



ERICSSON

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EQUITY BRIEF

1. Company in brief

Ericsson develops and sells radio equipment, core network software, and mobile network services, primarily to telecom operators and on a smaller scale to enterprises and the public sector. The company is a B2B telecom infrastructure provider with customers in over 175 countries, and around half of all mobile traffic outside China is carried on networks supplied by Ericsson.

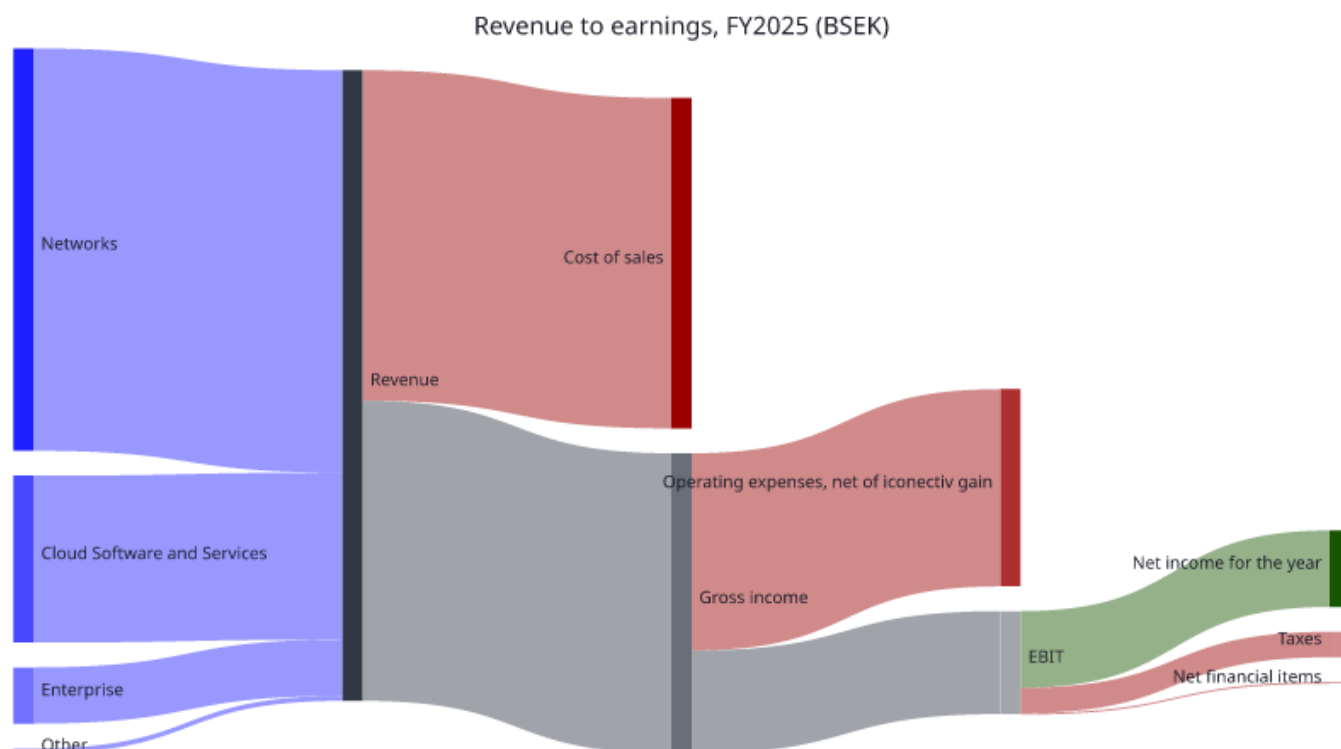
Ericsson was founded in 1876, when Lars Magnus Ericsson opened a telegraph instrument workshop in Stockholm, and the shares were listed on the Stockholm Stock Exchange in 1919. From telephones and exchanges, the company moved into mobile networks via NMT, GSM, and later 3G–5G. Its current structure has been shaped by the acquisition of Vonage in 2022, reported within the Enterprise segment, and the divestment of iconectiv in 2025. The Class A and Class B shares are listed on Nasdaq Stockholm (Large Cap), and the Class B share also trades as ADS (American Depositary Shares) on Nasdaq New York under the ticker ERIC.

HEADQUARTERS Stockholm	FOUNDED 1876	MARKET CAPITAL- IZATION ~316 BSEK AS OF OCTOBER 14, 2026	HEADCOUNT 85,417 Q3'26
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2. Business model – how the company makes money

Revenue comes from network equipment, software, and services, typically under multi-year framework agreements with operators. Networks (64% of 2025 revenue) sells RAN (Radio Access Network), antennas, and transport networks at a gross margin of 49.7%. Cloud Software and Services (26%) delivers core networks, support systems, and the operation of customer networks; here the share of services and third-party products is higher and the gross margin lower, at 41.7%. Enterprise (9%) includes the Vonage communication platform with network APIs (Application Programming Interfaces), wireless WAN, and private 5G networks. Alongside these sits patent licensing (IPR, Intellectual Property Rights), with recurring revenue of ~13.5 BSEK on an annualized basis as of Q3'26 following new agreements in July 2026. Of licensing revenue, 82% is recognized in Networks and the remainder in Cloud Software and Services. The customer base is concentrated: the ten largest customers accounted for 46% of 2025 revenue and the largest for ~14%.

The major investment goes into research and development, which is mostly expensed as incurred (48.9 BSEK in 2025, just over 20% of revenue), while capital expenditure on property, plant, and equipment corresponds to 1–2% of revenue. Cash flow is therefore driven primarily by operating profit and working capital, which fluctuates with major rollout projects. Sales, earnings, and cash flow are typically lowest in Q1 and highest in Q4 on customer purchasing patterns: on average over 2023–2025, 23% of annual sales fell in Q1 and 29% in Q4, and revenue moved from 69.3 BSEK in Q4'25 to 49.3 BSEK in Q1'26.



3. Latest report – financial and operational overview

REVENUE Q3'26 59.5 BSEK +6% Y/Y (Q3'25: 56.2)	ADJUSTED EBITA Q3'26 10.1 BSEK 36%Y/Y (Q3'25: 15.8)	EPS AFTER DILUTION Q3'26 1.77 SEK 47%Y/Y (Q3'25: 3.33)
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Revenue grew 6% to 59.5 BSEK in Q3'26, or 7% organically (adjusted for currency and divestments). Growth was driven primarily by Networks, the company's largest segment, which grew 9%, while Enterprise declined following the iconectiv divestment. The company attributes the growth to strong demand in strategic markets and its own short-term commercial initiatives. Patent revenue rose to 3.9 BSEK (Q3'25: 3.1), partly on one-off payments for prior periods, which supported the Networks margin.

EBIT fell 41% to 8.9 BSEK (Q3'25: 15.2), as the comparison quarter included a 7.6 BSEK one-off gain from the iconectiv divestment. Excluding that gain, adjusted EBITA rose from around 8.2 to 10.1 BSEK, supported by higher gross profit and lower costs. Net income fell 49% to 5.8 BSEK – a steeper decline than EBIT – primarily on provisions for interest expenses related to tax matters.

Free cash flow before M&A was 4.9 BSEK (Q3'25: 6.6), as more capital was tied up in working capital during the quarter. Net cash stood at 60.7 BSEK as of September 30, 2026, after share buybacks of 4.8 BSEK during the quarter, leaving the company with no net debt.

Looking ahead, management describes the RAN market as unchanged and expects higher component costs to weigh on gross margin in 2027, which the company is countering with pricing actions and efficiency measures. During the quarter, Per Narvinger succeeded Börje Ekholm as CEO. Alongside the report, the company also announced a simplified organization from 2027, with fewer market areas and a smaller executive team.

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Looking ahead, we see the RAN market remaining unchanged, geopolitical uncertainty staying elevated, and component costs weighing somewhat on gross margin next year.

Per Narvinger

– President and CEO, Ericsson · Q3'26 report

4. Market and trends

The mobile network infrastructure market is effectively split in two: China, where domestic suppliers dominate, and the rest of the world, where Ericsson estimates it holds around 37% of the RAN market. A small number of suppliers — primarily Ericsson, Nokia, Huawei, ZTE, and Samsung — sell to a limited number of large operators with significant bargaining power. After several years of declining capital expenditure, management describes the RAN market as unchanged in Q3'26.

The dominant structural driver for Ericsson is the transition to 5G standalone — networks with their own 5G core, capable of selling guaranteed, differentiated performance. At the end of 2025, around 370 operators had launched 5G, but only 90 had introduced or trialed 5G standalone in public networks. It is in this upgrade, rather than in more base stations, that the company sees growth in an otherwise stagnant RAN market.

- **Geopolitics and supplier choice:** Restrictions on Chinese suppliers in 5G networks in many countries shape operators' decisions, while demands for local production and R&D are increasing. Ericsson is building local presence in the US, India, and Japan.
- **AI traffic:** AI-driven devices require more uplink capacity and lower latency, which the company argues necessitates networks with guaranteed performance.
- **Operator consolidation and network sharing:** Fewer and larger buyers, and shared networks, can reduce equipment needs.
- **New use cases:** Mission-critical networks for public safety and defense, FWA (Fixed Wireless Access), which reached over 150 million households in 2025, and network APIs.
- **6G:** Expected before 2030. Standardization affects the patent position and the next investment cycle.

5. Growth drivers and risks

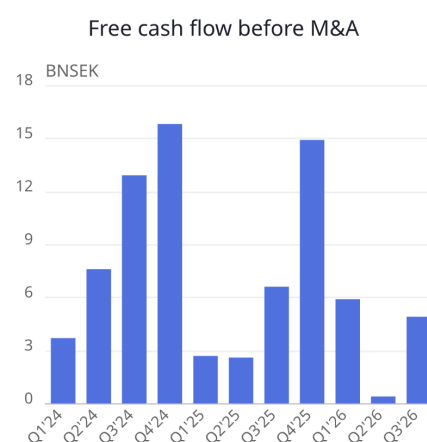
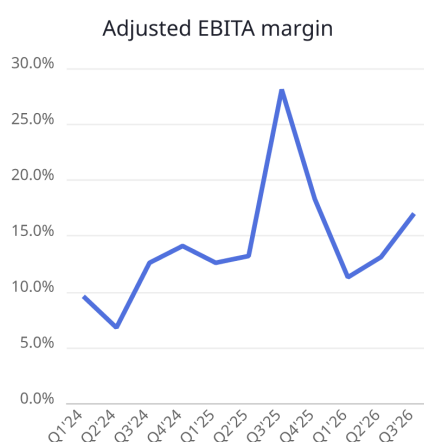
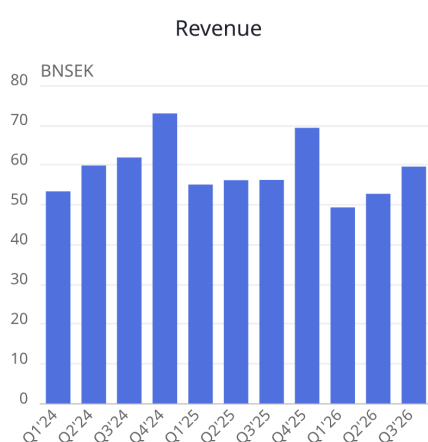
Growth drivers

- **5G standalone and programmable networks:** Agreements with Telstra, Vodafone, and others for networks supporting differentiated connectivity.
- **IPR licensing:** ~13.5 BSEK in annual recurring revenue, with growth opportunities in new segments and broader coverage of the smartphone market.
- **Mission-critical networks and defense:** Investment is stepping up in 2026, bringing higher initial costs.
- **Cost efficiency:** Headcount down from 94,236 (Dec 2024) to 85,417 (Sep 2026), with a simplified structure from 2027.

Risks

- **Geopolitics and trade:** Tariffs, export controls, and state-subsidized competitors can affect market share, component access, and margins.
- **Customer concentration and price pressure:** Ten customers account for 46% of revenue, and multi-year contracts may include commitments to future price reductions.
- **Supply chain:** Dependence on a small number of semiconductor and circuit board suppliers. Rising component costs are expected to weigh on gross margin.
- **Currency:** Around half of sales are in USD and over 15% in EUR, while a significant portion of costs sits in SEK. A stronger krona therefore carries a transaction impact on earnings in addition to the translation effect.

6. Financial development – KPIs



7. Financial targets

- **Adjusted EBITA margin of 15–18% (formal long-term target):** Within range at 15.3% LTM as of Q3'26. Full-year 2025 was 18.1%, of which 3.2pp stemmed from the iconectiv gain (~14.9% excluding it).
- **Free cash flow before M&A of 9–12% of revenue (formal long-term target):** Within range at 11.3% for full-year 2025 and 11.3% LTM as of Q3'26.
- **Dividend (principle: stable to growing ordinary dividend):** SEK 3.00 per share for 2025 (2024: 2.85), paid in two installments in 2026.
- **Surplus capital to shareholders:** Share buybacks of up to 15 BSEK until the 2027 Annual General Meeting. Around 8.0 BSEK was executed during Q2–Q3'26, and treasury shares increased from 38 million to 114 million between September 30, 2025, and September 30, 2026. Shares outstanding stood at 3,257 million as of September 30, 2026 (3,333 million a year earlier).

- **Credit rating and net cash (ambition):** The target is an investment-grade credit rating and a net cash position over time. The rating was BBB from S&P and Fitch and Ba1 from Moody's as of the 2025 Annual Report, with net cash of 60.7 BSEK as of September 30, 2026.
- **Short-term guidance:** No quantitative forecast. Qualitatively, component costs are expected to weigh somewhat on gross margin in 2027.

8. Potential triggers (next 6–12 months)

- **Q4'26 report:** Whether the 7% organic growth in Q3'26, which partly stemmed from short-term commercial activity, holds in the seasonally largest quarter; the first signs of component costs in the adjusted gross margin (47.7% in Q3'26); and the Board's dividend proposal for 2026.
- **New group structure from January 1, 2027:** The APAC merger and the reallocation of Enterprise Wireless Solutions are expected by the company to deliver greater efficiency over time, with the outcome visible in operating expenses.
- **New CEO:** Per Narvinger's first full year, with potential adjustments to priorities or capital allocation.
- **Share buyback program:** Around 7 BSEK of the 15 BSEK framework remains until the 2027 Annual General Meeting; the question is whether a new program will be proposed.
- **IPR agreements:** Renewals and new agreements determine whether the ~13.5 BSEK recurring licensing revenue grows. Retroactive one-off amounts can make individual quarters volatile.
- **Legal proceedings:** The US Department of Justice (DOJ) investigation linked to Iraq, and compliance work surrounding Vonage's security agreement in the US, are ongoing. The company notes that the outcome and timing are uncertain.

9. Frequently asked questions from investors

Why did earnings fall in Q3'26 despite higher sales?

The comparison quarter, Q3'25, included a 7.6 BSEK capital gain from the iconectiv divestment, equivalent to SEK 1.72 per share. Excluding that gain, adjusted EBITA rose from around 8.2 BSEK to 10.1 BSEK, supported by lower operating expenses. The reported declines in EBIT (41%) and EPS (47%) therefore primarily reflect a one-off in the comparison period rather than underlying performance.

How do rising component costs affect margins?

The company took action against component inflation in Q2'26 and says the impact will build over the coming quarters. Management expects some pressure on gross margin next year and is countering this with pricing actions, portfolio optimization, and internal efficiencies. The adjusted gross margin was 48.1% for full-year 2025 and 47.7% in Q3'26. Ericsson relies on a small number of semiconductor and component suppliers, which limits its ability to switch in the short term.

How important is licensing income (IPR)?

Ericsson owns a large patent portfolio built over decades of mobile standardization and licenses it primarily to smartphone manufacturers. Following agreements in July 2026 with one of the ten largest smartphone manufacturers and a payment terminal manufacturer, annual recurring licensing revenue reached ~13.5 BSEK, or around 6% of 2025 revenue. In Q3'26, patent and licensing revenue was 3.9 BSEK (Q3'25: 3.1), partly on retroactive revenue for prior unlicensed periods, with 82% reported under Networks. The company cites rising IPR revenue as a driver of its margin target and sees growth opportunities in new segments. Retroactive payments from new agreements can make individual quarters volatile.

How exposed is Ericsson vs. currency and individual customers?

Around half of 2025 sales were in USD and over 15% in EUR, while a significant share of costs – including R&D in Sweden – sits in SEK. A stronger krona therefore weighs on earnings; in 2025, currency had a 7.2 BSEK impact on gross profit. The customer base is concentrated: the ten largest customers accounted for 46% of sales and the largest for around 14%. Continued consolidation among operators could increase dependence on individual customers.

10. What does the bull say? / What does the bear say?

What does the bull say?

Ericsson holds a leading position outside China with ~37% of the RAN market, and restrictions on Chinese suppliers in many countries narrow the competitive field in the markets where it sells.

The transition to 5G standalone and programmable networks could create a new investment cycle even without growth in the RAN market as a whole, while AI traffic raises capacity and latency requirements.

The patent portfolio generates ~13.5 BSEK in annual recurring revenue with low capital intensity, supporting the margin target.

With a net cash position of 60.7 BSEK and cash flow within the target range, there is room for R&D, dividends, and buybacks simultaneously.

What does the bear say?

The core market is not growing: the RAN market is expected to remain stable, and growth depends on operators with pressured profitability choosing to invest in 5G standalone.

The customer base is concentrated, with ten customers accounting for 46% of revenue, while operator consolidation and network sharing could further strengthen buyers' bargaining position.

Geopolitics cuts both ways: tariffs, export controls, and state-subsidized competitors can cost market share, and component costs are expected to weigh on gross margin in 2027.

Expansion outside the core has proved costly — including 15.9 BSEK of write-downs in Enterprise in Q2'24 — and a new CEO alongside the reorganization adds execution risk.

Glossary – abbreviations and concepts

- **5G standalone:** A 5G network with a dedicated 5G core instead of a 4G core. Required for guaranteed performance and network slicing, and the upgrade Ericsson views as the next growth cycle.
- **6G:** The next generation of mobile technology, expected before 2030. Influences future patent revenue and the next investment cycle.
- **ADS (American Depositary Shares):** Depositary receipts allowing the B share to be traded in the US. One ADS corresponds to one B share.
- **Adjusted EBITA:** Operating profit before amortization of acquired intangible assets, excluding restructuring costs. Ericsson's primary profitability metric and the basis for its margin target.
- **APAC (Asia-Pacific):** A new market area from 2027, merging Northeast Asia with Southeast Asia, Oceania, and India.
- **DOJ:** The US Department of Justice, which is investigating matters related to Ericsson's past operations in Iraq.
- **Free cash flow before M&A:** Cash flow from operations less capital expenditure and lease payments, before acquisitions and divestments. One of Ericsson's two formal financial targets.
- **FWA (Fixed Wireless Access):** Fixed wireless broadband delivered to households over the mobile network; a use case that increases traffic in operators' networks.
- **IPR (Intellectual Property Rights):** Revenue from licensing Ericsson's patents, primarily to smartphone manufacturers.
- **LTM:** Last twelve months, i.e. the sum of the last four quarters, which smooths seasonal effects.
- **M&A (Mergers & Acquisitions):** Acquisitions and divestments of companies.
- **Network API (Application Programming Interface):** An interface allowing developers to use network functions, such as fraud protection, in their applications. A new revenue stream through Vonage.
- **Organic growth:** Sales growth adjusted for currency, acquisitions, and divestments, showing underlying performance.
- **RAN (Radio Access Network):** The radio portion of the mobile network, i.e. base stations and antennas. Ericsson's largest product area.

Sources

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- Inderes, historical fundamental data (quarterly revenue and EBIT) and closing price for the B share on Nasdaq Stockholm as of October 14, 2026 (SEK 97.10). The market value is calculated based on 3,257 million outstanding shares as of September 30, 2026.

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16/10/2026

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Inderes Oyj
Porkkalankatu 5
00180 Helsinki
+358 10 219 4690

inderes.fi

Inderes Ab
Vattugatan 17, 5tr
Stockholm
+46 8 411 43 80

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