

Ericsson Investor Update 2019

October 17, 2019



Welcome and introduction

Peter Nyquist
VP Investor Relations



Safe harbor statement

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.



Welcome and introduction

Peter Nyquist
VP Investor Relations



Agenda



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Welcome – Peter Nyquist, VP Investor Relations
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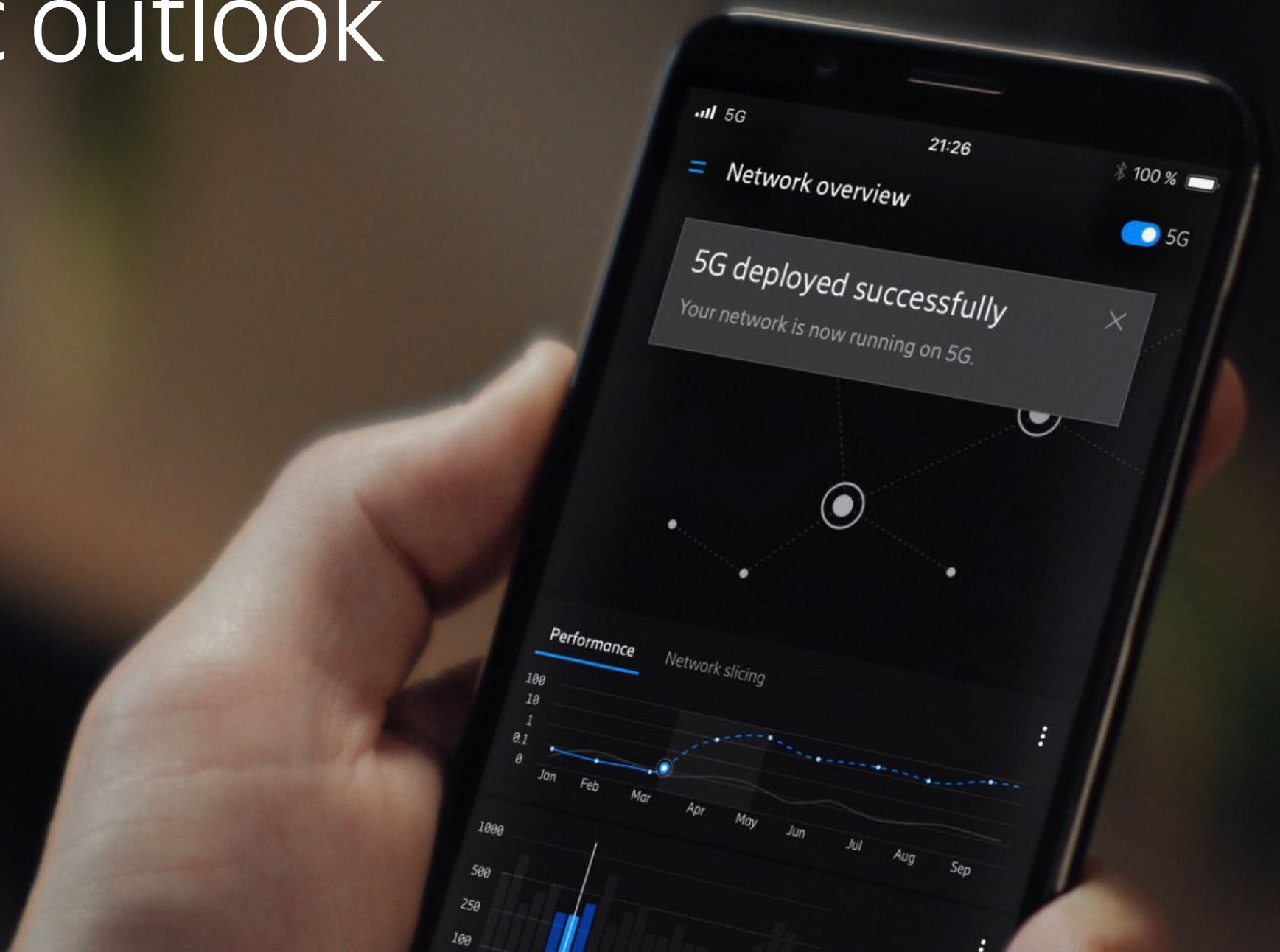
Q&A
CEO Börje Ekholm & CFO Carl Mellander

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Closing
Summary – CEO Börje Ekholm

Strategic outlook

Börje Ekholm
President and CEO



Stronger company – financially and technologically



Strategy execution in line with plan

Strengthening Ethics & Compliance program



- Voluntarily cooperating since 2013 with US authorities (SEC and DOJ)
- In the course of our own investigations shortcomings have been identified in terms of breaches of our own Code of Business Ethics and FCPA
- Ongoing improvement efforts targets
 - Leadership and culture
 - Third party management
 - Compliance resources
 - Internal controls
- Provision made on September 26, 2019 for USD 1.2 b. (SEK 11.5 b.)





Strategy execution

Market environment and 5G opportunities

Segment priorities and financial targets



Strategy execution

Market environment and 5G opportunities

Segment priorities and financial targets

Strategy remains – clearly delivering results



Purpose and vision

Empowering an intelligent, sustainable and connected world.

Mission

Enabling the full value of connectivity for service providers.

Our customers' needs

New revenue streams

Networks

Highly scalable, cost competitive, modular platforms offering lowest total cost of ownership, best user experience & smooth network transformation to 5G

End-customer experience

Digital Services

TCO efficient solutions for programmable 4G and 5G core networks, automated operations and digital engagements

Relentless efficiency

Managed Services

Providing superior customer experience and cost performance led by automation and AI driven operations and optimization

Emerging Business

Pursue new business opportunities e.g. within IoT and Industry 4.0, foster an innovation culture and invest in promising incubation opportunities

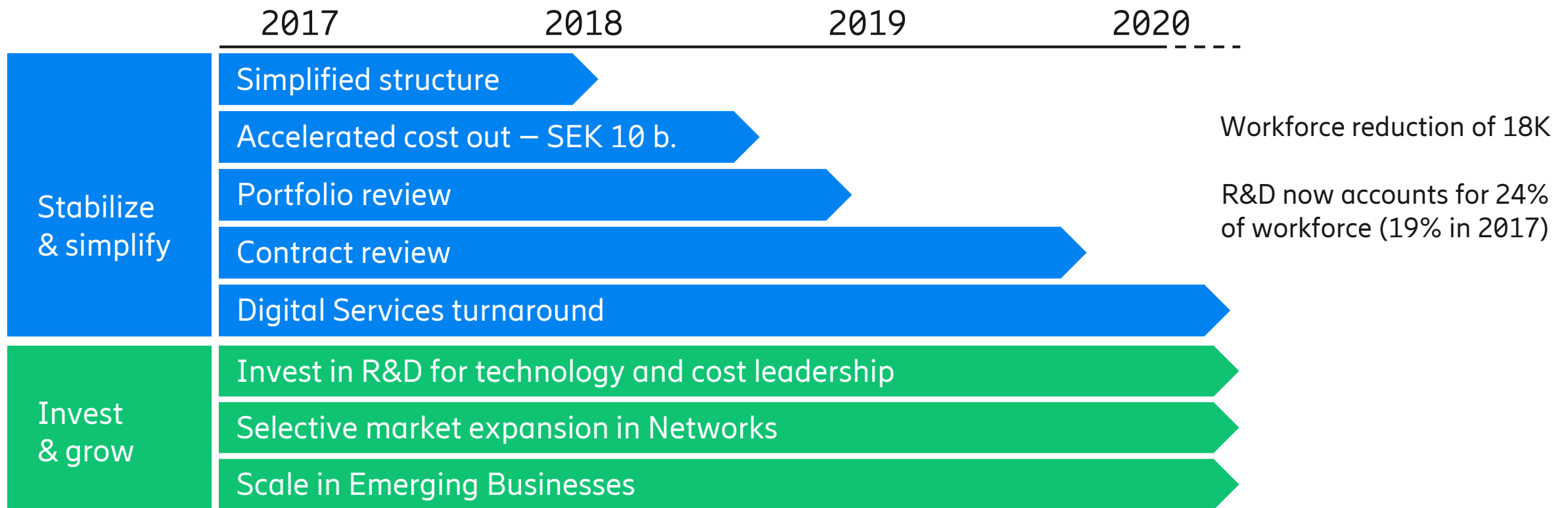
Technology leadership

Cost efficiency

Product-led solutions

Global skill & scale

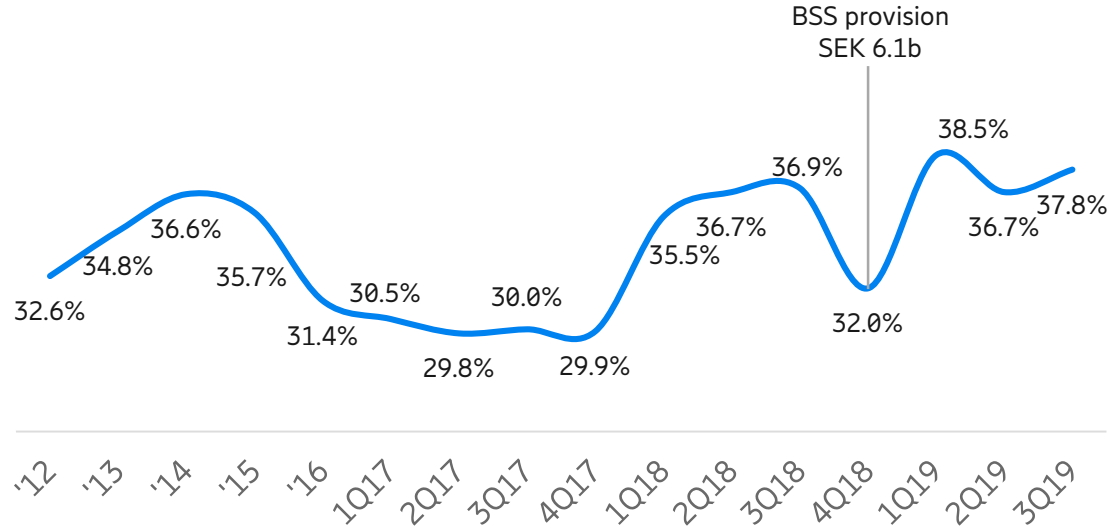
Turnaround tracking according to plan



Executing on our margin commitments

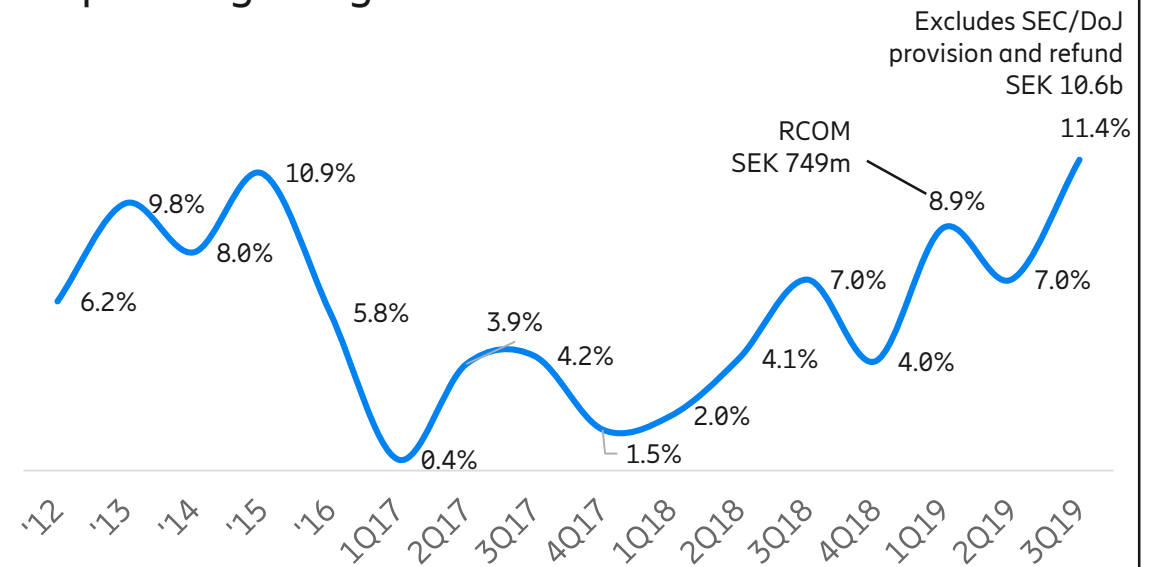


Gross margin¹



¹Excluding restructuring charges. 2017 numbers also exclude one time items and are not IFRS 15 reconciled

Operating margin¹



¹Excluding restructuring charges. 2017 numbers also exclude one time items and are not IFRS 15 reconciled

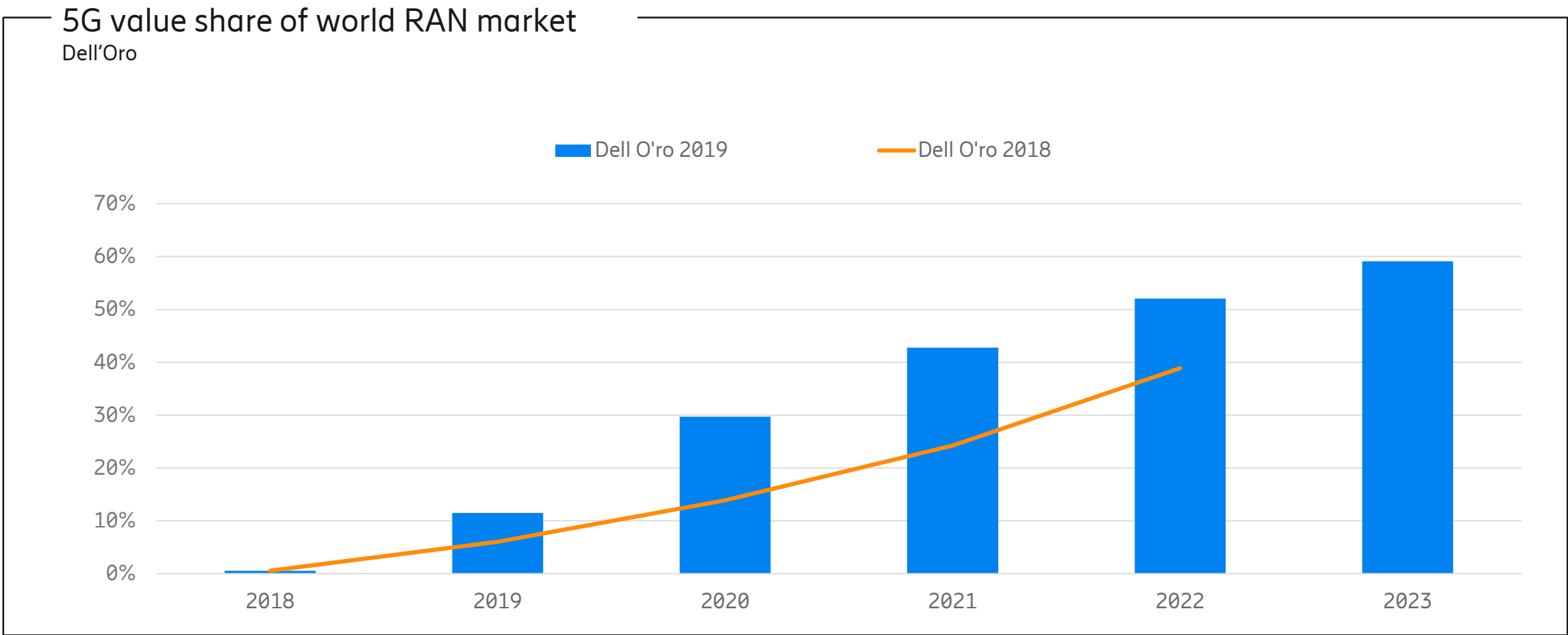


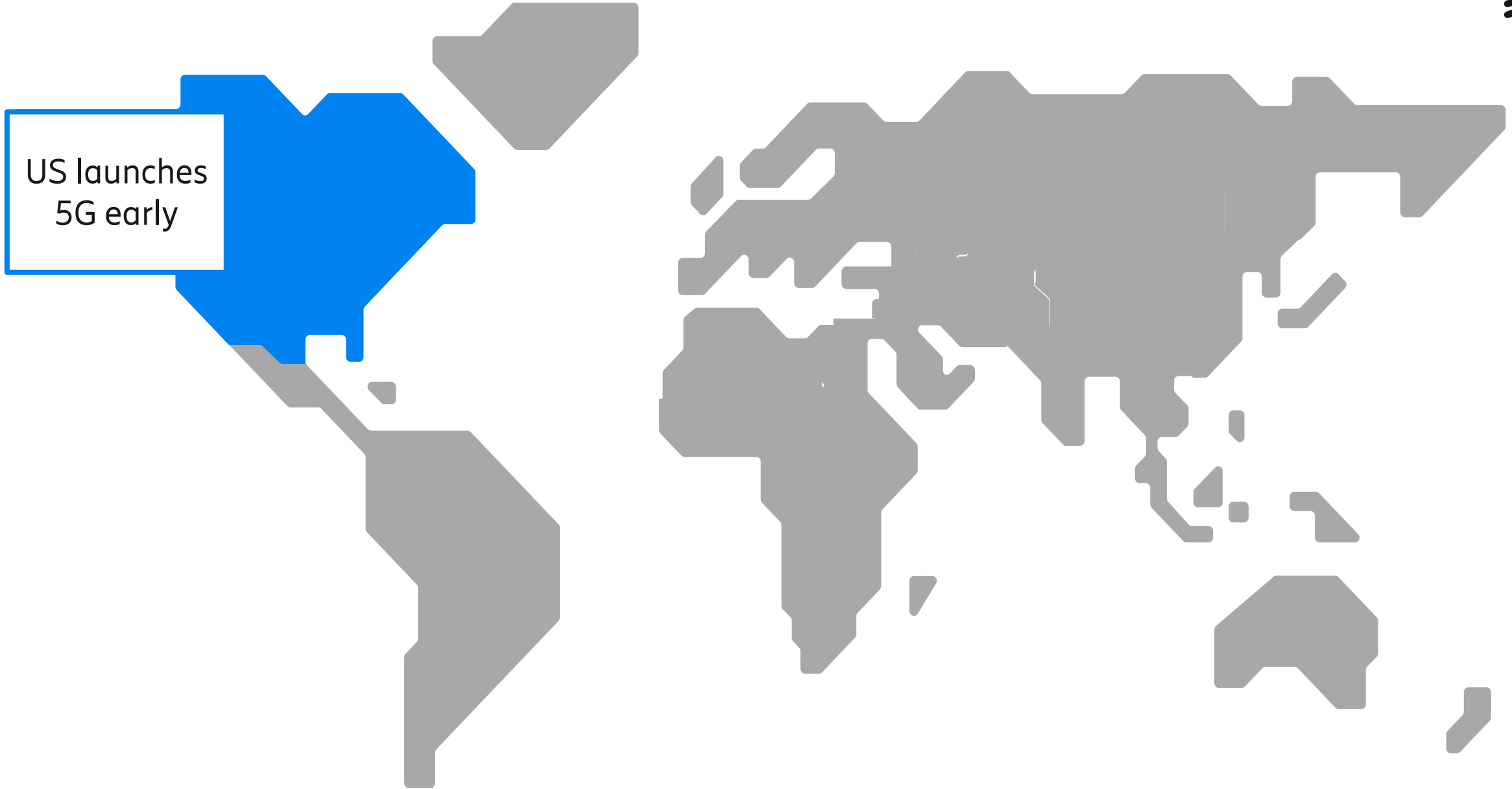
Strategy execution

Market environment and 5G opportunities

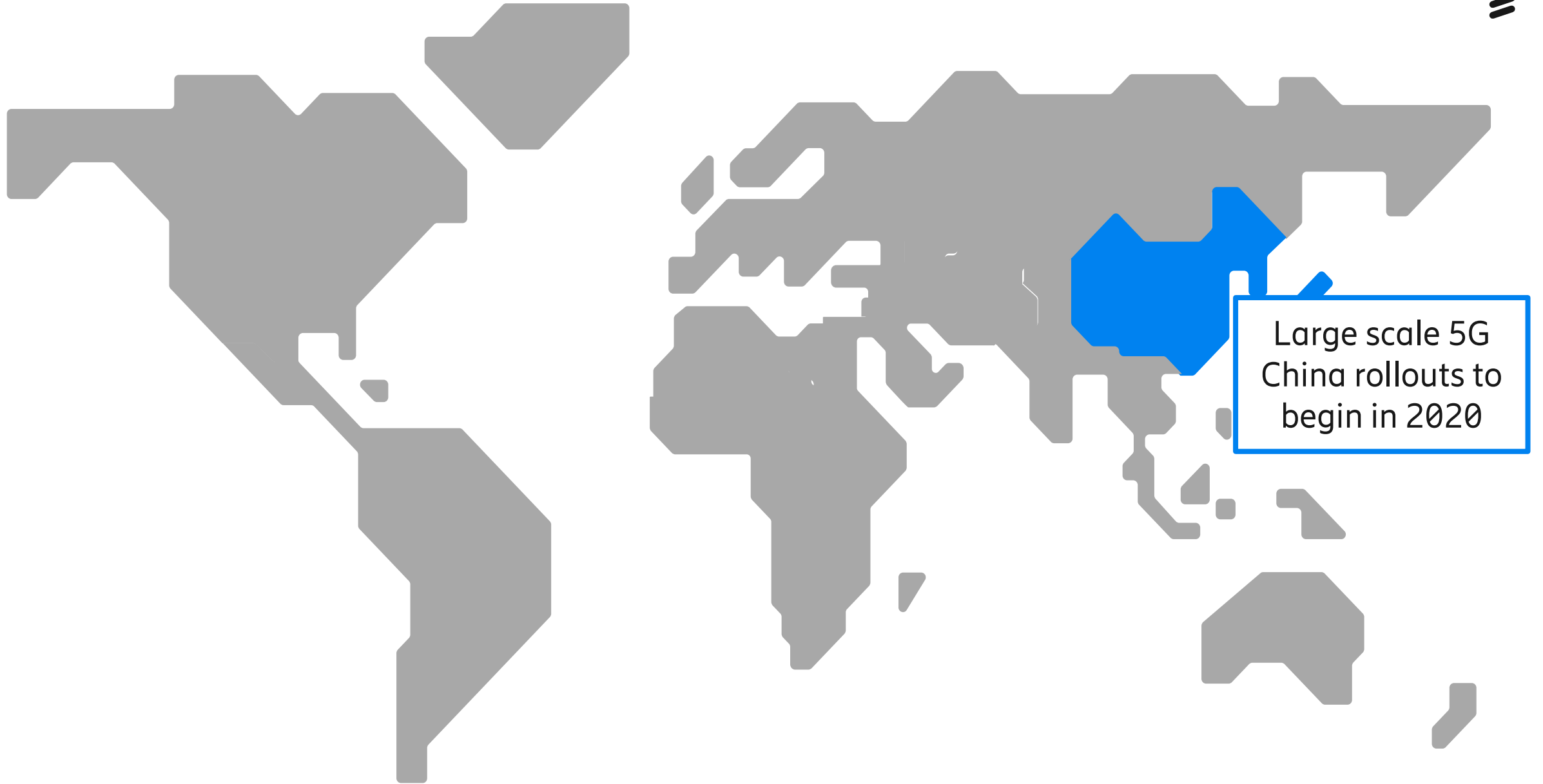
Segment priorities and financial targets

Shift to 5G accelerates

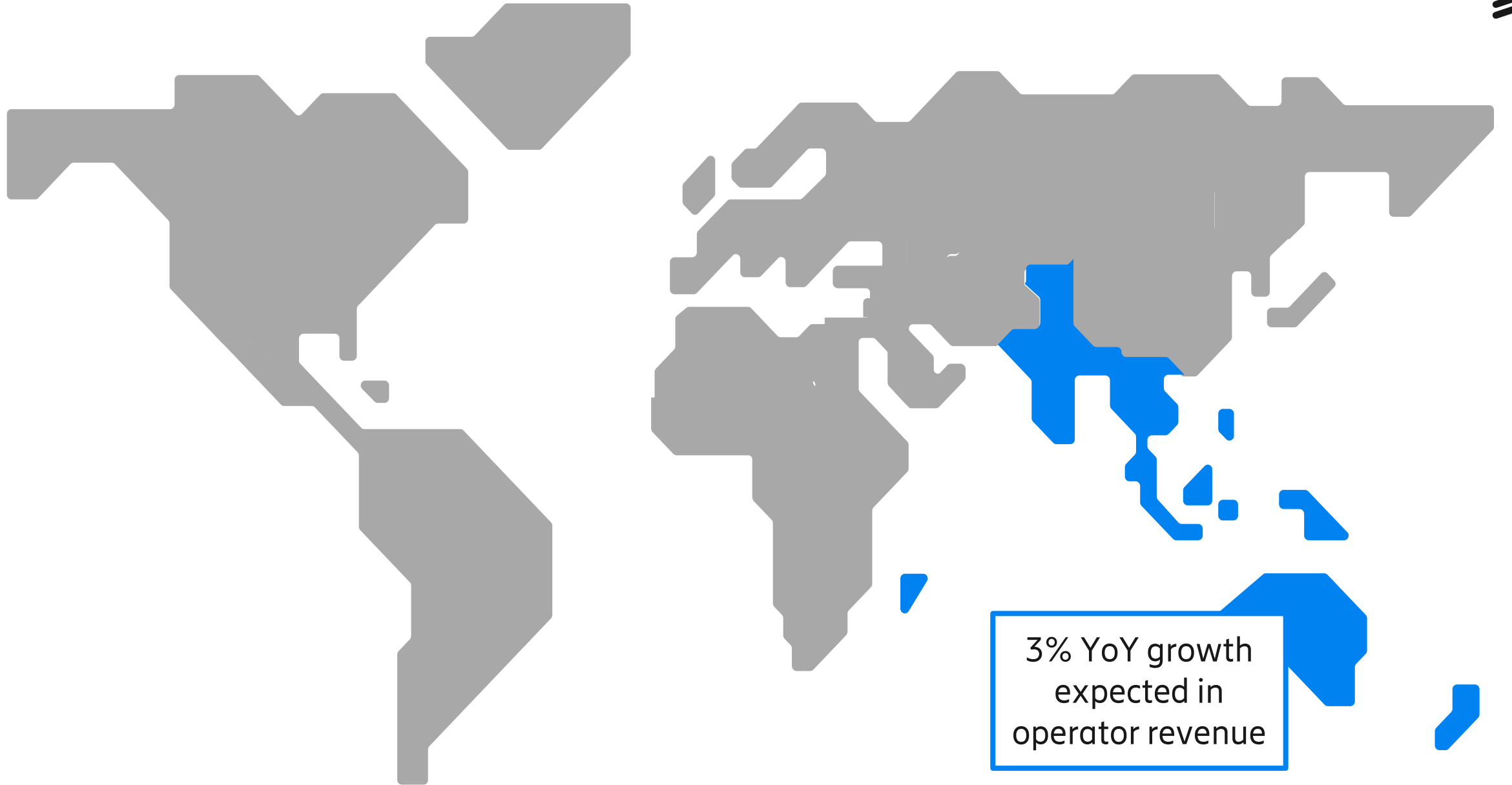


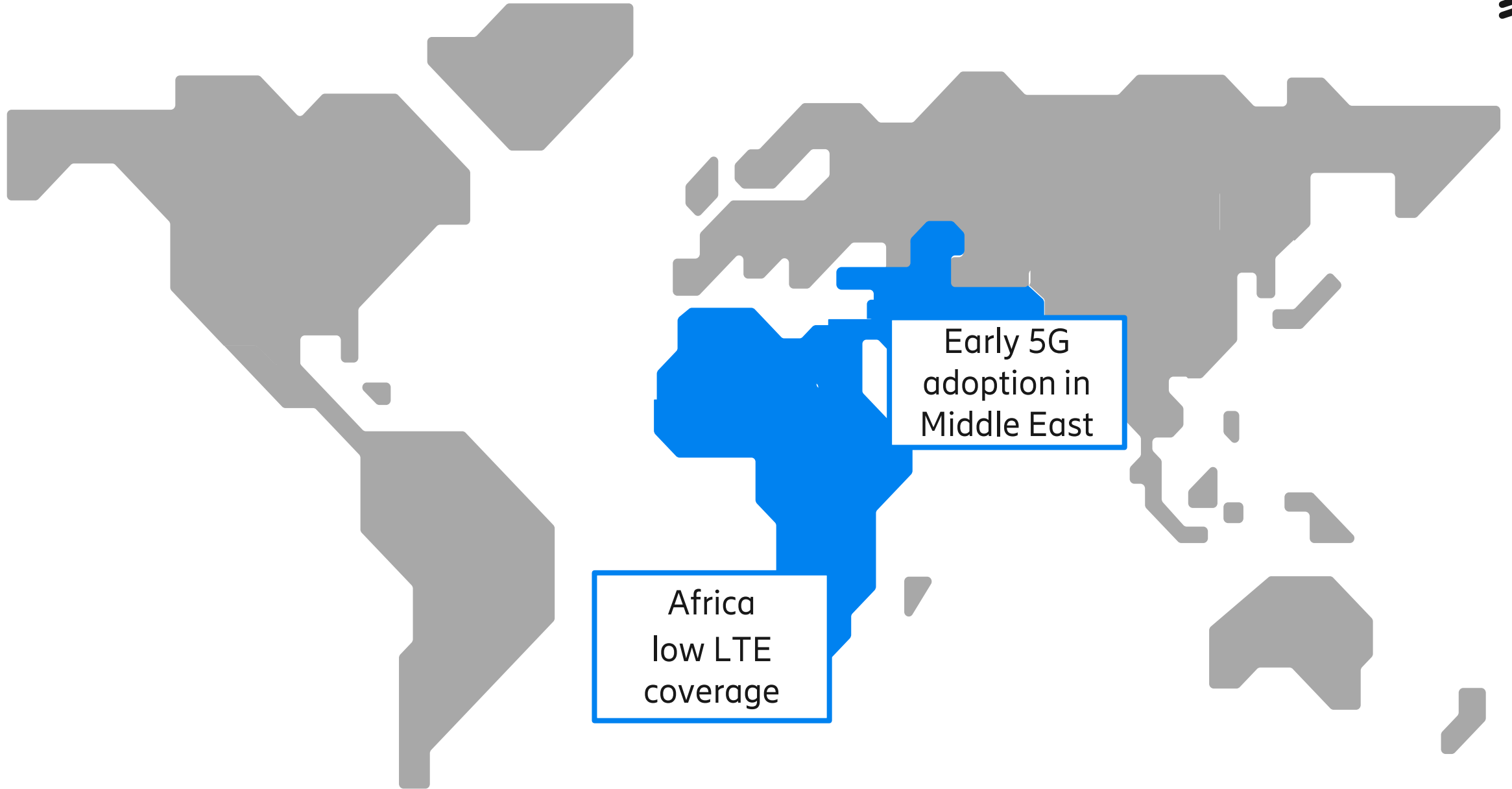


US launches
5G early



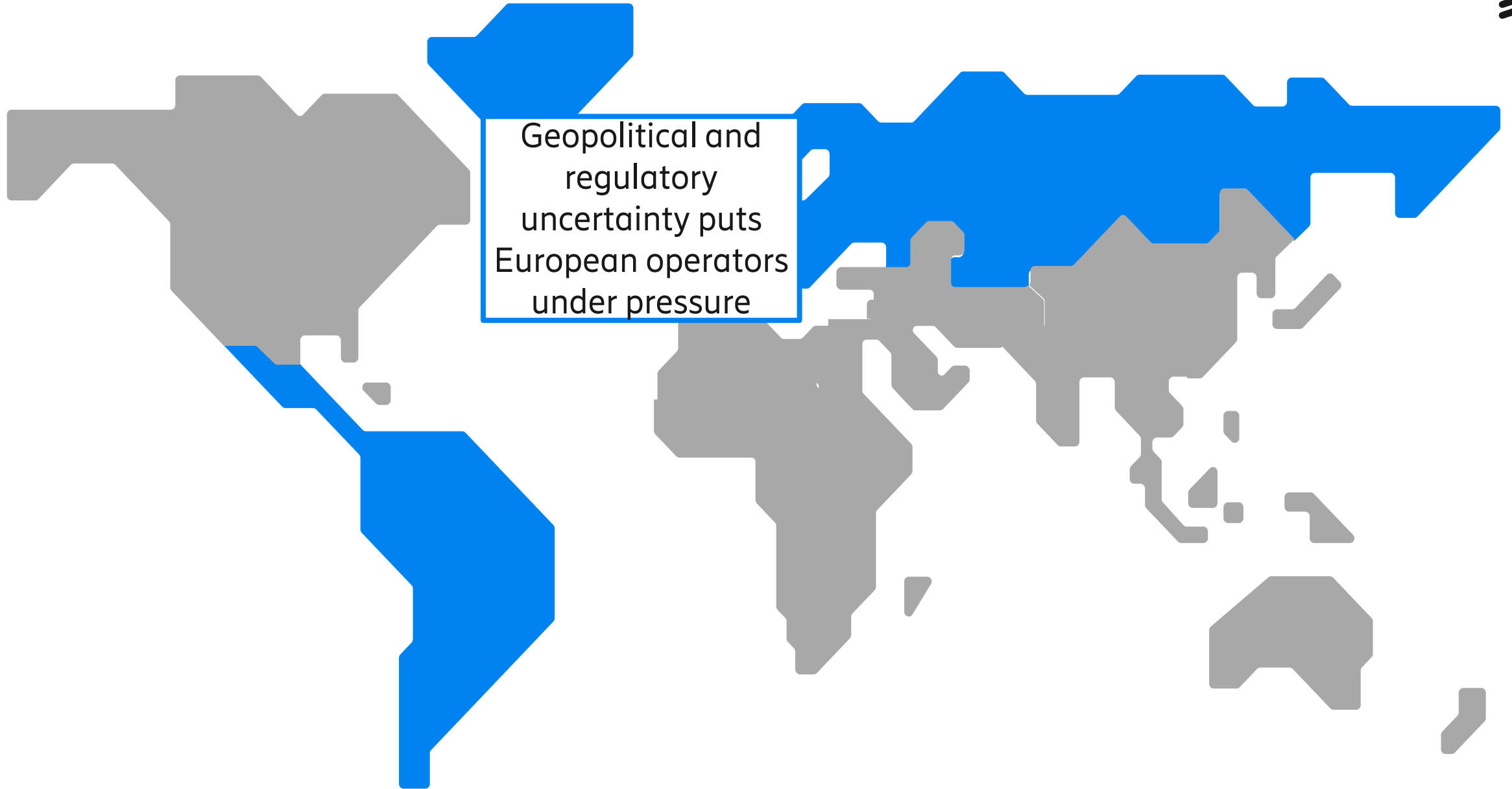
Large scale 5G
China rollouts to
begin in 2020





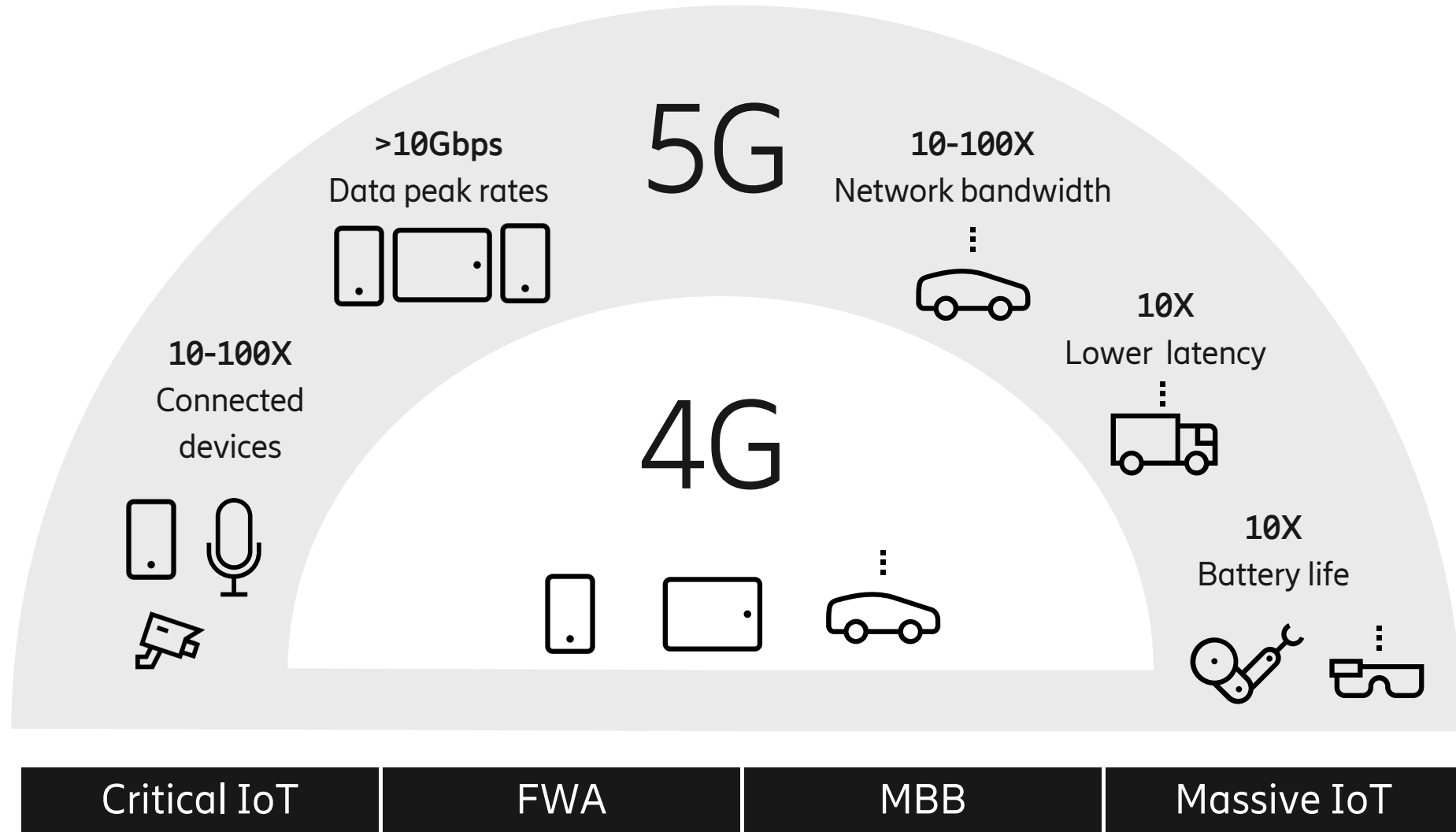
Early 5G
adoption in
Middle East

Africa
low LTE
coverage

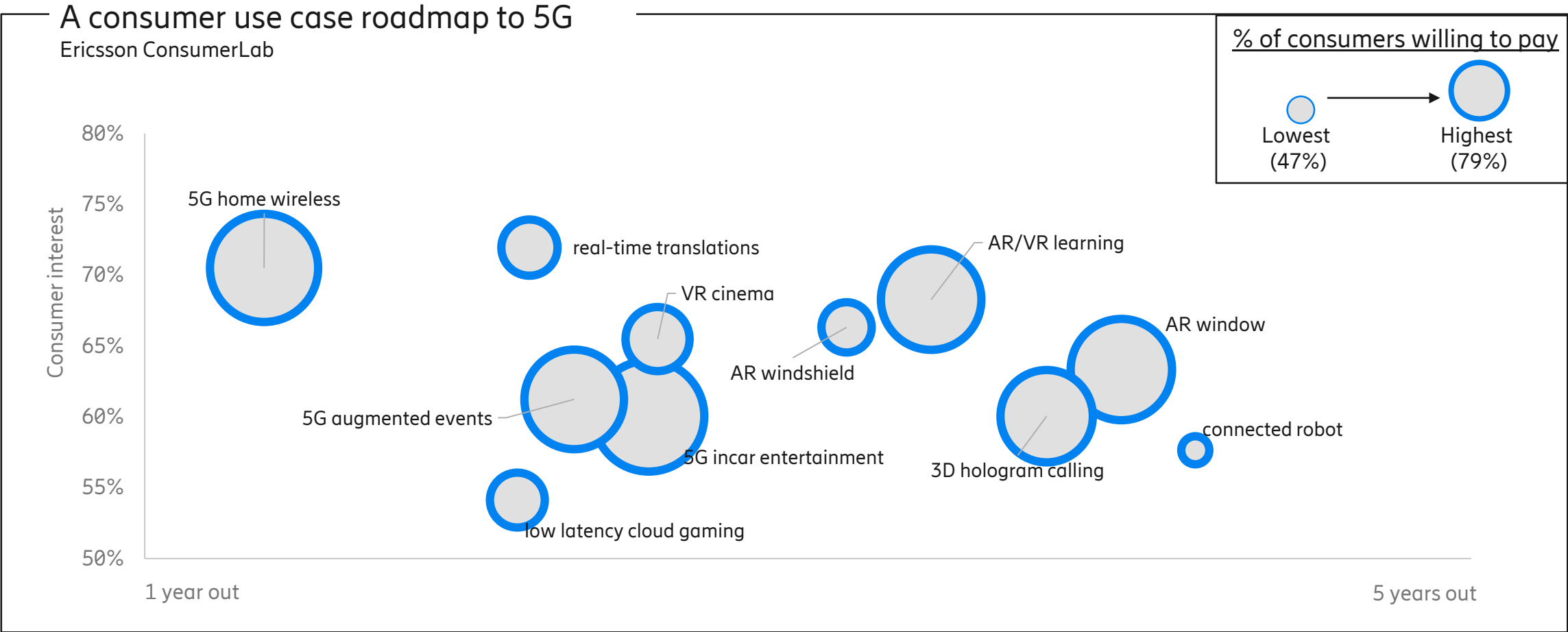


Geopolitical and
regulatory
uncertainty puts
European operators
under pressure

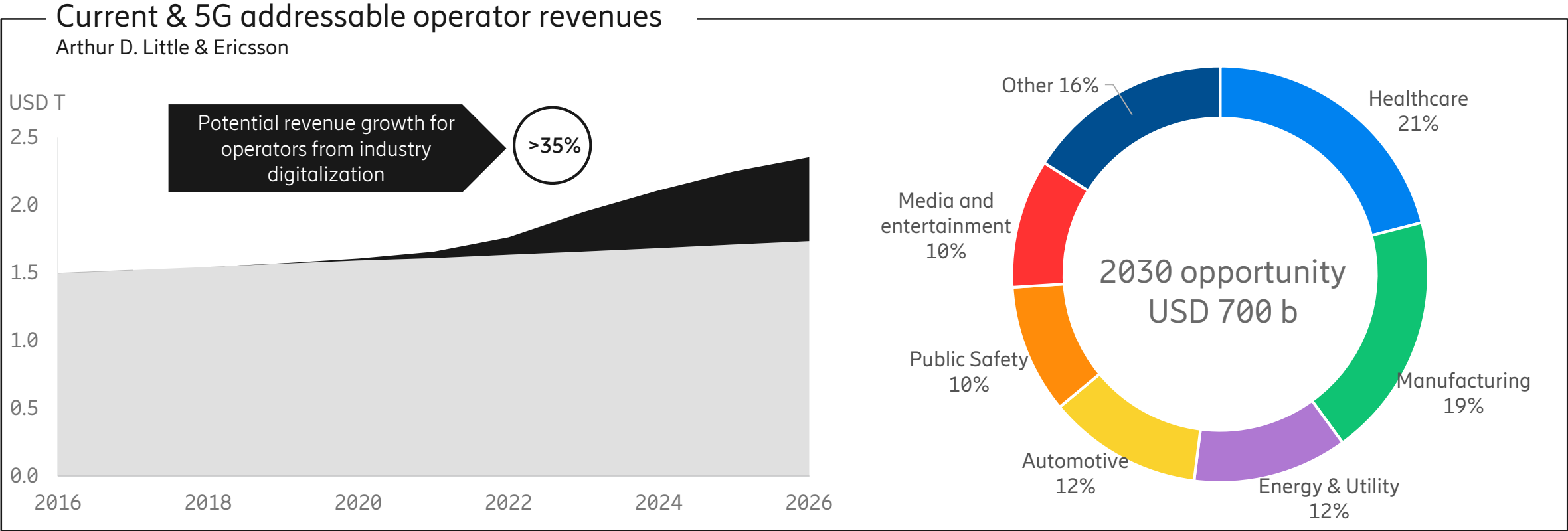
The 5G network platform



Consumers indicate a high willingness to pay for new services



Operators who invest for industry services could substantially grow revenues

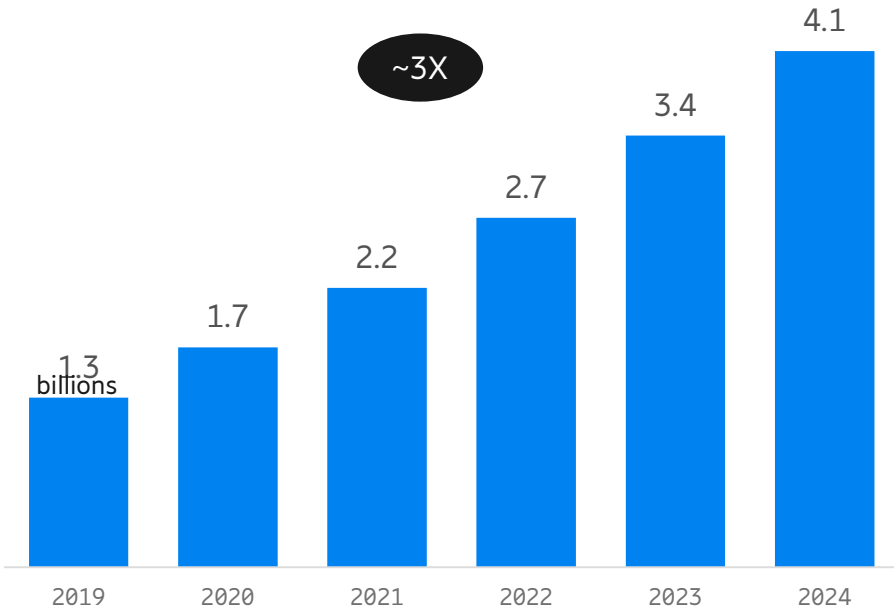


Ericsson invests in areas that drive traffic to mobile networks and increases demand for network quality



Cellular IoT connections

Ericsson Mobility Report



IoT Services & Solutions for Industries

Provide IoT platforms, private connectivity solutions and generate enterprise pull for mobile broadband

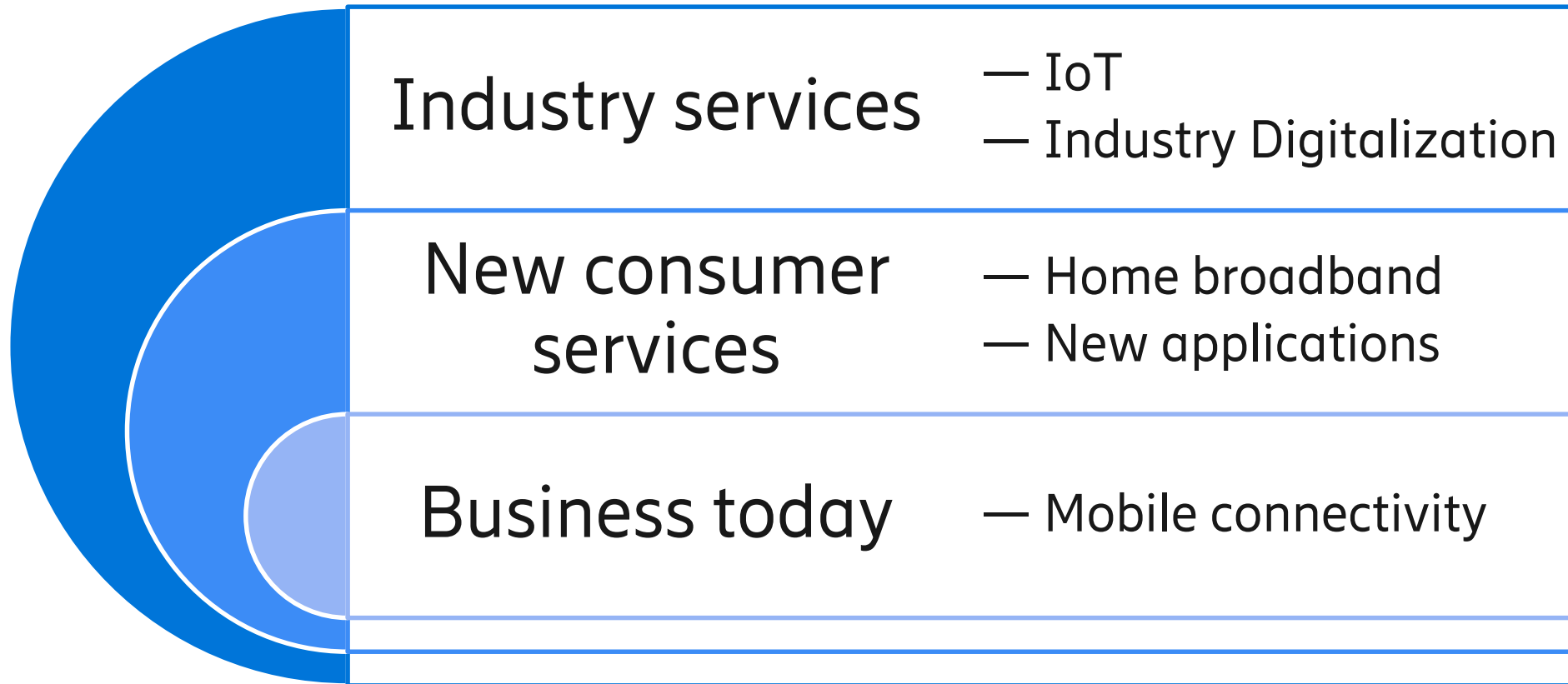
Example Solutions

- IoT Accelerator
- IoT Core
- Massive IoT
- Private Networks
- Industry Connect

Execution Highlights

- 100%+ growth in connected devices
- Serving 4600+ enterprises
- Present in 100+ countries
- 8 Tier 1 operators deployed private networks in 2019
- Connecting high value, outcome driven use cases

5G and IoT open the door to new value pools



Ericsson 5G execution



First with commercial 5G live networks in 4 continents: Americas, Europe, Asia and Oceania



27

publicly
announced contracts

5G commercial agreements
with 70 operators

19

live networks

We are supporting with
our 5G network technology

21%

better speed

Ericsson is leading in
performance on 5G live
networks

4

million radios

We have shipped 4
million 5G HW-prepared
radios since 2015



Strategy execution

Market environment and 5G opportunities

Segment priorities and financial targets

Networks strategic priorities and achievements



Invest in technology
and cost leadership

Selective market
share expansion

Acceleration of 5G
with lead customers

Customer

- 1st with live networks in 4 continents
- Largest number of supported devices on 5G networks (10+)

Portfolio

- 70+ radios planned for 2019
- Interoperability with all 5G chipset vendors
- 27% better capacity with 5G carrier aggregation

Talent

- Additional +400 R&D engineers hired in 2019

Digital Services strategic priorities and achievements



Profitability over growth

Selective approach to large and complex projects

Focused portfolio – cloud native and automation

5G Acceleration with lead customers

Customer

- 29 of 45 critical and non-strategic projects addressed
- World 1st cloud native core deployment in a live network

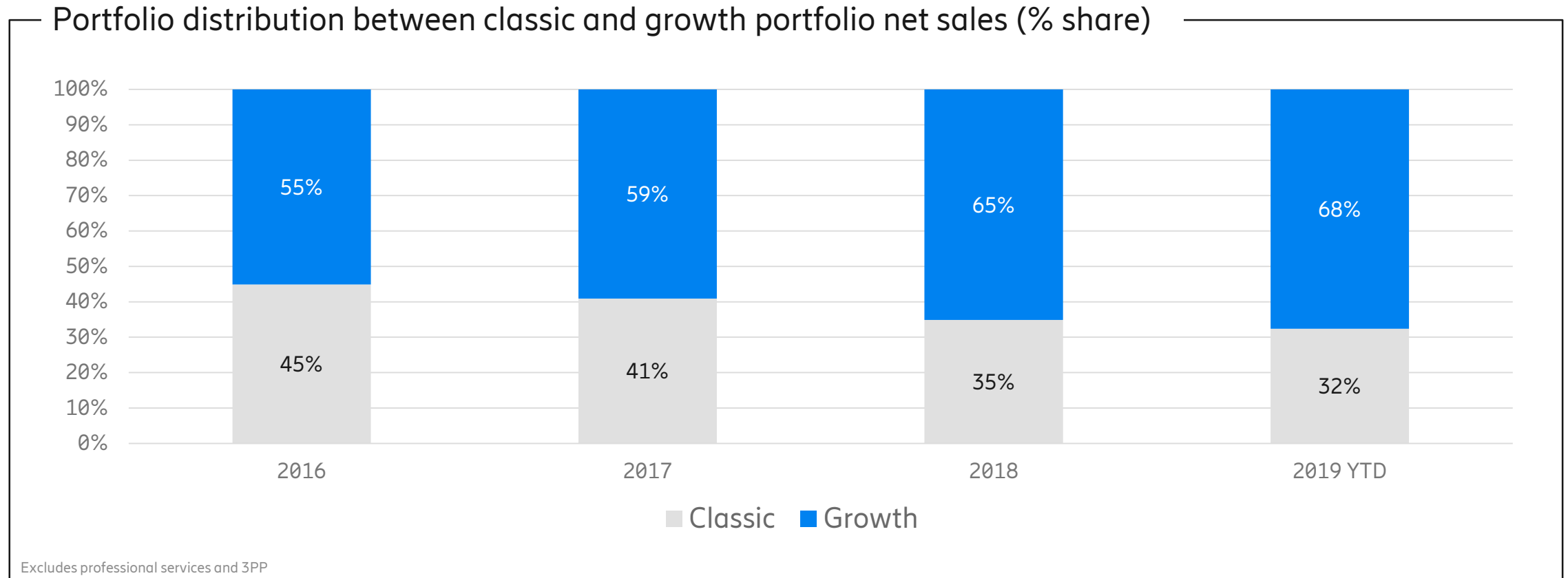
Portfolio

- Services margin improved
- New BSS strategy gaining traction – several new customers
- 5G Core portfolio 100% cloud native Q1 2020

Commercial

- Solution-focused operating model
- Recurring revenue increasing
- Effective sales governance established

Digital Services portfolio transformation



Managed Services strategic priorities and achievements ≡

Lead data-driven managed services

Customer

- Ericsson Operations Engine launched at MWC 2019
- 1st Ericsson Operations Engine contract signed
- Continued selective growth strategy

Invest in AI R&D

Portfolio

- Shifting from event driven to data driven operations
- 43 AI related patents filed, part of Ericsson Operations Engine
- Increased R&D investments in AI and automation

Develop a data-driven organization

Organization Transformation

- Improving quality of operations with global re-use of automation use cases (86% reuse)
- Significant AI and automation upskill program

Continuous efficiency gains in service delivery

Segment Emerging Business and Other



Media Business

MediaKind (Media Solutions)

Partnering, retaining 49% ownership

Red Bee Media (Broadcast services)

Develop and manage as an independent entity

Emerging Business

iconectiv

Interconnection technology and clearinghouse solutions

IoT

Strategic future growth opportunity built on 5G

New businesses

Invest in strategic future growth opportunities built on 5G and IoT

Invest in businesses that leverage core portfolio and have commercial traction

Exit non-strategic or non-performing businesses

Double down investments in IoT

The new operating income 2020 target will be -1.5 to -2.0 b SEK

Updated 2020 and 2022 ambitions and targets



SEK b. USD to SEK 9.50		2020	2022
Sales ambition	Group	230-240 (210-220)	
	Networks	160-164 (141-145)	
	Digital Services	41-43	
	Managed Services	23-25	
	Emerging Business & Other	6-8 (5-7)	
Operating margin ¹ target	Group	>10%	12-14% (>12%)
	Networks	15% to 17%	
	Digital Services	Low single digit	
	Managed Services	5% to 8%	
	Emerging Business & Other	SEK -1.5 to -2 b. (Break-even)	
Free Cash Flow ambition (bef. M&A)	Strong (Positive)		Strong

Comments

- Sales ambition of SEK 230-240 b. for 2020 based on a SEK/USD rate of 9.50 (vs. 8.70 CMD 2018)
 - Stronger market driven by 5G
 - Kathrein acquisition adds to Networks sales
 - Emerging business topline ambition update is driven by growth in Emerging business and iconectiv
-
- 2020 operating margin¹ remains at >10%.
 - Changed target for Emerging Business and Other (break-even to SEK -1.5 to -2.0 b.)
 - Short-term dilutive impact from strategic contracts
 - Initially higher cost level for newly introduced 5G products
 - 2022 operating margin¹: specified to 12-14% from >12%
 - Ambition to grow faster than the market in combination with leverage from investments in market position and R&D.
 - 2020 Free Cash Flow before M&A updated from positive to strong driven by profits and continued capital efficiency

Target and financial update

Carl Mellander
CFO





Financial strategy execution

Target summary and segment breakdown

Free cash flow and capital structure

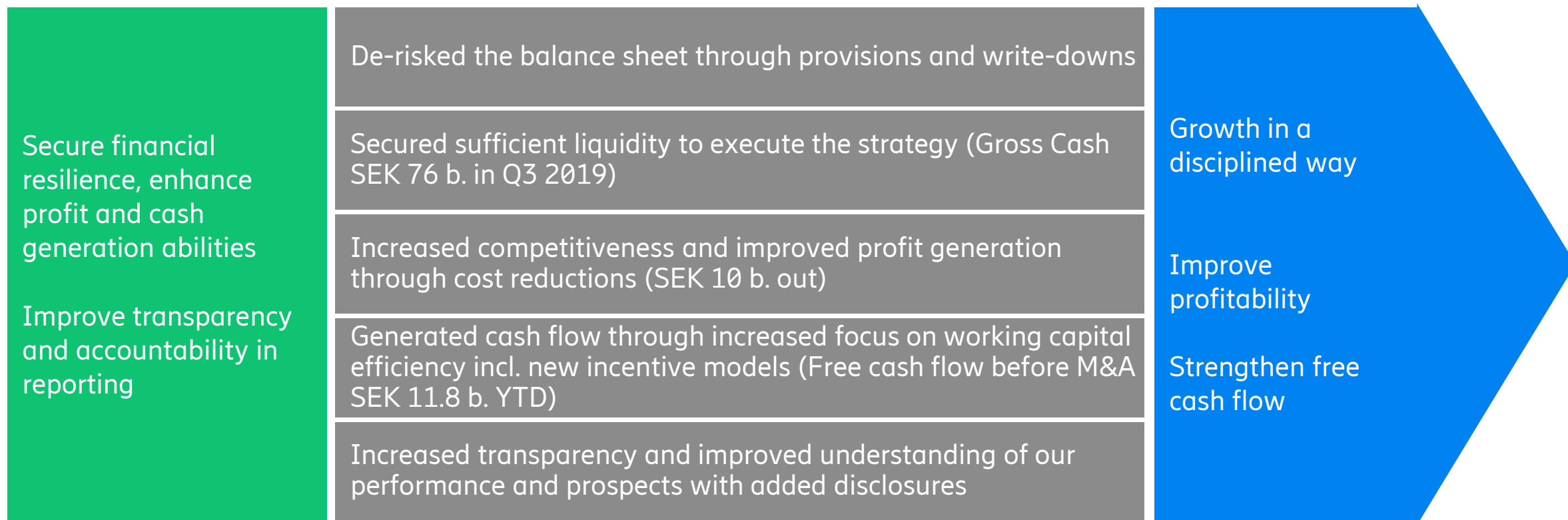


Financial strategy execution

Target summary and segment breakdown

Free cash flow and capital structure

Financial strategy execution since 2017



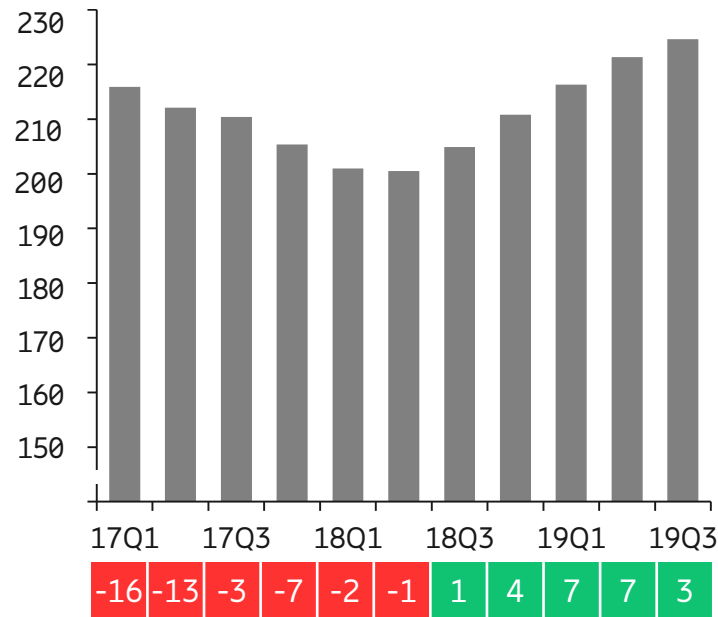
Strategy execution in line with plan

Ericsson turnaround journey since 2017



Net sales

(SEK b. – Rolling 4Q)

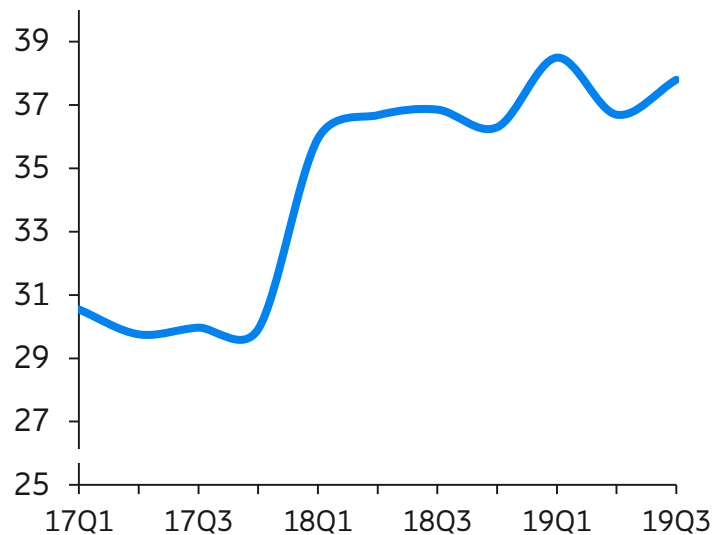


YoY change in quarterly net sales adjusted to comparable units and currency (%)¹

Net sales turned to growth

Underlying gross margin²

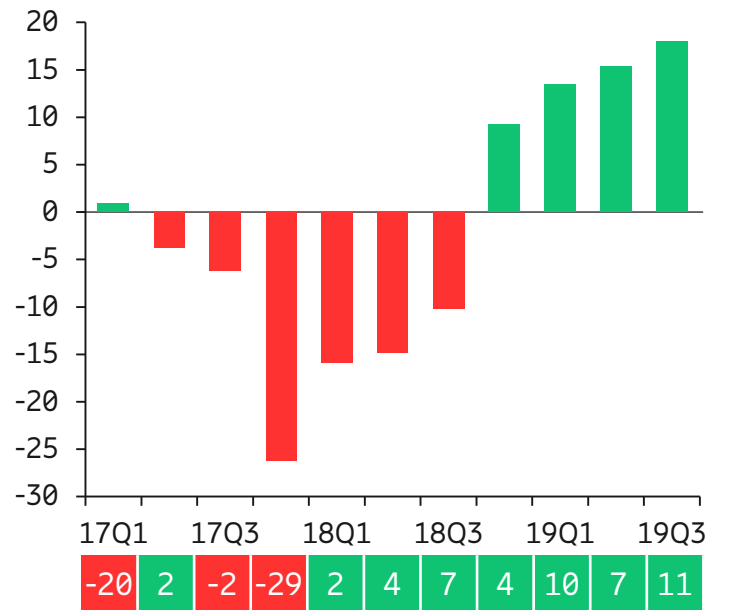
(% – quarterly)



Strong gross margin improvement

Operating income

(SEK b. – Rolling 4Q)



Isolated quarter operating margin (%) (excluding restructuring charges)³

Strong profit improvement

¹ 2017 growth rates not adjusted for IFRS 15.

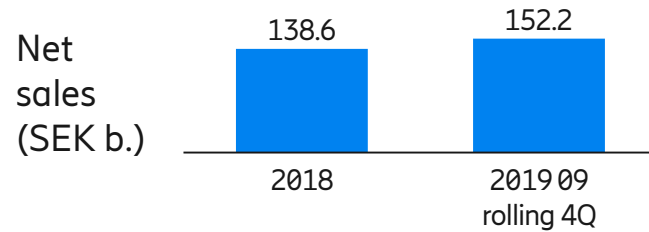
² Gross margin excludes restructuring charges. 2017 excludes extraordinary items and are not restated for IFRS 15.

³ 2019 Q3 operating income and margin excludes SEC and DOJ provision and refund of earlier paid social security cost in Sweden.

Segment improvements



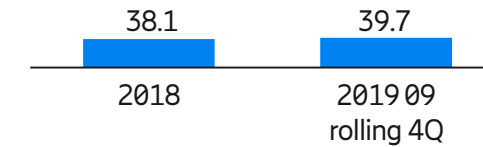
Networks



GM (%)	40.8%	41.7% ▲
OM (%)	15.3%	16.9% ▲

- Organic growth driven by North America & North East Asia
- Increased R&D investments pay off with improved gross margin and sales

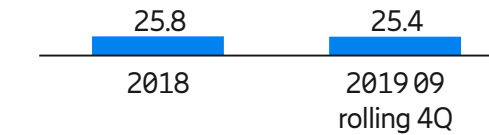
Digital Services



GM (%)	32.4%	37.6% ▲
OM (%)	-22.3%	-10.1% ▲

- Growth in the new portfolio of 5G and cloud-native products
- Significant cost savings across service delivery, SG&A and R&D

Managed Services



GM (%)	12.2%	15.0% ▲
OM (%)	5.3%	6.4% ▲

- Lower sales due to planned contract exits
- Gross margin improved through efficiency measures and contract exits
- Automation, R&D investments in AI and machine learning

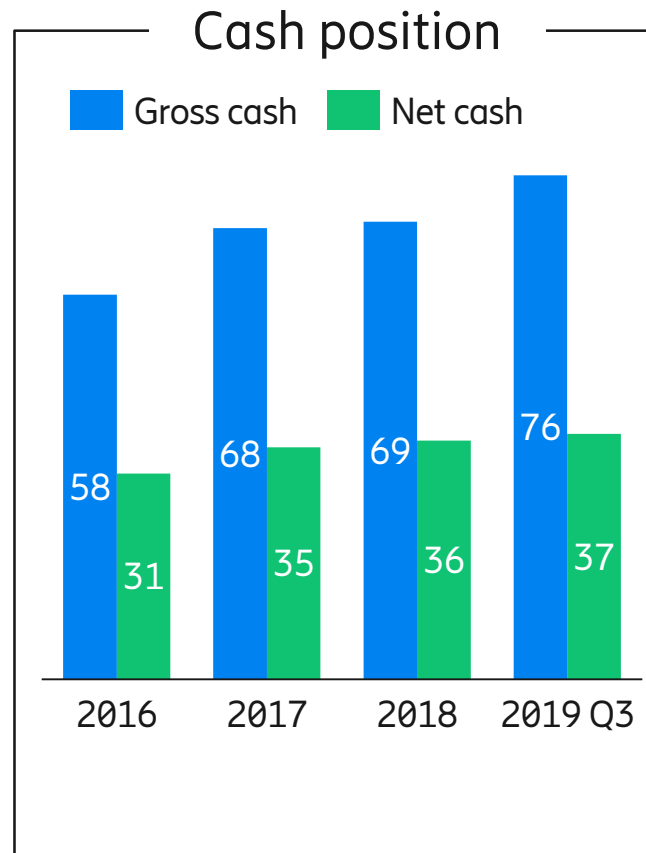
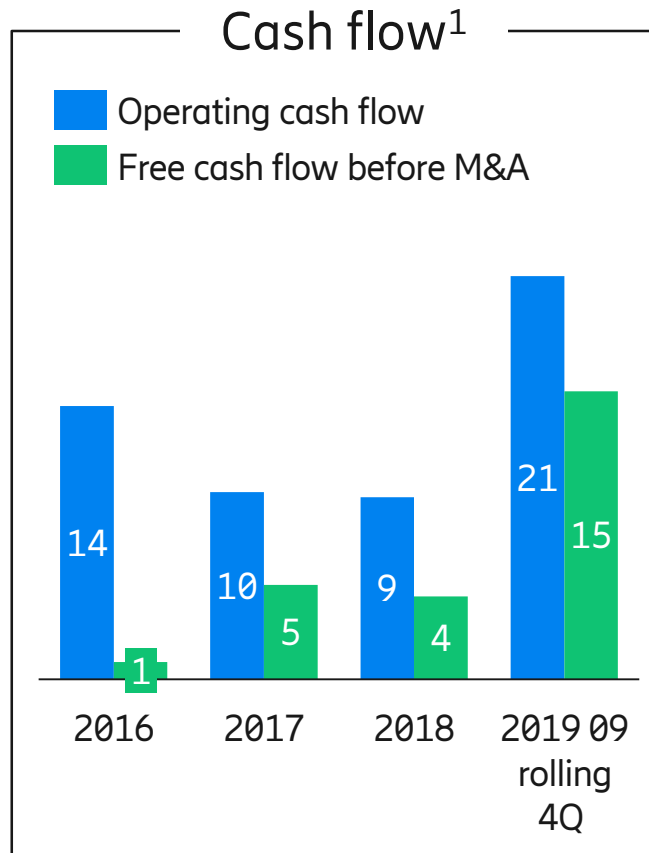
Emerging Business & Other



GM (%)	25.4%	19.9% ▼
OM (%)	-57.4%	-52.4% ▲

- MediaKind divestment reduced sales but improved income
- Organic sales growth
- Continued disciplined investments in Emerging Business

Positive free cash flow throughout the turnaround



Credit rating

Agency	Rating	Outlook
Fitch	BBB- (Invest. grade)	Stable ↑ (Jul 2018)
S&P	BB+	Positive ↑ (Sep 2019)
Moody's	Ba2	Positive ↑ (Jul 2019)

S&P and Moody's recently changed Ericsson's outlook to "positive" on the back of the improved financial performance



Financial strategy execution

Target summary and segment breakdown


Free cash flow and capital structure

Target update 2020

Increased group net sales ambition, maintained operating margin¹ target



SEK b.	CMD 2018 2020	Investor Update 2019 2020
Sales	210-220	230-240
Gross margin ¹	37-39%	
R&D	Continued investments but growing slower than sales	
SG&A	Structural improvements	
Operating margin ¹	>10%	
Free Cash Flow (before M&A)	Positive	Strong

2020 operating income and margin ¹ target ranges	
Networks	15% to 17%
Digital Services	Low single digit
Managed Services	5% to 8%
Emerging Business and Other	SEK -1.5 to -2.0 b.
	
Sum of the parts	10% to 13%

Comments

Net Sales

- Sales ambition of SEK 230-240 b. for 2020 based on a SEK/USD rate of 9.50
- Stronger market driven by 5G
- Kathrein acquisition

Op. margin excl. restructuring charges

- Operating margin¹ remains at >10%. This includes the changed target for Emerging Business and Other (break-even to SEK -1.5 – -2.0), short-term dilutive impact from strategic contracts and the initially higher cost level for newly introduced 5G products.

Free cash flow before M&A

- Updated ambition from positive to strong given increasing profits and continued capital efficiency

Underlying assumptions

- USD to SEK 9.50 (8.70 at CMD 2018)
- Managed Services addressable market: 2-4% CAGR 2018 – 2022 (Source: External sources & Ericsson analysis)
- Network: RAN equipment 2% CAGR 2018-2023 (Source: Dell'Oro)
- Digital Services 1-4% CAGR 2018-2022 (Source: External sources and Ericsson analysis)

2019 09 rolling 4Q vs 2020 financial targets

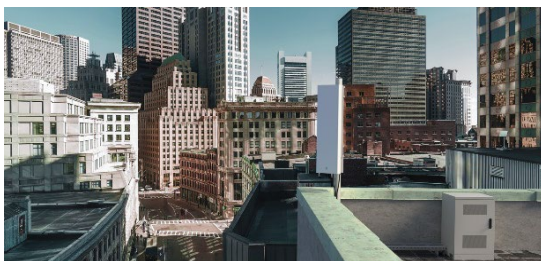


SEK b.	Investor Update 2019	2019 09 rolling 4Q ¹		Comments
	2020	SEK b.	Change YoY	
Sales	230-240	224.6	+9.6%	— Business momentum on a growing market
Gross margin	37-39%	37.3%	+2.5%p.	— Innovation, cost competitiveness and discipline — Regional sales mix will impact gross margin
R&D	Continued investments but growing slower than sales	38.3	+4.9%	— Growing in line with technology leadership strategy
SG&A	Structural improvements	25.4	-4.5%	— Efficiencies within SG&A
Operating margin	>10%	8.6%	+4.9%p.	— Tracking towards our financial targets
Free Cash Flow (before M&A)	Strong	14.8 b.	+28%	— 2022 ambition >8% of net sales
Underlying assumptions		<ul style="list-style-type: none"> — USD to SEK 9.50 (8.70 at CMD 2018) — Managed Services addressable market: 2-4% CAGR 2018 – 2022 (Source: External sources & Ericsson analysis) — Network: RAN equipment 2% CAGR 2018-2023 (Source: Dell'Oro) — Digital Services 1-4% CAGR 2018-2022 (Source: External sources and Ericsson analysis) 		

Target breakdown by segment



Networks



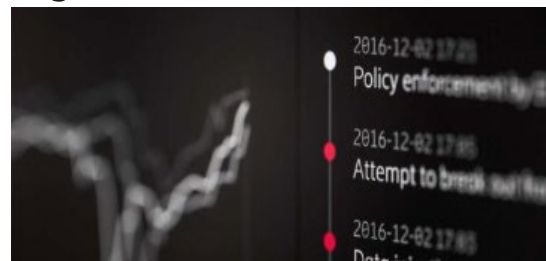
2020 target

Net sales	Operating margin ²
SEK 160-164 b. (141-145) ¹	15-17% (15-17%) ¹

- Invest in technology and cost leadership
- Selective market expansion based on technology and cost competitiveness
- Acceleration of 5G with lead customers

15% to 17%

Digital Services



2020 target

Net sales	Operating margin ²
SEK 41-43 b. (41-43) ¹	Low single digit (Low single digit) ¹

- Profitability over growth remains
- Selective approach to large and complex projects
- Continue to invest in cloud-native and automated solutions portfolio
- Grow 5G and automated operations business
- Explore growth beyond MBB

Operating margin² targets 2022

10% to 12%

Managed Services



2020 target

Net sales	Operating margin ²
SEK 23-25 b. (23-25) ¹	5-8% (5-8) ¹

- Higher share of business from Ericsson Operations Engine
- Cost efficiencies driven by industrialized automation
- Global scale of AI capabilities driven by R&D leadership
- Develop next generation capabilities (5G, SDN/NFV, AI)

8% to 10%

Emerging Business & Other



2020 target

Net sales	Operating income ²
SEK 6-8 b. (5-7) ¹	SEK -1.5 – -2.0 b. (Break-even) ¹

- RedBee Media – develop as an independent media services entity
- 51% of MediaKind divested
- Selective and disciplined investments in Emerging Business

-

¹Numbers within brackets refer to CMD 2018

²Operating margin and income target excludes restructuring charges

2022 Emerging Business & Other: We will manage emerging business initiatives for growth, based on positive NPV case-by-case and within 2022 Group targets.

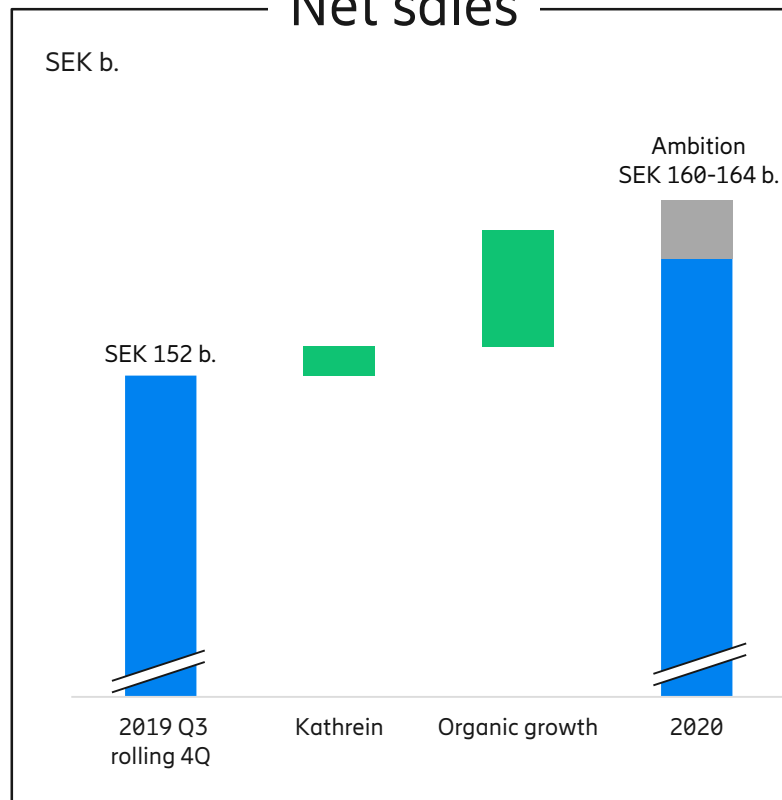
This slide contains forward-looking statements. Actual result may be materially different.

Networks – development towards 2020 target

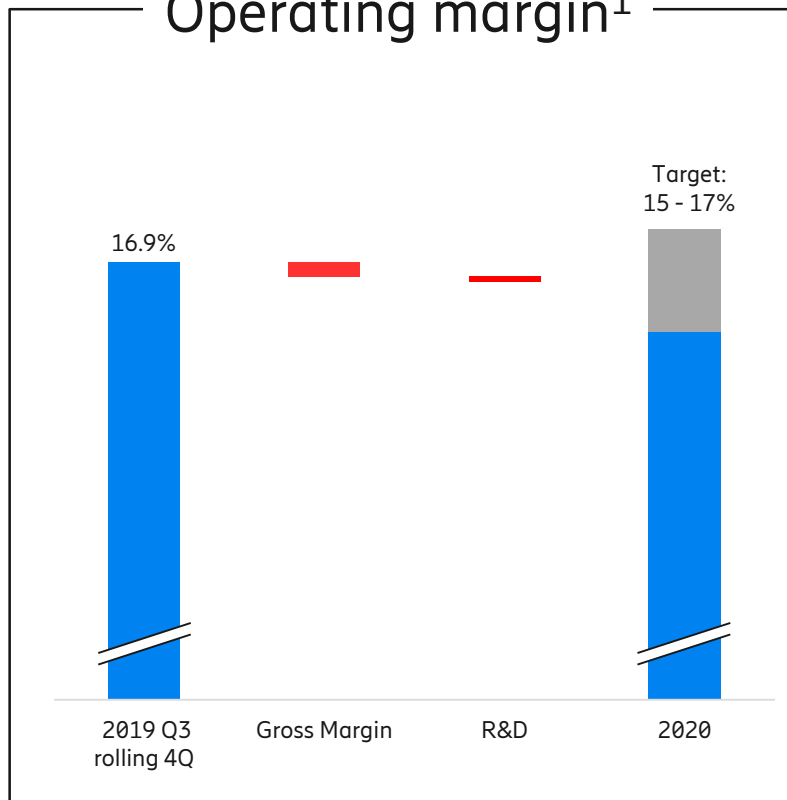


Illustrative

Net sales



Operating margin¹



Net sales

- Kathrin acquisition closed in October
- Overall RAN market (product & services) outlook up 2-3% 2020 (Dell'Oro)
- Selective and disciplined market share expansion

Operating margin

- Some negative impact from changed regional and business mix
- Operational leverage and efficiency improvements

Strategic priorities

- Invest in technology and cost leadership
- Selective market expansion based on technology and cost competitiveness
- Acceleration of 5G with lead customers

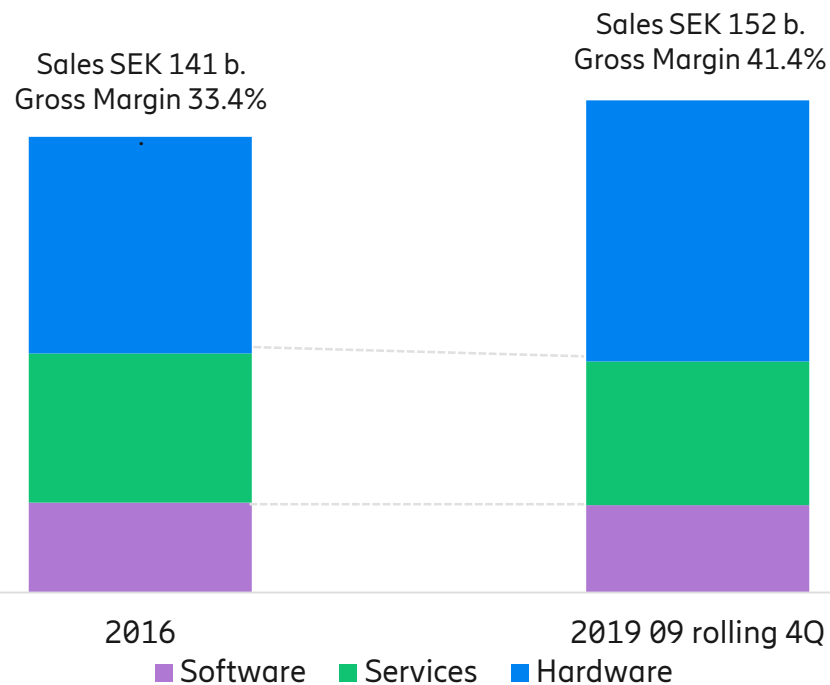
Target 2020 — Sales: SEK 160 - 164 b. Operating margin: 15 - 17%

Networks – business and margin mix



Illustrative

Sales split



Hardware

- Continued R&D investments for cost & technology leadership, more advanced radio solution for performance, capacity, 5G and Transport
- Ericsson Radio System solution ready to enable 5G deployment

Services

- Improved underlying margin, decline in sales from strategic exit of fiber business

Software

- Margin has improved and revenues are at a relatively stable absolute level

Investments in technology and cost leadership have improved margins across hardware, software and services

Strategic contracts



Why we do it

- Building a stronger position long term
 - Strengthening our market position, capitalizing on the increasing market momentum for 5G
 - Selective increase of market share where it makes business sense

Financial impact

- Some contracts have lower initial margins, however all selected for their value creation over the longer term, contributing to footprint and scale
- Competitive product offering and improved cost structure, both in hardware and services, enable us to capture such opportunities without jeopardizing our 2020 targets
- Will continue to have a negative impact on Networks gross margin, and the dilutive impact may vary between quarters
- Different from European modernization
 - Competitive product offering with Ericsson Radio System
 - Structurally better cost structure in hardware and services
 - Fewer deals (30+ European modernization contracts)
 - Stricter handling of discounts (IFRS15) – positive NPV

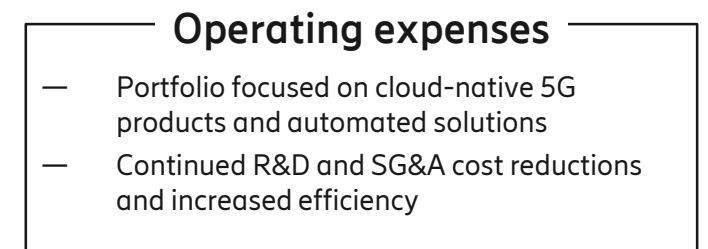
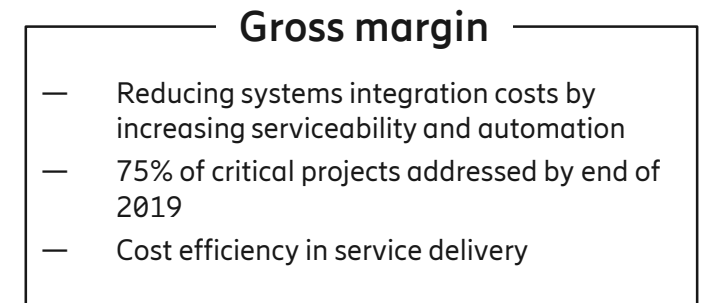
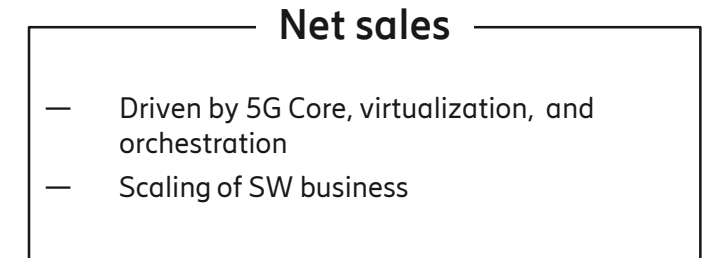
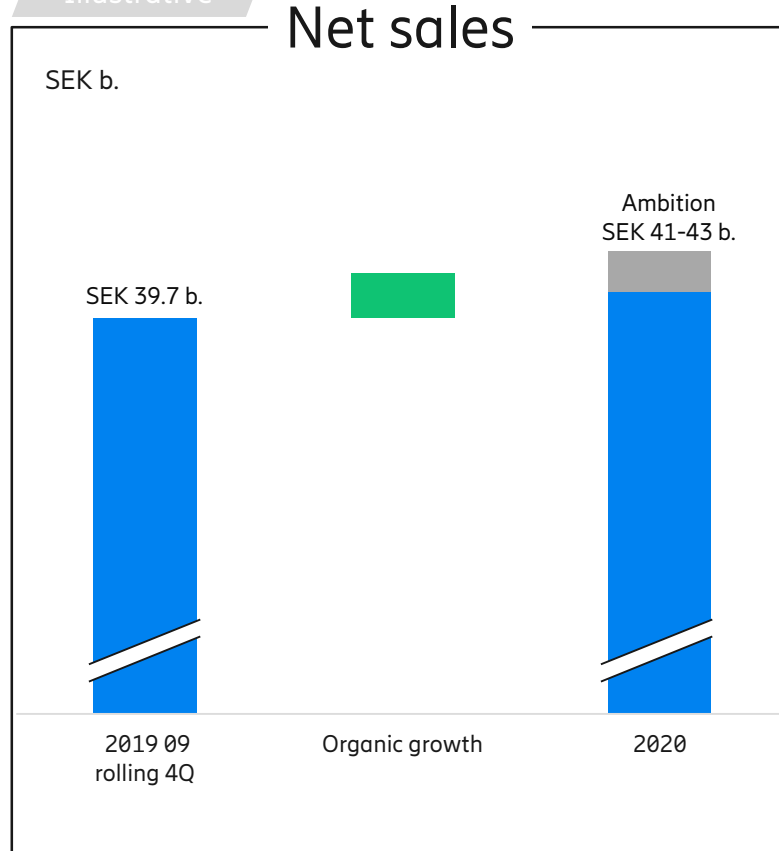


Several important wins, where technology leadership is a clear differentiator

Digital Services – development towards 2020 target

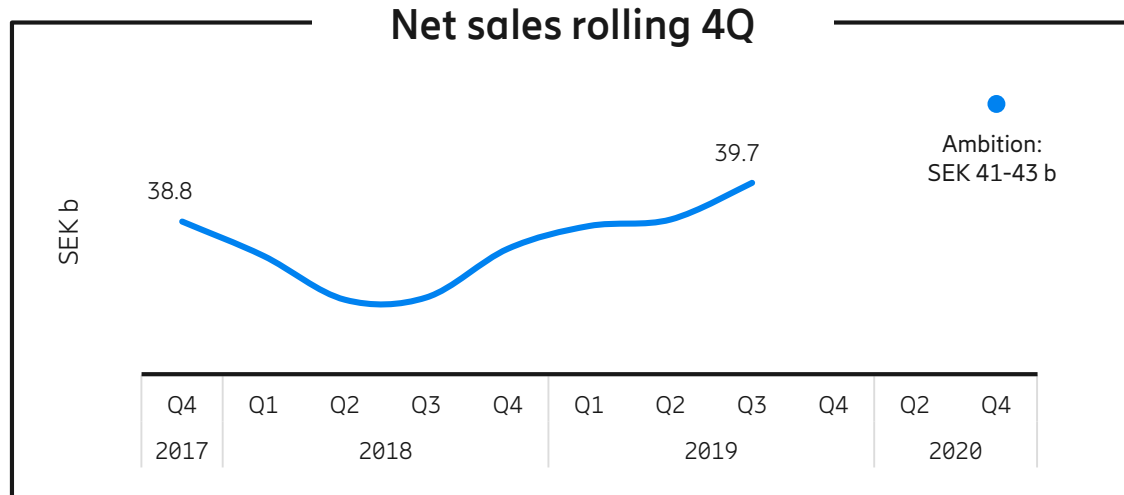


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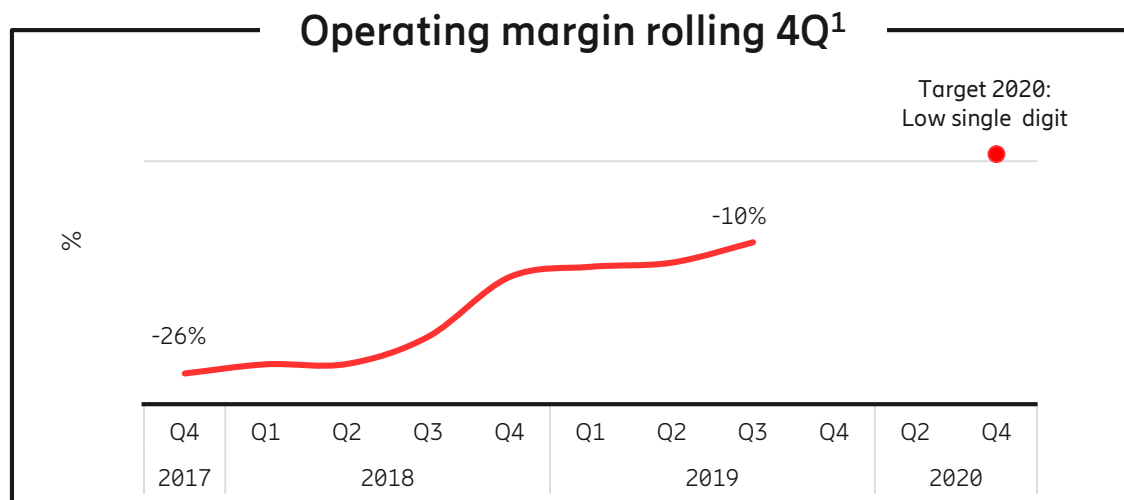
Target 2020 — Sales: SEK 41 - 43 b. Operating margin: Low single digit

Digital Services turnaround – on track towards profitability



Comments

- Strong demand in North America and North East Asia
- Good business momentum across several parts of our growth portfolio
 - Cloud native and core virtualization
 - 5G and orchestration business demand
- Decline continues for classic business, now less than 33% of product sales

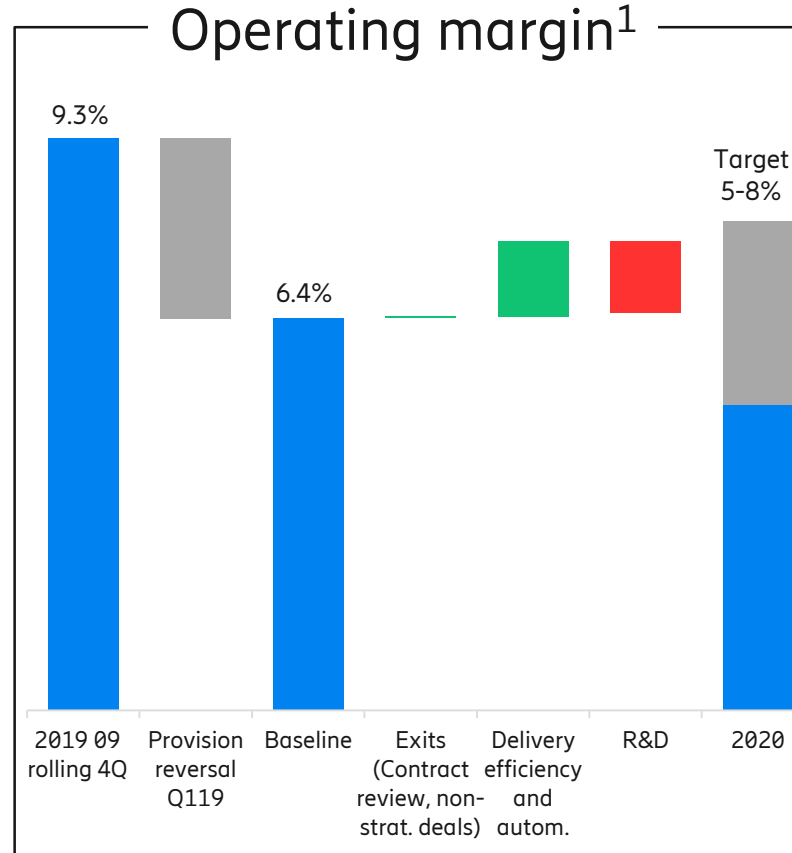
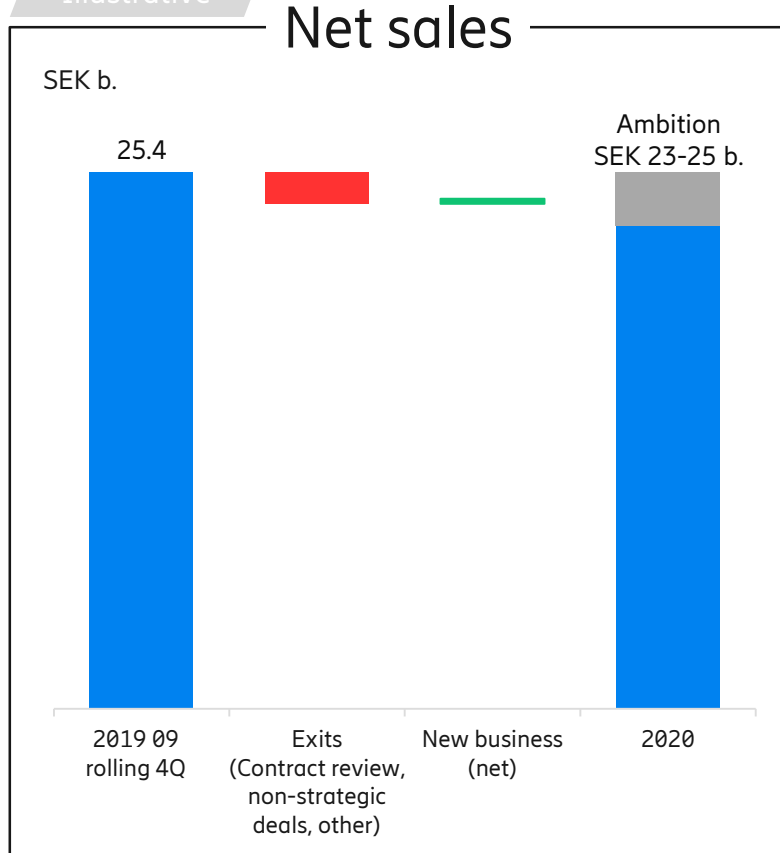


Comments

- Effective sales governance established
- 29 critical contracts addressed to date (out of 45), and on track towards 75% of contracts addressed by year-end
 - Lower impact of critical projects going forward
- Service delivery efficiency visible
- Good progress on continued operating expenses cost reductions, despite FX headwind

Managed Services – development towards 2020 target ≡

Illustrative



- ### Net sales
- Decline due to contract review program / exit of non strategic contracts
 - Continued selected growth strategy

- ### R&D investments
- Value proposition to customer through Ericsson Operation Engine
 - Shifting from event-driven to data-driven Operations
 - Investments in AI/ML and automation to capture efficiencies

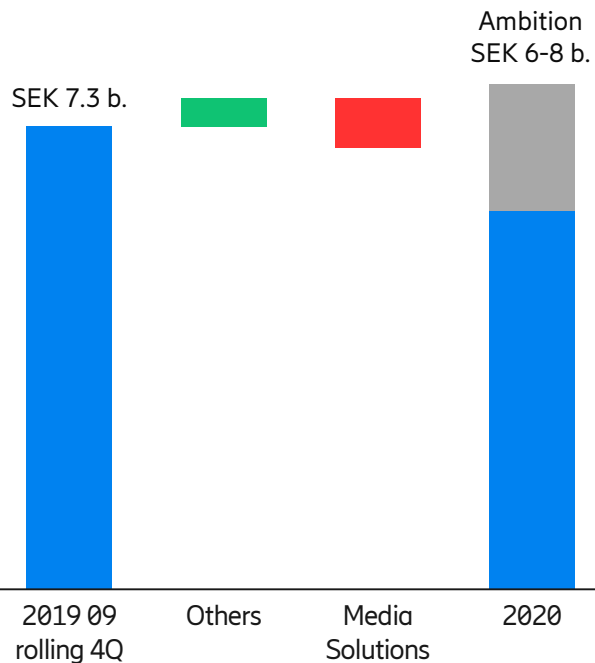
Target 2020 — Sales: SEK 23 - 25 b. Operating margin: 5 - 8%

Emerging Business and Other – updated 2020 target

Illustrative

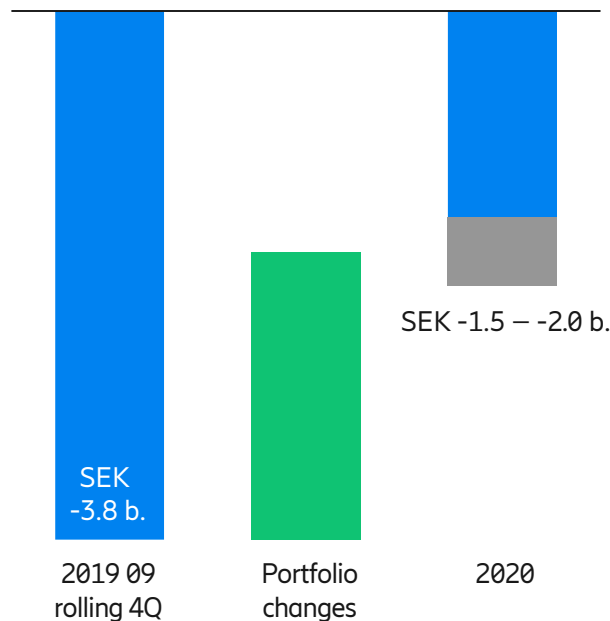
Net sales

SEK b.



Operating income¹

SEK b.



Segment summary

- MediaKind exit impacting Net sales, and driving Operating income improvement
- Red Bee Operating income improvement driven by operational performance
- Emerging Business offerings leverage on Ericsson core portfolio. Investments impact operating income in the short term
- Double down in IoT to take a leader position in the market and create long-term value

Operating margin target updated to reflect investments in IoT, while improvements in Media continue



Financial strategy execution

Target summary and segment breakdown

Free cash flow and capital structure

Free cash flow generation



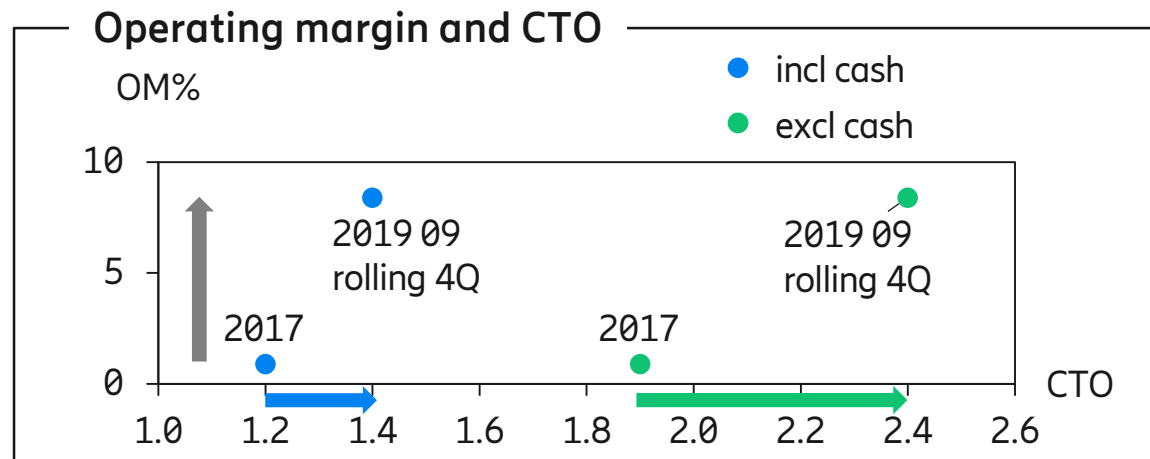
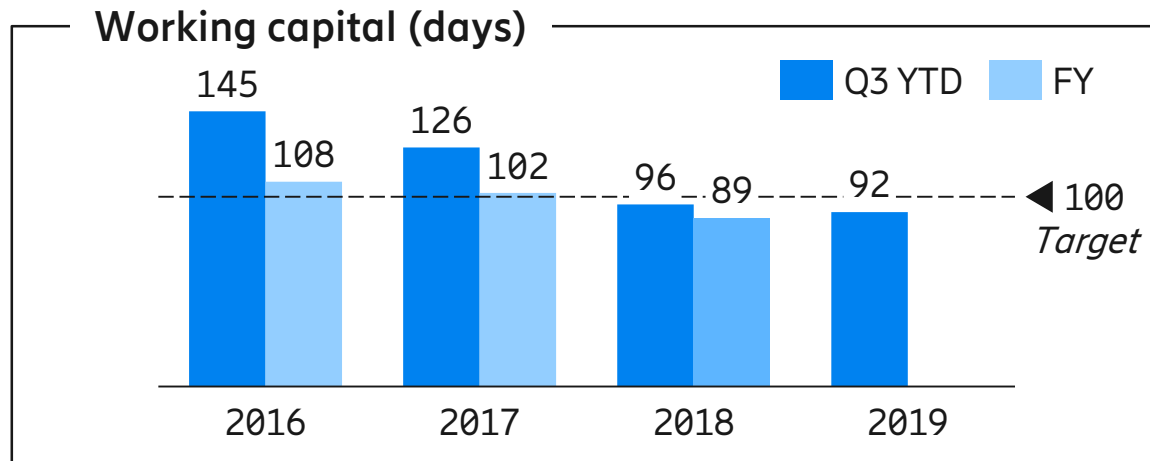
Bridge from operating income to free cash flow

Illustrative	Ambition	2019 Q3 YTD
Operating income ¹	>12%	10.1%
⊖ Financial net, tax and other	-4%	-3.2%
⊕ Add back depreciation & amortization	3 to 4%	4.2%
⊕/- Change in working capital	0	-0.7%
⊖ Capex incl. Cap Dev	-2%	-2.8%
⊖ Restructuring	-1%	-0.3%
⊜ Free cash flow (before M&A)	>8%	7.3%
⊖ M&A	-1 to -2%	-0.1%

Comments

- Focus on delivering high conversion of Operating income to free cash flow
- Activities ongoing to reduce costs “below OI”, including restructuring, financial net and tax
- Striving to maintain working capital efficiency but swings may impact cash flow
- Planning assumption for capex is about 2% of Net sales, while expected to remain above 2% in 2020 due to the new factory in the US
- Ambition to over time reduce restructuring charges to around 1% of Net sales
- M&A will vary depending on strategic decisions but assumed to be around 1-2% of Net sales

Reduced working capital and an overall improvement in capital efficiency



Working capital

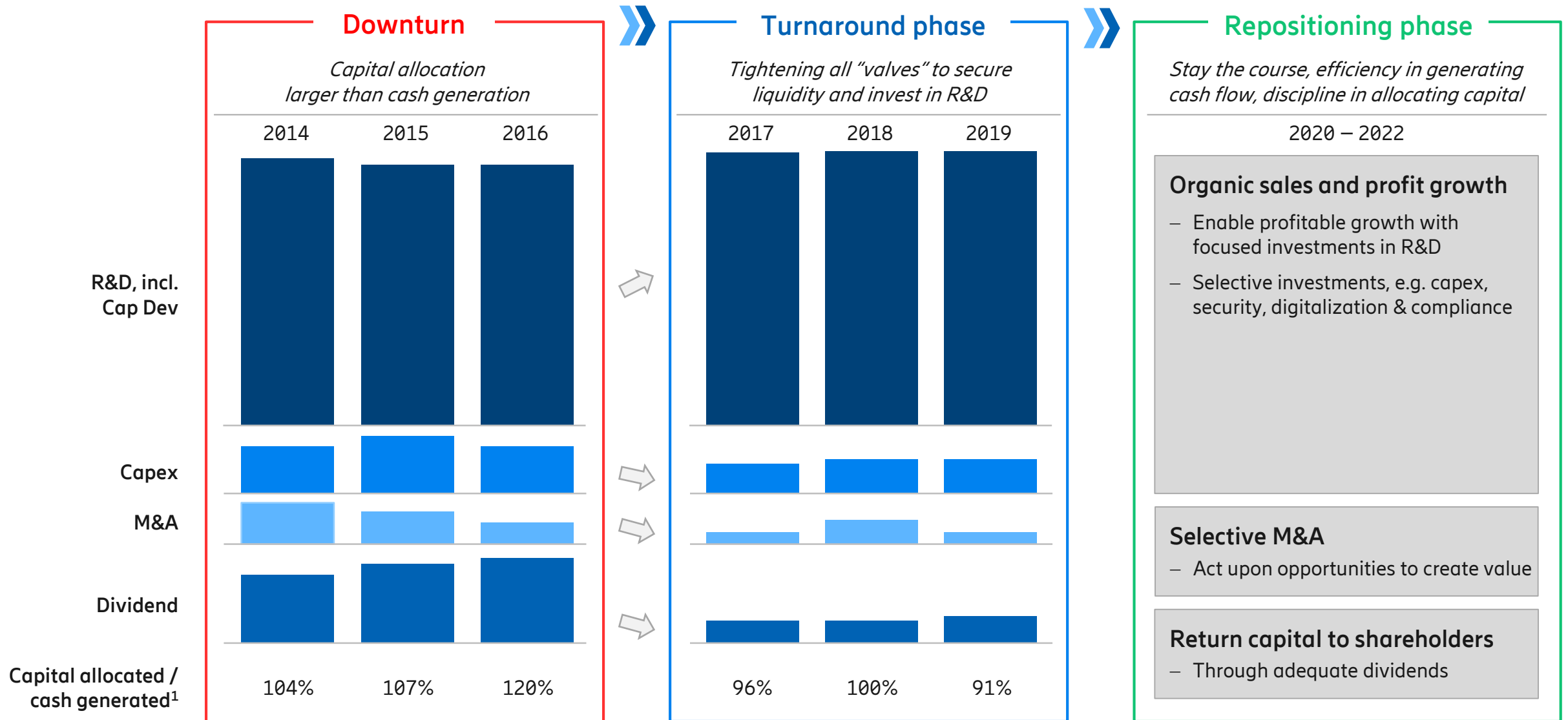
- The trend towards fewer working capital days has continued
- Key drivers
 - Implementation of the focused strategy
 - Selective deal taking
 - Reduced lead times with Ericsson Radio Systems
 - Enhanced processes for credit management and collection
 - Incentives tied to Economic Profit, cash collection and working capital

Overall capital efficiency

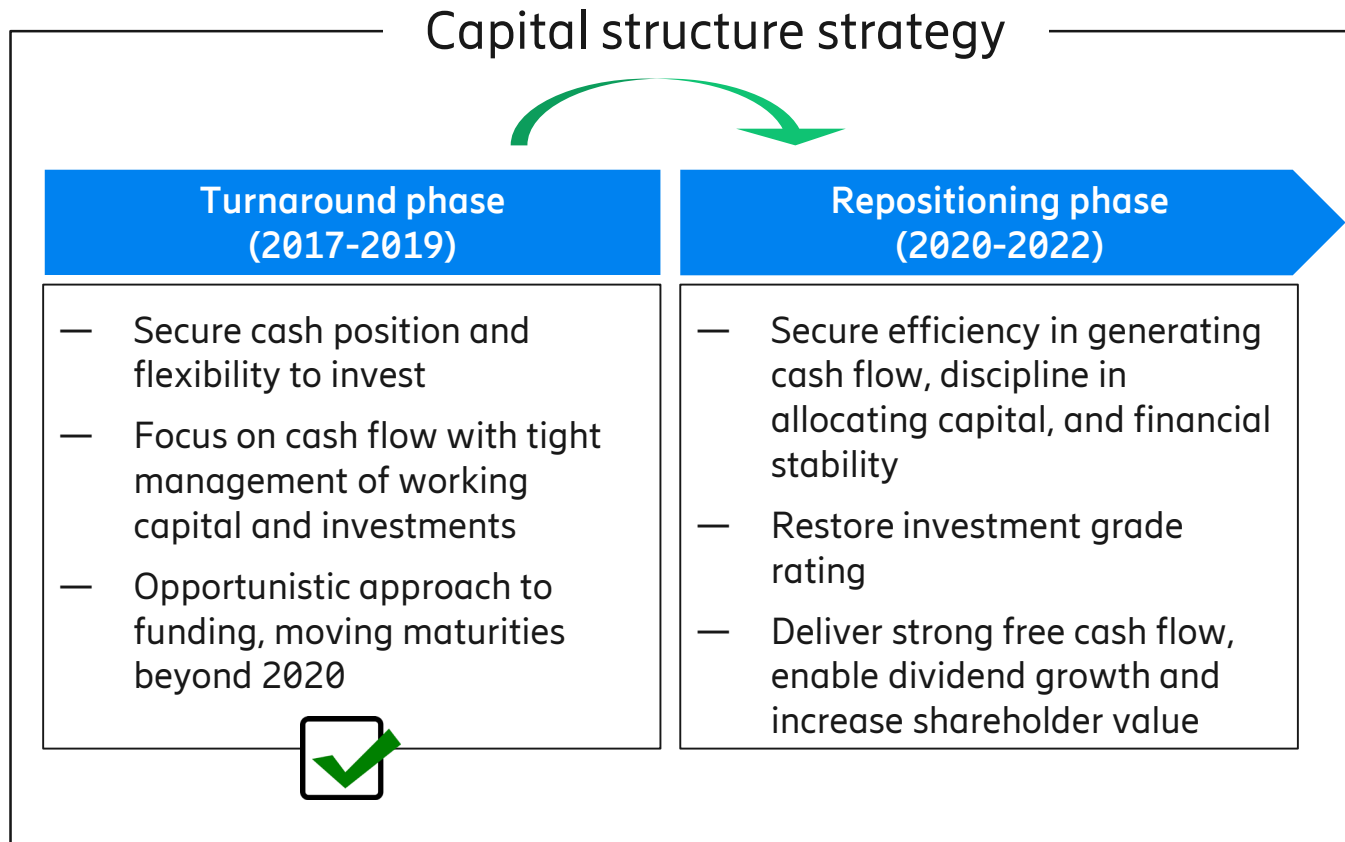
- In addition to the improvement in the Operating margins we also see an improvement in overall capital efficiency, i.e. increase in Capital Turnover (CTO) based on capital employed
- When excluding gross cash – a large part of the overall capital employed – the improvement is even more visible

2017 numbers not restated for IFRS 15. 2019 Q3 are rolling 4Q and exclude SEC and DOJ provision.
Working capital days equals sum of days sales outstanding and inventory days less payable days.
This slide contains forward-looking statements. Actual result may be materially different.

Ericsson Capital Allocation – Delivering on our strategy ≡



Capital structure strategy – moving into the next phase ≡



Capital ambitions		
		Status 2019 Q3 YTD
Free Cash Flow (before M&A)	Strong	SEK 11.8 b. 7.3% of NS
Net cash	Positive	SEK 37 b.
Credit rating	Investment grade	1 of 3 agencies

Capital ambition with focus on delivering strong Free Cash Flow and restoring Investment Grade

CFO Priorities



Deliver strong free cash flow

Allocate capital for long-term value creation in a disciplined way

Maintain financial stability with a resilient balance sheet and ample liquidity

Accelerate transformation for competitiveness



Solid path
towards
2020 and 2022
financial targets

Q&A

Börje Ekholm, CEO
Carl Mellander, CFO

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Summary



our
turnaround

strategy execution lays strong foundation

R&D investments have created technology and cost leadership

market
opportunity

5G and IoT opens new value pools to operators

consumer applications and industry services

5G execution

first in 4 continents

19 live networks with 21% better download speeds

long term

focus on value creation

on track for 2020 and 2022 targets





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.

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