Ericsson
First quarter 2019

Apr 17, 2019

Peter Nyquist

Vice President Investor Relations

First quarter 2019

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Börje Ekholm

President and CEO

Key takeaways

- Organic sales growth 7% YoY – third consecutive quarter with growth
  - Driven by North America
- Underlying OM at 7.2% - excluding positive non-recurrent items and restructuring
  - Improvements in all segments YoY
- Competitive 5G offering – strong momentum with lead customers in lead markets
  - Swisscom – commercial 5G services
- Acquiring antenna and filter business from Kathrein, expected to close Q3
- MediaKind divested
- Update on SEC and DOJ investigation – Recently begun settlement discussions
- Continue to invest and leverage our leading portfolio

Q1 2019 in numbers

Financial Performance, Q119

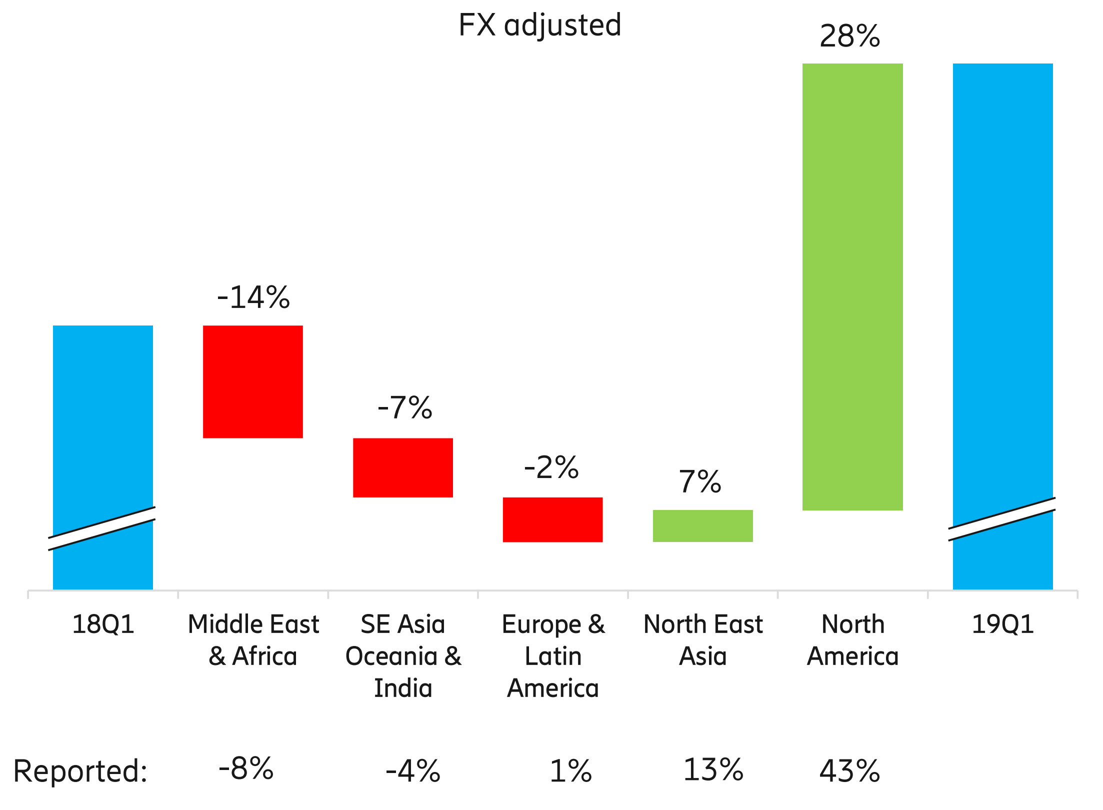
Excluding restructuring charges

SEK b.	19Q1	18Q1	18Q4
Net sales	48.9	43.4	63.8
Gross margin	38.5%	35.9%	32.0%
Operating income	5.1	0.9	2.6
Operating margin	10.4%	2.0%	4.0%
OI ex non-recurrent items	3.5	--	--
OM ex non-recurrent items	7.2%	--	--
Free cash flow excl. M&A	4.1	0.7	3.0

- Organic growth 7% – Reported growth 13%
- Gross margin continued to expand
- Networks – profitable growth
- Digital Services – reduced operating expenses
- Managed Services – increased gross margin
- Emerging Business – improvement driven by iconectiv
- Free cash flow excl. M&A SEK 4.1 (0.7) b.

Market area sales Q119, YoY

Net sales bridge, Q119 YoY



- Middle East & Africa
  - Positive 5G momentum in the Middle East
  - Decline driven by sanctions
- South East Asia, Oceania & India
  - Increased 5G momentum in Australia
  - Decline due to timing of projects in Digital Services
- Europe & Latin America
  - Increase driven by announced contracts in Europe
  - Growth offset by exited Managed Services contracts
- North East Asia
  - 5G deliveries in South Korea – commercial launches
  - Continued 4G deployments in Mainland China
  - 5G trials continue in Mainland China and Japan
- North America
  - 4G and 5G investments – 5G commercial launches
  - Growth in Networks, Digital Services and Managed Services

Carl Mellander

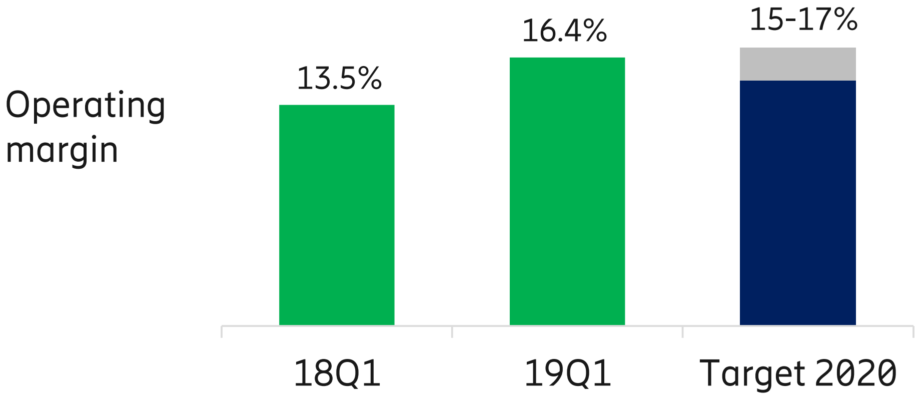
Chief Financial Officer

Networks

Segment Networks – Financial performance

Excluding restructuring charges

SEK b.	19Q1	18Q1	18Q4
Net sales	33.5	28.6	41.6
Gross margin	43.2%	40.4%	41.0%
Operating income	5.5	3.9	7.3
Operating margin	16.4%	13.5%	17.5%
Capitalization impact	*0.3*	*-0.2*	*0.0*



- Sales adjusted for FX: 10% YoY
  - Strong growth in North America – 4G and 5G investments
  - Growth in North East Asia – South Korea 5G investments
- Gross margin increase
  - Increased hardware capacity sales and higher IPR revenues YoY
  - Lower negative impact from strategic contracts QoQ
- Operating income and margin increased YoY
  - Higher sales and gross margin, partly offset by increased R&D
- Transition to ERS completed
- Expanding antenna capabilities – Antenna and filter business from Kathrein, expected to close Q3
- 18 commercial 5G contracts – named customers
- RAN equipment market growth 3% 2019 (Dell'Oro)

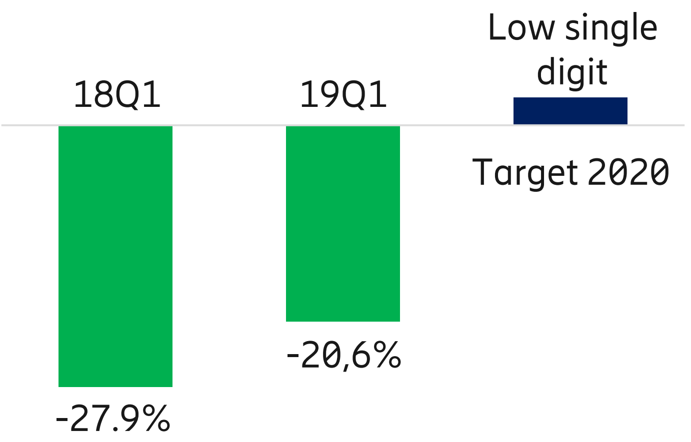
Digital Services

Segment Digital Services – Financial performance

Excluding restructuring charges

SEK b.	19Q1	18Q1	18Q4
Net sales	7.8	7.3	13.0
Gross margin	37.6%	42.9%	16.4%
Operating income	-1.6	-2.0	-3.5
Operating margin	-20.6%	-27.9%	-27.2%
Capitalization impact	*-0.3*	*-0.4*	*-0.6*

Operating margin



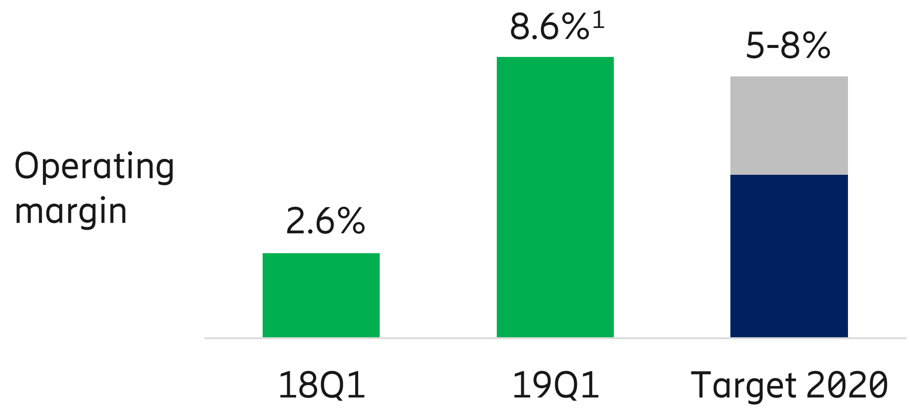
- Sales adjusted for FX stable YoY
  - Growth in Cloud Core and OSS – partly offset by decline in BSS
  - Momentum in new portfolio of 5G-ready and cloud-native products – new product sales +6% rolling 12m
- Underlying gross margin stable QoQ, decline YoY
  - Continued cost reductions
  - Favorable business mix in Q1 2018
- Operating income SEK -1.6 b.
  - Operating expenses reduced SEK 0.6 b. YoY, despite FX headwind
  - BSS strategy implementation on track
  - 25 of the 45 contracts addressed to date (2 in Q1)
  - Target to materially reduce losses in 2019 – tracking towards profit in 2020

Managed Services

Segment Managed Services – Financial performance

Excluding restructuring charges

SEK b.	19Q1	18Q1	18Q4
Net sales	5.9	5.9	6.9
Gross margin	17.7%	9.1%	12.4%
Operating income	1.3	0.2	0.4
Operating margin	21.4%	2.6%	5.2%
OI excl. provision reversal	0.5	--	--
OM excl. provision reversal	8.6%	--	--



[1]Underlying, excluding provision reversal

- Sales adjusted for FX -5% YoY
  - Lower sales due to contract exits
  - Growth in Network Design and Optimization (NDO)
  - High variable sales in MS Networks
- Gross margin improved significantly
  - Contract exits and efficiencies YoY
  - QoQ lower costs following high costs in Q4 2018 and a shift of resources and cost to R&D
- Operating income
  - Operating income improved to SEK 1.3 (0.2) b. driven by provision reversal for impairment of trade receivables
  - Excluding the provision reversal, operating income amounted to SEK 0.5 b. → Operating margin 8.6%
- Ericsson Operations Engine launched
  - Continued investments in automation, analytics and AI

Emerging Business & Other

Segment EB & Other – Financial performance

Excluding restructuring charges

SEK b.	19Q1	18Q1	18Q4
Net sales	1.8	1.7	2.3
Gross margin	23.5%	24.3%	17.1%
Operating income	0.0	-1.1	-1.5
Operating margin	-1.3%	-67.5%	-67.1%
OI excl. capital gains	-0.8	--	--
OM excl. capital gains	-47.9%	--	--

SEK b.	19Q1	18Q1	18Q4
Emerging Business, iconectiv and com. costs			
Net sales	1.0	0.6	1.0
Operating income	-0.5	-0.6	-0.9
Media Solutions			
Net sales	0.1	0.5	0.7
Operating income	0.4	-0.4	-0.5
Red Bee Media			
Net sales	0.6	0.5	0.6
Operating income	0.0	-0.1	-0.1

— Emerging Business incl iconectiv
  - Sales growth +67% driven by iconectiv - number portability contract in United States
  - Launched "Ericsson Industry Connect"
  - Initiatives managed based on positive NPV and within 2022 Group targets.

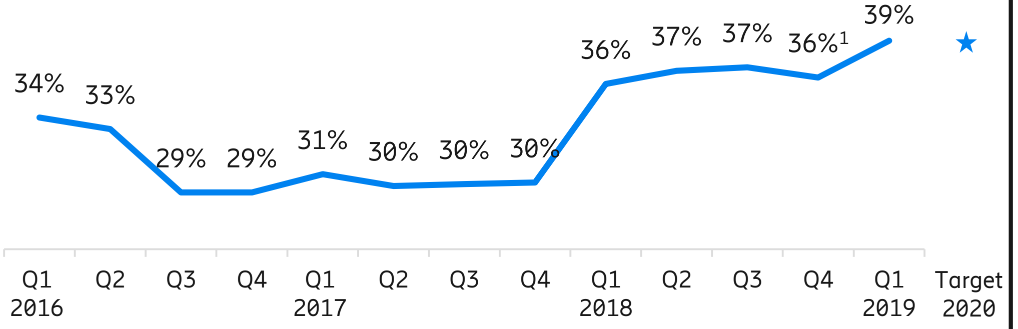
— Media Solutions
  - 51% of MediaKind divested February 1
  - Capital gain of SEK 0.7 b. partly offset by January losses including transaction related costs

— Red Bee Media
  - Positive impact on income from divestment of certain assets

Gross margin

Excluding restructuring charges

Underlying gross margin development from 2016



2016 and 2017: adjusted as per 2017 reporting, before IFRS 15 restate

[1]excluding costs for revised BSS strategy

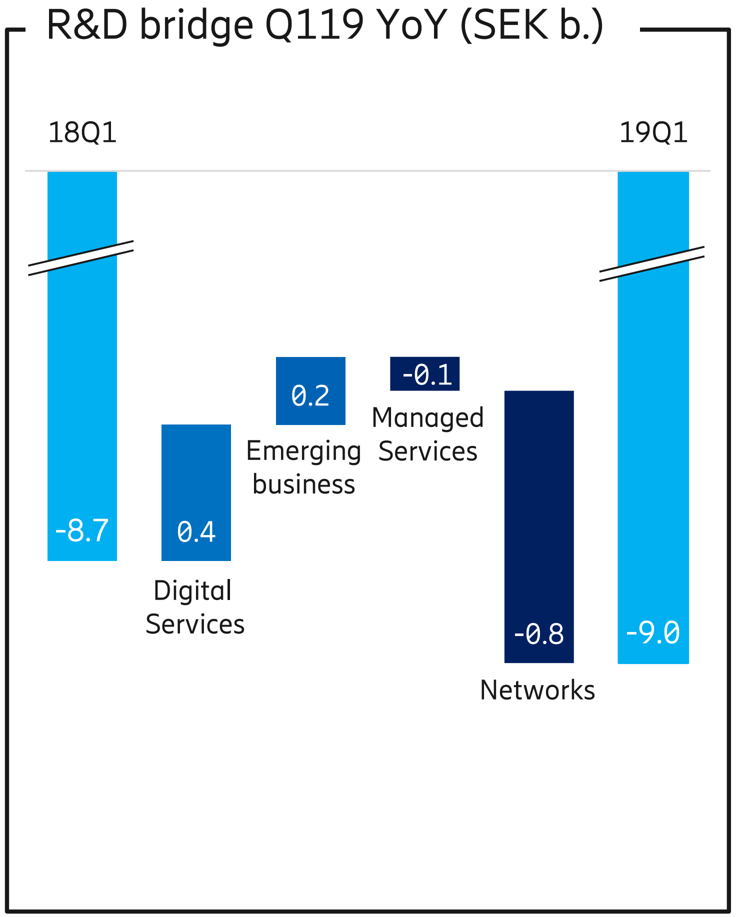
— Gross margin improved QoQ
  - Lower negative impact from strategic contracts in Networks
  - IPR revenues
  - Lower costs following high costs in Q4 2018 and a shift of resources and cost to R&D in Managed Services

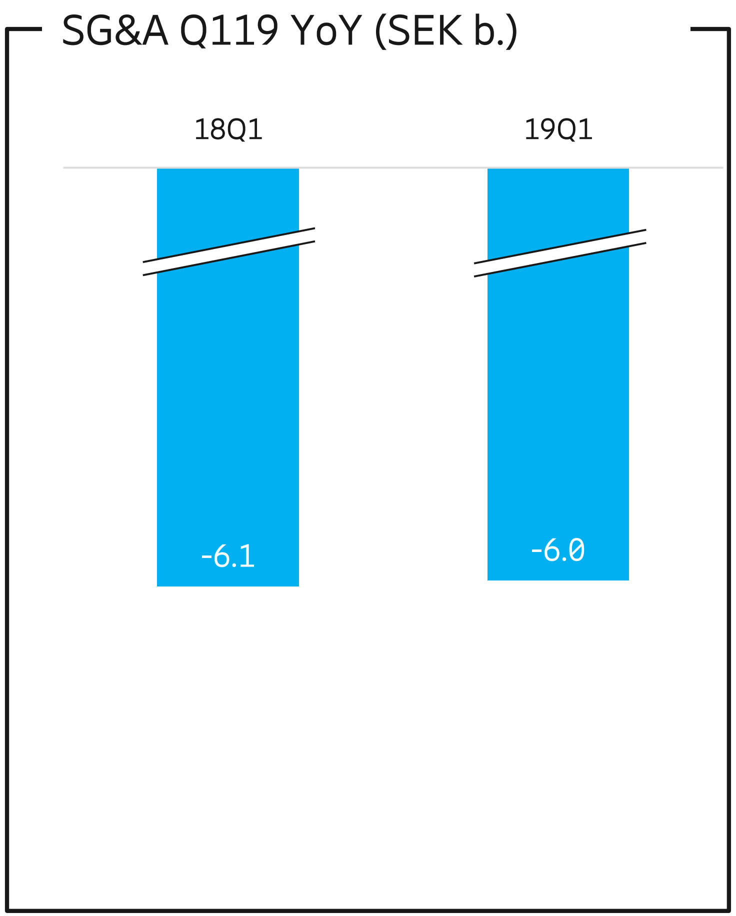
— Gross margin YoY 38.5% (35.9%)
  - Hardware capacity sales
  - IPR revenues
  - Contract exits and efficiencies in Managed Services
  - Positive capitalization impact YoY, SEK 0.2 b.

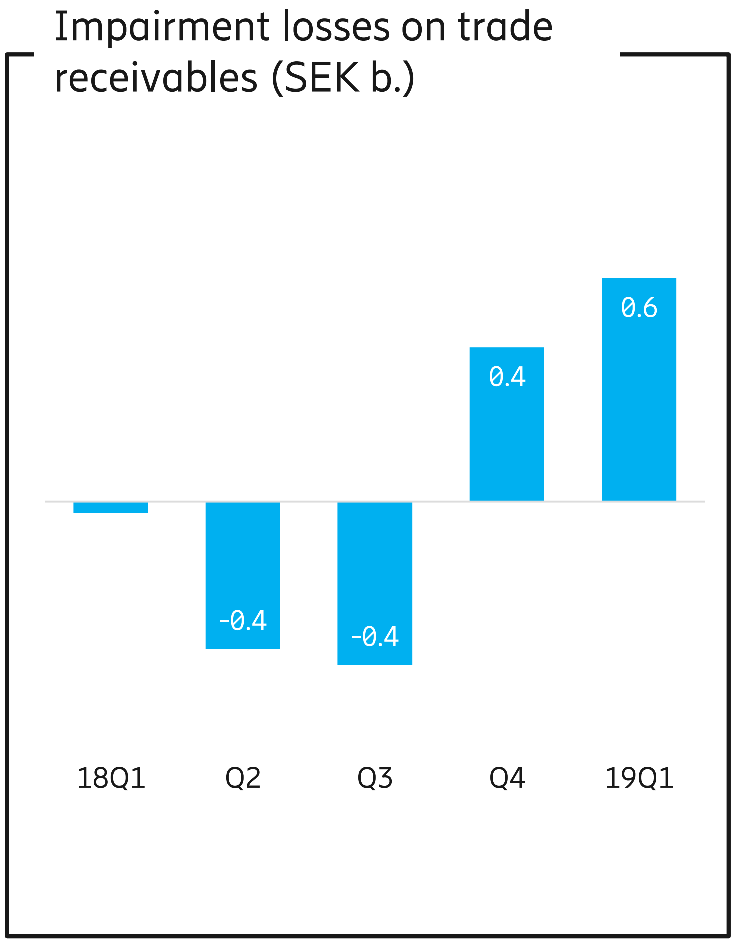
Continued strong gross margin – driven by Networks, Managed Services and IPR

Operating expenses

Excluding restructuring charges







Increased R&D in Networks – reductions in Digital Services

SG&A expenses stable YoY despite negative FX impact

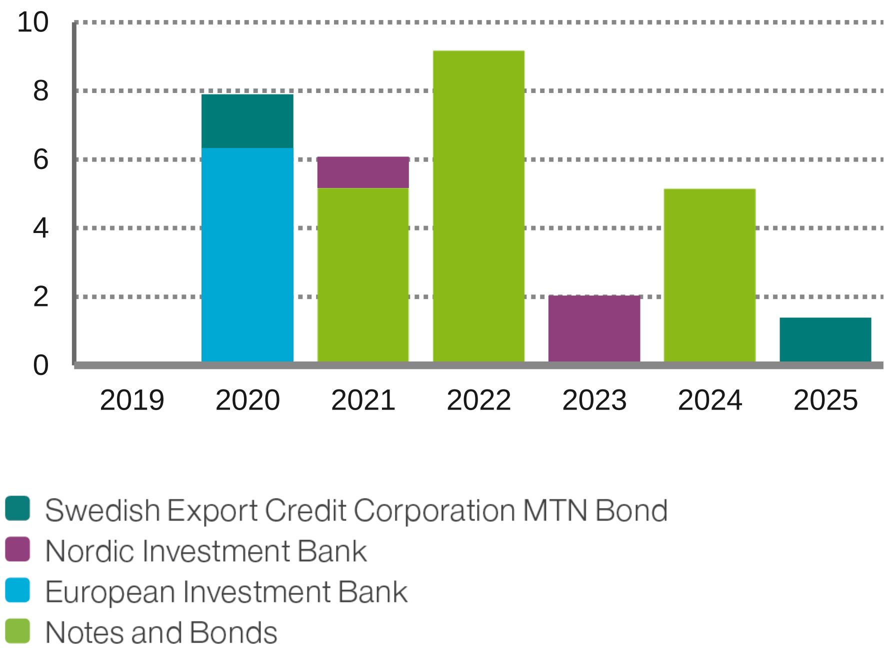
Recovery of over-dues

Free cash flow

Financial Performance

SEK b.	19Q1	18Q1
Net income reconciled to cash	5.5	-1.0
Change operating net assets	0.3	2.6
Cash flow from operating activities	**5.8**	**1.6**
CAPEX	-1.3	-0.9
Other	-0.4	0.0
Free cash flow excluding M&A	**4.1**	**0.7**
M&A	0.3	-0.4
Free cash flow	**4.4**	**0.3**
Net cash end of period	*36.1*	*35.6*
Gross cash end of period	*71.7*	*69.3*

Debt maturity profile (SEK b.)



Free cash flow excluding M&A SEK 4.1 b. – Impact from IFRS 16 SEK 0.6 b.

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

Planning assumptions – summary

Please see the Q1 report for the complete planning assumptions

Market

- RAN equipment market 3% FY 2019, 2% CAGR 2018-2023 (Dell'Oro)

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- Net sales
  - Lower than normal sales seasonality between quarters throughout 2019 - current sales level in NA expected to remain. Normal seasonality Q1→Q2 10%.
  - Baseline for IPR ~SEK 9 b., on an annual basis
- Gross margin
  - Limited impact from strategic contracts in Networks in Q1, will start to impact gross margin in Q2
  - Large 5G deployments in parts of Asia expected to commence end 2019 – short-term negative gross margin impact
  - Gradual increase of share of services sales in North America – impacting GM negatively
- Operating expenses
  - Opex typically increase Q1→Q2 due to seasonality
  - Continued cost for field trials – will increase during the next few quarters
  - Networks R&D expenses are expected to flatten out
- Restructuring charges and Tax
  - Restructuring charges for full-year 2019 are estimated to be SEK 3-5 b.
  - Q1 2019 tax rate 44%. The rate is a result of forecasted geographical profit distribution for FY 2019

Based on current visibility, assessments and FX rates

Börje Ekholm

President and CEO

Closing remarks

- Continued 5G momentum and RAN market back to growth
- Will continue to invest and leverage our leading portfolio to capture market opportunities
- Continued strong focus on operational efficiency, now combined with strategy for disciplined growth
- Confident in reaching 2020 and 2022 financial targets

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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