

Ericsson

SHB Nordic Innovation Leaders Seminar 2020
September 15, 2020

Excerpt from Q220 report, Investor Update, Oct 2019
and Ericsson on 5G – A business and portfolio
snapshot, Feb 2020



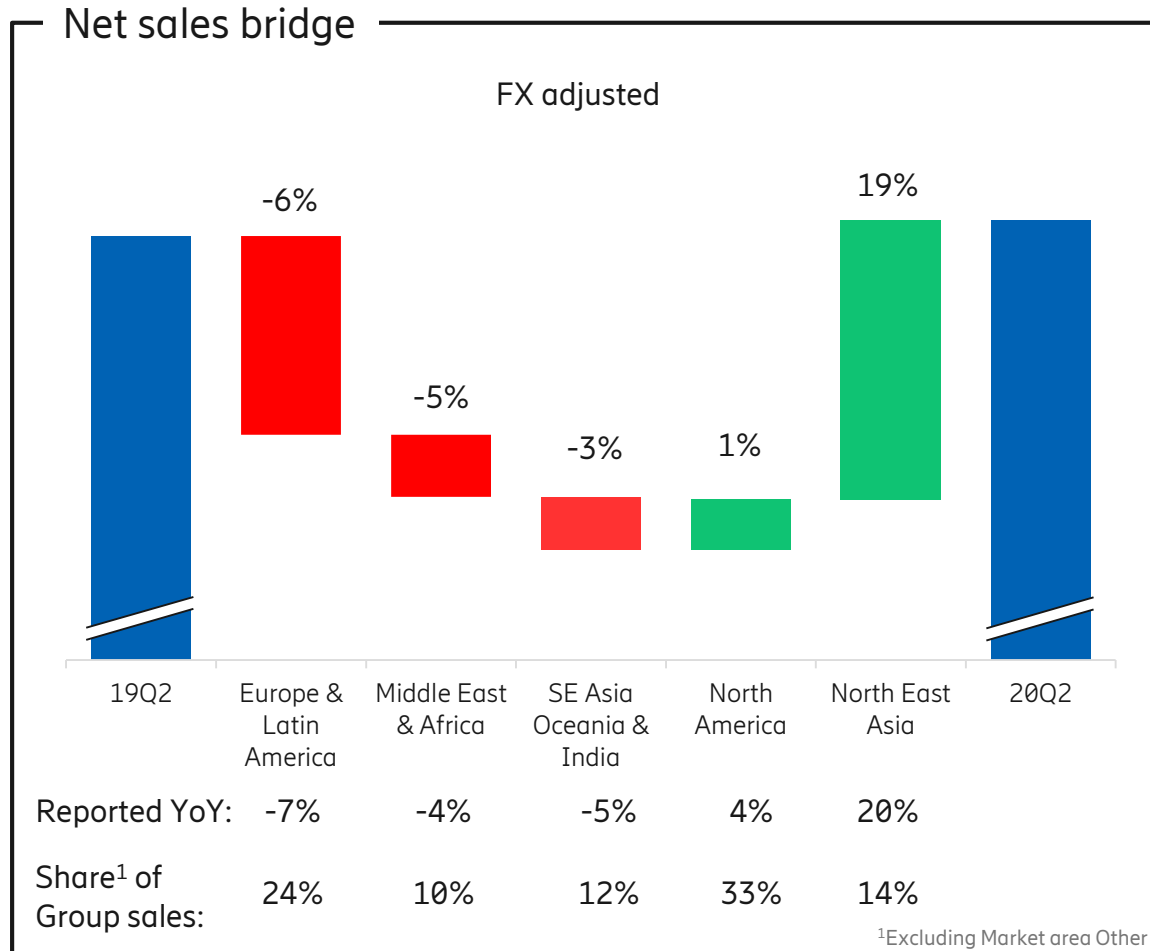
Q2 Key takeaways

- 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

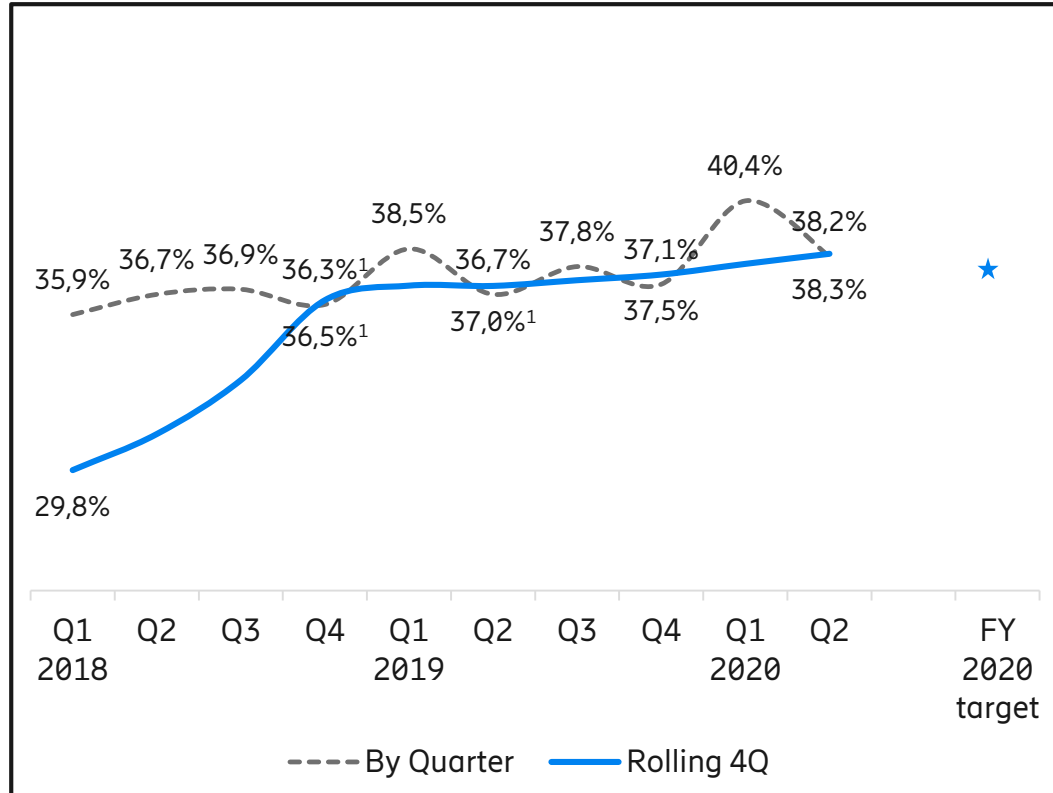
SEK b.	20Q2	19Q2	YoY	20Q1
Sales	1.6	1.7	-4%	1.6
Organic			-6%	
Gross margin	25.3%	19.2%		21.9%
Op. income	-0.6	-0.7		-0.5
Op. margin	-39.6%	-42.8%		-32.7%



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

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

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

5G and the market



Covid-19



- In June, travel and event restrictions were prolonged until the end of the year and most employees will be working from home until year-end
- Overall, a limited impact on the business has been seen during H1 2020
- Sales in India and Latin America declined, partly due to Covid-19 and macroeconomic instability
- Services sales in Digital Services declined partly due to Covid-19
- While the effects of Covid-19 create uncertainties, with current visibility Ericsson sees no reason to adjust 2020 and 2022 full-year targets for the Group

Health and safety of our employees, customers and other stakeholders key priority

North America and China



North America

- Spectrum auctions CBRS in July and C-band in December 2020
- So far deployment of 5G has mainly been on millimeter waves – mid band will step up 5G deployment
- Investments from the merged entity: USD 5 b. over 3 years
- Dell'Oro expect +4% in FY 2020 and -2% in 2021

China

- Strengthened market share by winning 5G contracts with all three major operators
- Inventory write-down related to Mainland China (SEK -0.9 b., which equals to -1.6 percentage points) in Q2
- Negative contribution to gross margin in Q2
- Expected to contribute positively to gross and operating income from the H2 2020 and in line with the business plan be profitable over time

5G grows faster than initially anticipated



5G still in early stages

5G Momentum

—Faster than originally anticipated

5G Forecasts

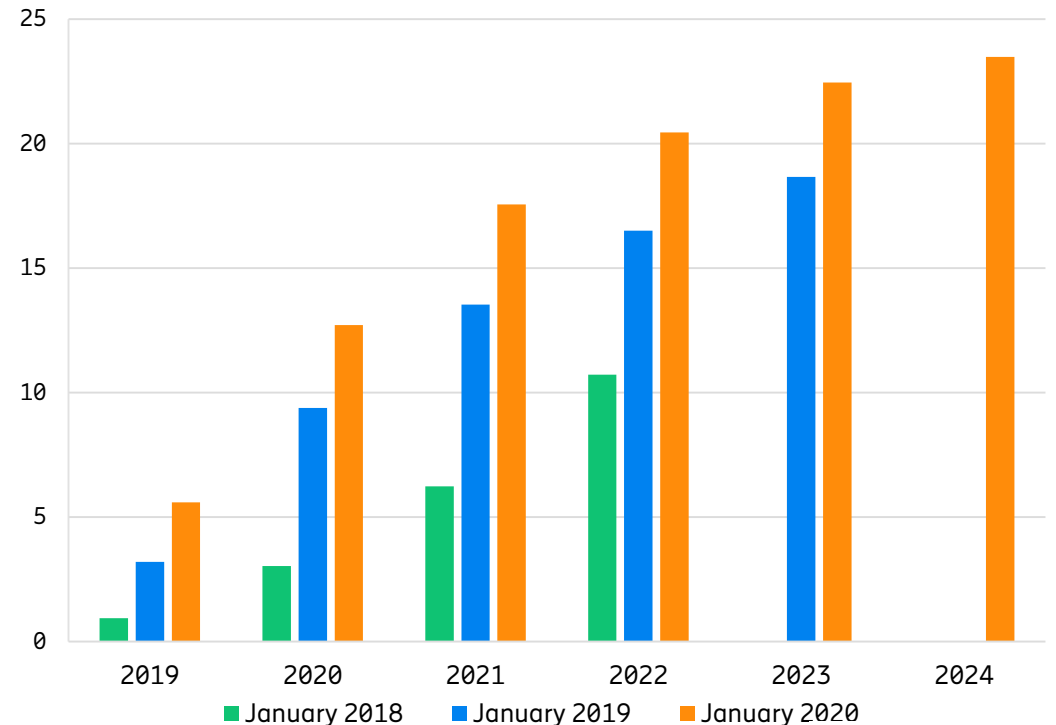
- 55-65%¹ world population coverage by 2025
- ~1/3¹ of all mobile subscriptions by 2025

5G Use Cases

- Digitalizing the Enterprise to enable new revenue pools for operators in consumer and business segments
- Extended investment phases to cover additional needs in IoT and Industry 4.0

Dell'Oro 5G market estimates

Estimated 5G RAN revenues
[USD b.]



Source: Dell'Oro

¹ Source: Ericsson Mobility Report

This slide contains forward-looking statements. Actual result may be materially different. See the last page in this presentation for further information about forward-looking statements

RAN market share development



Market update

North America – #1

- Grew with all major operators in 2019

Europe – first with 5G

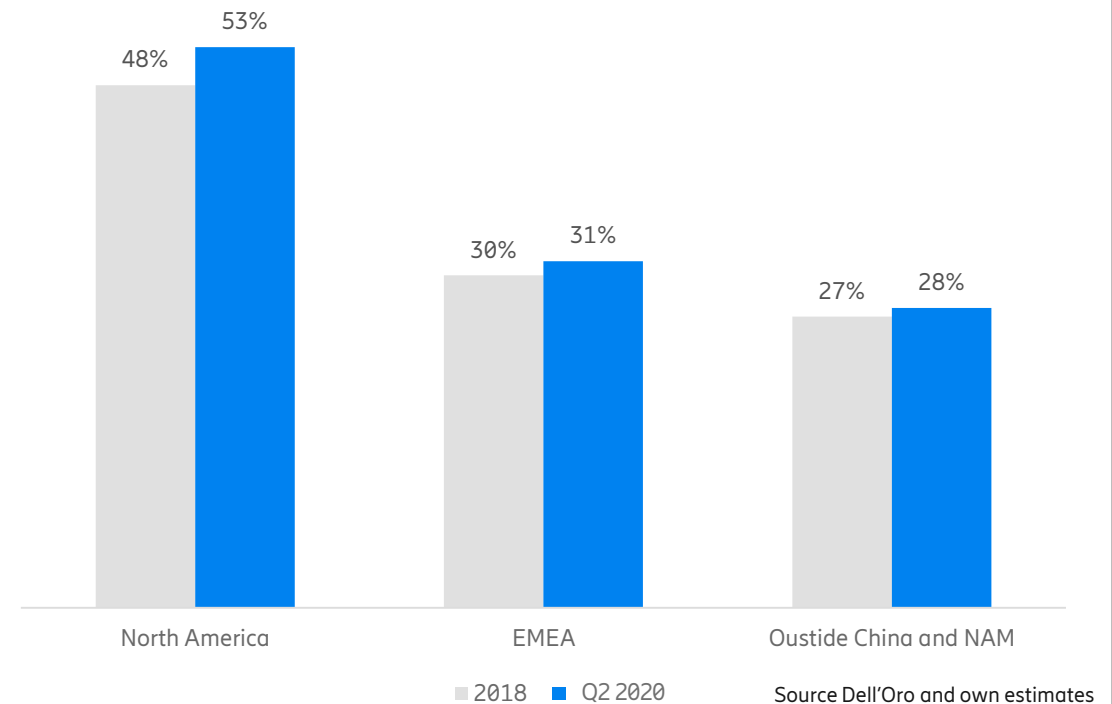
- 5G live with Vodafone in London
- 5G with Telia and Telenor in Norway
- Swisscom first with 5G commercial network

MEA – Strong 5G momentum

- 5G with STC in Saudi Arabia
- 5G with MTN in South Africa
- 5G with Etisalat in UAE

Market share outside China and North America increased to 28% in Q2 2020 from 27% in 2018

Ericsson RAN market shares



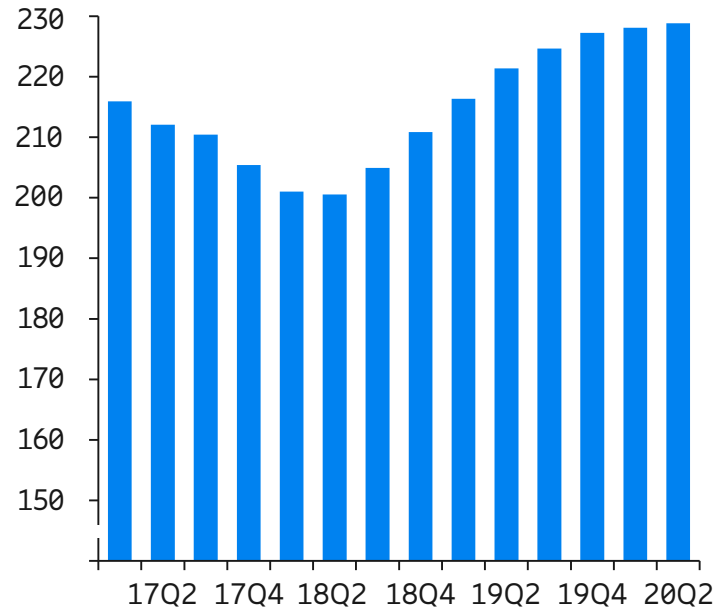
100 commercial 5G agreements and 54 live networks

Robust financial performance since 2017



Net sales

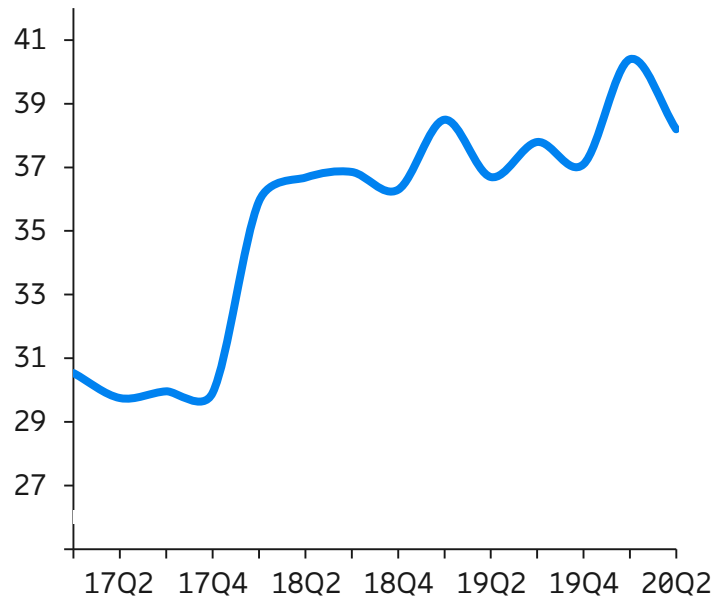
(SEK b. – Rolling 4Q)



Strong sales momentum

Underlying gross margin¹

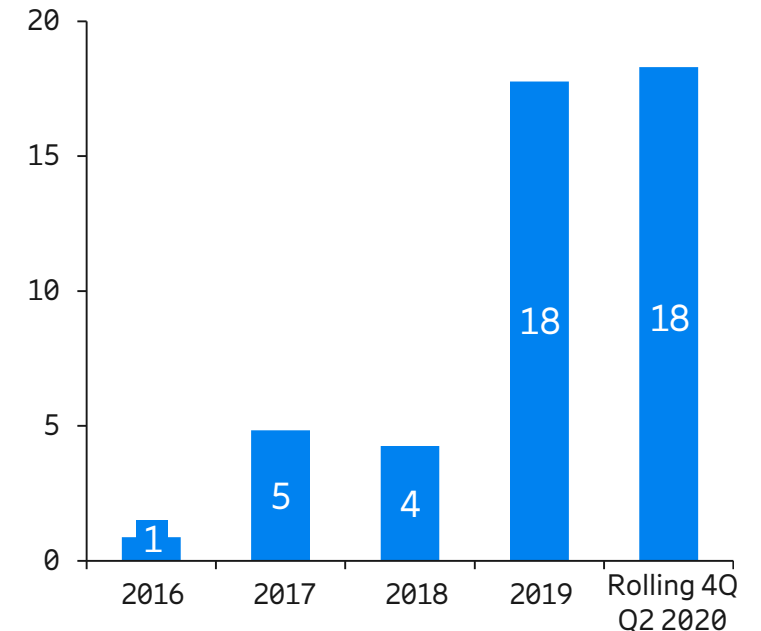
(% – quarterly)



R&D investments drive gross margin

Free cash flow before M&A²

(SEK b. – FY)



Solid working capital improvement

Financial ambition and target 2020

SEK 230 – 240 b.

37-39 %¹
Op. margin >10 %¹

Strong

¹ Excluding restructuring charges and costs for revised BSS strategy in 2018 Q4. 2017 excludes extraordinary items and is not restated for IFRS 15.

² Free cash flow before M&A excludes 10.1b cash outflow due to SEC/DOJ fine

Target 2020 and 2022



SEK b.	2020	2022
Sales	230-240	
Gross margin ¹	37-39%	
R&D	Continued investments but growing slower than sales	
SG&A	Structural improvements	
Operating margin ¹	>10%	12-14%
Free Cash Flow (before M&A)	Strong	Strong

2020 operating margin ¹ target ranges	
Networks	15% to 17%
Digital Services	Low single digit ² <small>²A delay of some quarters in reaching the 2020 target of low single-digit margin.</small>
Managed Services	5% to 8%
Emerging Business and Other	SEK -1.5 to -2.0 b.
▼	
Sum of the parts	10% to 13%

Underlying assumptions	<ul style="list-style-type: none"> — USD to SEK 9.50 (8.70 at CMD 2018) — Managed Services addressable market: 2-4% CAGR 2018 – 2022 (Source: External sources & Ericsson analysis) — Network: RAN equipment 2% CAGR 2018-2023 (Source: Dell’Oro) — Digital Services 1-4% CAGR 2018-2022 (Source: External sources and Ericsson analysis)
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¹Numbers exclude restructuring charges.

This slide contains forward-looking statements. Actual result may be materially different.





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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
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