

Ericsson Capital Markets Day 2018



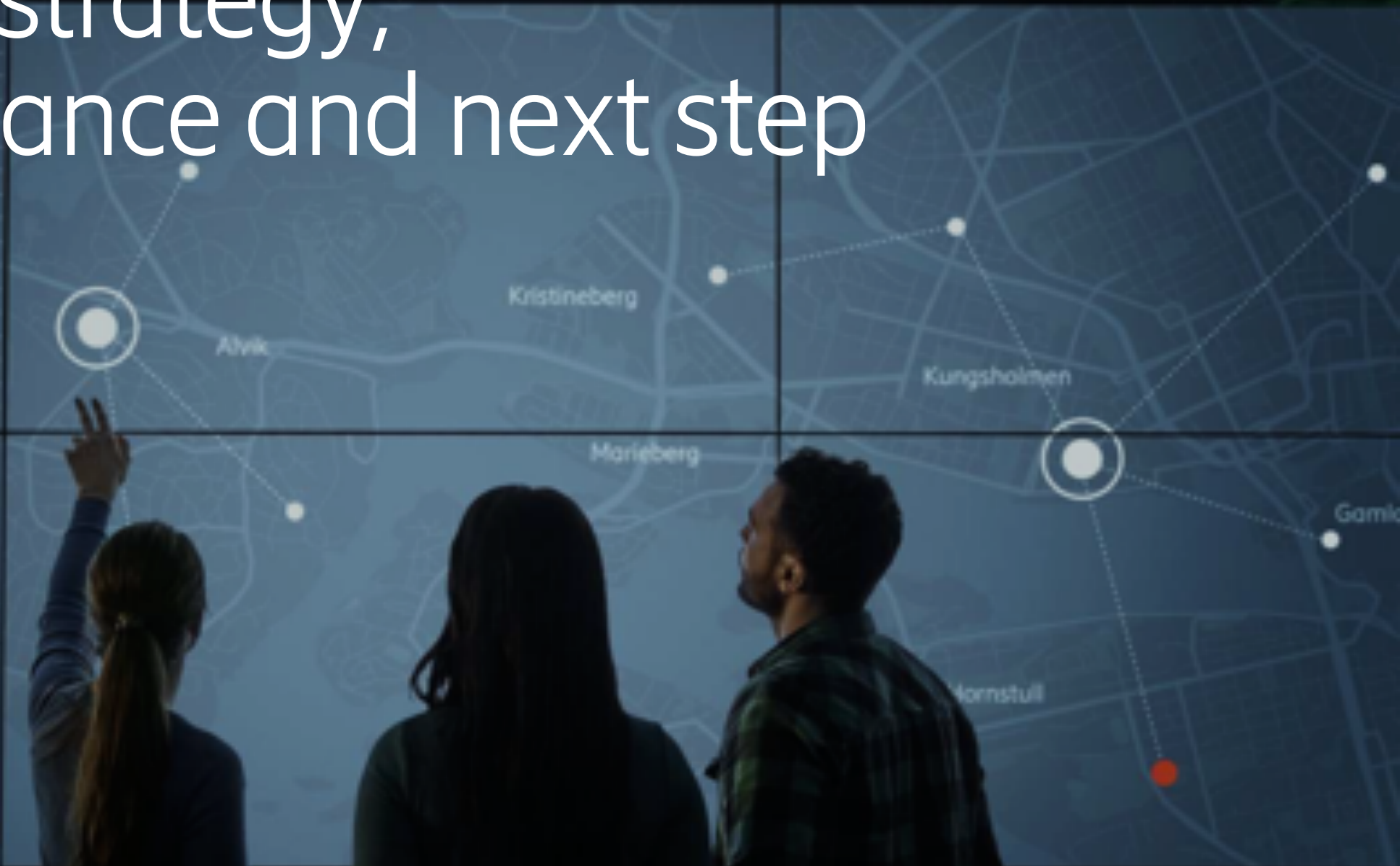
November 8, 2018
New York



Trends, strategy, performance and next step



A table with multiple columns and rows of numerical data, likely representing financial metrics or performance indicators. The data is presented in a dark blue theme with white text.



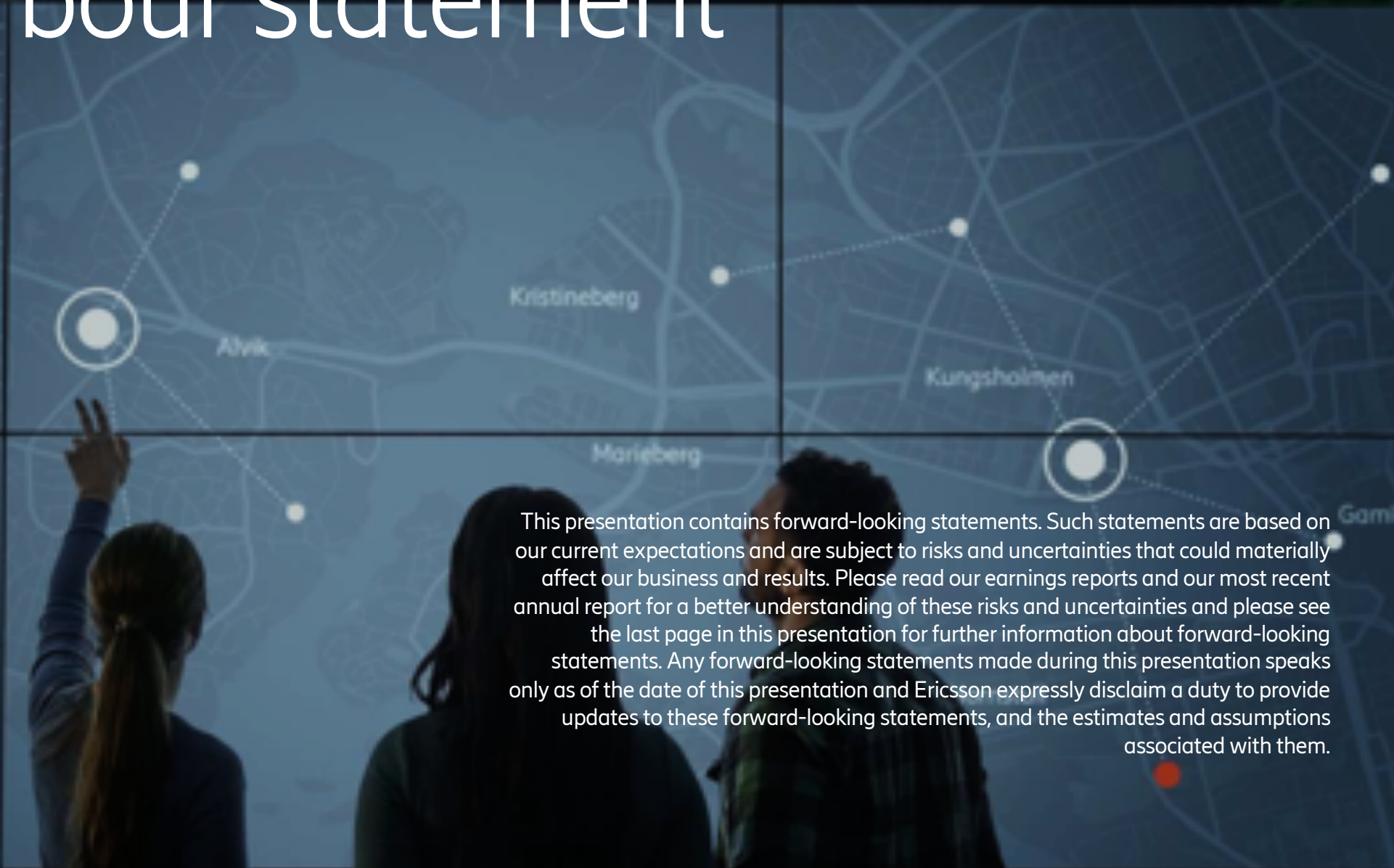
Peter Nyquist
VP Investor Relations



Safe harbour statement



Number of employees	2023	2022	2021
27,785	28,112	27,785	27,785
762,024	762,024	762,024	762,024
2,802,998	2,802,998	2,802,998	2,802,998
16,280	16,280	16,280	16,280
762,024	762,024	762,024	762,024
2,802,998	2,802,998	2,802,998	2,802,998
1,980,792	1,980,792	1,980,792	1,980,792
1,760,080	1,760,080	1,760,080	1,760,080
20,000	20,000	20,000	20,000
87,000	87,000	87,000	87,000
102,000	102,000	102,000	102,000
1,700	1,700	1,700	1,700
1,462,750	1,462,750	1,462,750	1,462,750
87,000	87,000	87,000	87,000
102,000	102,000	102,000	102,000
1,462,750	1,462,750	1,462,750	1,462,750



This presentation contains forward-looking statements. Such statements are based on our current expectations and are subject to risks and uncertainties that could materially affect our business and results. Please read our earnings reports and our most recent annual report for a better understanding of these risks and uncertainties and please see the last page in this presentation for further information about forward-looking statements. Any forward-looking statements made during this presentation speaks only as of the date of this presentation and Ericsson expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them.

Agenda



10.00 a.m. Trends, strategy, performance and next steps



Introduction – Peter Nyquist
Strategy execution and the next chapter
– CEO Börje Ekholm
Technology trends – CTO Erik Ekudden
Financial update – CFO Carl Mellander
Q&A

11.45 a.m. Lunch 45 min

12.30 p.m. Segment update



Segment targets – CFO Carl Mellander
Networks – Fredrik Jejdling
Digital Services – Jan Karlsson
Managed Services – Peter Laurin
Emerging Business and Other – Åsa Tamsons
Q&A

2.30 p.m. Break 20 minutes

2.50 p.m. Market area trends



Introduction – CEO Börje Ekholm
Market Area North America – Niklas Heuveldop
Market Area North East Asia – Chris Houghton
Market Area Europe & Latin America – Arun Bansal
Q&A

4.00 p.m. Closing



Summary – CEO Börje Ekholm

4.05 p.m. Mingle

Journey since Q1-2017

Strategy execution and the next chapter



Börje Ekholm
President and CEO



What we will cover today



Our turnaround

Market opportunity

Growth

Targets

What we will cover today



Our turnaround

Market opportunity

Growth

Targets

Creating a strong foundation

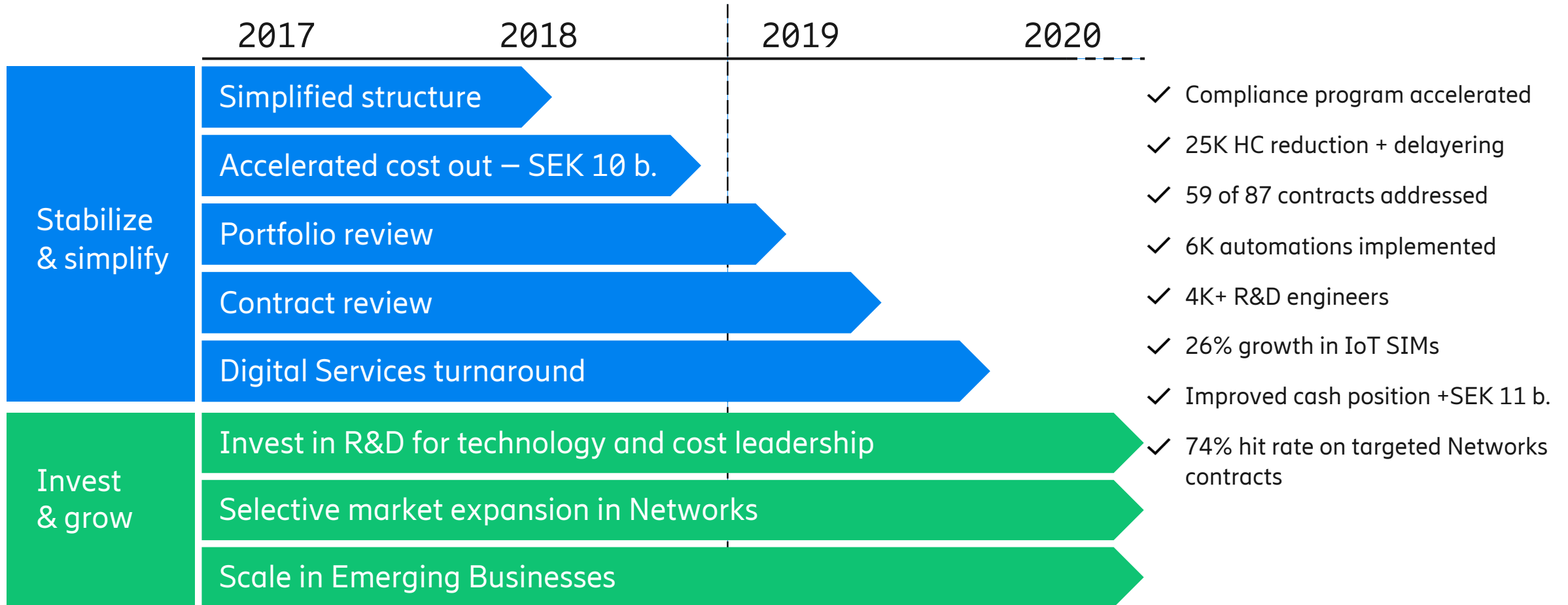


Technology
leadership 

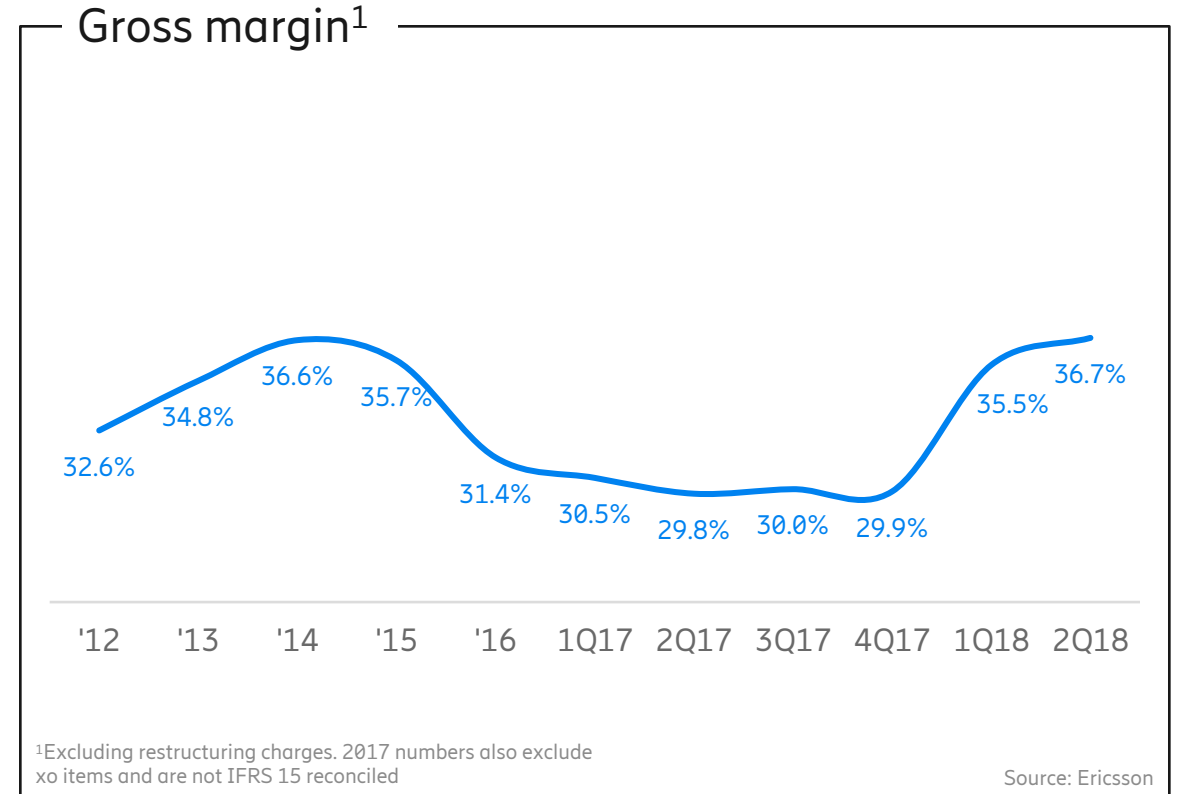
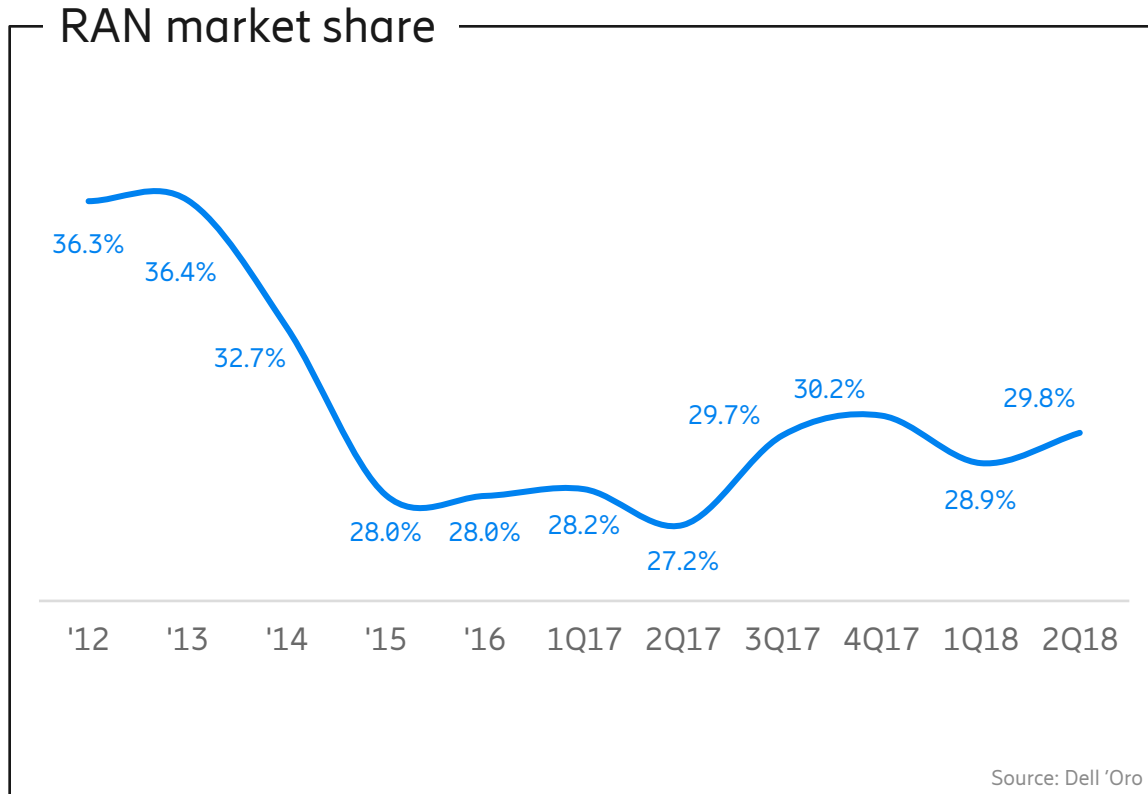


Stability and profitability

Our turnaround plan

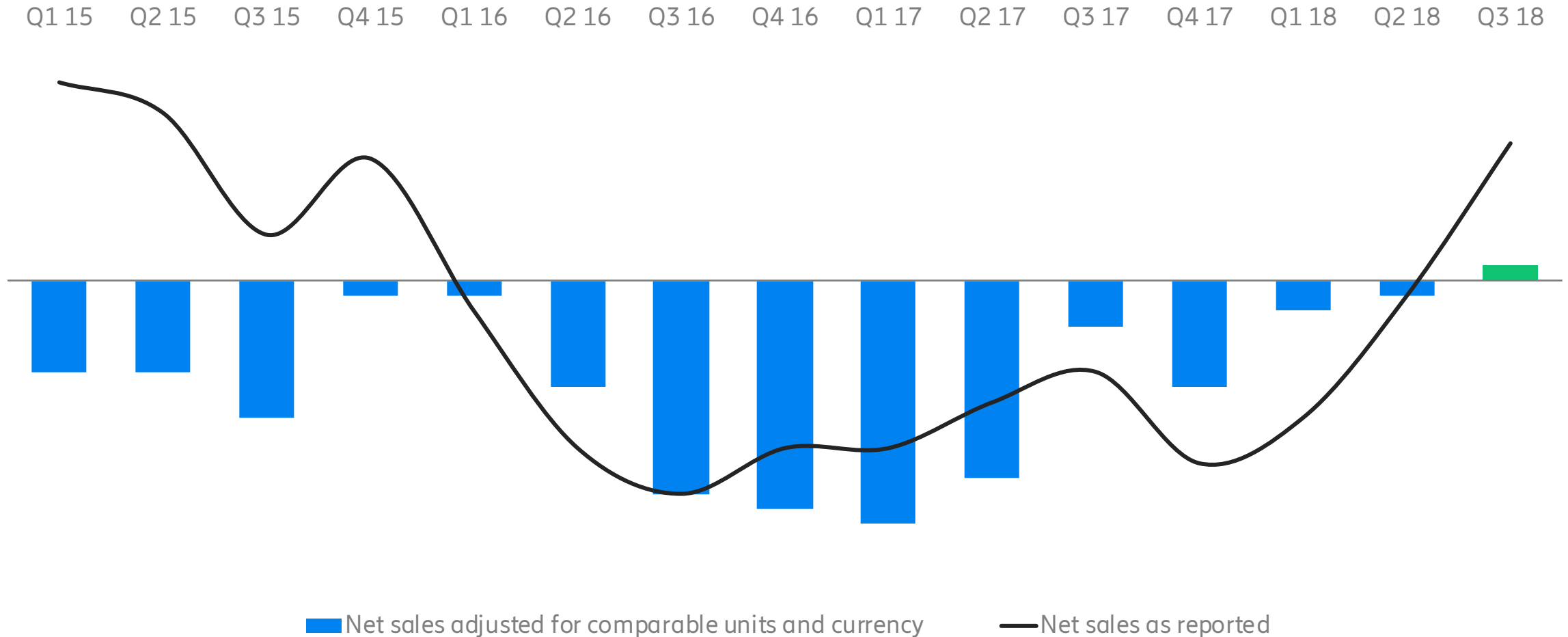


Progress in strategy execution

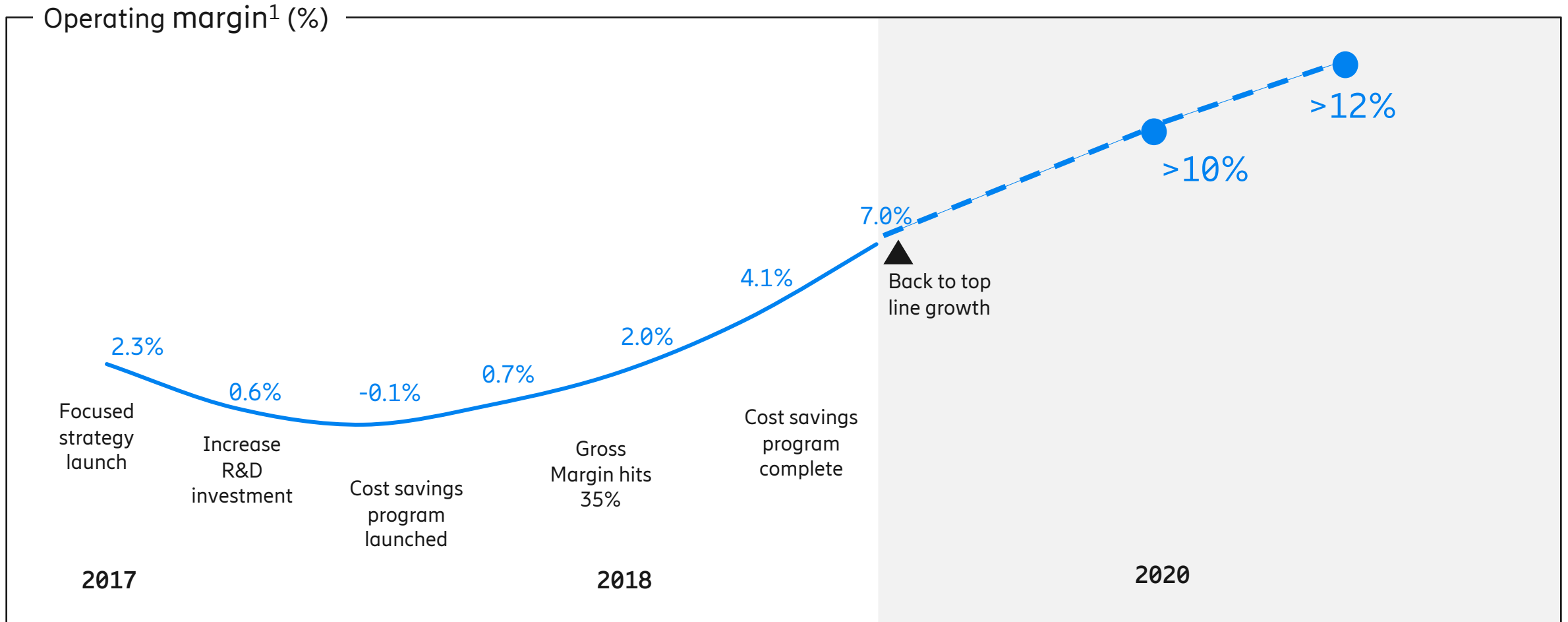


Built upon increased R&D investments for technology and cost leadership

Returned to growth



Traction towards >12% operating margin¹



¹Operating margin exclude restructuring charges. 2017 numbers are not IFRS reconciled and also excluding xo items.

Focused strategy remains



Purpose and vision

Empowering an intelligent, sustainable and connected world.

Mission

Enabling the full value of connectivity for service providers.

Our customers' needs

Relentless efficiency

Networks

Highly scalable, cost competitive, modular platforms offering lowest total cost of ownership, best user experience & smooth network transformation to 5G

Digital Services

TCO efficient solutions for programmable 4G and 5G core networks, automated operations and digital engagements

End-customer experience

Managed Services

Providing superior customer experience and cost performance led by automation and AI driven operations and optimization

New revenue streams

Emerging Business

Pursue new business opportunities e.g. within IoT and Industry 4.0, foster an innovation culture and invest in promising incubation opportunities

Foundation:

Technology leadership

Product-led solutions

Global skill & scale

What we will cover today



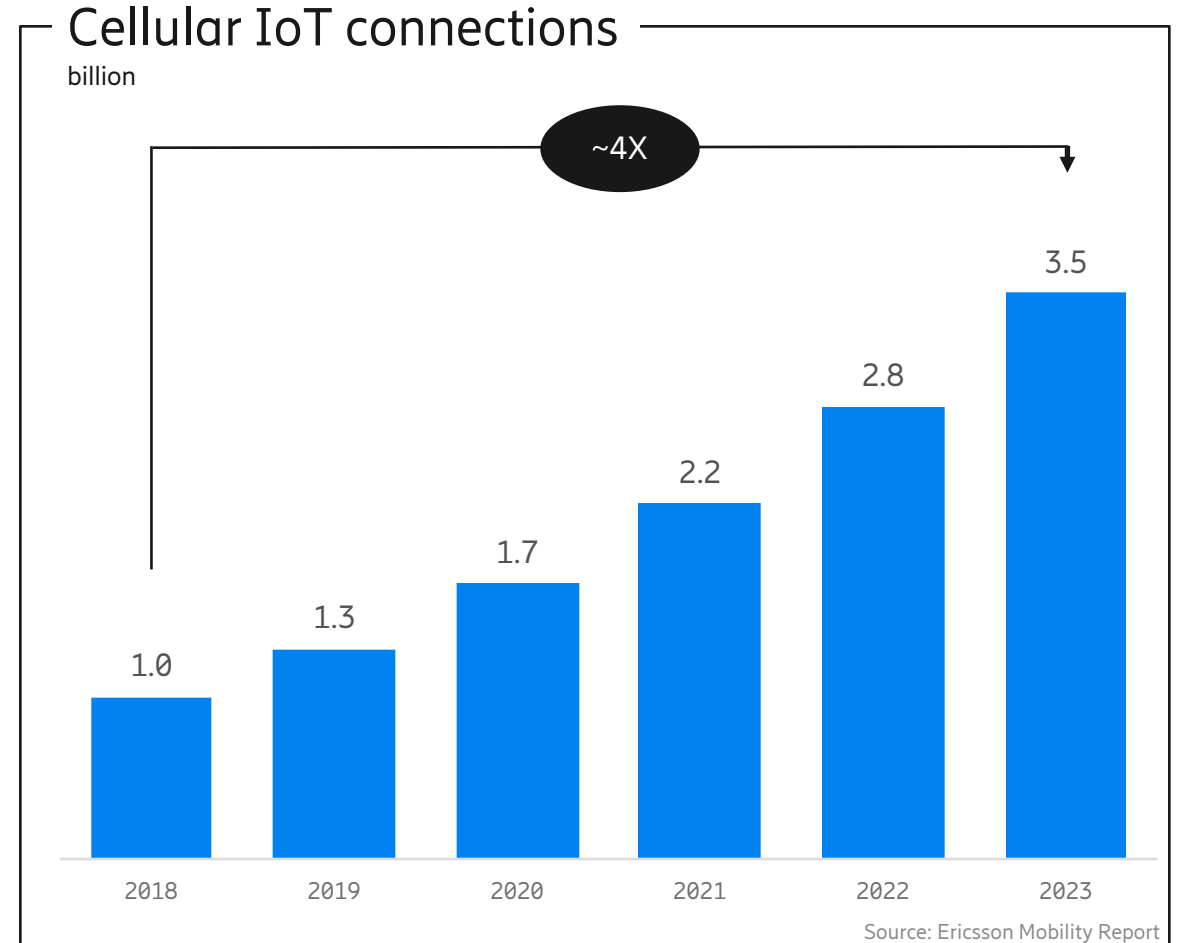
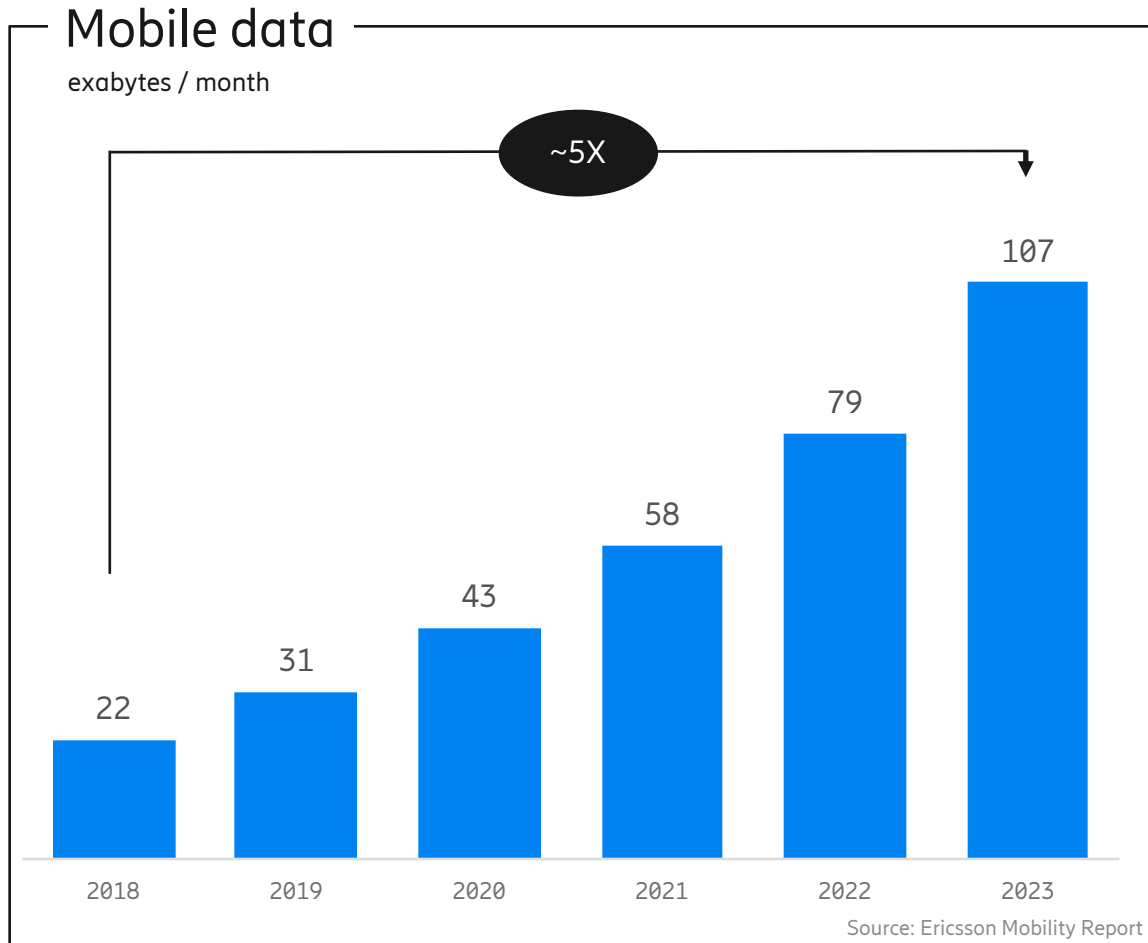
Our turnaround

Market opportunity

Growth

Targets

Strong underlying market growth



Focused strategy creates value for customers



Relentless efficiency

Managed Services

30%

Reduction in critical incidents despite tripled number of software upgrades

Networks

50%

Reduction in energy consumption from footprint and operations optimization

End customer experience

Digital Services

90%

Reduction in customer support escalated to Tier 2

Digital Services

86%

Reduction in average deployment time for new software

New revenue streams

Networks

10%

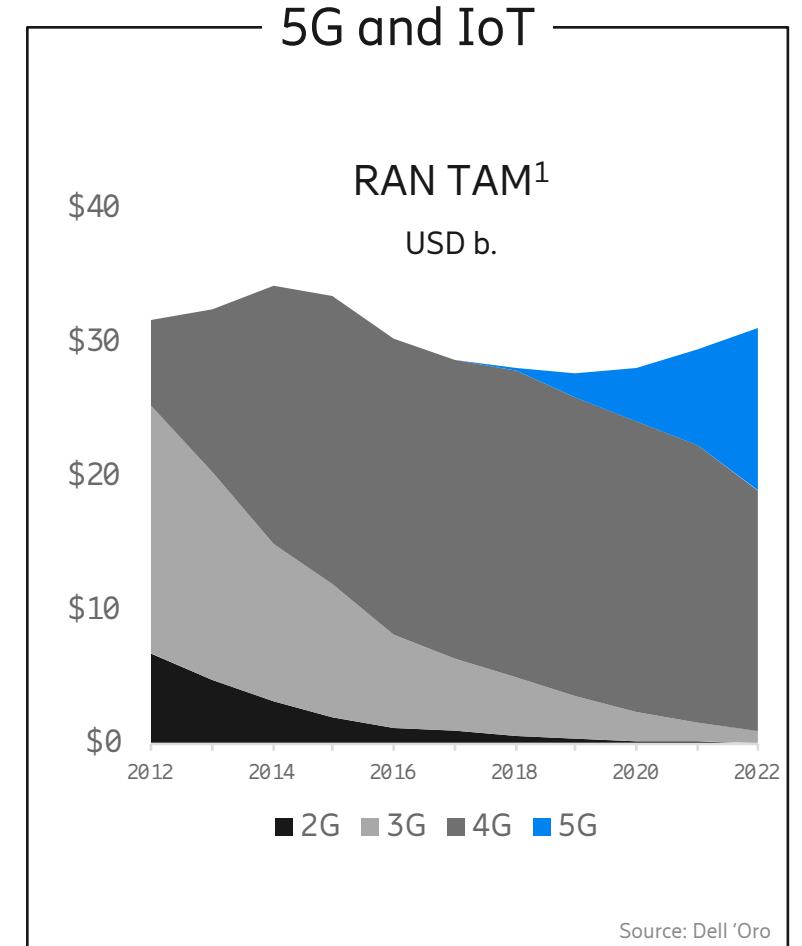
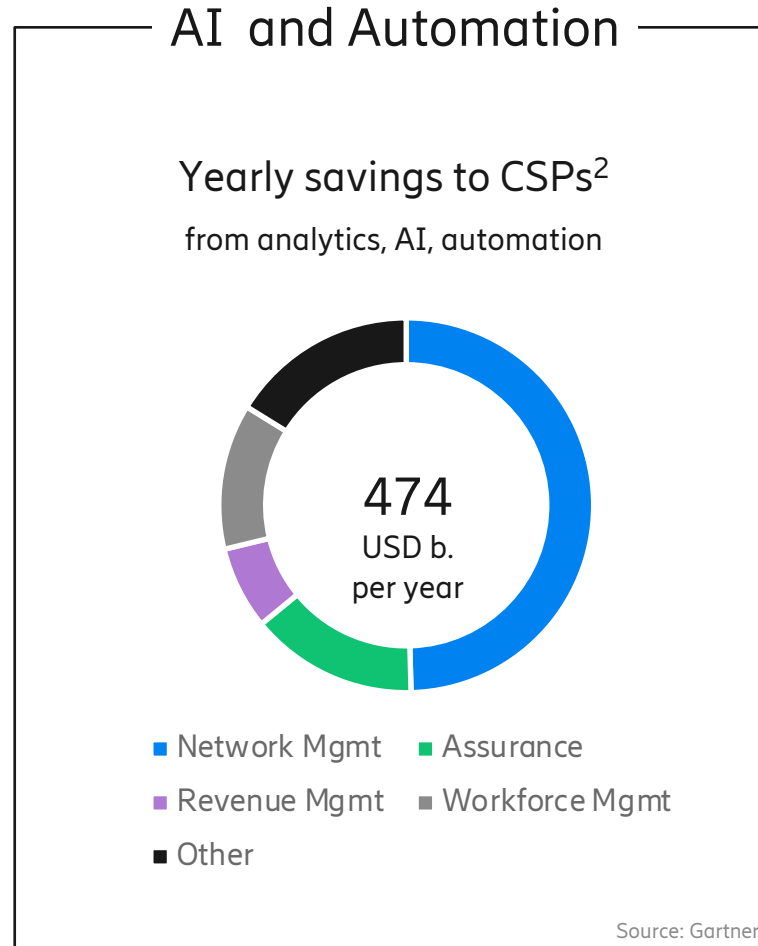
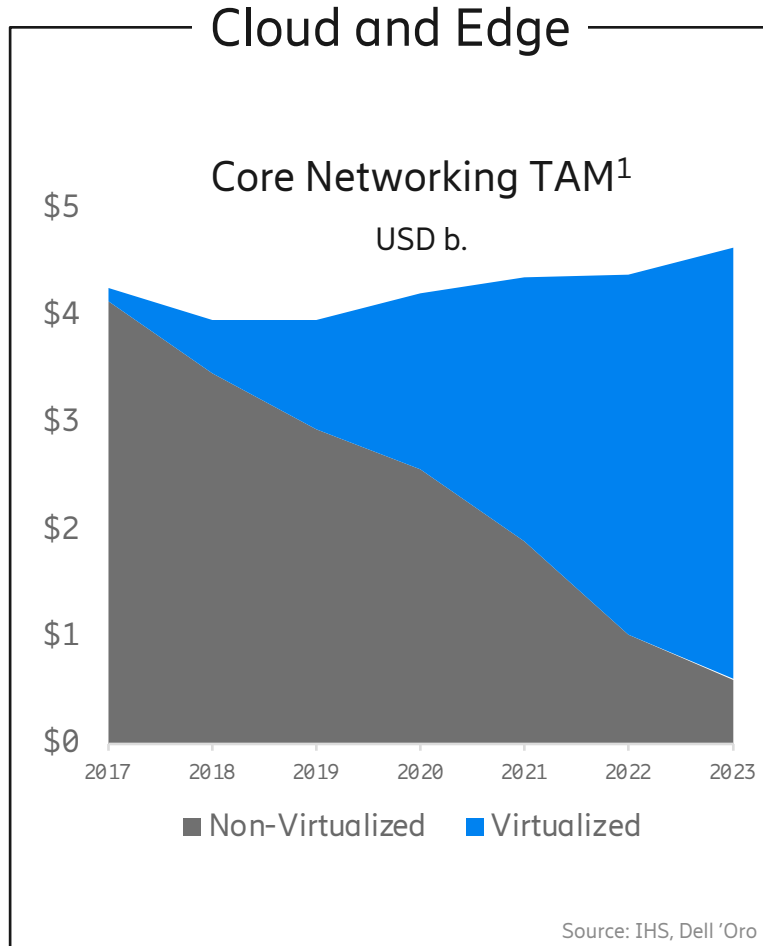
Increase in ARPU, despite flat market, from network modernization

Emerging Business and Other

210%

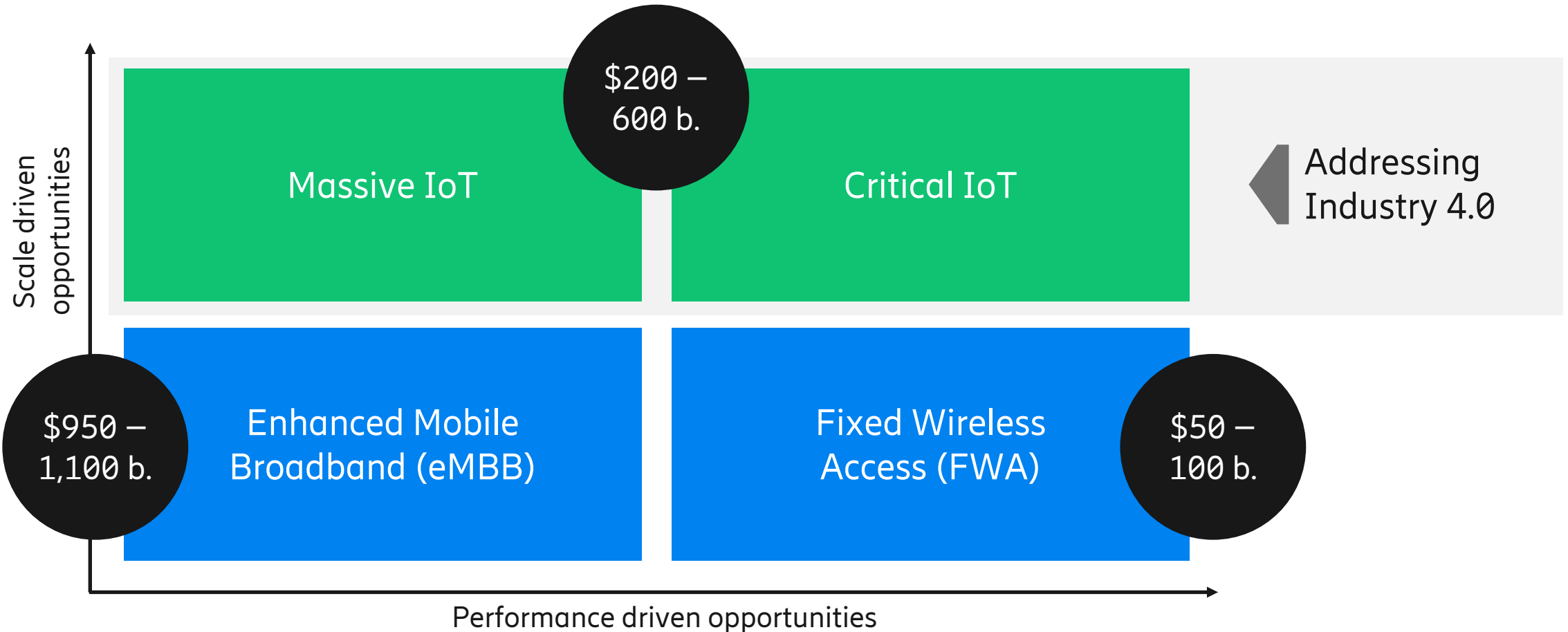
ROI in year 1 for an IoT based factory maintenance system

Technology shifts create market opportunity



¹TAM: Total addressable market
²CSP: Communication service providers

5G expands the addressable market enabling new revenue streams



Note: Numbers are early estimates.

What we will cover today



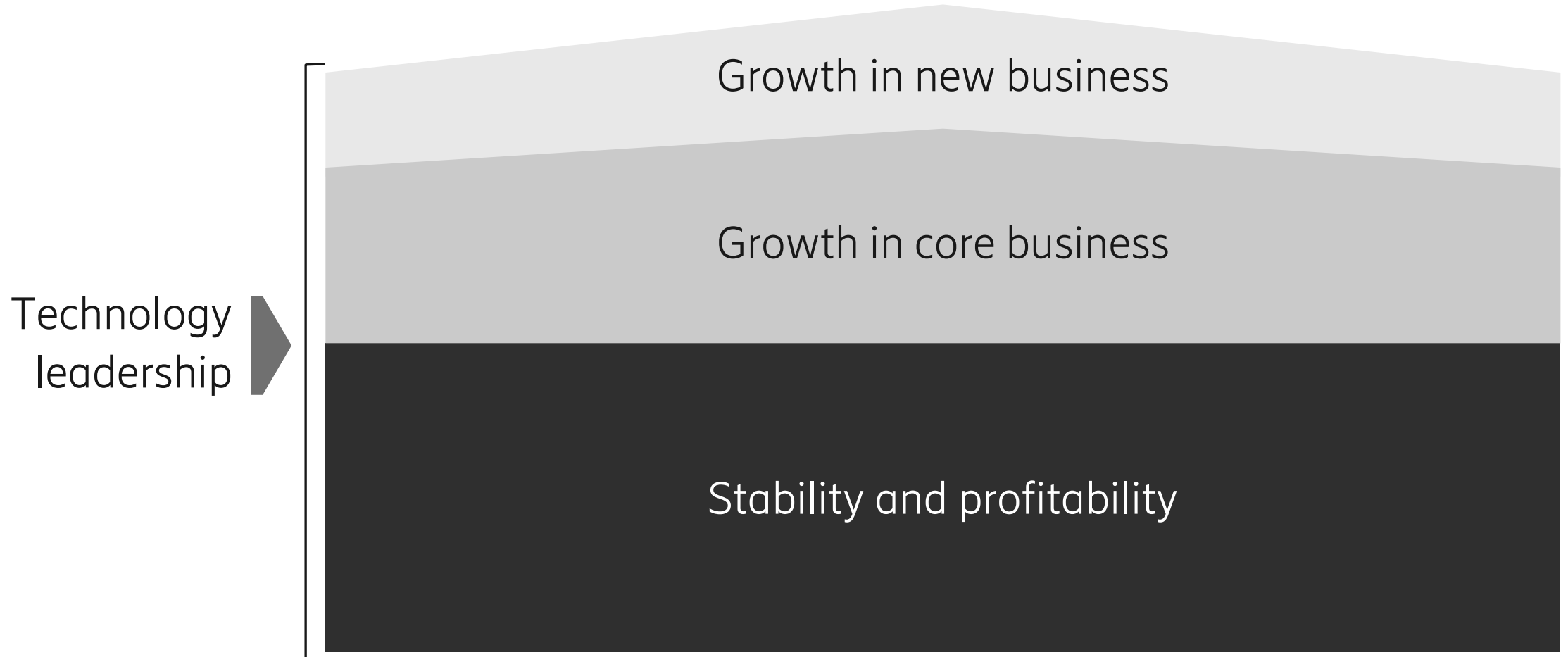
Our turnaround

Market opportunity

Growth

Targets

Taking the next step



Our approach to growth



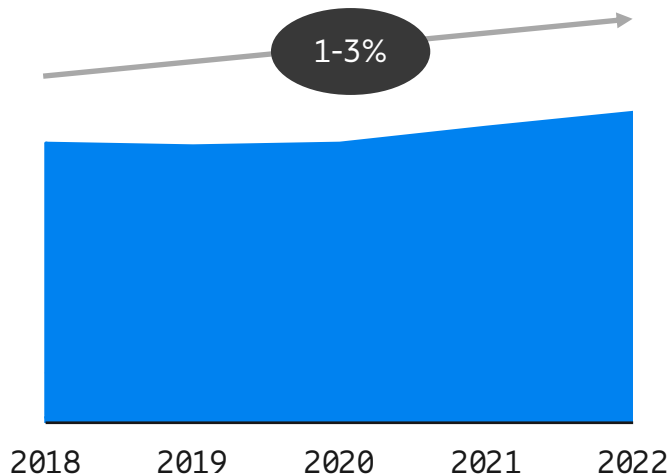
Addressing a growing market

2% to 3% CAGR 2018 to 2022



Networks

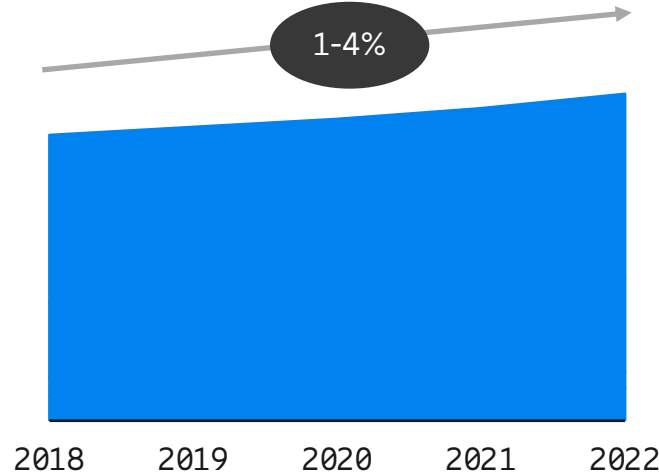
- Selective market expansion
- Acceleration of 5G



Source: Dell 'Oro

Digital Services

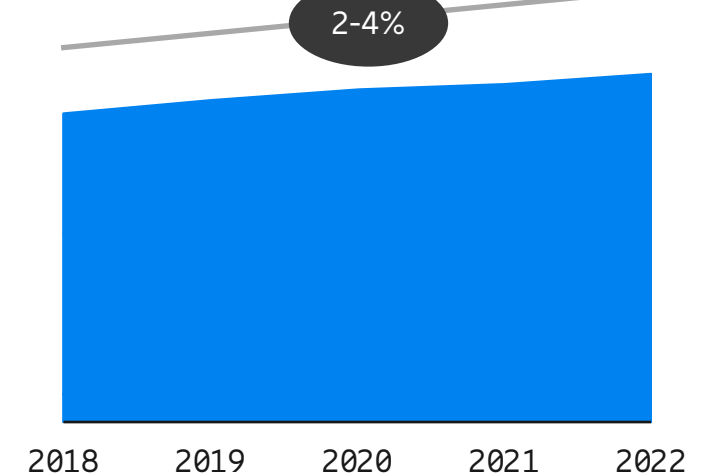
- Profitability over growth remains
- Invest in 5G portfolio: cloud-native and automated



Source: Analysis Mason, Gartner, IDC, IHS, Dell 'Oro

Managed Services

- Focus shift to growth
- Launch new AI-driven offerings



Source: Gartner and Ericsson

Selective

Disciplined

Profitable

Emerging Business uses an agile model to address new value pools



Build on our strengths

- Address high growth markets
- Connectivity leadership
- Trusted partner position with communication providers
- Leverage R&D investments

Lean start-up approach

- Limited upfront investments
- Agile management
- Scale rapidly upon market traction

Manage for positive NPV

- 2020 break even target across the segment based on current business portfolio
- Scale a small number of opportunities at any one time
- Capitalize on investments

Selective

Disciplined

Profitable

Growth strategy supported by M&A



Portfolio near focus
<ul style="list-style-type: none"> — Growth areas where we need to strengthen our position — Adjacencies to existing businesses — Complement R&D activities to achieve quicker time to market — New areas where we have limited presence but see clear, scalable solutions building on our operator customer base

Technology
<ul style="list-style-type: none"> — Competence — Patent complements — Emerging technologies

Networks	Digital Services	Managed Services	Emerging Business
<p>Grow in adjacent technologies</p> <p>Radio software and hardware, transport</p>	<p>Portfolio expansion</p> <p>Extending 5G beyond enhanced mobile broadband</p>	<p>Portfolio & competence</p> <p>Artificial Intelligence for operations and optimization</p>	<p>Portfolio expansion</p> <p>Horizontal solutions enhancing IoT connectivity platforms</p>

Selective
Disciplined
Profitable

What we will cover today



Our turnaround

Market opportunity

Growth

Targets

Target update 2020



Increased net sales ambition, maintained operating margin¹ target

SEK b.	CMD 2017 2020	CMD 2018 2020
Sales	190-200	210-220
Gross margin ¹	37-39%	
R&D	Continued investments but growing slower than sales	
SG&A	Structural improvements	
Operating margin ¹	>10%	
Free Cash Flow (before M&A)	Positive	

2020 operating margin ¹ target ranges	
Networks	15% to 17%
Digital Services	Low single digits
Managed Services	5% to 8%
Emerging Business and Other	Break-even
Sum of the parts	10% to 13%

¹Numbers exclude restructuring charges.

Target 2022

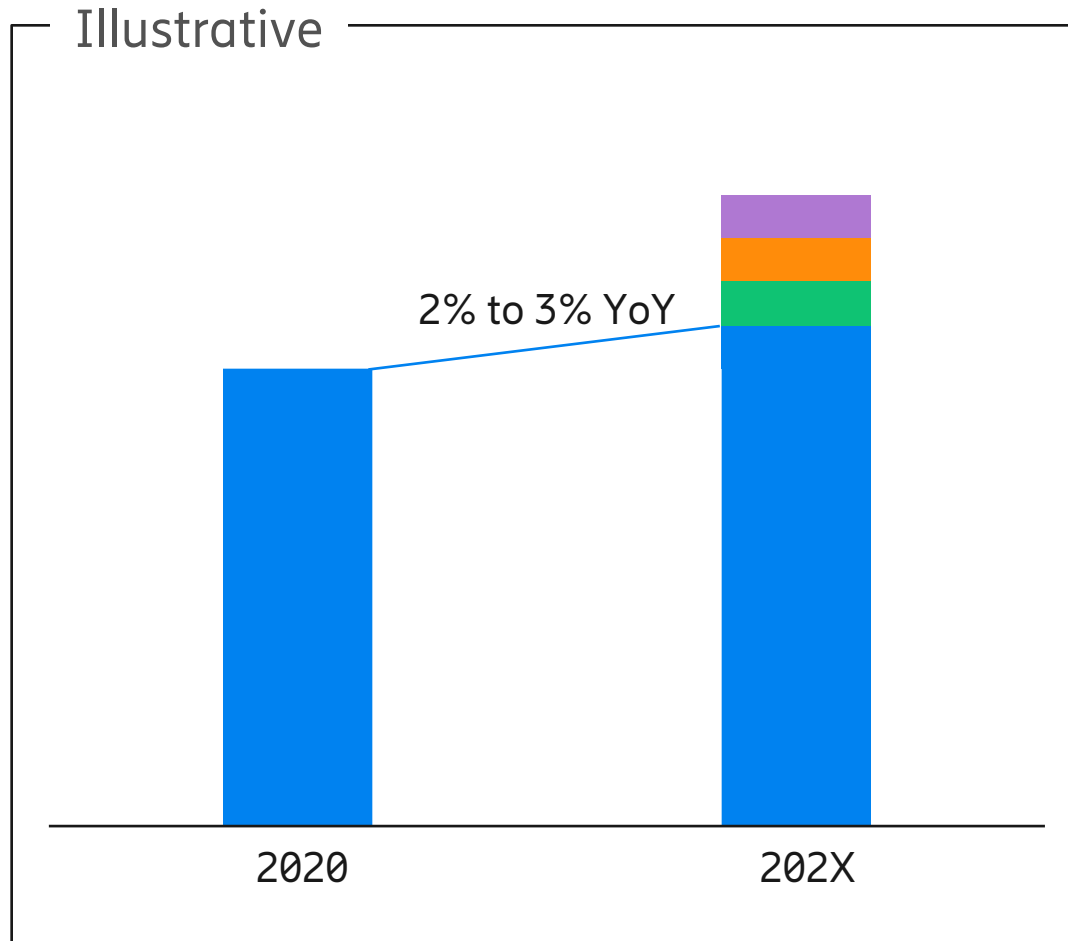
Operating margin¹ >12% no later than 2022

SEK b.	CMD 2017 2020	CMD 2018 2020	CMD 2018 2022
Sales	190-200	210-220	
Gross margin ¹	37-39%		
R&D	Continued investments but growing slower than sales		
SG&A	Structural improvements		
Operating margin ¹	>10%		>12%
Free Cash Flow (before M&A)	Positive		Strong

2022 operating margin ¹ target ranges	
Networks	15% to 17%
Digital Services	10% to 12%
Managed Services	8% to 10%
Emerging Business and Other	-
Sum of the parts	12% to 14%

¹Numbers exclude restructuring charges.

Opportunities for growth beyond 2020



M&A – Portfolio near acquisitions & technology focus

Growth in new businesses – 5G and IOT use cases

Growth in core businesses – Market share gain

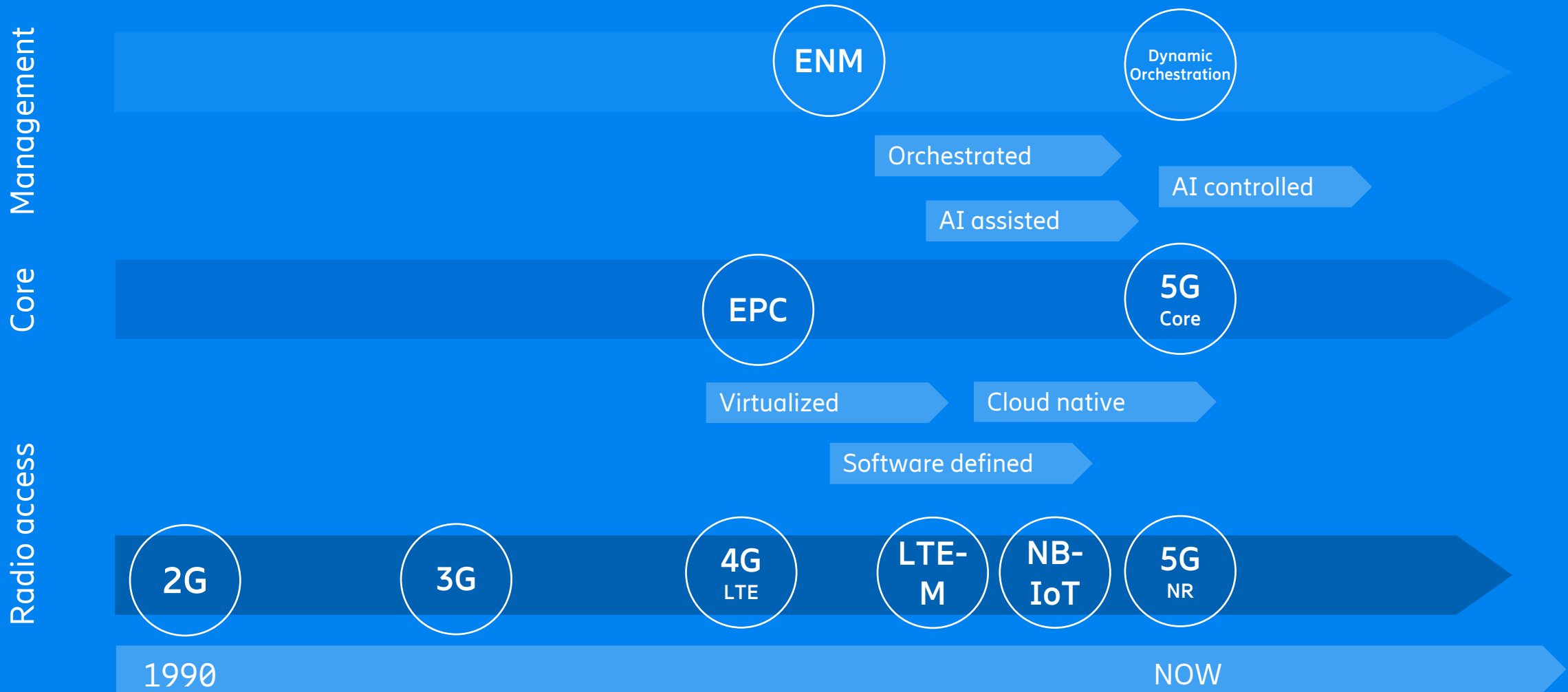
Baseline – Grow with the market

Technology trends

A person is seen in profile, looking at a large wall of digital screens. The screens display a map with various locations labeled, including 'Årsk', 'Hornsholmen', 'Hornstull', and 'Grändal'. A red dot is visible on the map. To the right, there are several smaller screens displaying data and charts. The overall scene is dimly lit, with the screens providing the primary light source.

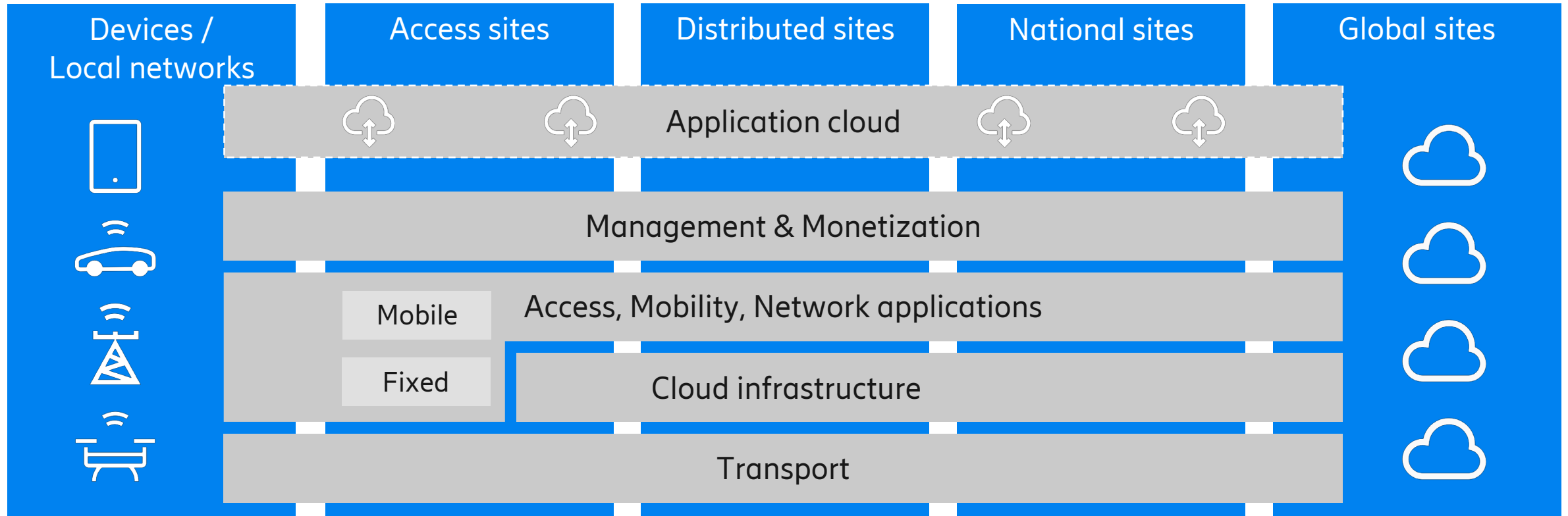
Erik Ekudden,
CTO

Towards a more versatile network



Building the industries strongest 5G patent portfolio

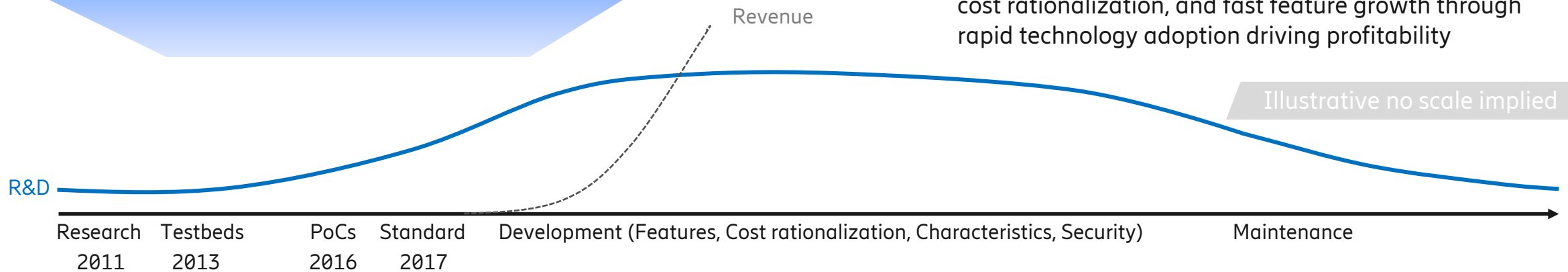
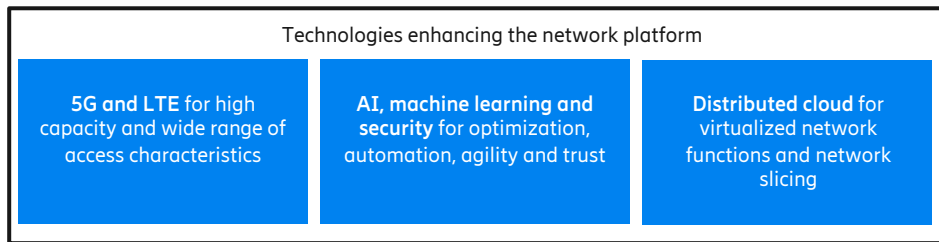
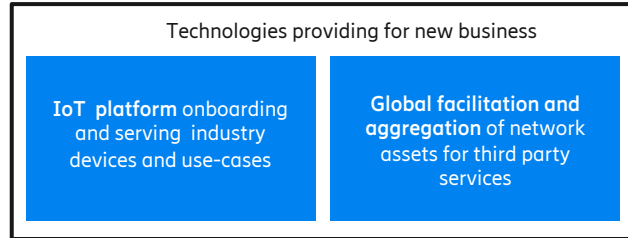
Our global architecture



We have the vital capabilities to ensure an efficient end-to-end network

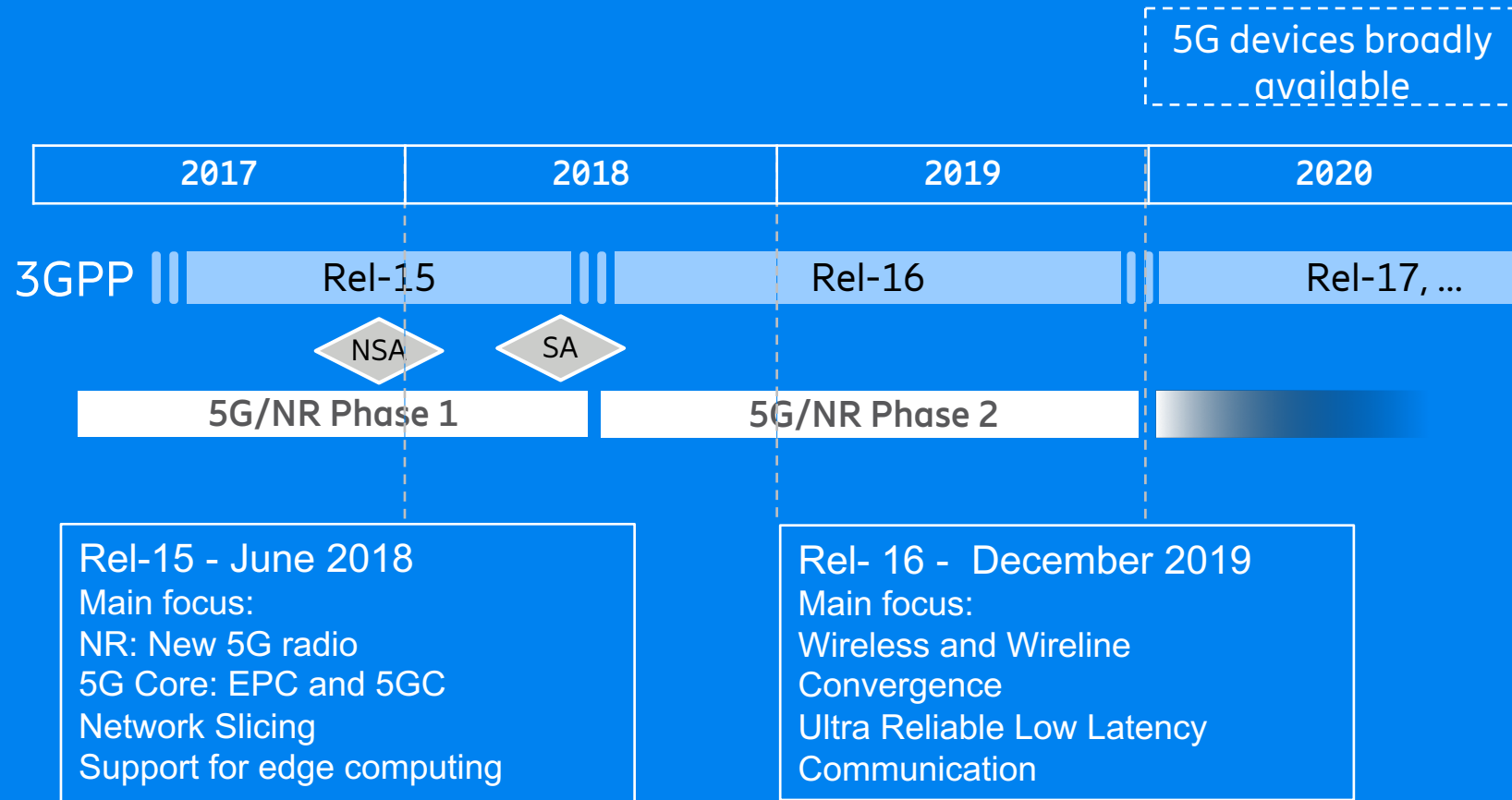
Technology strategy focus

Innovation in network platform and new business



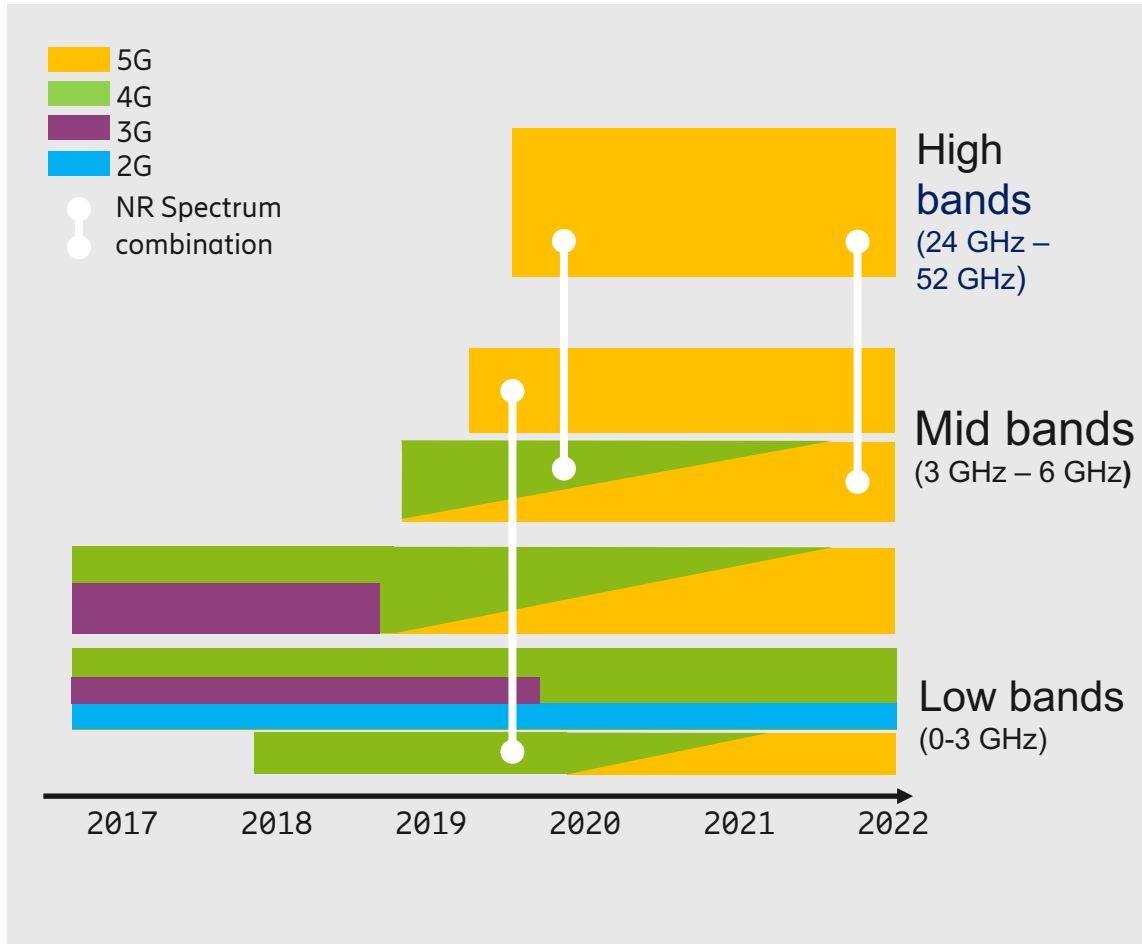
- Research is the foundation for our technology leadership and strong patent portfolio
- Business driven pre-standard development and joint customer proof of concepts are necessary to drive the innovation and create a solid foundation for world wide standards and scale
- Leading architecture, modularity, and open interfaces combined with world class development as the means to support customer variants
- Continuous evolution of the network platform for cost rationalization, and fast feature growth through rapid technology adoption driving profitability

5G time plan



Leading 5G investments 2019 – 5G devices broadly available 2020

Spectrum usage overview



Increased value from advanced antenna technologies and spectrum aggregation in the active part of the network



Localized Peak Capacity



Urban capacity boost



Urban & sub-urban capacity



Wide Area coverage and capacity



Wide area Coverage

Spectrum assets is an increasing competitive advantage for operators

5G is developed for broader usage



Platform for addressing industry and society transformations

Massive machine type communication



- Smart meter
- Tracking
- Fleet management

Critical machine type communication



- Industrial applications
- Traffic safety & control
- Remote manufacturing

Cost effective delivery of increased data traffic

Enhanced Mobile Broadband



- Virtual & Augmented Reality
- 4K/8K resolutions
- Smartphones

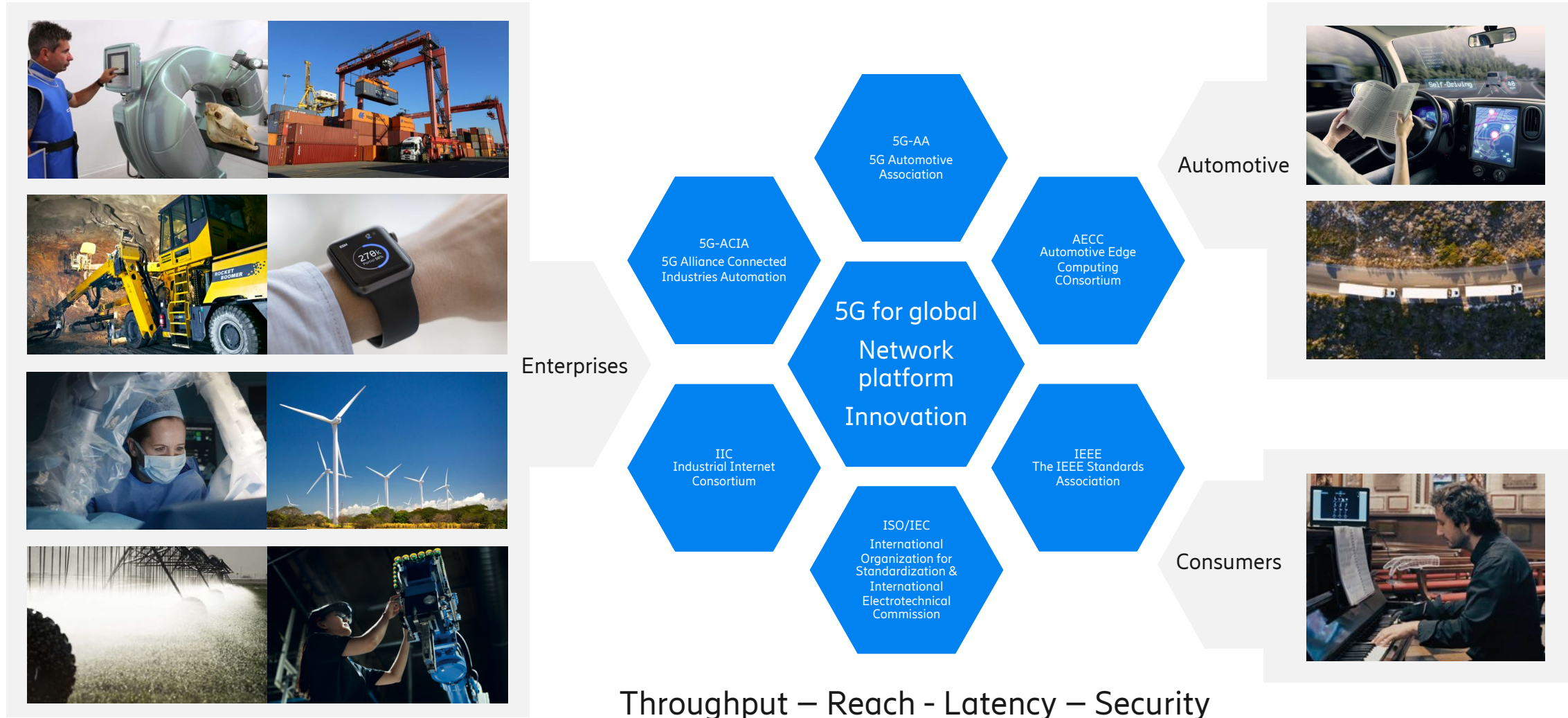
Fixed Wireless Access



- Mobile / wireless / fixed
- Enterprise
- Home

...but subscribers and households addressed initially

The momentum around 5G innovation



Enable enterprise and industry digital transformation



Transport and logistic needs IoT connectivity to optimize the supply and delivery chain

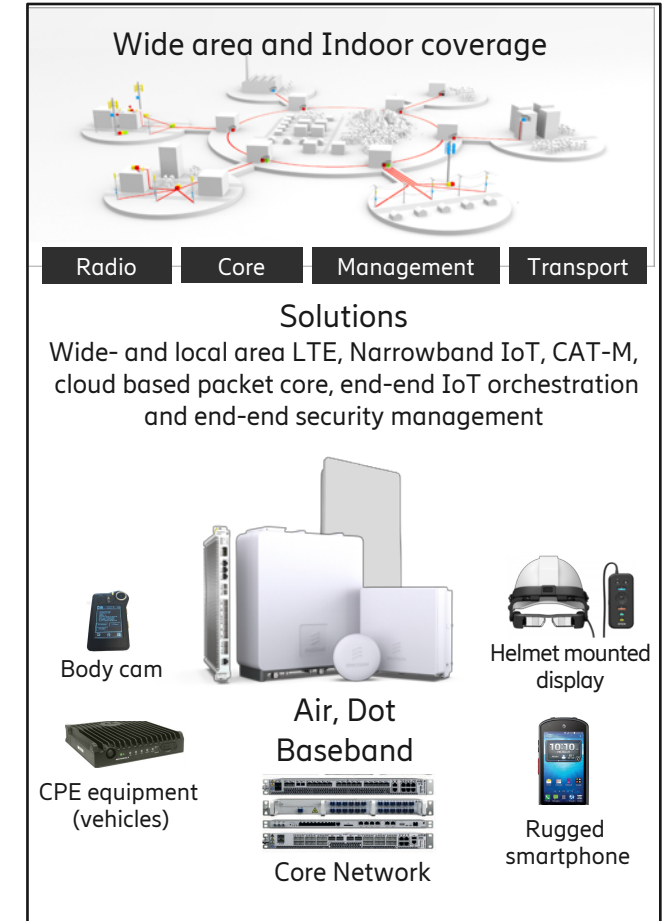
- Asset management data
- Monitoring of real-time position, conditions and usage

Public safety needs mission critical communication for voice and data

- Digitalization of legacy systems
- Critical video- and data communication
- Network availability and survivability

Manufacturing industry needs to automate production and increase flexibility

- Real-time low latency critical communication
- Remote monitoring and control
- Massive onboarding of IoT devices



5G and IoT - future proof network platform that fulfills enterprise and industry demands

Technology Trends



-
- The background of the slide is a collage of four images: a server room aisle, a road with a car, a close-up of a server rack, and a close-up of a hand holding a device. A semi-transparent grey box is overlaid on the center, containing the text.
- #1 **The realization of zero touch** is a set of intelligent network applications and features is key to hiding network complexity
 - #2 **The emergence of the Internet of Skills**, will lead to human skills and senses delivered without boundaries
 - #3 **Highly adaptable cyber-physical systems** is a self-organizing expert system created by the combination of model of models
 - #4 **Trust technologies for security assurance**, will provide mechanisms to protect networks and offer security assurance to both humans and machines.
 - #5 **Ubiquitous, high capacity radio**, where the network is becoming a general connectivity platform that enables the sharing of data anywhere and anytime.

Securing long-term technology leadership

Summary



Industry wide technology trends

- #1 The realization of zero touch
- #2 The emergence of the Internet of Skills
- #3 Highly adaptable cyber-physical systems
- #4 Trust technologies for security assurance
- #5 Ubiquitous, high capacity radio

Areas of focus

- 5G Radio and Core
- Distributed cloud and edge
- Security and Trust
- AI and Machine Learning
- Management & Orchestration
- IoT platforms

Innovation capacity

- 23,600 employees in R&D
- Ericsson Research
- Ericsson ONE
- Ericsson AI Accelerator
- Co-creation with lead customers, industry partners and academia
- Standardization and open source
- 45,000 granted patents
- Strategic investments

Financial update



Carl Mellander
CFO



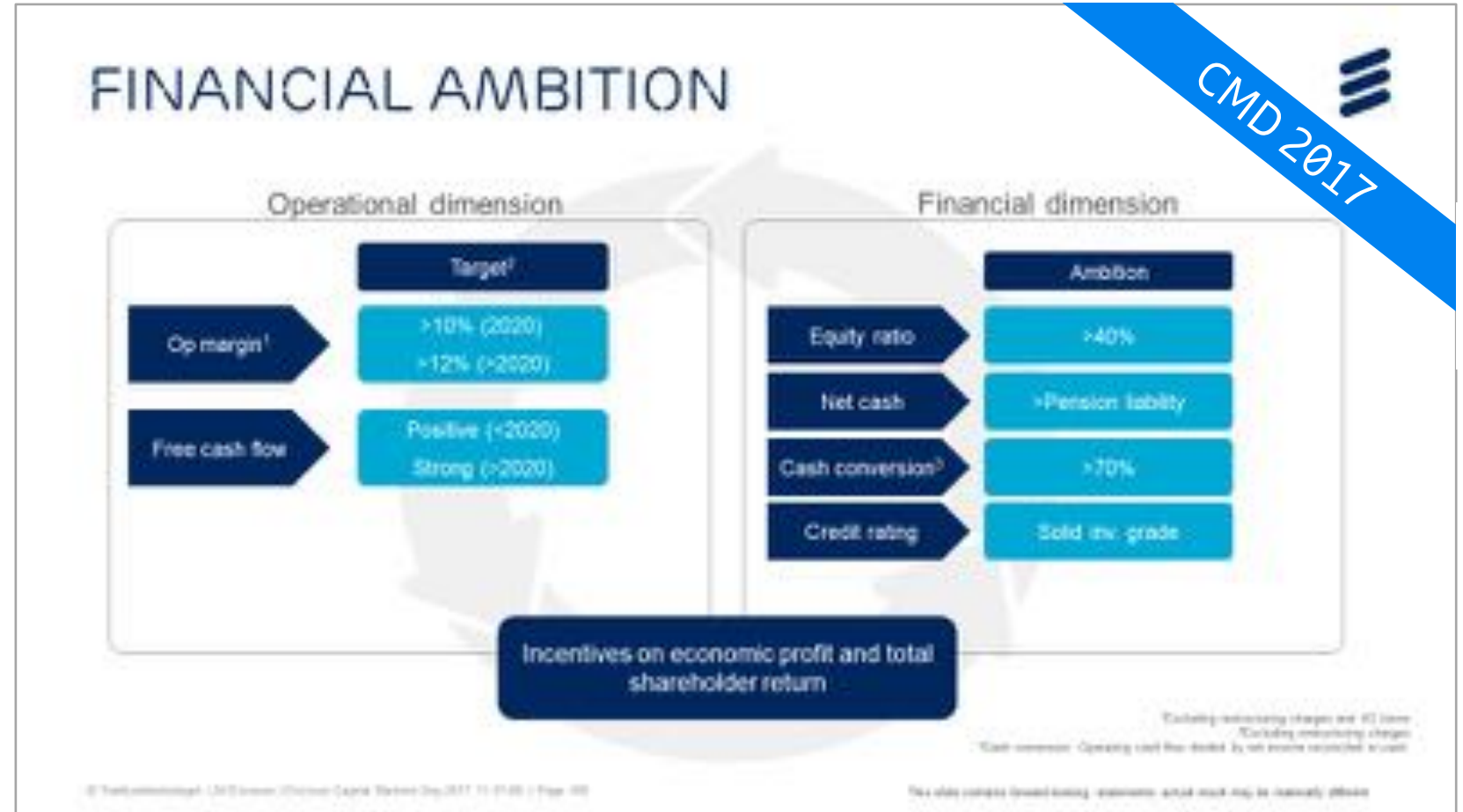
Financial priorities communicated at CMD 2017



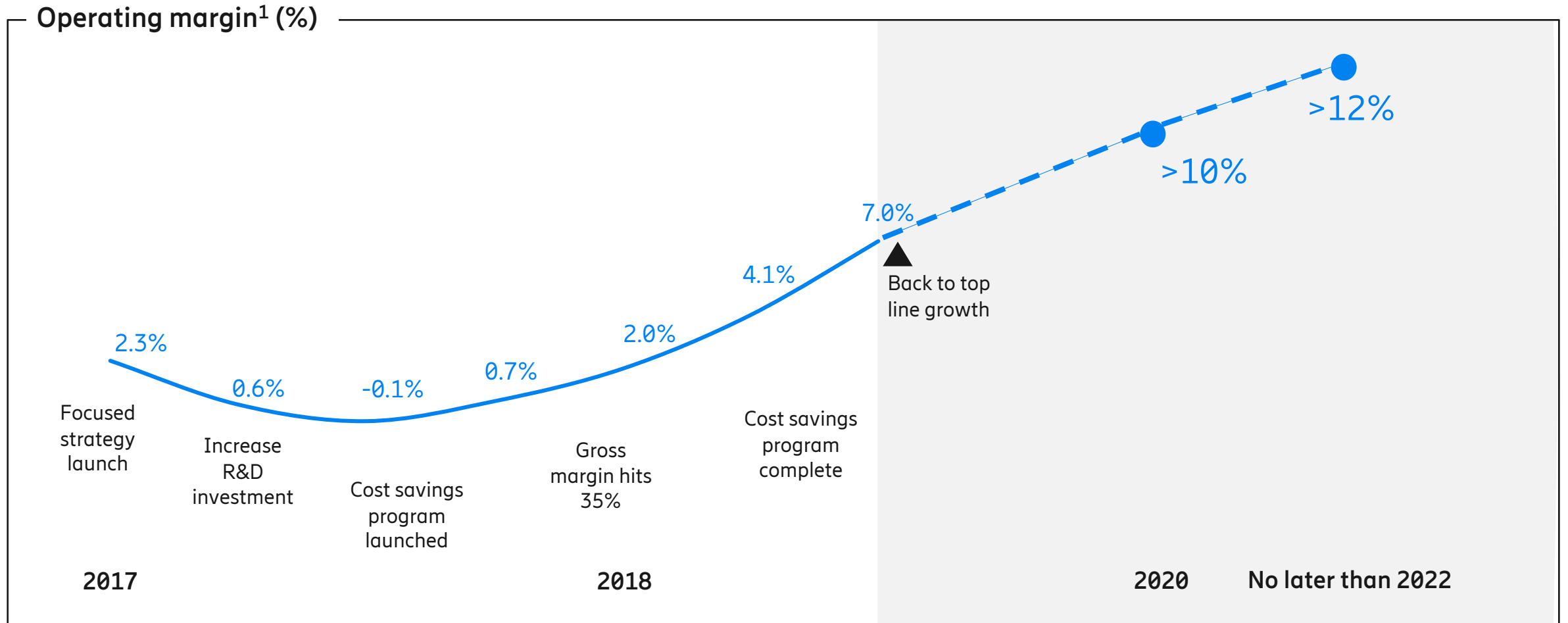
Drive focus on profit and cash

Secure resilience

Improve visibility and accountability



Ericsson turnaround



Isolated quarters

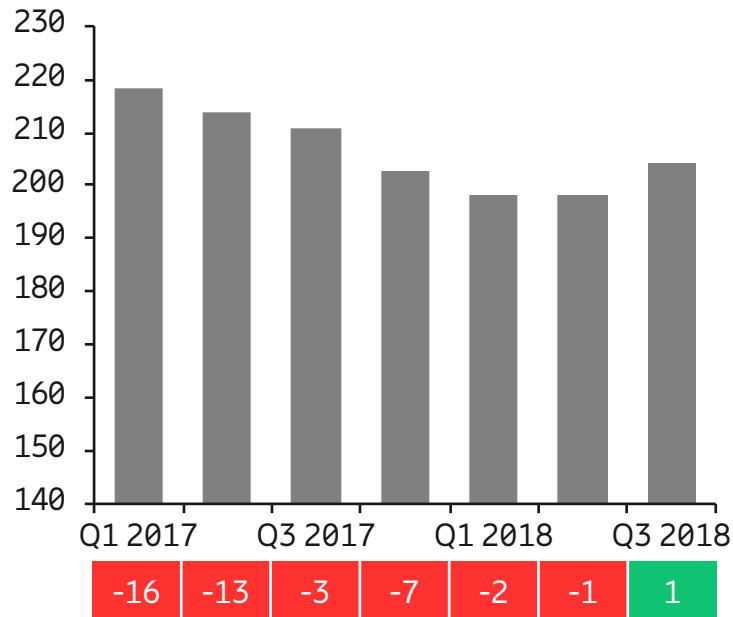
¹Operating margin excludes restructuring charges. 2017 numbers are not IFRS reconciled and also exclude xo items.

Turnaround is visible across financial metrics



Net sales

(SEK b. – rolling 4Q)

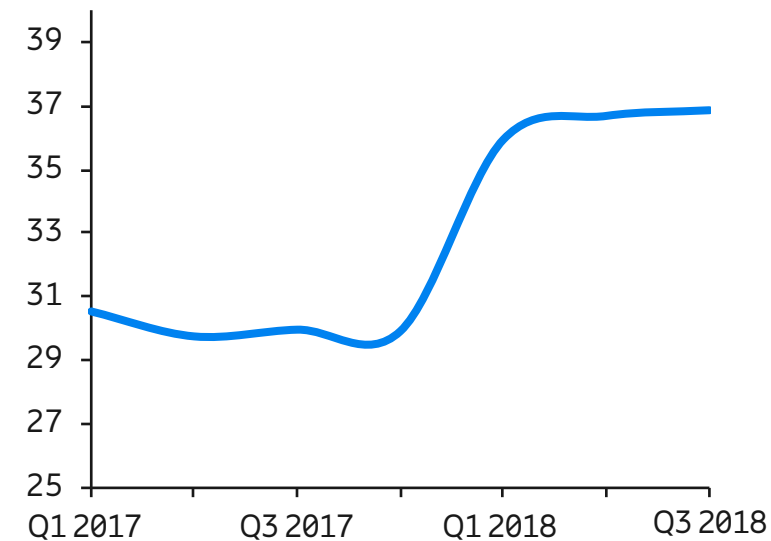


YoY change in quarterly net sales adjusted to comparable units and currency (%)²

Net sales turned to growth

Underlying gross margin¹

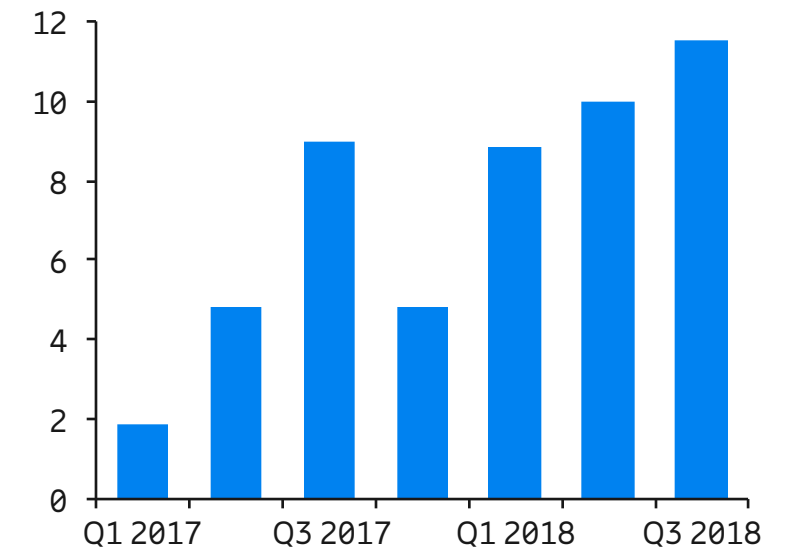
(% – quarterly)



Strong gross margin improvement

Free cash flow before M&A

(SEK b. – rolling 4Q)







Positive and increasing free cash flow

¹ Gross margin excludes restructuring charges. 2017 excludes xo items and are not restated for IFRS 15

² 2017 growth rates not adjusted for IFRS 15

All segments contributing to turnaround



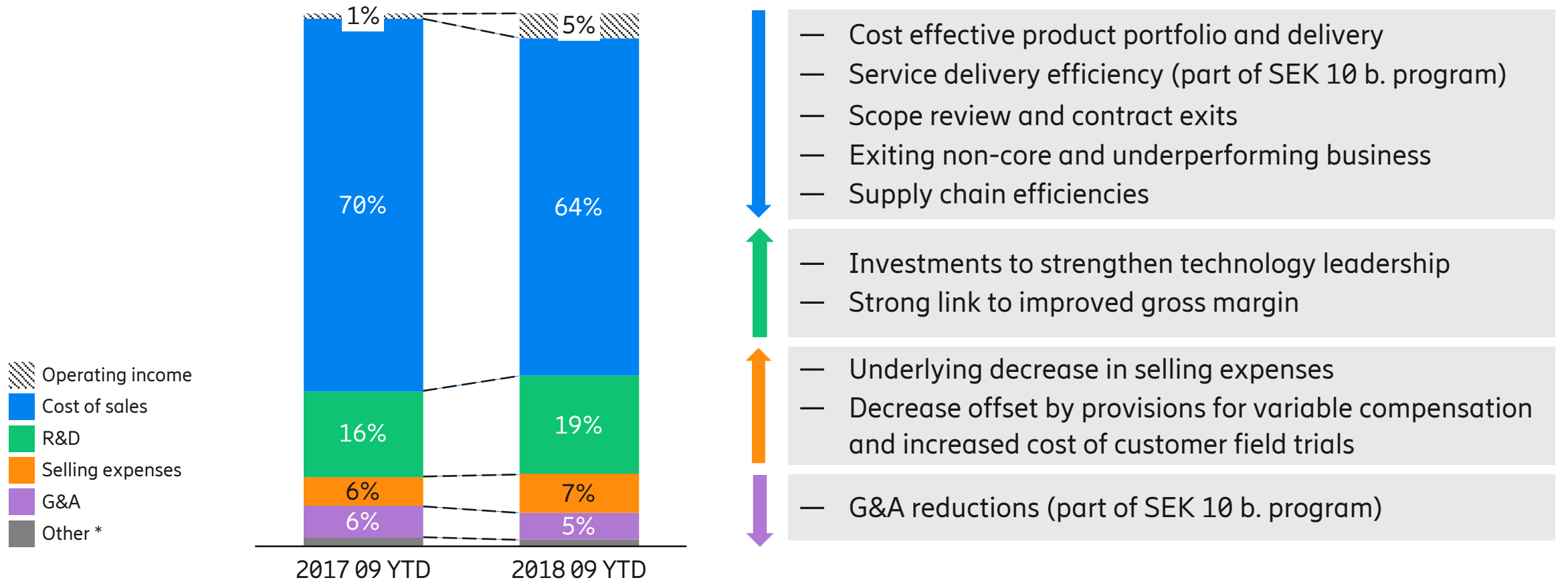
	Networks		Digital Services		Managed Services		Emerging Business & Other	
								
Net sales (SEK b.)	32	36	9	9	7	6	2	2
	2017 Q3	2018 Q3	2017 Q3	2018 Q3	2017 Q3	2018 Q3	2017 Q3	2018 Q3
Gross margin ¹ (%)	35%	41% ▲	32%	37% ▲	-4%	13% ▲	21%	32% ▲
Operating margin ¹ (%)	12%	16% ▲	-30%	-16% ▲	-9%	7% ▲	-66%	-42% ▲
	<ul style="list-style-type: none"> — Strong growth in North America — Increased hardware and services margins — Increased R&D investments pay off with improved gross margin and sales 	<ul style="list-style-type: none"> — Top line decline flattening out — Significant cost savings across service delivery, SG&A and R&D 	<ul style="list-style-type: none"> — Lower sales due to contract exits — Gross margin improved through efficiency measures and contract reviews — From losses to stable profits 	<ul style="list-style-type: none"> — Top line growth from iconectiv — Losses in the Media business reduced — Continued disciplined investments in Emerging Business 				

¹Excludes restructuring charges

Improved cost structure



Total cost¹ as % of net sales

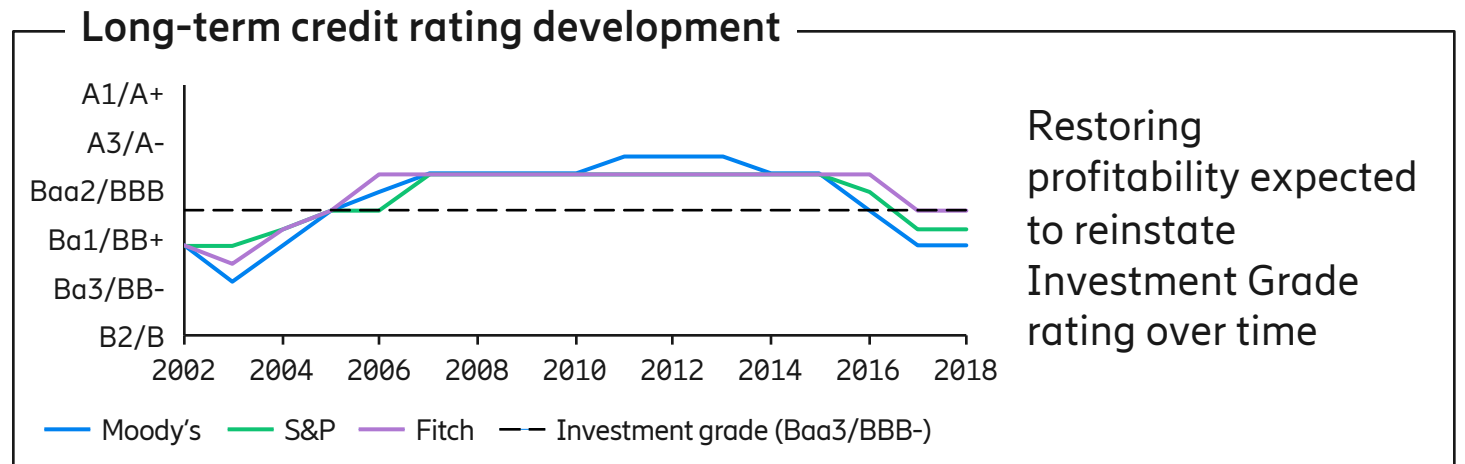
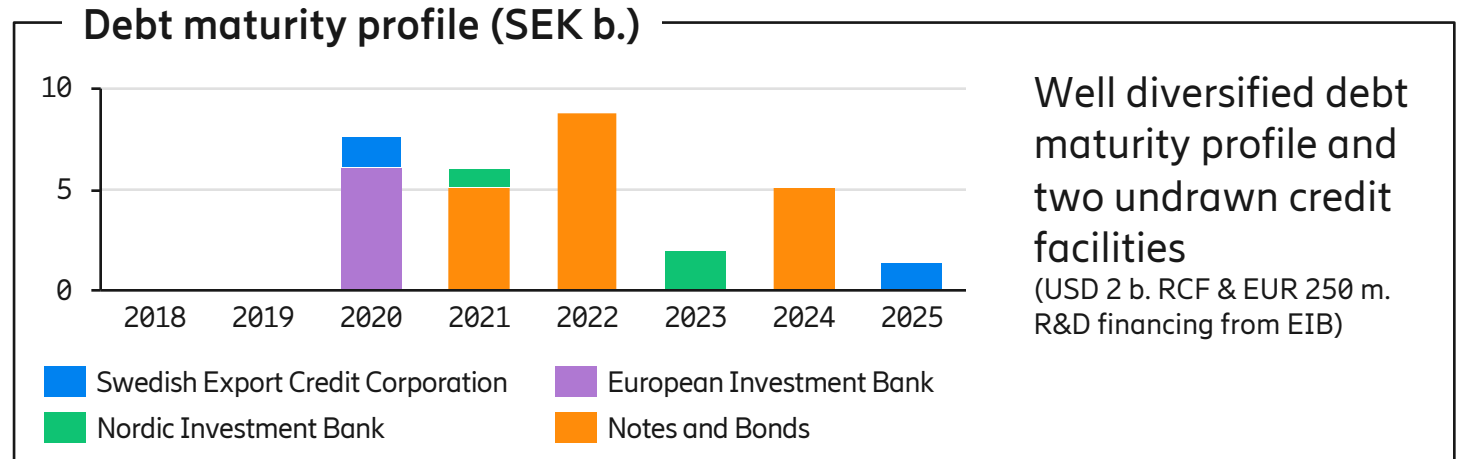
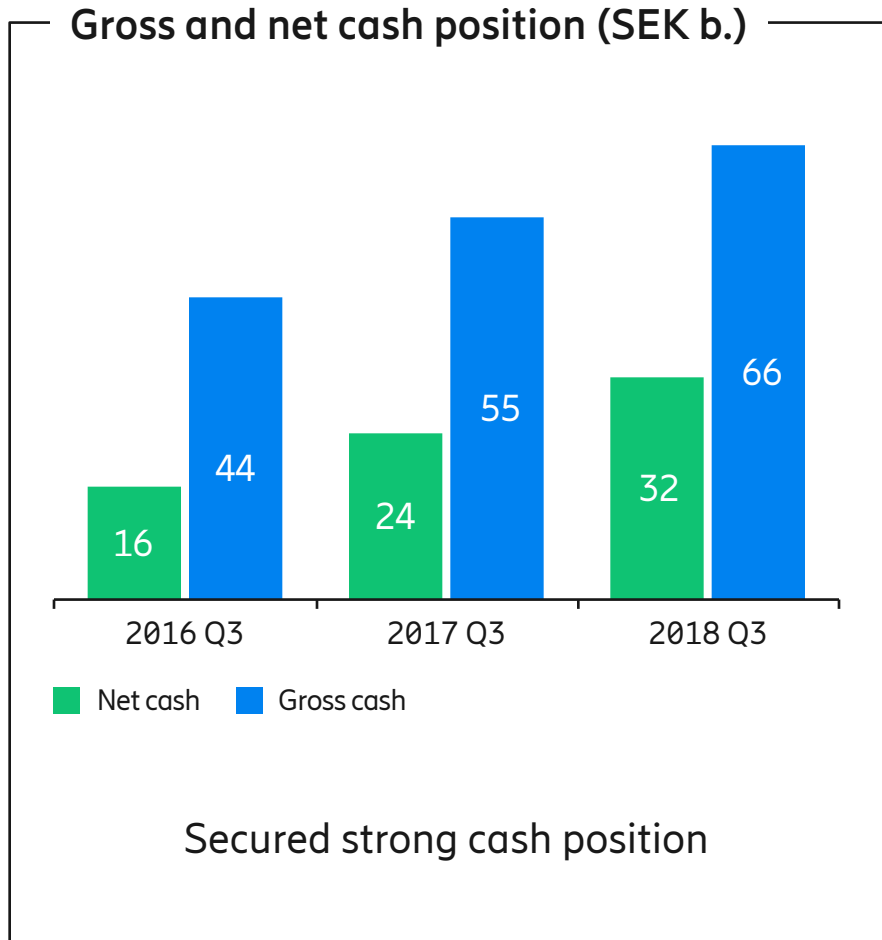


- Cost effective product portfolio and delivery
- Service delivery efficiency (part of SEK 10 b. program)
- Scope review and contract exits
- Exiting non-core and underperforming business
- Supply chain efficiencies
- Investments to strengthen technology leadership
- Strong link to improved gross margin
- Underlying decrease in selling expenses
- Decrease offset by provisions for variable compensation and increased cost of customer field trials
- G&A reductions (part of SEK 10 b. program)

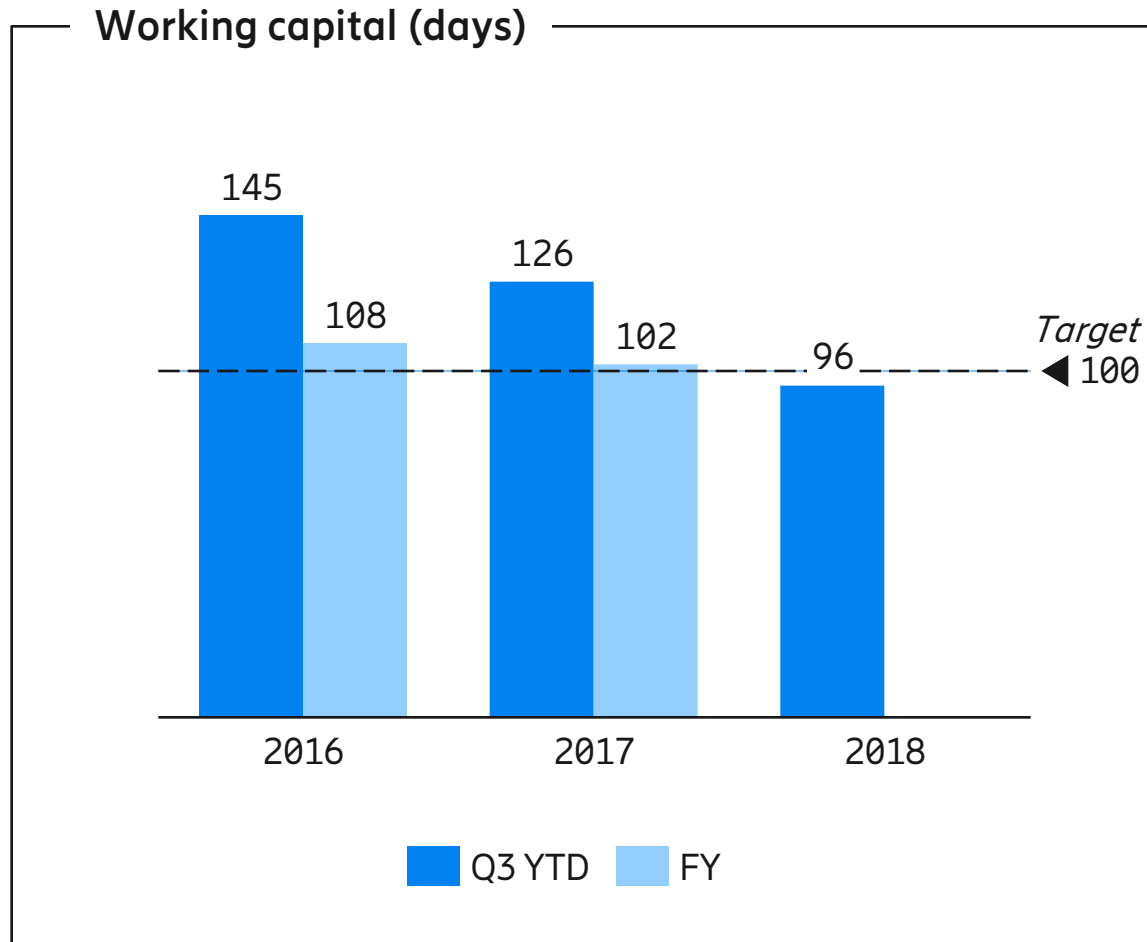
*Other items include revaluation of customer financing, impairment losses on trade receivables, other operating income and expenses, shares in earnings of JV and associated companies

¹All periods excluding restructuring charges
2017 also excludes x0 items and are not restated for IFRS 15

Strengthened financial resilience



Improved capital efficiency



Improvement actions

- Implementation of the focused strategy
- Selective deal taking
- Enhanced processes for credit management and collection
- Incentives tied to Economic Profit
- Reduction of working capital in 2017 partly related to write-downs and provisions

Working capital days equals sum of days sales outstanding and inventory days less payable days
2017 numbers are not IFRS reconciled

New incentive structure in 2018



	Short-term variable compensation metrics	Long-term variable compensation metrics
Executive team	Economic profit (Group & Market / Business areas)	Shareholder return Operating income
Senior executives	Economic profit (Group & Market / Business areas)	Shareholder return Operating income
Group functions ¹ Business areas ¹ Market areas ¹	Economic profit (Group & Market / Business areas)	
Sales force	Sales, margins, cash collection	

Operating income as metric to incentivize reaching company turnaround targets

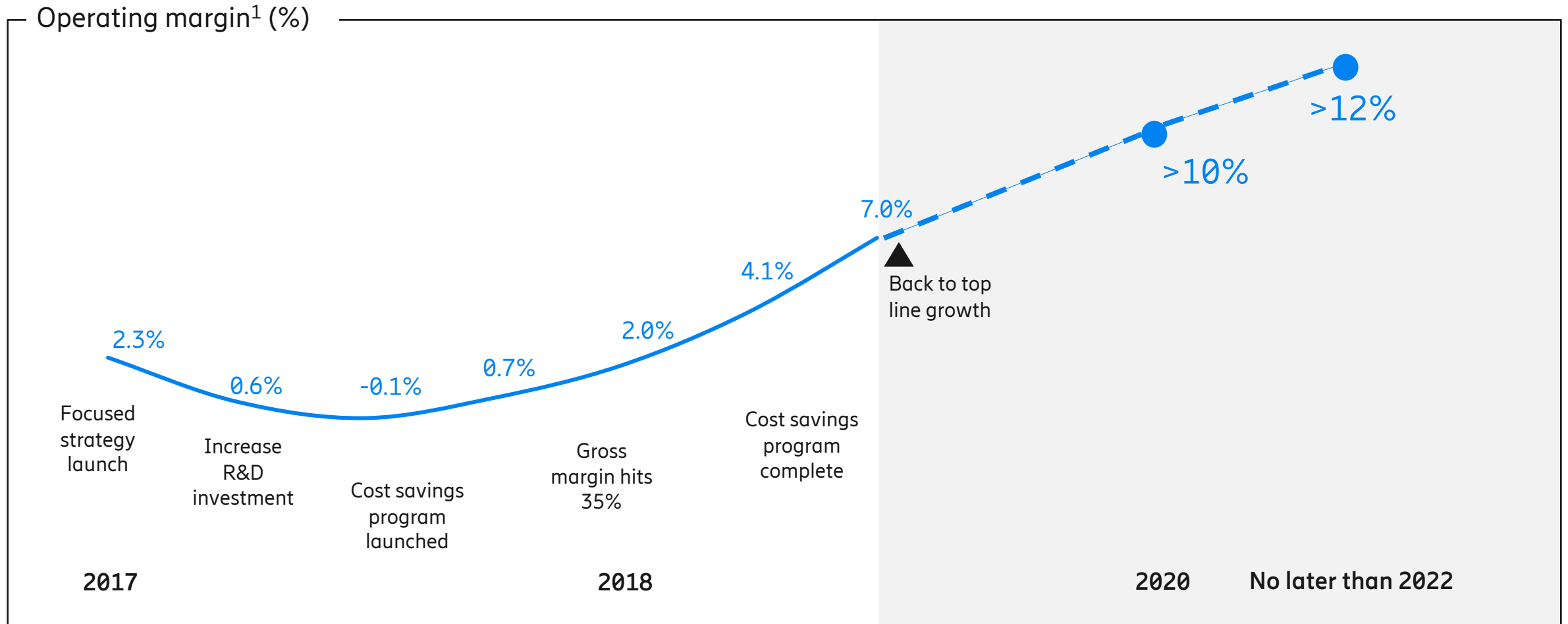
Economic profit introduced as a new metric to sharpen focus on capital efficiency along with profit

Economic profit measures operating income minus cost of capital

Rewarding our employees based on key metrics for value creation

¹Not all employees in group functions, business areas and market areas are included in short-term variable program

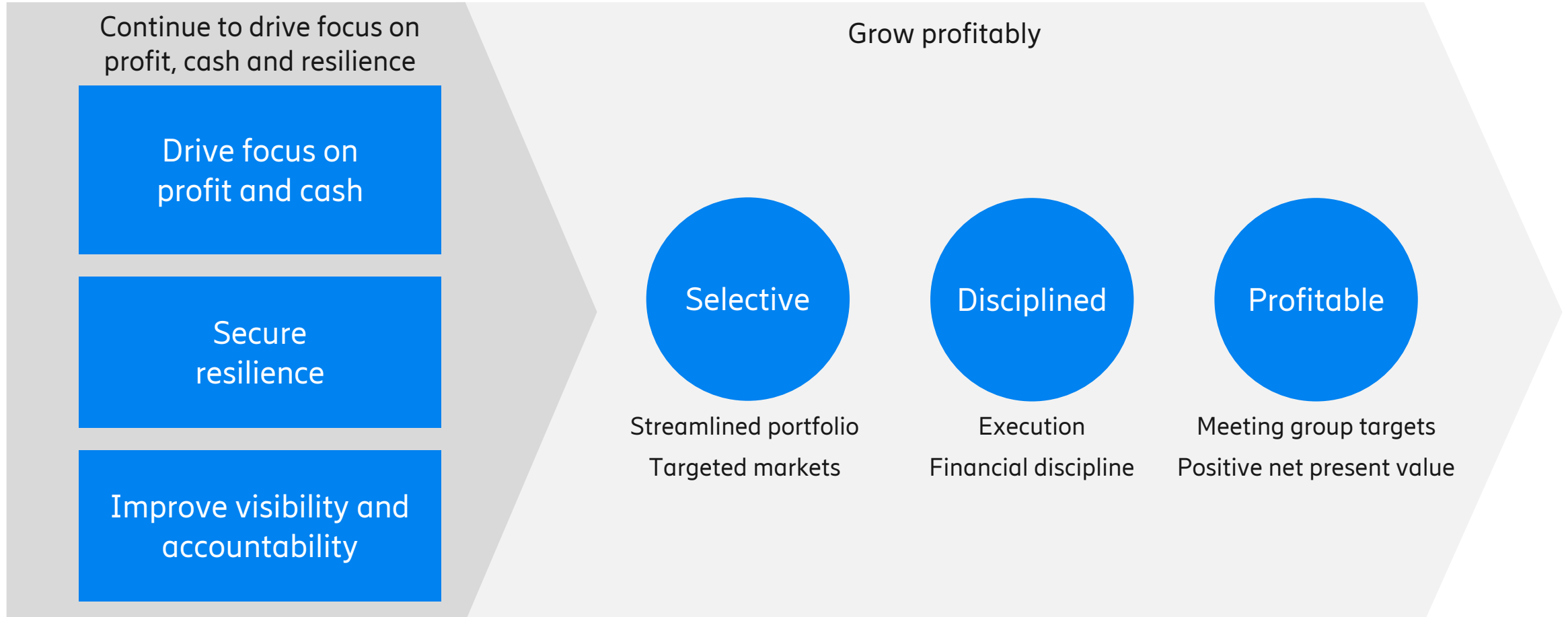
Next stage



Isolated quarters

¹Operating margin excludes restructuring charges. 2017 numbers are not IFRS reconciled and also exclude xo items.

Priorities for further value creation



Targets 2020 and 2022



SEK b.	CMD 2017 2020	CMD 2018 2020	CMD 2018 2022
Sales	190-200	210-220	
Gross margin ¹	37-39%		
R&D	Continued investments but growing slower than sales		
SG&A	Structural improvements		
Operating margin ¹	>10%		>12%
Free Cash Flow (before M&A)	Positive		Strong

Momentum for Networks in a stronger market

Continued R&D investments to drive margin expansion
Automation and efficiency improvements

Continued increased 5G investments
R&D efficiency and portfolio optimization in Digital Services

High focus on driving efficiencies

2020 target maintained. >12% to be reached no later than 2022

Free cash flow ambition maintained

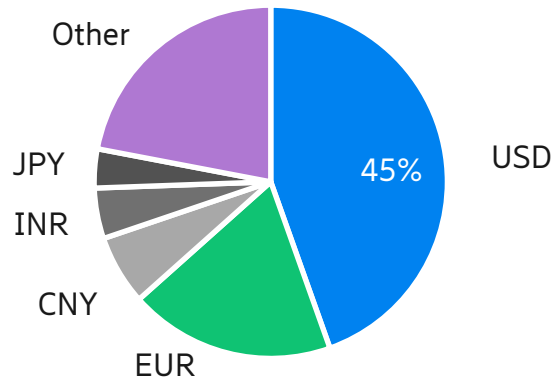
Underlying assumptions

- USD to SEK 8.70
- Managed Services addressable market; 2-4% CAGR 2018 – 2022 (Source: External sources and Ericsson analysis)
- Network: RAN equipment 2% CAGR 2017-2022 (Source: Dell'Oro)
- Digital Services 1-4% CAGR 2017-2022 (Source: External sources and Ericsson analysis)

Currency impact and hedging activities

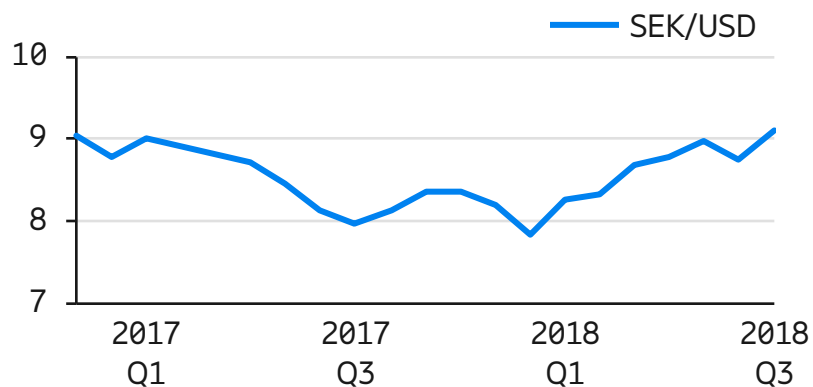


Sales exposure to currencies in 2017



- Largest exposure in USD
- USD to SEK movements has a direct impact on reported sales and income
- SEK/USD 8.70 used in 2020 targets
- 10% stronger USD to SEK results in ~5% impact on sales and ~1pp on operating margin

SEK to USD development



Actions to limit FX exposure

- Maximize natural hedging by using USD as sourcing currency
- Natural hedging complemented by financial forecast hedging

Illustrative bridge on free cash flow



Illustrative

Bridge from operating income to free cash flow

	% of net sales	Comments
Operating income	>12%	
⊖ Financial net, tax and other	~4%	Planning assumption based on historical levels
⊕ Add back depreciation & amortization	~3-4%	Planning assumption based on historical levels with less capitalized development
+/- Change in working capital	+ - 0	Striving to maintain working capital efficiency but swings may impact cash flow
⊖ Capex	~2%	Planning assumption ~2% per year with limited capitalization of development expenses
⊖ Restructuring	1%	Current assumption as a base level going forward ¹ Gradually decline towards 1%
⊖ Free cash flow (before M&A)	>8%	
⊖ M&A	1-2%	Planning assumption 1-2% per year

¹As we will continue to focus on efficiency improvements across the company, there can be differences between the years and we will continue to give updates regularly if any material deviations are expected

Capital ambitions and strategy remain



Capital ambitions

	Ambition	2018 Q3
Equity ratio	>40%	36%
Net cash	>Pension liability ¹ (SEK 26 b.)	SEK 32 b.
Credit rating	Solid inv. grade	BB+ Stable/ Ba2 Stable

Capital ambition based on a strong equity ratio and ample liquidity

Capital structure strategy

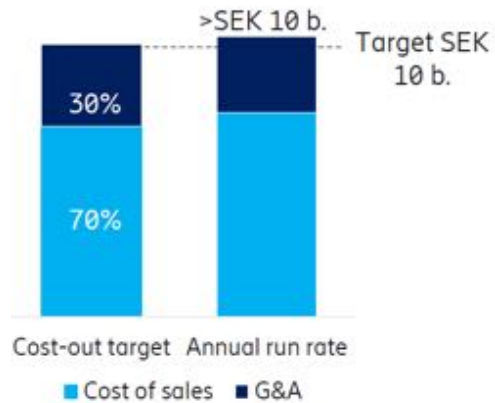
Turnaround phase (2017-2019)	Repositioning phase (2020-onwards)
<ul style="list-style-type: none"> — Secure cash position and flexibility to invest — Focus on cash flow with tight management of working capital and investments — Opportunistic approach to funding and no maturities before end of 2020 	<ul style="list-style-type: none"> — Optimize the capital structure based on improved business performance — Restore investment grade rating — Deliver strong free cash flow, grow dividend and increase shareholder returns

Capital structure strategy with focus on delivering free cash flow

¹Pension liability

- Net liability SEK 26 b. as per Sep 30, 2018, mainly related to Sweden
- Sweden net exposure is insured by external party

Continuous cost improvements



- SEK 10 b. program has been essential in restoring profitability and reaching more competitive cost levels
- Cost program has helped to establish cost mentality and cemented cost management structures

Cost management structure and ways of working to continue

Continued governance under Group Transformation Office

Enhanced efforts in selected areas

Review potential Selling, R&D and G&A productivity improvements

Next level of cost efficiencies

Next step in digital transformation, end-to-end process simplification & continued investment in R&D

Summary



Our focused strategy has led us back to stability and profitability

We continue with relentless profit and cash focus,
securing resilience and improving visibility and accountability

As profit and capital efficiency have improved,
we pursue disciplined growth for further value creation

Q&A



Lunch

