

Ericsson First quarter 2020

Apr 22, 2020





Peter Nyquist

Vice President Investor Relations



First quarter 2020

Apr 22, 2020

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

Key takeaways

- Covid-19 world impact – key driver health and safety employees, customers, stakeholders
- Solid result driven by improvements across segments
- Digital Services sales declined but strong underlying business
- Solid cash flow and further strengthened cash position
- The industry is showing resilience
- Well positioned with a competitive 5G portfolio – 86 commercial agreements and 29 live networks
- Positive long-term but Q2 is likely to be softer than normal
- With current visibility we see no reason to change our financial targets for 2020 and 2022



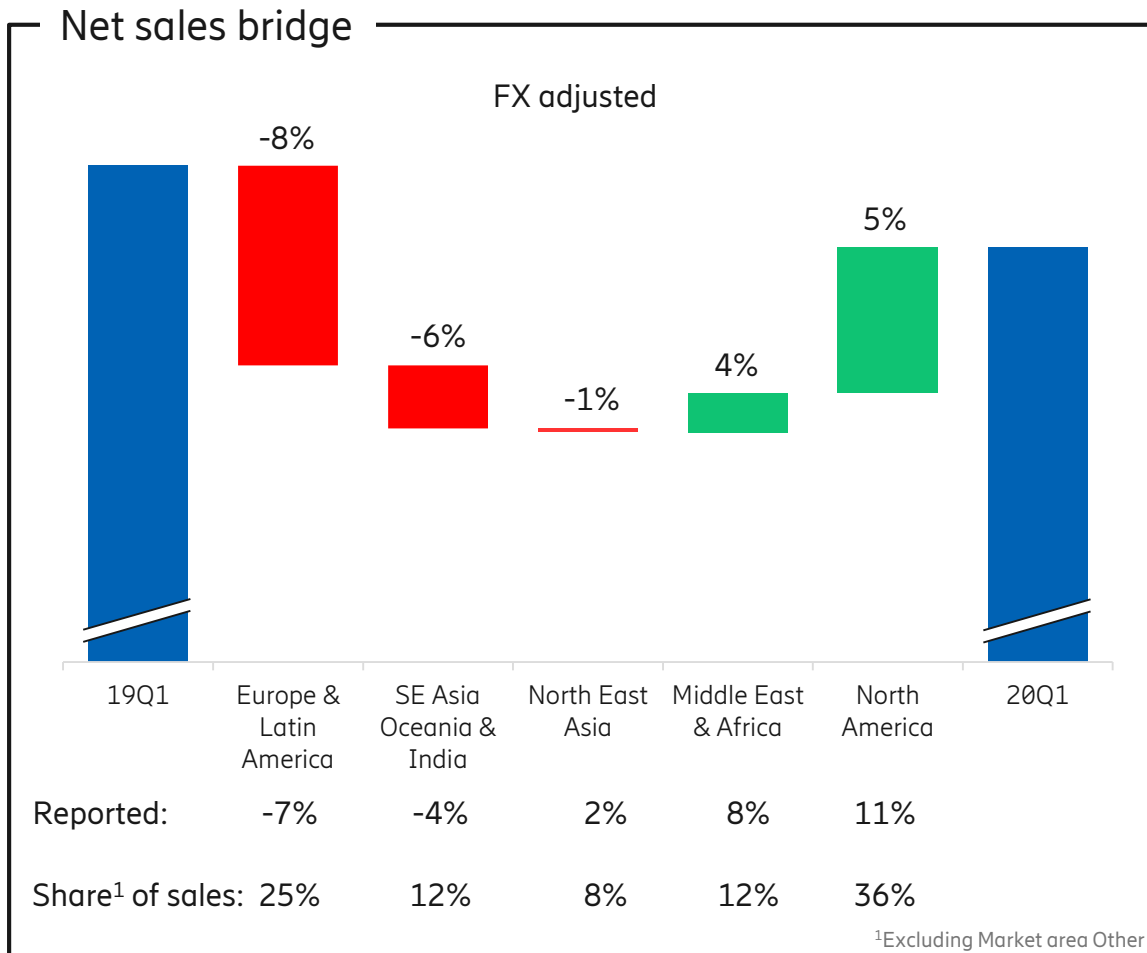
Covid-19 actions



- Early implemented actions – 85.000 of total workforce working from home
- Travel restrictions in place since February
- Withdrew from Mobile World Congress – cancelled all external events
- Supply – secure dual mode production and taking precautionary activities to keep supply operational
- Service Delivery – maintained full-service continuity 24x7 for the customers' networks
- R&D – multi site strategy & routines to minimize the impact on hardware and software development
- Network Operation Centers – balanced workload & employees able to shift to remote working

Health and safety of our employees, customers and other stakeholders key priority

Market area sales Q120, YoY



- Europe & Latin America
 - Growth in Networks Europe offset by decline in Latin America (large deployments in 2019)
 - Managed Services sales declined due to contract exits
- South East Asia, Oceania & India
 - Sales declined in Networks and Digital Services due to timing of project deliveries and milestones
 - The situation in India remains challenging
- North East Asia
 - Growth in Networks and Digital Services in Japan
 - Decline in 4G deployment in China
- Middle East & Africa
 - 4G and 5G deliveries in key markets
- North America
 - Sales increased driven by 5G momentum
 - Managed Services flat YoY. Operator merger expected to impact negatively from Q2

Ericsson equipment (radio and core) in 29 live 5G networks

Segment summary

Excluding restructuring charges and items affecting comparability in 2019¹



Networks

SEK b.	20Q1	19Q1	YoY	19Q4
Sales	35.1	33.5	5%	44.4
Organic			0%	
Gross margin	44.6%	43.2%		41.1%
Op. income	5.9	5.5	8%	6.4
Op. margin	16.8%	16.4%		14.5%



- Continued strong momentum in 5G
- Improved operating margin YoY – driven by business mix and software
- Continued technology leadership – driving financial performance

Managed Services

SEK b.	20Q1	19Q1	YoY	19Q4
Sales	5.7	5.9	-2%	7.0
Organic			-5%	
Gross margin	20.6%	17.7%		15.4%
Op. income	0.7	0.5	29%	0.3
Op. margin	11.4%	8.6%		4.8%



- Sales declined YoY driven by contract exits
- Gross margin increased – efficiency gains and timing of costs
- Rolling four quarters operating margin 6.9%

Digital Services

SEK b.	20Q1	19Q1	YoY	19Q4
Sales	7.3	7.8	-6%	13.2
Organic			-9%	
Gross margin	40.1%	37.6%		38.1%
Op. income	-1.4	-1.6		0.0
Op. margin	-19.6%	-20.6%		0.3%



- Services and hardware sales declined. New portfolio grew 10% YoY
- Gross margin improved to 40% – software sales contributed
- Important 5G Core contracts awarded

Emerging Business & Other

SEK b.	20Q1	19Q1	YoY	19Q4
Sales	1.6	1.8	-11%	1.7
Organic			-8%	
Gross margin	21.9%	23.5%		15.1%
Op. income	-0.5	-0.8		-0.8
Op. margin	-32.7%	-47.9%		-47.8%



- Continued growth in Emerging Business
- Underlying income improved YoY
- Investing in IoT



Carl Mellander

Chief Financial Officer

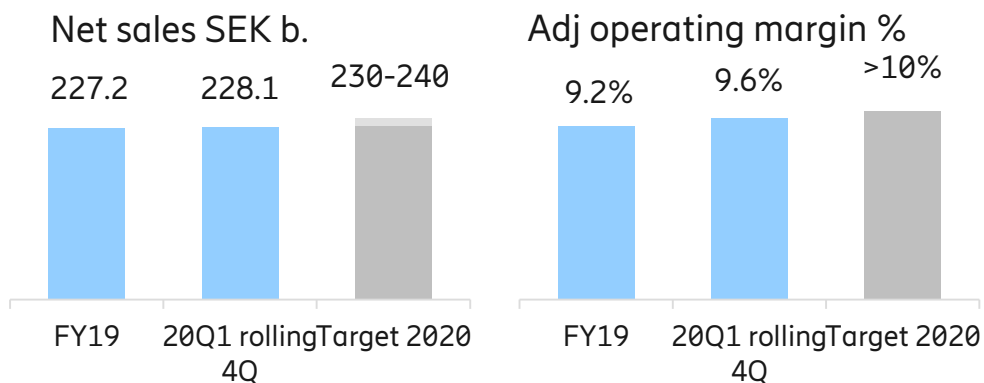
Q1 2020 in numbers



Financial Performance

Excluding restructuring charges

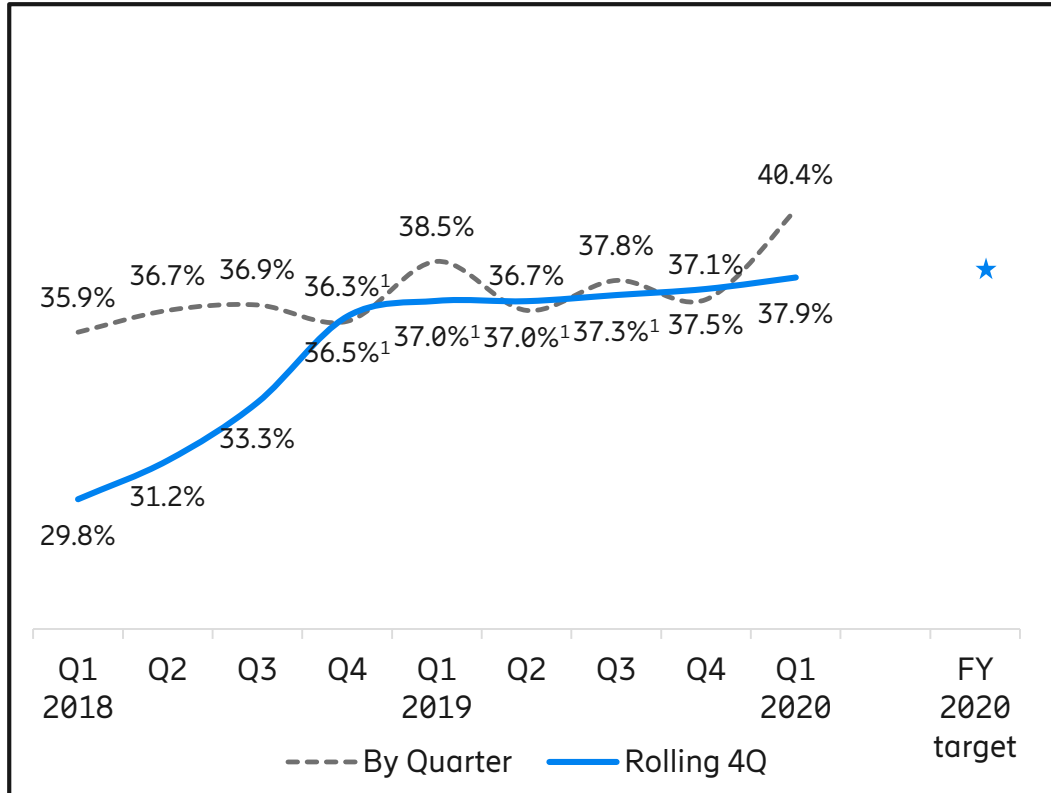
SEK b.	20Q1	19Q1	YoY	19Q4
Net sales	49.8	48.9	2%	66.4
Organic and FX adj. growth			-2%	
Gross margin	40.4%	38.5%		37.1%
Operating income	4.6	5.1	-10%	6.5
Items affecting comp.	0.0	1.6		0.5
Adj operating income	4.6	3.5	30%	6.0
Adj operating margin	9.3%	7.2%		9.0%



- Organic and FX adjusted sales declined YoY due to lower revenue in Digital Services
- Gross margin
 - Improved YoY – driven by Networks (favorable business mix), Digital Services (higher share of software) and Managed Services (efficiency improvements)
 - QoQ – improvements in all segments and higher share of IPR licensing revenues
- Operating income
 - Adjusted operating income improved in all segments YoY
 - Positive items affecting comparability in 19Q1 amounted to SEK 1.6 b. and in 19Q4 SEK 0.5 b.
 - Adjusted operating margin improved YoY and QoQ

Gross margin

Excluding restructuring charges



¹excluding costs for revised BSS strategy

- QoQ development
 - Higher share of IPR revenues
 - Improvements in all segments
- Planning assumptions
 - Larger share of strategic contracts incl. China 5G is expected to impact Q2 – partly offset by operational improvements
 - Investments in North America are expected to intensify during the 2H 2020
 - Managed Services and Digital Services gross margins established on a higher level - may still vary between quarters

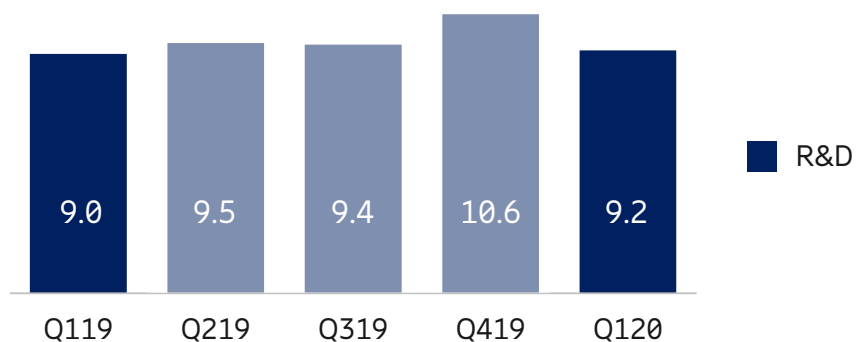
2020 full-year targets account for an increasing share of strategic contracts, including 5G in China

R&D and SG&A expenses YoY



Excluding restructuring charges

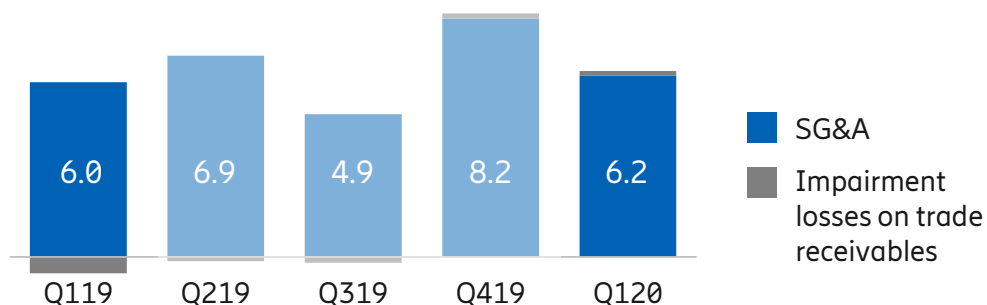
R&D SEK b.



— R&D expenses YoY

- Increase mainly in Networks
- Lower effect from capitalized and amortized development expenses in Digital Services
- Invest in 5G and AI across all segments

SG&A and impairment losses on trade receivables SEK b.



— SG&A expenses YoY

- Increased investments in digitalization
- Customer financing provisions of SEK -0.3 (-0.2) b.

— Impairment losses on trade receivables YoY

- SEK -0.2 (0.6) b. Q119 impacted by reversal of provision

Free cash flow



Financial Performance

SEK b.	20Q1	19Q1
Net income adjusted for non-cash items	4.7	5.5
Working capital changes	-0.4	0.3
Cash flow from operating activities	4.3	5.8
Capex (net) including product development	-1.3	-1.5
Other investing activities & lease liabilities	-0.6	-0.8
Free cash flow before M&A	2.3	3.5
M&A	-0.2	0.3
Free cash flow	2.1	3.8

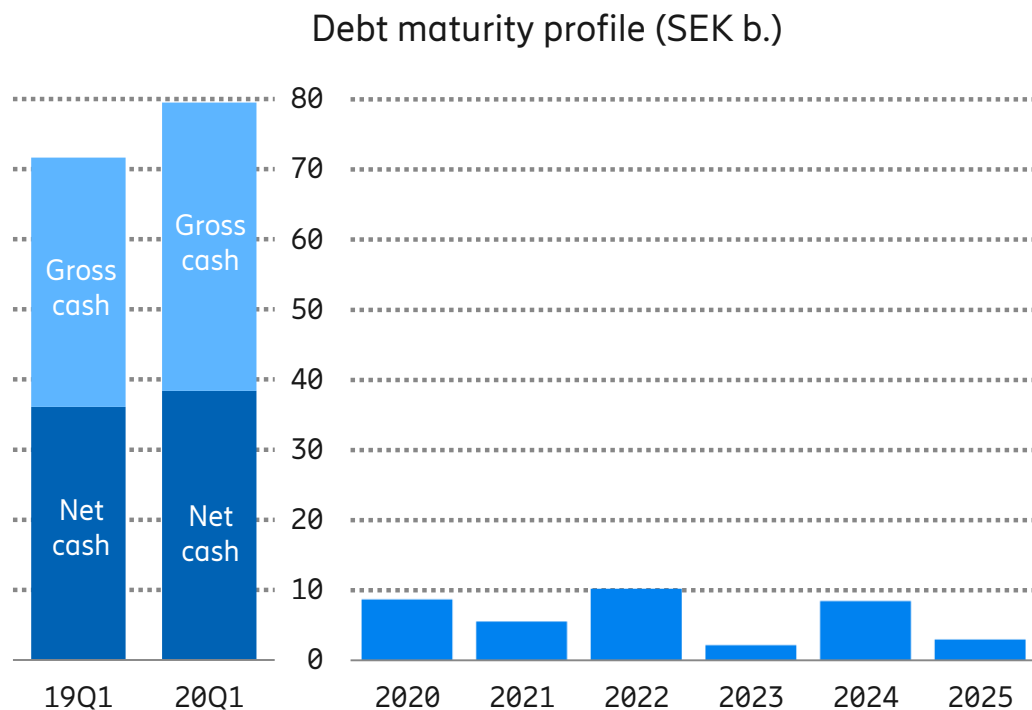
- Free cash flow before M&A SEK 2.3 (3.5) b.
 - Contributing to improved cash position
 - Positive one time item in 19Q1 of SEK 0.7 b.
- Working capital impact SEK -0.4 b.
 - Reduced trade payables and somewhat higher inventories were offset by lower trade receivables
 - Provisions of SEK 0.7 b. utilized in the quarter of which SEK 0.2 b. restructuring
- Reduced investments in PPE and less capitalized development expenses compared with last year

Free cash flow before M&A of SEK 16.6 b. rolling four quarters (excl DOJ/SEC)

Financial position



Cash position and debt maturity profile (SEK b.)



- Gross cash position of SEK 79.5 b. and net cash of SEK 38.4 b.
- SEK 8.7 b. of debt will mature in Q4 2020
- Average maturity of long-term borrowings 2.4 years
- Undrawn credit facility of EUR 250 m. and long-term revolving credit facility of USD 2 b.

Strong financial position and well balanced debt maturity profile



Börje Ekholm

President and CEO

Closing remarks



- Business fundamentals remain strong
- Our focused strategy is paying off. Leader in 5G with 29 live 5G networks and 86 agreements end of March
- European governments should encourage 5G investments as a way to restart economies.
- Ericsson continues to invest in market leading portfolio and is well positioned for future wins
- Solid Q1 with improvement in gross margin
- Financial targets for 2020 and 2022 remain with current visibility





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.

The words "believe," "expect," "foresee," "anticipate," "assume," "intend," "likely," "projects," "may," "could," "plan," "estimate," "forecast," "will," "should," "would," "predict," "aim," "ambition," "seek," "potential," "target," "might," "continue," or, in each case, their negative or variations, and similar words or expressions are used to identify forward-looking statements. Any statement that refers to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements.

We caution investors that these statements are subject to risks and uncertainties many of which are difficult to predict and generally beyond our control that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to, the factors described in the section Risk factors in the most recent Annual Report and in our quarterly reports.

These forward-looking statements also represent our estimates and assumptions only as of the date that they were made. We expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them, after the date of this presentation, to reflect events or changes in circumstances or changes in expectations or the occurrence of anticipated events, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

This presentation does not constitute an offer to sell, or the solicitation of an offer to buy, any of our securities. It does not constitute a prospectus or prospectus equivalent document and investors should not make any investment decision in relation to any shares referred to in this presentation. No offer of securities shall be made except by means of a prospectus meeting the requirements of the Securities Act and applicable European rules and regulations.