

Ericsson Third quarter 2018

Oct 18, 2018





Peter Nyquist

Vice President Investor Relations



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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.



Börje Ekholm

President and CEO

Key takeaways



- 5G a commercial reality
- Organic sales growth 1% YoY
 - First quarter since Q3 2014
- Profitability at Group level restored — partly driven by cost-out
 - Net income positive, first quarter since Q2 2016
 - Despite substantial provisions
- Digital Services improving — but challenges in transformation projects
- Update on SEC and DOJ investigation
 - Engaged in discussions with authorities to find resolution
- Confident in reaching our long-term target of at least 12% operating margin beyond 2020

Q3 2018



Financial Performance, Q318

Excluding restructuring charges

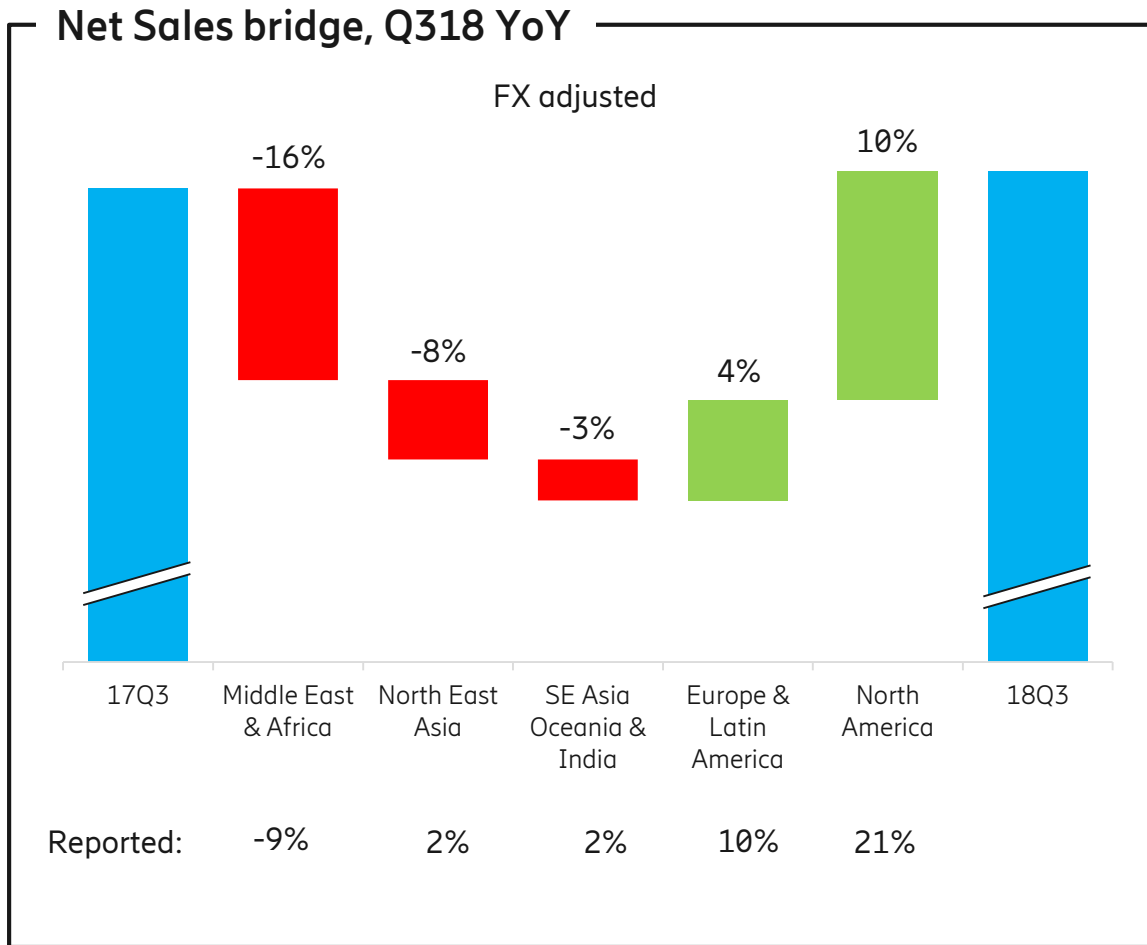
SEK b.	18Q3	17Q3	18Q2
Net sales	53.8	49.4	49.8
Gross margin	36.9%	28.5%	36.7%
Operating income	3.8	-0.8	2.0
Operating margin	7.0%	-1.7%	4.1%
Free cash flow excl. M&A	0.7	-0.8	-0.2

Financial Targets, 2020

Group targets	2020
Net Sales	SEK 190-200 b.
Gross margin	37-39%
Operating margin	>10%
Free Cash Flow	Positive

- Networks – Operating margin 16%
 - Organic growth – continued strong sales growth in North America
- Digital Services – reduced losses
 - Provisions for digital transformation projects
 - Increasing project turnaround efforts
- Managed Services – improved margins
 - Efficiency gains and contract reviews
- Emerging Business & Other – disciplined investments
 - Improvements driven by iconectiv

Market area sales Q318, YoY



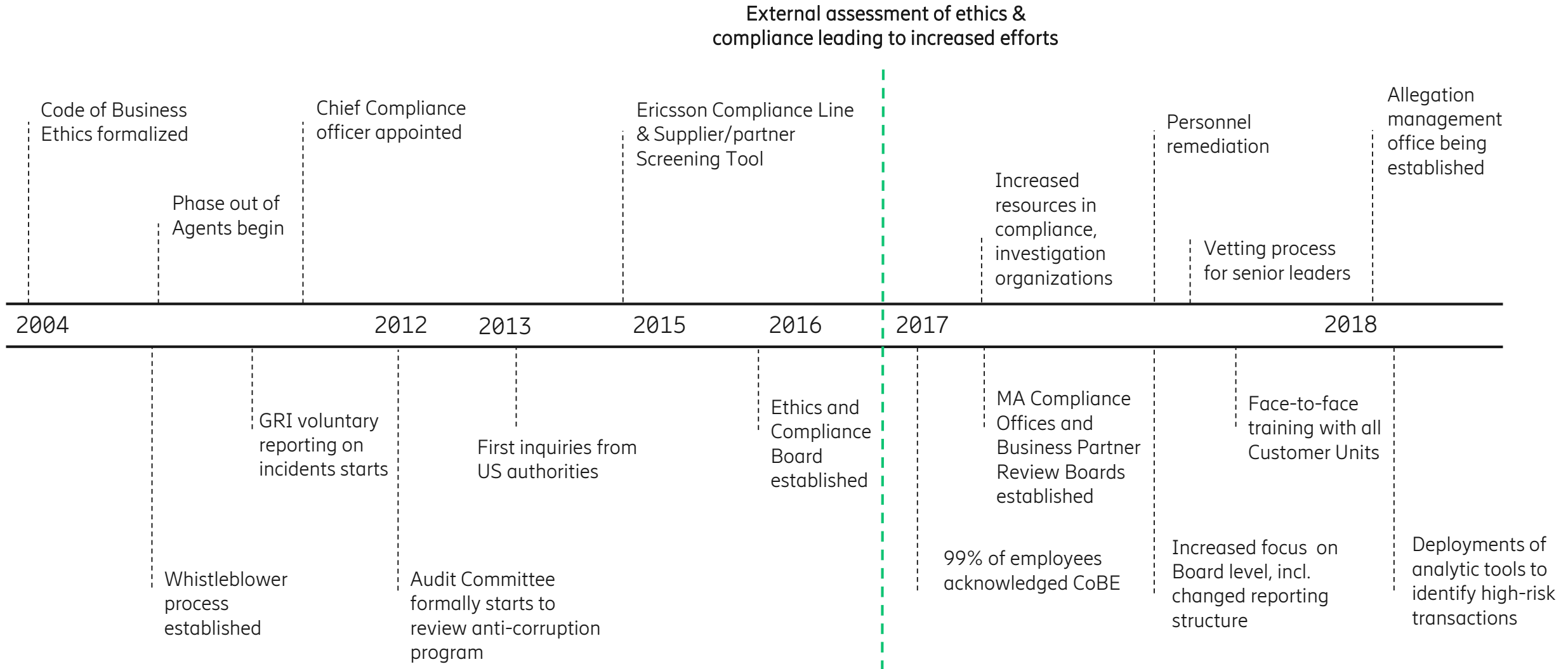
- Middle East & Africa
 - Challenging economic situation in certain markets in the Middle East
- North East Asia
 - Continued deployment of NB IoT in Mainland China
 - Digital Services sales declined
- South East Asia, Oceania & India
 - Large 4G deployments same period last year
- Europe & Latin America
 - Continued sales growth in Brazil, Mexico and parts of Europe
- North America
 - Investments in 5G readiness across all major customers

Update on SEC & DOJ investigations



- Voluntarily cooperating since 2013 with an investigation by the SEC and, since 2015, an investigation by the DOJ into Ericsson's compliance with the U.S. FCPA
- Continued cooperation with the SEC and DOJ, discussions to find a resolution
- Facts that are relevant to the inquiries of the SEC and DOJ identified as part of the investigations
- While the length of these discussions cannot be determined, based on the facts that we have shared with the authorities, we believe that the resolution of these matters will likely result in monetary and other measures, the magnitude of which cannot be estimated currently but may be material.
- As this is an ongoing matter, we cannot provide further details and will not speculate about the outcome

Ethics & compliance timeline



Strategy execution on track

Status Q3 2018



Networks



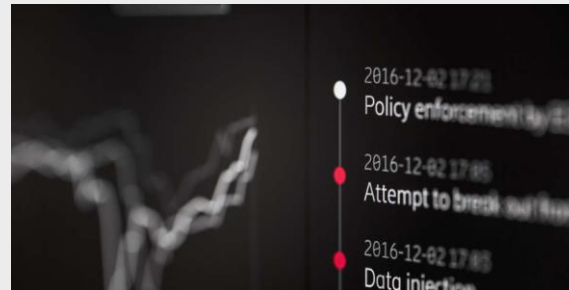
2020 target

Net sales	Operating margin
SEK 128-134 b.	15-17%

Status Q3 2018

- Ericsson Radio System – 86%
- Cost savings – Service delivery and common costs
- Competitive 5G-ready portfolio
- R&D investments up >30% YoY

Digital Services



2020 target

Net sales	Operating margin
SEK 42-44 b.	Low single digit

Status Q3 2018

- Losses reduced
- 19 of 45 contracts addressed
- Cost savings – service delivery efficiencies and lower R&D
- Increasing efforts to turn around transformation projects

Managed Services



2020 target

Net sales	Operating margin
SEK 20-22 b.	4-6%

Status Q3 2018

- 40 of 42 contracts addressed
- Annualized profit improvement of SEK 0.9 b.
- Cost savings - Service delivery
- Investing in artificial intelligence, automation and analytics

Other



2020 target

Net sales	Operating margin
SEK 3-5 b.	Break-even

Status Q3 2018

- Media Solutions - partnering
- Selective investments in Emerging Business – IoT, UDN and Emodo

Capital Markets Day – New York, November 8



Carl Mellander

Chief Financial Officer

Networks

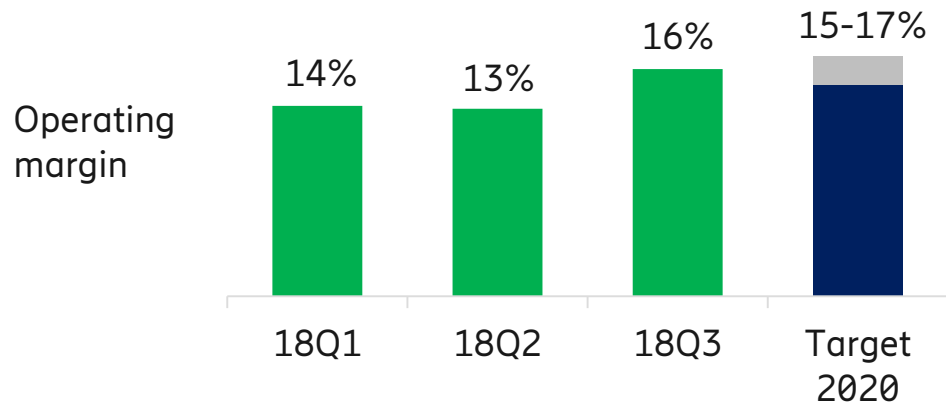


Segment Networks – Financial performance

Excluding restructuring charges

SEK b.	18Q3	17Q3	18Q2
Net sales	35.9	31.9	32.4
Gross margin	41.5%	34.8%	40.2%
Operating income	5.8	3.8	4.3
Operating margin	16.1%	11.9%	13.3%
<i>Capitalization impact¹</i>	<i>-0.1</i>	<i>-0.7</i>	<i>0.0</i>

¹2017 excluding xo-items



- Sales adjusted for FX: 5% YoY
 - Strong growth in North America, growth in Europe and Latin America
- Solid gross margin increase YoY
 - Increased hardware and services margins
 - Increased ERS share
 - Favorable market mix
 - QoQ increase driven by software and capacity sales
- Operating margin increased YoY and QoQ
 - Increased investments in R&D pay off with improved gross margin and sales
- Strong Ericsson Radio System deliveries, 86% YTD

Digital Services

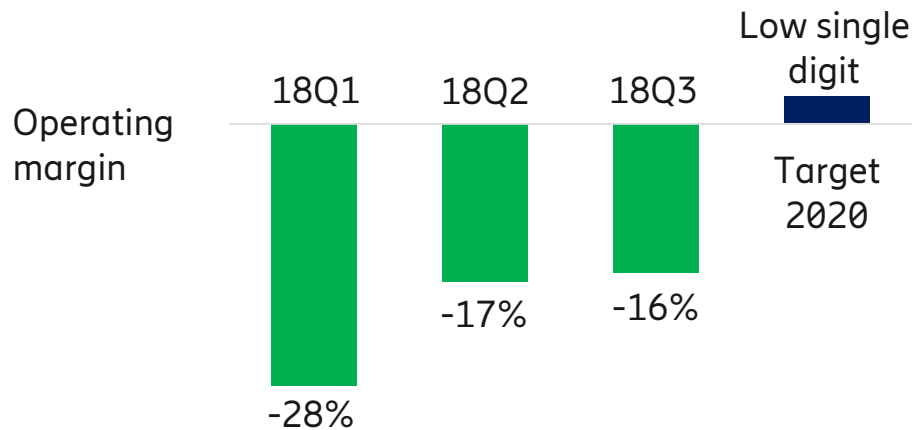


Segment Digital Services – Financial performance

Excluding restructuring charges

SEK b.	18Q3	17Q3	18Q2
Net sales	9.0	8.9	8.8
Gross margin	36.9%	32.0%	42.6%
Operating income	-1.4	-2.7	-1.5
Operating margin	-15.9%	-29.9%	-16.9%
<i>Capitalization impact¹</i>	-0.4	-0.7	-0.4

¹2017 excluding xo-items



- Sales adjusted for FX: -6% YoY
 - Major contract in North East Asia further delayed
 - Good progress due to 5G and Virtualization acceleration
- Gross margin improved YoY but declined QoQ
 - Increasing efforts to turn digital transformation projects around – additional provisions led to sequential GM drop
- Operating income improved YoY and QoQ
 - Cost reductions across service delivery, SG&A and R&D
 - Continued investments in 5G portfolio
 - Additional 3 out of 45 critical or non-strategic customer contracts addressed in Q318 – 19 in total

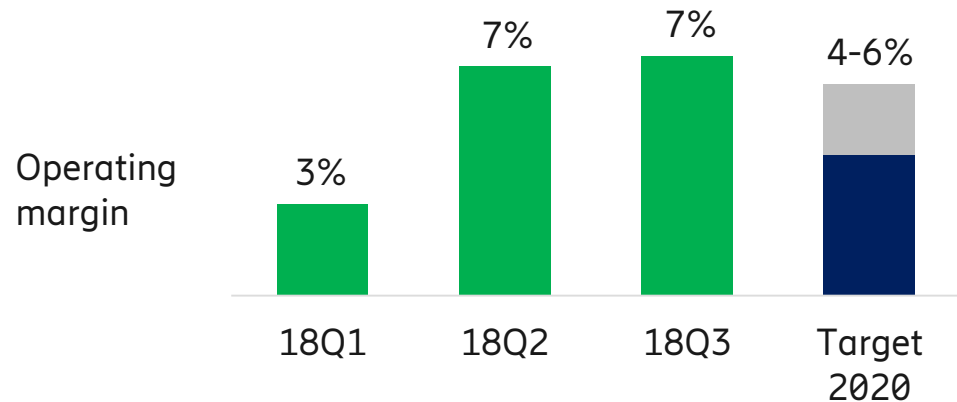
Managed Services



Segment Managed Services – Financial performance

Excluding restructuring charges

SEK b.	18Q3	17Q3	18Q2
Net sales	6.5	6.6	6.5
Gross margin	12.9%	-4.0%	14.0%
Operating income	0.4	-0.6	0.4
Operating margin	6.8%	-9.5%	6.5%



- Sales adjusted for FX: -8% YoY
 - Lower sales due to contract exits
 - Growth in Managed Services IT and Network Design & Optimization
- Gross margin improved significantly YoY
 - Efficiency measures and contract reviews
- Operating income positive – stable sequentially
- Additional 7 out of 42 contracts addressed in Q3 – 40 in total
 - Annualized profit improvement ~SEK 0.9 b.
 - Ericsson Local Services AB (LSS) divested on Aug 31

Emerging Business & Other

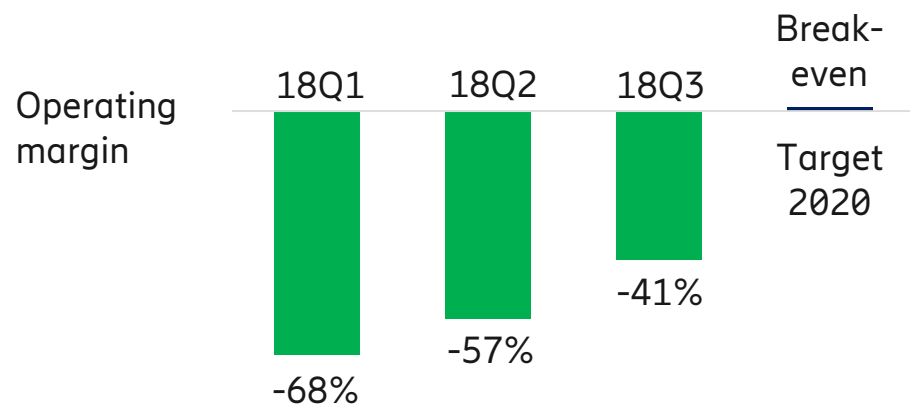


Segment Other – Financial performance

Excluding restructuring charges

SEK b.	18Q3	17Q3	18Q2
Net sales	2.4	2.0	2.1
Gross margin	32.3%	21.1%	27.4%
Operating income	-1.0	-1.3	-1.2
Operating margin	-41.5%	-66.2%	-57.4%
<i>Capitalization impact¹</i>	-0.1	-0.1	-0.1

¹2017 excluding xo-items



- Sales adjusted for FX: 11% YoY
 - Driven by iconectiv – number portability contract in US
- Gross margin improved YoY and QoQ
 - Supported by iconectiv and Media business
- Operating income improved YoY and QoQ
 - Improved income YoY in iconectiv and Media business
 - Investments in Emerging Business – in line with strategy
 - 51% of MediaKind will be transferred to external partner around year-end – increased costs short term
 - Combined income¹ for MediaKind and Red Bee Media SEK -0.4 (-0.6) b.

¹Excluding restructuring charges and corporate allocations

Q3 2018

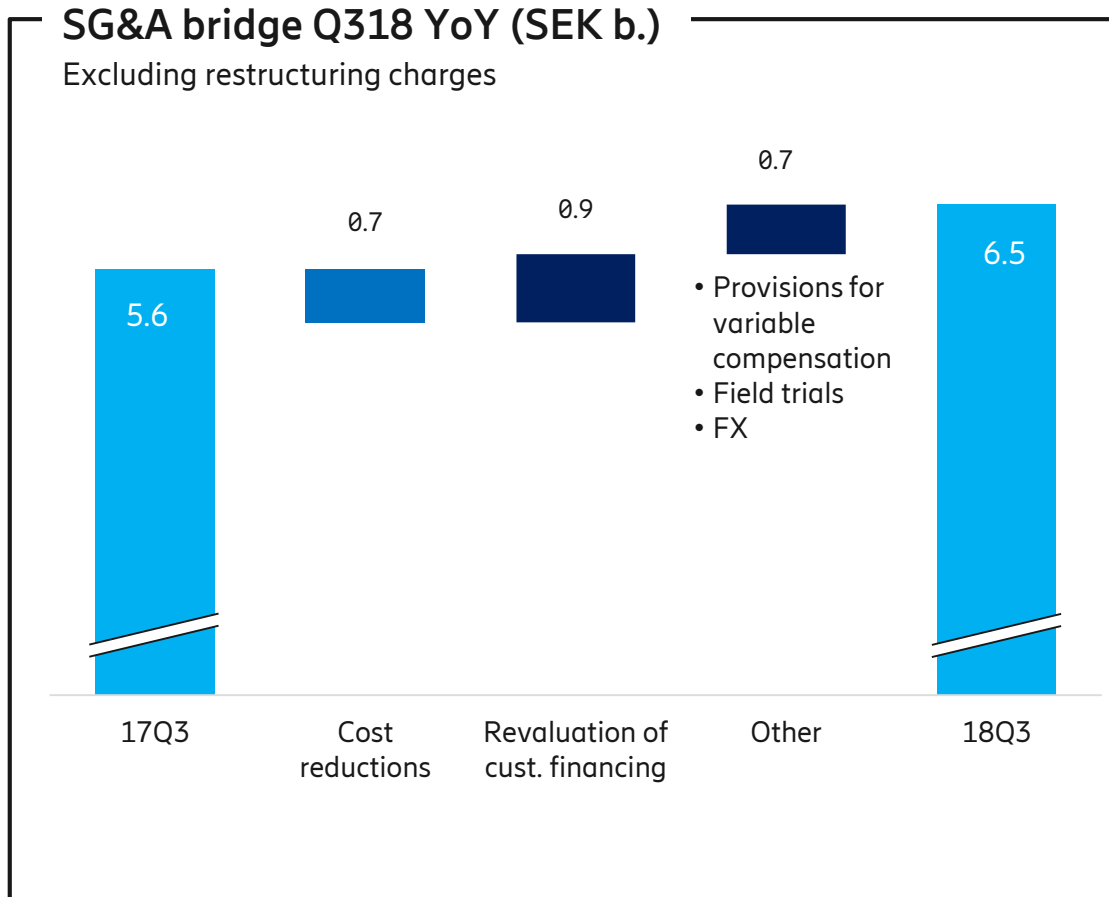


Excluding restructuring charges

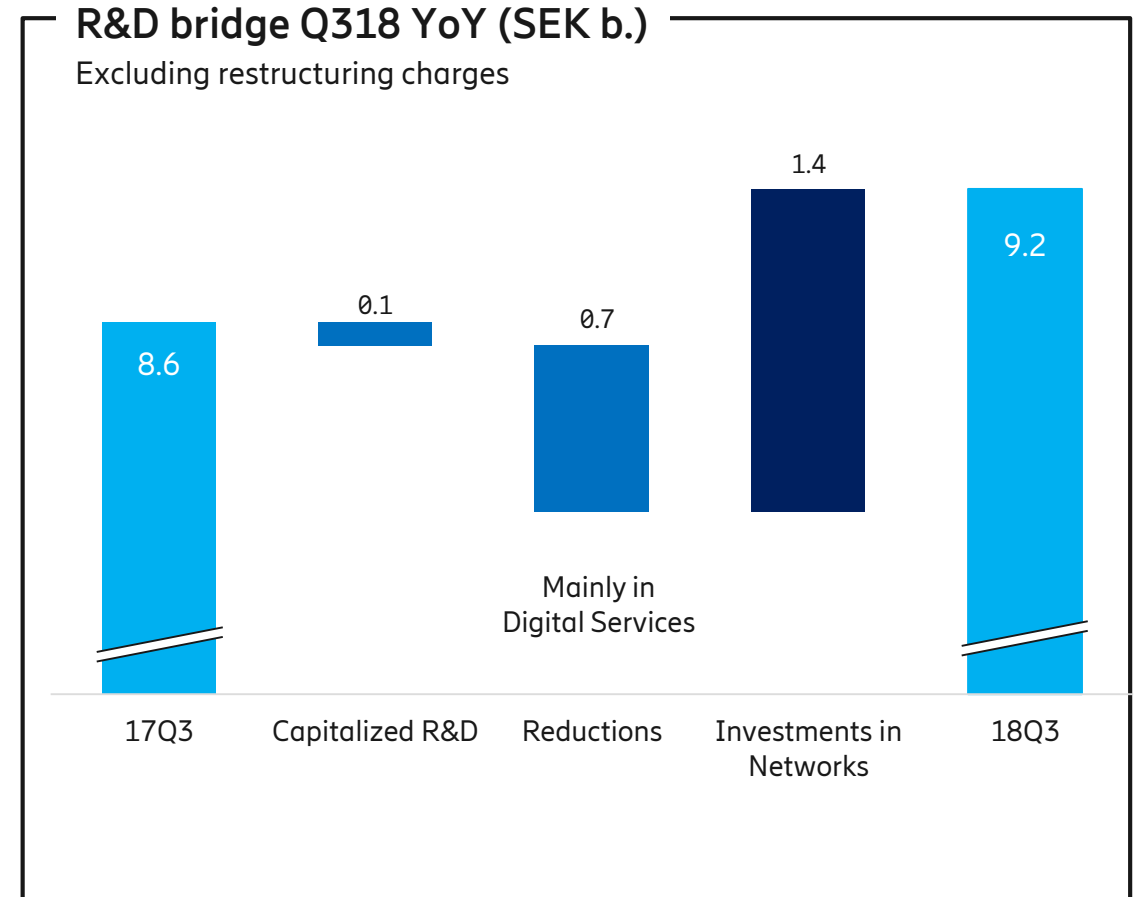
SEK b.	18Q3	17Q3	Change
Net sales	53.8	49.4	+9%
Gross income	19.8	14.1	5.7
Gross margin	36.9%	28.5%	+8.4 pp
R&D expenses	-9.2	-8.6	-0.6
SG&A expenses	-6.5	-5.6	-0.9
Imp. losses trade receivables	-0.4	-1.1	0.7
Other op. income and expenses	0.0	0.4	-0.4
Operating income	3.8	-0.8	4.6
Operating margin	7.0%	-1.7%	+8.7 pp
<i>Restructuring charges</i>	<i>-0.6</i>	<i>-2.8</i>	<i>2.3</i>

- YoY sales growth driven by Networks and FX
- Gross margin improved YoY and QoQ
- Continued R&D investments in Networks
- SG&A expenses impacted by revaluation of customer financing in Middle East
- Impairment testing of trade receivables made continuously
- Gain from divestment of Power Modules in Q3 2017
- Income significantly improved YoY and QoQ
 - Cost reductions
 - Other strategic initiatives
 - Improvements in all segments

SG&A and R&D Q318, YoY



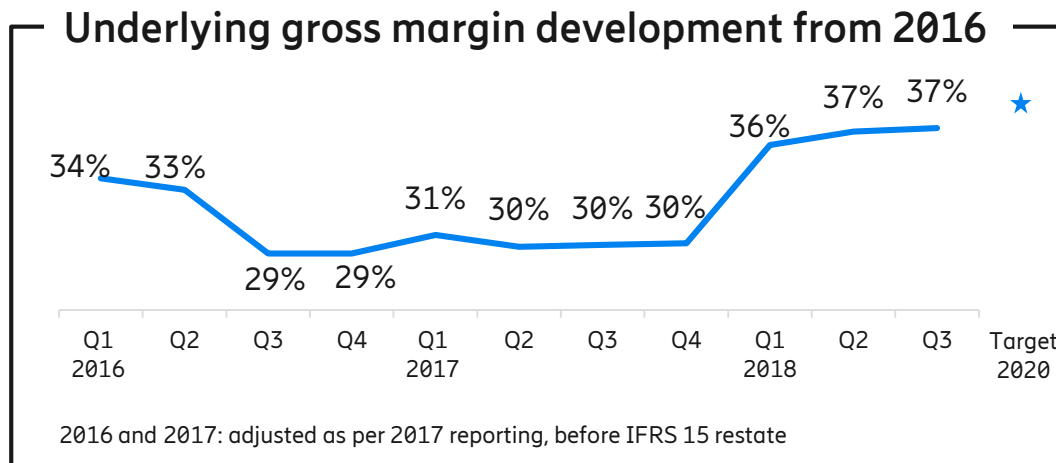
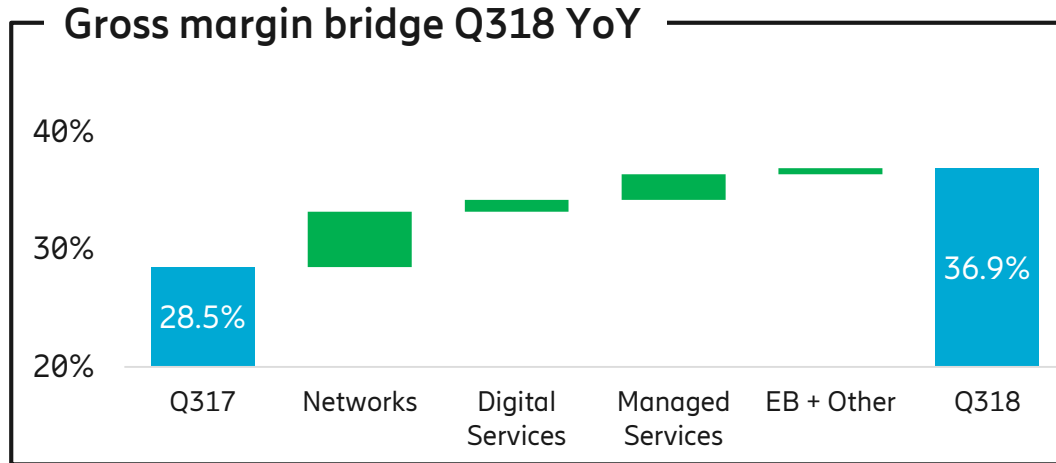
Cost reductions in G&A



Increased R&D in Networks

Gross margin Q318, YoY

Adjusted for restructuring charges



- Structural improvements YoY
 - Cost reductions visible in all segments
 - ERS ramp up
 - Managed Services contract review
- Positive capitalization impact YoY, SEK 0.7 b.
- Positive market and business mix
- Gross margin stable QoQ
 - Increased software and hardware capacity sales in Networks
 - Increased IPR revenues
 - Digital Services negatively impacted by increased provisions for digital transformation projects

Continued strong gross margin – effects of strategy execution and control

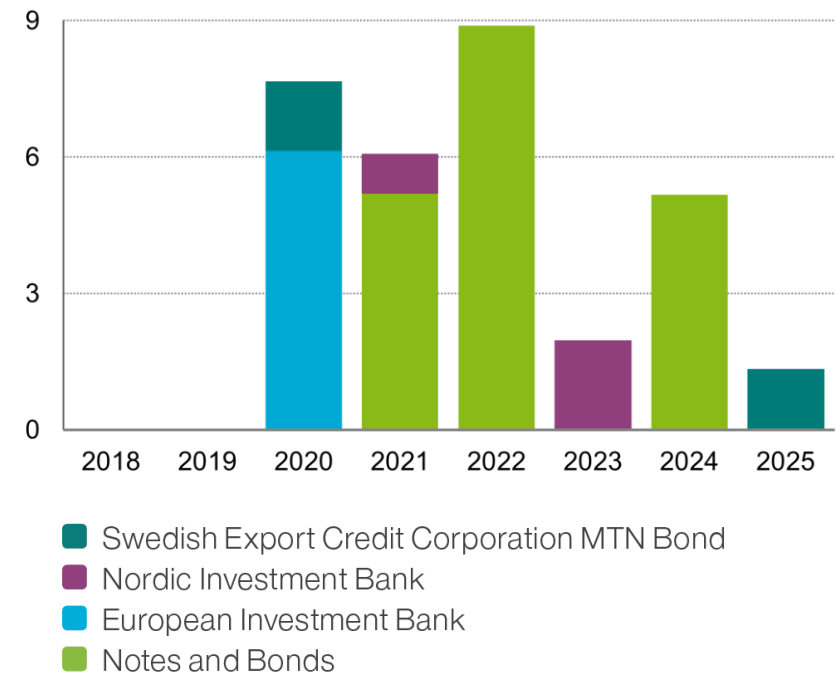
Free cash flow



Financial Performance

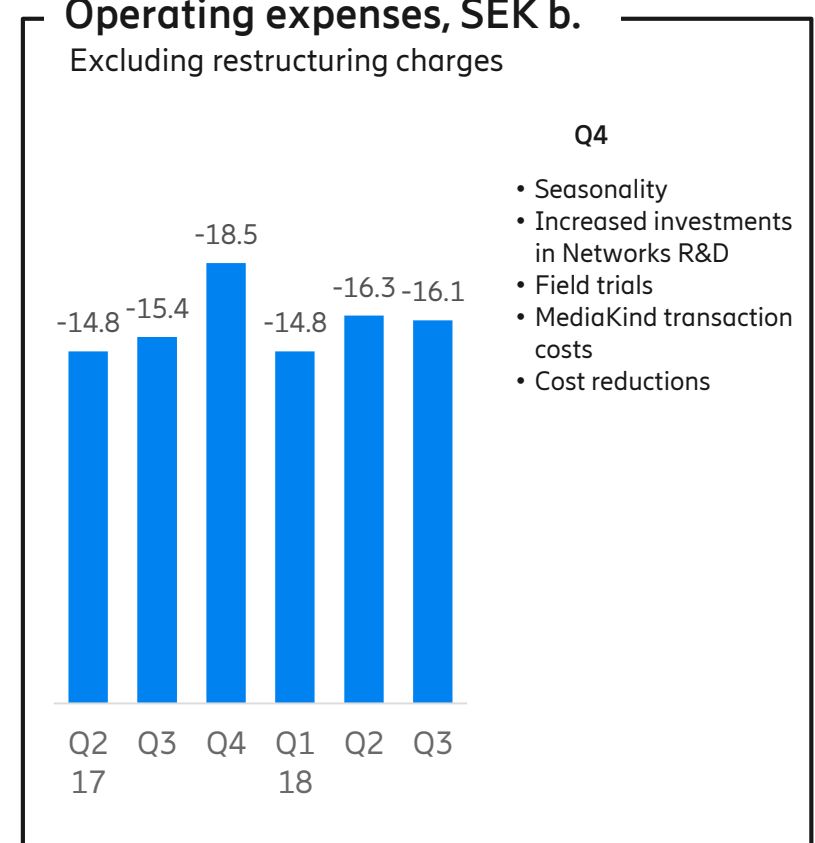
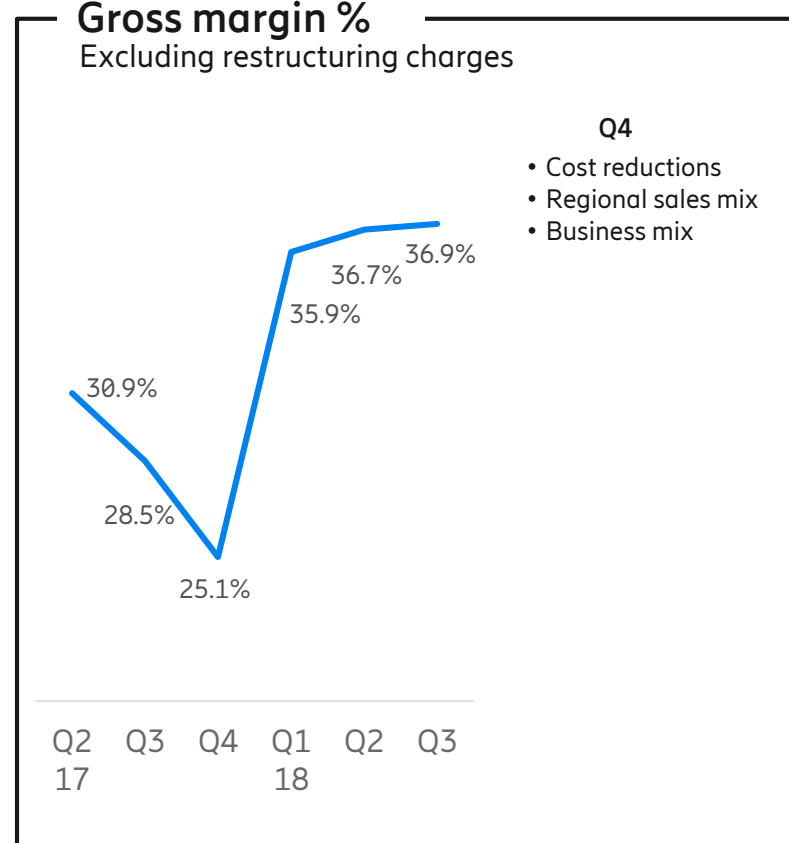
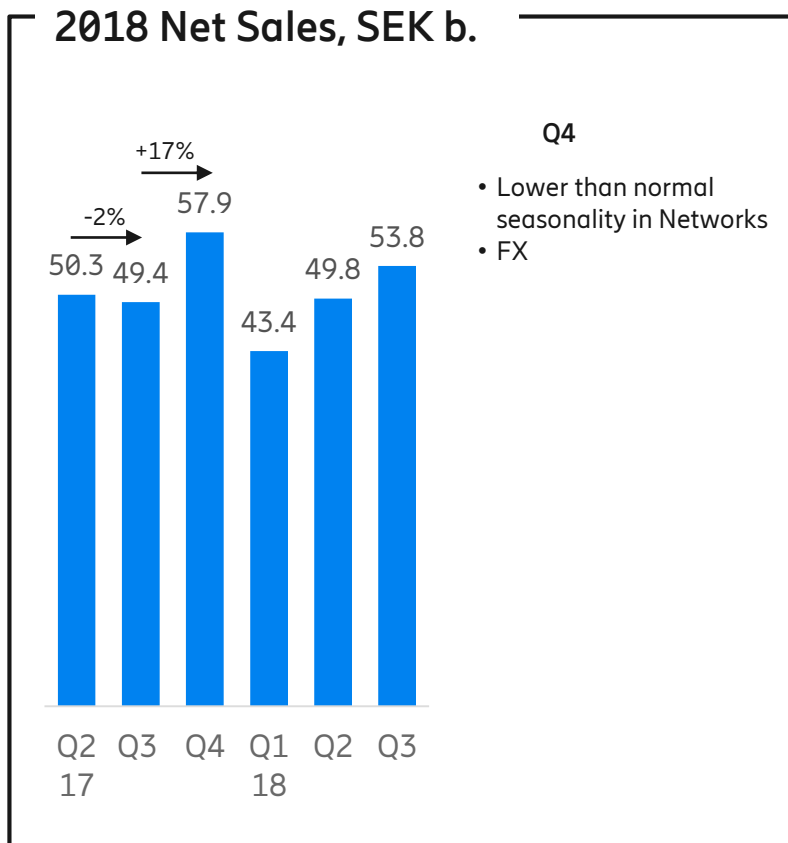
SEK b.	Q318	Q317
Net income reconciled to cash	2.9	-0.8
Change operating net assets	-0.9	0.8
Cash flow from operating activities	2.0	0.0
CAPEX	-1.1	-0.7
Other	-0.2	-0.1
Free cash flow excluding M&A	0.7	-0.8
M&A	-0.4	0.4
Free cash flow	0.3	-0.5
<i>Net cash end of period</i>	<i>32.0</i>	<i>24.1</i>
<i>Gross cash end of period</i>	<i>65.7</i>	<i>55.1</i>

Debt maturity profile (SEK b.)



Solid balance sheet – Net cash improved to SEK 32.0 (24.1) b. YoY

Planning assumptions from the Q3 report



Strong sequential sales growth Q2 to Q3

Impact from regional and business mix

Seasonality, field trials and Networks R&D



Börje Ekholm

President and CEO

Closing remarks

- Continued strong strategy execution
 - Investments in technology leadership
 - Strong cost control to safeguard competitiveness
- 5G now a commercial reality
 - Continue to invest to secure 5G leadership
- Enhanced mobile broadband and fixed wireless access first 5G use cases
- Artificial Intelligence and automation key enablers for new business development



Capital Markets Day New York, November 8

<https://www.ericsson.com/en/investors/events-and-presentations/CMD2018>





Q & A





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- 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.

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