

Ericsson
Third quarter 2020

Oct 21, 2020

Peter Nyquist

Vice President Investor Relations

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Börje Ekholm

President and CEO

Highlights

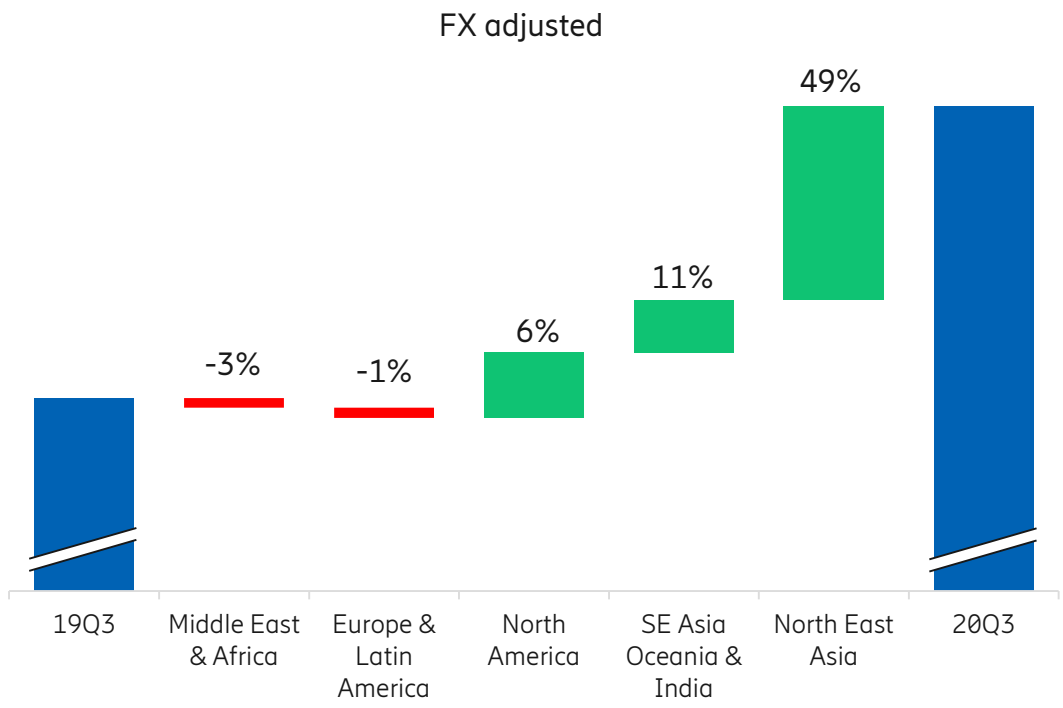
- Ericsson technology leader with 112 commercial 5G agreements and 65 live networks
- Organic sales up 7% - GM: 43.2%[1] and OM 15.6%[1]
- China: 5G contracts on plan with positive margins
- Market share gain in Networks and Core
- Rolling 4Q Free cash flow before M&A: SEK 17.7 b.[2]
- Cradlepoint acquisition expected to close in coming weeks
- The YTD results strengthen the confidence in delivering on the Group targets for 2020


AIR 5331 and MINI LINK 6363

[1]Excluding restructuring charges
[2]Rolling 4Q Free cash flow before M&A adjusted for SEC and DOJ payments of SEK 10.1 b. in Q4 2019.

Q320: Market Area sales

Net sales bridge



	Middle East & Africa	Europe & Latin America	North America	SE Asia Oceania & India	North East Asia
Reported YoY:	-9%	-7%	-3%	5%	39%
Share[1] of Group sales:	10%	23%	32%	14%	15%

[1]Excluding Market area Other

— Middle East & Africa
- Africa: Macroeconomic uncertainty and delayed investments
- 5G deployments continuing in Middle East

— Europe & Latin America
- Europe: Market share gains
- Latin America: Macroeconomic uncertainty

— North America
- Strong momentum continues
- Digital Services: Lower legacy sales volumes
- Managed Services: Reduced variable sales

— South East Asia, Oceania & India
- Digital Services: Increased sales from project milestones
- Managed Services: New contract

— North East Asia
- Strong growth – primarily 5G in Mainland China

Ericsson equipment (radio and core) in 65 live 5G networks

Segment summary

Excluding restructuring charges and items affecting comparability

Networks

SEK b.	20Q3	19Q3	YoY	20Q2
Sales	41.7	39.3	6%	39.8
Organic			13%	
Gross margin	46.7%	41.6%		40.5%
Op. income	9.4	7.2	31%	5.6
Op. margin	22.7%	18.4%		14.1%



- Organic growth of 13% YoY
- Operating margin 22.7% (excluding restructuring charges)
- Large share of software sales contributed to the higher margins

Digital Services

SEK b.	20Q3	19Q3	YoY	20Q2
Sales	8.7	9.9	-12%	8.6
Organic			-5%	
Gross margin	43.5%	38.3%		43.6%
Op. income	-0.5	-0.5		-0.7
Op. margin	-5.8%	-5.4%		-8.5%



- Sales grow 5% in the growth portfolio QoQ and 12 months rolling
- Lower sales in the legacy portfolio
- Gross margin improved YoY - higher share of software, in line with strategy

Managed Services

SEK b.	20Q3	19Q3	YoY	20Q2
Sales	5.5	6.4	-14%	5.6
Organic			-9%	
Gross margin	20.1%	17.9%		17.2%
Op. income	0.5	0.6	-11%	0.3
Op. margin	9.1%	8.9%		4.8%



- Decline due to reduced variable sales in North America
- Gross margin increased on efficiency gains YoY
- R&D investments, supporting 5G and automation

Emerging Business & Other

SEK b.	20Q3	19Q3	YoY	20Q2
Sales	1.6	1.6	-3%	1.6
Organic			2%	
Gross margin	30.5%	20.5%		25.3%
Op. income	-0.5	-0.8		-0.6
Op. margin	-29.2%	-46.6%		-39.6%



- Sales and margin growth continued
- iconectiv delivered stable sales and solid profitability
- Agreement to acquire Cradlepoint

Carl Mellander

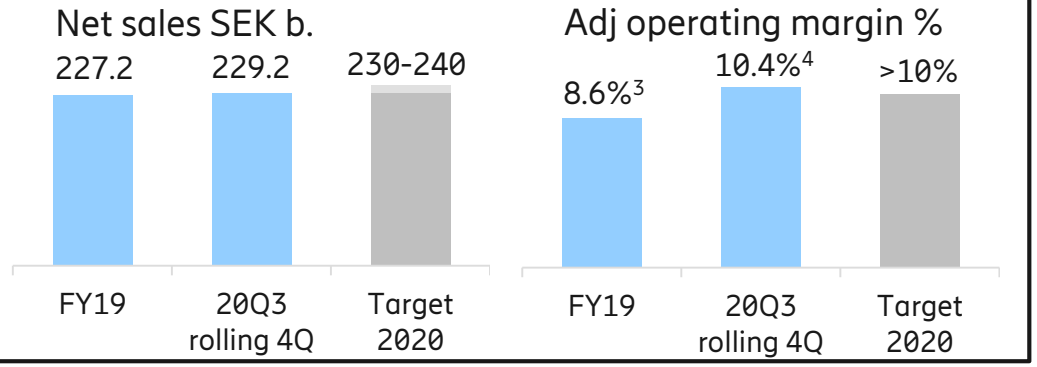
Chief Financial Officer

Q3 2020 in numbers

Financial performance

Excluding restructuring charges

SEK b.	20Q3	19Q3	YoY	20Q2
Net sales	57.5	57.1	1%	55.6
Organic and FX adj. growth			7%	
Gross margin	43.2%	37.8%		38.2%
R&D and SG&A expenses	-15.8	-15.2[1]		-16.7
Operating income	9.0	6.5[2]	38%	4.5
Operating margin	15.6%	11.4%		8.2%
Net income - reported	5.6	-6.9		2.6
Free cash flow b. M&A	3.9	4.5	-12%	3.2



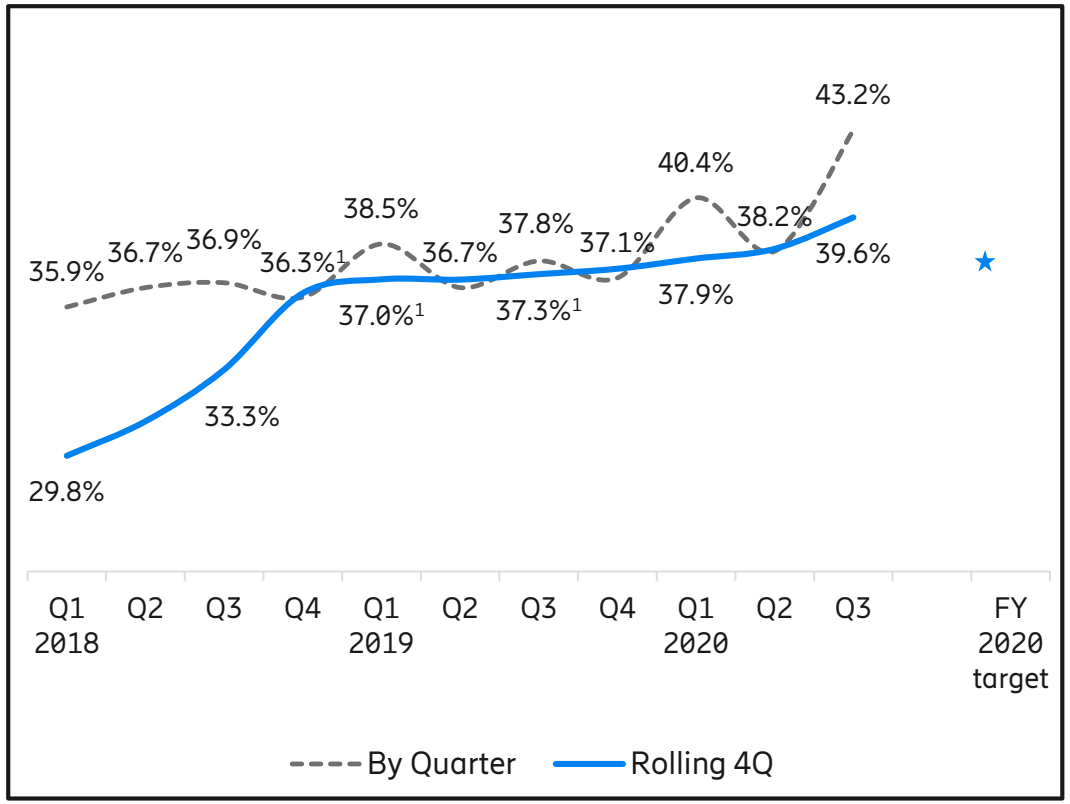
- Organic and FX adjusted sales: 7% YoY
  - Networks: 13% YoY
- Gross margin 43.2% (37.8%)
  - Improved YoY – mainly Networks and Digital Services (increased software sales)
  - QoQ – primarily driven by Networks
- Operating income 9.0 (6.5) b.
  - YoY – driven by Networks OM 22.7%
  - Improved in all segments QoQ, Networks as the main contributor
- Free cash flow 3.9 (4.5) b.
  - Capital injection of SEK -2.0 b. into Swedish Pension Trust
- Items affecting comparability in Q3 2019
  - SEC and DOJ cost provision (SEK -11.5 b.) and refund of social security costs (SEK 0.9 b.)
- Rolling 4Q adj. operating margin in line with full-year target

[1]Adjusted for refund social costs of (SEK 0.9 b.) in Q319.
[2]Q3 2019 excludes cost provisions (SEK -11.5 b.) related to SEC and DOJ and a refund of social security costs (SEK 0.9 b.).
[3]Excludes restructuring charges, FY 2019 excludes MediaKind (SEK 0.7 b.), Red Bee Media (SEK 0.1 b.), reversal of provision for impairment of trade receivables (SEK 0.7 b.), cost related to SEC and DOJ settlements (SEK -10.7 b.) and a refund of social security costs (SEK 0.9 b.).
[4]Excludes restructuring charges and the partial release of the SEC and DOJ provision of (SEK 0.7 b.) in Q4 2019.

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See the last page in this presentation for further information about forward-looking statements

Gross margin

Excluding restructuring charges



[1]excluding costs for revised BSS strategy

- Rolling 4Q gross margin 39.6%
- Q3 gross margin 43.2% (37.8%)
  - Improvements in all segments
  - Increased software sales contributed to the higher margin in Networks and Digital Services
- Gross margin improved to 43.2% from 38.2% QoQ
  - Networks – as a result of the business mix and higher software sales
  - IPR revenues declined

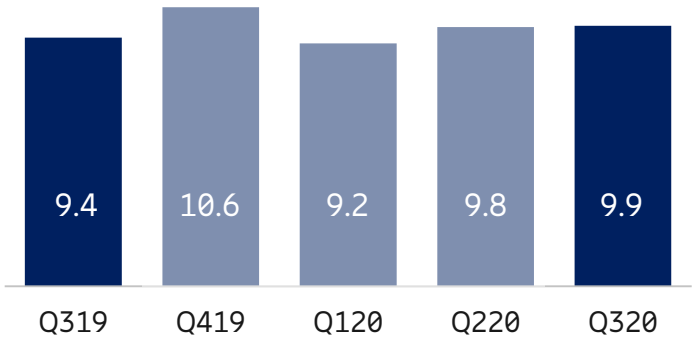
R&D investments drive gross margin improvement – rolling 4 quarters improved for 10 consecutive quarters

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R&D and SG&A expenses YoY

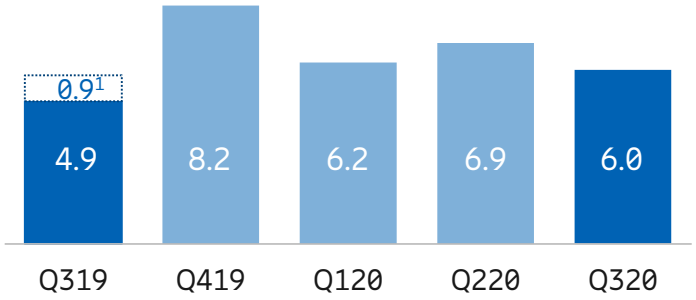
Excluding restructuring charges

R&D SEK b.



— R&D expenses SEK 9.9 (9.4) b.
- Networks – increased in line with strategy
- Digital Services – savings in legacy portfolio reinvested in growth portfolio
- Managed Services – further investments in automation, analytics and AI

SG&A SEK b.



— SG&A expenses SEK 6.0 (4.9) b.
- Increased investments in digitalization and compliance
- Social security refund of SEK +0.9 b. in Q3 2019
- Customer financing provisions of SEK 0.0 (-0.1) b.

[1]Refund social costs of SEK 0.9 b. in Q319

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Free cash flow and financial position

Financial Performance

SEK b.	Q3		YTD	
	2020	2019	2020	2019
Net income adjusted for non-cash items	9.7	-4.3	20.0	6.1
Changes in Net operating assets & liabilities	-4.4	11.3	-5.0	10.3
Cash flow from operating activities	**5.3**	**7.0**	**15.0**	**16.4**
Capex (net) including product development	-1.1	-1.4	-3.9	-4.3
Other investing activities & lease liabilities	-0.3	-1.1	-1.6	-2.5
Free cash flow before M&A	**3.9**	**4.5**	**9.5**	**9.5**
M&A	-0.1	-0.5	-0.3	-0.2
Free cash flow	**3.8**	**4.0**	**9.1**	**9.4**
Net cash end of period	*41.5*	*37.4*		
Gross cash end of period	*78.2*	*76.2*		

- Free cash flow before M&A of SEK 3.9 (4.5) b.
  - Improved by SEK 1.9 b. YoY when adjusting for a capital injection into the Swedish Pension Trust and last year's social security refund
- Net operating assets & liabilities SEK -4.4 b.
  - Building supply chain resilience
- Gross cash increased to SEK 78.2 (76.2) b.
- Net cash grew to SEK 41.5 (37.4) b.
- Free cash flow before M&A of SEK 17.7 b. rolling four quarters[1]

Positive Free cash flow before M&A for 9 consecutive quarters[1] – adding resilience and flexibility

[1]Excluding costs for SEC and DOJ settlement of SEK 10.1 b.
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Planning assumptions highlights

Please see the Q3 report for complete planning assumptions

Market related

- Global RAN equipment market estimated to grow 8% (previously 4% growth) FY 2020 with China up by 33% and global market excluding China flat. Global RAN equipment market 0% CAGR for 2019-2024 (Dell'Oro)
- Momentum in North America remains strong, market estimated to grow 4% in 2020 (Dell'Oro)

Ericsson related

- 2020 and 2022 full-year targets for the Group remain
- Digital Services: A risk of further delay in reaching the 2020 operating margin target
- Normal sales seasonality Q3→Q4: +17%
- Software share of sales in segment Networks is expected to be lower in Q4 2020 after a favorable Q3 2020. Historically the share of services sales typically increases in Q4 compared to Q3.
- Operating expenses increase Q3→ Q4 due to seasonality. Last three years: SEK +3 b., with large variations.
- Currency exposure: Rule of thumb USD/SEK 10% weaker → ~ -5% sales and ~ -1pp OM.
- Cradlepoint: Expected to close in coming weeks. Around USD 1 b. subject to customary adjustments to be paid using cash-at-hand. Operating margin to be negatively impacted by ~ 1% in 2021 and 2022 – with some impact in Q4 starting at close.

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Börje Ekholm

President and CEO

Closing remarks

- Technology leadership – driving market share
- The leader in 5G – 65 live networks 112 agreements
- Performance enabling strategic growth investments
- Cradlepoint signals progress in Enterprise Business
- Positive longer-term outlook
- Strengthened confidence delivering FY 2020 financial targets



Baseband Hotel in utility closet

Q&A

Capital Markets Day
Online event, November 10



Update from Market Areas – A customer perspective
October 29 and 30, 2020

Capital Markets Day – Creating value through technology leadership
November 10, 2020 at 3:00 – 7:00 PM CET

https://www.ericsson.com/en/investors/events-and-presentations/cmd2020



Forward-looking statements

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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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