Autoliv – Q2 Report 2020

Friday, 17th July 2020

Introduction

Anders Trapp

Vice President, Investor Relations, Autoliv

Welcome

Thank you, Sandra. Welcome everyone to our Second Quarter 2020 Financial Results Earnings Presentation. On this call, we have our President and CEO, Mikael Bratt, and our Chief Financial Officer, Fredrik Westin, and myself, Anders Trapp.

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, 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 homepage of our corporate website.

Safe Harbour Statement

Turning to the next slide, we have the Safe Harbour Statement, which is an integrated part of this presentation and includes the Q&A that follows. During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-Q that will be filed with the SEC.

Lastly, I should mention that this call is intended to conclude at 15.00 CET. So please follow a limit of two questions per person.

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

Q2 Highlights

Mikael Bratt

CEO, Autoliv

Q2 2020 Highlights

Responding to the effects of COVID-19

Thank you, Anders. Looking now into the Q2 2020 highlights on the next slide. Before we start with the formal presentation, I would like to acknowledge our employees for their hard work and commitment to cost control, quality and delivery precision. The COVID-19 pandemic is first and foremost a human crisis, where safeguarding health and safety is our first priority and our global Smart Start Playbook has been instrumental to us when restarting our operations in a safe way.

The automotive industry slump triggered by the shutdown of car plants and dealerships in the wake of the coronavirus pandemic is the worst seen in our history. However, supported by last few years' of order intake, our organic sales developed better than light vehicle production in all regions.

The drastic decline in light vehicle production in April, coupled with the volatile restart and ramp up in May and June, with limited visibility and business predictability, had a drastic effect on our profitability, despite forceful cost reductions. We have undertaken a number of actions to manage the evolving situation by accelerating cost savings, reducing expenses and strengthening our liquidity position. These actions include personnel cost reductions of 25% versus the first quarter and launching the next step of our structural efficiency programme.

However, it is essential to balance the cost reduction response against the need for capacity to manage the recovery that has started. We also need to preserve capacity for the new normal market demand and our expected outgrowth. I am confident that the actions implemented and planned are positioning Autoliv well to benefit from any demand recovery.

It is encouraging that operating cash flow turned positive in June and that we were able to reduce CAPEX by approximately 50% compared to a year earlier. It is also positive that our customers' sourcing activities and model launch plans are close to unchanged. Our engineering support for these activities remain high, even though there are some limited new model launches delays. I am also pleased that order intake for the first half year was in line with last year.

To further strengthen our liquidity position and credit resources, the company entered into a lending facility of approximately $0.6 billion with the Swedish Export Credit Corporation. Looking ahead, we see improvement potential from the fact that the sales trend was positive during the quarter month by month and also in the first weeks of the third quarter.

Light Vehicle Production in Q2 2020

Looking now at the LVP development during the quarter on the next slide. Pandemic restrictions have hit the automotive sector hard, with deep monthly volume drops and significant uncertainty around volumes.

In China, OEM returned to above pre-crisis production levels, with domestic OEMs growing by 8%, while global OEMs grew by 6%. Automotive manufacturing was at a virtual standstill in April in Europe and Americas, which normally are almost two thirds of Autoliv annual sales. The recent industry restart in these regions is a positive development. However, the ramp-up started on a very low level and was characterised by strong fluctuations in customer demand. This low business predictability led to inefficient resource utilisation.

Q2 2020 Sales Growth

Outperforming LVP in all major regions

Looking now on our sales performance on the next slide. Our sales declined organically by $1 billion or by 48%. We were able to outperform light vehicle production in all major regions. Despite strong regional performance, our global sales decline was slightly more than the change in global light vehicle production.

As we indicated in early communications, the shifts in the regional LVP mix turned out negative in the quarter, as markets with high safety content per vehicle declined more than markets with low safety content per vehicle. This temporarily paused our trend of substantially outperforming global light vehicle productions that began in the second half of 2018. The only area with organic growth was China. Slowing sales of replacement inflators had a 1.4 percentage point negative effect on our global sales in the quarter.

In North America, our sales fell organically by almost 67%. However, this compares favourably with the LVP decline of nearly 70%, despite that we had a 3.6 percentage points negative effect from lower inflator replacement sales. Our outperformance was mainly coming from positive vehicle mix and recent launches with several customers such as Tesla, FCA and Honda.

Our sales in China recovered strongly during the quarter and grew organically by more than 8%, outperforming the light vehicle production by close to 2 percentage points. The outperformance was due to strong sales to global OEMs.

In Europe, organic sales declined by 58%. We continued the trend from the previous quarters and outperformed light vehicle production by 3 percentage points, impacted by recent launches of high volume models at Volvo, PSA and BMW.

Sales in Japan decreased organically by 47% in line with the light vehicle production decline. The only OEMs where our sales increased in the quarter was with Honda and Suzuki, based on recent major launches.

In the rest of Asia, organic sales declined by almost 42%, which was almost 20 percentage points better than light vehicle production decline. Within the region, sales in South Korea were less affected by the pandemic and the sales decline was limited to 11%.

Status of our operations and customers

Looking on the next slide. The situation for major light vehicle markets continued to be uncertain as the development of the pandemic and the different governmental measures are difficult to predict. Based on our Smart Start Playbook developed for our ramp-up following COVID-19 related shutdowns, we have invested in employee safety equipment, redesigned production lines and workplaces. We have also adapted new processes for interactions with our suppliers and customers to safely manage the restart and ramp-up of our operations.

China

OEMs in China have gradually come back to their previous production levels. In the second quarter, China accounted for 47% of global light vehicle production, which is close to twice its normal share.

Europe

All European automotive plants have restarted production after more than a month of shutdowns. However, the production rates are still volatile, with reduced shifts to adapt to uncertain demand development.

North America

In North America, vehicle production resumed in mid-May, about two weeks later than in the Europe. However, the ramp-up has been faster and less volatile. Supply disruptions in Mexico can potentially slowdown the rest of the region due to the government’s stop light system.

Japan

In Japan and rest of Asia, OEMs are adjusting their pace of production according to inventory levels and to domestic and export market demands.

Q2 2020 Key Model Launches

Looking at our recent model launches on the next slide, as expected, we had a relative low number of launches during the quarter. A few launches were pushed out and we expect higher number of launches during the second half of the year when a number of important platforms are scheduled to be introduced.

The models shown on this slide are well distributed across the globe, and the Autoliv content per vehicle is between $120 to over $300. The majority of these models will be available with some sort of electrified powertrain, for example, pure EV or plug-in hybrid. The long-term trend to higher CPV is supported by the continued trend of more front centre airbag installations.

We are starting to see some COVID-19 effects on the OEM launch plans for 2020 and 2021 and we expect to see a few months of delays on several platforms. We have recently seen increased demand for engineering development work as OEMs are trying to catch up time lost during the close down in April and May.

Now I will hand over to our Chief Financial Officer, Fredrik Westin, who will talk about the financials on the next slide.

Financial Review

Fredrik Westin

CFO, Autoliv

Q2 2020 Financial Overview

Thank you, Mikael. This slide, we are on slide eight, highlights our key figures for the second quarter.

Our net sales were $1 billion, which is a decline of 51% compared to the same quarter last year. Gross profit decreased by $385 million and the gross margin decreased by 17 percentage points compared to the same quarter 2019. The gross margin decline was primarily driven by lower sales and lower utilisation of our assets due to the decline in light vehicle production, as well as direct COVID-19 related costs.

The sharp sales decline in April, coupled with a volatile restart and ramp-up in May and June with limited visibility and predictability, had a significant effect on our gross margin, despite significant reductions in cost for material and labour.

The adjusted operating income declined by around $355 million to negative $171 million. Reported earnings per share declined by $3.25 to minus $2.0. The main drivers behind the decrease were $5.7 from lower operating income, partially offset by $2.37 in favourable impacts from taxes.

Our adjusted return on capital employed and return on equity were minus 18% and minus 24%, respectively. And as you know, no dividend was paid in the quarter.

Sales development per month

Looking now on the sales development in the quarter on the next slide. It highlights the fact that challenges in the second quarter were of a completely different magnitude than in the first quarter. The sharp sales decline in April, coupled with a volatile restart and ramp-up in May and June with limited visibility and predictability, has been a challenge to manage. It has been difficult to optimise and efficiently run operations, not least when it comes to utilising resources such as labour and material in the production.

In addition, certain countries have emergency lockdown protocols, such as Mexico and India, which created specific challenges as employees that must stay at home were still entitled to full base pay.

Actions implemented on each & every cost line

Looking now on our cost base on slide 10. Normally we consider 75% of our costs to be variable or semi-variable, including direct material, freight and direct labour. 20% are considered semi-fixed, meaning that given enough time, these costs can be adjusted. And 5% are considered fixed costs.

In response to the pandemic, we have implemented actions on each and every cost line, including aligned headcount, including hiring freeze, reduced workweek hours, furloughing supported by government programmes when available and reduced discretionary spending sharply.

Cost Breakdown

On the next slide, which is 11, you can see cost breakdown for the second quarter. In the current environment with sales declining by an unusual magnitude, coupled with a volatile ramp-up, some costs that normally are considered to be variable are no longer fully variable. There is a time element to the variability of some costs. Additionally, when adjusting the variable cost to a sales decline of 50%, fixed cost will represent a much larger part of the cost than under normal circumstances.

As you can see, the fixed and semi-fixed cost increased from 25% in a normal environment to 36% of total costs, which of course means a larger than normal impact on profitability from changes in sales.

Q2 2020 Adjusted Operating Income

On slide 12, and looking now on the adjusted operating income development, it was an exceptional quarter with adjusted operating income $355 million lower than in the second quarter of 2019. That equals to about 25 percentage points lower adjusted operating margin.

As illustrated, the adjusted operating income was positively impacted by lower cost for raw materials, lower cost for SG&A and RD&E and positive FX effects. These positive developments were more than offset by the effect of lower sales volumes and productivity from low business predictability in the volatile restart and ramp-up, and additionally, direct COVID-19-related costs, such as costs for personnel protective equipment, temporary supplier support and premium freight amounted to almost US$10 million in the quarter.

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 and by adjusting production workweek hours and by furloughing personnel. As a result of these measures, personnel costs were reduced by 25% versus the first quarter of this year.

Cash flow

Looking on next slide. For the second quarter of 2020, operating cash flow was negative $128 million, a decrease of $310 million when excluding the EC antitrust payment last year. The decline in operating cash flow was a result of the lower net income, partially offset by improved working capital, mainly due to accounts receivables declining more than accounts payables.

We have also intensified working capital control through strict inventory control, close monitoring of overdues and close collaboration with suppliers. As Mikael already mentioned, cash flow turned positive again in June, thanks to gradually improving sales and working capital control.

Capital expenditures amounted to $64 million in the second quarter, which is about 6% in relation to sales. Compared to last year, capital expenditures decreased 50% as we suspended or delayed investments substantially. Free cash flow was nevertheless negative $192 million, a decline of $247 million year over year.

Leverage Ratio

Lower EBITDA and higher Net Debt

Now looking on the next slide, slide 14. We have, as you know, a long history of a prudent financial policy. Despite the current market conditions, our balance sheet focus remains unchanged. The leverage ratio at 30th June 2020 was 2.9 times. The higher leverage was a result of our net debt increasing by $208 million in the quarter, while EBITDA over the last 12 months at the same time decreased by $350 million. It is worth noting that compared to a year ago, net debt has only increased by $60 million.

Our ambition is to improve our net debt and EBITDA in the near future. However, as leverage ratio is calculated on last 12 months data, we do expect the ratio to remain elevated for some time.

Strong liquidity position

On the next slide, slide 16, you can see that our liquidity position remained strong as we entered a new lending facility in the quarter, of $0.6 billion compared to the cash outflow of $0.2 billion in the quarter. We had around $1.7 billion in liquidity and unused credit facilities as of 30th June and we have no need for any major refinancing of existing debt until 2023.

Therefore, we believe we have secured a significant liquidity cushion to manage our business successfully in the current challenging environment.

Light Vehicle Sales & Production

LVP starting to resume, but ramp up and run-rates are uncertain

Looking on the next slide, these charts show that our industry is in a downturn of historic proportion. According to IHS, full year 2020 global light vehicle production is expected to reach 67 million units, which is a decline of 22% against 2019. There is great uncertainty in light vehicle sales and production due to the evolution of the pandemic, government actions and policy changes, as well as end customer demand for new vehicles.

For the second half of 2020, IHS predicts a decline of about 11% in global light vehicle production, with the largest contractions occurring in China, Europe and Japan.

As you can see from the chart on the left, it took almost a decade for car sales in Europe to recover from the recession that began in 2008. The US market took about five years to bounce back, but sales have been virtually flat since 2015. Significant growth in China initially helped compensate, but the market has been in decline since 2018.

In the current uncertain environment, IHS is not expecting global light vehicle production to return to 2019 levels before 2023.

COVID-19 Business Impact on H2 2020 Adjusted Operating Margin vs. H2 2019

Looking at the next slide, 17, as we communicated earlier this year, we see some tailwinds and some headwinds for 2020. You can see the main tailwinds include growth from executing on the strong order book and the structural efficiency programmes.

The main headwinds include: operational headwinds from COVID-19, including volatility and customer ramp-ups, and declining and unpredictable vehicle production, lower inflator replacement sales. We continue to evaluate and analyse prevailing automotive demand conditions, especially as lockdowns ease and phased re-openings continue for OEM plants and dealer showrooms across the world.

We believe the net effect of tailwinds and headwinds should result in a year-over-year decline in adjusted operating margin in the second half of 2020 compared to the second half of 2019. However, we do expect the business environment to improve significantly in the second half year compared to Q2 2020.

With that, I will hand it back to Mikael.

Operational Overview

Mikael Bratt

CEO, Autoliv

Creating Value for Shareholders

Thank you very much, Fredrik. Moving to the next page, as you all are aware, we are in a downturn of historic proportions and we have so far, in this call, quite naturally focused on the short-term effects and actions. However, it is important to continue to execute on the strategic initiatives that create shareholder values.

Our focus areas for shareholder value creation are unchanged. We would like to share with you some of the key components. We have visible near-term and long-term sales outgrowth backed by a strong order book. We also have our solid foundation and Autoliv heritage with cash flow focus and shareholder returns coupled with a strong balance sheet and prudent leverage policy.

Collectively, our focus areas and business strategy execution will realise our full potential for creating shareholder value.

Financial Strategy

Operating margin drivers

Now looking on the strategies on the next slide. Our mid-term financial strategy brings together our key initiatives: crisis management to offset near-term COVID-19 effects, adapting and optimising our global operations and our footprint to the new normal medium-term market, and continuing to execute on the strategic plan that was outlined in 2019.

Current Crisis Management

Now looking more on these initiatives on the next slide. Here, we show our response to the challenging market conditions as covered in the previous slides. As you can see, it includes much more than just headcount and workweek hour reductions. In addition, we continue to focus on further cost reduction actions, while balancing with the need for capacity to manage the market recovery.

Considering the uncertainty of the market development, keeping a high degree of flexibility and agility is essential and will allow us to be an even stronger company post the COVID-19 pandemic.

Adapting to the New Normal

Structural Efficiency Programme

On the next slide, you can see the Structural Efficiency Programme I that was launched a year ago. This programme is now almost fully implemented. We have seen the expected positive effects of the programme. The programme should reach its full effect during the second half of this year and we expect full-year 2020 year-over-year savings to amount to $50 million.

We have now identified further structural cost improvement opportunities and are launching a second step of Structural Efficiency Programme. For 2020, the programme is expected to generate savings of around $10 million. For the most part, it should be implemented in the first quarter of 2021 and it should reach its full effect by the end of 2021 with annualised savings of around $65 million.

The programme will mainly impact the Americas and Europe. Headcount is estimated to be reduced by more than 900, which is close to 5% of total indirect headcount. When the two programmes are fully implemented, we expect headcount to have been reduced by more than 1,700. The cost for the programme is estimated to be around $65 million and cash out to be spread from Q3 2020 to Q4 2021.

Strategic plan outlined 2019

Continue to implement Strategic Initiatives

Looking now on the next slide, we also continue our work with the strategic initiatives and structural improvement projects outlined at our CMD in 2019. We are investing to improve the efficiency of the value chain from end to end, such as flexible automisation, digitisation and engineering efficiency, including factory of the future.

The ambition is to ensure we have an adequate cost structure that supports our medium-term profitability targets also in a lower light-vehicle production environment, although the additional challenge of a lower market could mean more time is needed to reach our target.

Our Priorities

Looking now on the next slide, to summarise, we have to manage the current challenges posed by the COVID-19 pandemic without losing focus on the longer-term opportunities. Autoliv is operating from a position of strength in terms of available liquidity, flexible structure, and especially our dedicated and experienced employees. This exceptional situation requires tough decisions that we will make as necessary. I am proud that we have a solid organisation that managed to reduce costs, safely restart operations, while continuing to execute our long-term strategy.

I will now hand back to Anders.

Conclusion

Anders Trapp

Vice President, Investor Relations, Autoliv

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. So I now turn it back to Sandra.

Q&A

Emmanuel Rosner (Deutsche Bank): I was wondering if you would share with us some thoughts around your outlook for growth above market over the rest of the year. It was very encouraging to hear that you are not seeing any meaningful or long delays in some launches. So does that mean that you should still be able to grow more than maybe 6 points above market in the second half?

Mikael Bratt: No, let us reconfirm, I would say, that our expectation is still that we should outperform the light vehicle production with around 6%, as we earlier communicated. As you see now in the quarters, we have had some fluctuations that already in Q1 were maybe higher than expected. But as we said, with the market mix that we had, it should most likely be reversed in the second quarter, and that is what we saw now. So I think that confirms that we are on the track that we have indicated and as the market hopefully now starts to normalise on a regional basis, we believe that we will still come to the 6% outperformance.

Emmanuel Rosner: And then secondly, all the factors that you highlighted, headwinds and tailwinds in the second half, are very helpful. I was wondering if you would be willing to speak about the second half outlook in terms of decremental margins. Going into this quarter you had indicated for the second quarter potentially 30% plus decremental margins, obviously what sort of played out. Any colour you can give around either how to quantify those factors or how to think about decremental margins over the rest of the year?

Fredrik Westin: Yeah, we are restraining from giving any specific guidance for the second half and it is difficult to make a comment on the incremental margin and also moving into Q3 and Q4. It will be highly dependent on the volume and also on the mix that we would see also in the second half.

As we showed, the second quarter was hopefully a one-off quarter in terms of the speed and the magnitude of the volume decline, which, as we explained, had a decremental effect obviously in the cost composition. That should be more normalised during Q3 and Q4, but it will still highly depend on the market growth per specific market to then be able to determine what that incremental margin will be.

And then we also do still expect also in Q3, and to some extent also into Q4, a fairly, say, unpredictable market environment, which means that it will be still difficult to balance also our own capacity with the customer needs. So it is difficult to give a more specific guidance at this point of time.

Hampus Engellau (Handelsbanken): Two questions for me. Would it be possible to add some flavour on the order take? You mentioned orders were flat in the first half compared to last year and I was wondering how that compared to available business that you were bidding for and maybe if you can add some flavour also on the market shares in those orders? That is the first question. Second question is on this decremental effect on EBIT related to volume and productivity of $380 million. Would it be possible to maybe get some more flavour on what is productivity and what is volume to help us predict the third and fourth quarter?

Mikael Bratt: Thank you, Hampus. First on the order intake, and then I hand over to Fredrik for the decremental margin there. But as you know, we are not giving market share during the year. We give it once a year when we close the year. But what we have indicated to you here in the report is that we have an order intake that continues on healthy levels and supports our direction as a company, when it comes to our long-term targets here.

So we will have to come back to market share numbers when it is time for that, but a good first half year. And then Fredrik, you can elaborate a little bit on the decremental margin there.

Fredrik Westin: Yeah, sure. As I said, on the cost side, we have had laser focus on discretionary spending. And as we said, our personnel cost came out by 25% compared to the first quarter or around 28% if you look at it year over year. That is headcount reduction, furloughing and so on.

But the sheer magnitude and also the speed of the decline makes it impossible to compensate with cost reduction. In April, our LVP was down 99% in North America. And then for the group, it was 65% in April and 55% in May. So with declines of that magnitude, it becomes very difficult to adjust the costs accordingly. So to now say what was volume, what was productivity, I do not know it’s so meaningful, but for sure, we had large productivity challenges during the quarter. And they should also ease now going into Q3 and Q4 as the volumes will normalise more.

Hampus Engellau: Super. That is what I was looking for.

Rod Lache (Wolfe Research): I had two questions. First, it sounds like you still have some concerns about volatile production schedules and it seems that to some extent is focused on Europe. Could you maybe give us a little bit more colour, maybe a few examples of what you are seeing and what you are seeing just vis-à-vis the tier-two supply chain there and whether there are some concerns along those lines? That is my first question.

Mikael Bratt: I think when it comes to the tier twos, and I mean our supplier base, I mean, that is something we are and have been monitoring very carefully from the beginning as we have indicated here. And I think there it is holding up quite well, I must say. And the challenge here, of course, is more of a, let us call it, physical nature connected to the COVID-19 limitations that the lockdowns and so on potentially could have. But so far so good I would say, and also when it comes to the financial health they have there. So I think it is a relatively good situation there under these circumstances.

And I mean what we are indicating here is really that uncertainty when it comes to the demand side continues to be high, as we still have the COVID-19 in societies in many of the important markets. And I think the bigger question at the end of that COVID period here will be then the underlying impact on the economy and we see, of course, unemployment increasing in many of these markets as well. So I think that is the big question.

Rod Lache: So just to clarify your answer, is it more just economic and macro uncertainty as opposed to operational uncertainty there that you are highlighting?

Mikael Bratt: Yes.

Rod Lache: Okay. And then my second question was just you originally targeted 12% margins, I think, for 2023. And you highlighted that IHS is not expecting to get back to 2019 levels of production until 2023. But I presume that that is lower than what you originally anticipated when you laid out those forecasts. Can you maybe just address that a little bit more? Should we still be thinking about that as your target within that timeframe? And if it is, what kind of adjustments do you anticipate making in order to get there?

Mikael Bratt: I think, I mean, we have, as we laid out in the CMD roadmap towards our mid-term targets and the 12% as you are referring to here, and what we are saying here is that that continues to be our mid-term target. But as you remember, the mid-term target was expressed as a three to five-year target. Then with the headwind we see now, it is more likely to be closer to five than to three years to get there, as the LVP is significantly lower than what was expected when we stood here in the fourth quarter 2019 and talked about the direction.

So, that of course is the additional headwind we are seeing. But we are confirming the 12% and we are saying, depending on the scenarios here on light vehicle production, it may take a little bit longer time.

Rod Lache: So just to clarify, are there any thoughts you could provide to us on a little bit near-term, maybe two or three years from now, should we sort of just take the 300 basis points of margin expansion that you were originally anticipating and just spread that between equally through the next couple of years or all the way through 2025? Or is there anything you can suggest as a near-term landmark for us?

Mikael Bratt: I would not like to go into that kind of very detailed calculation scenarios there. But I think the point is here that we continue with our strategic roadmap here and we have all the way said that we do not need peak LVP to get there, but we need a stable LVP. And, of course, the lower it is from the original scenario, the more time is needed to adjust the cost base to whatever LVP we are talking about there.

So I mean, I think, when you look three to five years out in time, there is many different scenarios of how LVP could develop there. So I think that is the best way I can describe our intentions here.

James Picariello (KeyBanc): Just as we consider recovery scenarios for next year, can you just talk about what normalised incremental margins are for the company and maybe, you know, what puts and takes might affect that normalised range for next year? Maybe just any colour on that bridge. You'll have, you know, the incremental $45 million in phase two savings that should help, a recovery in legacy programmes, which comes through at a higher contribution margin than your new launches which are sitting in backlog. Any colour on this bridge would be great.

Fredrik Westin: Yes, sure. Of course the efficiency measures we're taking now are to adjust for the volume decline that we've been facing, and of course then as volume comes back, that will have an effect on the margin, but it is very, very heavily dependent on where the top line will end up. As Mikael laid out, we still have the 12% target that we strive for, but the deciding factor will be where the volumes also in 2021 are, to give any type of a flavour of where the normalised margin in that market environment will be. But with the cost measures we're taking now, naturally our breakeven point is lower, so you should see a benefit from that.

James Picariello: And the normalised incremental margin range historically has been, what would you state that range as?

Fredrik Westin: We've talked about 30%, Mikael, do you want to comment?

Mikael Bratt: When it comes to growing business here, I think what we have said as a guide and a ballpark figure is the 20%, around 20%. But I think where we are right now and the volatility and uncertainty, I mean I would say is not normal incremental scenario where we are right now. So, hence then that we are refraining from giving any guidance or indications of the way forward here. I think what we are saying really is that we are taking severe measures to adjust our cost base for whatever the new normal is, and then we have to come back, when we have some, let's call, it more normal business situation here, that makes it more predictable on how things develop. And of course we will come back and be clearer there on guidance and outlooks.

James Picariello: So on D&A, that's part of the headwind for the back half, D&A trended largely flat year over year through the first half, so what's the order of magnitude on the headwind for the back half on a year over year basis for D&A?

And then just on CAPEX, is CAPEX still trending a third lower than your prior guidance? Or a third lower than last year's CAPEX? Is that the right way to be thinking about CAPEX? Thanks.

Fredrik Westin: Yes, so CAPEX will come up here now during the second half. There's been a lot of delaying and pushing out CAPEX but as we said before, 70% of our CAPEX typically is related to new programme, and then as Mikael laid out, the launch plans have not changed significantly, and with that we will also have an increased CAPEX here during the second half. So we will not be able to maintain it at the level we had in the first half. And that will then also have an effect on the depreciation amortisation that will increase also during the second half.

Mattias Holmberg (DNB Markets): I think you mentioned in conjunction with the Q4 results that you expected the outperformance versus light vehicle production to be higher in the end of the year compared to the beginning of the year, due to the phasing of model launches. Would you say that this still is the base case or will these launches be impacted by the delays that you mentioned?

Mikael Bratt: That's still the base case, but as you have seen here, I mean with all the volatility in the market, it has been more volatile development than expected. But, when you sum it up, at the end of the day, we still expect 6%, as I said. And then the question is, do the delays impact the 6%? There's nothing we can see that would impact that as of today here. I mean what we indicated here is there are some delays but no significant delays. So we have no reason with what we see and know today, that will change that number. So that's still true.

Chris McNally (Evercore): Maybe I can just follow up on the outgrowth question from before? I think incremental margins have been covered pretty extensively. Maybe not about the new launches, but just on mix, compared to what you see now, if we have a second half where China is again better than expectations, so IHS revises China up to something like minus 10 and we get negative revisions in Europe, would that be a drag on the 6% outgrowth?

Mikael Bratt: I think, I mean the bottom line of course is that the market share that we are taking altogether is still there. But when you look at the comparables here, of course we will have an impact if you have high-content vehicles at the lower rate than the other vehicles here, you will have a mix effect. So, mathematically you will get that effect, but I think that will even out over time here. But of course you can play with different scenarios in the quarters here, but you will get an effect from mix, if you have the mix there, of course. But bottom line is that our market share gain is still there.

Chris McNally: Great, and then just to tie back to Rod's previous question, if the sort of 12% margin target is maybe more like three to five years, so 2024, 2025, can you just give us an idea of how long we should be using this 6%, I think you also used 4% to 6% in the past. When does the actual market share start to just tail off, because the law of large numbers? You know, you'll be in the high 40% on market share. Just when we have to start dropping it just because you're approaching 50% market share.

Mikael Bratt: No, I think the range we gave there at the capital markets day, I mean that's valid for that time period that we talked about there, and then each year we come in with a number for the current year. And the 6% now is for 2020 and then we will come back with guidance for 2021 when it's time for that. But the range is still valid.

Joseph Spak (RBC Capital Markets): The first question, I just want to clarify the order intake first half in line with last year. I know you don't talk about market share, but is that on a dollar basis? Because if so, we've definitely heard that awards are still somewhat constrained given customer focuses and other challenges and the out-of-year volume consumptions are also lower. So it would suggest your share has picked up a little bit.

Mikael Bratt: As I said, we do not comment the market share of the order intake, but what we are saying is that in terms of value, it's still there at the level.

Joseph Spak: Okay, so on a dollar basis it's flat with the first half of last year?

Mikael Bratt: Yes.

Joseph Spak: Okay, and then the second question I have is, if we go back to the financial crisis, you know, Autoliv adeptly consolidated plants and adapted your production capacity. I think I lost track of the amount of times on this call that you mentioned this is a downturn of historic proportions and you also mentioned the potential for further structural cost reductions including footprint, which remain under evaluation. So, can you just shed a little bit more light on your thought process there, on the considerations? Is it really just a lower volume outlook than prior, or is there also a chance here to take advantage of the overall situation and maybe increase the efficiency of your footprint, even if you know volume outlook would be not as changed as some of the drastic scenarios?

Mikael Bratt: Yes. I mean what I laid out at the end of the presentation was really to get back to our roadmaps, towards our midterm target here, and that is to drive efficiency across the whole value chain and really end to end and including the footprint and things of that magnitude. So that is to support our long term journey and not a response to the current situation. I think what we have done in this quarter is to aggressively or I would say, forcefully, adjust the cost base to the current situation, but underlying is still that we are driving this efficiency agenda and effectiveness agenda that we have. So, as we have indicated here, we will have most likely some capacity alignments coming here, but we will announce and inform about them when those decisions are done on a case by case basis.

Joseph Spak: And if that occurs, is there scope within that, because you sort of mentioned the 12% target in maybe three to five years, is there scope to maybe bring that closer to the lower end of the range, if those actions are taken?

Mikael Bratt: No, I wouldn't like to go into that type of specification here. I mean as I said from the beginning here, the midterm target is three to five years out and of course with that potential headwind we see now, with the light vehicle production significantly lower than originally thought, we indicate it will take a little bit longer – potentially take a little bit longer time. But we have also been very clear from the beginning that we are not looking for light vehicle production to be at some kind of peak levels here, we just need to make sure that we have a stable light vehicle production at reasonable levels, and then we need time.

Vijay Rakesh (Mizuho Financial Group): I was looking at your comments, you said order intake is pretty much tracking flat year on year and looks like obviously LVP is down first half. But given those strong order trends and I think IHS advised of some numbers yesterday, it looks like some decent outlook from Daimler, do you still think there's an upside versus what you are thinking? Do you think the trends are improving a little bit further?

Mikael Bratt: No, I think uncertainty is so high out there with both the COVID and the impact on the economy there, so I would not like to speculate if it, you know, could be better or worse related to the IHS numbers that you see out there. So for us, it's very much working with our scenario planning and making sure that we do the right activities for whatever development we will see here.

Vijay Rakesh: Got it. And I know you mentioned mix shift, a little bit of a headwind here. When you look at that mix shift to lower content vehicles or to used vehicles, do you have any visibility on how long those trends are staying? Or do you see any trends that kind of make you more favourable in terms of shifting back to higher value products? Thanks, that's it.

Mikael Bratt: No, I mean it's almost the same question there on how the different markets will develop. I think of course the regional mix effect that we have seen now, both in Q1 and now in Q2, as indicated, should normalise over time and you get the same relationship between the regions. But when and/or how quick that will happen I think is the same question here. There are too many question marks still out there.

Ryan Brinkman (JP Morgan): Hi, thanks for taking my question, which is, you know, are there certain financial or operating milestones with regard to your own performance or certain industry conditions that you're looking for that could cause you to reinstate the dividend? And while you have historically been, I think, more conservatively capitalised than most peers, do you foresee any change going forward with regard to your targeted leverage ratio to protect against unforeseeable disruptions such as pandemics, et cetera?

Mikael Bratt: No, I think, I mean first of all, the dividend is a question for the board, ultimately, but of course we need to get through this current COVID crisis here and then come out on the other side of that. And then of course, as soon as we feel that we are on some more stable ground, I think all those questions will be answered over time here. But where we are right now, I think full focus on driving cash flow and securing liquidity here for the future. And of course, our ambition here is to make sure that we continue to be a shareholder friendly company in terms of returning liquidity to our shareholders, absolutely. But one step at a time here, as we come out of the most challenging quarter in Autoliv's history.

Ryan Brinkman: Okay, thanks. And I heard you talk earlier about 30%-ish normalised decremental, 20% plus normalised incremental. I mean after 2008/2009 though, your incremental was so strong because of your cost cuts that your margin actually rose to higher than the pre-crisis levels. How are you thinking about this crisis and its ultimate impact on margin? How much of the cost cuts you're instituting could maybe stick after volume comes back causing margin to potentially be higher? Is that a potential outcome here?

Mikael Bratt: As I said, I don't want to give any indication or guidance on our future earnings or top line here, based on everything I've already said here. But once again, I mean we are extremely focused here in the company now to drive productivity and efficiency to get to our mid-term targets, over time here, and that is what we're working on. And then of course we have to come back on the progress of that and as we come out of this also more stable ground also coming back to guidance and those kind of forward looking statements when that time was there.

Jason Stuhldreher (Barclays Investment Bank): This is Jason Stuhldreher on for Brian, I appreciate your squeezing me in here. Maybe just a quick question to round out the cash flow discussion. As we think about the second half, there are obviously puts and takes between, CAPEX stepping up, working capital going one way or the other, but I think coming into the quarter we were cautiously optimistic that potentially you could be cash-flow breakeven for the year. Obviously highly contingent upon volumes, but if we do see the type of volumes that IHS is calling for, is that a reasonable target for investors to think about or is there some precluding factor that you know, would prevent you from getting there?

Fredrik Westin: Yes, I mean again, I think IHS is one data point that we're not bothered about in any case. We will of course know in Q3 and 4, because of the ramp-up, it will be also tie up working capital with receivables and inventories ramping up as volumes increase, and we will have a very, very strong focus on our cash conversion and we will also have a target there, that we're striving for to achieve. But it is also a highly uncertain journey during the second half. But I mean we will be very, very focused both on CAPEX, as we said. There will be an increase because of the higher launch activity in the second half and because we've pushed out so much of the second quarter, but then there are also the other elements of net working capital, that will build up as a nature just of the increasing volumes. But it's difficult to make any more specific guidance on that, and it also, a lot depends on how the top line also plays out here during the second half.

Jason Stuhldreher: Understood, okay, that's helpful colour. And then my last question, just on the launch cadence within the industry, you know, I think we've all be impressed or surprised by how resilient the launch plans of OEMs have been up until this point, and the comments that you had in the press release and in your prepared remarks made it seem like those plans were still on track. I think there was one line that said, 'Recently you've seen a few OEMs talk about launch delays.' Just curious if your overall comments in general around new launches are more constructive or less constructive than they were at this time a quarter ago.

Mikael Bratt: No, I think as we said, I mean we've seen some delays but I mean it's not significant delays, so it's to a large extent, I would say, following through. And I mean of course when you have a situation like this, there could be a lot of practical reasons for delaying it under these circumstances. So it's not very dramatic, I would say, and actually we also see, in some corners, some ambitions to speed up or to catch up for lost time. So I think, I mean potentially acting out itself over time here, but high ambition still to follow through on all those programmes. And as we have said, also there were a few activities in terms of new quotes, et cetera, also following the regional plans. We don't see any pushouts or delays on any meaningful level there either, so very much carrying through.

Operator: With this, we hand back over to Mikael Bratt for final remarks.

Mikael Bratt: Thank you Sandra, and before we end today's call, I would like to say that while we continue to manage the effects of the pandemic, we have a never-ending focus on quality and operational excellence. Our third quarter earnings call is scheduled for Friday, October 23rd 2020 and thank you everyone for participating on today's call. We sincerely appreciate your continued interest in Autoliv and until next time, stay safe.

[END OF TRANSCRIPT]