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Lenovo to Acquire IBM Personal Computing Division

Creating New Leading PC Business with Global Market Reach

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ARMONK, N.Y. & BEIJING - 07 Dec 2004: IBM and Lenovo Group Limited

- Creates world's third-largest PC business with approximately US\$12 billion annual revenue for 2003
- Global business with worldwide reach, powerful brand name, balanced product offerings and leading R&D capabilities
- Long-term strategic alliances between Lenovo and IBM in PC sales, service and financing worldwide
- Worldwide headquarters in New York; principal operations in Beijing and Raleigh, North Carolina
- Transaction of US\$1.25 billion in cash, equity; total transaction consideration of approximately US\$1.75 billion
- IBM to take 18.9 percent equity stake in Lenovo; transaction expected to be completed in second quarter 2005

Lenovo Group Limited, the leading Personal Computer brand in China and across Asia, and IBM today announced a definitive agreement under which Lenovo will acquire IBM's Personal Computing Division to form the world's third-largest PC business, bringing IBM's leading enterprise-class PC technologies to the consumer market and giving Lenovo global market reach beyond China and Asia.

Lenovo will have combined annual PC revenue of approximately US\$12 billion and volume of 11.9 million units, based on 2003 business results -- a fourfold increase in Lenovo's current PC business. Lenovo's new PC business will benefit from a powerful worldwide distribution and sales network covering 160 countries, global brand recognition through the combination of IBM's highly regarded "Think" brand notebook franchise and Lenovo's leading brand recognition in China, enhanced service and support for consumers and enterprise clients, and consumer strength and market leadership in China, the world's fastest growing IT market. After the transaction is completed, Lenovo will boast leading notebook enterprise offerings, leading R&D and expertise in product differentiation, ensuring greater innovation and enhanced product selection for customers.

As part of the transaction, Lenovo and IBM will enter a broad-based, strategic alliance in which IBM will be the preferred services and customer financing provider to Lenovo.

Lenovo will be the preferred supplier of PCs to IBM, enabling IBM to offer a full range of personal computing solutions to its enterprise and small and medium business clients.

Stephen M. Ward, Jr., currently IBM senior vice president and general manager of IBM's Personal Systems Group, will serve as the chief executive officer of Lenovo following completion of the transaction. Yuanqing Yang, currently vice chairman, president and chief executive officer of Lenovo, will serve as the chairman of Lenovo post-transaction.

Chuanzhi Liu, current chairman of Lenovo Group, said, "As Lenovo's founder, I am excited by this breakthrough in Lenovo's journey towards becoming an international company. Over the past 20 years, I've watched Lenovo develop into the leading IT company both in China and throughout Asia. Since the beginning, however, our unwavering goal has been to create a truly international enterprise. From 2003 when we changed our international brand name to 2004 when we announced our partnership with the International Olympic Committee, to today's strategic alliance with IBM, I have been delighted to watch Lenovo become a truly world-class company."

IBM will have an 18.9 percent ownership share in Lenovo Group and is expected to recognize a gain on the sale following completion of the transaction. There will be minimal financial impact resulting directly from the transaction to IBM's fourth-quarter 2004 results.

"Today's announcement further strengthens IBM's ability to capture the highest-value opportunities in a rapidly changing information technology industry," said Samuel J. Palmisano, IBM chairman and chief executive officer. "Over the past several years, we have aggressively repositioned IBM to be the world's leading provider of innovation-enabled solutions for businesses and institutions of all sizes, in all industries. This requires single-minded focus on the business client and significant ongoing investments in R&D and the creation of intellectual capital. At the same time, the PC segment of the industry continues to take on characteristics of the home and consumer electronics industry, which favors enormous economies of scale and a focus on individual users and buyers. Today's announcement further strengthens IBM's focus on the enterprise, while creating a new global business that is better positioned to capture the opportunities in the PC industry going forward."

"In Lenovo we have a partner with powerful competitive capabilities in China and Asia and in consumer and desktop PCs. We have worked very carefully with Lenovo to put in place all the elements of a strong, successful, enduring global alliance. IBM will continue to provide our clients with outstanding IBM- and Think-branded PCs through our alliance. And IBM will play an important role in the home and consumer markets by creating the advanced microprocessor and open software technology for the next-generation computing platform -- opportunities that play to IBM's unique innovation capabilities."

While the transaction is being completed, both companies expect their existing PC operations, including customer service and product availability, to continue as usual. Following the closing of the transaction, Lenovo expects customer service and product availability will continue as usual as the two companies' operations are integrated.

Yuanqing Yang, current president and chief executive officer of Lenovo, said, "The development of the Internet brings both great opportunities for the development of the PC industry and also significant challenges. To succeed, PC companies need to have global scope, leading-edge technology and highly efficient operations. Through acquiring IBM's global PC business and forming a strategic alliance with IBM, Lenovo will absorb and integrate the skills from both sides and acquire global brand recognition, an international and diversified customer base, a world-class distribution network with global reach, more diversified product offerings, enhanced operational excellence and leading-edge technology."

Mr. Yang added that the transaction will help establish Lenovo's international name recognition by leveraging IBM's powerful global brand through a five-year brand licensing agreement as well as through ownership of the globally-recognized "Think" family of trademarks.

Founded in 1984, Lenovo was the first company to introduce the home computer concept in the People's Republic of China, and since 1997 has been the leading PC brand in China and across Asia with annual revenues of approximately US\$3 billion. IBM's PC business generated over US\$9 billion in revenues in 2003 and offers a full range of desktop and notebook PC systems.

According to IDC figures for 2003, the combined unit market share of Lenovo and IBM's PC businesses worldwide is approximately 8 percent. The transaction will dramatically strengthen Lenovo's global presence in the fast-growing notebook PC marketplace.

As part of the strategic business alliance, IBM will provide marketing support and demand generation services for Lenovo products through IBM's existing enterprise sales force of approximately 30,000 professionals, and through IBM.com. Lenovo products will also be sold through IBM PC specialists that will join Lenovo. IBM Global Financing and IBM Global Services, the number one IT services organization in the world with powerful existing enterprise channels, will be preferred providers to Lenovo for leasing and financing services, and for warranty and maintenance services, respectively.

"This is a winning transaction for customers of both companies," Stephen M. Ward, Jr., said. "Our two companies are a perfect fit sharing a common cultural commitment to innovation, customer service and shareholder value. Looking forward, Lenovo will pursue an aggressive yet prudent growth strategy and will boast an industry leading international management team comprising IBM's and Lenovo's existing senior executives and technology managers. I have great confidence in the future of this new business."

Lenovo Group will locate its PC business worldwide headquarters in New York, with principal operations in Beijing and Raleigh, North Carolina, and sales offices throughout the world.

Upon completion of the transaction, Lenovo will have approximately 19,000 employees. Approximately 10,000 current IBM employees -- more than 40 percent of whom already are in China and less than 25 percent of whom are in the United States -- will join Lenovo. The transaction is expected to have minimal impact in the aggregate on employment, benefits and compensation in either company.

Transaction Details

As consideration for the transaction IBM will receive at least US\$650 million in cash and up to US\$600 million in Lenovo Group common stock, subject to a lock-up period expiring periodically over three years. IBM will be Lenovo's second-largest shareholder, with an 18.9 percent interest in Lenovo. Additionally, Lenovo will assume approximately US\$500 million of net balance sheet liabilities from IBM.

Lenovo will fund the cash portion of the consideration through internal cash and debt. The equity issuance price will be HK\$2.675 per share and is based on the closing price as of December 3, 2004.

The transaction is expected to be completed in the second quarter 2005 and requires the approval of Lenovo's shareholders and review by relevant regulatory organizations. Lenovo Holdings, Lenovo Group's controlling shareholder, has agreed to vote its shares in favor of the transaction. It is the intention of IBM and Lenovo to secure signed, local agreements after completion of additional legal requirements and industrial relations processes where applicable in some countries outside the United States.

The PC manufacturing portion of the International Information Products Company in Shenzhen, China, which is co-owned by IBM and Great Wall, is included in the transaction; **IIPC's IBM eServer xSeries manufacturing there is excluded.**

Investor and Press Webcast Details

IBM: A webcast hosted by **IBM Senior Vice President and Chief Financial Officer Mark Loughridge** is scheduled to begin on Tuesday, December 7 at 9:15 p.m. (EST). Investors and press may view it at www.ibm.com/investor/events/ir1204. Replays will be available shortly after the completion of the original webcast.

Beijing Media Event Details

Lenovo will host a media event in Beijing on December 8 at 9:00 a.m. (Beijing/Hong Kong). The event can be accessed via a live webcast at <http://lenovo.broadcastone.net/announce.htm>, using passcode: be26i.

Contact(s) information

Edward Barbini
IBM Media Relations
1-914-499-6565
barbini@us.ibm.com

Zhu Guang
Lenovo: Beijing
+86 10/5886-6111
zhuguang@lenovo.com

Philip Lisio
Lenovo: International
+86 10/8520-6505
Philip.Lisio@ogilvy.com

John Bukovinski
IBM Media Relations
1-914-499-6212
jbuko@us.ibm.com

Angela Lee
Lenovo: Hong Kong
852/2516-4810
AngelaLee@lenovo.com

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