

Smarter technology for all

Q2 FY24 Earnings Announcement

Nov 16, 2023

Lenovo

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This presentation contains “forward-looking statements”, which are statements that refer to the expectations and plans for the future and include, without limitation, statements regarding Lenovo’s future results of operations, financial condition or business prospects as well as other statements based on projections, estimates and assumptions. In some cases, these statements can be identified by terms such as “expect,” “intend,” “plan,” “believe,” “estimate,” “may,” “will,” “should” and comparable words (including negative variants of such words). These forward-looking statements, reflect the current expectations and plans of the directors and management of Lenovo, which may not materialize or may change. Many risks, uncertainties and other factors, some of which are unpredictable and beyond Lenovo’s control, could affect the matters discussed in these forward-looking statements. These factors include, without limitation, economic and business conditions globally and in the countries where we operate, Lenovo’s ability to predict and respond quickly to market developments, consumer demand, pricing trends and competition; changes in applicable laws and regulations (including applicable tax and tariff rates). Any variance from the expectations or plans on which these forward-looking statements are based could cause Lenovo’s actual results or actions to differ materially from those expressed or implied in these statements. These forward-looking statements are not guarantees of future performance and you are cautioned not to place undue reliance on these statements. Lenovo undertakes no obligation to update any forward-looking statements in this presentation, whether as a result of new information or any subsequent change, development or event. All forward-looking statements in this presentation are qualified by reference to this paragraph.

Smarter technology for all

Yuanqing Yang

Chairman & CEO

Nov 16, 2023

Lenovo



Clear signs of recovery



Business resilience



Exponential growth in A.I.

Group:

Market Recovery & Business Resilience



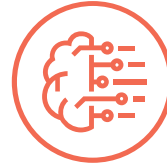
Performance

- Revenue \$14.4B, QTQ improvement for the second time in a row
- Gross profit margin 17.5%, a record high for FYQ2
- Non-HKFRS net income \$273M, QTQ improvement
- Non-PC revenue mix 40%, up 2.9 pts YTY, driven by strong diversified growth engines

Group:

Market Recovery & Business Resilience

Opportunities & Sustainable growth



A.I. presents huge opportunities for device, infrastructure & solutions

- PC market bottomed, AI PC brings new round of potential growth
- Hybrid A.I. creates new demands for computing infrastructure and services



Committed to “AI for all”

- A.I. long been key focus of digital & intelligent transformation strategy
- Full-stack A.I. vision from pocket to cloud
 - AI-ready, AI-optimized & AI-enabled devices, infrastructure & solutions
- Further invest in innovations

SSG

Solutions & Services Group:
Record Revenue & Operating Profit
Accumulating A.I. Solutions & Services



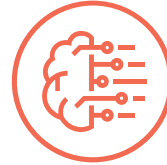
Performance

- Revenue & operating profit reached historic highs again
- Protected Support Services & Software as core profit engine
- Managed Services, Project & Solution Services revenue mix expanded to 56%, +3.3 pts YTY

SSG

**Solutions & Services Group:
Record Revenue & Operating Profit
Accumulating A.I. Solutions & Services**

Opportunities & Sustainable growth



Strong momentum of horizontal building blocks:

- Digital Workplace Solutions
- Hybrid Cloud Solutions
- Sustainability Solutions & Services



Integrate horizontal building blocks into smart vertical solutions:

- Targeting different industries
- Winning breakthrough customer deals

Build Professional Services to support hybrid A.I. implementation



ISG

Infrastructure Solutions Group: Tackling Market Headwinds Building Hybrid AI Infrastructure

Performance

- External headwinds impacted overall revenue & profitability
- Server: revenue & profitability down due to demand shift
- Storage: record revenue, +46% YTY, now global No.3
- Software: revenue +3% YTY
- Services: revenue +11% YTY
- HPC*: revenue +12% YTY

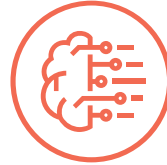
* High Performance Computing

Source: Internal, Industry research

ISG

Infrastructure Solutions Group: Tackling Market Headwinds Building Hybrid AI Infrastructure

Opportunities & Sustainable growth



- Hybrid A.I. driving the growth & diversification of ICT infrastructure:
 - Public cloud / Private cloud / Local datacenters
 - Cloud/Edge
 - A.I. Computing / Traditional Computing
 - Training / Inferencing workload shifting



- Well positioned with the richest infrastructure products & solutions
- Strengthen portfolio & competitiveness
- Improve operational efficiency
- Resume profitability & growth

IDG

Intelligent Devices Group:

Solidifying Market Leadership, Capturing AI Device Opportunities



Performance

- Industry-leading profitability
- PC: Solid global #1 in shipments (market share 23.4%) & activation, #1 in 4 Geos out of 5
- Mobile: shipments grew in double digits YTY (+11%), higher premium products mix

IDG

Intelligent Devices Group:

**Solidifying Market Leadership,
Capturing AI Device Opportunities**

Opportunities & Sustainable growth

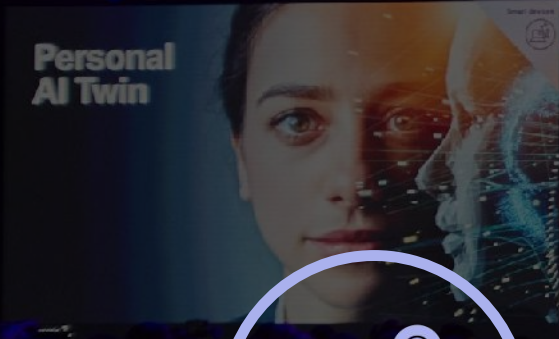


- Leverage Generative A.I. to accelerate next-gen A.I. devices
- Launch AI PC next year



- Invest in innovations
- Build long-term competitiveness

Capture the huge opportunities of A.I.



**Head start
in A.I. product roadmap**



**Full-stack A.I. portfolio
& capabilities**



**Strongest partnerships
in industry**

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

Nov 16, 2023

Lenovo

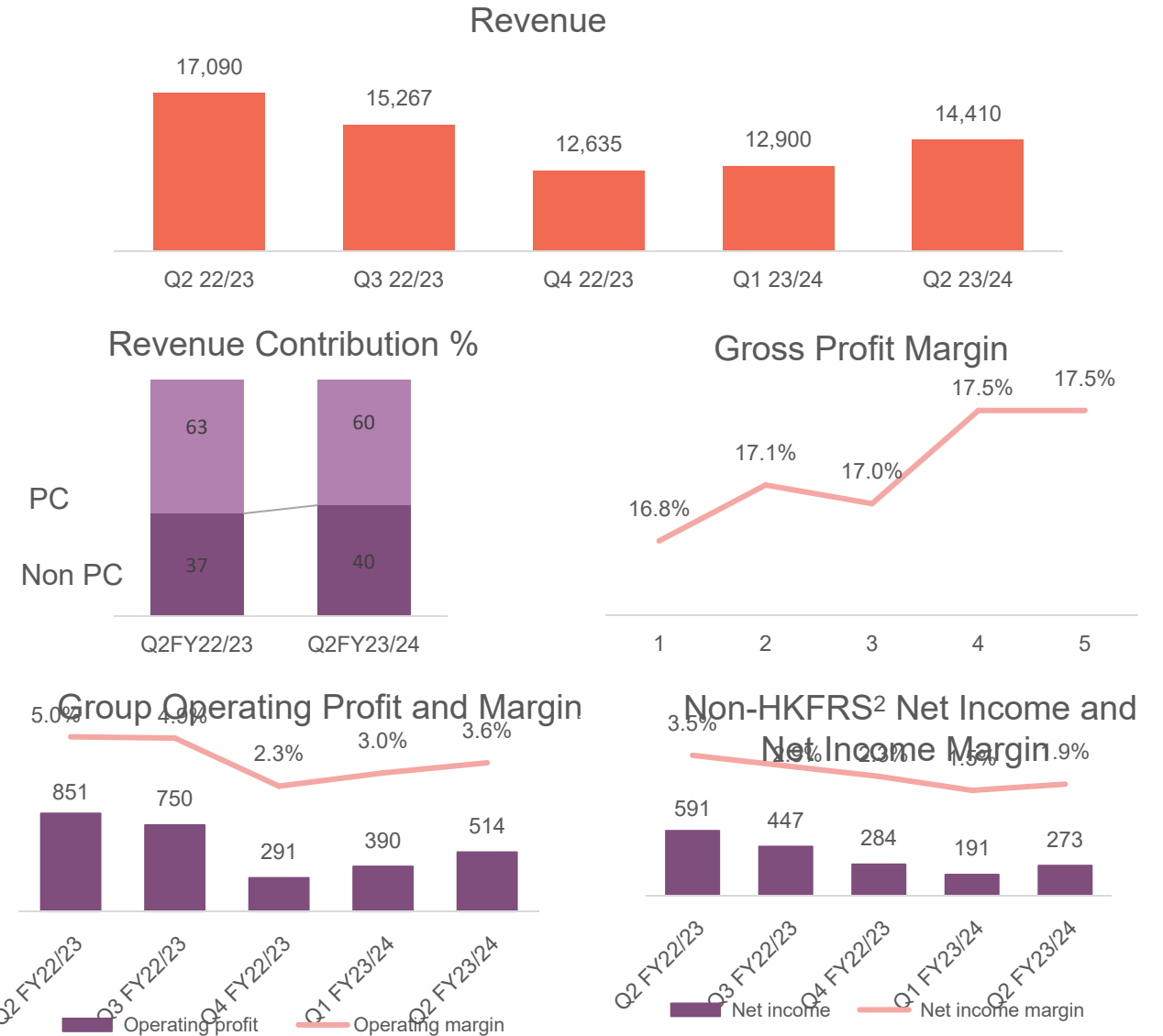
Recovery amid New Growth Opportunities

- Continued investments to accelerate Transformation, demand recovery and new applications including AI. Group revenue up 12% QTQ, faster than 10-year average despite still down 16% YTY compared to our peak 2Q last year
- Q2 record Group gross margin, thanks to growth in high-margin services and IDG's margin expansion. High E/R ratio on smaller top-line; Non-HKFRS² net margin down 1.6 pts YTY but turnaround supporting 41bps QTQ expansion
- Spearheading our Service-led Transformation: Record-high SSG revenue with 12% QTQ growth and 11% YTY growth; non-PC¹ contributing 40% of business group sales mix, up by 3 pts YTY



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Performance



¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG

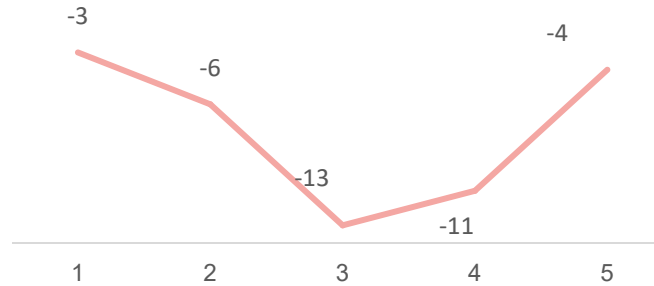
² Please refer to the penultimate slide – Supplemental Non-HKFRS Measures – in this presentation for more details

Strong Working Capital Management

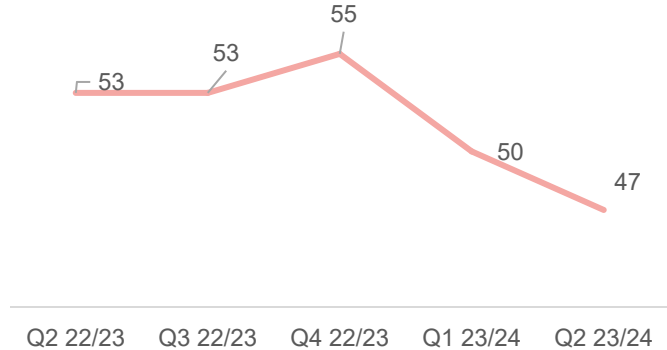
- Cash conversion cycle shortened by 1 day YTY to minus 4 days
- Days of accounts receivables and inventory together improved by 9 days YTY, of which 6 days came from inventory days improvement alone. Inventory level reduced by \$2.2bn YTY to \$6.2bn on raw material adjustment
- Finance cost down \$7.0mn QTQ thanks to prudently lowered borrowings offsetting the higher base interest rates
- Interim dividend announcement of 8.0 HK cents, stable trend from last fiscal year
- S&P Global Ratings upgraded the Group's long-term credit ratings to 'BBB' with a stable outlook

Performance

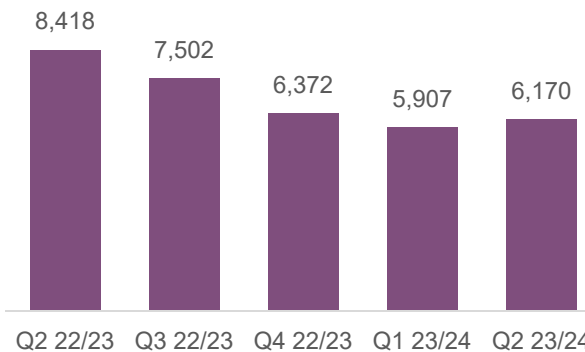
Cash Conversion Cycle



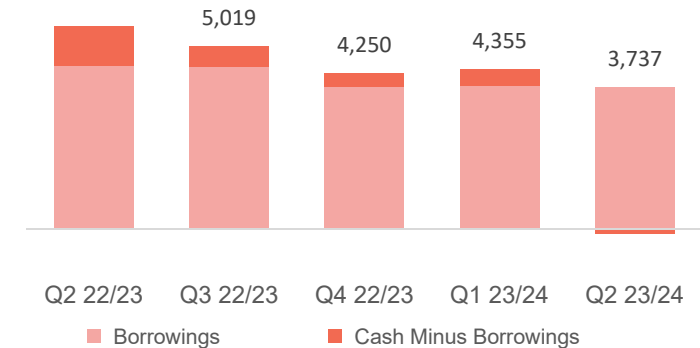
Inventory days (Days)



Inventory

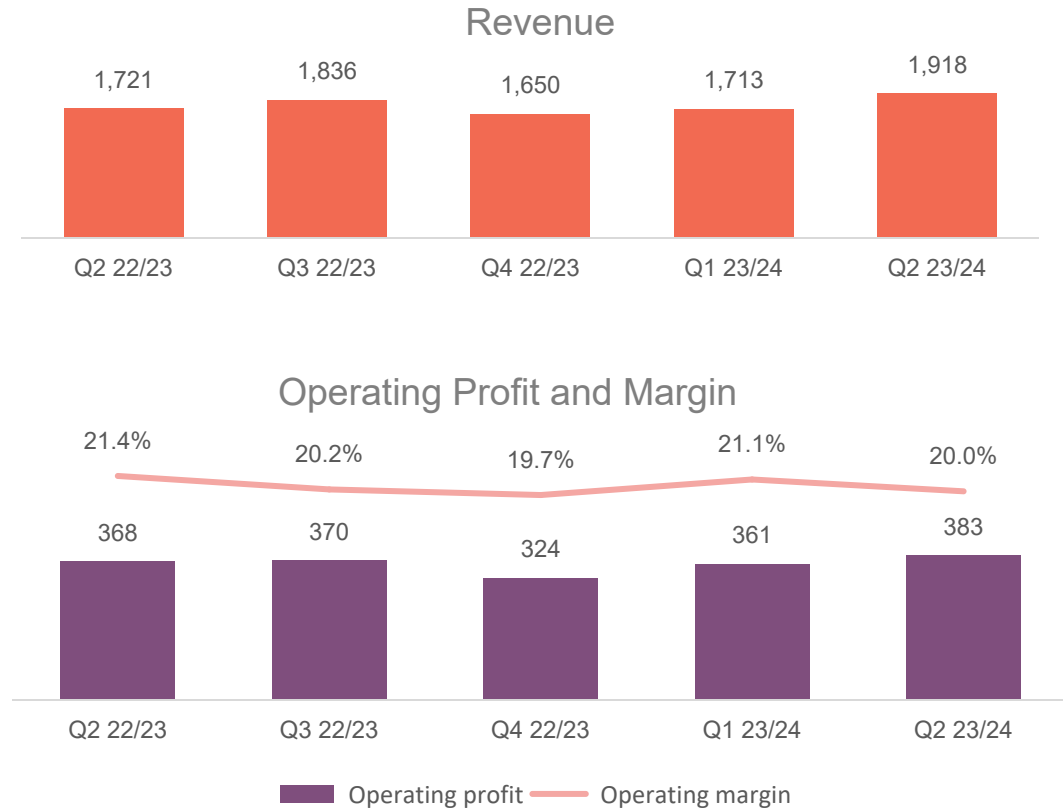


Cash and Borrowings



- 2Q revenue achieved historical high, up 11% YTY
- Operating margin of 20% topped all business groups and yet below last year's high mark due to mix change
- Managed Services grew 31% YTY, driven by strong demand for as-a-service solutions and accelerated geographic expansion, which includes a TruScale breakthrough win in Japan; Premier Support and Sustainability solutions continued to boost penetration rate
- AI-powered solutions including Care of One platform, AI Fast Track Professional Services and Lenovo Intelligent Sustainability Solutions Advisor to be available from early 2024

Performance



10th
consecutive quarter
of double-digit revenue
growth and profit margin

50%+
of SSG's revenue from
non-hardware-tied
business

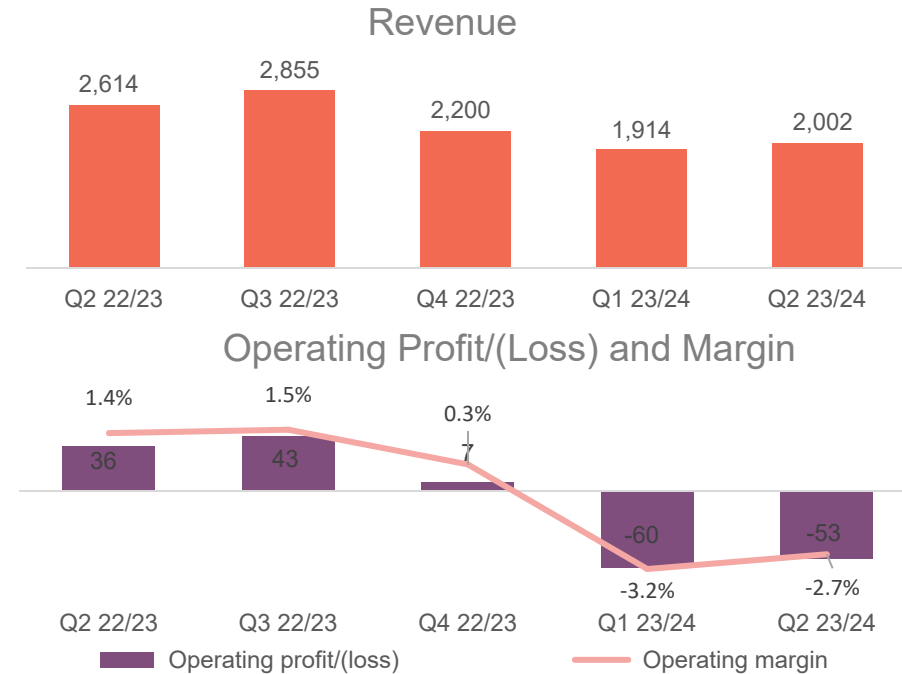
**AI-
powered**
solutions announced on
Tech World

ISG

Infrastructure Solutions Group

- Demand stabilizing and profitability improving with a 5% QTQ revenue increase, despite lower YTY revenue and profit due to industry headwinds and AI-centric supply constraints
- Storage revenue at all-time high, achieved #3 in global market share and #1 in price bands of \$25K and below
- High Performance Computing revenue grew double-digits YTY with 5 consecutive quarters of YTY growth
- Edge revenue achieved an all-time quarterly record with 10 consecutive quarters of YTY growth
- Software revenue achieved an all-time quarterly record with 4 consecutive quarters of YTY growth
- Unveiled new edge server with differentiated technology and 32% less power consumption

Performance



#3

Market Position:
Storage Revenue
All Price Bands

#2

Market Position:
Storage Revenue
Price Bands 1-6*

#1

Market Position:
Storage Revenue
Price Bands 1-4*

Source: IDC industry Research

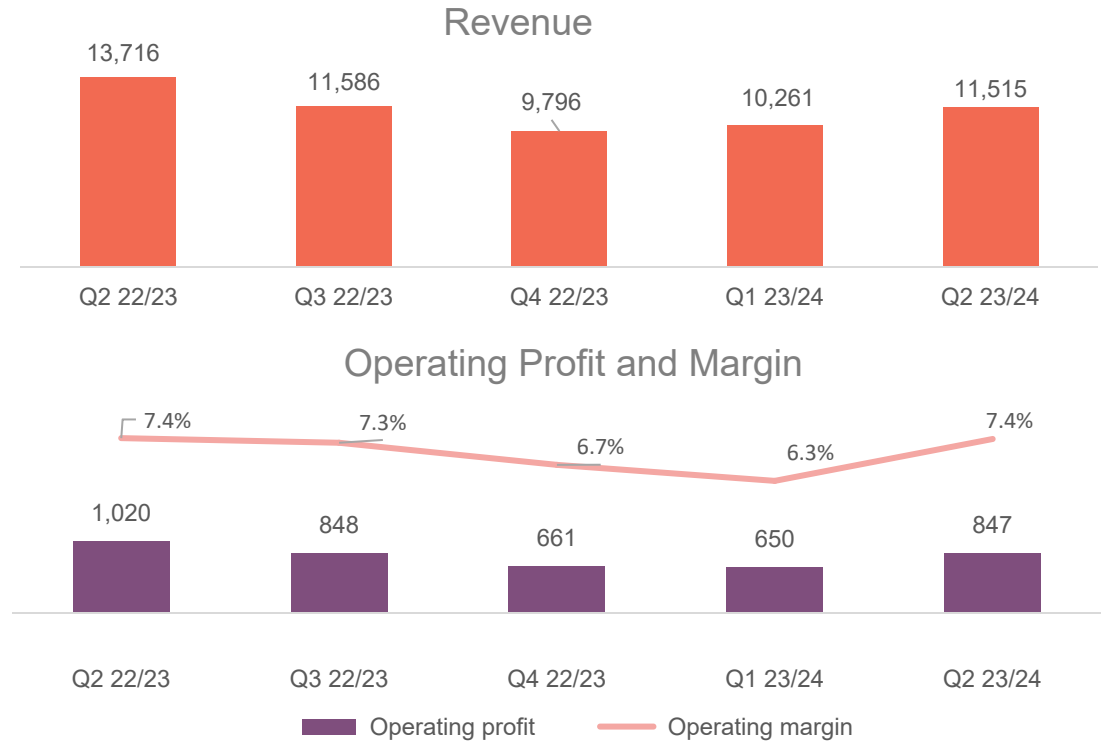
* Price Bands 1-6 = US\$100k and below, Price bands 1-4 = US\$25k and below

IDG

Intelligent Devices Group¹

- IDG solidified its global PC market leadership, ranking #1 in 4 out of 5 geos with expanded market share; 2Q revenue down 16% YTY but a 12% sequential growth outperformed seasonality
- Operating margin returned to 7.4% above historical trend line, thanks to continued R&D investments in innovations, operational excellence, and exciting new product launches
- Non-PC² rev mix grew 2.4pts YTY to 20.0%, with smartphone delivering double-digit premium-to-market growth
- Innovations including AI PC expected to drive replacement cycle from 2HCY2024

Performance



#1

PC market share (23.4%)
& COMM seg (26.3%) &
CONS seg (20.3%)*

Smartphone premium
revenue mix

↑ **8pts**
YTY to
23%

AI PC




to drive significant
replacement cycle
from 2HCY24

¹ IDG mainly consists of PC, tablet, smartphone, and smart devices business

² Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

*Source: industry research

ESG Updates

 <p>Environmental</p>	<p>31,532 metric tons</p> <p>of products collected for recycling and reuse in 2022</p>	<p>Joined UNGC Forward Faster</p> <p>to accelerate pace and scale needed for the SDGs¹</p>	<p>Reduced Carbon Transport</p> <p>service to boost customer sustainability²</p>
 <p>Social</p>	<p>27%</p> <p>female representation in Lenovo's executive roles by FY 2025/26 (up from 21% in 2020)</p>	<p>75%</p> <p>of our products will be vetted for inclusive design by FY 2025/26</p>	<p>300,000+</p> <p>Beneficiaries have been reached to date, through Lenovo's annual global employee volunteer event</p>
 <p>Governance</p>	<p>#3</p> <p>ranking in Gartner's 2023 Global Supply Chain: High Tech industry category</p>	<p>Champion status</p> <p>in the 2023 Canalys Global Sustainable Ecosystems Leadership Matrix³</p>	<p>Highest score in IT industry</p> <p>for Environment and Social achievements in 2023 Hang Seng Corporate Sustainability Index⁴</p>

1. As a member of the United Nations Global Compact (UNGC) Lenovo has joined UNGC's Forward Faster initiative, accelerating the pace and scale needed to deliver on the Sustainable Development Goals (SDGs) by 2030, with targets committed in the Climate Action and Water Resilience areas. With only 15% of the SDGs on track for 2030 UNGC's Forward Faster initiative brings together companies for leading focus on five areas: gender equality, living wage, climate action, water resilience, and SDG finance and investment.
2. Lenovo has introduced new Reduced Carbon Transport Service enabling customers to purchase Sustainable Aviation Fuel (SAF) credits and attribute the resulting emissions reduction benefit to their IT purchase.
3. Among three vendors crowned Champions in the 2023 Canalys Sustainable Ecosystems Leadership Matrix for standing out among competitors with industry-leading efforts in driving sustainability both across the partner ecosystem and internally.
4. Lenovo was included in the 2023 Hang Seng Corporate Sustainability Index with an AA score and, among 517 Hong Kong-listed companies, received the strongest score in the IT industry for its environmental and social achievements.

Outlook

Group Mission is to Lead and Enable Intelligent Transformation

Improve net income margin in the medium-term; Turbocharge innovation; Increase brand premium; Drive hybrid AI with pocket to cloud deployment; Leverage Digital Transformation to drive secular growth

SSG: Serve as a New Growth Engine with High Profitability

- Drive scalable growth and profitability with a focus on key verticals and building repeatable solutions with Lenovo IP
- Capture strong demand from hybrid working, hybrid cloud, and sustainability services
- Increase penetration in the commercial PC and ESMB infrastructure segments
- Establish TruScale as a comprehensive as-a-Service portfolio to capture fast-growing demand

ISG: Continue to Drive Hypergrowth and Ever-improving Profitability

- Deliver differentiated technology solutions in general purpose server computing, hybrid cloud, High Performance Computing, data management, AI and edge computing, all featuring an “As a Service” option
- Make AI an essential element in everything we do to drive growth
- Leverage unique ODM+ business and manufacturing model to capture demand and improve profit

IDG: Maintain #1 Position in PC with Leading Profitability and Accelerate Non-PC Growth

- Leverage the popularity of hybrid working to continuously drive premium-to-market growth in the large PC, tablets, and smartphone markets through innovation, efficiency, and the Global Local model
- Expand the non-PC product portfolio through innovation
- Capitalize on double-digit growth opportunities in the Enterprise Collaboration and Smart Home segments with scenario-based solutions

Supplemental Financial Materials

- Financial Summary
- Condensed Consolidated Income Statement
- Condensed Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement
- Supplemental Non-HKFRS Measures

Financial Summary

US\$ Million	Q2 22/23	Q2 23/24	Y/Y%
Revenue	17,090	14,410	-16%
Gross profit	2,877	2,522	-12%
Operating expenses	(2,026)	(2,008)	-1%
Operating profit	851	514	-40%
Operating profit (non-HKFRS)	907	512	-44%
Other non-operating expenses	(141)	(156)	11%
Profit before taxation	710	358	-50%
Profit before taxation (non-HKFRS)	768	357	-54%
Taxation	(156)	(69)	-56%
Profit for the period	554	289	-48%
Profit for the period (non-HKFRS)	598	285	-52%
Profit attributable to			
Other non-controlling interests	13	40	215%
Equity holders of the Company	541	249	-54%
Equity holders of the Company (non-HKFRS)	591	273	-54%
EPS (US cents)			
Basic	4.54	2.09	-54%
Diluted	4.23	1.99	-53%
Dividend (HKD cents)	8.00	8.00	0%
	Q2 22/23	Q2 23/24	
Gross margin	16.8%	17.5%	
Operating margin	5.0%	3.6%	
E/R ratio	11.9%	13.9%	
PTI margin	4.2%	2.5%	
Net margin	3.2%	1.7%	

Condensed Consolidated Income Statement

US\$ Million	Q2 22/23	Q2 23/24
Revenue	17,090	14,410
Cost of sales	(14,213)	(11,888)
Gross profit	2,877	2,522
Selling and distribution expenses	(886)	(792)
Administrative expenses	(546)	(638)
Research and development expenses	(556)	(498)
Other operating income/(expenses) – net	(38)	(80)
Operating profit	851	514
Finance income	38	42
Finance costs	(175)	(190)
Share of losses of associates and joint venture	(4)	(8)
Profit before taxation (PTI)	710	358
Taxation	(156)	(69)
Profit for the period	554	289
Profit attributable to		
Other non-controlling interests	13	40
Equity holders of the Company	541	249
Per share data		
Earnings per share (US cents) – Basic	4.54	2.09
Earnings per share (US cents) – Diluted	4.23	1.99

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Sept 30, 2022	As of Sept 30, 2023
Current assets	28,118	23,409
Bank deposits and cash	5,628	3,799
Trade, notes and other receivables	13,445	12,935
Inventories	8,418	6,170
Others	627	505
Non-current assets	15,175	15,848
Property, plant and equipment	1,581	1,972
Intangible assets	8,049	8,175
Others	5,545	5,701
Current liabilities	30,775	27,055
Borrowings	606	293
Trade, notes, other payables, accruals and provisions	27,886	24,840
Deferred revenue	1,528	1,557
Others	755	365
Non-current liabilities	6,891	6,623
Borrowings	3,937	3,639
Deferred revenue	1,335	1,370
Others	1,619	1,614
Total equity	5,627	5,579

Condensed Consolidated Cash Flow Statement

US\$ Million	Q2 22/23	Q2 23/24
Net cash generated from operating activities	2,084	454
Net cash used in investing activities	(806)	(469)
Net cash generated from/(used in) financing activities	625	(575)
Increase/(decrease) in cash and cash equivalents	1,903	(590)
Effect of foreign exchange rate changes	(124)	(28)
Cash and cash equivalents at the beginning of the period	3,788	4,355
Cash and cash equivalents at the end of the period	5,567	3,737

Supplemental Non-HKFRS Measures

US\$ Million	Q2 22/23				Q2 23/24			
	Operating profit	Profit before taxation	Profit for the period	Profit attributable to equity holders	Operating profit	Profit before taxation	Profit for the period	Profit attributable to equity holders
As reported	851	710	554	541	514	358	289	249
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	(15)	(15)	(15)	(10)	(46)	(46)	(40)	(12)
Amortization of intangible assets resulting from mergers and acquisitions	60	60	46	47	42	43	34	34
Mergers and acquisitions related charges	11	13	13	13	2	2	2	2
Non-HKFRS	907	768	598	591	512	357	285	273

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technology
for all**

Lenovo

thanks.