

# FY 16/17 Earnings Announcement

May 25, 2017

# + Forward Looking Statement

This presentation contains “forward-looking statements” which are statements that refer to 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 the negative 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.

# Yuanqing Yang

Chairman & CEO

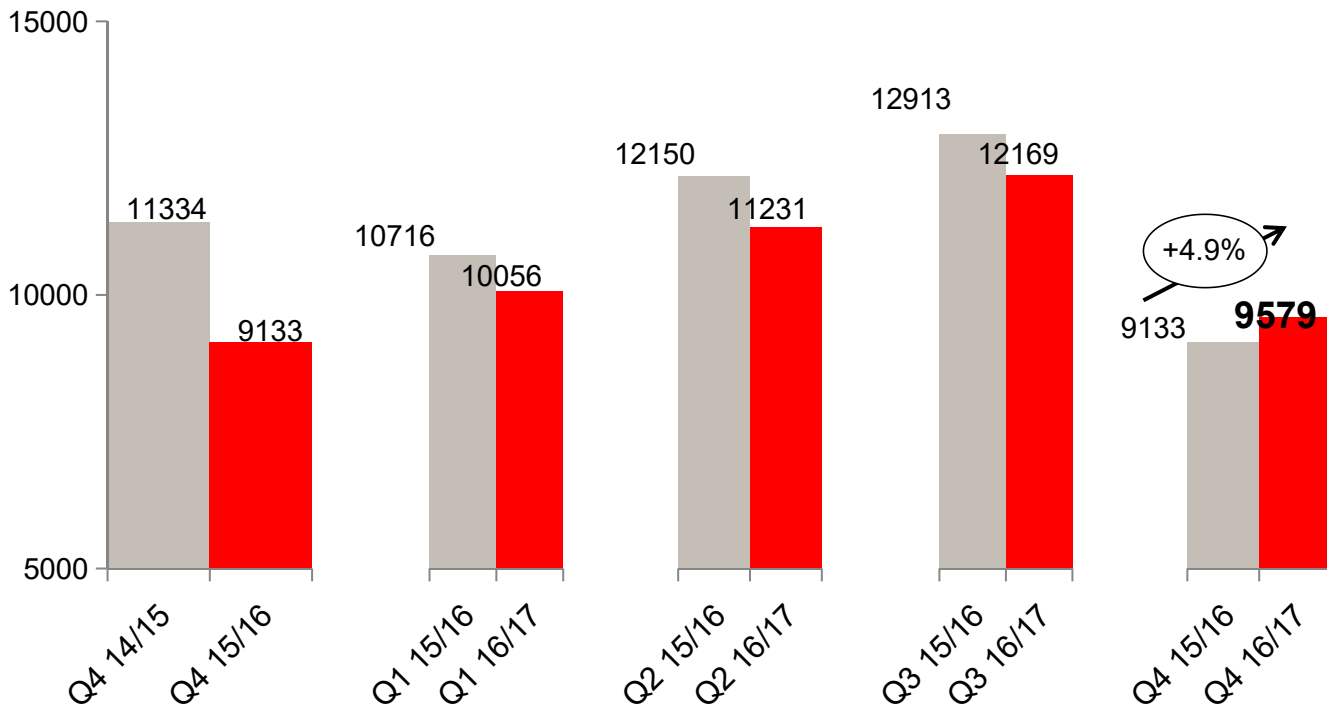
May 25, 2017

The Lenovo logo is displayed vertically on a red rectangular background. The word "Lenovo" is written in white, bold, sans-serif font, with a small "TM" trademark symbol at the top right of the word.

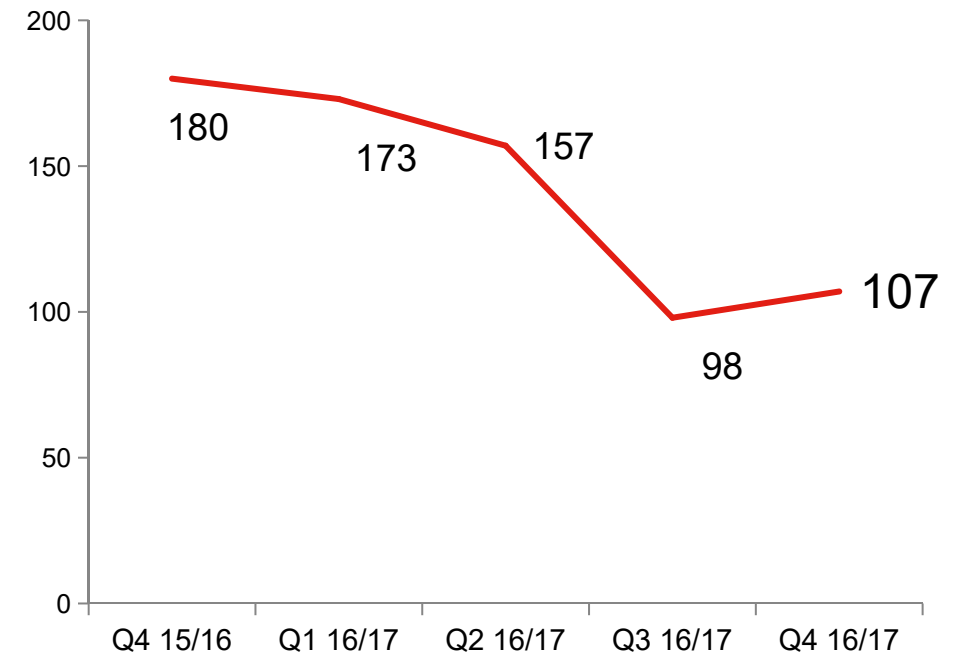
# + Performance of the 4<sup>th</sup> Quarter

- Revenue: **\$9.6B**, resumed year-on-year growth at **4.9%** after 5 quarters of decline
- Reported Net Income\*: **\$107M**

Quarterly Revenue (US\$ Millions)



Quarterly Net Income\* (US\$ Millions)

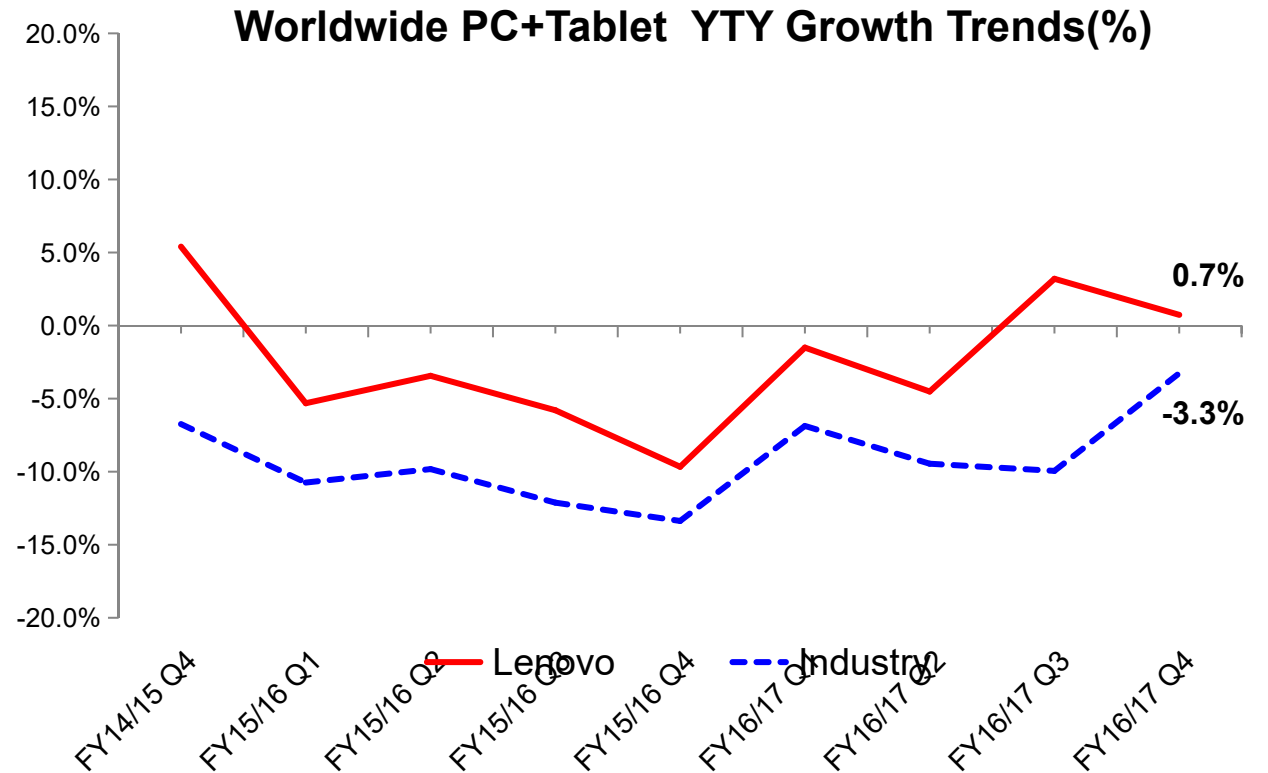
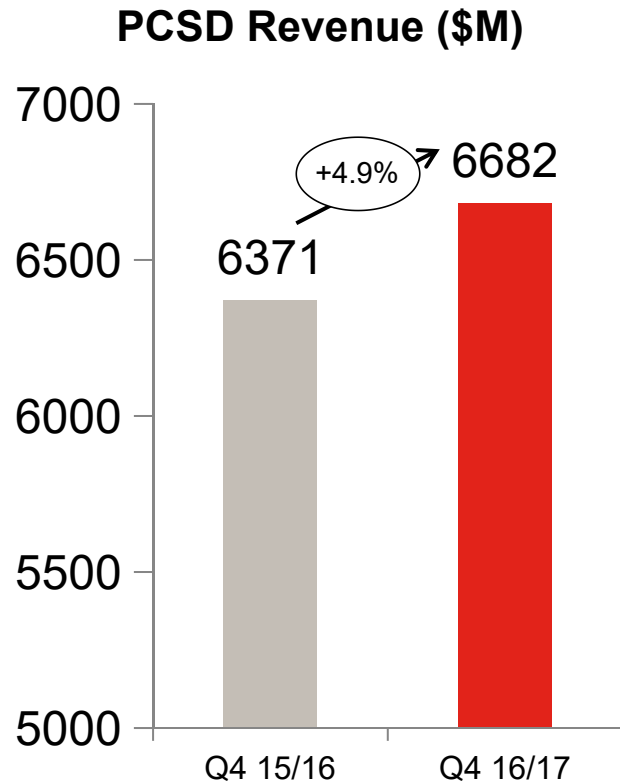


\* Reported Net Income includes other operational items such as disposal gain of property or restructuring cost

Source: Internal Data

# + Performance of the 4<sup>th</sup> Quarter: PCSD

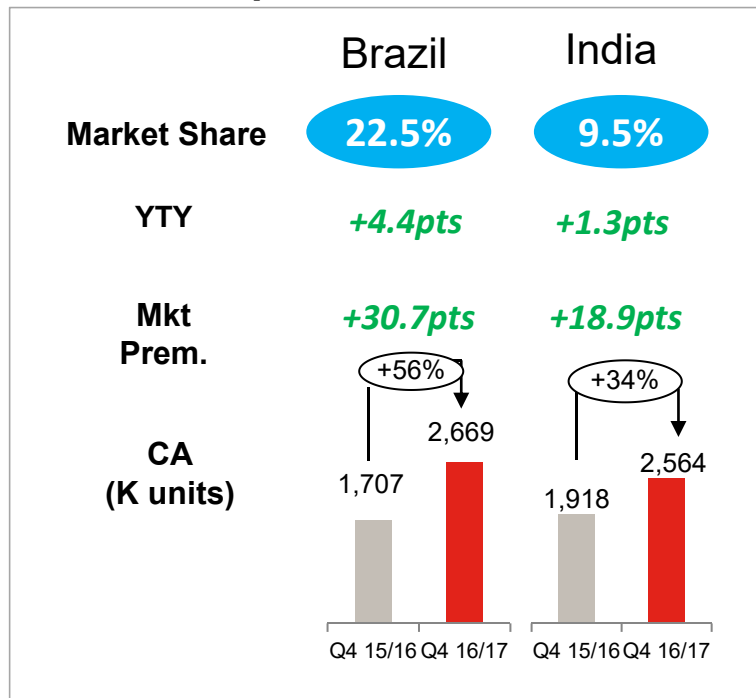
- Revenue and volume grew year-on-year for 2 consecutive quarters
- Improved Average Selling Price
- Delivered Pre-Tax Income of **4.3%**



# + Performance of the 4<sup>th</sup> Quarter

- Mobile: Strong year-on-year growth momentum
  - Outside China volume up **17.4%** year-on-year, outperformed market by **12.8 points**
  - Brazil volume up **56.3%** year-on-year, India volume up **33.7%** year-on-year;
- Data Center: Profitability improvement quarter-to-quarter in most Geos

## Smartphone Performance

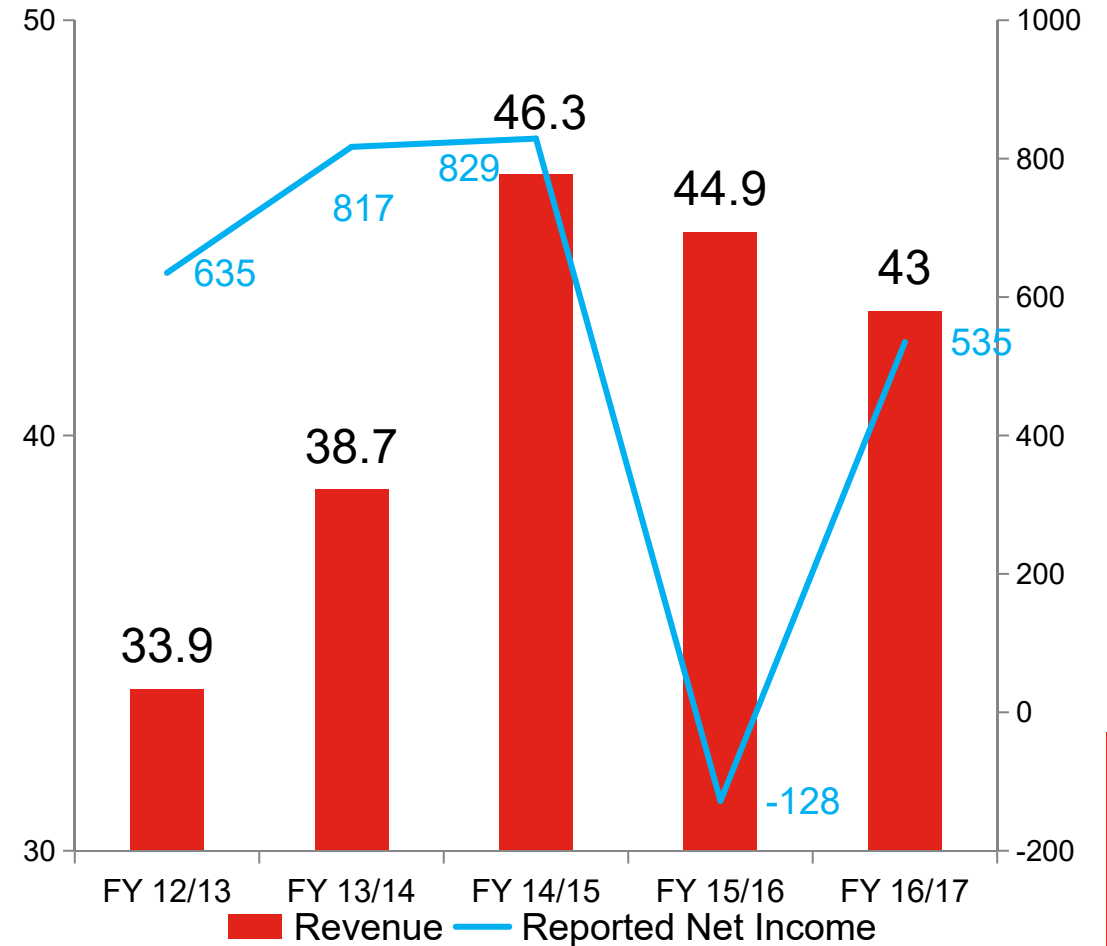


Barcelona Supercomputing Center (BSC) project

# + Performance of FY16/17

- Revenue: **\$43B**
- Reported Net Income\*: **\$535M**, up \$663M year-on-year

Revenue (\$B) and Reported Net Income\* (\$M)



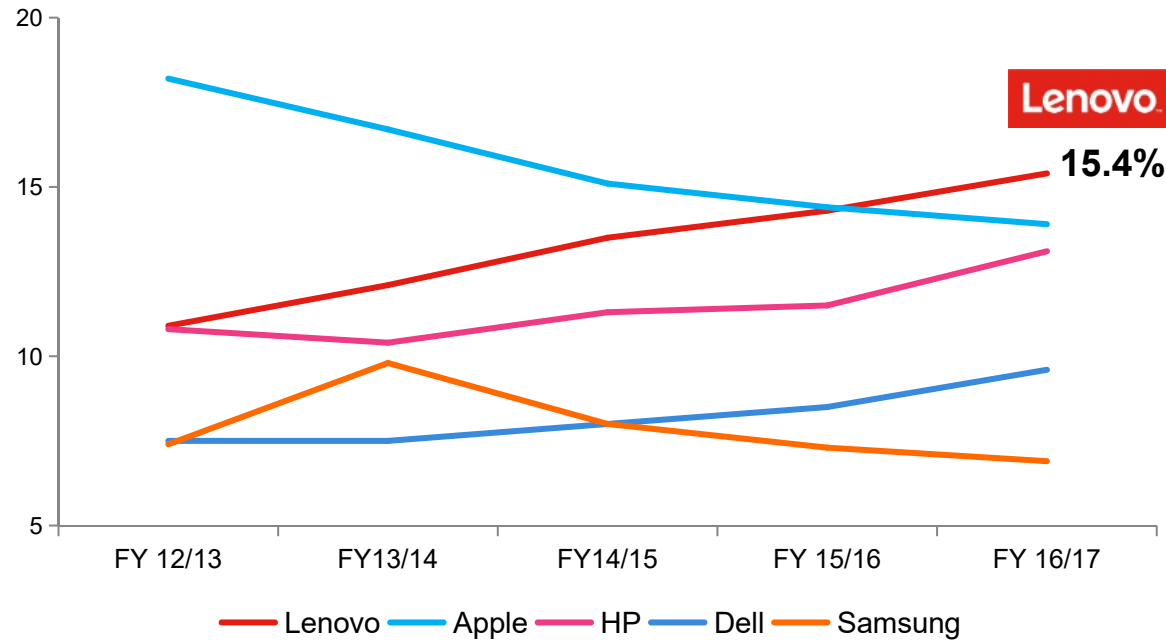
\* Reported Net Income includes other operational items such as disposal gain of property or restructuring cost

Source: Internal Data

# + Performance of FY16/17: PCSD

- PC+Tablet, **#1** in share, year-on-year growth outperformed market by **7.1** points
- Maintained industry leading profit of **5%**
- *Laptop Magazine* named Lenovo the **“Best Laptop Brand”**

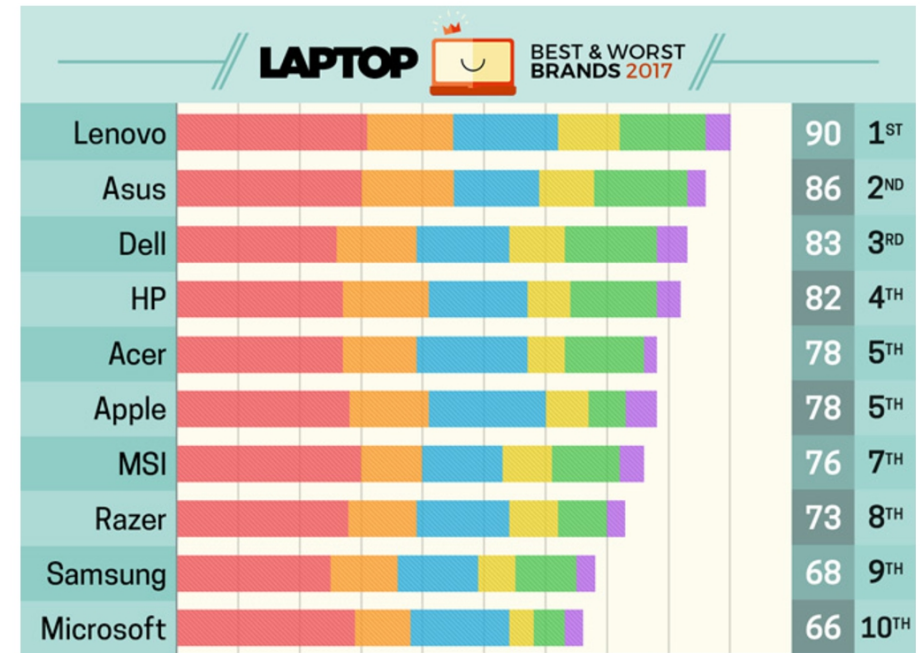
PC+Tablet Market Share (%)



Source: IDC

Best & Worst Laptop Brands 2017

By LAPTOP Editors | April 10, 2017 09:00 am





# + Performance of FY16/17: Mobile

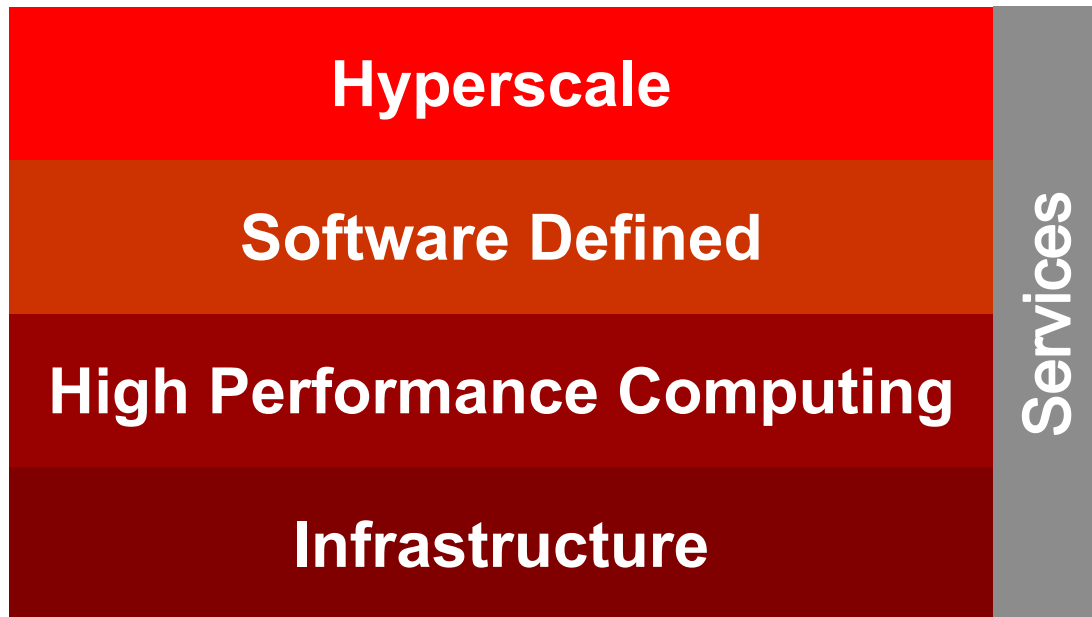
- Transformation continued to deliver results outside of China
  - Quarter-to-quarter improvements throughout the year, revenue resumed year-on-year growth in 4<sup>th</sup> quarter
  - Moto Z, premium smartphone, on track to sell **3M** units in first 12 months
  - Average selling price improved **15.1%** YTY
  - United teams, formed consistent culture, integrated brand and product portfolio
  - On track to breakeven in 2<sup>nd</sup> half of this fiscal year



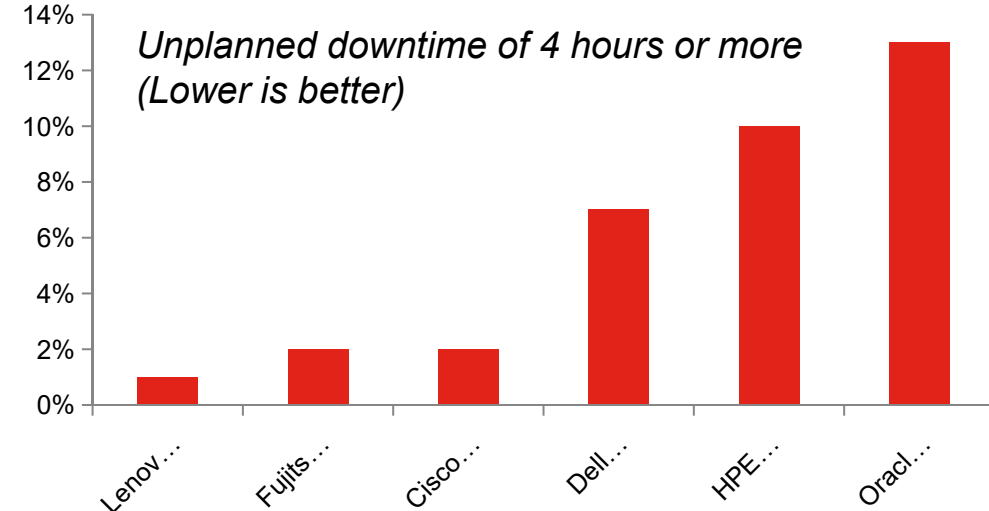
# + Performance of FY16/17: Data Center

- Continue to invest, build core competency
  - Restructured organization into end-to-end segments around five market opportunities
  - Hired experienced industry leaders
  - Building competence in software defined and hyperscale
  - Investing in partnerships and sales capabilities
  - Leading in quality, reliability and customer satisfaction

## DCG Segment Focused Organization



## ITIC Server Hardware Vendor Reliability Survey 2016 – 2017



**“Lenovo servers achieved the highest levels of “five nines” or 99.999% reliability among all mainstream server hardware platforms.” -- ITIC**



# 3-Wave Strategy

# 3-Wave Strategy



1

Maintain PC Leadership  
in scale, profitability  
and innovation

2

Build MBG & DCG  
into New Growth Engines

3

Invest in  
“Device + Cloud” and  
“Infrastructure + Cloud”

# Wong Wai Ming

Chief Financial Officer

May 25, 2017

# + Financial Summary

US\$ Million	FY2016/17	Y/Y%	Q4 FY2016/17	Q4 FY2015/16	Y/Y%	Q/Q%
Revenue	43,035	-4%	9,579	9,133	5%	-21%
Gross Profit	6,106	-8%	1,368	1,518	-10%	-14%
Operating Expenses	(5,434)	-19%	(1,294)	(1,270)	2%	-11%
Operating Profit	672	NA	74	248	-70%	-46%
Other Non-Operating Expenses	(182)	-15%	(59)	(55)	7%	60%
Pre-tax Income	490	NA	15	193	-92%	-85%
Taxation	40	-69%	89	(17)	NA	1445%
Profit for the period	530	NA	104	176	-41%	-3%
Non-controlling interests	5	-72%	3	4	21%	NA
Profit attributable to Equity Holders	535	NA	107	180	-41%	9%
EPS (US cents)						
- Basic	4.86	NA	0.97	1.63	(0.66)	0.07
- Diluted	4.86	NA	0.97	1.62	(0.65)	0.07
Dividend per share (HK cents)	26.50					
	FY2016/17	FY2015/16	Q4FY2016/17	Q4FY2015/16	Q3FY2016/17	
Gross margin	14.2%	14.8%	14.3%	16.6%	13.1%	
E/R ratio	12.6%	14.9%	13.5%	13.9%	12.0%	
Operating margin	1.6%	-0.1%	0.8%	2.7%	1.1%	
PTI margin	1.1%	-0.6%	0.2%	2.1%	0.8%	
Net margin attributable to Equity Holders	1.2%	-0.3%	1.1%	2.0%	0.8%	

# + Condensed Balance Sheet

*US\$ Million*

	<b>As at Mar 31, 2017</b>	<b>As at Mar 31, 2016</b>
Non-current assets	<b>12,318</b>	11,966
Property, plant and equipment	<b>1,236</b>	1,391
Intangible assets	<b>8,349</b>	8,661
Others	<b>2,733</b>	1,914
Current assets	<b>14,868</b>	12,967
Bank deposits and cash	<b>2,951</b>	2,079
Trade, notes and other receivables	<b>8,870</b>	8,083
Inventories	<b>2,794</b>	2,637
Others	<b>253</b>	168
Current liabilities	<b>18,334</b>	15,760
Borrowings	<b>70</b>	746
Trade, notes, other payables, accruals and provisions	<b>17,364</b>	13,964
Others	<b>900</b>	1,050
Net current liabilities	<b>3,466</b>	2,793
Non-current liabilities	<b>4,757</b>	6,147
Total equity	<b>4,095</b>	3,026

# + Cash and Working Capital

US\$ Million	FY2016/17	FY2015/16	Q4 FY2016/17	Q4 FY2015/16
Bank deposits and cash	2,951	2,079	2,951	2,079
Total Borrowings	3,037	3,251	3,037	3,251
Net Debt	(86)	(1,172)	(86)	(1,172)
Net cash generated from/ (used in) operating activities	2,120	292	(26)	(700)
Days Inventory	28	29	32	34
Days Receivable	37	38	40	45
Days Payable	75	66	94	79
Cash Conversion Cycle	-10 days	1 days	-22 days	0 days



# + FY16/17 Performance by Business Group

## PCSD

- Maintained WW Traditional PC #1 with record high market share
- WW #1 in PC+Tablet; Strong growth across high growth segments
- Strong growth across gaming & detachable segments
- Record high market share in China, AG & EMEA
- Solid PTI margin at 5.0% +0.3pts YTY

## Data Center

- Actions taken to build its long term competitiveness including refine its hyperscale business in China and building solutions focused sales force and product teams
- Continued strong growth from HPC & Global Accounts
- Rev & PTI declined YTY due to the component cost increases and its transition actions

## Mobile

- Group: Strong ASP improvement +15% YTY
- ROW: Outgrew market with strong shipment growth YTY in LA, India and WE; Breaking through in WE
- Strong shipment of Moto G & on track to achieve 3 million shipment from Moto Z
- China: Still in transition; Continue to drive its brand rebuilding and focused channel strategy
- Rev & PTI declined YTY mainly due to the transition actions in China market, component cost increases in 2H, and its transformation in EMEA

		Revenue US\$ Million		Segment Pretax Income/(Loss) US\$ Million		Segment Pretax Income Margin	
		FY17	FY16	FY17	FY16	FY17	FY16
PCSD	Operational	30,076	30,795	1,494	1,459	5.0%	4.7%
	<i>Reported*</i>			1,494	1,459	5.0%	4.7%
MBG	Operational	7,707	8,548	(566)	(487)	(7.3%)	(5.7%)
	<i>Reported*</i>			(738)	(662)	(9.6%)	(7.7%)
DCG	Operational	4,069	4,553	(343)	53	(8.4%)	1.2%
	<i>Reported*</i>			(470)	(102)	(11.6%)	(2.3%)

\* Included non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others

# + FY16/17 Performance by Geography

## China

- **Traditional PC:** Record high market share with strong margin performance
- **Mobile:** A year of transition; Continued to drive its brand rebuilding and focused channel strategy; ASP Improved YTY
- **Data Center:** Actions taken to fix its hyperscale business model to ensure resume balanced business performance over time

## AP

- **Traditional PC:** Soft demand across emerging markets resulted in slower revenue and profit performance
- **Mobile:** Revenue increased YTY thanks to ASP expansion; Remained strong player in India; Component cost increases in 2H resulted a slow profit performance
- **Data Center:** Actions taken start to seeing early signs of stabilization in the 2H

## EMEA

- **Traditional PC:** Soft emerging market demand with inventory clearance in the 1H impacted the profit performance
- **Mobile:** Despite breaking through WE market in 2H, the inventory clearance in Eastern Europe/Middle East and component cost increases in 2H has impacted overall performance
- **Data Center:** Slower enterprise demand and ongoing transition actions impacted the overall performance

## AG (Americas)

- **Traditional PC:** Solid performance from shipments growth while maintaining its margin performance
- **Mobile:** Strong performance in LA led its profits improvement; Strong shipments from Moto G alongside Moto Z defining a new premium category
- **Data Center:** Slowed performance due to the transition actions; early signs of stabilization in the 2H

Excluding restructuring costs & property disposal gains	Revenue US\$ Million		Segment Pretax Income/(Loss) US\$ Million		Segment Pretax Income Margin	
	FY17	FY16	FY17	FY16	FY17	FY16
China	11,795	12,359	539	563	4.6%	4.6%
AP	7,012	7,155	(65)	89	(0.9)%	1.2%
EMEA	11,187	11,795	(337)	126	(3.0)%	1.1%
AG	13,041	13,604	157	(121)	1.2%	(0.9)%

\* Excluded non-cash M&A-related accounting charges



# Appendix

- ➔ - Performance by Business Group – Q4 FY17
- Performance by Geography – Q4 FY17
- Condensed Consolidated Income Statement
- Condensed Consolidated Cash Flow Statement



# Q4FY17 Performance by Business Group

## PCSD

- 2<sup>nd</sup> consecutive quarter with shipments & revenue growth with market share gains
- WW #1 in PC+Tablet with premium growth
- Strong growth across high growth segments
- PTI margin at 4.3% down YTY/QTQ due to component cost increase

## Data Center

- Business still under its transformation
- Signs of stabilization in ROW market: EMEA revenue declined narrowed; AP turned profitable from strong APEM performance
- Continued strong growth in Global Accounts
- Kick-started transformation in China: refining hyperscale business model to strike a balance between growth & profitability
- PTI margin dropped both QTQ/YTY due to component cost increases and competition in hyperscale business in China

## Mobile

- Resumed its positive revenue and shipment growth YTY since 3QFY16
- Continued ASP expansion both QTQ& YTY
- ROW: Outgrew market with strong shipment growth YTY in Q4FY16 of 17%; Outgrew market in AP and LA. Outgrew India by 19 pts
- Strong shipment of Moto G & on track to its 3 million shipment from Moto Z
- China: Continued inventory clearance; Rebuilding the brand and re-align channel strategy
- PTI margin dropped both QTQ/YTY due to component cost increases and branding transition in China & EMEA

		Revenue US\$ Million			Segment Pretax Income/(Loss) US\$ Million			Segment Pretax Income Margin		
		Q4 FY17	Q4 FY16	Q3 FY17	Q4 FY17	Q4 FY16	Q3 FY17	Q4 FY17	Q4 FY16	Q3 FY17
PCSD	Operational	6,682	6,371	8,598	288	302	431	4.3%	4.7%	5.0%
	Reported*				288	302	431	4.3%	4.7%	5.0%
MBG	Operational	1,772	1,546	2,185	(177)	(79)	(112)	-10.0%	-5.1%	-5.1%
	Reported*				(220)	(123)	(155)	-12.4%	-8.0%	-7.1%
DCG	Operational	850	985	1,050	(110)	17	(94)	-13.0%	1.7%	-8.9%
	Reported*				(141)	(16)	(124)	-16.6%	-1.6%	-11.8%

\* Included non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others

# + Q4FY17 Performance by Geography

## China

- **Traditional PC:** Premium growth 4 pts with market share gain; Solid margin performance
- **Mobile:** Continued inventory clearance; Rebuilding the brand and re-align channel strategy
- **Data Center:** Continued its strategy actions to build more dedicate sales force hence increased costs; margin also impacted by component cost increases and competition in hyperscale business

## AP

- **Traditional PC:** Strong recovery from AP emerging markets while protected its margin performance
- **Mobile:** Strong shipments momentum across AP (+27 YTY); Outgrew market by 15pts; Remained solid in India
- **Data Center:** AP turned profitable with share gains from strong APEM performance

## EMEA

- **Traditional PC:** Strong Revenue growth thanks to solid performance from Western Europe
- **Mobile:** Slow performance due to inventory clearance in Eastern Europe and Middle East
- **Data Center:** Still in transition despite revenue decline narrowed YTY; Profitability impacted by component cost increases

## AG (Americas)

- **Traditional PC:** Slow performance in NA impacted by component cost increases and inventory clearance
- **Mobile:** Strong momentum in LA (Shipment:+37% YTY; mkt share: 12.1%) with improved profitability across the region.
- **Data Center:** Profitability impacted by component cost increases despite more value-added projects win in NA

	Revenue US\$ Million			Segment Pretax Income/ (Loss) US\$ Million			Segment Pretax Income Margin (%)		
	Q4 FY17	Y/Y	Q/Q	Q4 FY17	Q4 FY16	Q3 FY17	Q4 FY17	Q4 FY16	Q3 FY17
China	2,281	(70)	(1,183)	64	107	180	2.8%	4.5%	5.2%
AP	1,733	148	31	(43)	13	(41)	-2.5%	0.8%	-2.4%
EMEA	2,624	146	(735)	(120)	5	(102)	-4.6%	0.2%	-3.0%
AG	2,941	222	(703)	60	8	39	2.0%	0.3%	1.1%

\* Excluded non-cash M&A-related accounting charges

# + Condensed Consolidated Income Statement

<i>US\$ Million</i>	<b>FY2016/17</b>	<b>FY2015/16</b>	<b>Q4 FY2016/17</b>	<b>Q4 FY2015/16</b>
Revenue	<b>43,035</b>	44,912	<b>9,579</b>	9,133
Cost of sales	<b>(36,929)</b>	(38,288)	<b>(8,211)</b>	(7,615)
Gross profit	<b>6,106</b>	6,624	<b>1,368</b>	1,518
Other income-net	<b>11</b>	2	-	-
Selling and distribution expenses	<b>(2,681)</b>	(2,373)	<b>(658)</b>	(536)
Administrative expenses	<b>(1,852)</b>	(2,109)	<b>(509)</b>	(476)
Research and development expenses	<b>(1,362)</b>	(1,491)	<b>(338)</b>	(352)
Other operating income/ (expense) - net	<b>450</b>	(715)	<b>211</b>	94
Operating profit/(loss)	<b>672</b>	(62)	<b>74</b>	248
Finance income	<b>28</b>	33	<b>10</b>	8
Finance costs	<b>(231)</b>	(237)	<b>(68)</b>	(58)
Share of profit/(loss) of associated companies and joint ventures	<b>21</b>	(11)	<b>(1)</b>	(5)
Profit/(loss) before taxation	<b>490</b>	(277)	<b>15</b>	193
Taxation	<b>40</b>	132	<b>89</b>	(17)
Profit/(loss) for the period	<b>530</b>	(145)	<b>104</b>	176
Profit/(loss) attributable to:				
Equity holders of the company	<b>535</b>	(128)	<b>107</b>	180
Perpetual securities holders	<b>2</b>	-	<b>2</b>	-
Other non-controlling interests	<b>(7)</b>	(17)	<b>(5)</b>	(4)
Dividend	<b>378</b>	379	-	-
Earnings/(Loss) per share (US cents)				
- Basic	<b>4.86</b>	(1.16)	<b>0.97</b>	1.63
- Diluted	<b>4.86</b>	(1.16)	<b>0.97</b>	1.62

## + Condensed Consolidated Cash Flow Statement

US\$ Million	FY2016/17	FY2015/16	Q4 FY2016/17	Q4 FY2015/16
Net cash generated from operating activities	2,120	292	(26)	(700)
Net cash used in investing activities	(1,398)	(854)	(1,091)	(376)
Net cash generated from/(used in) financing activities	145	(305)	1,319	426
Increase/(decrease) in cash and cash equivalents	867	(867)	202	(650)
Effect of foreign exchange rate changes	(40)	(62)	29	25
Cash and cash equivalents at the beginning of the period	1,926	2,855	2,523	2,551
Cash and cash equivalents at the end of the period	2,753	1,926	2,754	1,926

thanks.

Different is better

Lenovo™