

Smarter technology for all

Q3FY23 Earnings Announcement

February 17, 2023

Lenovo

Forward-Looking Statement

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

February 17, 2023



Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

- Challenges persisted in the market
- Maintained **solid profitability**
- Strong growth of diversified engines
 - Non-PC businesses **41%** mix of total revenue
- PC kept leadership
- Operational excellence ensured resilience
- Investment on innovation & sustainability



Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

Opportunities



Continued acceleration of Digital/Intelligent transformations:

- Total IT spending back to moderate growth in mid-long term
- Sustainable customers' need for:
 - Smart devices/IoT
 - ICT infrastructure
 - Solutions and services

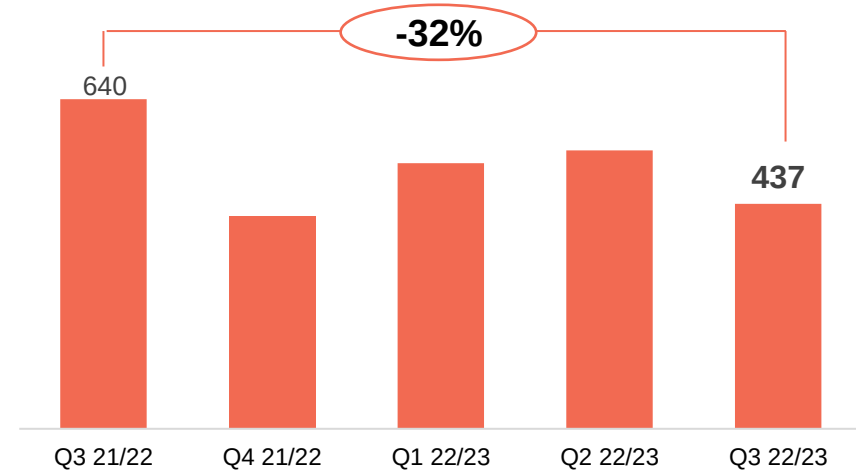
Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

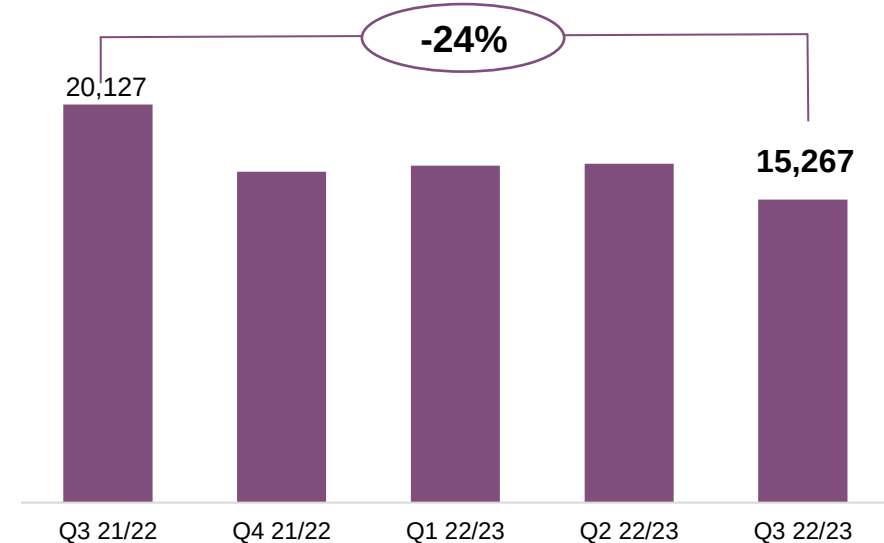
- Net income \$437 million, declined 32% YTY
- Revenue \$15.3 billion, declined 24% YTY, or 18% YTY in constant currency
- All main businesses achieved **5th consecutive quarter of operating profit**

Performance

Group Net Income (\$M)



Group Revenue (\$M)



Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

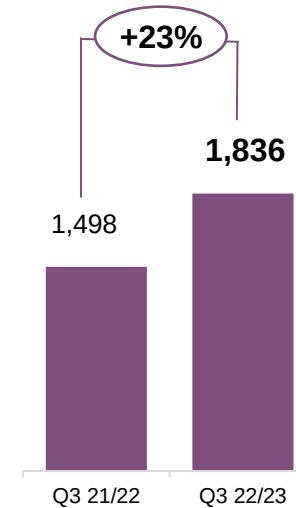
- New diversified growth engines saw high double-digit revenue growth YTY
 - SSG¹: up 23% YTY
 - ISG²: up 48% YTY
- Further drove operational excellence:
 - Higher efficiency & lower expense
 - Stronger cash position
 - Improved cash conversion cycle
 - Reduced channel inventory

¹ SSG: Solutions & Services Group

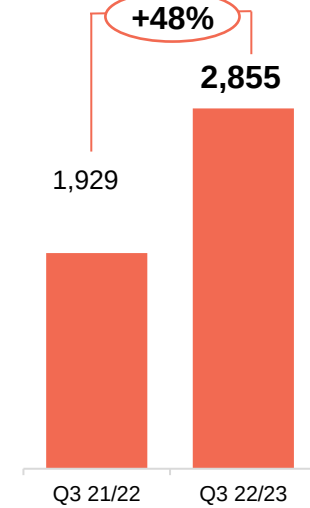
² ISG: Infrastructure Solutions Group

Performance

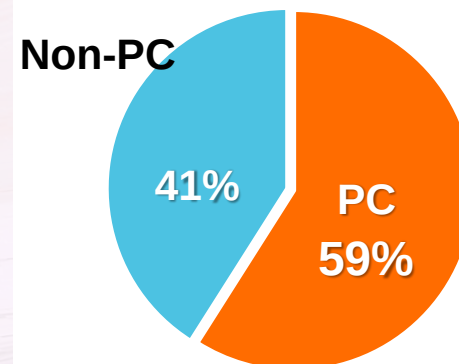
SSG Revenue (\$M)



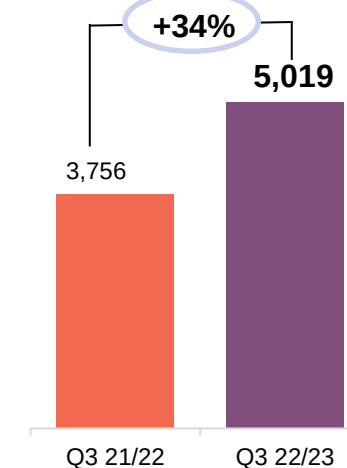
ISG Revenue (\$M)



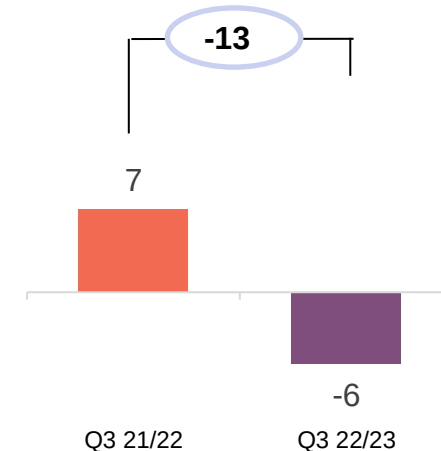
PC & Non-PC
Revenue Mix (%)



Group Cash Position (\$M)



Group Cash Conversion
Cycle (Days)



Source: Internal

Group:

Diversified Growth Engines & Operational Excellence Offsetting Headwinds

Sustainable growth

- Continue investment in R&D around New IT architecture
- Drive internal digital & intelligent transformation
- Accelerate ESG efforts
- Strengthen One Lenovo sales platform

SSG

Solutions & Services Group:

Record Revenue, High Margin

Opportunities



Trillion-dollar IT services market to remain strong in mid-long term

- Strong growth in Managed Services
- Hybrid infrastructure solutions essential
- Spending on vertical solutions & services remain growth



Lenovo's strategic intent:

Scale with high profitability in 3 segments:

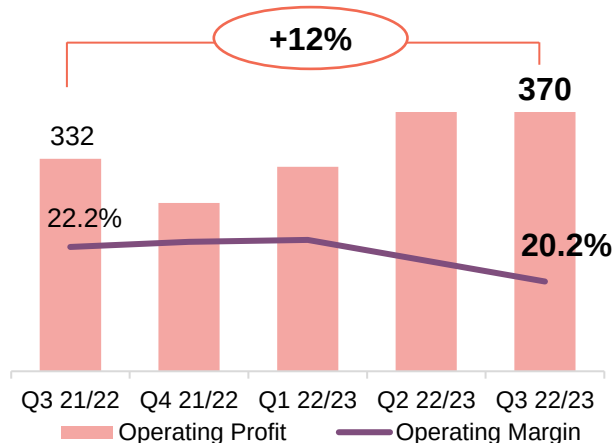
- Support Services
- Managed Services
- Project & Solution Services

Record Revenue, High Margin

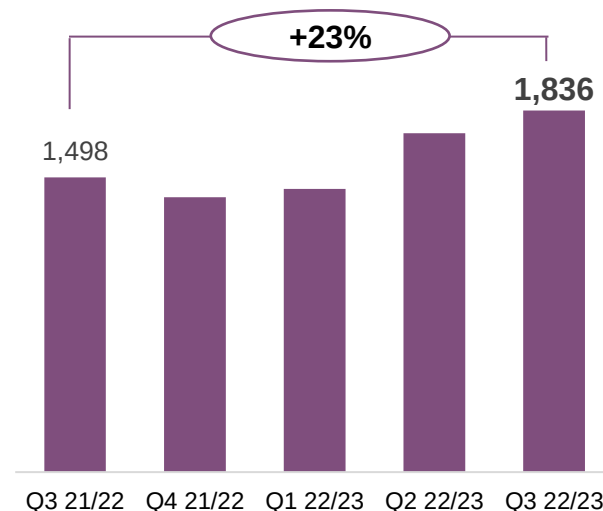
- Operating margin 20.2%, Operating profit up 12% YTY
- Revenue up 23% YTY
- All segments delivered high profitability and strong growth
- Managed Services, Project & Solution Services account for 53% of SSG revenue

Performance

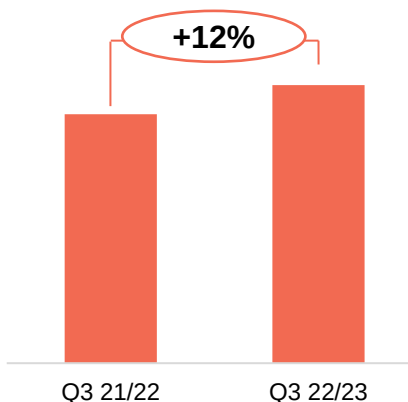
SSG Operating Profit (\$M) & Margin (%)



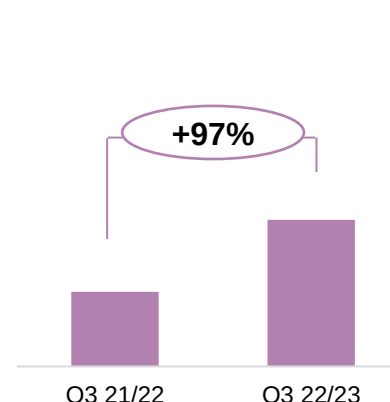
SSG Revenue (\$M)



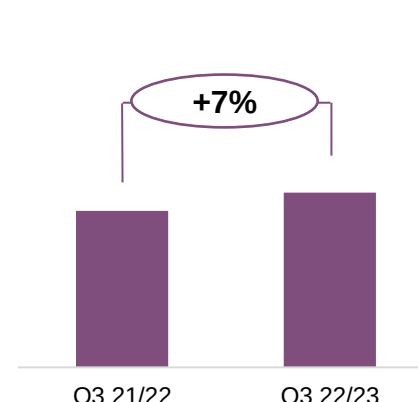
Support Services Revenue YTY Growth (%)



Managed Services Revenue YTY Growth (%)



Project & Solution Services Revenue YTY Growth (%)



SSG

Solutions & Services Group:

Record Revenue, High Margin

Sustainable growth

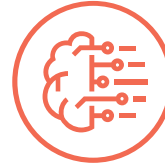
- Invest in building scalable and repeatable horizontal and vertical solutions with Lenovo IPs
- Enrich digital workplace solutions
- Strengthen hybrid cloud portfolio
- Expand sustainability offerings

ISG

Infrastructure Solutions Group:

Record Revenue, Record Profit

Opportunities



ICT Infrastructure upgrade continues

By 2025:

- Server to reach \$135 billion
- Edge infrastructure to reach \$37 billion
- Storage to reach \$35 billion



Lenovo's strategic intent:

Comprehensive infrastructure solutions provider from Edge to Cloud including hardware, software, solutions & services



Infrastructure Solutions Group:

Record Revenue, Record Profit

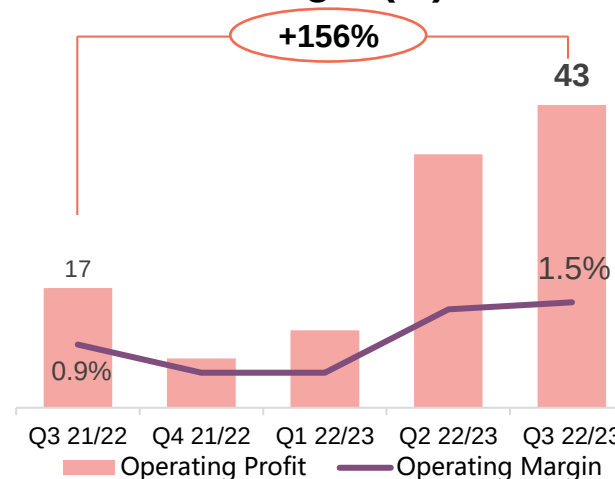
- Record operating profit \$43 million, YTY improvement for 7 straight quarters
- Record revenue \$2.9billion, up 48% YTY
- Server: Record revenue, up 35% YTY, now #3 in the world
- Storage: Record revenue, up 345% YTY, now #5 in the world
- Software: Record revenue, up 52% YTY



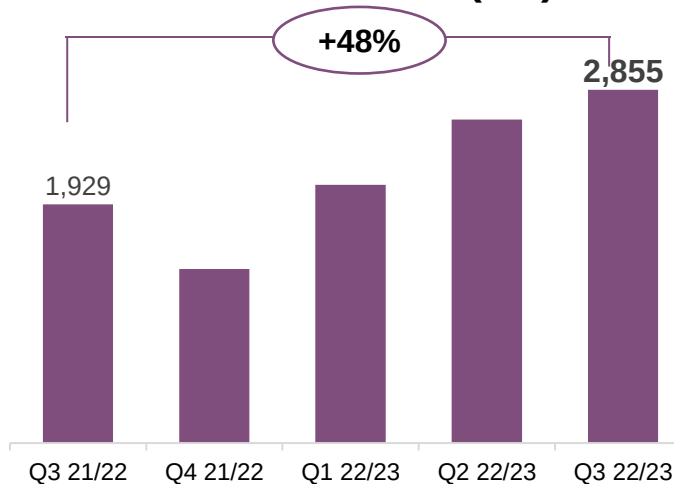
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Performance

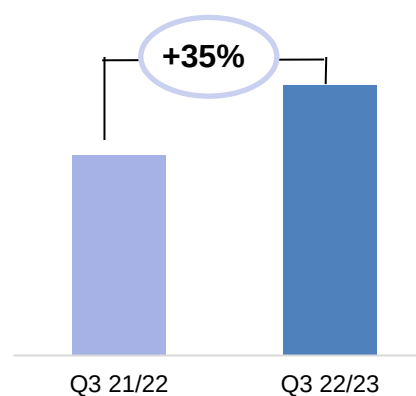
ISG Operating Profit (\$M) & Margin (%)



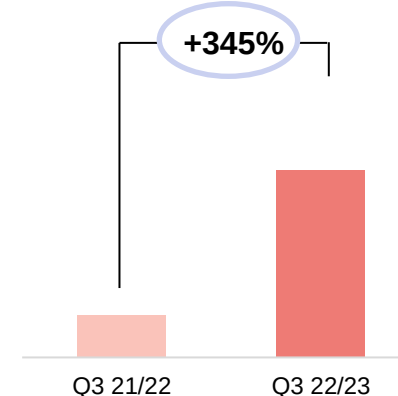
ISG Revenue (\$M)



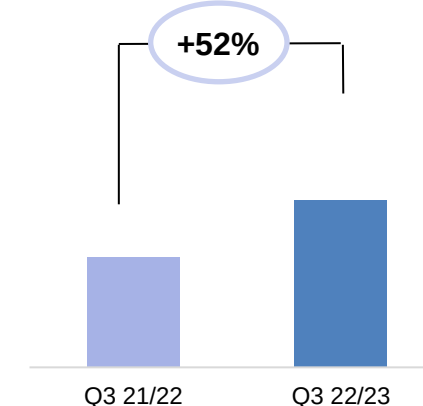
Server Business
Revenue YTY Growth (%)



Storage Business
Revenue YTY Growth (%)



Software Business
Revenue YTY Growth (%)



ISG

Infrastructure Solutions Group:

Record Revenue, Record Profit

Sustainable growth

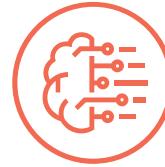
- Enhance comprehensive infrastructure portfolio
- Invest in innovations, particularly in A.I. empowered edge computing & hybrid cloud
- Balance scale & profitability

IDG

Intelligent Devices Group:

Solid Profitability, Expansion into Growth Areas

Opportunities



Digitalization & Hybrid work model bring growth opportunities

- PC: shipment to stabilize at higher than pre-pandemic level in 2H 2023
- Smart spaces solutions steadily grow



Lenovo's strategic intent:

- Invest in innovation & premium segments
- Expand business beyond PCs (adjacent devices, IoTs, Smart Spaces)

IDG

Intelligent Devices Group:

Solid Profitability, Expansion into Growth Areas

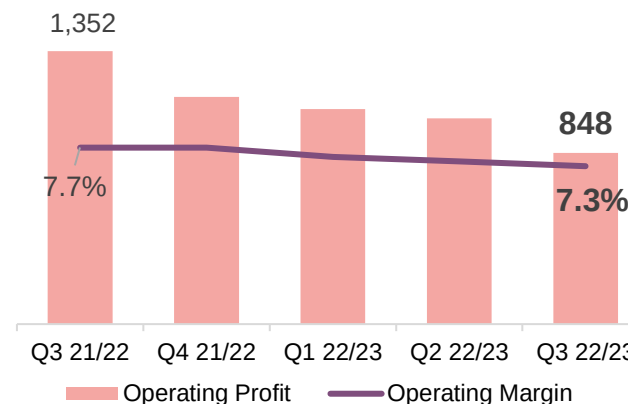
- Maintained industry leading profitability, operating margin 7.3%
- PC: solid #1, market share 23.1%
- Smartphone: profitable for 11 straight quarters
- Tablet: expanded premium product mix to 33%
- Smart Spaces solutions: strong growth potential



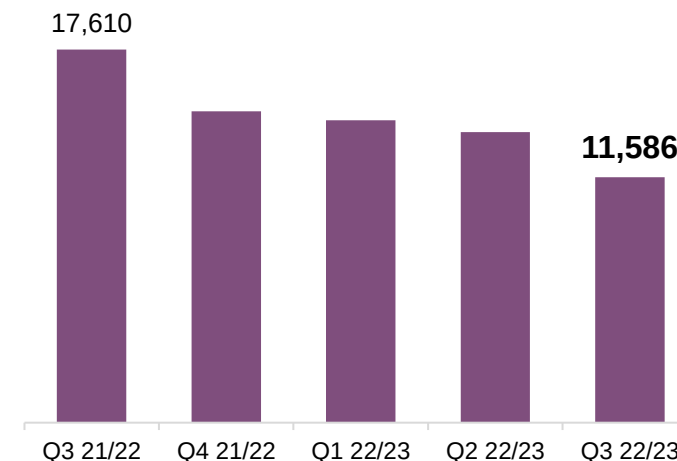
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Performance

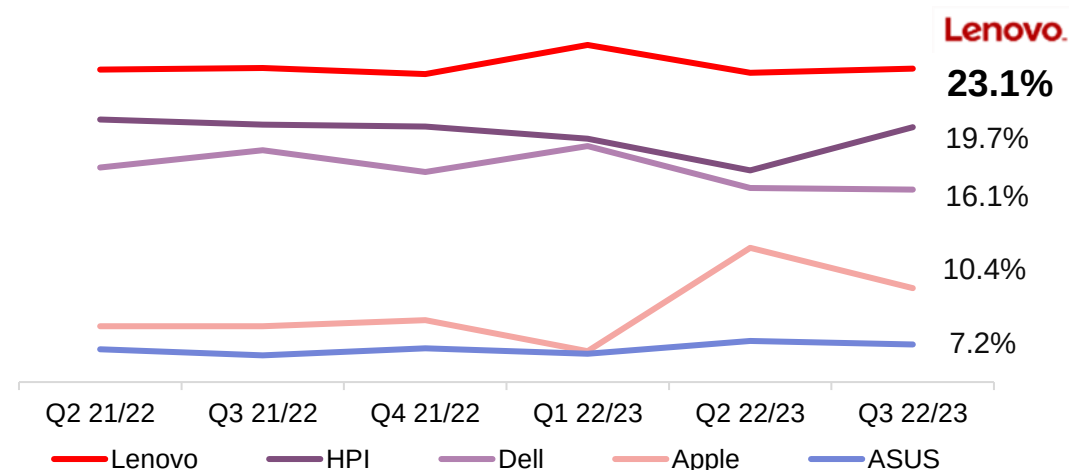
IDG Operating Profit (\$M)
& Margin (%)



IDG Revenue (\$M)



PC Market Share (%)



Source: Internal, IDC

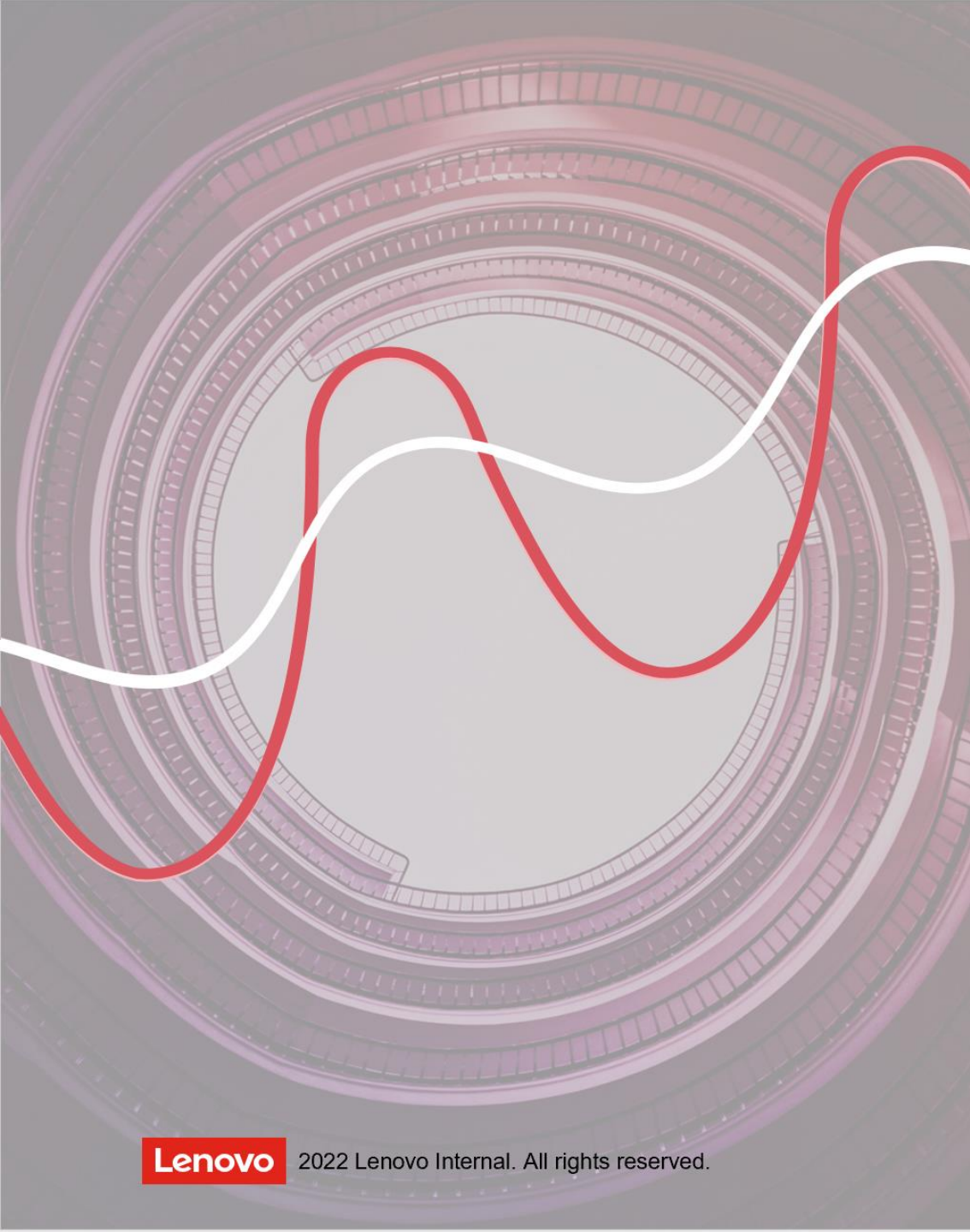
IDG

Intelligent Devices Group:

Solid Profitability, Expansion into Growth Areas

Sustainable growth

- Reduce expense, improve efficiency to ensure business healthiness
- Invest in innovation: premier PC, adjacent devices & accessories, software & ecosystem
- Drive the evolution from smart devices to smart spaces to improve user experience in hybrid workspace

The background of the slide features a complex, abstract design. It consists of numerous concentric, slightly irregular circles in shades of purple, pink, and grey, creating a tunnel-like or ripple effect. Overlaid on these circles are two prominent, thick, wavy lines: one in red and one in white. These lines meander across the frame, adding a sense of movement and depth to the overall composition.

Strong Execution of Strategy Transcend the Cycle

- Diversified growth engines
- Operational resilience
- Healthy liquidity
- Innovation investment in New IT

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

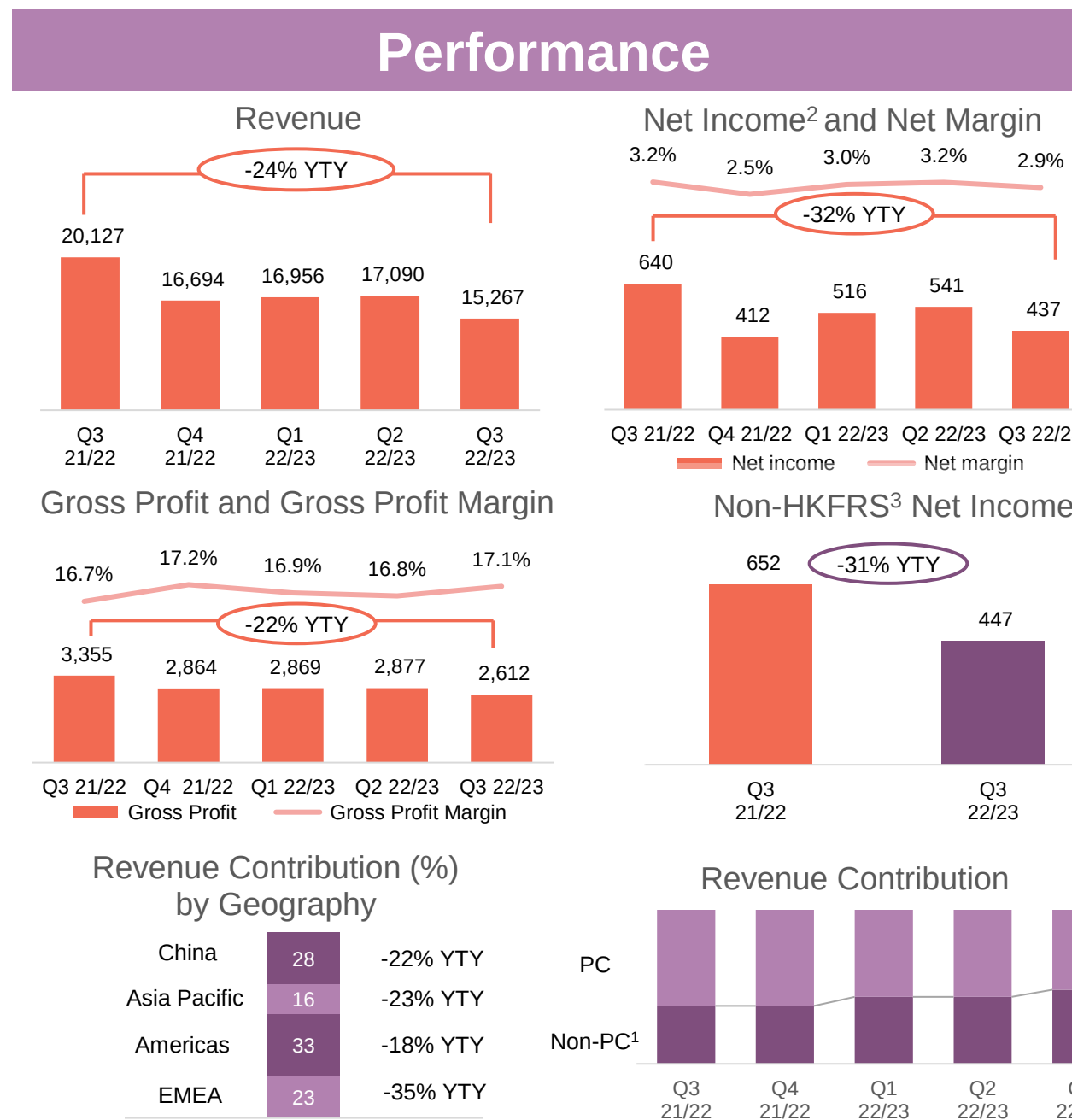
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Stable Earnings; On-going Transformation

- Record gross margin and operating margin in Q3 despite persistent market headwinds thanks to operational excellence and non-PC¹ strength
- Non-PC¹ sales made up 41% of Group revenue, up 9pts YTY; combined ISG and SSG profit grew 19% YTY
- The Group maintained industry leading profitability in PC despite a trough in IDG

¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG ² Profit attributable to equity holders; ³ Non-HKFRS measure were adjusted by excluding (i) net fair value changes on financial assets at fair value through profit or loss, (ii) amortization of intangible assets resulting from mergers and acquisitions, and (iii) mergers and acquisitions related charges; and the corresponding income tax effects, if any

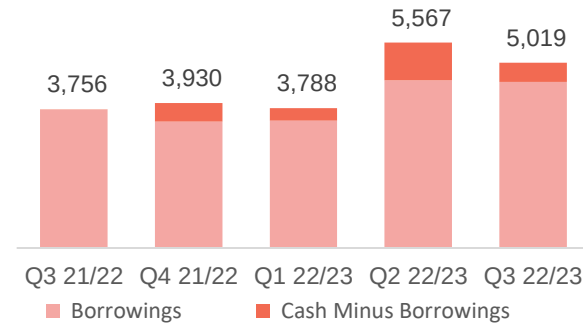


Strong Working Capital Management

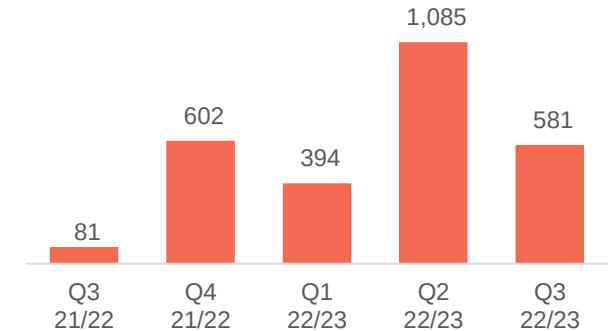
- Our cash balance exceeded \$5 billion at the end of the quarter, up 34% year-on-year
- Net cash reached \$581mn and grew by \$500mn YTY, a testament to the Group's operational excellence
- Cash conversion cycle improved by 13 days YTY
- Inventory level reduced by 11% QTQ and YTY to \$7.5bn with accelerated inventory adjustments
- Solid operating cash flow from progress in optimizing operations to support business agility amid macro challenges

Performance

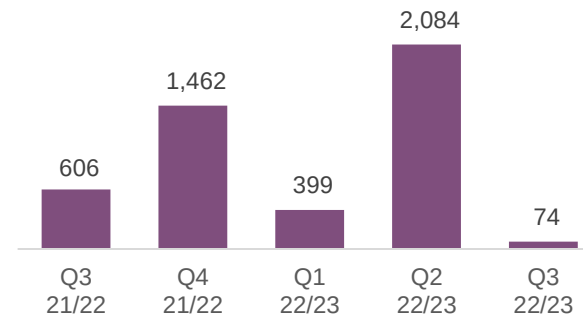
Cash and Borrowings



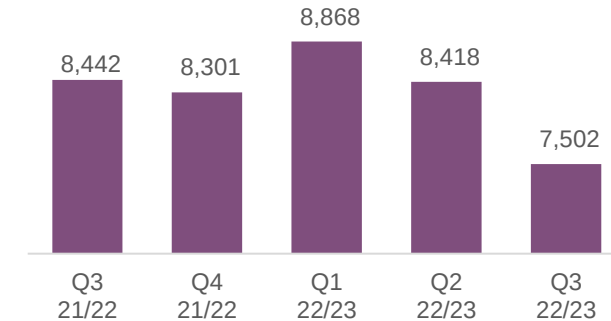
Net Cash



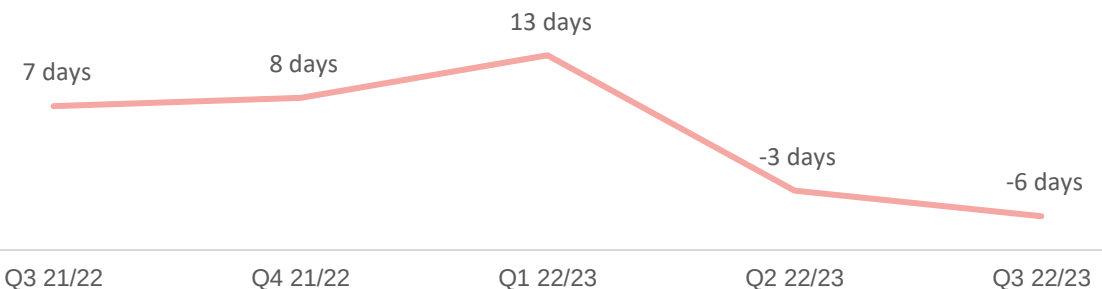
Operating Cash Flow



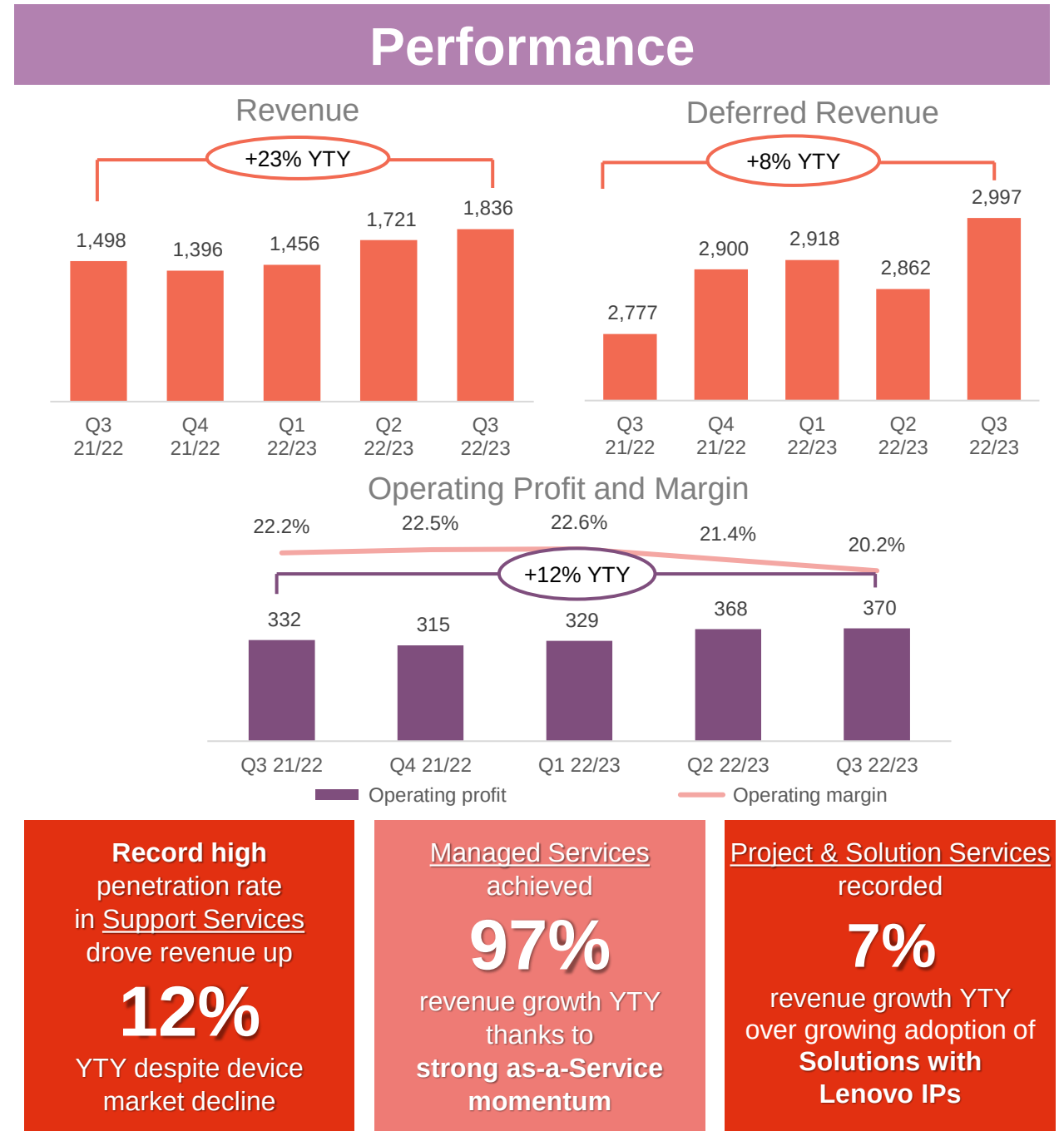
Inventory



Cash Conversion Cycle

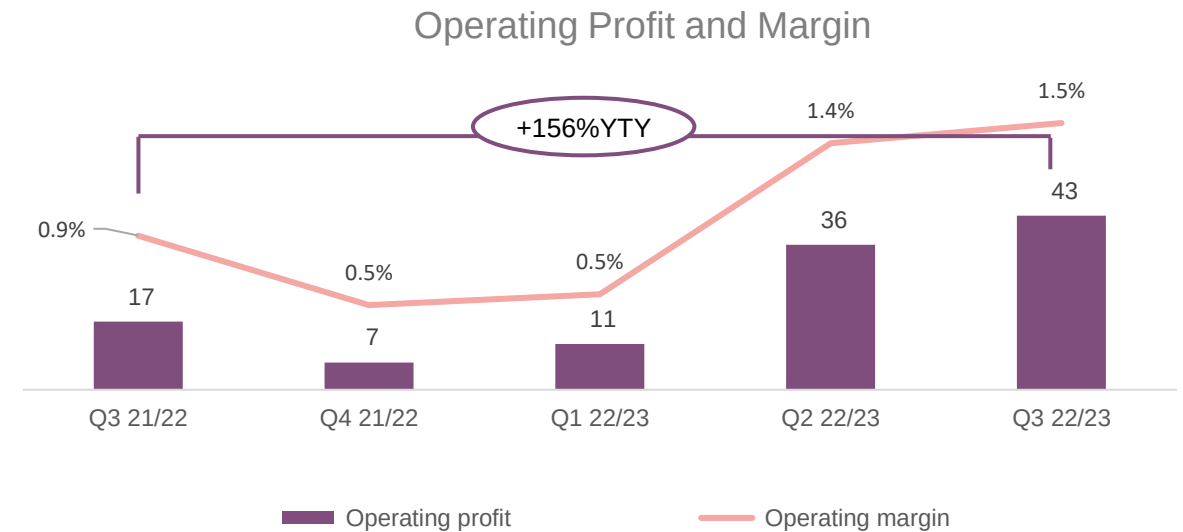
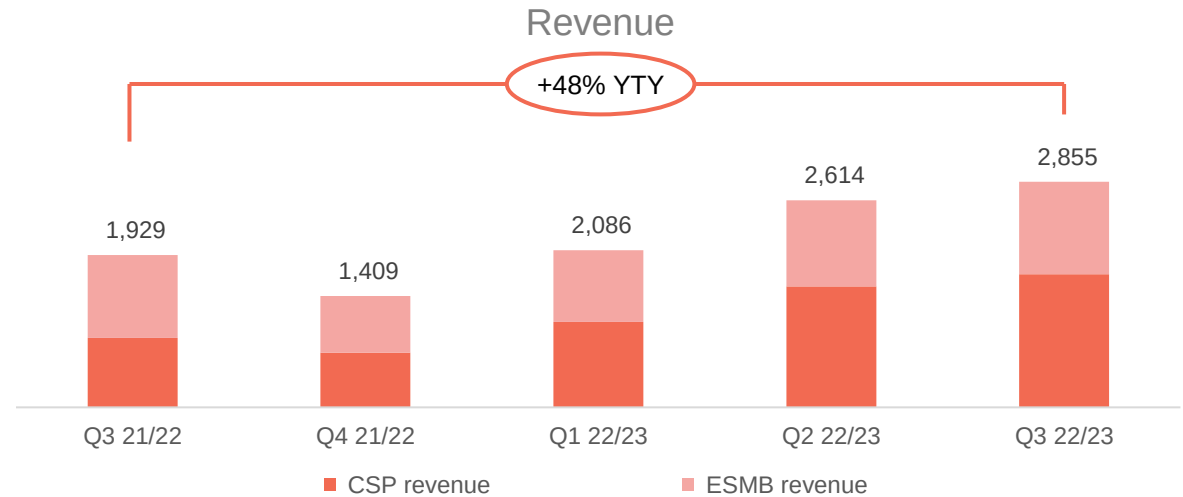


- Record revenue, up 23% YTY. Operating profit up 12% YTY to \$370mn.
- Profitability remained high across three service segments; operating margin significantly higher than Group average
- Deferred revenue nearly \$3bn to reflect recurring revenue momentum
- Managed Services and Project and Solution Services made up 53% of SSG revenue (record high), up 4pts YTY while Managed Service revenue almost doubled YTY



- Consistently outperforming the market with new milestones:
 - Record revenue and operating profit**
 - 3rd consecutive quarters of revenue and profit records;
 - 3rd and 7th consecutive quarters of revenue and operating profit YTY increase;
 - Record revenue** in CSP – high double-digit growth YTY
 - Record revenue** in ESMB – double-digit growth YTY
 - Record revenue** for North America and EMEA
 - All-time-high sales** in Server, Storage, Software and AI Edge led to a 156% YTY growth in operating profit

Performance

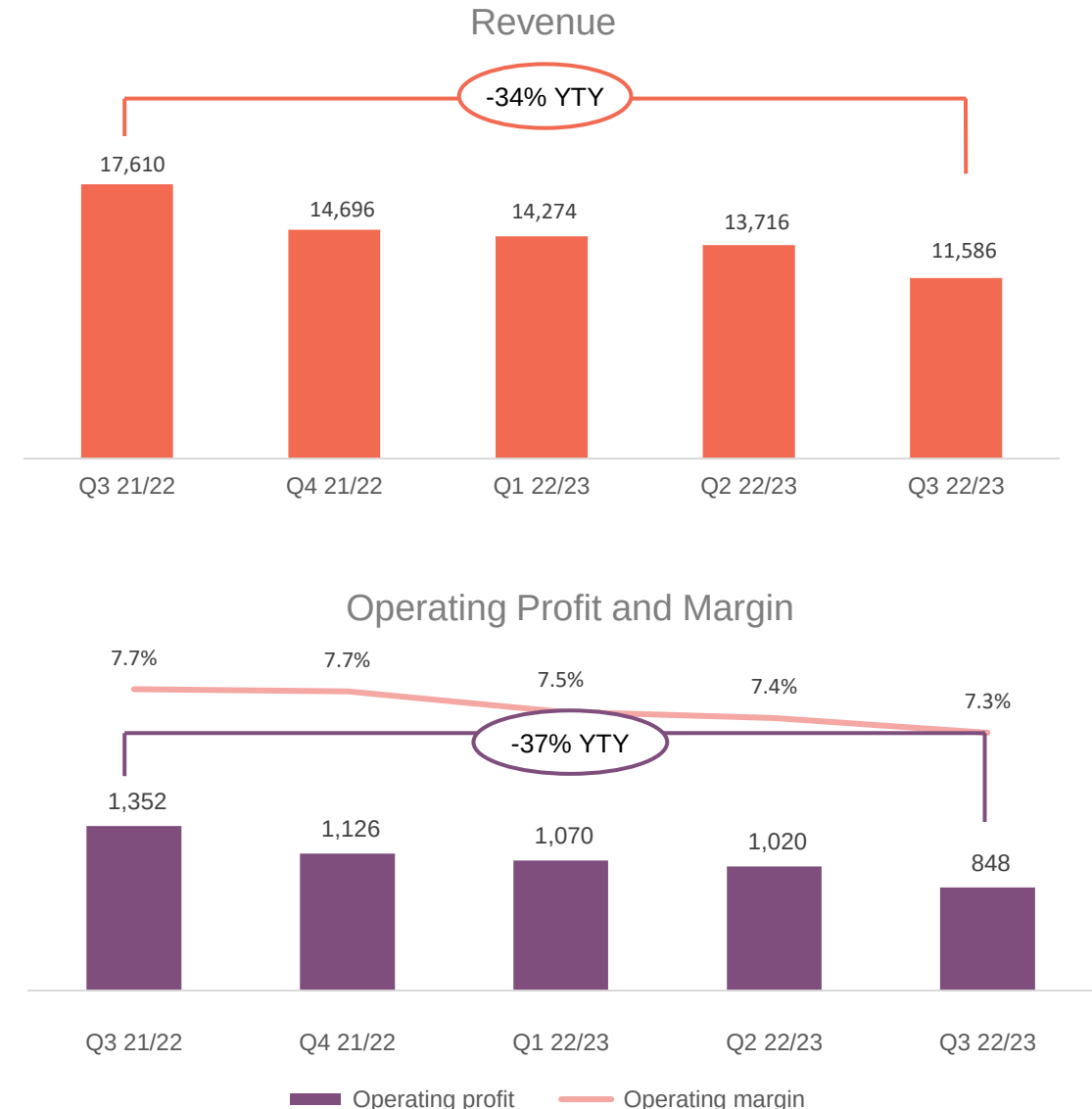


IDG

Intelligent Devices Group¹

- IDG revenue decreased 34% YTY amid a tough market with operating profit margin at 7.3% thanks to operational excellence and disciplined expense control
- Non-PC² driving long-term growth:
 - **Smartphone:** profitable for 11 consecutive quarters
 - **Tablet:** premium products reaching 33% of the mix
 - **Smart Collaboration Solutions:** key wins across geographical and global accounts

Performance



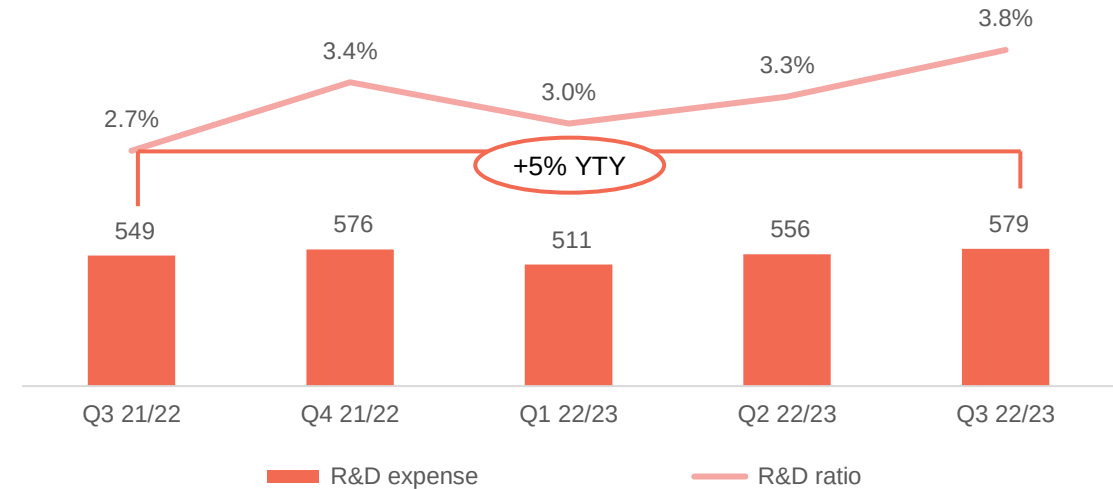
¹ IDG mainly consists of PC, tablet, smartphone, and smart devices business ² Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

Continued R&D Investment to Drive Innovation

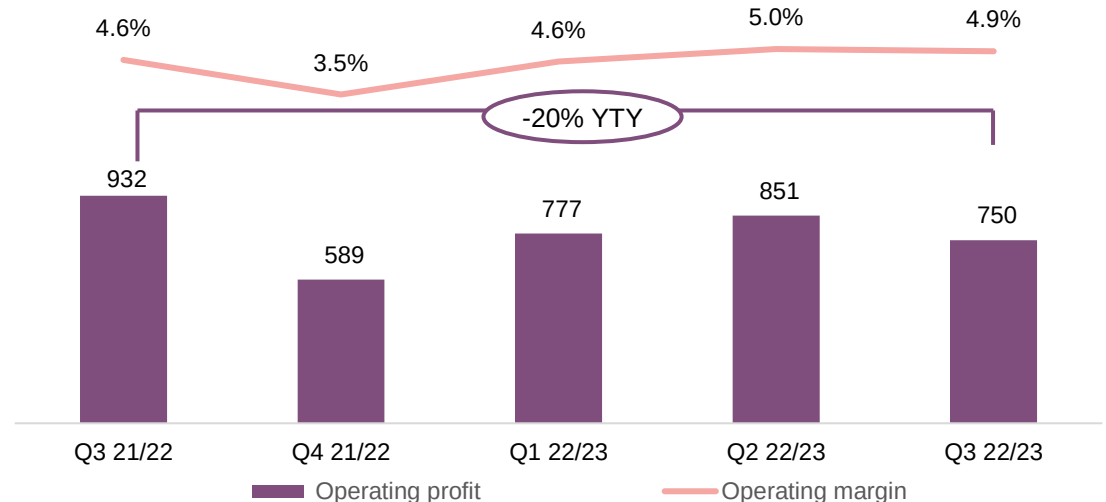
- R&D spending grew 5% YTY to support future investments. Total operating expenses dropped 23% YTY
- Investments in technology leadership and differentiation:
 - High value-added products and key components
 - Edge, Multi-Cloud, and Cloud-related software and hardware
 - 5G networking capabilities
 - AI-enabled solutions and service offerings
 - ESG innovations and services

Performance

R&D Expenses and Ratio to Revenue



Group Operating Profit and Margin



ESG Achievements

 Environmental	First group of 139 companies with validated¹ net-zero targets	Leader in both CDP Climate Change and Water Security with 'A-' ranking	Muse 2022 Silver Award for reduction in packaging² by 35% through AI
 Social	SC.ESG Awards³ commendation for social capital concepts in ESG and sustainability policies	On track to exceed KPI of impacting 15 million lives by 2025	62,605 beneficiaries of Lenovo's annual global employee volunteer event
 Governance	Ranked #24 in Boston Consulting Group's list of Top 50 Innovative Companies	Achieved AAA rating by MSCI (Morgan Stanley Capital International)	Corporate Governance Excellence Award⁴ for Hang Seng Index Constituent Companies

1. Targets validated by Science Based Targets Initiative by the Net-Zero Standard;

2. Lenovo's Service Supply Chain achieved higher density packaging through a new "IP System Intelligent Excessive Pre-alert" system in our WW hub. Artificial Intelligence (AI) system makes packaging recommendations, further reducing our cost and carbon emissions in shipping.

3. By the Community Investment and Inclusion Fund (CIIF) of the Home and Youth Affairs Bureau in collaboration with Hong Kong Quality Assurance Agency (HKQAA).

4. By the Chamber of Hong Kong Listed Companies (CHKLC) & Centre for Corporate Governance & Financial Policy (CCGFP) of Hong Kong Baptist University (HKBU).

Outlook

Group Mission is to Lead and Enable Intelligent Transformation

Improve net income margin in the medium-term; Drive R&D to turbocharge innovation; Increase brand premium; Mitigate short-term challenges amid macro uncertainties; Leverage IT spending on Digital Transformation

SSG: Serve as a New Growth Engine with High Profitability

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

ISG: Continue to Drive Profit Improvement and Premium-to-Market Growth in ESMB and CSP markets

- Delivering industry-leading end-to-end infrastructure solutions and expanding from server to full stack offerings
- Expanding ESMB from servers to higher profitability offerings – storage, SDI, software, and services, with new coverage in the Edge, AI, and Communication Service Provider segments
- Fully integrating the ODM+ model to capture demand in the CSP segment and drive profit improvement

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

- Leveraging 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
- Expanding the non-PC product portfolio through innovation
- Capitalizing on the 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	Q3 21/22	Q3 22/23	Y/Y%
Revenue	20,127	15,267	-24%
Gross profit	3,355	2,612	-22%
Operating expenses	(2,423)	(1,862)	-23%
Operating profit	932	750	-20%
Operating profit (non-HKFRS)	920	729	-21%
Other non-operating income/(expenses), net	(77)	(145)	88%
Profit before taxation	855	605	-29%
Profit before taxation (non-HKFRS)	845	587	-31%
Taxation	(173)	(123)	-29%
Profit for the period	682	482	-29%
Profit for the period (non-HKFRS)	672	464	-31%
Profit attributable to			
Other non-controlling interests	42	45	6%
Equity holders of the Company	640	437	-32%
Equity holders of the Company (non-HKFRS)	652	447	-31%
EPS (US cents)			
Basic	5.50	3.65	-34%
Diluted	4.92	3.44	-30%
	Q3 21/22	Q3 22/23	
Gross margin	16.7%	17.1%	
Operating margin	4.6%	4.9%	
E/R ratio	12.0%	12.2%	
PTI margin	4.2%	4.0%	
Net margin	3.2%	2.9%	

Condensed Consolidated Income Statement

US\$ Million	Q3 21/22	Q3 22/23
Revenue	20,127	15,267
Cost of sales	(16,772)	(12,655)
Gross profit	3,355	2,612
Selling and distribution expenses	(1,012)	(871)
Administrative expenses	(730)	(480)
Research and development expenses	(549)	(579)
Other operating income/(expenses) – net	(132)	68
Operating profit	932	750
Finance income	15	42
Finance costs	(91)	(185)
Share of losses of associates and joint venture	(1)	(2)
Profit before taxation (PTI)	855	605
Taxation	(173)	(123)
Profit for the period	682	482
Profit attributable to		
Other non-controlling interests	42	45
Equity holders of the Company	640	437
Per share data		
Earnings per share (US cents) – Basic	5.50	3.65
Earnings per share (US cents) – Diluted	4.92	3.44

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Dec 31, 2021	As of Dec 31, 2022
Current assets	30,483	26,131
Bank deposits and cash	3,829	5,081
Trade, notes and other receivables	17,847	13,222
Inventories	8,442	7,502
Others	365	326
Non-current assets	15,164	15,617
Property, plant and equipment	1,583	1,927
Intangible assets	8,138	8,185
Others	5,443	5,505
Current liabilities	33,701	28,917
Borrowings	434	608
Trade, notes, other payables, accruals and provisions	31,301	25,940
Deferred revenue	1,347	1,600
Others	619	769
Non-current liabilities	7,154	7,028
Borrowings	3,314	3,891
Deferred revenue	1,430	1,397
Others	2,410	1,740
Total equity	4,792	5,803

Condensed Consolidated Cash Flow Statement

US\$ Million	Q3 21/22	Q3 22/23
Net cash generated from operating activities	606	74
Net cash used in investing activities	(389)	(407)
Net cash used in financing activities	(110)	(301)
Increase/(decrease) in cash and cash equivalents	107	(634)
Effect of foreign exchange rate changes	2	86
Cash and cash equivalents at the beginning of the period	3,647	5,567
Cash and cash equivalents at the end of the period	3,756	5,019

Supplemental Non-HKFRS Measures

US\$ Million		Q3 21/22				Q3 22/23			
		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		932	855	682	640	750	605	482	437
Non-HKFRS adjustments									
Net fair value changes on financial assets at fair value through profit or loss		(75)	(75)	(61)	(39)	(74)	(74)	(64)	(36)
Amortization of intangible assets resulting from mergers and acquisitions		63	63	49	49	53	53	43	43
Mergers and acquisitions related charges		-	2	2	2	-	3	3	3
Non-HKFRS		920	845	672	652	729	587	464	447

**Smarter
technology
for all**

Lenovo

thanks.