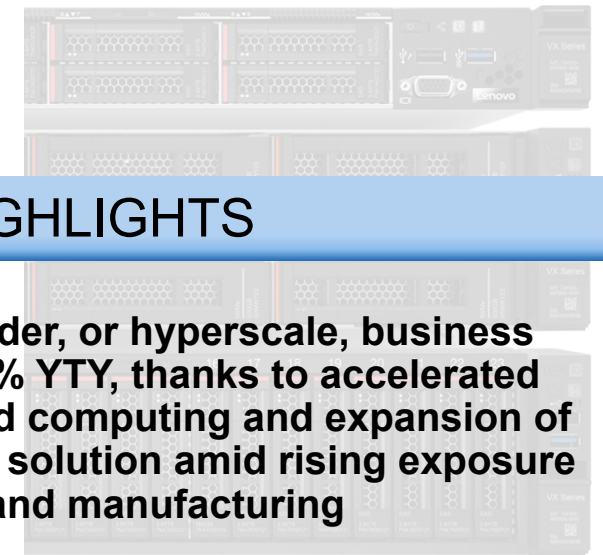
## 1Q HIGHLIGHTS

- 1 Strong market share gain led to premium-to-market growth of 7 pts in LA and 21 pts in NA
- 1 Despite robust revenue performance in North America and Europe, the sharp decline in market demand in Latin America impacted MBG revenue
- 2 Loss before taxation reached US\$50 million and narrowed by US\$10 million QTQ on the business group's swift actions to control expenses; Latin America resumed profitability despite difficult market environment



2

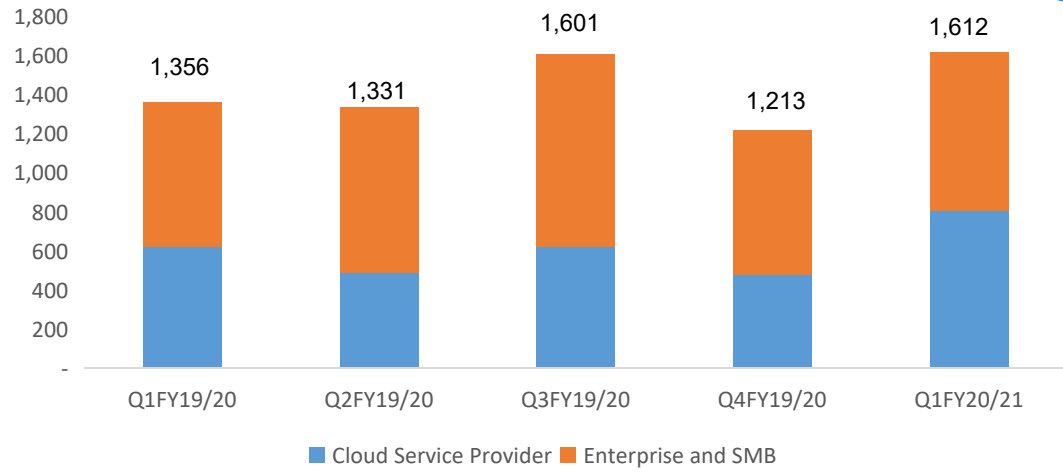
# Data Center Business Group (DCG)



US\$ Million

Revenue

1



## 1Q HIGHLIGHTS

1

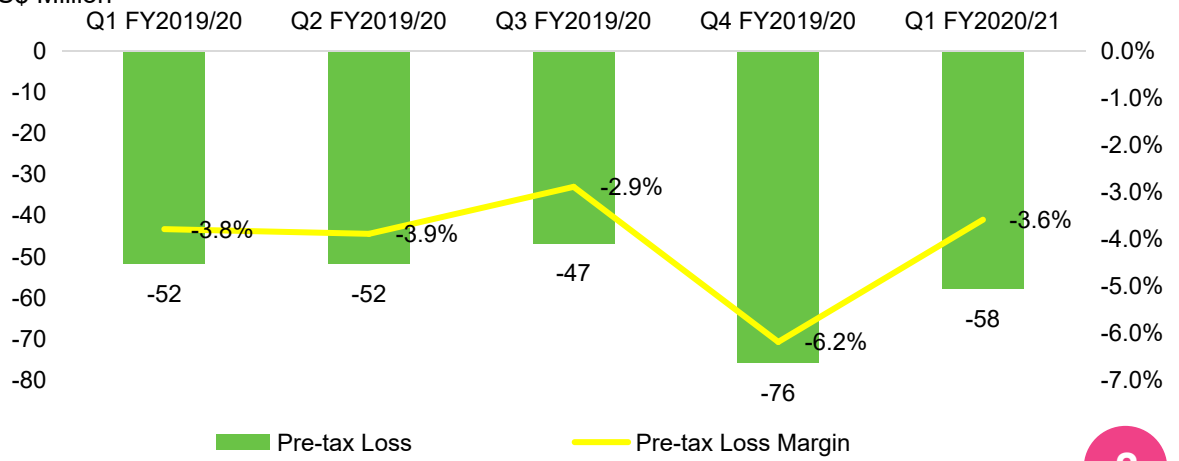
**Cloud Service Provider, or hyperscale, business grew revenue by 31% YTY, thanks to accelerated investments in cloud computing and expansion of platform/higher-end solution amid rising exposure to in-house design and manufacturing**

1

**Enterprise & SMB business revenue up 9% YTY, owing to resilient growth of Software and Services, hybrid cloud, and high-performance computing to mitigate lowered enterprise market demand**

US\$ Million

Pretax Loss and Margin



2

**Losses expanded by US\$7 million YTY due to lingering impact from the COVID-19 pandemic and investments to drive growth in regional markets including China; improvement on the right track with losses narrowed by US\$17 million QTQ**

2





# Outlook Statement

## Group Mission is to be the Leader and Enabler of Intelligent Transformation

### IDG: Drive premium-to-market growth with strong profitability; accelerate services, software and solution selling

- **PCSD:** To maintain premium to market growth and drive sales in high-growth and premium segments including Gaming
- **Mobile:** To protect our position in stronghold markets in Latin America; strengthen footprint in North America and continue profitable growth in all markets
- **Services and software:** To supercharge solution and services growth

### DCG: Drive premium to market growth while improving profitability

- **Enterprise and SMB:** To grow high-margin service attach rate, upsell premier services and expand SDI solutions; continue to develop IoT applications and new levels of automation to drive a paradigm shift in computing with its edge-to-cloud solutions
- **Cloud Service Provider:** To gain market share by leveraging Lenovo's unique strengths in global supply chain & worldwide reach; portfolio expansion to new server & storage platforms; grow in-house design and manufacturing capabilities

### Accelerate Intelligent Transformation: Driving Smart IoT, Smart Infrastructure and Smart Vertical growth while leading customer-centric transformation

- Drive hyper-growth in Software and Services, solution and e-commerce
- Explore and improve smart vertical solutions in promising verticals across smart education, smart city, and smart healthcare

# Appendix

- Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement

# + Financial Summary

US\$ Million

Revenue

Gross Profit

Operating Expenses

Operating Profit

Other Non-Operating Expenses

Pre-tax Income

Taxation

Profit for the period

Non-controlling interests

Profit attributable to Equity Holders

EPS (US cents)

- Basic

- Diluted

|                                       | Q1 FY2020/21 | Q1 FY2019/20 | Y/Y% |
|---------------------------------------|--------------|--------------|------|
| Revenue                               | 13,348       | 12,512       | 7%   |
| Gross Profit                          | 2,041        | 2,048        | (0%) |
| Operating Expenses                    | (1,605)      | (1,705)      | (6%) |
| Operating Profit                      | 436          | 343          | 27%  |
| Other Non-Operating Expenses          | (104)        | (103)        | 1%   |
| Pre-tax Income                        | 332          | 240          | 38%  |
| Taxation                              | (85)         | (48)         | 77%  |
| Profit for the period                 | 247          | 192          | 29%  |
| Non-controlling interests             | (34)         | (30)         | 14%  |
| Profit attributable to Equity Holders | 213          | 162          | 31%  |
| EPS (US cents)                        |              |              |      |
| - Basic                               | 1.80         | 1.37         | 0.43 |
| - Diluted                             | 1.76         | 1.32         | 0.44 |

Gross margin

E/R ratio

Operating margin

PTI margin

Net margin attributable to Equity Holders

|   | Q1 FY2020/21 | Q1 FY2019/20 |
|---|--------------|--------------|
| Gross margin                              | 15.3%        | 16.4%        |
| E/R ratio                                 | 12.0%        | 13.6%        |
| Operating margin                          | 3.3%         | 2.7%         |
| PTI margin                                | 2.5%         | 1.9%         |
| Net margin attributable to Equity Holders | 1.6%         | 1.3%         |

# Condensed Consolidated Income Statement

| <i>US\$ Million</i>                                      | <b>Q1 FY2020/21</b> | <b>Q1 FY2019/20</b> |
|--|---------------------|---------------------|
| Revenue  | <b>13,348</b>       | 12,512              |
| Cost of sales  | <b>(11,307)</b>     | (10,464)            |
| Gross profit   | <b>2,041</b>        | 2,048               |
| Selling and distribution expenses                        | <b>(632)</b>        | (763)               |
| Administrative expenses                                  | <b>(660)</b>        | (611)               |
| Research and development expenses                        | <b>(333)</b>        | (329)               |
| Other operating income/ (expense) - net                  | <b>20</b>           | (2)                 |
| Operating profit   | <b>436</b>          | 343                 |
| Finance income   | <b>8</b>            | 13                  |
| Finance costs  | <b>(107)</b>        | (115)               |
| Share of loss of associated companies and joint ventures | <b>(5)</b>          | (1)                 |
| Profit before taxation                                   | <b>332</b>          | 240                 |
| Taxation   | <b>(85)</b>         | (48)                |
| Profit for the period                                    | <b>247</b>          | 192                 |
| Profit attributable to:                                  |                     |                     |
| Equity holders of the company                            | <b>213</b>          | 162                 |
| Perpetual securities holders                             | <b>13</b>           | 13                  |
| Other non-controlling interests                          | <b>21</b>           | 17                  |
| Earnings per share (US cents)                            |                     |                     |
| - Basic  | <b>1.80</b>         | 1.37                |
| - Diluted  | <b>1.76</b>         | 1.32                |



# Condensed Consolidated Balance Sheet

*US\$ Million*

|   | As at<br>Jun 30, 2020 | As at<br>Mar 31, 2020 |
|---|-----------------------|-----------------------|
| Non-current assets                                    | <b>13,447</b>         | 13,395                |
| Property, plant and equipment                         | <b>1,388</b>          | 1,398                 |
| Intangible assets                                     | <b>7,992</b>          | 7,985                 |
| Others  | <b>4,067</b>          | 4,012                 |
| Current assets  | <b>20,048</b>         | 18,733                |
| Bank deposits and cash                                | <b>3,546</b>          | 3,617                 |
| Trade, notes and other receivables                    | <b>11,128</b>         | 9,834                 |
| Inventories   | <b>5,127</b>          | 4,947                 |
| Others  | <b>247</b>            | 335                   |
| Current liabilities                                   | <b>23,374</b>         | 23,258                |
| Borrowings  | <b>2,289</b>          | 3,295                 |
| Trade, notes, other payables, accruals and provisions | <b>19,903</b>         | 18,713                |
| Others  | <b>1,182</b>          | 1,250                 |
| Net current asset/(liabilities)                       | <b>(3,326)</b>        | (4,525)               |
| Non-current liabilities                               | <b>5,891</b>          | 4,811                 |
| Total equity  | <b>4,230</b>          | 4,059                 |

# Condensed Consolidated Cash Flow Statement

| US\$ Million   | Q1 FY2020/21 | Q1 FY2019/20 | Q4 FY2019/20 |
|--|--------------|--------------|--------------|
| Net cash generated from/(used in) operating activities   | 317          | (142)        | 432          |
| Net cash used in investing activities                    | (285)        | (303)        | (238)        |
| Net cash (used in)/generated from financing activities   | (91)         | 512          | (69)         |
| (Decrease)/Increase in cash and cash equivalents         | (59)         | 67           | 125          |
| Effect of foreign exchange rate changes                  | 4            | (13)         | (95)         |
| Cash and cash equivalents at the beginning of the period | 3,551        | 2,663        | 3,521        |
| Cash and cash equivalents at the end of the period       | 3,496        | 2,717        | 3,551        |

**thanks.**

**Different is better**

