

# CAPITAL MARKETS DAY 2015





# PETER NYQUIST

Head of Investor Relations



# AGENDA

## CMD 2015



- 0830-1030 **Strategic direction**
- The Ericsson journey and company performance** – Hans Vestberg and Jan Frykhammar
  - Strategy update** – Hans Vestberg
  - Strategic partnership** – Hans Vestberg and John Chambers
  - Q&A** – Peter Nyquist
  - Profit improvement** – Jan Frykhammar
  - Q&A** – Peter Nyquist
- 1030-1100 **Break**
- 1100-1230 **Excel in core business - progress**
- Introduction** – Rima Qureshi
  - Telecom Services** – Magnus Mandersson
  - Radio, Core & Transmission** – Arun Bansal
  - Summary** – Jan Frykhammar
  - Q&A** – Peter Nyquist
- 1230-1330 **Lunch**
- 1330-1500 **Establish leadership in targeted areas - progress**
- Introduction** – Rima Qureshi
  - TV & Media** – Per Borgklint
  - IP networks and Cloud** – Anders Lindblad
  - Industry and Society** – Magnus Mandersson and Marie Fossum
  - OSS & BSS** – Magnus Mandersson and Jean-Philippe Poirault
  - Summary** – Jan Frykhammar
  - Q&A** – Peter Nyquist
- 1500-1530 **Summary and Capital structure**
- Capital structure** – Jan Frykhammar
  - Summary and end** – Hans Vestberg
  - Q&A** – Peter Nyquist



ERICSSON

# HANS VESTBERG

CEO



# GROWTH



**>2-4%**

Grow faster than the market

**>10%**

Outperform market growth  
in targeted areas

# PROFITABILITY



**SEK 9 b**

Net annual savings from  
efficiency measures  
during 2017

# CISCO PARTNERSHIP



**USD 1 b**

Incremental revenue  
by 2018

**SEK 1 b**

Annual synergy  
savings by 2018

The Ericsson journey and company performance



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CEO



# JOURNEY TO A LEADING ICT TRANSFORMATION PARTNER



2014 -  
2020

- › Excel in core business
- › Establish leadership in targeted areas
- › Expand business in new areas

2012 -  
2017

- › Consolidate hardware platforms and software stacks
- › Monetize footprint and secure price premium
- › Invest and grow in targeted areas

2009 -  
2013

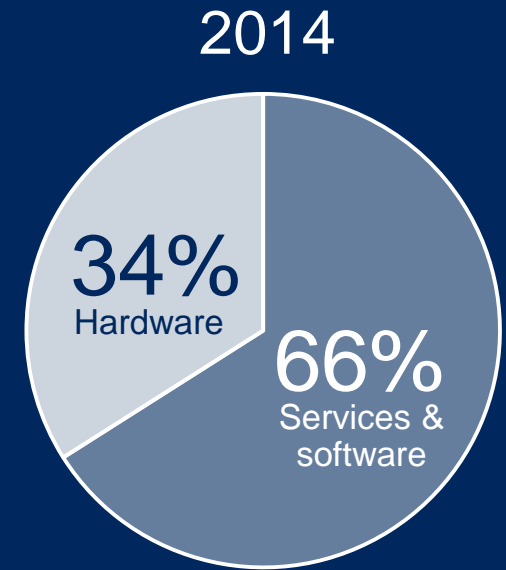
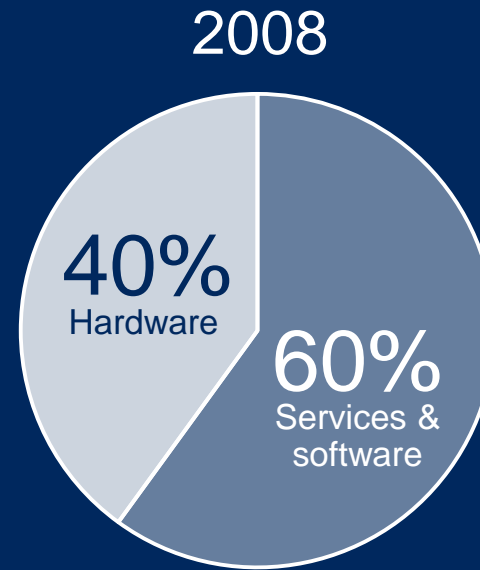
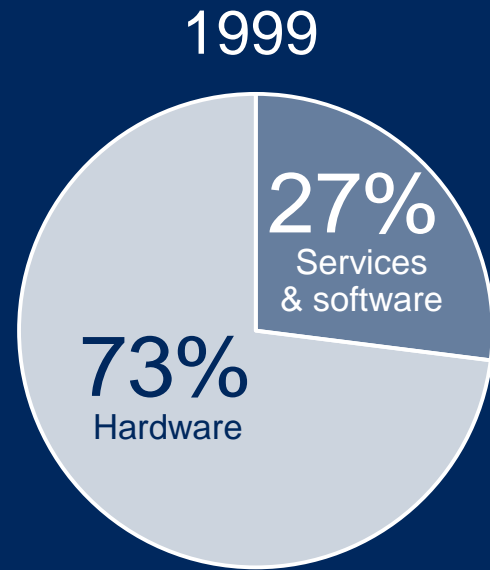
- › Solidify technology leadership and gain market share
- › Implement solution driven Go-to-Market
- › Streamline portfolio - exited phones and modems

Building on technology leadership, services leadership and global scale & skills

# BUSINESS MIX AND COMPETITION CHANGING



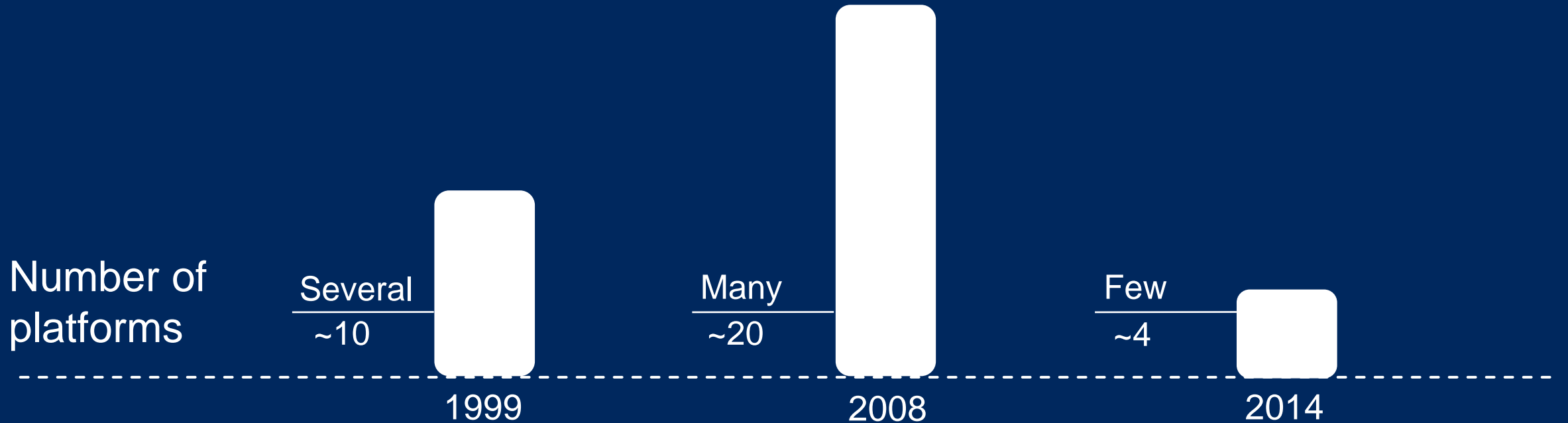
## Business mix



## Competitive landscape



# PLATFORM EVOLUTION

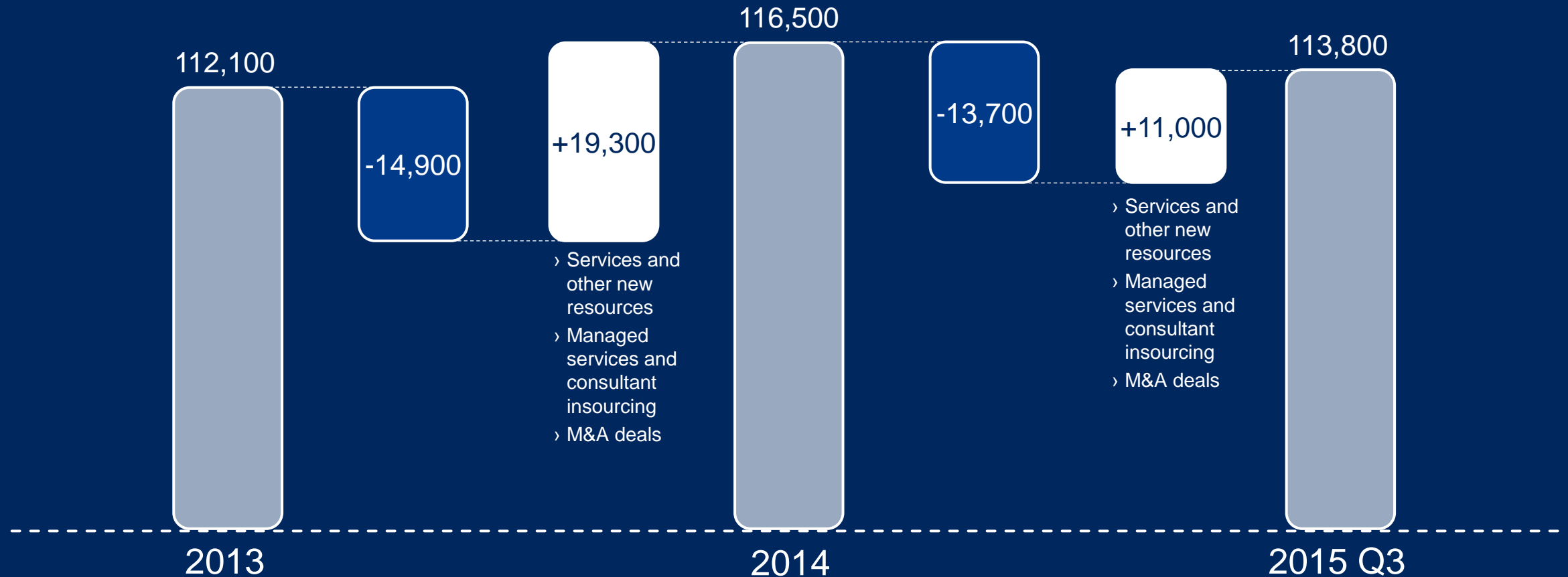


For 2014 there are additional legacy platforms in maintenance mode

# BUSINESS & WORKFORCE TRANSFORMATION



## Active employees



# KEY ACTIVITIES LAST 12 MONTHS

## BUSINESS AND PORTFOLIO



LTE deployments across all regions and strong demand for Professional Services (MS, CS, CSI)

Momentum in targeted areas (IP, Cloud, OSS&BSS, Industry & Society, TV & Media incl. Broadcasting)

Strategic partnerships (Cisco, Intel) and acquisitions (Envivio, Sunrise Technologies)

Launch of MediaFirst, Ericsson Radio System, Router 6000 series, HDS 8000 and LTE LAA

Leading operator and industry collaborations for new business logic in 5G

# KEY ACTIVITIES LAST 12 MONTHS

## COST AND EFFICIENCY



Cost and efficiency program progressing according to plan

Modems discontinued successfully

Efficiency improvements in Network Rollout

# ERICSSON AT A GLANCE



## NETWORKS

Create one network for a million different needs

## IT

Achieve business agility with transformative IT

## MEDIA

Delight the TV consumer every day

## INDUSTRIES

Connecting industries for business acceleration

37,000

Patents

25,700

R&D Employees

\$5 b.

In R&D

1 billion

Subscribers managed by us

2.5 billion

Subscribers supported by us

65,000

Services professionals

\$33 b.

Net sales

#1

LTE market share in the world's 100 largest cities

180

Countries with customers

118,000

Employees

# BUSINESS ENVIRONMENT 2015



## Market

The Networked Society – Digitalization, Internet of Things and 5G increasingly important

Service providers & industries converge and transform via mobility, broadband and cloud

Industry consolidation continues across service providers and vendors

Continued currency movements and weaker macro in parts of the world impact customer investments

## Ericsson

Structural improvements and efficiencies in cost base (-3,000 employees net this year and NRO break-even)

Gradually improved earnings in core business (Networks op. margin double-digit last 8 out of 9 Qs, ex. restructuring)

Growth in targeted areas (well above 10% sales increase)

Company profit level and growth rate still not satisfactory





**ERICSSON**

The Ericsson journey and company performance



ERICSSON

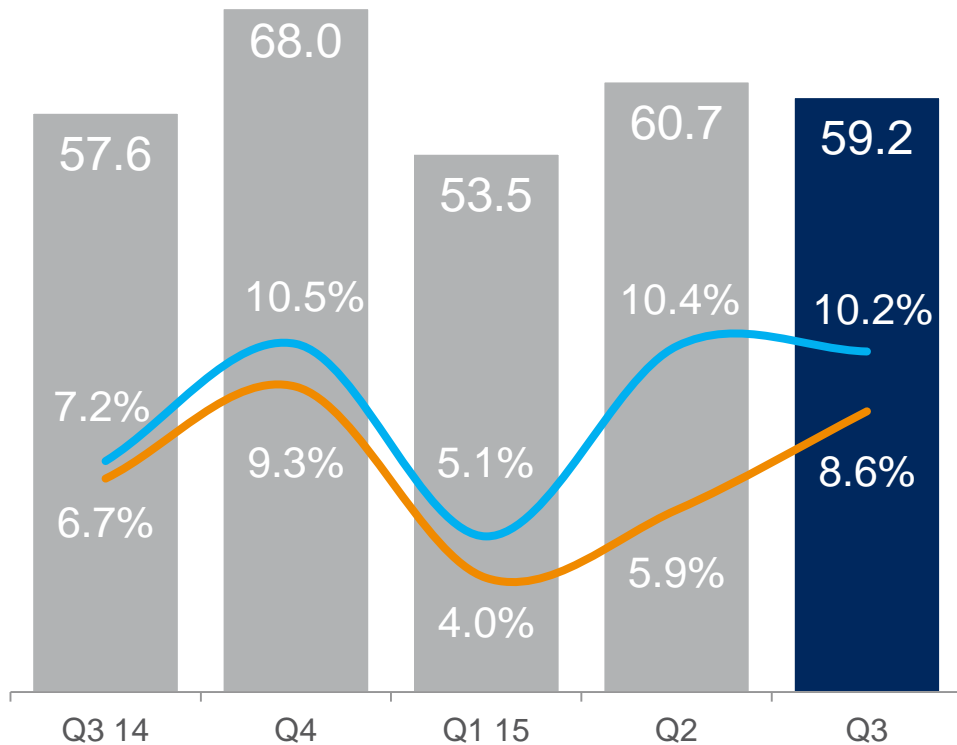
JAN FRYKHAMMAR

CFO

# 2015 Q3 FINANCIAL PERFORMANCE



■ Net sales (SEK b.) 
 — Operating margin (%) 
 — Operating margin (%) excluding restructuring



Reported sales growth 3%, organic FX adjusted sales -9%.

Mobile broadband business in North America remained stable QoQ

Slowdown of the 4G deployments in Mainland China

Russia, Brazil and parts of the middle East impacted by weak macro development

Cost and efficiency program is progressing according to plan

Lower operating expenses

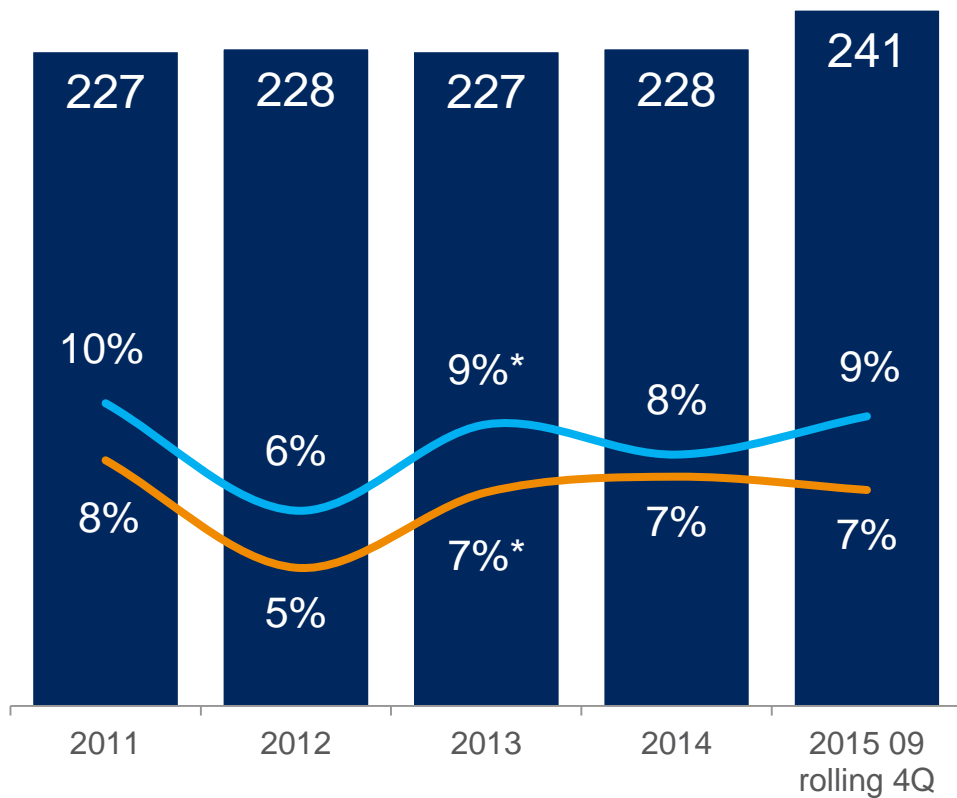
Break-even result in Network Rollout

**Operating income excluding restructuring charges improved YoY in all segments**

# FINANCIAL PERFORMANCE OVERVIEW



■ Net sales (SEK b.) 
 — Operating margin (%) 
 — Operating margin (%) excluding restructuring



>25% growth in Global Services and Support Solutions 2011-2015

Mobile broadband predominantly driving Networks sales

Growth in 6 out of 10 regions 2011-2015

FX tailwind in 2015, headwind in previous years

Dismantling of JVs (ST-Ericsson and Sony Ericsson)

Improved earnings in core business and investments in targeted areas

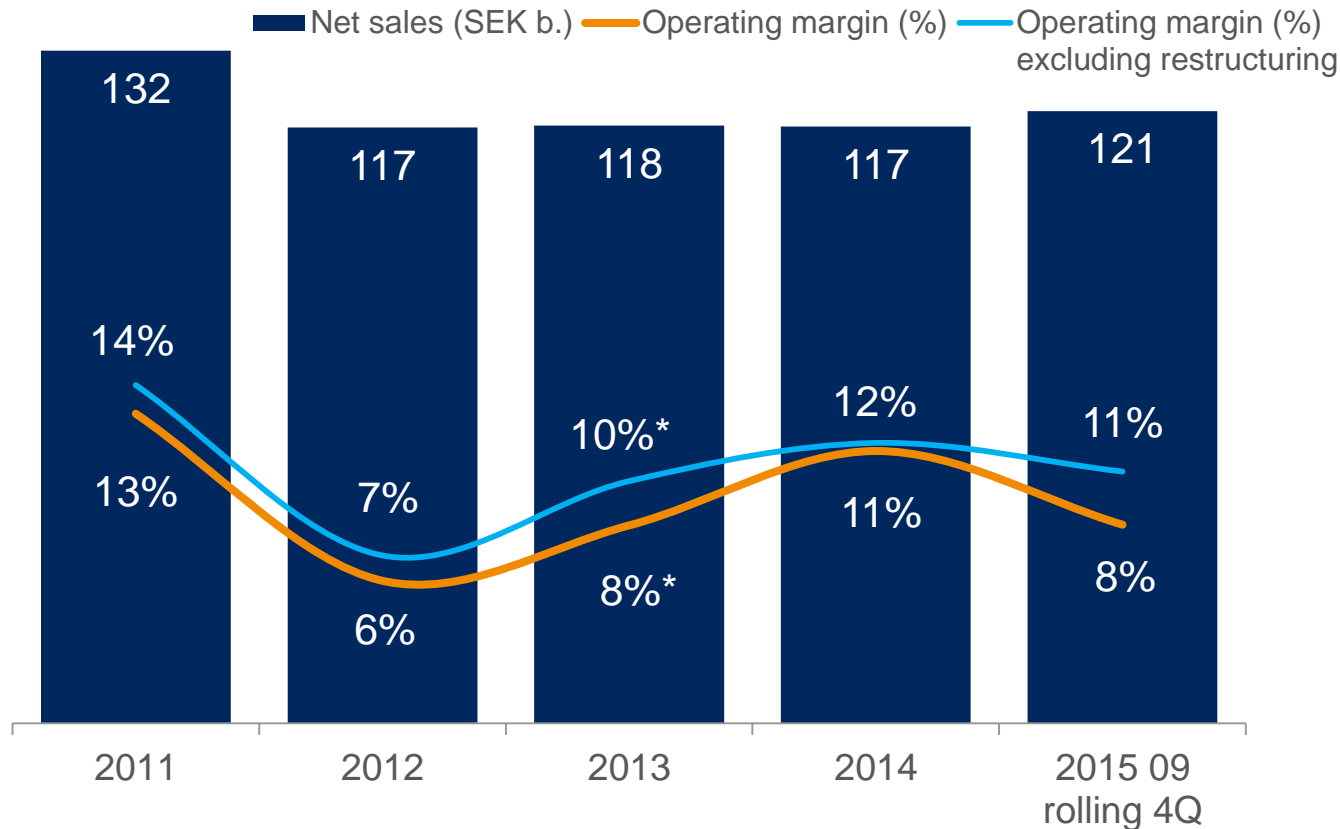
Cost and efficiency program launched 2014

**Company profit level and growth rate still not satisfactory**

\*) Operating Margin when adjusted with SEK 2.1 b. for Samsung initial payment

# FINANCIAL PERFORMANCE

## SEGMENT NETWORKS



### Net sales

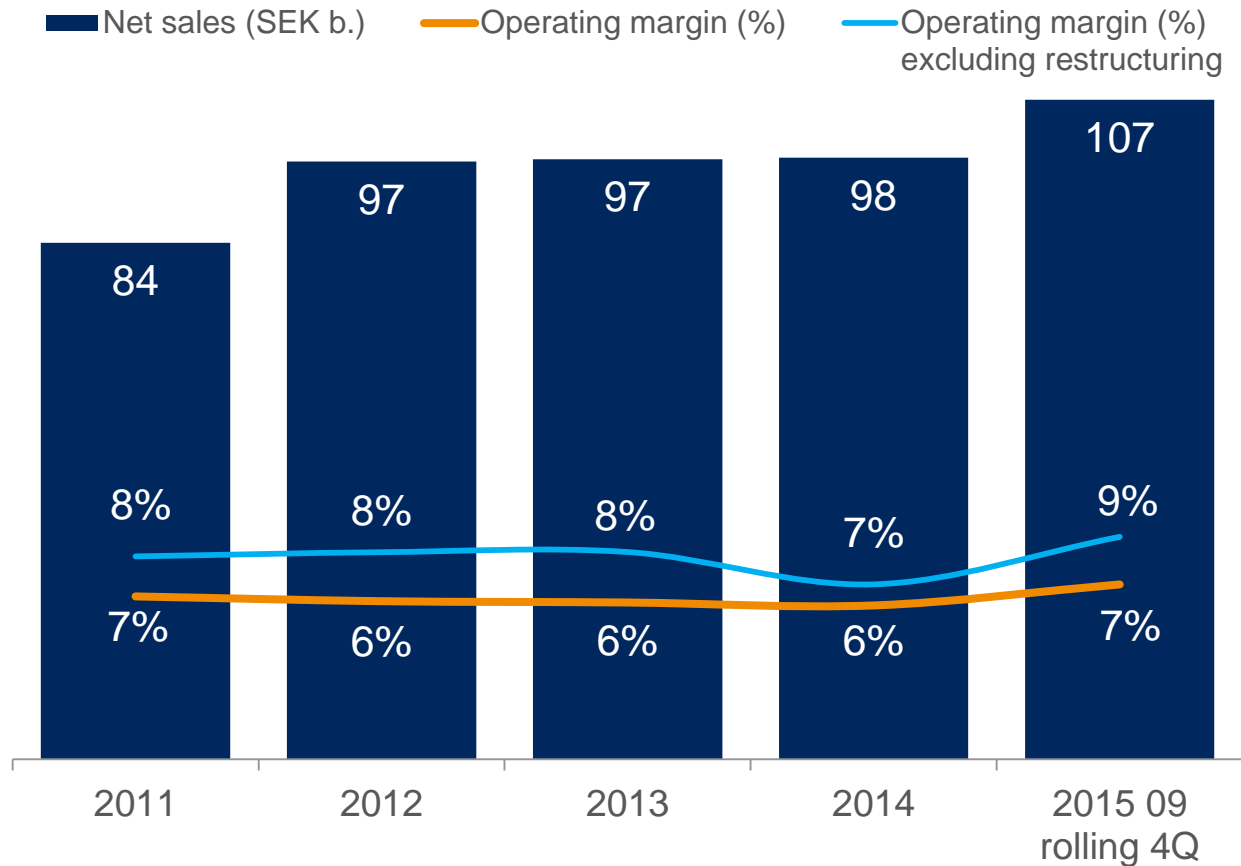
- › Mobile broadband driving growth initially by multi-standard base-station followed by LTE deployments
- › Structural decline in circuit switched core throughout the period, however in 2015 offsetting opportunities have emerged not only in IP and Cloud but also in modernization of the Core networks

### Operating margin

- › Good development of mobile broadband business after a period with a large share of coverage contracts
- › Cloud & IP an important investment area with great potential

Double digit operating margin excluding restructuring charges in 8 out of last 9 quarters

# FINANCIAL PERFORMANCE SEGMENT GLOBAL SERVICES



## Net sales

- › CAGR 2011-2015 09 rolling 4Q: >5%
- › Growth driven by Professional Services mainly system integration and managed services

## Operating margin

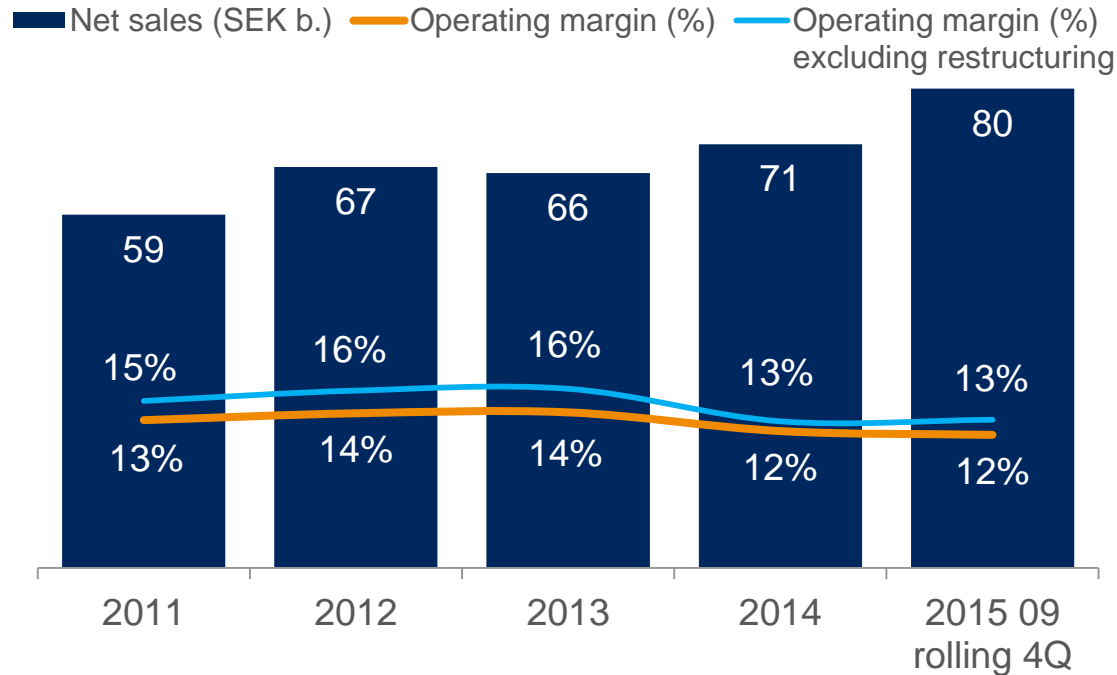
- › Stable operating margin, excluding restructuring, despite strong growth in managed services
- › Main reasons for improved margins in 2015:
  - Network Rollout profitability improvements
  - Continued service delivery transformation

Strong service segment with industrialized global scale

# PROFESSIONAL SERVICES & NETWORK ROLLOUT

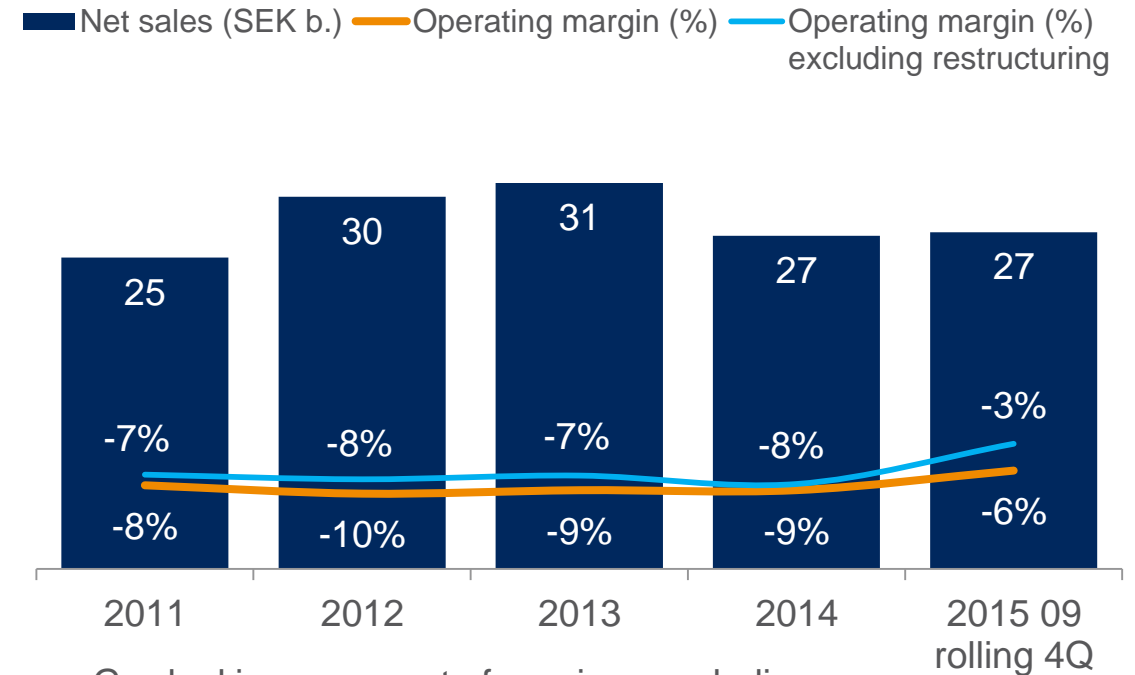


## Professional Services



- › Steady growth with maintained good profitability
- › 2/3 of business recurring
- › Strong momentum, 2015 YTD growth 19%

## Network Rollout

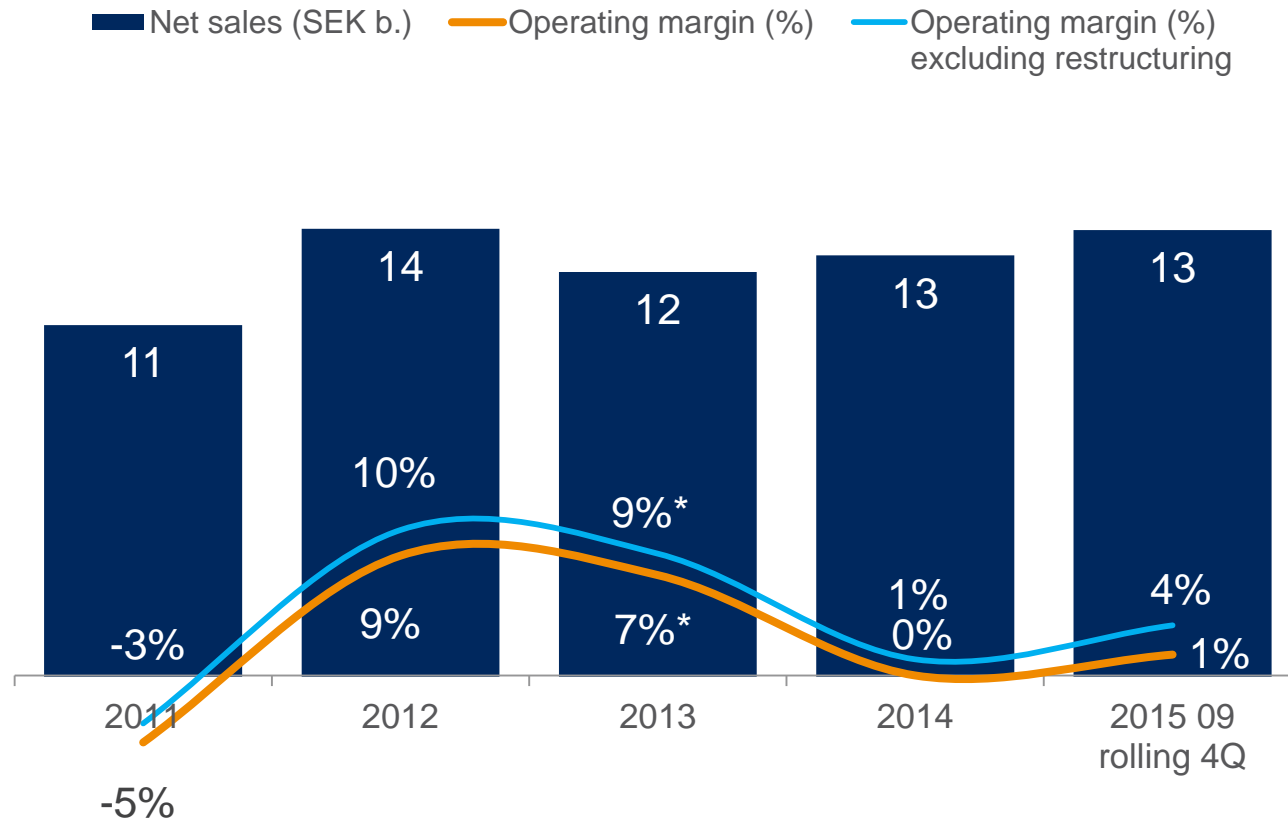


- › Gradual improvement of earnings excluding restructuring since Q2 2014
- › Break-even result in Q3 2015
- › Low-margin business

Stable margins in Professional Services, efficiency improvements in Network Rollout

# FINANCIAL PERFORMANCE

## SEGMENT SUPPORT SOLUTIONS



### Net sales

- › Growth in OSS&BSS and strengthened position in TV & Media
- › Good development of acquired business, decline in legacy product sales
- › Streamlined portfolio

### Operating income

- › Leveraged software business model with low variable cost
- › Increased volume key for profitability

\*) Operating Margin when adjusted with SEK 0.6 b. for Samsung initial payment

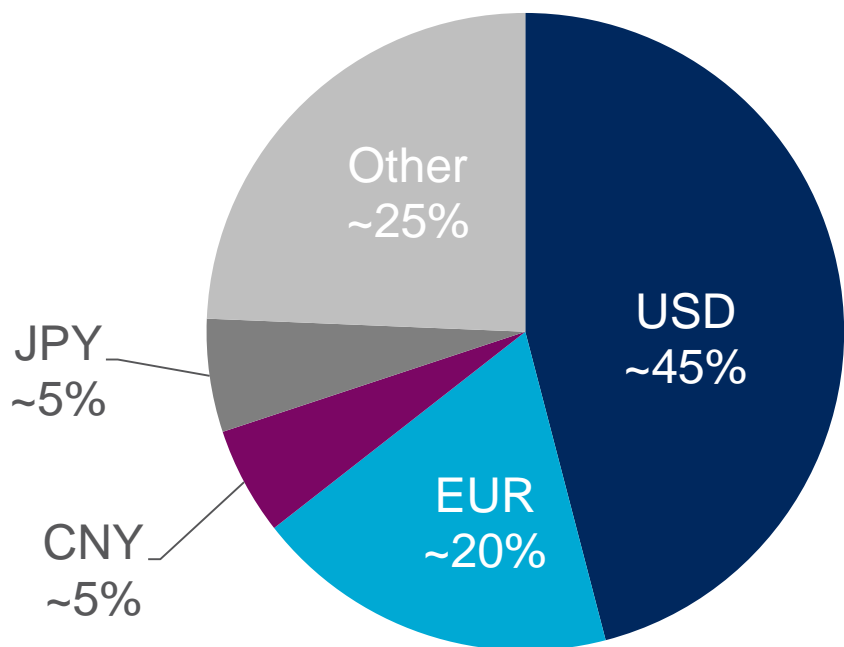
Transition from traditional software license business models to recurrent license revenue deals



# FOREIGN EXCHANGE EXPOSURE



Yearly sales exposure last 3 years



Sales exposure stable over time

## Translation exposure

- › Sales and cost incurred in foreign entities when converted into SEK upon consolidation
- › Primarily impact group net sales and to some extent group income
- › Cannot be addressed by hedging

## Transaction exposure

- › Relates to sales and costs incurred in non-reporting currencies in individual group companies
- › Concentrated to Swedish group companies
- › Primarily impact group income
- › Committed and forecasted future sales and purchases in major currencies are hedged monthly

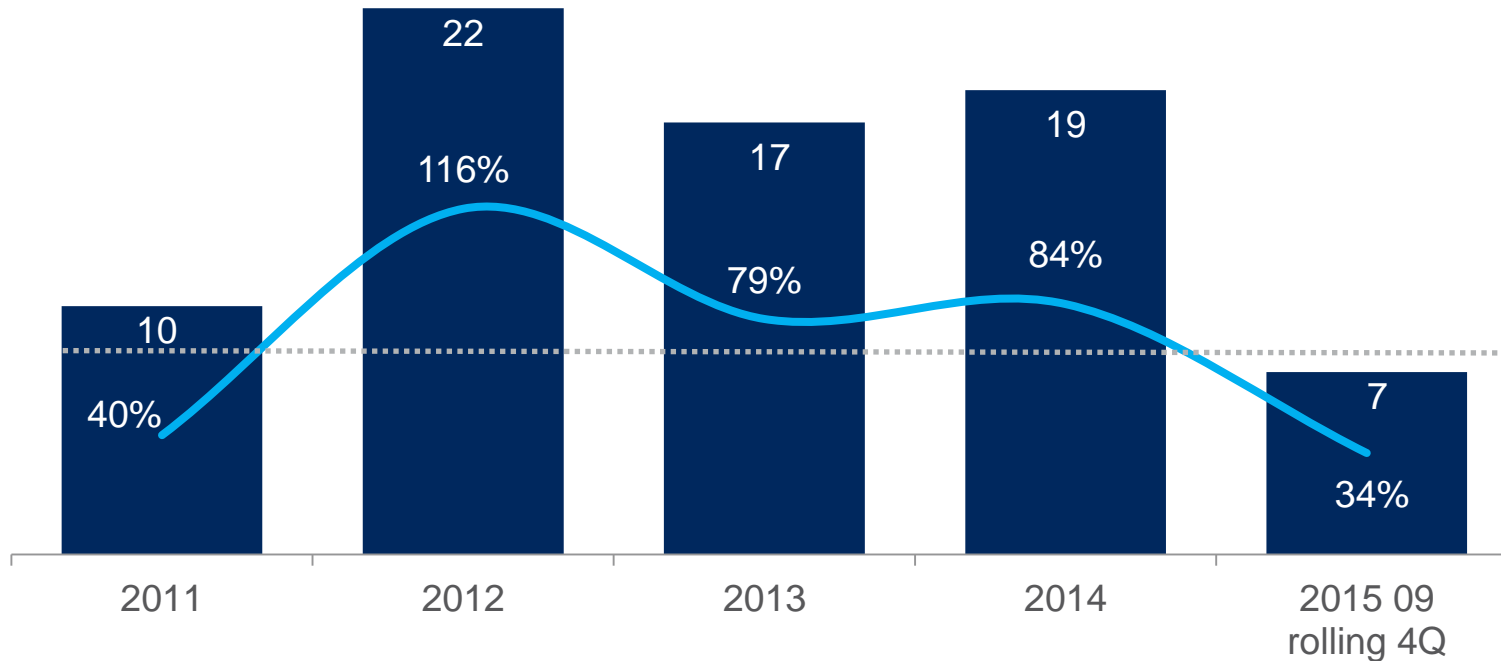
Reducing risk primarily by “natural” hedges. Largest exposure in USD

# OPERATING CASH FLOW & CASH CONVERSION



SEK b.

Operating cash flow Cash conversion



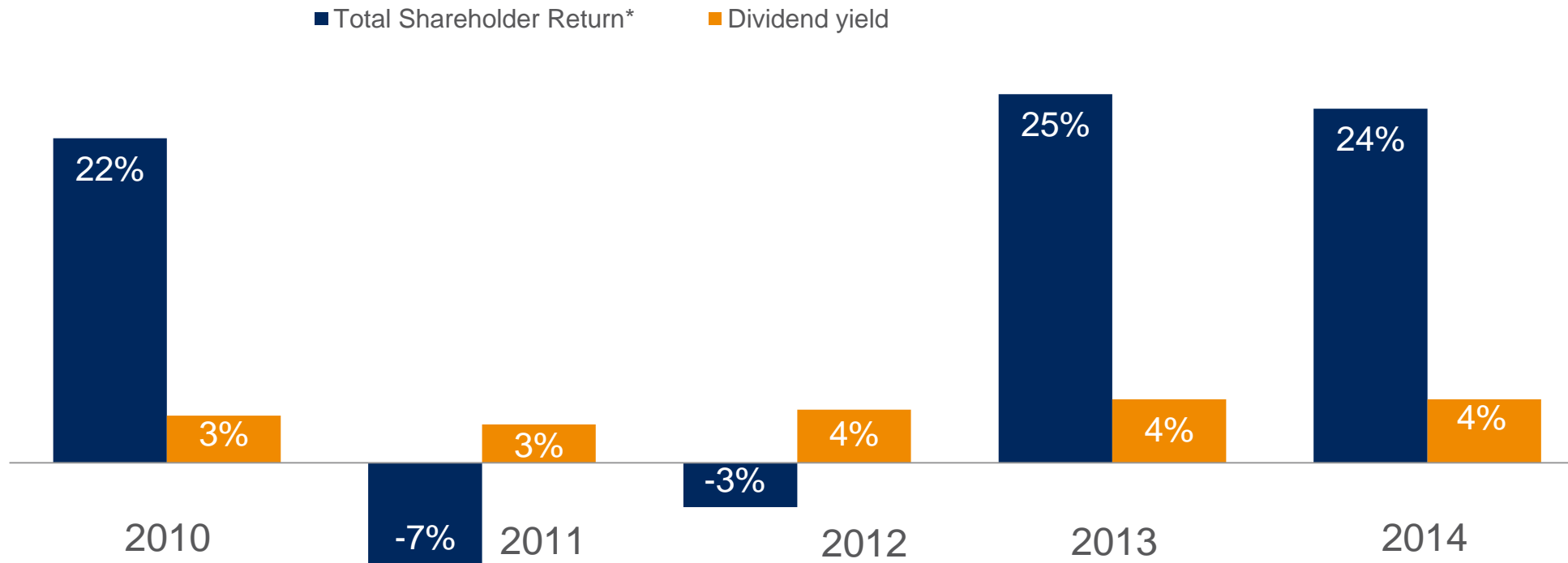
Business mix and sales growth influence cash conversion

Structural improvements through Order-to-cash program

Cash conversion target >70%

Operational capital efficiency remains in focus. Short term challenges in 2015

# TOTAL SHAREHOLDER RETURN



*\*Total shareholder return is defined as share price performance including reinvested dividends*

**12% in average annualized total shareholder return during last 5 years**

# KEY TAKEAWAYS



## Financial Performance

- › Q3 2015 operating income excluding restructuring charges improved YoY in all segments
- › 5 year growth driven by Global Services
- › Company profit level and growth rate still not satisfactory
- › Reducing FX risk primarily by “natural” hedges. Largest exposure in USD
- › Operational capital efficiency remains in focus. Short term challenges in 2015



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Strategy update



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HANS VESTBERG

CEO

# THE NETWORKED SOCIETY

## WE HAVE PAST THE INFLECTION POINT



### INSTALLATION

More efficiently solving old problems – winners among old players

### DEPLOYMENT

Applying paradigm to innovate across society – new winners

### By year 2021:

- › 8 billion mobile broadband subscriptions
  - › >90% mobile broadband pop coverage
  - › 4x LTE subscription growth (4.1 billion)
  - › 10x mobile data traffic driven by video
- Already today over 50% of consumers watch streamed on-demand video content every day*

Ericsson mission: We lead transformation through mobility

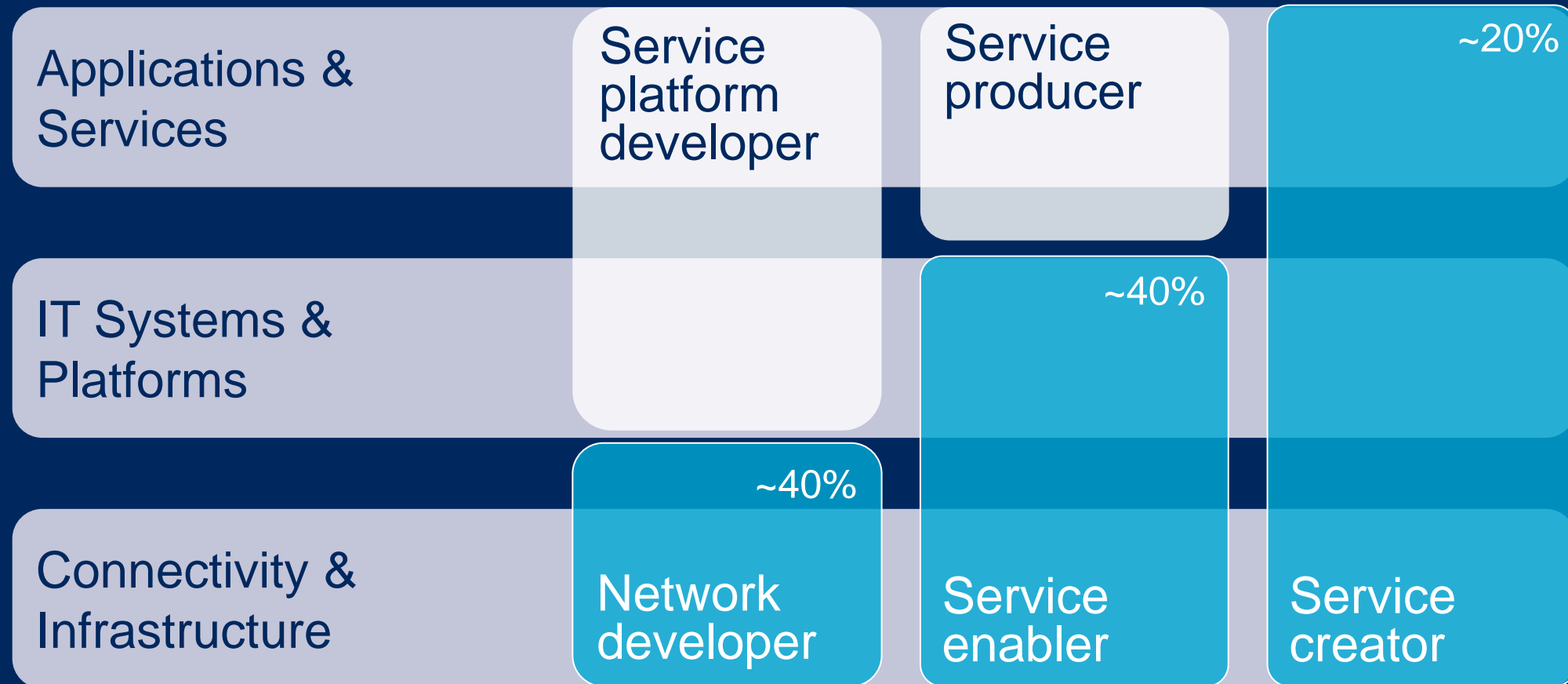
# OPERATOR AND INDUSTRY ROLES



*Users, Content & Devices*

Other

Operator



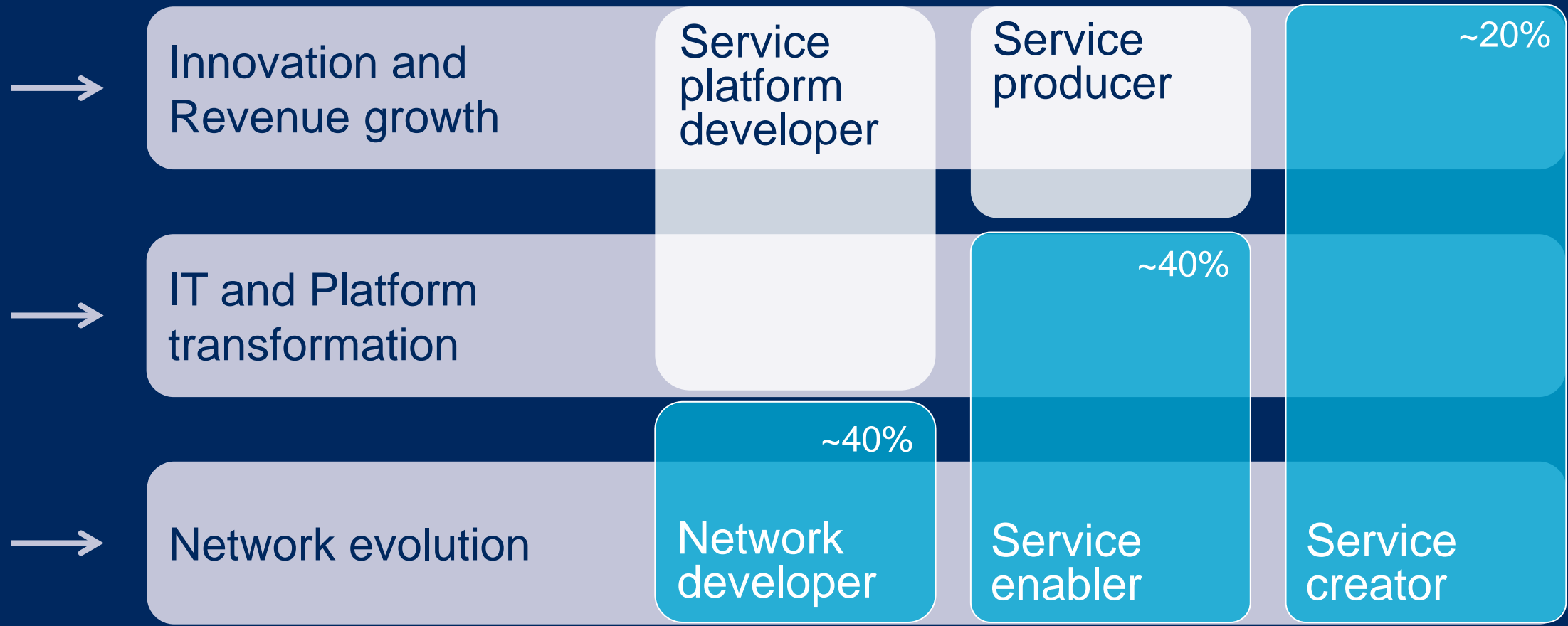


# WHAT ERICSSON OFFERS



*Users, Content & Devices*

Other  
Operator



# SERVICE CREATOR CASE EXAMPLES



## Users, Content & Devices



### Applications & Services

App Store	Smart Energy	Disaster Messaging Service	Mobile Advertise	MOBILE WALLET	Mobile Health	E-Commerce	Mobile Education	IoT Apps	Video Coms
									IM app

#### ENTERPRISE SOLUTIONS (CLOUD, ADVANCED COMM.)

Logistics Mgmt	Smart Grid	Public Safety App. & System	Interactive Stadium	Global Transfer	Health Portals/ Analytics	Inventory Mgmt	Multimedia Education	Dev. Platform	Business Coms
								Security	

### IT Systems & Platforms

Traffic Cloud				Micro Insurance & Credit	Info cloud				Tele-presence
Asset Tracking	SMART METER	Boarder Control Systems	MUSIC & VIDEO STREAM		Facilities Mgmt	Payment Solutions	On Line Education	Control Center	Web RTC

### Connectivity & Communication

	Smart Home		Publish & Distribution			REMOTE PATIENT		Global connect	
			Cloud Service						
VEHICLE CONNECT		Shared LTE	IP-TV		VIDEO TELE MEDICINE	MOBILE POSITION		M2M	HD Voice WiFi Call

COMMON CASES, less common cases

# OUR SERVICE CREATOR OFFERINGS

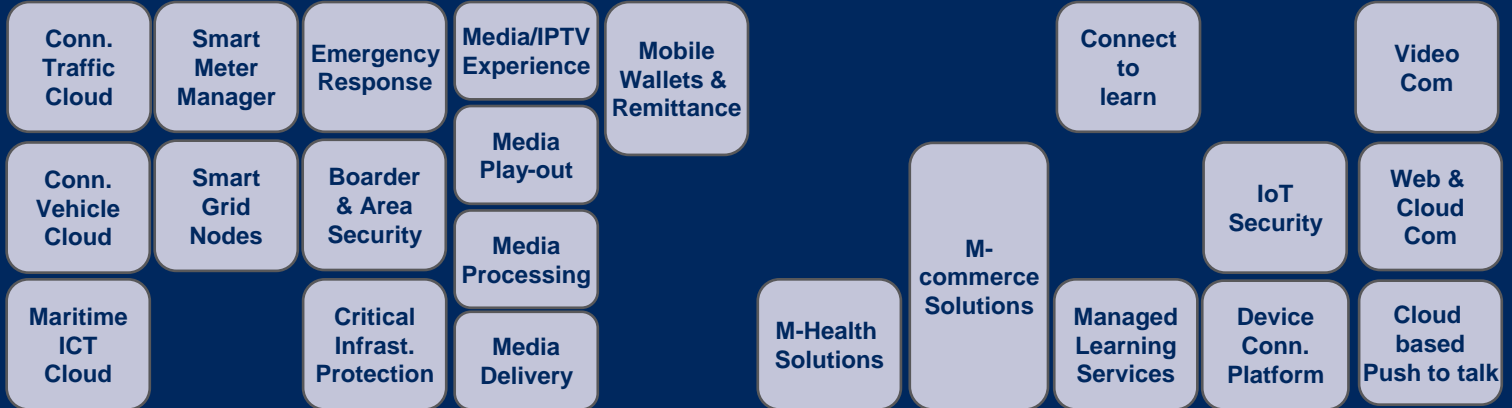


*Users, Content & Devices*

*Examples*

- TRANSP
- UTILITY
- PUBLIC SAFETY
- MEDIA
- FINANCE
- HEALTH
- RETAIL
- LEARNING
- IoT
- PEOPLE COMMUNICATION

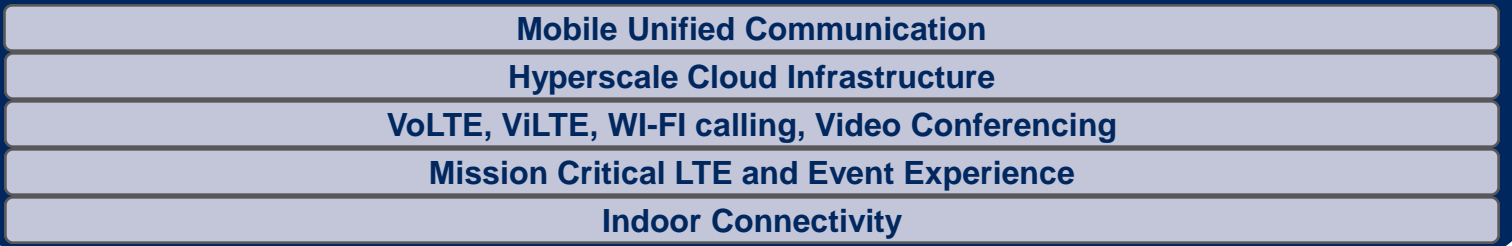
Applications & Services



IT Systems & Platforms



Connectivity & Communication



# PARTNERSHIP WAYS OF WORKING



New services and Innovation

## New ways of working

- › Joint R&D investments
- › Co-creation of solutions & business models
- › Demonstrate proof of concept
- › Stimulate ecosystems & open innovation
- › Shared sustainability & corporate responsibility (S&CR) activities

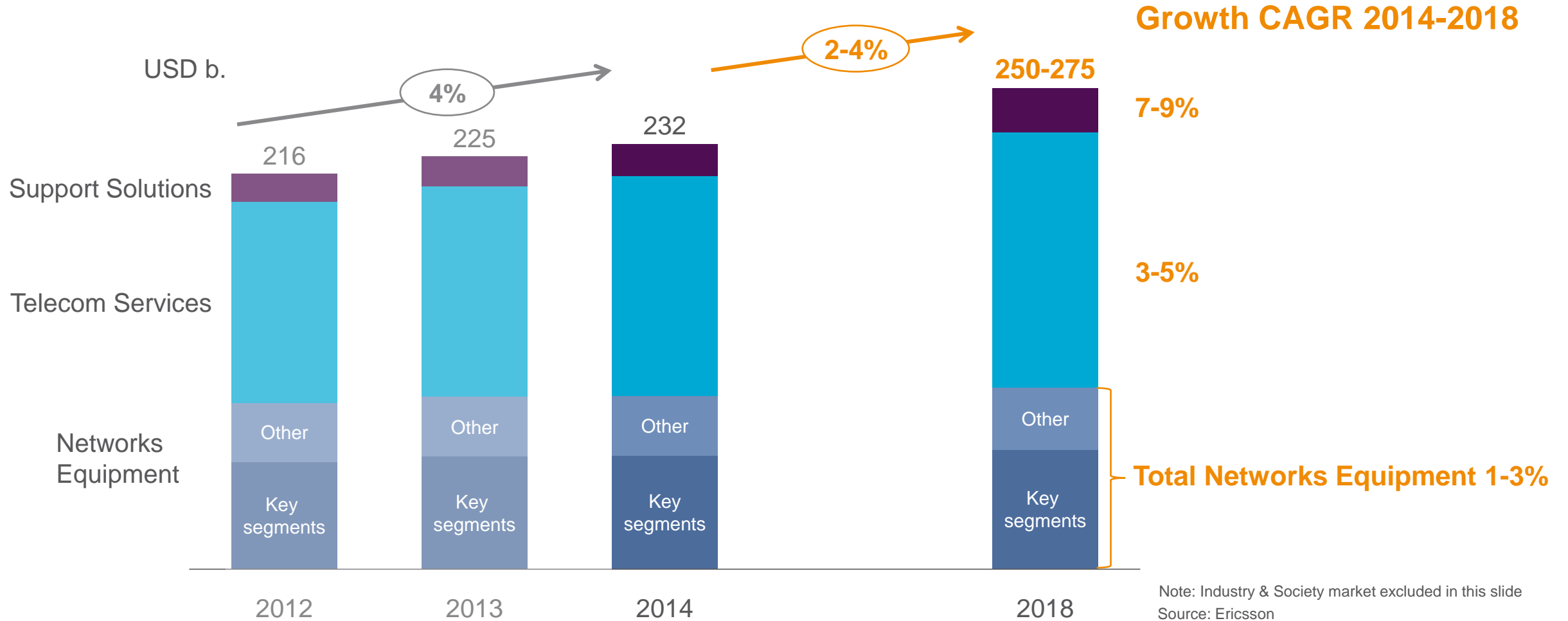
IT and platform transformation

## Build on established model

- › Continuation of network partnerships

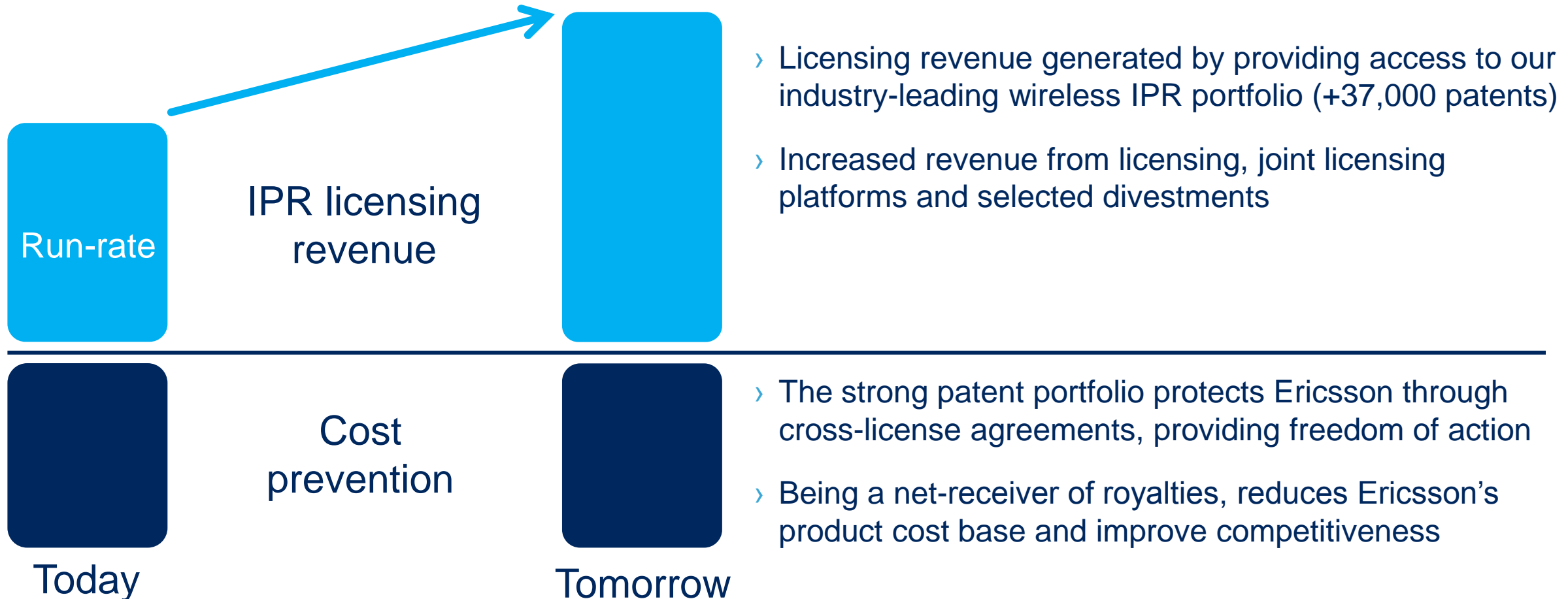
Infrastructure evolution

# MARKET OUTLOOK (USD)



Networks growth slightly reduced from last year, market opportunity in Industry & Society and IPR not included

# IPR STRATEGY AND VALUE CREATION

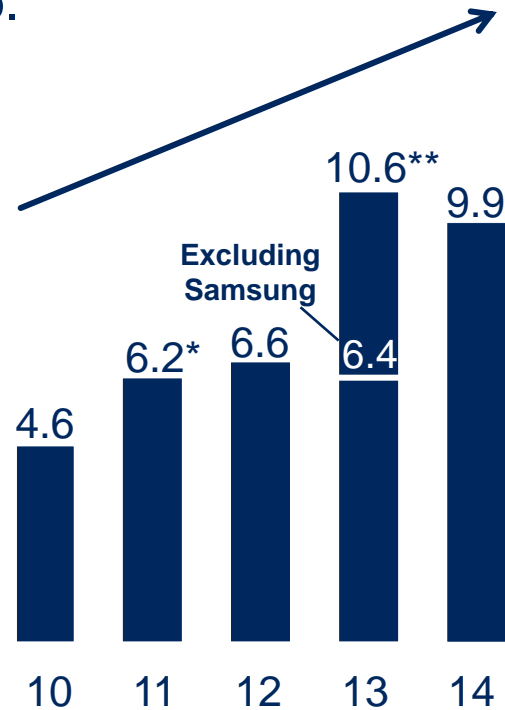


# IPR REVENUE AND GROWTH DRIVERS



## IPR revenues

SEK b.



\* One-off patent sales included

\*\* Includes initial payment from Samsung of 4.2 b

## IPR growth drivers

### Telecom customers

Handset & equipment vendors (majority of revenues)

- › Handset growth driven by standardized technologies and increased penetration
- › Higher share of smartphones
- › Feature growth in networks and handsets

### New customers

Consumer electronics and industry verticals vendors

- › Digitalization and IoT driving connected devices across all domains
- › Licensing in partnerships or joint licensing platforms, e.g. connected cars
- › Direct licensing in established consumer areas, e.g. laptops and TV

# OUR POSITION AND COMPETITION

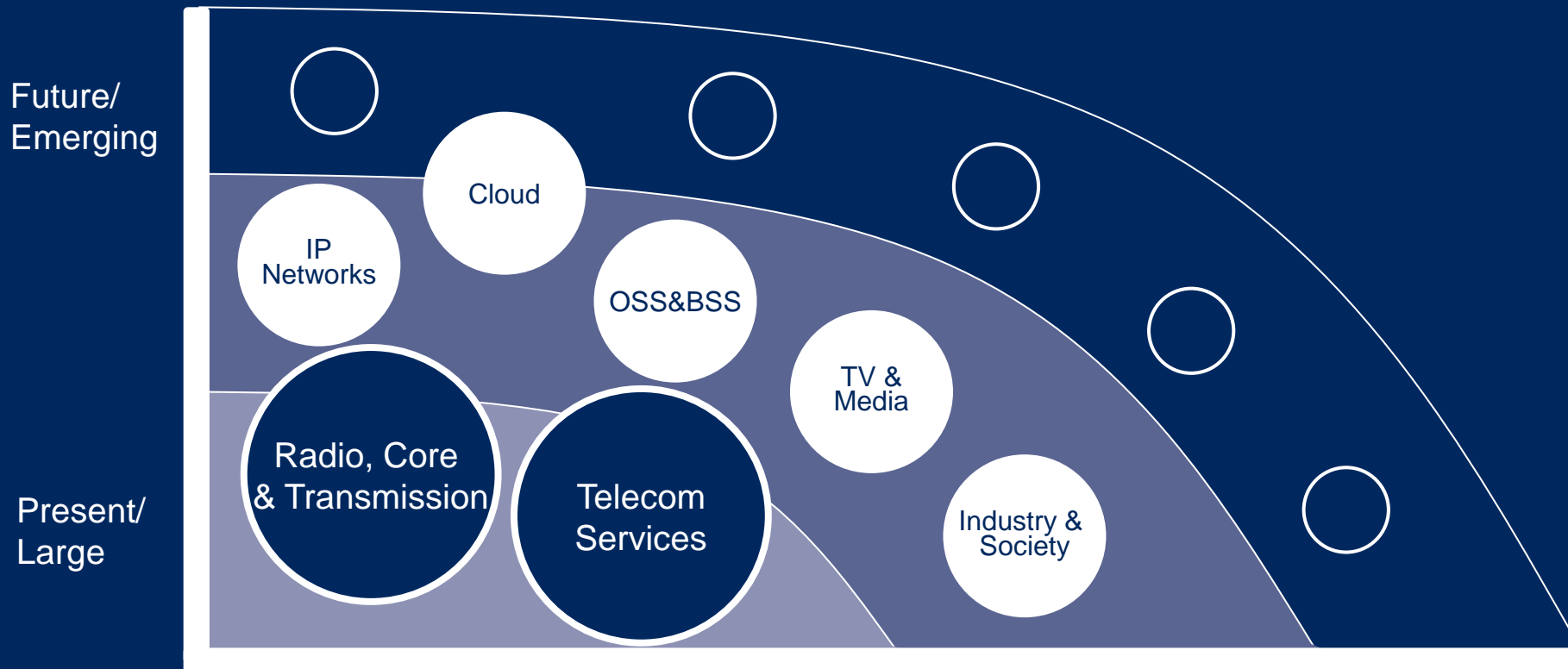


NETWORKS		GLOBAL SERVICES	SUPPORT SOLUTIONS	PATENTS & LICENSING
MOBILE NETWORKS	IP & CLOUD			
#1 Technology, performance and R&D scale	#1 Bring mobility expertise to IP, SDN and Cloud	#1 One-to-many, skills, tools & capabilities	#1-3 R&D scale and complete portfolio	#1-2 #1 2G/3G/4G patent portfolio
<ul style="list-style-type: none"> <li>› Nokia</li> <li>› Alcatel-Lucent</li> <li>› ZTE</li> <li>› Huawei</li> </ul>	<ul style="list-style-type: none"> <li>› Juniper</li> <li>› Alcatel-Lucent</li> <li>› Cisco</li> <li>› Huawei</li> </ul>	<ul style="list-style-type: none"> <li>› IBM</li> <li>› Accenture</li> <li>› Huawei</li> <li>› Nokia</li> <li>› Alcatel-Lucent</li> <li>› Hewlett-Packard</li> <li>› Wipro</li> <li>› Amdocs</li> </ul>	<ul style="list-style-type: none"> <li>› IBM</li> <li>› Oracle</li> <li>› Huawei</li> <li>› Amdocs</li> <li>› Hewlett-Packard</li> <li>› NetCracker</li> </ul>	<ul style="list-style-type: none"> <li>› Telecom infrastructure vendors</li> <li>› Chipset vendors</li> </ul>

Leading position across all areas - #1 in IP & Cloud through strategic partnership with Cisco



# STRATEGIC DIRECTION 2015

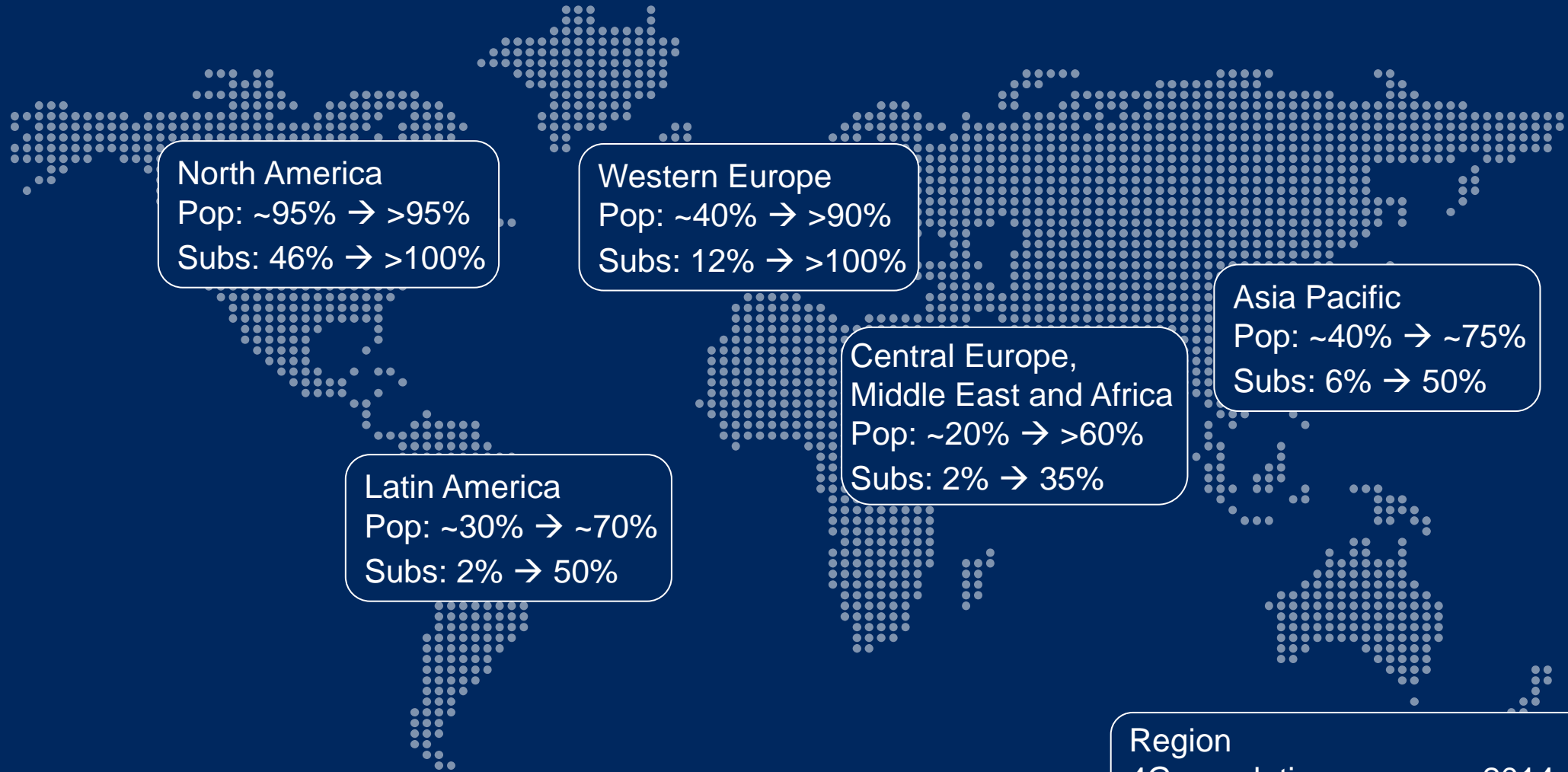


1 Excel in core business

2 Establish leadership in targeted areas

3 Expand business in new areas

# CORE BUSINESS – 4G WORLD UPTAKE



## Region

4G population coverage 2014 → 2021

4G subscription penetration 2014 → 2021

# CORE BUSINESS – 5G EVOLUTION

## COMMON NETWORK FOR MANY INDUSTRIES



### Critical communications

<5ms E2E delay

99.999% transmission reliability 

500 Kmph relative velocity



### Massive communications

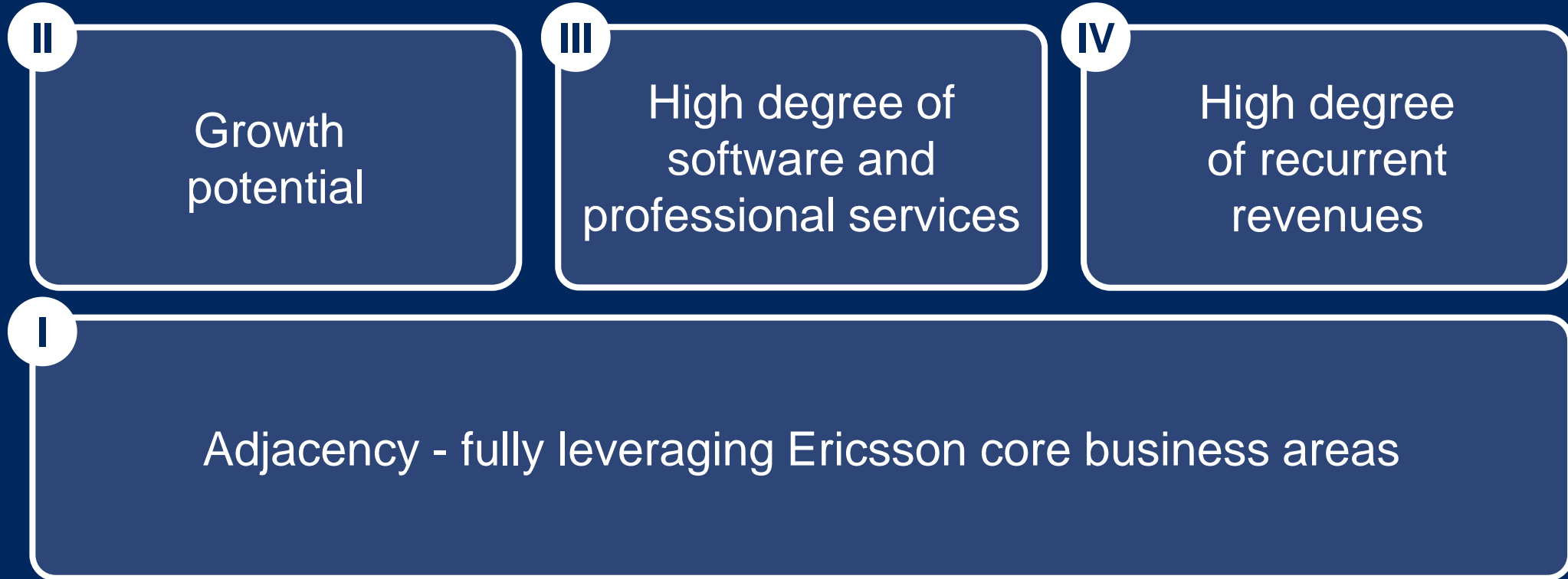
>10 years battery lifetime

>80% cost reduction

20dB better coverage



# CRITERIA FOR TARGETED AREAS



Ambition of targeted areas is to significantly improve our earnings towards 2020



# JOHN CHAMBERS

Executive Chairman, Cisco



# Next Generation Global Strategic Partnership



Industry leaders in the development and delivery of networking, mobile, and cloud  
**work together to create the networks of the future**

Growth | Innovation | Speed

Service Provider  
Transformation



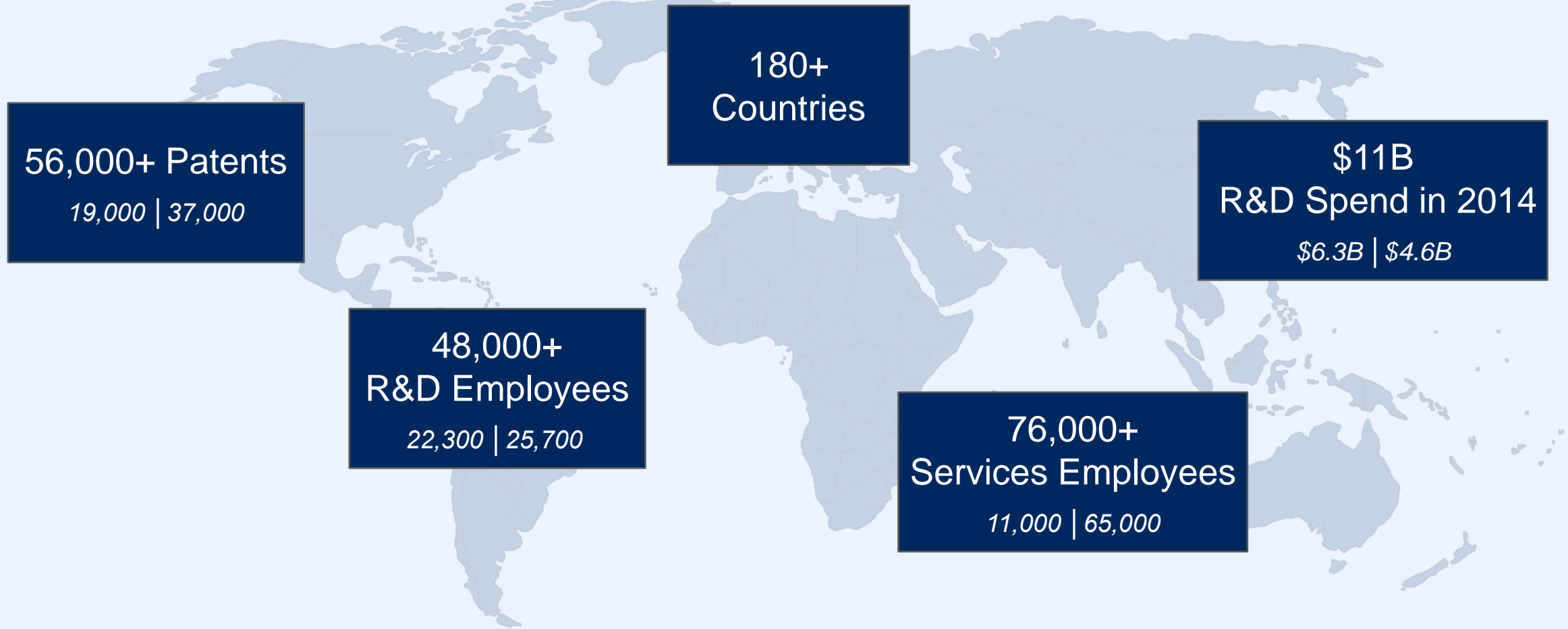
Enterprise  
Experience



Realization of the  
Internet of Things



# A Partnership with Scale and Reach





# Partnership Driven by Innovation & Customer Need



## Customer Realities

- World is driven by mobility, cloud, and digitization
- Networks of the future require new design principles to ensure agility, autonomy, and security
- Requires deep knowledge in both enterprises and service providers

## Partnership Enables

- The best of both companies: Routing, data center, networking, cloud, mobility, management and control, and global services capabilities
- End-to-end product and services portfolio
- Joint innovation

Creating leadership to address converging telco and enterprise domains

# Partnership Elements



## Includes

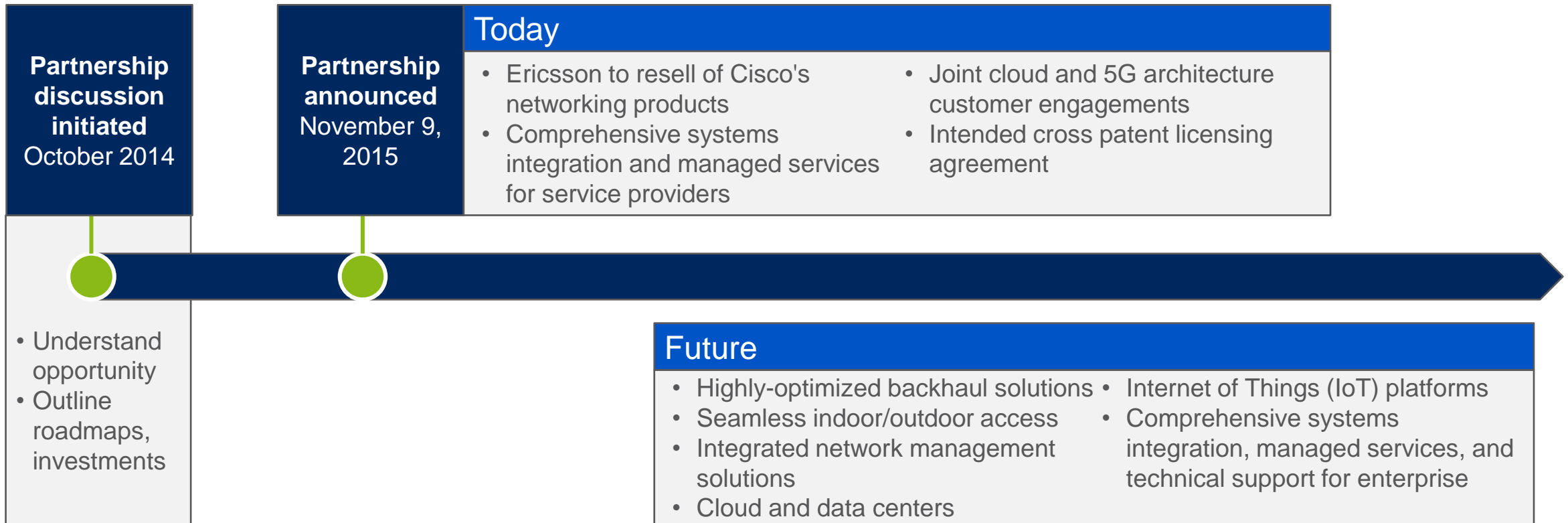
- Ericsson to resell Cisco's networking products
- Comprehensive systems integration and managed services for service providers
- Joint cloud and 5G architecture customer engagements
- Intended cross patent licensing agreement

## Management Oversight

- CEO-driven
- Quarterly reviews
- Clear accountability for both partners
- Detailed go-to-market strategy

Sales expected to ramp to USD 1 billion or more for each company by calendar 2018

# Extensive Interaction Continues to Gain Momentum



# Why This Partnership: The Right Strategy

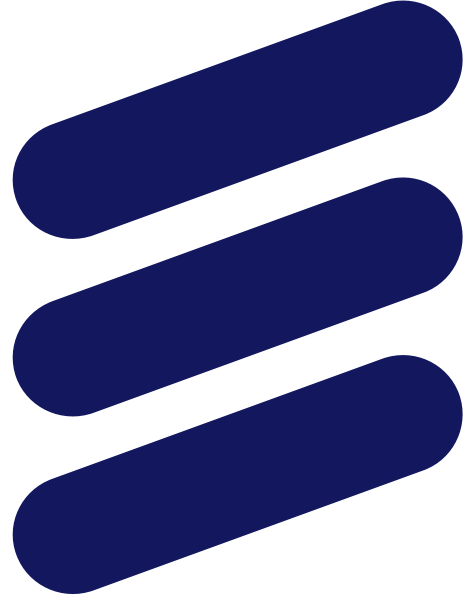


- 
- Take advantage of two industry leadership positions
  - Rapidly enables transformation of customers, the industry, and society
  - Clearly identifies and balances opportunity to thrive in new, attractive areas
  - Permits sharper management focus on industry-leading businesses
  - Focus on developing and delivering cutting-edge solutions
  - Maximizes financial latitude and investment potential

# Key Takeaways



- 
- Strategic partnership to accelerate innovation and digital transformation
  - Create end-to-end leadership for service provider network transformation
  - Extend addressable market in enterprise and IoT
  - Extend access to global service capabilities
  - Senior management engagement to ensure success
  - Sales expected to ramp to USD 1 billion or more for each company by calendar 2018
  - USD 11 billion of combined annual R&D investments
  - Opportunities to innovate and develop partnership further



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Profit improvement



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Jan Frykhammar

CFO

# Cisco partnership

## Significant and Immediate Impact



### Additional sales and synergies

- › Sales expected to ramp to USD 1 billion or more by calendar 2018
- › Additional sales expected to be accretive to income already in 2016 and will improve over time
- › Synergies of SEK 1 billion expected in 2018

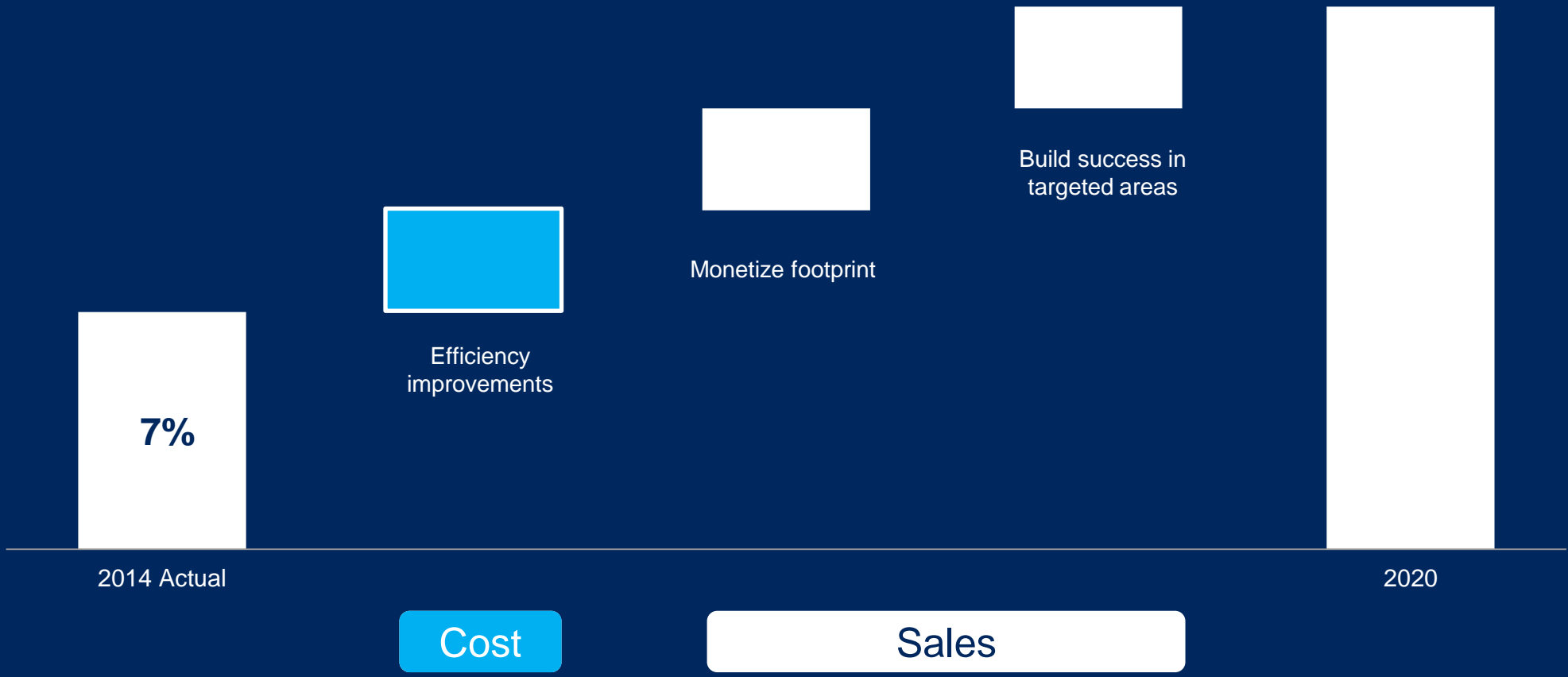
### Immediate market impact

- › Partnership to enable immediate market impact
  - Enabling close collaboration between two market leaders
  - Flexibility to adjust to new market opportunities and customer needs
  - Immediate product and services business prospects



# Profit improvement

operating margin illustrative



3 building blocks driving towards continued yearly incremental improvements

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

# Efficiency and COST REDUCTION

ANNOUNCED NOVEMBER 2014



Baseline 2014 Actual

Annual savings  
(SEK b.)

**9**

Restructuring costs  
(SEK b.)

**3-4**

Full year effect during  
(year)

**2017**

Progress

On track

Slightly higher range 3.5 - 4.5

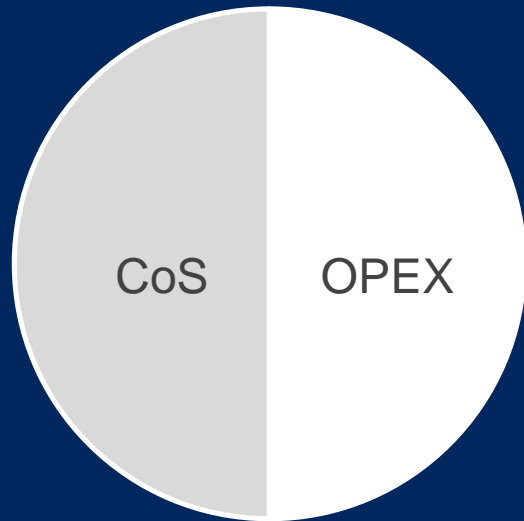
On track

All other things equal; operating income will improve with SEK 9 b. during 2017

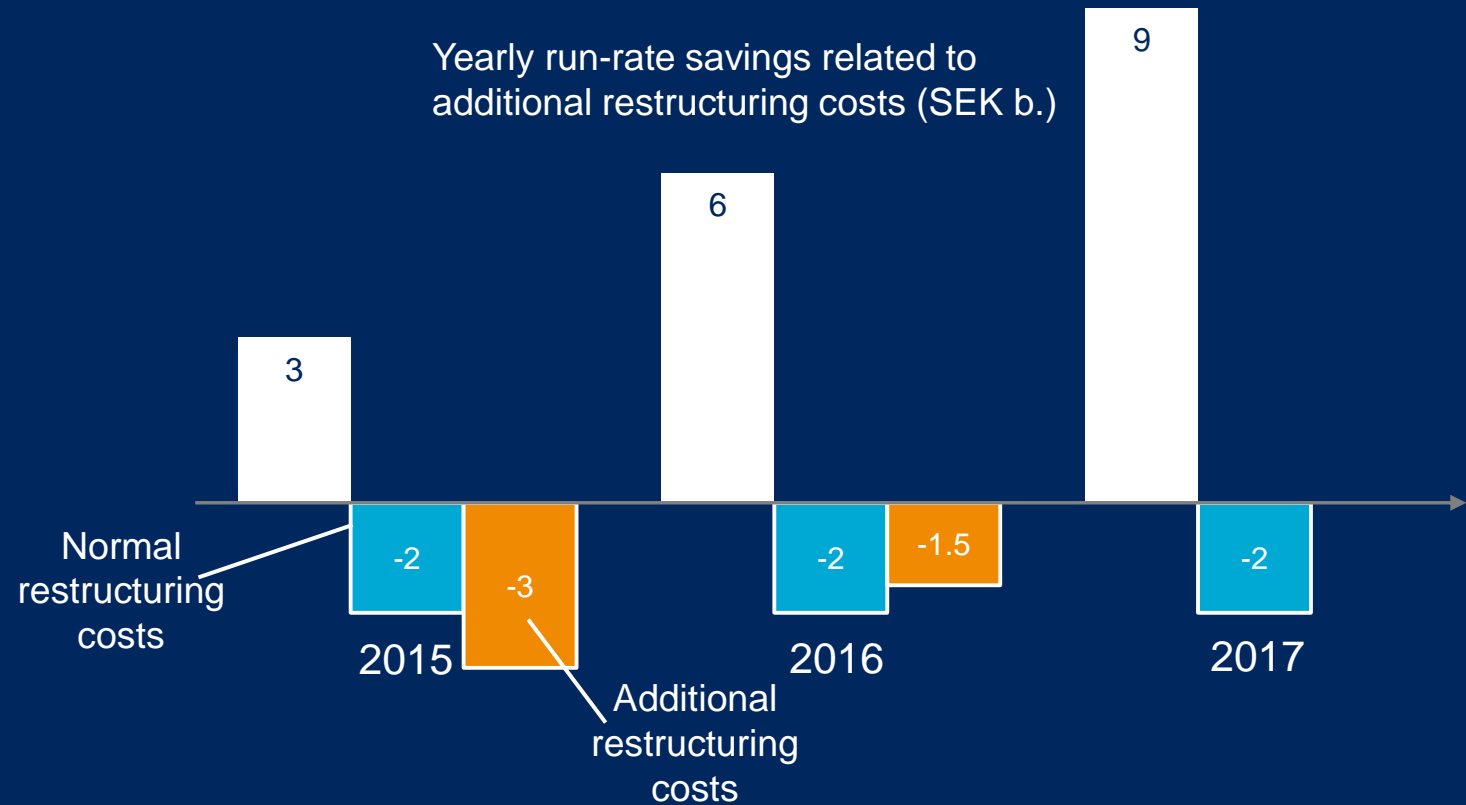
# SAVINGS AND RESTRUCTURING COSTS



Approx. split of annual savings SEK 9 b.



Illustrative example, distribution of cost and savings (SEK b.)



Financial plan for the full program unchanged, slightly higher restructuring cost estimated

# Scope of efficiency



Service delivery	<ul style="list-style-type: none"><li>• Re-organization of Ericsson Service Delivery organization to increase end-2-end efficiency</li><li>• Continued centralization, standardization &amp; automation for global scale &amp; superior performance</li><li>• Further industrialized network roll-out through common processes, methods and tools</li></ul>	Cost of sales
Supply	<ul style="list-style-type: none"><li>• Site consolidation and outsourcing</li><li>• Increased surface transportation &amp; reduced logistics costs</li><li>• Improved local supply chains &amp; new distributions centers</li></ul>	
R&D	<ul style="list-style-type: none"><li>• Exit of modems business</li><li>• Reduction and rebalancing of R&amp;D headcount and consultants, site &amp; supplier consolidation</li><li>• More common platforms and components across portfolios</li><li>• More efficient SW development methods and tools deployed</li></ul>	OPEX
SG&A	<ul style="list-style-type: none"><li>• SG&amp;A headcount reduction and reduction of consultants</li><li>• Travel cost reduction</li></ul>	
Common functions	<ul style="list-style-type: none"><li>• IT portfolio consolidation</li><li>• Global ICT Centers establishment</li><li>• Real Estate utilization</li></ul>	Cost of sales & OPEX

# Key milestones achieved



2015

2016

Cost of sales

OPEX

✓ Exit Modems (Sep)

✓ 1<sup>st</sup> GIC (Global ICT Center) in operation (Sep)

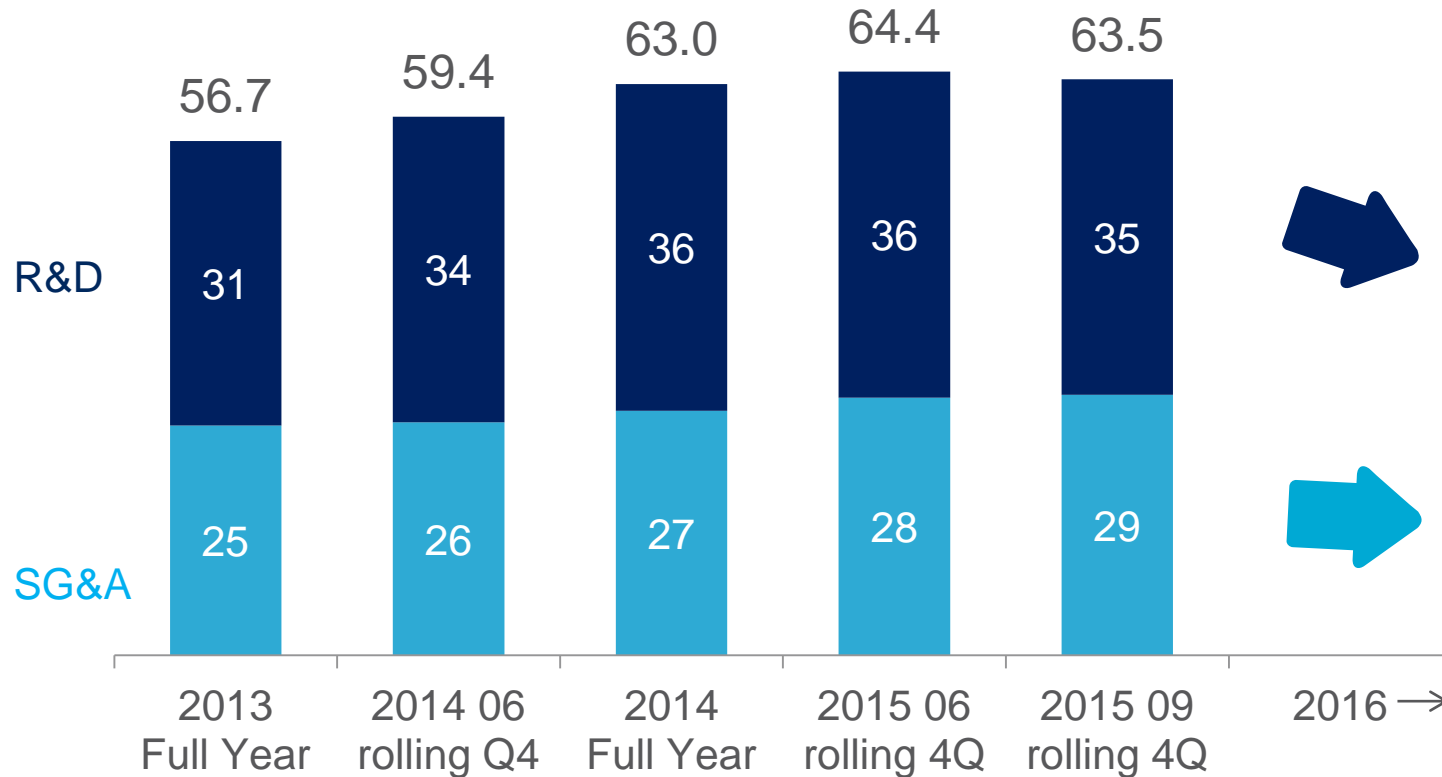
✓ Service delivery reduction of headcount and reduction external consultants globally (off-shoring and right-sizing)

✓ Closing of site in Katrineholm

✓ SG&A and R&D reduction of headcount and reduction external consultants in Sweden

✓ G&A reduction globally

# OPERATING EXPENSES SEK B

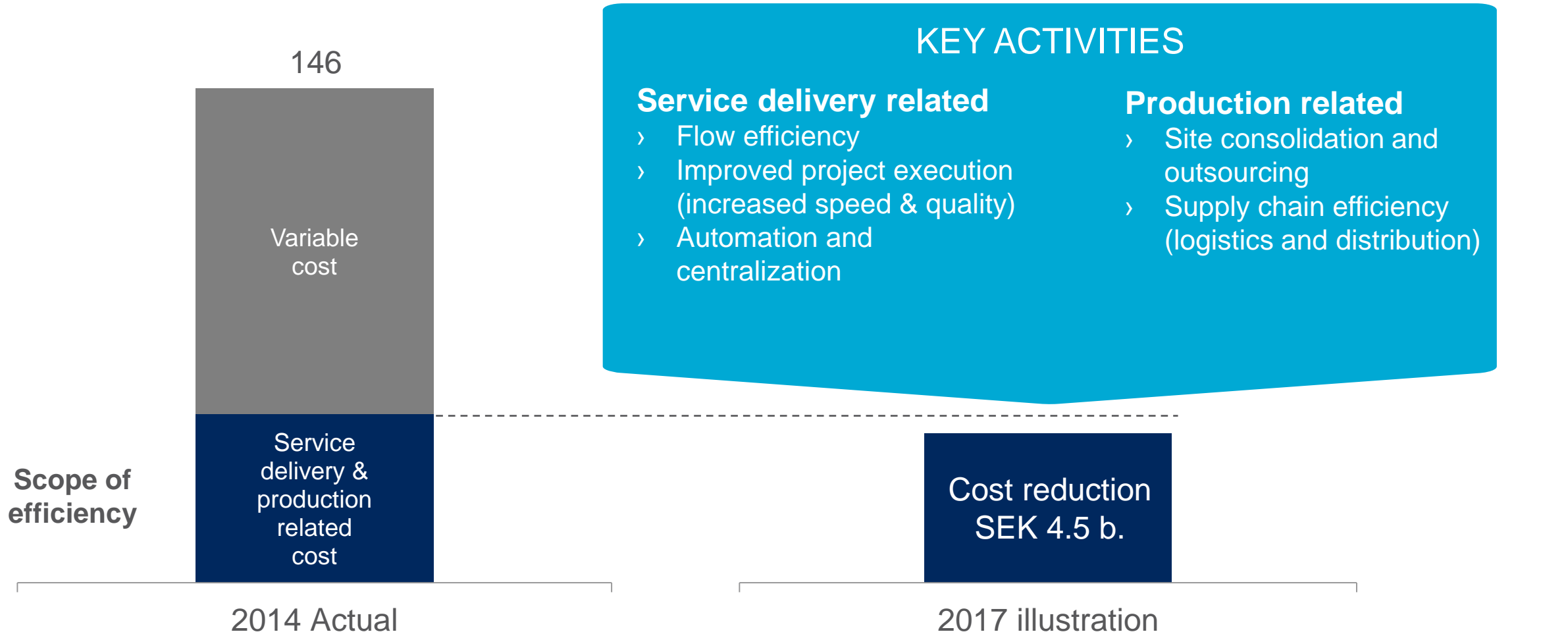


- › Savings of SEK 9 b. during 2017 of which approx. 50% in OPEX
- › Baseline 2014
- › Reduction primarily in R&D expenses

All periods exclude restructuring charges

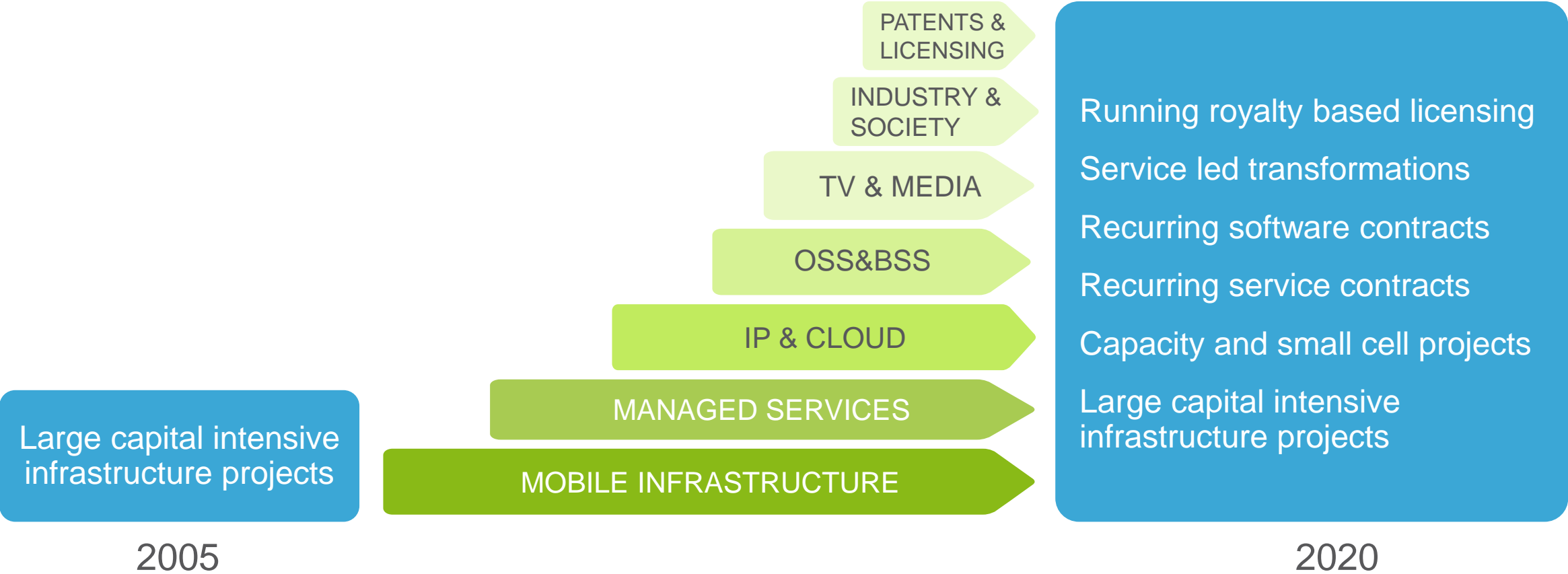
**Expenses have started to trend down, despite FX headwind**

# COST OF SALES SEK B



All other things equal – cost of sales reduction visible in Networks & Global Services

# BUSINESS MODELS EVOLUTION



Business models will gradually change as business evolves



# INDUSTRY TRENDS CHALLENGE CURRENT TELCO SOFTWARE MODEL



## ICT CONVERGENCE

Implying virtualized software applications & multi-standard technology

NETWORK  
PERFORMANCE AS  
DIFFERENTIATOR

A black icon of a speedometer or gauge with a needle pointing to the left, representing performance measurement.

INCREASED  
COMPLEXITY

A black icon of several interlocking puzzle pieces, representing complexity.

LACKS  
PREDICTABILITY

A black icon of a bar chart with five vertical bars of varying heights, representing data and predictability.

# Ericsson software model



## Why Ericsson software model?

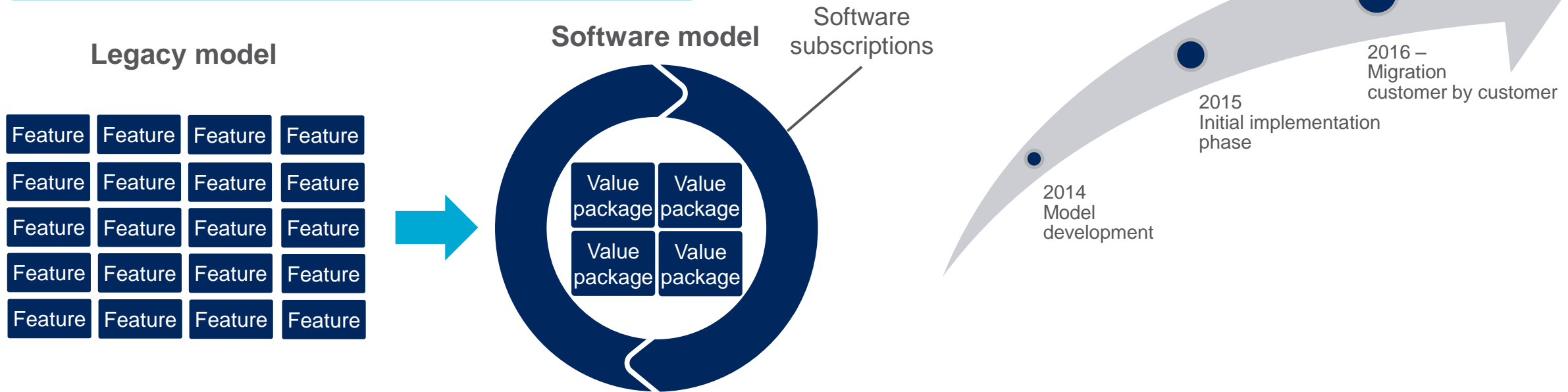
### Customer benefit

- Predictability
- Simplicity
- Performance

### Ericsson benefit

- Predictability, less volatility
- Simplified software offering

## Ericsson software model Implementation

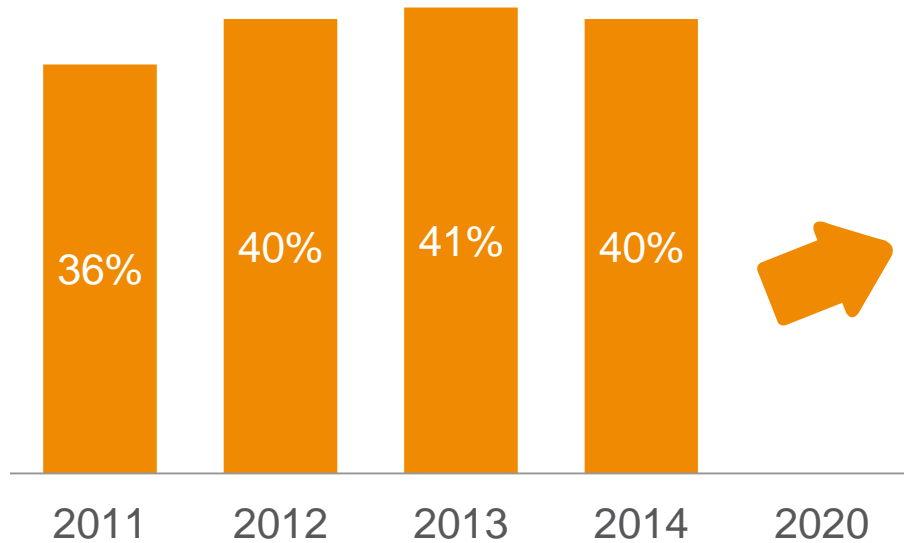


Ambition to have >30% share of recurring software by 2020

# SALES MIX DEVELOPMENT

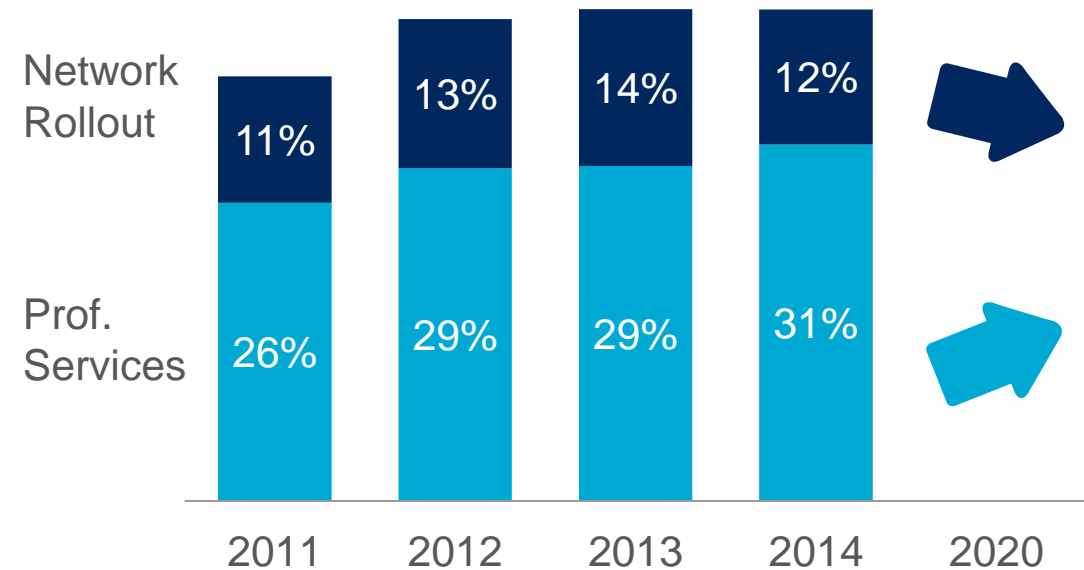


Software sales  
(as % of software and hardware)



- › Higher degree of software in targeted areas
- › Mobile broadband business will be more software centric while hardware will remain important differentiator
- › IPR and licensing considered as software

Service sales (as % of total sales)



- › Professional Services share higher in targeted areas than in core business
- › Professional Services share expected to increase driven mainly by managed services and systems integration
- › Network rollout primarily linked to mobile broadband coverage projects

**Increase recurring revenues (software/services)**

# KEY TAKEAWAYS



## Financial ambitions

- › Cisco partnership: Significant and immediate impact
  - Sales expected to ramp to USD 1 b. or more by 2018
  - Synergies of SEK 1 b. expected in 2018
- › 3 building blocks driving towards continued yearly incremental improvements
- › Cost and efficiency program is progressing according to plan
- › Expenses have started to trend down
- › Ambition to have >30% share of recurring software by 2020



**ERICSSON**