

HANS VESTBERG

CEO

JAN FRYKHAMMAR

CFO





# CAPITAL MARKETS DAY 2014





# GROWTH



**> 3-5%**

Grow faster than the market

**> 10%**

Outperform market growth  
in targeted areas



# PROFITABILITY



**9b**

SEK in total annual savings  
from efficiency measures

**4.5b**

SEK in Opex savings  
from efficiency measures





# THE ERICSSON JOURNEY

CEO, Hans Vestberg



# 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

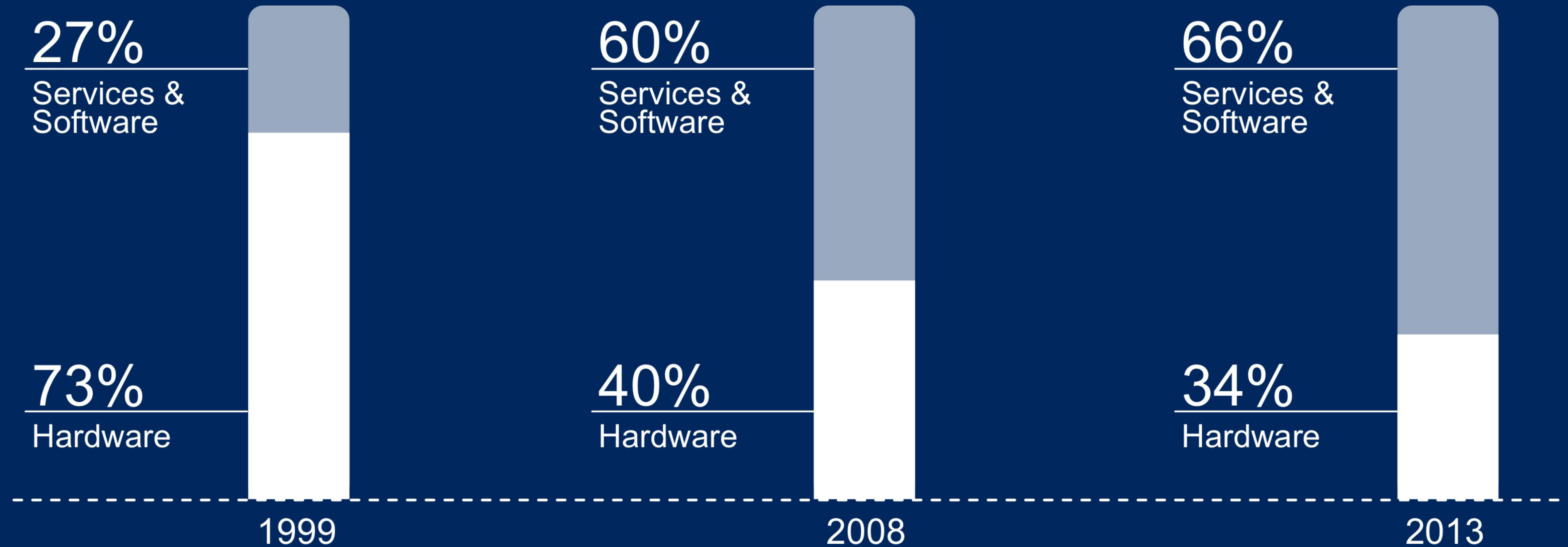
2009 -  
2013

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

Foundation, customer relations and employee engagement in place – now increasing shareholder focus

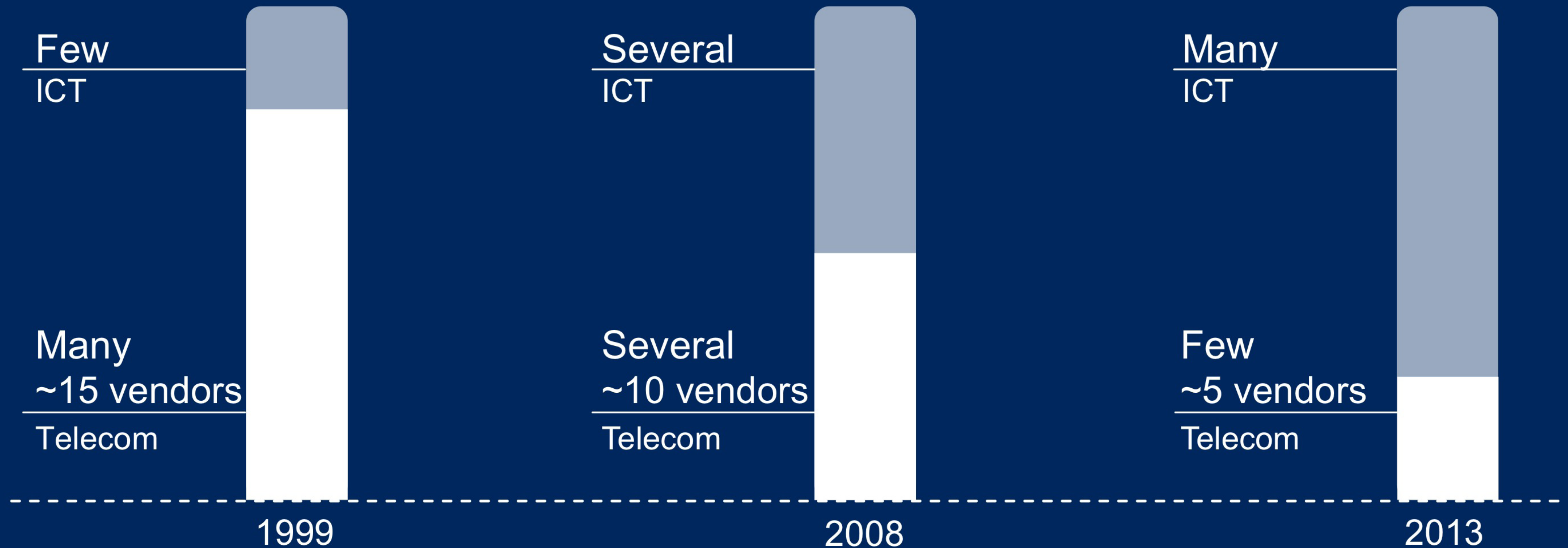


# BUSINESS MIX CHANGING



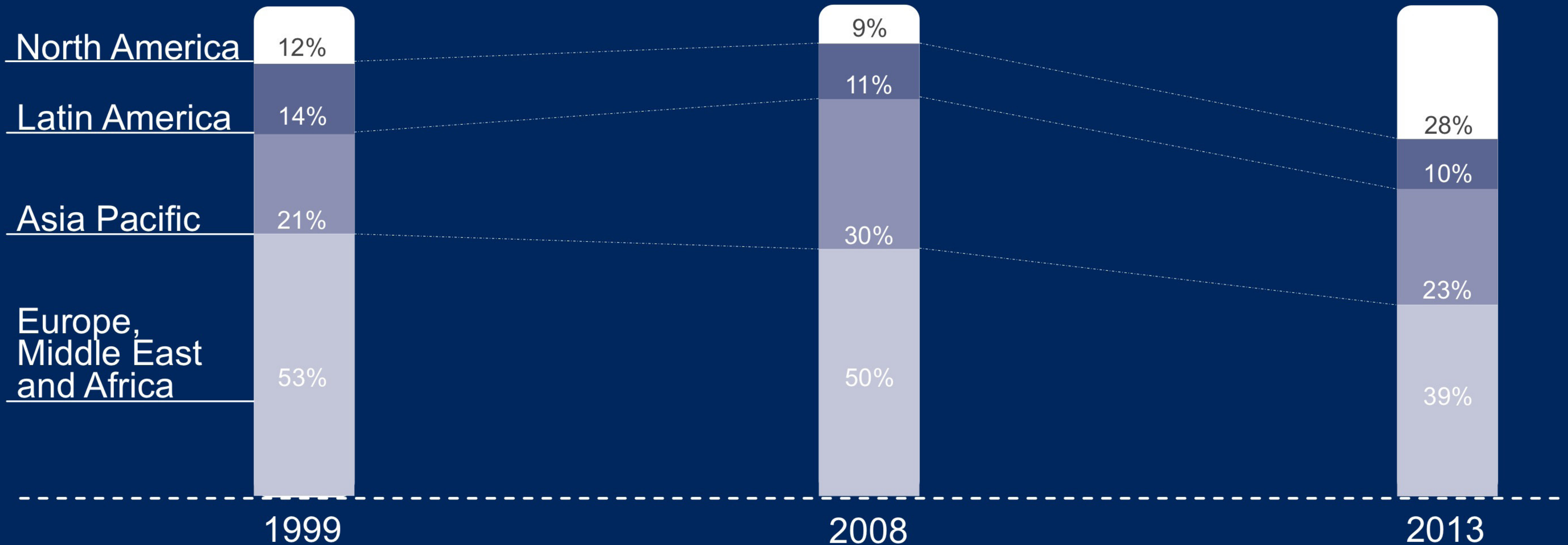


# COMPETITION TRANSFORMING





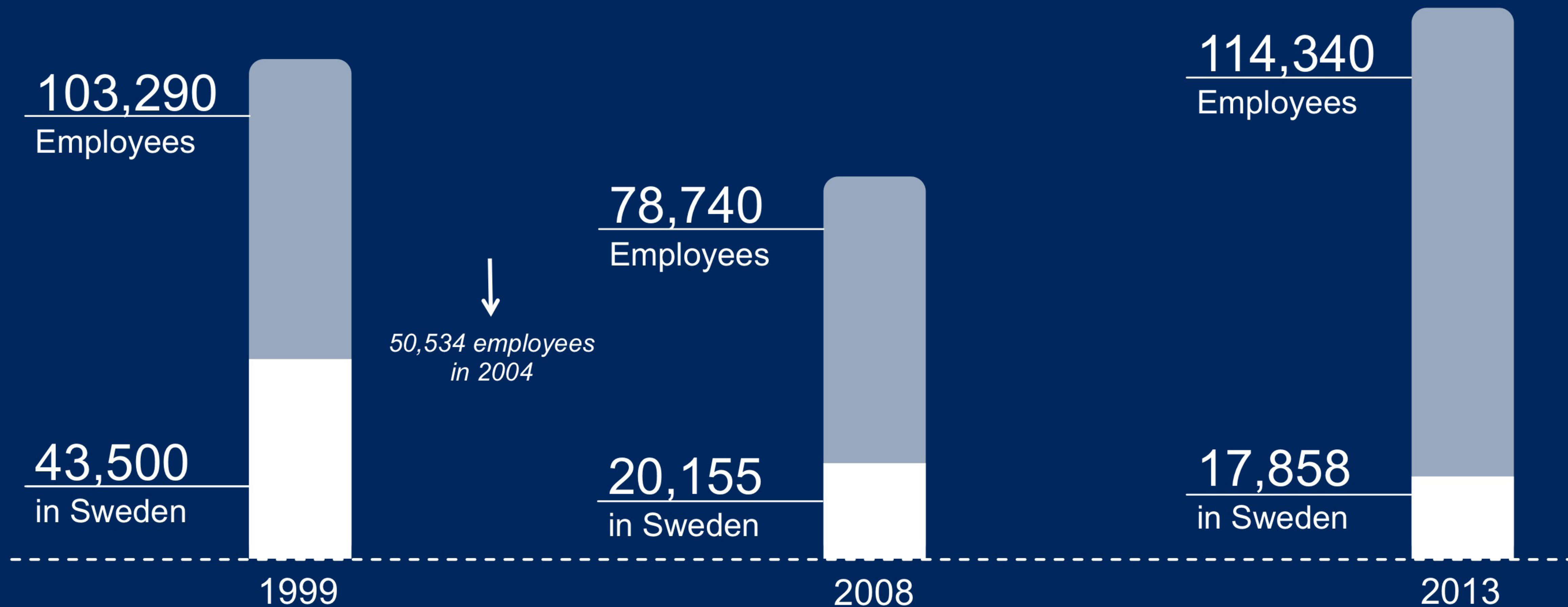
# SALES PER MARKET CHANGING



Note: 2013 excluding "Region Other" (SEK 15 b)



# OUR PEOPLE





# ERICSSON CURRENT POSITION



# #1

MOBILE INFRASTRUCTURE  
OSS&BSS  
SERVICES  
MEDIA DELIVERY & IPTV

35,000

Patents

25,000

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

\$35 b.

Net Sales

#1

LTE market share in the world's 100 largest cities

180

Countries with customers

118,000

Employees



# BUSINESS ENVIRONMENT 2014



## Market

Increasing role of telecoms in society – the Networked Society

Mobility trend and operators transforming for growth and efficiency

Political unrest prevails in parts of the world

## Ericsson

Continue to rapidly execute on our strategic direction

Gradually improved earnings in core business

Company profit level and growth rate not satisfactory

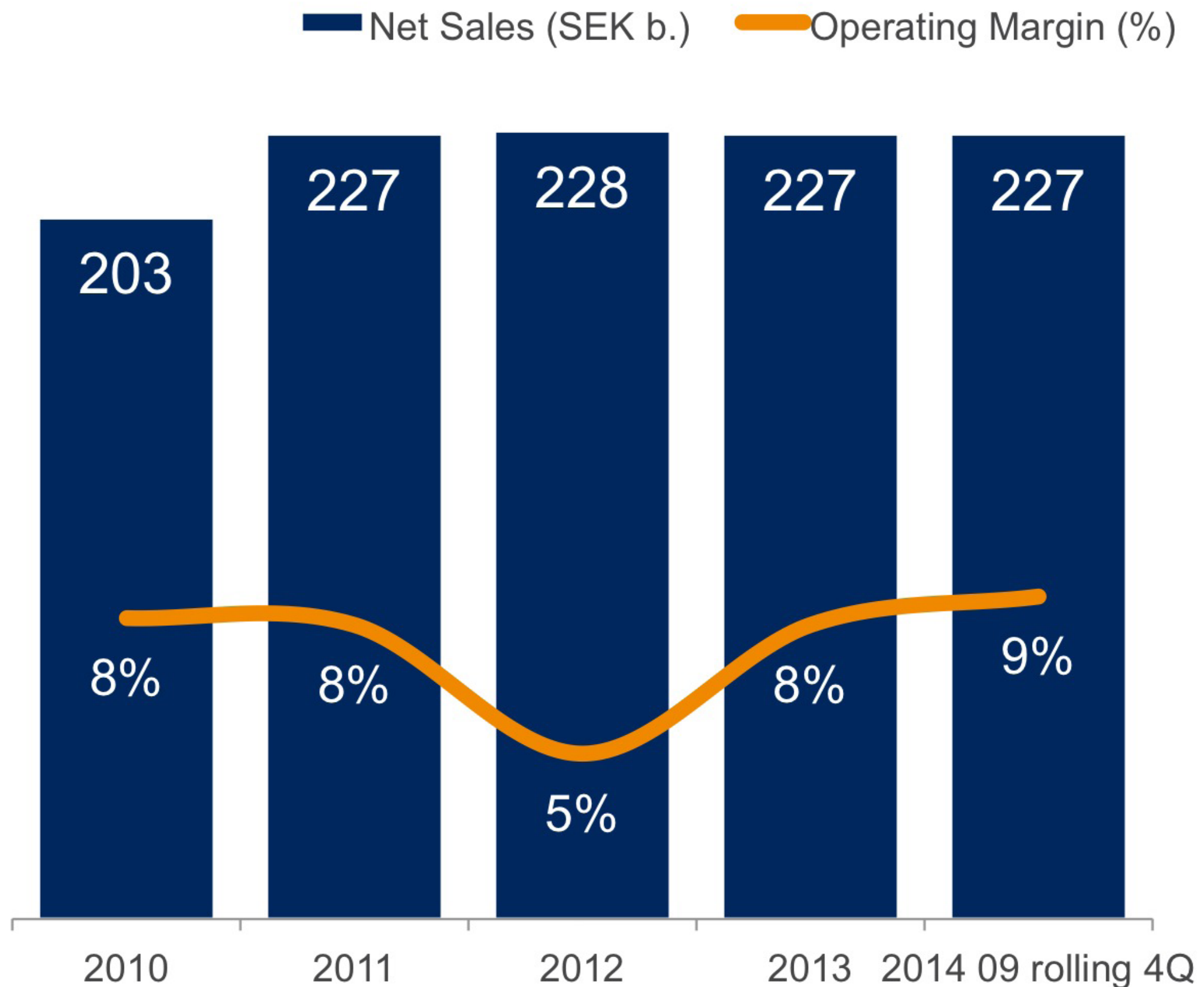


# THE ERICSSON JOURNEY

CFO, Jan Frykhammar



# FINANCIAL PERFORMANCE OVERVIEW



All periods include restructuring charges

Organic and FX adj CAGR: 7%, reported CAGR: 4% (2010-2013)

Growth in 7 out of 10 regions 2010-2013

North America fastest growing region 2010-2013 (6% CAGR)

Dismantling of JVs (ST-Ericsson and Sony Ericsson)

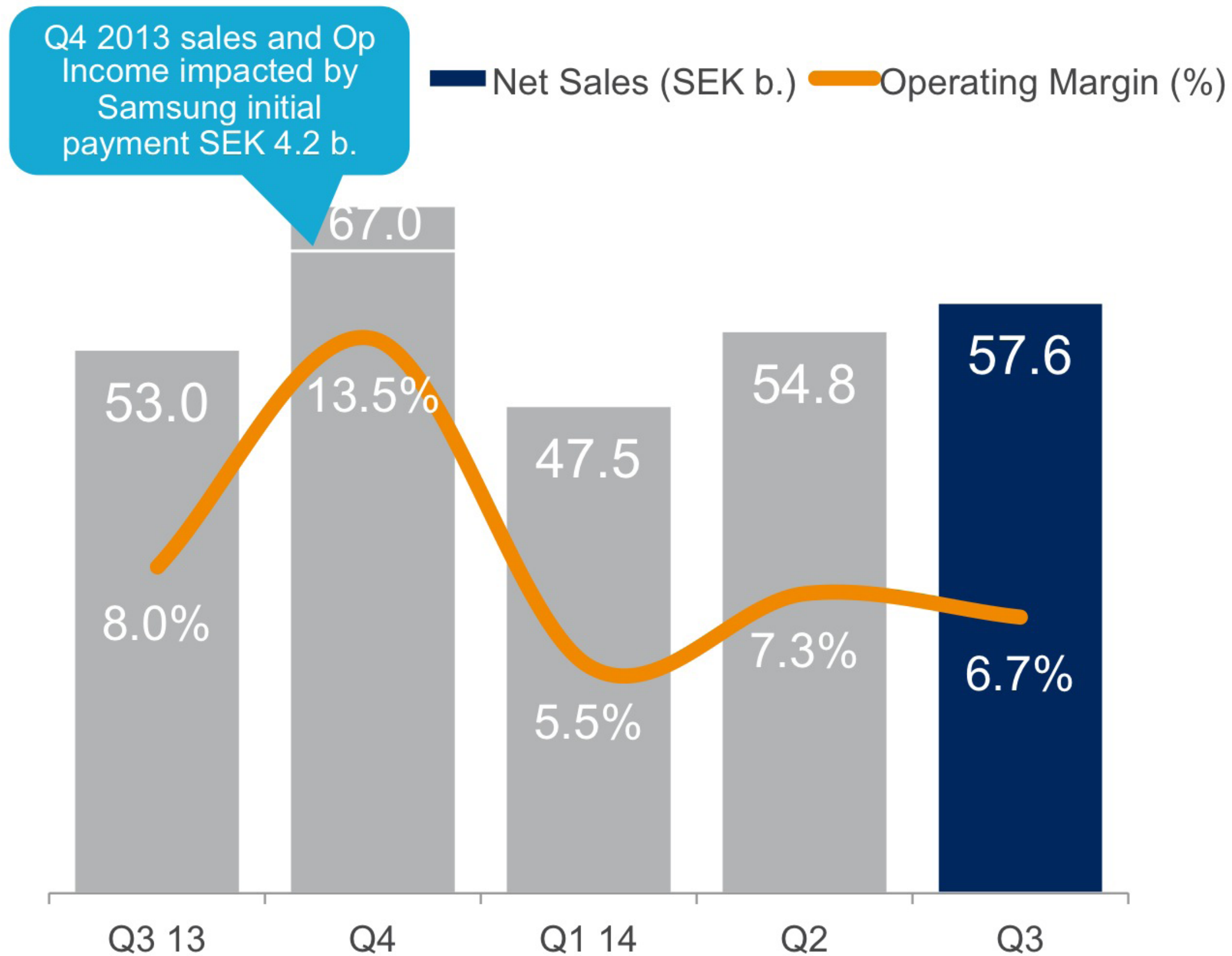
Improved earnings in core and investment in targeted areas

Signed Samsung IPR agreement in 2013

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



# 2014 Q3 FINANCIAL PERFORMANCE



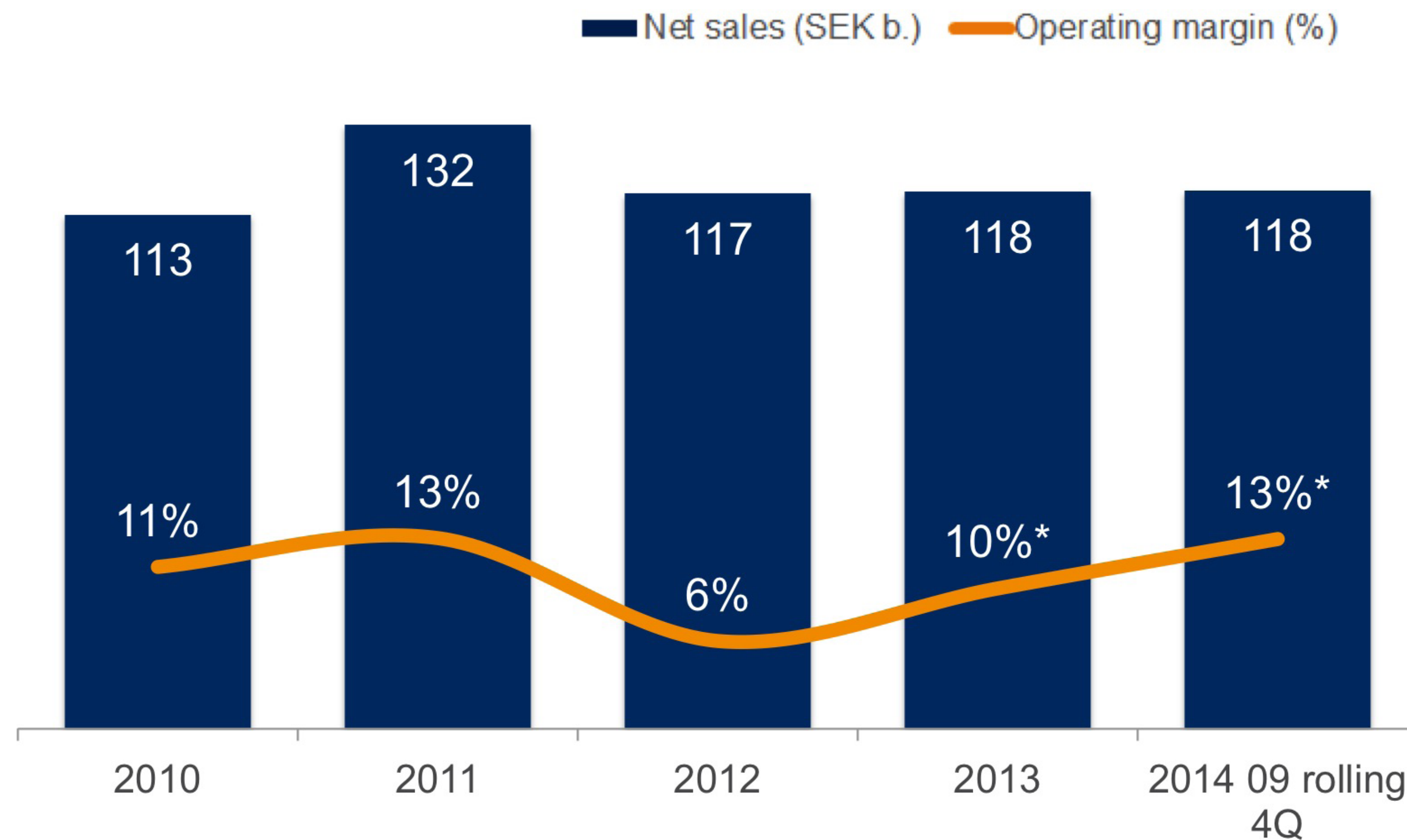
- Sales growth 9%, partly due to strong USD
- Started to deliver on previously communicated key contracts
- Business activity in US slowed down
- Stable improvements across all segments
- Negative impact from hedge contracts

All periods include restructuring charges

**Gradual improvement of earnings in core business**



# FINANCIAL PERFORMANCE SEGMENT NETWORKS



All periods include restructuring charges

### Net Sales

- > Mobile broadband growth offset by decline in CDMA & CS/Voice Core
- > Dependent on fundamental drivers such as: operators differentiation, mobile broadband build outs and macro economics

### Operating margin

- > Underlying main business strong, driven by capacity enhancements and improved business mix
- > Back to double-digit margin after large share of coverage contracts

**Strong development driven by business mix and efficiencies**

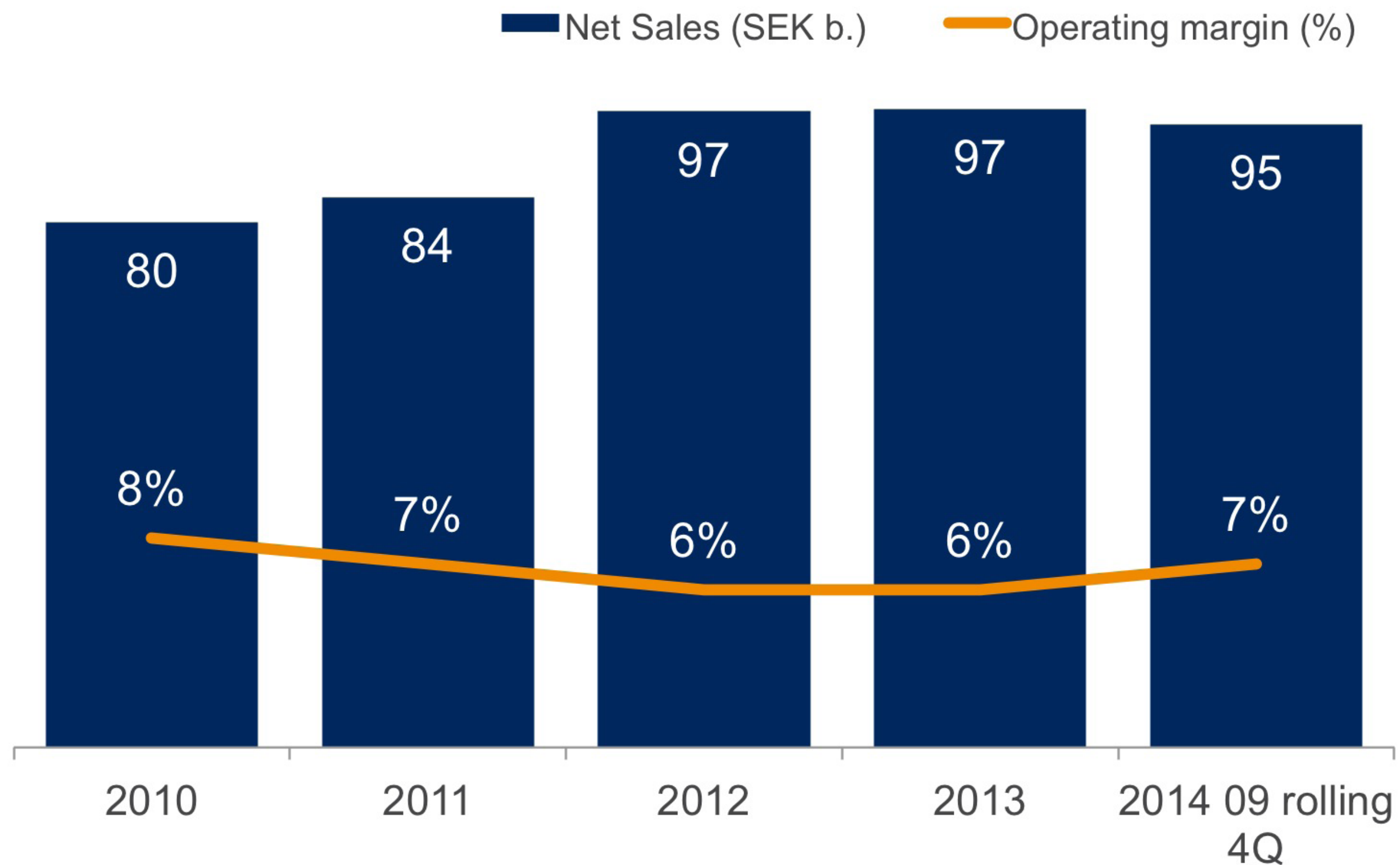
\*) Operating Margin when adjusted for Samsung initial payment is 2013 (7%), 2014 (11%)



# FINANCIAL PERFORMANCE SEGMENT SERVICES



Net sales and operating margin (SEK b.)



- > CAGR 2010-2013: 7%
- > Increased market share
- > 2013 organic & FX adjusted growth 5%

All periods include restructuring charges

**Strong service segment established with industrialized global scale**



# PROFESSIONAL SERVICES & NRO

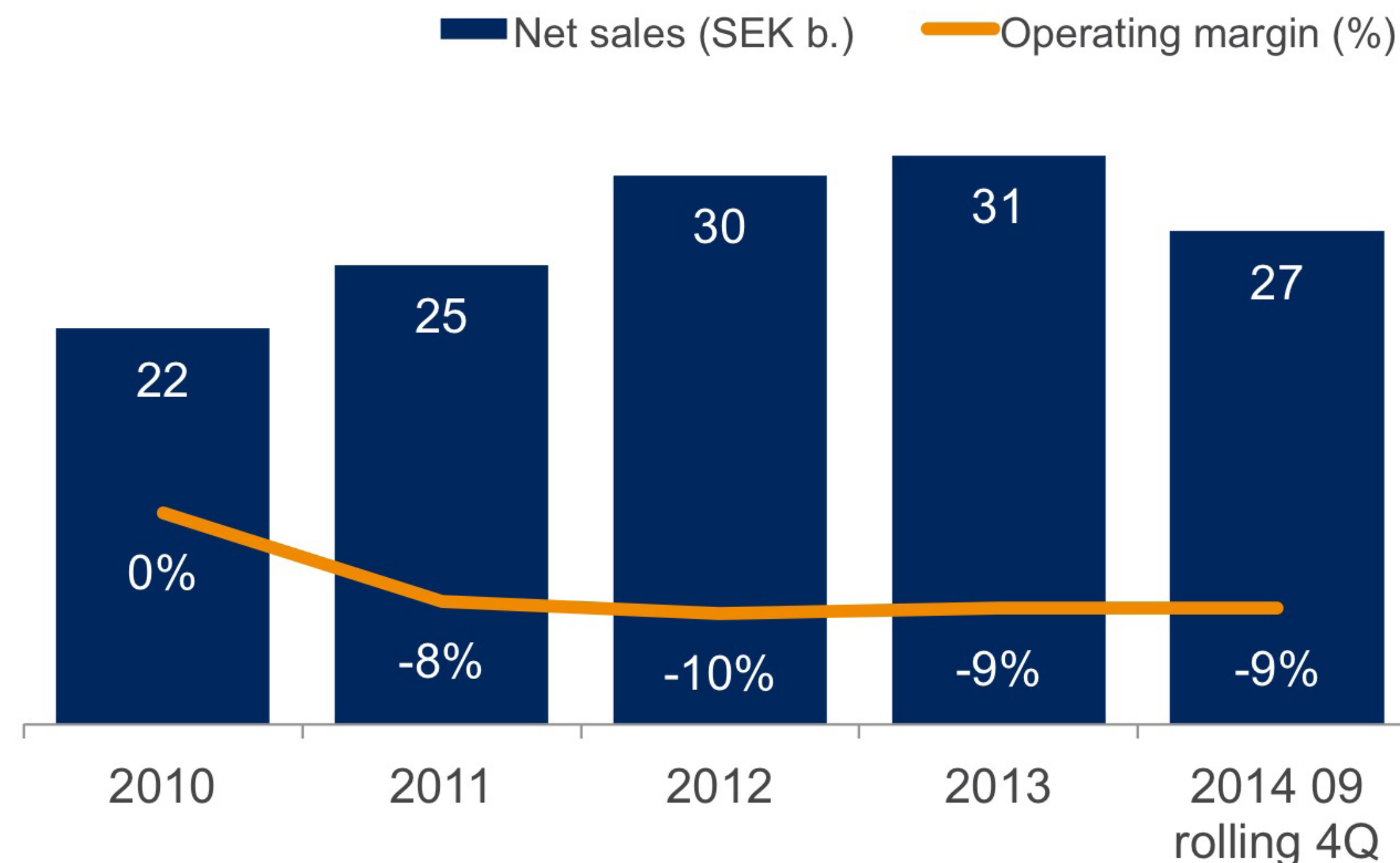


## Professional services



- › Steady growth with stable margin
- › High degree of recurring business
- › Double-digit growth in Q3 2014

## Network Rollout (NRO)



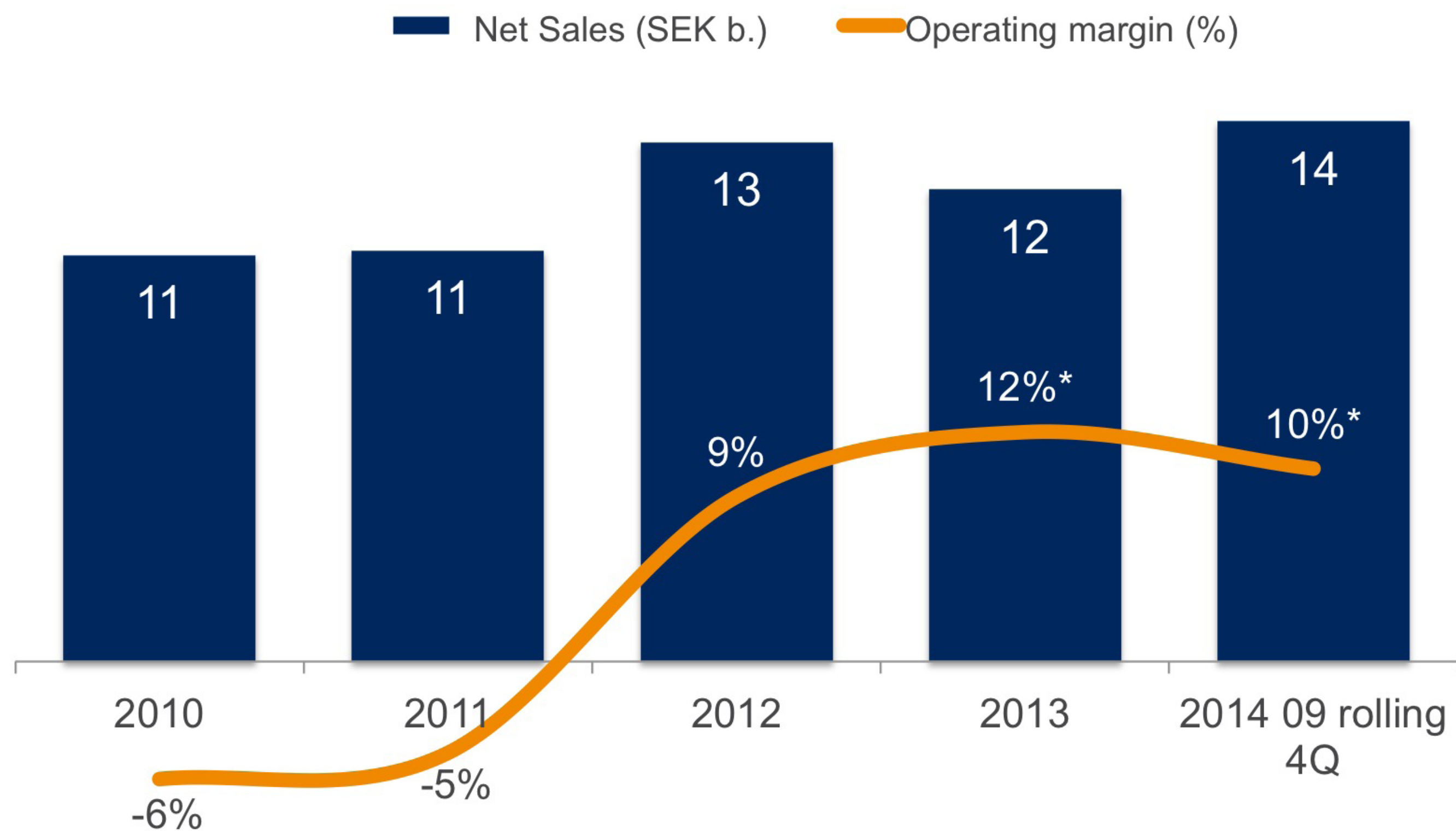
- › Impacted by modernization projects in Europe
- › Low-margin business
- › Result improved sequentially in Q3, on track towards break-even result

Improved earnings in core, challenges in network rollout



# FINANCIAL PERFORMANCE

## SEGMENT SUPPORT SOLUTIONS



All periods include restructuring charges

### Net Sales

- > Continued growth in OSS & BSS and strengthened position in TV & Media
- > Acquisition of Telcordia (2011) and Microsoft Mediaroom (2013)
- > Streamlined portfolio

### Operating Income

- > Software business model with low variable cost – volume key for profitability

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

\*) Operating Margin when adjusted for Samsung initial payment is 2013 (2%), 2014 (1%)





## Translation Exposure

- › Sales and cost incurred in foreign entities when converted into SEK upon consolidation
- › Primarily affect **group net sales** and to lesser extent group income
- › Exposures cannot be addressed by hedging

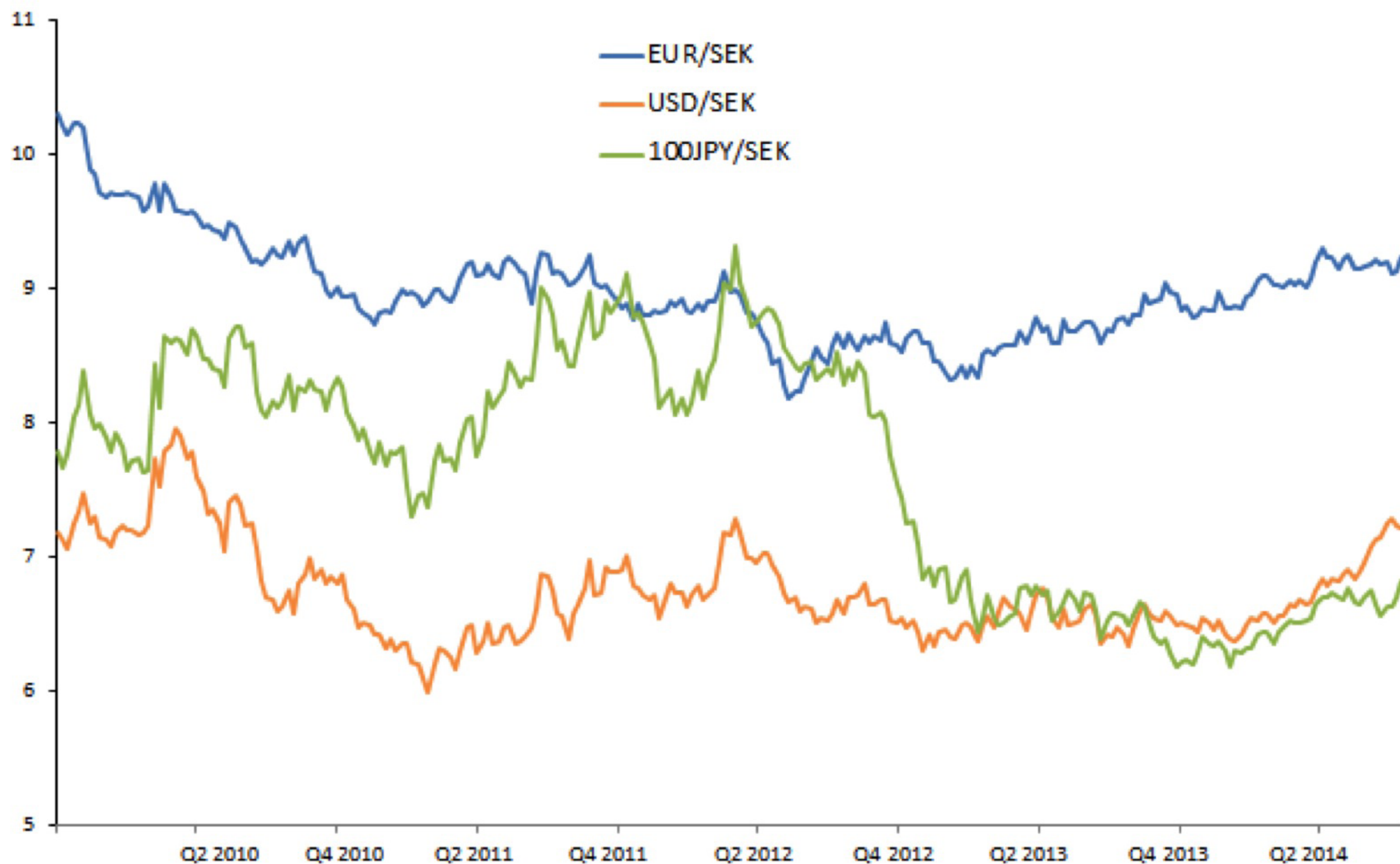
## Transaction exposure

- › Relates to sales and costs incurred in non-reporting currencies in individual group companies
- › Primarily affect **group income**
- › Majority of transaction exposure concentrated in Swedish group companies
- › Changed hedge accounting principle during 2013

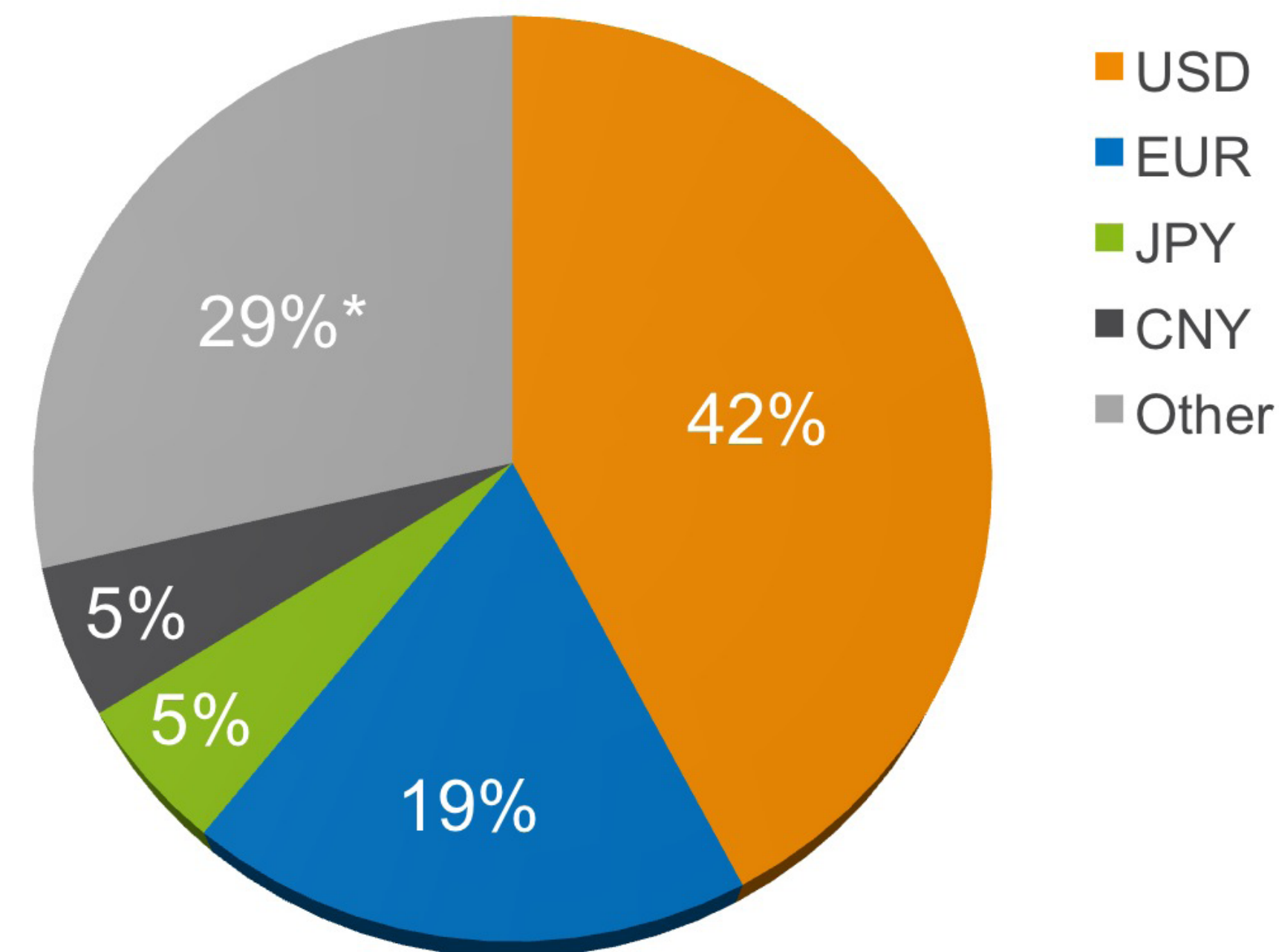
FX impacts the financial result of the company – transaction exposure most important



# FOREIGN EXCHANGE RISK NET SALES



Currency exposure 2013



\*Other: main currencies BRL, INR, SAR, GBP, KRW

› USD has strengthened towards several currencies, including the SEK impacting sales positively

› Share of USD & USD-linked currencies stable over time

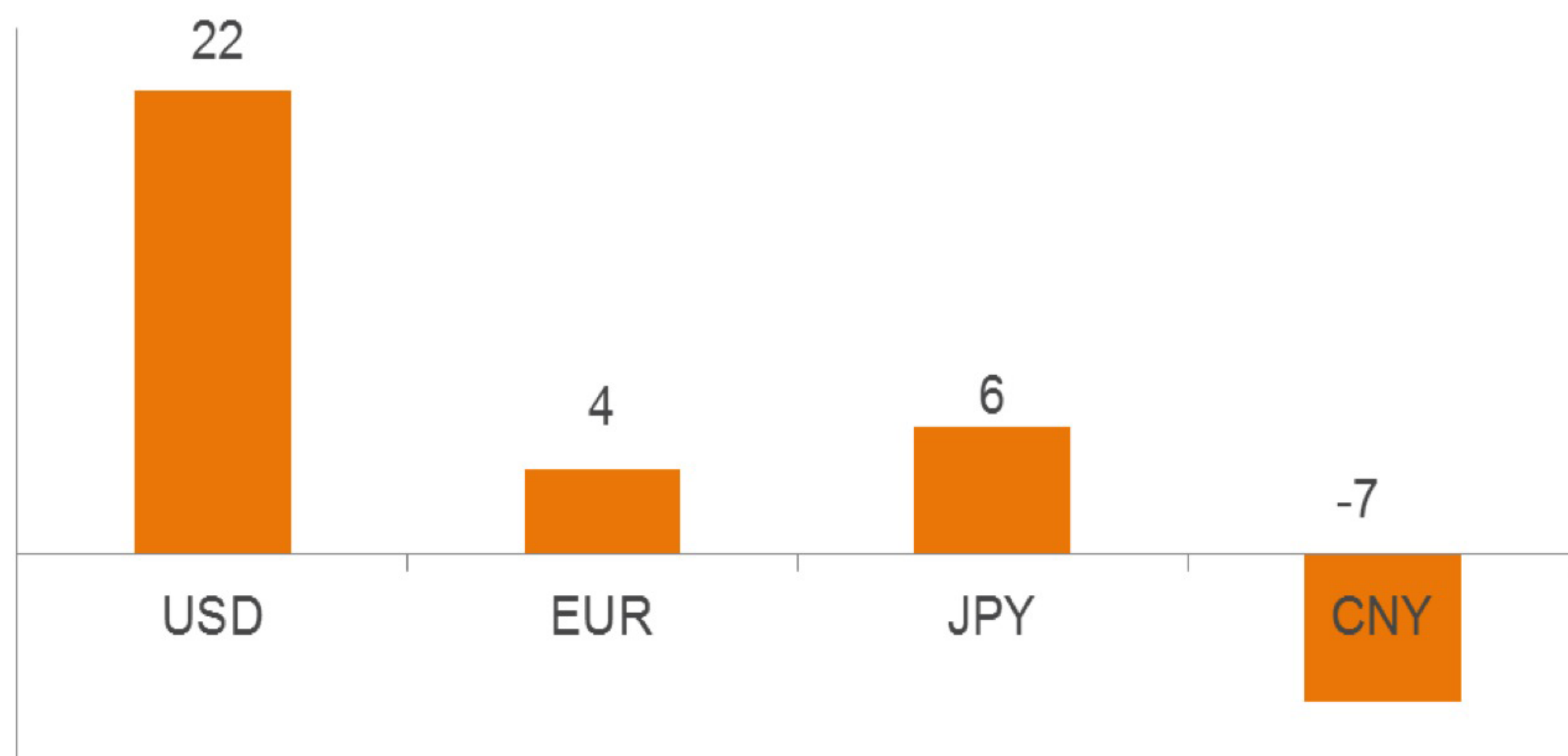
**USD-related sales stable over time**



# FOREIGN EXCHANGE RISK OPERATING INCOME

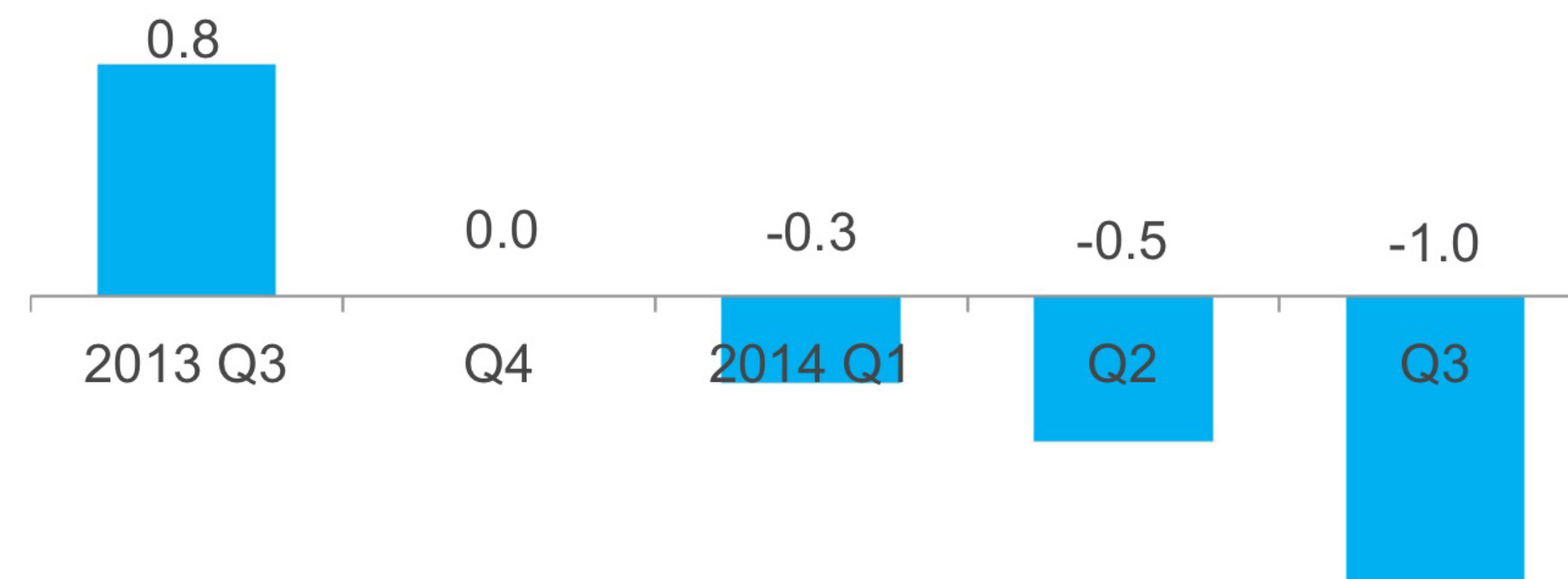


2013 FX Transaction Exposure (SEK b.)



- › Largest income exposure in USD and JPY
- › Large cost base in Sweden: R&D, CoS, SG&A
- › Majority of FX exposure in Swedish entities

Revaluation of unrealized hedge contracts, effect on Operating Income SEK b.

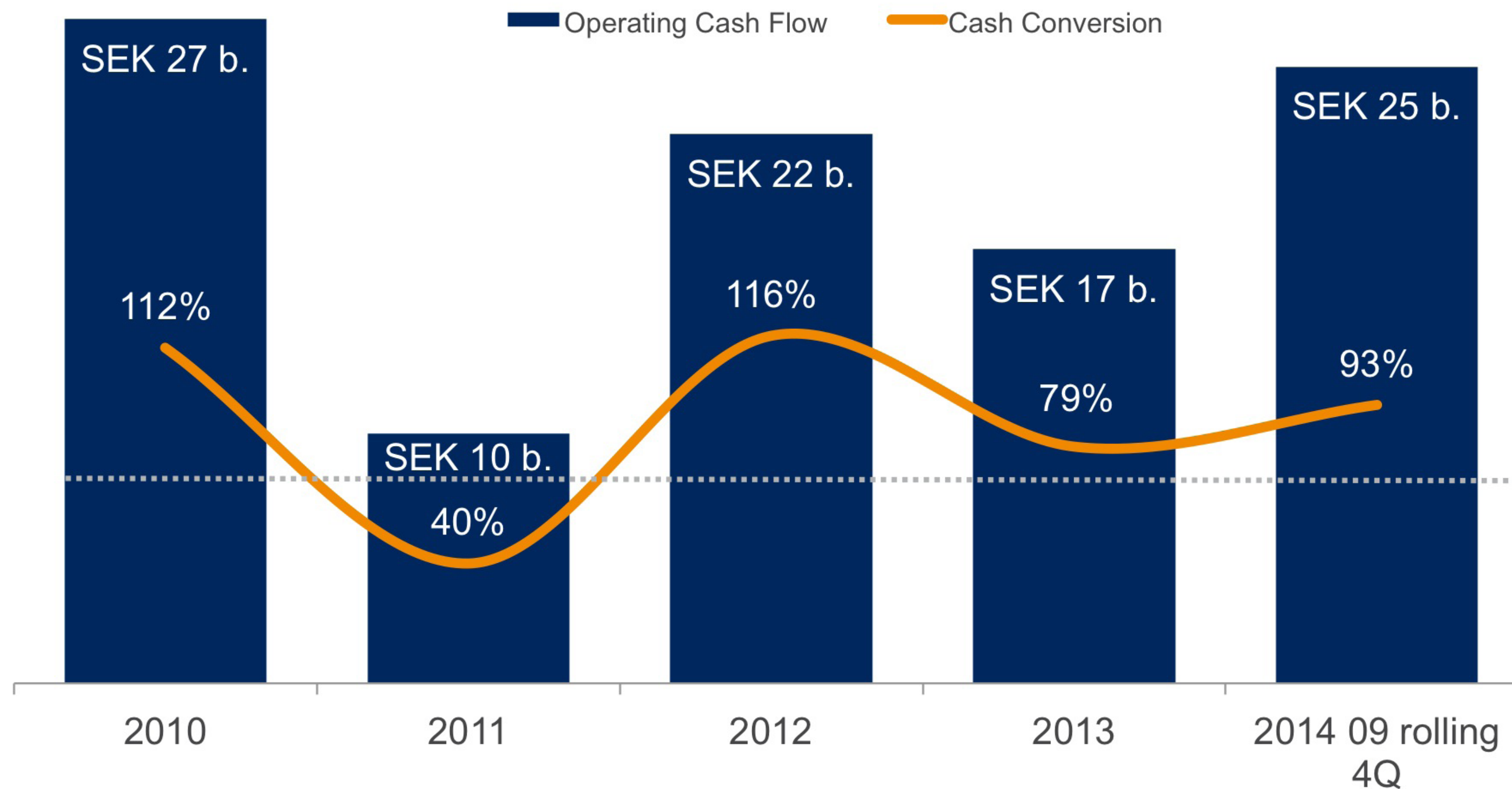


- › Contracts valued at USD closing rate  
September 30, SEK 7.27 (SEK 6.72, June 30)
- › Vast majority of hedging stock in USD
- › Rule of thumb valid:  
- USD/SEK +/-0.25 equals appr. -/+SEK 0.5 b.

On average 5-6 months of yearly transaction exposure is hedged



# OPERATING CASH FLOW & CASH CONVERSION



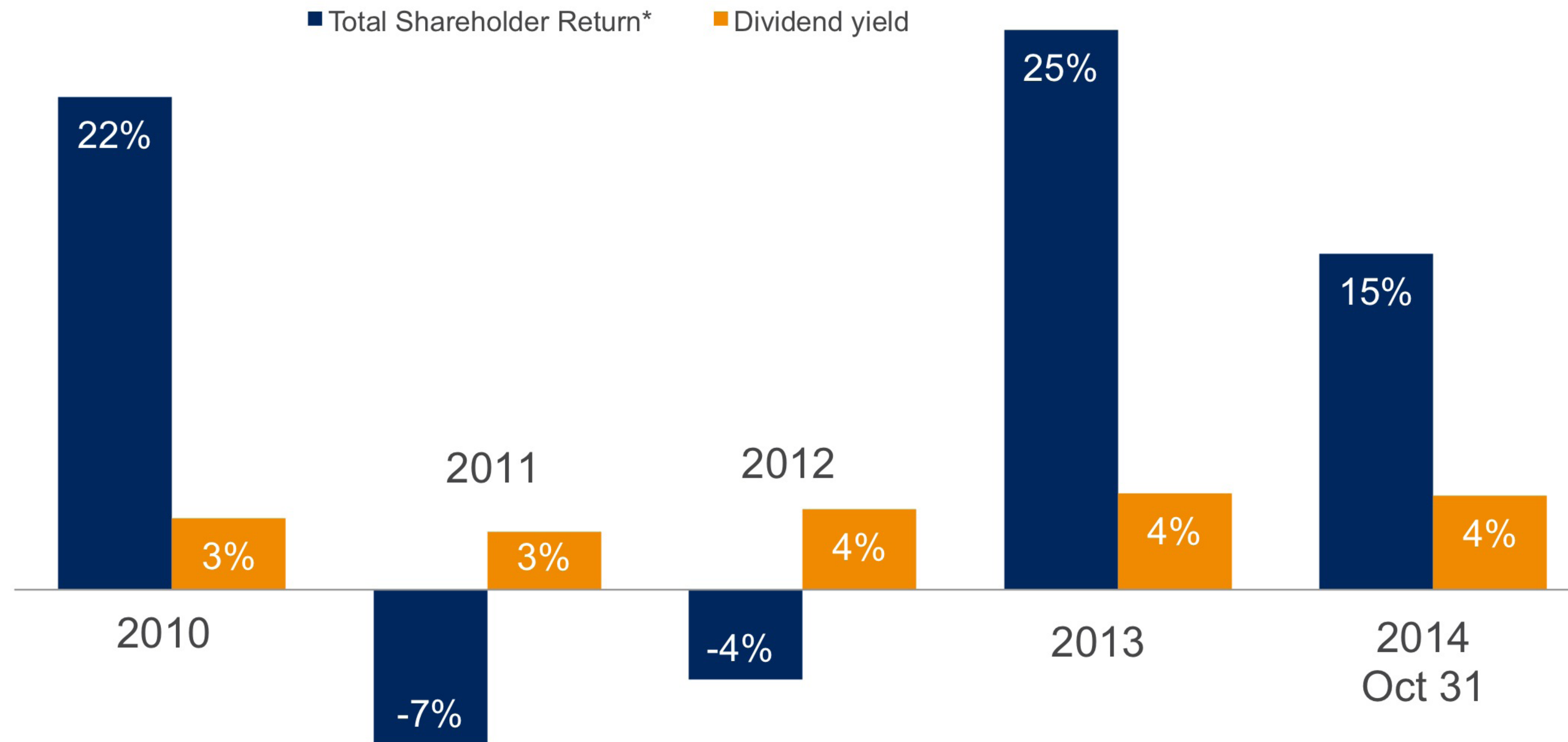
- > Business mix and sales growth influence cash conversion
- > Structural improvements through Order-to-cash program

*Cash Conversion  
Target >70%*

**Strong cash flow generation has enabled increased dividend and investments**



# TOTAL SHAREHOLDER RETURN



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

**10% in average annualized total shareholder return during last 5 years**



# KEY TAKEAWAYS



## Net Sales and operating margin

- › Grew faster than the market 2010-2013
- › Strong underlying profit improvement in Q3 2014
- › Improved earnings in core business but profit level and growth rate not satisfactory given market position

## Foreign exchange risk

- › Ericsson does business in multiple currencies, highest impact to bottom line from transaction exposure in USD and JPY

## Cash Flow and shareholder return

- › 10% in average annualized total shareholder return during last 5 years
- › Strong cash flow generation has enabled increased dividend and investments



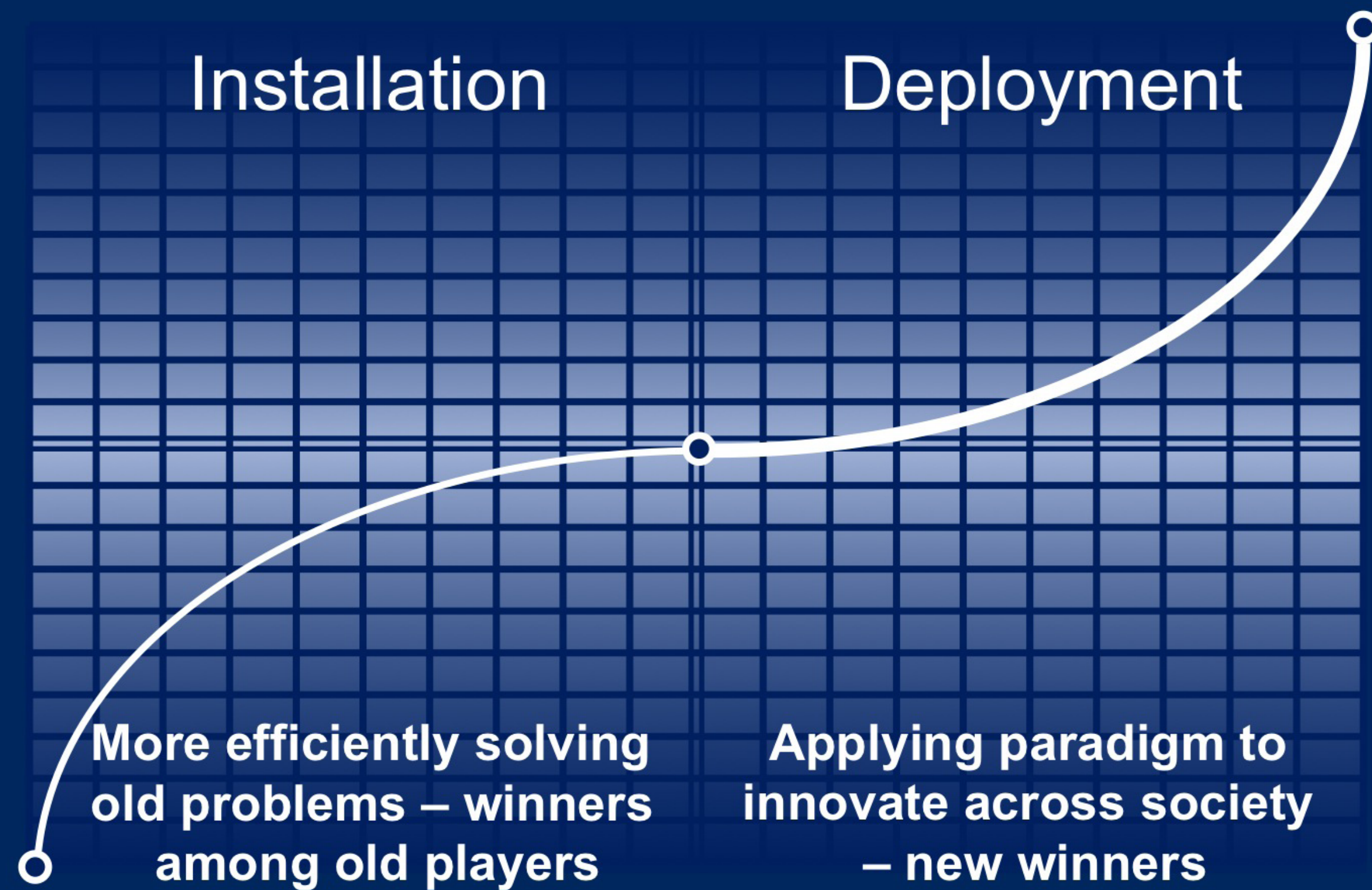


# THE NETWORKED SOCIETY STRATEGY

CEO, Hans Vestberg



# THE NETWORKED SOCIETY WE ARE AT THE INFLECTION POINT



By year 2020:

- › 9.5 billion subscriptions
- › 8 billion Mobile Broadband subscriptions
- › 2x Smartphone subscriptions
- › 9x LTE subscription growth
- › 8x Data traffic driven by video

Ericsson mission: We lead transformation through mobility



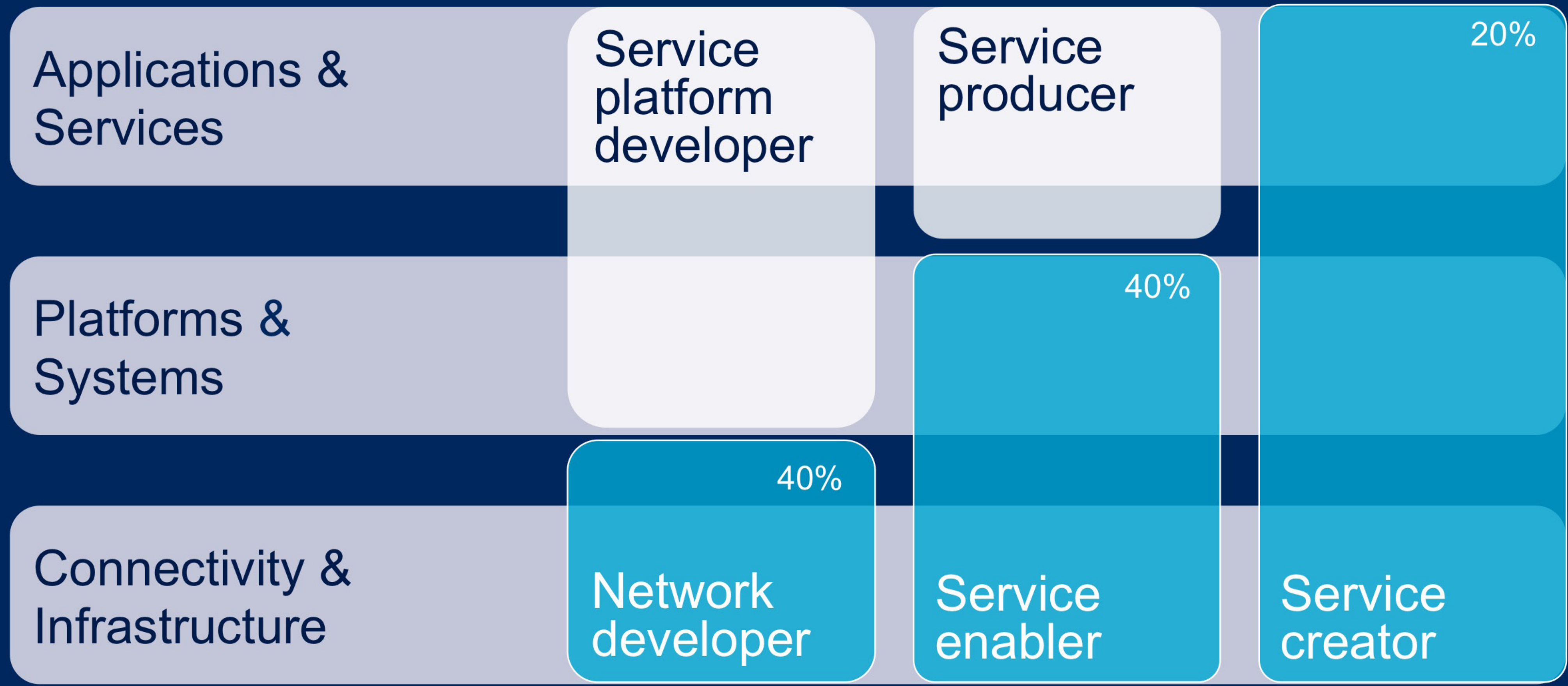
# OPERATOR AND INDUSTRY ROLES



## *Users, Content & Devices*

Other

Operator





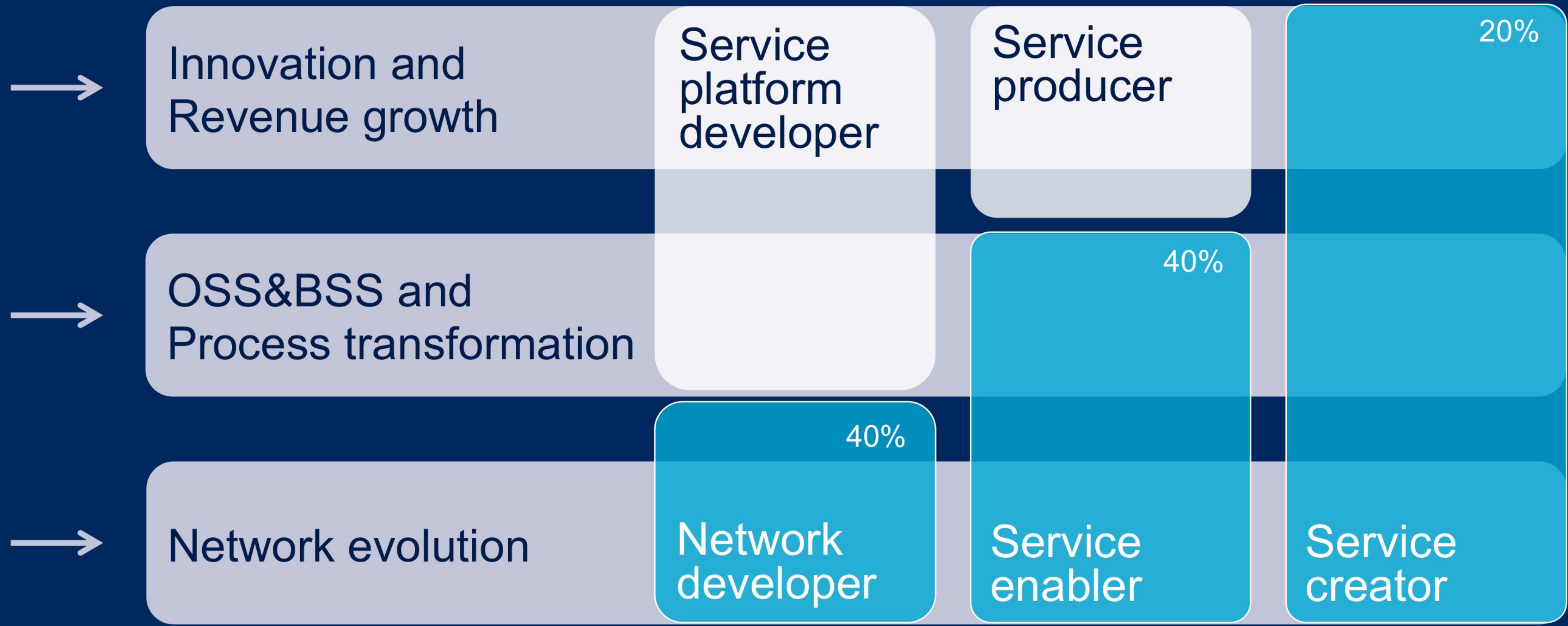
# WHAT ERICSSON OFFERS



## *Users, Content & Devices*

Other

Operator

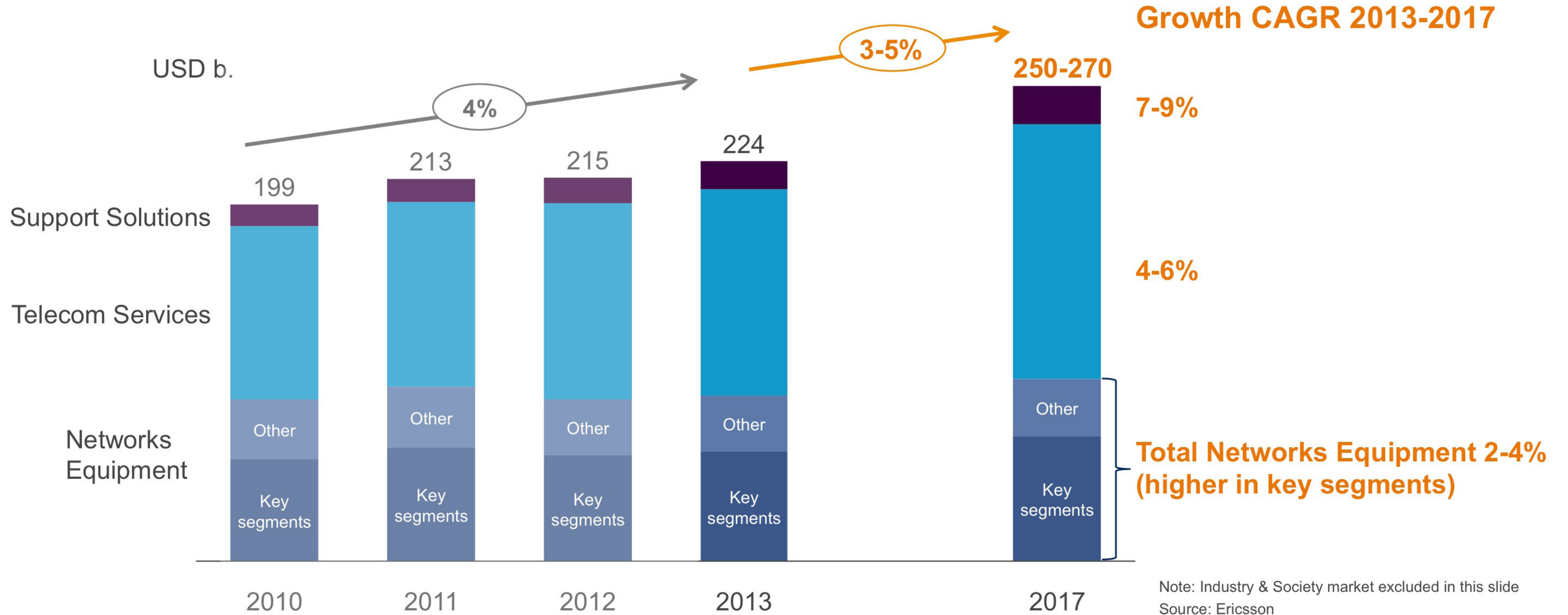




# MARKET OUTLOOK (USD)



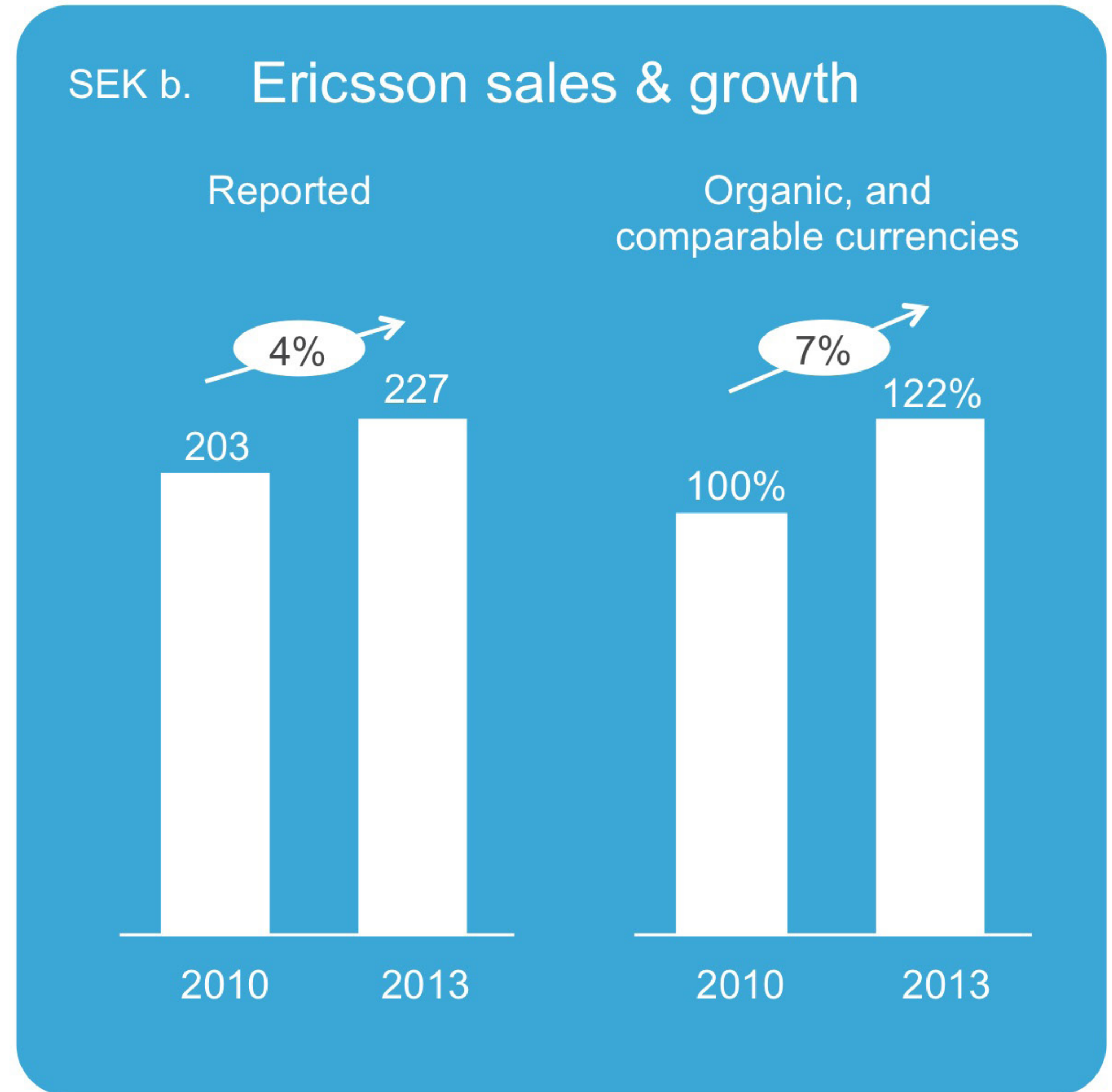
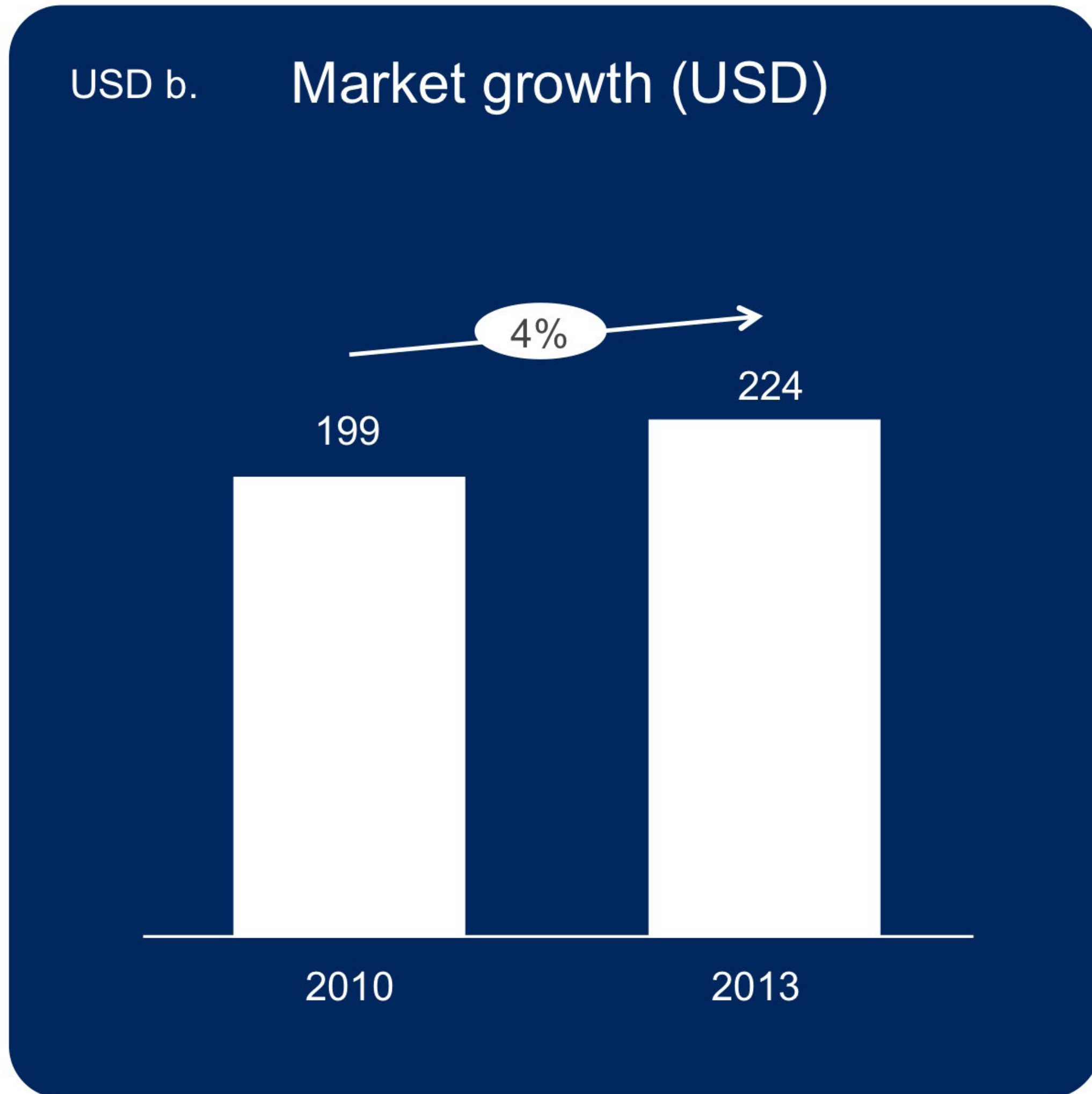
USD b.



**Growth expected across the market segments towards 2017, however slightly lower than last forecast**

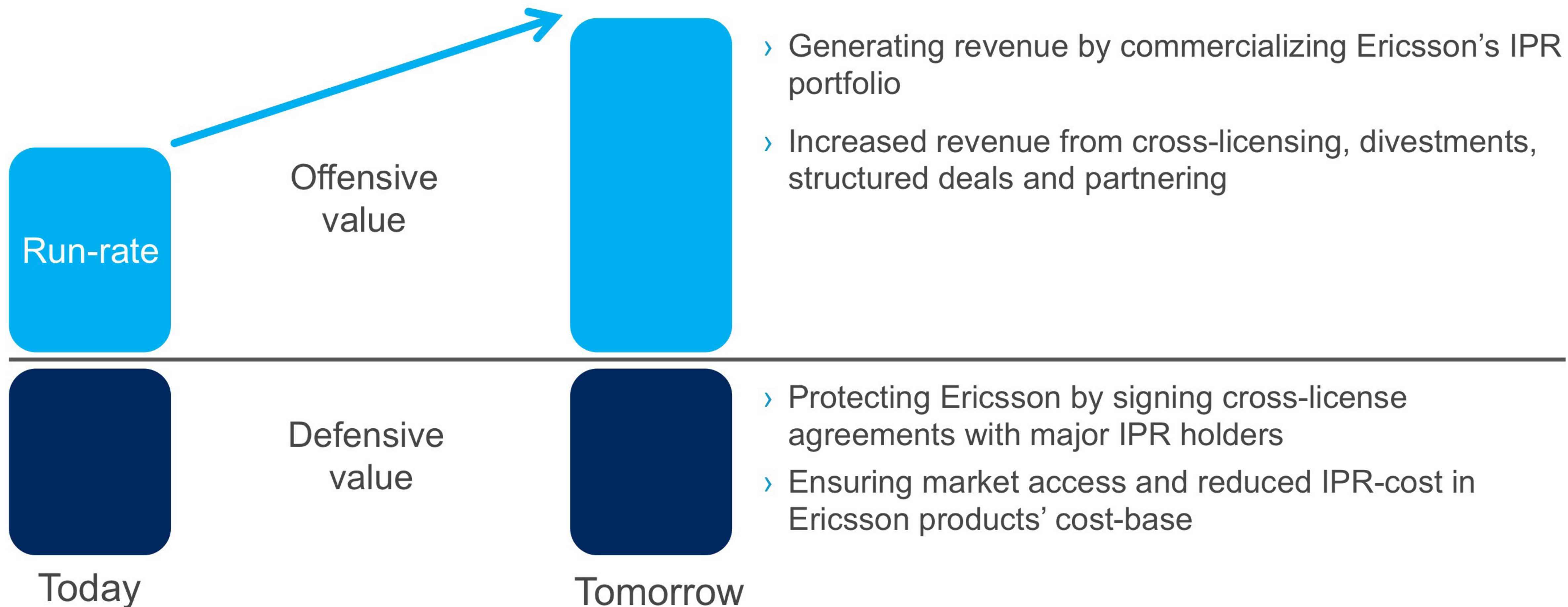


# GROWING FASTER THAN THE MARKET



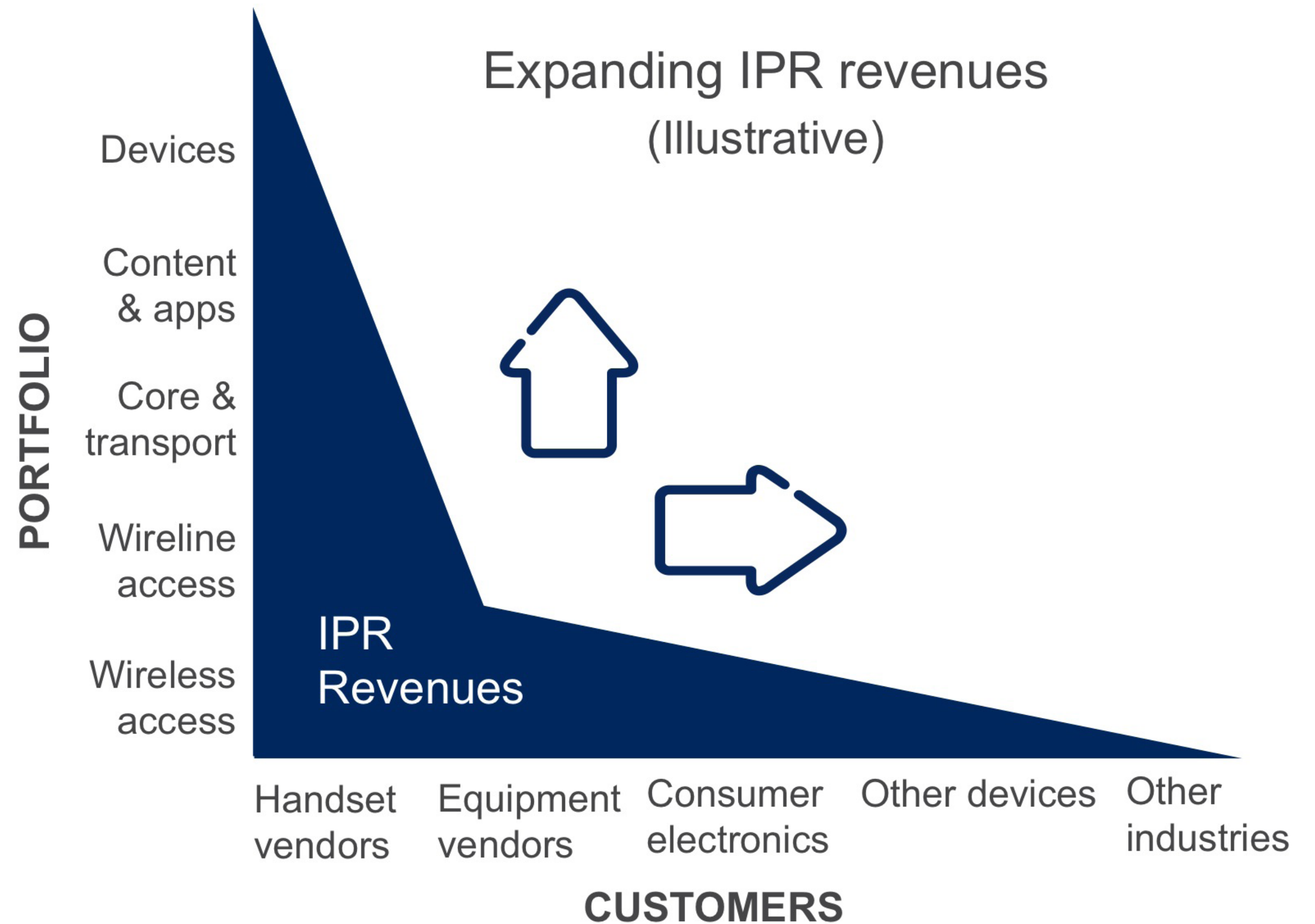
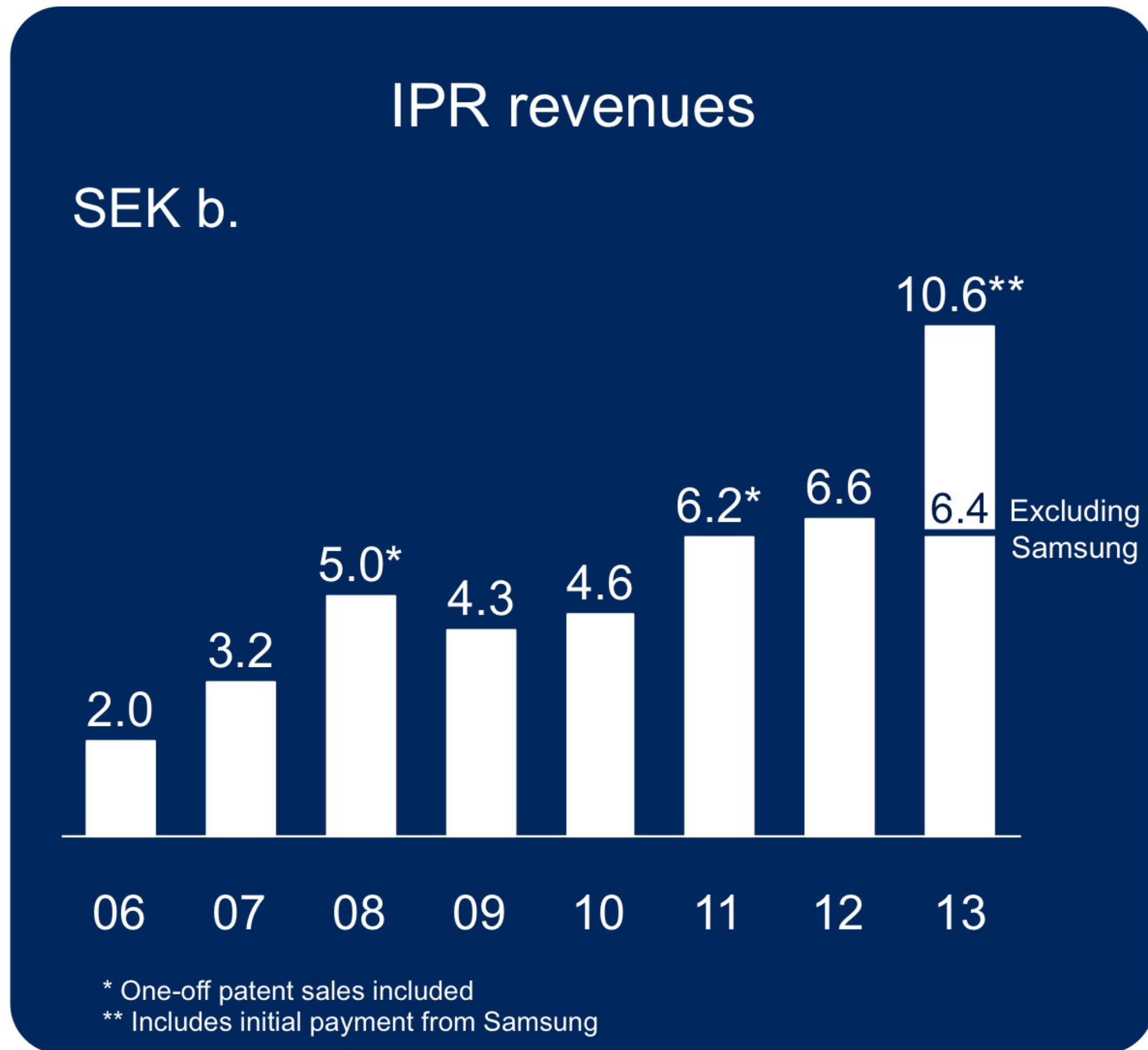


# IPR STRATEGY





# IPR REVENUES



**Significant cross-licensing agreement reached with Samsung in 2013**



# OUR POSITION AND COMPETITION

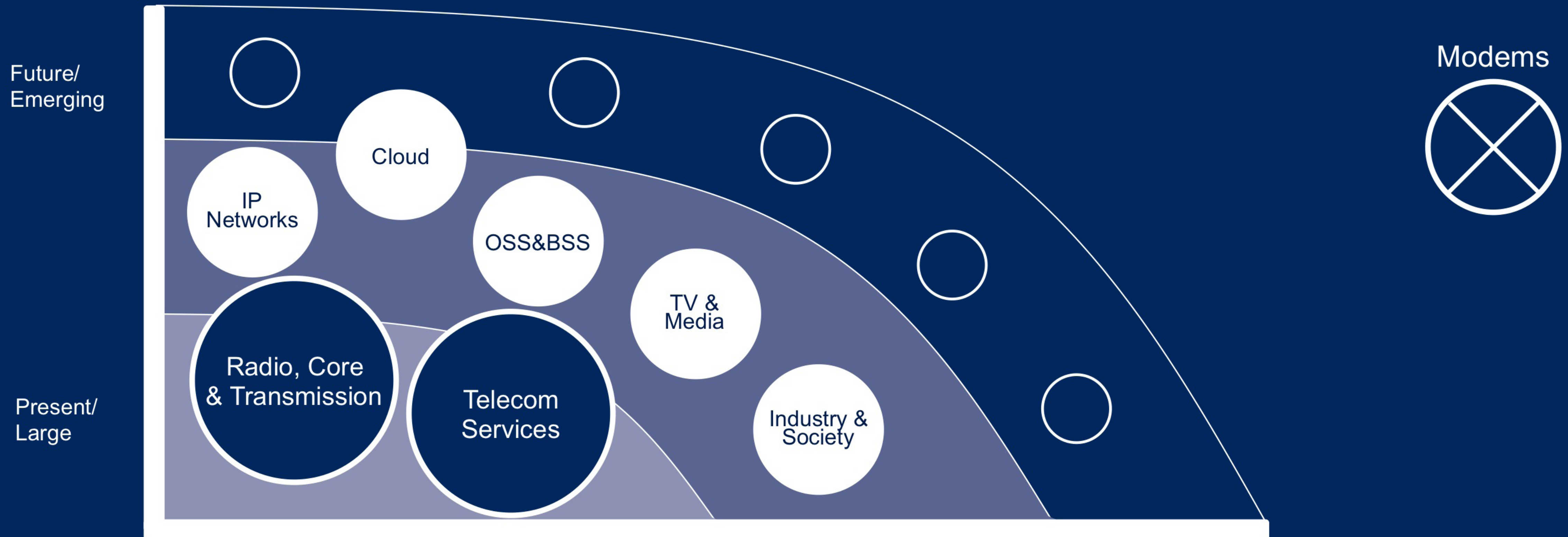


NETWORKS		GLOBAL SERVICES	SUPPORT SOLUTIONS	PATENTS & LICENSING
MOBILE NETWORKS	IP & CLOUD			
#1	#4-5	#1	#1-3	#1-2
Technology, performance and R&D scale	Bring mobility expertise to IP, SDN and Cloud	One-to-many, skills, tools & capabilities	R&D scale and complete portfolio	#1 2G/3G/4G patent portfolio
<ul style="list-style-type: none"> <li>&gt; NSN</li> <li>&gt; Alcatel-Lucent</li> <li>&gt; ZTE</li> <li>&gt; Huawei</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Juniper</li> <li>&gt; Alcatel-Lucent</li> <li>&gt; Cisco</li> <li>&gt; Huawei</li> </ul>	<ul style="list-style-type: none"> <li>&gt; IBM</li> <li>&gt; Accenture</li> <li>&gt; Huawei</li> <li>&gt; NSN</li> <li>&gt; Alcatel-Lucent</li> <li>&gt; Hewlett-Packard</li> <li>&gt; Wipro</li> <li>&gt; Amdocs</li> </ul>	<ul style="list-style-type: none"> <li>&gt; IBM</li> <li>&gt; Oracle</li> <li>&gt; Huawei</li> <li>&gt; Amdocs</li> <li>&gt; Hewlett-Packard</li> <li>&gt; NetCracker</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Telecom infrastructure vendors</li> <li>&gt; Chipset vendors</li> </ul>

Leading position in 4 out of 5 areas



# STRATEGIC DIRECTION 2014



1 Excel in core business

2 Establish leadership in targeted areas

3 Expand business in new areas



# CRITERIA FOR TARGETED AREAS



- I Growth potential
- II High degree of software and professional services
- III High degree of recurrent revenues
- IV Adjacency - fully leveraging Ericsson core business areas

Ambition of targeted areas is to significantly improve Ericsson's earnings towards 2020



# RESOURCE ALLOCATION TO SECURE STRATEGY EXECUTION





# STRATEGY EXECUTION EFFICIENCY AND COST REDUCTION



Invested for market leadership in the Networked Society

Streamlined portfolio - exited phones and modems

Implemented solution driven Go-to-Market model

Consolidated hardware platforms and software stacks

Opex peak in 2014 –  
will be reduced onwards

Proactively implement efficiency measures to execute on strategy – reduce cost by SEK 9 b.





# OPERATIONAL EFFICIENCY AND PROFITABILITY

CFO, Jan Frykhammar

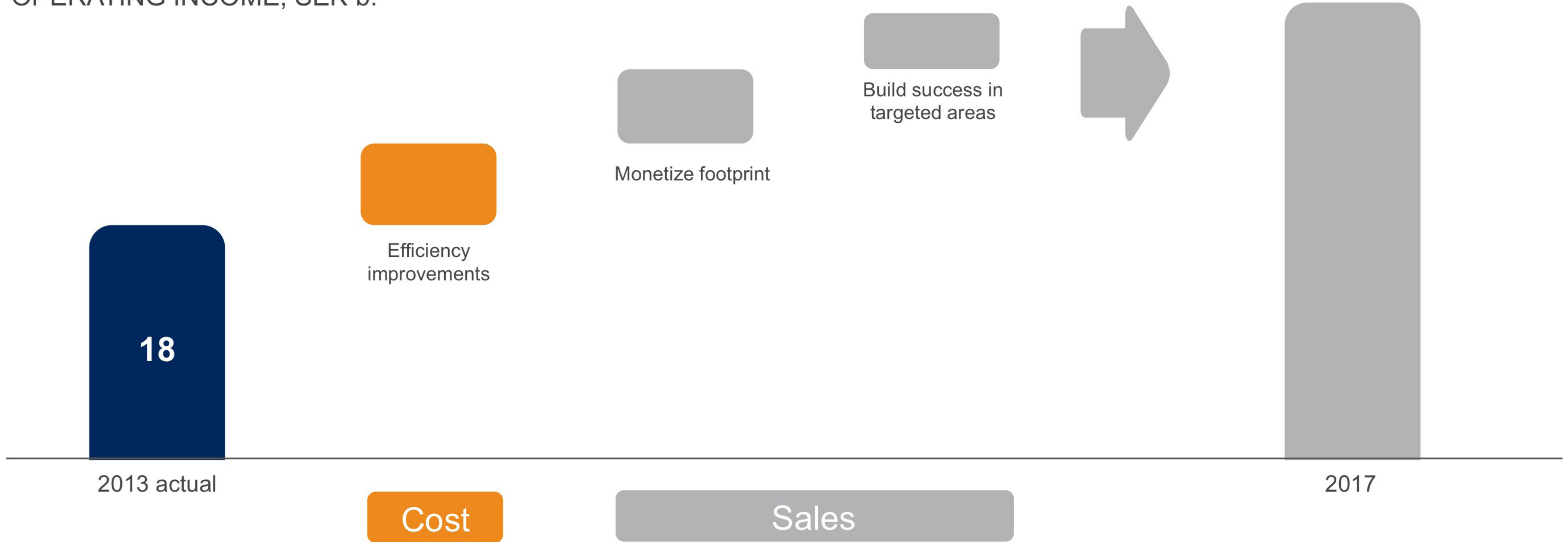


# PROFIT IMPROVEMENT

ILLUSTRATIVE



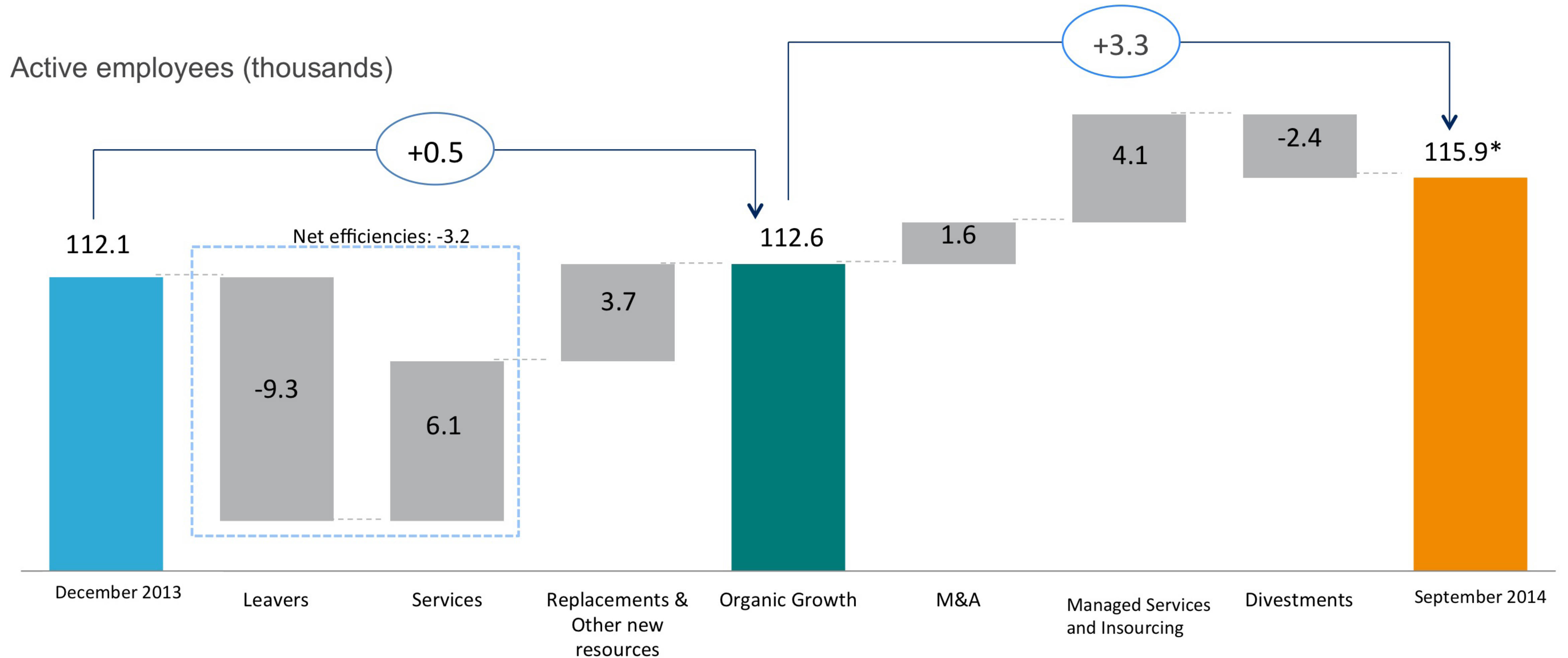
OPERATING INCOME, SEK b.





# CONTINUED TRANSFORMATION

## HEADCOUNT EVOLUTION 2014



Significant transformation in workforce in order to execute on strategy



# BUSINESS ENVIRONMENT 2014



## Market

Increasing role of telecoms in society – the Networked Society

Mobility trend and operators transforming for growth and efficiency

Political unrest prevails in parts of the world

## Ericsson

Continue to rapidly execute on our strategic direction

Gradually improved earnings in core business

Company profit level and growth rate not satisfactory



# EFFICIENCY AND COST REDUCTION

RELATED TO TODAY'S ANNOUNCEMENT



Annual savings  
(SEK b.)

**9**

Restructuring costs  
(SEK b.)

**3-4**

Full year effect during  
(year)

**2017**

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



# EXAMPLES OF ACTIVITIES



## Portfolio streamlining

- › E.g. the Modem business with major cost savings beginning 2015
- › End to end ways of working in R&D to increase efficiencies

## Structural enhancements

- › Establishment of three consolidated Global ICT Centers
- › Modernizing & rationalizing number of internal IS/IT applications & clients
- › Increased leverage of low cost internal IS/IT solutions (e.g. Voice over IP)

## Accelerate service delivery transformation

- › Accelerate centralization of global delivery and usage of global processes
- › Increase automation and standardizing of tools

## Supply efficiencies

- › Accelerate flow efficiency in supply chain based on changed product mix
- › Lead time reductions

## Efficiency in G&A

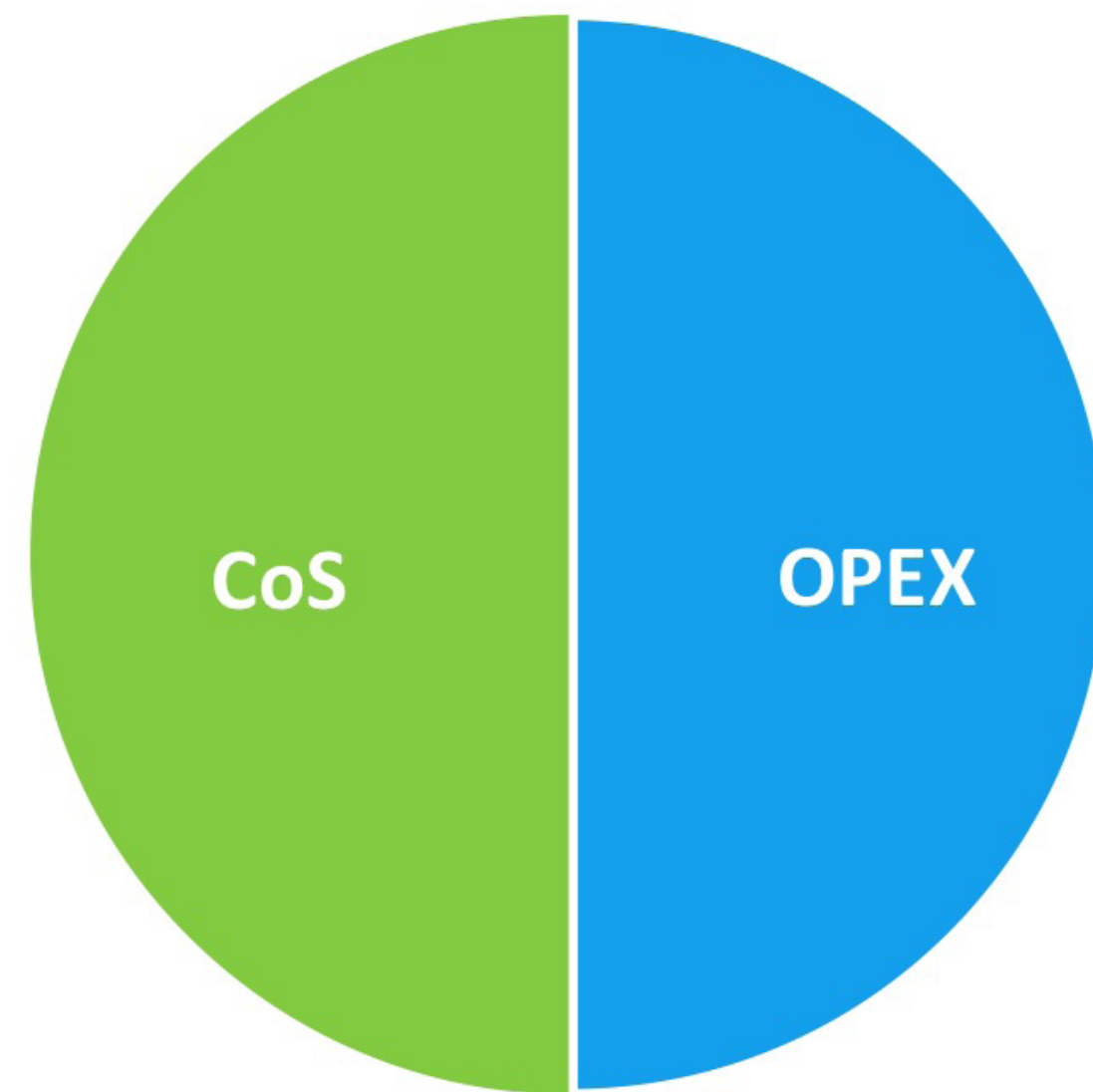
- › Structural improvements such as common functions shared service centers
- › Reduce number of consultants, suppliers and travel spend



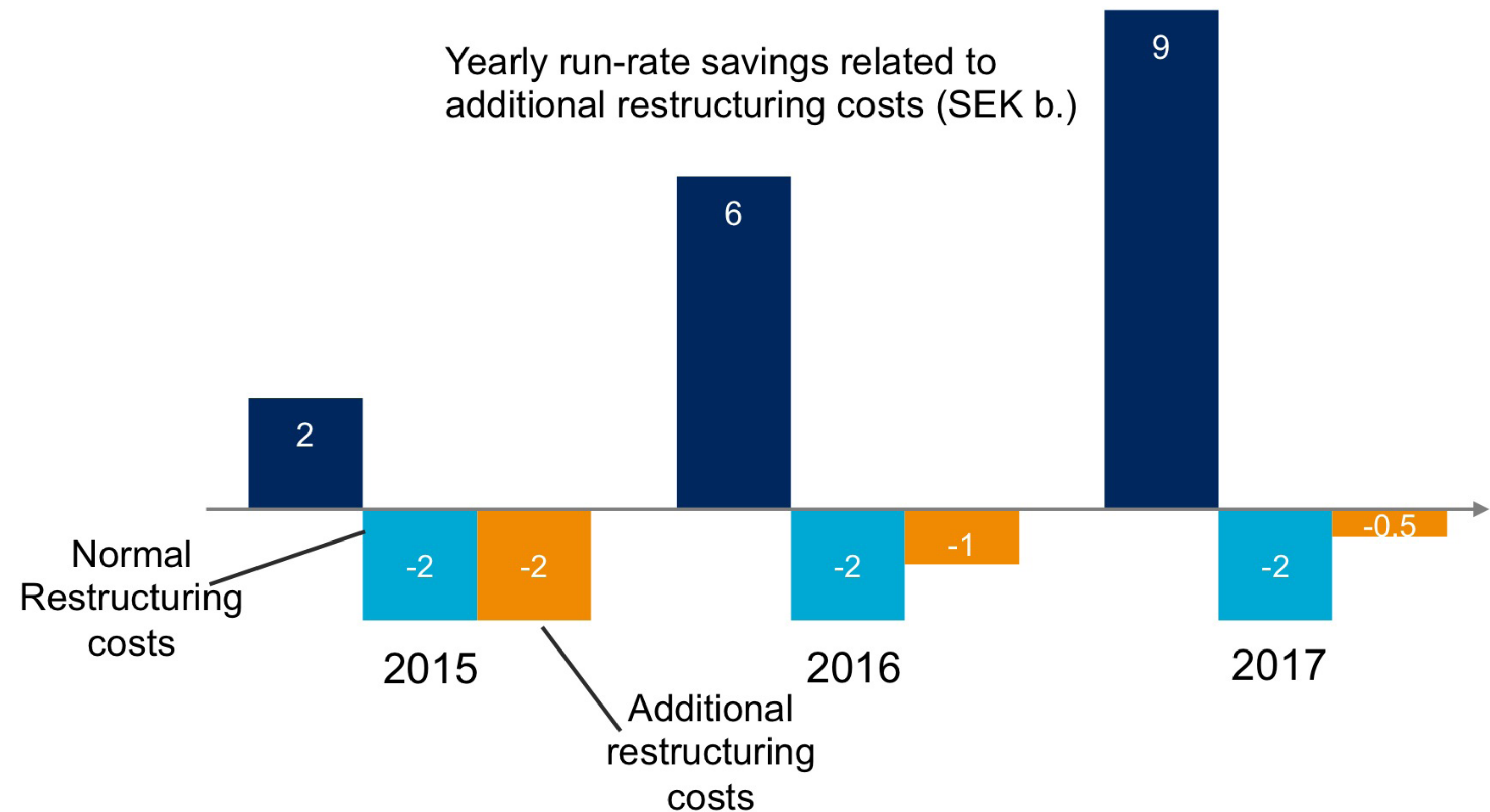
# SAVINGS AND RESTRUCTURING COSTS



Approx. split of annual savings SEK 9 b.



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



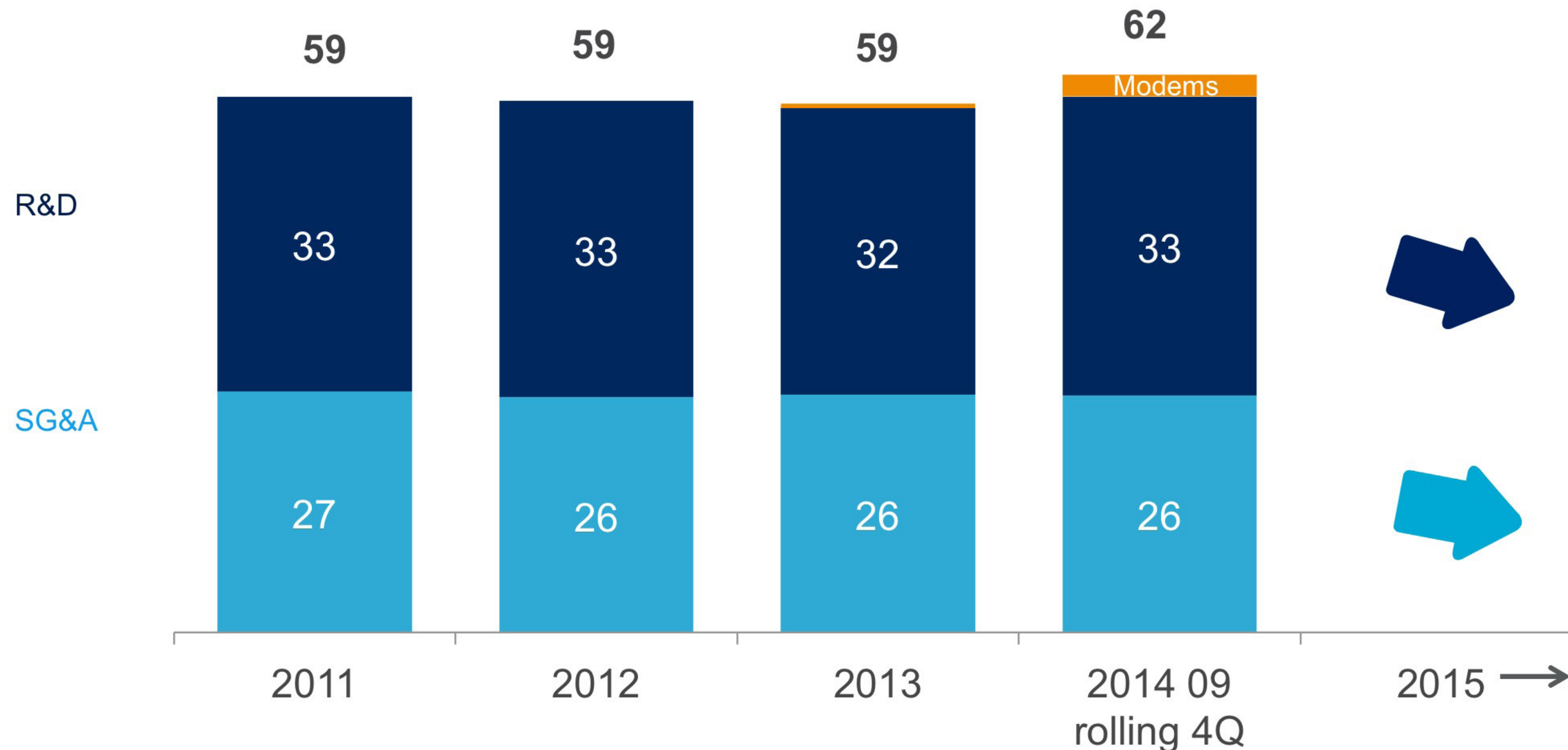
Will report progress on quarterly basis



# OPERATING EXPENSES



R&D and SG&A expenses, SEK b.



- > Savings of SEK 9 b. during 2017 of which approx. 50% in OPEX
- > Includes exit of Modem business, impact approx. SEK 2 b.

All other things equal - organic expenses expected to decrease

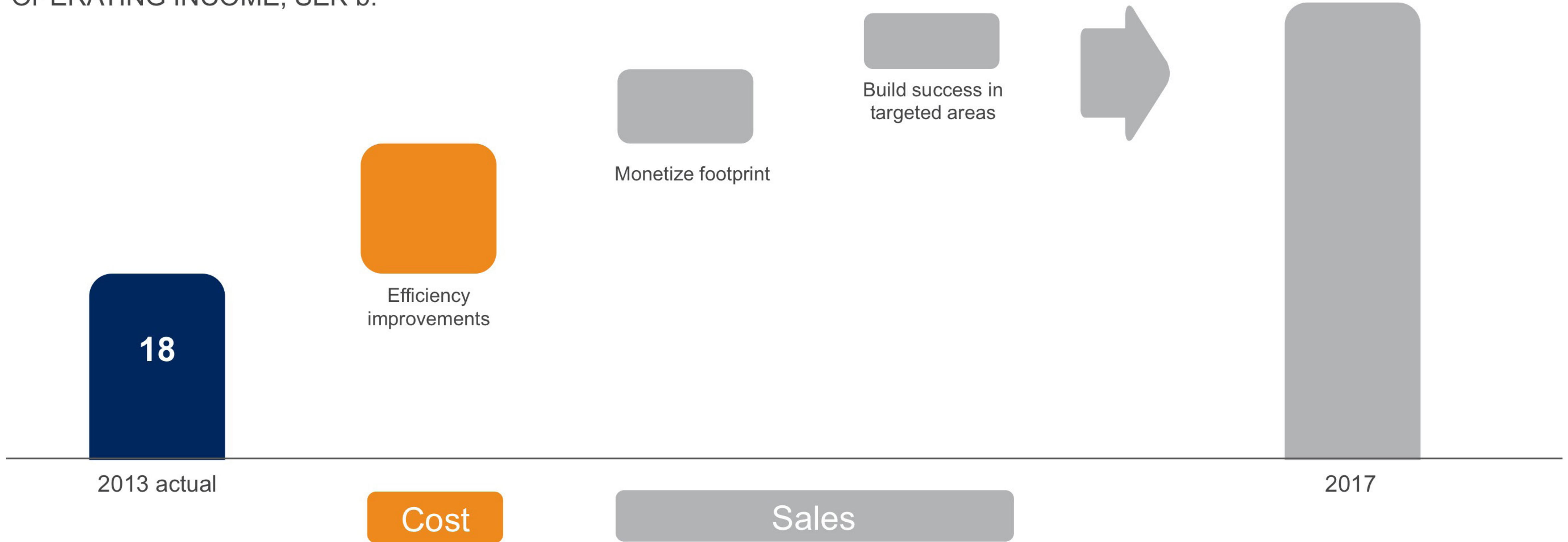


# PROFIT IMPROVEMENT

ILLUSTRATIVE



OPERATING INCOME, SEK b.





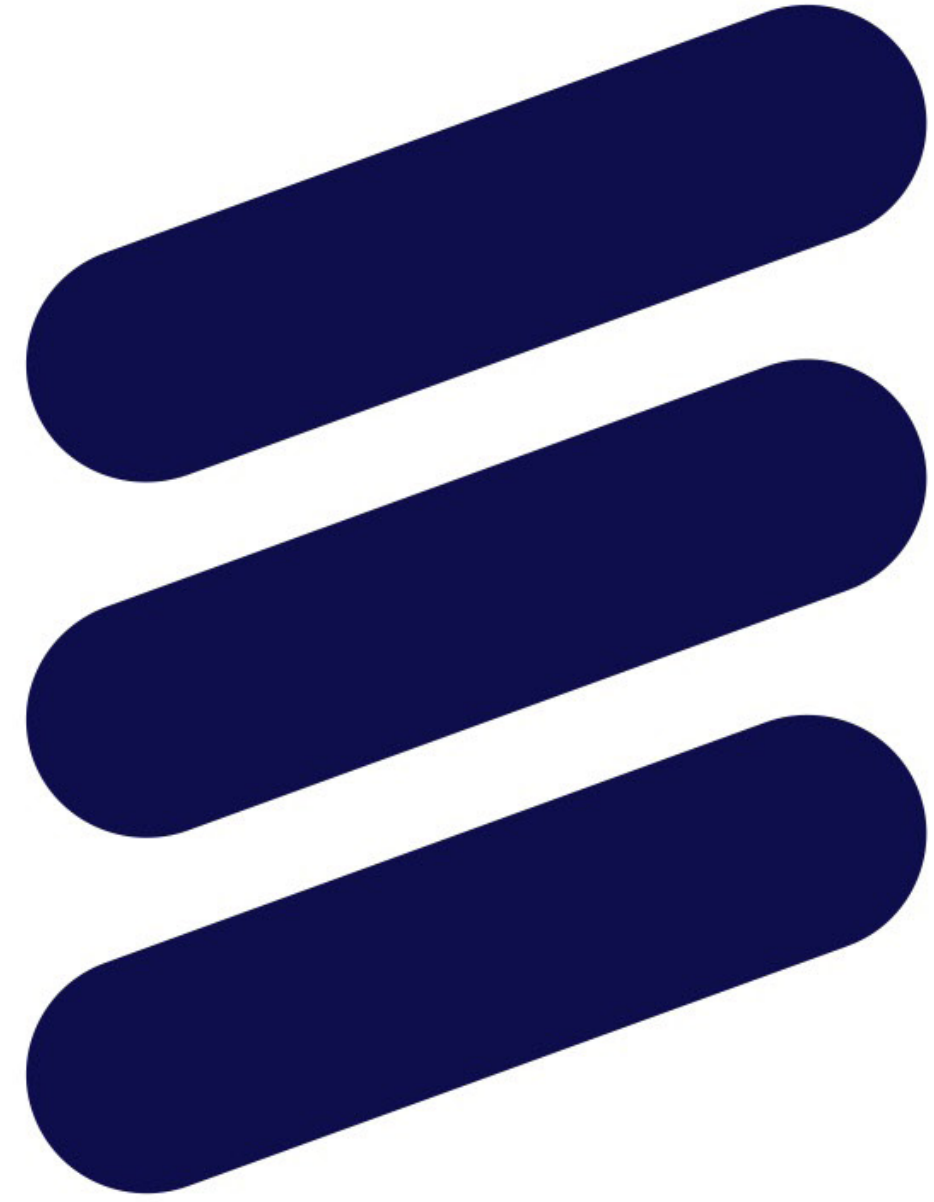
# KEY TAKEAWAYS



Efficiency and cost reductions – today's announcement

- › Transformation continuous, focus on cost efficiency
- › All other things equal; operating income will improve with SEK 9 b. during 2017
- › Restructuring charges of SEK 3-4 b. expected 2015-2017
- › Will report progress on quarterly basis





**ERICSSON**