ERICSSON LM TELEPHONE CO
Form 6-K
April 23, 2014
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

April 23, 2014

LM ERICSSON TELEPHONE COMPANY

(Translation of registrant s name into English)

Torshamnsgatan 21, Kista

SE-164 83, Stockholm, Sweden

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes ¨ No x

Announcement of LM Ericsson Telephone Company, dated April 23, 2014 regarding First Quarter Report 2014

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFONAKTIEBOLAGET LM ERICSSON (publ)

By: /s/ NINA MACPHERSON
Nina Macpherson
Senior Vice President and General Counsel

By: /s/ HELENA NORRMAN
Helena Norrman
Senior Vice President
Corporate Communications

Date: **April 23, 2014**

First quarter report 2014 Stockholm, April 23, 2014

FIRST QUARTER HIGHLIGHTS	Read more (page)
Sales in the quarter were SEK 47.5 (52.0) b. Sales for comparable units, adjusted for currency, decreased -7% YoY and -28% QoQ	3
Sales declined YoY, primarily in North America and Japan but partly offset by China, Middle East and Latin America	2
Business mix in the quarter was mainly driven by mobile broadband capacity projects. With current visibility, key contracts awarded will gradually impact sales and business mix, mainly in the second half of the year.	2
Operating margin improved YoY in all segments to 5.5% (4.0%) mainly driven by mobile broadband capacity sales and lower restructuring charges	3
Operating income amounted to SEK 2.6 (2.1) b.	5-7
Cash flow from operating activities was SEK 9.4 b. driven by the payment from Samsung related to the new license agreement as well as reduced trade receivables.	11

SEK b.	**Q1 2014**	**Q1 2013**	**YoY change**	**Q4 2013**	**QoQ change**
Net sales	**47.5**	52.0	-9%	67.0	-29%
Sales growth adj. for comparable units and currency			-7%		-28%
Gross margin	**36.5%**	32.0%		37.1%	
Operating income	**2.6**	2.1	25%	9.1	-71%
Operating margin	**5.5%**	4.0%		13.5%	
Net income	**1.7**	1.2	41%	6.4	-74%
EPS diluted, SEK	**0.65**	0.37	76%	1.97	-67%
EPS (Non-IFRS), SEK [1)]	**0.90**	0.99	-9%	2.42	-63%
Cash flow from operating activities	**9.4**	-3.0		14.6	-36%
Net cash, end of period	**43.6**	32.2	35%	37.8	15%

1) EPS, diluted, excl. amortizations and write-downs of acquired intangible assets, and restructuring

Table of Contents

CEO Comments

Sales for comparable units, adjusted for currency, declined by -7% year-over-year, with continued negative impact from North America and Japan. All segments showed margin improvements.

The main reason behind the decline in sales is, as previously communicated, lower revenues from two large mobile broadband coverage projects in North America, which peaked in the first half of 2013, and the impact from reduced activity in Japan. This was partly offset by growth in China, Middle East and Latin America. The decline in sales impacted segment Networks as well as the Global Services network rollout business.

Our focus on profitability is paying off with gross margin improvement YoY, both including and excluding restructuring. All segments also showed improved operating margins. The business mix in the quarter was predominantly driven by mobile broadband capacity projects. In addition, some of our customers invested more in software to improve network performance and user experience.

Operating cash flow amounted to SEK 9.4 b., compared to a negative operating cash flow of SEK -3.0 b. in the first quarter last year. The payment from Samsung, related to IPR licensing, as well as lower sales had a positive effect on cash flow. Our continued efforts to reduce working capital through a better order-to-cash process are progressing well.

North America is currently characterized by operator investments in capacity and quality enhancements. At the same time we continue to strengthen our position in strategic areas. We are pleased to have been named partner to AT&T for their Domain 2.0 initiative which aims to simplify and scale their network utilizing Network Function Virtualization (NFV) and Software-Defined Networking (SDN).

In region North East Asia we are executing on previously awarded 4G/LTE contracts in mainland China. In addition, we have been awarded important 4G/LTE contracts in Japan and Taiwan.

In Europe, we have been awarded a five-year contract as part of Vodafone s Project Spring. It includes upgrades and expansions of Vodafone s 2G and 3G networks, and build-out of 4G/LTE along with professional services.

There is continued demand for our services offering and in the quarter we have won new managed services business in several regions.

With seven additional operators announcing trials of the Ericsson Radio Dot System we see strong interest in the solution. The innovative small-cell indoor solution will be commercially available later this year.

With current visibility, key contracts awarded will gradually impact sales and business mix, mainly in the second half of the year.

Political unrest prevails in parts of the Middle East and Africa and is still impacting sales. There is also an increased political uncertainty in Russia and the Ukraine. In 2013 Ericsson had SEK 5.9 b. in sales in Russia and Ukraine. The current political uncertainty has not impacted sales in the first quarter.

In a transforming ICT market, Ericsson continues to evolve through investments both into its core business and in new and targeted areas. Through our technology and services leadership we are well positioned to continue to stay relevant as our customers move to capture new market opportunities.

Hans Vestberg

President and CEO

Table of Contents

Financial highlights

SEK b.	Q1 2014	Q1 2013	YoY change	Q4 2013	QoQ change
Net sales	**47.5**	52.0	-9%	67.0	-29%
Of which Networks	***24.4***	*28.1*	*-13%*	*34.8*	*-30%*
Of which Global Services	***20.4***	*21.5*	*-5%*	*27.2*	*-25%*
Of which Support Solutions	***2.8***	*2.4*	*13%*	*5.1*	*-46%*
Of which Modems	***0.0***			*0.0*	
Gross income	**17.3**	16.6	4%	24.9	-30%
Gross margin (%)	**36.5%**	32.0%		37.1%	
Research and development expenses	**-8.3**	-7.9	5%	-8.9	-7%
Selling and administrative expenses	**-6.5**	-6.6	-3%	-7.2	-11%
Other operating income and expenses	**0.0**	0.0	5%	0.3	-94%
Operating income	**2.6**	2.1	25%	9.1	-71%
Operating margin	**5.5%**	4.0%		13.5%	
for Networks	***10%***	*6%*		*17%*	
for Global Services	***5%***	*3%*		*8%*	
for Support Solutions	***0%***	*-1%*		*37%*	
for Modems					
Financial net	**-0.2**	-0.4	-45%	-0.1	48%
Taxes	**-0.7**	-0.5	41%	-2.5	-71%
Net income	**1.7**	1.2	41%	6.4	-74%
Restructuring charges	**-0.1**	-1.8	-93%	-1.0	-86%

Net sales

Sales, adjusted for comparable units and currency, decreased -7% YoY and -28% sequentially.

The YoY sales decrease was primarily driven by North America and Japan where large mobile broadband coverage projects peaked in the first half of 2013 and are now near completion. IPR revenues grew YoY following the new Samsung license agreement reached in January 2014.

Sales declined sequentially following a strong Q4, with significant decline in China.

Gross margin

The gross margin increased YoY. This was primarily due to a business mix with a large share of mobile broadband capacity projects with higher hardware margins. Lower restructuring charges, increased IPR revenues and lower Network Rollout sales also contributed positively to the gross margin.

The gross margin decreased sequentially following a strong fourth quarter 2013 with SEK 4.2 b. related to the Samsung IPR license agreement. Excluding the license agreement the gross margin was 32.9% in Q413. A higher share of mobile broadband capacity projects in the quarter contributed positively to the gross margin QoQ.

During the quarter a currency revaluation effect of SEK -0.4 b. was recognized mainly related to currency depreciation in emerging markets.

Restructuring charges

Restructuring charges for the Group decreased both YoY and QoQ. The execution on the service delivery strategy, to move service delivery local resources to global centers continued, although at a slower pace in the beginning of the year.

Operating expenses

Total operating expenses increased SEK 0.2 b. YoY mainly due to the added Modems and Mediaroom businesses, while restructuring charges decreased.

Table of Contents

Other operating income and expenses

The hedge effect on other operating income was SEK -0.1 b.

Operating income

Operating income increased YoY driven by mobile broadband capacity sales, IPR revenues and lower restructuring charges but negatively impacted by reduced sales and increased expenses. Currency continued to have a negative impact on operating income YoY and QoQ.

Financial net

Financial net improved YoY mainly due to currency revaluation effects.

Net income and EPS

Net income and EPS diluted increased following the improved operating income.

Table of Contents

Segment results

NETWORKS

SEK b.	Q1 2014	Q1 2013	YoY change	Q4 2013	QoQ change
Net sales	**24.4**	28.1	-13%	34.8	-30%
Sales growth adj. for comparable units and currency			*-10%*		*-30%*
Operating income	**2.5**	1.6	58%	5.9	-58%
Operating margin	**10%**	6%		17%	
EBITA margin	**13%**	8%		19%	
Restructuring charges	***-0.1***	*-1.3*	*-93%*	*-0.3*	*-71%*

Net sales

Sales, adjusted for comparable units and currency, decreased YoY. The anticipated decline in mobile broadband coverage projects, primarily related to North America and Japan was not fully offset by growth in China, Middle East and Latin America. The capacity business continued to show good growth. Sales declined QoQ following a strong fourth quarter 2013 and lower business activities in North East Asia. CDMA sales continued to decline by -71% YoY and -65% QoQ to SEK 0.4 b.

Ericsson s LTE business maintained steady YoY while the related adoption of Voice over LTE (VoLTE) contributed to sequential growth in both IP Multimedia Systems (IMS) and User Data Consolidation (UDC), required to support multi-access converged network services.

Operating income and margin

For the third consecutive quarter operating margin was 10% or above. The YoY improvement was supported by a larger share of mobile broadband capacity business, higher IPR revenues and solid development in the underlying business with continued focus on cost adaptation and portfolio efficiency. Lower restructuring charges contributed to the YoY improvement. The operating margin declined QoQ as a result of lower IPR revenues.

Business update

The momentum for the multi-application router, SSR 8000, continued with 109 contracts signed since the launch in December 2011. During the quarter 13 new contracts were signed of which 5 were for fixed networks. To further strengthen IP-optical capabilities, a strategic agreement with Ciena (a top three optical networking supplier) was announced in the quarter.

Table of Contents

GLOBAL SERVICES

SEK b.	Q1 2014	Q1 2013	YoY change	Q4 2013	QoQ change
Net sales	**20.4**	21.5	-5%	27.2	-25%
Of which Professional Services	***15.1***	*14.6*	*3%*	*18.8*	*-20%*
Of which Managed Services	***5.8***	*5.9*	*-2%*	*6.6*	*-12%*
Of which Network Rollout	***5.3***	*6.8*	*-23%*	*8.4*	*-37%*
Sales growth adj. for comparable units and currency			*-3%*		*-25%*
Operating income	**1.0**	0.7	43%	2.1	-50%
Of which Professional Services	***1.9***	*1.8*	*3%*	*2.6*	*-28%*
Of which Network Rollout	***-0.9***	*-1.1*	*-23%*	*-0.5*	*58%*
Operating margin	**5%**	3%		8%	
for Professional Services	***13%***	*13%*		*14%*	
for Network Rollout	***-16%***	*-16%*		*-6%*	
EBITA margin	**6%**	4%		9%	
Restructuring charges	***-0.0***	*-0.4*	*-92%*	*-0.6*	*-95%*

Net sales

YoY sales increased in 7 out of 10 regions. Sales, adjusted for comparable units and currency, declined however due to reduced mobile broadband activities in North America and Japan. As anticipated the Network Rollout revenue decline accelerated after a period of high sales. Professional Services sales increased YoY although Managed Services sales declined slightly.

Global Services sales declined QoQ after a strong Q4 and due to reduced activities in Network Rollout.

Operating income and margin

Operating margin for Global Services improved YoY as a result of lower sales and reduced losses in Network Rollout. In the quarter, Network Rollout operating income was negatively impacted by temporary additional project costs in North America as well as losses in the Network modernization projects in Europe. As expected, activities and losses in the European modernization projects continue to trend down. Professional Services margin remained flat.

Business update

The market demand for Professional Services continues to be strong with several new contracts in the quarter.

Other information

	Q1 2014	Q1 2013
Number of signed Managed Services contracts	**16**	21
Number of signed significant consulting & systems integration contracts [1)]	**9**	8
Number of Ericsson services professionals, end of period	**61,000**	61,000

1) In the areas of OSS and BSS, IP, Service Delivery Platforms and data center build projects.

Table of Contents

SUPPORT SOLUTIONS

SEK b.	Q1 2014	Q1 2013	YoY change	Q4 2013	QoQ change
Net sales	**2.8**	2.4	13%	5.1	-46%
Sales growth adj. for comparable units and currency			*4%*		*-45%*
Operating income	**0.0**	0.0		1.9	
Operating margin	**0%**	-1%		37%	
EBITA margin	**7%**	5%		41%	
Restructuring charges	***0.0***	*-0.1*		*0.0*	

Net sales

Both reported sales and sales adjusted for comparable units and currency increased YoY. The acquired Microsoft Mediaroom business and increased sales in OSS had a positive impact on sales. Sales declined QoQ after a seasonally strong Q4 and the positive effect from the Samsung IPR-licensing agreement.

Operating income and margin

Operating income and margin was flat YoY. Operating margin declined QoQ due to lower sales.

Business update

During the quarter the acquisition of Azuki Systems was completed and customer interest in the acquired portfolio is strong. The integration of Mediaroom is progressing according to plan.

In the OSS and BSS area Ericsson announced important contracts with CenturyLink in US for Service Agility solutions and with TeliaSonera in Sweden for the Customer Experience Management solution.

Table of Contents

MODEMS

SEK b.	Q1 2014	Q4 2013	QoQ change
Net sales	**0.0**	0.0	
Sales growth for comparable units and currency			
Operating income	**-0.7**	-0.5	37%
Operating margin			
EBITA margin			
Restructuring charges	***0.0***	*0.0*	

Background

Since August, 2013, Ericsson has an LTE thin- modem business with industry leading technology and intellectual property. The operation was integrated into Ericsson after the split-up of the joint venture ST-Ericsson last year. Modems are part of Ericsson s vision of 50 billion connected devices and the ambition is to be a top-three supplier in the thin-modems market. The first product, Ericsson M7450, was released for commercial use in the fourth quarter last year. Work is ongoing with a tier one smartphone manufacturer to integrate M7450 in their devices. Net sales are expected in the second half of 2014.

Operating income

Operating expenses for the modems business in 2014 are estimated to approximately SEK -2.6 b., of which SEK -0.7 b. in the first quarter.

Table of Contents

Regional sales

SEK b.	First quarter 2014 Networks	Global Services	Support Solutions	Total	Change YoY	QoQ
North America	6.5	5.0	0.6	**12.2**	-23%	-11%
Latin America	2.4	2.0	0.2	**4.7**	8%	-30%
Northern Europe and Central Asia	1.4	1.0	0.1	**2.4**	7%	-34%
Western and Central Europe	1.8	2.5	0.1	**4.4**	1%	-16%
Mediterranean	2.0	2.6	0.2	**4.8**	-9%	-32%
Middle East	1.8	1.9	0.2	**3.9**	22%	-35%
Sub-Saharan Africa	0.7	0.8	0.3	**1.8**	-15%	-30%
India	0.9	0.7	0.1	**1.7**	6%	-14%
North East Asia	2.8	2.0	0.1	**4.9**	-19%	-43%
South East Asia and Oceania	1.9					