

A small, white drone with four rotors and a camera is shown in flight against a blue background. The drone is positioned in the upper center of the slide.

STRATEGY IMPLEMENTATION

CAPITAL MARKETS DAY 2017

NOVEMBER 7-8, 2017 NEW YORK



BÖRJE EKHOLM
CEO

CEO INITIAL ASSESSMENT



High potential to improve company value creation



Highly skilled workforce

- › Competent and highly engaged workforce across all teams
- › Employees saw need to change
- › Industry thought leadership second to none



Competitive product platforms

- › Network performance still a key driver of operators' Net Promoter Score
- › Ericsson Radio System (ERS) highly competitive and offers a path to 5G
- › Leading position in Core, OSS, BSS
- › Customers want us to succeed



Lost technology leadership

- › Lost market share from 40% in LTE shipments to less than half in 5 years
- › Fierce competition from traditional players and cloud disruptors
- › Deteriorating financial performance including shrinking top-line



Growth bias

- › Too optimistic assumption of future growth justify investments in new areas
- › Ambition to grow sales leading to high-risk projects being taken
- › Lack of focus on balance sheet and value creation culture



Complex organization

- › Customers view Ericsson as complex and slow to do business with
- › Unclear accountability matrix
- › High-cost structure, e.g. G&A and common costs
- › Internal focus



Shortcomings in execution

- › Cost programs since 2013 but with limited success and P&L impact
- › Poor on-time delivery with product and delivery challenges
- › Service-led strategy has not paid-off
- › Largely unsuccessful acquisitions

CUSTOMERS LOOKING TO DRIVE VALUE CREATION IN THREE KEY AREAS



Relentless efficiency

- › Virtualization and automation provide massive scale efficiencies
- › Spectrum efficiency (VoLTE, 4G, 5G)

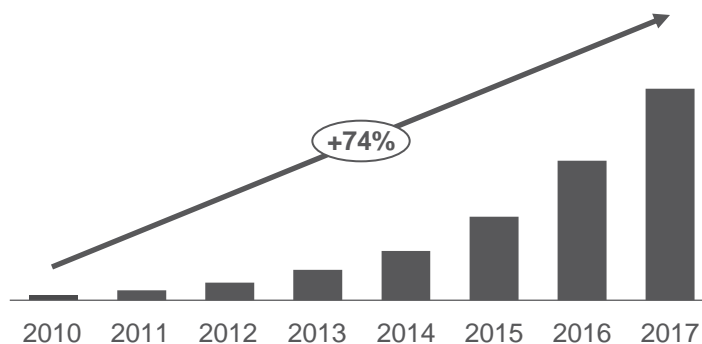
Digital experience

- › New approaches using artificial intelligence, cloud, automation and analytics create a unique customer experience
- › Significantly reduce lead-time and increase flexibility in launching services

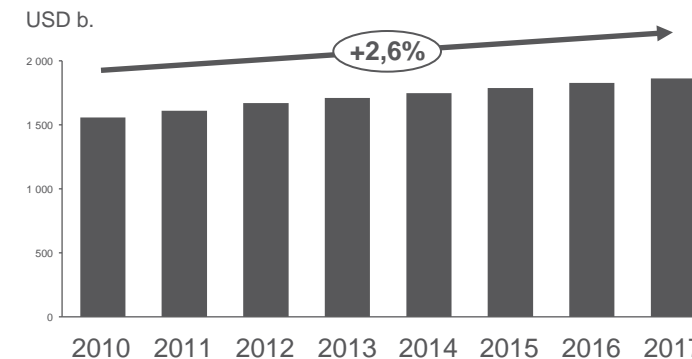
New revenue streams

- › 5G enabling new use cases
- › IoT extends value of connectivity
- › Digitalization of industries
- › Distributed network cloud

Mobile Data, EB / Year¹



CSP Revenues²



5G EXPANDS THE ADDRESSABLE MARKET

Offers new revenue streams



Massive Machine Type Communication



SMART METER



TRACKING



FLEET
MANAGEMENT

Critical Machine Type Communication



INDUSTRIAL
APPLICATIONS



TRAFFIC SAFETY
& CONTROL



REMOTE
MANUFACTURING

Enhanced Mobile Broadband



SMARTPHONES



VENUES



VR/AR

Fixed Wireless Access



4K/8K UHD



HOME
BROADBAND



ENTERPRISE

FOCUSED BUSINESS STRATEGY



Enabling the full value of connectivity for service providers

Networks

Highly scalable, modular platforms offering lowest total cost of ownership, best user experience in 4G and leadership in 5G

Digital Services¹

Digitalize service providers through cloud and automation, providing cost efficient cloud native solutions in Core and OSS/BSS

Managed Services²

Long lasting cost efficient performance through smart automation, analytics and business practice

Emerging Business³

Innovating new sources of revenue for our customers, e.g. in IoT and new partnership based services

Technology leadership

Product-led solutions

Global skill & scale

ADDRESSING KEY CUSTOMER PRIORITIES

All portfolio areas are integral



Enabling the full value of connectivity for service providers

Relentless efficiency

Digital experience

New revenue streams

Networks

- › Technology and cost leadership to manage capacity growth
- › A smooth network evolution to 5G enabling new revenue streams
- › Acceleration of 5G use-cases in close customer collaboration

Digital Services

- › Radically enhanced customer experience
- › Automated and cost efficient operations
- › Programmable networks for faster time to market
- › Critical solutions part of a successful network evolution to 5G

Managed Services

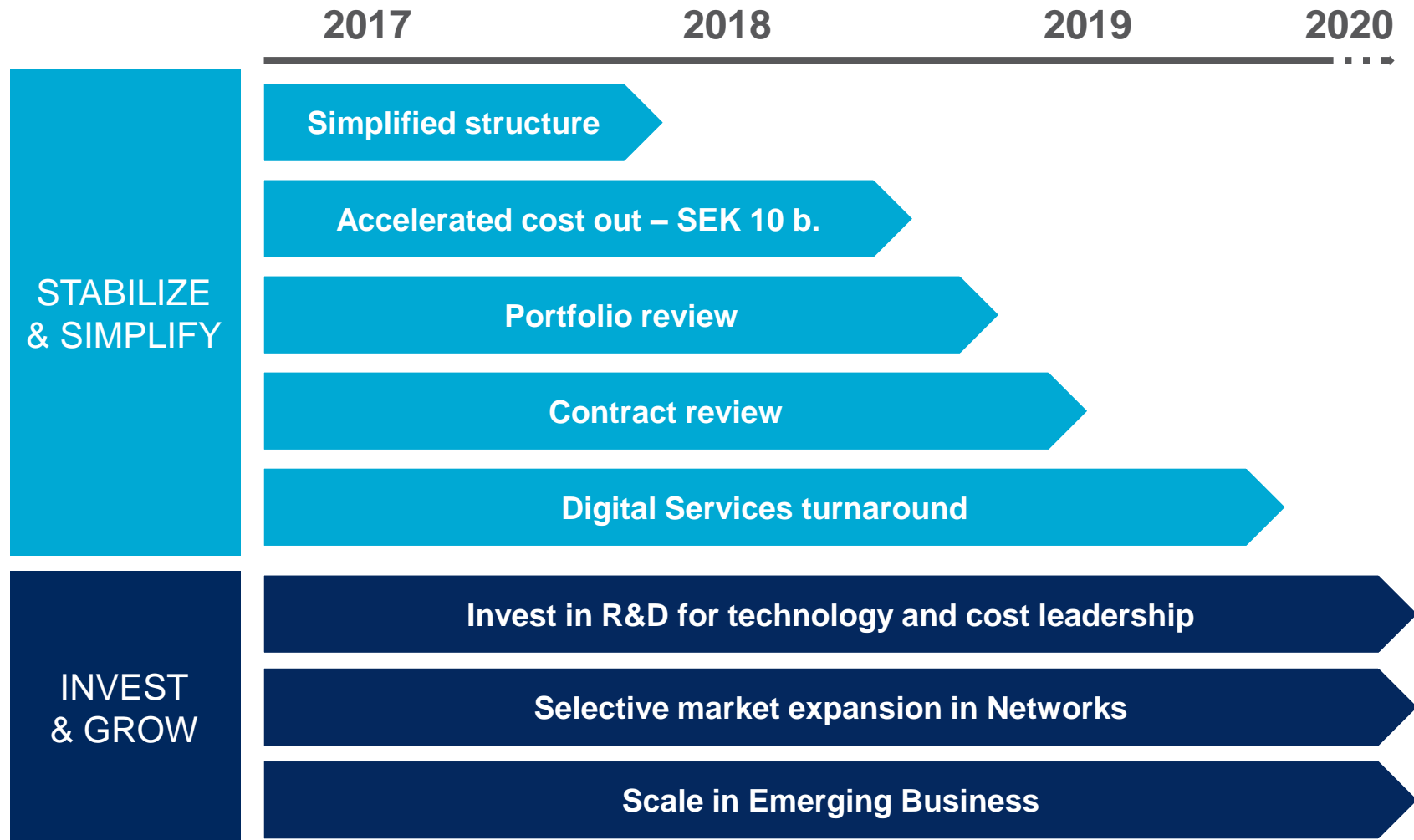
- › Optimization of network performance and quality – with feedback loop to product development
- › Cost improvements in network & IT operations
- › Addressing operational challenges in 5G and IoT through automation and analytics

Emerging Business

- › Connectivity services and platforms to support growth in IoT
- › Partnership based services leveraging network capabilities, e.g. Unified Delivery Network
- › Co-innovation on emerging business opportunities

NEAR-TERM FOCUS FOR PROFITABILITY

Stabilizing and simplifying



STRONG PROGRESS IN STRATEGY EXECUTION

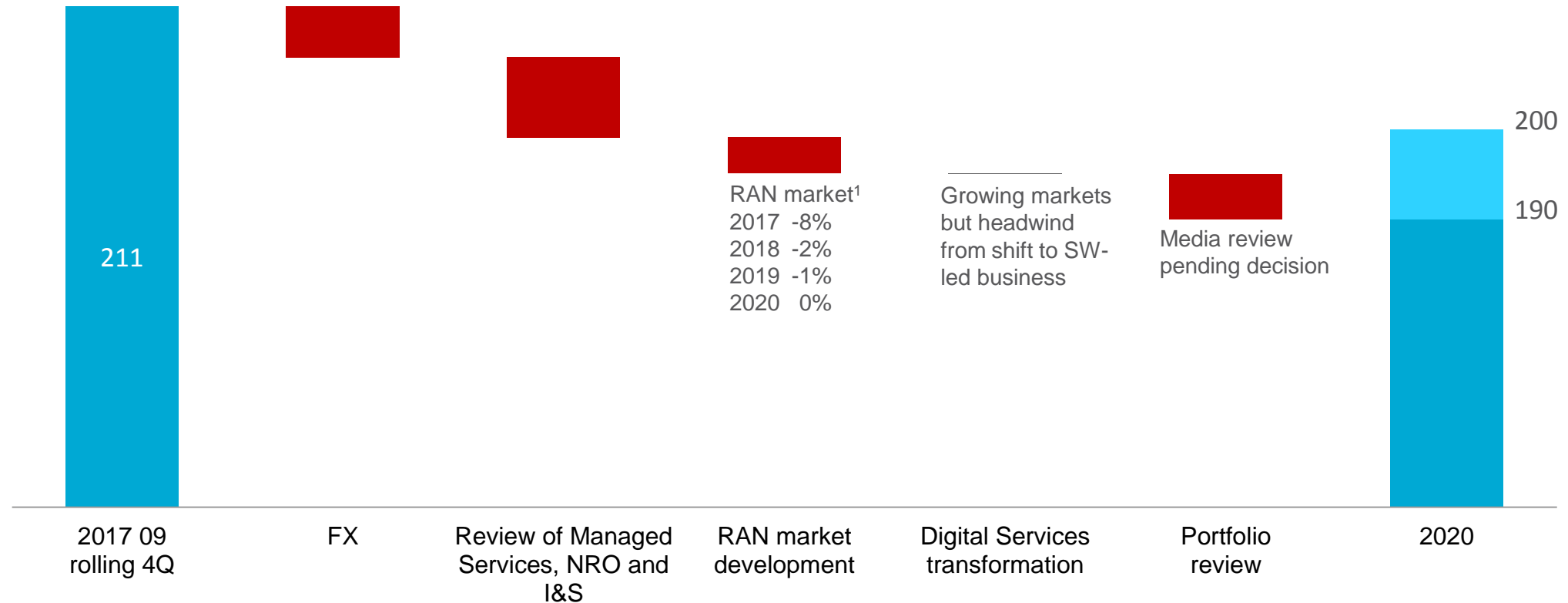


		Example activities
STABILIZE & SIMPLIFY	Simplified structure	<ul style="list-style-type: none"> ✓ New simplified organization launched ✓ Clear accountability split and strong governance
	Accelerated cost-out	<ul style="list-style-type: none"> ✓ SEK 2 b. run rate reduction end of Q3 2017 (of SEK 10b. target) ✓ Close to 1 in 5 managerial positions eliminated
	Portfolio review	<ul style="list-style-type: none"> ✓ Divested power modules business ✓ Brought in financial partner in iconectiv
	Contract review	<ul style="list-style-type: none"> ✓ 13 out of 42 Managed Services contracts addressed ✓ Stabilized large digital transformation projects
	Digital Services	<ul style="list-style-type: none"> ✓ Shifting to software-led solutions in Digital Services
INVEST & GROW	Invest in R&D	<ul style="list-style-type: none"> ✓ 1,100 R&D engineers recruited in the third quarter
	Market expansion	<ul style="list-style-type: none"> ✓ Increased LTE market share in Mainland China to position for 5G
	Emerging Business	<ul style="list-style-type: none"> ✓ Started to grow IoT and UDN

ROBUST PLAN FOR TOPLINE DEVELOPMENT



SEK b.

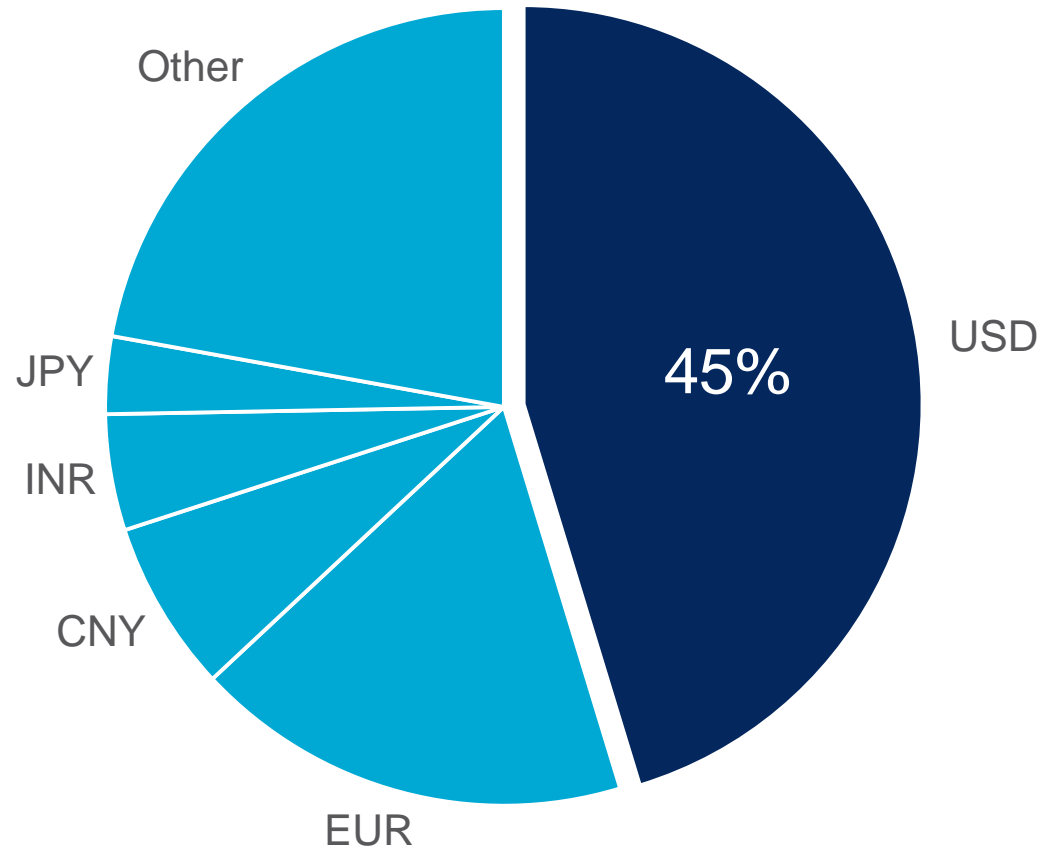


Note: Financial target based on SEK/USD 8.20
¹Source Dell'Oro

SALES AND INCOME EXPOSED TO USD



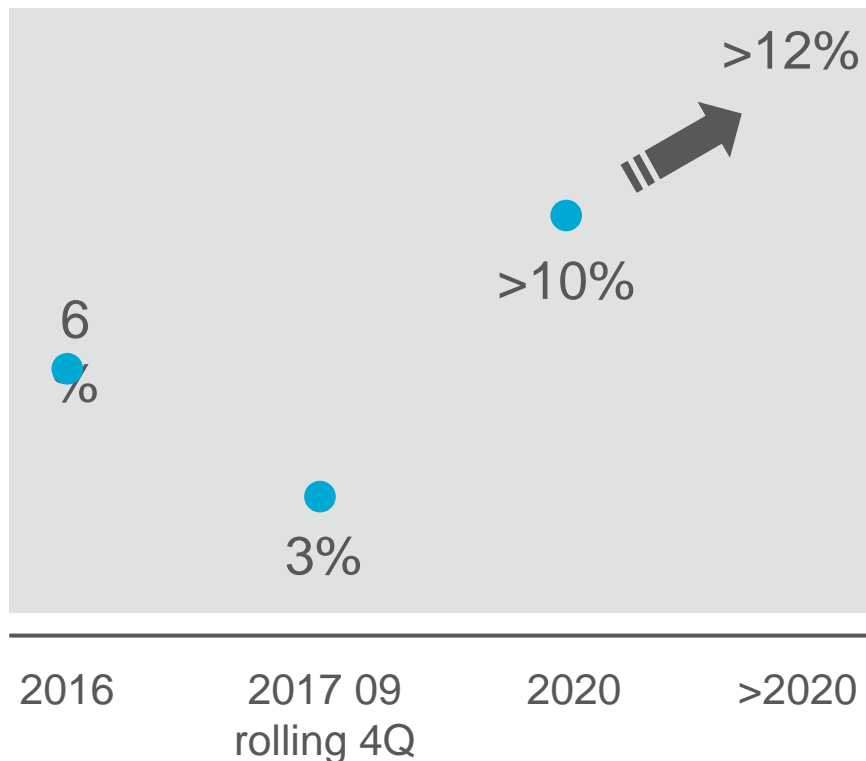
Sales exposure
2016



Currency risks

- › USD to SEK movements has a direct impact on reported sales and income
- › USD to SEK weakened by -10% results in about a -5% negative impact on topline and -1 pp on operating margin¹
- › Financial targets based on SEK/USD 8.20

LONG-TERM OPERATING MARGIN TARGET



Note: Operating margin is excluding restructuring charges and XO items

- › Focused business strategy set to deliver significantly improved profitability at >12% operating margin
- › Key changes since March
 - › Strengthened SEK (Q1 average SEK/USD 8.96 vs 8.20 in financial targets)
 - › RAN equipment market estimated to decline by -8% in 2017 compared to our estimate of -2% to -6% in Q1
 - › Weaker short-term performance in segment IT & Cloud, e.g. due to past contract commitments
- › Segment plans sum up to 10-12%¹ operating margin – we commit to a robust target of >10%¹ by 2020

¹Excluding restructuring charges

We maintain an operating margin target of >12% and set a robust >10% target for 2020¹

GROUP FINANCIAL TARGETS

Profitability over growth



SEK b.	Q416-Q317 ¹	2020 ²	Comment
Sales	211	190-200	<ul style="list-style-type: none"> › Top-line decline largely driven by focused strategy › Financial targets based on SEK/USD at 8.20
Gross margin	30%	37-39%	<ul style="list-style-type: none"> › Supported by investments in technology leadership › Efficiencies in supply, sourcing and service delivery
R&D	31	↗	<ul style="list-style-type: none"> › Focused investments in line with strategy
SG&A	27	↘	<ul style="list-style-type: none"> › Synergies from new simplified organization › G&A efficiencies and right-sizing
Operating margin	3%	>10%	<ul style="list-style-type: none"> › Target of >10% operating margin in 2020 › Long-term target of >12% beyond 2020
Free Cash Flow	9	Positive	<ul style="list-style-type: none"> › Increased focus on free cash flow growth › Positive free cash flow up to 2020 - strong beyond 2020

¹Excluding XO items and restructuring

² 2020 target excluding Media (pending decision) and restructuring, based on SEK/USD at 8.20