

Profits plunge in Q2 for Sweden's Ericsson

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Ericsson CEO Hans Vestberg presents the company's second-quarter results during a press conference in Stockholm, Sweden, Wednesday, July 18, 2012. Swedish telecommunications equipment maker Ericsson AB saw its second-quarter profits slashed to almost a third as sales of network infrastructure slowed in China and Russia and the company focused on the more stable - but less profitable - business of offering support services to operators. (AP Photo/Scanpix Sweden/Erik Martensson) SWEDEN OUT

(AP) — Swedish wireless equipment maker LM Ericsson saw its second-quarter profits slashed to almost a third as sales of network infrastructure slowed in China and Russia and the company focused on the more stable — but less profitable — business of offering support services to operators.

The Stockholm-based company reported Wednesday a worse-than-expected net profit of 1.1 billion kronor (\$156 million) for the three-

month period, down from the 3.1 billion kronor in the same period a year ago.

The Networks unit, which sells telecommunications infrastructure, contributed significantly less to total sales as the weak economy weighed on demand. The Global Services unit, which offers maintenance and support for the networks, saw higher sales. The net effect of the shift in sales between the divisions was to pressure the company's overall profit margins.

The poor performance in Networks was largely attributed to lower business activity in China as well as slower operator investments in Russia. The company's profits were also hit by challenges faced by its ST-Ericsson chip-making joint venture, owned together with STMicroelectronics N.V., whose sales of new products have suffered.

CEO Hans Vestberg defended the tight squeeze his company is seeing on its margins, saying that the focus shift will pay off in the longer term.

"In 2010 we made a conscious decision to gain market share and increase technology and services leadership, well aware of the short-term profitability pressure," he said. "Our focus is now on translating these gains into sustainable profitable growth."

Vestberg said the number of global smartphone subscriptions are expected to grow from the current 700 million to some three billion in 2017, adding that "based on these drivers, we see an increasing focus from our customers on network performance and quality of service. This will require continuous operator investments in hardware, software and services."

The drop in profitability still disappointed market-watchers however, sending the shares down almost 5 percent to 56 kronor (\$7.98) in early

morning trade on the Stockholm stock exchange.

Revenues in the quarter came to 55.32 billion kronor, up from 54.77 billion kronor, while gross margin contracted to 32 percent from 37.8 percent.

Greger Johansson, an analyst with research firm Redeye in Stockholm, said the negatives outdid the positives, with results from the Networks unit disappointing the most. "Sure, Global Services will become the largest unit in a few years from now — it's a stable business area less dependent on direct sales and with a lot of maintenance work and which carries more of a consultancy role," he said, "but Networks has been a good lever."

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