

Research Update:

Ericsson (Telefonaktiebolaget L.M.) Outlook Revised To Positive On Stable Cash Flow; 'BBB-' Ratings Affirmed

July 30, 2026

Rating Action Overview

- We think that Ericsson (Telefonaktiebolaget L.M.) benefits from its leading market position, strong product portfolio, and broad geographic diversification in the radio access network (RAN) equipment market. In our view, Ericsson is well-positioned to capitalize on the AI opportunity, as demand for communication network infrastructure will likely increase to support higher capacity requirements. Ericsson's strategy to expand into new segments and use cases remains limited but represents a strategic attempt to diversify its operations and customer base, mitigate business volatility, and sustain its profitability and cash flow generation.
- We think these developments could sustain the adjusted EBITDA margin of more than 13% and reported free operating cash flow (FOCF) after lease payments in excess of Swedish krona (SEK) 15 billion, while preserving the company's solid net cash position.
- Therefore, we revised our outlook on our rating on Ericsson (Telefonaktiebolaget L.M.) to positive from stable. We affirmed our 'BBB-' long-term issuer credit on Ericsson (Telefonaktiebolaget L.M.) and our issue rating on its debt, as well as our 'A-3' short-term issuer credit rating on Ericsson.
- The positive outlook reflects the possibility of a one-notch upgrade in the next 18-24 months if Ericsson successfully manages its cost base and restructuring plans, while leveraging on its solid market position in the RAN infrastructure market, and gradually expanding into new business areas such that its operations are less volatile and credit metrics in line with our upside requirements.

Rating Action Rationale

Ericsson benefits from its leading market position, strong product portfolio, and broad geographic diversification in the RAN equipment market, and is well-positioned to benefit from the AI opportunity. Ericsson holds a leading position in the global RAN equipment market

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(excluding China), with a market share of about 37% in 2025 (from 38% in 2024). Including China, the company ranks second worldwide, behind Huawei Technologies Co., Ltd. and ahead of Nokia Corp. By year-end 2025, Ericsson's technology was deployed in 206 of the approximately 390 live 5G network globally (compared with 161 and 320, respectively, in 2024), and about 50% of all mobile traffic outside of China was carried over Ericsson networks. This performance reflects a robust product portfolio, supported by significant research and development investments--accounting for roughly 20% of sales--and global operations that expose the company to various markets at different rollout stages. Ericsson has a geographically diverse revenue base, with a presence in all major telecom markets, focusing on the largest operators in each. The company also maintains a strong presence in the world's most advanced markets, including the U.S., and the most populated areas. We therefore think that Ericsson is well-positioned to capitalize on the AI opportunity, as demand for communication network infrastructure is expected to increase to support the high uplink speeds, low latency, and high capacity required by AI use cases, such as factory automation, robotics, drones, etc.

In our view, expansion into new segments has been limited but has the potential to enhance business and customer diversification. Amid relatively stagnant growth in the RAN market over the cycle, Ericsson is taking initiatives to increase its revenue with telecom operators, but also aiming to diversify its customer base from telecom operators to enterprises, and mission-critical sectors (including railways, defense, public safety, and utilities). These strategic initiatives include:

- Fixed wireless access that connects homes and businesses using wireless broadband.
- Ericsson facilitating telecom provider revenue growth through programmable networks. These networks aim to differentiate and boost connectivity services for consumers and enterprises. In 2025, Ericsson secured key agreements with Telstra Group Ltd. (Asia-Pacific's first programmable network) and Vodafone Group PLC (focusing on automation and network efficiency).
- Ericsson providing application programming interfaces that allow enterprises to access 5G capabilities for applications such as enhanced financial security and fraud detection.
- Other initiatives outside traditional telecom operators include 5G-enabled laptops, private network for industrial environments, and mission-critical networks for railways, defense, public safety, and utilities. Notably, in June 2026, Ericsson expanded its private wireless network solutions, Ericsson Private 5G, via Verizon Business to international markets, enabling global enterprises to scale existing U.S. capabilities to international locations.

Another driver helping Ericsson diversify revenue away from telecom operators is its highly profitable technology licensing business, where revenue increased to SEK14.5 billion in 2025, from SEK8 billion in 2021. The group currently primarily generates revenue from most of the world's smartphone manufacturers, but Ericsson is working on signing additional contracts with enterprises in other sectors (including car and consumer electronics manufacturers). This segment further supports revenue resilience and helps the group diversify away from its traditional segment of communication equipment provider to telecom operators.

Ericsson's ongoing cost-control efforts should mitigate component cost inflation and support long-term performance resilience. The company has improved its cost structure to reduce cash flow volatility, resulting in a S&P Global Ratings-adjusted EBITDA margin of 16.8% in 2025 and solid FOCF after lease payments of SEK27.1 billion in 2025. We forecast the adjusted EBITDA

margin to remain sustainably above 13%, assuming no large restructuring. We expect a temporary 2 percentage point contraction to 14.5% in 2026, driven by higher input costs and restructuring expenses. From 2027, we expect margins to rebound to roughly 16.5% as cost-reduction initiatives take effect and restructuring costs decline toward a long-term level of 1% of revenue. Our base case assumes that Ericsson should achieve its adjusted EBITA margin target of 15% to 18% from 2027. FOCF after leases is forecast to remain between SEK15 billion-SEK20 billion over 2026-2028, supported by minimal capital expenditure (capex) (including capitalized development costs) of approximately 2.0% of revenue and moderate working capital needs. We expect Ericsson to reach the low end of its free cash flow before its merger and acquisition target (9% of net sales) by 2028. Ericsson's RAN infrastructure positioning, segment expansion, continued focus on cost and working capital containment, and a gradual shift toward software- and service-related rather than capex-related revenue generation may reduce business volatility and support credit metrics sustainably in line with an upgrade of Ericsson.

Outlook

The positive outlook reflects our expectations that Ericsson could sustain its adjusted EBITDA margin above 13% and consistently generate more than SEK15 billion FOCF after leases. This is despite our expectation of revenue and profitability temporarily contracting in 2026, due to the softening of certain markets and because of the increase of component prices. The positive outlook reflects our expectation that Ericsson will successfully manage its cost base and restructuring plans, while increasingly shifting its business model to more software- and service-related revenue generation.

Downside scenario

We could stabilize the rating if Ericsson underperformed our base case because of a continued market decline, a loss of market share, or additional large restructurings or working capital swings. This would result in continued revenue decline, an adjusted EBITDA margin consistently below 13%, or reported FOCF after lease payments deteriorating sustainably below SEK15 billion. Although unlikely, we could also stabilize the ratings if adjusted debt to EBITDA approached 1.5x or if funds from operations (FFO) to debt declined to about 60%, on a sustainable basis. This could occur if the U.S. authorities' ongoing Iraq investigation resulted in a large fine, if Ericsson conducted a large debt-funded acquisition, or due to a more aggressive shareholder remuneration policy.

Upside scenario

We could raise the ratings in the next 18-24 months if Ericsson sustains adjusted EBITDA margins of 13%-15%, and FOCF after lease payments of SEK15 billion-SEK20 billion, even with limited or no revenue growth. An upgrade would also require Ericsson's adjusted debt to EBITDA to remain at or below 1.5x, and FFO to debt above 60%. We think that the group could achieve these metrics by working on improving its resilience and being less volatile over the business cycle.

Company Description

Headquartered in Stockholm, Sweden, Ericsson is the world's second-largest provider of wireless telecom network equipment and related software and services, with annual net sales of SEK236 billion in 2025. It operates across four segments:

- Networks (64% of 2025 revenue): Which includes hardware, software, and services that enable connectivity, such as RANs, transport and site solutions, network roll-outs, and customer support.
- Cloud software and services (26%): Which includes cloud-based solutions for core networks and automation, managed services, service orchestration, and telecom business support systems.
- Enterprise (9%): Which includes Enterprise Wireless Solutions, Global Communications Platform, and Technologies and New Businesses.
- Other (1%): Which includes media businesses, Ericsson Ventures, and one-offs.

The Swedish investment holding companies Investor AB and Industrivarden AB held about 39.8% of the voting rights associated with Ericsson's shares at year-end 2025.

Our Base-Case Scenario

Assumptions

- Global GDP growth of 3.2% in 2026 and 3.4% in 2027.
- Flattish growth for the mobile equipment market in 2026.
- Organic revenue decline of 2%-0% in 2026 on lower network investment, somewhat offset by continued rollouts of 5G and an increased uptake of 5G core solutions, and relatively flat organic growth in following years.
- Reported revenue decline of 3.5%-5.5% in 2026 due to negative currency headwinds, and the divestment of iconectiv, LLC.
- S&P Global Ratings-adjusted EBITDA margin of about 14.5% in 2026, contracting from 16.8% in 2025, mainly due to higher restructuring charges that we estimate at about 2.5% of revenue (compared with 1.0% in 2025) related to announced headcount reduction plans in Sweden, majority of which was expensed in the first half of 2026. We expect the adjusted EBITDA margin will somewhat recover to about 16.5% in 2027 as restructuring costs gradually normalize toward 1.0% of sales.
- Working capital outflow of about SEK2.0 billion-SEK2.5 billion over 2026-2027.
- Annual reported capex of SEK 4.0 billion-SEK5.0 billion over 2026-2027, including capitalized development cost that we estimate account for 60% of total reported capex.
- Annual dividend payment of SEK9.5 billion-SEK10.5 billion over 2026-2027.
- Share buyback of SEK 15 billion in 2026.

Key metrics

Ericsson (Telefonaktiebolaget L.M.)--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. SEK)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	271,546	263,351	247,880	236,681	225,643	226,789	229,503	233,808
Gross profit	123,777	113,594	119,766	121,832	104,172	109,263	113,693	116,515
EBITDA (reported)	37,563	23,563	30,047	47,875	33,665	38,397	41,978	43,456

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Ericsson (Telefonaktiebolaget L.M.)--Forecast summary

Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	1,840	(1,543)	(2,552)	(8,144)	(841)	(1,047)	(950)	(1,186)
EBITDA	39,403	22,020	27,495	39,731	32,824	37,350	41,028	42,269
Less: Cash interest paid	(1,250)	(2,299)	(3,043)	(2,205)	(1,415)	(1,352)	(1,213)	(1,043)
Less: Cash taxes paid	(5,600)	(5,368)	(6,304)	(7,009)	(6,059)	(7,885)	(9,549)	(10,654)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	32,553	14,353	18,148	30,517	25,351	28,113	30,265	30,572
Cash flow from operations (CFO)	29,143	857	44,983	31,103	22,801	24,448	26,591	26,853
Capital expenditure (capex)	4,477	3,297	2,340	2,630	2,643	2,986	2,826	3,219
Free operating cash flow (FOCF)	24,666	(2,440)	42,643	28,473	20,158	21,462	23,765	23,633
Dividends	8,415	9,104	9,233	9,545	9,545	10,340	11,136	11,454
Share repurchases (reported)	--	--	--	--	15,000	--	--	--
Discretionary cash flow (DCF)	16,251	(11,544)	33,410	18,928	(4,387)	11,122	12,630	12,179
Debt (reported)	32,930	46,873	38,041	32,703	32,696	32,682	26,530	21,308
Plus: Lease liabilities debt	9,304	7,800	7,500	7,561	7,561	7,561	7,561	7,561
Plus: Pension and other postretirement debt	18,224	21,409	19,899	15,466	15,466	15,466	15,466	15,466
Less: Accessible cash and liquid Investments	(54,003)	(53,590)	(75,144)	(93,535)	(86,949)	(95,460)	(99,341)	(103,703)
Plus/(less): Other	1,000	4,128	4,105	4,819	4,819	4,819	4,819	4,819
Debt	7,455	26,620	--	--	--	--	--	--
Equity	133,304	97,408	92,983	110,264	102,100	111,065	121,184	131,360
FOCF (adjusted for lease capex)	22,378	(4,005)	40,083	25,273	17,562	18,866	21,169	21,037
Interest expense (reported)	1,436	2,746	2,907	2,038	1,415	1,352	1,213	1,043
Capex (reported)	6,197	5,470	3,640	3,768	4,228	4,778	4,521	5,150
Cash and short-term investments (reported)	47,085	44,774	56,431	56,641	49,651	58,162	62,043	66,405
Adjusted ratios								
Debt/EBITDA (x)	0.2	1.2	--	--	--	--	--	--
FFO/debt (%)	436.7	53.9	NM	NM	NM	NM	NM	NM
Annual revenue growth (%)	16.9	(3.0)	(5.9)	(4.5)	(4.7)	0.5	1.2	1.9
Gross margin (%)	45.6	43.1	48.3	51.5	46.2	48.2	49.5	49.8
EBITDA margin (%)	14.5	8.4	11.1	16.8	14.5	16.5	17.9	18.1

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. SEK--Swedish krona.

Liquidity

The short-term issuer credit rating is 'A-3'. We consider Ericsson's liquidity exceptional because we expect its liquidity sources will exceed its liquidity uses by more than 3.0x over the two years from July 1, 2026. Furthermore, we think that the company has good relationships with its banks

and demonstrates prudent financial risk management, reflected by the maintenance of a substantial cash buffer at all times.

Principal liquidity sources	Principal liquidity uses
- Consolidated cash and equivalents of SEK59.8 billion; - Undrawn revolving credit facilities (RCFs): \$2 billion maturing in September 2028, and \$0.5 billion maturing in May 2028; and - Annual FFO of SEK24 billion-SEK27 billion.	- Peak in working capital needs of up to SEK10 billion; - Annual capex, including capitalized development costs, of SEK4.5 billion-SEK4.7 billion; - Common dividends of up to SEK9 billion-SEK11 billion; and - Share buyback of SEK15 billion.

Covenants

Ericsson is currently not subject to any maintenance covenants under its note indentures, RCFs, and private placements.

Issue Ratings--Subordination Risk Analysis

Capital structure

Ericsson's debt primarily consists of SEK20.4 billion of capital market lending and SEK9.1 billion of term loans issued by parent company Telefonaktiebolaget LM Ericsson. There is minor debt outstanding of about SEK0.3 billion at subsidiary companies, primarily relating to working capital.

Analytical conclusions

The long-term issue rating on Ericsson's senior unsecured debt is 'BBB-', in line with the issuer credit rating, because no significant elements of subordination risk are present in the capital structure, given that there is no material secured liability and nearly all debt is located at the parent company.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Positive/A-3
Local currency issuer credit rating	BBB-/Positive/A-3
Business risk	Fair
Country risk	Intermediate risk
Industry risk	Moderately high risk
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Exceptional
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Industry Credit Outlook 2026: Technology](#), Jan. 14, 2026

Ratings List

Ratings List

Outlook Action; Ratings Affirmed		
	To	From
Ericsson (Telefonaktiebolaget L.M.)		
Issuer Credit Rating	BBB-/Positive/A-3	BBB-/Stable/A-3
Nordic Regional Scale	--/--/K-3	--/--/K-3
Ratings Affirmed		
Ericsson (Telefonaktiebolaget L.M.)		
Senior Unsecured	BBB-	

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