Second Quarter Report 2021

Friday, 16th July 2021

Introduction

Anders Trapp

VP, Investor Relations

Welcome everyone to our second quarter 2021 financial results earnings presentation. 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 our CEO will provide a brief overview of our second quarter results as well as provide an update on our general business and market conditions. Following Mikael, Fredrik will provide further details and commentary around the financials. We will then remain available to respond to your questions and as usual, the slides are available at autoliv.com.

Turning to the next slide, we have the safe harbour statement, which is an integrated part of this presentation and includes the Q&A that follows. During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10Q that will be filed with the SEC. Lastly, I should mention that this call is intended to conclude at 3pm Central European Time, so please follow a limit of two questions per person. I will now hand over to our CEO, Mikael Bratt.

Q2 Overview

Mikael Bratt

CEO

Market developments

Ongoing effects of Covid and component shortages

Thank you Anders. Looking now into the Q2 2021 highlights on the next slide. The Covid-19 pandemic continues to affect us in several ways and I would like to acknowledge our employees for their hard work and commitment to health and safety. While managing a strong consumer demand for new vehicles, the automotive industry continues to battle with the semiconductor shortage and other component supply disruptions. As a result of the shortage, global vehicle production in the quarter was 8% lower than what was expected and 8% lower than in the first quarter according to IHS Markit.

Strong sales growth

Considering these headwinds, I'm pleased with our second quarter's strong sales growth and our outperformance versus light vehicle production. The lower than anticipated light vehicle production, rising raw material costs and large changes in customer call-offs with short notice, negatively impacted our profitability in the quarter.

Frequent production changes from our customers with short notice limited our ability to use furloughing to mitigate the effects of the lower demand. Although the situation improved towards the end of the quarter, we still expect supply disruptions to impact light vehicle production for the rest of the year.

Debt leverage improved

Our performance further improved our debt leverage ratio, which is now close to our target of 1 times EBITDA. We continue to evaluate opportunities for shareholder value creation. I'm also pleased that we have reinstated a quarterly dividend, which for the second quarter was declared and paid at 62 cents per share.

Winning new orders

The industry's level of sourcing of new orders has normalised and I'm pleased with our win rates. We took an important step by setting ambitious climate targets, which include plans to become carbon neutral in our own operations by 2030.

Semiconductor supply issues

Towards the end of the quarter, the semiconductor issue was improving. However, in July the situation has deteriorated in North America and Europe again, as a number of firms have announced further near-term reductions. The situation in Asia appears more stable. Light vehicle production is expected to remain volatile for the rest of the year, with semiconductor shortage and other supply chain issues leading to higher costs for commodities.

Financial highlights

Consolidated sales up strongly

Looking now on the financial highlights on the next slide. Our consolidated net sales increased close to 1 billion or by 93% compared to Q2 2020 as a result of light vehicle production recovery from the pandemic-related lockdowns last year and our strong sales outperformance. The European and North American markets contributed to three quarters of the sales increase.

Operating income and margin up

Adjusted operating income excluding costs for capacity alignment improved from minus US$172 million to US$166 million. The adjusted operating margin increased to 8.2%. The solid operating income despite light vehicle production being both volatile and lower than expected was a result of good operational execution, cost control and positive effects from the structured efficiency programme.

Operating cash flow was $63 million despite adverse effects from changes in working capital.

Sales growth

Organic sales outperformance

Looking now on sales development on the next slide. I am very pleased that our organic sales growth outperformed the global light vehicle production by more than 30 percentage points. This was achieved partly because of positive geographical mix effect as light vehicle production grew strongly in high content per vehicle markets, but mainly because we continued to execute on our strong order book.

Sales performance by region

We had a very strong sales development in almost all regions. In North America we outperformed by 24 percentage points and in Europe by 38 percentage points. In China we outperformed by almost 5 percentage points, despite that high end vehicles were more affected by the semiconductor shortage.

Key model launches this quarter

Looking on the next slide. We see several notable product launches during the quarter. The models shown on this slide have an Autoliv content per vehicle from US$100 to almost US$450. Six of these vehicles are either EVs or plug-in hybrids, further extending our exposure to this growing segment.

The long-term trend to higher content per vehicle is supported by the introduction of front centre airbags, knee airbags, belt bags and more pedestrian protection systems.

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

Financial Overview

Fredrik Westin

CFO

Key figures for the quarter

Comparison basis including 2019

Thank you Mikael. This slide highlights our key figures for the second quarter. We are including 2019 in this overview, because of the anomaly of Q2 2020, which was the first quarter with strict Covid-related lockdowns outside of China.

Sales, profits and margin up on lower production

Our net sales were over $2 billion, a 93% increase compared to the same quarter last year. Compared to Q2 2019, sales decreased by 6%, while the underlying LVP was down even 15%. Gross profit increased to $384 million and the gross margin increased to 19%. Compared to Q2 2019 the gross margin increased by 40 basis points despite the lower sales. The higher gross margin was primarily driven by direct labour and material efficiencies.

Operating income higher

In the quarter, capacity alignments had no material impact on the operating profit. The adjusted operating income increased to $166 million due to the higher gross profits. The adjust operating margin improved by 25 percentage points versus Q2 2020 and was almost in line with Q2 2019 despite 6% lower sales.

The operating cash flow was $63 million. This was achieved despite adverse effects from changes in working capital.

Dividend reinstated

Reported earnings per share improved to $1.19 and our adjusted return on capital employed improved to 18% and adjusted return on equity to 16%. We reinstated our quarterly dividend at 62 cents per share, the same level as before the dividend was suspended in the second quarter of 2020.

Adjusted operating margin

Operating margin affected by FX

Looking now at the adjusted operating margin bridge on the next slide. Our adjusted operating margin of 8.2% was almost 25 percentage points higher than in the second quarter of 2020. The impact of raw material price changes was negative $8 million in the quarter. FX impacted the operating profit negatively by $13 million. This is caused by transactional effects from a number of different currency payers. The most significant was the negative impact from a stronger Canadian dollar and a stronger Mexican peso versus the US dollar.

Support from governments in connection with the pandemic was $25 million in the second quarter last year, while it was not material to our financial results in the second quarter of 2021. As illustrated in the chart, the adjusted operating profit was negatively affected by higher SG&A and RD&E net of government support of $40 million. Operational improvements contributed with over $400 million, mainly due to the substantial increase in sales.

Leverage at 39%

If we exclude FX, raw material cost increases and governmental support, the leverage was 39% on the higher sales, supported by good cost discipline and effects from our structural efficiency programmes.

As Q2 2020 was a very special quarter highly impacted by lockdowns, the first quarter of 2021 is a more relevant comparison.

Operational leverage

Looking on the next slide, we see that sales declined by $220 million sequentially or almost 10% compared to the first quarter 2021. Our adjusted operating profit declined by $72 million. Excluding $10 million from increased raw material costs, the decline was $62 million, which results in an operating leverage of around 28%.

Within the normal range despite volatile call-offs

We have many times communicated that our operating leverage normally is in the 20 to 30% range with closer to 30% to be expected when sales fluctuate significantly, and we consider a 10% sales drop quarter over quarter to be significant. The 28% decremental margin is within the communicated normal range despite the high volatility in LVP, with customer call-offs frequently being changed at short notice, especially as planning of production has been difficult. We usually see call-off deviations of plus/minus 5%. In the second quarter, we have frequently seen call-off deviations of up to 50%. We believe the actions undertaken in the quarter, such as reducing headcount by more than 2,000, contributed to limiting the decremental margin.

Cash flow

Operating cash flow

Looking on the next slide. For the second quarter of 2021, operating cash flow was $63 million, an increase of $192 million compared to the same quarter last year and $84 million compared to Q2 2019. The operating cash flow in the quarter was negatively impacted by changes in operating working capital, mainly relating to tax, insurance and cash-out for the Toyota Prius recall.

As inventories were impacted by supply-chain uncertainties, trade working capital also developed unfavourably with $8 million.

For the full year 2021, we expect operating cash flow to be similar to the 2020 level.

Capital expenditure

Capital expenditures amounted to $96 million in the quarter or 4.8% of sales. Compared to the same quarter last year, capital expenditures increased by $32 million or by 50%.

Free cash flow

Free cash flow was negative $33 million, impacted by unfavourable working capital effects. Our cash conversion in the last 12 months was close to 130%.

Leverage ratio

Prudent financial policy

We turn to the next slide. We have, as you know, a long history of a prudent financial policy and our balance sheet focus remains unchanged. The leverage ratio improved from the peak of 2.8 times a year ago to 1.1 times. The improved leverage in the quarter was a result of our EBITDA over the last 12 months increasing by $350 million, partly offset by the net debt increase of $85 million. Further improvements should provide additional opportunities for shareholder value creation.

Raw material prices

Significant increases

On to the next slide. Supply-demand imbalances continued to drive prices of raw materials higher and some key commodities have increased by more than 20% in the past three months. As we mainly buy components, the effects from changes in spot market prices are usually mitigated and delayed through longer-term supply contracts. Year to date, we have been successful in limiting the impact with virtually zero impact in the first quarter and only around $8 million in the second quarter.

Longer term effects

However, as raw material prices have continued to increase on a broad base for the third straight quarter, we will see price adjustments coming through which will affect earnings significantly in the second half of the year. Based on the current situation, we estimate that for the full year of 2021, we will face an operating margin headwind of around 130 basis points from raw material price changes. Our previous estimate was 90 basis points.

Limited cost recoveries

We have some, but limited, contractual pass-throughs to our customers. Negotiations for compensations from the remaining customers will take time and likely not have much impact until the next year.

Light vehicle production outlook

Demand high, inventories low

On to the next slide. Demand for new vehicles remains high and inventory levels of new vehicles remain at record low levels in some regions. For example, the inventory levels in North America end of June, at 1.4 million units, were about 35% of what manufacturers normally would be carrying. Dealer inventories are in general at a normal level in China and we believe that European inventory levels are fairly low, especially for premium vehicles. Assuming that the component availability improves, we expect good demand and low inventories to support a recovery in LVP into 2022.

Volatile outlook due to semiconductor shortage

Versus what was expected at the beginning of the quarter, Q2 2021 light vehicle production came in 8% softer than expected due to shortages of semiconductors. From here though, the global volumes should sequentially improve into the second half of the year. However, production is expected to remain volatile because of the semiconductor and other shortages. OEMs will likely strongly push for vehicles with no or low CO_2 levels as well as larger vehicles that are more profitable for them. For Autoliv, this trend should support further outperformance versus light vehicle production.

Forecasts for 2021

For full year 2021, our assumptions now are that global LVP will increase by 9 to 11% compared to 2020. IHS Market has this afternoon released their updated LVP figures and they now forecast global light vehicle production to grow at 10% in 2021. For Q2 2021, they have adjusted down the estimate of global light vehicle production by 160 basis points to 50%. This would indicate that our sales outperformance versus LVP was 35 percentage points in the quarter. We have also noted that production of light vehicles declined by 9% instead of 8% sequentially from Q1 2021.

I now hand it back to Mikael.

Updated Outlook for 2021

Mikael Bratt

CEO

Market headwinds

Thank you Fredrik. Turning to the next slide, here we show the main factors behind our updated 2021 indications. Our full year 2021 indications for organic growth and adjusted operating margin are adjusted to reflect the lower and more volatile light vehicle production and higher raw material costs. Compared to our previous guidance, the light vehicle production outlook is lowered by 1 to 3 percentage points due to the components shortage. Our estimate of raw material prices headwinds is increased from 90 basis points to 130 basis points for 2021.

Improved sales mix and costs

These headwinds are to some extent offset by improved sales mix and cost adjustments. We have the details of our indications on the next slide.

Detailed indications for FY 2021

Sales recovery and cash flow stable

These indications exclude cost for capacity alignment and any potential anti-trust related matter. Our full year indication is based on a global light vehicle production increasing 9% to 11% compared to 2020. We expect sales to increase organically by 16% to 18%, supporting a full-year 7% outperformance versus light vehicle production. Our net sales increase is assumed to be 20% to 22%, including positive currency translation effects of around 4%. We expect an adjusted of around 9% to 9.5%. Operating cash flow is expected to be similar to 2020 level.

Strategic initiatives bear fruit

Our strategic initiatives are gradually yielding good results. We are confident of 2022 to 2024 target based on our internal progress and an expected light vehicle market recovery in the next few years.

As I mentioned earlier, we have set climate targets for the company. On our next slide, we have these targets.

Climate targets

Sustainability and saving lives

Autoliv's vision of saving more lives drives all our work. Sustainability is firmly rooted in our business strategy and as the market leader in our field, our efforts are aligned with the broader society's agenda. As the first automotive safety component supplier, Autoliv aims to become carbon neutral in its own operation by 2030 and furthermore aims to net zero emissions across its supply chain by 2040. We are also committing to the Science Based Targets initiative. These initiatives place us among the front runners in the broader group of automotive suppliers.

Defining a decarbonisation strategy

The work to define a detailed carbon-footprint abatement strategy is ongoing. The scope will cover all main levers for decarbonisation, such as renewable electricity in our own and supplier operations, lower carbon logistics, energy and materials efficiency and low-carbon materials.

A more detailed roadmap will be outlined in connection with our capital markets day in November. Looking now on the next slide.

Capital markets day 2021

16th November 2021

We have the pleasure of inviting investors, analysts, media and other stakeholders to attend our capital markets day on Tuesday, 16th November 2021. The event will be virtual only and livestreamed. At the meeting we plan to showcase our full potential and provide an update on our strategy and development. Additionally, we plan to show future products, give an update on opportunities in core and adjacent product areas, outline further potential that we see in flexible automation, and digitalisation and much more.

I will now hand it back to Anders.

Q&A

Anders Trapp: Thank you Mikael. This concludes our formal comment for today's earnings call and we would like to open the line for questions.

Emmanuel Rosner (Deutsche Bank): Hi everybody, thank you for taking my question. First question would be can you maybe describe the industry production environment you expect for the second half? I thought it was somewhat notable that your LVP assumptions are now, I guess, a little bit more conservative, on the low end, than what I just had at least as of yesterday. And so can you just talk in terms of how much visibility you have in terms of call-offs, how much volatility you still expect to continue and for how long?

Mikael Bratt: I think the range we are indicating is the result of a high amount of uncertainty in the market, and the uncertainty then goes back to when the industry will come back to more, I would say, stable situation, a more predictable situation when it comes to semiconductors. As we indicated in the presentation, we saw some improvements towards the end of the quarter but coming in now in July, we see once again that customers are changing their call-offs with short notice and the volatility continues.

So I think the best we can judge now is that we think we will see a gradual improvement over the situation throughout the rest of the year, but it will take time until we are back in – we can say we have the semiconductor challenge behind us. So I think we will continue for quite some time with high level of uncertainty. But I think that's where we are right now.

Emmanuel Rosner: That's helpful. And then as a follow-up, just a question on the raw materials impact. So based on, I guess, the slide which you detailed how your contracts work, so if raw materials were to stay at current spot prices, how much of an additional impact would that be beyond this year?

Fredrik Westin: We don't guide for 2022 at this point of time, but we can say that if they stay at the current levels, there would also be a challenge into next year from that high level. What we have seen in the increase that we have seen now, sequentially, is mainly related to steel and non-ferrous metals, where the situation has pretty much deteriorated at the same magnitude as we saw in the first quarter. Hence the need for us to revise our impact for the full year.

Emmanuel Rosner: Understood. Thank you.

Mattias Holmberg (DNB): Thank you and thanks for taking the time for my question. You mentioned in the presentation a couple of times potential for shareholder value creation activities, when you discussed the leverage ratio. Could you please elaborate a bit on what this could be and also any potential timing, if you need to wait for the market to stabilise in terms of the semiconductor shortage or if there's anything holding you back from these activities at this point?

Mikael Bratt: No, I think what we wanted to say is really that now we are comfortably back within the range and with that, we have now reinstated the quarterly dividend and on top of that of course we have, as we always have stated in the past, buy-backs and alternatively extra dividend as tools for that. But that's a decision that needs to be made from time to time and here of course we need to judge also not only what our balance sheet looks like but it's also the predictability about the business cycle and our forward-looking cash generation. So it's just to reconfirm our intention to be a shareholder friendly company in terms of returning liquidity to our shareholders, and of course the timing we will come back to when appropriate. It's a decision from time to time.

Mattias Holmberg: Understood, thank you. And my second question is the medium-term margin targets of 12% on EBIT level, that you stated in your CMD in 2019, given the incremental raw material headwinds that we're seeing right now, do you still think that the time horizon of three to five years is realistic? How should we think of that?

Mikael Bratt: We are holding on to and confirm, of course, our long-term targets. No changes to that because of this short-term situation. I think, as we indicated here, we think that Q2 was the trough when it comes to the semiconductor challenge, even though it will take a bit longer until we are on stable ground. And as Fredrik indicated, raw material is something we have to manage over time regardless of level. But it's really time that is needed to balance that and I think when we're looking at this time horizon, we have that time and we think also that we have a very strong underlying demand when it comes to light vehicles going forward. So no reason to have any other views than what we have had in the past.

Mattias Holmberg: Thank you so much.

Chris McNally (Evercore): Just wanted to follow up on the raw materials. I know we can't put a number to it, so maybe if we talk about more what are the process for getting a reimbursement? It essentially looks like what you're saying for the second half is that the 130 basis points for the full year is both a gross and a net number, such as there's not going to be much price recovery. Can you talk about just the conversations you're having with your customers? How long does it take for price recovery to happen, how much you typically recover? Things like that, just maybe a sense for the headwind going into next year.

Fredrik Westin: Sure. We do have some but limited contractual pass-throughs to customers. And of course the negotiations with the remaining customers are ongoing as we see these significant headwinds from raw materials. On the ones where we have indexation, and I mean they are typically retroactive, so you also have to look at where these costs have been looking backwards, that is built into our guidance. When you look at what we are negotiating, it's rather limited because as we said, it will take some time for these negotiations and also for them to become effective, will have only a limited impact on the current year. But as we said, of course our ambition is to over time, should the prices stay at this level, also offset them commercially.

Chris McNally: And so I think it's a fair – we think of like absolute numbers, you know, if it's $50 million a quarter in the back half of headwinds, that's something we should at least model for Q1 of next year and then at the earliest maybe we get some breaks in Q2, as you said, you get some commercial recoveries. But that sort of pace. We're going to have probably a couple of quarters of this level as it's finally starting to work through.

Fredrik Westin: No, I think we have to come back to that when we give our 2022 guidance here. I don't want to make any comment on the quarterly impact for next year.

Chris McNally: No problem. I had to try. Maybe just real quick, just high level, do you exert that same pressure then as another opportunity to go to your Q2 base and basically ask for delays in price increases when – obviously you're not buying raw steel but obviously manufactured parts. Is that another way to sort of manage the time-lag while it takes you a couple of quarters to get commercial recovery from the OEMs?

Fredrik Westin: I mean, absolutely. That's why you've seen that the impact so far, year to date, has been fairly marginal. I mean it was close to zero in the first quarter and now $10 million in the second quarter. So that, I think, is the reflection of how successfully we've been able to push this out with our supply base. But especially on the steel side it is a very stressed situation and we will have price changes come through that we cannot avoid in the second half.

Chris McNally: Okay, great. Thanks so much.

Hampus Engellau (Handelsbanken): Thank you very much. Two questions for me. Firstly on the semiconductor shortage, if I remember correctly I think I was picking up information that the semiconductor situation had improved somewhat in the beginning of May and then you highlighted that June was extra tough. Could you maybe shed some light on what happened in June and then we can be sure that the second quarter is the trough in semiconductors? That's the first question.

The second question is relating to the operating leverage. I mean, you highlighted the operating leverage in the second quarter compared to the first quarter and how should you think about Q3, Q4 here? Is the full-year outlook very more back-end loaded, more related to Q4 now with engineering income, or how should we think about that? Those are my two questions, thank you.

Mikael Bratt: I can start on the semiconductor side and then maybe Fredrik will take the second question. On the semiconductor side, as we said here, we saw some improvements earlier, I should say stabilisation, towards the end of the second quarter, but we have once again seen some plant closures on our customer side coming up here in July with short notice. So what we want to indicate is that we see volatility also in the beginning of the third quarter. I think the challenge is that uncertainty is so high when it comes to semiconductors. As you know, the automotive industry is only 5% to 10% of the total usage of semiconductors, so we are also here impacted from what's happening in the total pool of customers for semiconductors. As we have indicated, we think it will take a longer period until we are really on stable ground when it comes to semiconductor supply, gradually improving. That is to the best of our knowledge now and what we pick up in our interaction with suppliers and customers. So that's the best indication we can give at this point in time.

Fredrik Westin: Okay, Hampus, on your question on the operating leverage, I mean we do expect even if there's no range on the volume recovery in the second half that we will see a sequential improvement, and that then of course should also have a positive leverage effect. But it also depends a bit on where the 16% to 18% that we're saying gives also a larger spread even for the second half. Then we also expect the volatility to continue, at least in the near term, so we have to see how quickly that comes out, because it will impact also our ability to pull through incremental sales, I mean the volatility in the call-offs. That's another component. And then the third one is of course raw material, where we expect a fairly even hit between the quarters in the second half. But when it comes to your specific question on engineering income, that should pretty much follow the normal pattern as we've seen in previous years.

Hampus Engellau: Excellent, thank you very much.

Joseph Spak (RBC Capital Markets): Thank you very much. You mentioned typically 25% to 30% pass-through, 30% when volatility was this quarter on the way down. You also mentioned continued volatility going forward, so does that mean if we think sales are going to increase sequentially here, we should be more towards the lower end, maybe the 25% on the upside and then factor in commodities on top of that? Is that how you advise to think about the rest of the year?

Fredrik Westin: I think that the real uncertainty here is just how this volatility that we try to indicate here, where we see typically a fairly narrow range but now in the second quarter a very large range, how that develops over Q3 and then going into Q4, because that will have impact on our operational effectiveness and then also what leverage we can then pull through incremental sales. And that is very difficult to give an indication of right now. We're not through it yet.

Joseph Spak: Okay. And then just maybe going back to raw materials one more time, so effectively the entire impact here is in the back half. I know you're not talking about 2022, but you know, it's more like a 230 basis point margin impact in the back half, so it seems like that's at least a good run rate to go into the first half. I guess what I really want to get to is how does this impact your confidence in the 12% margin target over time? Because presumably this level of commodities wasn't contemplated, so what are some of the offsets? And I know you have a couple of market sales later this year that probably delve into that in more detail, but at the high level maybe could you just help us with that?

Mikael Bratt: I think what we're saying here is of course the raw materials we need to overcome over time through different means. I mean, we're talking about compensation and offsetting with our customers, I think it's also with how we work with our internal improvement journey and also with our suppliers. And if we see – we are not at all indicating that, but just theoretically from your question here – if we would see a more long-term increase of raw materials, that's for sure something we have to overcome and will overcome. We need to do what we need to do to manage that. But what we believe here is, working assumption is of course that we have a temporary increase but it's difficult to give a time on it. So once again, we are confident in the activities we are doing and we also see very strong underlying demand for light vehicles going forward in this timeframe, and I think the raw materials will also normalise at a different level than what we are seeing today. And whatever delta there is, that is something we would manage.

Joseph Spak: Thank you very much.

Rod Lache (Wolfe Research): Hi everybody. I'd like to just understand a little bit more about the raw material recovery process as well. You're going to be negotiating this presumably later this year with your customers, so if we think back at prior periods when you've had higher raw materials, what did you typically recover in the subsequent year through those negotiations?

Mikael Bratt: I don't think you can say there is a specific rule of thumb in terms of percentage. It's more related to the nature of the raw material increases, I would say. Because if it's something that is more long lasting and more, let's call it inflationary to its nature, you have a higher rate of compensation than if it's temporary. And I think we have indicated before, if it's really temporary volatility, it's not even something we are really discussing with the customers. So it all depends on the nature of the increase, so to speak. So, yeah, time will tell what this is when we're looking at these increases. But I mean those negotiations and discussions are of course already ongoing and work is being done in that area.

Rod Lache: Okay. And just to clarify, do you typically put the recovery into sort of a different bucket than the raw material inflation? When you describe raw material inflation, is that a net number net of recoveries?

Mikael Bratt:, if your question is how we discuss it with our customers?

Rod Lache: No. How you discuss it with us is what I want to know. Are you referring to a gross number or is this a net number when you give the basis points of margin?

Fredrik Westin: That's the cost impact. So it does not include –

Rod Lache: So it's a gross number. Okay.

Fredrik Westin: Yes.

Rod Lache: And then lastly could you just speak to inflation more broadly? I mean, we're seeing obviously a lot of tightness particularly in North America but inflation is obviously – it's not just commodities, there's labour cost inflation, logistics inflation and other things that seem to be a global phenomenon. What's the extent to which you're seeing this and is that something that you would expect to be a bigger factor as you look forward?

Fredrik Westin: No, we see it in multiple areas, not only on the raw materials side. As you said, logistics is stressed as well, both in terms of availability but also in terms of cost for logistics and then also the accuracy of delivery, so it's a very stressed situation. And we're dealing with that the same way as Mikael described here as we do on the raw materials side. So eventually also discussing that with our customers but primarily at the moment managing that with the supply base and our logistics providers. I'd have to say so far on the labour cost side we've not seen any significant pressure, so far, on that, so I think that's one component at least that at the moment seems rather stable.

Rod Lache: Okay, thank you.

Brian Johnson (Barclays): Thank you. I just want to get to more perhaps of a strategic issue around commodities. I've always been struck that in conversation with you in the past about how Autoliv with its incredible low record of recalls adds tremendous value to your customers, so in addition to just going out and trying for commodity cost recoveries, is there an opportunity to recast the contracts going forward to make them more like we see in other supplier segment sectors, where raw materials are a big part of the cost of goods sold, like axles and so forth, and just have straight index-based pass-through agreements? And if so, we should bring new programmes on, is that a trend, a factor, that you'd like to put in place?

Mikael Bratt: I think first of all we are a systems supplier with a lot of components going into what we deliver to our customers, and I think there's pros and cons with that but I think we overall, over time, have a system and business relationships that serves us well. So I shouldn't say that I see any bigger changes to that. It comes back to what –

Rod Lache: Okay. And –

Mikael Bratt: – more of a structural change that might be or not be.

Rod Lache: Okay. And in terms of the raw materials we should be looking at, to kind of think about, you flagged hot rolled steel, are there other commodities that we ought to be paying attention to? You know, there are some commodities like copper and lumber that are obviously not in your products, that are rolling over already? But in addition to steel what are the key components we ought to track?

Fredrik Westin: I think the main ones to mention are steel, that's around 40% of our raw material exposure, and there I think hot rolled coil is a good indication. The next two ones are resins, so what we buy for plastic components, and then the third component is textiles, and there it's yarn, it's polyamide, polyester and nylon and so on. Those are the main commodities that we're exposed to.

Rod Lache: Okay. And then finally in terms of cadence, is it fair to think that 4Q is typically a big step up? Should we expect the same, especially as you go through these commercial discussions?

Mikael Bratt: Could you explain that again? I didn't understand your question.

Rod Lache: The cadence of margin in the second half.

Fredrik Westin: The seasonality of performance.

Mikael Bratt: The seasonality of our earnings in a year is what it always has been, so we don't see any changes there. And of course certain events, like we live through here, may affect a specific quarter. But seasonality is the same.

Rod Lache: Okay. Thank you.

Ryan Brinkman (JP Morgan): Hi, thanks for taking my question. It seems, based on some 2Q pre-announcements from GM, Ford, Volkswagen and others, that the combined impact of the headwind of production and a tailwind of pricing because of the resulting lower inventories, has actually been netted out very positively for them so far this year. Versus for suppliers the impact is only negative because there's not an offset to pricing from the lower production. I'm curious what impact if any this dynamic on your conversations around commodity cost recoveries. You know, is the tone or tenor of those conversations any different versus in the past when you saw commodity inflation, given that the customer pricing margin is so strong? I think average transaction prices in the US in June for example might have been up 10.7% year over year. So curious what you're seeing there.

Mikael Bratt: I think we're back to what I stated before, let's call it a success from our perspective here in those discussions is more depending on the nature of the raw material increases than anything else. So the higher and longer they are, the more relevant they are in the customer's eyes, so to speak, and that's really what's judging that. And of course the difference between OEM and supplier is because we are in different parts of the total value chain and also the timing of the events that impact that. It's more depending on the nature of the raw material increase.

Ryan Brinkman: Okay. Appreciate that. And then just lastly to follow up on the comment during the prepared remarks that the semiconductor shortage situation had grown worse again in early July in North America and Europe at least, I think there may have been an expectation earlier that semiconductor availability would just sort of continue to improve sequentially in a more or less linear fashion, particularly maybe short-term here including in July, given the cycling past of that fire at the Renesas factory in Japan. So do you have a sense of the driver of the incremental production disruptions in the first part of July here? And what are automakers communicating to you about the expected disruption in 3Q versus 2Q?

Mikael Bratt: I think as a net, I would say net indication, it's gradually improving. But then of course it looks a little bit different between the different customers on how they have been hit so far but also how the near term looks like. And it can depend also on who their suppliers are in their end but also the uniqueness of the specific semiconductor. I mean, if you have a standard semiconductor or a higher degree of standard semiconductors, you have more flexibility to find alternative solutions than if you have very special designed semiconductors. So that does materially impact on the specific customer. So we haven't seen this, let's call it linear stabilisation yet, when we look at the aggregated picture.

Ryan Brinkman: Very helpful, thank you.

Erik Golrang (SEB): Thanks, I have a few questions. First one is from the $25 million in governmental support during the second quarter. Can you remind us what that was in Q3 and Q4 last year? Then in the second quarter, if you could say something more on orders. You say you're pleased but we can't do much with that, so if you could put that in some kind of perspective it would be very helpful. And then third question on the key model launches you highlight in the presentation. Is it just a coincidence there that there are two Chinese models where you seem to have a quite extensive scope for supply? Is that any kind of trend or just a coincidence? Thanks.

Fredrik Westin: So the first question on governmental support, in Q3 there was $5 million and in Q4 it was $2 million last year, so $7 million in total for the second half.

Erik Golrang: Thank you.

Mikael Bratt: And on the order intake here, as you know we don't give any figures throughout the year. We just give a figure at the end of the year, when we present the Q4 earnings year. But our commentary here should be seen in the light of the order book we have and the market share growth that we have indicated that we have an order intake that supports our earnings forward. So that is how you should interpret that comment.

And then on the models, I think in this particular quarter you could say it's a coincidence that it happens to be concentrated here, but I would say on a general note I think we have a good presence and wins within the EV segment and also in China, where you see a number of newcomers, new start-ups and also the established makes quickly coming out with EV models, that we have a good representation there as well. So we have a strong position in China altogether, I would say, as we presented now.

Erik Golrang: Thank you.

George Galliers (Goldman Sachs): Thank you for taking my question. You mentioned on the call that you had limited ability to use furloughing as a result of the short notice. Can you just give us a bit of insight into the lead times you need to invoke furloughing and the notice period that you're getting on the production side as we navigate the semiconductor challenges? And assuming that the semiconductor volatility continues, are you able to take any measures to reduce the financial impact? For example, is there any scope to increase flexibility on the furloughing or could you look to build and hold inventory and then adjust production subsequently when you have provided adequate notice for furlough? Thank you.

Mikael Bratt: I think on the furlough side, we can say that it's not really the availability of that tool, if we call it that, that is the problem here. It's really the volatility that makes it difficult for us to really decide to take out. Because if we normally are around 5% in terms of plus minus from the region of call-offs from the customers, we have today seen up to 50%. So we can't assume a 50% reduction in take-outs and take-out resources, because if that's not true we would be short of staff and can't deliver. So we need to staff ourselves and have capacity to meet the regional call-offs levels, and then if we see a reduction there we are of course sitting there with that cost. So it's more a question of having the predictability of the volumes and adjust the capacity accordingly that is the hindering point. If we just had that visibility, of course we could use in many cases the flexibility that we have, but it's that we don't have the visibility, that is the problem.

Fredrik Westin: Yes, and even to add on that, as we described the volatility in the call-offs, they have even fluctuated week to week. So they might be pulled down one week and then they increase the next week, so it's been very, very difficult to manage, to balance and manage capacity due to that. And then also as we, our plants supply into multiple OEMs and one OEM plant maybe shuts down for a week, that does not mean that we can then adjust accordingly or to the full extent in our operations. So there's a complexity that we need to manage that has some implications on how quickly we can reduce the costs.

But of course one key is also then to have the right cost discipline. I think we have proven that here in the second quarter but also how we've come out of the pandemic as of last year, and of course that also remains a large focus for us here going forward.

George Galliers: Understood, thank you.

Sascha Gommel (Jefferies): Hi, good afternoon, good morning, everyone, thanks for taking my questions. The first one is around working capital and I was wondering if you can talk a little bit about inventories. They look fairly high. How should we think about them in light of the various production disruptions and then going forward when production normalises do inventories also come down? And then I have a second one on working capital. How much was the Toyota cash-out?

Fredrik Westin: So on working capital there were, as we mentioned, there were a couple of items outside of what we call trade working capital, so the three core components – receivables, inventory and payables – that had a major impact. The Prius recall was the largest of those and I think if you look at our 10Q, the number we mentioned here in terms of the impact is also an indication for the cash outflow. But then also we've had some tax related – well, a cash impact from tax-related items, which was to the magnitude of $35 million combined. We also had the restructuring outflow of around $6 million. So those were some unusual items here during the quarter that impacted working capital negatively.

Then specifically on inventory, it has been due to the call-off volatility that we described but then on top of that also then the supply-chain challenges that we're facing with our supply base has led to a pretty significant increase in inventories above our normal design levels. And if you look at our days of inventory outstanding, you can see that there's quite a large increase in that during the second quarter. We do expect that as now the volatility comes down and then the call-off reliability increases, that we should be able to get back to our design levels and then also be able to flush the inventory out and reduce inventory going forward.

Sascha Gommel: Okay, that's helpful. And then my second question is just quickly on the guidance reconciliation. How to think about the guidance cut from your earlier guidance? If we go to the midpoint, it's kind of top line minus 2, and then if we have a 20% drop-through and add the 40 basis points of raw materials we get right to the midpoint of your new guidance in terms of margin. Is that how we should think about it or is too simplistic and there are more moving parts than just a bit of top line gone and a bit of raw materials?

Fredrik Westin: No, those are the main components. The only thing I would add to that is this uncertainty around the call-off volatility and then also that we have some headwinds – that we are able to offset those headwinds then with an improved sales mix and cost adjustments. But the main components you have mentioned.

Sascha Gommel: Appreciated. Thank you very much.

Antoine Bregeaut (Exane): Hi everyone, thank you for taking my question. Very quickly just a question on the nature of those call-offs. Are there mainly delays in your production or have you also seen some cancellations? And then my second question's on the bridge. How should we think about SG&A and RD&E impact into Q3 and Q4? Just your headwind this quarter? Thank you.

Mikael Bratt: I think on the call-offs, we don't see really cancellations. I think it's more delays, you could say, in the production schedules from the OEMs. I think the signals are that if they can, they would catch up, but then of course the longer this continues, the more difficult it will be to do it. But no pure cancellation. As I said, there is what we can judge a very strong demand, end consumer demand, so what can be produced will be sold and as we have seen on the inventory levels, US are at record low levels. I mean, it's 1.4 million vehicles in inventory compared to 3.5 to 4 million as more of a normal level. And also relatively low in Europe, especially on premium vehicles. So there is really a strong underlying demand. So it's, once again, a delay here as a result of the supply disruptions.

Fredrik Westin: On the SG&A and RD&E levels, in our guidance we're detailing that we believe, or we expect, RD&E to be around 4.5% of our sales. So I think that gives an indication of where it's expected to be in the second half. And then SG&A, as I said, we will be very cost disciplined here. You see that there's only a marginal increase from Q1 to Q2 so we will remain that disciplined and have a very strong focus also on the SG&A development.

Mikael Bratt: Thank you. Before we end today's call, I would like to acknowledge that we are still in a pandemic and our first priority remains the health and safety of our employees. Despite short-term market headwinds, our progress in the last year makes us confident in our journey towards our medium-term targets and our opportunities for shareholder value creation. Our third-quarter earnings call is scheduled for Friday, 22nd October 2021. Thank you everyone for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]