Q3 Report 2019

Friday, 25th October 2019

Welcome

Anders Trapp

Vice-President Investor Relations, Autoliv Inc.

Welcome, everyone, to our Third 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, Investor Relations.

During today's earnings call, our CEO will provide a brief overview of our third quarter results as well as provide an update on our general business and market conditions. Following Michael, Christian will provide further details and commentary around the Q3 2019 financial results and outlook for our full-year 2019. At the end of the presentation, we will remain available to respond to your questions and as usual, the slides are available through a link on the home page of our corporate website.

On the next page, we have the safe harbour statement, which is an integrated part of this presentation and, of course, 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 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 sharp, 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

President and CEO, Autoliv Inc.

Q3 2019 Key Events

Thank you, Anders. Looking now into the Q3 2019 highlights on the following page. First, I would like to say that I am generally pleased that our operations reported improved adjusted operated margin compared to the second quarter, despite challenging vehicle markets and cost for raw materials.

The reason for the improvement is mainly the actions initiated in previous quarters to mitigate the effect of tough market conditions and the elevated launch costs. Although the rate of decline in the light vehicle production slowed down somewhat, uncertainty remains high. Market outlook by IHS continued to be revised down, and we do not see any turnaround in the light vehicle production in the near-term.

The strike at General Motors affected our operations in North America, adding to the challenges we already face. We continued to outperform light vehicle production, growing organically 4.6 percentage points more than light vehicle production, driven mainly by a strong development in China.

Being a truly global company, we feel the full force of the global light vehicle production decline, and the wave of new launches is what generates our outperformance. This quarter marks the sixth consecutive quarter of substantially higher organic growth compared to the market, further increasing our market share.

Order intake share continued at a good level, supporting prolonged outperformance. Being close to our customers is key to strengthening our competitiveness. In the quarter, two new customer collaborations were announced. Firstly, creation of a North American road safety research lab in Baoding, China with Great Wall. Secondly, developing next-generation passenger airbags in cooperation with Honda.

We continue to actively manage the business cycle downturn. Adding to the reduction of direct workforce headcount in the second quarter, we reduced total workforce by a further 800 during the third quarter. Compared to a year ago, headcount is about 1,600 less, despite growing our sales organically by more than 1% year-over-year.

Q3 2019 Structural Efficiency Programme

Looking now at the structural efficiency programme more in detail on the next slide. Here, we have summarised the structural efficiency programme as we have identified structural cost improvement opportunities. We have already started to see the positive effects of the programme, although limited in the quarter. For full-year 2019, we expect saving to amount to $10 million, and the programme should reach its full effect by December 2020. Most countries where we have operations will be impacted, though higher impact in North America and Europe is expected. Headcount is estimated to be reduced by almost 800, which is about 4% of total indirect headcount. The cost for the programme is estimated to be around $60 million and the cash out to be spread from Q2 2019 to Q2 2020. Annualised savings is estimated to be around $60 million, which is equal to about 5% of indirect labour cost.

We continue to evaluate our global operations and to optimise our footprint. It is likely that this will result in additional restructurings in further future quarters. This is, of course, not all we do to improve our long-term efficiency. We are investing in building the foundation for improving the value chain from end-to-end, such as flexible automatisation, digitalisation and engineering efficiency. We intend to discuss this more in detail during our CMD on 19th November.

Q3 2019 Financial Performance

Looking now at the recap of our third quarter financial performance on the next slide. Our consolidated net sales, virtually flat compared to Q3 2018, impacted by weaker currencies with organic sales increasing by more than 1%, despite the global light vehicle production falling by more than 3%. Adjusted operating income, excluding cost for capacity alignment, antitrust-related matters and separation cost decreased by about 6% from $194 million to $183 million, impacted by lower light vehicle production and raw material pricing.

The adjusted operating margin decreased by 50 basis points to 9%, compared to the same quarter of 2018. Adjusted EPS decreased by $0.05 compared to Q3 2018, mainly due to lower operating income.

Q3 2019 Market Conditions

Looking now on the market development. The negative trend that started around mid-last year has continued. Global light vehicle production is estimated to have fallen by 6% year-to-date, the worst performance since the financial crisis in 2008 and 2009, and with more than 3% in the third quarter according to IHS.

China LVP down approximately 6%

China's light vehicle market contracted for the 15th straight month in September, despite dealerships in many provinces providing generous discounts and some efforts by the government to boost sales. Light vehicle sales and light vehicle production both fell by approximately 6% in the quarter. Consequently, we did not see any meaningful reduction of light vehicle inventories, and we continue to see OEMs still carrying fairly high inventories.

US light vehicle sales finished the quarter up 1% compared to last year, while sales in Mexico fell by more than 8%. Light vehicle production in North America decreased by 1%, which was almost 3 percentage points lower than originally forecasted at the beginning of the quarter. One reason for the lower light vehicle production was the strike at GM's US facilities. Thanks to the higher vehicle sales, inventories declined by 300,000k units to a healthy 3.6 million.

European light vehicle registrations were 2% higher and light vehicle production was 1% higher than during the same period in 2018. However, the important West European production is still on a low level, as it has dropped 1% this year following a double-digit decline in Q3 2018, when many OEMs reduced volumes due to the WLTP introduction.

Q3 2019 Sales Growth

Looking to our sales growth, on the next slide. Our sales continued to outperform global light vehicle production, substantially outgrowing light vehicle production in China, the rest of the world, and Americas. In the quarter, Americas and China contributed with $30 million and $40 million, respectively, to the organic growth. This was partly offset by slowing sales in Europe.

In North America, sales were driven by product launches from previous quarters, mainly with Honda, GM, Nissan, BMW and Tesla. The organic growth of around 4% was close to 5 percentage points higher than the change in light vehicle production.

Our sales in South America increased by 31% organically, substantially outperforming light vehicle production.

In Europe, we have been affected by weaker demand from a number of OEMs, including Daimler, JLR, BMW and Toyota. Additionally, our sales were negatively affected by an OEM delaying a key model launch, which now is on track. This, and a few other important launches, should improve our relative performance in the fourth quarter.

Sales in China increased organically by 11%, thanks to the strong order intake in recent years, outperforming light vehicle production with both global and domestic OEMs. Combined, we outperformed by around 17 percentage points. The higher sales were mainly driven by higher sales to global OEMs, mainly Honda and VW.

Our sales in Japan underperformed light vehicle production, due to negative mix, impacted by car models selling well ahead of the increase in consumption tax on 1st October. As we have

said before, we expect an improved sales performance from new product launches in Japan to begin in Q4 2019.

Sales in the rest of Asia outgrew light vehicle production by 8 percentage points, despite organic sales decline by 3%. The sales decline was mainly a result of the weaker market in India.

Q3 2019 – Key Model Launches

Looking to our key model launches in Q3 2019 on the next slide. Here you see some of the key models launched during the third quarter. These models are well distributed across the globe and have an Autoliv content per vehicle from $100 up to $400 per car. Particularly interesting is to see our content on the Peugeot 208, one of Europe’s best-selling models. The 208 will be offered both with traditional combustion engines and a full electric powertrain, both versions with the same safety content from Autoliv.

Going into the fourth quarter, 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 on the financials.

Financial Results

Christian Hanke

Interim CFO, Autoliv Inc.

Q3 2019 Financial Overview

Thank you, Mikael. Looking now to our financials on the next page, we have our key figures for the third quarter. Including negative currency translation effects of around $30 million and organic sales growth of $25 million, our net sales reached $2 billion. Our gross margin declined year-on-year. The net operating leverage on the higher organic 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. Our adjusted operating margin of 9% declined year-on-year, mainly due to the lower gross profit and the slightly higher SG&A in relation to sales. Our comment here is that the savings from the structural efficiency programme was very limited in the third quarter. Our adjusted return on capital employed and return on equity were 19% and 23% respectively. We have maintained our quarterly dividend at $0.62.

Adjusted Operating Margin Bridge

Looking now on the next slide, our adjusted operating margin of 9% was 50 bps lower year-on-year. As illustrated by the chart, the adjusted operating margin was negatively impacted by higher raw material costs of 60 bps, and 30 bps from SG&A and RD&E, partly offset by 30 bps from FX effects. Despite the low organic growth, our operations yielded a positive margin contribution.

This improvement was mainly a result of improving launch-related costs and effects from continuous improvement, business cycle management, and, of course, growth from new

product launches. These positive factors were partly offset by the disproportionate negative impact the LVP decline had on mature platforms with normal operating leverage.

Cash Flow for Continuous Operations

Looking on the next slide, operating cash flow was strong and amounted to $195 million, which was $43 million lower than from continuing operations in 2018, mainly explained by the lower net income. Q3 cash flow last year was particularly strong, with a cash conversion of more than 100%, while it was 85% this quarter.

Capital expenditures amounted to $122 million in the third quarter, which is about 6% in relation to sales. In the third quarter of 2018, capital expenditures for continuing operations were $117 million, or around 5.8% of sales. For the full-year 2019, we expect capital expenditures in relation to sales to be in line with 2018.

Excluding the EC antitrust fine, the last 12 months of operating cash flow was $820 million, and the last 12-month cash conversion on net income was 78%.

EPS Development

Looking now to our earnings per share on the next slide, we have the EPS development. Reported earnings per share declined by $0.36 to $0.98. The main drivers behind the decrease are around $0.31 from higher cost for capacity alignments, and approximately $0.08 from lower adjusted operating income. In Q3 2019, the adjusted earnings per share decreased by $0.05 to $1.30 compared to 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 shareholder-friendly capital allocation policy remains unchanged despite the current market conditions. Autoliv's policy is to maintain a leverage ratio around 1.0 times net debt to EBITDA, within a range of 0.5 to 1.5 times. As of 30th September 2019, the company had a leverage ratio of 1.8 times, which is slightly lower compared to what we reported for 30th June. The main reasons for the high leverage ratio are the capitalisation of Veoneer in 2018 and the payment of the fine for the remaining portion of the EC investigation in the second quarter of 2019.

Our strong free cash flow generation should allow deleveraging and should allow continued returns to shareholders, while providing flexibility. We expect to be around 1.7 times by the end of 2019. This excludes any other discrete items and other non-foreseeable changes to our business.

2019 LVP Outlook

Looking at market developments 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 fourth quarter is expected to: the North American light vehicle production is seen down 10% for the fourth quarter, partly as a result of the UAW strike in the beginning of the quarter affecting all GM assembly plants in the United States. LVP in China is expected to continue to decline, but at a more modest rate than what we have seen in recent quarters. European Q4 production is anticipated to decline by around 2% on lower demand. Japanese production will see a tipping point after October 2019, due to the increase in consumption tax from 8 to 10 percent which

affect domestic demand and an export sector which will be negatively impacted by a stagnant global demand. It is worth noting that since January of this year, IHS has reduced their full-year 2019 expectations of global light vehicle production by 6.4 million units, or by 7 percentage points, to around 86 million units.

Reflecting the increasing uncertainty in the market, our base scenario for global light vehicle production in 2019 is a decline of 6-7%, which is lower than the IHS outlook of 5.9%. The reason for our more negative view of global light vehicle production compared to IHS is that we have seen drops in call-offs in Japan, India and Korea due to lower demand and delays of certain new models. However, we expect to outgrow light vehicle production by 6-7 percentage points.

Financial Outlook 2019

Looking on the next slide, we have summarised our full-year 2019 indications. The uncertainty remains high in a falling LVP environment and we currently do not see any signs of a turnaround in light vehicle demand. Therefore, we now indicate full-year 2019 sales and profitability in the lower end of our previously communicated ranges. These indications exclude cost for capacity alignments and antitrust-related matters and assumes mid-October exchange rates prevail. Note that exchange rates have been quite volatile in recent history and could well continue to be so in the near future.

Our financial outlook assumes a 6-7% decline of global light vehicle production. The range reflects the continuing high level of uncertainty in the automotive market. We expect our organic growth to be around 7 percentage points higher than global LVP. Consequently, our full-year indication is for a 1% organic sales growth, with a negative currency translation effect of around 3%, resulting in a net sales decline of around 2% for 2019.

Reflecting the lower light vehicle production assumption, our indication for the adjusted operating margin is around 9% for full-year 2019. We expect the 2019 raw material costs to increase by approximately 60 basis points. We anticipate the currency effects on the operating margin for full-year 2019 to be relatively neutral. Operating cash flow, excluding the previous EC antitrust payment and any unforeseen events, is expected to between $700-800 million.

I will now hand back to Mikael.

Summary

Mikael Bratt

President and CEO, Autoliv Inc.

Adjusted Operating Margin Progression

Thank you, Christian. Turning the page. As illustrated by this chartt, we have been able to gradually reduce the margin declines versus last year from more than 200 basis points in the two first quarters to 50 basis points in Q3 2019. This is despite continued headwinds from raw materials and light vehicle production declining more than expected.

The chart also shows sequential improvements. The main reason for the sequential improvement is the business cycle management activities, improved launch cost efficiency as well as our strong focus on continuous improvement throughout the organisation.

As implied by our full-year indication, we expect the sequential margin improvement trend to continue in Q4. In addition to positive contribution from our continuous improvement activities, we should start to see effects from the structural efficiency programme as well as seasonally higher sales and seasonally higher engineering income and lower raw material headwinds.

Although uncertainties continue to affect the industry volumes, we expect to outperform light vehicle production for the remainder of the year in all major regions.

To put things in context, this year has been dramatic. The year started with light vehicle production expected to grow by 1%, while now, nine months later, it is expected to decline 6-7%. That is a 7-8 percentage point change for the entire company to deal with. Additionally, we were affected by social unrest in Matamoros, Mexico in the first quarter, which created disturbances and substantial cost increases for us. Although we are not pleased with our profit levels, we are somewhat proud that in such a dramatic environment we are able to guide for around 9% adjusted operating margin, not least in the light of the unusual combination of sharply falling LVP demand and rising raw material costs.

Capital Markets Day

Looking now on the next slide, our CMD is now less than a month away. At our facilities in Utah, we will show how we will improve our company further, taking Autoliv to the next level of growth, cost improvements and returns. I am looking forward to seeing many of you there.

I will now hand back to Anders.

Q&A

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

Chris McNally (Evercore): Thanks so much, and good afternoon gentlemen. A couple of questions. On the margin progression, I think you commented, obviously, it has been a tough year based on $600-$700 million of a revenue delta.As we think about 2020 though, I think you guys have laid out a pretty strong argument on the cost structure getting better from the actions that have been taken place. Just back-of-the-envelope maths, it seems like you have $70 million left to go, so even if only a portion of that happens, that could be 40-50 basis points, you will get some of the raw materials back and then you will obviously still have organic growth. We get this question a lot: everything changes on the volume side, but is it feasible that we could have a 75 or 100 basis point improvement next year just on the reversion of some of these factors? And again, putting base production aside, just thinking things stay where they are and don't get better.

Mikael Bratt: Thank you. We are not in a position now to start to comment on what we believe of 2020 here. However, of course, we are extremely focused here on continuing to adjust our cost base in relation to the overall market development. As we have alluded to

before, we have also now the full focus on making sure that we capture all opportunities of being a fully focused company on our core businesses and want to see improvements along the value chain. Therefore, I think we are being quite clear on our ambition in driving that. That should support improved profitability in the years to come here.

However, going into any detailed discussion around 2020 is way too early. I think the uncertainty we talked about in the second quarter has just been reinforced in the third quarter, on where the market is going. Therefore, I think we need to be keeping a close eye on that to start with, and then take steps from there.

Chris McNally: Okay, great. Then another quick one on the order book. I think you commented order levels remain at good levels, maybe it is not 50% still, but maybe it is something pretty close to it. It has been almost two years since Key Safety and Joyson took over at Takata. It seems like it has been a very subdued re-emergence for them. Could you just talk qualitatively about what you are seeing in the bid process? Are they just very selective, are they really just trying to retain current customers and not trying to aggressively re-take some of the share that was lost?

Mikael Bratt: I cannot really comment, of course, on what they are doing because I simply do not know. We are focussing on our business here. Of course, as a global player, they are visible in the market in the sense that we probably go for a lot of the same business opportunities. However, as you know, it is a tender business, and our full focus is on delivering on our commitments when it comes to quality and delivery precision, and of course, being price competitive. I think we have shown the last couple of years that we are in a good position to defend the market share, which we are growing into, and that is, of course, our full focus. I do not see any other priorities for us than to focus on our own business.

Chris McNally: Okay, great. Thank you so much.

Mikael Bratt: Thank you.

James Picariello (KeyBanc Capital):

Can you talk about the industry order trends? You made another comment this quarter that bookings activity for the industry was weak yet again. What are your thoughts for the fourth quarter and any colour you could provide as it relates to your share gain trends? Thanks.

Mikael Bratt: I think, first of all, as we have indicated here, that we have an order intake still on healthy levels and exact numbers, we will come back to when we close this year. However, the point is really that the order intake we have supports prolonged outperformance as we move forward.

Then, in terms of the absolute volume of the orders, or the RFQs that is out there, it is lower than what we have seen last year. However, we should remember also that every year is not equal. It depends very much on how the model years are and all the plans to renew them, and so on, is looking like. Therefore, I am not reading in any fundamental changes to how the ordinary course of business is looking like when it comes to putting out RFQs. It just happens to be a year with slightly lower activities or numbers out there.

However, as we have indicated before, in Q2, we expected the second half of the year to be higher than the first half, and that still stands. Therefore, I would say a gradual improvement. It means that Q4 is an important quarter to ultimately define on where we end up for the full year. Hence, a little bit higher activities in Q4 is expected.

James Picariello: Got it, thanks for that. Then, hopefully, I didn't miss this, but what was the quantified GM strike impact in the quarter and what are you baking in for the fourth quarter?

Mikael Bratt: We have not given a number for it. However, in the third quarter, you could say it is affected by around two weeks of sales to GM in North America, as the strike started mid-September, and it is still ongoing here. If I understand right, there is a vote today within UAW and the workers there to accept an agreement that is in place or not. Therefore, hopefully, we will see an end to the strike later today. That means that it is another four weeks, and that four weeks is obviously a part of the fourth quarter. Hence, all in all, we are talking about potentially six weeks. And GM North America sales to us is around 3% of total sales. Of course, it is a big and important customer to us, and has some sizeable impact. However, if you look at the totality on a global scene, it is 3% that I talked about.

Hampus Engellau (Handelsbanken): Would it be possible for you to maybe discuss on what you see in terms of ramp-up for 2020? And if on a comparable basis, how many launches do you have for 2020 compared to 2019, just to understand the dynamics here? That is my first question, thanks.

Mikael Bratt: Thank you. I would say that 2020 is a year where we continue to launch on the order book we have talked about here. I would say we have come up to a "new normal," so to speak. Hence, in the number of launches, I do not have a number to share here, but I do not expect to see a dramatic step up here, as we are now in the midst of the wave, so to speak. The activity level has risen to a new height, that we will continue on. As you remember, the wave started in North America and moved on then to China. We expect now in the fourth quarter, Japan starting to gear up and have outperformance more visible in that part of the world. By that, I mean we are at the new normal.

Hampus Engellau: And in terms of the adjustments you have seen on your customer base in terms of production, etc., have there been any delays at OEMs or delaying a launch of a certain model, or is it just that they are reducing the run rate on the back of low demand?

Mikael Bratt: It is really the run rate that is the fact here. As we mentioned earlier in the presentation, we have had some delays of start-up production, but it has no connection to the overall market development. It has been more technical decisions from OEM and it has nothing to do with ourselves, and it has, as we see, nothing to do with the overall market development. It has been other reasons, and not material, I would say.

Hampus Engellau: Thank you very much.

Joseph Spak (RBC Capital Markets): Maybe just quickly on the implied fourth quarter margin guide which is about 200 basis points up. If we follow along with your estimate of the indirect labour savings, that seems like it should be about 50 basis points. And then you typically have the lower R&D in the fourth quarter with the recoveries, which seems like it could be maybe 80 basis points. Should we think about the remainder as just leverage on

some higher sales quarter-over-quarter or is there another factor we should think about for the fourth quarter?

Mikael Bratt: I think the key factors here for the step-up in performance towards our full-year guidance, is that we always have the seasonality effects between the quarters, Q3 to Q4, and part of that is, of course, increased sales and R&D engineering income. Now this year also, in combination then with the efficiency programmes that we are conducting, as indicated here, we see giving results and is biting. Therefore, that is the main factors. However, I will let you do the maths there, how big the performance is.

Joseph Spak: Okay. I appreciate your comments on the indirect workforce. It looks like on the direct workforce, it looks like you have another, maybe, 570 employees. Can you just update us where you are in that process?

Mikael Bratt: Yeah. I think that is something that all our plans is very close to, and constantly assessing the needed resources to meet the capacity requirement we have and commitment we have towards our customers. Therefore, that is a constant ongoing process, to make sure that we are well-balanced in our different plants. Therefore, we talk quite a lot about the flexibility and agility to meet with the changing demands. I think the organisation is demonstrating that they are on top of it and showing good practice in that area, so I feel we are managing that in a good way.

Joseph Spak: So, there is no target there? That is flexible with how you see then environment plan out?

Mikael Bratt: There is no absolute target planned when it comes to direct workforce. It is the part of making sure that we have flexibility, as I said. And as we always do, working intensively with the productivity improvements That is a part of our daily business, so to speak. Of course, when we face these headwinds, you could say we try to put in an extra gear there. However, it is part of our normal business.

Joseph Spak: Okay. Finally, I know you went through the IHS forecast, and your guidance is built off the call-offs. And you talked about Japan and Korea, I think you called out as areas of maybe some more conservatism. Just curious, though, about your thoughts relative to IHS on China and on Europe, because we are hearing some talk of planned shutdowns there as well in the fourth quarter. Is that factored into your outlook as well?

Mikael Bratt: I think we see weaker LVP demand across the board. I think we called out these countries here now, because they are the ones that have actually held up the longest, if you look at Japan, and so forth – and Japan was still growing in the third quarter, hence, you could say, probably due to the pre-tax. Therefore, we see a bigger shift there. When it comes to the rest of the regions here, it is still negative and increasing reductions.

Joseph Spak: Are you still more in line with IHS for those other regions?

Mikael Bratt: We do not disclose the region by region exactly how we are linked up to the IHS here.

Joseph Spak: Okay.

Mikael Bratt: Of course, when we have a quarter in front of us here, we look at the call-offs we have, and so on. In terms of anything you hear about plant closure, etc., it is very

tangible for us, of course, in our customer dialogues. I just want to say when that is happening, it is, of course, a part of what we see for the coming quarter.

Joseph Spak: Okay, thank you very much.

Vijay Rakesh (Mizuho Securities): Hi guys, just a couple of questions. As you look at 2020, things on the LVP side should start to look a little better just from a comps perspective, given how bad 2019 was. But I am trying to figure out, if you look at China, you mentioned the multiple discounts and the promises they are doing to stimulate LVP, but it has not picked up. I was wondering what drives better LVP in China into next year? Thanks.

Mikael Bratt: Yeah, I think, as I said, we have not commented on 2020, because I think it is way too early to have a strong view on how 2020 would play out in terms of demand with the high uncertainty that we have. I think we need to wait to come back on that. However, there are many moving parts right now, that creates uncertainty across the board. We have everything around the drive line, meaning, is there any restrictions? And in some countries there are restrictions on the drive lines, pushing for new ones. We have in China specifically then, as you mentioned, situations where we have the China VI, and some people that own China V vehicles, maybe have difficulty to offset that vehicle to invest in a new vehicle. Therefore, that has changed the landscape a little bit. Of course, we have the new political situations surrounding China also here, as well as the drive line issue there, altogether.

There are so many moving parts that needs, I think, to be settled before we have some more clarity here. Therefore, we have to come back to that in the next quarter.

Vijay Rakesh: Got it. Just as you look at Europe or Western Europe, I know it is an important geography for you, when you look at this year, obviously, WLTP was a huge headwind. Is there any issue with the new carbon regulations next year, or you think that will be much more benign than what we saw this year?

Mikael Bratt: I think the legislation next year is of a different nature, so to speak. I think that comes more to how the mix of the fleet will look like. However, I think that also adds to the mix here in terms of uncertainty for the consumer, depending on which jurisdiction you are planning to buy the vehicle, and the tax implication of that, and then, of course, how well the respective OEM is starting to meet their targets in the new environment there. Therefore, I would say wait and see for many consumers, as we see it right now.

Vijay Rakesh: Got it, thanks.

Mikael Bratt: However, in terms of meeting it, it is very individual on the OEM. However, it is not the same kind of question as the WLTP was, where it was a test cycle.

Vijay Rakesh: Okay, thanks.

Mikael Bratt: Thank you.

Erik Golrang (SEB): Thank you, I have two questions. The first one is a follow-up on the order intake or the market availability of orders for this year that you had previously, and it dates back to 2018. Was 2018 an extraordinarily high order level for the total market?

Mikael Bratt: Yeah. Extraordinary, I do not know but, it was a high year. So, I would say yes.

Erik Golrang: Thank you. Then the second question, you talked about some markets being indicated a bit weaker than IHS, and so on. However, for a bit more than a year you have been talking of very high volatility in terms of customer call-offs with various changes with very short lead times, even within the closed window. Has that also continued at an unchanged pace?

Mikael Bratt: No, not in the same fashion as we had it during the autumn last year. Then, especially Europe, was very challenging during the WLTP situation there. This year it is less volatile. However, course, still, as the market is falling, it comes with shorter notice. However, it is not like it is going up and down, it is more like a falling trend, not more than expected.

Erik Golrang: Okay. You are saying there is a difference if compared to last year, and not really second half this year versus first half?

Mikael Bratt: No, it is really compared to last year.

Erik Golrang: That is it, thank you.

Mikael Bratt: Thank you.

Edison Yu (Deutsche Bank Securities): Good morning, it's Edison, in for Emmanuel.

Mikael Bratt: Good morning.

Edison Yu: Two questions, first on the margin. Can you just help us maybe think about the impact on Q4 from the launch costs, the raw materials and FX? It looks like especially the raw materials were still pretty material in the third quarter, so how we should think about that?

Then on the second question, it looks like the organic growth in Europe was pretty weak in Q3. Anything to call out there? Thanks.

Mikael Bratt: Let me start with the second question there. Yes, we were weaker than the overall light vehicle production in Europe in the third quarter, and that is mix issues, and also that we had some platforms where we were coming to end of production and were not matched with the start-up production with the same producer there. We see this as just a temporary situation in Q3. Therefore, we expect to be back on track, so to speak, when we get into the fourth quarter, supporting then the overall direction of the company when it comes to increasing our sales here. A temporary mix question, you could say.

Christian Hanke: Yeah. Then, Mikael, in terms of the Q4, if I capture that in terms of commodity cost and raw materials, we have guided for the full year now at 60 bps. I think if you do the maths backwards, because you know what we have communicated for the previous quarters, that would result in a lower impact for the fourth quarter, of around 20 bps, or so, for raw materials. Therefore, that should be an improvement compared to where we have been in the previous quarters. That is in addition to what Mikael already has said in terms of margin improvement, the fourth quarter over the third quarter.

Edison Yu: Then on the launch costs and the FX?

Mikael Bratt: FX, I think will be relatively neutral. In terms of launch cost, there has been an improvement throughout the year, and I think we showed that in the third quarter bridge already, and we expect that to continue to be an improvement compared to last year.

Eddison Yu: Great, thanks.

Sascha Gommel (Jefferies): Yes, good afternoon. Thank you for taking my questions, the first one would actually be on your cash flow. Maybe you can help me understand a little bit the explanation for the lower cash flow, because my understanding is some of the costs you have booked into your net income are non-cash and only a provision, and you also had $15 million separation cost in Q3 last year. Maybe you can help me a little bit understand the free cash flow swing year-on-year in the context of what I just said.

Christian Hanke: Is that on the quarter?

Sascha Gommel: On the quarter. Purely on the quarter.

Christian Hanke: I think the big driver is really the earnings year-on-year.

Sascha Gommel: However, your adjusted EBIT is only down $10 million. How much of the restructuring costs are already cash in the quarter?

Christian Hanke: Not much is cash in the quarter in terms of the shortage that we have taken. I think it is really underlying EBIT driven. Also, tax could be another component, because I think tax was more negative in this quarter compared to last year, actually driven by the capacity alignment cost that we booked.

Sascha Gommel: Understood, okay. Then my second question, just to confirm, your guidance includes six weeks of GM strikes for the second half, so two in Q3 and four in Q4. Is that correct?

Mikael Bratt: That is incorporated what we expect for the year.

Sascha Gommel: Okay, understood. Thank you very much.

Shreyas Patil (Wolfe Research): I just have a couple of quick questions. One, on the commodity side, you mentioned it is going to be a 60-basis point headwind for the full year. Is there a way to think about how much of that is related to longer term agreements that would likely reset at the end of this year? I am thinking about steel for example, how much is related to spot prices on some of your main commodities?

Mikael Bratt: I think as a general rule, we will say that you cannot really look at the spot prices at all, because very much of the raw material, a majority is really through our suppliers. We have 6-9-month delay on the way up, and on the way down, so that is what you are seeing here. That is the absolute majority on how the mechanics works when it comes to raw materials for us. As we have talked about before, the big commodities for us are steel and nylon, and that is what we are expecting to see that start to come off.

Shreyas Patil: Okay. Basically, if I look at prices now or prices six to nine months prior, that should give me a sense of how commodity costs will fluctuate.

Mikael Bratt: A rough feeling, I would say, because it is in practical terms, of course, it is more complicated because it is depending on when do you sign the contract from the beginning, and so on. That probably will take a long time to really map it up here. However,

conceptually, it is what you are saying, exactly. You can look and see that there is a delay overall. However, when you look at the details, it can be a little bit more complicated, yes.

Shreyas Patil: Okay. Then just the last one. On R&D, you mentioned that it looked like it was up a little bit year-over-year in the quarter. How should we be thinking about R&D longer term? I believe the prior guidance given back in 2018 was for R&D spending to decline by 2020. I am just trying to think about where we are in the context of that.

Mikael Bratt: Yeah. I think medium to long-term range should be between 4-5% of sales, and we have said we should gradually start to see that coming down in relation to sales and not in absolute number. Of course, now with the very sharp decline in the market, it affects that. I think under those circumstances, we are really scrutinising and working hard with efficiency inside RD&E. Thus, I think we are holding the line here, because what we should remember also what has happened since we communicated is in 2017-18, is that we are continuing to take good orders. And good order intake levels is then building on our order book. That also means that we are growing our activities here.

Therefore, I would say in absolute demand, we are holding the line here. Of course, in relation to sales it becomes a little bit tougher, but we are still committed to the medium to long-term range of 4-5%.

Shreyas Patil: Okay, thank you.

Steven Hempel (Barclays): Yes. Hi, good afternoon, just a couple of questions here. In terms of the sales outperformance either for the quarter or the full-year expectations of 6-7%, is there any way you can break that down roughly into market share gains versus content growth? Then, in terms of getting up to that 6-7 percentage points for the full-year, how to think about that for the full-year and then also just thinking about that outperformance into 2019? Do you expect that to continue, and are there any major headwinds or tailwinds we should think about?

Mikael Bratt: I do not think I can break it down for you here exactly on, okay, what is the different details here. However, it is certainly so we are taking market share for sure. As we have indicated here, first of all, we came from 38%, we moved up to 40% in market share in 2018. And we continue to increase that share in the years to come and moving towards the mid-40s with what we see in our order book. That is what is happening.

Then, of course, the overall growth is also a combination of content in the vehicles, as we talked about, should be 1% CAGR year by year here. That, of course, is a component when you look at the total dollar amount as well. However, I think important here is that the market share is increasing and we see the underlying medium to long-term market also growing.

Steven Hempel: Okay. Then just looking at slides three here, in terms of the cost reduction, you are breaking it out by business segment versus structural efficiency. Within those two buckets, there is indirect headcounts being taken out by both. Just wonder if you could provide any colour on the indirect headcount that has been taken out as part of the business cycle versus the structural efficiency?

Mikael Bratt: No, we expect what you see really on page four there, the structural efficiency programme, that is structure, so that is a long-term efficiency effect on that. That is not just

a question of business cycle management, so that is structural change which we intend to capitalise on.

Steven Hempel: If you look at slide three, there is indirect headcount being taken out in both business cycles as well as the structural efficiency. Just wondering how to think about that indirect headcount between those two different programmes or management programmes?

Mikael Bratt: I think the answer is still the same here, that we, of course, have the majority of the business cycle management effect here staying as a part of the structural improvements that we expect to gain going forward here. Therefore, it is not automatically added back, unless you have indirect headcount that actually is very close to operations that means that if we have a significant uptick, there might be some to be added back there as a part of that. However, otherwise, it is strategically in the same bucket.

Steven Hempel: Okay, so the overall structural efficiency programme, the 5% reduction, that is basically independent upon volumes – if volumes are flat or down or up next year, that 5% is not really going to change much?

Mikael Bratt: That is fully independent.

Steven Hempel: Got it. Okay, thanks for taking my questions.

Mikael Bratt: Thank you.

Anders Trapp: I think that we cannot take any more questions, we have a hard stop at 15.00, which has passed now. Thank you.

[END OF TRANSCRIPT]