Ericsson Third quarter 2022

Oct 20, 2022

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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.

Business overview

Börje Ekholm
President and CEO

Q3 in brief

- Robust underlying performance and strong momentum with global footprint gains
- Gross income improved by SEK 3.4 b. to SEK 28.1 b. driven by sales growth in Networks and Enterprise
- Gross margin impacted by lower IPR, supply chain costs and larger share of services
- New management team in Cloud Software and Services – accelerating transition to profitability
- Expansion into Enterprise gains speed – Vonage acquisition completed
- Continue to engage with the DoJ and the SEC in relation to the 2019 Iraq investigation report and the DPA breach notices

Organic sales:
3%

Gross margin[1]:
41.4%

EBITA margin[1] rolling 4Q:
13%

[1]Excluding restructuring charges
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See the last page in this presentation for further information about forward-looking statements

Financial overview

Carl Mellander
Chief Financial Officer

Q3 2022 in numbers

Financial Performance
Excluding restructuring charges

SEK b.	22Q3	21Q3	YoY	22Q2
Net sales	68.0	56.3	21%	62.5
Organic and FX adj. sales			3%	
Gross Income	28.2	24.8	14%	26.3
Gross margin	*41.4%*	*44.0%*		*42.2%*
R&D expenses	-11.9	-10.2		-11.5
SG&A expenses	-9.4	-6.2		-7.9
Other op. income & expenses	0.2	0.5		0.4
EBITA	7.7	9.3	-17%	7.5
EBITA margin	*11.3%*	*16.5%*		*12.0%*
EBIT	7.2	8.8	-19%	7.4
EBIT margin	*10.6%*	*15.7%*		*11.8%*
Net income[1]	5.4	5.8	-7%	4.7
Free cash flow b. M&A	2.5	13.0	-80%	4.4

- Organic and FX adjusted: +3% YoY
  - Primarily Networks in North America
  - IPR revenues SEK 1.6 (2.6) b.
  - Enterprise: +21% YoY – Cradlepoint & iconectiv
- Gross income[2] increased by SEK 3.4 b. YoY to SEK 28.2 b.
  - Networks and Enterprise (Vonage)
- Gross margin[2] decreased by 260 bps YoY – lower IPR
- Opex[2] increased YoY by SEK 4.9 b
  - FX SEK -1.4 b.
  - Investments in R&D – Networks and Enterprise
  - Vonage SEK -2.1 b. (amort. & one-off SEK -0.6 b.)
- EBITA[2]: SEK 7.7 (9.3) b. – Higher gross income offset by investments in R&D, Enterprise (Vonage) and one-offs of SEK -0.5 b.
- FCF b. M&A: SEK 2.5 (13.0) – increased working capital

[1]Including restructuring charges
[2]Excluding restructuring charges
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Segment summary

Excluding restructuring charges

Mobile Infrastructure

Networks

SEK b.	22Q3	21Q3	YoY	22Q2
Net sales	48.1	40.6	19%	46.0
Gross Inc.	21.4	19.4	10%	20.8
GM %	*44.4%*	*47.8%*		*45.2%*
EBITA	9.7	9.6	0%	8.9
EBITA %	*20.0%*	*23.8%*		*19.4%*
EBIT	9.6	9.6	0%	8.9
EBIT %	*20.0%*	*23.7%*		*19.4%*

- Organic growth: 4% (adj. for IPR +7%)
  - Driven by North America
- Gross income increased by SEK 2.0 b. YoY
  - Driven by market share gains, despite lower IPR revenues
- Gross margin declined 340 bps YoY
  - Impacted by lower IPR, increased supply cost and larger share of services
- EBIT margin – lower GM and higher R&D

Cloud Software and Services

SEK b.	22Q3	21Q3	YoY	22Q2
Net sales	14.2	13.6	4%	14.0
Gross Inc.	4.6	4.6	0%	4.7
GM %	*32.1%*	*33.7%*		*33.5%*
EBITA	-0.7	-0.3		-0.7
EBITA %	*-5.0%*	*-2.3%*		*-5.1%*
EBIT	-0.7	-0.4		-0.7
EBIT %	*-5.2%*	*-3.3%*		*-5.2%*

- Organic growth: -5%
  - Lower IPR revenues and contract descoping in managed services
- Gross income was stable YoY
- Gross margin: Deployment costs for 5G Core and lower share of IPR

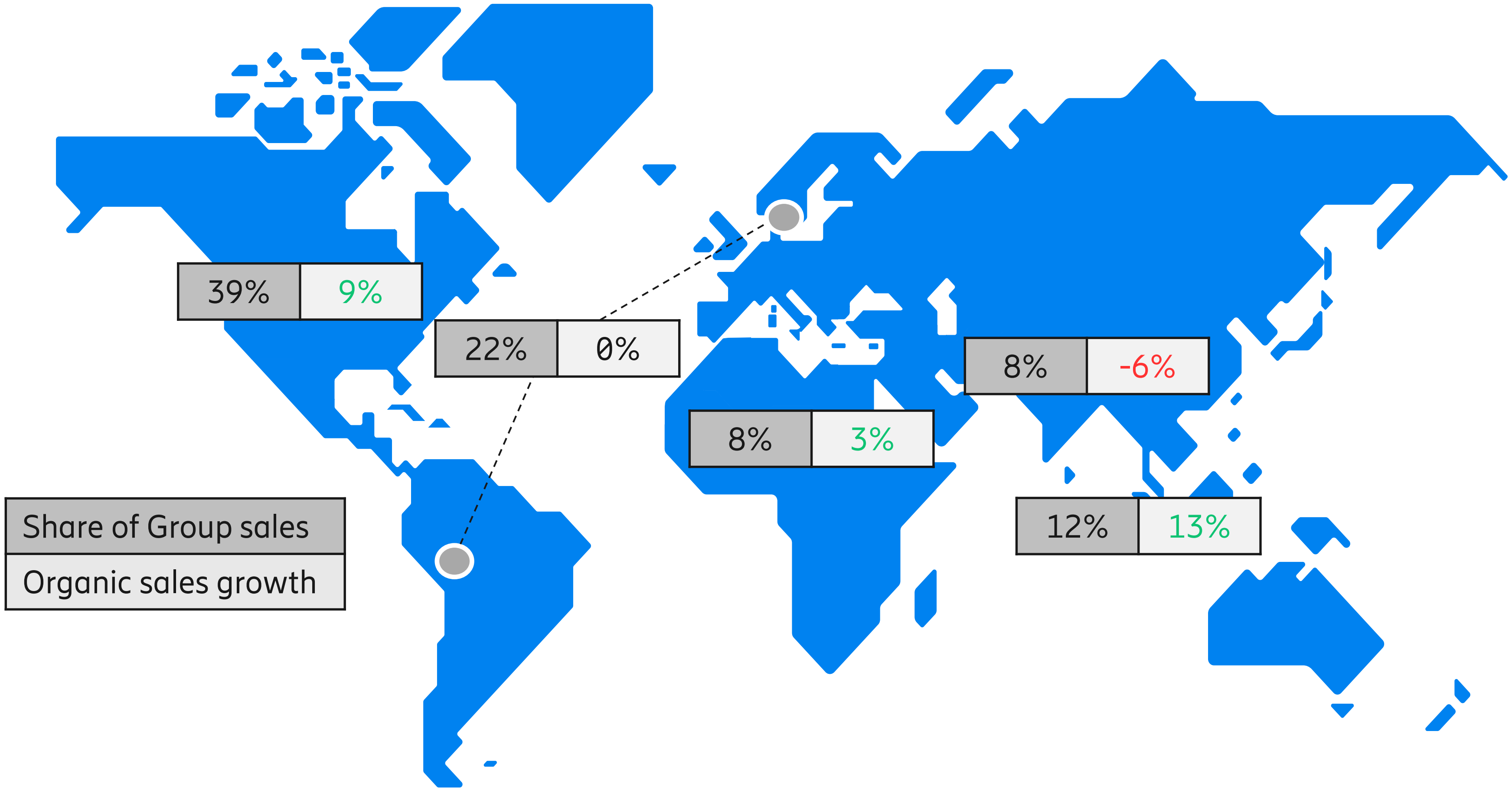
Enterprise

Enterprise

SEK b.	22Q3	21Q3	YoY	22Q2
Net sales	5.2	1.6	231%	1.9
Gross Inc.	2.4	0.8	216%	0.8
GM %	*46.5%*	*48.8%*		*45.0%*
EBITA	-1.2	-0.5		-0.7
EBITA %	*-23.7%*	*-32.3%*		*-38.8%*
EBIT	-1.7	-0.8		-0.8
EBIT %	*-32.4%*	*-52.5%*		*-44.5%*

- Organic growth: +21% – Driven by Cradlepoint
- Vonage added SEK 2.9 b. to reported Sales
- Gross income increased by SEK 1.6 b.
  - Driven by the Vonage acquisition
- Gross margin declined YoY – Vonage
  - Vonage: Impact from PPA of -2.5 percentage points on GM
- EBITA Vonage positive excluding one-off acquisition cost and acquisition accounting adjustments

Market update Q3 – Growth in three market areas



Market area "Other"

10% N/A

 | Third quarter report 2022

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Free cash flow and financial position

Financial Performance

SEK b.	Q322	Q321
EBIT excluding restructuring charges	**7.2**	**8.8**
Depreciation, amortization & impairment losses	2.6	2.4
Restructuring charges	-0.1	0.0
Changes in operating net assets	-3.3	4.9
Interest paid & received, taxes paid and other	-1.8	-1.4
Cash flow from operating activities	**4.7**	**14.7**
Capex net and other investing activities	-1.4	-1.2
Repayment of lease liabilities	-0.7	-0.6
Free cash flow before M&A	**2.5**	**13.0**
Free cash flow before M&A rolling 4Q	18.8	31.3
Net cash end of period	*13.4*	*55.7*
Gross cash end of period	*45.8*	*88.2*

- Free cash flow before M&A of SEK 2.5 (13.0) b.
- Impact from change in operating net assets was SEK -3.3 (4.9) b.
  - Continued high customer collections
  - Inventory of components increased to ensure supply chain resilience – level is expected to decrease towards the end of the year
  - Working capital is expected to remain at a high level as volume ramps up
- Gross cash SEK 45.8 b. and Net cash SEK 13.4 b.

Free cash flow before M&A rolling four quarters: SEK 18.8 b. or 7.3% of net sales (long-term target 9–12%)

Vonage transaction

Purchase price paid on acquisition[1]

Bridge	USD b.	SEK b.
Enterprise value	**6.3**	**64.1**
Net debt (including FTC provision)	N/A	7.1
Acquired net assets	**N/A**	**56.9**
Deferred consideration	N/A	2.0
Purchase price for shares	**N/A**	**55.0**
Cash flow hedge release	N/A	3.7
Purchase price paid on acquisition	**N/A**	**51.3**

Preliminary PPA related to acquisition

- Goodwill of SEK 43.7 b.
- Intangible assets of SEK 21.9 b.
  - Amortization estimate – SEK ~2 b. per year

- Purchase price paid on acquisition: SEK -51.3 b.
  - Support from USD/SEK hedge by SEK 3.7 b.
- Repayment of long-term debt related to Vonage: SEK -5.9 b.
- Pending FTC resolution on historic consumer practices
  - USD 100 m. provision in Vonage's opening balance
  - Final settlement amount could become payable in Q4

[1]Purchase price to acquire shares outstanding net of hedge release of SEK 3.7 billion.
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Outlook

Group:

- **IPR Sales**
  - With current contracts, revenues from IPR are estimated to be SEK 1.0–1.5 b. in Q4
- **Operating expenses**
  - Q3→Q4: Average seasonality last 3 years (2019–2021) excluding Vonage: Increase of SEK -3.1 b.

Networks:

- **Sales:**
  - North America: RAN capex levels are expected to hold up well, albeit at a lower level than in 2022 with initial adjustment to lower levels in Q4 this year
  - Revenues from market share gains expected to accelerate during Q4 compensating for lower sales in North America.
  - Global footprint gains expected to lead to overall growth in 2023
- **Gross Income:**
  - In Q4, revenues from market share gains are expected to contribute to improved gross income, while diluting gross margins
  - Component cost and inflation expected to continue to negatively impact margins in coming quarters
- **EBIT** [1]
  - Full-year 2022 margin for Networks is expected to somewhat exceed financial target range of 16–18%

Cloud software and Services:

- **EBIT** [1]
  - FY 2022 is expected to be in line with FY 2021

[1]Excluding restructuring charges
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Summary

- 5G global build-out continues – expect a longer investment cycle
- Continued investments to drive technology leadership
- Expansion into Enterprise gains speed
- Strengthening cost competitiveness
- Continued success from Networks portfolio
- Lower sales in North America compensated by other regions in Q4 – global footprint gains lead to overall growth in 2023
- Capital Markets Day: December 15, 2022


New product: Radio 6646

EBITA margin[1] rolling 4Q: 13% – dedicated to reach our long-term target no later than in 2024

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Q&A

Closing remarks

Börje Ekholm
President and CEO

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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