Q4 Report 2020

Tuesday, 26th January 2021

Introduction

Anders Trapp

VP, Investor Relations, Autoliv

Anders Trapp: Welcome everyone to our Fourth Quarter and Full Year 2020 Financial Results Earnings Presentation. On this call, we have our President and CEO, Mikael Bratt; and our Chief Financial Officer, Fredrik Westin, and I am Anders Trapp, Vice President of Investor Relations.

During today's earnings call, our CEO will provide a brief overview of our fourth-quarter results as well as provide an update of our general business and market conditions. Following Mikael, Fredrik will provide further details and commentary around the financials. At the end of our presentation, we will provide a status update of our journey towards our financial target.

We will then remain available to respond to your questions, and as usual, the slides are available on autoliv.com. Turning to the next slide. We have the Safe Harbour Statement, which is an integrated part of this presentation and includes the Q&A that follows. During the presentation, we will reference some non-US GAAP measures.

The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-K that will be filed with the SEC. Lastly, I should mention that this call is intended to conclude at 3:00 PM Central European Time. So please follow a limit of two questions per person.

Highlights

Mikael Bratt

President & CEO, Autoliv

Mikael Bratt: Before we start with the formal presentation, I would like to acknowledge our employees for their hard work and commitment to health and safety, cost control, quality and delivery precision in these challenging times. The COVID-19 pandemic is first and foremost a human crisis, where safeguarding, health and safety is our first priority.

Records

I am very pleased that our operations reported record net sales, record profits, and record cash flow despite the challenges from the pandemic. We continue to execute on our strong order book. And our sales increased organically by 13%, which was almost 11 percentage points more than the increase of global light vehicle production. The record operating income was a result of high sales growth, good operational execution, structural savings and the forceful actions we initiated early in 2020.

Savings

Our structural efficiency programmes are on track and delivering savings. As part of our footprint optimisation, we have announced the plans to close one plant in Sweden, and we continue to evaluate further footprint optimisations.

Cash flow

It is encouraging that we can report the highest operating and free cash flow in the history of our company. This enables delivering towards our leverage ratio target of 0.5 to 1.5 times. We continue to evaluate opportunities for shareholder value creation.

Order intake

The order intake share of around 45% in 2020 supports a prolonged period of outgrowth, and by that defending our growing market share. Customer sourcing activities was lower than expected as sourcing of some programmes were pushed into 2021.

Solid platform

Our focus throughout this crisis has been the health and safety of our employees and to come out of it as a stronger company. Although the COVID-19 pandemic is not yet behind us, the second half-year performance shows that we have built a solid platform towards our midterm target. However, disruption in the automotive industry supply chain, economic uncertainty, risk for further lockdowns and the risk of increasing unemployment and its impact on consumer demand may temper the 2021 light vehicle production development.

Financial highlights

Our consolidated net sales increased by 15% compared to Q4 2019. This was the highest quarterly sales for our Passive Safety business ever. As we outpaced the market, our global market share increased to 42% with leading market share across all three core product areas: airbags, seat belts, and steering wheels.

Adjusted operating income, excluding costs for capacity alignment and antitrust related matters increased by around 30% to $311 million. The adjusted operating margin increased by 130 basis points to 12.4% despite significant accruals for warranty and recalls.

The accruals include a higher than anticipated accrual for the Toyota Prius recall first announced in 2016 and another probable recall that is still under evaluation by the company and its customer. This is the first time we have made an accrual of this size, and it does not reflect Autoliv's high-quality standards and culture.

Operating cash flow of $469 million was the highest cash flow on record for the company.

Sales Development

I am very pleased that our organic sales growth outperformed the global light vehicle production by 11 percentage points. We had a solid sales development in all the major regions with sales in Europe, China and North America outperforming light vehicle production by 9 to 12 percentage points.

The outperformance was the result of product launches over the past year and a favourable model mix. In the quarter, slowing sales of replacement inflators had a 0.7 percentage point negative effect on sales, mainly affecting North America and China.

Launches

We have several high content model launches during the quarter. We did not experience any major delays of launches. The models shown on this slide have an Autoliv content per vehicle between $110 to $540. Two of the vehicles are pure EVs. And many of the remaining models will be available with some sort of electrified powertrain.

The long-term trend to higher CPV is supported by the introduction of pedestrian airbags and hood lifters. For example, Subaru Levorg is the first Japanese-produced vehicle with a pedestrian airbag from Autoliv.

Order intake

Our order intake share for the full year continued on a high level supporting our growth opportunities also beyond 2021. This is strong evidence that our company is the leading company in the Passive Safety automotive industry. And it shows that we have managed well when launching previous years' high order intake. One of our key performance indicators, customer satisfaction, has continued to improve and is at a high level, the best we have had for several years.

However, this does not mean that we can relax. We always strive for improving products, services, processes, and cost. We estimate that we booked around 45% of available order value in 2020 making 2020 the sixth consecutive year with higher order intake. Now I will hand over to our Chief Financial Officer, Fredrik Westin who will talk more about the financials.

Financials

Fredrik Westin

Chief Financial Officer, Autoliv

Fredrik Westin: So on the next slide, we show or highlight the key figures for the fourth quarter. Our net sales were $2.5 billion, a 15% increase compared to the same quarter last year. Gross profit increased by $75 million, and the gross margin increased by 40 basis points.

The higher gross margin was primarily driven by the higher sales and direct material efficiency partially offset for cost related to warranty and recall accruals. The adjusted operating income increased by $69 million to $311 million, mainly due to the higher gross profit. The operating cash flow was $469 million, the highest recorded quarterly operating cash flow for the company.

Earnings

Reported earnings per share was $2.15. Our adjusted return on capital employed was 33%, and return on equity was also 33%. We did not pay a dividend in the quarter.

Adjusted operating margin bridge

Our adjusted operating margin of 12.4% was 130 basis points higher than in the fourth quarter of 2019. As illustrated by the chart, the adjusted operating margin was positively impacted by lower costs for raw material of 50 basis points and lower combined cost for SG&A and RD&E of 70 basis points, mainly due to lower costs for personnel in relation to sales. FX effect impacted the operating margin positively by 50 basis points.

This is caused by transactional effects from a number of different currency pairs. Operational improvements contributed with 180 basis points. This was a result of strict cost discipline put in place during the first half of the year and the effects from our structural efficiency programmes partly offset by the negative impact of COVID-19 related costs and inefficiencies.

Support from governments in connection with the pandemic was around $2 million in the quarter. The margin was also affected by the accruals for warranty and recalls of 220 basis

points. This is the first time in the history of our company that we have such a high amount of this type of costs. Since 2010, we have accounted for less than 2% of all safety-related recalls despite our high market share.

Having said that, the automotive insurance market has become more challenging with increased insurance premiums, and self risks which could lead to higher average cost for recalls.

Cash flow

For the fourth quarter of 2020, operating cash flow was $469 million, an increase of $157 million compared to last year. The increase in operating cash flow was a result of the higher net income, effects from deferred income taxes, and improved working capital. Strict inventory control, our close collaboration with suppliers, but also reduced overdues and improved payables together with positive effects from other non-cash items were the main drivers for the improvement in working capital.

Capital expenditures

Capital expenditures amounted to $111 million in the quarter, which is about 4.4% in relation to sales. Compared to last year, capital expenditures decreased by 6%. Free cash flow was $358 million, an increase of $164 million year-over-year. For the full year 2020, operating cash flow was almost $850 million, and free cash flow amounted to $0.5 billion.

Capex was $340 million for the full year, a reduction by close to 30% compared to 2019 as we suspended or delayed some investments. A more normalised market will lead to some increase in investments again. The cash conversion in 2020 was more than 200% as a result of the low capex, positive operating working capital development and non-cash items.

Leverage Ratio

We have as you know a long history of a prudent financial policy. And our balance sheet focus remains unchanged. The leverage ratio has improved from a peak of 2.9 times at the end of the second quarter to 1.8 times as of December 31st, 2020. The improved leverage in the quarter was a result of our net debt decreasing by $350 million while EBITDA over the last 12 months at the same time increased by $75 million.

It is worth noting that our net debt is now $0.5 billion than when we spun off Veoneer in 2018. Our strong free cash flow generation should allow further deleveraging, and we expect to be within our target leverage ratio range before the end of 2021.

Full Year 2020 Financial Overview

2020 was a turbulent year with a low point in the second quarter and a high point in the fourth quarter. Our net sales were $7.4 billion, with sales declining organically by 12%. This was slightly better than our guidance of a 13% decline. With global LVP declining 17%, our outperformance was approximately five percentage points. The adjusted operating margin was 6.5 % compared to our guidance of around 6%. A dividend of $0.62 was paid in the first quarter.

Light vehicle market

Looking on the light vehicle market, we see a risk for near-term volatility to light vehicle production from supply chain challenges: low labour availability and continued challenges around COVID-19 mitigation efforts.

Although we're not directly affected by the semiconductor supply issues, it will potentially have substantial impact on light vehicle production in the first half of 2021. According to IHS market, more than a 600,000 unit impact is highly likely with most of that lost production expected to be recovered in the second half of the year.

Regions

The largest impact is expected in China, followed by Europe and Japan. In North America, we expect that rebuilding inventory will push light vehicle production gains above light vehicle sales increases in 2021. In Europe, the overall production outlook remains constructive, given the need to rebuild inventories and support the ongoing domestic sales recovery and increased export activity.

In China, positive economic fundamentals are supporting the ongoing recovery in consumer demand. Light vehicle production is now forecasted to grow 7% for 2021 after three consecutive years of decline. Our full-year guidance is based on our customer call-offs and light vehicle production outlook according to IHS market.

Sales outperformance

On the next slide, you see some of the key models supporting our expected sales outperformance in 2021. These models are expected to account for a large share of our organic sales growth during the year. Nine of these models were launched recently. Three are yet to be launched. Our content per vehicle on these 12 models is in the range of $150 to $600. Additionally, we continue to see a high number of product launches in 2021, especially in China, Europe, and North America.

Expected margin development for 2021

We see some tailwinds and some headwinds. The main tailwinds include the rebound of global light vehicle production, executing on the strong order book, and savings from the structural efficiency programmes.

The main headwinds include operational headwinds from higher costs for raw material of approximately 40 basis points, a gradual normalisation of discretionary spending, and higher depreciation and amortisation. Considering these potential tailwinds and headwinds, we expect a year-over-year improvement in adjusted operating margin of around $350 basis points.

However, supply chain disruption in the automotive industry, risk of further lockdowns and the potential increase in unemployment and its effect on consumer demand may still impact this outlook. I now hand back to Mikael.

Full year 2021 Indications

Mikael Bratt

President & CEO, Autoliv

Mikael Bratt: Thank you, Fredrik. Now looking on the full-year 2021 indications on the next slide. These indications exclude costs for capacity alignments and antitrust related matters. Backed by recent product launches, we expect sales to increase organically by around 20% supporting a full-year mid-single-digit outperformance versus light vehicle production.

Sales

Our net sales increase is assumed to be around 25%, including positive currency translation effects of around 5%. We expect an adjusted operating margin of around 10%. Operating cash flow is expected to be in line with 2020. It is important to note that the outlook assumes that light vehicle production develops broadly in line with IHS market's latest forecast.

Share holder value creation

During the first half of 2020, we experienced a downturn of historical proportions. Despite this, our focus areas for shareholder value creation are unchanged and we have continued to execute on the strategic initiatives presented at our Capital Markets Day in 2019. The ambition is to ensure we have an adequate cost structure supporting our midterm targets.

ESG strategy

Today, I would like to share some updates of our journey with you. But first, I would like to say a few words about how we integrate environment, social and governance into our strategy. Our core business contributes to the United Nations sustainable development goals for health and wellbeing. We support the UN global compact, and its ten principles are an integral part of our sustainability commitment, strategy, and work.

We are well-positioned to support the industry transformation towards cleaner vehicles. Our commitment and strategic priorities include innovating products to save more lives in real-life traffic.

At the same time, we focus on improving resource efficiency and reducing our carbon footprint, managing sustainability risks in our value chain, committing to the wellbeing of our employees, and acting in the best interests of society as a whole. During 2021, we will especially advance our position on the climate issue and update our climate strategy.

Financial targets

Here we have our financial targets as presented at our CMD in 2019. During 2020, we delivered on the growth and cash conversion targets. In 2021, we expect to continue to build towards our profitability targets of around 12% adjusted operating margin.

Profitability

Looking at the building blocks for profitability growth. Improvement in margins will come from three key levers. Executing on the strong order book, stabilisation of market fundamentals, and our strategic initiatives. Looking more on our three key levers and an update on our targets on the next few slides.

For reference, our sales outperformed the global light vehicle production organically by five percentage points in 2020. We expect that content per vehicle will grow by at least 1% per year as a result of higher installation rates and introduction of new products. This, combined with a sustained higher order intake level, allows us to increase our medium-term targets for annual growth of 4% to 5% above light vehicle production on average. This is an increase by one percentage point.

The outlook for global light vehicle production looks very different today than back in 2019. IHS expectation for global light vehicle production has been reduced by roughly 7 million units per year or approximately 40 million vehicles totally 2020 to 2024. This reduced light vehicle production environment creates additional challenges.

To offset the effects from the expected lower light vehicle production, we expanded the structural efficiency programmes. We have seen expected positive effects. The savings from our two structural efficiency programmes was around $55 million in 2020 compared to 2019.

In addition to the structural efficiency programmes, we made a provision of around $35 million in 2020 for footprint optimisation in Europe involving plant closures in Germany and Sweden. We are also targeting to make some of the temporary cost reductions that supported a strong performance in the second half of 2020 permanent.

Despite the pandemic, we have stayed true to our commitment and focused on driving improvements for our key areas within operations, supply chain, management and engineering.

Progress Report Operations

We have increased our automation activity more than five times in the last 12 months, from around 50 projects at the end of 2019 to more than 250 projects.

Implementation is at full speed. For example, we have developed a fully automated line for weaving of curtain airbags. The first line is being taken into production in the first quarter of 2021. Our digitalisation journey has also been accelerated with more validated used cases.

Our improvement in Autoliv production system has shown great momentum. 80% of our plants have now reached goal level or above. During the last 12 months, 50 of our 65 plants have moved up one level one or more. Today we have no plants on basic or bronze level.

Progress Report Supply chain management

Despite a challenging year for automotive suppliers, we managed to achieve year-on-year cost reduction of more than 4% for components, material and logistics, including 90 basis points from raw material price changes. This level of saving is clearly supporting our midterm targets.

Extended payment terms is another focus area contributing to a strong working capital improvement. The potential risk in the supply chain increased during 2020. We have taken a proactive approach and recognised supply chain risk management as a key part of our capabilities.

Progress Report Engineering

In our ambition to reduce RD&E in relation to sales to historical levels of around 4% of sales and to support our automation journey, we are transforming the way we are doing engineering. This transformation includes smart connection of systems, data, processes, and tools, faster implementation on improvement projects, developing specific simulation tools for substantial reduction of prototypes and testing.

During 2020, we have implemented 12 such improvement projects, and we are currently driving 40 more projects. In addition, we have more than 50 projects in the pipeline.

High implementation pace

I hope this presentation has shown you that we have a very high pace in the implementation of our strategic initiatives and that we are on track towards our midterm targets.

2021 Focus

The health and safety of our employees is our first priority while continuing more activities to further improve efficiency. We will also continue our efforts of flawless execution of new

launches, improving customer satisfaction further, and thereby supporting our new and stronger market position.

Sadly, there will be millions of traffic accidents in 2021, some fatal, some where people will get injured. Therefore, we will relentlessly continue to innovate and to deliver best quality products that will save more lives.

CMD 2021

We plan to hold our next Capital Markets Day in the fourth quarter, where we will showcase our full potential and provide an update on our strategy and development of the Autoliv Group.

Additionally, we plan to show future products, give an update on opportunities in core and adjacent product areas, outline further potentials that we see in flexible automation and digitalisation, and much more.

Concluding Comments

Anders Trapp

VP, Investor Relations, Autoliv

Anders Trapp: This concludes our formal comments for today's earnings call, and we would like to open the line for questions.

Q&A

Emmanuel Rosner (Deutsche Bank): I have two questions. First, on the raw materials. Could you go over kind of the impact going forward at current spot rate? And if I remember correctly, there's usually a lag. So it sounds like it could be 40 bps this year, any sense of how much that might be next year?

And then second question on the order intake. So it's been about 50% the past five years. Could you maybe go over why that's kind of dropped down to 45% in 2020? Thanks.

Mikael Bratt: Thank you for your questions. I can start with the order intake. Then maybe I will then pass on raw material to Fredrik to give you some more details there. I think firstly, it's still a very strong year when it comes to our order intake. We have an order intake for 2020 that will continue to support our outgrowth of the market.

We have said all along that we have expected market share growth into the mid-40s or around 45%. And that is our focus to protect that market share as we move forward in the coming years. And with the order intake that is higher than we had before, the period increase. So, six years of strong order intake is doing exactly that. We are pleased with the order intake and it support the strategic outlook we have had when it comes to defending our market share.

Fredrik Westin: On the raw material side, we were guiding for a 40 basis points impact on the 2021 financials. The main negative impact we see is from steel, but we do expect some offsetting effects from for example, nylon still in 2021. And we also based this estimate on the assumption that steel spot prices have peaked, and that the average steel price would be somewhat lower for the year compared to right now. And then of course, it also takes into

account how our contracts are phased and how then the spot prices will turn into an impact based on our set up with our supply base. So that's pretty much the picture on our raw material.

Emmanuel Rosner: All right, great. Thanks.

Chris McNally (Evercore): A follow on maybe to the market share question - Could you maybe talk about how your sales force and division heads are sort of incentivise this idea of basically going after revenue versus going after profitable higher margin business? Can you just talk a little bit about how that incentive structure works because I guess people are trying to understand if there is business to be won above that 45% market share target is that something that they're incentivised to go after?

Mikael Bratt: First of all, we always strive to get as much business as possible of course to support our customers and doing that in a healthy way. So we are focusing on both the topline and bottom line. And I think that is what we alluded to also when we have talked about our ambitions to continue to grow.

If it's 45 or 50, some questions have been here in the past considering the last year's order intake. We have been very clear that we don't have a market share target per se. Our focus is to defend the market share that we are growing into and do that in a healthy way from a profitability point of view.

And I think we're showing that we're doing that and that's also how we drive the company. And we are focusing on supporting our customers to have quality products to save more lives. That's our focus.

Chris McNally: That's great. And then the second question is really more on the long-term target, which you seem to be reiterating of this – the 13% margin. And I think it was mentioned even this 1% organic content per vehicle growth above market share and it sounds like we're going to learn a lot more on the CMD in Q4.

But do you feel pretty confident that there is a Passive Safety tech story where there is actually content that could be grown and then obviously China is still coming up in terms of a lower CPV per vehicle? But do you feel confident that there's a growth story here well past when you hit sort of your eventual market share gains? Because obviously, the numbers get pretty big if we start putting on growth to the market in a 13% margin in whatever year that is, 2025 etc.

Mikael Bratt: Yeah, I am confident. We are making this adjustment based on the best of our knowledge when we look and analyse the numbers that we have in front of us. And as I said, we see that the content per vehicle are coming in higher with both the developments you see in some developing countries where the content per se in terms of feature is increasing, but also the more advanced products coming into the vehicles across the board I would say, so hence then the higher value in the CPV coming through above the 1% that we are talking about. So that is what we see. And then combined with the strong order book that we have and continue to build on also with this year's order intake we feel that we can raise the bar with our performance versus light vehicle production with one percentage unit. So yes, that's what we see.

Chris McNally: Okay, much thanks. Great results.

Joseph Spak (RBC Capital Markets): Thank you very much. Maybe just to follow on and to clarify like with the – you previously sort of talked about hitting that 12% margin target later

in the planning period because of the change in industry volumes which is understandable. But now since you've taken a lot of cost action to right size for that volume and the outgrowth is a little bit stronger. So has the timing of those margin target shifted at all or can we go back to sort of the original planning or is it still maybe a little bit later in the planning period?

Mikael Bratt: I think, as we have said all along is that we had the midterm target that's defined three to five years out from where we were at year one 2020. And of course, as we have shown in the presentation, there is for sure additional headwind compared to where we were in November 2019.

And roughly 40 million vehicles lower in this period seems to not being there. So on top of that uncertainty herewith and the circumstances to operate the business under COVID-19 together with uncertainty coming out of that definitely have put some more pressure on it.

Then as we have said all along, we are holding on to the targets. But of course, within the timeframe, it could take a little bit longer time than expected. So we are still in the timeframe we're talking about, and we have always been within that timeframe. We have not said anything else.

Joseph Spak: Okay, thank you. And then just for some of the 2021 guidance, I guess there are two things. One you noted in the fourth quarter, you mentioned a couple of times on the higher insurance. It sounds like that's more recent. Is that also a continued headwind into 2021? I didn't see it on your seesaw chart.

And then for the first-quarter production, you noted IHS at 14%. Maybe you could just talk about what you're seeing from your customer call-offs in light of some of the semi-shortage etc., whether you think it's going to be at that level or maybe a little bit below?

Mikael Bratt: If I start with the first one about the outlook for light vehicle production. As we have indicated, I mean we are leaning on the IHS outlook. And when we look at that we see that we have compared to the second half of 2020 and transform that into the full year of 2021, you see actually a slightly weaker 2021 compared to the second half of this year of around 4%.

And I think when you look at that, of course, we have the COVID, we have also the semiconductor challenge as we mentioned here. There is for sure some uncertainty in the beginning of the year which we are cautious of.

But I would say looking at the full number; we have no other indications or views on what we see here on as the total number for 2021. Hence then our indication that we have for 2021. We are still in a COVID situation.

Fredrik Westin: And your question regarding insurance if that's related to the cost of insurance, that's – yeah, it's been an evolving picture over the last couple of years already, but we don't expect any significant headwinds from that from the cost of insurance for 2021 versus 2020. That would make it to the – our seesaw scale.

Joseph Spak: Thank you.

Victoria Greer (Morgan Stanley): Hi there, afternoon, morning everyone. I wanted to ask about dividends and cash returns please, and how you'd be thinking about those. You haven't posted a dividend for Q4. When do you think is the right level to think about reinstating the

dividends? When you do that, do you think that roughly the split that you've had in the past of around $2.50 a share, so about $200 million a year?

And then anything incremental to that comes with the buyback, is that still the right structure that we should be thinking about as you get into your target range? So yes, some commentary around that please would be helpful.

Mikael Bratt: Thank you. First of all, we normally don't communicate dividends in connection with our quarters because as you know, we have quarterly dividend that is taken by the board on a quarterly basis, not connected to Q reports.

Secondly, I think maybe it's too early to pose that question. I think we are still in the uncertain period and we're still outside the range. But with that said, I also want to reiterate that our clear ambition and target is to have a shareholder-friendly approach to how we return cash to our shareholders. Timing and also in which way and form we will do that, that we have to come back to.

It's a decision to be made by the board eventually. But we need to get into more stable territory in terms of the business cycle before we do that.

Victoria Greer: Okay, so you think the related market uncertainty is still too high for that to be a realistic discussion right now?

Mikael Bratt: That's correct. The business cycle is too uncertain, and also we still have some way to go until we are within our range. But we have said also that we have a pragmatic view, so we don't need to be within the range. But we need to see that we have a good track through there and a more stable business cycle.

Victoria Greer: All right, thanks very much.

Mikael Bratt: Thank you.

Mattias Holmberg (DNB): You made some comments on a slight headwind in the quarter from lower sales of inflator replacements. And I believe that you about a year ago said that more or less that the last of the inflator replacements will be made during 2020 and that we should expect this slight headwind that we’ve now seen.

Can you please just briefly update us on the status of these replacements? I know that for instance, that Ford just a couple of days ago announced a pretty significant recall still relating to these inflators.

Mikael Bratt: Yeah, we still are there. And as I have communicated before, we see a diminishing sales connected to that replacement. And when it comes to what you saw the latest there, I don't see that we have any upside coming from that to us. So I would say that diminishing trend continues. So no change to the previous statement basically.

Mattias Holmberg: Great. And could you give us an idea of how much of 2020 sales roughly was relating to these replacements?

Mikael Bratt: Was your question about the decline or how much sales did we have to replacement?

Mattias Holmberg: How much of 2020 sales was relating to the replacement?

Mikael Bratt: So around $55 million of sales in 2020 and probably half of that in 2021. So it will continue to diminish there.

Mattias Holmberg: Very clear. Thank you.

Ryan Brinkman (JP Morgan): I appreciate your comments on the dividend too. Maybe just another capital allocation question. As you return this year to your targeted leverage range, how should we think about the level of gross cash that you hold which I think is still toward the high end of what you've had on the balance sheet historically at least since the time of the Veoneer spin?

And then what is the first debt to be paid down? I don't know some of the sovereign debt you've taken on there if that needs to be prioritised? And how should we think about debt paydown versus other uses of capital?

Fredrik Westin: We still have a fairly comfortable cash position. And if you look, I mean historically we've been – in more stable times we've been at about half of the cash that we would have today on the balance sheet. But as we said before, I mean we still believe that there are some level of risks in the market.

And that it is prudent to maintain a slightly higher cash position at this point of time. But as that would normalise so as – if it would normalise, we can then build on that cash position, yeah. We have very few maturities coming up here, both this year and next year. So most – or the next large one is the repayment of the SEK loan that we took earlier during 2020. That's the first major majority, and that's next year.

Ryan Brinkman: Okay, great thanks. Just last question on things that you might contemplate doing in the future apart from Passive Safety. So, for example, this battery disconnect switch, I don't know if you've got any update there. And if that means that you see opportunities in addressable markets beyond airbags, seat belts etc.?

Mikael Bratt: Yes I think when it comes to the electrical vehicles, for example, this power safety switch is a component that we are selling, and where we see opportunities to further grow, and whatever you need to have a power safety switch. So it's – a good opportunity is there.

And we continue to explore what we have called adjacent – or calling adjacent business opportunities where we are building on our core competencies. But right now I have no more details to give you around that, more than that we have work in progress there. And we will come back to you when we have more to say there.

Ryan Brinkman: Okay, great. Thank you.

Vijay Rakesh (Mizuho): Hi, Mikael and Fredrik. Just on the order intake. I was wondering you highlighted EV. Do you see any difference in content between ICE and EV, anything structurally there or kind of similar?

Fredrik Westin: I think when it comes to electrical vehicles, it's neutral to positive in terms of sales value from our side here. And we have a good presence in the EV segment and reflects very much our overall market position here. So it's an interesting and good development from our perspective to see the EV development there.

Vijay Rakesh: Got it. And on the LVP and demand outlook, just wondering if you drill down as you look at dealership levels where do you see dealership inventories in North America versus China versus Europe etc.? Thanks.

Mikael Bratt: I think overall the inventory situation is good, I would say. If you look at the US, actually the inventory level is relatively low. We are around 48 days which is to be compared with 60 days in I would say some kind of normalised inventory level. So there is still some backfill need there.

In China, it's very much in balance, I would say. And also Europe, maybe on the high side in terms of balance definition, but overall in healthy positions. So nothing there that I would say is a concern. With US, then maybe the opposite actually.

Vijay Rakesh: Got it. Thanks.

Sascha Gommel (Jefferies): I have a couple of questions. The first question is in your introductory remarks you said you continue to evaluate measures for shareholder value creation. Was that basically related to your capital allocation or how should I interpret that statement?

Mikael Bratt: I would say it's all of above. As I said before, we're a shareholder-friendly company returning cash to our shareholders over time, but then also our focus to drive towards our midterm targets. And here we have all of those strategic roadmaps that we have talked about. So it's what we do here.

Sascha Gommel: Okay, so nothing specific in terms of further measures you could highlight today that haven't been discussed in the past?

Mikael Bratt: No, not more on a EBITDA level here. I mean it is really connected to our – improvement on our earnings capabilities and then cash return.

Sascha Gommel: Okay, perfect. Then I've just two very quick model questions. The first one, the warranty provisions you booked, when do you expect that to be cash effective? Is that kind of a $50 million cash out this year or is it dragged over longer periods?

Fredrik Westin: So there are two components, for the Toyota part, which is one larger part of the $55 million. The expectation is that that would be settled within this year. On the other part, it's more uncertain to say in terms of timing. So that's as much as I can say at this point of time.

Sascha Gommel: Okay, perfect. And then very lastly on the D&A headwind, do you have a rough number how much you expect D&A to be a headwind in 2021?

Fredrik Westin: I think if you look at the year-over-year development in Q4 2020 versus 2019, I think that gives you some indication by quarter then for next year.

Sascha Gommel: That's great. Thank you very much for the clarity.

Fredrik Westin: Thank you.

Brian Johnson (Barclays): Thank you. In relation to the quest for new business, and that's 45% to 50% share that was discussed earlier, how would you characterise the pricing environment in the Passive Safety business? I've always been struck by the enormous costs that competitor products are inflicting upon their OEMs?

With the kind of ongoing cost-cutting and price reductions, OEM seems to push at least historically pushed for in the Passive Safety business. So with this massive recall activity which keeps going on most definitely forward, has there been any change in procurement attitude towards price?

Mikael Bratt: It is a very competitive industry. And there is the 2% to 4% price reduction expectations on year-over-year, and no changes to how that's playing out, so, it's the same, so no changes.

Brian Johnson: Okay. And then secondly just in terms – so of the D&A question, what – with all the new business coming in, how could we – should we think about modelling RD&E, both is there lumpiness in the quarters in 2021 as well as should we be thinking about 4.5% as the midterm run rate on that?

Fredrik Westin: As we indicate in the guidance, we expect below 5% on RD&E of around 4.5. And I think that's – we will, of course, see the topline benefit from that. And then our ambition is to have the efficiency improvements on the gross engineering costs that we already showed that we showed you also on the ongoing activities.

And then we also have factored in our assumptions on the engineering recoveries which is always a bit – there's always a bit more uncertainty around that. But 4.5% is what we're guiding for. And then over time that this will then come down to below 4% as we indicated as the costs become more efficient and with further topline growth, yeah.

Brian Johnson: Okay, thank you.

Erik Golrang (SEB): Thank you. I have two questions, and they are follow-ups. Firstly on the expected cost development in 2021. You said you didn't expect anything additional in terms of recall-related costs. But does that assume that you have assumed that they are all in a similar level as in 2020, i.e., around $55 million?

And then related to order intake, was there a regional mix factor explaining perhaps the lower share, i.e., that it will be a bit more awards given in China versus the western world? And then also if you could comment on your share in sales, market share in sales for 2020? Thanks.

Fredrik Westin: On the recall costs we do not –at this point of time, the provisions that we booked in the fourth quarter is what we see as the current risk on recalls– and sorry 2020. And so that is what we see at the moment. Of course, we cannot rule out any further potential actions, but the forecast is not based on any significant recall cost to the same – in the same magnitude.

Mikael Bratt: And on share is sales. As we said, we had a 42% market share of sales in 2020. So it's one percentage point higher than what it was in 2019. So market share growth then continued as we deliver on the order book. And when it comes to the order intake, I wouldn't say that there is anything that sticks out into that.

I think we had fairly even distribution in terms of how we continue to build on our different positions in the different regions here, so no dramatic change in the balance there.

Hampus Engellau (Handelsbanken): Thank you very much. I'm sorry to come back on the order intake. You've been reporting 50% for so long. I guess we're starting to get used to

that. But I know for some time that we've been discussing pricing versus market share etc. And I'm sure you don't have a market share goal as you highlight them.

But are you starting to see some rising competition which means that you're more reluctant and focusing mainly then second more in profitability? Is that something that has impacted your market share? That's my first question.

And the second question is on the range or outperformance on organic growth, 45% instead of 54%. I guess my question is that this is based on your backlog and you had your backlog for some time. And each more than once you specified on that model. So how has that kind of changed going forward? Is there a mix issue or have you been given additional business on existing contracts that you've had in your backlog or how should we think about that? Those are my two questions.

Mikael Bratt: I take first on the order intake. I think as I said before, we are focusing on doing both; I mean driving growth and doing that in a healthy and effective way when it comes to the bottom line. As we have said all along, 50% is not the target, but it is to defend our market share.

And we believe we're doing that. And then, of course, here we came in around 45, and this is an isolated year also. So how you come out in the year also depends a little bit on how does your different customer base renewing their programmes, and how is your incumbency looking at that particular year etc.

So there are many different components. And I think when you look at a single year like this, and you come in around 45%, I think it's a very strong year and supports our long-term direction. And as we have listed also the outperformance, I think that's a very good indication that that theory holds so to speak because it comes then from how our order book have been built and are being built as we move forward on it.

Depending how these platforms etc. We see then how the contents increasing on top of that. So the combination makes us comfortable to adjust that target to one percentage point higher.

Hampus Engellau: All right. Thank you.

Mikael Bratt: Thank you.

Agnieszka Vilela (Nordea): Thank you. Could you help us with the EBIT bridge for 2021, and especially touch upon the savings components? So it would be helpful if you could quantify the kind of short-term savings that you had in 2020. You said that probably some of those will turn permanent, so what's the delta that you expect toward 2021?

And also on the permanent cost-saving side, you'll – obviously you're running your projects there, but you also say that you could have some scope for further improvement when it comes to the footprint. So could you please elaborate on that, and whether you included that in your margin outlook for 2021? Thanks.

Fredrik Westin: Yes, on the outlook if you look at the contribution of the structural efficiency programmes. So that the first one that was started in 2019 will have its last contribution in a year-over-year effect of around $10 million. And then we expect around $40 million from the second programme that we initiated last year.

So overall, a $50 million impact from that. And when you look at the footprint, these will take longer time. We're talking about a time period of 2023-2024 when they will be finalised. So there will not be any contribution from them in the 2021 EBIT And then we have not disclosed the savings from discretionary spending.

And it's a bit difficult to forecast how exactly they will phase in also here during 2021. At the moment, they are pretty much running at the same say run rate as they were in the third and fourth quarter. But our assumption was that they would normalise during the year.

But that's also of course connected to how the pandemic evolves and then how quickly we go back to a more normal way of working. We've not disclosed exact amount, but there will be say some normalisation of the discretionary spending during 2021 is our assumption.

Agnieszka Vilela: Okay, perfect. And then just lastly what kind of operational leverage do you assume for the full year?

Fredrik Westin: I think that you can calculate yourself from the guidance. I mean you have the topline. You have the adjusted operating margin, and from that, you can look at what the leverage will be.

Agnieszka Vilela: Yeah, all right. And then just the very last one on the recalls, are you sure that we will not see any kind of spreading impact from that with further products being recalled? What do you think about that?

Mikael Bratt: I think you need to look at this quarter as a very exceptional quarter in terms of recall cost. As we've indicated, we never booked it before. And this is an old situation and combined then with another case here that comes up in the same quarter. And this is not a new level.

You should expect with – our focus on driving quality has been high always, and we have also a history of around 2% of the recall share. Considering then our total market shares, I think that's a performance that we intend to continue to secure as we move forward here.

Fredrik Westin: One comment is also that the recalls are not related to each other. It's not a systemic issue or anything. They are just recalls where we have to book the charges in the same quarter based on the recent developments.

Operator: Thank you. We have no further questions at this time. Please go ahead.

Mikael Bratt: Thank you, Alicia. Before we end today's call, I would like to say that we are operating from a position of strength in many aspects, including market position, growth, and dedicated employees. We will continue to improve efficiency and continue to implement our strategic roadmap to support 2021 being a solid stepping-stone on the journey to our 2022-2024 targets.

Our first-quarter earnings call is scheduled for Friday, April 23rd, 2021. Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]