

Smarter technology for all

Q1 FY25 Earnings Announcement

Aug 15, 2024

Lenovo

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Smarter technology for all

Yuanqing Yang

Chairman & CEO

Aug 15, 2024

Lenovo



Solid performance

Revenue growth &
profitability improvement



Significant progress

Capturing
hybrid AI opportunities

Group:

Strong growth & profit increase,
pioneering hybrid AI vision



Performance

- Revenue **\$15.4** billion, up **20%** YTY
- Net income (Non-HKFRS) **\$315** million, up **65%** YTY
- All businesses achieved revenue growth & profitability improvement
- Non-PC revenue mix up **5pts** YTY to **47%**, record high

Group:

**Strong growth & profit increase,
pioneering hybrid AI vision**

Opportunities & Sustainable growth



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

- Clear trend of Hybrid AI
- Accelerating development & application of personal/enterprise AI agent

Pioneering Hybrid AI vision to realize “Smarter AI for all”



- Committed to innovation investment
- Full-stack AI portfolio & capability:
 - AI devices
 - AI infrastructures
 - AI native & embedded solutions & services

IDG

Intelligent Devices Group:

Double-digit growth &
leading profitability,
accelerating personal AI



Performance

- Revenue **\$11.4** billion, up **11%** YTY
- Strong profitability, operating margin **7.3%**, up **0.9pts** YTY
- **PC:** market share **23%**; industry leading profitability; positive market feedback on first batch of AI PC
- **Smartphone:** revenue up **28%** YTY, shipment YTY growth **20pts** premium to market; rapid growth in AP, EMEA & NA
- **Tablet:** revenue up **33%** YTY

IDG

Intelligent Devices Group:
**Double-digit growth &
leading profitability,
accelerating personal AI**

Opportunities & Sustainable growth



Hybrid AI creates huge opportunities for AI device market:

- PC market steadily recovering
- AI PC to represent 50%+ of PC industry landscape by 2027
- AI smartphone driving mobile market recovery



- Lead in personalized AI PC
- Achieve full potential of Personal AI agent through innovations
- Diversify portfolio and enrich ecosystem



ISG

Infrastructure Solutions Group: Strong growth, driving hybrid infrastructure

Performance

- Revenue **\$3.2** billion, up **65%** YTY, record high
- Narrowed operating losses QTQ & YTY
- Combined revenue from Storage, Software and Services up **59%** YTY, record high
- Neptune liquid-cooled servers revenue up **55%** YTY, record high
- HPC revenue up **30%** YTY, record high

ISG

Infrastructure Solutions Group:
**Strong growth,
driving hybrid infrastructure**

Opportunities & Sustainable growth



- **ICT market continues shifting to hybrid AI infrastructure**
 - Hybrid infrastructure supported by “Client-Edge-Cloud-Network-Intelligence” architecture
 - AI servers expected strong growth (CAGR 15%, 2024-2027)



- **Optimize E/SMB business models to drive profitability recovery**
 - Leverage liquid-cooling technology to meet AI workloads demands
 - Capture AI servers & storage opportunities
 - Build infrastructure platforms to support more hybrid AI solutions

SSG

Solutions & Services Group:

High margin &
double-digit growth,
building enterprise AI



Performance

- Revenue **\$1.9** billion, up **10%** YTY, double-digit growth for 13 consecutive quarters
- Operating margin **21%**
- Managed Services / Project & Solution Services revenue mix **55%**, up **3pts** YTY
- Hero offerings, e.g. Digital Workplace Solution & Hybrid Cloud delivered rapid growth

SSG

Solutions & Services Group:

**High margin &
double-digit growth,
building enterprise AI**

Opportunities & Sustainable growth



- New IT services market expected double-digit growth for mid-term (CAGR 10.6%, 2024-2027)
- AI services growth almost twice as fast as the overall market
- Hybrid AI creates new opportunities for AI-native solutions & services



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



**Lead hybrid AI
with full-stack
AI portfolio & capabilities**



**Seize opportunities
& mitigate risks
with globalization advantages**

Smarter technology for all

Wong Wai Ming

Chief Financial Officer

Aug 15, 2024

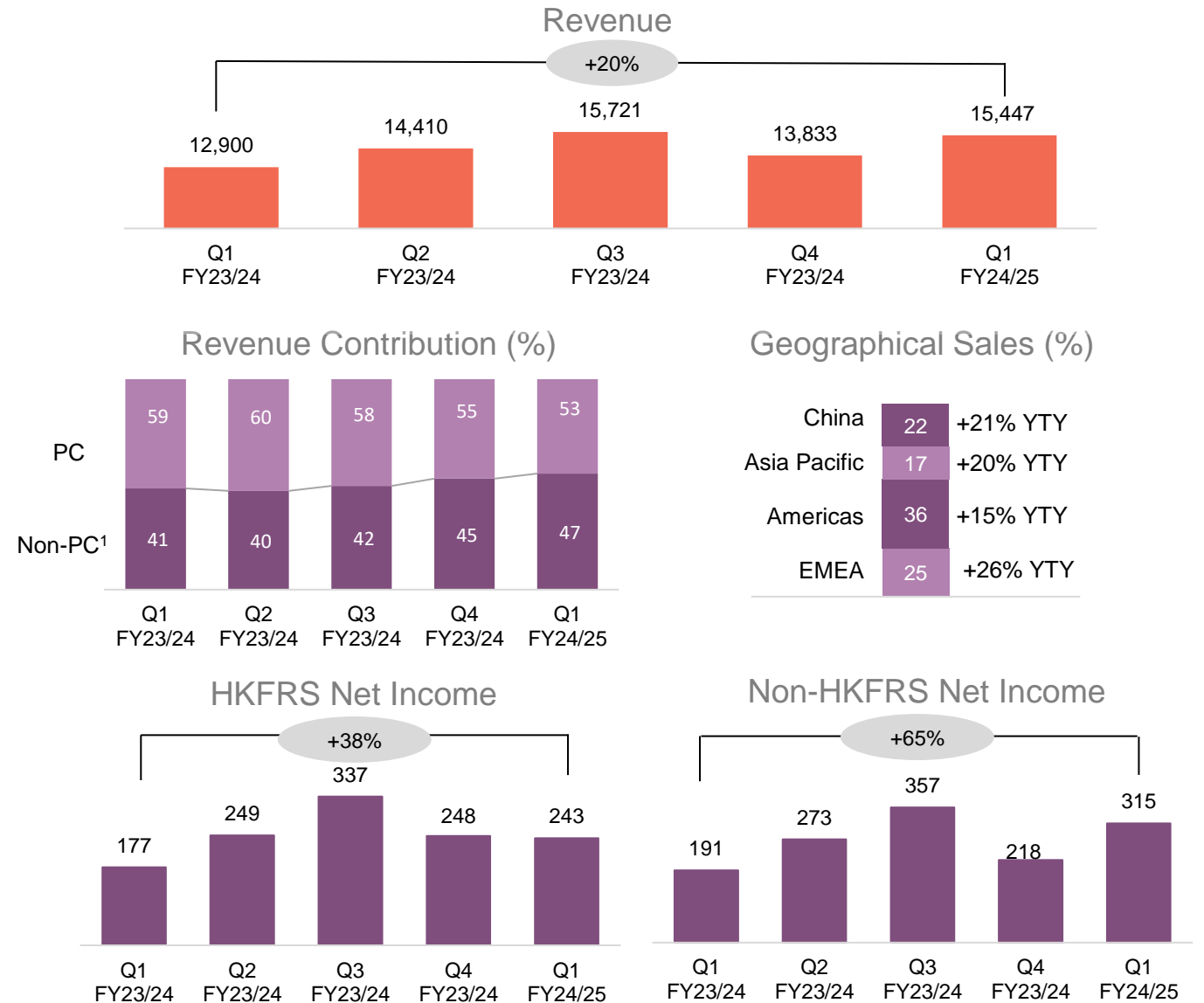
Lenovo

Accelerated Growth

- Group revenue and net income surged by 20% and 38%, respectively, on double-digit growth across all businesses and markets; 65% growth in non-HKFRS net profit
- Growing AI investments, resurgence in commercial demand, and premium sales strength boosted IDG's momentum; Comprehensive hybrid AI capabilities lifted ISG revenue by 65% YTY; SSG achieved record Q1 performances
- Non-PC¹ contribution to business group revenue reached a record 47%; R&D investment increased 6% YTY to support Hybrid AI innovation and IP generation
- Strategic partnership with Alat to enhance MEA market access and global supply chain capabilities



Performance – Q1 FY24/25

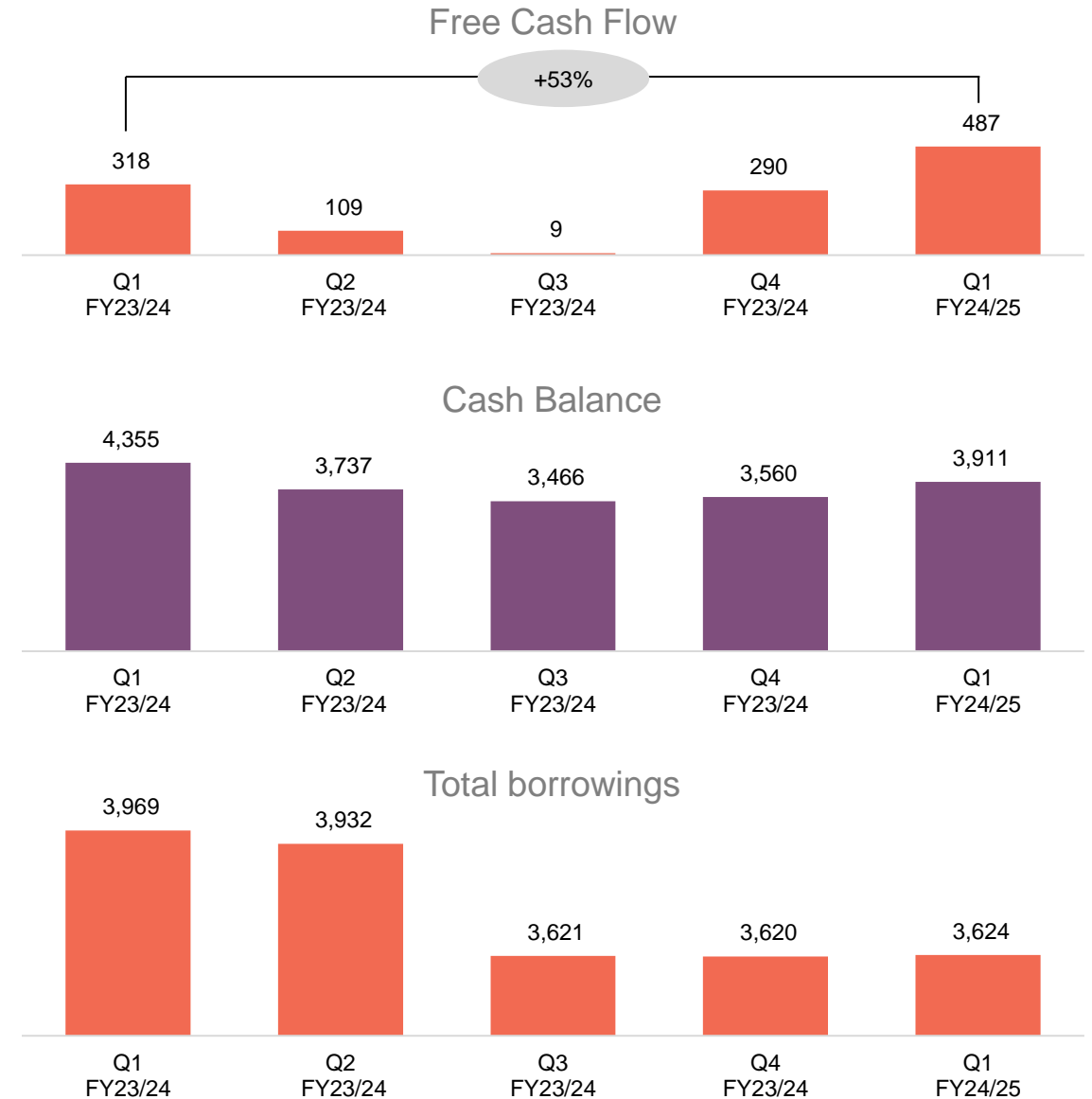


¹ Non-PC revenue includes revenues from SSG, ISG and non-PC part of IDG

Robust Financial Management

- Free cash flow increased 53% YTY thanks to solid cashflow management and profitability gains, leading to a strong cash balance
- Total borrowings reduced YTY due to strong profit growth, healthy cashflow generation, and full conversion of 2024 convertible bond
- Cash conversion cycle lengthened 11 days from a year ago. This is primarily driven by the longer inventory days, in response to rising demand, new product launches, and preparation for strong seasonality

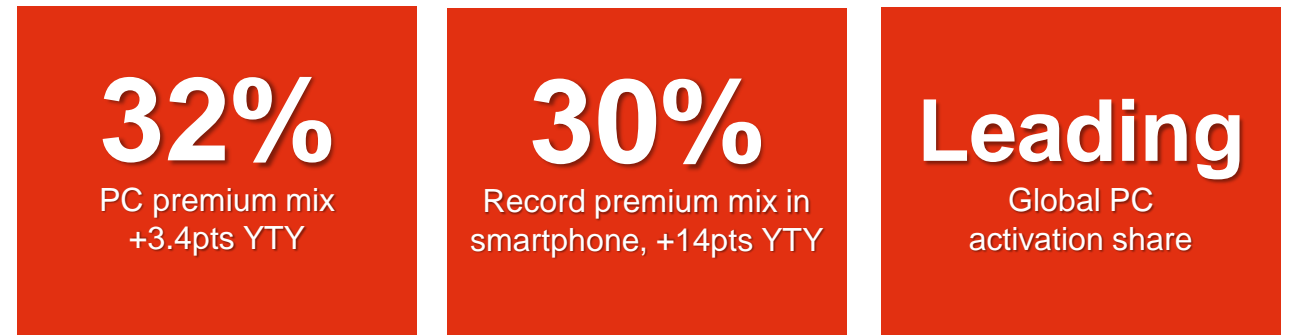
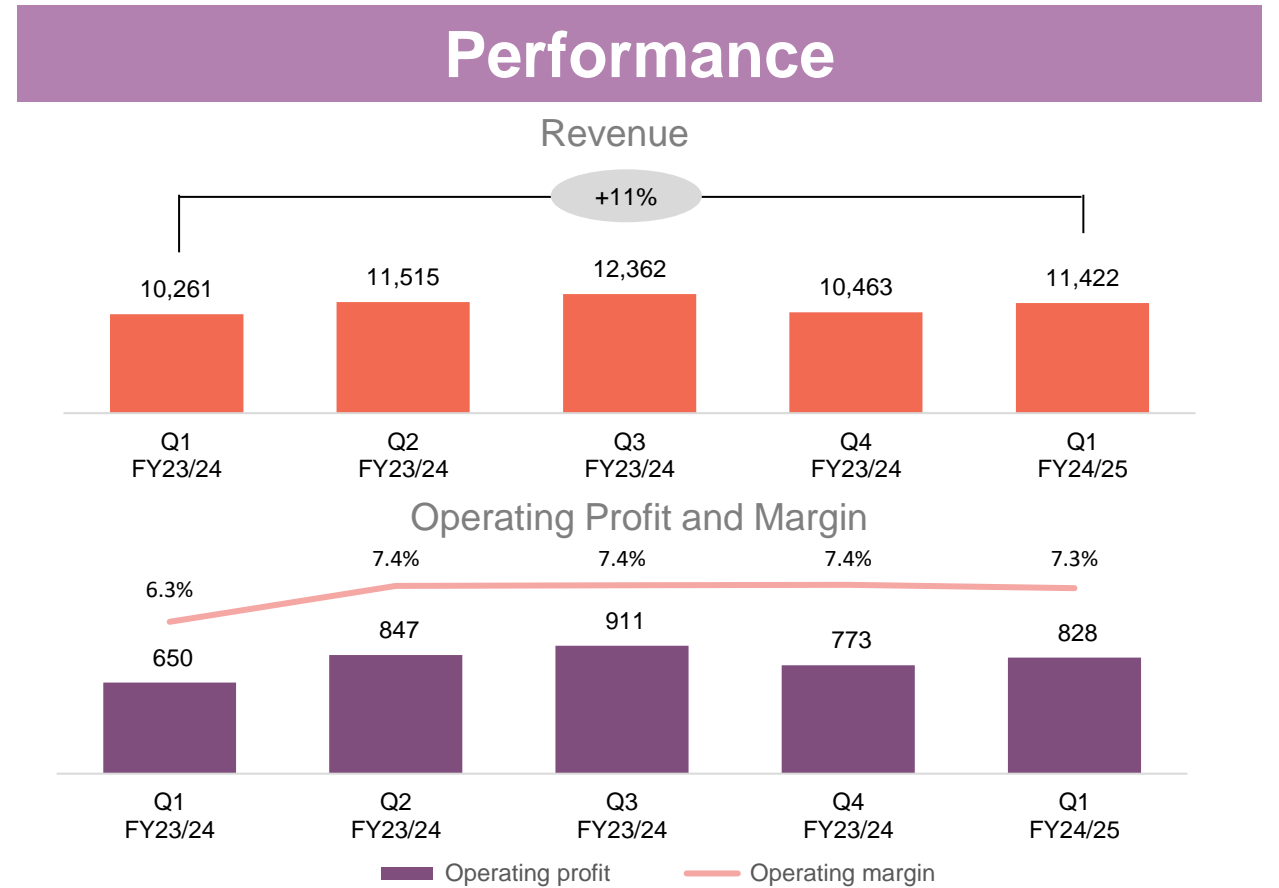
Performance



IDG

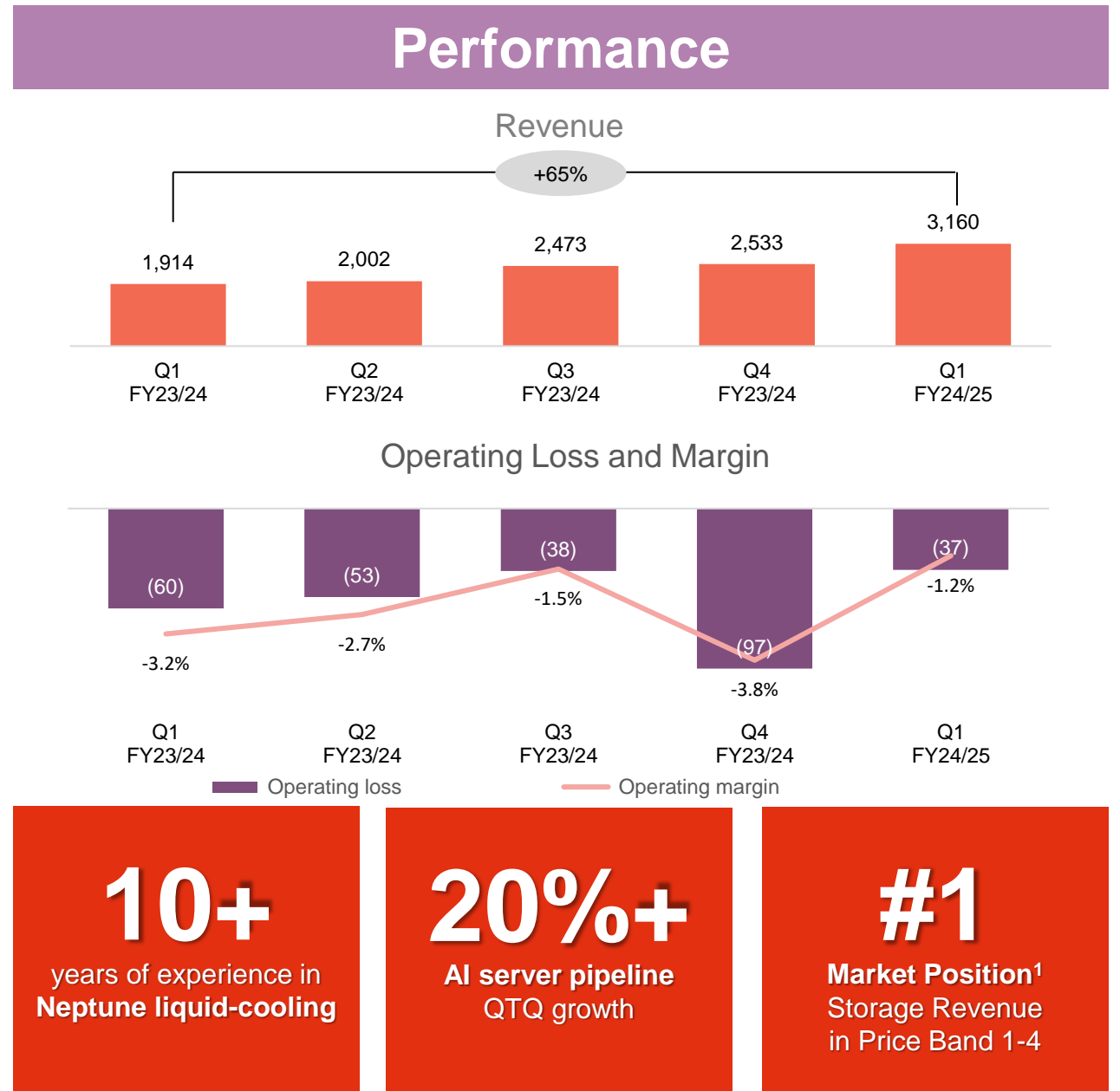
Intelligent Devices Group¹

- Premium-to-market growth resulted in an 11% YTY sales increase; operating margin reached an industry-leading 7.3%, driving 27% profit growth through operational excellence, ASP expansion, and higher premium mix
- Strengthened global No.1 position in PC; leading in both Consumer and Commercial segments
- Leading industry AI PC innovation with five-feature AI PCs; early launch in China with positive user feedback ahead of planned global launch
- Non-PC³ rev +23% YTY with tablet and smartphone sales up high double-digits. Smartphone sales was driven by premium AI-featured models



¹ IDG mainly consists of PC, tablet, smartphone, and smart devices business. ² AI PC five features include 1) a personal intelligent agent using natural language user interface, 2) a compressed local LLM, 3) heterogenous computing with CPU/GPU/NPU, 4) privacy and security protection, and 5) a rich AI application ecosystem. ³ Non-PC includes other smart devices, smartphones, tablets, embedded computing/IoT, and scenario-based solutions such as Small Collaboration, Smart Home and Smart Office

- Record quarterly revenue with a hypergrowth of 65% YTY, driven by accelerating momentum in CSP business; New revenue record for the combined revenue from Storage, Software and Services
- Operating loss reduced by \$23M YTY and \$59M QTQ, reflecting enhanced operational performance
- Liquid-cooled servers saw quarterly revenue surging to a record high, up more than 50% YTY, underpinned by industry-leading position and higher cooling requirement of more powerful GPUs
- AI server pipeline increased 20%+ QTQ with 50%+ QTQ order increase



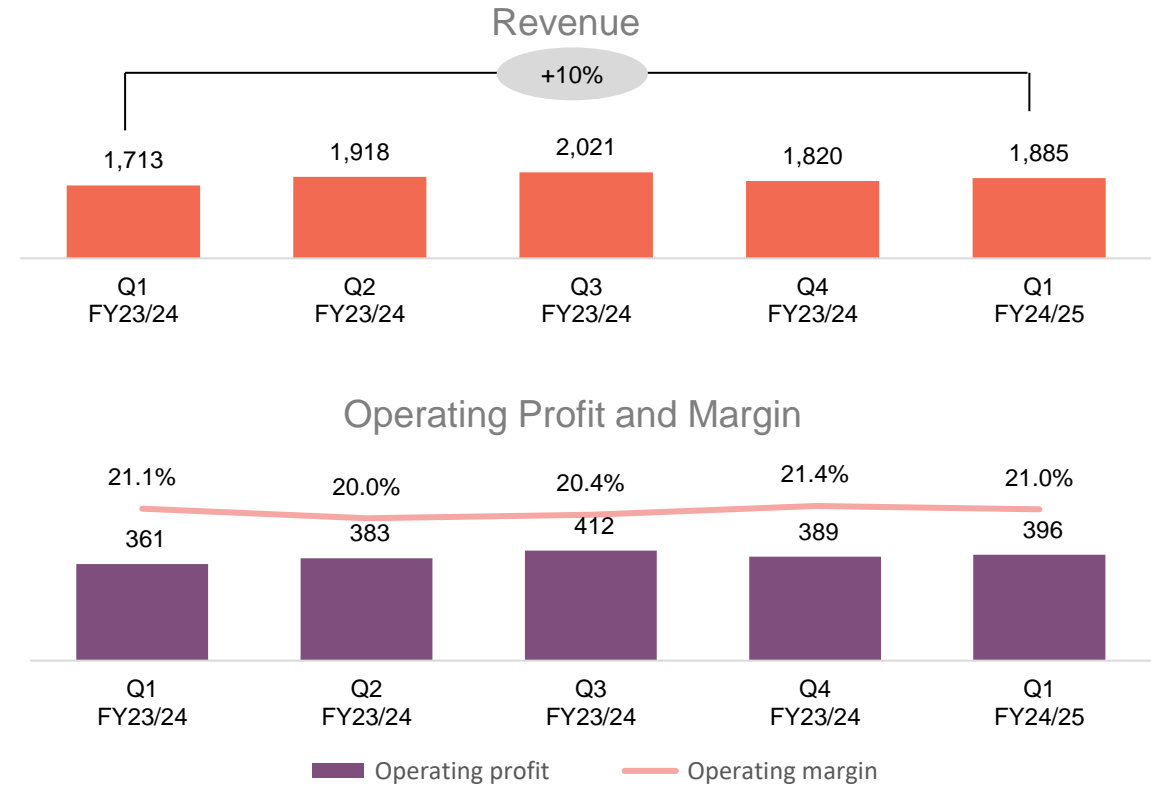
¹. IDC Quarterly Enterprise Storage Systems Tracker, Q1 2024 (June 2024)

SSG

Solutions & Services Group

- SSG led with a 21% operating margin, contributing one-third of the combined operating profit of the three business groups
- Strong momentum for TruScale as-a-Service with double-digit YTY growth in contract signings
- Key vertical wins expanded with AI-powered solutions
- Continuously embed AI into existing offerings to enhance value proposition; developing AI services to meet customer demand at every stage of their AI journey, from IT transformation to data modernization to AI adoption

Performance



13th

consecutive quarter
of double-digit revenue
growth

55%

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

Record

Sustainability revenue
with double-digit growth

Strategic Business Transactions to Further Penetrate the MEA Region and Establish a New Sustainable Global Supply Chain

Transaction Highlights

- Introduction of a long-term strategic investor (Alat, US\$100Bn fund wholly owned by Public Investment Fund, the sovereign wealth fund of the Kingdom of Saudi Arabia)
- US\$2.21Bn total raise⁽¹⁾ enables zero interest cost debt refinancing, supply chain investments and MEA regional expansion
- Establish new regional HQ in Riyadh to focus on fast-growing geography
- Warrants allow Professional Investors to participate by way of private placement
- Chairman and CEO subscription for 19.1% of warrants endorsing Lenovo's future prospects

Attractive Structure and Pricing

- **US\$2 billion zero coupon** convertible bonds for 3 years
- **CB:** Initial Conversion price of **HK\$10.42**
 - Represents **premium of 10.0%, 13.1% and 13.9%** over past 30-day, 90-day and 180-day VWAP, respectively⁽²⁾
- **Warrants:** Effective price of share issuance **near 20-year share price high** ⁽²⁾
 - Price per Warrant of **HK\$1.43** with initial strike price of **HK\$12.31**, combined effective price to be **HK\$13.74**
 - HK\$12.31 represents a **premium of 30%** over the 30-day VWAP
 - Warrant conversion and exercise limited to 26.7% of total warrants size for each year⁽³⁾

Clear Strategic Benefits

- US\$100M of annual interest savings per year without dilution from CB for 3 years
- Identifiable opportunities for incremental revenue and profit contribution from all BGs in MEA
- Go-to-market partnership with Alat to accelerate market entry
- Create a new regional sustainable manufacturing and supply chain center

Note: 1) without taking into account exercise of the Warrants; 2) VWAP number based on Bloomberg. Also represents 11.5% premium over 60-day VWAP, 10.8% premium over 120-day VWAP; highest closing price in last 20 years on May 11, 2015, at HK\$13.86 per share. 3) The transfer and exercise limit refers to 306,666,666 Warrants during each 12-month period from the date of Warrants Issuance. Total number of warrants is 1.15 billions.

Q1 FY2024-25 ESG Highlights



Environmental responsibility

- **On-track** to reach 2030 emissions reduction goals, aligned with SBTi¹
- Recycled or reused **94,000 metric tons** of products from customers since 2020²



Social impact

- **Industry-leading** (29%) representation of women in technical roles
- **First laptop manufacturer** to integrate additional tactile cues in its keyboards³



Governing with integrity

- **Ranked #10** in Gartner's 2024 Global Supply Chain Top 25 ranking
- Among **first group** of companies to commit to the Secure by Design pledge⁴

¹Science Based Target initiative

²From CY2020 to CY2022, the same weight as 87 million ThinkPads based on weight of ThinkPad X1 Carbon Gen 12

³Based on research conducted by Lenovo in November 2023 of laptops sold by major PC manufacturers shipping >1 million units annually

⁴A voluntary pledge announced on May 8 by the US Cybersecurity and Infrastructure Security Agency (CISA)



DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



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 with improved profitability*

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 we do 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 IP
- 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 | Q1 23/24 | Q1 24/25 | Y/Y% |
|---|----------|----------------|------|
| Revenue | 12,900 | 15,447 | 20% |
| Gross profit | 2,252 | 2,560 | 14% |
| Operating expenses | (1,862) | (2,066) | 11% |
| Operating profit | 390 | 494 | 27% |
| Operating profit (non-HKFRS) | 402 | 572 | 42% |
| Other non-operating expenses | (162) | (181) | 12% |
| Profit before taxation | 228 | 313 | 37% |
| Profit before taxation (non-HKFRS) | 241 | 392 | 62% |
| Taxation | (45) | (60) | 33% |
| Profit for the period | 183 | 253 | 38% |
| Profit for the period (non-HKFRS) | 193 | 325 | 68% |
| Profit attributable to | | | |
| Other non-controlling interests | 6 | 10 | 47% |
| Equity holders of the Company | 177 | 243 | 38% |
| Equity holders of the Company (non-HKFRS) | 191 | 315 | 65% |
| EPS (US cents) | | | |
| Basic | 1.48 | 1.99 | 34% |
| Diluted | 1.43 | 1.92 | 34% |
| | Q1 23/24 | Q1 24/25 | |
| Gross margin | 17.5% | 16.6% | |
| Operating margin | 3.0% | 3.2% | |
| E/R ratio | 14.4% | 13.4% | |
| PTI margin | 1.8% | 2.0% | |
| Net margin | 1.4% | 1.6% | |

Condensed Consolidated Income Statement

| US\$ Million | Q1 23/24 | Q1 24/25 |
|---|----------|----------|
| Revenue | 12,900 | 15,447 |
| Cost of sales | (10,648) | (12,887) |
| Gross profit | 2,252 | 2,560 |
| Selling and distribution expenses | (799) | (836) |
| Administrative expenses | (597) | (651) |
| Research and development expenses | (451) | (476) |
| Other operating income/(expenses) – net | (15) | (103) |
| Operating profit | 390 | 494 |
| Finance income | 40 | 26 |
| Finance costs | (197) | (200) |
| Share of losses of associates and joint venture | (5) | (7) |
| Profit before taxation (PTI) | 228 | 313 |
| Taxation | (45) | (60) |
| Profit for the period | 183 | 253 |
| Profit attributable to | | |
| Other non-controlling interests | 6 | 10 |
| Equity holders of the Company | 177 | 243 |
| Per share data | | |
| Earnings per share (US cents) – Basic | 1.48 | 1.99 |
| Earnings per share (US cents) – Diluted | 1.43 | 1.92 |

Condensed Consolidated Balance Sheet

| <i>US\$ Million</i> | As of Jun 30, 2023 | As of Jun 30, 2024 |
|---|--------------------|--------------------|
| Current assets | 22,274 | 24,557 |
| Bank deposits and cash | 4,423 | 3,973 |
| Trade, notes and other receivables | 11,478 | 12,321 |
| Inventories | 5,907 | 7,778 |
| Others | 466 | 485 |
| Non-current assets | 15,650 | 15,928 |
| Property, plant and equipment | 1,929 | 1,987 |
| Intangible assets | 8,191 | 8,199 |
| Others | 5,530 | 5,742 |
| Current liabilities | 25,378 | 28,839 |
| Borrowings | 280 | 1,014 |
| Trade, notes, other payables, accruals and provisions | 23,158 | 26,023 |
| Deferred revenue | 1,568 | 1,428 |
| Others | 372 | 374 |
| Non-current liabilities | 6,689 | 5,580 |
| Borrowings | 3,689 | 2,610 |
| Deferred revenue | 1,354 | 1,463 |
| Others | 1,646 | 1,507 |
| Total equity | 5,857 | 6,066 |

Condensed Consolidated Cash Flow Statement

| US\$ Million | Q1 23/24 | Q1 24/25 |
|--|----------|--------------|
| Net cash generated from operating activities | 650 | 791 |
| Net cash used in investing activities | (200) | (320) |
| Net cash used in financing activities | (283) | (47) |
| Increase in cash and cash equivalents | 167 | 424 |
| Effect of foreign exchange rate changes | (62) | (73) |
| Cash and cash equivalents at the beginning of the period | 4,250 | 3,560 |
| Cash and cash equivalents at the end of the period | 4,355 | 3,911 |

Supplemental Non-HKFRS Measures

| US\$ Million | Q1 23/24 | | | | Q1 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 | 390 | 228 | 183 | 177 | 494 | 313 | 253 | 243 |
| Non-HKFRS adjustments | | | | | | | | |
| Net fair value changes on financial assets at fair value through profit or loss | (31) | (31) | (25) | (21) | 11 | 11 | 10 | 10 |
| Amortization of intangible assets resulting from mergers and acquisitions | 43 | 43 | 34 | 34 | 43 | 44 | 34 | 34 |
| Mergers and acquisitions related charges | - | 1 | 1 | 1 | - | - | - | - |
| Gain on deemed disposal of a subsidiary | - | - | - | - | (23) | (23) | (19) | (19) |
| Impairment and write-off of intangible assets | - | - | - | - | 47 | 47 | 47 | 47 |
| Non-HKFRS | 402 | 241 | 193 | 191 | 572 | 392 | 325 | 315 |

**Smarter
technology
for all**

Lenovo

thanks.