

Ericsson Third quarter 2021

Oct 19, 2021



Welcome



Peter Nyquist
Vice President Investor Relations



Third quarter 2021



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.

Business overview

Börje Ekholm
President and CEO



Key takeaways from Q3



- Continued to win footprint across our business, leveraging our competitive 5G portfolio
- 5G contracts awarded by all three tier-1 US carriers – largest ever
- Excluding the sales reduction in Mainland China: +6% organic growth
- Gross margin 44.0%¹ and EBIT margin 15.7%¹ – improved QoQ and YoY
- FCF b. M&A: SEK 13.0 b. – Strong cash position for continued value creation
- Some sales impact in Q3 from disturbances in the supply chain, and such issues will continue to pose a risk
- Sustainability integrated into strategy – sustainability-linked USD 2 b. revolving credit facility signed
- Continue to embed ethics and compliance

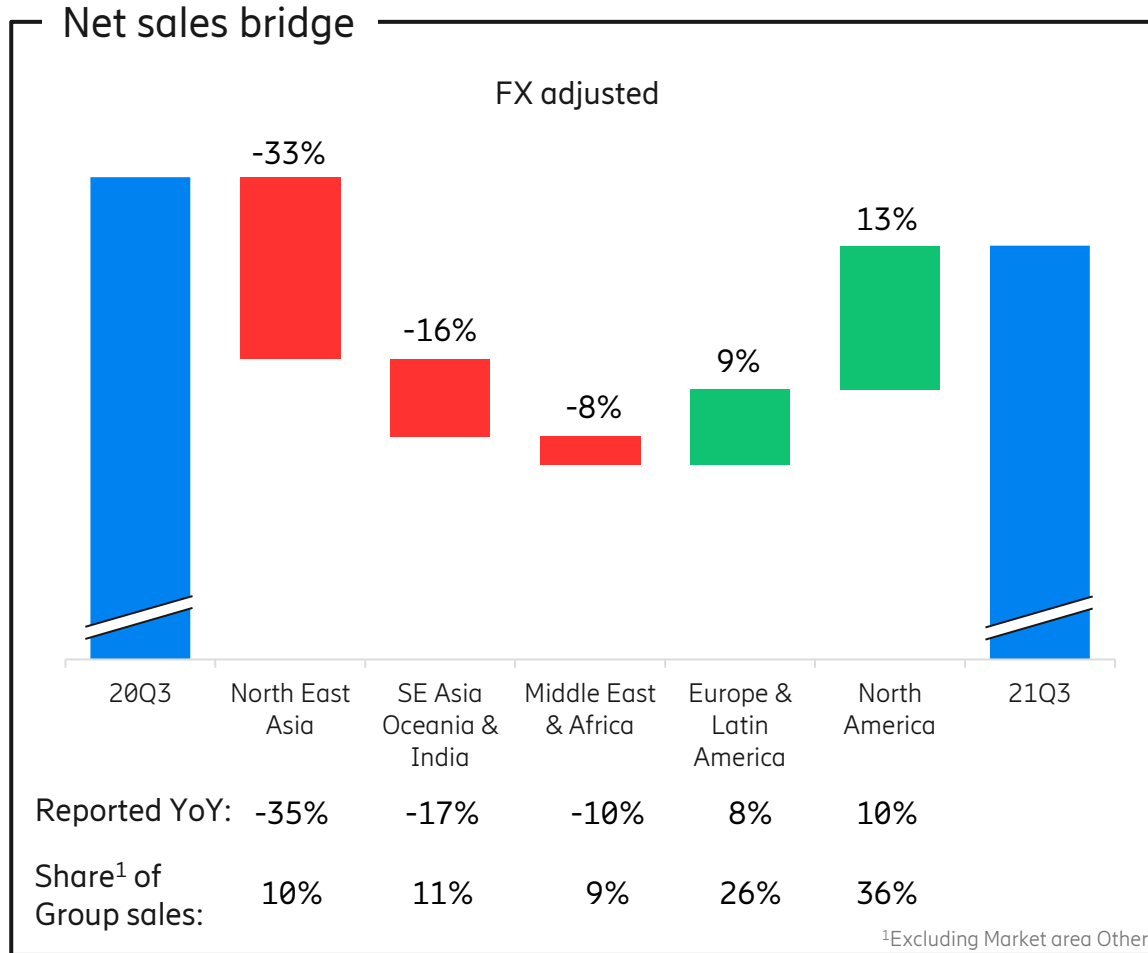


AIR 3268 - 12 kg radio to Massive MIMO portfolio

¹Excluding restructuring charges

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Market Area Development



North East Asia: Sales SEK 5.7 (8.8) b.

- Loss of market share in Mainland China

SE Asia, Oceania & India: Sales SEK 6.5 (7.8) b.

- Declined due to timing of orders and project milestones

Middle East & Africa: Sales SEK 5.0 (5.5) b.

- Sales declined due to timing of 5G investments
- Africa returned to growth in the quarter

Europe & Latin America: Sales SEK 14.4 (13.3) b.

- Europe: Organic growth 5% driven by market share gains
- Latin America: Organic growth 29% after a period of decline

North America: Sales SEK 20.2 (18.4) b.

- Strong demand for 5G solutions

Large impact from market share reduction in Mainland China

Segment summary



Sales and gross margin

Excluding restructuring charges

Group and segments	21Q3	20Q3	YoY	Organic
Ericsson Group	56.3	57.5	-2%	-1%
Gross margin	44.0%	43.2%		
Networks	40.6	41.7	-3%	0%
Gross margin	47.8%	46.7%		
Digital Services	8.6	8.7	-1%	1%
Gross margin	42.3%	43.5%		
Managed Services	5.0	5.5	-8%	-7%
Gross margin	18.7%	20.1%		
Emerging Business & Other	2.0	1.6	26%	4%
Gross margin	39.4%	30.5%		

Gross margin excl. restructuring rolling 4Q: 42.6%, improved QoQ and YoY

Networks

- Organic sales adjusted for China: +8% despite negative impact from supply chain disturbances
- Gross margin supported by operational leverage and IPR revenues

Digital Services

- Initial revenues from 5G contracts – growth in Core
- Gross margin impacted by initial deployment costs for the cloud native 5G Core portfolio

Managed Services

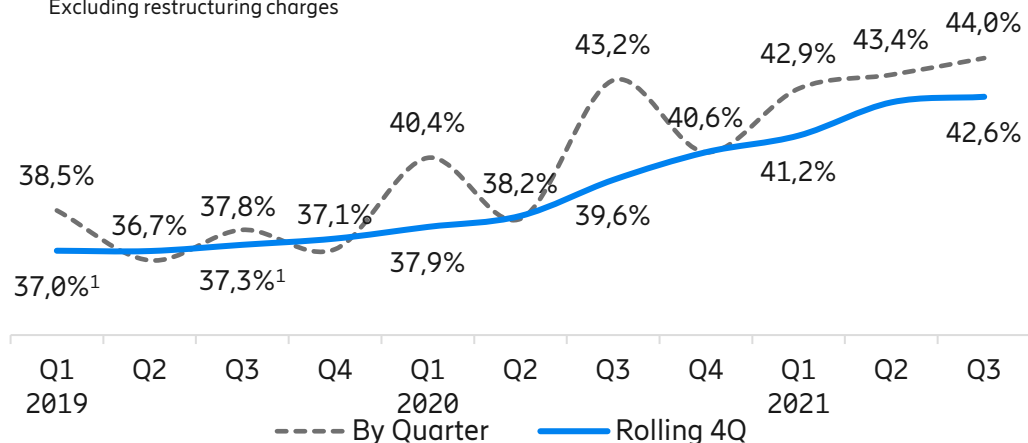
- Sales declined YoY – reduced variable sales
- AI and automation investments continue

Emerging Business & Other

- Sales and gross margin improvement driven by Cradlepoint

Group gross margin

Excluding restructuring charges



¹Excluding costs for revised BSS strategy

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Financial overview

Carl Mellander
Chief Financial Officer



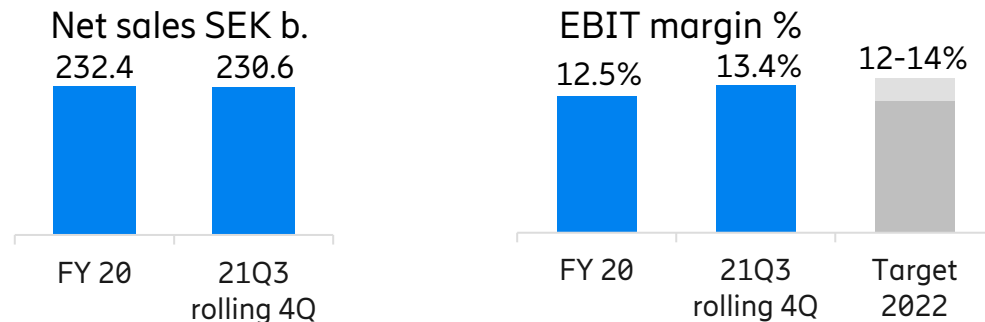
Q3 2021 in numbers



Financial Performance

Excluding restructuring charges

SEK b.	21Q3	20Q3	YoY	21Q2
Net sales	56.3	57.5	-2%	54.9
Organic and FX adj. growth			-1%	
Gross margin	44.0%	43.2%		43.4%
R&D expenses	-10.2	-9.9	3%	-10.5
SG&A expenses	-6.2	-6.0	3%	-7.0
EBIT	8.8	9.0	-1%	5.8
EBIT margin	15.7%	15.6%		10.6%
Net income ¹	5.8	5.6	4%	3.9
Free cash flow b. M&A	13.0	3.9	229%	4.1



- Organic and FX adjusted sales: -1% YoY
 - Adjusted for China: +6% YoY
 - Some impact from supply challenges
- Gross margin 44.0% (43.2%)²
 - Operational leverage in Networks, retroactive IPR revenues and Cradlepoint
- R&D investments in Cradlepoint and in cloud native 5G Core portfolio in Digital Services
- Other operating income and expenses: SEK 0.5 b.
- EBIT SEK 8.8 (9.0)² b.
- Cash collection incl pre-payments supported Free cash flow before M&A
- EBITA² rolling 4Q: 14.0% vs long-term target of 15%-18%”

¹Including restructuring charges

²Excluding restructuring charges

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Free cash flow and financial position



Financial Performance

SEK b.	Q321	Q320
EBIT excluding restructuring charges	8.8	9.0
Depreciation, amortization & impairment losses	2.4	2.1
Restructuring charges	0.0	-0.3
Changes in operating net assets	4.9	-4.5
Interest paid & received, taxes paid and other	-1.4	-0.9
Cash flow from operating activities	14.7	5.3
Capex net and other investing activities	-1.2	-0.8
Repayment of lease liabilities	-0.6	-0.6
Free cash flow before M&A	13.0	3.9
Free cash flow before M&A rolling 4Q	31.3	17.7 ¹
<i>Net cash end of period</i>	<i>55.7</i>	<i>41.5</i>
<i>Gross cash end of period</i>	<i>88.2</i>	<i>78.2</i>

- Free cash flow before M&A of SEK 13.0 (3.9) b.
 - Reduction in working capital supported cash flow from operating activities
- Key movements in working capital:
 - Decrease in trade receivables: Strong cash collection and some pre-payments from customers
 - Increase in inventory: Strengthening supply chain resilience, partly balanced by trade payables
- Net cash grew by SEK 12.0 b. QoQ to SEK 55.7 b.
- Sustainability-linked revolving credit facility of USD 2.0 b. signed

Free cash flow before M&A rolling four quarters: 13.6% of net sales (long-term target 9-12%)

Planning assumptions highlights

Please see the Q3 report for complete planning assumptions



Market related (Source: Dell'Oro)

- Global RAN market is estimated to grow by 13% (10%) FY 2021. China is expected to grow by 13% (11%), North America by 15% (12%), Europe by 10% (9%).
- Global RAN market is estimated to grow by 2% in 2022, and by 3% excluding China.

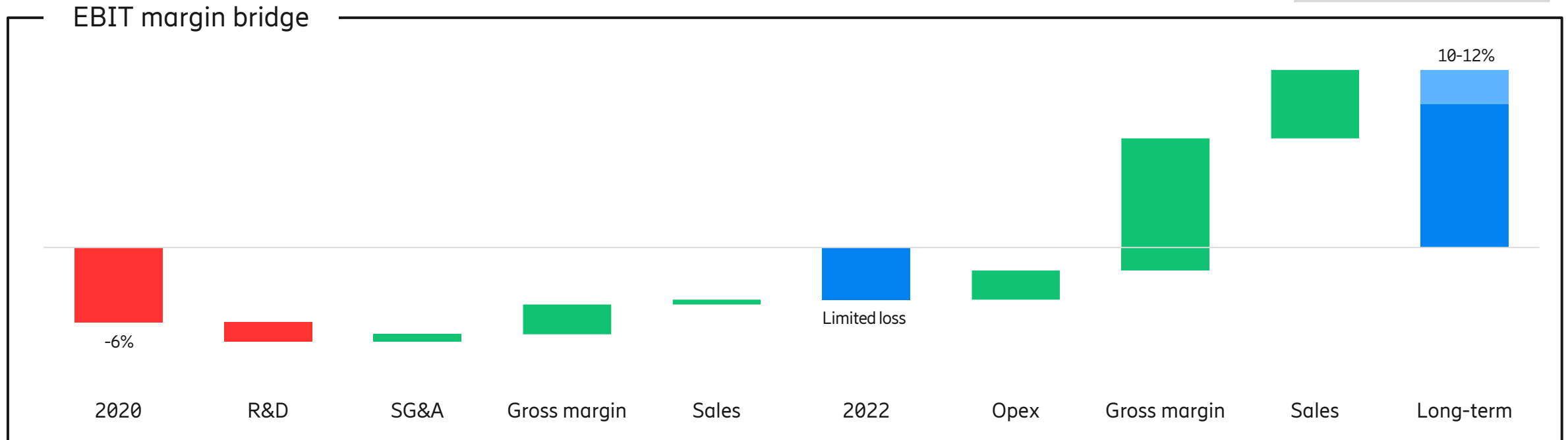
Ericsson related

- The disturbance in the global supply chain, including shortage of individual components, will continue to pose a risk for impact on sales in Networks.
- Annualized revenues from the current portfolio ~SEK 7 b.
As key contracts are approaching expiry, IPR revenues may be impacted until contracts are renewed.
- Digital Services: Break-even is expected in Q4 2021 isolated.

Digital Services – towards long-term profitability



Illustrative



Investing in R&D

- Short-term in 5G Core to secure leadership position
- In automation to drive efficiency and gross margin improvements
- In service orchestration and enterprise portfolio

Gross margin

- Transformation towards software-based and industrialized solutions
- Short-term negatively impacted by initial 5G Core and market share win deployment costs
- Increased ratio of software and recurring revenue driven by 5G Core sales

Net sales

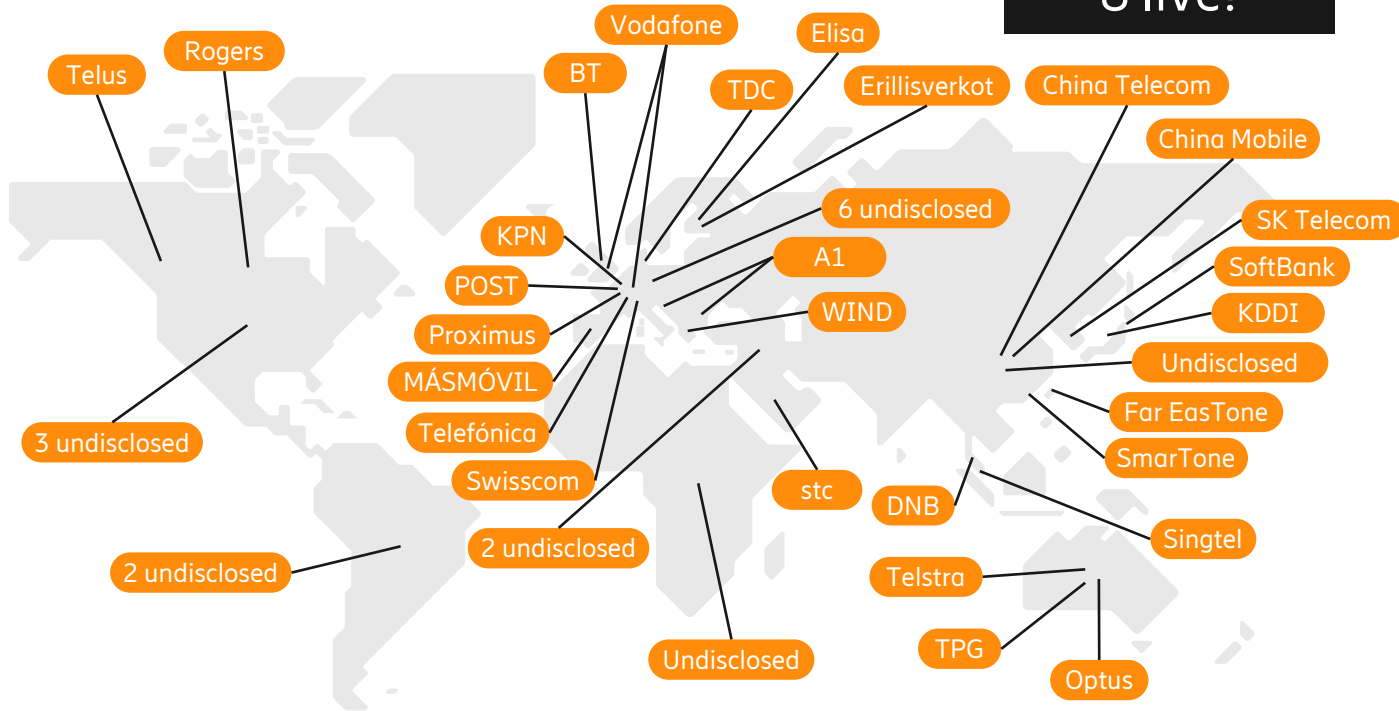
- 5G Core revenue late 2021 and beyond
- Other markets to compensate over time for reduced market share in Mainland China
- Service orchestration and enterprise portfolio in outer years

5G driven momentum across Digital Services' portfolio – highlights



To date 45¹ 5G standalone core (5GC) contracts

8 live!



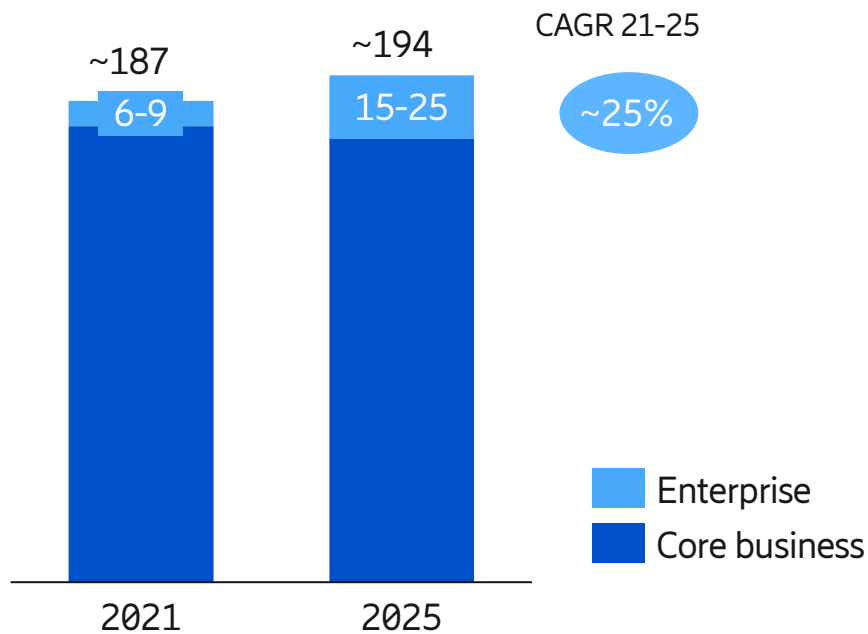
¹October 4, 2021

BSS	Major deals	
	70+ new in 2021	
OSS	Ericsson Orchestrator customers	
	2020 Q3 100+	2021 Q3 130+
Cloud Communication	IMS VoLTE customers	
	2020 Q3 140+	2021 Q3 160+
Cloud Infrastructure	Customer contracts	
	29 new in 2021	
All above as of September 30, 2021		

Gearing for growth - focused expansion into enterprise



Ericsson addressable market (BUSD)



Extend leadership in mobile networks

- Investments in technology leadership for cost and performance
- Strong product portfolio enabling growth as market flattens
- Enterprises increasingly reliant on digital infrastructure based on 5G

Focused expansion into enterprise

- Wireless WAN edge solutions (Cradlepoint) with 29% CAGR 2020-25*
- Cellular IoT connections growth (IoT-A) with 23% CAGR 2020-26**
- Dedicated and mission critical mobile networks – gaining momentum
- Leading customers are exploring commercialization of network slicing
- Organic and in-organic investment opportunities

Prolonged investment cycle – additional demand driven by enterprises

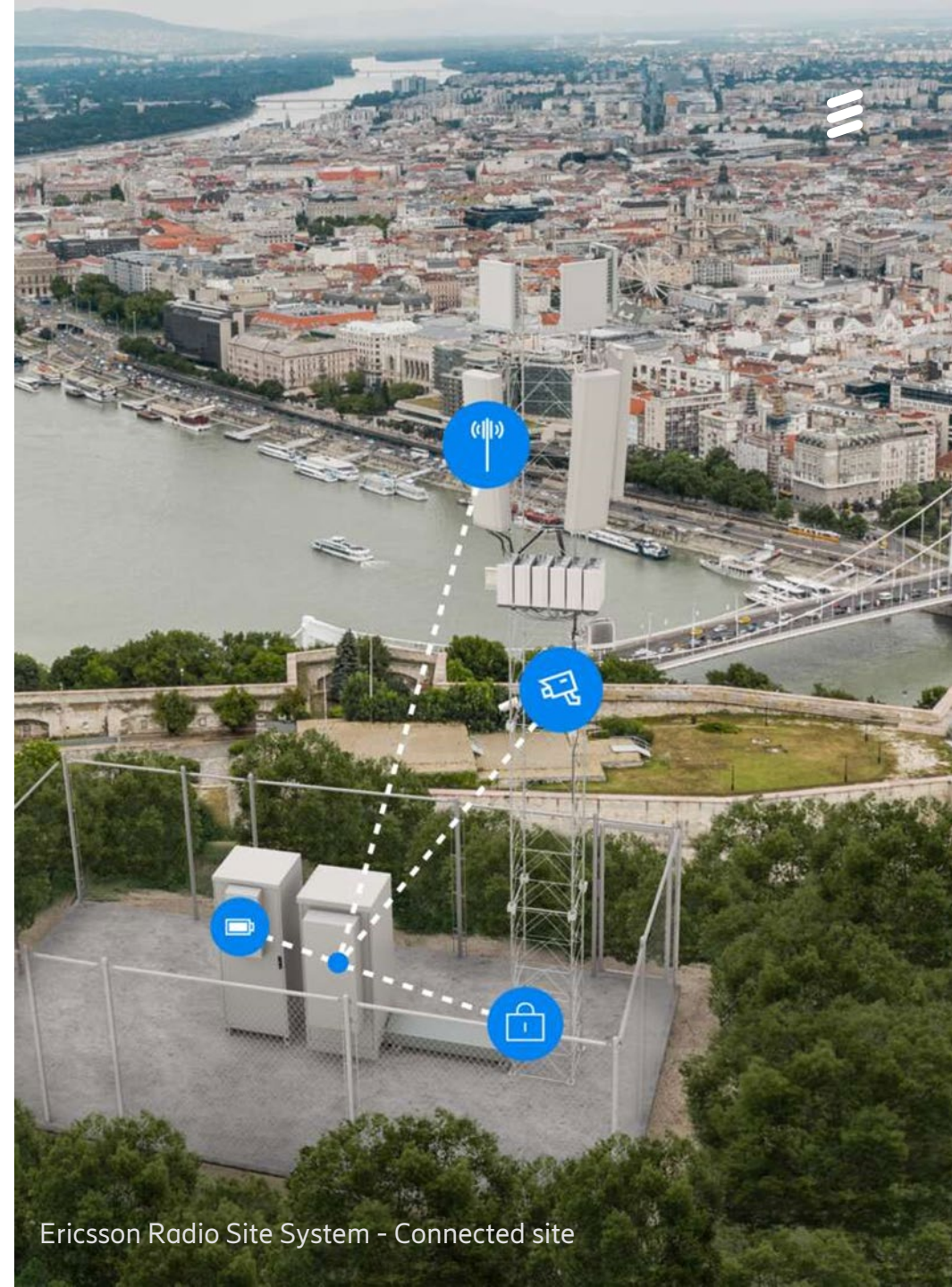
Summary

Börje Ekholm
President and CEO



Closing remarks

- Well positioned to take advantage of market opportunities as 5G continues to be rolled out
- Disturbances in the supply chain – continue to pose a risk
- Continue the successful path of 5G wins in North America
- Enterprise provides an exciting and sustained growth path
- Committed to the 2022 and long-term group targets



Ericsson Radio Site System - Connected site

Q&A





Forward-looking statements



This presentation includes forward-looking statements, including statements reflecting management's current views relating to the growth of the market, future market conditions, future events, financial condition, and expected operational and financial performance, including, in particular the following:

- 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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