

Ericsson Second quarter 2019

July 17, 2019





Peter Nyquist

Vice President Investor Relations



Second quarter 2019

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Börje Ekholm

President and CEO

Key takeaways



- Strong momentum in 5G business – new contracts and live networks
- All customer engagements focus on 5G, across all geographies
- 5G will move from consumer to industry driven use cases
- Organic sales growth 7% YoY
- Cash flow before M&A SEK 2.2 b.
- Continue to invest and leverage our leading portfolio

Q2 2019 in numbers



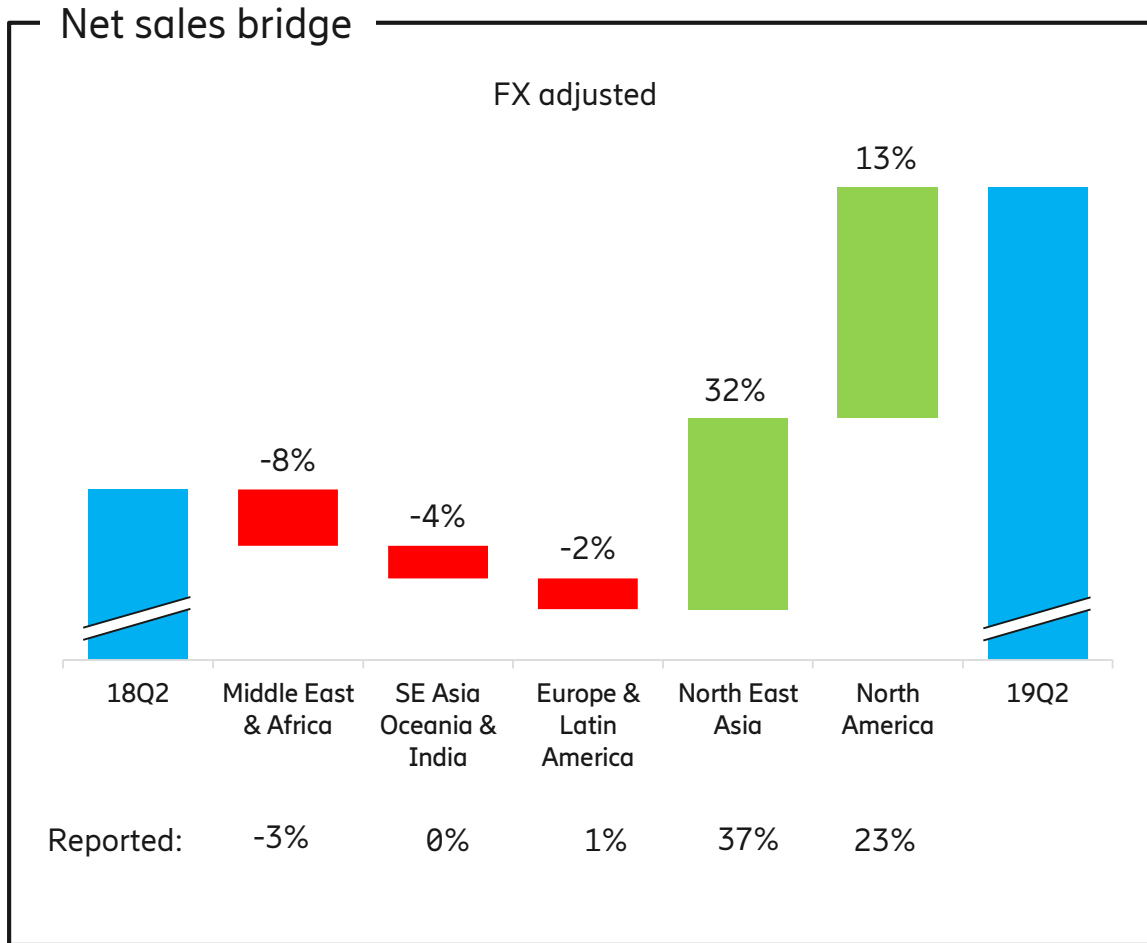
Financial Performance

Excluding restructuring charges

SEK b.	19Q2	18Q2	19Q1
Net sales	54.8	49.8	48.9
Gross margin	36.7%	36.7%	38.5%
Operating income	3.9	2.0	5.1
Operating margin	7.0%	4.1%	10.4%
OI ex non-recurrent items	--	--	3.5
OM ex non-recurrent items	--	--	7.2%
Net Income	1.8	-1.8	2.4
Free cash flow before M&A	2.2	-0.2	4.1

- Organic growth 7% – Reported growth 10%
- Operating margin improved YoY – underlying margin stable QoQ
- Networks – profitable growth including negative effect from strategic contracts
- Digital Services – continued reduced losses, committed to 2020 targets – improvements non-linear
- Managed Services – timing of costs impacts margin, continued investments in R&D
- Emerging Business – improved result, first quarter excluding MediaKind
- Free cash flow before M&A SEK 2.2 (-0.2) b. – including SEK 3.7 b. of cash outlays for provisions and restructuring

Market area sales Q219, YoY



- Middle East & Africa
 - Decline driven by timing of project milestones, and contract exits in Managed Services
- South East Asia, Oceania & India
 - Growth in Managed Services (new contract 2018)
 - Digital Services declined due to lower legacy product sales
- Europe & Latin America
 - Decline in Managed Services from exited contracts, partly offset by announced Networks contracts in Europe
- North East Asia
 - 5G deliveries in South Korea
 - Continued 4G deployments in mainland China
 - Commercial 5G licenses issued in mainland China
- North America
 - 4G and 5G investments
 - Growth in Managed Services

Ericsson equipment (radio and core) in 15 live 5G networks on four continents



Carl Mellander

Chief Financial Officer

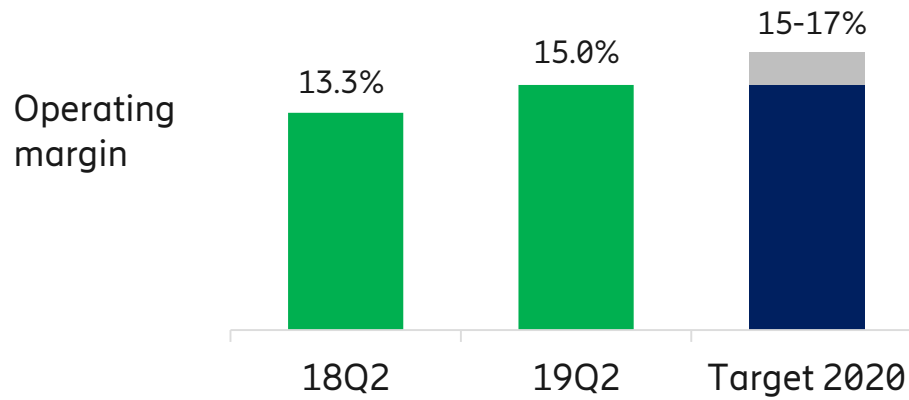
Networks



Segment Networks – Financial performance

Excluding restructuring charges

SEK b.	19Q2	18Q2	19Q1
Net sales	37.8	32.4	33.5
Gross margin	41.4%	40.2%	43.2%
Operating income	5.7	4.3	5.5
Operating margin	15.0%	13.3%	16.4%
<i>Capitalization impact</i>	<i>0.4</i>	<i>0.0</i>	<i>0.3</i>



- Sales adjusted for FX 11% YoY
 - Strong growth in North America and in North East Asia – 4G and 5G investments
 - QoQ reported growth 13% – North America +3% in USD
- Gross margin
 - YoY growth, driven by higher IPR and positive business mix, partly offset by settlement costs and negative impact from strategic contracts
 - Lower IPR impacted GM negatively QoQ
- Operating income and margin increased YoY
 - Higher sales and gross margin, partly offset by increased R&D and 5G trial cost

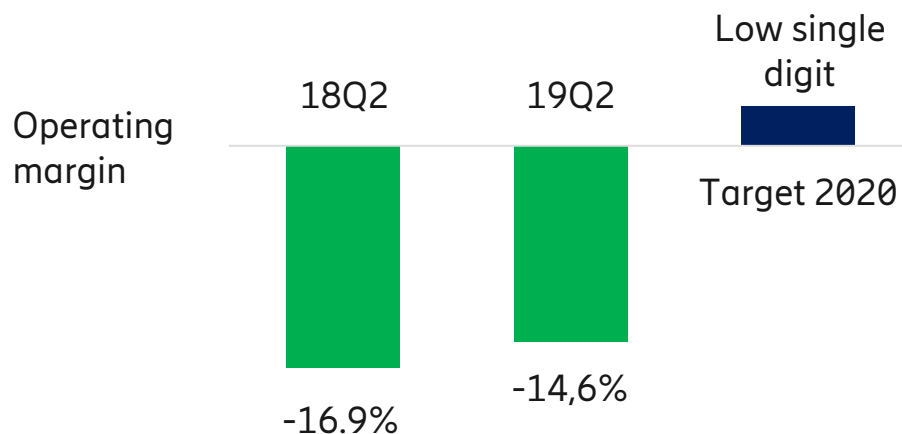
Digital Services



Segment Digital Services – Financial performance

Excluding restructuring charges

SEK b.	19Q2	18Q2	19Q1
Net sales	9.0	8.8	7.8
Gross margin	37.1%	42.6%	37.6%
Operating income	-1.3	-1.5	-1.6
Operating margin	-14.6%	-16.9%	-20.6%
<i>Capitalization impact</i>	<i>-0.3</i>	<i>-0.4</i>	<i>-0.3</i>



- Sales adjusted for FX -3%
 - Decline in legacy business
 - Momentum in new portfolio of 5G and cloud-native products
 - New BSS strategy gaining traction – several new customers
- Gross margin impacted by business mix YoY and QoQ
 - Reduced software share
 - Business mix varies between quarters
 - Continued cost reductions
- Operating income – continued reduced losses
 - Operating expenses¹ reduced by SEK 0.9 b. YTD, despite FX headwind
 - 27 of the 45 contracts addressed to date (2 in Q2), tracking towards 75% completed end 2019
 - Improvements may vary between quarters – tracking towards 2020 target

¹Excluding restructuring charges and capitalization impact

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

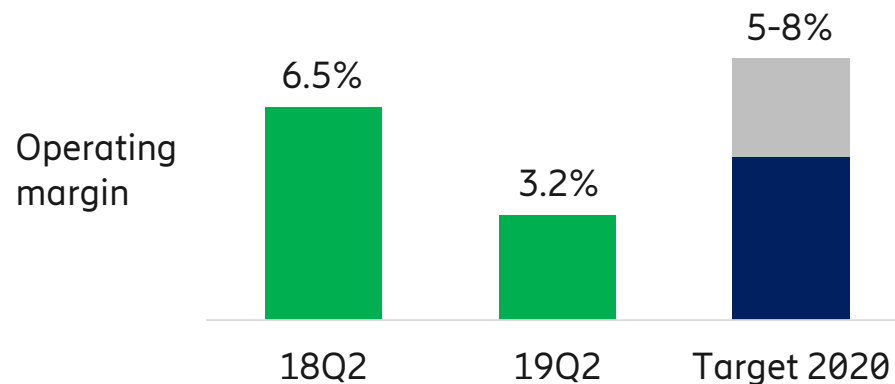
Managed Services



Segment Managed Services – Financial performance

Excluding restructuring charges

SEK b.	19Q2	18Q2	19Q1
Net sales	6.3	6.5	5.9
Gross margin	12.3%	14.0%	17.7%
Operating income	0.2	0.4	1.3
Operating margin	3.2%	6.5%	21.4%
OI excl. provision reversal	--	--	0.5
OM excl. provision reversal	--	--	8.6%



- Sales adjusted for FX -6% YoY
 - Lower sales due to contract exits
 - Growth in Network Design and Optimization (NDO)
- Gross margin declined YoY and QoQ
 - Negative impact from timing of costs
 - Q119 costs were lower than normal
- Operating income
 - YoY and QoQ decline due to lower gross margin and increased R&D
 - 1H operating margin 5.8% (4.6%), excluding provision reversal in Q1 – in line with 2020 target
- R&D investments in automation, machine learning and AI will:
 - Enhance customer offering
 - Longer-term improve the margin profile, but near-term impact margins negatively

Emerging Business & Other



Segment EB & Other – Financial performance

Excluding restructuring charges

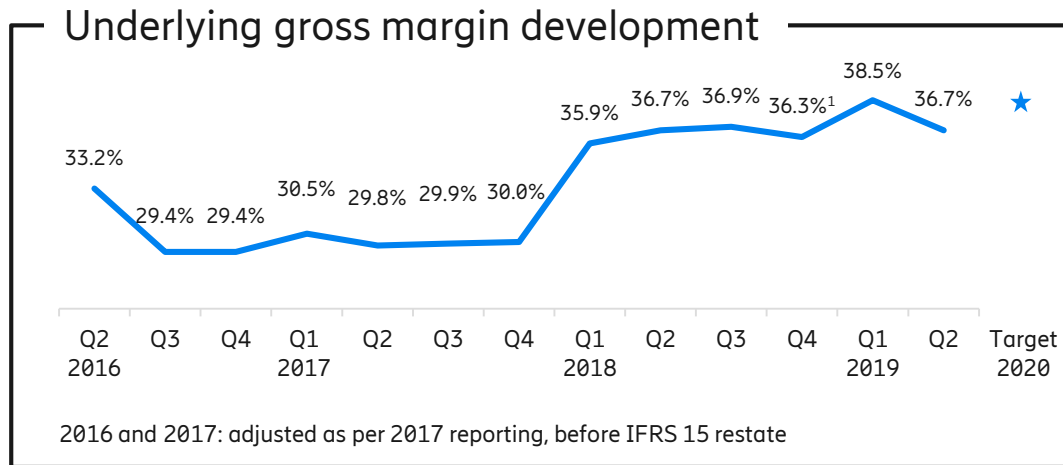
SEK b.	19Q2	18Q2	19Q1
Net sales	1.7	2.1	1.8
Gross margin	19.2%	27.4%	23.5%
Operating income	-0.7	-1.2	0.0
Operating margin	-42.8%	-57.4%	-1.3%
OI excl. capital gains	--	--	-0.8
OM excl. capital gains	--	--	-47.9%

SEK b.	19Q2	18Q2	19Q1
Emerging Business, iconectiv and common costs			
Net sales	1.0	0.7	1.0
Operating income	-0.5	-0.7	-0.5
Red Bee Media			
Net sales	0.6	0.6	0.6
Operating income	0.0	-0.1	0.0
Media Solutions			
Net sales	0.0	0.7	0.1
Operating income	-0.2	-0.4	0.4

- Emerging Business incl iconectiv
 - Sales growth driven by iconectiv - number portability contract in the US, from May 2018
 - Increased profits in iconectiv
- Red Bee Media
 - Stable sales
 - Operating income improved YoY according to plan
- Media Solutions
 - 51% of MediaKind – divested February 1
 - Losses significantly reduced YoY
- 2019 Q1 segment income impacted by capital gains of SEK 0.8 b.

Gross margin

Excluding restructuring charges

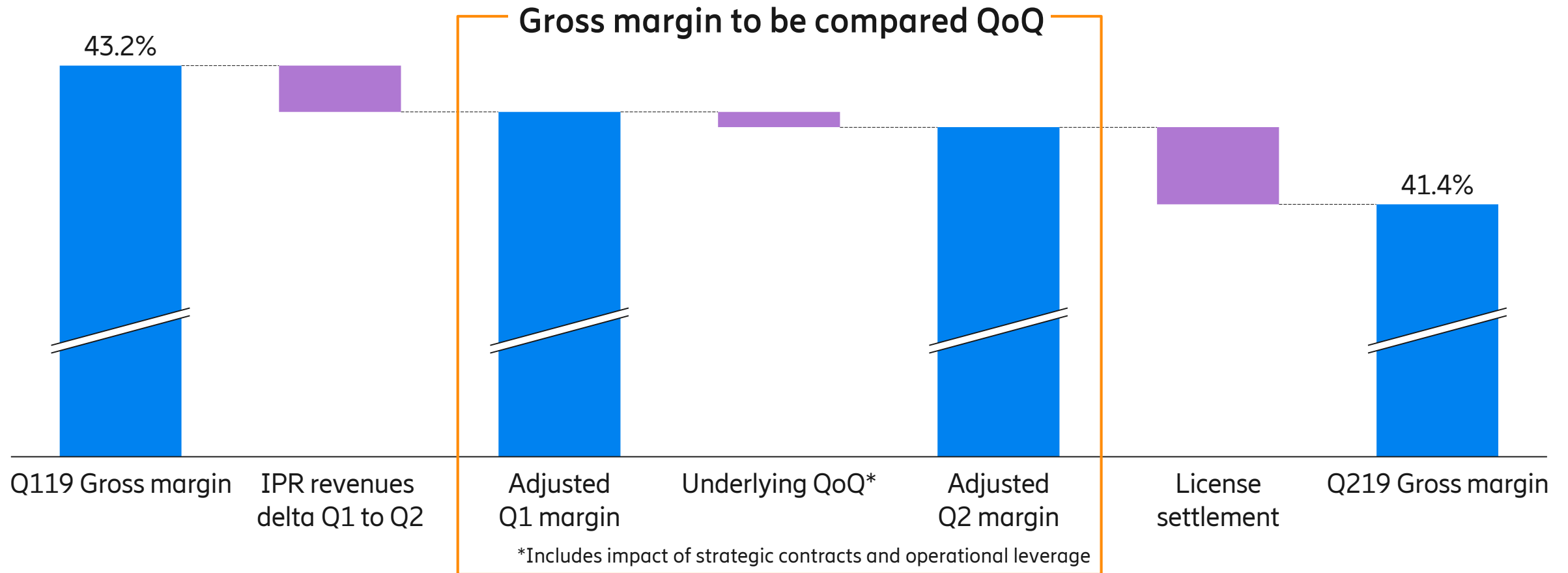


¹excluding costs for revised BSS strategy

- Gross margin reduced QoQ – favorable business mix and strong IPR in Q1
 - Negative impact from strategic contracts and one-time license settlement agreement in Networks
 - Timing of costs in Managed Services
- Gross margin stable YoY
 - Increased IPR revenues
 - Less favorable business mix in Digital Services

Continued solid gross margin – tracking towards the 2020 target 37% to 39%

Networks Gross margin development QoQ

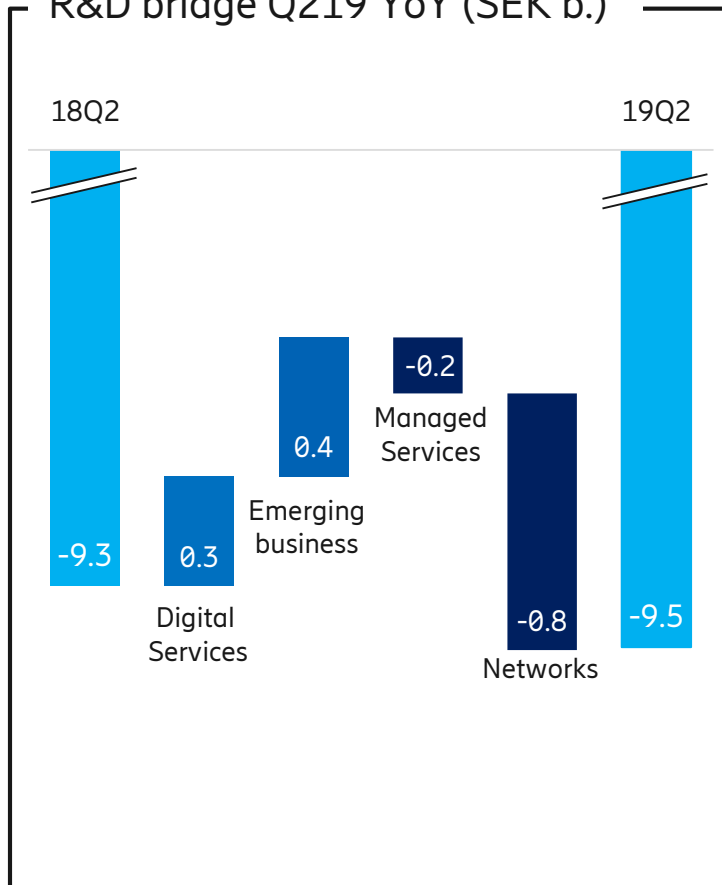


Excluding restructuring charges

Operating expenses

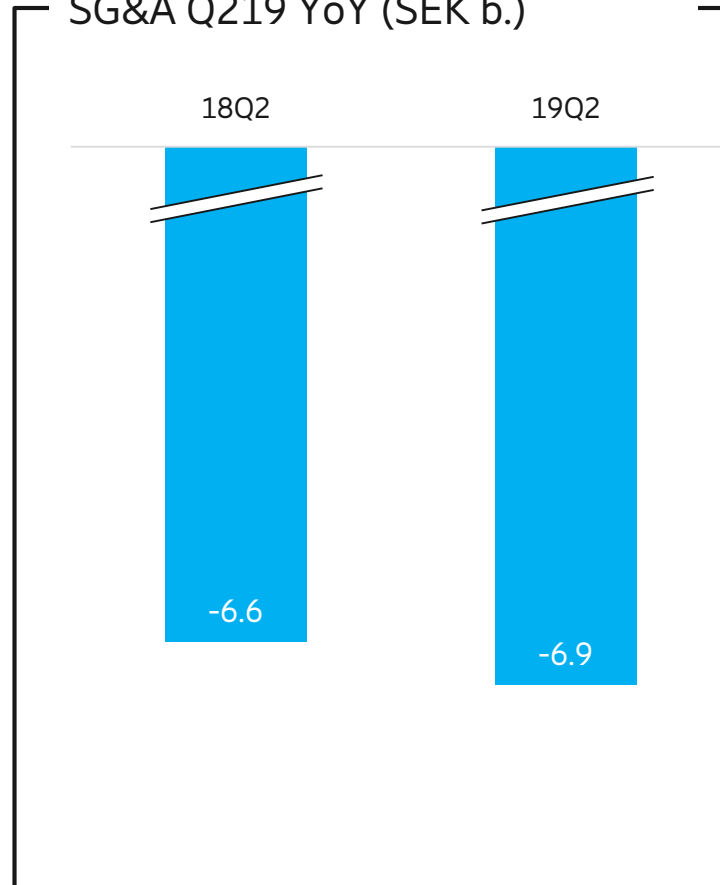
Excluding restructuring charges

R&D bridge Q219 YoY (SEK b.)



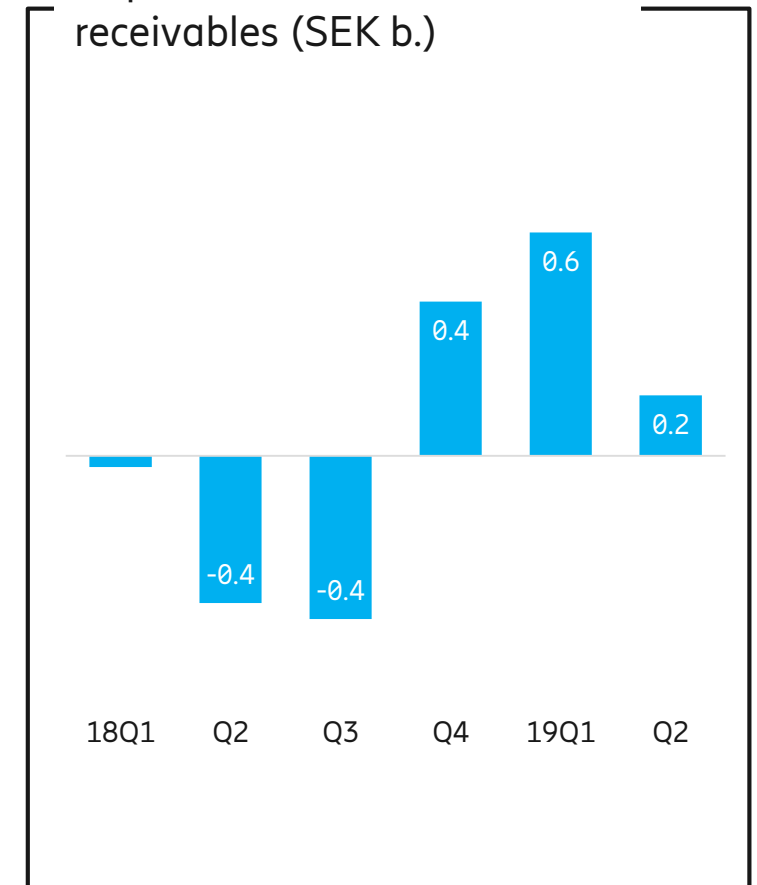
Investments in 5G and AI

SG&A Q219 YoY (SEK b.)



SG&A expenses impacted by field trials and FX

Impairment losses on trade receivables (SEK b.)



Methodology for continuous impairment testing

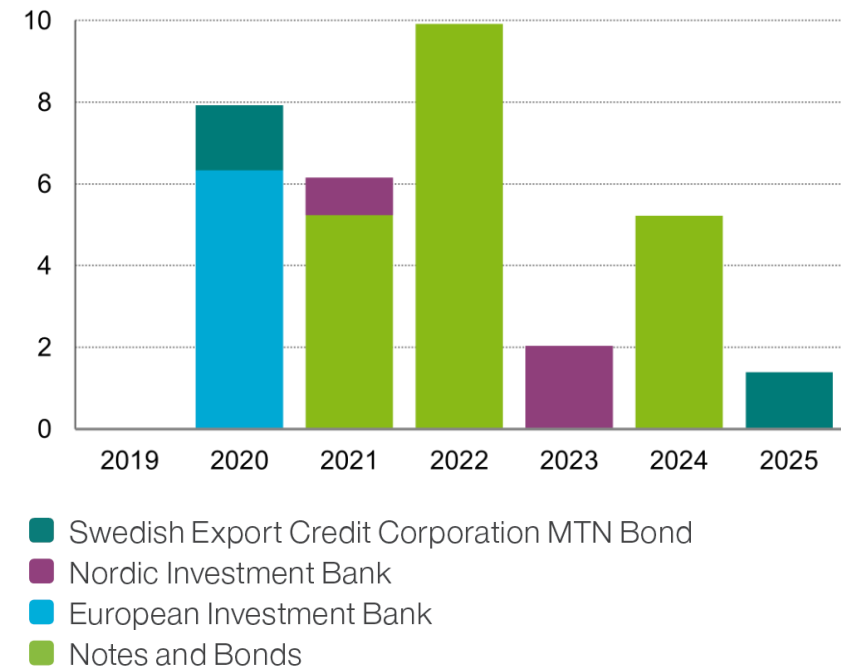
Free cash flow



Financial Performance

SEK b.	19Q2	18Q2
Net income reconciled to cash	5.0	-0.3
Change operating net assets	-1.3	1.7
Cash flow from operating activities	3.6	1.4
CAPEX	-1.1	-1.0
Other	-0.3	-0.7
Free cash flow before M&A	2.2	-0.2
M&A	0.0	-0.4
Free cash flow	2.2	-0.6
<i>Net cash end of period</i>	<i>33.8</i>	<i>33.1</i>
<i>Gross cash end of period</i>	<i>69.0</i>	<i>66.9</i>

Debt maturity profile (SEK b.)



Free cash flow before M&A 1H SEK 6.3 (0.6) b. – Cash outlays for provisions and restructuring 1H SEK 6.9 b.

Planning assumptions – summary

Please see the Q2 report for complete planning assumptions



Market

- RAN equipment market 3% FY 2019, 2% CAGR 2018-2023 (Dell'Oro)
- Net sales
 - Normal seasonality Q2→Q3 3%. Current sales level in NA expected to remain throughout 2019
 - Baseline for IPR ~SEK 9 b., on an annual basis
- Gross margin
 - Negative impact from strategic contracts in Networks expected to increase 2H19
 - 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
 - Improvements in Digital Services are not linear and will vary between quarters
- Operating expenses
 - Opex typically decrease somewhat Q2→Q3 due to seasonality
 - Continued cost for field trials
 - Networks R&D expenses are expected to flatten out
- Restructuring charges
 - Restructuring charges for full-year 2019 are estimated to be SEK 2-4 b., from earlier SEK 3-5 b.
- Currency exposure
 - Rule of thumb: USD/SEK 10% weaker → ~ -5% sales and ~ -1pp OM. For historical FX rates, please see ericsson.com

Ericsson

Based on current visibility, assessments and FX rates



Börje Ekholm

President and CEO

Closing remarks



- Strong 5G uptake - Ericsson's 5G Radio and Core proving competitive
- Will continue to invest in R&D and leverage our leading portfolio to capture market opportunities
 - 5G, cloud native portfolio, AI and automation
- Continued focus on 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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