

Smarter technology for all

Q3FY25 Earnings Announcement

Feb 20, 2025

Lenovo

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Smarter technology for all

Yuanqing Yang

Chairman & CEO

February 20, 2025

Lenovo



Strong growth
across core businesses



Significant increase
of group revenue & profit



Well positioned
as Hybrid AI leader



Group:
Strong growth of
revenue & profit,
Hybrid AI landing
accelerates

Performance

- Revenue **\$18.8 billion**, up **20%** YTY, double-digit YTY growth for 3 consecutive quarters
- Net income (HKFRS) **\$693** million, up **106%** YTY
- All businesses achieved double-digit YTY revenue growth
- Non-PC revenue mix up **4pts** YTY to more than **46%**
- R&D investment increased **14%** YTY, winning record number of awards for AI device innovation at CES 2025

Group:

Strong growth of revenue & profit, Hybrid AI landing accelerates

Opportunities & Sustainable growth



Hybrid AI creating huge opportunities for devices, infrastructure, solutions & services

- New model driving AI democratization and application
- On-device AI, Edge AI & AI deployment in enterprises accelerating



Lenovo pioneering Hybrid AI vision to realize “Smarter AI for all”

- Constantly improving full-stack AI capabilities & portfolio
- **Personal AI:** initial success of 5-feature AI PC
- **Enterprise AI:** hybrid infrastructure & Lenovo Hybrid AI Advantage

IDG

Intelligent Devices Group:
Double-digit
revenue growth,
Leading in AI devices



Performance

- Revenue **\$13.8 billion**, up **12%** YTY
- Strong profitability, operating margin **7.3%**
- **PC**: revenue up **10%** YTY; market share **24.3%**; industry leading profitability; five-feature AI PC exceeding volume mix expectation in China
- **Smartphone**: revenue up **21%** YTY; hypergrowth in AP(+155% YTY), EMEA (+28% YTY); significant share gain in many markets

IDG

Intelligent Devices Group:

**Double-digit
revenue growth,
Leading in AI devices**

Opportunities & Sustainable growth



Hybrid AI creating growth opportunities for device market

- PC market entering new refresh cycle
- AI PC to represent ~80% of PC industry landscape by 2027
- Driving smartphone market refresh cycle



Lenovo driving AI devices innovation

- Converge more powerful computing & more efficient models into AI devices
- Drive form factor innovation
- Optimize AI agent capabilities
- Enhance multi-device connectivity
- Build key applications ecosystem



ISG

Infrastructure Solutions Group:

**Fast growth,
Breaking even,
Heading toward
profitable growth**

Performance

- Revenue **\$3.9 billion**, record high, up **59%** YTY
- Returned to profitability
- CSP hypergrowth(+94% YTY) to reach historic high; E/SMB steady growth (+7% YTY)
- AI server generated steady revenue
- Neptune liquid cooling solutions expanded into wider verticals

ISG

Infrastructure Solutions Group:

**Fast growth,
Breaking even,
Heading toward
profitable growth**

Opportunities & Sustainable growth



ICT market shifting to hybrid infrastructure

- Hybrid infrastructure supported by “Client-Edge-Cloud(hybrid)-Network” architecture
- Server market grows at 12% CAGR 2024-2027
- AI compute growth accelerates



Lenovo driving full stack infrastructure

- Execute the CSP+E/SMB strategy
- Simplify product portfolio
- Strengthen go-to-market capabilities
- Optimize E/SMB business models



SSG

Solutions & Services Group:

**Record revenue &
high profitability,
Building Hybrid AI
Advantage**

Performance

- Revenue **\$2.3 billion**, up **12%** YTY, double-digit YTY growth for 15 consecutive quarters
- Operating margin **20%**
- Managed Services and Project & Solution Services revenue mix **59%**, up **5pts** YTY
- Built lighthouse cases of AI solutions for enterprise customers

SSG

Solutions & Services Group:

**Record revenue &
high profitability,
Building Hybrid AI
Advantage**

Opportunities & Sustainable growth



Hybrid AI driving solutions & services demand growth

- IT services market expected solid growth for mid-term (CAGR 9.4%, 2024-2027)
- AI services growth more than twice as fast as the overall market
- New opportunities for AI-native solutions & services



Lenovo building Hybrid AI Advantage

- Build Hybrid AI Advantage framework capabilities

From scaling to higher profitability



PC



Smartphone



Infrastructure solution

Smarter AI for All



**Continuous investment
on AI innovation**



**Operational
Excellence**



**Strengthened
globalization capabilities**



**Enriched
brand equity**

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

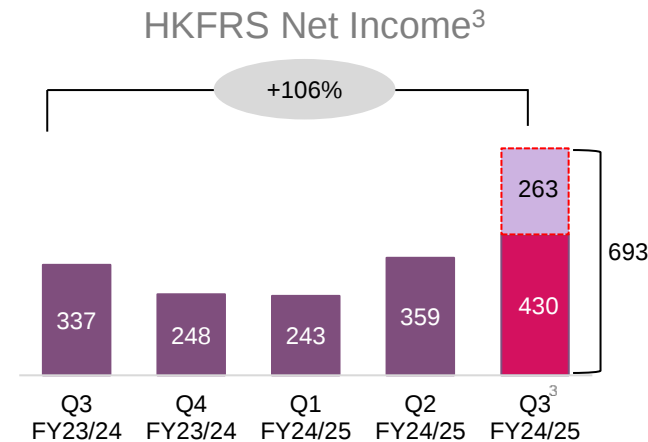
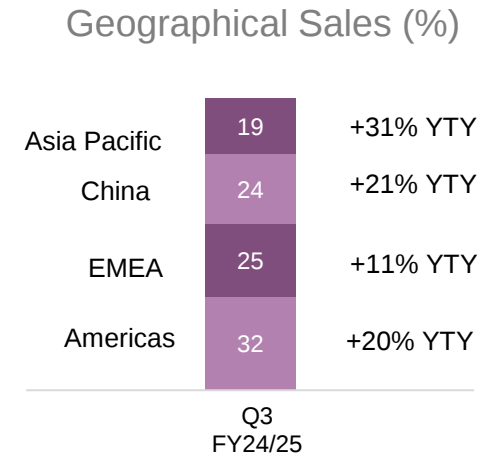
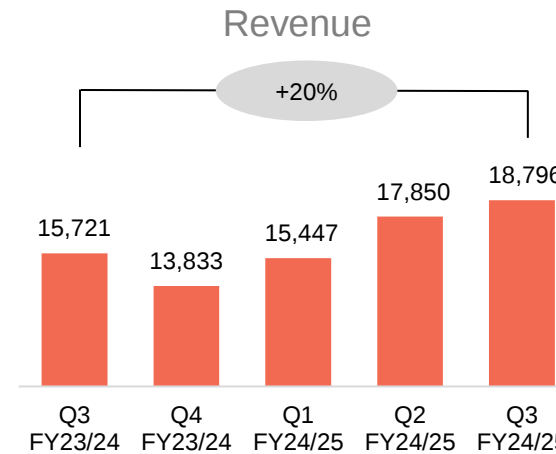
February 20, 2025

Lenovo

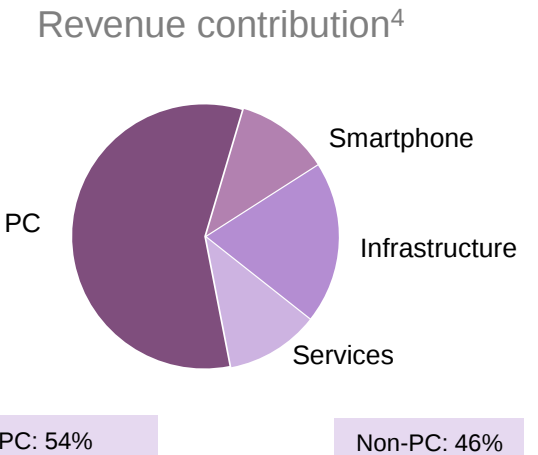
Record Performances

- Group net income of US\$693M, 106% year-to-year growth
- Premium-to-market, double-digit YTY growth across business groups and geographies
- Diversified growth engines: Record smartphones sales¹; Elevated to top-5² in global market excluding China
- ISG achieved strong growth and profitability, the 1st breakeven in seven quarters; Unique dual CSP and ESMB strategic focus optimizes growth & profitability opportunities
- Award-winning AI PCs and innovations for future growth; Better AI efficiency and cost-effectiveness to bolster Hybrid AI adoption

Performance – Q3 FY24/25



263 Non-HKFRS adjustments
430 Non-HKFRS net income
337 HKFRS net income



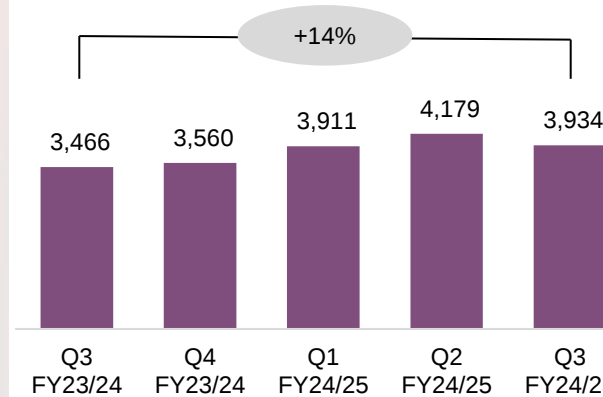
¹ Smartphone sales reached record sales of Q3. Global excluding China market; we achieved our best ranking in over five years, reaching No. 5, and recorded the highest YTY growth among the top five vendors. ³Q3FY24/25 HKFRS Net Income includes non-recurring/non-cash items; details, please check P.27. ⁴ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG.

Strong Balance Sheet for Future Growth

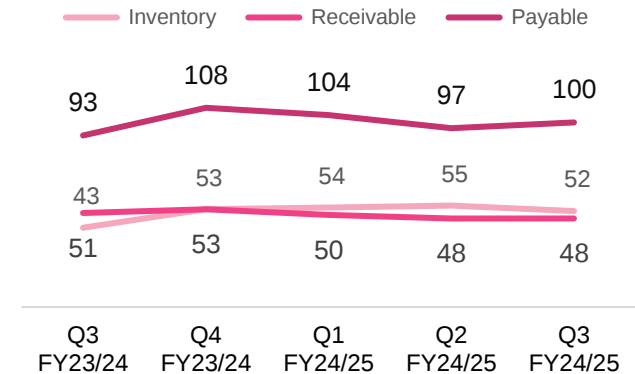
- Strong business fundamentals and robust capital management drove YTY improvements and growth in
 - Cash balance approaching US\$4B
 - Cash conversion cycle
- Strong liquidity continued to support 14% YTY R&D spending growth
- Better financing cost efficiency to support revenue growth; Revenue growth of 20% YTY faster than financing cost up by 10% YTY
- Effective financing cost initiatives including optimized supply chain management

Performance

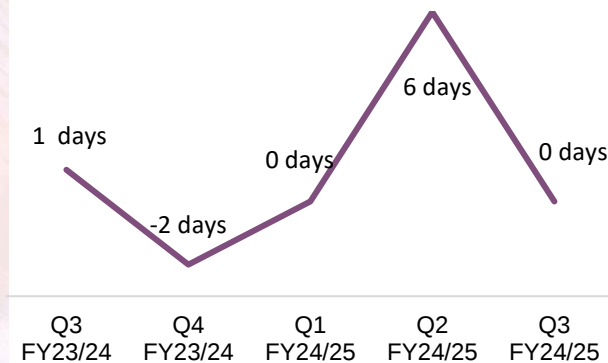
Cash Balance



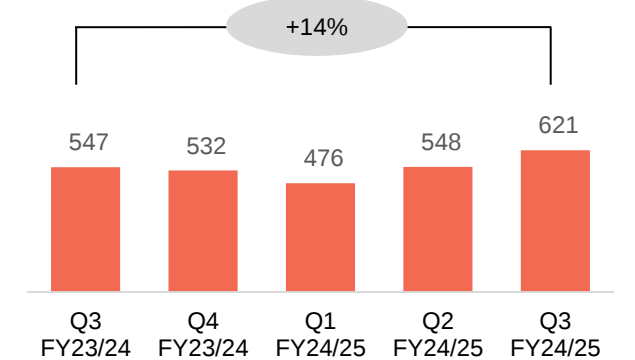
CCC Breakdown (Days)



Cash Conversion Cycle

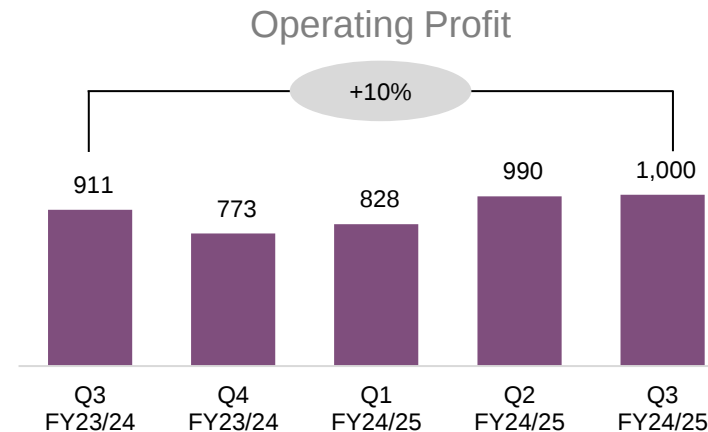
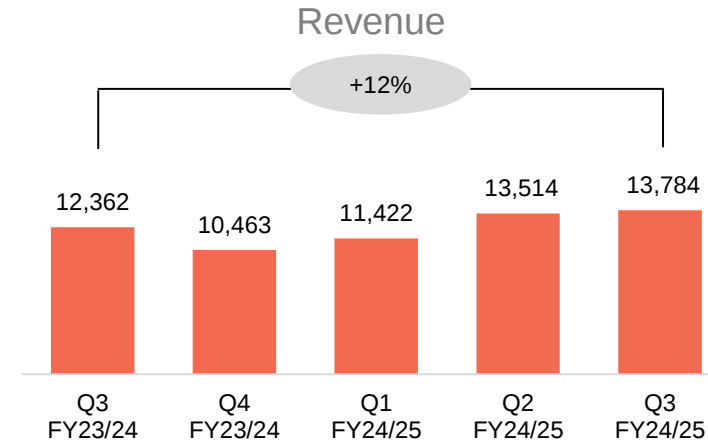


R&D Expenses



- Achieved 12% revenue growth YTY with a resilient, industry-leading 7.3% operating profit
- Highest PC market share in 5 years
- Smartphone sales grew by 21% YTY; Motorola's market share at a 5-year high², with hypergrowth in Asia Pacific and EMEA³
- Record smartphone premium mix; growing premium PC mix thanks to strength in gaming and workstations
- Lenovo's 5-feature AI PCs⁴ account for 15% of its PRC notebook sales; Proprietary AI Agent and enhanced multi-device connectivity to allow for a truly differentiated user experience

Performance



Highest

market share in PC and smartphone in 5 years²

30%+

Premium mix in PC and smartphone

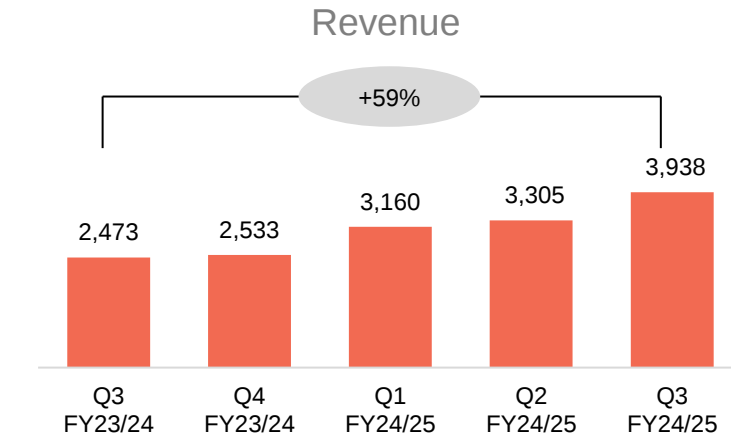
Record

75 CES awards for first-of-its-kind rollable AI PC, ThinkBook Plus Gen 6

¹ Consists of PC, tablet, smartphone, and smart devices business. ²We reached highest market share in PC in 5 years; Smartphone market share in Non-China market reached record high than any of our Q3FY. ³ EMEA: Europe, the Middle East and Africa. ⁴AI PC five features include 1) a personal intelligent agent using natural language user interface, 2) a compressed local LLM, 3) heterogeneous computing with CPU/GPU/NPU, 4) privacy and security protection, and 5) a rich AI application ecosystem.

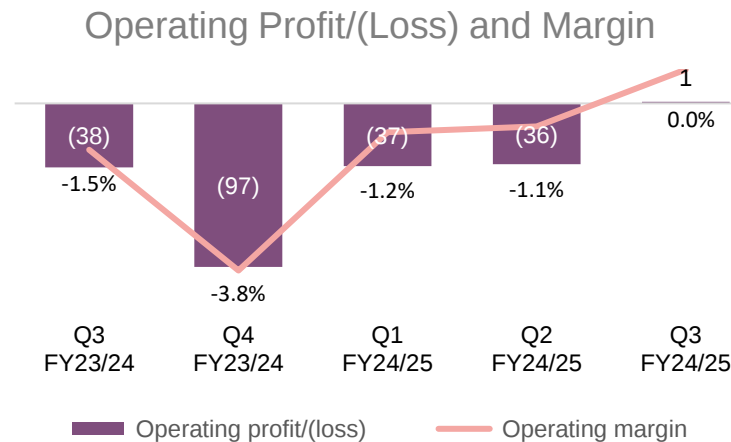
- 59% YTY revenue hypergrowth with profitability turnaround
- Outstanding CSP growth to a record high; Solid execution of the right strategy to capture profitable high-growth opportunity, through unique ODM+ model for optimal scale
- Strong progress in ESMB performance through strategic initiatives
- Growing AI server revenue contribution; Expanded Neptune liquid-cooling technology adoption across vertical industries beyond supercomputing
- Announced definitive agreement to acquire Infinidat Ltd, with regulatory approval expected 2H in 2025

Performance



90%+

YTY growth on CSP revenue for 3 consecutive quarters



Profitable

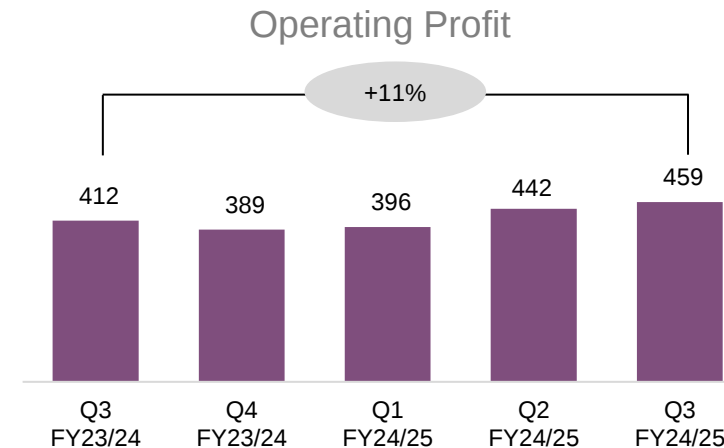
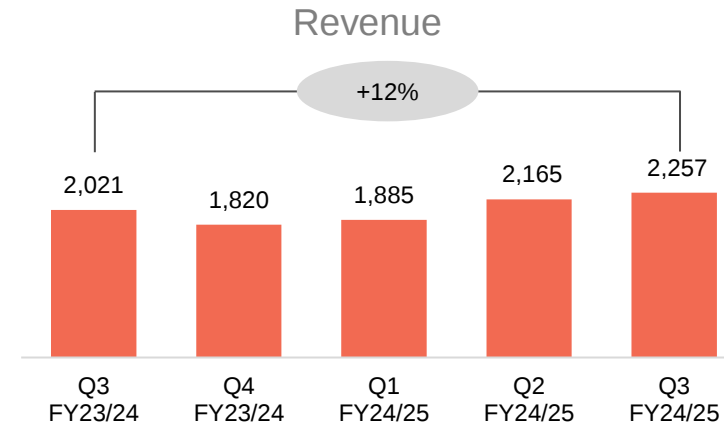
Growth: Successful turnaround with segment profit up by \$39M YTY

40%

potential energy reduction enabled by Neptune Liquid Cooling Technology

- Quarterly revenue hit a record high, making 15th consecutive quarters YTY growth with healthy operating margin at 20%+
- AI-powered portfolio continue to drive momentum for attached services with elevated hardware user experience
- Lenovo Hybrid AI Advantages suite of offerings resonate with market demand and drive premium to market growth across TruScale as-a-Service, Hybrid Cloud Services and Digital Workplace Solutions.

Performance



Record
Revenue and profit

15th
consecutive quarter
of double-digit revenue
YTY growth

59%
of SSG's revenue from
non-hardware-tied
business

Outlook

Group Mission is to Lead and Enable Intelligent Transformation

- *Improve net income margin in the medium-term; Leverage Digital Transformation to drive secular growth*
- *Strategically positioned for Hybrid AI revolution with products and services from device to edge to cloud*
- *Confident of continued growth momentum across all three business groups with improved profitability*
- *Strategic partnership with Alcatel further enhance our balance sheet and support future growth*

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

- Continue to invest in innovation and accelerate AI PC transition to ensure premium-to-market growth and leading industry position
- Execute smartphone growth plan with increasing premium mix with foldable Moto Razr, Moto Edge and AI development
- Optimize operational efficiency to ensure leading profitability while developing non-PC business and device collaboration

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 Lenovo does to drive growth
- Leverage unique ODM+ business and manufacturing model to capture demand and improve profitability

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's IPs
- Capture strong demand for 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

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 23/24	Q3 24/25	Y/Y%
Revenue	15,721	18,796	20%
Gross profit	2,601	2,959	14%
Operating expenses	(1,988)	(2,271)	14%
Operating profit	613	688	12%
Operating profit (non-HKFRS)	630	708	12%
Other non-operating income/ (expenses) - net	(142)	(171)	20%
Profit before taxation	471	517	10%
Profit before taxation (non-HKFRS)	489	539	10%
Taxation	(94)	184	-295%
Profit for the period	377	701	86%
Profit for the period (non-HKFRS)	390	445	14%
Profit attributable to			
Other non-controlling interests	40	8	-80%
Equity holders of the Company	337	693	106%
Equity holders of the Company (non-HKFRS)	357	430	20%
EPS (US cents)			
Basic	2.81	5.66	101%
Diluted	2.64	5.35	103%
	Q3 23/24	Q3 24/25	
Gross margin	16.5%	15.7%	
Operating margin	3.9%	3.7%	
E/R ratio	12.6%	12.1%	
PTI margin	3.0%	2.8%	
Net margin	2.1%	3.7%	

Condensed Consolidated Income Statement

US\$ Million	Q3 23/24	Q3 24/25
Revenue	15,721	18,796
Cost of sales	(13,120)	(15,837)
Gross profit	2,601	2,959
Selling and distribution expenses	(869)	(954)
Administrative expenses	(591)	(710)
Research and development expenses	(547)	(621)
Other operating income/(expenses) – net	19	14
Operating profit	613	688
Finance income	35	27
Finance costs	(174)	(193)
Share of losses of associates and joint venture	(3)	(5)
Profit before taxation (PTI)	471	517
Taxation	(94)	184
Profit for the period	377	701
Profit attributable to		
Other non-controlling interests	40	8
Equity holders of the Company	337	693
Per share data		
Earnings per share (US cents) – Basic	2.81	5.66
Earnings per share (US cents) – Diluted	2.64	5.35

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Dec 31, 2023	As of Dec 31, 2024
Current assets	23,228	28,575
Bank deposits and cash	3,533	4,071
Trade, notes and other receivables	13,088	14,542
Inventories	6,219	9,148
Others	388	814
Non-current assets	16,276	16,147
Property, plant and equipment	2,009	2,002
Intangible assets	8,519	8,026
Others	5,748	6,119
Current liabilities	26,701	32,904
Borrowings	57	1,057
Trade, notes, other payables, accruals and provisions	24,534	29,431
Deferred revenue	1,583	1,605
Others	527	811
Non-current liabilities	6,690	5,677
Borrowings	3,564	2,621
Deferred revenue	1,443	1,545
Others	1,683	1,511
Total equity	6,113	6,141

Condensed Consolidated Cash Flow Statement

US\$ Million	Q3 23/24	Q3 24/25
Net cash generated from operating activities	364	344
Net cash used in investing activities	(364)	(335)
Net cash used in financing activities	(324)	(99)
Decrease in cash and cash equivalents	(324)	(90)
Effect of foreign exchange rate changes	53	(155)
Cash and cash equivalents at the beginning of the period	3,737	4,179
Cash and cash equivalents at the end of the period	3,466	3,934

Supplemental Non-HKFRS Measures

US\$ Million		Q3 23/24				Q3 24/25			
		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		613	471	377	337	688	517	701	693
Non-HKFRS adjustments									
Net fair value changes on financial assets at fair value through profit or loss		(25)	(25)	(21)	(14)	(32)	(32)	(24)	(31)
Amortization of intangible assets resulting from mergers and acquisitions		42	43	34	34	28	30	26	26
Impairment and write-off of intangible assets		-	-	-	-	24	24	24	24
One-time income tax credit		-	-	-	-	-	-	(282)	(282)
Non-HKFRS		630	489	390	357	708	539	445	430

**Smarter
technology
for all**

Lenovo

thanks.