

Lenovo Completes Acquisition Of IBM's Personal Computing Division

May 2 2005

Lenovo Group Limited and IBM today announced the closing of the acquisition of IBM's Personal Computing Division by Lenovo, creating a new international IT competitor and the third-largest personal computing company in the world.

"The closing of this transaction is an historic event for Lenovo and marks a new era for the global PC industry," said Yuanqing Yang, chairman of Lenovo. "The new Lenovo's strategy is based on what our customers want: high-quality products and world-class service. We are committed to delivering the highest quality, most innovative PC products and services to our customers, to providing the best working environment for our employees, and to creating value for our shareholders."

"Lenovo is well-positioned, with competitive strengths in branding, world-class scale and industry-leading efficiency," said Stephen M. Ward, Jr., chief executive officer of Lenovo. "Lenovo's leading R&D and product differentiation capabilities, experienced management team and global distribution network - through our unique alliance with IBM - give us a powerful competitive position in global markets. Within weeks, we will be introducing new products as the new Lenovo."

The company's strengths include global brand recognition, through the combination of the 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. Lenovo has one-third of the emerging China PC market and leading shares in enterprise PC markets around the world.

Summary of the Transaction

Under the terms of the transaction, Lenovo has paid IBM US\$1.25 billion, comprised of approximately US\$650 million in cash and US\$600 million in Lenovo Group shares, based on the closing price on the last day of trading prior to the December 2004 announcement. IBM's ownership in Lenovo upon closing is 18.9 percent. Additionally, Lenovo will assume approximately US\$500 million of net balance sheet liabilities from IBM.

IBM will record a pre-tax gain on the sale of approximately US\$1 billion. The gain will be reported when IBM releases its second-quarter 2005 financial results.

The definitive agreement for the acquisition was announced December 8, 2004. Lenovo's shareholders approved the transaction January 27, 2005. The closing of the transaction represents the completion of all the key terms of the definitive agreement.

In a transaction announced on March 31, 2005, Lenovo has agreed to the terms for a strategic investment of US\$350 million from leading private equity investment firms Texas Pacific Group, General Atlantic Group and Newbridge Capital Group. Per the agreement, Lenovo will issue US\$350 million worth of convertible preferred shares and unlisted warrants that can be converted into common shares of Lenovo. A meeting of Lenovo shareholders in relation to this strategic investment is scheduled on May 13, 2005.

Subject to approvals by the Hong Kong Stock Exchange, regulatory

authorities and a Lenovo shareholder vote, IBM's ultimate consideration for the transaction is expected to be approximately US\$800 million in cash and US\$450 million in Lenovo Group stock, which, as currently proposed, would be accomplished by a repurchase of shares of Lenovo from IBM.

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