

FINANCIAL TARGETS BREAKDOWN COST SAVING ACTIONS

CAPITAL MARKETS DAY 2017

NOVEMBER 7-8, 2017 NEW YORK



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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
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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

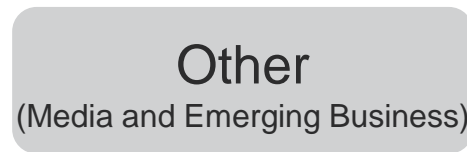
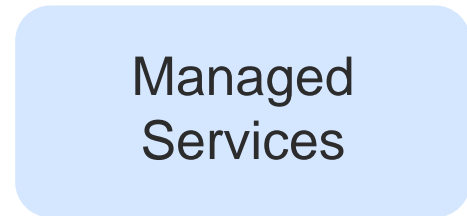
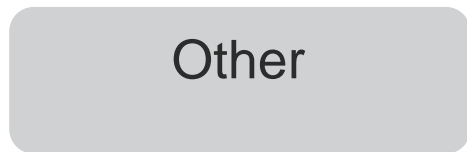
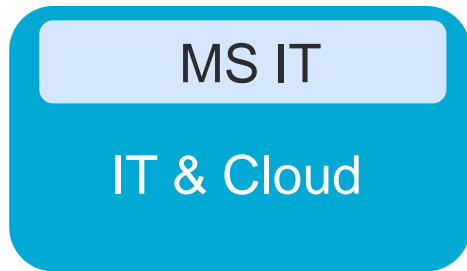
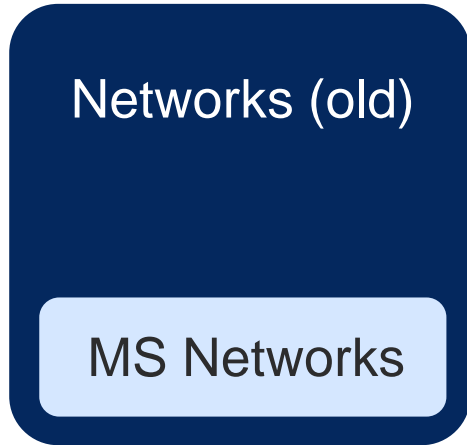
NEW SEGMENTS

Segment re-state will be published 8th December



Old Segments

New Segments

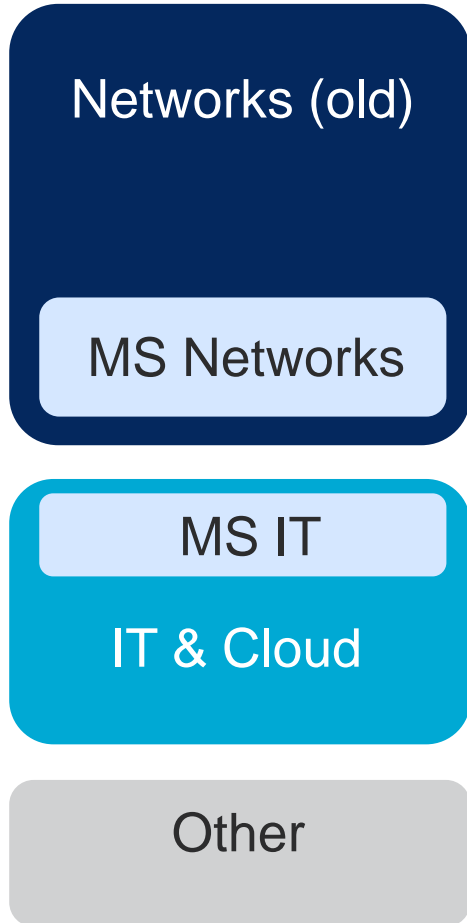


NEW SEGMENTS

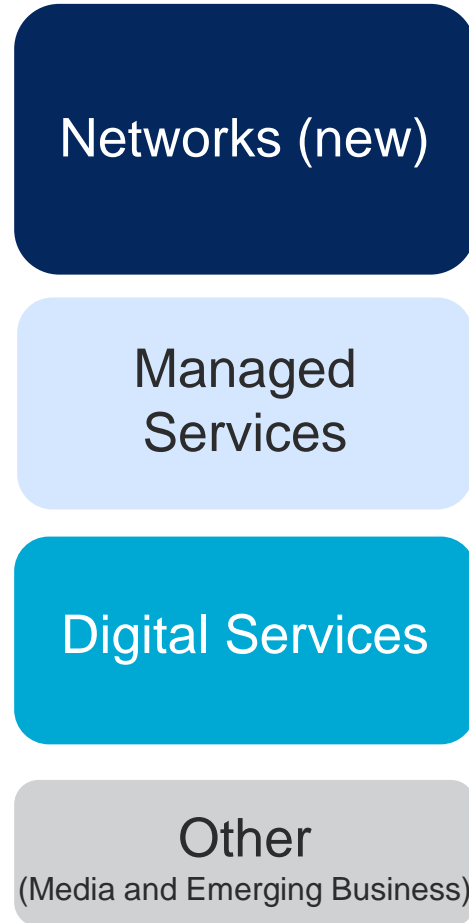
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Old Segments



New Segments



› All plans are for new segments

- Accountable leaders
- Organizational set-up
- Business plans

› IPR revenues split 82% Networks and 18% Digital Services

› All subsequent presentations are based on new segments and current accounting standards

› Segment baseline financials (actuals) are illustrative pending audited re-state

› IFRS re-state for Group in Q4 2017 report and for segments in Q1 2018 report

REACHING THE 2020 TARGET



Networks



Net sales



SEK 128-134 b.

Operating margin



15-17%

- › R&D ramp-up to drive technology and cost leadership
- › Improved serviceability
- › Strengthened 5G position

Technology leadership

Digital Services



Net sales



SEK 42-44 b.

Operating margin



Low single digit

- › Improved project performance
- › Increased off-shoring, automation & pre-integration
- › Capture software value
- › Less services and hardware pass-through

Turnaround

Managed Services



Net sales



SEK 20-22 b.

Operating margin



4-6%

- › Contract review (renegotiate, transform, exit)
- › Delivery efficiencies and automation
- › Attractive capital turnover

Efficiency & automation

Other



Net sales



SEK 3-5 b.

Operating margin



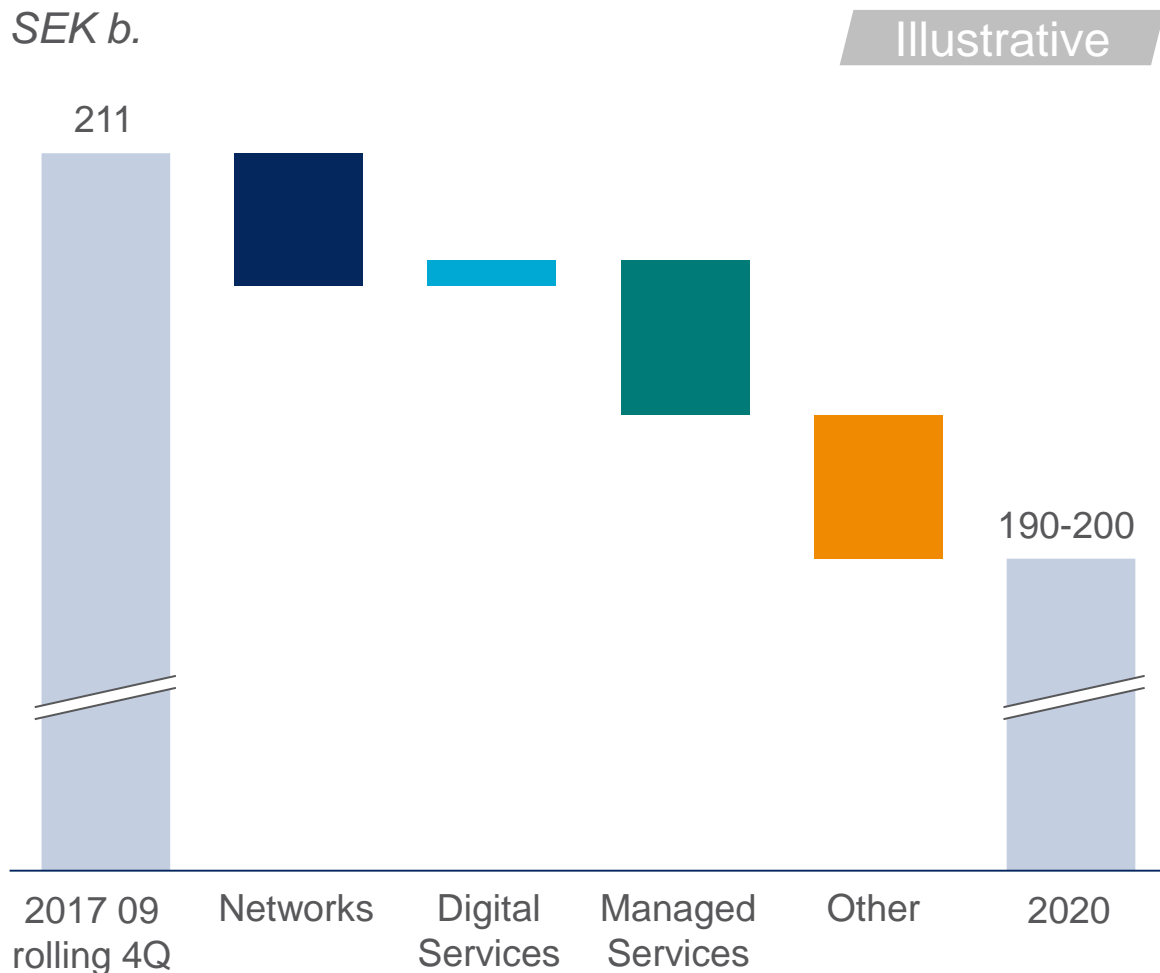
Breakeven

- › Media portfolio review
- › Growth in emerging business:
 - iconectiv
 - IoT (investment area)
 - UDN (investment area)

Innovation

NET SALES

Per segment



Summary

Networks

- + Selective market expansion
- Little/no underlying market improvements
- Focused Network rollout business

Digital Services

- + Growth in software sales
- Decline in legacy products
- Reduction of low margin services and hardware business

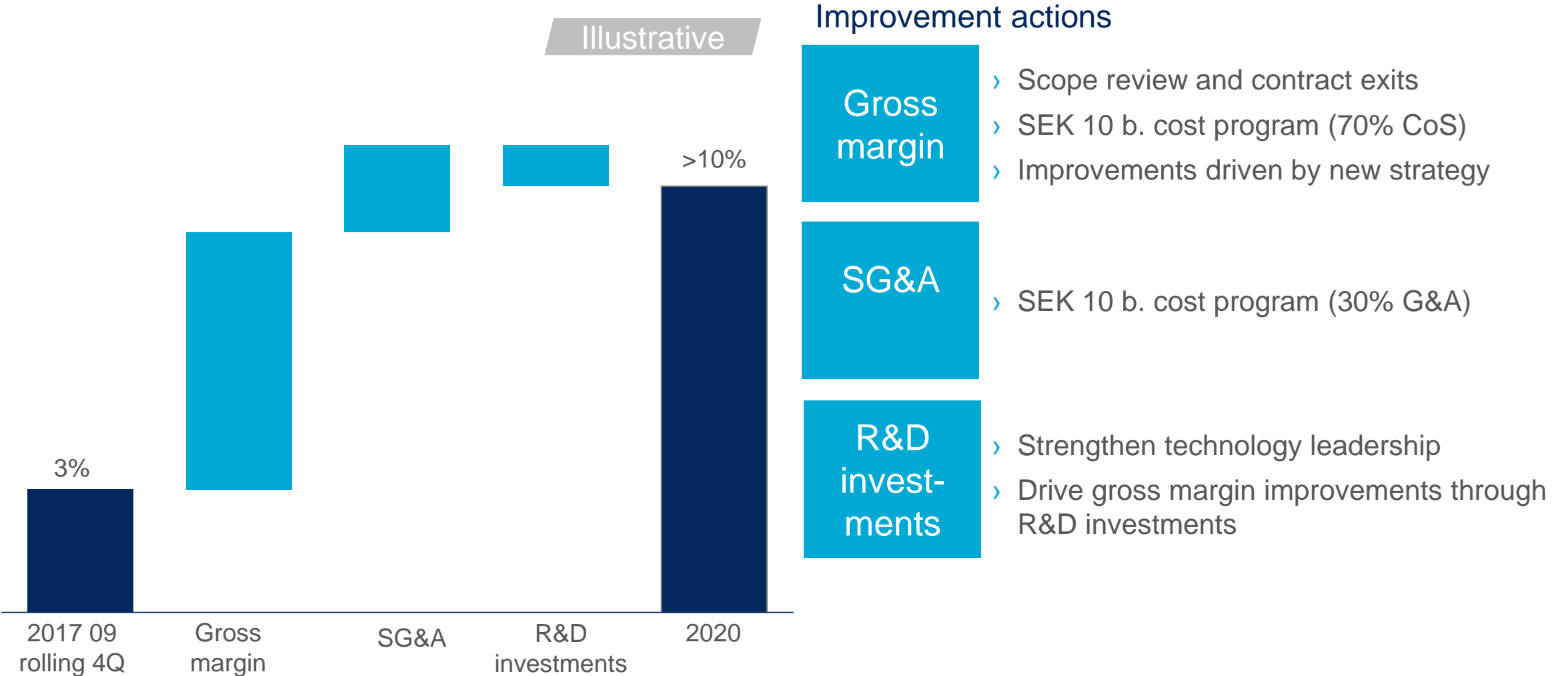
Managed Services

- + Selective growth
- Contract review and refocused offerings

Other

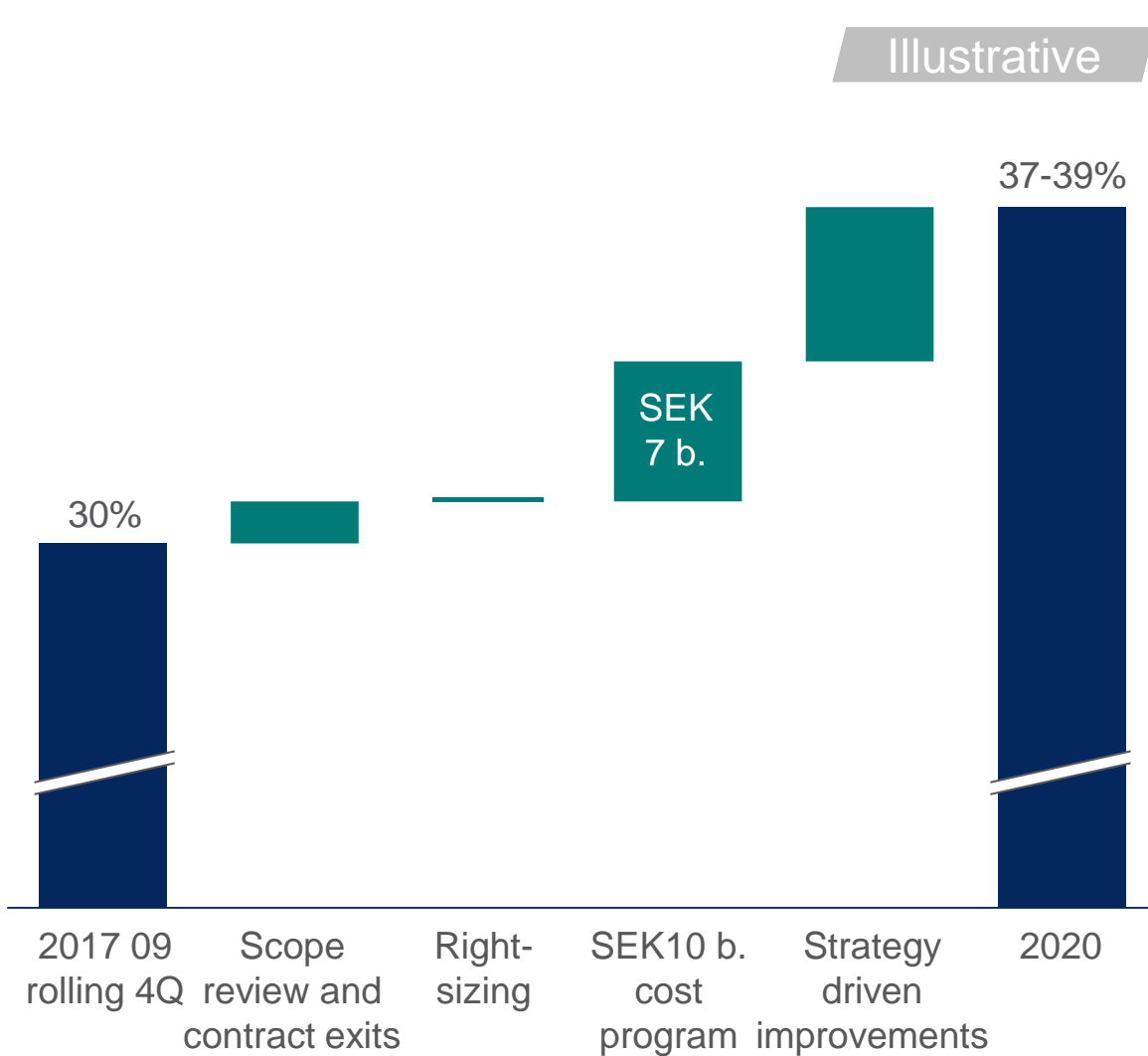
- + Moderate growth assumption for IoT and UDN
- Portfolio review

OPERATING MARGIN



Note: 2017 09 rolling 4Q Operating margin excluding XO items and restructuring charges.

GROSS MARGIN



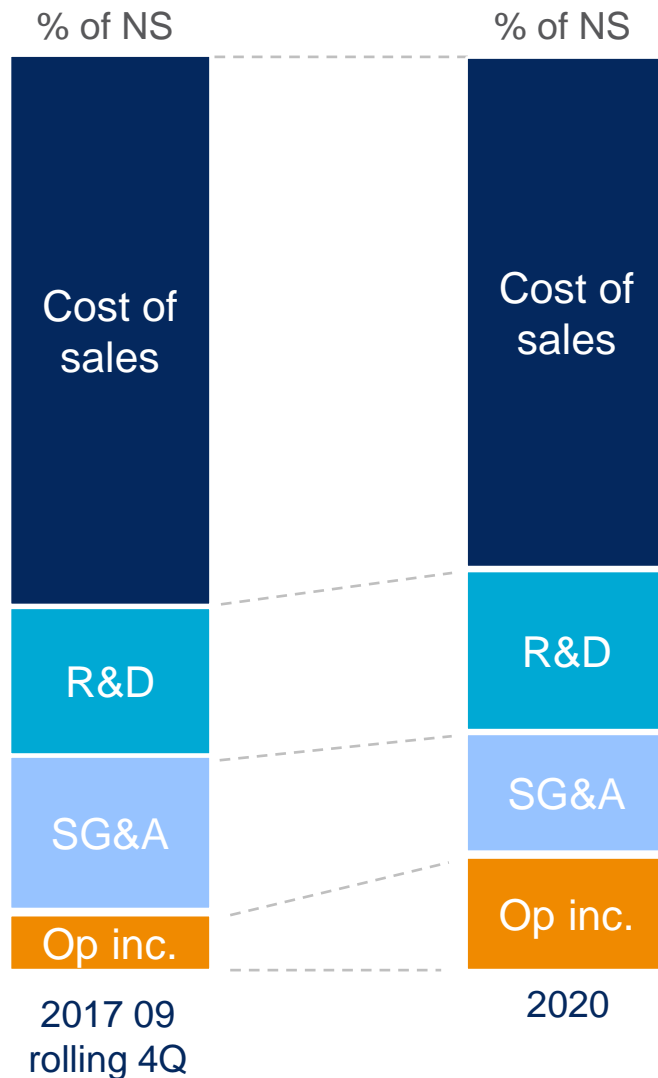
Improvement actions

- Scope review and contract exits**
 - › Contract review and refocused offerings
 - › Portfolio review
- Right-sizing**
 - › Pro-active right-sizing based on market and business development
- SEK 10 b. cost program**
 - › Service delivery efficiencies and automation
 - › Reduced supply costs
 - › Reduced IT and real estate costs
- Strategy driven improvements**
 - › From services-led to product-led strategy
 - › R&D investments to improve gross margin
 - › Increased software sales

COST STRUCTURE DEVELOPMENT



Illustrative



- › Cost effective product portfolio and delivery
 - › Service delivery efficiency (part of SEK 10 b. program)
 - › Scope review and contract exits
 - › Exiting non-core and underperforming business
 - › Supply chain efficiencies
 - › Increased flexibility in the cost structure
- › Investments to strengthen technology leadership
 - › Strong link to improved gross margin
- › Shift to more frontline selling
 - › G&A reductions (part of SEK 10 b. program)
- › >10% operating margin target in 2020
 - › At least 12% operating margin beyond 2020

SEK 10 B PROGRAM – WHAT'S NEW?



Cost & efficiency program

(Nov 2014 – Mar 2017)

Achievements

- + Reduced OPEX by net SEK 3 b. (incl. Modems exit and FX headwind)
- + Total headcount reduced by net 15,000 (8,000 employees and 7,000 consultants)
- + Site closures, right-sizing, competence rebalancing, supply efficiencies

Challenges

- Gross margin dropped from 37% to 31%
- Cost savings not sufficient to balance the business decline
- R&D cost savings disruptive and negatively impacting the business longer term
- Savings to a large degree reinvested in new areas

SEK 10 b. program

(Mar 2017 – mid 2018)

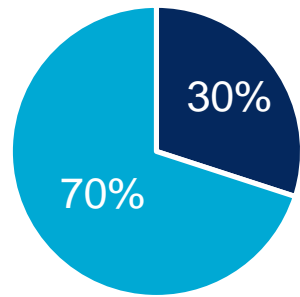
What's new?

- ▶ Profitability over growth
- ▶ Selling and R&D expenses out of scope to protect the business and drive gross margin improvements
- ▶ View on market development aligned with external sources
- ▶ Clear separation between cost reductions and rightsizing
- ▶ Strengthened governance:
 - Appointed Group Transformation Officer reporting to CEO
 - Group transformation office established

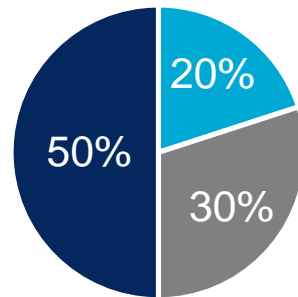
SEK 10 B COST-OUT TARGET FOR MID-2018



Our commitment



■ G&A
■ CoS



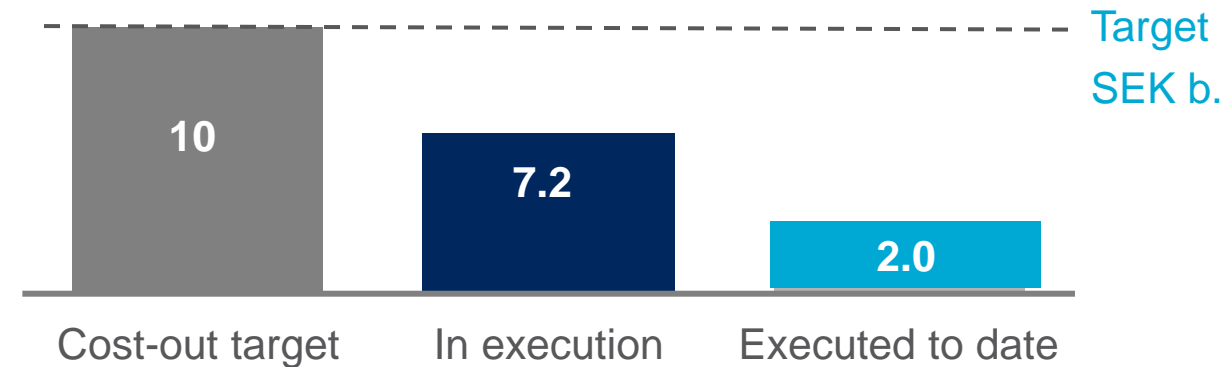
■ Support functions employee spend
■ IT, indirect spend and supply
■ Service Delivery

The following changes are not counted towards target:

- › Rightsizing due to changes in business volumes
- › Site closures announced before July 1, 2017 (e.g. manufacturing sites)
- › Strategic options related to focused business strategy

Cost-out of at least SEK 10 b. to be achieved by mid-2018

Reporting



Quarterly progress reporting

- › Actual cost out and headcount reductions
 - › G&A expense reduction - visible in reduced SG&A expenses
 - › CoS reduction leading to improved gross margin. Timing differences between cost out and P&L impact
- › SEK 2 b. run rate reduction end of Q3 2017, 10% G&A and 90% service delivery

SEK 10 B PROGRAM – KEY ACTIVITIES



	Key activities	Achievements to date
<p>Support functions employee spend</p> <p>20%</p>	<ul style="list-style-type: none"> › Simplify organizational structure › Zero-based planning for support functions › Streamlined corporate processes 	<ul style="list-style-type: none"> › Management positions reduced by 18% › 30% reduction identified in zero-based planning in functions reviewed › Reduced head count: >200 in Q3 and >600 YTD
<p>IT, indirect spend and supply</p> <p>30%</p>	<ul style="list-style-type: none"> › Renegotiation of key IT support and maintenance contracts › Reduction of real estate site footprint › Reduced indirect spend, e.g., travel, HR services, etc. 	<ul style="list-style-type: none"> › 3 IT contracts renegotiated, lowering run-rate by SEK 50 m. › 83 sites identified to be closed › Order management consolidated into hubs, increasing supply efficiency
<p>Service delivery</p> <p>50%</p>	<ul style="list-style-type: none"> › Tighter integration of R&D and service delivery › Integration of service delivery and supply chains › Local flow efficiency & increased offshoring › Automation and advanced analytics 	<ul style="list-style-type: none"> › Accelerated headcount reduction -1,400 in Q3 (-2,500 YTD) - net of right sizing › SEK ~250 m. in global services delivery centre efficiencies › Increased utilization of local services personnel

SHORT TO MID TERM PLANNING ASSUMPTIONS



New planning assumption

Planning assumption from Q317 earnings report.

	2017 and Q4	2018
Market outlook	RAN equipment market -8% FY17 (in line with external sources)	RAN equipment market -2% FY18 (in line with external sources)
Net sales	Q4 QoQ sales growth lower than 5-year avg. seasonality	Focusing MS, I&S and NRO business - reduced FY19 sales by up to SEK 10 b. compared to FY16
Cost of sales and expenses	-SEK 3-5 b. risk of adjustments by mid-2018 expected to be in higher end of range. (SEK 2.3 b. in Q317) -Net capitalization effect SEK -1.4 b. in Q417	-Cost savings of SEK >10 b. implemented by mid-2018 -Increased R&D expenses, primarily in Networks -Net capitalization effect SEK -3 b. FY18
Restructuring	SEK 9-10 b. FY17	SEK 5-7 b. FY18
Segment specific assumptions	Market share increase in Mainland China will have dilutive effect on gross margin in Q417. Ambition to continue to deliver double digit adjusted OM in Networks.	-Expanded focus on profitability in IT & Cloud - positive effects on gross margin in 2018

Please see the Q3 report for the full planning assumptions.