

Smarter technology for all

Q4 and FY23/24 Earnings Announcement

May 23, 2024

Lenovo

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Smarter technology for all

Yuanqing Yang

Chairman & CEO

May 23, 2024

Lenovo



**Accelerating growth,
navigated downturn**



**Capturing
hybrid AI opportunity**



Q4

Group:

**Growth accelerated,
Capturing Hybrid AI
opportunities**

2023/24 Q4 Performance

- Revenue **\$13.8B**, up **9.5%** YTY
- Net income **\$248M**, up **118%** YTY
- Net income margin up **0.9pts** YTY
- All businesses resumed YTY growth
- Non-PC revenue mix up **1.5pts** YTY to **44.7%**, record high

Group:

Growth accelerated

Capturing Hybrid AI opportunities

Opportunities & Sustainable growth



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

- PC market resumed YTY growth
- Hybrid AI drives hybrid infrastructure
- Increasing demand for customized AI solutions and services



Committed to “AI for all”

- Committed to investment in innovation
- Full-stack AI capabilities: AI devices, AI infrastructure, AI solutions & services

Q4

SSG

Solutions & Services Group:
Strong growth & profitability,
Driving AI solutions

2023/24 Q4 Performance

- Revenue **\$1.82** billion, up **10%** YTY
- Operating margin **21.4%**, up **1.7pts** YTY
- Managed Services, Project & Solution Services revenue mix reached **55%**, up **5pts** YTY
- Hero offerings, e.g. Digital Workplace Solution & Hybrid Cloud, delivered rapid growth

SSG

Solutions & Services Group:

Strong growth & profitability, Driving AI solutions

Opportunities & Sustainable growth



- New IT services market expected stable growth (CAGR 11.3%, 2024-2027)
- Increasing demand for AI-native services



- Build AI-native & AI-embedded solutions & services



Q4

ISG

Infrastructure Solutions Group:
Regained momentum

2023/24 Q4 Performance

- Revenue resumed YTY growth, up **15%**, to record high for Q4
- Third consecutive quarter of revenue QTQ growth
- Combined revenue from Storage, Software and Services up **52%** YTY
- HPC revenue record high
- Edge revenue record high for Q4

ISG

Infrastructure Solutions Group:

Regained momentum

Opportunities & Sustainable growth



- **ICT market continues shifting to hybrid AI infrastructure**

- AI servers to grow twice as fast as broad server market
- Hybrid infrastructure supported by “Client-Edge-Cloud-Network-Intelligence” architecture



- **Build a broad portfolio and convert pipeline**

- Capture the growth opportunities in traditional servers, storage, software and services
- Execute on plans to return to profitability

IDG
Intelligent Devices Group:
Solid growth
Strengthened leadership



2023/24 Q4 Performance

- Revenue **\$10.5** billion, up **7%** YTY
- Strong profitability, operating margin **7.4%**, up **0.6pts** YTY
- **PC**: market share **22.9%**, market leadership strengthened (6pts premium-to-market); industry leading profitability; #1 in 4 out of 5 geographies
- **Smartphone**: shipment up **23%** YTY (11pts premium-to-market); revenue up **14%** YTY (8pts premium-to-market)
- **Tablet**: shipment up **13%** YTY (12.5pts premium-to-market)

IDG

Intelligent Devices Group:

Solid growth

Strengthened leadership

Opportunities & Sustainable growth



Hybrid AI creates huge opportunities for AI device market:

- PC market volume to recover to higher than pre-Covid level
- AI PC to gradually grow from premium to mainstream, driving new refresh cycle
- Smartphone returned to hypergrowth



- Lead in personalized AI PC
- Expand from AI PC to more devices
- Drive seamless collaboration across device

Group:
Steady growth
Profitability improvement

2023/24 Full Year Performance

- **Group:** faced with macro challenges, revenue and profit declined YTY; but resumed revenue growth YTY and improved net margin in the H2
- **R&D** expense-to-revenue ratio, headcount & its percentage all record highs
- **SSG:** revenue up **12%** YTY, operating margin **20.7%**
- **ISG:** revenue third consecutive quarter of QTQ growth
- **IDG:** industry leading profitability; PC, tablet and smartphone shipments & revenues all regained YTY growth for H2

Capture the hybrid AI opportunities



Investment in innovation



Full-stack portfolio



Resilient operations



Ecosystem partnerships

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

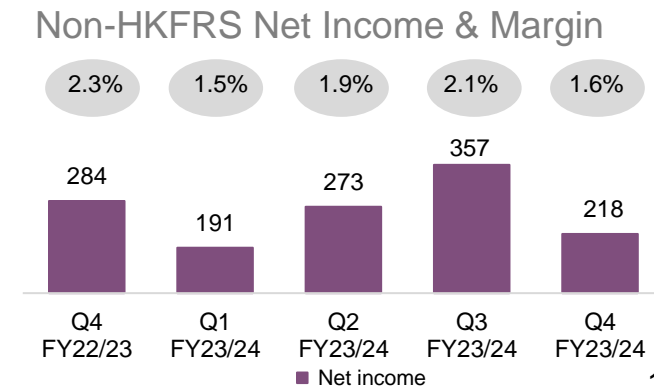
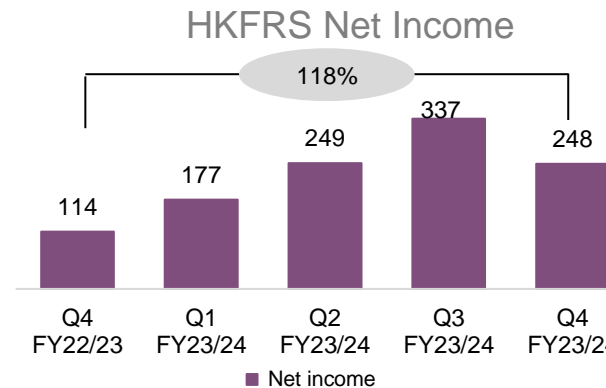
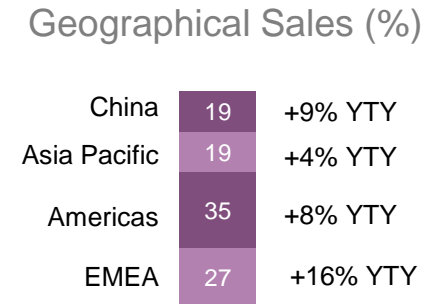
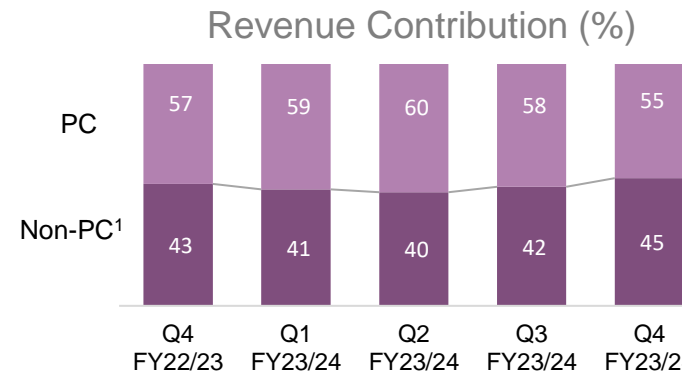
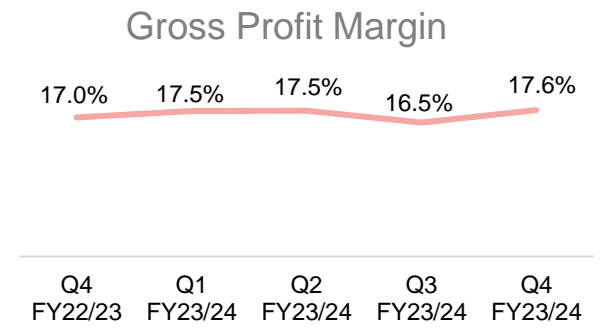
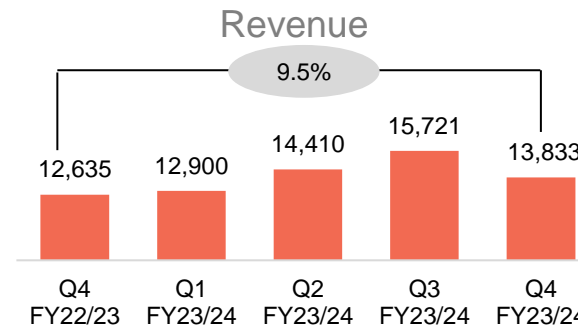
May 23, 2024

Lenovo

Accelerated Recovery

- Group net income surged 118% YTY, driven by revenue growth of 9.5% YTY and solid performances across business groups; HKFRS net margin expanded by 89bpts YTY
- Gross margin approaching record level thanks to steadfast R&D investments
- Contribution to business group revenue by non-PC¹ reached a record 44.7%
- SSG and ISG achieved double-digit YTY revenue growth, reaching new Q4 revenue heights. IDG profit up 17% YTY
- A non-cash gain of \$143mn from fair value assessment, offset by restructuring and other charges of \$132mn, aimed at enhancing efficiency and competitiveness

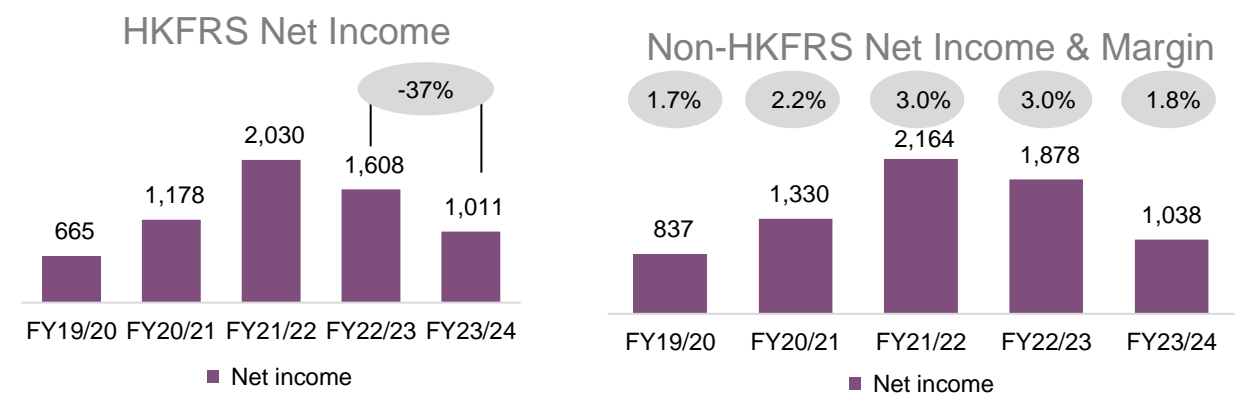
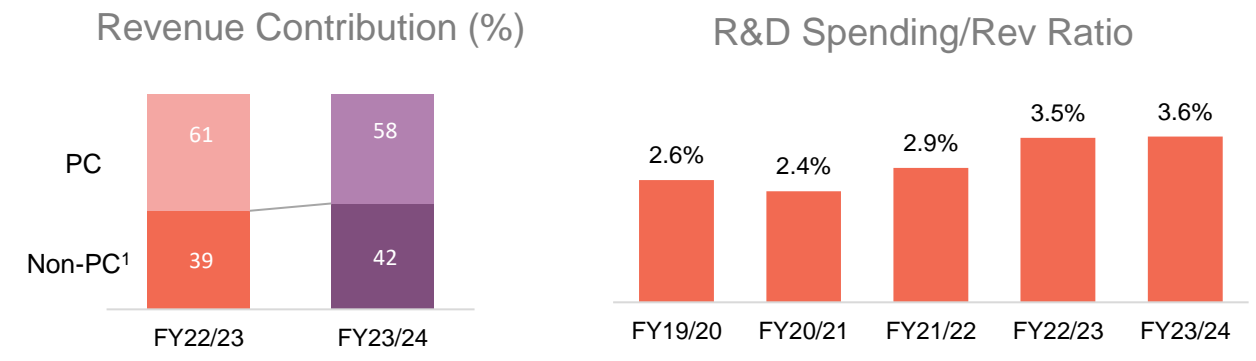
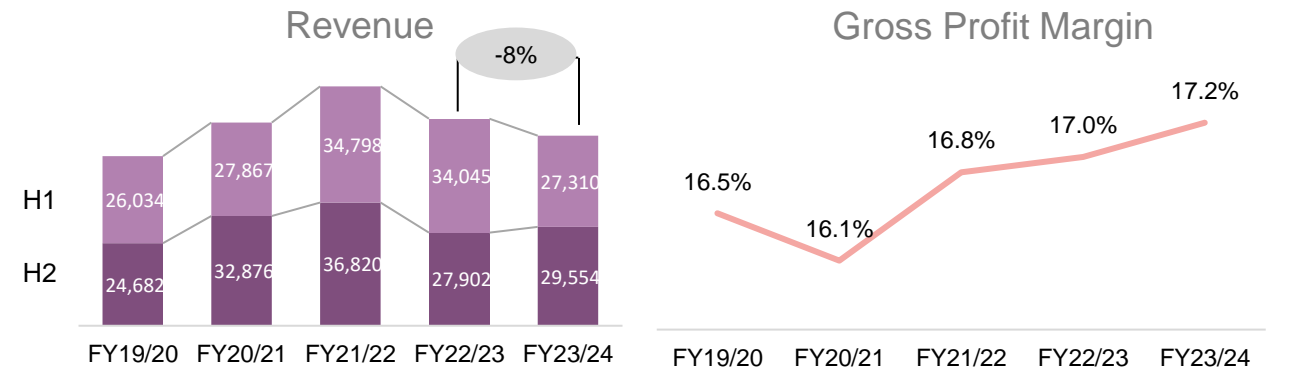
Performance – Q4 FY23/24



Unleash Hybrid AI Growth Opportunities

- Operational excellence and Hybrid AI innovations fostered a 6% YTY rebound in net income in H2, recovering from market headwinds in H1
- Non-PC¹ revenue mix up 3 pts YTY to 42%; SSG spearheaded Transformation efforts with record sales, profit contribution, and deals; ISG revenue broke a new Q4 record on broader AI portfolio and record sales across multiple product segments
- IDG solidified its global PC leadership by increasing market share; smartphone share rose in multiple geographies; profitability remained high
- R&D spending to revenue ratio reached a new high at 3.6%, showing our continued focus on innovation and IP generation

Performance – FY23/24



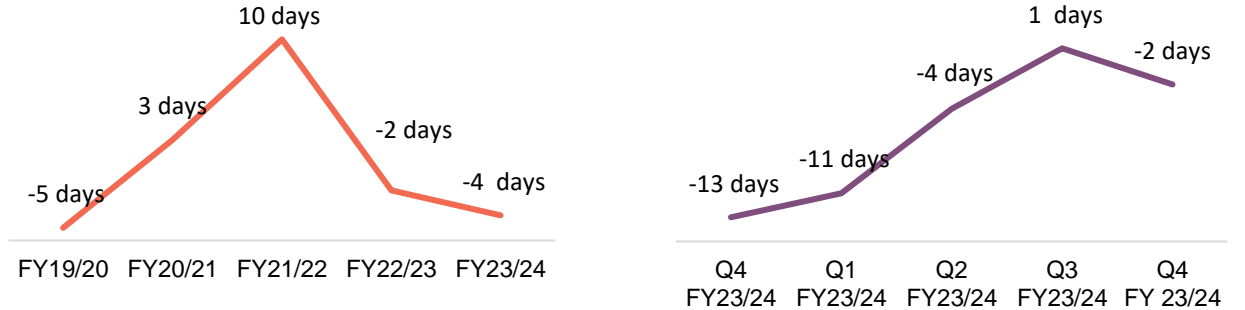
¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG

Robust Working Capital Management

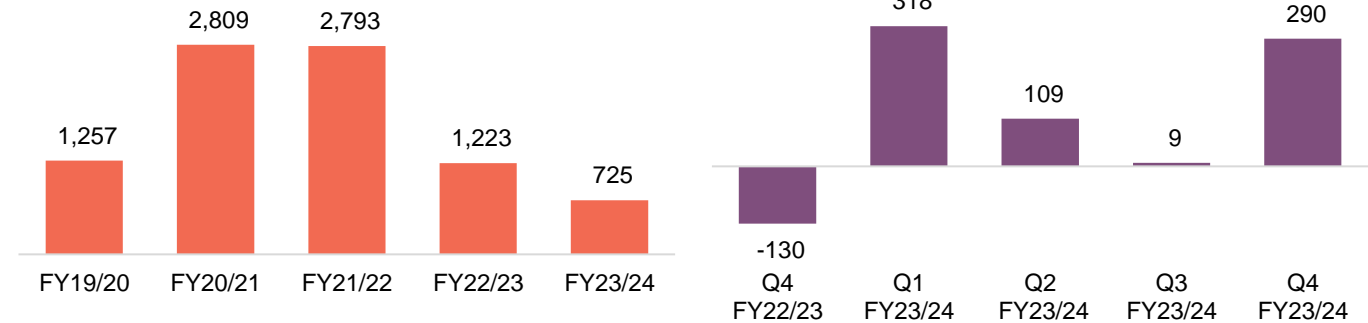
- Cash conversion cycle further improved to minus 4 days in FY24, driven by combined improvement in days of accounts receivables and inventory by 12 days, offsetting lower accounts payable days
- Robust free cash flow enables continued R&D investment, supporting Hybrid AI innovation
- Total borrowings reduced due to strong working capital management and full conversion of 2024 convertible bond

Performance

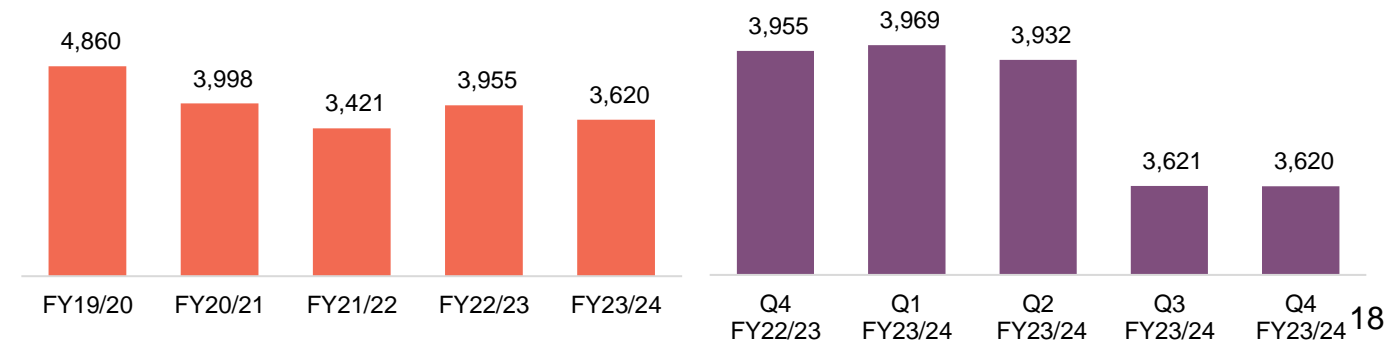
Cash Conversion Cycle



Free Cash Flow



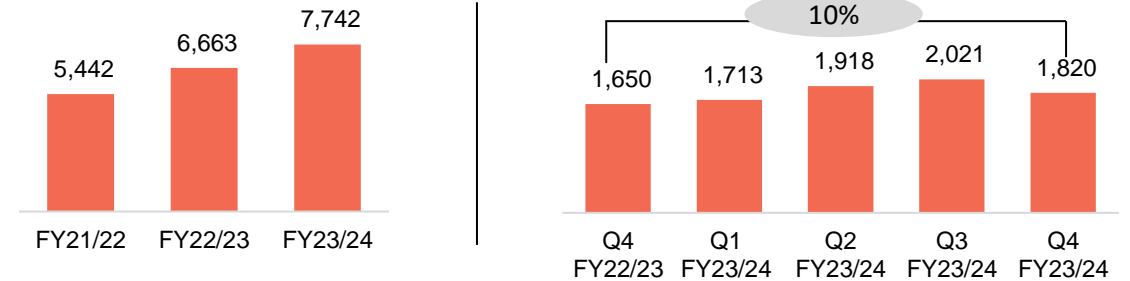
Total Borrowings



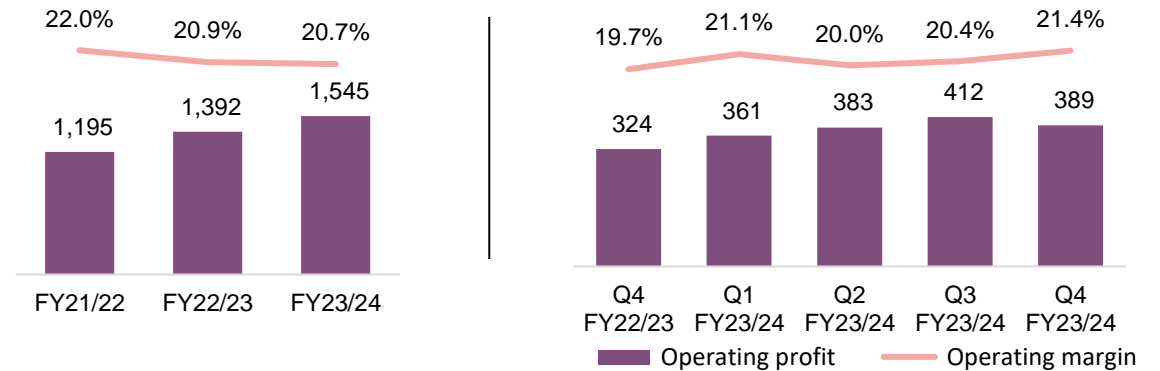
- Record full-year and Q4 revenue; full year operating profit reached 35% of combined total of the three business groups, highest in history
- Strong momentum for TruScale as-a-Service with double-digit YTY growth in contract signing
- Record PC penetration rate in Q4, the 12th consecutive quarters of YTY growth
- AI services including AI Discover and AI Fast Start launched to enable customers' AI adoption

Performance

Revenue



Operating Profit and Margin



Record
Q4 sales and the 12th consecutive quarter of double-digit revenue growth and profit margin

Record
Sustainability revenue with double-digit growth for the full year

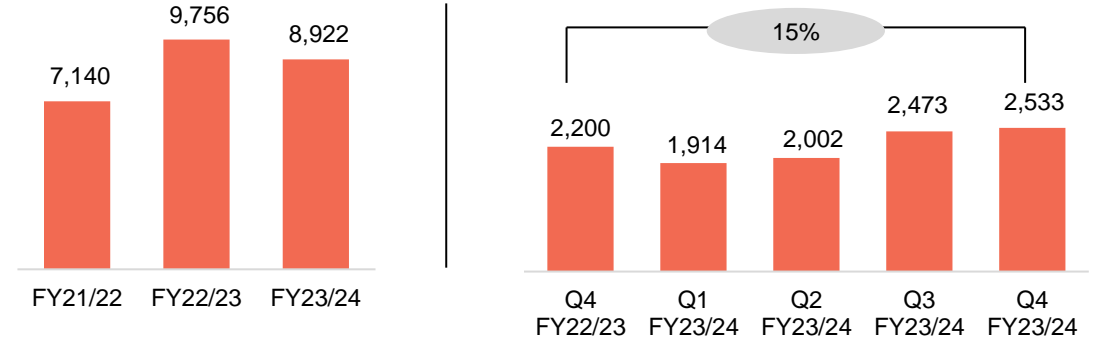
54%
of full year revenue from **non-hardware-tied**¹ business

1. Non-hardware-tied business: Managed Services and Project & Solution Services

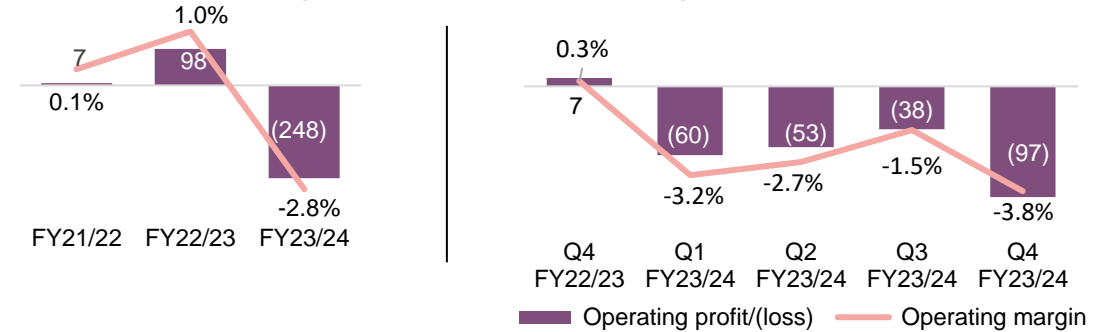
- Stronger momentum with record Q4 revenue, up 15% YTY
 - Second highest ever fiscal year revenue, with 25% growth over past 2 years
 - OP impacted by R&D investments, slow DDR5 transition, GPU supply constraints
- Return to profitability plan in execution
 - Over \$7B AI pipeline with improved GPU supply
 - 80+ AI optimized products ramping
 - ✓ 9 new LLM³ NVIDIA AI products announced
 - ✓ New AMD MI300X 8GPU LLM servers
 - Expanded AI product portfolio & new Partner GTM⁴ offerings
 - On-target for expense and operational efficiency improvement

Performance

Revenue



Operating Profit/(Loss) and Margin



No.1

in market share
in Top 500 HPC¹

No.3

Storage Revenue
for overall market²

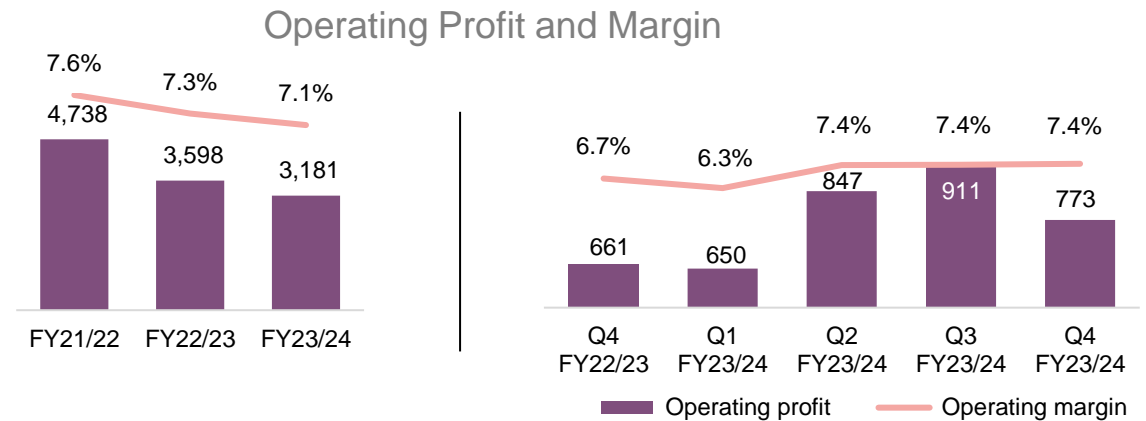
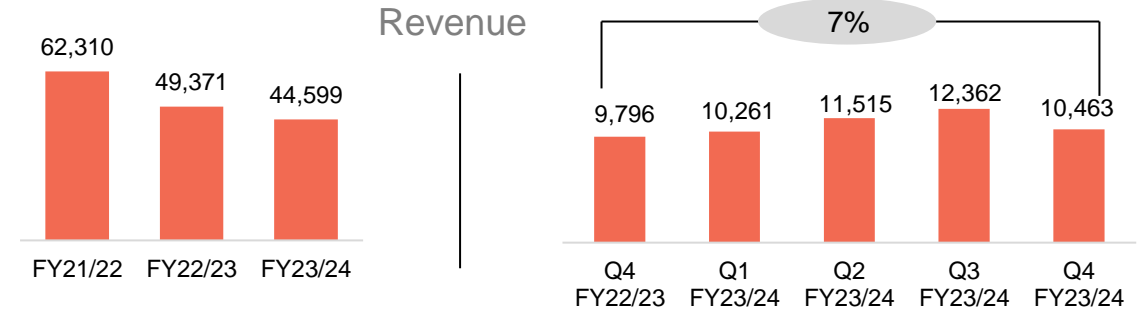
48%

Storage, services &
software revenue YTY
growth in FY23/24

1. Lenovo is the world's #1 supercomputer provider, according to TOP500.org
2. IDC Quarterly Enterprise Storage Systems Tracker, 2023 Q4, External Storage
3. LLM: Large Language Model
4. GTM: Go-to-Market

- FY revenue down 10% YTY but ending with a 7% YTY increase in Q4, the 2nd consecutive quarter of YTY growth, driven by market share gain; Q4 OPM reached 7.4%, near historical peak, thanks to operational excellence and enhanced premium mix
- Among the first to launch AI PCs as well as innovation in proprietary AI software and components for product differentiation
- Smartphone revenue growth accelerated to double-digits in H2 with significant premium-to-market growth mainly in EMEA/AP and a record premium mix for Q4 driven by strong foldable Razr sales

Performance



#1

in global PC for FY23/24 with 23.0% market share

Premium PC mix

+4.6pts YTY

to 22.6% in Q4

Record

Premium SP mix for Q4 +6pts YTY to 17%

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

Q4 FY23/24 ESG Updates

 <p>Environmental</p>	<p>Leadership</p> <p>band for CDP Climate Change for 5th consecutive year¹</p>	<p>Best Green Energy Product of the Year</p> <p>for Neptune liquid-cooling technology by CRN Sustainability Tech Award²</p>	<p>1 year of progress</p> <p>towards net-zero target validated by SBTi³</p>
 <p>Social</p>	<p>UNESCO Global Education Coalition</p> <p>and Digital Transformation Collaborative member⁴</p>	<p>3 years</p> <p>of partnership with Wine to Water⁵</p>	<p>20% increase</p> <p>in events celebrating International Women’s Day⁶</p>
 <p>Governance</p>	<p>Leadership</p> <p>band for CDP Supplier Engagement for 4th consecutive year⁷</p>	<p>Top 3%</p> <p>with Gold rating from EcoVadis for 2023⁸</p>	<p>Ethical AI statement</p> <p>from UNESCO was endorsed by Lenovo⁹</p>

1. Lenovo received an A- from CDP for climate change for 2023. This leadership ranking recognizes Lenovo for its efforts in implementing current best practices against climate change.
2. Lenovo has been awarded “Best Value Chain Initiative”, “Best Green Product”, and received a recognition of “highly commended” for “Circular Economy Company of the Year” in CRN’s first-ever Sustainability in Tech Summit.
3. On January 19, 2023, Lenovo announced its commitment to reach net-zero emissions by 2050, in alignment to the Science Based Targets initiative’s Net-Zero Standard. One year later, Lenovo is on-track to meet its near-term 2030 emissions reduction goals, the first milestone in the journey to net-zero.
4. Lenovo became a member of the Global Education Coalition and the Digital Transformation Collaborative, a tech-focused subgroup working to mobilize resources at a national scale to leverage digital transformation in education.
5. Wine To Water (WTW) is a global non-profit preserving life and dignity through the power of clean water. Through a multiyear partnership Lenovo provides support and technology for use in the field.
6. Lenovo’s 2024 International Women’s Day celebrations included over 37 events around the world planned by the women in Lenovo employee resource groups.
7. Lenovo received an A from CDP for supplier engagement and was included in their Supplier Engagement Leaderboard for 2023. This leadership ranking recognizes work engaging suppliers to tackle climate change.
8. EcoVadis is a provider of business sustainability ratings. With a gold rating, Lenovo is in the top 3% of companies rated by EcoVadis.
9. Lenovo joined seven other technology companies in Slovenia for the 2nd UNESCO Global Forum on AI, signing a ground-breaking agreement to build more ethical AI.

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 growth momentum continuing across three business groups; To further 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 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

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

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	Q4 22/23	Q4 23/24	Y/Y%	FY22/23	FY23/24	Y/Y%
Revenue	12,635	13,833	+9%	61,947	56,864	-8%
Gross profit	2,143	2,428	13%	10,501	9,803	-7%
Operating expenses	(1,852)	(1,939)	5%	(7,832)	(7,797)	0%
Operating profit	291	489	68%	2,669	2,006	-25%
Operating profit (non-HKFRS)	493	469	-5%	2,942	2,013	-32%
Other non-operating income/(expenses), net	(161)	(180)	12%	(533)	(641)	20%
Profit before taxation	130	309	137%	2,136	1,365	-36%
Profit before taxation (non-HKFRS)	338	290	-14%	2,422	1,378	-43%
Taxation	(24)	(56)	124%	(455)	(263)	-42%
Profit for the period/year	106	253	140%	1,681	1,102	-34%
Profit for the period/year (non-HKFRS)	294	229	-22%	1,925	1,098	-43%
Profit attributable to						
Other non-controlling interests	(8)	5	N/A	73	91	26%
Equity holders of the Company	114	248	118%	1,608	1,011	-37%
Equity holders of the Company (non-HKFRS)	284	218	-23%	1,878	1,038	-45%
EPS (US cents)						
Basic	0.95	2.02	113%	13.50	8.41	-38%
Diluted	0.93	1.95	110%	12.74	8.05	-37%
Dividend (HKD cents)				38.00	38.00	0%
	Q4 22/23	Q4 23/24		FY22/23	FY23/24	
Gross margin	17.0%	17.6%		17.0%	17.2%	
Operating margin	2.3%	3.5%		4.3%	3.5%	
E/R ratio	14.7%	14.0%		12.6%	13.7%	
PTI margin	1.0%	2.2%		3.4%	2.4%	
Net margin	0.9%	1.8%		2.6%	1.8%	

Condensed Consolidated Income Statement

US\$ Million	Q4 22/23	Q4 23/24	FY22/23	FY23/24
Revenue	12,635	13,833	61,947	56,864
Cost of sales	(10,492)	(11,405)	(51,446)	(47,061)
Gross profit	2,143	2,428	10,501	9,803
Selling and distribution expenses	(648)	(849)	(3,285)	(3,309)
Administrative expenses	(599)	(665)	(2,312)	(2,492)
Research and development expenses	(550)	(532)	(2,195)	(2,028)
Other operating income/(expenses) – net	(55)	107	(40)	32
Operating profit	291	489	2,669	2,006
Finance income	43	31	142	148
Finance costs	(198)	(201)	(658)	(763)
Share of losses of associates and joint ventures	(6)	(10)	(17)	(26)
Profit before taxation (PTI)	130	309	2,136	1,365
Taxation	(24)	(56)	(455)	(263)
Profit for the period/year	106	253	1,681	1,102
Profit attributable to				
Other non-controlling interests	(8)	5	73	91
Equity holders of the Company	114	248	1,608	1,011
Per share data				
Earnings per share (US cents) – Basic	0.95	2.02	13.50	8.41
Earnings per share (US cents) – Diluted	0.93	1.95	12.74	8.05

Condensed Consolidated Balance Sheet

<i>US\$ Million</i>	As of Mar 31, 2023	As of Mar 31, 2024
Current assets	22,941	22,687
Bank deposits and cash	4,321	3,625
Trade, notes and other receivables	11,886	11,930
Inventories	6,372	6,703
Others	362	429
Non-current assets	15,979	15,786
Property, plant and equipment	2,006	2,011
Intangible assets	8,267	8,154
Others	5,706	5,621
Current liabilities	26,093	26,059
Borrowings	272	50
Trade, notes, other payables, accruals and provisions	23,726	24,178
Deferred revenue	1,582	1,513
Others	513	318
Non-current liabilities	6,780	6,611
Borrowings	3,683	3,569
Deferred revenue	1,389	1,436
Others	1,707	1,539
Total equity	6,047	6,083

Condensed Consolidated Cash Flow Statement

US\$ Million	Q4 22/23	Q4 23/24	FY22/23	FY23/24
Net cash generated from operating activities	244	543	2,801	2,011
Net cash used in investing activities	(314)	(250)	(1,915)	(1,283)
Net cash used in financing activities	(729)	(155)	(414)	(1,337)
(Decrease)/Increase in cash and cash equivalents	(799)	138	473	(609)
Effect of foreign exchange rate changes	30	(44)	(153)	(82)
Cash and cash equivalents at the beginning of the period/year	5,019	3,466	3,930	4,250
Cash and cash equivalents at the end of the period/year	4,250	3,560	4,250	3,560

Supplemental Non-HKFRS Measures

US\$ Million	Q4 22/23				Q4 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	291	130	106	114	489	309	253	248
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	(89)	(89)	(67)	(82)	(51)	(51)	(42)	(48)
Amortization of intangible assets resulting from mergers and acquisitions	42	46	35	35	42	43	34	34
Mergers and acquisitions related charges	0	2	2	2	0	0	0	0
Restructuring and other charges	249	249	218	215	132	132	127	127
Gain on remeasurement of a written put option liability	-	-	-	-	(143)	(143)	(143)	(143)
Non-HKFRS	493	338	294	284	469	290	229	218
US\$ Million	FY22/23				FY23/24			
	Operating profit	Profit before taxation	Profit for the year	Profit attributable to equity holders	Operating profit	Profit before taxation	Profit for the year	Profit attributable to equity holders
As reported	2,669	2,136	1,681	1,608	2,006	1,365	1,102	1,011
Non-HKFRS adjustments								
Net fair value changes on financial assets at fair value through profit or loss	(204)	(204)	(169)	(140)	(153)	(153)	(127)	(96)
Amortization of intangible assets resulting from mergers and acquisitions	217	220	174	174	169	175	137	137
Mergers and acquisitions related charges	11	21	21	21	2	2	2	2
Restructuring and other charges	249	249	218	215	132	132	127	127
Gain on remeasurement of a written put option liability	-	-	-	-	(143)	(143)	(143)	(143)
Non-HKFRS	2,942	2,422	1,925	1,878	2,013	1,378	1,098	1,038

**Smarter
technology
for all**

Lenovo

thanks.