
LENOVO FQ3 2024 EARNINGS

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OCTOBER 30, 2024

EARNINGS

This Research Note explores Lenovo Group financial and operational [performance](#) during its fiscal year Q3 2024.

Amidst fluctuating global market conditions, Lenovo's adaptability and innovative approach are scrutinized, offering valuable insights into how the tech giant continues to navigate challenges and capitalize on opportunities within the dynamic tech industry.

QUARTER PERFORMANCE

The fiscal performance of Lenovo during the quarter can be summarized as follows:

- **Revenue Growth:** The Group's revenue increased by 9% quarter-on-quarter to US\$15.7 billion. This marks the first year-on-year quarterly revenue increase in one and a half years.
- **Net Profit:** Net profit attributable to equity holders rose by 35% sequentially. However, it declined by 23% year-on-year due to a high comparison base in the same quarter of the previous year.
- **Operating Profit:** The operating profit showed resilience and growth, especially in core business areas.
- **Service-led Transformation:** The Group's Service-led Transformation strategy contributed significantly to its financial performance, with the Solutions and Services Group (SSG) achieving record results.
 - **Solutions and Services Group (SSG):** SSG reported double-digit growth in segment revenue and operating profit. The Total Contract Value (TCV) grew over 50%.
- **Intelligent Devices Group (IDG):** IDG saw a 7% year-on-year and quarter-on-quarter revenue growth. This group consolidated its market leadership in the PC and smartphone markets.

- **Infrastructure Solutions Group (ISG):** Despite a year-on-year setback, ISG saw a 24% quarter-on-quarter recovery in revenue growth. This was supported by order recovery from key cloud and enterprise customers.
- **Diversification of Revenue Sources:** The non-PC businesses accounted for 42% of the combined revenue of the three business groups, indicating effective diversification.
- **Finance Costs:** The Group successfully reduced finance costs amidst higher market rates, saving US\$16 million sequentially and US\$10 million year-on-year.
- **Cash Conversion Cycle:** The Group improved its accounts receivables and inventory days by 14 days year-on-year, though this was offset by lower accounts payables days.
- **Segment-Specific Highlights:**
 - **IDG:** Increased momentum due to sector demand recovery, contributing to revenue and market share growth in PCs and smartphones.
 - **ISG:** Focused on comprehensive, full-stack infrastructure solutions, achieving significant revenue from new product segments despite overall losses.
 - **SSG:** Demonstrated robust growth, driven by the demand for digital transformation and productivity-enhancing services.

HIGHLIGHTS

Lenovo noted several accomplishments and momentum achieved during the quarter during its earnings call:

- **Innovation and Product Development:**
 - Lenovo showcased its commitment to innovation at CES 2024, receiving widespread recognition with 105 product awards.
 - The ThinkBook Plus Gen 5 Hybrid, combining Android and Windows systems, stood out, winning 61 awards.
 - The company unveiled various technological advancements, including AI PC technology, glasses-free 3D display engines, and vehicle computing solutions.
- **Market Leadership and Expansion:**
 - Lenovo maintained its position as a global leader in the PC and smartphone markets, gaining shipment share across multiple geographic markets.

- The Intelligent Devices Group (IDG) solidified its leadership, especially in the commercial PC segment, achieving its highest segment market share in three years.
- Lenovo's non-PC business, including smartphones, grew substantially, contributing to 21% of IDG's revenue.
- **Sustainability and Environmental Initiatives:**
 - Lenovo was awarded the Climate+™ Champion status by EPEAT, reflecting its substantial investments in climate considerations for over 400 products.
 - The company continues integrating sustainability into its business model and product design, aiming for net-zero emissions by 2050.
- **Focus on AI and Technology Advancements:**
 - Lenovo is actively developing AI solutions with a vision of "AI for All," showcasing over 40 AI-powered devices and solutions at CES 2024.
 - The company is building personalized AI solutions, such as the Lenovo AI Now Personal Assistant, enhancing productivity and creative capabilities.
- **Strategic Transformation and Diversification:**
 - The Group's Service-led Transformation strategy led to significant growth in its Solutions and Services Group (SSG), focusing on digital transformation services.
 - There was a concerted effort to diversify revenue sources, with non-PC businesses making up significant revenue.

OUTLOOK

Lenovo's outlook and forecast, as gleaned from the quarterly report, are focused on several strategic areas, positioning the company for sustained growth and market leadership. The key aspects of Lenovo's outlook and forecast include:

- **Continued Transformation and Growth Strategy:**
 - Lenovo is accelerating its Service-led Transformation and share-gain strategy, vital for long-term growth.
 - The company targets product segments with promising growth potential, particularly in emerging technologies.
- **Focus on Artificial Intelligence (AI):**

- AI is a central pillar of Lenovo's strategy, developing personalized AI solutions and AI-native services.
- Lenovo is pushing for the adoption of AI across various sectors, aiming to create differentiated products and services.
- **PC Sector Recovery and Premiumization:**
 - Lenovo anticipates a structural recovery in the global PC sector to levels higher than the pre-pandemic period.
 - The company expects to capitalize on trends like commercial replacement cycles and increasing demand for premium features.
- **Smartphone and Non-PC Business Expansion:**
 - Lenovo plans to expand its smartphone business, leveraging 5G adoption and differentiating its product portfolio.
 - The non-PC segment, including accessories and collaboration solutions, is a crucial area for growth.
- **Infrastructure Solutions Group (ISG) Prospects:**
 - ISG is poised to benefit from trends in Hybrid AI and infrastructure.
 - Lenovo will continue developing end-to-end infrastructure solutions and expects to capitalize on AI, cloud, and High-Performance Computing opportunities.
- **Solutions & Services Group (SSG) Development:**
 - SSG will focus on launching new AI services and integrating AI functions into the digital workplace and hybrid cloud solutions.
 - Lenovo sees SSG as pivotal in aiding enterprise customers in their digital transformation journeys.
- **Geographic Expansion and Market Share Growth:**
 - Lenovo aims to leverage its global presence to expand market share,
- **Financial Health and Profitability:**
 - Improving profitability remains a medium-term priority, with a focus on efficient operations and strategic investments.

ANALYSIS

Lenovo's fiscal performance for the quarter ending December 31, 2023, paints a picture of a resilient and strategically agile organization navigating through a dynamic market landscape with commendable finesse. The 9% quarter-on-quarter increase in revenue to US\$15.7 billion marks not only the third consecutive quarter of revenue growth but also the first year-on-year quarterly revenue increase in the last one and a half years. This rebound shows Lenovo is responding well to the market challenges, especially in the enterprise infrastructure sector.

However, the 23% year-on-year decline in net profit, albeit with a 35% sequential rise, underscores a more nuanced narrative. This dip, mainly attributable to a high comparison base from the same quarter in the previous year, suggests that the company is also contending with the lingering impacts of past market dynamics. Yet, the resilience is evident in the operating profitability of its core businesses, which have shown healthy growth trajectories.

A critical element of Lenovo's success is its diversified service growth engine, which, coupled with the effective execution of its Transformation strategy, has played a pivotal role in mitigating current market challenges. The Solutions and Services Group (SSG) and the Intelligent Devices Group (IDG) have been standout performers. SSG's record-breaking results and the double-digit growth in segment revenue and operating profit highlight its growing importance as a revenue generator. Meanwhile, IDG's consistent performance, particularly its 7% year-on-year and quarter-on-quarter revenue growth, reinforces Lenovo's strong foothold in the PC and smartphone markets.

The Infrastructure Solutions Group (ISG) presents a mixed picture. While it's encouraging to see a 24% quarter-on-quarter recovery in revenue, the year-on-year setback due to a high base effect from the previous year indicates that this segment still faces challenges.

Lenovo is a company that effectively balances managing short-term challenges against long-term growth while strategically positioning itself for long-term growth. The resilience in its core businesses, coupled with strategic investments in innovation and sustainability, paints a picture of a company that is recovering and reshaping its future trajectory in the technology sector.



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