Ericsson plans more cost cuts as shares plunge after poor Q2

July 18 2017, by Matti Huuhtanen

Ericsson shares plunged more than 15 percent Tuesday after the Swedish mobile networks company posted a second-quarter loss on falling sales and warned that there was unlikely to be any improvement soon.

Hit by a decline in networks and software sales, Ericsson's net loss in the period was 1 billion kronor ($120 million), a marked deterioration from last year's equivalent of a 1.6 billion-kronor profit. Overall sales slumped 8 percent to 50 billion kronor.

The scale of the loss prompted some acute selling of Ericsson shares, which closed down 15.5 percent at 51.45 kronor in Stockholm.

"Ericsson sees a worse market than what it had expected," said Daniel Djurberg, analyst at Handelsbanken. "We see weaknesses in most markets and tough competition."

Ericsson's CEO Borje Ekholm said he was not satisfied with the company's underlying performance and warned of "an increased risk of further market and customer project adjustments, which would have a negative impact on results." He said they were estimated to at between 3 to 5 billion kronor during the next 12 months, and that Ericsson would accelerate its cost savings program to deliver annual cost savings of at least 10 billion kronor by the middle of 2018.

"One key component in our focused business strategy is to reduce costs and increase efficiency," Ekholm said. "In light of the current market outlook, we will accelerate our actions to ensure that we can meet our target of doubling the 2016 operating margin beyond 2018."

He pointed out some bright spots and that the company's increased investments in research and development, such as in the radio systems division, are beginning to bear fruit.