

Lenovo Group Limited – 2013

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A. Case Abstract

Headquartered in Beijing, China, Lenovo designs, produces, and markets personal computers, workstations, servers, electronic storage, IT management software, and other related products and services. The world's second-largest PC vendor (behind HP), Lenovo markets the ThinkPad line of notebook computers and ThinkCentre line of desktops. With 26,300 employees, Lenovo sells directly to consumers and businesses, as well as through online sales, company-owned stores, chain retailers, and major technology distributors and vendors.

On September 30, 2013, in the Research Triangle Park in North Carolina, Lenovo introduced four new all-in-one (AIO) desktop computers, including the super-widescreen Lenovo B750, which delivers the world's first 29" 21:9 display. According to the latest rankings from IDC, Lenovo is #1 in the worldwide consumer AIO market and the worldwide AIO market overall. All four new models are equipped with stunning IPS displays, including three B-series PCs and the Lenovo A530, a slim, space-saving feature.

B. Vision Statement (actual)

"To create personal devices more people are inspired to own, a culture more people aspire to join, and an enduring, trusted business that is well respected around the world."

C. Mission Statement (proposed)

Dedicated to its customers (1) by building exceptionally engineered PCs and mobile Internet devices (2), Lenovo's business is built on product innovation (4), a highly efficient global supply chain (7), and exemplary ethics (6). Innovative, hardworking employees (9) allow Lenovo to offer consumers worldwide (3) the most advanced technology (4) products, while minimally impacting the environment (8) and profitably growing for our shareholders (5).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

Opportunities

1. Differentiation of key parts (batteries, display, and storage) are some of the important features of a phone.
2. HP lost \$12.6 billion in 2012.
3. Smartphone is still in the growth phase in many developing markets.
4. Increasing areas worldwide with free WiFi.
5. Apple focuses its business on consumers and does not aggressively develop products and services for global enterprise customers.
6. Apple lacks consistent global service and support on many products.
7. Customers prefer Android based operating systems to Windows.
8. The global smartphone market increased by 39% in 2012 in terms of units shipped, according to International Data Corporation.
9. Many smartphone providers in the USA will offer phones at reduced prices for customers signing 2 year contracts.
10. China is the world's biggest market for mobile phones and PCs.

Threats

1. Supplies can be undependable at times in providing supplies in the quantity needed.
2. Apple, Dell, HP, Toshiba and Fujitsu all reported higher sales in 2012/2013 than Lenovo.
3. Apple and Samsung dominate the smartphone market with a 80% market share.
4. The PC market is on the decline.
5. Apple's inventory turnover was 74 in 2012.
6. Price wars are starting to emerge in the industry.
7. Windows operating systems for phones have not gained near the public popularity as Apple and Google based operating systems.
8. Microsoft is offering free software similar to Lenovo's ThinkVantage software.
9. Lenovo is also concerned about China's ZTE Corp., which plans to become one of the world's top-three smartphone brands.
10. An increasing number of companies are interested in purchasing Mac computers for all or part of their global operations.

Competitive Profile Matrix

		<u>Lenovo</u>		<u>Apple</u>		<u>Dell</u>	
<u>Critical Success Factors</u>	<u>Weight</u>	<u>Rating</u>	<u>Score</u>	<u>Rating</u>	<u>Score</u>	<u>Rating</u>	<u>Score</u>
Inventory Turnover	0.06	1	0.06	4	0.24	2	0.12
ROA	0.08	2	0.16	4	0.32	1	0.08
ROE	0.08	3	0.24	4	0.32	2	0.16
Debt/Equity	0.04	2	0.08	4	0.16	3	0.12
Quick Ratio	0.04	2	0.08	4	0.16	3	0.12
Smart Phone Market Share	0.12	2	0.24	4	0.48	1	0.12
PC Market Share	0.06	3	0.18	2	0.12	4	0.24
Customer Loyalty	0.10	2	0.20	4	0.40	3	0.30
Product Quality	0.10	3	0.30	4	0.40	2	0.20
Geographic Range	0.10	2	0.20	4	0.40	3	0.30
Price Competitiveness	0.10	3	0.30	2	0.20	4	0.40
Net Worth	0.12	1	0.12	4	0.48	2	0.24
Totals	1.00		2.16		3.68		2.40

Lenovo is a rapidly growing company that still lags both Dell and Apple based on the CPM scores. However, as Lenovo grows and allocates more resources to smartphones, the firm will improve its position in the industry.

EFE Matrix

	Opportunities	Weight	Rating	Weighted Score
1.	Differentiation of key parts (batteries, display, storage) are some of the important features of a phone.	0.04	4	0.16
2.	HP lost \$12.6 billion in 2012.	0.01	2	0.02
3.	Smartphone is still in the growth phase in many developing markets.	0.04	2	0.08
4.	Increasing areas worldwide with free WiFi.	0.01	2	0.02
5.	Apple focuses its business toward consumers and does not aggressively develop products and services for global enterprise customers.	0.03	2	0.06
6.	Apple lacks consistent global service and support on many products.	0.02	3	0.06
7.	Customers prefer Android based operating systems to Windows.	0.05	4	0.20
8.	The global smartphone market increased by 39% in 2012 in terms of units shipped, according to International Data Corporation.	0.08	2	0.16
9.	Many smartphone providers in the USA will offer phones at reduced prices for customers signing 2 year contracts.	0.03	1	0.03
10.	China is the world's biggest market for mobile phones and PCs.	0.08	3	0.24

	Threats	Weight	Rating	Weighted Score
1.	Suppliers can be undependable at times on providing supplies in the quantity needed.	0.06	3	0.18
2.	Apple, Dell, HP, Toshiba and Fujitsu all reported higher sales in 2012/2013 than Lenovo.	0.09	2	0.18
3.	Apple and Samsung dominate the smartphone market with a 80% market share.	0.09	2	0.18
4.	The PC market is on the decline.	0.09	2	0.18
5.	Apple's inventory turnover was 74 in 2012.	0.04	2	0.08
6.	Price wars are starting to emerge in the industry.	0.06	3	0.18
7.	Windows operating systems for phones have not gained near the public popularity as Apple and Google based operating systems.	0.05	4	0.20
8.	Microsoft is offering free software similar to Lenovo's ThinkVantage software.	0.04	2	0.08
9.	Lenovo is also concerned about China's ZTE Corp., which plans to become one of the world's top-three smartphone brands.	0.07	2	0.14
10.	An increasing number of companies are interested in purchasing Mac computers for all or part of their global operations.	0.02	2	0.04
TOTALS		1.00		2.47

Lenovo's performance is average in addressing external issues, but when compared to market giants Apple and Samsung, Lenovo is doing very well. Moving forward, the firm should allocate increased resources to the smartphone market rather than the PC market.

E. Internal Audit

Strengths

1. Strong sales position in China accounting for 43% of 2012 sales.
2. Rapidly growing firm with net income up from \$129 million in 2010 to \$631 million in 2013.
3. Lenovo has invested \$793 million in the construction of a mobile phone manufacturing and R&D facility in Wuhan, China. Lenovo is the world's second-largest PC vendor (behind HP), and markets the ThinkPad line of notebook computers and ThinkCentre line of desktops.
4. Lenovo ranks fourth in the global tablet market by volume.
5. In July 2012, the National Football League (NFL) announced that Lenovo had become the NFL's "Official Laptop, Desktop and Workstation Sponsor."
6. Lenovo acquired the Brazil-based electronics company CCE that sells products under the brand name Digibras for a base price of 300 million reais (US\$148 million) in a combination of stock and cash and an additional 400 million reais dependent upon performance benchmarks.
7. The second-biggest smartphone vendor in China, Lenovo has begun selling smartphones in Russia, Indonesia, the Philippines and Vietnam.
8. Lenovo focuses on vertical integration in order to avoid excessive reliance on suppliers and to keep down costs.
9. Lenovo's 1) China and 2) Europe Middle East and Africa sales increased 17% and 20% respectively in FY 2013.
10. Lenovo basically has what it calls a two prong strategy: 1) Protect its commercial global PC business and its China business; and 2) Attack three high growth opportunities in emerging markets with smartphones, tablets, and smart TV's.

Weaknesses

1. Mission statement is only one sentence long.
2. No COO and divisional by region when divisional by product may be more beneficial.
3. Lenovo is still primarily a Chinese PC company with 34% of all revenues coming from PC sales in China and 81% of all Chinese sales being derived from PCs.
4. Lenovo smartphones are not offered in Europe, USA, or Latin American markets.
5. About a tenth of Lenovo's Q3 2013/2012 revenues came from its mobile Internet and digital home (MIDH) business - mainly consisting of its smartphone sales in China, which jumped 77% to \$998 million, though that was only 11% of total revenue.
6. Europe Middle East and Africa segment reported \$6.8 billion USD in sales but only \$24 million in operating profits in 2013.
7. Sales in North America were \$4,939 million in 2013, lower than any market served.
8. Inventory Turnover of 20 with Apple over 70.
9. Despite improving profits, the firm's net income in 2013 was only \$631 million.

Financial Ratio Analysis (in USD)

Profit Margin Percent	Lenovo	Industry
Gross Margin	11.58	22.71
Pre-Tax Margin	2.1	-0.7
Net Profit Margin	1.61	-1.59
Liquidity Ratios		
Debt/Equity Ratio	0.11	0.63
Current Ratio	1.02	1.11
Quick Ratio	0.76	0.73
Profitability Ratios		
Return On Equity	22.13	-6.79
Return On Assets	3.24	-1.69
Return On Capital	19.27	-3.54
Efficiency Ratios		
Income/Employee	17,756	-23,976
Revenue/Employee	1.09 Mil	374,575
Receivable Turnover	12.43	6.12
Inventory Turnover	20.23	14.46
Asset Turnover	2.02	1.06

Lenovo is doing well on most financial ratios when compared to the industry average. However, when compared to Apple's Inventory turnover of 74 and Quick ratio of 1.54, there is room for improvement in managing inventory. Also, the firms ROE and ROA numbers badly lag top competitors who are more focused on smartphones than PCs

Net Worth Analysis (in millions)

Lenovo Company Worth Analysis	
Stockholders' Equity - (Goodwill + Intangibles)	-\$646
Net Income x 5	\$3,155
(Share Price/EPS) x Net Income	\$10,407
Number of Shares Outstanding x Share Price	\$10,935
Method Average	\$5,963

Apple Company Worth Analysis	
Stockholders' Equity - (Goodwill + Intangibles)	\$112,851
Net Income x 5	\$208,665
(Share Price/EPS) x Net Income	\$493,020
Number of Shares Outstanding x Share Price	\$492,975
Method Average	\$326,878

Lenovo is a rapidly growing company but Apple has roughly 50 times the market capitalization of Lenovo.

IFE Matrix

	Strengths	Weight	Rating	Weighted Score
1.	Strong sales position in China accounting for 43% of 2012 sales.	0.07	4	0.28
2.	Rapidly growing firm with net income up from \$129 million in 2010 to \$631 million in 2013.	0.06	4	0.24
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4.	Lenovo ranks fourth in the global tablet market by volume.	0.04	3	0.12
5.	In July 2012, the National Football League (NFL) announced that Lenovo had become the NFL's "Official Laptop, Desktop and Workstation Sponsor."	0.02	3	0.06
6.	Lenovo acquired the Brazil-based electronics company CCE that sells products under the brand name Digibras for a base price of 300 million reais (US\$148 million) in a combination of stock and cash and an additional 400 million reais dependent upon performance benchmarks.	0.04	3	0.12
7.	The second-biggest smartphone vendor in China, Lenovo has begun selling smartphones in Russia, Indonesia, the Philippines and Vietnam.	0.05	3	0.15
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9.	Lenovo's 1) China and 2) Europe Middle East and Africa sales increased 17% and 20% respectively in FY 2013.	0.05	4	0.20
10.	Lenovo basically has what it calls a two prong strategy: 1) Protect its commercial global PC business and its China business and 2) Attack three high growth opportunities in emerging markets with smartphones, tablets, and smart TV's.	0.05	3	0.15

	Weaknesses	Weight	Rating	Weighted Score
1.	Mission statement is only one sentence long.	0.03	1	0.03
2.	No COO and divisional by region when divisional by product may be more beneficial.	0.03	1	0.03
3.	Lenovo is still primarily a Chinese PC company with 34% of all revenues coming from PC sales in China and 81% of all Chinese sales being derived from PCs.	0.08	1	0.08
4.	Lenovo smartphones are not offered in Europe, USA, or Latin American markets.	0.08	1	0.08
5.	Lenovo smartphones are not offered in Europe, USA, or Latin American markets.	0.06	2	0.12
6.	About a tenth of Lenovo's Q3 2013/2012 revenues came from its mobile Internet and digital home (MIDH) business - mainly consisting of its smartphone sales in China, which jumped 77% to \$998 million, though that was only 11% of total revenue.	0.07	2	0.14
7.	Europe Middle East and Africa segment reported \$6.8 billion USD in sales but only \$24 million in operating profits in 2013.	0.06	2	0.12
8.	Sales in North America were \$4,939 million in 2013, lower than any market served.	0.04	1	0.04
9.	Inventory Turnover of 20 with Apple over 70.	0.05	2	0.10
TOTALS		1.00		2.54

The firm is doing well in managing internal resources but must start allocating increased resources to smartphones away from PCs. Also, an increased effort on the USA market is likely needed.

F. SWOT

SO Strategies

1. Build a new production plant for phones and tablets near the R&D facility in Wuhan, China for \$600 million (S1, S2, S3, S4, S7, O8, O9, O10).
2. Form an alliance with Verizon and AT&T in the USA to provide smart phones (S2, S10, O8, O9).
3. Offer the equivalent of \$20 off each phone for up to 1 million customers in Russia. (S1, S7, O3, O7, O8).
4. Devote \$200 million to building relationships with large multinational companies around the world to supply their employees with smart phones (S1, S2, O5, O6).

WO Strategies

1. Spend \$20 million to restructure by product and hire a COO (W1, W2, O1, O8).
2. Invest 80% of all profits generated from PCs into R&D for tablets, smartphones, and next generation devices (W3, O3, O10).
3. Form an alliance with Verizon and AT&T in the USA to provide smart phones (W4, W7, O8, O9).
4. Spend \$50 million to develop and offer cheaper products for customers in emerging markets (W4, W8, O3, O8, O10).

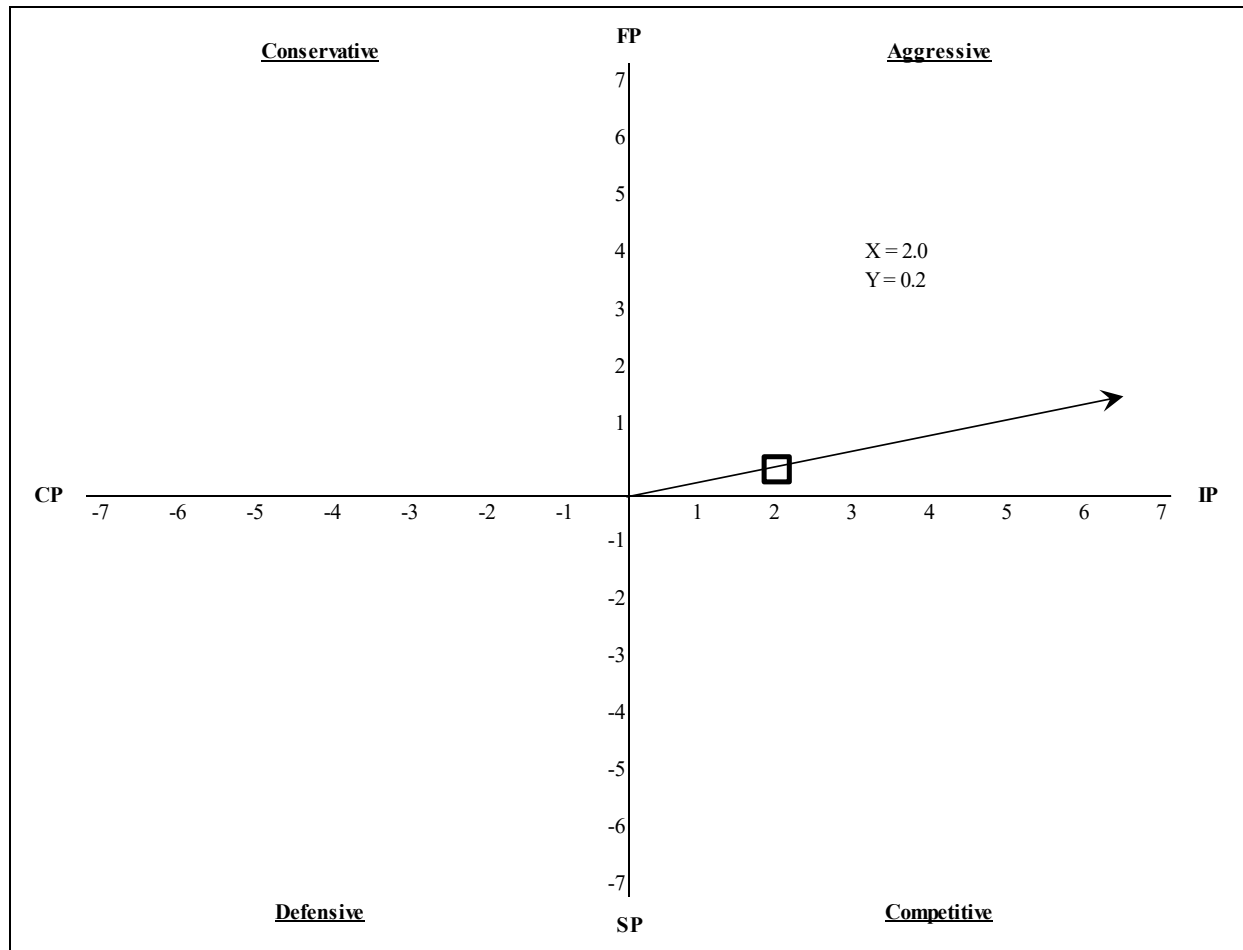
ST Strategies

1. Spend \$150 million in advertising in China to market the advantages of Lenovo smartphones over rival XTE Corp. (S1, S3,T9).
2. Further increase the vertically integrated strategy to include batteries, display, and storage for \$500 million in R&D (S3, S10, T1, T5).
3. Invest 80% of all profits generated from PCs into R&D for tablets, smartphones, and next generation devices (S8, S10, T4).

WT Strategies

1. Further increase the vertically integrated strategy to include batteries, display, and storage for \$500 million in R&D (W8, T1, T5).
2. Spend \$200 million to develop top of the line phone for the European market that will yield higher profit margins (W6, T6).
3. Invest 80% of all profits generated from PCs into R&D for tablets, smartphones, and next generation devices (W3, T4).
4. Divest all software operations similar to what Microsoft is offering for free (W5, T8).

G. SPACE Matrix

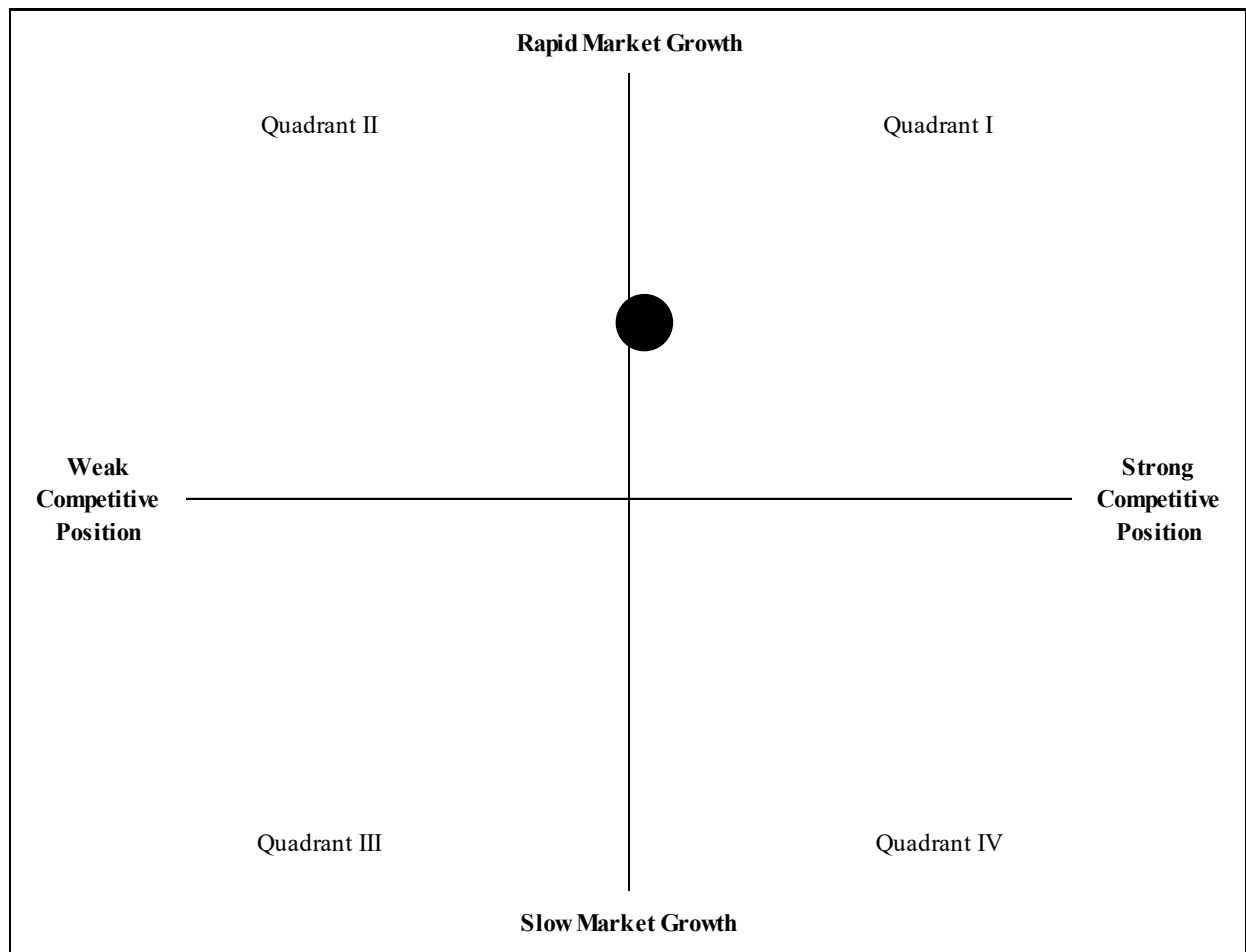


<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<u>Financial Position (FP)</u>		<u>Stability Position (SP)</u>	
ROA	3	Rate of Inflation	-2
Debt/Equity	6	Technological Changes	-6
Net Income	4	Governmental Regulations	-2
Revenues	4	Competitive Pressure	-7
Company Worth	4	Barriers to Entry into Market	-3
Financial Position (FP) Average	4.2	Stability Position (SP) Average	-4.0

<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<u>Competitive Position (CP)</u>		<u>Industry Position (IP)</u>	
Market Share	-4	Growth Potential	6
Product Quality	-3	Financial Stability	6
Customer Loyalty	-4	Ease of Entry into Market	4
Technological know-how	-3	Resource Utilization	5
Control over Suppliers and Distributors	-2	Profit Potential	5
Competitive Position (CP) Average	-3.2	Industry Position (IP) Average	5.2

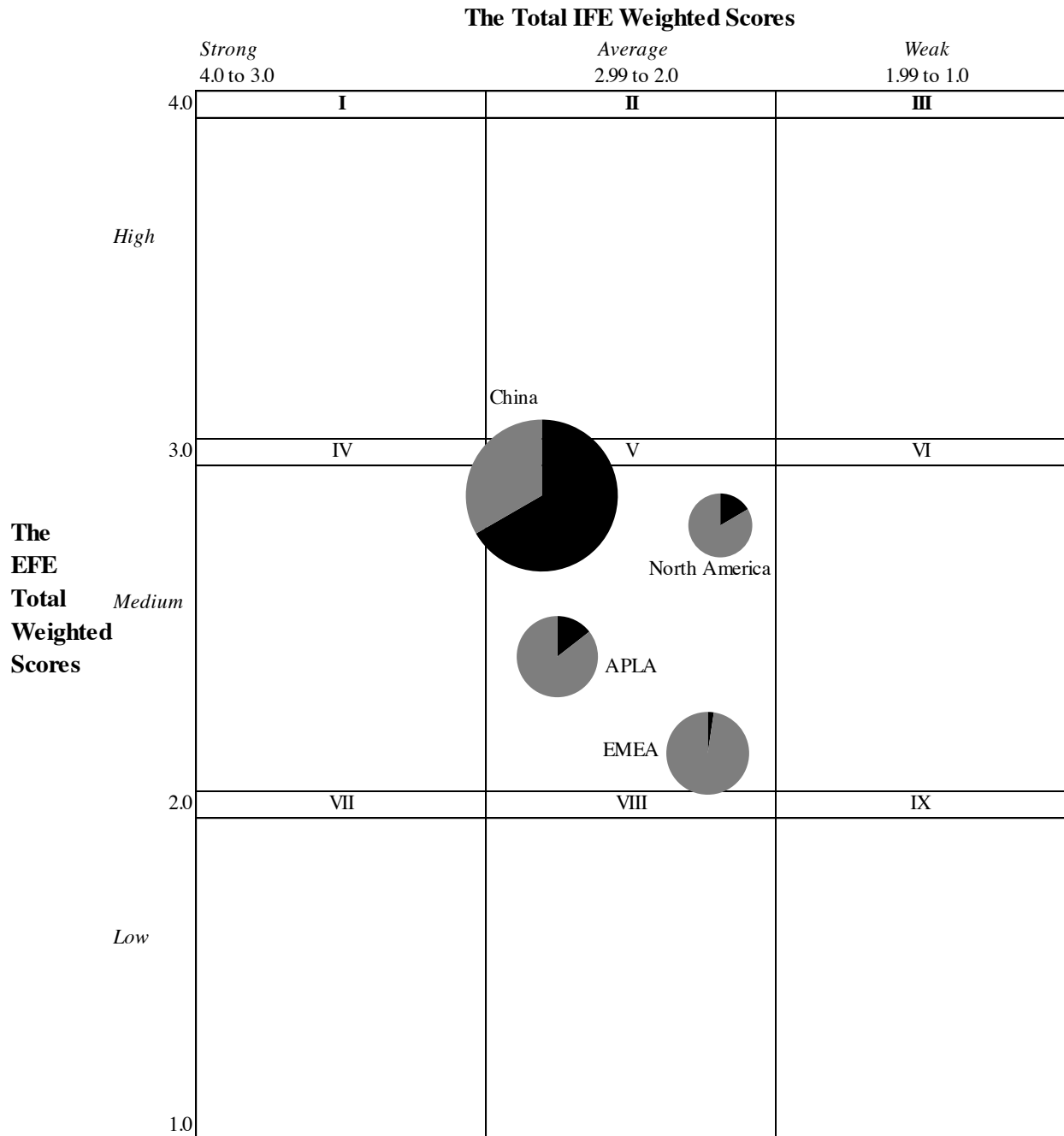
Lenovo is located in the Aggressive Quadrant of the SPACE Matrix, suggesting the firm needs to continue expansion into Latin America, continue its vertical integration strategies, and continue shifting resources to smartphones.

H. Grand Strategy Matrix



The smartphone market is rapidly growing, but the PC market is not, making it difficult to place Lenovo inside the Grand. If the firm continues to grow its smartphone business model, especially in China and then expanding more abroad, the firm should see continued sales growth.

I. The Internal-External (IE) Matrix



Segment	2012 Total Sales (in millions)	2012 Operating Profits
China	\$14,539	\$678
Asia Pacific/Latin America (APLA)	6,860	24
Europe/Middle East/Africa (EMEA)	7,535	147
North America	4,939	168
Total	\$33,873	\$1,107

Net income was \$631million in 2012, but not disclosed by segment, so operating profits were used for the pie slices. APLA region, while a strong income generator, is not operating nearly as efficiently as the other segments. North American sales remain weak and are mostly derived from PCs.

J. QSPM

Form an Alliance with Verizon and AT&T in the USA to Carry Lenovo Phones Build a New Production Plant in China for Tablets and Phones						
Opportunities		Weight	AS	TAS	AS	TAS
1.	Differentiation of key parts (batteries, display, storage) are some of the important features of a phone.	0.04	0	0.00	0	0.00
2.	HP lost \$12.6 billion in 2012.	0.01	0	0.00	0	0.00
3.	Smartphone is still in the growth phase in many developing markets.	0.04	4	0.16	2	0.08
4.	Increasing areas worldwide with free WiFi.	0.01	4	0.04	3	0.03
5.	Apple focuses its business toward consumers and does not aggressively develop products and services for global enterprise customers.	0.03	3	0.09	1	0.03
6.	Apple lacks consistent global service and support on many products.	0.02	0	0.00	0	0.00
7.	Customers prefer Android based operating systems to Windows.	0.05	3	0.15	4	0.20
8.	The global smartphone market increased by 39% in 2012 in terms of units shipped, according to International Data Corporation.	0.08	3	0.24	4	0.32
9.	Many smartphone providers in the USA will offer phones at reduced prices for customers signing 2 year contracts.	0.03	2	0.06	4	0.12
10.	China is the world's biggest market for mobile phones and PCs.	0.08	4	0.32	1	0.08

	Threats	<u>Weight</u>	<u>AS</u>	<u>TAS</u>	<u>AS</u>	<u>TAS</u>
1.	Suppliers can be undependable at times on providing supplies in the quantity needed.	0.06	0	0.00	0	0.00
2.	Apple, Dell, HP, Toshiba and Fujitsu all reported higher sales in 2012/2013 than Lenovo.	0.09	4	0.36	3	0.27
3.	Apple and Samsung dominate the smartphone market with a 80% market share.	0.09	3	0.27	4	0.36
4.	The PC market is on the decline.	0.09	3	0.27	1	0.09
5.	Apple's inventory turnover was 74 in 2012.	0.04	3	0.12	2	0.08
6.	Price wars are starting to emerge in the industry.	0.06	0	0.00	0	0.00
7.	Windows operating systems for phones have not gained near the public popularity as Apple and Google based operating systems.	0.05	0	0.00	0	0.00
8.	Microsoft is offering free software similar to Lenovo's ThinkVantage software.	0.04	0	0.00	0	0.00
9.	Lenovo is also concerned about China's ZTE Corp., which plans to become one of the world's top-three smartphone brands.	0.07	4	0.28	2	0.14
10.	An increasing number of companies are interested in purchasing Mac computers for all or part of their global operations.	0.02	0	0.00	0	0.00

			<i>Form an Alliance with Verizon and AT&T in the USA to Carry Lenovo Phones</i>			
			<i>Build a New Production Plant in China for Tablets and Phones</i>			
Strengths		Weight	AS	TAS	AS	TAS
1.	Strong sales position in China accounting for 43% of 2012 sales.	0.07	4	0.28	1	0.07
2.	Rapidly growing firm with net income up from \$129 million in 2010 to \$631 million in 2013.	0.06	4	0.24	3	0.18
3.	Lenovo has invested \$793 million in the construction of a mobile phone manufacturing and R&D facility in Wuhan, China. Lenovo is the world’s second-largest PC vendor (behind HP), and markets the ThinkPad line of notebook computers and ThinkCentre line of desktops.	0.07	2	0.14	3	0.21
4.	Lenovo ranks fourth in the global tablet market by volume.	0.04	4	0.16	2	0.08
5.	In July 2012, the National Football League (NFL) announced that Lenovo had become the NFL's "Official Laptop, Desktop and Workstation Sponsor."	0.02	2	0.04	4	0.08
6.	Lenovo acquired the Brazil-based electronics company CCE that sells products under the brand name Digibras for a base price of 300 million reais (US\$148 million) in a combination of stock and cash and an additional 400 million reais dependent upon performance benchmarks.	0.04	0	0.00	0	0.00
7.	The second-biggest smartphone vendor in China, Lenovo has begun selling smartphones in Russia, Indonesia, the Philippines and Vietnam.	0.05	4	0.20	1	0.05
8.	Lenovo focuses on vertical integration in order to avoid excessive reliance on suppliers and to keep down costs.	0.05	0	0.00	0	0.00
9.	Lenovo’s 1) China and 2) Europe Middle East and Africa sales increased 17% and 20% respectively in FY 2013.	0.05	4	0.20	1	0.05
10.	Lenovo basically has what it calls a two prong strategy: 1) Protect its commercial global PC business and its China business and 2) Attack three high growth opportunities in emerging markets with smartphones, tablets, and smart TV’s.	0.05	2	0.10	3	0.15

	Weaknesses	Weight	AS	TAS	AS	TAS
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2.	No COO and divisional by region when divisional by product may be more beneficial.	0.03	0	0.00	0	0.00
3.	Lenovo is still primarily a Chinese PC company with 34% of all revenues coming from PC sales in China and 81% of all Chinese sales being derived from PCs.	0.08	4	0.32	3	0.24
4.	Lenovo smartphones are not offered in Europe, USA, or Latin American markets.	0.08	3	0.24	4	0.32
5.	About a tenth of Lenovo's Q3 2013/2012 revenues came from its mobile Internet and digital home (MIDH) business - mainly consisting of its smartphone sales in China, which jumped 77% to \$998 million, though that was only 11% of total revenue.	0.06	0	0.00	0	0.00
6.	Europe Middle East and Africa segment reported \$6.8 billion USD in sales but only \$24 million in operating profits in 2013.	0.07	3	0.21	1	0.07
7.	Sales in North America were \$4,939 million in 2013, lower than any market served.	0.06	2	0.12	4	0.24
8.	Inventory Turnover of 20 with Apple over 70.	0.04	2	0.08	3	0.12
9.	Despite improving profits, the firm's net income in 2013 was only \$631 million.	0.05	2	0.10	3	0.15
10.	Despite improving profits, the firm's net income in 2013 was only	0.00	0	0.00	0	0.00
TOTALS				4.79		3.81

Both strategies should be implemented and even though building the new production plant in China receives a higher score than securing relationships with Verizon and AT&T in the USA, it would be wise for Lenovo to first gain a commitment for the USA based telecom giants.

K. Recommendations

1. Build a new production plant for phones and tablets near the R&D facility in Wuhan, China for \$600 million.
2. Form an alliance with Verizon and AT&T in the USA to provide smartphones.
3. Offer the equivalent of \$20 off each phone for up to 1 million customers in Russia.
4. Devote \$200 million to building relationships with large multinational companies around the world to supply their employees with smart phones.
5. Spend \$20 million to restructure by product and hire a COO.
6. Invest 80% of all profits generated from PCs into R&D for tablets, smart phones, and next generation devices.
7. Spend \$50 million to develop and offer cheaper products for customers in emerging markets.
8. Spend \$150 million in advertising in China to market the advantages of Lenovo smartphones over rival XTE Corp.
9. Further increase the vertically integrated strategy to include batteries, display, and storage for \$500 million in R&D.
10. Divest all software operations similar to what Microsoft is offering for free.

L. EPS/EBIT Analysis (in millions of \$ expect for EPS and Share Price)

Amount Needed: \$1,700 million

Stock Price: \$21.11

Shares Outstanding: 518

Interest Rate: 4%

Tax Rate: 25%

	<u>Common Stock Financing</u>			<u>Debt Financing</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$500	\$800	\$1,200	\$500	\$800	\$1,200
Interest	0	0	0	68	68	68
EBT	500	800	1,200	432	732	1,132
Taxes	125	200	300	108	183	283
EAT	375	600	900	324	549	849
# Shares	599	599	599	518	518	518
EPS	0.63	1.00	1.50	0.63	1.06	1.64

	<u>60 Percent Stock</u>			<u>40 Percent Stock</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$500	\$800	\$1,200	\$500	\$800	\$1,200
Interest	27	27	27	41	41	41
EBT	473	773	1,173	459	759	1,159
Taxes	118	193	293	115	190	290
EAT	355	580	880	344	569	869
# Shares	566	566	566	550	550	550
EPS	0.63	1.02	1.55	0.63	1.03	1.58

As economic conditions improve, debt financing becomes more and more attractive for Lenovo. It would require increasing shares outstanding by 16% if financing by equity under any economic climate.

M. Epilogue

In January 2013, Lenovo opened its first USA-based PC production facility in Whitsett, North Carolina. The 240,000 square foot facility is 10 miles outside of Greensboro and produces many of the new Think-branded PCs such as the tiny ThinkCentre M92p desktop, ThinkPad Tablet 2, and ThinkPad Helix convertible Ultrabook. To celebrate opening the PC manufacturing line, Lenovo donated 36 ThinkCentre Desktops made in Whitsett to the Greensboro YMCA to be used for youth development and education programs. The big problem for Lenovo, however, is that the research firm EDC in mid-2013 predicted that worldwide shipments of PCs will decline 7.8 percent in 2013 and an additional 1.2 percent in 2014 because smartphones and tablets are all the “computer” that most people need. Global shipments of laptops and desktops fell 14 percent in Q1 of 2013. But Lenovo’s global market share in the PC industry grew to 15.3 percent in mid-2013 while market leader HP saw its market share drop from 17.7 percent to 15.7. Some analysts such as Gartner Inc. say that Lenovo has 15.7 percent to HP’s 15.5 percent making Lenovo the world’s largest PC maker.

Although Lenovo is arguably the world's largest seller of PC's, the PC industry is in decline, so CEO Yang Yuanqing in mid-2013 told the world that for Lenovo "smartphones are our new opportunity." However, breaking into the Apple –Samsung duopoly in smartphones is to be a difficult task. Lenovo recently opened a new \$800 million R&D facility to develop smartphones and tablets in the central Chinese city of Wuhan. CEO Yuanqing calls the new Lenovo strategy "protect and attack." Lenovo predicts that its worldwide sales of smartphones will increase from 30 million units in fiscal 2013 that ended 3-31-13 to 50 million in fiscal 2014 to end on 3-31-14. Lenovo's primary marketing spokesperson for the company's new K900 smartphone is NBA superstar Kobe Bryant. But in the USA, Lenovo faces an uphill battle, since in 2012 alone, Apple and Samsung spend \$333 million and \$401 million respectively on advertising their smartphones in the USA.

Lenovo's CEO Yuanqing recently said that "servers and storage is the business we want to expand and develop." Rumors are that the CEO is engaged in talks with IBM to purchase some of their server business.

Questions for discussion

Analyse the new strategy "protect and attack."

1. Develop smartphones
2. Expand & develop servers & storage

A. How can Lenovo implement these strategies? What are the challenges they may encounter? How can the problems be resolved?

B. Will these strategies be successful? Why?