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Lenovo Completes Initial Closing for Acquisition of IBM's x86 Server Business

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Research Triangle Park, North Carolina, and Armonk, New - 01 Oct 2014: Lenovo (HKSE: 992) (ADR: LNVGY) and IBM (NYSE: [IBM](#)) today announced that they have completed the initial closing for Lenovo's acquisition of IBM's x86 server business under the terms described in their [announcement](#) on Monday, September 29, 2014.

Lenovo is acquiring System x, BladeCenter and Flex System blade servers and switches, x86-based Flex integrated systems, NeXtScale and iDataPlex servers and associated software, blade networking and maintenance operations. IBM retains its System z mainframes, Power Systems, Storage Systems, Power-based Flex servers, and PureApplication and PureData appliances.

As part of the agreement, Lenovo and IBM have also established a strategic alliance where Lenovo will serve as an Original Equipment Manufacturer (OEM) to IBM and will resell select products from IBM's industry-leading storage and software portfolio. These include IBM's entry and midrange Storwize storage product family, Linear Tape Open (LTO) products, and elements of IBM's system software portfolio, including Smart Cloud software, General Parallel File System and Platform Computing solutions.

The transition will begin today in countries that are part of the initial closing, which includes most major markets. The transaction is expected to close in most other countries later this year, with the few remaining countries following in early 2015.

About Lenovo

For more information see www.lenovo.com

About IBM

For more information about IBM, visit <http://www.ibm.com>

Contact(s) information

Jeff Cross

IBM Media Relations
1 (914) 766-4166
jrcross@us.ibm.com

Jay Cadmus

IBM Media Relations
1 (914) 766-4966
jcadmus@us.ibm.com

Angela Lee

Lenovo Media Relations
+852 - 2516 - 4810
angelalee@lenovo.com

Brion Tingler

Lenovo Media Relations
1 (917) 528-1992
btingler@lenovo.com

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TOP NEWS

Lenovo buys IBM's server business in China's biggest IT acquisition

Thu, Jan 23 04:18 AM EST

BEIJING, Jan 23 (Reuters) - Lenovo Group Ltd, the world's largest PC maker, agreed to buy IBM Corp's low-end server business in a long-awaited deal valued at about \$2.3 billion, the biggest-ever tech acquisition by a Chinese company.

Lenovo will pay \$2.07 billion in cash and the rest with stock of the Beijing-based PC maker, the company said in a statement to the Hong Kong exchange on Thursday.

The deal surpasses Baidu Inc's acquisition of 91 Wireless from NetDragon Websoft Inc for \$1.85 billion last year, according to Thomson Reuters data, and underscores the growing clout of the country's technology firms as they look to expand overseas.

The acquisition will allow Lenovo to diversify revenue away from the shrinking PC business and remodel itself as a growing force in mobile devices and data storage servers. Analysts said Lenovo will likely find it easier than International Business Machines (IBM) to sell the x86 servers to Chinese companies as Beijing tries to localise its IT purchases in the wake of revelations about U.S. surveillance.

The sale allows IBM to dump its low-margin x86 business - which sells less powerful and slower servers than the company's higher-margin offerings - and focus on the firm's decade-long shift to more profitable software and services. The unit had reported seven straight quarters of declining revenue.

"What the business is worth to IBM is no longer relevant. The only thing that matters is what it's worth to Lenovo," said Alberto Moel, a Hong Kong-based analyst at Sanford C. Bernstein. "If Lenovo can improve the margins... that could offset any continued revenue shrinkage."

Lenovo's purchase of IBM's ThinkPad PC business in 2005 for \$1.75 billion became the springboard for its leap to the top of global PC maker rankings. The market is betting Lenovo will enjoy similar success with its latest acquisition, which is partly reflected in a 9.44 percent rise in its shares this year.

Credit Suisse and Goldman Sachs advised Lenovo, PC maker said in its statement.

HIGHER VALUATIONS

Talks between IBM and Lenovo fell apart last year due to differences on pricing, with media reports at the time suggesting IBM wanted as much as \$6 billion for the unit.

Analysts said the sale may have been accelerated by IBM's China woes and ongoing weakness in hardware sales, after the world's biggest technology services company reported a 23 percent drop in fourth-quarter revenue from China on Tuesday.

Revenue from its hardware business, including servers, fell for the ninth consecutive quarter as more companies switched to the cloud from traditional infrastructure.

IBM's server business was the world's second-largest, with a 22.9 percent share of the \$12.3 billion market in the third quarter of 2013, according to technology research firm Gartner.

Hewlett-Packard Co is the biggest player, while Lenovo does not appear in the top five.

"The acquisition presents a unique opportunity for the company to gain immediate scale and credibility in this market," Lenovo said on Thursday.

The x86 unit has annual revenues of roughly \$4 billion, analysts estimate.

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