Autoliv

Q4 Report 2021

Friday, 28th January 2022

Introduction

Anders Trapp

Vice President, Investor Relations, Autoliv

Welcome, everyone, to our fourth quarter and full-year 2021 financial result earnings presentation. On this call we have our President and Chief Executive Officer, Mikael Bratt, and our Chief Financial Officer, Fredrik Westin, and me, Anders Trapp, Vice President, Investor Relations. During today's earnings call, our CEO will provide a brief overview of our quarterly 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 this 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, available on autoliv.com, and in the 10-K that will be filed with the SEC.

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

Quarterly Results and General Business and Market Conditions

Mikael Bratt

President and CEO, Autoliv

Q4 2021 Solid operating margin and strong cash flow

First, I would like to thank our team once again for their unrelenting commitment in manoeuvring through these challenging times. I would especially like to thank our colleagues in the Philippines that successfully restarted our operations after the devastating typhoon that hit the Philippines in December. All of our employees are safe.

We experienced a rising number of COVID cases, resulting in a high number of absentees in our operations. We have managed this without any real effects on our business. Supply shortage of semiconductors and other components continued to impact the light vehicle production in the quarter. It led to a fourth quarter global LVP decline of 13%, according to IHS Markit. Component availability improved somewhat towards the end of the quarter. Markets with high safety content per vehicle were the most negatively affected. LVP in the important markets in western Europe, North America and Japan combined fell by more than 20% compared to a year ago. The impact from higher costs for raw materials amounted to close to US$60 million in the quarter, and we expect to continue to see substantial headwinds from raw materials also in 2022. Given all of that, I am pleased that we reached our latest guidance for 2021, with organic sales growth of around 8%, adjusted operating margin of 8.3% and operating cash flow of US$754 million. Also, I am happy to report that we estimate that the order intake share was 50% in 2021, supporting our growth target and an increasing market share. Despite the challenging environment, our cash flow was solid, both in the quarter and for the year, and our debt leverage ratio remains well within our target range. We paid a dividend of US$0.64 in the fourth quarter. This was 3% more than in the previous quarter.

Q4 2021 Financial Overview

Our consolidated net sales of US$2.1 billion was 16% lower than in Q4 2020, mainly due to lower global light vehicle production. Adjusted operating income excluding costs for capacity alignment fell from US$311 million to US$177 million. The adjusted operating margin was 8.3% in the quarter. The lower operating margin was a result of lower sales, rising costs for raw materials and currency effects. Operating cash flow was a solid US$317 million, despite the challenging environment.

FY 2021 Strong order intake share

Our order intake share for the full year continued on a high level, supporting our growth in the years to come. This is strong evidence that our company is the leading company in the passive safety automotive industry, and it shows that we have managed well when launching previous years' high order intake. One of our key performance indicators, customer satisfaction, has continued to improve and is at a high level. However, this does not mean that we can relax. We always strive for improving products, services, processes, and costs. We estimate that we booked 50% of available global order value in 2021. We achieved high win rates with all product types, including front centre airbags and hood lifters for pedestrian protection. We are also proud that we were successful in winning many contracts with new pure EV makers. Our strong order intake and current customer satisfaction makes us confident regarding our midterm sales targets communicated at our capital markets day last November.

Q4 2021 Sales Growth

Our sales in the quarter came in lower than expected, with all regions disappointing except China. This is in contrast to the changes in light vehicle production reported by IHS Markit during the quarter. This suggests that there might have been an element of pull-forward of our sales from fourth to third quarter, contributing to the lower-than-expected outperformance. In China, we did see some improvements of production volumes towards the end of the quarter, supporting our sales. As a result of declining light vehicle production, our fourth quarter sales declined organically by almost 16%. This was three percentage points worse than the LVP, according to IHS Markit. The regional mix indicates a negative mix impact of close to three percentage points in the quarter. Markets with high safety content per vehicle declined significantly more than low-safety-content markets. We see the sales underperformance as temporary, and we expect sales to substantially outperform LVP in 2022. Based on the latest LVP numbers from IHS Markit, we underperformed in North America by four percentage points and in China by three percentage points. In China, the main reason for the underperformance was that production of high-end vehicles declined by 10%, while production of low-end vehicles grew by 2%. Regarding North America, our sales during the quarter showed a very different development compared to what IHS Markit reported. This difference can partly be explained by possible pull-forward of our sales from the fourth to the third quarter. We outperformed in Japan, Europe, and rest of Asia with between one and four percentage points. We are confident of a solid outperformance in 2022 in all major regions.

Q4 2021 – Key Model Launches

For the full year 2021, we set a new company record of product launches. We also set a new fourth quarter record. The models shown on this slide have an Autoliv content per vehicle from approximately US$200 to almost US$450. Five of these vehicles are either EVs or plug-in hybrids, further extending our exposure to this growing market. The long-term trend to higher CPV is supported by the introduction of front centre airbags, active seatbelts and knee airbags on both driver and passenger side.

Financial Commentary

Fredrik Westin

CFO, Autoliv

Q4 2021 Financial Overview

This slide highlights our key figures for the fourth quarter of 2021 compared to the fourth quarter of 2020. Our net sales were US$2.1 billion. This was a 16% decrease compared to the same quarter last year. Gross profit declined by 27% to US$368 million, while the gross margin decreased to 17.4%. The gross margin decrease was primarily driven by the lower sales, higher raw material costs and negative FX effects. In the quarter, capacity alignments had a US$3 million negative impact on the operating profit. The adjusted operating income decrease to US$177 million from US$311 million. As a result, the adjusted operating margin declined to 8.3%. the operating cash flow was US$317 million. Earnings per share diluted decreased by US$0.84, where the main drivers were US$1.04 from lower adjusted operating income, partly mitigated by US$0.10 from financial items, US$0.06 from lower tax and US$0.05 from lower capacity alignment. Our adjusted return on capital employed declined to 19.1% and the adjusted return on equity to 17.5%. We declared and paid a dividend of US$0.64 per share in the quarter, US$0.02 more than in the previous quarter.

Q4 2021 Adj. Operating Income Bridge

In the fourth quarter of 2021, our adjusted operating income of US$177 million was 43% lower than in the same quarter last year. The fourth quarter in 2020 was exceptionally strong, with a record adjusted operating income of US$311 million, fuelled by the rapid recovery of light vehicle production, coupled with a very lean cost structure on the back of earlier shutdowns in 2020. Costs for recalls were US$55 million lower than Q4 last year. The impact of raw material price changes was a negative US$60 million in the quarter, year-on-year. Foreign exchange impacted the operating profit negatively by US$15 million, mainly as a result of the fall of the Turkish lira. Support from governments in connection with the pandemic was US$3 million lower in the fourth quarter compared to last year. SG&A and RD&E, net of governmental support, was US$3 million higher. Mainly lower sales, but also high call-off volatility and cost inflation, for instance related to logistics and utilities, impacted our operations negatively in the quarter. Excluding foreign exchange, raw material cost increases and governmental support, the adjusted operating income leverage was approximately 28% of the organic sales decline. The 28% decremental margin is at the high end of our communicated normal range, impacted by unpredictable customer call-offs and the fact that the fourth quarter 2020 was exceptionally strong.

2021 Sales Growth

I am very pleased that all regions showed organic sales outperformance in 2021. This was achieved as we continued to execute on our strong order book. In North America, we outperformed by five percentage points and in Europe by 12 percentage points. In China, we outperformed by seven percentage points despite high-end vehicles being more affected by the semiconductor shortage. The seven-percentage points outperformance in Japan was substantially higher than in previous years.

2021 Financial Overview

2021 was again a turbulent year, with significantly lower light vehicle production than expected in the beginning of the year, mainly due to shortages of semiconductors. Our net sales were US$8.2 billion, with sales increasing organically by 8%, in line with the latest guidance, despite LVP being virtually flat year-over-year. The adjusted operating income was increased by 42% to US$683 million. The adjusted operating margin was 8.3%, compared to our latest guidance of around 8%. The operating cash flow was US$754 million, compared to the guidance of around US$700 million. And earnings per share more than doubled to US$4.96. lastly, dividends of US$1.88 were paid.

Cash Flow

For the full year of 2021, operating cash flow decreased by US$95 million to US$754 million compared to last year as the higher net income was more than offset by changes in working capital. For the fourth quarter of 2021, operating cash flow decreased by US$152 million to US$317 million compared to the same period last year, mainly due to lower net income and less positive effects from deferred income taxes. Compared to prior quarter, working capital improved by US$116 million, benefiting from an US$89 million change in trade working capital. This was mainly a result of a US$145 million reduction of inventories and US$68 million from increases of accounts payables, but partly offset by US$124 million from increased receivables. The decrease in inventories was a consequence of improving LVP volatility and measures taken to normalise inventory levels. For the full year 2021, capital expenditures increased by US$114 million, which mainly reflects that the level in the prior year was still low due to the pandemic. In relation to sales, CapEx net was 5.5% in 2021, versus 4.6% in 2020. For the fourth quarter, capital expenditures increased by 38% to US$153 million. Net capital expenditure in relation to sales was 7.2%, versus 4.4% a year earlier. For the full year 2021, free cash flow was US$300 million, compared to US$509 million a year earlier, driven by the lower operating cash flow and higher capital expenditure. And in the fourth quarter 2021, free cash flow was US$164 million, and also here impacted by lower operating cash flow and higher capital expenditure. The cash conversion for the full year 2021 was 69%.

Debt Leverage Ratio

In the past two years, we have managed a very difficult market environment, with significant declines in light vehicle production, raw material price increases and low demand visibility, as well as severe disruptions of global supply chains, and still we have reduced our net debt by more than US$750 million since mid-2019, and thereby recovered to a balance sheet position that is in line with our target. The leverage ratio at the end of December 2021 was 1.2x, a significant improvement since the peak of 2.9x in 2020. In the quarter, our 12-month trailing adjusted EBITDA decreased by US$140 million, approximately balanced by the net debt decrease of US$148 million.

Headwinds from Raw Materials

Supply/demand imbalances continued to drive prices of raw materials higher during the year. Cost increases for raw materials generated a headwind of US$60 million or three percentage points to our operating margin in the fourth quarter. In 2021, we limited the impacts from raw materials to around 130 basis points or around US$105 million, of which US$100 million came in the second half of the year. For the full year 2022, we expect raw material costs to amount to around three percentage points in operating margin headwind, with around five percentage points year-over-year impact in the first half and around one to two percentage points in the second half-year. Given this exceptional period of high raw material prices, we believe that customer recoveries will offset some of these expected raw material cost increases. It will take time to see the results of these efforts, and we do not expect to see much result until the second half of 2022. For commercial reasons, we will not discuss the anticipated recovery or its nature at this time.

Continued strict cost control

Through a number of actions, we have mitigated some of the negative effects from the lower sales and the cost inflation during 2021. These actions include activities such as adjusting production, shortening work-week hours and furloughing personnel. This includes, for example, footprint and capacity alignment in Europe, as well as moving OpEx functions to best-cost countries in Americas. We have also initiated further footprint adjustments in Japan and in the rest of Asia. In total, we have reduced headcount by over 8,000 since the beginning of the year, of which 1,400 were in the fourth quarter. Other strict measures include management of inventories and payables, negotiating with suppliers and customers to mitigate impacts of raw materials and high call-off volatility. Our supply chain management teams have been working hard to balance inventories to actual demand. During the quarter, production planning accuracy improved from November as customer call-offs are more stable than before.

This concludes 2021, and now switching to 2022.

2022 Outlook

Mikael Bratt

President and CEO, Autoliv

Light Vehicle Production Outlook

For the first three quarters of 2022, global LVP is expected to remain on a similar level as we saw in Q4 at just below 20 million units per quarter. This level should be achievable, assuming no further deterioration of component availability. In North America, the industry continues to struggle to meet consumer demand for new vehicles, due to the shortage of semiconductors. Inventory of new vehicles in the US ended December around one million units, the lowest level seen for at least 35 years. Despite healthy underlying demand trends in Europe, component shortage meant that registrations have not returned to the pre-pandemic level. This has led to record long waiting times for new vehicles. In China, we saw a rebound in December for light vehicle sales, indicating an easing of semiconductor chip shortages. As component availability appears to be improving somewhat, we expect the good demand and low inventories to support a recovery in LVP in 2022. IHS Markit expects that the global LVP will be around 80 million units in 2022, a 9% increase over 2021. However, we still see the component availability as a limiting factor for the recovery. We expect a positive regional mix, as most growth is expected to come in high-content-per-vehicle markets such as western Europe and North America. Where possible, OEMs will likely continue to prioritise production of vehicles with no or low CO2 levels, as well as larger vehicles.

FY 2022 – Key Models

Here you see some of the key models supporting the strong sales growth and outperformance we expect for 2022. These models are expected to account for a quarter of our organic sales growth during the year. Most of these models were launched in 2021; some are yet to be launched, including the Chevrolet Silverado. New steering wheels on several new and existing Mercedes vehicles are also to be launched. Our content per vehicle on these 12 models is in the range of US$140 to US$400. According to IHS Markit, global LVP in 2022 is expected to increase by approximately 9%, with a positive regional mix for Autoliv. The mix is expected to provide two to three percentage points growth over market. We also expect CPV growth of around 2%. We foresee substantial sales outperformance in all major regions in 2022. Japan and China are expected to be the markets for us with the highest outperformance, followed by Europe and North America. Backed by these recent product launches, strong rebound in global LVP and a positive regional light vehicle production mix, we expect sales to increase organically by around 20%.

2022 Adj. Operating Margin Income Bridge

Our strategic initiatives continue to yield good results, and we are confident in our 2022-2024 targets. In 2021, we reduced headcount by 11%, and we will continue a strict cost control in 2022, as previously outlined by Fredrik. This includes executing on capacity alignment, footprint optimisation, strategic initiatives, and customer recoveries, partly offset by cost inflation from wages, logistics and energy. The expected sales increase should bring strong margin improvement support, while rising raw material costs is expected to amount to around three percentage points in operating margin headwind, with a significantly larger year-over-year impact in the first half. We expect customer recoveries to offset some of these expected raw material cost increases, mainly in the second half-year. This would lead to an improved adjusted operating margin for the full year 2022 of around 9.5%, compared to 8.3% in the prior year. Our adjusted operating margin outlook may still be impacted by supply chain disruption in the automotive industry and potential risk of surging COVID cases and its effect on us and the automotive industry.

Full year 2022 Indications

Our full-year 2022 indications exclude costs for capacity alignment, antitrust-related matters, and other discrete items. Our full-year indication is based on an LVP growth assumption of around 9% compared to 2021. We expect sales to increase organically by around 20%. Currency translation effects are assumed to be around 3% negative. We expect an adjusted operating margin of around 9.5%. Operating cash flow is expected to be around US$950 million.

Our 2022 business agenda

The health and safety of our employees is our first priority, while continuing with more activities to further improve efficiency. We will also continue our efforts of flawless execution of new launches, improving customer satisfaction further, and thereby supporting our new and stronger market position. Through our capital efficiency programme, we aim to unlock capital from receivables, inventory, and payables for other uses. Combined with the execution of our strategic plan, this should lead to strong cash flow iteration, which sets Autoliv up for attractive shareholder value creation. By executing on our strategic initiatives, footprint optimisation and negotiating compensations from OEMs, we will mitigate headwinds from raw materials and cost inflation. We also aim to grow mobility safety solutions, supporting our growth targets beyond 2024. To progress towards our climate targets, we will focus on increased resource efficiency and reduction of our carbon footprint.

Q&A

Emmanuel Rosner (Deutsche Bank): Thank you very much. I have two questions. The first one is around the revenue outlook. So, very pleased and positively surprised to see you expect 11% growth over market in 2022, as well as your confirmation that you are on track for the midterm targets. At the same time, just at the recent capital markets day you had tweaked back down your gross over market midterm framework to just four percent per year or so on average. So, based on the cadence of your backlog and the new business that you have won, would you expect the rest of your horizon to be below average on growth over market?

Mikael Bratt: Thank you for your question. I think, at the capital markets day, we did not lower the expectation; we actually increased it. As you remember, in 2019 we talked about this 4% to 5% over the strategic horizon, and now, as we have moved forward, we talked about the LVP outperformance for 2022, 2023 and 2024 to be LVP plus around 4% per year on average. So, when you compare those numbers, it is actually a little bit higher number when you look at our latest update. So what we are saying here is that we are confirming the strong growth that we have as a result of the order book built over the last couple of years, so we have the right trajectory going forward, and that is what you see in our guidance for 2022.

Emmanuel Rosner: Okay. Understood. And then second question, on the raw material headwind for this year, and then obviously partly mitigated by some recoveries. I think, in some of your earlier expectations, I think you had assumed that you would have decent enough clarity on commercial recoveries earlier in the year, and potentially some of these commercial recoveries achieved already in the first or second quarter of 2022. Your latest comments today seem to indicate maybe a little bit more back-end-loaded in terms of clarity on this and achieving that. Can you maybe just – I understand you cannot quantify expectation, but can you maybe just characterise what drives this – why will it take a little bit longer? Have your expectations directionally in terms of magnitude changed in terms of the ability to recover commodities?

Fredrik Westin: No, I do not think there is any change to what we have thought or said previously. We did have already recoveries in 2021, but, as we indicated, they were at lower levels, and then we expect now to have larger recoveries in 2022. And, of course, on the smaller part of our business, where we are already indexed, that reset then happens already earlier during the year, so those recoveries will come in earlier, but the bulk of it will be – based on negotiations, they will have an effect more towards the second half of the year.

Emmanuel Rosner: And, just to be clear, is there some level of recovery on raw materials baked into this 9.5% guidance?

Frerik Westin: Oh yes. The three-percentage points headwind we are guiding for on the raw materials side is the pure headwind we are seeing on the cost side. That is not net of any recovery; that is just a pure cost element. But if you look at the high-level waterfall we are giving to get to the 9.5%, even if you take an average leverage on the incremental volume, you can also infer from that there is a recovery assumption also baked into the 9.5%.

Emmanuel Rosner: Perfect. Thank you.

Hampus Engellau (Handelsbanken): Thank you very much. Two questions from me. First, this one on the order intake, if you maybe could discuss a little bit on the drivers behind getting back to 50% market share, compared to 45% in 2020. And also if there is an element of – how we should think about pricing in regard to stepping up in market share again in orders. That is my first question. Second question is more related to the semi shortage. If I am reading OEMs and looking at digests, it seems like it is reasonable to assume that there will be similar semi shortage in first quarter as we had in fourth quarter, and it will be interesting to hear your comments on that.

Mikael Bratt: Thank you, Hampus. On the order intake, as we said last year, we were pleased with that order intake we had that year as well. And of course, every year is not the same, and, as you know, we do not have a market share target per se, but we need to fight for the business, and we believe that we have a strong order book that we have continued to build, and we are heading towards around 45% market share in the future, as we have indicated, and that is what we intend to defend, but, of course, defend it with healthy business, and that is what we are focusing on. So 50% one year, around 45% another year, and that is really no drama in that development either up or down. So we have no real differences there, I would say. So for us, the market share is not the top priority, it is to have healthy business defending our position in the market. That is our priority.

And then, on the semi shortage side, I definitely believe that we – and, as you see in our indications also, we believe that we will have limitations to the LVP growth due to semiconductors for a major part of 2022 as well. I think it is very difficult to have a very clear opinion when semiconductor challenges will be behind us, because we all know the growing need for semiconductors is not only in automotive, but also in society in large, and it is a catch-up game that needs to be done from the semiconductor manufacturers, and that is not a quick fix. But what we think here is that we have come to some kind of more stable situation overall and, as we have commented here, we saw the volatility in the call-offs coming down towards the end of the quarter and we believe that we will have a more stable situation. However, still growth is being held back due to semiconductor shortage.

Hampus Engellau: Thank you.

Victoria Greer (Morgan Stanley): I wanted to come back to your top line guidance, please. So production, 9% in LVP based on the IHS and then making it up to 20% with 1,100 basis points of outperformance. But I can think of several factors that are probably additional to normal than just the new business in that 1,100 basis points – some positive geographical mix, you mentioned CPV growth of about 200 basis points. I guess some of that is coming from regional mix, some of it is maybe coming from new orders, and maybe there is an element of price increases in that top-line guidance also. Could you talk us through how much of that 1,100-basis points outperformance in 2022 is from these unusual factors, like the geographical mix, and how much of it is straight new starts?

The second question is on share buybacks – really more of a procedural question than anything else. You obviously set the target across 2022-2024 of up to US$1.5 billion. How would you expect to execute on that? Could you give us a specific number for 2022, or should we think about this as more opportunistic? Thanks.

Mikael Bratt: I think you touched most of the components there when it comes to the outperformance. As you correctly said, mix and content per vehicle, on top of the LVP growth, stands for, I would say, two thirds of the development, and then the remaining part is really, then, our growth as a result of the order book built. So I think that is the short of it.

On the share buyback side, I think we have nothing to comment around that here. We have presented our buyback programme leading up to 2024, and we will take those steps towards that. We are still committed to that, but we will not have any pre-announcement on that. We will inform in due course when we take the different steps towards that. But we are still, of course, fully committed, and we will have more to say when we have something to talk about.

Victoria Greer: Great. Thank you.

Mattias Holmberg (DNB): Thank you. Sorry to get back to the four-percentage point outperformance guidance for 2022-2024, but I did not really understand the answer, so I would just like to get it clarified. Should we expect that you grow at least 4 percentage points faster also in 2023 and 2024, despite the much stronger outperformance now in 2022?

Mikael Bratt: We have indicated that for the coming three years, 2022, 2023 and 2024, we should have LVP outperformance of around 4% per year. Then of course, as it comes out here, it will not be a linear development, and we have only guided you now for 2022, and when it comes to 2023 and 2024 we will come back.

Anders Trapp: I can also add a little bit. As you might have seen that we did not perform as well as we have expected, or outperformed as well as expected, in the fourth quarter, largely due to negative mix almost taking out three percentage points. We think that some of that negative mix we will recover in 2022, which was not part of the original 4% per year growth over market or over LVP as an average for 2022, 2023 and 2024. So therefore it might be somewhat higher, actually, then, combined, compared to what we said before, due to this mix effect that we now see positive in 2022.

Mattias Holmberg: Great. That is clear. Second one for me: you mentioned a 50% market share on order intake. Can you say what market share you had on sales, please?

Mikael Bratt: We are not ready with that calculation yet. So it is more data required in order to conclude on that calculation, so we have no update when it comes to the, let us call it, the running portfolio market share.

Fredrik Westin: Yeah, we are still waiting for competitors to report and so on, and some more market intelligence, to conclude on those calculations.

Mattias Holmberg: Understood. Thank you.

Rod Lache (Wolfe Research): On the commodities, your slide 14 charts on commodities looks like it ends in Q3. Steel looks like it has been coming down a lot since that time frame; hot rolled coils are now US$1,100 or US$1,200 a short ton. I am wondering if that is reflected in your guidance, and maybe you can just educate us a little bit on how that flows through, what kind of lag you typically experience and, if it stayed at spot levels, how does that factor into your 12% margin target?

Fredrik Westin: I think it is a formatting thing along the axis, I believe it is Q4 that is also included in those developments. But you are right, also here during the first part of Q1 we have seen those trends on certain commodities continuing in a positive direction for us. And the main impact that we see for next year is continued headwinds on steel, and that is based on how our contracts are structured and the timing of how we roll those over, but then we also see an increased impact from non-ferrous metals, mainly aluminium and magnesium, but also yarn. Especially polyester and polyamide or nylon will have a significantly larger impact in 2022 than it had in 2021. So those are the main components of the raw material headwinds that we are seeing. The guidance is based on our contract structures, so the timing on when we have to roll these contracts over, and then also on the price trends that we are seeing in the market, so they are not necessarily based on current spot price levels, as we have indicated before. There are always time lags. How they roll into our contractual setup and then also the duration of our contracts also plays a role, but it is our best estimate at this point of time how the current raw material price situation and trends will be reflected in our cost base. And at the moment we are working hard, both on the operational efficiency, also value add or value engineering activities with our supply base and our customers, but also obviously on the commercial recoveries to ensure that we can still hit the 12% margin target that we have set out.

Rod Lache: Okay. And can you give us an update on just the status of the automation and digitisation projects? I think you had $160 million of savings from that. It was maybe US$80 million of footprint changes. R&D over the next year or two was going to come down by about 100 basis points. Any update on what we should be looking for in 2022?

Fredrik Westin: Again, in the bridge or the waterfall chart that we are giving here for 2022, you can already infer from that that there are further improvements also included there from those activities, so we see that continuing. Automation and more operational activities with shorter payback periods, and then the footprint activities tend to have longer payback periods – not such a significant component or impact on the second part here in 2022. But those are the main components why we are able then to mitigate the effects from raw material headwinds that are quite significant, at three percentage points, and still be able to give a 9.5% margin target here for this year.

Rod Lache: Okay, great. Thank you.

Colin Langan (Wells Fargo): Just a follow-up on the raw material question. Can you remind us of the split of your exposure by steel, non-ferrous and nylon? And I would anticipate maybe a six-month lag between maybe the spot and your contracts, so does that mean, in the outlook, that steel is maybe flatter in the second half of the year and the bulk of the impact is hitting? Just seems – just any colour there in terms of how that operates.

Fredrik Westin: Yes. On the commodity breakdown, steel is roughly 45% percent of our commodity exposure. That is followed by yarn or textiles – that is on 20% – followed by resins or plastic input at around 15%, and then non-ferrous metals is between 10% and 15%, and then the others make up 5% to 10%. That is the composition we have. And then, as you said, we were expecting the majority of the headwinds on steel to be in the first half of the year. We had very limited impact in the first half of 2021 due to our ability to postpone the impact and also our contractual setups, but now, as those contracts expire, we have to roll them over. We will see a significant headwind in the first half and then, as you say, a much lower impact in the second half on steel.

Colin Langan: Okay, so the second half is mostly the nylon and the non-ferrous type of stuff hitting?

Fredrik Westin: The impact was – of the US$105 million that we had this year, basically three quarters almost of that was from steel. And of the 300 basis points we have for 2022, it is much more evenly spread between steel, non-ferrous and textiles. Correct.

Colin Langan: That is very helpful. And then, just to follow up on the growth over market, one of the things I struggle with is understanding product mix, because in 2021 it seems like all the luxury full-size pickups and stuff like that were in favour to sort of help mix overall. How are you thinking about that in your guidance? Obviously, geographic mix makes total sense, with North America and Europe outperforming. Have you factored in negative product mix, or do you think it is going to be steady this year? Just your thoughts there would be helpful. Thank you.

Mikael Bratt: Of course, that is a part of our estimation here. I would say, right now, you have a growth in content per vehicle across the board. Also the low-end vehicle, if we call them that, as well as the premium, have gradually increased. And I think actually the gap between the lower and the premium remains, to a large extent, as they both are growing. So that is, I would say, a minor factor if you look at the total development of the industry. Then, of course, in a single quarter, a single month, you can have those swings, depending on which model it is, but as a general principle, I would say, the mix effect is mainly then the regional side of things.

Colin Langan: Okay. Thanks for taking the questions.

Joseph Spak (RBC Capital Markets): Thanks very much. Sorry, but one more on commodities. I just want to clarify something, because I think there was maybe an assumption that fourth quarter would have been the peak for raw materials, and now clearly it seems it is more first half, but I am wondering, when you talk about these numbers, either absolute, like the US$105 million in 2021 or the 300 basis points in this fourth quarter versus the 500 basis points in the first half, is there a net versus gross? Because I think, in answer to Emmanuel's question earlier, you mentioned the 300-basis point impact for 2022 is a gross number, but when you talk about it in the actual results, is that also gross, or is that netted?

Fredrik Westin: No, it is the same basis.

Joseph Spak: It is the same. Okay.

Fredrik Westin: It is not the full risk or exposure we would have on commodities. That would be even higher. If we were transacting on spot markets and so on, the raw material impact would be higher, so there are already a lot of mitigating actions in the 300 basis points for this year or 130 basis points for last year – delaying price increases, switching suppliers and so on. So there are already a lot of mitigating activities in the 300 basis points. But it is, as I said, a gross number – how we expect to hit our P&L in terms of cost increases year-over-year from raw materials. But then the recovery part from our customers is not included. And, as I said, we already had recoveries in 2021, but for commercial reasons we prefer not to disclose those because the negotiations are ongoing.

Joseph Spak: Okay. That makes sense. And then, just on the comment that you may have seen some pull-forward from the third quarter to the fourth quarter, can you just expand upon that a little bit? Because I guess – is what you are trying to imply that there may have been some vehicles you ship to that maybe were not completely assembled because there were missing components, and so they got assembled in a quarter later, which may have sort of created a mismatch and outgrowth when you sort of compare it to production? Maybe you can talk a little bit more about your views there.

Mikael Bratt: Yes, it is exactly right. I think, as I indicated, we have had a very volatile 2021, especially Q3, where we had short-term changes to the production schedules, and we believe that some of the material that was actually called off at the end of the day were going into vehicles that were produced later in Q4. So the whole volatility situation has made it a little bit more difficult to read here. And as we have seen the production numbers for Q4 are a little bit higher – on the LVP side, a little bit higher than what activity we could see from our side. So we believe that there is effect of that – that some of the volumes in Q3 belonged really to Q4 in terms of LVP.

Joseph Spak: Right. Maybe just a quick follow-up. How do you see recent schedule volatility, and is your expectation that that will improve – that the stability will improve as you move through the year?

Mikael Bratt: We believe so, and, as we said, towards the end the quarter we saw stabilisation. And when we look into 2022 we are not seeing anything that should indicate that we have increased volatility. But there is a lot of things going on in the world around us with raw material prices, energy situations, et cetera, et cetera. So we of course keep a very close eye on the development, but no indications as of today that volatility should return.

Joseph Spak: Thank you.

Chris McNally (Evercore): Thanks so much, team. Two questions around the general pace of the production recovery. The first, around the orders. You have talked about the 50% share, but if you actually look at the absolute, I was kind of surprised to see that the absolute level of orders this year was back to 2019. It seems quicker than expected. Also, we are not expected to get back to the production levels for another year. So just if you can comment on the general pace of industry orders. The numbers are the same – 50% – so I know you are pleased with the 50%, but how about just the RFQs that are out there?

Mikael Bratt: Yes. If I understand you question right, the order value on the RFQs that we are winning of course are based on our customers' expectation on these different programmes here. So I do not think you can compare it to 2019 in terms of production schedules or anything like that. So this is for the future, and some of these programmes may go into production in 2024 and even, in some cases, beyond, but I would say more 2024, 2025, 2026-time horizon, so there is of course different basis for that.

Chris McNally: I guess my only point was – we hear a lot about lack of confidence in the future, and this would sort of say that we are getting back to some level of pre-COVID normalisation for the expectations of your customers.

Mikael Bratt: Yes. I think the underlying demand is there – at least, I do not see any doubt about the strength in that. I think we have a very strong underlying demand, driven by the fact that there is a much older fleet out there and there is replacement need. We have had several years with relatively low production, and it has not been low because of demand. It has been low because of, first, COVID, and then semiconductor shortage and other challenges on the material side. And it is still hampered by the fact that the availability is not there. So underlying demand is very strong. We have pipelines, for example, in US that are at record low levels, as we indicated– one million vehicles. It is two or three million just to refill that pipeline to what is normal. So, very strong there. And then on top of that also you have the shift to electrical vehicles. There is strong interest from consumers to go into new vehicles with new technology, so, when the chip shortages and material shortages are behind us, we believe in a very strong recovery.

Fredrik Westin: And maybe one further comment. We expect the lifetime sales that we were quoting on to be even higher for 2021 at the beginning of the year. So we have seen some projects being pushed out into 2022, and we do expect at the moment that 2022 will be also a step up from 2021 in terms of business that will be out for sourcing from our customers.

Chris McNally: I appreciate the detail. And then maybe a just a little bit more near-term question about recovery sequentially. I think on slide 16 you talked about your next couple of quarters being relatively flat light vehicle production. I know that is what IHS has, but what is interesting is we are hearing from some of the customers, like Toyota, I think, is talking about April being 35% percent higher than February. Is there a potential that, while Q1 seems pretty flat, that by Q2 as we get out some of the COVID-related shutdowns, that Q2 could be actually up sequentially? I know some of the other forecasters are up 4% to 5% Q1 to Q2.

Mikael Bratt: No, I think – you are referring to one customer here. It could very well be so, for various reasons. But, as an industry, it is to the best of our knowledge what we have described here today. And once again, I think the pure limiting factor is the availability of material. So if that is correct, you can see quicker step-ups, but that is the best data that we have as of today. And of course, as you know, the visibility we have is not that far out in terms of call-offs.

Chris McNally: Perfect. Thanks so much.

Fredrik Westin: And again, I think the underlying assumption for the full year is that Q1, Q2 and Q3 will be relatively flat versus Q4, so that the industry should be able to hold up at the Q4 volumes, and then a slight increase sequentially into the fourth quarter this year.

Anders Trapp: I think we have time for one more question.

Sascha Gommel (Jefferies): Two quick ones, actually. The first one is on working capital. You mentioned that you see further improvement potential, so I was wondering if you can give us a bit of scope and measures for the main working capital items that you see. And then secondly, on the share buyback, again, more a procedural question. Is it a management or a board decision, like the dividend?

Mikael Bratt: On the dividend, it is a board decision. As you know, we have quarterly dividend, and that is decided by the board quarter by quarter.

Sascha Gommel: And buybacks as well, or is buybacks a management decision?

Mikael Bratt: Buybacks, we have a mandate from the board, and that is the mandate we have presented up to that level. So then it is an operational question after that.

Sascha Gommel: Appreciate it. Thank you.

Fredrik Westin: Yes. And then, on working capital, I think you can see that – and we did talk about, on the capital markets day, how we are focusing especially on accounts payables. And I think, if you look at the multi-year trend, you can see a significant improvement also into 2022, and we are expecting that we will see further improvements from that year over the next few years. And then, on inventory, I think we proved also here that in very, very challenging times, we were able to reduce inventory sequentially by almost US$150 million, which also shows that we have a lot of focus and traction also on those initiatives. And also here we expect to see more going forward, and I think we have a good setup for these improvements. So I think we are well on track to get to the US$800 million that we have talked about with 2019 as a basis point.

Sascha Gommel: That is great. Thank you.

Mikael Bratt: Okay. Thank you very much. Before we end today's call, I would like to say that we are operating from a position of strength in many aspects, including market position, growth, and dedicated employees. Unfortunately, there will be millions of vehicle collisions in 2022. Autoliv continue to focus on our vision of saving more lives, which is our key contribution to sustainable society.

Our first quarter earnings call is scheduled for Friday 22nd April 2022. Thank you, everyone, for participating on today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]