

Lenovo Q1 FY2025 Earnings

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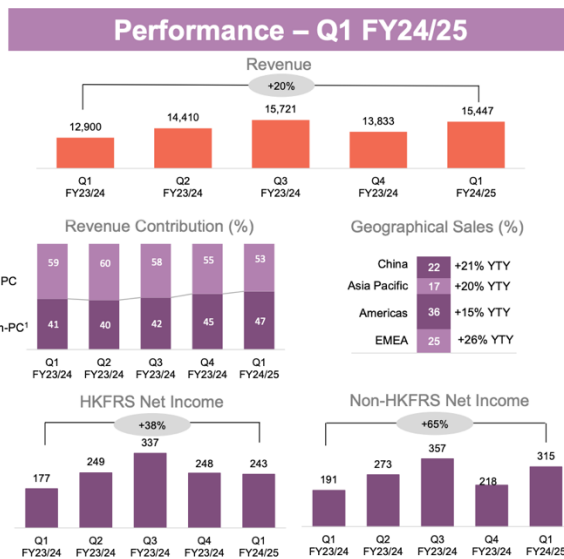
CONTEXT

Lenovo reported [strong financial results](#) for Q1 of its fiscal year 2025, driven by robust performance across its business segments, particularly in hybrid AI, infrastructure solutions, and smart devices.

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 Alcatel to enhance MEA market access and global supply chain capabilities

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FINANCIAL PERFORMANCE

Lenovo delivered impressive financial results, showcasing its ability to capitalize on emerging AI and technology infrastructure trends.

- **Revenue Growth:** Group revenue reached \$15.4 billion, a 20% year-on-year increase.
- **Net Profit:** Net profit increased by 38% year-on-year, with non-HKFRS net profit surging by 65%.

- **Operating Margin:** Achieved margin expansion, driven by operational excellence and strategic initiatives.
- **Segment Performance:**
 - **Intelligent Devices Group (IDG):** Revenue grew by 11% year-on-year, driven by strong demand for AI PCs and smartphones.
 - **Infrastructure Solutions Group (ISG):** Recorded 65% year-on-year revenue growth, surpassing \$3 billion in quarterly sales for the first time.
 - **Solutions and Services Group (SSG):** Continued its streak of double-digit growth with 13 consecutive quarters, achieving a 21% operating margin.

NON-FISCAL PERFORMANCE

Beyond the financial metrics, Lenovo has made significant strides in AI, sustainability, and global partnerships. The company highlighted the following during its post-earnings analyst call:

- **Hybrid AI Development:**
 - Pioneered a hybrid AI vision, combining personal and enterprise AI with public AI, leading to a full-stack AI portfolio.
 - Launched AI PCs with five distinct AI features, first in China, with plans for global expansion.
- **Sustainability Initiatives:**
 - Enhanced efforts to meet 2030 emissions reduction goals, with over 94,000 metric tons of products recycled since 2020.
 - Recognized in Gartner's Global Supply Chain Top 25 for 2024, securing 10th place.
- **Strategic Partnerships:**
 - Announced a collaboration with Alat, a strategic partnership aimed at leveraging growth opportunities in the Middle East and Africa, including the establishment of a new manufacturing facility in the region.

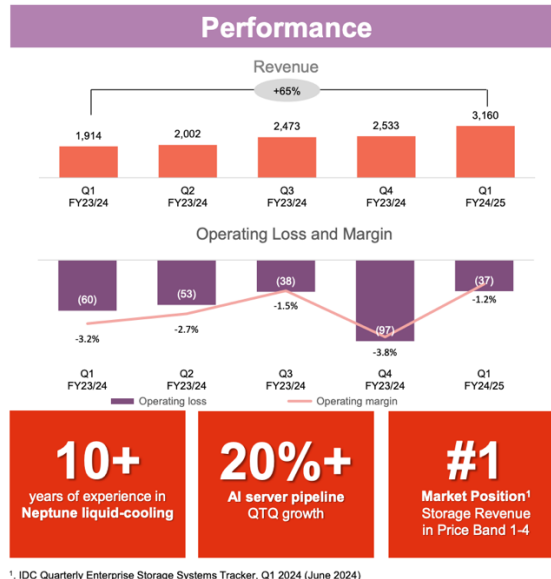
IMPACT OF INFRASTRUCTURE SOLUTIONS GROUP

Lenovo's Infrastructure Solutions Group (ISG) delivered an outstanding performance in Q1 of fiscal year 2024-2025, marking a significant achievement in the company's overall earnings.

ISG
Infrastructure Solutions Group

- 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

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The ISG group recorded a remarkable 65% year-on-year revenue growth, surpassing \$3 billion in quarterly sales for the first time. This hyper-growth was primarily driven by surging demand from cloud service providers.

Key Highlights of ISG Performance:

- **Revenue Growth:** ISG's revenue grew by 65% year over year, setting a new record. Strong sales in AI servers, storage, and cloud infrastructure propelled this growth.
- **AI Infrastructure Focus:** Lenovo has capitalized on the growing demand for AI infrastructure, particularly with its AI GPU server offerings. The AI GPU server pipeline saw a more than 20% increase quarter-on-quarter, with order growth exceeding 30% quarter-on-quarter.
- **Neptune Liquid-Cooling Technology:** Revenue from Lenovo's Neptune liquid-cooled servers, which offer unique sustainability benefits, grew by more than 50% year over year and also reached a new record.
- **Profitability:** While ISG's revenue growth was substantial, the group is still on a journey toward full profitability. The focus remains on optimizing the business model, particularly for the Enterprise and SMB

segments, by simplifying portfolios and improving operations. The emphasis on operational excellence and strategic partnerships is expected to drive profitability improvements in the coming quarters.

GUIDANCE & OUTLOOK

Lenovo provided a positive outlook for the remainder of the fiscal year, with expectations of continued growth across its business segments, particularly driven by AI innovations.

- **AI PC Market:**
 - The AI PC segment is expected to grow to represent more than 50% of the PC industry by 2027, with significant contributions from Lenovo's five-pillar AI PCs.
- **Infrastructure Growth:**
 - ISG to maintain strong momentum with continued investments in AI infrastructure, liquid cooling technologies, and strategic partnerships.
- **Sustainability and Global Expansion:**
 - Continued focus on sustainability and global supply chain resilience, particularly through the strategic partnership with Alcatel in the Middle East and Africa.
- **Profitability Focus:**
 - Emphasis on improving profitability across all segments, particularly in ISG, with plans to optimize business models and operations.

ANALYSIS

Lenovo's Q1 earnings highlight the company's strategic positioning in the rapidly evolving AI and technology landscape. The company's ability to deliver strong financial results while advancing in AI innovation, sustainability, and global partnerships positions it well for future growth.

- **Strengths:**

- Strong revenue growth across key segments, particularly in AI-related products and services.
- Effective execution of hybrid AI strategy, positioning Lenovo as a leader in the AI PC and infrastructure markets.
- Robust global supply chain management and strategic partnerships enhancing growth potential.
- **Challenges:**
 - The need to continue balancing investment in AI and infrastructure with profitability, particularly in the ISG segment.
 - Potential risks associated with global supply chain disruptions and geopolitical uncertainties.
- **Outlook:**
 - Lenovo is well-positioned to capitalize on the growing demand for AI-powered devices and infrastructure, with a clear strategy for long-term sustainable growth.
 - Continued innovation and strategic partnerships will be key to maintaining Lenovo's leadership in the global tech market.

Lenovo's ISG group was the stand-out for the quarter, delivering a surprisingly strong performance. ISG's performance is critical to Lenovo's broader strategy, particularly as the company positions itself as a leader in hybrid AI solutions.

The group's ability to deliver strong growth in AI infrastructure, coupled with innovative cooling technologies like Neptune, places Lenovo at the forefront of the market. ISG is expected to continue driving Lenovo's expansion in the AI and cloud infrastructure sectors, making it a key growth engine for the company.

Lenovo's ISG group has delivered record-breaking revenue growth and laid the groundwork for sustained leadership in the rapidly expanding AI infrastructure market.



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