

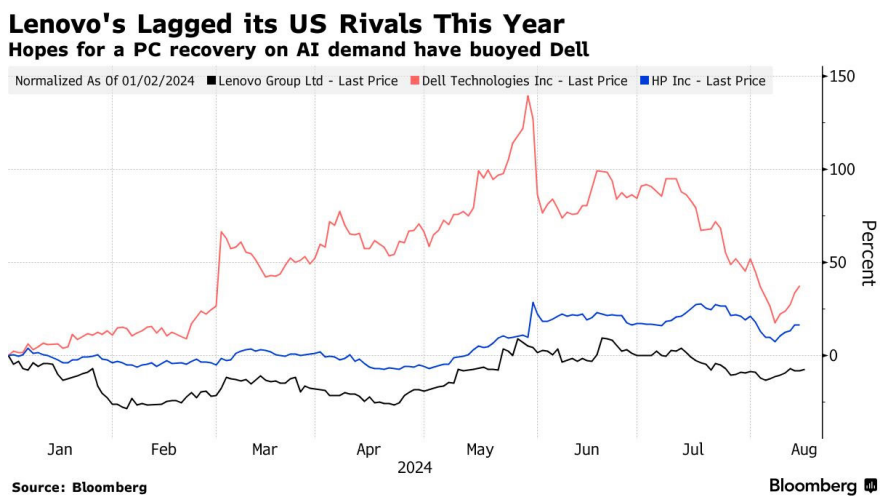
Lenovo's profits rise as AI demand drives PC's gradual recovery

Lenovo Group Ltd. reported better-than-expected quarterly profits, affirming hopes for a gradual recovery in the computer industry thanks to global AI spending.

Lenovo said in a filing on Thursday (August 15) that net income rose 38% to \$243 million in the three months of the second quarter. That was above the average estimate of \$231 million. Revenue increased 20% to \$15.4 billion.

The results reflect growing demand for essential servers in Artificial Intelligence (AI) development that is driving the computer hardware market out of a post-Covid downturn. From Amazon.com Inc. to Google and Baidu Inc., major technology companies are increasing spending on data centers at a rapid pace, preparing for a boom in AI services.

According to research firm IDC, Lenovo has expanded its lead over HP Inc. and Dell Technologies Inc. with 14.7 million PCs shipped in the second quarter. But the Chinese company's shares have lagged behind rivals this year, partly due to concerns about the world's No. 2 economy and tensions. straight geopolitics.



Chief Executive Officer Yang Yuanqing is betting on AI-powered devices to boost Lenovo's global business in the coming years, even though that market remains untested.

Growth of the global PC market will accelerate to between 5% and 10% next year, "with the new refresh cycle being driven by both AI-PC as well as the Windows 11 replacement," Yang replied. Bloomberg in an interview this Thursday.

While Lenovo's Q1 earnings beat expectations with revenue growth of 20%, rising trade tensions could limit the company's USD bond tightening, given the already high rating ceiling tight. We estimate a \$650 million increase in operating expenses could lead to leverage increasing to more than 1x by 2024. AI-powered devices could be the catalyst in the year ahead.

- According to Cecilia Chan, BI analyst

Geopolitical risks, including the possibility of new PC tariffs or chip export restrictions by US or European regulators, remain a question mark for the 40-year-old company. The Biden administration has imposed a series of restrictions on exports to China of advanced processor and chip manufacturing technologies, including Nvidia Corp.'s most capable AI training chips. Lenovo is by far the top seller of servers in the country.

Some Nvidia GPUs, which are in high demand for training AI models, are still in limited supply, "but overall the situation is getting better," Yang said.

Lenovo shares fell as much as 2.9% in Hong Kong in afternoon trading after the company announced financial results, before recouping some losses.

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