

Ericsson Second quarter 2020

July 17, 2020





Peter Nyquist

Vice President Investor Relations



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Börje Ekholm

President and CEO

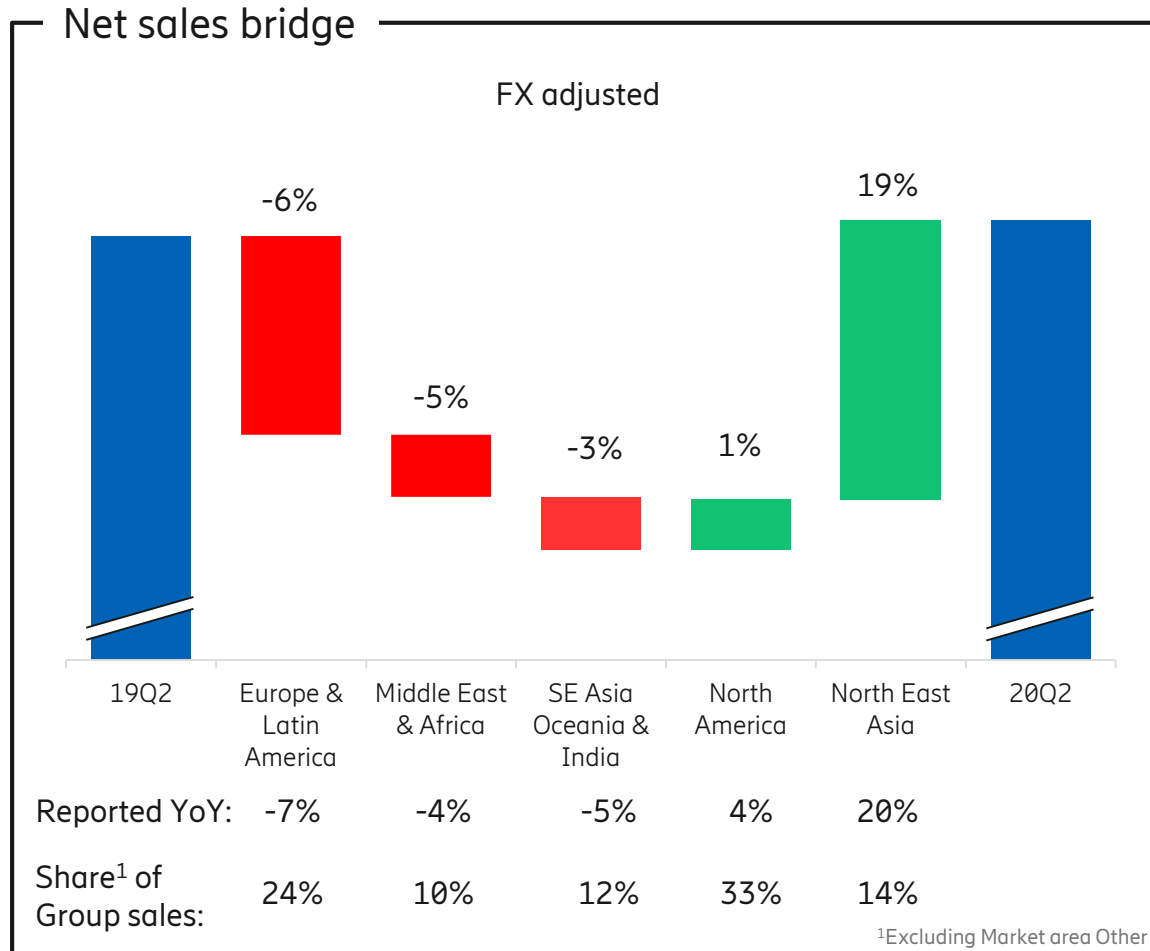
Key takeaways

- Technology leadership in an accelerating 5G market
 - 99 commercial 5G agreements and 54 live networks
- Sales SEK 55.6 b. and operating margin 8.2% excl restr.
 - Driven by Networks and Digital Services
- Strengthened market position in Mainland China
- Maintained Group targets for 2020 and 2022
 - Increased R&D investments in combination with lower sales in Digital Services, a delay in reaching the 2020 financial target
- Free cash flow before M&A was SEK 3.2 b.
- Limited impact in Q2 from the Covid-19 pandemic
- Monitorship initiated in Q2 2020



Hybrid AIR antenna and radio

Market area sales Q220, YoY



- Europe & Latin America
 - Europe: Growth in Networks from market share gains
 - Latin America: Decline due to macro uncertainty
- Middle East & Africa
 - Continued strong 5G deployments in the Middle East
 - Sales impacted by macro uncertainty
- South East Asia, Oceania & India
 - Sales declined in Networks due to timing of projects
 - India impacted by Covid-19
- North America
 - Sales increased driven by 5G momentum
 - Managed services declined due to reduced variable sales
- North East Asia
 - Increased business volumes across the market area
 - Growth in Mainland China for Networks and Digital Services

Ericsson equipment (radio and core) in 54 live 5G networks

Segment summary

Excluding restructuring charges



Networks

SEK b.	20Q2	19Q2	YoY	20Q1
Sales	39.8	37.8	5%	35.1
Organic			4%	
Gross margin	40.5%	41.4%		44.6%
Op. income	5.6	5.7	-1%	5.9
Op. margin	14.1%	15.0%		16.8%



- Strong momentum for 5G
- Continued investments in technology leadership
- Impact from strategic contracts partly mitigated

Managed Services

SEK b.	20Q2	19Q2	YoY	20Q1
Sales	5.6	6.3	-12%	5.7
Organic			-12%	
Gross margin	17.2%	12.3%		20.6%
Op. income	0.3	0.2	31%	0.7
Op. margin	4.8%	3.2%		11.4%



- Gross margin increased YoY – efficiency gains
- Sales declined due to reduced sales in North America
- Further R&D investments

Digital Services

SEK b.	20Q2	19Q2	YoY	20Q1
Sales	8.6	9.0	-5%	7.3
Organic			-5%	
Gross margin	43.6%	37.1%		40.1%
Op. income	-0.7	-1.3		-1.4
Op. margin	-8.5%	-14.6%		-19.6%



- Gross margin improved driven by software sales
- 18% sales growth in the new portfolio
- Somewhat negative impact from Covid-19

Emerging Business & Other

SEK b.	20Q2	19Q2	YoY	20Q1
Sales	1.6	1.7	-4%	1.6
Organic			-6%	
Gross margin	25.3%	19.2%		21.9%
Op. income	-0.6	-0.7		-0.5
Op. margin	-39.6%	-42.8%		-32.7%



- Growth in Emerging Business
- Exit of the Edge Gravity business
- Solid performance in iconectiv



Carl Mellander

Chief Financial Officer

Q2 2020 in numbers



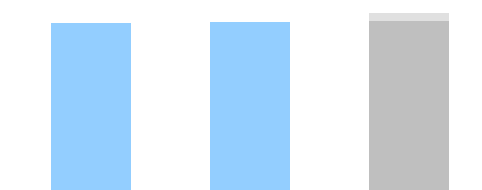
Financial performance

Excluding restructuring charges

SEK b.	20Q2	19Q2	YoY	20Q1
Net sales	55.6	54.8	1%	49.8
Organic and FX adj. growth			0%	
Gross margin	38.2%	36.7%		40.4%
R&D and SG&A expenses	-16.7	-16.4	2%	-15.4
Operating income	4.5	3.9	18%	4.6
Operating margin	8.2%	7.0%		9.3%
Restructuring charges	-0.7	-0.1		-0.3
Net income incl restr.	2.6	1.8	40%	2.3

Net sales SEK b.

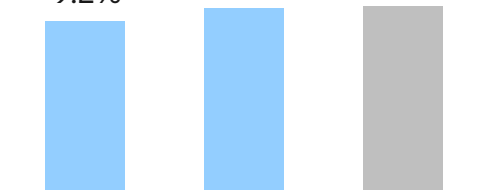
227.2 228.8 230-240



FY19 20Q2 rolling 4Q Target 2020

Adj operating margin %

9.2% 9.9% >10%

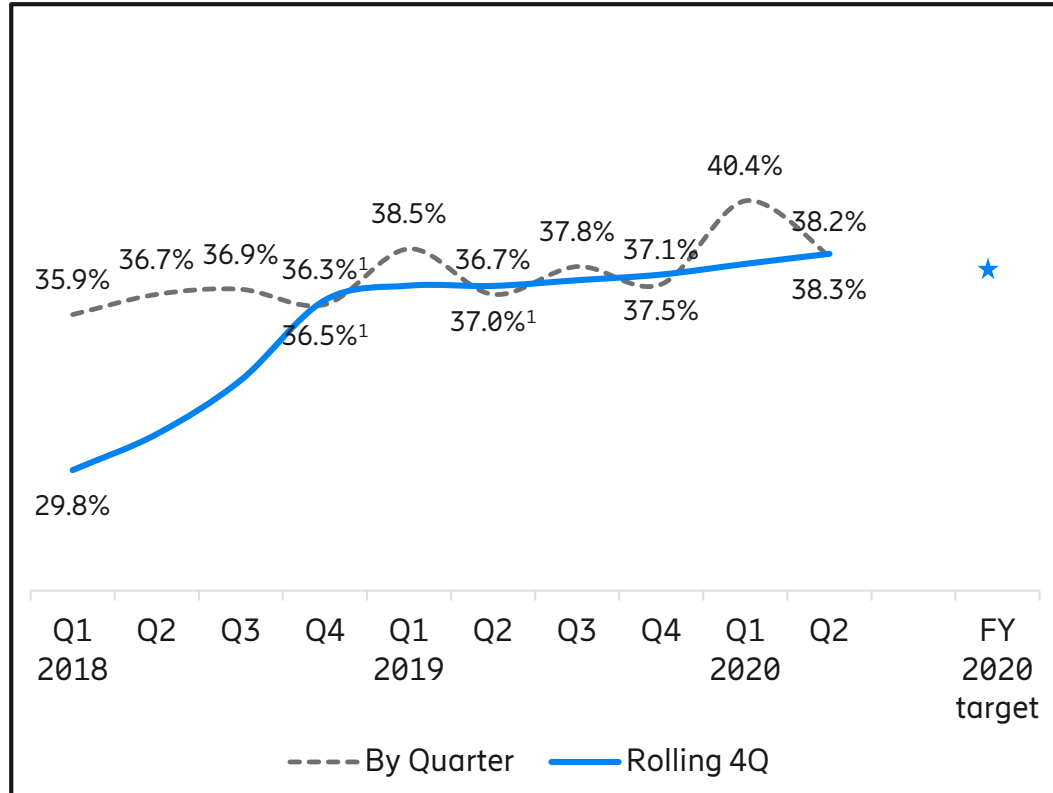


FY19 20Q2 rolling 4Q Target 2020

- Organic and FX adjusted sales flat YoY
 - Networks growth 4%
- Gross margin
 - Improved YoY – Digital Services (software sales), Managed Services (efficiency gains) and IPR revenues
 - QoQ – impacted by inventory write-down of SEK -0.9 b.
- Operating income
 - YoY – reduced losses within Digital Services
 - Networks OM 14.1% – despite strategic contracts and write-down
- Net income
 - Restructuring charges SEK -0.7 b. – related to Edge Gravity and the acquired antenna business
 - Financial net SEK 0.3 (-0.4) b. – positive currency hedge effects

Gross margin

Excluding restructuring charges



¹excluding costs for revised BSS strategy

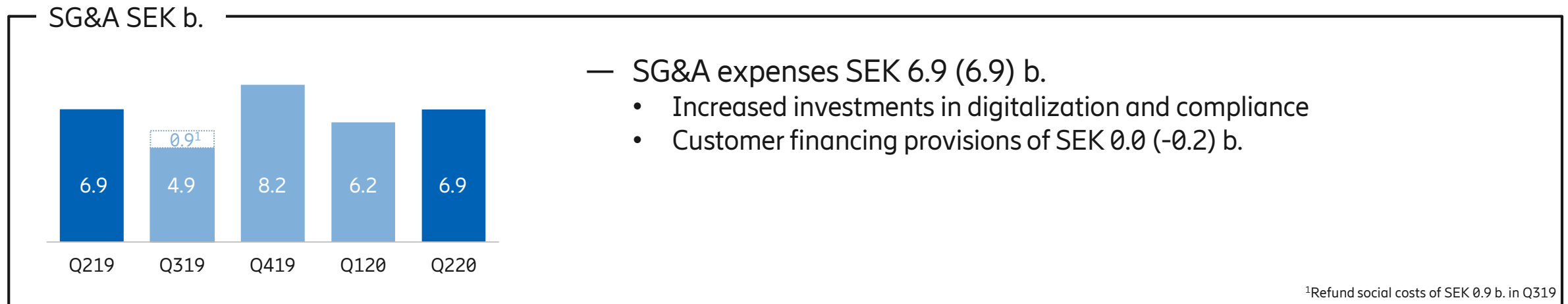
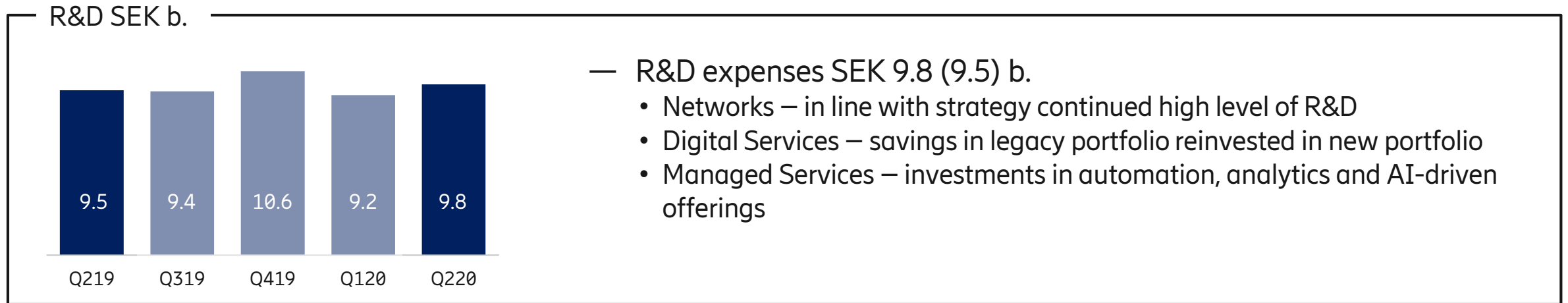
- Rolling 4Q gross margin 38.3%
- Q2 gross margin 38.2% (36.7%)
 - Driven by Digital Services (software sales) and Managed Services (efficiency gains)
 - Higher share of IPR revenues
 - Networks declined – impacted by strategic contracts partly offset by business mix and operational leverage
- Gross margin declined from 40.4% to 38.2% QoQ
 - Digital Services improved – lower critical contracts costs
 - Networks – larger share of strategic contracts and write-down of SEK -0.9 b.
 - Managed Services – seasonally higher cost in Q2
 - Impact from IPR revenues stable

R&D investments drive gross margin improvement – rolling 4 quarters improved for 9 consecutive quarters

R&D and SG&A expenses YoY



Excluding restructuring charges



Free cash flow



Financial Performance

SEK b.	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Net income adjusted for non-cash items	5.6	5.0	10.3	10.4
Changes in Net operating assets and liabilities	-0.1	-1.3	-0.6	-1.0
Cash flow from operating activities	5.4	3.6	9.8	9.4
Capex (net) including product development	-1.5	-1.4	-2.8	-2.9
Other investing activities & lease liabilities	-0.7	-0.7	-1.4	-1.4
Free cash flow before M&A	3.2	1.6	5.6	5.1
M&A	0.0	0.0	-0.3	0.3
Free cash flow	3.2	1.6	5.3	5.4

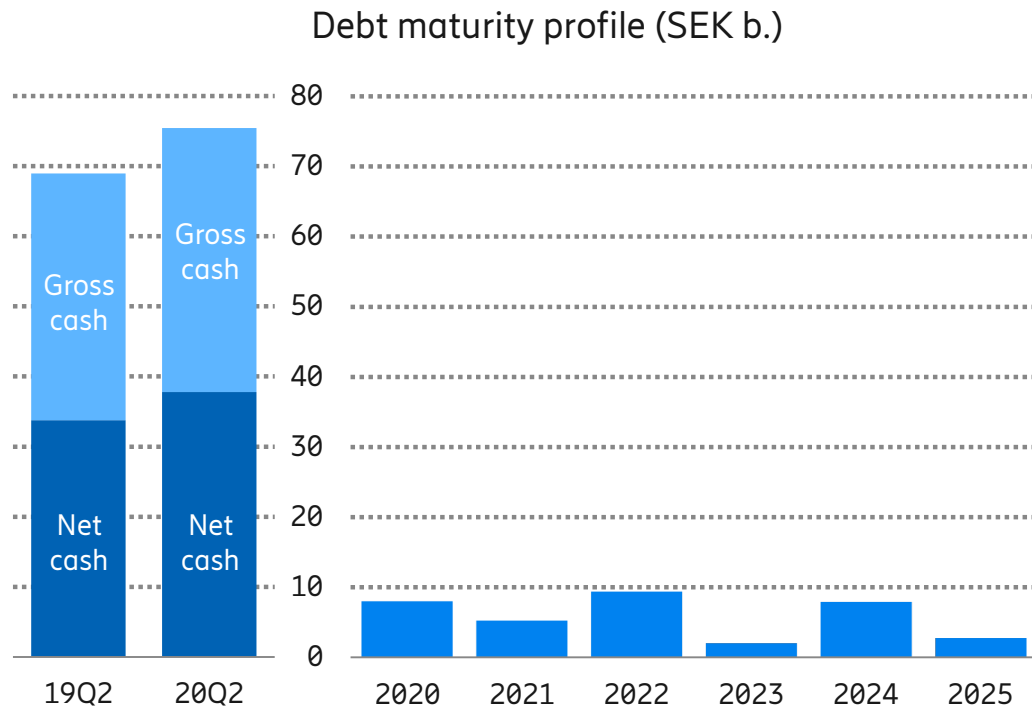
- Free cash flow before M&A SEK 3.2 (1.6) b.
- Net operating asset and liabilities stable despite sequential sales growth
- Pension payment of SEK 1.0 b. in Q2
 - Additional SEK 2 b. expected to be paid in Q3
- Free cash flow before M&A of SEK 18.3 b. rolling four quarters¹

Strong business fundamentals - Positive Free cash flow before M&A for 8 consecutive quarters¹

Financial position



Cash position and debt maturity profile (SEK b.)



- Gross cash of SEK 75.4 (69.0) b.
 - SEK -4.1 b. QoQ, mainly due to dividend payment
- Solid net cash position at SEK 37.5 (33.8) b.
 - SEK -0.8 b. QoQ
- Moody's upgraded rating to Ba1 with stable outlook in June
- Avg. maturity of long-term borrowings 2.2 years
- Undrawn credit facility of EUR 250 m. and long-term revolving credit facility of USD 2 b.

Strong financial position and well balanced debt maturity profile

Planning assumptions highlights

Please see the Q2 report for complete planning assumptions



Market related

- RAN equipment market estimated to grow 4% FY 2020 (Dell'Oro)
- Momentum in North America remains strong, market estimated to grow 4% in 2020 (Dell'Oro)

Ericsson related

- Normal sales seasonality Q2→Q3: 4%
- Baseline for IPR annually: ~SEK 10 b.
- Restructuring charges FY 2020: ~1% of sales
- Digital Services: A delay of some quarters in reaching the 2020 target is expected. The 2022 operating margin target remains firm
- 2020 and 2022 full-year targets for the Group maintained
- Currency exposure: Rule of thumb USD/SEK 10% weaker → ~ -5% sales and ~ -1pp OM.



Börje Ekholm

President and CEO

Closing remarks



- Gaining market share through technology leadership
- Business performance enabling strategic investments
- Leader in 5G with 54 live 5G networks and 99 agreements as of July 17
- Competitive offering and resilient balance sheet
- Group financial targets for 2020 and 2022 remain
- Ready to deliver on the promises of 5G



Industry Connect with Radio Dots



Q & A





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- 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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