STANDARD & POOR'S

RATINGSDIRECT

Research:

Research Update: Ericsson Ratings Raised To 'BBB-' On Publication Of Full-Year 2004 Results; Outlook Positive

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Primary Credit Analyst(s): Leandro de Torres Zabala, London (44) 20-7176-3821; leandro_detorreszabala@standardandpoors.com
Secondary Credit Analyst(s): Guy Deslondes, Milan (39) 02-72111213; guy_deslondes@standardandpoors.com

Credit Rating: BBB-/Positive/A-3

Rationale

On Feb. 28, 2005, Standard & Poor's Ratings Services raised its long-term corporate credit and senior unsecured debt ratings on Sweden-based telecommunications equipment supplier Ericsson (Telefonaktiebolaget L.M.) to 'BBB-' from 'BB+', following publication of the group's fourth-quarter and full-year 2004 results and reflecting Standard & Poor's review of the medium-term outlook for the mobile network systems industry. The outlook is positive.

At the same time, Standard & Poor's raised its short-term corporate credit rating on Ericsson to 'A-3' from 'B'. At Dec. 31, 2004, Ericsson had gross financial debt of about Swedish krona (Skr) 23.5 billion (about $3.4 billion), including outstanding senior unsecured notes for approximately Skr21 billion.

Ericsson's return to the investment-grade category after the most challenging crisis yet seen by the telecoms industry over the last three years reflects the reversal of fortunes of the mobile systems market due to the unrelenting expansion of mobile communication technologies worldwide, in addition to the group's successful implementation of a very severe cost restructuring program. Furthermore, the mobile systems market is on a low growth trajectory and Ericsson is strongly positioned to benefit from this over the medium term given its leading market positions in key second- and third-generation mobile network systems technologies and its dramatically lower-cost break-even point.

Ericsson posted a strong operating performance in the fourth quarter of 2004 and for the full year. Critically, the group's yearly turnover grew by 12% to Skr132 billion from Skr118 billion in 2003 and the core mobile systems division--which accounts for 74% of the group's total revenues--grew by a record 20% year-on-year. Ericsson achieved strong operating profitability of 22% for the year, reflecting strong sales momentum and the benefits of the group's aggressive cost cutting of in excess of 50% of its cost base over the last three years. As a result, Ericsson generated strong free operating cash flow of Skr17.7 billion for the year.

Ericsson also exhibited a strong and conservative financial profile at Dec. 31, 2004, with gross cash and equivalents of Skr76.5 billion against gross financial debt of only Skr23.5 billion. This cash pile is the result of significant cash generated from the group's operations over the last two years as well as the group's Skr29 billion rights issue that was carried out in September 2002. At Dec. 31, 2004, Ericsson's lease- and pensions-adjusted gross financial debt to 2004 EBITDA was a conservative 1.2x and its ratio of funds from operations to fully adjusted gross debt was calculated at a very strong 70%.

The new ratings on Ericsson reflect the industry's expected low single-digit growth trajectory, in addition to the group's 30% market share of the global systems market, remarkably low-cost break-even point, well established and generally creditworthy customer base, and very strong liquidity and capital structure. The ratings remain constrained, however, by a dramatically smaller and more aggressive industry that has resulted in strong price pressure of about a 10%-15% price decrease on average per year, ongoing major changes in the industry's technology direction, and a relatively weaker visibility of capital spending by telecoms service providers from 2006 onward.

Liquidity

Ericsson's liquidity position at Dec. 31, 2004, was very strong and supported by:

- Cash and short-term investments of Skr76.5 billion (€8.5 billion);
- Positive pre-financing cash flow of Skr17.7 billion in 2004; and
- An undrawn committed unsecured credit facility of $1 billion maturing in September 2007, with drawdowns conditional on a ratio of net debt to EBITDA not exceeding 2.5x and EBITDA to net interest expense of no lower than 6.0x.

The group's near-term cash calls are moderate and include:

- Maturities of Skr0.8 billion in 2005 and Skr9.4 billion in 2006;
- Modest cash outlays relative to the estimated Skr3.5 billion restructuring provisions at year-end 2004;
- Vendor financing commitments of only Skr2.2 billion; and
- A dividend distribution of Skr0.25 per share to be distributed in 2005.

Ericsson benefits from very strong cash balances. Standard & Poor's does not exclude the possibility that, with the group regaining investment-grade status, it will use part of its cash to repurchase short- and medium-term debt obligations, return certain amounts of cash to shareholders, or undertake small acquisitions in companies with complementary technologies. Nevertheless, given the cyclicality, competitiveness, excess supply capacity, and rapid technological changes that characterise the global telecoms equipment industry, Standard & Poor's expects Ericsson to maintain a solid net cash position at all times and sufficient liquidity to generally cover debt maturities for three years.

Outlook

The positive outlook reflects the possibility that the ratings could be upgraded further by one notch within the next 18 months. This will depend on the solidity of the trading environment and medium-term prospects, and on Ericsson's ability to maintain leading positions in key technologies and markets; sustain operating margins in the high teens; continue to generate strong, sustainable free cash flow; and maintain a strong net cash position on an ongoing basis. Importantly, although a process of vendor consolidation cannot be ruled out in the current industry environment, the ratings do not factor in any major acquisition by the group.

In addition, if Ericsson continues to maintain a very strong liquidity profile and complements this with clear guidance from management on the way it intends to run the group's liquidity position given its renewed investment-grade status, the short-term rating on the group could be raised to 'A-2' with no necessary upgrade of the long-term rating.

Ratings List

	To	From
Ericsson (Telefonaktiebolaget L.M.)		

Corporate credit rating	BBB-/Positive/A-3	BB+/Positive/B
Senior unsecured debt	BBB-	BB+

NB: This list does not include all ratings affected.

Ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: London Ratings Desk (44) 20-7176-7400; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5916; or Moscow (7) 095-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com.

Group E-Mail Address

CorporateFinanceEurope@standardandpoors.com