



LENOVO GROUP: THIRD QUARTER RESULTS 2021/22

Lenovo delivers record quarter, as strategy and investments in innovation continue to drive sustainable profitability growth

HONG KONG, February 23, 2022– **Lenovo Group** (HKSE: 992) (ADR: LNVGY) today announced record quarterly results for the Group, with historic highs for both profit and revenue and the Group’s first US\$20 billion quarter. The company’s focus on innovation and profitability, supported by its operational excellence, has helped it navigate wider industry supply challenges and delivered rapid growth and profitability across all key business groups and geographies.

Lenovo’s performance delivered significant year-on-year improvements. Net income grew at a rate of over 50% for the 6th consecutive quarter, with Q3 growing 62% year-on-year to a record US\$640 million. Net income margin improved by nearly one point, on track towards the Group’s goal of doubling in three years. Pre-tax income was a record US\$855 million, up 45% year-on-year, and Group revenue continued its strong growth trajectory hitting a record US\$20.1 billion, up 17% year-on-year.

Lenovo continues to invest significantly in innovation, with R&D expenses for the quarter up 38% year-on-year, as part of the company’s wider commitment to double R&D investment over three years. Investments are aligned to driving Lenovo’s ongoing transformation to a solutions and services company, by developing technologies focused on the “New IT” full stack architecture of “Client-Edge-Cloud-Network-Intelligence”. Looking ahead, the company remains focused on its 3S strategy (Smart devices/IoT, Smart Infrastructure, Smart Verticals) seeing continued opportunities for sustainable growth and profitability improvements across all areas of the business, keeping it on track to double net margin by the end of FY 2023/2024.

The [Hang Seng Indexes Company](#) Limited announced last week that effective March 7, 2022, Lenovo will be included as a constituent stock on the Hang Seng Index – Hong Kong’s benchmark stock gauge.

Financial Highlights:

	Q3 21/22 US\$ millions	Q3 20/21 US\$ millions	Change
Group Revenue	20,127	17,245	17%
Pre-tax income	855	591	45%
Net Income (profit attributable to equity holders)	640	395	62%
Basic earnings per share (US cents)	5.50	3.31	2.19

Chairman and CEO quote – Yuanqing Yang:

“Lenovo continued to embrace the opportunities driven by accelerated digital and intelligent transformation, and our New IT architecture prepared us well with ‘client-edge-cloud-network-intelligence’ capabilities. With another record quarter, we delivered the 6th quarter of more than 50% net income year-on-year growth, and the first US\$20 billion revenue quarter in our history. We remain on track to double both our net margin and R&D investment in three years from FY20/21 levels.” said



Yuanqing Yang, Lenovo Chairman and CEO. “Once again, we have shown that Lenovo’s innovation, transformation strategy, and strong execution can consistently deliver sustainable profitability increases for the future.”

Solutions and Services Group (SSG): delivering strong growth and high margins - driving higher overall profitability for the Group

Opportunity:

The Solutions and Services Group continues to drive strong profitability and growth in a rapidly expanding market. As technology architecture becomes more complex, customers demand more sophisticated IT services, and the market is predicted to be worth over one trillion US dollars through 2025. This includes higher demand for premier support and customized fulfillment from knowledge workers, nearly half of whom now work remotely.

Q3 performance:

- Significant Q3 revenue growth (25% year-on-year to US\$1.5 billion), delivering 7.1% of overall Group revenue and with an operating margin of over 22%, a nearly three-point increase year-on-year.
- Support services saw revenue growth of 21% year-on-year.
- Managed Services saw revenue improve 50% year-on-year, driven by Lenovo TruScale as-a-Service offerings announced last quarter. Breakthroughs in Smart Retail helped Project Services and Solutions achieve revenue growth of 23% year-on-year.

Looking ahead:

- Lenovo will continue to seize the sizeable market opportunity to drive both revenue growth and higher profitability. This starts with the growth in remote workers, where Lenovo will leverage its global service footprint to help transform worker productivity through premier support, as-a-Service, and digital workplace solutions.
- In managed services, Lenovo will continue to invest in Lenovo TruScale offerings, hybrid cloud solutions and additional software and services based on the company’s own IP.
- The company will also further expand sustainability solutions for customers, such as its [asset recovery service](#) and the recent expansion of its [carbon offset service](#).

Infrastructure Solutions Group (ISG): reaching profitability, growing at a strong premium to market

Opportunity:

Opportunities continue to grow for ISG as ICT infrastructure modernization expands around the world. The ICT infrastructure market is expected to become a US\$250 billion market through 2025. By that same time, the edge infrastructure market alone is expected to exceed US\$41 billion.

Q3 performance:

- ISG delivered record performance, reaching the milestone of achieving profitability for the first time since the IBM x86 acquisition in 2014. Revenue grew 19% year-on-year to reach US\$1.9 billion. This was the fourth straight quarter that revenue grew at a double-digit premium to the market.
- The business outgrew the market in nearly every segment. Cloud Service Provider revenue grew 38% growth year-on-year; Enterprise/SMB revenue improved 7% year-on-year.

Looking ahead:

- Lenovo will leverage its coverage of all customer segments (CSP of different scale, Enterprise, SMB) as a unique advantage to balance scale and profitability, as well as customers' demands for security/reliability and agility/flexibility.
- Investments will continue to be made in fast-growing and expanding segments such as Edge computing.

Intelligent Devices Group (IDG): strong revenue growth and stronger profitability, increasing contribution from non-PC businesses

Opportunity:

The market for smart devices continues to benefit from the new normal of hybrid working and the PC market is forecasted to remain strong and stable, shifting to commercial and premium segments. In smartphones, the market reshuffling will bring more growth opportunities to Lenovo, and the penetration of 5G and development of the New IT of "edge-cloud-network-intelligence" will provide more growth potential for emerging smart devices such as embedded computing/IoT, AR/VR driven by the metaverse, as well as smart home and smart collaboration solutions.

Q3 performance:

- Excellent results with revenue growth of 16% year-on-year to US\$17.6 billion, with even stronger profitability growth - up 21% year-on-year to US\$1.4 billion, on an already high base.
- Premium PC segments delivered high growth with workstation and gaming revenue growing 40% and 27% year-on-year, respectively.
- Smartphones maintained a healthy profit for the seventh consecutive quarter, with revenue growing strongly at 46% year-on-year and becoming the fastest growing major vendor. Profit equaled the historic high of last quarter at US\$89 million. Rapid growth was seen in key strongholds, with revenue in Latin America up 25% year-on-year and revenue in North America more than doubling year-on-year (133%).
- Among the emerging smart devices categories, revenue from smart collaboration solutions nearly doubled year-on-year.

Looking ahead:

- Lenovo will further invest in innovation, premium segments, and core components to drive increased profitability and average selling price. In Mobile, we will further strengthen our portfolio and invest in expanding to new markets in Europe and Asia Pacific. We also will continue to invest in non-PC products such IoT, metaverse, smart Home and smart collaboration solutions to capture emerging opportunities and further increase the non-PC business mix.

Operational highlights and investing for the future

- Lenovo continues to **focus significantly on ESG through all its operations** – from the use of innovative recycled materials in products such as the [ThinkPad Z series](#) launched in January 2022, to the use of [carbon neutral flights](#) for cargo shipments.
- In addition, Lenovo has recently received significant external recognition for its ESG actions and commitments, including:

- Recognized as one of the world’s most sustainable companies by [Corporate Knights](#)
- Secured a place on the [prestigious ‘A List’](#) for tackling water security by global environmental non-profit CDP
- Earned a perfect score of 100 on the [2022 Corporate Equality Index](#)
- Recognized on the [Bloomberg Gender Equality Index](#)
- Named as one of the Financial Times 2022 [leaders in diversity](#)
- Climbed the 2022 list of Fortune’s [Most Admired Companies](#)
- [Awarded gold](#) in the Hong Kong Institute of Certified Public Accountants Best Corporate Governance and ESG Awards 2021



About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$60 billion revenue Fortune Global 500 company serving customers in 180 markets around the world. Focused on a bold vision to deliver smarter technology for all, we are developing world-changing technologies that power (through devices and infrastructure) and empower (through solutions, services and software) millions of customers every day and together create a more inclusive, trustworthy and sustainable digital society for everyone, everywhere. To find out more visit <https://www.lenovo.com> and read about the latest news via our [StoryHub](#).

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FINANCIAL SUMMARY

For the quarter ended December 31, 2021

(in US\$ millions, except per share data)

	Q3 21/22	Q3 20/21	Y/Y CHG
Revenue	20,127	17,245	17%
Gross profit	3,355	2,786	20%
Gross profit margin	16.7%	16.2%	0.5 pts
Operating expenses	(2,423)	(2,085)	16%
R&D expenses (included in operating expenses)	(549)	(398)	38%
Expenses-to-revenue ratio	12.0%	12.1%	(0.1) pts
Operating profit	932	701	33%
Other non-operating income/(expenses) - net	(77)	(110)	(30)%
Pre-tax income	855	591	45%
Taxation	(173)	(160)	8%
Profit for the period	682	431	58%
Non-controlling interests	(42)	(36)	16%
Profit attributable to equity holders	640	395	62%
EPS (US cents)			
Basic	5.50	3.31	2.19
Diluted	4.92	3.08	1.84

