

Ericsson Fourth quarter 2020

Jan 29, 2021





Peter Nyquist

Vice President Investor Relations



Fourth quarter 2020

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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.



Börje Ekholm

President and CEO

2020 Highlights



Market share growth

Exceeded 2020 margin targets

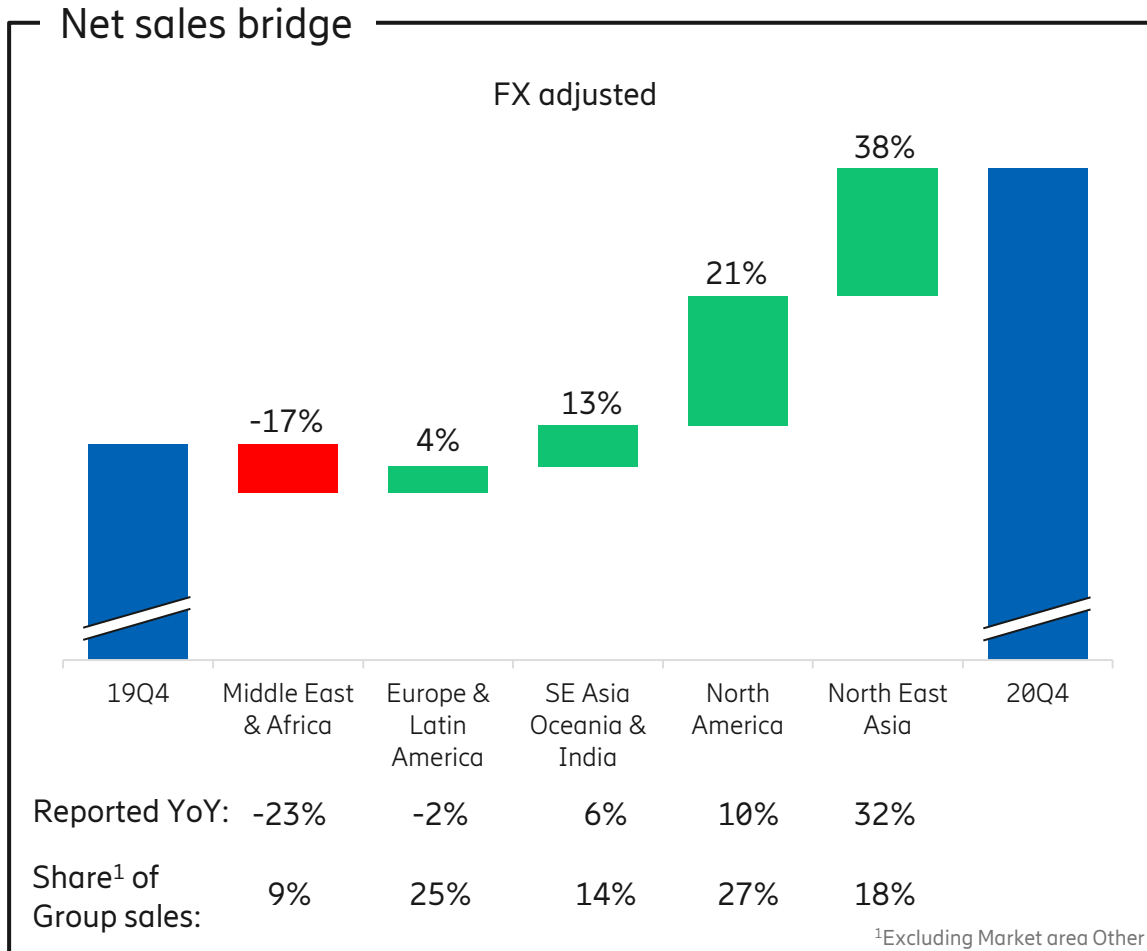
Strong Free Cash Flow

- **Extended 5G technology leadership:** 127 agreements and 79 live networks
- Acquisition of **Cradlepoint** a leader in WAN solutions
- **R&D investment:** Market share gains in 5G core and RAN
- **Operating margin¹** of 12.5% (5.0%)
- Strengthened focus on **ethically responsible culture** and individual accountability
- **Navigating the pandemic**
 - 80% of our people working remotely since end Q1'20
 - Diversified, resilient supply chain
- **No public/government funding** during the pandemic
- **Free cash flow before M&A** of SEK 22.3 (7.6) b.

¹Excluding restructuring charges

The Board will propose a dividend of SEK 2.00 (1.50) per share to the AGM

Q420: Market Area sales



- Middle East & Africa
 - Sales declined due to timing of investments in the Middle East and Covid-19 impact in Africa
- Europe & Latin America
 - Europe: Market share gains in Networks and Digital Services
 - Latin America: Macroeconomic uncertainty
- South East Asia, Oceania & India
 - Sales increased across all segments
 - Managed Services: Growth from new contract
- North America
 - Continued strong momentum in 5G network expansions
 - Managed Services sales decreased post merger between two large operators
- North East Asia
 - Increased business volumes in Japan
 - Continued 5G deployment in China

Strong growth in North East Asia and continued business momentum in North America

Segment summary

Excluding restructuring charges



Networks

SEK b.	20Q4	19Q4	YoY	20Q3
Sales	49.4	44.4	11%	41.7
Organic			20%	
Gross margin	43.5%	41.1%		46.7%
Op. income	10.6	6.4	65%	9.4
Op. margin	21.5%	14.5%		22.7%



- Organic growth of 20% YoY driven by North East Asia and North America
- Growth across 4 of the 5 market areas
- Operating margin improved driven by gross margin and operational leverage

Managed Services

SEK b.	20Q4	19Q4	YoY	20Q3
Sales	5.8	7.0	-17%	5.5
Organic			-12%	
Gross margin	17.7%	15.4%		20.1%
Op. income	0.4	0.3	20%	0.5
Op. margin	6.9%	4.8%		9.1%



- Decline primarily due to reduced variable sales in North America
- Operating margin increased through efficiency gains
- R&D investments, supporting 5G and automation

Digital Services

SEK b.	20Q4	19Q4	YoY	20Q3
Sales	12.7	13.2	-4%	8.7
Organic			3%	
Gross margin	41.0%	38.1%		43.5%
Op. income	0.5	0.0		-0.5
Op. margin	3.8%	0.3%		-5.8%



- Organic growth of 3% driven by Cloud infrastructure
- Gross margin improved YoY – higher share of software, in line with strategy
- Growth portfolio sales grew by 2%, primarily in OSS

Emerging Business & Other

SEK b.	20Q4	19Q4	YoY	20Q3
Sales	1.7	1.7	0%	1.6
Organic			-4%	
Gross margin	33.8%	15.1%		30.5%
Op. income	-0.5	-0.4		-0.5
Op. margin	-29.3%	-21.4%		-29.2%



- Cradlepoint included from November 1
- Gross margin growth driven by Edge Gravity exit and Cradlepoint
- IoT platforms sales and gross margin grew



Carl Mellander

Chief Financial Officer

FY 2020 in numbers

Excluding restructuring charges



Financial performance

SEK b.	2019	2020	Target 2020	Target 2022
Net sales	227.2	232.4	230-240	
Gross margin	37.5%	40.6%	37-39%	
R&D and SG&A	-64.5	-65.8		
Operating income	11.4	29.1		
Operating margin	5.0%	12.5%	>10%	12-14%
OI excl. items affecting comparability in 2019	22.1	29.1		
OM excl. items affecting comparability in 2019	9.7%	12.5%		
Net income ¹	1.8	17.6		
EPS diluted ¹	0.67	5.26		
Free cash flow b. M&A	7.6	22.3	Strong	Strong

- Organic and FX adjusted sales: 5% YoY
 - Networks 10% and Digital Services -3% YoY
- Gross margin 40.6% (37.5%)
 - Margin improvements in all segments
- Operating income SEK 29.1 (11.4) b.
 - Improvement driven by Networks: OM 19.0% excl. restr.
- Free cash flow SEK 22.3 (7.6) b. before M&A
 - Driven by operating income and capital efficiency
 - SEC and DOJ payments of SEK -10.1 b. in 2019
- Items affecting comparability in FY 2019
 - Costs related to SEC & DOJ investigations of SEK -10.7 b. (FCF impact -10.1 b)
- ROCE¹ improved to 17.0% (6.7%)
 - Driven by improved operating income

Full-year targets reached

¹Including restructuring charges

This slide contains forward-looking statements. Actual result may be materially different. See the last page in this presentation for further information about forward-looking statements

Q4 2020 in numbers

Excluding restructuring charges



Financial performance

SEK b.	20Q4	19Q4	YoY	20Q3
Net sales	69.6	66.4	5%	57.5
Organic and FX adj. growth			13%	
Gross margin	40.6%	37.1%		43.2%
R&D and SG&A expenses	-17.8	-18.7		-15.8
Operating income	11.0	6.5	70%	9.0
Operating margin	15.8%	9.7%		15.6%
Net income ¹	7.2	4.5	60%	5.6
Free cash flow b. M&A	12.8	-1.9		3.9

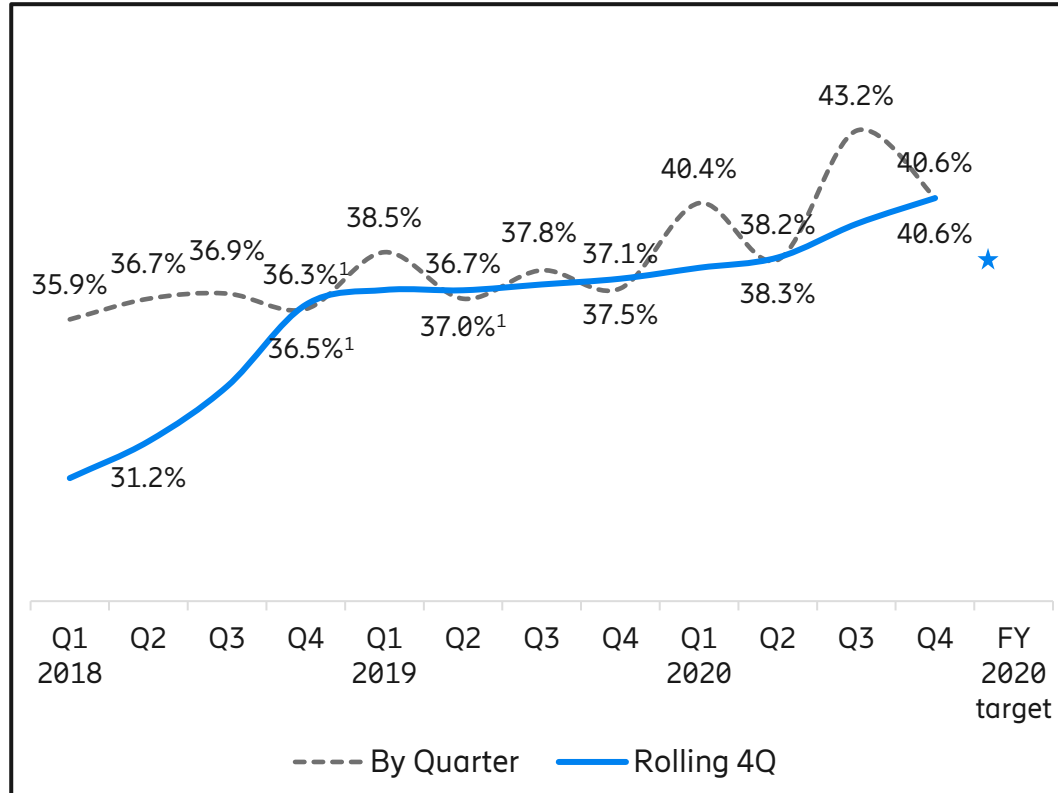
- Organic and FX adjusted sales: 13% YoY
 - Networks: 20% and Digital Services: 3%
- Gross margin 40.6% (37.1%)
 - All segments improved YoY – Networks (Operational leverage) and Digital Services (software sales)
 - QoQ – Q3 positively impacted by a high share of software
- Operating income SEK 11.0 (6.5) b.
 - YoY – improved gross margin and lower SG&A expenses
 - Improved in all segments QoQ, Networks and Digital Services as the main contributors
- Free cash flow before M&A SEK 12.8 (-1.9) b.
 - Driven by improved income and working capital efficiency
 - SEC and DOJ payments of SEK -10.1 b. in Q4 2019

¹Including restructuring charges

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Gross margin

Excluding restructuring charges



¹excluding costs for revised BSS strategy

- FY 2020 gross margin 40.6% (37.5%)
 - Improvements in all segments – lower share of services
 - Networks – operational leverage more than offsetting margin dilution from market share gains
 - Digital Services – increased share of software and limited impact from critical contracts in 2020
 - Managed Services – mainly efficiency gains
- Q4 gross margin 40.6% (37.1%)
 - Networks – operational leverage
 - Digital Services – increased share of software and limited impact of critical contracts
 - Managed Services – efficiency gains

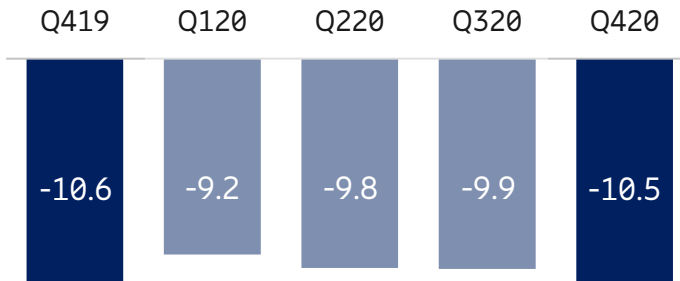
Gross margin of 40.6% for FY 2020 – exceeding the 37%–39% ambition set in 2017

R&D and SG&A expenses YoY



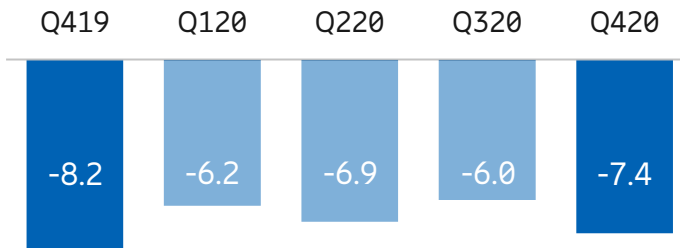
Excluding restructuring charges

R&D SEK b.



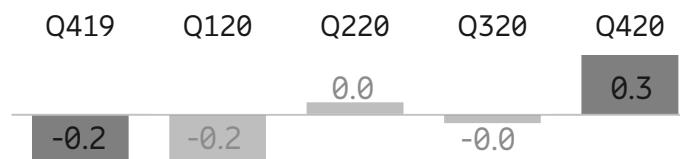
- R&D expenses stable YoY at SEK -10.5 (-10.6) b.
 - Networks – slight reduction
 - Emerging Business & Other – increased due to Cradlepoint
 - FX impact supported the reduction

SG&A SEK b.



- SG&A expenses decreased to SEK -7.4 (-8.2) b.
 - Mainly lower costs for travel and trials
 - Increased expenses driven by Cradlepoint
 - Customer financing provisions of SEK 0.0 (-0.2) b.
 - FX impact supported the reduction

Impairment losses on trade receivables SEK b.



- Impairment losses on trade receivables SEK 0.3 (-0.2) b.
 - Positive effect from provision reversal following collection of high-risk receivables

Free cash flow and financial position



Financial Performance

SEK b.	Q4		FY	
	2020	2019	2020	2019
Net income adjusted for non-cash items	12.5	8.0	32.5	14.1
Changes in Net operating assets & liabilities	1.4	-7.5	-3.6	2.8
Cash flow from operating activities	13.9	0.5	28.9	16.9
Capex (net) including product development	-1.2	-1.6	-5.1	-5.9
Other investing activities & lease liabilities	0.0	-0.8	-1.6	-3.3
Free cash flow before M&A	12.8	-1.9	22.3	7.6
M&A	-9.3	-1.3	-9.6	-1.5
Free cash flow	3.5	-3.2	12.7	6.1
<i>Net cash end of period</i>	<i>41.9</i>	<i>34.5</i>		
<i>Gross cash end of period</i>	<i>72.0</i>	<i>72.2</i>		

- Free cash flow before M&A of SEK 12.8 (-1.9) b.
 - Improved by SEK 4.5 b. YoY when adjusted for payments of SEK -10.1 b. related to SEC and DOJ, in Q4 2019
- Gross cash decreased by SEK -6.2 b. QoQ
 - Cradlepoint (SEK -9.5 b.), Dividends (SEK -3.5 b.) and Repayment of loan (SEK -5.8 b.)
- Net cash grew to SEK 41.9 (34.5) b.
- Working capital days FY 2020: 65 (75) days
- Proposed dividend FY 2020 SEK 6.7 (5.0) b.
- Standard & Poor's upgraded rating to BBB- ("investment grade") with stable outlook

Strongest full-year Free Cash Flow before M&A in company history

Planning assumptions – summary

Please see the Q4 report for complete planning assumptions



Market

ERICSSON

- RAN equipment market 3% FY 2021. China: 4%, North America: 2%, Europe 3%. (Dell’Oro)
- Net sales
 - Normal seasonality Q4→Q1 -24%. However, seasonal effect may be somewhat less pronounced due to 5G in some markets.
- Gross margin
 - In segment Networks, the mix is expected to be similar in Q1 2021 as it was in Q4 2020.
 - Improvements in Digital Services continue, earnings vary depending on business mix, seasonality and impact from the less than 10 remaining critical contracts.
 - Managed Services quarterly variations depending on timing of add-on sales and costs but tracking well towards targets.
- R&D and SG&A expenses
 - Opex typically decreases Q4→Q1 due to seasonality, however, with large variations.
 - Restructuring charges for full-year 2021 are estimated to be 1% of sales
- Operating income (EBIT)
 - IPR; Current geopolitical conditions are impacting handset sales volumes as is the shift from 4G to 5G handsets. This, in combination with expiring contracts delaying royalty payments from unlicensed periods and potential costs of litigation, may impact Ericsson’s operating income by SEK 1–1.5 b. per quarter beginning in the first quarter 2021.
- Currency exposure
 - Rule of thumb: USD/SEK 10% weaker → ~ -5% sales and ~ -1pp OM. For historical FX rates, please see ericsson.com
- Cradlepoint
 - Ericsson’s operating margin is expected to be negatively impacted by approximately -1 percentage point until the end of 2022

Based on current visibility, assessments and FX rates



Börje Ekholm

President and CEO

Looking forward – 5G

Successful turnaround and strong underlying performance

Investment in long-term growth

- IPR
- Investments in the business
- Strengthened market position

Risk resilience

- Pandemic response
- Geopolitical flexibility

Accelerating 5G

- Front-runner countries driving demand
- Enterprise applications

Long-term target – 15%-18% EBITA margin



Ericsson Site Solution Enclosure



Q & A





Forward-looking statements

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- Our goals, strategies, planning assumptions and operational or financial performance expectations;
- Industry trends, future characteristics and development of the markets in which we operate;
- Our future liquidity, capital resources, capital expenditures, cost savings and profitability;
- The expected demand for our existing and new products and services as well as plans to launch new products and services including R&D expenditures;
- The ability to deliver on future plans and to realize potential for future growth;
- The expected operational or financial performance of strategic cooperation activities and joint ventures;
- The time until acquired entities and businesses will be integrated and accretive to income; and
- Technology and industry trends including the regulatory and standardization environment in which we operate, competition and our customer structure.

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