Second Quarter 2019 Financial Results

Friday, 19th July 2019

Welcome

Anders Trapp

Vice-President, Investor Relations, Autoliv Inc.

Welcome, everyone, to our Second Quarter 2019 Earnings Presentation. Here in Stockholm we have our President and CEO, Mikael Bratt; our Interim Chief Financial Officer, Christian Hanke; and myself, Anders Trapp, Vice President of Investor Relations.

During today's earnings call, our CEO will provide a brief overview of our second quarter results, as well as provide an update on our general business and market conditions. Following Mikael, Christian will provide further details and commentary around the second quarter 2019 financial results and outlook for full-year 2019. 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 homepage of our corporate website.

On the next page, we have the safe harbour statement, which is an integrated part of this presentation and it 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 10Q that will be filed with the SEC. All the figures in this presentation refer to continuing operations, i.e. excluding discontinued operations.

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.

Results Overview

Mikael Bratt

CEO, Autoliv Inc.

Q2 2019 Key Events

Thank you Anders. Looking now into Q2 2019 highlights on the next slide, the second quarter was another challenging quarter, where we had to navigate through severe weaknesses in the global light vehicle markets and high raw material costs, with reduced profitability as a consequence.

Considering the deterioration of market conditions, our operations reported solid results. This is a reflection of the team's commitment, discipline and the actions launched to mitigate the effects from the lower light vehicle production, as well as improving launch-related costs.

Sharp decline in light vehicle production was more than offset by continued growth from recent launches. This quarter marks the fifth consecutive quarter of substantially higher organic growth compared to the market. In this quarter, we outperformed light vehicle production by more than nine percentage points. Order intake remained on a good level, securing a strong order book and supporting prolonged outperformance of light vehicle production into the future. We note, though, that the sourcing activities were relatively modest and the majority of expected industry sourcing for this year is planned to take place in the second half of the year.

Excluding EC antitrust payments in the quarter, we had a solid operating cash flow, enabling us to exceed last year's level for continuing operations for the first half of the year.

I am generally pleased with how we managed a sharp decline in global LVP by the cost reduction actions well implemented and we are planning for. Furthermore, I see both room and need for additional improvements in certain areas.

So, what are we doing to address the ongoing market weakness? On top of what we said after the first quarter, we initiated a number of additional cost improvement actions. We have sharpened the purchasing activities, we have reduced launch-related costs versus first quarter. Direct workforce headcount was reduced by 1,200 in the second quarter and we will continue to adjust the direct workforce in line with market developments. And we have begun accruing for reductions for indirect workforce. Finally, as we continue to evaluate our global operations, we have identified further structural cost improvement opportunities and this will likely result in additional restructurings in the future quarters.

So, what are we doing to address our long-term opportunities? Rest assured that the deterioration of the market conditions has not changed our long-term improvement focus. On the contrary, we have accelerated efforts and investments to build the foundation for improving the entire value chain, such as flexible automation, digitalisation, engineering efficiency and footprint optimisation.

Q2 2019 Financial Highlights

Looking now at the recap of our second quarter financial performance on the next slide. Our consolidated net sales declined around 3% compared to Q2 2018, impacted by weaker currency, with organic sales increasing by close to 2%, despite the global light vehicle production falling by more than 7%. Adjusted operating income, excluding costs for capacity alignment and antitrust-related matters, decreased by around 20% from $230 million to $183 million, impacted by lower light vehicle production, raw material pricing and product mix.

The adjusted operating margin decreased by 190 basis points to 8.5%, compared to the same quarter of 2018. Adjusted EPS decreased by $0.84, compared to Q2 2018, almost entirely due to lower operating income and higher income tax, as the tax rate last year was positively affected by one-time valuation items.

Q2 2019 Market Conditions

Looking now on the market developments, the negative trend that started around a year ago has continued into the first half of this year. In the second quarter of 2019, global light vehicle production is estimated to have fallen by more than 7% according to IHF, the worst quarterly performance since the financial crisis in 2008–2009.

China's new light vehicle market contracted for the 12th straight month in June, despite dealerships in many provinces providing generous discounts to reduce inventories ahead of changes in emission rules. According to CAAM, light vehicle sales dropped 14% in the quarter, while LVP declined by 17%. This indicates a reduction in inventories during the quarter.

In June, US light vehicle sales finished higher than expected for the second straight month. Light vehicle inventory bounced back to near year-ago levels despite the strong May-June sales to ~4 million. As a result, light vehicle production in North America decreased by 3%, which was one percentage point lower than originally forecasted at the beginning of the quarter.

Europe's light vehicle registrations was 3% lower than the same period in 2018. Light vehicle production has slowed even more as many OEMs last year pre-built vehicles ahead of the WLTP introduction. The LVP decline was concentrated to the important West European market, that dropped 10%, while East Europe production was virtually flat. With the US market starting to drop, we are in a situation today where three of our four major markets are declining.

Q2 2019 Sales Growth

Looking to our sales growth, on the next slide. Our sales continue to substantially outperform global light vehicle production, outgrowing light vehicle production in all regions except Japan, where we do expect outperformance to begin later in the year.

In the quarter, North America contributed with $72 million to the organic growth. The sales were driven by product launches from previous quarters, mainly with Honda, Nissan and GM. The organic growth of around 11% was 14 percentage points higher than the change in light vehicle production. Our sales in South America increased by 21%, organically, substantially outperforming LVP.

In Europe, we have been affected by weaker demand from a number of OEMs, including Daimler, Renault and BMW. Despite a negative mix, with the important Western European market virtually accounting for all of the region's market decline, our sales decrease was in line with the region's light vehicle production.

Sales in China declined organically by 3%, outperforming light vehicle production by ~14 percentage points. The lower sales were mainly as a result of our sales to domestic OEMs declining by more than 20% organically. This was partly offset by higher sales to global OEMs, which increased organically by 4%. The growth with global OEMs was largely due to strong performance with Honda, VW and Toyota.

Sales in the rest of Asia outgrew LVP by 11 percentage points. Growth in the rest of Asia was mainly driven by Hyundai/Kia in South Korea, Suzuki in India and Toyota in Thailand.

Q2 2019 – Key Model Launches

Looking to our key model launches in Q2 2019 on the next slide. Here you see some of the key models launched during the second quarter. These models are well distributed across the globe and have Autoliv content per vehicle from $100 up to $500 per car. Particularly, it is interesting to see two new vehicles launched with dual frontal knee airbags. This shows that car manufacturers are more and more focusing on prevention of injuries to occupants' legs and knees.

Going into the second half of the year, we again have a high level of launch activities to support new vehicles to be introduced over the coming quarters, and that will prolong our performance of LVP.

I will now hand over to our interim CFO, Christian Hanke, to speak to the financials.

Financial Results

Christian Hanke

Interim CFO, Autoliv Inc.

Q2 2019 Financial Overview

Thank you Mikael. Looking now to our financials on the next page, we have our key figures for the second quarter. Including negative currency translation effects of around $90 million and organic sales growth of $34 million, our consolidated net sales reached $2.2 billion. Our gross margin declined year on year. The net operating leverage on the higher sales was more than offset by higher commodity costs. Additionally, we experienced lower capacity utilisation in most regions due to the sharp drop in light vehicle production and costs to support the long-term margin expansion.

Adjusting for the impact of the social unrest in Mexico, gross margin improved slightly from the first quarter. Our adjusted operating margin of 8.5% declined year on year, mainly due to the lower gross profit and a slightly higher RD&E and SG&A in relation to sales, although they were virtually unchanged in absolute dollar amounts. Our adjusted return on capital employed and return on equity were 20% and 24% respectively. We maintained our quarterly divided unchanged at $0.62.

Adjusted Operating Margin Bridge

Looking now on the next slide, our adjusted operating margin of 8.5% was 190 bps lower, year on year. As illustrated by the chart, the adjusted operating margin was negatively impacted by higher raw material costs of ~90 bps; ~30 bps from SG&A and RD&E and by ~20bps from FX effects. The cost related to the first quarter social unrest in Mexico amounted to $3 million in the second quarter.

As we explained in the previous earnings call, mature products have higher profitability than recently launched products. So, the sharp decline in LVP brings down sales of the higher-margin mature products which, from a profitability point of view, is not fully offset by the growth of the lower-margin, recently launched products that are in the early phase of the product lifecycle.

This has resulted in a period with a product mix carrying a lower profitability.

Cash Flow for Continuing Operations

Looking on to the next slide, excluding the $203 million EC antitrust fine that was paid in the quarter, operating cash flow was strong and amounted to $182 million, $19 million lower than for continuing operations in 2018. Year-to-date operating cash flow has increased by $54 million compared to last year, on a comparable basis.

Capital expenditures amounted to $128 million in the second quarter, which is about 5.9% in relation to sales. In the second quarter of 2018, capital expenditures for continuing operations were at $125 million, or 5.7% of sales. However, for the full year 2019 we expect capital expenditures to decline in relation to sales, as the ratio begins to normalise.

Excluding the EC antitrust fine, free cash flow for the last 12 months of $375 million indicates ~83% cash conversion on net income. For full-year 2019, excluding any discrete items, we expect our operating cash flow for continuing operations to be around $700–800 million.

EPS Development

Looking now to our earnings per share, on the next slide, we have the EPS development. Reported earnings per share declined by $0.95 to $1.25. The main drivers behind the decrease are around $0.11 from higher costs for capacity alignments, approximately $0.39 from operating profits and $0.44 from unusual tax items last year, while the tax rate in Q2 2019 was in line with our projected full-year tax rate of around 28%.

In Q2 2019 the adjusted earnings per share decreased by $0.84 to $1.38 from $2.22 for the same period one year ago.

Balance Sheet and Financial Policy

Looking now to our financial position on the next slide. We have, as you know, a long history of a prudent financial policy. Our balance sheet focus and a shareholder-friendly capital allocation policy remains unchanged despite the market conditions. Autoliv's policy is to maintain a leverage ratio of around one times net debt to EBITDA, within a range of 0.5 times to 1.5 times. As of 30th June 2019, the company had a leverage ratio of 1.8 times, which is 0.2 higher compared to the 1.6 we reported for 31st March. The main reason for the increase is the payment for the fine for the remaining portion of the EC investigation, as we communicated in our prior call. Our strong free cash flow generation should allow deleveraging and should allow continued returns to shareholders, while providing flexibility. We aim to be within the range – target range by year-end, despite the fine from the EC investigation and other market challenges. This excludes any other discrete items and other non-perceivable changes to our business.

2019 LVP Outlook

Looking at market development for the rest of the year on the next slide, the outlook for major light vehicle markets has become increasingly more uncertain due to weaker consumer confidence, trade tariffs and regulatory changes. According to IHS, the North American light vehicle production is seen as slightly down in the second half of the year, while LVP in China are expected to continue to decline but at a more modest rate than what we have seen in the first half of the year. Since January, IHS has reduced their full-year 2019 expectations of global light vehicle production by close to 5 million units, or by five percentage points to below 88 million.

The current US light vehicle inventory remains at levels suited for a 17 million-plus SAAR. This adds additional risk to the LVP outlook in North America. End of June, the European Automobile Manufacturers' Association revised its forecast for the 2019 European passenger car registrations downwards by two percentage points to −1, citing uncertainty due to Brexit and changing macroeconomic conditions. This indicates an even weaker second half of the year, putting further downward pressure on LVP plants. In China, inventory levels have come down, bringing a glimmer of hope. However, we have not seen any change in the recent downward trend in light vehicle sales, despite steep discounts at dealerships. Reflecting the increasing uncertainty in the market, our base scenario for global light vehicle production in 2019 is a decline of 4–6 percent However, we expect to outgrow light vehicle production with 6–7 percentage points.

Summary

Turning the page, we have summarised our full-year 2019 indications. So, uncertainty remains high in a falling market and we currently do not see any signs of a turnaround in light vehicle demand. And therefore, we now indicate lower full-year 2019 sales and profitability. Full-year indications assume mid-July exchange rates prevail and excludes costs for capacity alignment and antitrust-related matters.

Our financial outlook assumes a 4–6% decline of global light vehicle production. The range reflects the continuing high level of uncertainty in the automotive markets. We expect our organic growth to be 6–7% higher than global LVP. Consequently, our full-year 2019 indication is for an organic sales growth of 1–3 percent and a negative currency translation effect of around 2%, resulting in a change of consolidated net sales between -1% to +1% for 2019.

Our indication for the adjusted operating is 9–9.5% for the full-year 2019, reflecting the sales growth range. We expect 2019 raw material cost to increase by approximately 70 bps. We anticipate the currency effects on the operating margin for the full-year 2019 to be neutral. The projected operating cash flow, excluding EC antitrust payments and any unforeseen events, is expected to be in the range of $700–800 million.

I will now hand back to Mikael.

Summary

Mikael Bratt

President and CEO, Autoliv Inc.

Focused Improvement Agenda

Thank you Christian. Turning the page, to summarise, I would like to share with you what we are doing to address both the near-term market challenges and the long-term opportunities we see. But first, I want to remind you what we did during the financial crisis in 2008 and 2009, when we accelerated our investments in product development. The results of these investments gave Autoliv a clear competitive advantage when the market rebounded again, and was a clear factor behind our market share gains after the financial crisis.

Now, despite uncertain market development, we are accelerating investments in a similar way, building the foundation for top-line and margin expansion short to long term, with much focus on efficiency step changes across the whole value chain. We will continue to adjust the direct workforce to the market situation and support our ordinary course of business. While sales remained on similar levels as in the first quarter, we reduced direct headcount by 1,200 in the second quarter. The reduction is expected to support margin improvements in the second half of 2019.

We have initiated actions to reduce indirect headcount by approximately 5%. We are closely managing tariffs in place today, such as 232 and 301, while monitoring potential new tariffs. By implementing a number of actions, we expect to be able to mitigate the vast majority of the potential $30 million costs that the new tariffs otherwise would amount to in North America alone.

As launch-related issues continue to decline, we can now refocus some of our resources on productivity improvements instead. There is both need and room for improvement in certain areas. One example is in Europe, where the severe decline in the market, driven at least partly by new emission legislation and some consumer uncertainty regarding drivetrains. Brexit, combined with our footprint, has created challenges that we have to address.

To offset high raw material costs and continued price pressure, we have launched a new competitive sourcing process, covering 75% of current purchasing spend. For medium-to-long term, gradual improvement, we have a number of initiatives, such as automation and digitalisation for increased efficiency and productivity. We expect to start our first pilot Factory of the Future in the second half of 2019, with plans for a gradual rollout from 2020.

Stream-lining product design and engineering to speed up new launches and improve engineering efficiency, review our footprint to meet future demands. We will provide more details on the continuous improvement agenda in our upcoming Capital Markets Day, which brings us to the next slide.

Autoliv Capital Markets Day 2019

Our Capital Markets Day will be on 19th November in the Salt Lake City area in Utah, USA. The event will showcase our full potential and provide an update on our 2023 strategy and development of the Autoliv Group. Additionally, we will show future products, give an update on opportunities in core and adjacent product areas, outline potentials that we see in the flexible automation and digitalisation and much more. I hope to see you all there and I will now hand back to Anders.

Q&A

Anders Trapp: Thank you Mikael. Looking at the next page, we – this concludes our formal comments for today's earnings call and we would like to now open up the line for questions. So, I will now turn it back to Valerie.

Operator: Thank you sir. Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. You can withdraw your request at any time by using the hash key. And your first question comes from the line of James Picariello of KeyBanc Capital Markets. Please go ahead, your line is now open.

James Picariello (KeyBanc Capital Markets): Hey, good morning guys. So, just touching on your full-year light vehicle production forecast now, it's now down 4–6%. It looks like you're straying away a bit from IHS, which I believe is down – they're forecasting down 3.7%. So, yeah, just what's driving that and what are your – can you just talk about your expectations for the second half, by region?

Mikael Bratt: I think first of all, you should see that the range indicates the high uncertainty in the marketplace. And it is correct that IHS came down here now with the last revision they did earlier in the week and we feel that, on top of what they indicated here, that there is still a very high degree of uncertainty when we listen to our own organisation here and how they are being updated by our customers here. So, of course, China, to start with, is where we see the biggest downward pressure and that's what you have seen throughout the year; Europe likewise, for the same reasons here. And we have now started to see a somewhat weaker US.

So, when you look at the totality for the remainder of the year, I think you should see the same type of relation between the different regions here. So, it's not that we're indicating that we see a bigger drop in one of – let's say, Europe or the US here than what we have seen.

So, in relative terms, it's the same pattern that we have seen in the beginning of this year but it still continued to weaken; I think that's the message from our side here.

James Picariello: Okay. And then just on – within your revised guidance here for the second half from a margin perspective, can you just help walk through what drives the second half improvement? Do launch costs go completely away? The Mexico labour issue, 15 basis points in the quarter, maybe that goes away. But yeah, maybe just sequentially how you're thinking about the margin trajectory in the back half and what drives that. Thanks.

Mikael Bratt: Yes, first of all, it's the cost measures that we are implementing and have implemented. You may recall already in the last earnings call, we indicated a number of actions that we were working with. And you can see, for example, now that the adjustments to the lower volumes in certain plants here is resulting in a reduction of 1,200 people, and we will continue to focus and secure that adjustments continue as we move forward here. And on top of that, we have also added now the target of reducing and adjusting our indirect labour force here, with around 5%. We are stepping up, you could say, our cost reduction initiatives in the short term here.

We also believe that we will see an improved raw material situation here as we move forward in the coming quarters. And of course, we also have the seasonality where we have a stronger second half, and I would say especially a stronger Q4 as a part of our normal pattern here.

And then yes, to confirm what you stated yourself here around Matamoros, that is not with us in the second half and we have also launch costs, following the plan, where they are gradually being reduced throughout the year, so we are following that plan. So, I would say that's probably the main five factors to see an improved second half.

James Picariello: Thanks guys.

Operator: Thank you. And your next question comes from the line of Vijay Rakesh of Mizuho. Please go ahead.

Vijay Rakesh (Mizuho Securities): Yeah, hi guys, just on China, obviously, you talked about the second half looks as though it may be flat, year on year, but any thoughts as you look out into next year? Do you think some of these emission headwinds start to – with the rear-view mirror, you start to see some growth, or there are some fundamental headwinds in China?

Mikael Bratt: I think to be too certain about the development in China for 2020 it is certainly too early. But if you look into the second quarter here, the emission change that took place, basically, as now of 1st July here will go away here. That challenging factor is not a part of 2020 here. And I think we should remember here also that that change that now took place was not known when we were sitting here in April. That was something that was decided by Chinese authorities as late as in May, so that, of course, made the second quarter even more complicated here.

But I think the underlying factors that we have described earlier here around the driveline, meaning traditional versus the electrical vehicles, is still there. The overall mobility development in China, especially the megacities there. But also the underlying economic development that is right now affected by trade wars and all uncertainty connected to that.

I think that is the many factors driving the development in China right now and in what way they will gradually be solved, so to speak, is very, very difficult to say.

Vijay Rakesh: Got it. And just one last question here on Europe: any thoughts how – if you see any – the back of any headwinds with RD6 or Brexit, how you think that plays out because there's been some manufacturing relocations there? Thanks.

Mikael Bratt: I think it's the same there. I mean, Brexit –of course, we will take all the measures we can to work in accordance to different scenarios here and you could say we had a practice on that earlier this spring. And now it was moved forward, so it is continuing with that work. And here, I think also it's very hard to say where we will end up here but we definitely feel and see a weakening market here as well.

Vijay Rakesh: Thank you.

Christian Hanke: But I think, Mikael, on the RD&A we don't believe that that will have a big impact, similar to the WLTP. So, I think we probably can say that, based on what we know.

Mikael Bratt: That is correct. No, and I think that was a question also in the previous quarter here, a potential impact there, but so far, so good, I would say.

Vijay Rakesh: Thanks.

Operator: Thank you and your next question comes from the line of Hampus Engellau of Handelsbanken Bank. Please go ahead.

Hampus Engellau (Handelsbanken): We're recording this 1,200 people that you have already ended working contracts for. How much is that due to that you're phasing out launches process and the ramp-up and how much is, like, capacity adjustment? And the second question is related to this 5% on the headcount, further on. Is it equally between Europe and China and is there an element of temporary contracts? Or should we expect one-off charges for this? Thanks.

Mikael Bratt: On the first question there around the 1,200 people, I would say the majority of that is connected to capacity adjustments here. But to your point here, as launch costs start to come down as a result of the improvement activities we are doing, it can also steer resources towards traditional productivity work even harder and that is being done. But I would say that kind of resource allocation then is more on the indirect side.

And then the 5% that we are targeting here is, I would say, a global number, of course, and we are addressing all indirect areas here. Exactly how that will be played out in terms of number per country or region and functions, we can't state here. And now we are working with all the tools in the toolbox here to realise this number here and we will, of course, also have some one-time charges here. And you have seen some of these charges already being booked now in the second quarter here.

Hampus Engellau: But is it part of a big programme, like, should we expect each quarter a specific amount, or ?

Mikael Bratt: I wouldn't like to call it as a programme because this is activities we need to address as we move forward and drive the productivity, in combination, of course, with adjustments to the market development here. And there will be charges depending on which way, so to speak, that we are realising these targets here. I don't know, Christian, if you have anything to add to that, but…

Christian Hanke: No, I think you're absolutely right. We're monitoring the way the market is moving. In terms of the indirect labour, we have these local rules and regulations to deal with. So, I think we have recorded as much as we can in the second quarter and we'll probably see some more spill over in the second half of the year.

Mikael Bratt: – which means that we, at the end of the day, end up with. And, of course, on the direct workforce, there we have a high degree of temporaries, as we have indicated before also, so we have a fairly – we have a good flexibility in that area.

Hampus Engellau: Thank you.

Operator: Thank you. Your next question comes from the line of David Leiker of Baird. Please go ahead, your line is open.

David Leiker: Two questions here. If we look at the slide of quarter two key model launches, that's a great list and it's helpful. I was wondering if you could add some colour to that and give a couple of examples of how your content might have changed on one of these vehicles versus the previous version of those?

Mikael Bratt: I think when it comes to the content here, as we pointed out in the presentation here, I think the interesting part is how we see more knee airbags being implemented to the vehicles, supporting what we have described here before as content continues to increase also in the mature markets. And of course, we see also new types of cars, as in new cars and new cars for us. So, if you take the Mazda CX-30, it's a new car for us, the Cadillac XT6 is a new car and the Nissan Sylphy is a new car for us. So, there we have taken a bigger portion of that business. Also, I will say that the Jeep Gladiator is a completely new car.

In short, you see a lot of new car models coming through here where we have a high participation in and content per vehicle is at very good levels and with, I would say, new types of airbags, with the example of knee bags.

David Leiker: Okay, great. And then Autoliv has a track record, history, here of engineering recoveries that tend to be more heavily weighted to Q4 than others. Is there any insight you can give us in terms of how we should be looking at that as it relates to the fourth quarter of this year?

Mikael Bratt: I think I can only confirm what I've said before here, that it's – seasonality is supporting a stronger second half, and especially Q4. And what you're alluding to here around engineering income is one of those, so that's correct.

David Leiker: You would expect it to be not – that pattern to be not any different than last year in terms of magnitude?

Mikael Bratt: No, you would see the same pattern, yes.

David Leiker: Okay, great. Thank you.

Mikael Bratt: Thank you.

Operator: Thank you. And your next question comes from the line of Joseph Spak of RBC Capital Markets. Please go ahead.

Joseph Spak (RBC Capital Markets): Thanks, and I guess good afternoon over there. The first question is, I was wondering, can you provide an update on the order intake win rate? I know it had been running about 50%.

And then I guess, just as you look to the second half and you mentioned you expect more sourcing there, as you start to look at some of those programmes, are you seeing any pricing change on some of those new potential programmes, or more productivity requirements on existing bids in order to secure that business, especially given Joyson's re-growing presence?

Mikael Bratt: When it comes to the share of new orders, we don't give the numbers quarterly here, we only do that yearly – on a yearly basis. But we continue to see good order intake, even though the activity has been relatively low. But good order intake, supporting a strong order book here, so I think that's what I can say in regards to that.

Do we see increased price pressure and a tougher market? I will state that, as always, the automotive industry and the supplier business here is a very competitive industry and has always been. And of course, when you look through the industry here, you have seen some more challenging requests from some of the OEMs but I would say, all in all, we are on a stable situation here. I wouldn't say that it has dramatically changed in that direction. But of course, if you take, anecdotally, some OEMs, there, you can see some pressure. But overall, I would say stable but as always, a challenging industry.

Joseph Spak: Sure, thanks, that's helpful. And then just on the margins and I know you addressed the second-half ramp a little bit, I guess it would be helpful if maybe you could either quantify the launch cost benefit or the headcount reduction benefit. But the other thing in particular that I was wondering about is you say on slide nine that launch costs already improved in this quarter from the first quarter. And if we back out the Mexico headwinds from both quarters, it looks like both quarters were around 8.7% operating margin, so pretty flat on a similar level of sales. So, if launch costs really did improve from Q2 to – or from Q1 to Q2, what was the offset that kept the margins flat?

Mikael Bratt: No, I think you saw the raw material higher than what was in the first quarter and I think also currency is one that you can see there on the short. I think we feel very comfortable that the launch costs and the activities that we're doing to reduce the headwinds here is offsetting some of these things.

Joseph Spak: So, like how much of the back-half improvement is due to the lower launch costs?

Mikael Bratt: We are not quantifying that and we have never really quantified the launch costs altogether here but, as we have indicated, it has a gradual improvement throughout the year. Now we are halfway through here so I think it feels comfortable that we are expecting to be completely out of that this year.

Joseph Spak: Okay, thank you.

Mikael Bratt: Thank you.

Operator: Thank you. And your next question comes from the line of Brian Johnson of Barclays. Please go ahead, your line is now open.

Jason Stuhldreher (Barclays): Thank you, this is Jason Stuhldreher on for Brian. I just want to come back to the guidance because – and I know it's been asked a lot but if I look at the step-up and you back out the incremental margins from revenue, it still implies about a $90 million improvement in performance from H1 to H2, which is roughly 2% to sales or so. And so I know you want to stay away from quantifying but I think it would be helpful to understand of that $90 million – and that's a rough number – is that – I mean, is it pretty proportional that we're going to see that between headcount savings and then raw material savings? And the only reason I ask is if we look at SG&A plus RD&E, that's about 11% to sales, so I think 2% out of that would be fairly aggressive. So, if we could just get a 50/50 or an one-third/two-thirds between material savings and headcount, is there any colour you could provide there at all?

Mikael Bratt: I'm sorry but I think I have to refer to my comments before here about, let's say, the five main levers here to drive the performance improvement or the EBIT improvement here for the second half. And I mean, of course, the Matamoros effect you have seen in the first quarter here. In the first quarter and the second quarter, raw material you have there also but we are saying it's improving. We are not saying that it will be eliminated here. So, we will not go into quantify these levers here.

Jason Stuhldreher: That's fine, okay. And then second question, just to talk about the product mix, I understand there's an element of product mix where your more mature programmes were rolling off at a higher margin than the new programmes. And I just want to touch on this because it's something we've heard from a lot of suppliers. So, I do understand that new programmes tend to come on at lower margin and then improve over the life of the programme. But that does imply that last year's business should be coming on more profitable this year and that this year we should be seeing an element of performance in that year-over-year walk.

My question is do we see that incremental performance this year, or this quarter, from last year's business becoming incrementally more profitable? Or, conversely, are new programmes just generally coming on at lower margins? And I guess, to put that more bluntly, in the period of growth over the last 3–4 years, was the industry or you simply over-earning on certain programmes and that now, on a flat-to-declining production environment, we shouldn't expect that?

Mikael Bratt: I think you have the wrong assumption there in your reasoning about the different programmes here. It's not so that old are better than the new ones, etc. What we are talking about here is in the ramp-up phase of a new programme, it has lower profitability or earning, as they are maturing through the launch process here. So, as we have come into

– what we refer to as the wave here, meaning the step-up in our market share, we have a higher proportion of launches in our total portfolio, which has a short-term negative effect.

So, it's not a question about the new programme has low profitability altogether, it's a pure timing of – this is the timing of the new programmes I indicated here. And that has been true for – it's a part of our industry, so it's nothing new. It's just that we have a higher portion of launch programmes versus the mature programmes that now it's braking at 7% in the quarter as a part of light vehicle production, so that's the difference.

Jason Stuhldreher: Okay, thank you.

Operator: Thank you. And your next question comes from the line of Chris McNally of Evercore. Please go ahead, your line is open.

Chris McNally (Evercore): Thanks gentlemen, good afternoon. Maybe just a follow-up. I appreciate the detail on the type of the headcount reductions, just maybe – maybe just a simple question. Were they taken during the quarter, meaning do we get some of the benefit in Q2? I imagine it would take some time for it actually to flow through, so the majority would be in the second half, but did we see any benefit from the headcount specifically in Q2?

Mikael Bratt: Yes the 1,200 have gradually been reduced throughout the quarter so, of course, it's not the full effect of 1,200 people in the quarter. So, that there has been a timing question on that.

And then, when we go forward here, the 5% that we are talking about on the indirect, it will also have a gradual effect. And it depends on which region and so forth that have a longer lead time to execute on those things, so it will have a gradual implementation. And, of course, as we adjust on the direct workforce, it's the same as we have talked about here in the second quarter. So, there is a timing question there.

Chris McNally: No, that makes perfect sense. And then just a broader question: I mean, I think we've all seen the revisions that continually happen for all suppliers through IHS and everyone seems to realise that it might be a lagging indicator, so they're a little bit more cautious. I mean, as you sit here today, what – maybe you could talk by region or segment or a mix, I mean, where do you think the incremental upside or downside is? I mean, what keeps you up at night in terms of – now that we have the updated cost for the back half of the year, what are you watching for the second half for things to get better or worse?

Mikael Bratt: No, for us the focus is to be flexible and agile whatever we see coming through the underlying development here of the market. As said before, the uncertainty is so high, hence then that we are giving a range rather than a round number here. So, we just need to make sure that we are staying alert and making adjustments as needed.

Chris McNally: Okay, much appreciated. Thank you.

Mikael Bratt: Thank you.

Operator: Thank you. And your next question comes from the line of Alexandre Raverdy of Kepler. Please go ahead, your line is now open.

Alexandre Raverdy (Kepler Cheuvreux): Thank you. I have two questions please, the first one is on the EBIT bridge for the full year. I remember in Q1 you quantified the raw mats headwind at 60 bps. Is that still what you expect?

Mikael Bratt: On the raw material we have upped that to 70 bps, as a consequence of the raw material increase we have seen here in the second quarter that was slightly higher and also what we expect for the rest of the year. So, net-net of that is 70 bps now.

Alexandre Raverdy: Okay, thank you. And the second question is – on the cycle, I know visibility remains extremely limited, but I mean, what are your expectations for global production for next year? I know that one of your competitors expects a flat environment between 2019 and 2021 so, at this stage, what's your view? Do you expect a rebound next year or will you stay quite cautious?

Mikael Bratt: I think it's too early to call on that now. First. we need to see how the second half develops here and we need to have more visibility in order to judge that. There are so many moving parts out there that we need to have a resolution on, so too early to say.

Alexandre Raverdy: Yeah, it makes sense. Okay. Thank you.

Mikael Bratt: Thank you.

Operator: Thank you. And your next question comes from the line of Jairam Nathan of Daiwa Securities. Please go ahead.

Jairam Nathan (Daiwa Securities): Hi, thank you. Thanks for taking my question. So, I had a question regarding your longer-term efforts on digitisation and automation. So, just peeling back the onion here, behind the financial statements, can you talk about some operational metrics you're targeting and that you think that can improve this?

Mikael Bratt: No, I think we will see if we come back to some KPIs or metrics around that later on. But what we really want to say here is that we see great opportunities throughout the value chain as we move forward, and we don't see any reason why we should slow down those efforts. It's rather the opposite here and the message here is that we're trying to speed them up and gain the benefits earlier here than maybe originally anticipated here. So, we have a highly focused agenda on driving productivity going forward here. And this is an area where we see good opportunities and that's why we wanted to point it out. But it's all there to drive productivity, so that's the ultimate matrix, of course.

Jairam Nathan: Okay, thank you.

Mikael Bratt: Thank you.

Operator: Thank you. And your next question comes from the line of Rod Lache of Wolfe Research. Please go ahead.

Dan Galves (Wolfe Research): Hey, good morning, this is Dan Galves in for Rod. Our question is around the general financial health of the industry after four quarters of lower global production in a row. There's been some news on financial stress of some local Chinese OEMs, some of your peers have talked about balance sheet weakness and the tight tier-two base. How do you guys monitor this? Are you seeing any warning signs and is it impacting your ability to generate productivity improvements through the course of 2019?

Mikael Bratt: I feel that we have a robust purchasing organisation, supply chain management organisation, monitoring any risk we may see from our supplier base. I can't say that – I mean, of course, I understand what you are referring to and what you see but in our case, I would say it's not any troublesome situation there. It's something we are keeping a close eye on but we haven't seen any really changed situation there. So, I don't feel very concerned about that from our side and our perspective, but, of course, that's something that we are closely monitoring, for sure.

Dan Galves: Okay, thanks, and just one quick one on first half to second half raw materials. Are you expecting improvement in raw material costs versus the first half, or just a reduction in the headwind?

Mikael Bratt: It's basically a reduction in headwinds, that's where you should see it.

Dan Galves: Okay, thanks a lot for taking my questions.

Mikael Bratt: Thank you.

Operator: Thank you. And your next question comes from the line of Andrea Abouchacra of One Investments. Please go ahead.

Andrea Abouchacra (One Investments): Hi, good afternoon, thanks a lot. I have a quick one regarding model launches. How many launches have you had so far in H1, or at least how – what was the yearly increase versus last year? Even the last year Q2 was over 70% growth of the number of launches, year over year. And the second part of the question: how should we think about H2 launches versus H1 in terms of proportion over the total portfolio for our Autoliv? Thank you.

Mikael Bratt: No, we have, in sequence here, a much more stable situation when it comes to the number of launches but as you can see, we continue to outperform the market as a result of the launches we have and the market shares that we are taking in the different programmes here. So of course, that's the end perspective. And I think also, when you look at year-over-year improvements and the increase of launches, we had a step-up of 20% from 2017 to 2018 and this year, it's a much lower step-up, it's more – I would call it 'flat plus,' so to speak – in number of launches.

Andrea Abouchacra: Right. Will it be the case for H2 as well?

Mikael Bratt: Yes. It's the same situation.

Andrea Abouchacra: Okay. Thank you.

Operator: Thank you. And your next question comes from the line of Erik Paulsson of Pareto Securities. Please go ahead.

Erik Paulsson (Pareto Securities): Yes, hello. You touched upon it a bit already but is it possible to quantify the number for the cost savings for the reduction of the indirect workforce of roughly 5%? Is it possible to do that?

Mikael Bratt: We are not giving any details on the respective cost-saving activities that we have lined out here, so I cannot quantify it for you. Sorry.

Erik Paulsson: Okay, thank you.

Mikael Bratt: Thank you very much.

Operator: Thank you. And your next question comes from the line of Agnieszka Vilela of Nordea. Please go ahead.

Agnieszka Vilela (Nordea): Thank you. I have a question on your organic growth performance against the market and then, maybe, we could zoom in into some regions specifically. If I look at Americas, for example, you have been outperforming the market by double digits for the next five quarters. Do you think that this outperformance will now diminish in H2? And then, also, a similar question on Japan, where you have been underperforming the market, what makes you believe that you will turn into outperformance in H2? Thank you.

Mikael Bratt: Thank you. Of course, the outperformance prediction that we are giving is based on the order book market share that we – the order intake market share that has built our order book over the last couple of years. And according to our predictions here, it is that we should start to see that outperformance starting in Japan towards the end of the year, all in line with how we actually also got the market share gains in the new order intake. So, it follows, basically, that, but with the 18–36 month delay in the implementation time there, as we said. And in Americas, we expect it to continue to outperform but, of course, at significantly lower numbers, as we now, you could say, have come through the full year here from when the step-up of launches started. So, you will see lower numbers in, let's call it, the early launch regions in the second half of the year.

Agnieszka Vilela: Perfect, thank you.

Mikael Bratt: Thank you.

Operator: Thank you. There are no further questions at this time. Please continue.

Mikael Bratt: Thank you very much Valerie. This ends today's call but before we hang up, I would like to say that we will continue to execute on our growing business volumes and our new opportunities. We will never – we will have a never-ending focus on quality and operational excellence. Also, I would like to mention that our third quarter earnings call is scheduled for Friday, 25th October 2019. And thank you everyone for participating in today's call. We sincerely appreciate your continued interest in Autoliv and hope to have you on the next call. Goodbye for this time.

[END OF TRANSCRIPT]