COMPANY PROFILE

Lenovo Group Limited
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Lenovo Group Limited (Lenovo) is a provider of consumer, commercial, and enterprise technology. The company's portfolio of products and services covers personal computers (PCs), servers, workstations, storage, smart televisions (TVs), and mobile products, including tablets, smartphones and applications. The company serves products to various industries including education, government, radio and television industry, transportation, energy, healthcare, internet, general industry and financial sector. Lenovo operates R&D centers in Yokohama, Japan; China; and Morrisville, Beijing, Shanghai, Wuhan and Shenzhen, North Carolina, the US. The company operates across Asia Pacific, Europe and the Americas. Lenovo is headquartered in Quarry Bay, Hong Kong.

The company reported revenues of (US Dollars) US$51,037.9 million for the fiscal year ended March 2019 (FY2019), an increase of 12.5% over FY2018. In FY2019, the company's operating margin was 2.3%, compared to an operating margin of 0.9% in FY2018. The net profit of the company was US$650.1 million in FY2019, compared to a net loss of US$135.6 million in FY2018.

### KEY FACTS

| **Head Office** | Lenovo Group Limited  
No. 6 Chuang Ye Road  
Haidian District  
Beijing  
Beijing  
Beijing  
Beijing  
CHN |
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<td><strong>Phone</strong></td>
<td>86 10 58868888</td>
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<td><strong>Fax</strong></td>
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<tr>
<td><strong>Web Address</strong></td>
<td><a href="http://www.lenovo.com">www.lenovo.com</a></td>
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<tr>
<td><strong>Revenue / turnover (USD Mn)</strong></td>
<td>51,037.9</td>
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<tr>
<td><strong>Financial Year End</strong></td>
<td>March</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>57,000</td>
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<tr>
<td><strong>Hong Kong Stock Exchange Ticker</strong></td>
<td>992</td>
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SWOT ANALYSIS

Lenovo Group Limited (Lenovo) is a provider of consumer, commercial, and enterprise technology. Revenue increase, wide geographic presence and partnership with leading companies are the company's major strengths, whereas operational performance remains cause for concern. Strategic collaboration, Cloud computing market and Launch of new products are likely to offer growth opportunities to the company. However, rapid technological changes, competitive pressure could reduce market share and increasing IT complexity could affect its business operations.

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Strength

Increase in revenue

The company’s revenue improved in FY2018. Growth in revenue enables the company to provide higher returns to its shareholders, enabling it to attract further investments. Growth in revenue and profitability also enhance the company’s ability to allocate adequate funds for growth and expansion. In FY2018, Lenovo reported revenue of US$45,349.9 million as compared to US$43,034.7 million in FY2017, which indicates annual growth of 5.4%. The growth in revenue was due to increase in PC and smart device, and data center business.

Wide geographic presence

The company’s wide geographic operations helps in mitigating various risks associated with dependence on select region. The company has operations spread across China, EMEA, Asia-pacific and Americas. In FY2018, Americas accounted for the 31% of the company’s revenue followed by EMEA with 28%, China with 25%, and Asia-pacific with 16%. Its major operational centers are located in Morrisville, the US; Beijing, China and Singapore. Its manufacturing centers are located in China, Mexico and India. Lenovo operates its R&D Center in Japan and China. The company has established its sales offices in the US, France, China and Singapore. Wide geographic presence enables the company to serve a wide customer base, which result in improved top line performance.
Partnership with leading companies

The company has strategic partnership with several global companies. Lenovo serves to more than 50 industries in partnership with more than 200 companies and has a subscriber base of more than 1,000,000 business users' across globe. The company has partnership with many industry leading companies including Mead Johnson, Anheuser-Busch InBev, Jaguar, Ford Motor Company, Land Rover, BMW, Mercedes, Ferrari, Dentsu and Canon. The company develops mobile and smartphones under Motorola brand. It also established a joint venture with Fujitsu Client Computing Limited to drive growth, scale and competitiveness in the PC market in Japan and globally.

Weakness

Operational performance

Lenovo operating performance declined in the review year. Decline in operating performance shows higher operating cost for the company and inefficient cost management. In FY2018, the company reported decline in the operating income from US$672.3 in FY2017 to US$386.7 in FY2018. Its operating margin was 0.8% as compared to 1.5% in FY2017. Its operating cost as a percentage of sales increased from 98.4% in FY2017 to 99.1% in FY2018. Similarly, the company's net profit margin decreased from 1.2% in FY2017 to negative 0.3% in FY2018. Weak financial performance reduces investors' confidence in the company and disables it to pursue its expansion plans.

Opportunity

Strategic collaboration

Strategic collaboration enables the company to expand its business operations. In November 2017, the company entered into a strategic collaboration with Fujitsu Limited (Fujitsu) and Development Bank of Japan Inc. (DBJ). The companies together formed a joint venture, which focuses on design, development, research, manufacturing and sales of client computing devices for the PC market across the world. This collaboration will offer growth opportunity to drive growth, scale and competitiveness in the PC market in Japan and globally. The partnership helps the company to provide quality products to its customers and also enhances its capabilities and product portfolio.

Positive outlook for cloud computing market

The worldwide demand for cloud computing services is expected to record strong growth in coming years. Dependence on hard-to-deploy physical servers results in slow response to variable organizational needs, which prods organizations and government agencies worldwide to switch to cloud computing. Cloud computing provides easy and cost effective solutions to organizations, enabling them to meet their data storage requirements. It also offers reliable and easy storage to telecom and related companies for the development of mobile apps. At the same time, it reduces the IT companies' spending on data analytics. According to in-house research report, the global cloud computing industry reported double-digit growth in recent years and the trend is expected to continue through 2022. Cloud computing has
been one of the fastest growing technology sectors due to the advantages it offers to all types of businesses. The performance of the industry is forecast to accelerate at an anticipated CAGR of 23.8% during 2017-2022 to reach US$352 billion by the end of 2022. The market is expected to be led by the US and Asia-Pacific.

Launch of new products

Introduction of new products enables the company to expand its product portfolio and customer base. In October 2018, the company’s launched new mobile phone S5 Prowith AI four-camera to redefine the idol-level beauty selfie. This is the company’s first AI four-camera smartphone. In the same month, the company launched K5 Pro and K5s smartphones. In the same month, the company launched AI four-shot beauty mobile phone K9 in India, to expand its mobile business in Indian market. This could help the company to expand its footprint in Indian mobile market and could be benefited from growing Indian economy.

Threat

Rapid technological changes

The market in which the company operates is exposed to a high degree of technological changes. The technology industry is fast changing with companies expected to develop and enhance their existing product portfolio on a regular basis to sustain in the market. Further, new products are constantly being released in the market and the company needs to position itself well ahead of competitors to compete effectively. In addition, technological innovation while driving the demand for new technology also renders the existing technology obsolete, which burdens the company with outdated products. Failure to keep track of the latest technological advancements and timely upgrade of its product portfolio may negatively impact its overall business and competitive position.

Competitive pressure could reduce market share

The company faces intense competition in all its business segments. It competes in terms of price, quality, brand, technology, reputation, distribution and range of products, among other factors. Lenovo faces stiff competition in enterprise PC and server markets from Acer, Dell, HP and Toshiba, among others. In some regions, the company faces competition from local companies and from generically-branded or white box manufacturers. In the consumer market, Lenovo faces intense competition from Dell, HP, Acer, Apple, Sony and Asustek. Furthermore, in the European and Asian netbooks markets, its major markets for netbooks, the company faces intense competition from Asustek. In addition, the company’s mobile business competes with Apple, HTC, and Samsung. Growing competitive pressure could impact Lenovo’s operating performance and market share in coming years.

Increasing IT Complexity

Lenovo offers complex IT solutions to its customers, which makes it prone to various risks arising from IT complexity. For example, in spite of testing and quality control, the company cannot guarantee the absence of shortcomings in the present versions or advanced versions of its products. It could face
challenges if products contain undetected errors or if services fail to meet customer expectations. The deployment of products across a wide range of platforms, integration of software with third party software applications and databases are some of the major challenges for the company. The company requires huge investments for successful implementation of software and integration of various product components.