Ericsson Fourth quarter 2022

Jan 20, 2023

Fourth quarter 2022

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.

Business overview

Börje Ekholm
President and CEO

2022 Highlights

- On track to deliver on our long-term EBITA[1] target of 15-18% by 2024
- Made significant progress against our strategic priorities:
  - Strengthened leadership in mobile networks with market share gains
  - Committed to break even in Cloud Software and Services for full year 2023
  - Solidified our strategy for the high growth Enterprise business through the Vonage acquisition
- Continued in our unwavering commitment to culture transformation
  - Extended monitorship to June 2024
- EBIT margin[1] 12.9% excluding Vonage and one-offs – reaching 2022 targets

Organic sales YoY:

3%

EBITA margin[1]:

10.9%

FCF b. M&A:

SEK 22.2 b.

The Board will propose a dividend of SEK 2.70 (2.50) per share to the AGM

[1]Excluding restructuring charges
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See the last page in this presentation for further information about forward-looking statements

Q4 2022 Highlights

- Measurable progress towards achieving our strategic goals:
  - Signed a multiyear IPR licensing agreement – foundation for future agreements
  - Limit subscale business in Cloud Software and Services
  - Took important steps in Enterprise; announced divestment of loss-making IoT business
- Delivered against a backdrop of broad macroeconomic headwinds:
  - Group organic growth of 1%, of which IPR 5%
  - Gross income[1] increased by SEK 4.6 b. YoY driven by increases in all segments
  - Networks gross margin impacted by business mix shift
- Focused on best-in-class governance and compliance driving competitive advantage

Organic sales YoY:
1%

EBITA margin[1]:
10.8%

FCF b. M&A:
SEK 16.9 b.

[1]Excluding restructuring charges
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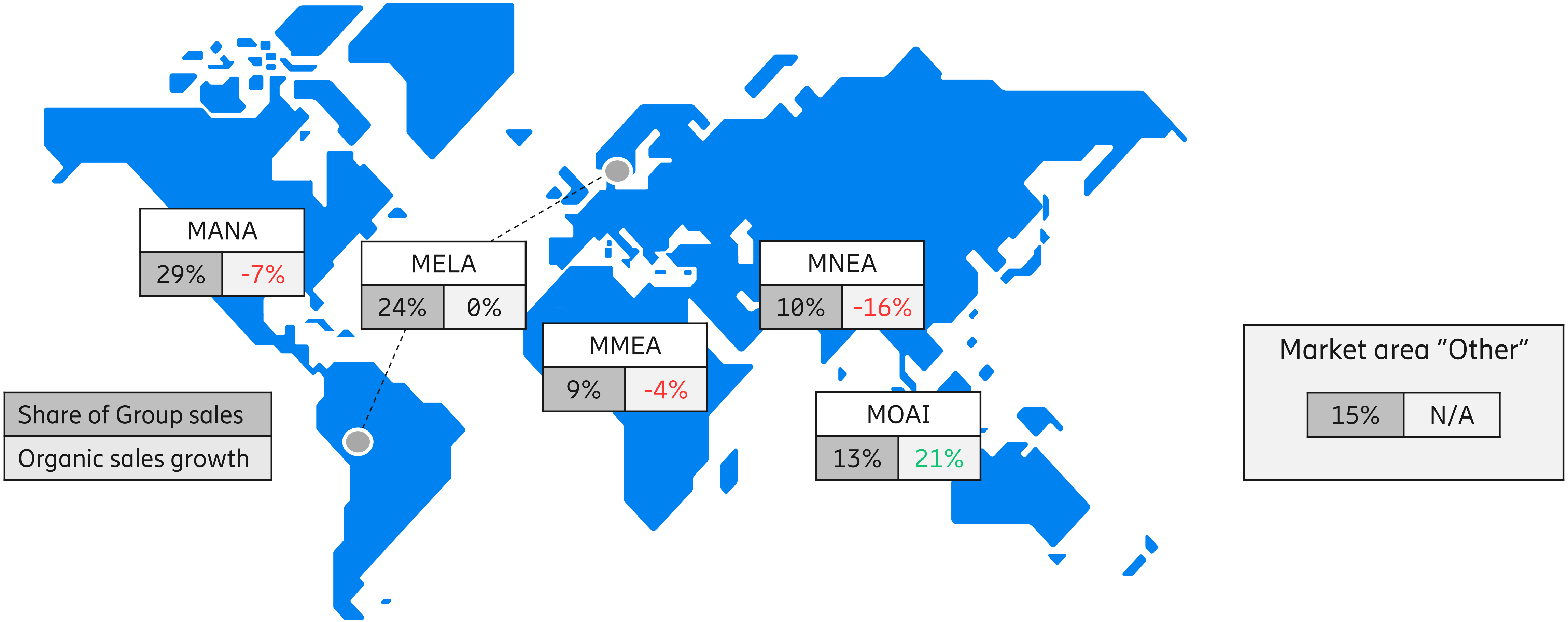
Market update Q4 – Market share gains in India



Financial overview

Carl Mellander
Chief Financial Officer

Q4 2022 in numbers

Financial Performance
Excluding restructuring charges

SEK b.	22Q4	21Q4	YoY	22Q3
Net sales	86.0	71.3	21%	68.0
Organic and FX adj. sales			1%	
Gross Income	35.7	31.0	15%	28.2
Gross margin	*41.5%*	*43.5%*		*41.4%*
R&D expenses	-13.2	-11.7		-11.9
SG&A expenses	-11.7	-7.5		-9.4
Other op. income & expenses	-2.8	0.4		0.2
EBITA	9.3	12.8	-27%	7.7
EBITA margin	*10.8%*	*17.9%*		*11.3%*
EBIT	8.1	12.3	-34%	7.2
EBIT margin	*9.4%*	*17.3%*		*10.6%*
Net income[1]	6.2	10.1	-39%	5.4
Free cash flow b. M&A	16.9	13.5	25%	2.5

- Organic and FX adjusted: 1% YoY
  - IPR contributed with 5 percentage points
- Gross income[2] increased by SEK 4.6 b. YoY to SEK 35.7 b.
  - Improvements in all segments
- Gross margin[2] decreased by 200 bps YoY to 41.5%
- Opex[2] increased YoY by SEK -5.7 b. (FX: SEK -1.3 b.)
  - Investments in R&D – Networks and Enterprise
  - Vonage SEK -2.7 b.
- Other operating income and expenses: SEK -2.8 b.
  - DOJ and Monitor related provision; and IoT divestment
- EBITA[2]: SEK 9.3 (12.8) b. – announced charges of SEK -4 b. and increased expenses in Enterprise
- FCF b. M&A: SEK 16.9 (13.5) b. – lower inventory and strong cash collection incl IPR

[1]Including restructuring charges
[2]Excluding restructuring charges
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Segment summary

Excluding restructuring charges

Mobile Networks

Networks

SEK b.	22Q4	21Q4	YoY	22Q3
Net sales	58.6	51.1	15%	48.1
Gross Inc.	26.1	23.7		21.4
GM %	*44.6%*	*46.4%*		*44.4%*
EBITA	12.6	12.1	5%	9.7
EBITA %	*21.5%*	*23.6%*		*20.0%*
EBIT	12.5	12.0	4%	9.6
EBIT %	*21.4%*	*23.6%*		*20.0%*

- Organic growth: 1% (IPR contributed with 6 pp)
  - Double-digit growth in South East Asia, Oceania and India offset by decline in other market areas
- Gross margin declined by 180 bps YoY
  - Business mix shift following market share gains in several geographies
  - Higher IPR in sales mix – new agreement
- EBIT margin declined – increased R&D

Cloud Software and Services

SEK b.	22Q4	21Q4	YoY	22Q3
Net sales	20.2	18.0	13%	14.2
Gross Inc.	6.7	6.5		4.6
GM %	*33.0%*	*36.1%*		*32.1%*
EBITA	0.7	1.0	-30%	-0.7
EBITA %	*3.5%*	*5.7%*		*-5.0%*
EBIT	0.7	0.7	-8%	-0.7
EBIT %	*3.4%*	*4.2%*		*-5.2%*

- Organic growth: 2% (IPR contributed with 4)
  - Growth in North America; decline in all other market areas
- Gross margin declined by 310 bps YoY
  - Impacted by one-off charge for exiting subscale agreements and product offerings
  - Less favorable business mix
  - Higher IPR in sales mix – new agreement
- Stable EBIT - One-off charges impacting SEK -0.8 b.

Enterprise

Enterprise

SEK b.	22Q4	21Q4	YoY	22Q3
Net sales	6.6	1.8	265%	5.2
Gross Inc.	2.9	0.8		2.4
GM %	*43.9%*	*46.5%*		*46.5%*
EBITA	-1.7	-0.6		-1.2
EBITA %	*-26.4%*	*-33.7%*		*-23.7%*
EBIT	-2.8	-0.7		-1.7
EBIT %	*-42.5%*	*-41.2%*		*-32.4%*

- Organic growth: +15% – Organic sales grew in all business areas
- Vonage added SEK 4.1 b. to reported sales in Q4
- Gross margin declined by 260 bps YoY
  - Vonage with dilutive effect on the segment
  - Enterprise Wireless Solutions increase GM YoY
- EBITA impacted by one-off costs for divestment of IoT and investments in Enterprise Wireless Solutions

FY 2022 in numbers

Financial Performance

Excluding restructuring charges

SEK b.	2021	2022	Target long term
Net sales	232.3	271.5	
Gross margin	43.5%	41.8%	
R&D and SG&A	-68.8	-82.8	
EBITA	33.8	29.5	
EBITA margin	*14.6%*	*10.9%*	*15-18%*
EBIT	32.3	27.4	
EBIT margin	*13.9%*	*10.1%*	
Financial net	-2.5	-2.4	
Taxes	-6.3	-5.5	
Net income[1]	23.0	19.1	
FCF b. M&A	32.1	22.2	
FCF b. M&A / Sales	*13.8%*	*8.2%*	*9-12%*

- Organic and FX adjusted sales: 3% YoY
- Gross margin 41.8% (43.5%)[2]
  - Networks: Increased component cost and inflationary pressure
  - Cloud Software and Services: 5G Core deployment costs
  - Partly offset by retroactive IPR licensing revenues
- R&D increased driven by Networks and Enterprise
- SG&A[2] increased by SEK -8.7 b. YoY – mainly related to consolidation of Vonage (SEK -4.3 b.)
- EBITA impacted by one-off costs of SEK -5.5 b.
- EPS[1] diluted decreased by 17% YoY to SEK 5.62

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[2]Excluding restructuring charges
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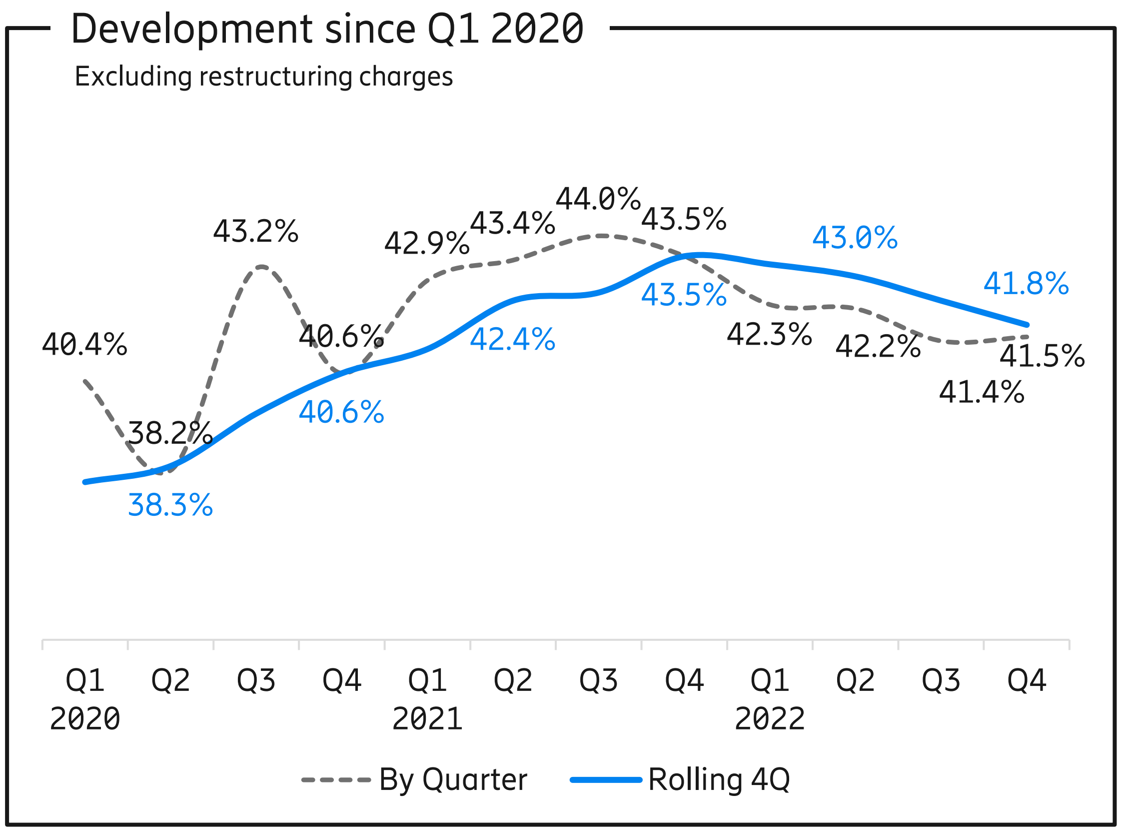
Gross margin



- Gross margin[1] rolling 4Q: 41.8%
- Gross margin[1] 41.5% (43.5%)
  - Positive impact from new IPR agreement
  - Networks: Business mix shift and higher share of services
  - Cloud Software and Services: 5G Core deployment costs
  - Enterprise declined mainly due Vonage
- Gross income[1] increased by SEK 4.6 b. to SEK 35.7 b. with increases in all segments

[1]Excluding restructuring charges

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Free cash flow and financial position

Financial Performance

SEK b.	Q4		FY	
	2022	2021	2022	2021
EBIT excluding restructuring charges	**8.1**	**12.3**	**27.4**	**32.3**
Depreciation, amortization & impairment losses	3.5	2.6	10.5	9.0
Restructuring charges	-0.2	-0.5	-0.4	-0.5
Changes in working capital[1]	10.7	2.7	0.6	4.0
Interest paid & received, taxes paid and other	-2.2	-1.9	-7.3	-5.7
Cash flow from operating activities	**19.9**	**15.2**	**30.9**	**39.1**
Capex net and other investing activities	-2.3	-1.1	-6.1	-4.6
Repayment of lease liabilities	-0.8	-0.6	-2.6	-2.4
Free cash flow before M&A	**16.9**	**13.5**	**22.2**	**32.1**
Net cash end of period	*23.3*	*65.8*		
Gross cash end of period	*56.2*	*97.6*		

- Free cash flow before M&A of SEK 16.9 (13.5) b.
- Support from working capital SEK 10.7 (2.7) b.
  - Reduction in inventory, high cash collection including retroactive IPR payment
- Working capital days FY 2022: 69 (65) days
- Net cash increased by SEK 9.9 b. QoQ to SEK 23.3
  - Solid cash flow partly offset dividends (SEK -4.2 b.)
- Proposed dividend FY 2022 SEK 9.0 (8.3) b.

Free cash flow before M&A rolling four quarters: SEK 22.2 b. or 8.2% of net sales (long-term target 9–12%)

[1]Defined as Changes in operating net assets

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Outlook

Sales	Q4→Q1: Average seasonality last 3 years: -23% in Networks expected to be more pronounced in 2023, even when adjusting for the retroactive IPR licensing revenues in Q4. Cloud Software and Services is expected to have a normal seasonality of -35%, adjusted for the retroactive IPR licensing revenues in Q4
Gross margin	Expected to be in the range of 40-42% in Q1 for Segment Networks, based on business mix shifts
Operating expenses	Q4→Q1: Average seasonality last 3 years (2020–2022) excluding Vonage: Decrease of SEK +3.3 b.
Amortization	Amortization of intangible assets is expected to continue to be around SEK -0.9 b. per quarter for Ericsson group in 2023, out of which around SEK -0.8 b. related to segment Enterprise
EBITA	In Q1 we expect the EBITA[1] for the Group to be somewhat lower than EBITA[1] last year, with improvements during the year.

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Summary

- Confident in long-term outlook given 5G's potential
  - Well positioned to extend leadership in Networks with further market share gains
  - Expansion into Enterprise will gain speed across Enterprise Wireless and Global Communication Platform
- Prepared for near-term uncertainty
  - Expect reduction in customer inventory levels and lower capex to impact sales during H1
  - Benefits of the SEK 9 b. cost saving initiative to be realized from Q2 2023


Ultra-lightweight antenna-integrated radio AIR 3268

On track to deliver on our long-term EBITA[1] target of 15-18% by 2024

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Q&A

Closing remarks

Börje Ekholm
President and CEO

Forward-looking statements

This presentation includes forward-looking statements, including statements reflecting management's current views relating to the growth of the market, future market conditions, future events, financial condition, and expected operational and financial performance, including, in particular the following:

- 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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