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Research Update:

Autoliv Outlook Revised To Stable From Positive On Weaker Auto Production And Future Share Buybacks; Affirmed At 'BBB'

December 17, 2021

Rating Action Overview

- The slow and volatile recovery in global light vehicle production is affecting global auto supplier Autoliv's financial results, with our revenue forecast for 2021 and 2022 now 8%-9% and 3%-4% lower. At the same time, Autoliv recently announced a $1.5 billion share buyback program to be implemented over 2022-2024.
- We think a weaker revenue and margin outlook, combined with the decision to distribute additional cash to shareholders, will slow down improvement in Autoliv's credit metrics, and we anticipate that its free operating cash flow (FOCF) to debt will stay below our upside trigger of 25% in 2021 and 2022.
- We therefore revised our outlook on Autoliv to stable from positive and affirmed our 'BBB/A-2' long- and short-term ratings on the company and its senior unsecured debt, and our 'K-2' Nordic regional scale short-term rating.
- The stable outlook indicates that Autoliv has the flexibility to accommodate market headwinds such as volatility in light vehicle production and higher input costs, as well as the expected higher level of shareholder returns while maintaining funds from operations (FFO) to debt well above 30% and FOCF to debt above 15%.

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Rating Action Rationale

The ongoing supply chain crisis is slowing the recovery in light vehicle production, an important driver of Autoliv's credit profile. Growth in global light vehicle production will likely stay modest in 2021 at about 1%-3%, after a decline of about 16% in 2020. This is mainly the result of the industry's chip shortage and other related supply chain bottlenecks and represents a significant deviation compared to our previous expectations of auto production growth of 8%-10% for 2021. We have therefore revised downward our forecasts for Autoliv for full year 2021 and now envisage sales growth of 11%-12% compared with 20%-22%, an S&P Global Ratings-adjusted EBITDA

margin of 13%-14%, down from with 14%-15%, and FOCF of $250 million-$300 million compared with $390 million-$420 million. The higher change in FOCF than in earnings reflects inefficiencies in inventory management related to the currently unpredictable behavior of many original equipment manufacturers (OEMs), characterized by order cancellations at short notice. This should translate into FFO to debt of 50%-52% and FOCF to debt of 16%-18% in 2021, weaker than our previous forecast of 61%-63% and 24%-26%, respectively.

Operating headwinds could persist until at least mid-2022 and will slow the pace of leverage reduction. We believe that component shortages and supply chain bottlenecks will carry through into 2022, limiting the visibility on a marked and steady recovery for automotive production. Our new 14%-16% revenue growth assumption for Autoliv in 2022 results in next year's revenue some 3%- 4% below our previous base case, and still relies on a strong volume rebound in the second part of the year on the back of more stable components availability. Moreover, higher raw material, transportation, and energy costs are other challenges that will continue to affect profitability and cash flow next year, inducing us to lower our projections for adjusted EBITDA margin and FOCF in 2022 by about 1.5 percentage points and €100 million-€200 million, respectively. As a result, our FOCF to debt ratio forecast will remain well below our upgrade threshold of 25% in 2021-2022. We currently project further improvement in 2023, but the degree of uncertainty inherent in our forecast has increased, given the multitude of supply-side bottlenecks and an often-unclear path to their resolution.

Higher shareholders returns will also slow prospects for continued deleveraging. As of Sept. 30, 2021, Autoliv's reported net leverage amounted to 1.1x; which is well within the company's target range of 0.5x-1.5x. In November 2021, the company received board approvals for a share buyback program of up to $1.5 billion for the next three years. In our base case we assume total buybacks of $800 million over 2022-2023, which we think will limit room for debt reduction and likely prevent Autoliv's reported net leverage from improving materially from current levels. In addition, Autoliv has some flexibility to step up shareholder returns while maintaining leverage within its target range, which would further constrain improvements in our adjusted credit metrics beyond what is included in our updated base case.

We still see room for Autoliv to grow faster than auto production, thanks to the increasing demand for safety features in developed and developing markets. Autoliv's sales growth will likely continue to outpace light vehicle production because carmakers tend to add more passive safety features (different types of airbags, seatbelts, steering wheels with enhanced safety) in cars to fulfill consumer demand and more stringent regulatory requirements. For 2022 and 2023, we assume that Autoliv will outperform the auto market growth by about 4 percentage points. Considering the company's low-cost base with a large proportion of its plants already located in lower cost countries, we think this could support favorable profitability levels once auto production normalizes. We currently forecast Autoliv's EBITDA margin will rise toward 15% by 2023; at the higher end of the broader peer group of auto suppliers.

Outlook

The stable outlook reflects that we expect disciplined cost and cash management will help Autoliv to maintain FFO to debt at 50%-60% and FOCF to debt hovering around 20%-25% despite increased levels of shareholder returns and operating headwinds such as volatile auto production and input cost inflation.

Downside scenario

We could lower the ratings if we anticipate that Autoliv's FFO to debt will be below 30% or if its FOCF to debt falls below 15% for a prolonged period. This could occur if challenging conditions in the auto sector, including low auto production levels and increased price or cost pressure, weigh on revenue and margins and potentially require the company to undertake extensive restructuring. This could also materialize because of a sizable debt-financed acquisition, or a material further increase in shareholder returns that indicates looser adherence to the current financial policy.

Upside scenario

We could raise the rating on Autoliv during the next two years if the market's recovery, combined with disciplined cost and cash management, resulted in a sustained improvement in credit metrics, with FFO to debt and FOCF to debt sustainably exceeding 45% and 25%, respectively. An upgrade also depends on Autoliv's commitment to maintain credit metrics at these levels on a sustained basis, which would likely require leverage to stay well below the upper end of the company's target range of 0.5x-1.5x.

Company Description

Incorporated in the U.S., but headquartered in Stockholm, Autoliv is the world's largest supplier of automotive occupant restraint systems. The company develops, markets, and manufactures integrated passive safety systems. It has two key product lines:

- Airbag products (65% of sales in 2020); and
- Seatbelt products (35% of sales in 2020).

In 2020, the company's sales were split across Asia (41%), the Americas (31%), and Europe (28%).

Our Base-Case Scenario

Assumptions

- Global real GDP growth of 4.2% in 2022 and 3.7% in 2023 after a 5.7% increase in 2021 and a 3.3% contraction in 2020.
- Global light vehicle production increasing by 6%-8% in 2022 and 8%-10% in 2023 after a modest increase this year and a 16% drop in 2020.
- Sales growth for Autoliv of 10%-12% in 2021, 14%-16% in 2022, and 11%-13% in 2023, after a drop of 12% in 2020, amid improving macroeconomic conditions and recovery of auto production, combined with increasing content per vehicle and some market share gains.
- Adjusted EBITDA margin improving to 13%-14% in 2021, 13.5%-14.5% in 2022, and 14%-15% in 2023, after about 11% in 2020, supported by operating leverage and continued cost efficiency measures mitigating higher input costs.
- Working capital outflows of about $100 million in 2021, mainly due to inefficiencies in inventory management from customers' order cancellations at short notice. Working capital outflows of

about $50 million assumed in 2022 and 2023 linked to higher auto production levels and revenue growth. This compares with working capital-related cash inflows of $277 million in 2020.

- Capital expenditure (capex) of $400 million-$450 million in 2021, $520 million-$570 million in 2022, and $600 million-$650 million in 2023, at 5%-6% of sales, following lower capex in 2020 of $340 million-$350 million as Autoliv reduced spending to preserve liquidity.
- Dividend payments of $165 million in 2021, after a pause from the second quarter of 2020, and expectations of dividends rising to $250 million in 2022 and in 2023.
- Share buybacks of $300 million in 2022 and $500 million in 2023; which would leave the company's leverage within its target range of 0.5x-1.5x.

Key metrics

Table 1

Autoliv Inc Key Metrics*

	--Fiscal year ended Dec. 31--					
(Mil. $)	**2018a**	**2019a**	**2020a**	**2021e**	**2022f**	**2023f**
Revenues	8,678.0	8,548.0	7,447.0	8,200-8,300	9,500-9,600	10,500-10,600
EBITDA margin (%)	14.9	13.3	11.0	13-14	13;5-14.5	15-16
Capital expenditure	560.0	483.0	344.0	430-450	540-560	590-610
Free operating cash flow (FOCF)	145.0	232.0	549.0	280-300	370-420	520-570
Debt to EBITDA (x)	1.9	2.0	2.2	1.3-1.8	1.2-1.7	1.2-1.7
FFO to debt (%)	41.6	38.8	35.1	50-52	53-55	56-58
FOCF to debt (%)	6.0	10.4	30.1	15-17	19-21	24-26

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

The short-term global scale rating is 'A-2', and the Nordic regional scale rating is 'K-2'. We view Autoliv's liquidity as strong because we project the ratio of sources to uses of liquidity will be about 2.0x for the next 12 months and between 1.5x and 2.0x for the following 12 months. Factors supporting our view of Autoliv's liquidity are the company's solid relationships with banks and high standing in credit markets, illustrated by successful refinancing activities in the last three years and its covenant-lite debt structure.

Principal liquidity sources, as of Sept. 30, 2021, for the following 12 months include:

- Cash and cash equivalents, after deducting inaccessible cash, of about $0.8 billion.
- Undrawn bank lines maturing in July 2023 of $1.1 billion.
- Cash FFO of $850 million-$950 million.

Principal liquidity uses over the same period include:

- Debt maturities of about $364 million.

- Working capital outflows of up to $200 million, including peak outflows related to intrayear working capital swings.
- Capex of $500 million-$550 million.
- Dividends of about $250 million.

We do not currently include our forecast share buybacks in our liquidity uses as we think that these are discretionary and can be suspended in times of liquidity stress.

Covenants

Autoliv's credit documentation does not contain any financial maintenance covenants.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

ESG Credit Indicators: E-2 S-2 G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Autoliv Inc.		
Autoliv ASP Inc.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2
Nordic Regional Scale	--/--/K-2	--/--/K-2
Senior Unsecured	BBB	BBB
Commercial Paper	A-2	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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