Lenovo Buys Part of IBM Server Business for $2.3B

Joe McDonald, AP Business Writer

BEIJING (AP) — China's Lenovo Group is buying IBM's server business for $2.3 billion, expanding a product line-up dominated by PCs, tablets and smartphones.

Lenovo, the world's biggest personal computer maker, said Thursday it expects to offer jobs to 7,500 IBM employees as part of its acquisition of the x86 server business.

The acquisition will accelerate Lenovo's moves to expand beyond its traditional PC business, said Peter Hortensius, a senior vice president.

"We see a transformation coming for our company from just being a PC company to being a mobile device, PC and enterprise server company," said Hortensius in a phone interview. "This provides another strong leg for that strategy."

Lenovo has its own server business but Hortensius said it is less than one-fifth the size of the IBM Corp. unit. He said the acquisition will move Lenovo ahead five years in its plan to expand in servers, raising its global ranking among suppliers from No. 6 to No. 3 and increasing its share of global server sales from 2 percent to 14 percent.

Lenovo passed rival Hewlett Packard Co. as the No. 1 PC maker in the third quarter of last year, a triumph that was tempered by eroding demand. The company has said it expects mobile devices to become the bulk of its business in coming years.

Lenovo, based in Beijing and in Research Triangle Park, North Carolina, has collaborated with IBM for a number of years. The Chinese company acquired IBM's PC unit in 2005 and has since expanded into wireless products including smartphones and tablets.

IBM, based in Armonk, New York, will continue to develop Windows and Linux software for the x86 platform and will provide service to customers for an extended period after the acquisition, Lenovo said.

The server businesses should be relatively easy to integrate because they have little overlap outside China, said Hortensius. He said potential customers range from offices to server farms for mobile devices.

"This becomes a deal we can quickly gain advantage from, rather than dealing with integration issues," he said. "There is a lot of scale, capability and know-how that we can bring to bear to work with the team from IBM. All of them are experts in their field."

The two companies also plan to enter into a strategic relationship. It will include a reseller agreement for IBM's Storwize disk storage systems, tape storage systems and certain cloud, file system, platform computing and system software products.

The acquisition announced Thursday covers IBM's 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, Lenovo said.

It said about $2 billion of the purchase price will be paid in cash, the rest in Lenovo stock.

IBM will retain its System z mainframes, Power Systems, Storage Systems, Power-based Flex servers, and PureApplication and PureData appliances.

In its latest financial report, Lenovo said profit rose 36 percent from a year earlier to $220 million in the three months ended Sept. 30. Sales rose 13 percent to $9.8 billion.

The results highlighted the shift to mobile: Lenovo said quarterly sales of smartphones and tablets soared 106 percent over a year earlier while those of traditional desktop PCs fell 3 percent.

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