

## Research:

### Ericsson (Telefonaktiebolaget L.M.) Ratings Cut to 'A-/A-2'; Off Watch; Outlook Negative

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LONDON (Standard & Poor's CreditWire) May 14, 2001--Standard & Poor's today lowered its corporate credit and senior unsecured debt ratings on Sweden-based telecommunications equipment manufacturer Ericsson (Telefonaktiebolaget L.M.) to single-'A'-minus from single-'A'. At the same time, the short-term ratings on Ericsson and guaranteed related entities were lowered to 'A-2' from 'A-1'. In addition, all ratings were removed from CreditWatch, where they were placed with negative implications on March 13, 2001. The outlook is negative (see list below for all ratings affected).

The ratings on Ericsson continue to be underpinned by the company's position as:

- One of the world's leading suppliers of telecoms equipment;
- The global leader in mobile telephony infrastructure; and
- A leading supplier of fixed-line network solutions. Ericsson,

however, faces a number of challenges across its various business lines; as demonstrated by the company's results for the first quarter of 2001, where sales declined by 5% and adjusted operating income was negative Swedish krona (SKr) 4.4 billion (\$425 million).

Most significantly, Standard & Poor's is concerned that the recovery in Ericsson's traditionally strong Systems division is likely to be slow, despite the announcement of far-reaching cost reduction and efficiency improvement initiatives. This view stems from slowing world demand for new and upgraded communications infrastructure, more aggressive competition from peer companies in the telecoms industry, and the ongoing need for Ericsson to invest heavily in the development of third-generation (3G) mobile networks.

Concern also remains that Ericsson is not aggressively wresting control of its operationally and financially challenged mobile handset unit. In the first quarter of 2001, this unit generated operating losses of about SKr5.7 billion on net sales of SKr7.2 billion. Recent initiatives to address the situation include reducing staff by up to 12,000, progressively outsourcing the manufacture of handsets to Flextronics International Ltd.

(BB+/Positive/--), and establishing a joint venture with Sony Corp. (A+/Stable/A-1). Despite these initiatives, which should reduce operational risk going forward, Standard & Poor's considers it highly unlikely that Ericsson will have returned its mobile handset unit to profitability by the time the joint venture with Sony is scheduled to start in October 2001.

These concerns lead Standard & Poor's to believe that it will be difficult for Ericsson to achieve a neutral free cash flow position during fiscal 2001. The company has indicated, however, that in addition to its broader cost-cutting initiatives, it will also pursue the sale of certain nonstrategic assets to improve liquidity in fiscal 2001.

Although Ericsson is expected to increase its vendor financing exposure during 2001, the company's existing policies in this area, including maximum geographic and counterparty credit exposure limits, fall within acceptable limits at the current rating level.

#### OUTLOOK: NEGATIVE

Ericsson's ratings remain under operational and financial pressure. To maintain the current ratings, Standard & Poor's will look for improved revenue collection, improved margins in the company's Systems division, and positive progress in stemming the losses from its handset unit. In addition, Standard & Poor's will monitor the company's progress toward noncore asset sales, with the expectation that sales proceeds will at least cover any free cash flow deficit for 2001 (that is, after capital expenditures). -- CreditWire

## RATINGS LOWERED AND REMOVED FROM CREDITWATCH

	Rating	
	To	From
Ericsson (Telefonaktiebolaget L.M.)		
Corporate credit rating	A-/Negative/A-2	A/Watch Neg/A-1
Senior unsecured debt	A-	A/Watch Neg
Ericsson Treasury Ireland Ltd.		
Commercial paper	* A-2	A-1/Watch Neg
Ericsson Treasury Services AB		
Commercial paper	* A-2	A-1/Watch Neg
Ericsson Treasury Services U.S. Inc.		
Commercial paper	* A-2	A-1/Watch Neg

\*Guaranteed by Ericsson (Telefonaktiebolaget L.M.)