Ericsson
Fourth quarter 2019

Jan 24, 2020

Peter Nyquist

Vice President Investor Relations

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Börje Ekholm

President and CEO

2019 – Continue to execute on our strategy

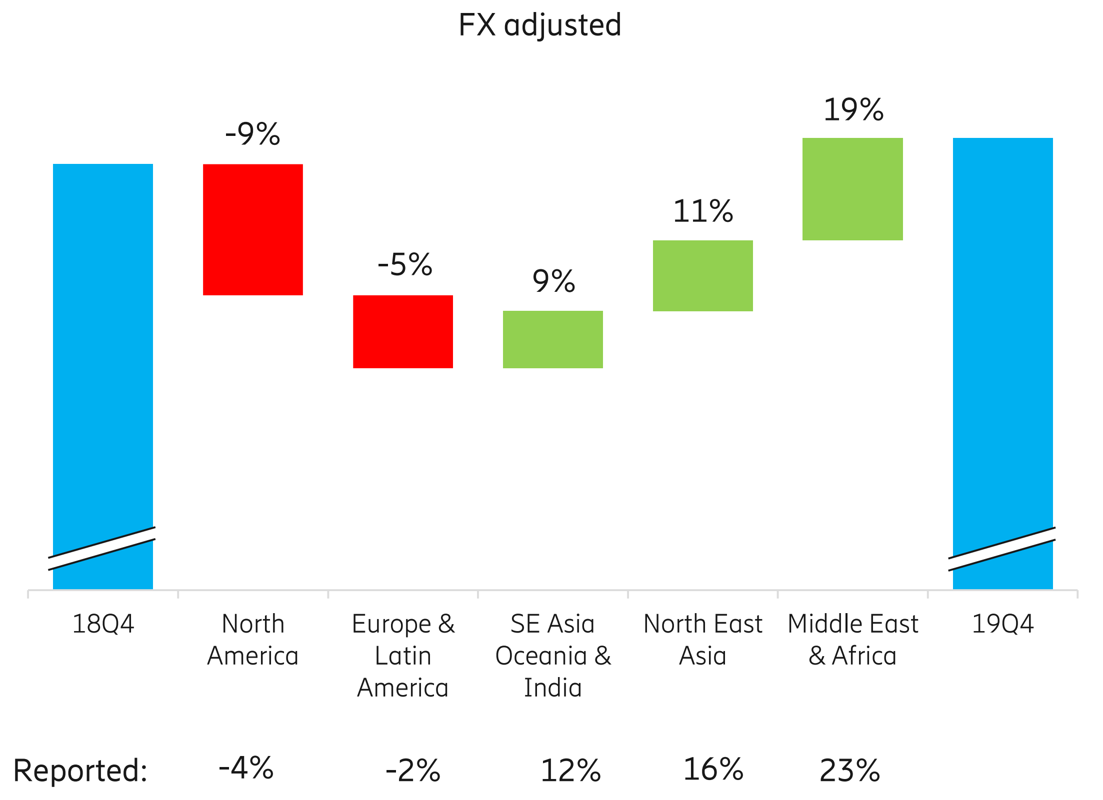
- Topline organic growth FY 4% and Q4 1%
  - Winning footprint based on technology leadership
  - Fundamentals remain strong in North America while uncertainty related to the merger reduced sales in Q4
  - Growth in other markets, primarily the Middle East and North East Asia
- Q4 gross margin solid at 37.1% – within 2020 target range
  - Networks GM decreased sequentially due to Kathrein
- Reaching 9.7% operating margin for FY – close to 2020 target
  - Investing in digitalization and adding capabilities in compliance and security
  - Networks Q4 OM reduced to 14.5%, despite a solid gross margin, due to Kathrein and higher investments
  - Digital Services reached positive operating income in Q4
- FY free cash flow before M&A of SEK 7.6 b. (4.3) after payments to SEC and DOJ

The Board will propose a dividend of SEK 1.50 (1.00) per share

[1] Number excluding restructuring charges and SEC and DOJ settlements

Market area sales Q419, YoY

Net sales bridge



— North America
- Lower capex due to delayed operator merger
- Growth with other customers

— Europe & Latin America
- Networks grow in Europe, offset by market decline in Latin America

— South East Asia, Oceania & India
- All segments grew mainly driven by continued 4G investments

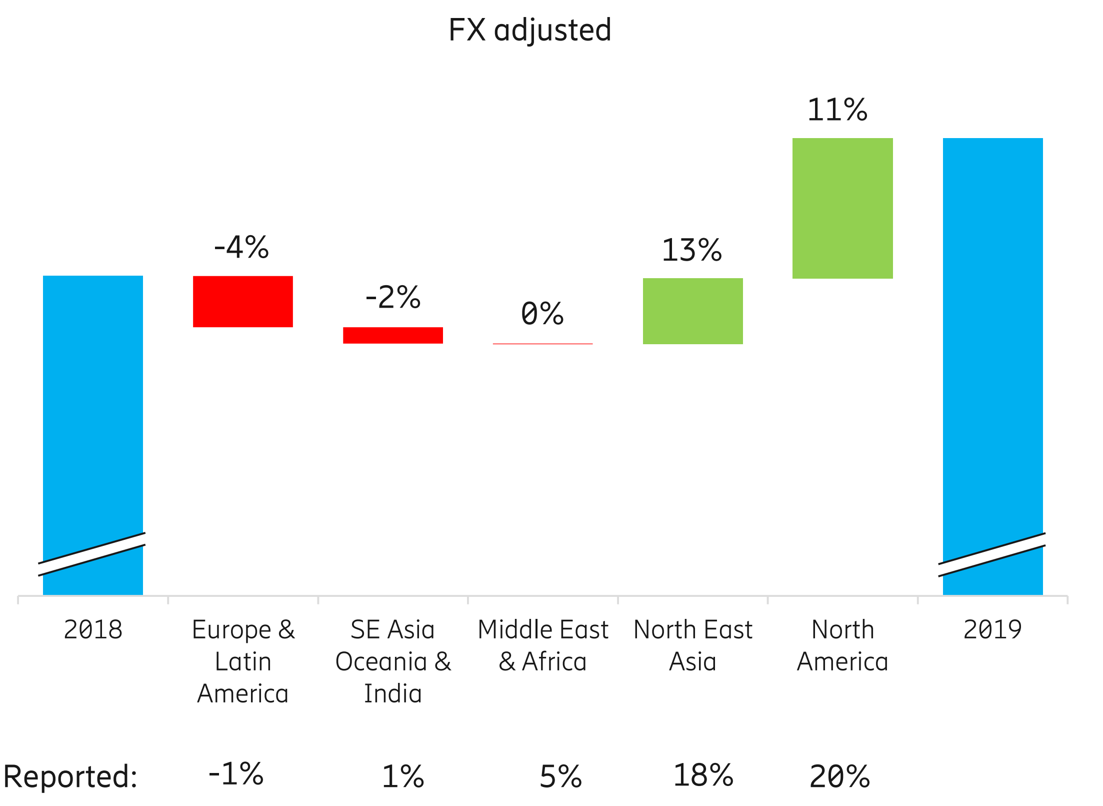
— North East Asia
- 4G/5G deliveries in Japan and China
- Digital Services sales declined – lower legacy product sales

— Middle East & Africa
- Sales growth in all segments driven by 4G/5G in Saudi Arabia

Strong growth in several markets driven by 4G and 5G deployment more than offset a reduction in North America

Market area sales FY 2019, YoY

Net sales bridge



- Europe & Latin America
  - Growth in Europe – earlier announced contract wins
  - Latin America declined due to timing of large projects
- South East Asia, Oceania & India
  - Growth in Managed Services: Add-on sales
  - Digital Services decline: Legacy products in India
- Middle East & Africa
  - 4G and 5G investments in the Middle East
- North East Asia
  - Growth driven by 5G in South Korea, increased business in Japan and China
- North America
  - All segments grew – 4G and 5G investments across all major operators

2019 sales growth driven by early 5G adopters in North America and North East Asia

Carl Mellander

Chief Financial Officer

Full-year 2019 in numbers

Financial Performance

Excluding restructuring charges

SEK b.	2018	2019	Target 2020	Target 2022
Net sales	210.8	227.2	230-240	
Gross margin	35.2%	37.5%	37%-39%	
Operating income	9.3	11.4		
Operating margin	4.4%	5.0%	>10%	12%-14%
OI ex. SEC and DOJ settlements	9.3	22.1		
OM ex. SEC and DOJ settlements	4.4%	9.7%		
Net income	-6.3	1.8		
Free cash flow before M&A	4.3	7.6	Strong	Strong
FCF before M&A ex. SEC and DOJ settlements	4.3	17.8		

- Organic sales growth of 4% – driven by Networks
- Gross margin of 37.5%, within the 2020 target range
- Operating margin 9.7% excl. SEC and DOJ settlements
- Restructuring in 2019 SEK -0.8 (-8.0) b.
- Net income SEK 1.8 (-6.3) b.
- Free cash flow before M&A, excl. SEC and DOJ: 8% of sales
- Net cash SEK 34.5 (35.9) b.

Q4 2019 in numbers

Financial Performance

Excluding restructuring charges

SEK b.	19Q4	18Q4	19Q3
Net sales	66.4	63.8	57.1
Gross margin	37.1%	32.0%	37.8%
Operating income	6.5	2.6	-4.0
Operating margin	9.7%	4.0%	-7.1%
Net income	4.5	-6.5	-6.9
Free cash flow before M&A	-1.9	3.0	4.5

- Organic sales growth 1% – Reported growth 4%
- Q4 operating margin of 9.7%, impacted by:
  - Partial release of SEC and DOJ provision of SEK 0.7 b.
  - ST-Ericsson non-cash cost of SEK -0.3 b.
- Net income SEK 4.5 (-6.5) b.
- Free cash flow before M&A SEK -1.9 (3.0) b. including SEC and DOJ payments of SEK 10.1 b.

DOJ and SEC settlements

Effect on financial numbers

SEK b.	19Q3	19Q4	2020-2022
Income statement effect	-11.5	0.7	--
Cash flow impact	--	-10.1	-0.6
Provision balance, end of period	11.5	0.6	--

— Announced on 7th of December: Ericsson reaches resolution on U.S. FCPA investigations

— Partial provision release
  - Cash out lay of SEK 10.1 b. in Q4 – covered by SEK 11.5 b. provision from Q3
  - Lower interest cost enabled provision release of SEK 0.7 b. in Q4
  - FY 2019 operating income net impact of SEK -10.7 b.
  - Remaining provision of SEK 0.6 b. will cover future monitoring costs

— Reported in Other operating income and expenses in segment Emerging Business and Other

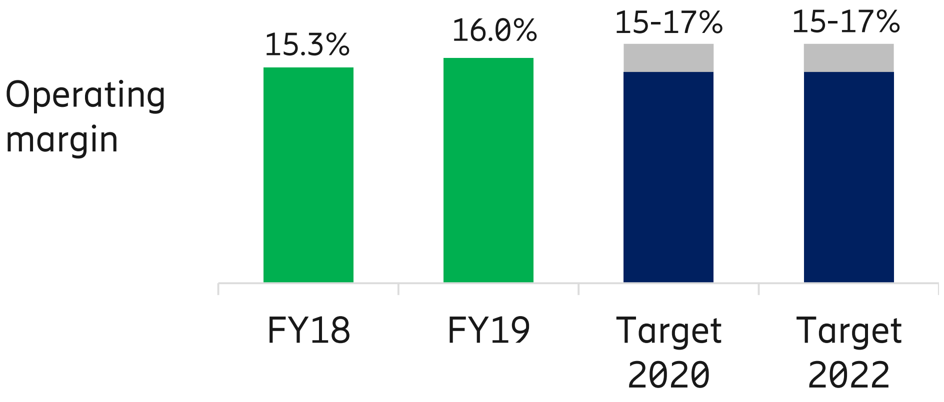
— Handled as non-tax deductible

Networks

Segment Networks – Financial performance

Excluding restructuring charges

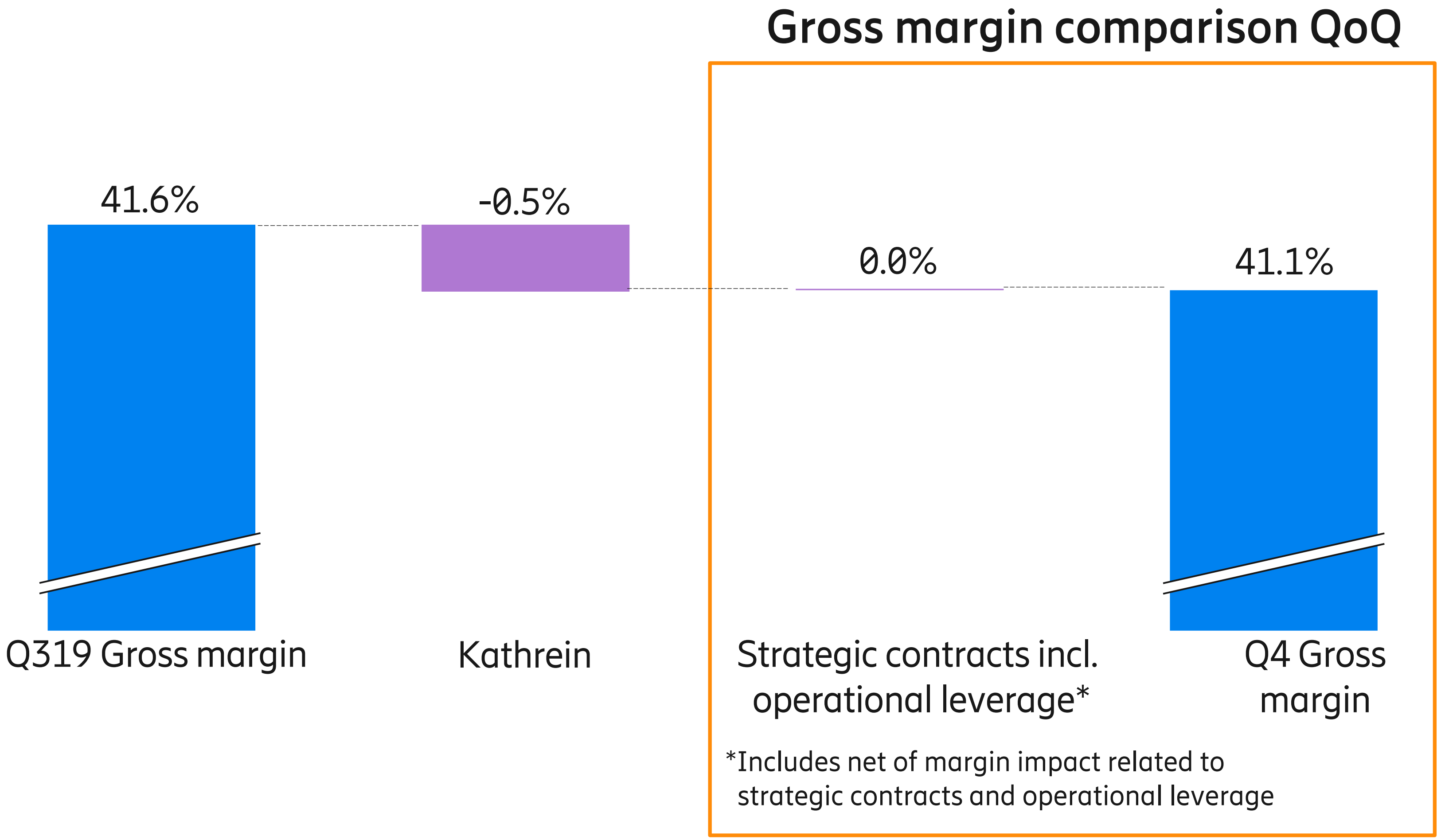
SEK b.	19Q4	18Q4	19Q3
Net sales	44.4	41.6	39.3
Gross margin	41.1%	41.0%	41.6%
Operating income	6.4	7.3	7.2
Operating margin	14.5%	17.5%	18.4%
Capitalization impact	*0.1*	*0.0*	*0.3*



- Organic sales +2% YoY
  - Growth driven by LTE and 5G investments
  - Strong growth in Japan and Saudi Arabia partly offset by weaker North America
- Gross margin
  - Stable gross margin YoY. Impact of strategic contracts and Kathrein, offset by operating leverage
- Operating income
  - Decline YoY and QoQ due to higher operating expenses – increased investment in R&D for 5G, Kathrein and corporate projects
- 78 commercial 5G agreements and 24 live 5G networks

Strategic contracts impact on Networks GM

Excluding restructuring charges

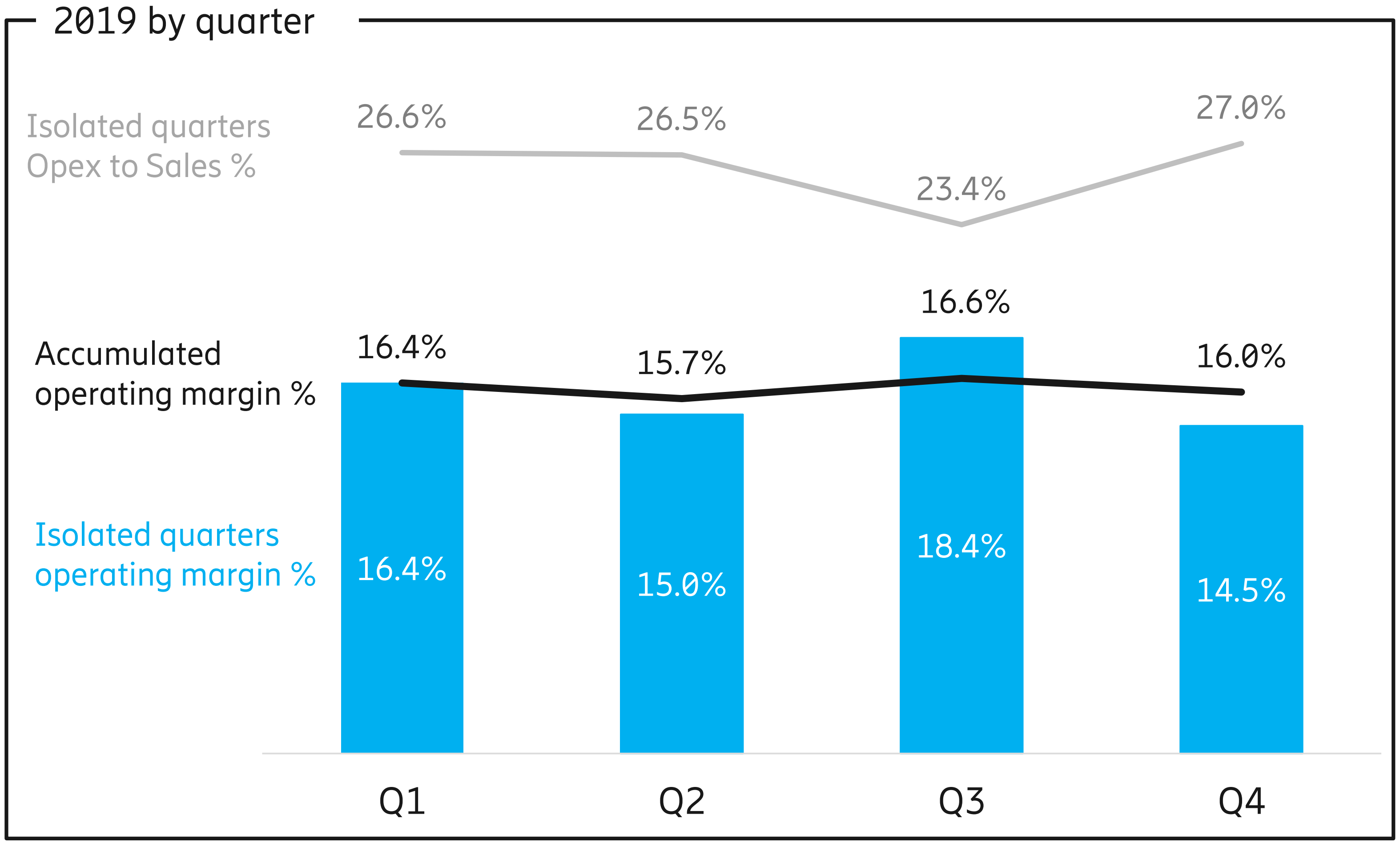


- Some contracts have lower initial margins, however all are selected for their value creation
- Competitive product offering and cost structure enable us to capture opportunities
- Contracts continue to negatively impact Networks gross margin, and the dilutive impact may vary between quarters

Market undergoing a technology shift to 5G - opportunities to further strengthen our position

Networks operating margin

Excluding restructuring charges



QoQ development

- Customer financing revaluation and AR impairment losses SEK -0.3 b. in Q4 equal to -0.7%
- Kathrein -1 %-point
- Investments in digitalization, compliance and security
- Lower seasonality on topline

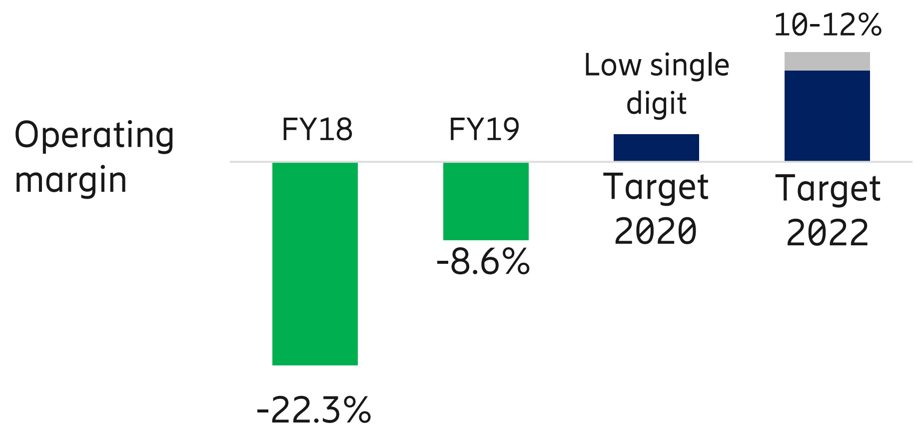
2020 full year target operating margin of 15-17%

Digital Services

Segment Digital Services – Financial performance

Excluding restructuring charges

SEK b.	19Q4	18Q4	19Q3
Net sales	13.2	13.0	9.9
Gross margin	38.1%	16.4%	38.3%
Operating income	0.0	-3.5	-0.5
Operating margin	0.3%	-27.2%	-5.4%
Capitalization impact	*-0.1*	*-0.6*	*-0.2*



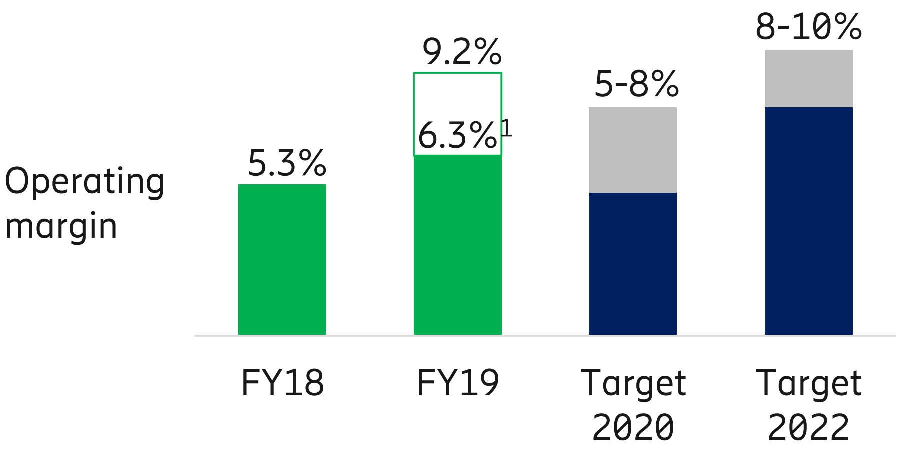
- Organic sales -3% YoY
  - Lower 4G core sales in North East Asia
  - Growth in OSS, Cloud infrastructure and services
  - Business momentum in the new portfolio as customers move to 5G
- Gross margin
  - Q418 negatively impacted by revised BSS strategy
  - Positive impact from efficiency gains and cost reductions
  - Continued negative impact from critical contracts
- Operating income improved YoY and QoQ
  - Positive operating income
  - Focusing investments on 5G and cloud-native portfolio
  - 75% of the 45 critical contracts addressed

Managed Services

Segment Managed Services – Financial performance

Excluding restructuring charges

SEK b.	19Q4	18Q4	19Q3
Net sales	7.0	6.9	6.4
Gross margin	15.4%	12.4%	17.9%
Operating income	0.3	0.4	0.6
Operating margin	4.8%	5.2%	8.9%



[1] Underlying, excluding reversal of a provision for impairment

- Organic sales -1% YoY
  - MS Networks declined
  - Growth in Optimization business
- Gross margin
  - Increased YoY – efficiency gains
  - Declined QoQ – less add-on sales than in Q319
- Operating income and margin declined
  - YoY – stronger gross margin offset by higher R&D
  - QoQ – seasonally higher Opex in Q4
  - FY 2019 OM 6.3%, excl. restr. charges and positive one-off in Q1 – in line with the 2020 target
- R&D investments in automation, analytics and AI-driven offerings

Emerging Business & Other

Segment EB & Other – Financial performance

Excluding restructuring charges

SEK b.	19Q4	18Q4	19Q3	FY19	FY18
Net sales	1.7	2.3	1.6	6.8	8.4
Gross margin	15.1%	17.1%	20.5%	19.6%	25.4%
Operating income	-0.4	-1.5	-11.3	-12.4	-4.8
Operating margin	-21%	-67%	--	--	-57%

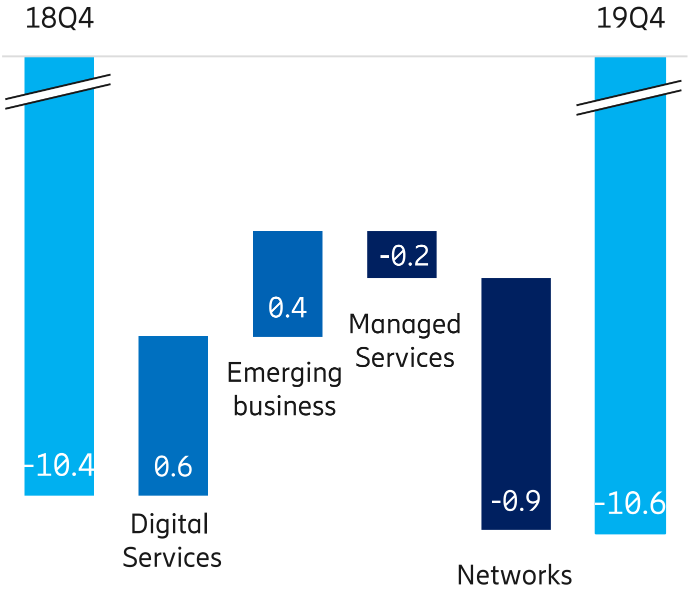
SEK b.	19Q4	18Q4	19Q3	FY19	FY18
Emerging Business, iconectiv and common costs					
Net sales	1.1	1.0	1.1	4.3	3.4
Operating income	-0.5	-0.9	-0.5	-2.0	-2.8
Red Bee Media					
Net sales	0.6	0.6	0.6	2.4	2.3
Operating income	0.0	-0.1	0.0	0.0	-0.3
Media Solutions					
Net sales	0.0	0.7	0.0	0.1	2.7
Operating income	-0.3	-0.5	-0.3	-0.3	-1.7
Other items					
SEC and DOJ settlements	0.7		-11.5	-10.7	
ST-Ericsson wind-down	-0.3			-0.3	
Social security costs refund			0.9	0.9	

- Full year 2019
  - Organic sales +14%, adj. for comparable units and currency
  - Significantly reduced losses in all three operational units
- Emerging Business incl iconectiv
  - Sales growth in IoT
  - Continued profitable growth in iconectiv
- Red Bee Media
  - Close to break-even and improved both FY 2019 and Q4
- Media Solutions
  - Significantly reduced losses
- 2019 Q4 segment income impacted by non-cash items
  - Partial release of SEC and DOJ provisions SEK 0.7 b.
  - Wind-down of ST-Ericsson legal structure SEK -0.3 b.

Operating expenses YoY

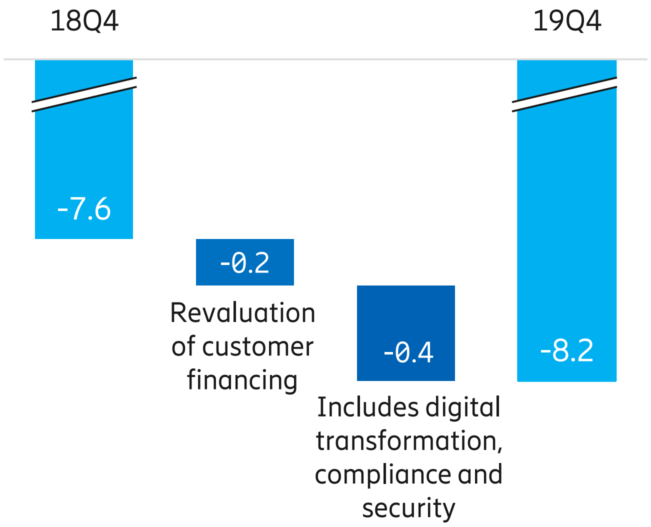
Excluding restructuring charges

R&D bridge Q419 (SEK b.)



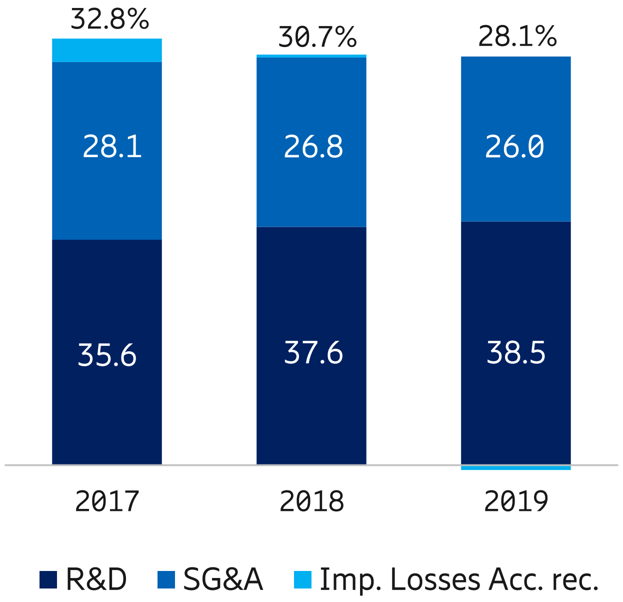
Investments in 5G and AI

SG&A bridge Q419 (SEK b.)



Investing to increase productivity and compliance

Opex to sales FY % and SEK b.



Increasing R&D investments and structural improvements in SG&A

For 2020 we expect somewhat higher operating expenses

Free cash flow

Financial Performance

SEK b.	19Q4	2019	2018
Net income reconciled to cash	8.0	14.1	1.6
Change operating net assets	-7.5	2.8	7.8
Cash flow from operating activities	**0.5**	**16.9**	**9.3**
CAPEX	-1.5	-5.1	-4.0
Lease liabilities	-0.7	-3.0	--
Other	-0.2	-1.1	-1.0
Free cash flow before M&A	**-1.9**	**7.6**	**4.3**
M&A	-1.3	-1.5	-1.3
Free cash flow	**-3.2**	**6.1**	**3.0**
Net cash end of period	*34.5*	*34.5*	*35.9*
Gross cash end of period	*72.2*	*72.2*	*69.0*

- Free cash flow before M&A SEK 7.6 (4.3) b. YoY
- SEC and DOJ payments of SEK 10.1 b. in Q4
- SEK 7.6 (6.9) b. cash out from provisions YoY
- Kathrein business and CSF (by iconectiv) acquired during the year
- Continued focus on working capital efficiency including cash collection shows result
- Net cash impacted by dividend and debt affected by FX

Free cash flow before M&A improved YoY despite SEC and DOJ payments

Planning assumptions – summary

Please see the Q4 report for complete planning assumptions

Market

- RAN equipment market 4% FY 2020, 2% CAGR 2018-2023 (Dell'Oro)

Ericsson

- The financial targets for 2020 and 2022 presented at the Investor Update in October 2019 remain unchanged.
- Net sales and Gross margin
  - Normal seasonality Q4→Q1 -25%. Q1 is expected to have slightly less seasonality, as the base was lower following a weak Q4 in North America. The underlying business fundamentals in North America remain strong.
  - Baseline for IPR ~SEK 10 b., on an annual basis
  - Strategic contracts, with overall long-term positive but initially low or negative margin, expected to continue to impact Networks.
  - Large 5G deployments in China expected to commence in 2020 – investments to increase market share. Initially challenging margins but positive over the lifespan of a contracts.
  - Kathrein - negative impact on Networks margin during 2020, with a gradual improvement during 2H.
  - Improvements in Digital Services continue, earnings will vary depending on business mix, sales seasonality and impact from the 45 contracts.
- Operating expenses
  - Opex typically decrease Q4→Q1 due to seasonality. Expect somewhat higher operating expenses during 2020 due to investments in compliance, security and digitalization.
- Restructuring charges
  - Restructuring charges for full-year 2020 are estimated to be 1% of sales
- Currency exposure
  - Rule of thumb: USD/SEK 10% weaker → ~ -5% sales and ~ -1pp OM. For historical FX rates, please see ericsson.com

Based on current visibility, assessments and FX rates

Börje Ekholm

President and CEO

Closing remarks

- Focused strategy with increased investments in R&D is paying off
- A leader in 5G with 78 commercial 5G agreements with unique operators and 24 live 5G networks across four continents
- SEC and DOJ investigation settled
- The proposal to increase the dividend expresses the Board's confidence in Ericsson to deliver on its financial targets
- Building a stronger company long term – tracking well towards our financial targets

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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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