



ERICSSON

# FINANCIAL PERFORMANCE

## INVESTOR UPDATE 2016

NOVEMBER 10, 2016 NEW YORK



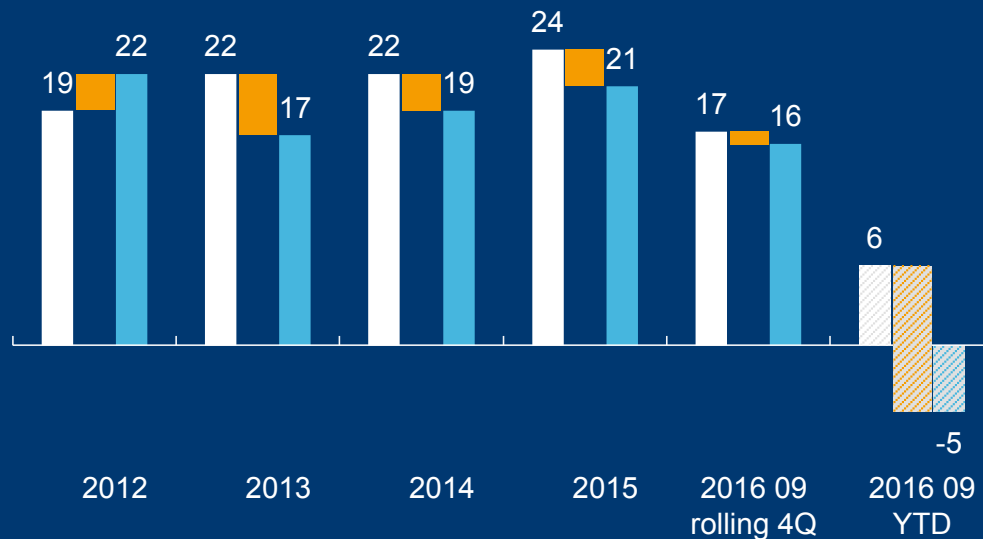
ERICSSON

CARL MELLANDER  
CFO

# FINANCIAL PERFORMANCE – CASH FLOW

SEK b.

- Net income reconciled to cash
- Change operating net assets
- Operating cash flow

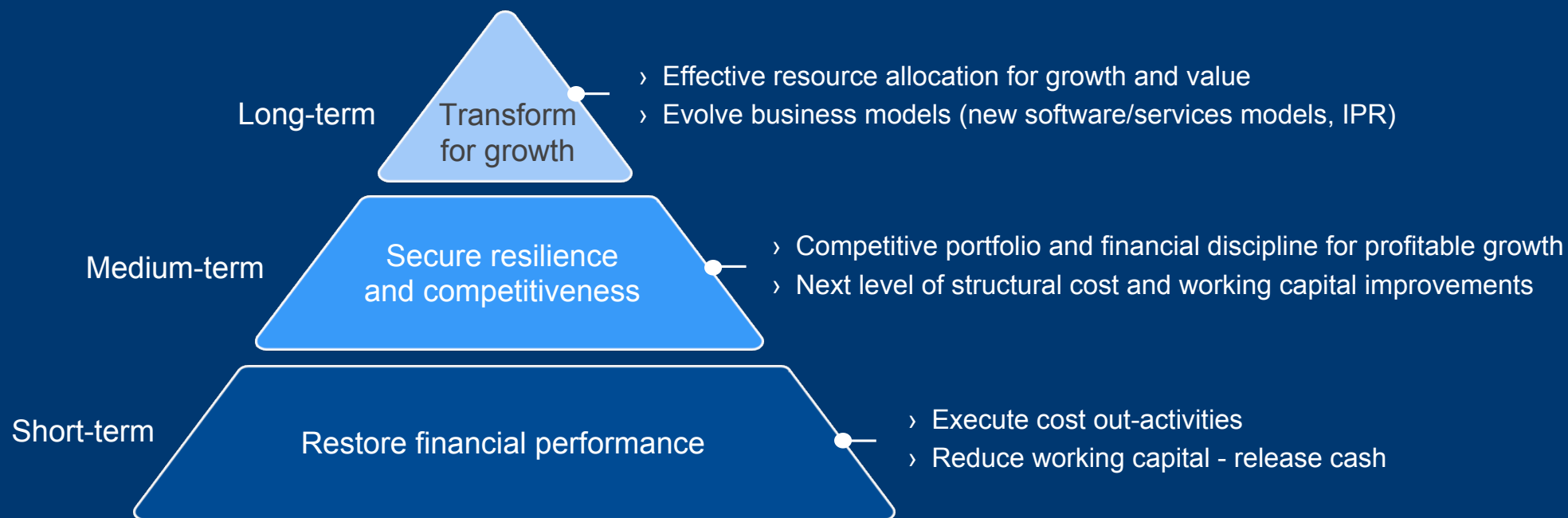


- › Net Income stable 2012-2015
- › Cash conversion\* above 70% target 2012-2015
- › Coverage projects main driver for increased working capital
- › Cash flow and working capital not satisfactory in 2016
- › Adjustments of supply capacity to lower demand 2016

Cash conv*:	2012	2013	2014	2015	2016 09 rolling 4Q	2016 09 YTD
	116%	79%	84%	85%	95%	-

\* Cash conversion, target level 70% (operating cash flow divided by net income reconciled to cash)

# PRIORITIES TO DRIVE VALUE



Simultaneous execution across the three building blocks – each equally important to drive value

# PRIORITIES TO DRIVE VALUE



## Example activities

Transform  
for growth

- › **Significant investments for leadership in 5G and success in growth areas**, e.g. ~40% of Opex investments into IT & Cloud and Media
- › **Workforce transformation**: 13,200 left and 11,500 joined first 3 quarters 2016

Secure resilience  
and competitiveness

- › **Ericsson Radio System**: World-leading product, enabling structural cost and working capital gains
- › **Service delivery & supply transformation**: Increased production outsourcing and delivery from global service centers

Restore financial performance

- › **Cost & efficiency program**: Opex and Cost of sales reductions
- › **Increase capital efficiency and release cash in Q4** aiming for full year target of 70% cash conversion – operational & structural action plans in execution

# COST & EFFICIENCY PROGRAM

## AMBITION SUMMARY



2014  
November

- › SEK 9 b. in net reduction
  - ~50% in Opex
  - ~50% in CoS

2016  
July

- › Opex reduction ambition doubled
- › Intensified activities to reduce CoS

2016  
October

- › Further short-term CoS actions to adapt to weaker mobile broadband demand

2017 2H

- › Opex run-rate SEK 53 b., excluding restructuring
- › CoS reductions visible in gross margin compared to full year 2016 levels

Strict discipline across the company to restore financial performance

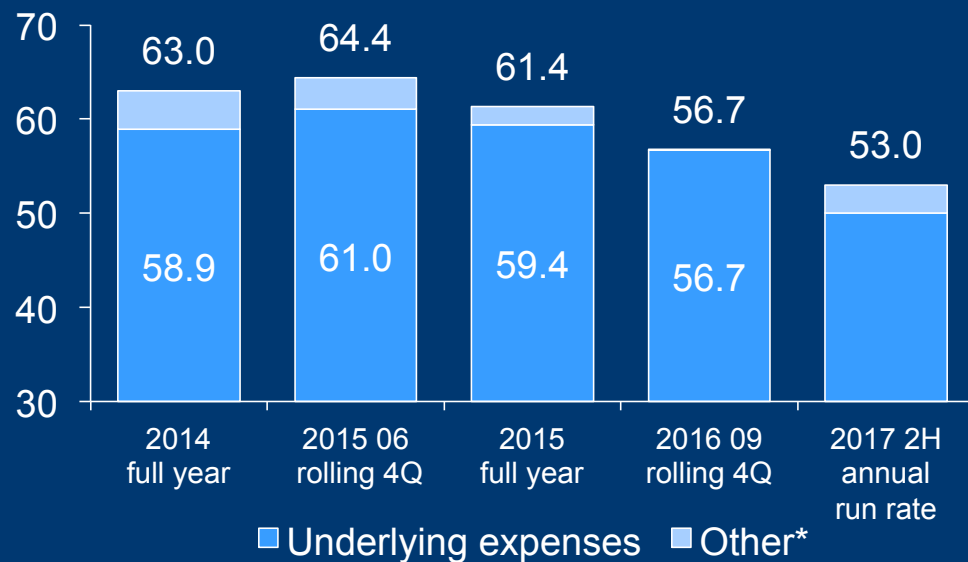
This slide contains forward-looking statements. Actual result may be materially different.

# OPERATING EXPENSES - PROGRESS



SEK b.

## Operating expenses, excluding restructuring



## Examples of major activities

### Portfolio review

- › Exit Modems 2014 (1,600 employees)

### R&D transformation

- › Acquired Ericpol 2016 (2,000 SW R&D subcontractors)
- › 3 Global ICT centers established 2016

### Outsourcing

- › Combitech employee take-over in Sweden 2016 (300 employees)

### Reductions

- › Reduction in Sweden 2015 (900 employees, 450 consultants)
- › Reductions in San Jose 2016 (435 employees)
- › R&D reductions in Finland 2016 (>100 employees)
- › Intended reductions in Sweden 2016 (1,450 employees, 450 consultants)

\* Net of: capitalized and depreciated development expenses, and amortized intangible assets.

Additional R&D and SG&A reduction activities will be initiated to reach 2017 2H ambition

This slide contains forward-looking statements. Actual result may be materially different.

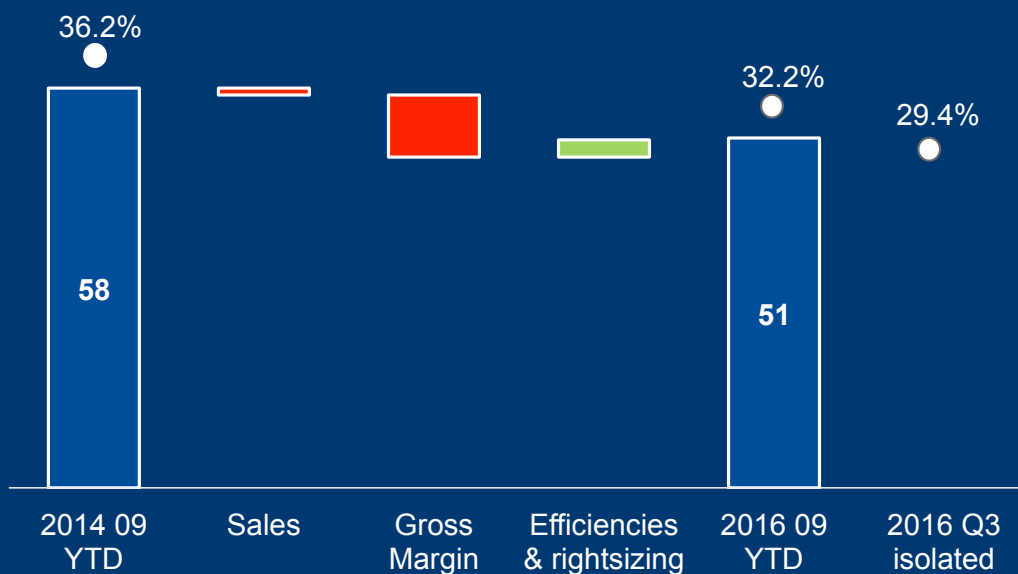
# COST OF SALES - PROGRESS



SEK b.

● Gross margin (%)

Gross income, excluding restructuring



## Sales

- › Sales decline in mobile broadband
- › Growth in Professional Services

## Gross margin

- › Lower capacity sales in Networks
- › Increased services share, from 42% to 46% (2016 Q3 49%)
- › Unsatisfactory Network Rollout margins
- › Professional Services negatively impacted by transformation contracts

## Efficiencies & rightsizing

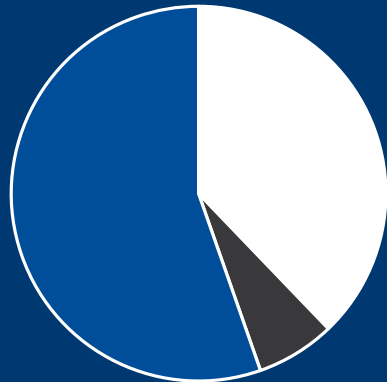
- › SEK >4 b. annual run rate reductions compared to 2014
- › Service delivery headcount reduced and deliveries from Global Centers increased to 53% Sep 2016
- › Supply headcount reduced in Sweden (>600 employees and >200 consultants)



# KEY COST OF SALES ACTIVITIES



Cost of Sales 2016 09 YTD  
(SEK 107 b.\*)



- Mainly variable product costs
- Supply costs
- Global Services costs

\* Excluding restructuring

Reductions in Spain, mainly service delivery

Reductions in UK, mainly service delivery

Intended reductions in Sweden

>2,000 employees plus consultants

Announced reductions

---

Improve margins in Network Rollout and Professional Services

Short term rightsizing actions to adapt operations to weaker mobile broadband demand

Supply transformation: Increase production outsourcing to >50% 2017 (33% 2015). Consolidate own production and reduce logistics, distribution and staff function costs.

Service delivery transformation: Target 60% of total hours from Global Centers 2018 (53% Sep 2016). Increase industrialization and automation.

Ericsson Radio System ramping to 50% 2017. Customer TCO -20% and significant lead time reductions in rollout.

2016 2H →

CoS reductions visible in gross margin 2017 2H compared to full year 2016 levels  
Next level of structural improvements in execution to secure resilience mid-term

This slide contains forward-looking statements. Actual result may be materially different.