Q1 Report 2020

Friday, 24th April 2020

Welcome

Anders Trapp

Vice President, Investor Relations, Autoliv

Welcome, everyone to our First Quarter 2020 Financial Results earnings presentation. Here in Stockholm, we have our President and CEO, Mikael Bratt, our new Chief Financial Officer, Fredrik Westin, and myself, Anders Trapp.

During today's earnings call, our CEO will provide a brief overview of our first quarter results, as well as provide an update on our general business and short-term market conditions. Following Mikael, Fredrik will provide further details and commentary around the financials. At the end of our presentation, we will remain available to respond to your questions and, as usual, the slides are available through a link on the home page of our corporate website.

Safe harbour statement

Turning to the next slide, we have a safe harbour statement, which is an integrated part of this presentation and includes the Q&A that follows. During this presentation, we will reference some non-US GAAP measures. The reconciliation of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-Q that will be filed with the SEC. Lastly, I should mention that this call is intended to conclude at 15.00 Central European Time, so please follow a limit of two questions per person.

I will now turn it over to our CEO, Mikael Bratt.

Operational Performance

Mikael Bratt

President and CEO, Autoliv

Thank you, Anders.

Execution in unprecedented times

Looking now into the Q1 2020 key events on the next slide. Before we start with formal presentation, I would like to acknowledge our employees for their continued actions and commitment to quality, delivery and safety during these exceptional times. During the quarter, global light vehicle production fell close to 25% as production in China and part of other markets in Asia came to a stop in early February and as most vehicle manufacturing plants in Europe and North America closed down in mid-March. We continued to outperform against global light vehicle production as our sales declined organically by 11 percentage points less than global light vehicle production declined. We outperformed light vehicle production significantly in all regions.

Despite exceptionally weak light vehicle production, we are able to report a strong first quarter. I am especially pleased with our sales outperformance and that our gross margin was slightly higher than a year ago and adjusted operating margin was only 30 basis points lower. Our cashflow was actually at somewhat higher than Q1 last year.

The taskforce we set up to initially manage the situation in China has been expanded to a global scale and has been able to act promptly with timely cost-reduction actions to offset much of the headwinds from the weaker light vehicle production in the quarter. We were able to safeguard our supply chain and make sure that no customer was affected by lack of Autoliv products. We have undertaken a number of actions to manage the evolving situation, including adjusting production and shorter work-week hours to meet lower demand. We have also reduced or suspended investments and spending that are not critical for daily operations, accelerated cost-saving initiatives, furloughed personnel, [inaudible] in government sponsored programmes, and reduced compensation for executive officers and board members. We have intensified working capital control, through strict inventory control, close monitoring of receivables and close collaboration with suppliers. In addition, we have cancelled the dividend, drawn fully on our revolving credit facility and thereby secured a liquidity of $1.5 billion in early April. So far, we have not seen any changes to the sourcing behaviour of our customers. During the quarter, our order intake share remained high and supportive of a prolonged sales outperformance. Given the uncertainty in the market, we have withdrawn our full-year guidance until the effects of COVID-19 pandemic can be better assessed.

Sales growth

Looking now on adjusted sales performance on the next slide. Our sales declined organically by $283 million, or by 13%, which was 11 percentage points better than the light vehicle production decline of almost 25%. As a result of a positive model mix and new launches over the last 12 months, we were able to outperform light vehicle production in all regions. The overall sales decline was driven by China, followed by Europe and North America. The only areas with organic growth were Asia and South America. The most impact from the Coronavirus outbreak was in China, where sales fell organically by almost 37%. However, this compares favourably with the light vehicle production decline of nearly 50%. The outperformance was mainly coming from global [inaudible].

Sales in North America decreased organically by 9%, 2 percentage points better than the light vehicle production decrease. Almost half of the organic declined can be attributed to lower inflator sales. The decline was partly mitigated by organic growth, with a multiple of OEMs, mainly with Tesla, but also with Subaru, Mazda and BMW.

In South America, our sales increased by 7% organically, despite a 17% decline in light vehicle production. The growth was mainly driven by sales to FCA.

In Europe, we continued a trend from fourth quarter and outperformed light vehicle production by around 8 percentage points, impacted by recent launches of high-volume models at PSA, VW and Renault. As vehicle production came to a stop amid the spread of the Coronavirus, our sales dropped by close to 30% in the month of March. Sales in Japan decreased organically by 4% compared to the light vehicle production decline of 8%. Decreasing inflator replacement impacted sales negatively, with 1.3 percentage points. In the rest of Asia, organic sales declined by 4%, which was almost 14 percentage points better than light vehicle production within the region. Sales in South Korea and India fell, while sales in Asia increased despite lower light vehicle production.

Key model launches

Looking at our recent model launches on the next slide. We continued to have a high level of launch activities in the quarter. The models shown on this slide are well distributed across the globe and most of them will be available with some sort of electrified power train, for example, pure EV, mild hybrid or plug-in hybrid. The Autoliv content per vehicle is between $100 and almost $500. It is particularly interesting to see front centre airbags on three of these vehicles. We expect to continue to see strong growth coming from front centre airbags, as Euro NCAP has introduced the far-side load case in their updated rating programme.

Four of the vehicles are equipped with knee airbags from Autoliv on the driver side. Tesla Model Y has a knee airbag also on the passenger side.

Currently, we see limited effects from the COVID-19 on the OEMs' 2020 launch plans and we continue to support them with engineering, testing and by setting up new production lines. However, we believe that some products that have planned launch dates closer to the year-end or later may be delayed. There will also be vehicle facelifts in other areas where the automakers may change their plans.

Now, it is my pleasure to introduce our new Chief Financial Officer, Fredrik Westin. Fredrik joined our Executive Leadership Team in early March and he will now speak to the financials on the next slide.

Financial Performance

Fredrik Westin

CFO, Autoliv

Thank you, Mikael.

Financial overview

This slide highlights our key figures for the first quarter. Our net sales were $1.8 billion, which is a 15% decline compared to the same quarter last year. Despite the lower sales and lower utilisation of our assets from the decline in LVP, our gross margin improved by 50 basis points as it was positively impacted by the absence of costs related to the social unrest in Mexico, savings from indirect and direct workforce adjustments, lower raw material costs and also positive currency effects. Although gross margin improved, the lower sales led to a decline of $48 million in gross profit. The adjusted operating income declined by around $30 million, to $136 million, mainly as a result of the lower sales. Reporting earnings per share declined by 41 cents to 86 cents. The main drivers behind the decrease were 53 cents from lower operating income and 5 cents from financial items, partially offset by 16 cents favourable impact from lower tax. Our adjusted RoCE and RoE were both at 15%. Dividend paid in the quarter was 62 cents.

Operating margin bridge

Looking now on the adjusted operating margin development on the next slide, our adjusted operating margin of 7.4% was 30 basis points lower than in the first quarter 2019. Q1 2019 was however negatively affected by temporary costs for the social unrest in Matamoros in

Mexico. Excluding this cost, our adjusted operating margin would have been 8.7% a year ago.

As illustrated by the chart, the adjusted operating margin was positively impacted by lower cost for raw materials, of 30 basis points, lower cost for SG&A and RD&E, or 50 basis points, and positive FX effects. These positive developments were more than offset by the effects of lower sales. The lower organic sales negatively affected the margins by around 370 basis points. However, we managed to mitigate some of the negative operating leverage effects from the lower sales by a number of activities such as accelerated cost-saving initiatives that started in previous quarters, by adjusting production and work-week hours and by furloughing personnel.

Cash flow continuing operations

Looking on the next slide, for the first quarter of 2020, the operating cash flow was $156 million, compared to $154 million a year earlier, as the lower net income was more than offset by less negative effect from changes in operating assets and liabilities and increased deferred income tax. Capital expenditures amounted to $88 million in the first quarter, which is about 4.8% in relation to sales. Compared to last year's, capital expenditure decreased by $20 million as we suspended or delayed some investments. As a result, our free cash flow improved by $22 million to $68 million compared to the same quarter last year. Cash conversion improved to 90% this quarter, compared to 41% the same quarter a year earlier.

Leverage ratio

Looking on the next slide, we have, as you know, a long history of a prudent financial policy. Our balance sheet focus and long-term shareholder-friendly capital allocation policy remains unchanged, despite the current market conditions. The leverage ratio at March 31st, 2020 was unchanged at 1.7 since the beginning of the year. The lower net debt was offset by lower last 12 months EBITDA.

Strong liquidity position

At the next slide, you can see our liquidity position and the maturities. As illustrated, our liquidity position is strong. We had around $1.5 billion in liquidity, after drawing fully on our revolving credit facility on April 2nd. We have a very limited amount of maturities in the next three years, with around $320 million in debt maturities in 2020, and around $275 million in 2021. We have no need for any major refinancing of existing debt until 2023. Therefore, we believe that we have secured a significant liquidity cushion to manage our business successfully in this challenging environment. I will now hand back to Mikael.

COVID-19 and the Future

Mikael Bratt

President and CEO, Autoliv

Thank you, Fredrik.

Autoliv's role in fighting COVID-19

I am proud on how Autoliv employees have been creative in finding ways that we can use Autoliv resources and competence in supporting society's battle against the COVID-19 crisis.

On the next slide, we show some examples of initiatives taken by Autoliv associates around the world. In Poland, we have worked with local hospitals to manufacture and deliver masks. In North America, we are using our laser-cutting machines to cut materials for a local sewing company that manufactures masks. In India, we have provided food to migrants that have become stranded and have no income to feed their families or themselves.

Light vehicle sales and production

Looking at the market situation on the next slide. You can see that our industry is in a downturn of historic proportions. March is typically one of the busiest months of the year for the car industry. This year, however, the automotive industry has seen its worst March for decades. As consumers were unable to visit car showrooms due to social distancing and government-enforced closures, as well as the shutdown of parts of society, light vehicle sales declined roughly by 38% in the US and by 55% in Europe in March.

There is a great uncertainty in light vehicle sales and production due to the evolution of the pandemic, government actions and policy changes, as well as end consumer demand for new vehicles. Therefore, it is currently not possible to estimate the light vehicle production run rate we will reach post the COVID-19 pandemic. Regardless of what level of light vehicle production that will be the new normal, we will have to adapt. We are therefore working with different scenarios in preparing for the new normal, some of them significantly lower than the current IHS estimate. Keeping a high degree of flexibility and agility is therefore essential to be an even stronger company post the COVID-19 pandemic.

Light vehicle markets

Moving to the next page, the situation for major light vehicle markets is very uncertain and changes day by day. OEMs in China are gradually coming back to their previous production levels and the China Passenger Car Association reported that the retail sales were 14% above last year's level in the second week in April. However, the situation remains fluid and OEMs will be adjusting their pace of production according to inventory levels and market demands. Production disruption in other regions which supply components to auto makers in China can potentially slow down the recovery.

A number of European automotive plants have restarted or are preparing to start again, after more than a month of Coronavirus-related shutdowns. The production rate will likely be volatile, with reduced shifts to adapt to uncertain demand development and availability of components.

In the US and Canada, most OEMs plan to resume production at their facilities by early May. Production disruption of components in Mexico can potentially slow down the rest of the region as there is uncertainty around the start-up for plants in Mexico due to the government's stay-at-home measures.

Most OEMs in Japan have announced closures and slowdowns in April and May. The Golden Week holiday is expected to be extended by a couple of days.

Status of Autoliv operations

Looking on the next slide, we have summarised the situation for Autoliv operations in our major regions. In China, our production has gradually recovered to around 100% compared to this time last year. However, the automotive industry has been particularly hard hit during the pandemic and it will take months for the industry to recover to full efficiency and to reach a stable demand.

In Europe, our plants are resuming and ramping up production, in line with our customers' needs. All tech centres are back in operation, however with lower than normal capacity.

In North America, 10 of our 13 sites are fully shutdown. In the three sites that are open, we run limited production for overseas customers.

In Japan, 70% of our plants are running. In South Korea, our airbag plant is producing at near-normal rates, while the seatbelt plant is open but not running full shifts.

Our responses

Looking on the next slide, we show our response to the challenging market conditions. This includes much more than just headcount and work-week-hour reductions. Firstly, in response to the new working situation brought by the Coronavirus, we have stepped up our efforts to secure health and safety for our employees through new policies and procedures, for increased awareness and changed behaviour as well as protective equipment.

In addition to securing a strong liquidity position of $1.5 billion, we have also intensified our capital management through strict inventory control, reduced or suspended investment and spending that are critical for daily operations, close monitoring of receivables and close collaboration with suppliers.

We have undertaken a number of cost-reduction activities, such as adjusted production and work-week hours, accelerated cost saving initiatives, furloughed personnel, opted in [?] government supported programmes and accelerated the redesign of products for lower costs. In addition, we have for the time being suspended our dividend payments and reduced executive salary levels.

Manage a ramp-up of production

While we continue to focus on further cost-reduction actions, we are also planning and preparing to restart production, as shown on the next slide. We are preparing for restarting and ramping up in coordination with our customers and suppliers. We are deeply focused on keeping our employees, customers and suppliers safe when we restart production at our facilities. To navigate this new normal, we have developed a play book that lays out processes to raise awareness of new health protocols and to support execution in a challenging situation. The Smart Start guideline includes practical recommendations based on guidelines from World Health Organization and our lessons learned from our recent ramp-up in China. We are providing personal protection equipment such as masks and visors and making a redesign of production environment, for instance setting up protective screens. Our first focus is now on Europe, which is starting to ramp up as of this week.

COVID-19 impact on Q2 2020

Turning the page, we have summarised the business environment in Q1 and Q2. The pandemic's impacts on consumer demand, supply chain and OEM production cannot be forecasted with a satisfactory degree of confidence. Consequently, we withdraw our full-year guidance and it is not possible to determine when a new full-year outlook can be made. The situation is however more challenging currently than it was in the first quarter. Customer closures are now affecting the majority of our operations for an unclear period of time, compared to the more limited but significant scope in the first quarter. It is currently difficult to estimate how large the second-quarter light vehicle production decline will be. The regional mix will have a more negative impact on sales in the second quarter, due to higher safety content in vehicles in Europe and North America. In the first quarter, we had a positive impact on sales from regional mix. IHS' latest outlook, dated April 16th, indicates a global light vehicle production decline of 45% in the second quarter. A decline of such magnitude would of course have a significant negative impact on our sales and we do not expect to be able to offset the effects of the lower sales with cost-reduction activities while planning for production restarts. We are therefore expecting the decremental margin in the second quarter to be significantly higher than it was in the first quarter. When it comes to CAPEX, we are scrutinising everything, delaying what can be delayed. Typically, 70% of our CAPEX is related to new production lines, which very much is driven by the plans of our customers and are difficult for us to postpone.

Our priorities

On to the next slide. We have to manage the current challenges post-COVID-19 pandemic without losing focus on the long-term opportunities. Autoliv is operating from a position of strength in terms of available liquidity, flexible structure and not at least dedicated and experienced employees. This exceptional situation requires tough decisions that we will make as necessary. It is of upmost importance to ensure that we have an adequate cost structure that supports our profitability targets, regardless of what level of light vehicle production that will be the new normal. The strategic initiatives and structural improvement project we outlined on our Capital Markets Day in 2019 remain key priorities, although some projects may be somewhat delayed. We will continue our efforts for flawless execution of new launches, improving customer satisfaction further and thereby supporting our stronger market position.

I will now hand back to Anders.

Anders Trapp: Thank you, Mikael. Turning the page, this concludes our formal comments for today's earnings call and we would like to now open up the line for questions.

Q&A

James Picariello (KeyBanc Capital Markets): Hey

Mikael Bratt: Hi.

James Picariello: Just on the quarter's significant market outperformance, within your guidance framework last quarter – and I know obviously a lot has changed since then, but you talked about stronger growth over market position for the second half. Now, was that a factor of better mix in the quarter, favourable customer exposure, or was there really just a delay in your ramp-down which maybe gets caught up in the second quarter?

Mikael Bratt: I would say that the outperformance in the first quarter was to a large extent contributed by a favourable regional mix in the quarter, where we saw China light vehicle production falling, with close to 50%, and that we had lower content in that sense. Then you had a high let us call it value content per vehicle in Europe and the US, still at a high level for most of the quarter. It was not until the last two weeks, basically, where you saw the effects in the Americas and Europe, so a favourable regional mix in the quarter contributed to the outperformance.

James Picariello: Did you also benefit from any competitor issues – maybe competitors struggling more so than Autoliv – in the quarter?

Mikael Bratt: I think no.in the quarter, it is purely, I would say, the mathematics of the run rate on the OEM side here and there you have the effects which I also mentioned regionally.

James Picariello: Okay, got it. Then just on Mexico, can you remind us what percentage of your North America sales mix is tied to your production operations in Mexico? Then just given what is going on with the peso, will there be a sizeable FX transactional benefit potentially this year? If you could just help us walk through how to think about that flow through. Thank you.

Mikael Bratt: I think when it comes to the Mexico-US relationship, you should more see it as the total automotive industry that is very connected. So, I think for us, of course we have a high portion of production in Mexico., that is one of our biggest production countries, so of course that is important that goes hand in hand with what is happening in the US. But I think the question is much broader than Autoliv specifically. It is the whole automotive industry that needs to be in sync, between Mexico and the US, to actually get into a ramp-up that is sustainable.

James Picariello: And just your thoughts on the FX transactional?

Mikael Bratt: No, you should not count on anything there, , first of all, we have no guidance, as you know, for either the quarter or the year, and I think the FX is in that category here as well., we have no indications for the quarter here on that.

James Picariello: Okay. Thanks, guys.

Rod Lache (Wolfe Research): Great. Thank you. Just a few questions. First, you have historically demonstrated a lot of agility in terms of adjusting your cost structure. You have a very variable cost structure compared to most other auto suppliers. Can you just maybe give us a sense of how that could come into play here, for example? Obviously, not in Q2 but longer term, if revenue stayed below historical levels, maybe if it stayed at levels that you saw in the first quarter and you were given enough time, is there any way to characterise the magnitude of cost adjustment and margin that you would ultimately believe you could achieve?

Mikael Bratt: What you are mentioning here about time is critical I think we have stated for a long time, when it come to our medium- to long-term targets here, that the critical question that is not that we need to get back to some kind of all-time high levels that we have seen in the past here. It is stability that is critical. But that is over time and since we are not giving any guidance here, I do not want to get into any time horizons when we talk about this. But we have a structure that provides good flexibility and I would say that if you look at our total cost base, around half our sales is purchased components, another 10% is connected more to direct labour and then another 10% are the flexible type of cost flexibility. So, it leaves around 30% as fixed costs roughly there. But as we all know, long term you can also work with that. But that is kind of the ballpark you should think about. And then, when you have a situation like we have right now, where it comes to a definite stop in just a few couple of days, it looks very differently, and also when we are looking into the quarter, it is a very steep stop, so I would say normal calculations are maybe not feasible But over time, those are the ballpark figures you should think about.

Rod Lache: Okay. And do you have any views on – obviously, every company in the world is putting in place new operational protocols for safety and social distancing. Does that, in your view, have any long-term consequences for productivity or how we think about just operationally the inefficiency that is introduced there? Then lastly, can you comment just on what you are hearing about the trajectory of these restarts? So, in Europe it seems like that is under way. Is it just a few plants? Are your customers telling you anything about the level of production and how that is expected to ramp over the next weeks?

Mikael Bratt: I think all in all,if you start with the last question, I think when it comes to the visibility it is of course very, very low under the circumstances, and as we mentioned and you also had seen, some OEMs are starting some of their plants. So, it is more site by site, I would say, and model by model, that they are starting, and the levels are very low at this point in time, and I think also when you look at the ramp, it will go relatively slow. But what it all depends on is of course how the virus is developing – if it is stabilising, if it is declining or if it continues to spread and increase. So, that is the million-dollar question on how that is developing, because that is how we would be able to restart across the continent here. And that visibility is of course very low for everybody in the industry. So, I think– it will be required to have a lot of flexibility and that is what we are focusing on here, because you could very well see it increasing and then coming down a little bit again and so on.

So, uncertainty is very, very high and very low visibility. And I think that is also the feeling and the signals we get from our customers, for sure. Looking at the consequences, if I understand your question right, on the new measures that we need to implement to keep our employees safe here in the current circumstances, if that has a long-term negative impact on productivity and so on, I would say it is too early to say that, but I do not expect it, because the measures we are taking under these current circumstances, I do not see they to a large extent continue beyond the virus situation, so it is more connected once again to how the COVID-19 pandemic evolves here. Of course, there are some more cumbersome procedures there in terms of equipment and so on that you need, but I do not see any problem for us to keep up with our productivity work and securing quality and deliveries according to customer expectations. So, it is something we are well equipped to manage.

Rod Lache: Great, thank you.

Mikael Bratt: Thank you.

Mattias Holmberg (DNB): Thank you. You show a quite decent decline year-on-year in CAPEX spend and I am just trying to understand, sort of assuming that there are no changes or delays to your customers' launch schedule activities, is there still any room to further scale down the CAPEX level from what you reported in Q1?

Mikael Bratt: I mean, that is an ongoing work of course, to see how we can optimise the timing of the things that need to be invested. So, it is the usual scrubbing of the CAPEX that has been ongoing and will continue to go on. And that is why it is so important here to stay very close to our customers to understand if there are any changes to their own schedule or so when it comes to launches, on how that could impact us in the way that we could delay some of the investments. But all the start of production commitment that we have with our customers of course can never be jeopardised, so that is the bottom line in terms of what type of CAPEX investments we need to stay on with. But we continue to scrub the numbers here, absolutely.

Mattias Holmberg: Thank you. One more question from my side. Talking about the regional mix again, which you explained there how it impacted you positively in Q1, given the dynamics of how the sector has been impacted throughout the year so far, would it be reasonable to assume that you then would have a negative regional mix impact in the second quarter?

Mikael Bratt: Yes. , going into the second quarter, with what we also have described around the volumes in Europe and North America and that China is ramping up, I would say it should be assumed that we should see the reverse in the second quarter. But it is a very dynamic situation here, but based on that, yes.

Mattias Holmberg: Understood. Thank you.

Sascha Gommel (Jefferies): Hi. Good afternoon. Thank you for taking my questions. The first one would be on working capital and how this is going to unwind in the second quarter, because your absolute level of receivables was higher than payables, so is it fair to assume that from that side we should expect a little bit of an inflow?

And then similarly, from inventory, it ticked up a bit, Q1 versus full-year numbers, so do you also expect from an inventory side that you get some support?

Fredrik Westin (CFO Autoliv): Let me take that question. So, if I start with the inventory side, the background is of course that end of March we were ramping up in China while ramping down in Europe and in the US and this was done with very steep curves at the same time. So, we need to make sure that we have the material on the one hand side to be prepared for the ramp-up, but also that we do not jeopardise that, but on the same time of course also do what we can do to take out the unnecessary inventory. It is a very difficult balancing act at the moment and with the uncertainty on the volumes, it will remain so. So, it is very difficult to then predict where the inventory development will be in the second quarter. I mean, our plan is to of course take out as much as we can, but it is this balancing act that I described. On the receivables side, it will follow the sales development and we expect that to pick up during the second quarter, so with that you should expect an also build-up of receivables in the second quarter, and that then will have a negative development on the cash flow and working capital. But there, the key is to manage then the overdue part of that and make sure that we do not run late on collecting. But it is – I think it will be – it will follow the mathematics of the ramp-up and that is the very, very difficult part to explain or to forecast at the moment.

Sascha Gommel: Understood – very clear. And then my second question would be on the decremental margin. We touched it multiple times already. Would you be willing to give a number of, like, if we would exclude products and regional mix, how much your underlying operating leverage is? Just to get a better understanding of how much of that is actual mix and how much of it is actual volumes.

Mikael Bratt: Yes. I was a little bit touching that in the previous question, when I talked about the fixed and flexible costs. And what we said here is that around 30% are fixed, so with a short stop like we see right now, it is maybe a worse situation – it is most likely a much worse situation than the normal rule of thumb here of around 30%. So,we will see. But it depends on a lot of things here. As we said, it is a fluid situation, but with short stops like this, it is very, very challenging.

Sascha Gommel: Understood. Thank you very much and have a good weekend.

Fredrik Westin: Thank you.

Mikael Bratt: Thank you.

Chris McNally (Evercore): Thanks, gentlemen. I am just going to follow on the topic of decremental margins. You had a great raw material benefit in the quarter, you know, looking at sort of the drag over the last year or two. Could you put some parameters around either maybe the benefit going forward or when the peak benefit should be? Should it sort of be in Q2 and Q3, somewhat offsetting the pure volume decremental margin?

Mikael Bratt: No, as we said, we cannot give any guidance and we are not giving any guidance here. We cannot basically give you any time horizon on this. I think, what we said in the beginning of the year was the direction we saw at this time. What is happening right now is impacting so many things in our industry but also other industries that it is all moving parts right now. We would like need to refrain from giving any indications, because it is too fluid, basically.

Chris McNally: That is fair. And then maybe just more of a follow-up to Rod's question about a more longer-term view to variable margins. In previous downturns, we have seen significant restructuring. You took a good amount of restructuring last year, as you know, sort of we were already at production levels that were well below the $100 million to $110 million that we all thought a couple of years ago. Is there a level of production or a trigger that would cause the next round of restructuring? You know, I am thinking more about permanent cuts to production capacity and white-collar workforce.

Mikael Bratt: Yes. of course, we are working with a number of scenarios here and, as we have indicated the normal rule of thumb is what we have stated before, and I think beyond that is all depending on how the development is coming through here. And we are of course working with a number of scenarios here and we will need to do whatever we need to do to make sure that we come out in a strong way, and I am convinced that we have the tools and also the measures available here for whatever we need to do. So, it all depends on the overall situation and we will execute accordingly.

Chris McNally: Okay, thank you.

Mikael Bratt: But we cannot give any more details in terms of time and the size.

Chris McNally: Absolutely. Thank you.

Mikael Bratt: Thank you.

Erik Golrang (SEB): I have one question that has not been asked, more or less. And I understand you do not want to give a full-year guidance here on sales, even though there are vehicle projections to relate to, but on the topic about outperformance then for the full year, is it fair to assume if the second quarter regional mix in terms of auto production continues for the second half, that your previous indication of around 6 percentage points of outperformance would be lower, despite the good mix in Q1?

Mikael Bratt: We know what kind of orders we have taken over the past couple of years. I think the long-term direction that we have indicated as a result of these orders is still of course the basis for looking forward. But what is happening right now with the very volatile movements in our industry regionally but also in terms of size, it of course changes the short-term measurement here, and as you heard the explanation for the first quarter we believe that if what have described now, current situation, you could expect the reverse, but it all depends also of course on beyond that, on how the market is coming back and how it synchronises back to some kind of normal relationship there. But of course, those things are impacting, so therefore it is very difficult to give you any, and that is why we are refraining from the whole guidance altogether, because there are many moving parts, including this one.

Erik Golrang: Okay. Thank you.

Mikael Bratt: Thank you.

Victoria Greer (Morgan Stanley): Afternoon. Yes, just a few, please. Firstly, I understand how much the raw material situation is moving around, but could you give us an indication of how much that contributed just in Q1?

The second thing, on the geographic mix, you have outlined the differences in terms of content per vehicle. That is clear on the top line. But is there any difference in margin there?

And then the last thing, on the Matamoros impact – thanks for quantifying that in the bridge – should we think about any ongoing year-over-year impact, or was that really just a Q1 2019 issue that does not repeat for the rest of the year?

Mikael Bratt: Yes. the first question – raw material impact in the first quarter – as you see from the bridge there, we are taking about a straight 30 basis points positive contribution from raw materials.

Victoria Greer: Sorry, and on the top line, sorry – that is what I meant: what did it do on the top line?

Mikael Bratt: The raw material impact on the top line? I cannot give you a number there, unfortunately.

Victoria Greer: Okay.

Mikael Bratt: I do not have that. On the ongoing – if Matamoros was a one-time from last year that we are reversing this year, if your question was do we have ongoing for the rest of the year that would have the same effect – was that the question?

Victoria Greer: Yes. Is there anything more to comp out for the remaining quarters, or it was just a Q1 2019 effect that has been this one-off impact on the margin because it does not repeat?

Mikael Bratt: No, almost nothing, so this was the big one. And then, sorry, the third question was?

Victoria Greer: On the geographic mix and the difference in content per car in the different regions – you have been clear about that impact on the top line that that will reverse in Q2. Should we think about any different margins there, or it is just a content issue.

Mikael Bratt: No, I mean, what we are referring to here is the content issue and the top-line effect here. But – and of course in terms of EBIT mix here, we do not go into the details for product and region here.

Victoria Greer: All right. Thank you.

Mikael Greer: Thank you.

Agnieszka Vilela (Nordea): Thank you. I have a couple of questions, starting with the kind of cost side of your business and what you can do there. We know that the programme you announced last year was supposed to bring about $60 million in yearly savings. How is that proceeding and do you already see a need for extending restructuring because of what is happening now? Thank you.

Mikael Bratt: I think when it comes to the structural efficiency programme we launched last year and saw some effects last year, but the full effects should be reached during this year, I would say we are on track on that and we are expecting to see the full delivery of that during this year. I think we have indicated in the past here that fully executed is not until we come into the second quarter here.

Agnieszka Vilela: And do you plan anything above of that?

Mikael Bratt: I think going forward here, I mean, we are working through all types of cost reductions of a let us call it short-term nature right now. Then the scenario planning we are working will give additional more long-term effect that is needed potentially. But it all comes down to what will be the new normal, so to speak, beyond the current short-term challenge, where we are all dependent on the result of the COVID-19. So, to get to the new normal, we need to leave COVID-19 behind us.

Agnieszka Vilela: And if you could quantify any cost benefit that you see from the support from the governments and states in different regions and also just to tells us if you believe that it is in any way different from what happened during the financial crisis.

Mikael Bratt: I think the governmental support and programmes, it is too early to give any effects or talk about any numbers there. So, a broad range of programmes and we are also in different phases of these different programmes and I would say also some – much is so far similar to what we saw in the financial crisis. I think some countries here have added some initiatives that were not there, so it is a little bit of a mixed picture, but in many places, especially in the bigger ones, we see similar kind of activities here. But I would say it is too early to give a number on that.

Agnieszka Vilela: Yes. And then the last question from me is really if you could elaborate why you felt the urge to draw down on all of your revolvers, given the fact that you have quite limited maturities in both 2020 and 2021. So, what was the reason really behind that?

Mikael Bratt: I think you should see it as just a very cautious and proactive activity here for what is a very challenging time. And as we have alluded to during the call here and also in our report, uncertainty is very, very high. And we are talking about restarts here in Europe and the intention of restarting in North America in early May, but as we are dependent on this pandemic situation, meaning we need to get that behind us in order to get back to where we all should be in the industry, so to speak. We do not know how it will develop – if it is improving or if it is stabilising or if it is diminishing. So, it is very, very uncertain. So, we think that is the prudent way to manage the company.

Agnieszka Vilela: Okay. Thank you.

Mikael Bratt: Thank you.

Hampus Engellau (Handelsbanken): Thank you very much. Two questions for me, and I apologise if it has already been asked, because I was a bit late on this call. But in the 11 percentage point outperformance organic growth during the quarter, would it be possible for you to maybe split how much is the sales mix on China and how much is the market share gains?

And referring back to this 6 percentage points that was outperformance for the year, when you talked about it previously, was that figure back end loaded? That is my first question.

Mikael Bratt: When we talked about it in the beginning of the year, where we said we will have an outperformance of 6%, yes, it was back end loaded. So, what we see now in the first quarter is to the fullest extent a regional mix effect, as we said here, where China with lower content per vehicle falling with 50% while Europe and North America was holding up well, that was the consequences of that regionally.

Hampus Engellau: Fair enough. And then, I know that you are not giving any guidance, but if we look at the IHS numbers, with a 45% drop in the second quarter, minus 7% in Q3, minus 8% in Q4, from your talks to the OEMS and, like, indicated, and even if it is, like, a really early stage planning for second half, is that in the ballpark of what type of discussions you are having with the car OEMs when it comes to that, etc?

Mikael Bratt: I think what we are saying here about uncertainties is reflecting our discussion with the OEMs, because I think no one has a clear view on how this will develop, hence the situation here where we are dependent on the virus, basically, and the uncertainty is high also among our customers on how it actually will play out. I think there is of course some plans, some expectations and hopes, but very few knowns, of course. Then no one knows.

Hampus Engellau: Fair enough. Thank you very much.

Emmanuel Rosner (Deutsche Bank): Hi. Thanks for taking the question. One more clarification on the decrementals. So, when I look at your margin progression year-over-year, you sort of helpfully break down sort of like the volumes and other business impacts versus some of the offsetting cost savings. It looks like your decremental margins would have been a certain amount and then about a third of it is offset through cost savings. Any indication you can give us around the magnitude of potential cost saving as you move into Q2 and the rest of the year? Could it be kept up at the level of Q1 or even stepped back. I guess how do you think about that?

Mikael Bratt: No. I do not think we can give any more details surrounding that than what we have got yet – got so far here – because, as we said, uncertainty is high and I think that is the visibility we can give you, what we already stated, unfortunately.

Emmanuel Rosner: Okay. So then on a different topic, so obviously over time your growth above market has been heavily driven by sort of the market share gains. I think you also indicated that your win rate has stayed pretty high. Can you maybe talk about new discussion – the recent discussion with auto makers around timing of those launches? Are there any important or major delays to sort of like know of? How are things sort of like looking for the rest of this year? Are things being pushed out? And any notable differences between regions?

Mikael Bratt: No. As we indicated here before, I mean, so far we do not see any really any delays here. Of course, that is something we are cautious of, considering the uncertain development here, but so far no, nothing is indicated in that direction. So, in that sense, business as usual.

Emmanuel Rosner: Okay. Thank you.

Anders Trapp : We have time for one last question.

Joseph Spak (RBC): Thanks so much for squeezing me in. Maybe one more quick one on the outgrowth. I know this is pretty sort of just-in-time industry, but is it possible there were sort of any, you know, shipments, maybe in, like, the second week of March, like, right ahead of sort of the last two weeks' shutdown in North America and Europe that sort of contributed to some of the outgrowth that would reverse in the second quarter?

Mikael Bratt: Yes, I mean, the longer we had Europe and North America running in the quarter, it supported that mix effect, so yes.

Joseph Spak: So, it is possible that they took some orders assuming that they would continue to produce, and then they sort of abruptly had to shut down?

Mikael Bratt: Yes. our customers starting to pick up. So, I mean, we do not have any insight that looks like that, but that is reasonable to think, yes.

Joseph Spak: Okay. And then, maybe just one on some of the risks you called out in the newsletter. You know, you talked about maybe it is potential some demand or even part shortages in China, you know, uncertainty in Mexico. The UAW is coming out now and saying they are not sort of comfortable with sort of an early May restart. And also, just what are you seeing in your supply chain? Because if I go back to some very old notes from the financial crisis, I think you said back then you guys sort of helped to support, like, maybe 10 or so of your suppliers. And are you seeing anything there or needing to take any action there? Thank you.

Mikael Bratt: I mean, we are of course very close to our supplier base and working together with them to have all the restart activities lined up and so on and including that of course monitoring also the health of the suppliers. And I must say so far it looks good. We are not currently in any way close to the situation where we were in in the financial crisis, so I will say healthier positions now. But you should also remember that we are only basically two months into this crisis also, so of course that is something we need to continue to look carefully at. But I would say so far, so good. And we have not needed to do anything yet.

Joseph Spak: Just on some – on, like, maybe Mexico or some of the risks in China that you pointed out.

Mikael Bratt: Yes,just to reiterate again the uncertainty here and I mean to get US going full again, you need to have Mexico with you on that, then I think we see different status in terms of how the stay-at-home policy is looking like and so on and also the ambitions to restart in terms of timing and so on. So, there is a lot of unknowns surrounding all this, and that is why we are very cautious here of giving any indications on where we think we are going, because there are so many things that are outside normal industry judgements, you could say, because we are once again dependent on how the virus develops and also then the regional and country governments are reacting to that.

Joseph Spak: Thank you.

Mikael Bratt: Thank you. Before we end today's call, I would like to say that while preparing for restarting, we will continue to managing the effects of the short light vehicle production decline, with a never-ending focus on quality and operational excellence. Our second-quarter earnings call is scheduled for Friday, July 17th, 2020. And thank you everyone for participating on today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]