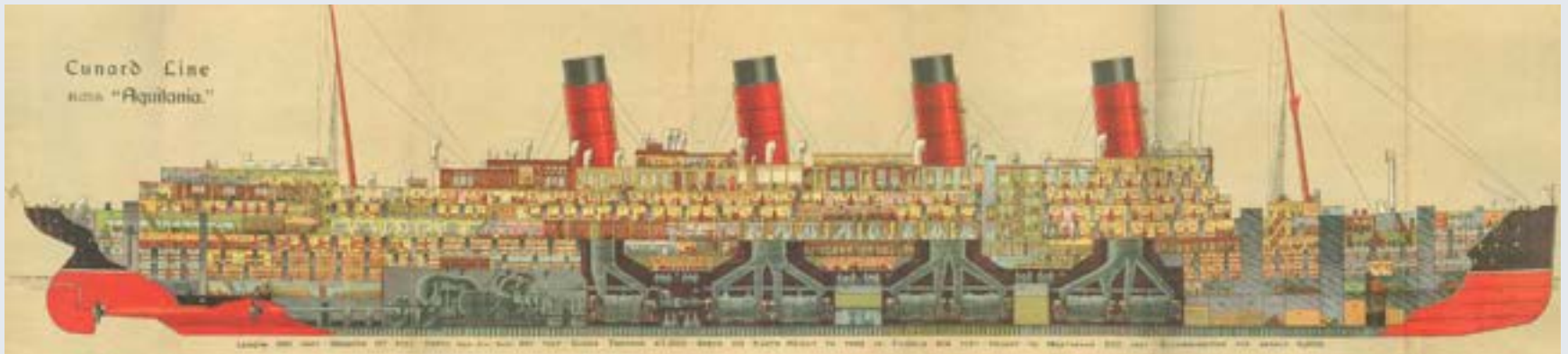


LM Ericsson (ERIC)

CHRISTOPHER KARLIN, CFA
AQUITANIA CAPITAL MANAGEMENT, LLC



VALUExVail

September 9-11, 2021

Disclaimer

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Aquitania Capital Management

- Long-Biased, global investor across the capital structure
- Blended Quality and Opportunistic Value manager
- Compounders:
 - Identifying companies with the potential to compound capital at exceptional rates over long periods of time.
- Opportunistic:
 - Asymmetric reward-to-risk situations with high conviction in a variant thesis through intensive independent research
 - Securities that are either being **accidentally overlooked or actively avoided** by most investors

Evolution of a Value Investor

- Market opportunities are consistently arbitrated away by new capital and talent
- Continuously searching for pockets of inefficiencies to exploit
- From cigar butts to See's

Evolution of a Value Investor

- Event-Driven origin
 - Focus on edge/understanding counter-thesis/thinking in probabilities
- Balance sheet events
 - Spinoffs, recapitalizations, distressed, litigation
 - Complex situations where research should generate a significant edge
- Industry structure research
 - Time arbitrage
- New markets
 - Global, emerging

From Cigar Butts to See's

- Cigar butt investing absent market distress is challenging
 - Few opportunities matched with lots of capital and talent prices away opportunity
- When you get it right, it's rewarding
 - But holding periods are shorter, so you must find another
- When you get it wrong, it's a mess
 - More decisions doesn't necessarily mean better ones
 - Contrarian or wrong?
 - Cigar butt or cake in the rain?

VALUExVail 2013

- Chimera Investment (CIM)
- RMBS mortgage REIT
- Highly opportunistic, research-driven idea
- Perceived risks were significantly higher than probable actual risk
- Chimera was essentially a time machine, allowing an investor in 2013 to go long US residential housing...at 2009-2011 prices!



VALUExVail 2014

- Forest Oil/Sabine – valuation arbitrage
- A lousy public E&P and a PE-backed E&P seeking an exit were somehow going to be better if combined
- Lots of deal-related issues to focus on...and miss the big picture
- Macro quickly deteriorated as the Saudis torched oil prices to derail the US-Iran deal
- Deal ultimately closed, but combined co didn't survive

Reckoning

- Many things had to go right, and most were outside management's control
- Meanwhile, AMZN, FB, GOOGL, AAPL were reasonably priced compounders hiding in plain sight
- Identifying structurally advantaged businesses with a long runway of growth ahead is not easy
- Different set of risks, but several advantages

Evolution

- Extended long-term focus
 - From 2-3 years to 5-10 years
 - Emphasize quality of business/market opportunity
- Surprisingly makes the job more fun
 - Focus on identifying and holding a relatively small number of companies, hopefully for a very long time
- Very active trader during market dislocations, very inactive otherwise
 - Nicely tax-efficient
- Balance out higher growth/higher multiple positions with lower growth/lower multiple positions and add a few opportunistic investments as warranted

LM ERICSSON

De-risked Growth at a Value Price

LM Ericsson (ERIC) \$12.09

- Cellular Communications Equipment Leader
 - Oligopoly with Nokia and Huawei
- \$40b market capitalization, \$32b TEV
- Value Drivers
 - 5G product cycle should cover next decade
 - Enterprise needs (IoT) expands market
 - Growth largely de-risked through LT contracts
 - Preferred provider outside of China

What Does the Market See?

- Market focused on reduction in China share
 - Retaliation for Sweden banning Huawei
 - 8% revenues
- High pension liability \$5b
- Turnaround 2017-2019
- A strong story, but not a particularly sexy story

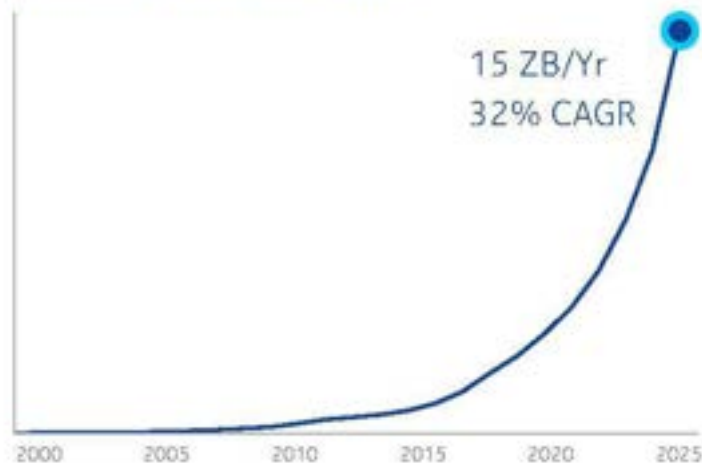
What Doesn't the Market See?

- Competition ex-China should be easier
- Barriers to entry are huge (\$5b R&D)
- 5G structure creates stronger network effects
- All inclusive EV is \$32b vs \$41b on FactSet
 - Pension liability is an illusion, using discount rate of 0.5%
 - \$4b investments
 - \$3b deferred tax asset
 - Cash \$6b vs Debt of \$5b (approx. 1x EBITDA)

We're Gonna Need a Bigger Boat

CSPs must maximize performance per total cost of ownership

Exponential traffic growth



Source: Bell Labs Consulting

Our technology can decrease cost per bit

Custom chips

Spectral optimization

Advanced software

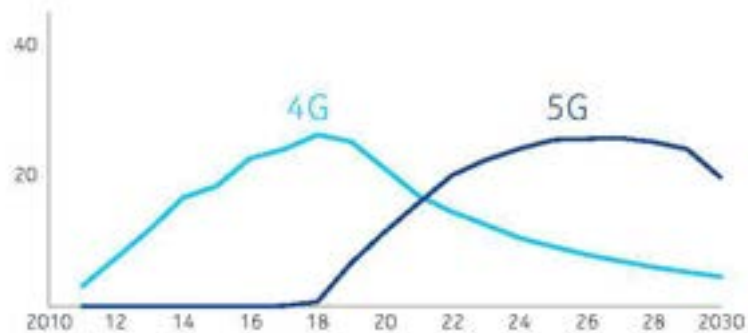
Architectural evolution

Cloud-native software

5G Cycle > 4G

Next generation access ushers in a 'gigabit world'

We are still early in the 5G cycle



Radio technology product and services market
in €bn excluding China

We lead in access technology

4G/5G network slicing

Digitalized 5G network deployments

CSP IP Routing

Fiber-to-the-home

10G technology (XGS-PON)

5G Opportunity

Consumer 5G demand is there and can be monetized



The better experience of 5G drives consumer demand

3-5

5G measured 3-5 times faster than 4G, ensuring a better experience

2-3

5G users consume 2-3 times more data – drives bucket upgrades

Source: Cisco VNI Report, Nov 2019

Consumers are willing to spend on improved service with 5G

30%

Initial 5G premium across CSP offerings, compared to closest 4G plan

+20%

Average consumer willing to pay up to 20% more for 5G

Source: Cisco VNI Report, Nov 2019

Take rate is predicted to be faster if supported by roll-out

1.5-2 years

1.5 - 2 years faster to reach 1 billion subs compared to 4G

>98%

Korean population coverage

Source: Cisco VNI Report, June 2019; DTI Assessment of 5G Deployment Status

5G Uptake

② Industry Trends

5G an enabler for growth



Fastest growing mobile generation

- 5G uptake significantly faster than LTE, 1.5-2 years ahead in adoption
- Key factors are China's faster launch vs. LTE, and availability of handsets

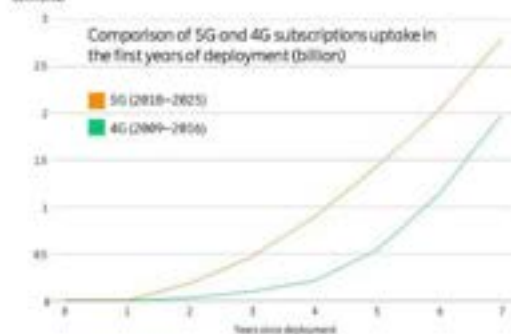
Mid-band densification

- Data traffic to grow 5x times until 2025
- Increased speed and bandwidth requirements will require significant mid-band densification

5G for industry

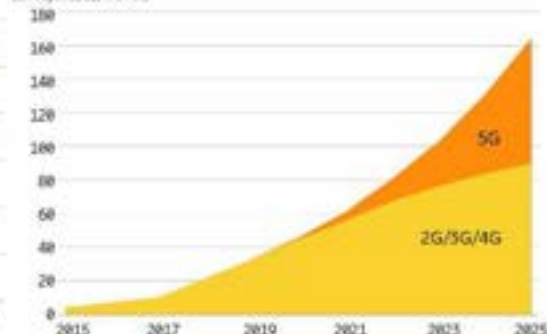
- Global digitalization opportunity for industries to grow 12% CAGR to 2030
- Cloud RAN is a simplified solution to target the industry build-out scenarios

Subscriptions (billions)



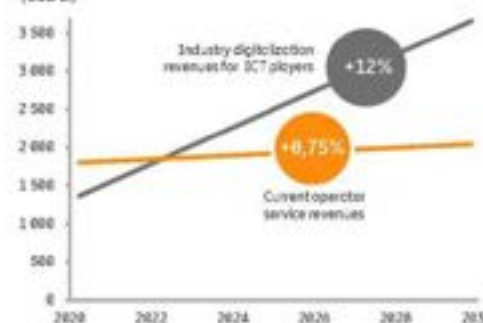
Source: Ericsson Mobility Report, June 2020

Global mobile data traffic (Exabyte (EB)/month)



Source: Ericsson Mobility Report, June 2020

(USD b)



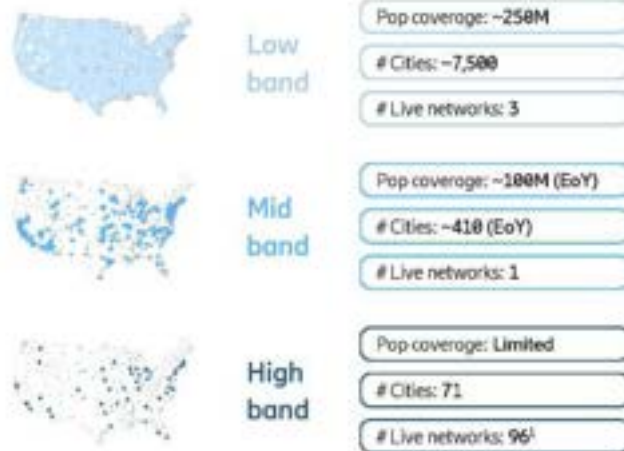
Source: Ericsson and ADL, May 2020

5G Buildout/Market Share

Accelerating the buildout of the 5G Innovation Platform

5G network platform is under construction across all three spectrum bands

Illustrative



Note: 1) Provider-city combinations
 Source: Ericsson, Dell'Oro 2020 Mobile RAN Share Report; Dell'Oro 2020 Mobile Core Report
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Ericsson has been instrumental in addressing 5G deployment challenges

Challenge	Ericsson value prop
Limited availability of mid band spectrum	 Dynamic spectrum sharing
Complex and time-consuming zoning & site permitting	 US 5G Smart Factory
Limited availability of tower technicians	 5 centers of excellence

Ericsson rewarded with market share gains

1 RAN provider

53%

Market share (2Q/20); +6% gain in last three years

1 Mobile core provider

36%

Market share (2Q/20); +17% gain in last three years

5G > 4G

A horizontal connectivity platform that scales IoT solutions across enterprise segments



 Clean air & water UN development goal	 Safer roads Telstra & Lexus	 Critical IoT Audi	 Connected cars Microsoft	 Smart meters E.ON	 Smart factory Hexagon	 Smart meters Telia	 Logistics T-Mobile
 IoT Platform Sprint	 Connected car services Borgward	 Diabetes tracker Brighter	 Smart farming IntraGrain	 Rural farming Stanley Black & Decker	 Asset tracking BeWhere	 Unified platform Bridge Alliance	 Water aas Grundfos

35 service providers world-wide

Telia, Telstra, KDDI, China Telecom, Orange, Sprint, Telenor, Singtel, Bell, SaskTel, China Mobile, Ooredoo, Swisscom...

IoT Global Connectivity Management

Onboard, activate and manage connectivity for IoT devices globally

Subscription based revenue share model aas

Enterprise Opportunity



The market opportunity

Global CSP 5G-enabled B2B opportunity¹

2030



North America CSP 5G-enabled B2B opportunity¹

2030



\$39b

CSP opportunity

16%²

cost reduction via remote patient monitoring & wearables

88%²

Providers researching, piloting, planning, or already remotely monitoring patients with IoT devices



\$35b

CSP opportunity

6%

margin increase with 5 core use cases

22%³

of CO2 emissions in the U.S. accounted for by industry



\$22b

CSP opportunity

\$200

saved per technician trip by installing smart meters

85%⁴

of renewable energy by 2050

Source: (1) Ericsson, Arthur D. Little, (2) A7&T, (3) EPA, (4) UN estimate

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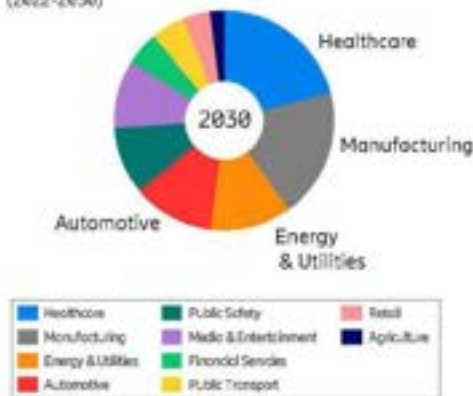
Enterprise Opportunity

Enterprise digitalization is an attractive opportunity



The enterprise opportunity in enterprise digitalization is sizable

>25% CAGR
(2022-2030)



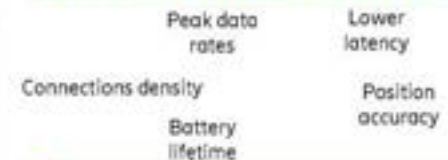
Global CSP 5G enabled B2B opportunity

Enterprise digitalization use cases requiring high performance mobile connectivity



5G and the mobile industry can address this opportunity

5G was designed to solve enterprise needs



The eco-system

Devices and chipsets

Equipment vendors

Reach and global scale based on the global CSP networks

5G to become the primary connectivity solution for enterprises

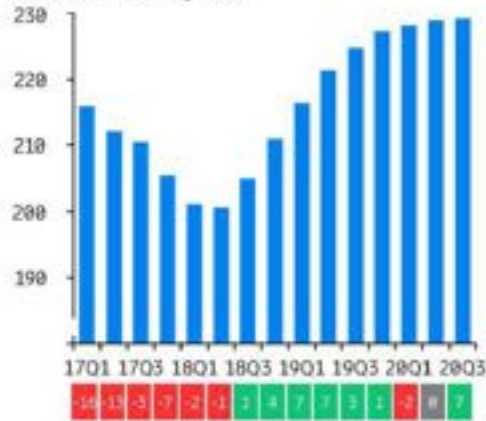
Turnaround 2017-2019



Ericsson turnaround journey since 2017

Net sales

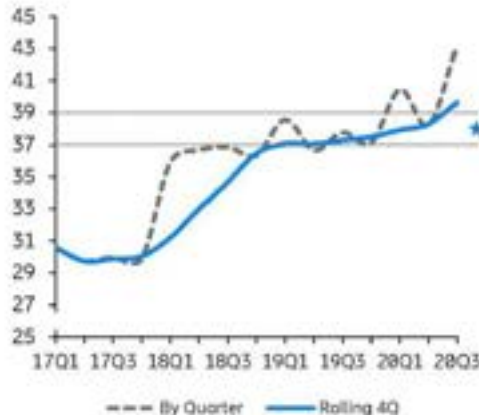
(SEK b. – Rolling 4Q)



YoY change in quarterly net sales adjusted to comparable units and currency (%)¹

Net sales turned to growth

Underlying gross margin²

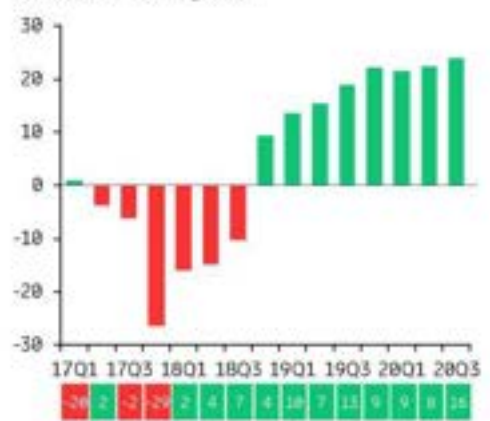


--- By Quarter — Rolling 4Q

Solid gross margin improvement

Operating income³

(SEK b. – Rolling 4Q)



Isolated quarter operating margin (%) (excluding restructuring charges)³

Strong profit improvement

Turnaround Complete

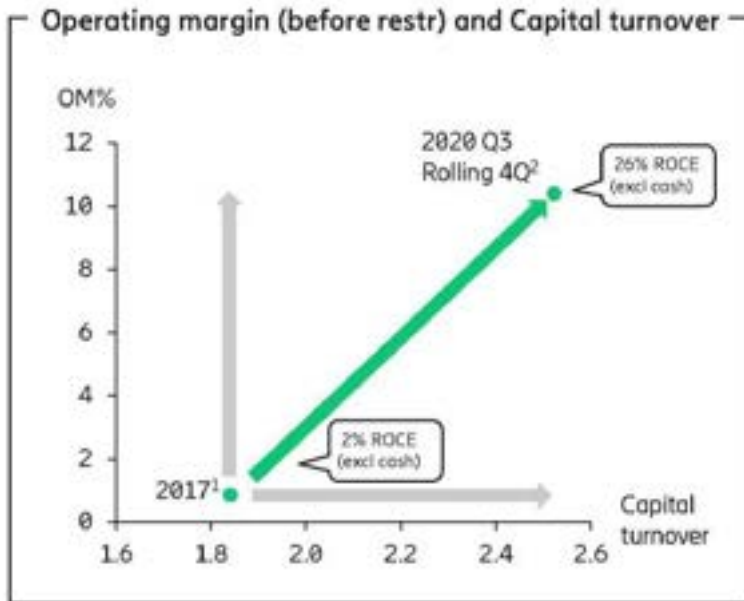
Our focused strategy has yielded results



1. Capital Market Days 2018
2. 2015-2019
3. Last 4 quarters Q4/16-Q1/20
4. Rolling 4 quarters 2017-Q3/2020
5. Currency adjusted sales growth comparing 2015-2017 with 2017-2019

ROCE

Return on capital improvements from profits and efficiency



Key insights

Strong portfolio and economies of scale

Shorter lead-time from order to cash

Decision making based on value creation principles

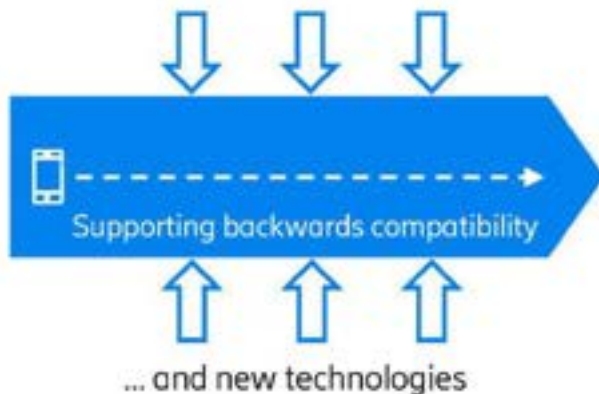
Improved margins and capital efficiency through aligning incentives with strategy

Set the Standards, Drive the Market

5G – Ericsson leadership in creating a platform for the future



Adding new use cases by software...



Ericsson leads in driving 5G standards

- **Flexible air-interface supporting a range of deployment cases**
 - Based on use case requirements, geography, frequency bands
- **Lean-carrier air interface design**
 - New modulation and coding co-existing with earlier technologies and devices
 - Drastically reducing energy consumption

Ericsson leads in the field

- First to market in all geographies leveraging all bands
- Unique performance and efficiency (spectrum sharing)
- Leadership in cloud native design and technologies
- Leader in cloud native 5G Core (efficient migration with dual-mode core)

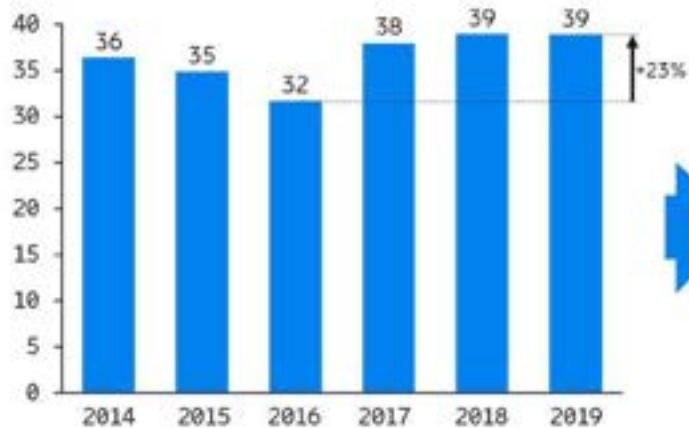
5G - the first standard to be developed with a key aim to support future developments

R&D Builds the Moat

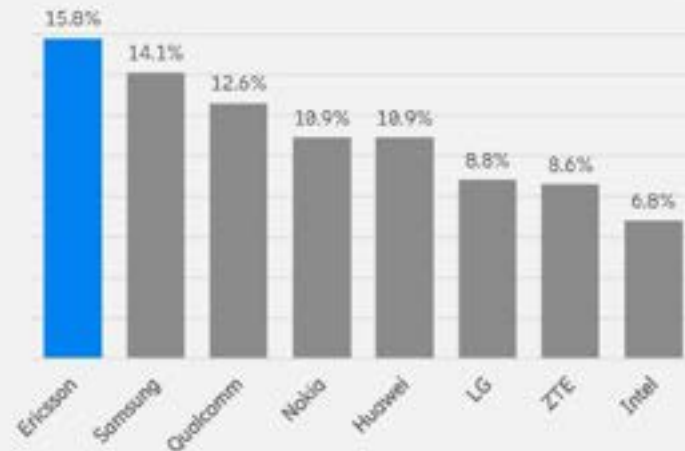
- ERIC \$5b R&D vs. \$4b at NOK

Ericsson R&D investments have resulted in a strong 5G portfolio

R&D Spend, SEK b.



Major contributors to 5G standards (essential patents)



R&D Builds the Moat

R&D investments – a key for sales and margin driver

Technology leadership

- Investments in R&D a key part of our focused business strategy
- Significant investments carried out in Ericsson Radio System (ERS) crucial to improved market share and gross margin
- From 17Q1 to 20Q3 (4Q rolling), we increased R&D by SEK 11 b.¹ and gross income grew by SEK 24 b.² during the same period
- Technology leadership yields future gross margin expansion in support of long-term targets

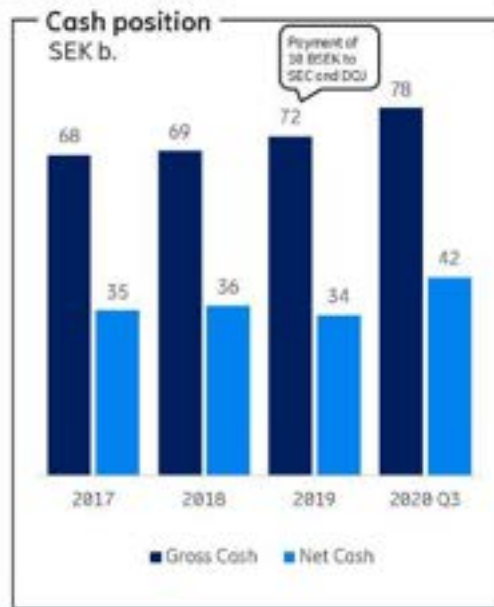
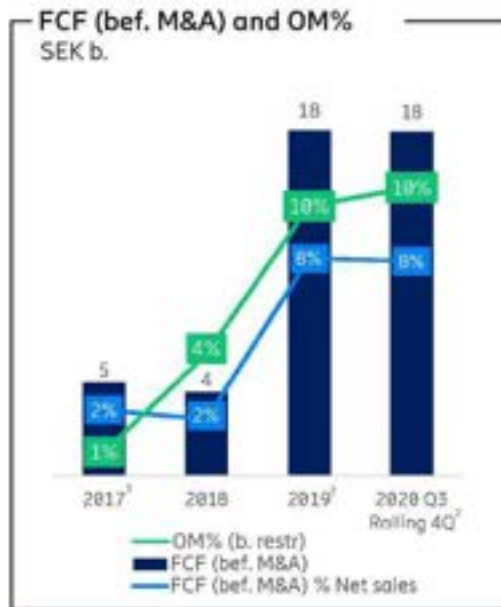
R&D¹ and underlying gross margin²



Clear sales and margin leverage from R&D investments

Focused on FCF

Growing profit converted into free cash flow



Rating

Agency	Rating	Outlook
Fitch	BBB-(IG)	Stable (Jul 2018) ↑
S&P	BB+	Positive (Sep 2019) ↑
Moody's	Ba1 ↑	Stable (Jun 2020)

Strong cash flows and resilient capital structure enabling our strategy for value creation

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¹2017 adjusted for restructuring charges and one-off items. 2017 is not restated for IFRS 15.
²Operating margin excludes restructuring charges and SEC and DOJ settlements, incl. the period release of the SEC and DOJ provision (SEK 0.7 b.) in Q4 2019.
 Free cash flow before M&A exclude SEK 18.1 b. related to SEC and DOJ.
 This slide contains forward-looking statements. Actual results may be materially different.

Growing Market Share

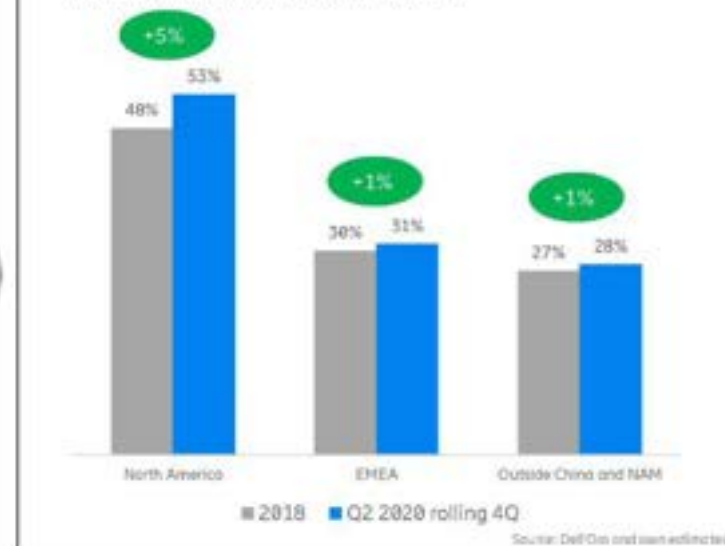
Market share gains by leveraging the technology shift and our competitive offering



Market share gains through

- Leveraging the technology shift to 5G
 - Spectrum sharing and carrier aggregation
 - Credible long-term roadmap
 - Solid balance sheet supports R&D strategy
- Superior offerings with competitive TCO
 - Highly scalable
 - Simplified deployment
 - Reduced network operating costs
 - Higher energy efficiency
- Focusing on long-term value creating opportunities

Ericsson RAN market shares



Each opportunity stands on its own merit – Positive net present value (NPV)

Financial Targets

Underpinning our long-term growth ambitions



Outgrow the market
(market growth expected > 1%)

Net Sales

15%-18% of sales

EBITA margin*

9%-12% of sales

Free Cash Flow before M&A

Carbon neutral in operations by 2030

Sustainability

Margin Expansion

Long term financial target - EBITA margin

Key elements of profit improvement

- Sales growth mainly in EB&O, Networks and Digital Service
- Gross margin expansion mainly in Digital Service (software) and EB&O (Cradlepoint)
- Increase share of software sales and recurring revenues
- Opex declines as a percentage of sales – continued R&D investments
- From EBIT to EBITA: +0.5% effect on Group
- Continued efficiency improvements through further digitalization

Operating margin from rolling 4Q to long-term



Sales and mix expected to be the main drivers to reach long-term targets

Focused on FCF

Long-term financial target – FCF before M&A



Bridge from operating income to free cash flow – Illustrative

	% of net sales
EBITA¹	15%-18%
⊖ Financial net, tax and other	-4%-5%
⊕ Add back depreciation	+2%-3%
⊕ Add back depreciation of leased assets	+1%
⊖ Change in working capital	-1%
⊖ Capex	-2%
⊖ Leasing payments	-1%
⊖ Restructuring	-1%
⊖ Free cash flow (before M&A)	9%-12%

Comments

- Focus on delivering high cash conversion from operating income
- Ongoing activities to reduce costs “below operating income”, including restructuring, financial net and tax
- Striving to maintain working capital efficiency but fluctuations may impact cash flow

Segment Targets

Target 2022 – Segment update

EBIT¹ 12-14% no later than 2022



Segments	Rolling 4Q Q3 2020 ¹	Investor Update 2019 2022 ¹	CMD 2020 2022 ¹
Networks	17.0%	15% - 17% ▶	16% - 18%
Digital Services	-7.0%	10% - 12% ▶	4% - 7%
Managed Services	7.4%	8% - 10% ▶	9% - 11%
Emerging Business and Other	-41.9% ²	-	-
Ericsson Group	10.4%²	Sum of the parts 12% - 14%	

Underlying assumptions

- USD to SEK 9.10 (9.50 at Investor Update 2019)
- Managed Services addressable market: 2%-4% CAGR 2020 – 2022 (Source: External sources & Ericsson analysis)
- Network: RAN equipment 1% CAGR 2020-2022 (Source: Dell'Oro)
- Digital Services 1%-4% CAGR 2020-2022 (Source: External sources and Ericsson analysis)

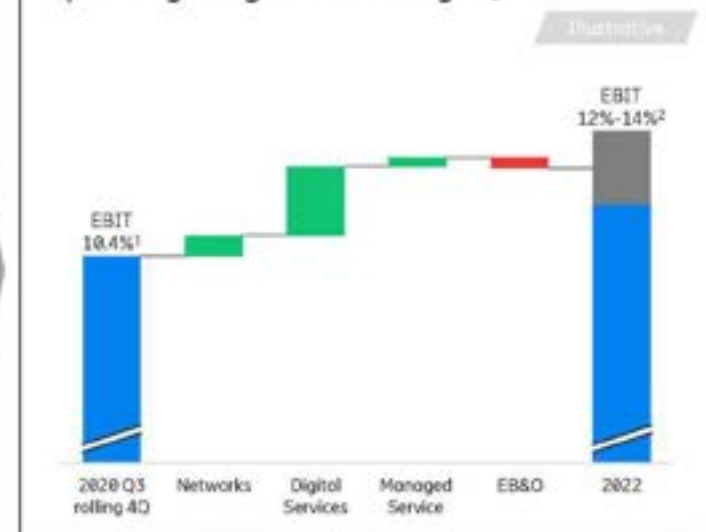
Software is Eating the World

Bridge to 2022 targets

Activities going forward

- Networks delivering close to range – 17%
- Footprint improvement driven by 5G offering
- Digital Services still loss making
 - 5G core will drive sales
 - Higher software in mix
- Managed Services: Focus on margin expansion
 - Leverage R&D – AI and automation
- EB&O – initial margin dilution from Cradlepoint

Operating margin from rolling 4Q to 2022



Digital Services turnaround – main contributor to Group profitability improvement to 2022

Nokia – Still in Turnaround

Full Year 2021 Outlook increased

	Full year 2021	Full year 2023
Net sales ¹	€21.7 billion to €22.7 billion (adjusted from €20.5bn to €21.8bn)	Grow faster than the market
Comparable operating margin ²	10 to 12% (adjusted from 7 to 10%)	10 to 13%
Free cash flow ³	Clearly positive (adjusted from positive)	Clearly positive
Comparable ROIC ^{2,4}	17 to 21% (adjusted from 10 to 15%)	15 to 20%

¹Assuming actual currency rates for first half 2021, and end of June EUR/USD rate of 1.19 continues in the second half 2021 (this is adjusted from our previous guidance based on the year-end 2020 EUR/USD rate of 1.23)

²Comparable measures exclude intangible asset amortization and other purchase price fair value adjustments, goodwill impairments, restructuring related charges and certain other items affecting comparability. Refer to Note 10, Performance measures, in the Financial information section of the Report for Q2 and Half Year 2021.

³Free cash flow = net cash from/used in operating activities - capital expenditures + proceeds from sale of property, plant and equipment and intangible assets - purchase of non-current financial investments + proceeds from sale of non-current financial investments

⁴Comparable ROIC = comparable operating profit after tax, last four quarters / invested capital, average of last five quarters' ending balances. Refer to Note 10, Performance measures, in the Financial information section of the Report for Q2 and Half Year 2021.

Nokia – Still in Turnaround

Each business group contributes to value creation

Comparable operating margin	Mobile Networks	Network Infrastructure	Cloud and Network Services	Nokia Technologies	Nokia Group
2021	-1 to +2%	7 to 10%	3 to 6%	>75%	7 to 10%
2023	5 to 8%	9 to 12%	8 to 11%	>75%	10 to 13%
	<p>Increase R&D and complete turnaround</p> <p>Restructure to reset cost base</p> <p>Drive value creation through focus on 5G growth, trust and security, enterprise and ORAN/vRAN</p>	<p>Deliver portfolio innovation in silicon and systems, software leadership and automation</p> <p>Strengthen CSP foundation</p> <p>Accelerate growth through focus on enterprise digital transformation, cloud and Industry 4.0</p>	<p>Restructure to optimize portfolio for accelerated growth and value creation</p> <p>Capture key emerging opportunities in 5G core, analytics and AI-based services, private wireless, digital operations, and managed security</p> <p>Drive XaaS business models</p>	<p>Drive innovation</p> <p>Secure renewals</p> <p>Expand coverage</p> <p>Build brand partnerships</p>	

Valuation

ERIC Price	\$12.09	9/3/2021
Cl. A Shares o/s	3,072	
Cl. B/ADR Shares o/s	262	
Share o/s (MM)	3,334	
Market cap (MM)	\$ 40,310	
Cash	\$ (6,141)	
LT Invest	(3,710)	
Def. Tax Asset	(3,446)	
ST Debt	1,234	
LT Debt	3,570	
Def Tax Liab	377	
Minority Interest	(182)	
Net Debt	\$ (8,298)	
Enterprise Value	\$ 32,012	

Consensus Expectations:
December Year End

	F2019A	F2020A	F2021E	F2022E	F2023E
Revenues	\$ 23,743	\$ 27,897	\$ 26,962	\$ 28,208	\$ 28,927
EBITDA	1,906	4,264	4,202	4,795	5,125
EBIT	1,187	3,460	3,424	4,026	4,341
NI	188	2,113	2,183	2,636	2,893
EPS	\$ 0.07	\$ 0.63	\$ 0.66	\$ 0.79	\$ 0.86
FCF	\$ 1,027	\$ 2,492	\$ 2,168	\$ 2,554	\$ 2,883
EV/Revenues	1.3x	1.1x	1.2x	1.1x	1.1x
EV/EBITDA	16.8x	7.5x	7.6x	6.7x	6.2x
EV/EBIT	27.0x	9.3x	9.3x	8.0x	7.4x
P/E	172.7x	19.2x	18.3x	15.3x	14.1x
P/FCF	39.3x	16.2x	18.6x	15.8x	14.0x
Revenue growth		17%	-3%	5%	3%
EBIT growth		1024%	3%	21%	10%

EV/EBIT	12.0x	12.0x	12.0x
Implied EV	\$ 41,088	\$ 48,312	\$ 52,092
less; Net Debt	(8,298)	(8,298)	(8,298)
Equity Value	\$ 49,386	\$ 56,610	\$ 60,390
Shares o/s	3,334	3,334	3,334
Target price	\$ 14.81	\$ 16.98	\$ 18.11
Upside	23%	40%	50%

P/FCF	19.0x	19.0x	19.0x
Implied EV	\$ 41,192	\$ 48,526	\$ 54,777
less; Net Debt	(8,298)	(8,298)	(8,298)
Equity Value	\$ 49,490	\$ 56,824	\$ 63,075
Shares o/s	3,334	3,334	3,334
Target price	\$ 14.84	\$ 17.04	\$ 18.92
Upside	23%	41%	56%

Summary

- ERIC is a market share leader in an oligopolistic market
- 5G market opportunity likely to be larger and longer
- Growth largely de-risked by contracts and network effects
- Large IP portfolio
- Managing for growth and FCF – lots of optionality
- Market perception is myopic

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