

## Research:

### Ericsson Ratings Lowered to 'BBB-' and Placed on Watch Neg Due to Weaker Market Conditions

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LONDON (Standard & Poor's) July 22, 2002--Standard & Poor's said today it lowered its long-term corporate credit rating on Sweden-based telecommunications equipment manufacturer Ericsson (Telefonaktiebolaget L.M.) to triple-'B'-minus from triple-'B', following the release of Ericsson's second-quarter earnings report, and reflecting the continued deterioration in Ericsson's operating environment and credit profile.

At the same time, Standard & Poor's placed all ratings on Ericsson on CreditWatch with negative implications.

"The rating actions reflect the ongoing contraction in Ericsson's core mobile systems market and a further sharp decline in the company's order book in the second quarter of 2002," said Peter Kernan, head of Standard & Poor's European telecoms group. "The difficult trading conditions have resulted in an increase in Ericsson's negative cash flow from operating activities in the second quarter and a further weakening in Ericsson's credit profile."

Ericsson now expects that its key global mobile systems market will decline by more than 15% in 2002 compared with its previous forecast of a decline of more than 10% (as provided on April 22, 2002). The continued weakness in demand has resulted in Ericsson's orders declining by about 16% sequentially in the second quarter of 2002 to Swedish krona (Skr) 35.3 billion (\$3.8 billion). As a consequence, Ericsson has announced further restructuring, which will cost Skr7.0 billion and will, according to the company, allow it to break even at an annual sales level of about Skr120 billion by the fourth quarter of 2003. Ericsson is adhering to its challenging goal of returning to operating profitability at some time in 2003, however.

The ratings on Ericsson continue to assume that the group will complete its proposed Skr30 billion rights offering. The fully underwritten rights offering, which is expected to close in September 2002, is of critical importance given Ericsson's uncertain trading outlook and the need for the company to boost its equity base and liquidity to provide a funding buffer against continuing cash losses, restructuring costs, and undrawn vendor financing commitments.

"Standard & Poor's review of the CreditWatch placement on Ericsson will focus on--among other things--Ericsson's liquidity, cash-flow projections, vendor financing exposures, and trading prospects in key markets, and is expected to be completed in a couple of weeks," said Mr. Kernan. "Given the continued weakness of market conditions, a further lowering of the ratings on Ericsson is possible."

A complete list of rating actions is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). They are also available on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Rating Actions, select Newly Released Ratings Listings. Alternatively, call the Standard & Poor's Ratings Desk in London at (44) 20-7847-7400.

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