2nd Quarter 2023
Financial Results

Friday, 21st July 2023

Introduction

Anders Trapp

VP Investor Relations, Autoliv

Welcome, everyone, to our second quarter 2023 earnings call. On this call, we have our President and CEO, Mikael Bratt; and our Chief Financial Officer, Fredrik Westin; and me, Anders Trapp, VP Investor Relations. During today's earnings call, Mikael and Fredrik will, among other things, provide an overview of the strong sales, earnings, and cash flow development we had in the second quarter; the structural cost reduction activities that we are doing to secure our long- and medium-term competitiveness; and also the expected sequential margin improvement that we see in Q3 and Q4 of this year; as well as provide an update on our general business and market conditions, as always.

We will then remain available to respond to your questions, and, as usual, the slides are available at autoliv.com.

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 reconciliation for historical US GAAP to non-US GAAP measures is disclosed in our quarterly press release, available on autoliv.com, and in the 10-Q 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 now hand it over to our Chief Executive Officer, Mikael Bratt.

Operational Highlights

Mikael Bratt

CEO, Autoliv

Q2 2023 Key Highlights

Thank you, Anders. Looking at the next slide, I would like to start by thanking our employees for their great contributions. We saw continued improvement in customer call-off volatility in the quarter, but still higher volatility than pre-pandemic levels. We believe this reflects an improving global supply chain environment for both our customers and suppliers.

Our organic sales grew by close to 27%, outperforming light vehicle production significantly in all regions. The strong growth was a result of product launches, higher safety content per vehicle, and that we achieved the customer compensations we planned for in the quarter.

Our profit margin development was in line with what we had expected as customer call-off volatility improved. We lowered our cost base, and we successfully negotiated the planned customer compensations related to the inflationary pressure.

We achieved a record operating cash flow for the second quarter, driven by an improved adjusted operating income and a reversal of the negative working capital effects from the first quarter.

Our debt leverage ratio decreased to 1.3x from 1.6x a quarter ago. This supports our shareholder returns ambitions. In the quarter, we paid $0.66 per share in dividends, and we purchased and retired 475,000 shares.

We also announced the acceleration of our structural cost reductions, aiming at simplifying our logistics and geographic footprint. As part of this, we recently announced a headcount reduction of around 1,100 mainly indirect employees, with further actions to be announced as plans materialise.

We continue to expect a gradually improving adjusted operating margin during 2023, with significantly greater price compensation and other recoveries in the fourth quarter compared to the third quarter. We continue to be in the forefront of safety technology development, which has helped us keep momentum in our new order intake year-to-date. A great example of new innovations in the revolutionary new Bernoulli airbag that we presented at our Investor Day in Detroit in June that is based on the Bernoulli principle.

Significant Sequential Improvements since Q1 2023

Now looking at the significant sequential cost improvements on the next slide. The meaningful steps we took in the second quarter support my confidence in sequentially improving adjusted operating margin towards our full-year indication. This, of course, also supports our journey towards our medium-term targets. On this slide, we highlight the sequential improvements.

In the quarter, we actively addressed our cost base and investment level and negotiated with our customers to secure pricing and other compensations that reflect the high inflation. Our labour efficiency continues to trend up, supported by the implementation of our strategic initiatives, including automation and digitalisation. Our gross margin improved by 180 basis points, compared to the first quarter, as a result of the higher labour efficiency, customer compensations, higher volumes, and a more stable light vehicle production.

At the same time, cost for RD&E and SG&A combined declined by 50 basis points in relation to sales. Combined with the gross margin improvement, this led to substantial improvement in adjusted operating margin. With a more stable light vehicle production, we managed to substantially reduce our trade working capital as well. As a result, our operating cash flow reached a new record level for a second quarter.

Adjusted Operating Margin Progression

Now looking at the expected adjusted operating margin progression for 2023 on the next slide. For the remainder of 2023, we expect a quarter-by-quarter improvement in adjusted operating margin. We expect continued high year-over-year sales growth, supported by launches, higher light vehicle production, and content-per-vehicle increases. We anticipate that cost compensations from customers will continue to gradually offset cost inflation, especially in the fourth quarter. The positive trajectory will be further supported by improvements from cost reductions, as well as expected gradual improvement of supply chain and light vehicle production stability, as we have already seen in the second quarter. The actions we are undertaking make me confident in the gradual improving performance, which should allow us to deliver a significant full-year increase in cash flow and adjusted operating income.

Autoliv Accelerates Structural Cost Reductions

Looking now at the announced structural cost reduction actions on the next slide. To secure our medium- and long-term competitiveness and to support our financial targets, we are accelerating our global structural cost reductions, including a substantial reduction of our global workforce, with a particular focus on our European operations. These initiatives will continue to optimise our geographic footprint for a more effective structure while reducing costs and driving improvement in margin and cash flow. We intend to simplify and consolidate how we operate in all areas. The headcount reduction will affect people based in our offices, technical centres, and plants, including leadership positions at all levels.

As a first step, we have accrued $109 million, primarily driven by a planned reduction of around 1,100 employees. This first step is expected to reduce costs by around $25 million in 2024, increasing to around $55 million in 2025, and to reach around $75 million when completed. Further actions will be announced as plans materialise.

Q2 2023 Sales Growth and Regional Sales Split

Looking now at our sales growth in more detail on the next slide. Our consolidated net sales increased to $2.6 billion, a record for the second quarter. This was more than $0.5 billion or 27% higher than a year earlier, driven by price, volume, and mix. Out-of-period cost compensations contributed approximately $30 million, same as in the second quarter last year. Out-of-period compensations are retroactive price adjustments and other compensations that mainly relate to the first quarter but were negotiated in the second quarter.

Looking on the regional sales split, Asia accounted for 37%, Americas for 35% and Europe for 28%. The China share increased to 19% from 17% last year when China was largely closed due to COVID lockdowns.

Q2 2023 Organic Sales Growth – Outperforming Global LVP by 11pp

We outline our organic sales growth compared to light vehicle production on the next slide. I am very pleased that our organic sales growth significantly outperformed global light vehicle production growth in the second quarter, as we continued to execute on our strong order book and successfully achieved the targeted customer compensations.

According to S&P Global, second-quarter light vehicle production increased by close to 16% year-over-year. This was 250 basis points higher than the expectation at the beginning of the quarter. We outperformed global light vehicle production by around 11 percentage points in the quarter. We outperformed in China by 23 percentage points, in Japan by 22 percentage points, and in rest of Asia by 13 percentage points. Compared to the first quarter, our sales increased by 6%, twice as much as the light vehicle production growth. We expect the positive year-over-year sales growth trend to continue, and we expect to significantly outperform light vehicle production for the remainder of the year.

Q2 2023 Financial Overview

Looking at financials in more detail on the next slide. The strong sales increase led to a substantial improvement in adjusted operating income. Excluding effects of capacity alignment, antitrust-related matters, and a litigation settlement, adjusted operating income increased by more than 70% to $212 million, from $124 million last year. The adjusted operating margin was 8% in the quarter, an increase by 2 percentage points from the same period last year and by 2.7 percentage points from the first quarter. Operating cash flow was $379 million, which was more than $400 million better than the same period last year as well as from the first quarter of 2023.

Fredrik will provide further comments on our cash flow later in the presentation.

Q2 2023 Key Model Launches

On the next slide, we see some key model launces from the second quarter. In the quarter, we had a high number of product launches, especially in China. The models shown on this slide have an Autoliv content per vehicle from approximately $150 to close to $400. These models reflect the changes seen in the automotive industry in recent years, with several relatively new OEMs represented, and that five out of nine are available as pure EVs. In terms of Autoliv sales potential, the Mercedes E-Class launch is the most significant. The long-term trend to higher CPV is supported by front centre airbags, rear-side airbags, and pedestrian protection products. For the full year, we expect a record number of launches. By region, we see a higher number of launches in China, South Korea, and Europe.

I will now hand it over to our CFO, Fredrik Westin, who will talk about the financials in the next few slides.

Financial Overview

Fredrik Westin

CFO, Autoliv

Q2 2023 Financial Overview

Thank you, Mikael. This slide highlights our key figures for the second quarter of 2023 compared to the second quarter of 2022.

Our net sales were $2.6 billion; this was a 27% increase. Gross profit increased by $121 million, or 37% to $447 million, while the gross margin increased by 1.3 percentage points to 17%. The gross profit increase was primarily driven by price increases, volume growth, and lower costs for premium freight. This was partly offset by increased costs for personnel related to volume growth and wage inflation, as well as adverse effects from unfavourable exchange rates and energy costs.

In the quarter, we made a total adjustment of $118 million to the operating income, of which $109 million was for capacity alignment activities and $8 million was related to a litigation settlement. The adjusted operating income increased from $124 million to $212 million, and the adjusted operating margin increased by 2 percentage points to 8.0%. I will explain more when we go through the operating income bridge later.

The operating cash flow was $379 million and the adjusted earnings per share diluted increased by $1.03, where the main drivers were $0.69 from higher adjusted operating income and $0.35 from taxes. Our adjusted return on capital employed and return on equity increased to 21% and 25% respectively. We paid a dividend of $0.66 per share in the quarter and repurchased and retired around 475,000 shares for $41 million under our stock repurchase programme.

Q2 2023 Adjusted Operating Income Bridge

Looking now at the adjusted operating income bridge on the next slide. In the second quarter of 2023, our adjusted operating income of $202 million was $88 million higher than the same quarter last year. Our operations were positively impacted by improved pricing and other customer compensations, higher volumes, lower costs for premium freight, as well as our strategic initiatives, partly offset by the significant headwinds from general cost inflation.

The impact of raw material prices was limited. Foreign exchange impacted the operating profit negatively by $19 million. This was mainly as a result of negative transaction effects from the Mexican peso.

Costs for SG&A and RD&E net combined were $25 million higher, mainly due to higher personnel costs and projects. Out-of-period cost compensation contributed around $30 million, about the same as in the second quarter last year. As a result, the leverage on the higher sales, excluding currency effects and a patent settlement in 2022, was in the middle of our typical 20-30% operational leverage range. This is despite not getting any leverage on the inflation compensation from our customers. The actions we are now taking, that Mikael talked about previously, should lead to higher operating leverage and profitability as the year progresses.

Cash Flow

Looking now at the cash flow on the next slide. For the second quarter of 2023, operating cash flow increased to $379 million, due to improved adjusted operating income and the reversal of the negative working capital effects from the first quarter. During the second quarter, working capital improved by $230 million, mainly due to accruals for capacity alignments and reduction of trade working capital. Trade working capital was reduced by $117 million, driven by $161 million in higher accounts payables, $39 million in lower inventories, and was partly offset by $83 million in higher receivables.

Capital expenditures net decreased to $124 million from $139 million in the previous year. Capital expenditure net in relation to sales was 4.7%, compared to 6.7% a year earlier.

Free cash flow was $255 million, which is $445 million higher than a year earlier. Our full-year indication of an operating cash flow of $900 million is unchanged.

Debt Leverage Ratio

Now looking at our leverage ratio development on the next slide. The debt leverage ratio at the end of June 2023 improved by 0.3x to 1.3x compared to a quarter earlier. This was a result of $185 million lower net debt and $91 million higher 12-months trailing adjusted EBITDA. The current stock repurchase programme authorises the company to repurchase up to $1.5 billion between January 2022 and the end of 2024. Under the programme, Autoliv has currently repurchased 2.4 million shares for a total of $197 million. We are considering several factors when executing the programme, such as our balance sheet, the cash flow outlook, our credit rating, and the general business conditions, not only the debt leverage ratio. We always strive for the balance that is best for our shareholders, both long and short term.

I now hand it back to you, Mikael.

Outlook

Mikael Bratt

CEO, Autoliv

Light Vehicle Production Outlook

Thank you, Fredrik. Now looking at the next slide. As supply chains have improved in many regions, vehicle demand and inventory restocking are now the main drivers for the market development. The third quarter global light vehicle production is now expected by S&P Global to decline by 4% compared to last year. Compared to the second quarter, volumes are expected to be about 5% lower, mainly due to normal seasonality from summer shutdowns.

Despite concerns surrounding elevated vehicle pricing in some markets and deteriorating credit conditions, global full-year 2023 light vehicle production is projected to increase by 5.1% to close to 84 million vehicles. Light vehicle production in China continues to show relative strength, owing to both a strong EV demand and export activity. LVP in North America is projected by S&P Global to increase by more than 8% in 2023. This is 3 percentage points higher than the S&P forecast three months ago. However, there are concerns around the upcoming union negotiations. Production in Europe continues to outperform expectations, although 2023 volumes are to a large extent secured by inventory restocking and the reduction of OEM sales backlogs. We believe underlying demand has abated somewhat. We base our full-year sales indications on a global light vehicle production growth of around 4%.

Full Year 2023 Indications

Looking at our 2023 financial indications on the next slide. Except for the currency translation effects, our full-year 2023 indications are unchanged and exclude costs and gains from capacity alignment, antitrust-related matters, a litigation settlement, and other discrete items. Our full-year indication is based on a light vehicle production growth assumption of around 4%. We expect sales to increase organically by around 15%. Currency translation effects are assumed to be around positive 1% instead of earlier assumptions of negative 1%. We expect an adjusted operating margin of around 8.5% to 9%. Operating cash flow is expected to be around $900 million. Our positive cash flow trend should allow for increasing shareholder returns.

This concludes our formal comments for today’s earnings call, and we would like to open the line for questions from analysts and investors.

Q&A

Emmanuel Rosner (Deutsche Bank): Thank you so much for taking the question. The first one is around the LVP assumptions and environment. I think you have improved your assumption a little bit. It is maybe 4% for the year. I think previously you were maybe looking at 3%. At the same time, I think you are mentioning in some of the comments some of the UAW risks. Are you incorporating, are you baking in something? The reason you are at 4% on your assumption versus maybe 5% S&P, is it because of incorporating maybe some cushion in case there are some production losses from a UAW strike? Is this in your guidance?

Mikael Bratt: Thank you for the question. When it comes to our light vehicle production outlook, as you said, we have increased it from 3% to 4% as we have seen the development of the light vehicle production year-to-date. Also, we are relating it to the S&P numbers that you know are higher than it was at the beginning of the year, and they are now looking at 5.1%.

With that said, it means that we continue to have a slightly more conservative view than S&P. When we started the year at 3%, we were also baking in some risks that we saw. I think, the UAW risk could be there, but as we have a very well diverse portfolio here, and the Americas is about a third and, again, start to narrow down the OEMs that could be in that situation where it could impact the light vehicle production, it is still even a smaller part of our portfolio.

I would say, all in all, you have that baked into the numbers here, but for us also, it is very comfortable when it comes to our overall view for the full year.

Emmanuel Rosner: As a quick follow-up to this, you left your organic growth outlook unchanged despite the better LVP assumption. What is the offset here?

Mikael Bratt: It is no big question around that. It is a marginal improvement of our LVP upgrade here with 1 percentage point, so you should not read anything into it. Actually, it is more, let us call it, a rounding question here.

Emmanuel Rosner: And then a question on margin, please, would be my last question. I think you made several comments as well as in the slides, around some level of back-end loading between 3Q and 4Q because of seasonality and some of the negotiations. Just curious if it is more so than expected before. I think, in the past, you had said that throughout the year, your margins will improve sequentially by about 2 points each quarter throughout the year, more or less. Are you now saying that there will be less so in 3Q and much more in the fourth quarter, or is it still the same type of framework, just that the fourth quarter has higher margins in this area?

Mikael Bratt: As you know, we do not guide per quarter, but what we referred to, was that the sequential development throughout the year should be similar to what we had last year in 2022. What we also want to remind you all about is the seasonality that we always have between Q3 and Q4, while Q4 is the stronger quarter where we have a lot of the engineering income centred towards, as one example. And as we are progressing with the price negotiations, which, at least up until now, have not been an ordinary course of business, we have mentioned before that it takes some calendar time for this. And we think it is important that we manage through those processes and negotiations with the customer in a thorough way. That could mean that you have it more back-end-loaded in the second half of the year, similar to what you saw in the first half of the year, where we had a stronger Q2 in relation to Q1 as we are progressing with the negotiations.

Emmanuel Rosner: Okay. Thank you very much.

Björn Enarson (Danske Bank): And on these negotiations, if you can talk a little bit about how the compensation looked like in the first half and Q2, how much and what kind of compensation you did get? You are talking pricing or lump sums or what have you? And also to put that in perspective of what kind of expectation you should have for the second half. Thank you.

Fredrik Westin: As always, we do not disclose and say any details around settlements that we have achieved, but we can say that they are in line with our expectations for the first half. So, both in terms of timing, but also in terms of height, what we were expecting. Because this is now more inflation-related and less raw material related, there is a higher share of lump sum settlements or compensations now than what we had last year. Whereas the vast majority last year was piece price adjustments, there is now a higher share of lump sum components in these negotiations or in the outcome of them. And for the rest of the year, it is still that there are still outstanding negotiations related to inflation, but also other components that we are negotiating. And that is what Mikael alluded to here, that we want to secure ourselves the right time here to also then be able to be successful with these negotiations at the right height.

Björn Enarson: Okay. Perfect. Clear. And if I may ask a second question, you also talked a little bit about the demand situation, and you are still below S&P, but I mean, we are in the middle of a catch-up now. We see volume from OEMs and you are very, very strong. Would you dare to have a view on where the underlying demand is, if we would not have had the sourcing crisis following the COVID situation?

Mikael Bratt: No, I would not say a number. But I think definitely that, with the last couple of years' shortfall, you could say, in terms of delivering in line with the current demand there, we for sure have a backlog. And we also have a backlog when it comes to refilling the pipelines – the inventory levels, for example, in the US, where it is still historically low; I would say it is probably half of what it normally is. So there is a significant volume there to be dealt with.

And if you look at the 2023 current LVP outlook here, we were still 25% below 2017/2018 volumes in Europe, and in North America, we are below with roughly 12%. So we are coming from a low level here. We are still at relatively low levels. I think the delta between the underlying demand and the current outlook, when it comes to production levels, gives me relative comfort that we are more on safe ground when it comes to potential risks in relation to the outlook here.

I would say that the conservative view we have here relative S&P's number, I think we stand confidently on those LVP levels that we are using here for our own forecast.

Björn Enarson: Perfect. Thank you.

Chris McNally (Evercore): Thanks so much, and I appreciate the detail. I am just going to follow up on Emmanuel's question. If we step back and look to the beginning of the year, it sounds like, from your comments, production trending 1%, maybe 2% better despite the UAW. Outgrowth in the first half, 13%, 14%, better than the 11% you are guiding full year, implies some deceleration into the back half. I wanted to focus on what has been the negative development. We know about the peso, maybe $60 million or so for the full year. Curious if there is anything else that has been a headwind from the beginning of the year because, if not, it seems like there is some revenue upside that clearly would push you maybe towards the upper end of your margin targets.

Fredrik Westin: As you said, FX has been a headwind that has been larger than we had expected initially for the year. You see here it is close to $20 million in the quarter after a negative also in the first quarter. $15 million of that $19 million is a negative transactional effect from the Peso alone, so quite significant for us. And from what I can see from how the peso is moving right now, there is not an indication that that is improving for us.

That is one component, and then we have also had some supply chain issues. Even though the overall situation continues to improve, we did have two isolated cases: one with a fire at one of our suppliers in Europe and then some capacity issues with a larger supplier for us in North America. And they also impacted the quarter, not so much in premium freight, but inefficiencies in our setup and our productivity levels in the plants, and also a huge workload to then move the volumes to other suppliers during the quarter.

So yes, we have also had some headwinds. And the FX part, we do not think that – our estimate clearly is based on exchange rates as of end of May, and that would then imply that there is a continued headwind also from exchange rates for the rest of the year.

Chris McNally: That is very helpful, particularly on the idiosyncratic supply issues in Q2. So the second question I have is more macro around some of your comments on EU caution, schedule, and second half. There definitely is a little bit of this mixed message out there from the European OEMs about 'order weaknesses. I think we all see the German/French order data out there. But I think what is perplexing, at least from my side, is we had those comments in Q1 as well. The backlogs have weakened from Q4 to Q1, but if you look, whether it is sales, or regs, they improved from Q1 to Q2. Orders tend to convert in two to three months, and also about restocking, it looks like sales and production trending at plus 10%.

Can you just help put a little bit of colour to this idea of order weakness? Because it seems like a little bit of a bogeyman argument thrown out by the OEMs. Obviously, the consumer is weak in Europe, but we just do not see it in the regs in Q2.

Mikael Bratt: No, and, as we said here, from our horizon, there is nothing that indicates the weakness you are referring to there. And, of course, difficult to comment to what you have heard from the OEMs, but I can only say what we said here about our own perspectives. And that is that we feel comfortable with the outlook we have for the rest of the year here, getting to the organic sales growth of around 15% for the full year, and we have nothing else to say around that.

Chris McNally: Okay. Very helpful. Thanks so much.

Colin Langan (Wells Fargo): Thanks for taking my questions. On the structural cost reduction plan, the slides today say it is $75 million. I just want to clarify, is that just for the

1,100 that were announced this week, and so it would be more related to the full 11%, which I think is around 8,000 direct and indirect workers? Or is that actually the whole plan? Just want to make sure what I am comparing.

Fredrik Westin: No, this is only what has been communicated so far. The last announcement we made related to the 1,100 and the $100 million associated restructuring costs with that. And then you have the expected phasing of the savings that go in hand with that. So there is more to come. We have booked around half of the restructuring costs that we would expect for the total programme at this point.

Colin Langan: Got it. So $75 million is the savings of just 1,100 workers, but the total plan is going to be close to 8,000 workers. Is that right, or is that incorrect?

Fredrik Westin: It is 2,000 indirect or salaried, and then 6,000 to restore our productivity on the direct labour side. And the 1,100 that we mentioned now in the first step, the majority is indirect. There is also a smaller part of direct labour. There is more to come in further steps, but, as I said, the restructuring costs we expect for the total programme, we are about halfway through on that.

Colin Langan: Okay. And then just going back to the recoveries, any colour on how much or what percent are completed at this point and how much is left to go? I think in the past you said you were 50%, or 60%, or where do you stand now?

Mikael Bratt: No, I cannot give you a number on that as we are in ongoing discussions with our customers here. But what we can say is that we have compensations with basically all the customers here. It is a new way of working in this environment, and we are taking it step by step, and we are engaged in dialogues around all the different components that we have talked about with all our customers. So, we are progressing according to our plan.

Colin Langan: Okay, got it. Thanks for taking my questions.

Michael Jacks (Bank of America): Good afternoon, Mikael and Fred. Thanks for taking my question. Just one or two follow-ups on the restructuring topic. Just to be clear, so if the roughly $100 million that you have just booked equates to half of the total restructuring cost, the indication then is that you are actually headed for an outcome which is closer to a one-year payback period within that one- to two-year bracket that you initially announced?

And then, just to clarify on timing, at the CMD I got the impression that the restructuring programme would contribute quite significantly more to the 2024 earnings outlook; I had pencilled in somewhere closer to, I think, $75 million to $100 million. Can you just help us to understand a little bit more about the timing and the sequencing, or the sequencing around how the restructuring process is likely to follow from here?

And then just one final question, if I may, on pricing. How much did price contribute to organic growth in Q2? Thank you.

Fredrik Westin: Yes. The second question, again, we will not provide any further breakdown here on what the pricing component was or the price compensations or cost compensations that we got in the quarter.

But on your first question, so we took $109 million in restructuring charge in the quarter. And, as I indicated, this is around halfway through what we think the total cost for the programme will be.

Now, the steps that we announced with this announcement, there are two site closures included here, or planned site closures, one in Germany and one in the UK, and they have, by nature, a longer payback time. And still, with that, we expect that we have a savings profile here of $25 million next year, $55 million the year after, and then a run rate of $75 million. The cash outflow, we expect around $50 million next year and then around $40 million the year after. The payback time, if you relate it to the cash outflow, is in the one- to two-year range that we have given. And then we will communicate the next steps here when they are ready to be communicated, and then provide also further details when we communicate those steps.

Michael Jacks: Understood. Thank you very much.

Mattias Holmberg (DNB Markets): Thank you so much. First of all, I would just like to clarify on Björn's earlier question. I just want to make sure that I heard you right, that you said that a larger share of the price negotiated this year were lump sum compensations, and last year more on the permanent price adjustment side. And, if that was the case, what does this mean in terms of the stickiness of these price increases? Assuming the inflation is sticky, would that mean you will need to renegotiate to get further lump compensations?

Mikael Bratt: As I said here, this is a little bit the new way of working together with our customers as we are in this current, let us call it, inflationary environment here. I think it is very important to remember also that, what we are trying to do here and are doing is mirroring the balance between the impact from our suppliers and our customers. So, when we say we have a lump sum compensation with our customers, we also have a lump sum situation with our suppliers. So, depending on what type of compensation we get, it is following, of course, on both sides of our P&L statement here. So that is the important thing for us is to keep this balance correctly.

And I would say that also it depends on the type of approach the different customer has. Just because it is a lump sum, it does not mean that it is less stable versus a piece price per se, because you can say some have this as an operating model structure, and we come back to it, and it is a very natural part of discussions. If you have a piece price, depending on what the reason for the piece price adjustments is, it has some flexibility, and that is also when the reason comes down, so to speak.

I should not be spending too much time on the question around lump sum vs. piece price here, because it is the overall balance that is the important part. And that is something we are keeping a lot of focus on.

Mattias Holmberg: Yes. That is clear. Thank you. A quick second one, if I may. At the Capital Markets Day, you said, I think, you had about $900 million in capacity for shareholder returns this year. Do you still think this number is relevant or realistic? And can you tell us anything more to help us understand better why the run rate of the buybacks is quite far off these levels?

Fredrik Westin: What we wanted to illustrate with that calculation was more the balance sheet capacity that we would have in place, but it was not any type of indication of what we would buy back this year or any commitment in that sense. It was just to show, if we deliver on the guidance here for the year, what that could mean in terms of capacity for share buybacks. But we are committed to the $1.5 billion mandate that we have, but again, that is not also a guidance or anything. It is simply an authorisation that we have from our board that we can buy back up to $1.5 billion until the end of next year.

Mattias Holmberg: Thank you.

Dan Levy (Barclays): Good afternoon to you. Thank you for taking the question. Wanted to just first ask, with the improved environment and reduced call-offs, and better stability, you mentioned that your operating leverage was in line with the typical operating leverage, you said, and that was partially driven by recoveries. But now that we have this very improved environment, to what extent could we see you at the upper end of that typical 20-30% operating leverage, and how long is the runway on maintaining potentially a higher incremental margin?

Fredrik Westin: Yes, as I indicated during the presentation, if you adjust for FX and then the patent settlement we had last year – the benefit of that from last year – we were in the middle of the 20-30% range. One component that does not allow us to pull through a higher leverage rate is the fact that we do not get any margin on the cost compensation we get from our customers. These negotiations are very much around the structural or the inflationary costs that have impacted us, and that is what we are putting on the table, but we very rarely get a margin upside on those costs. If you would adjust for that lack of margin on the compensation, we would be close to 30% on the leverage side.

Dan Levy: I realise there is going to be some lumpiness around the recoveries, but is that type of level something that is sustainable for the foreseeable future, or is that unique to this particular period?

Fredrik Westin: I think it goes back to many discussions we have had around this topic. A lot depends on the type of volume growth that we face. If it is LVP and market growth and we just grow into our existing footprint and capacity, then it would be at the higher end of that range. If it is through launches and market share, then it is at the lower end of the range. We indicated here that we have a record level of launches this year, and we also expect a larger contribution from market share gains this year, which would then indicate that the leverage of that volume is at the lower end of the range.

Dan Levy: As a follow-up, I would just like to dig in on the OPEX. Your SG&A and R&D are both rising, but, as a percentage of sales, that ratio is coming down. How should we think about the SG&A and R&D going forward? Your release talked about increased personnel and projects for SG&A. Presumably you are going to have some offsets from the headcount reductions, but what should we think about for the trajectory of SG&A and R&D?

Fredrik Westin: Yes. I think we could display already that, compared to the first quarter, you have seen a sequential improvement, and we are very focused on controlling both the SG&A and RD&E costs also going forward. And yes, also the headcount reductions we are doing, as we are indicating, where we are looking at all levels in the company, all functions – that would also have an impact, then, on SG&A and RD&E going forward. And the increases we have seen so far have been very much also inflation driven on the labour cost side and, to some extent, also higher headcount to support the volume growth.

Dan Levy: Revenue: should we expect that percentage to decline, presumably?

Fredrik Westin: Well, as I said, we are very focused on the cost side. You have seen that, as a percent of revenue, it has improved sequentially. And yes, we are focused on the costs in the company, that could improve.

Dan Levy: Thank you.

Rod Lache (Wolfe Research): Thank you. Hi, everybody. I appreciate the indication of the Q3 and Q4 margins that you provided on slide 5, and it sounds like there are lump sum payments of some kind in those Q3/Q4 margins, but they should be viewed as recurring lumps, like a surcharge for costs at these levels. I am just wanting to clarify, are you basically saying that you now have a mechanism for passing along a broader scope of costs going forward? And is there any part of these expectations for Q3 and Q4 that are, in fact, retroactive adjustments, so we should not extrapolate from the level of margin that you are specifically expecting in the second half?

Mikael Bratt: There are elements of retroactiveness there, yes. And the question about lump sum or piece price is not a big question regarding the Q3/Q4 balance, if we call it that, because regardless if it is a piece price or lump sum, it takes place when it takes place, based on when the negotiations are concluded, and has the same quarter effect, so to speak. So that is not really the driver. The driver is more when we conclude the negotiations, regardless if it is a piece price or lump sum.

Then, on the recurring theme of the lump sum, you could say that we are developing a way of working together with our customers, but it is still a question around evidence-driven negotiations. That is why it takes a long time also in terms of calendar time, because we are going through the various impacts that have occurred basically on a plant and a component level. That is what is taking the time, but you could say it is a smaller discussion as we have now been practicing this for a while.

Rod Lache: Okay. Can you give us any indication of the extent to which the back half includes retroactive out-of-period gains? I am just asking because you might look at these numbers and say that it is pretty impressive and at least supportive of these longer-term targets or mid-term targets that you have been talking about at an 85 million unit production rate, but can we look at those as indicative of the run rate profitability or just any indication of what is out of period?

Mikael Bratt: No. I think it is really the conclusion of the full year that really speaks to it because I think the important thing is that we have this development according to our plan, and we are gradually seeing the improvement when you look back. So, on a 12-month rolling basis, it is giving you some indications there, but I think it is too difficult to draw too many conclusions on the Q3/Q4 prioritisation.

Rod Lache: Okay. And just lastly, the pace of buybacks so far has been progressing somewhat slowly, just relative to the $1.5 billion authorisation. Can you just give us any thoughts on how you are thinking about that and whether that $1.5 billion through the end of next year is a magnitude that is indicative of something? How are you going to make the decision about the magnitude of buybacks going forward?

Mikael Bratt: It is the same as we have approached it so far. I think we are moving forward with our programme, and, as Fredrik said, we also said at Investor Day here in June, is that we are committed to this programme. And I think what Fredrik tried to show here and also reiterated that is our ability to generate liquidity to progress with this plan, and what we need to consider here, is also how the world around us is developing. And that is, looking back to when this programme was launched and where we are now, the last year and two years have been quite volatile and challenging. And of course, we have continued with the programme, but with some cautiousness, considering all the different parameters that were alluded to before. And as we move forward, we will continue to assess that, but we are having high ambitions when it comes to this. And I think what we showed here today, with our cash flow generation and also our outlook, gives us a good basis for continuing with good progress.

Rod Lache: All right. Thank you.

Mikael Bratt: Before we end today's call, I would like to say that we are continuing to execute on productivity and cost reduction activities. Our actions are creating both short-term and long-term improvements, as is visible from the steps we took in the second quarter. Together with the announced accelerated structural cost reductions, we believe these actions will enable us to build an even stronger position, in the long term. Autoliv continues to focus on our vision of saving more lives, which is our most important direct contribution to a sustainable society.

Our third-quarter earnings call is scheduled for Friday, 20th October 2023. Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv and, until next time, stay safe.

[END OF TRANSCRIPT]