

# Q3FY20 Earnings Announcement



# 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.

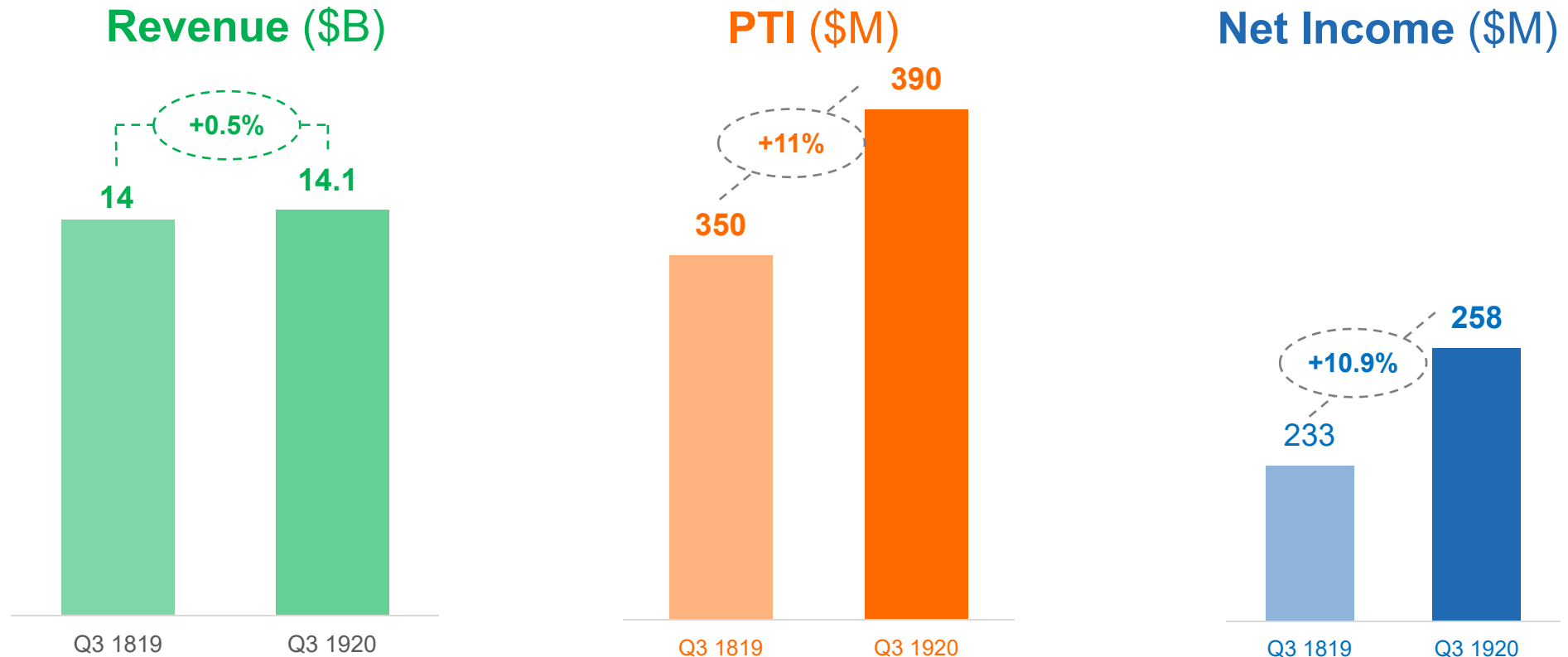
# Yuanqing Yang

Chairman & CEO



# Strong Group Performance – Record Revenue, PTI\*

- Revenue: **\$14.1B**, an all-time record
- Pre-Tax Income: **\$390M**, an all-time record, up **11% YOY**
- Net income: **\$258M**, up **10.9% YOY**

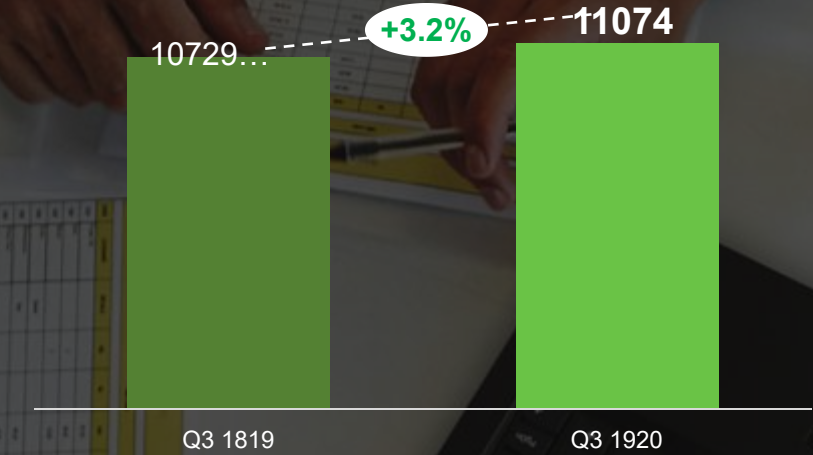


\* PTI: Pre-tax Income

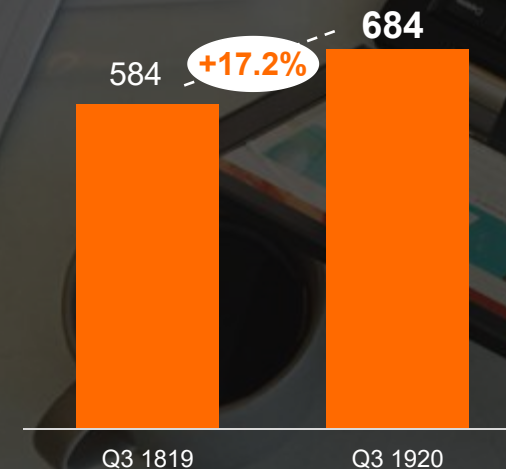
# IDG PCSD\* – Record Results

- Overcame severe supply shortage with operational excellence.
- Record breaking results:
  - Revenue: **\$11.1B**
  - PTI: **\$684M**, up **17.2%** YOY
  - PTI margin: **6.2%**, up **0.7 points** YOY

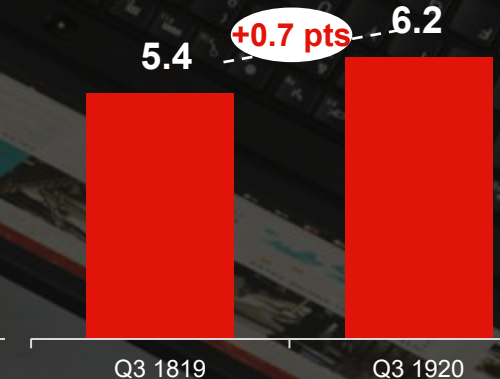
PCSD Revenue (\$M)



PCSD PTI (\$M)



PCSD PTI Margin (%)

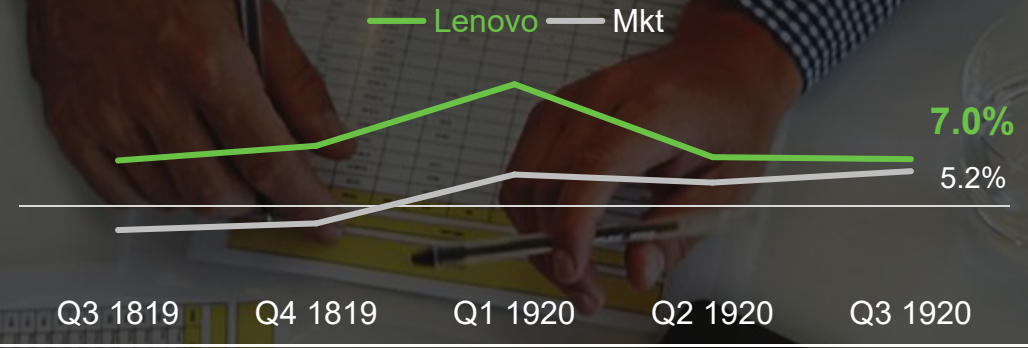


\* IDG: Intelligent Devices Group; PCSD: PC & Smart Devices

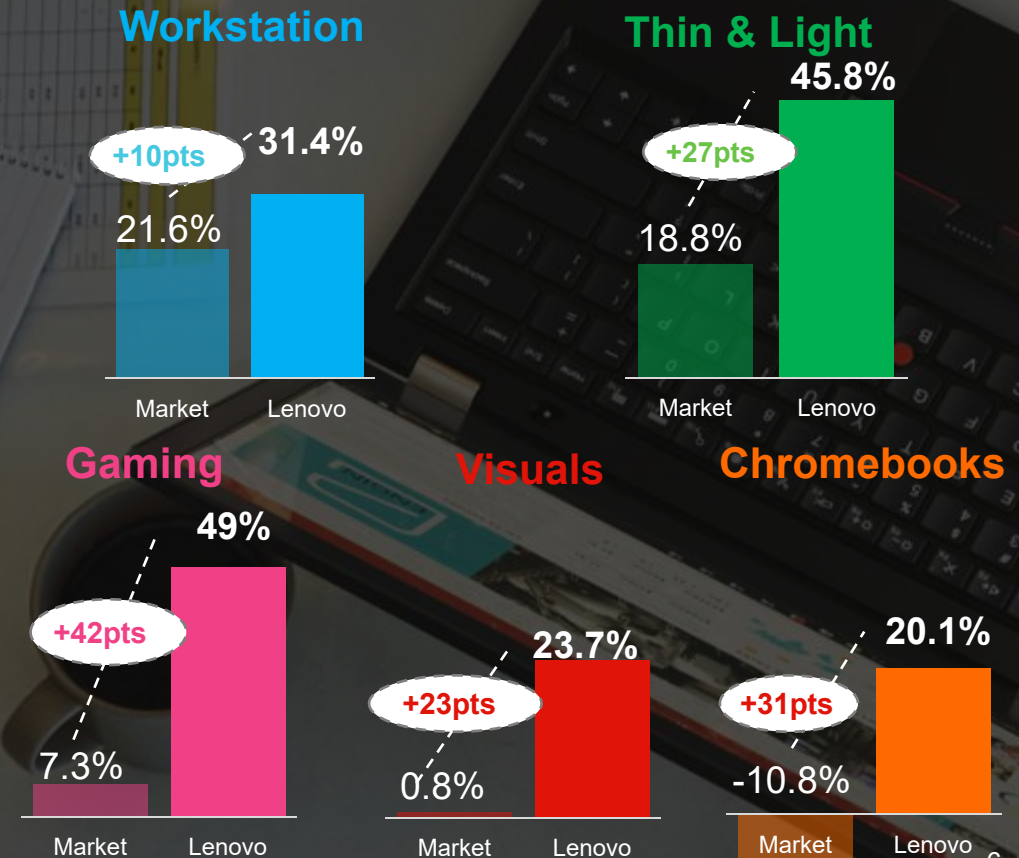
# IDG PC – Maintain Leading Position

- **#1** in PC again outgrew the market with **record shipments**
- Outgrew market by **double-digits** across high-growth, premium categories

## Global PC Volume Growth YOY (%)



## Segment Volume Growth vs Market YOY (%)



# IDG PCSD

## Drive growth through innovation



Lenovo 5G PC



ThinkBook Plus



ThinkPad X1 Fold



TIME named  
ThinkPad X1 Fold  
2019 Best Innovation



## IDG PCSD - Outlook

- Proven operational excellence
- Continuing innovation
- Outgrow the market and drive leading profitability



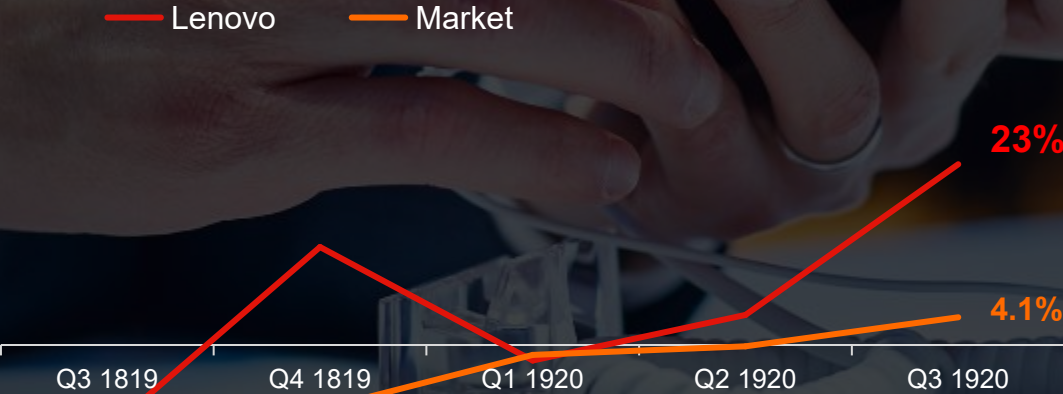
# IDG Mobile – Continued Profitability

- **5<sup>th</sup> consecutive** profitable quarter
- Latin America: volume outgrew market by **18.9** points while improving profitability

Mobile PTI (\$M)



LA Volume Growth vs Market (%YOY)



# IDG Mobile - Outlook

- Strengthen profitability while driving growth in new markets
- **Motorola razr Foldable** well received; re-entry to premium segment

Motorola razr Foldable



# Data Center – Continued Improvement

- Profitability improvement continued
- Server volume up **18%** YOY
- Non-hyperscale revenue grew **16%** YOY
  - PRC Non-hyperscale revenue grew **46%**
- Over **40%** revenue growth in SDI\* and Storage

DCG Rev. Growth YOY (\$M)    DCG PTI Growth(\$M)

1600    ---▶    1601



Q3 1819    Q3 1920

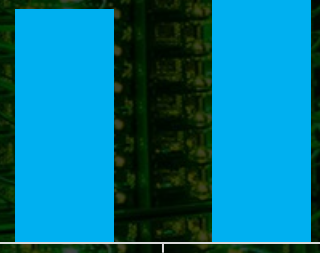


+\$8M

Q3 1819    Q3 1920

Non-Hyperscale Rev Growth YOY (%)

+16%



Q3 1819    Q3 1920

PRC Non-Hyperscale Rev Growth YOY (%)

+46%



Q3 1819    Q3 1920

SDI, Storage Revenue Growth YOY(%)

SDI

+41%



Q3 1819    Q3 1920

Storage

+44%



Q3 1819    Q3 1920

\* SDI: Software Defined Infrastructure

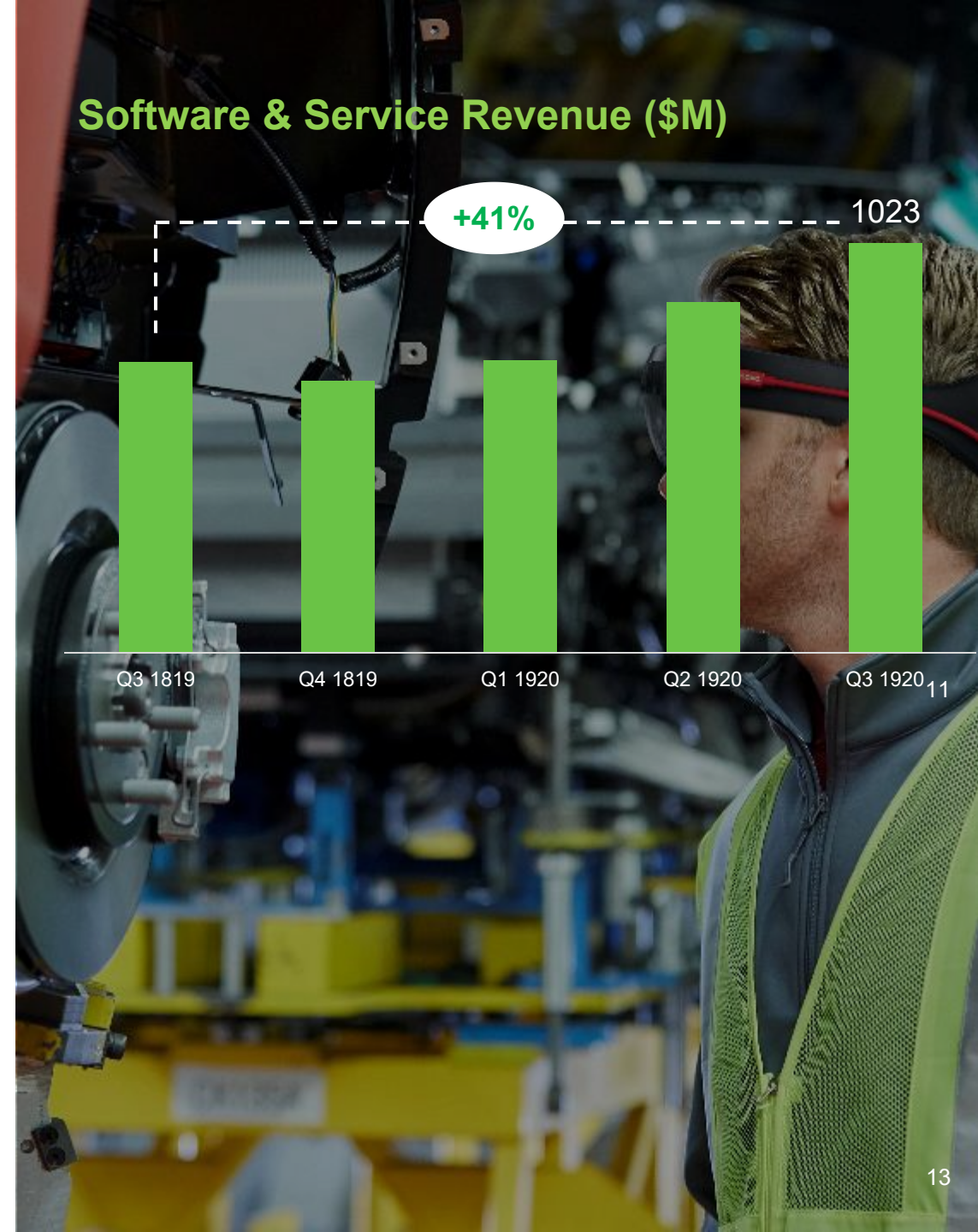


# Data Center - Outlook

- Resume revenue growth
- Hyperscale:
  - Expand in server + storage
  - Acquire new customers
- Non-Hyperscale:
  - Drive premium to market growth
  - Increase customer diversity
  - Accelerate and expand indirect channels

# Intelligent Transformation – Continued Hypergrowth

- Smart IoT revenue **quadrupled** YOY
- Smart Infrastructure revenue, up **50%+** YOY
- Smart Vertical revenue **doubled** YOY
- Software & Services revenue\* reached **\$1 Billion** per quarter, up **41%** YOY



\* Invoiced Revenue



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Our core competence of **geographical balance, operational excellence, and strategic execution** gives us the ability to **succeed in any circumstances.**



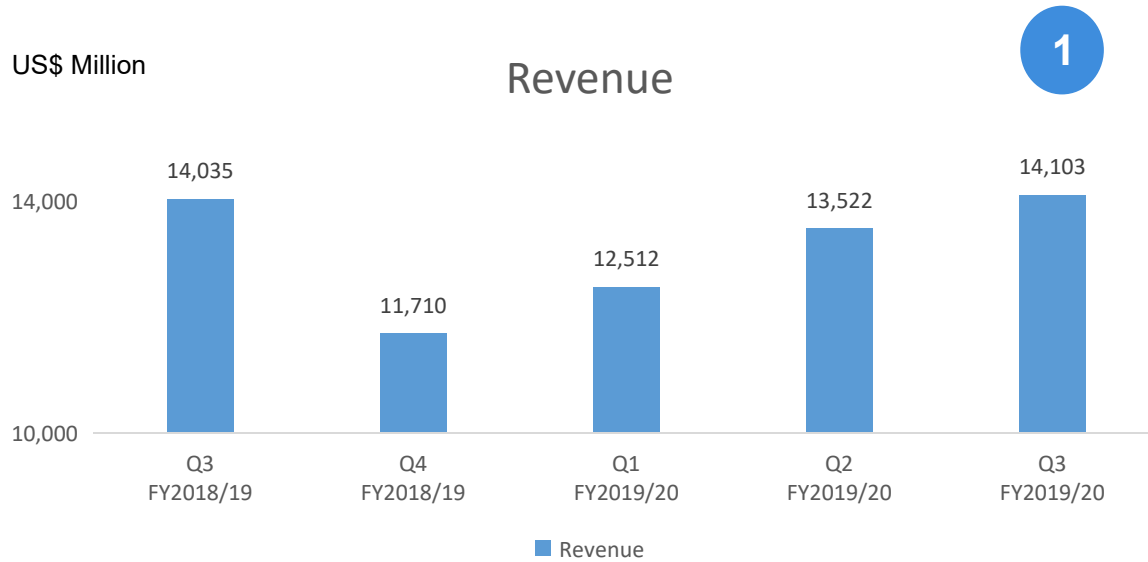
# Wong Wai Ming

Chief Financial Officer



# Financial Highlights

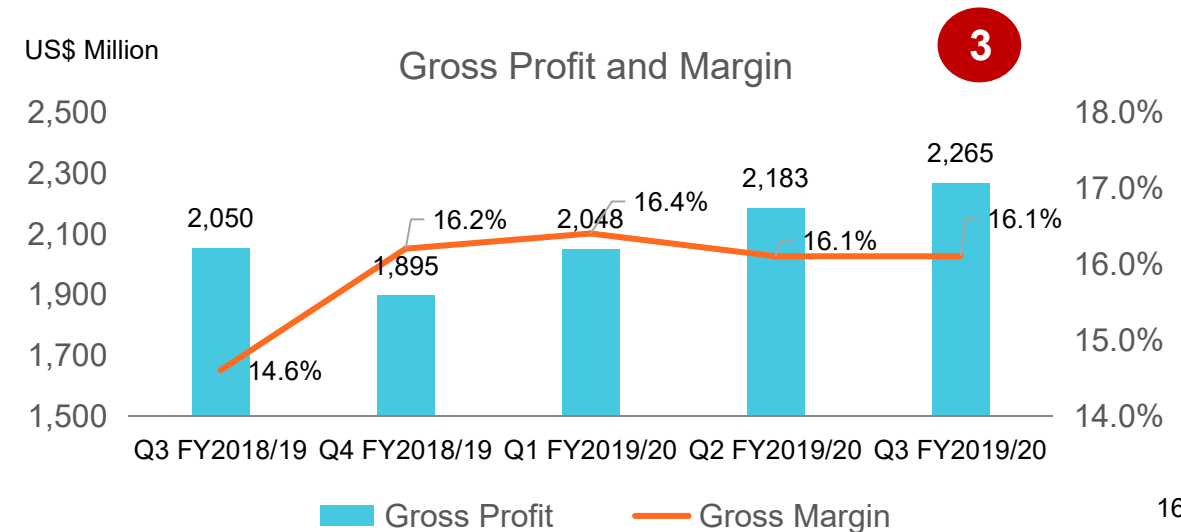
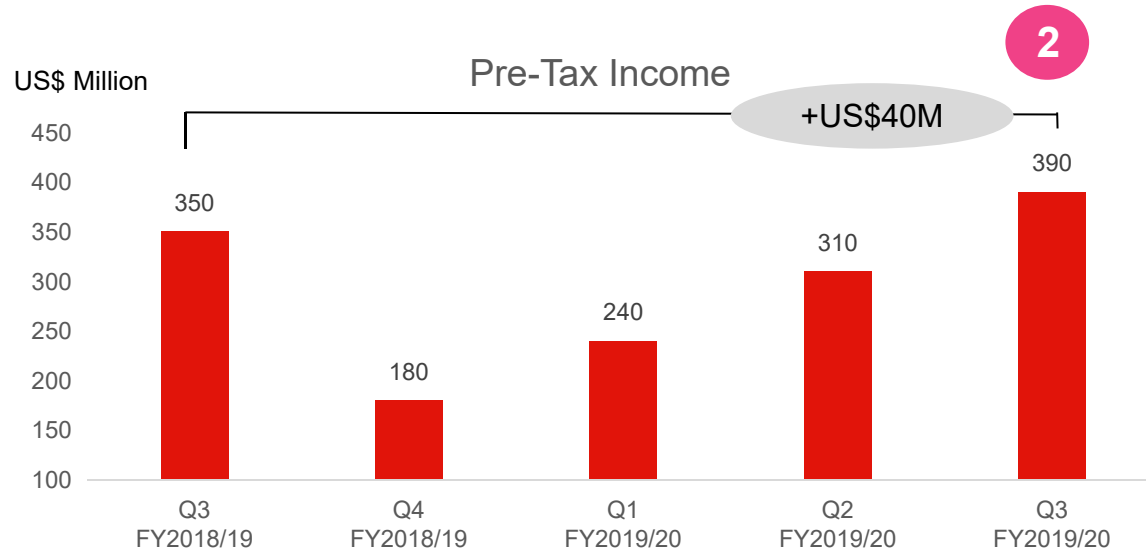
## Q3 Highlights



**1** All-time high revenue thanks to strong execution in PCSD business and improvement of DCG business; Software and Services revenue\* up 41% YTY

**2** Record profit: PTI up 11% YTY, driven by the highest PTI margin since acquisitions of Motorola Mobility and x86 server businesses

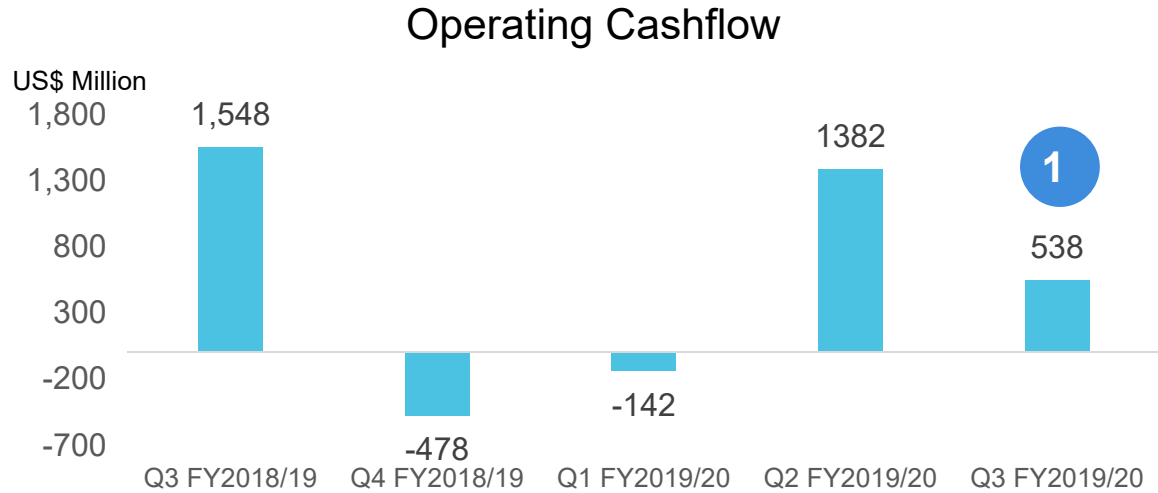
**3** Robust gross profit margin, up 1.5pts YTY to 16.1%



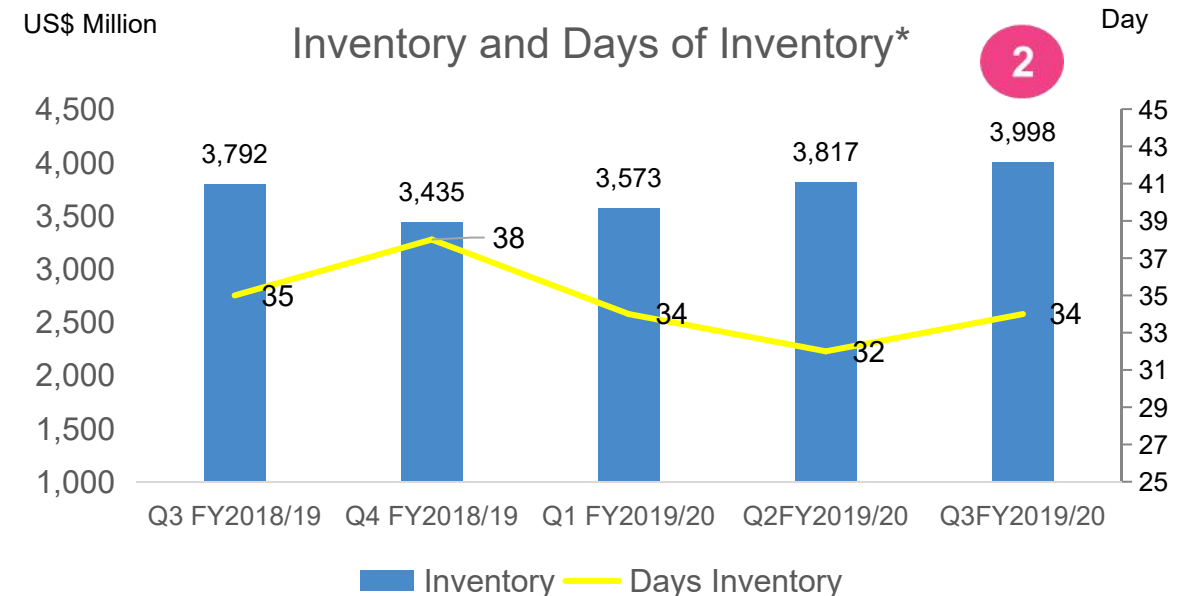
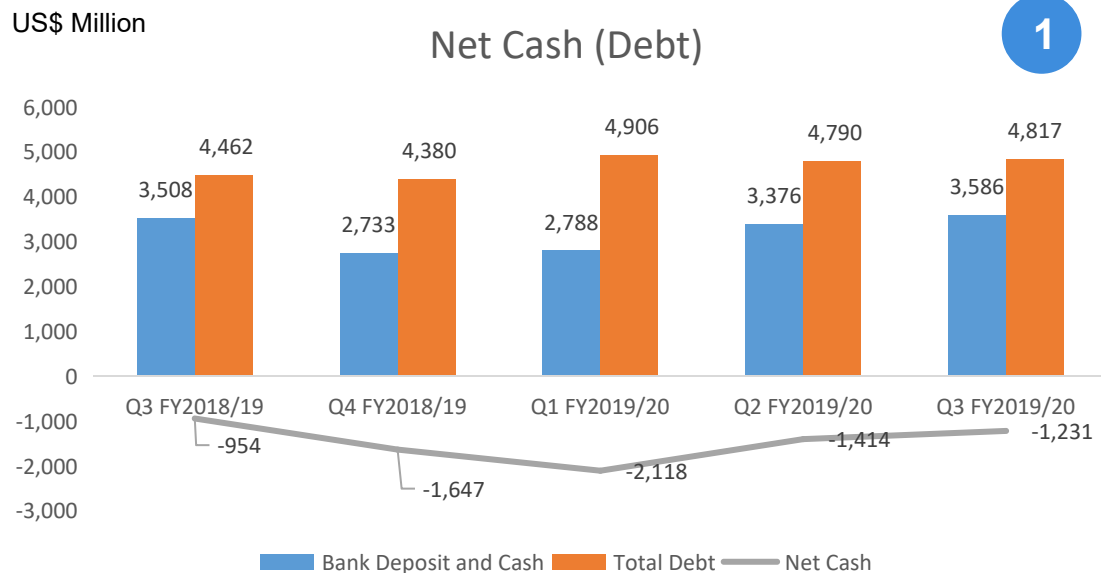


# Cash and Working Capital

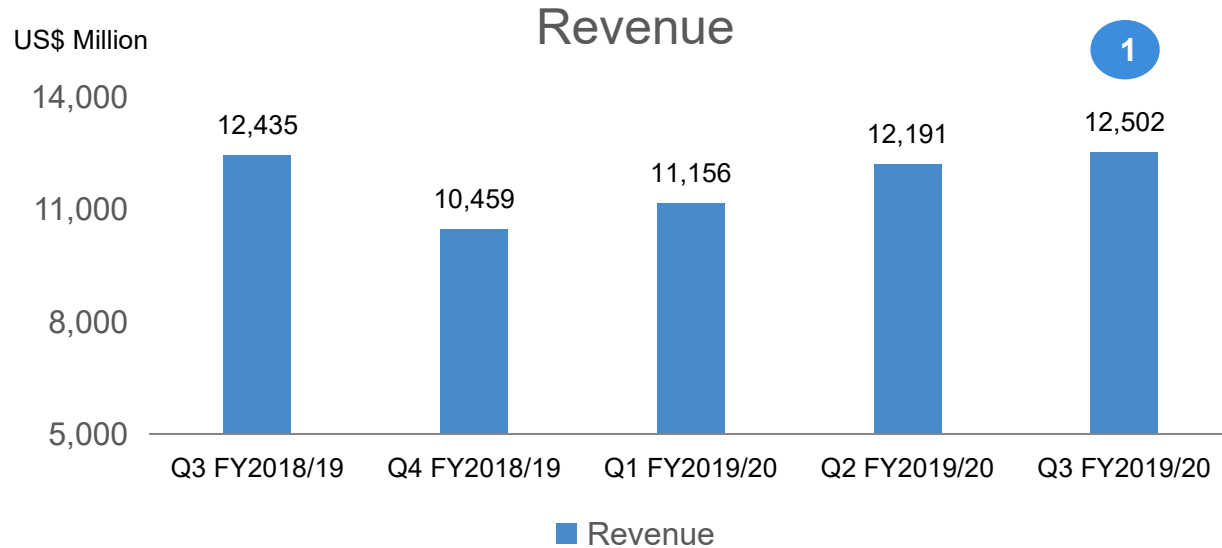
## Q3 Highlights



- 1 Operating cashflow and net debt position reflecting improvement in inventory and accounts payable management being offset by reduced AR factoring volume
- 2 Inventory days lowered by 1 day YTY; sequentially higher on inventory rebuild of strategic parts

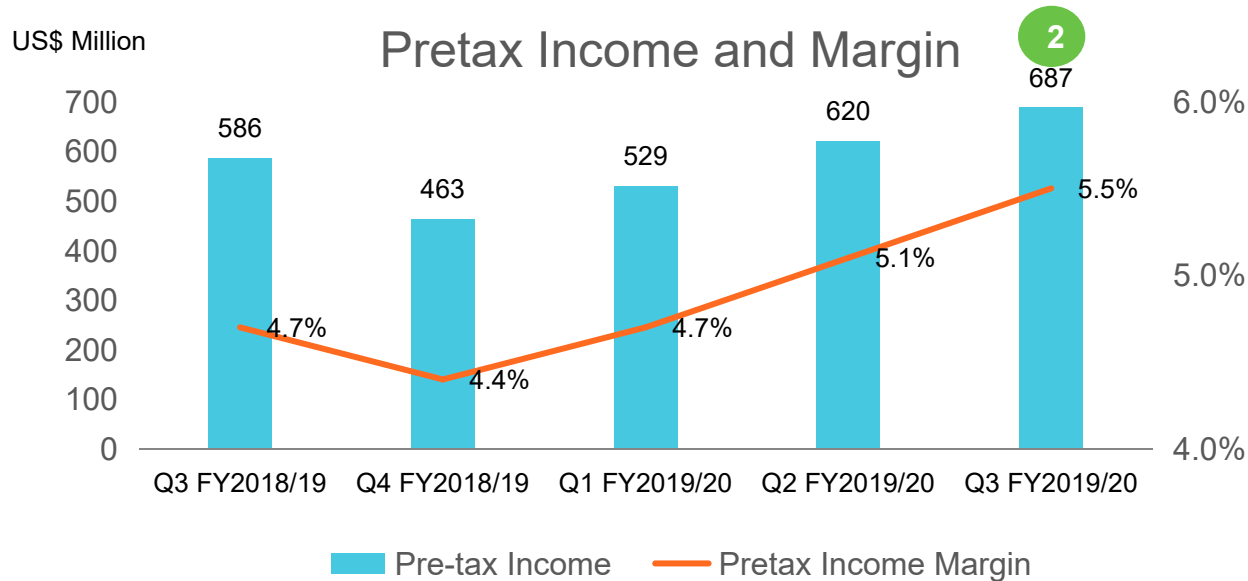


# Intelligent Devices Business Group (IDG)\*



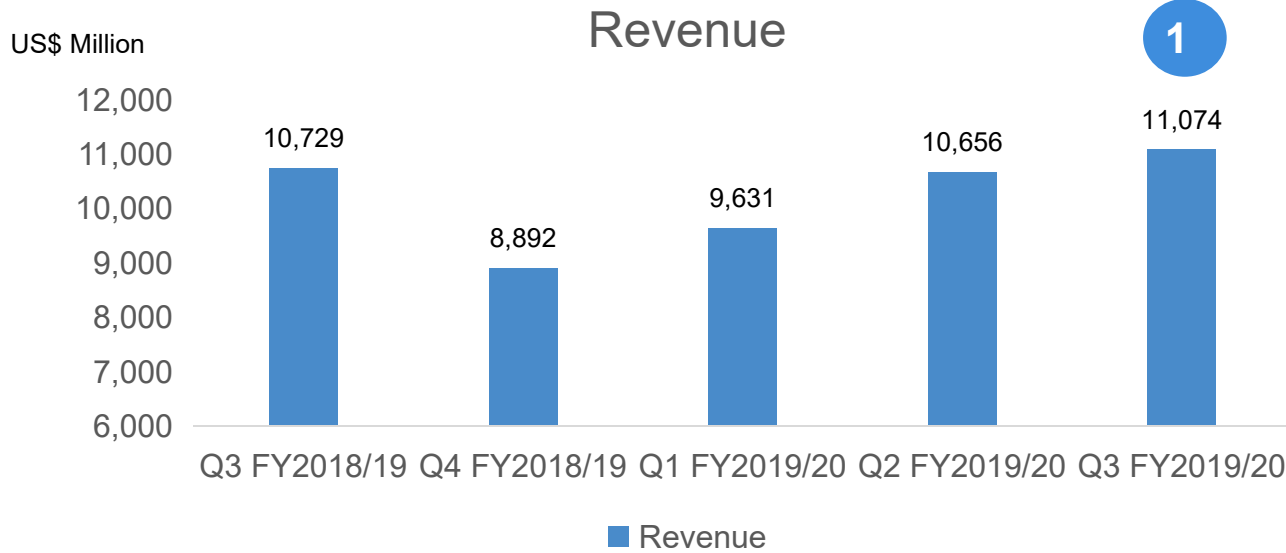
## Q3 Highlights

- 1 All-time high revenue thanks to robust share gain in PCSD
- 2 New milestone set on pre-tax profit and margin thanks to sales mix improvement



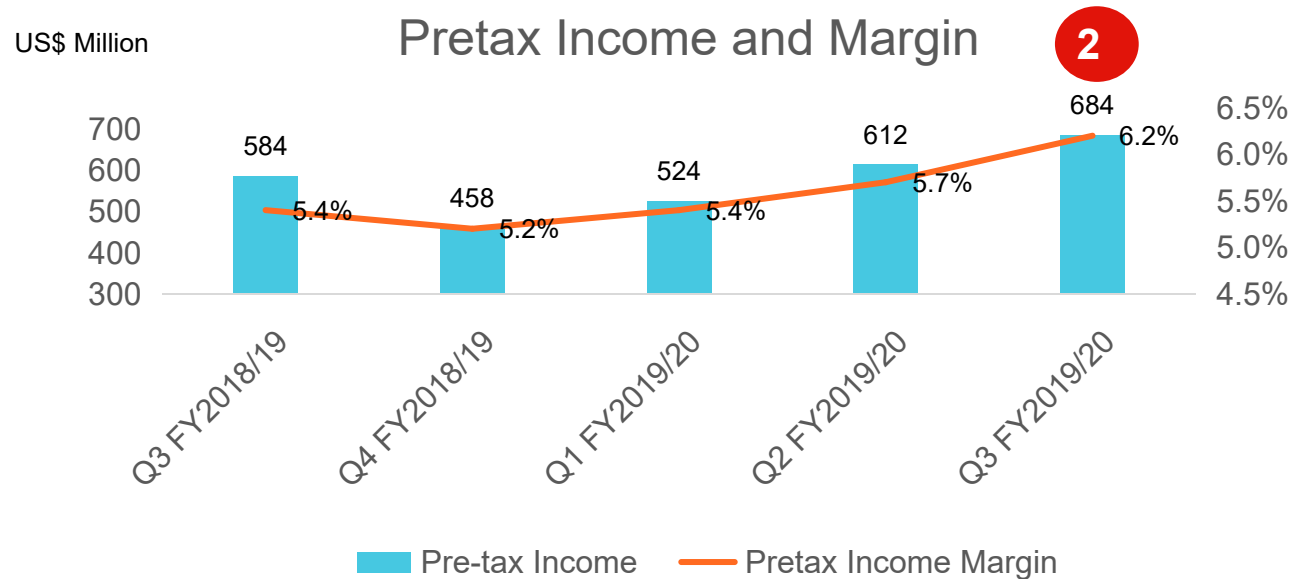
\* IDG mainly consists of PC & Smart Device (PCSD) and Mobile Business Group (MBG) businesses.

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



## Q3 Highlights

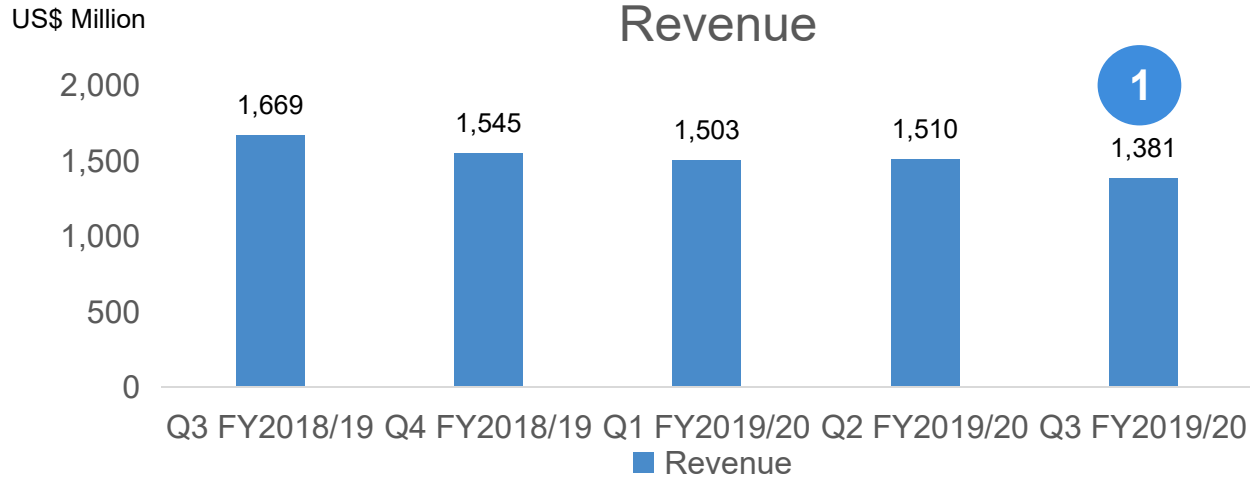
- 1** Record PCSD revenue despite severe shortage of a key component; reinforced global no. 1 position in PC market
- 2** Pre-tax profit up 17% YTY on further expansion of industry-leading profitability; pre-tax margin reaching a record 6.2%



- 3** More than half of PCSD revenue now coming from high-growth, premium-segments across Workstation, Thin & Light, and Gaming PC
- 4** New growth opportunity in high-margin Software and Services\* with its revenue up strong double-digits YTY

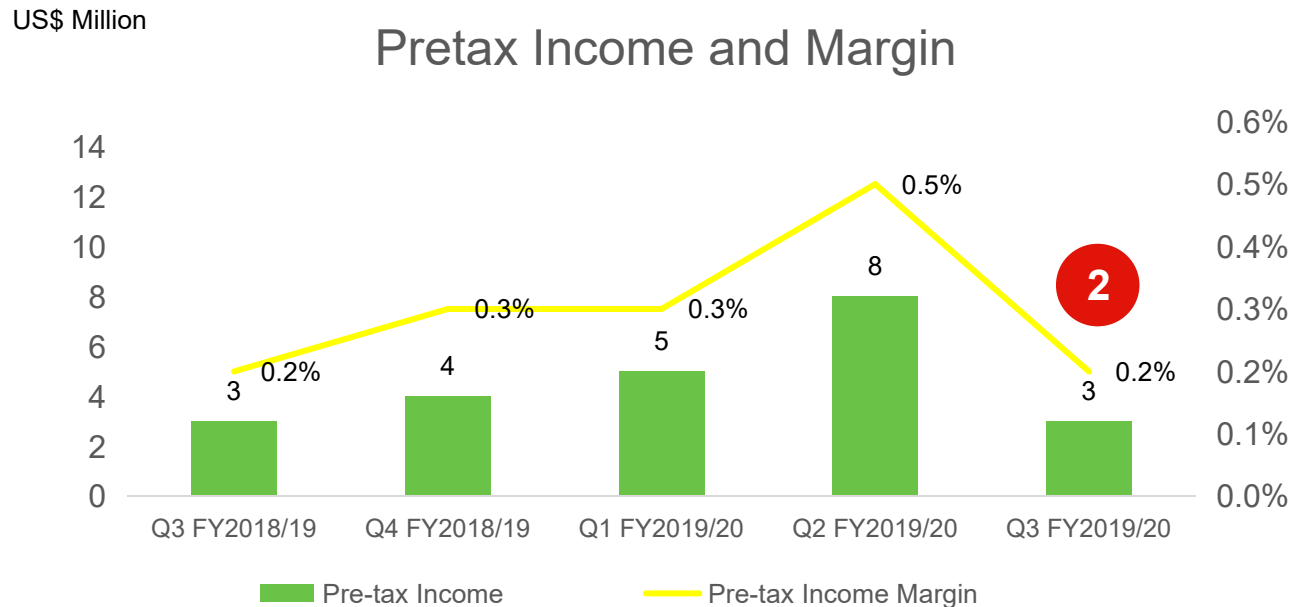
\* Invoiced revenue.

# IDG - Mobile Business Group (MBG)

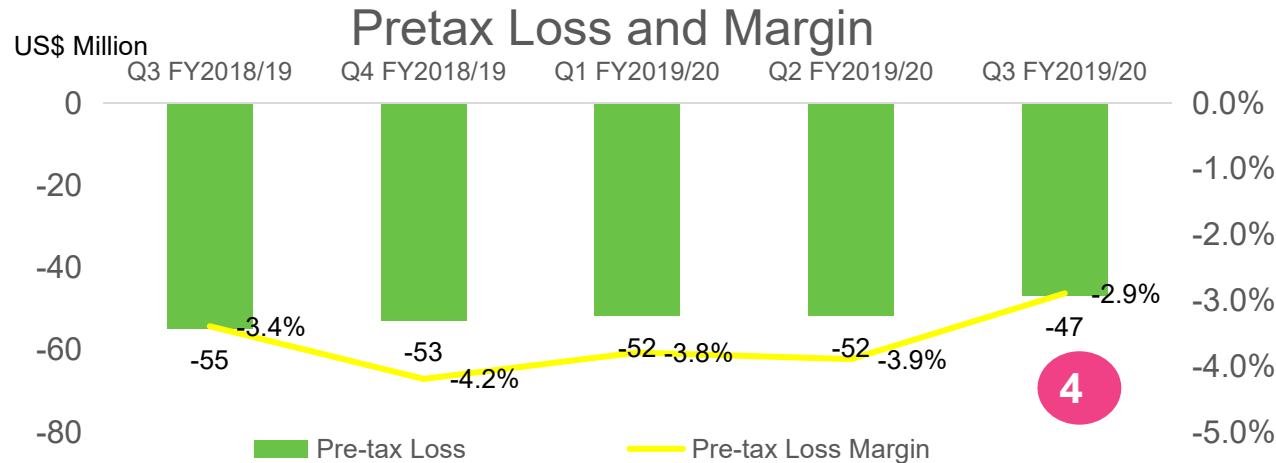
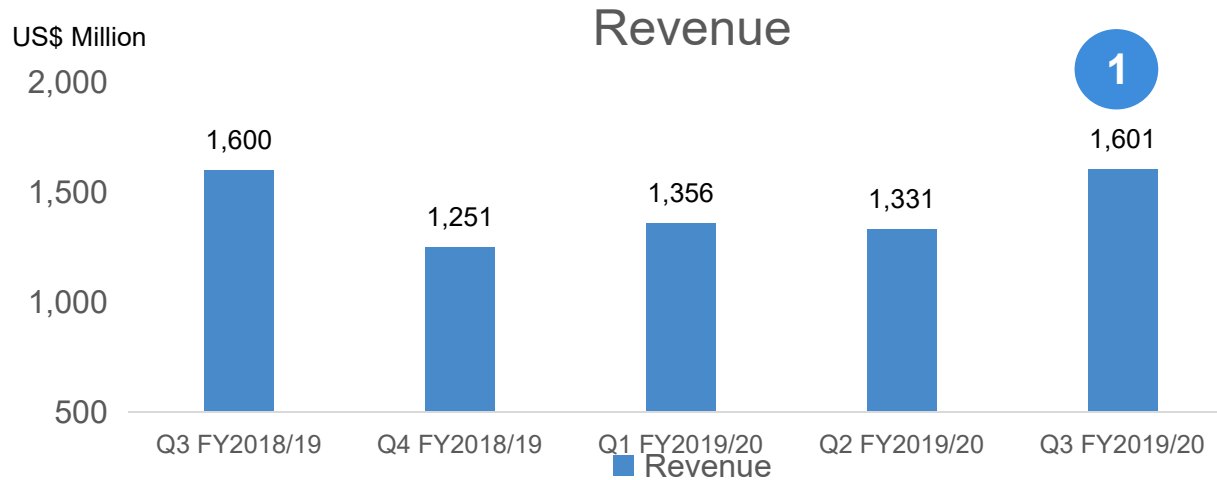


## Q3 Highlights

- 1** Slower revenue momentum due to component supply constraint
- 2** Positive PTI for 5th consecutive quarter: margin expansion in strategically focused market e.g. Latin America offsetting weakness in other regional markets
- 3** Investing in innovation with successful launch of Motorola razr to re-enter premium segment



# Data Center Business Group (DCG)



## Q3 Highlights

- 1 **Server shipments grew 18% YTY despite limited revenue growth; average selling price compression on the lingering impact of commodity price cut**
- 2 **Encouraging growth in enterprise server, software defined infrastructure, storage, and Software/Services**
- 3 **Expanding customer base and product to drive hyperscale growth**
- 4 **Pre-tax loss narrowed by \$8 million YTY**



# Outlook Statement

- **Group Mission is to be the Leader and Enabler of Intelligent Transformation**
- **Near-term supply challenge from Novel coronavirus outbreak**
- **IDG: Drive premium-to-market growth and industry-leading profitability**
  - **PCSD:** Target to maintain premium to market growth with industry-leading profitability; drive sales in high-growth and premium segments especially gaming
  - **Mobile:** Strengthen profitability, drive growth in new markets, and accelerate innovation; popular Motorola razr providing an opportunity to re-enter the premium segment
  - **Smart IoT:** Super charge growth in solution sales and services business
- **DCG: Resume growth while improving profitability**
  - Continue to drive growth in servers, software defined infrastructure, High Performance Computing, storage, software and services with increasing customer diversity and broader indirect channels.
  - Hyperscale: Expand our business with existing customers and continue to acquire new customers, leveraging our differentiated in-house motherboard design and manufacturing; driving premium to market growth
- **3S Strategy: Accelerate Intelligent Transformation by bringing Smarter technology for all in the connected world; drive Smart IoT, Smart Infrastructure and Smart Vertical while leading customer-centric transformation**
  - Continue to exploring and improving smart vertical solutions in the promising verticals across smart education, smart city, and smart health care

# 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

Dividend per share (HK cents)

	Q3 FY2019/20	Q3 FY2018/19	Y/Y%
Revenue	14,103	14,035	0%
Gross Profit	2,265	2,050	10%
Operating Expenses	(1,777)	(1,616)	10%
Operating Profit	488	434	12%
Other Non-Operating Expenses	(98)	(84)	16%
Pre-tax Income	390	350	11%
Taxation	(85)	(85)	(1%)
Profit for the period	305	265	15%
Non-controlling interests	(47)	(32)	48%
Profit attributable to Equity Holders	258	233	11%
EPS (US cents)			
- Basic	2.16	1.96	0.20
- Diluted	2.07	1.92	0.15

Gross margin

E/R ratio

Operating margin

PTI margin

Net margin attributable to Equity Holders

	Q3 FY2019/20	Q3 FY2018/19
Gross margin	16.1%	14.6%
E/R ratio	12.6%	11.5%
Operating margin	3.5%	3.1%
PTI margin	2.8%	2.5%
Net margin attributable to Equity Holders	1.8%	1.7%



# Condensed Consolidated Income Statement

<i>US\$ Million</i>	Q3 FY2019/20	Q3 FY2018/19
Revenue	14,103	14,035
Cost of sales	(11,838)	(11,985)
Gross profit	2,265	2,050
Selling and distribution expenses	(816)	(702)
Administrative expenses	(609)	(616)
Research and development expenses	(341)	(273)
Other operating expense - net	(11)	(25)
Operating profit	488	434
Finance income	14	6
Finance costs	(108)	(86)
Share of loss of associated companies and joint ventures	(4)	(4)
Profit before taxation	390	350
Taxation	(85)	(85)
Profit for the period	305	265
Profit attributable to:		
Equity holders of the company	258	233
Perpetual securities holders	13	13
Other non-controlling interests	34	19
Earnings per share (US cents)		
- Basic	2.16	1.96
- Diluted	2.07	1.92

# Condensed Consolidated Balance Sheet

*US\$ Million*

	<b>As at Dec 31, 2019</b>	<b>As at Sep 30, 2019</b>
<b>Non-current assets</b>	<b>13,582</b>	13,274
Property, plant and equipment	1,732	1,683
Intangible assets	8,231	8,197
Others	3,619	3,394
<b>Current assets</b>	<b>21,445</b>	20,116
Bank deposits and cash	3,586	3,376
Trade, notes and other receivables	13,649	12,625
Inventories	3,998	3,817
Others	212	298
<b>Current liabilities</b>	<b>25,233</b>	24,039
Borrowings	2,664	2,648
Trade, notes, other payables, accruals and provisions	21,294	20,255
Others	1,275	1,136
<b>Net current liabilities</b>	<b>(3,788)</b>	(3,923)
<b>Non-current liabilities</b>	<b>5,498</b>	5,336
<b>Total equity</b>	<b>4,296</b>	4,015

# Condensed Consolidated Cash Flow Statement

US\$ Million	Q3 FY2019/20	Q3 FY2018/19	Q2 FY2019/20
Net cash generated from operating activities	538	1,548	1,382
Net cash used in investing activities	(215)	(217)	(200)
Net cash used in financing activities	(158)	(165)	(524)
Increase in cash and cash equivalents	165	1,166	658
Effect of foreign exchange rate changes	44	21	(63)
Cash and cash equivalents at the beginning of the period	3,312	2,213	2,717
Cash and cash equivalents at the end of the period	3,521	3,400	3,312

**thanks.**

**Different is better**

