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Research Update:

Swedish Auto Supplier Autoliv Outlook Revised To Positive; 'BBB+/A-2' Ratings Affirmed

Primary Credit Analyst:
Barbara Castellano, Milan (39) 02-72111-253; barbara.castellano@standardandpoors.com

Secondary Contact:
Michael Andersson, Stockholm +46 8 440 59 30; michael.andersson@standardandpoors.com

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Overview

- Sweden-based auto supplier Autoliv's credit ratios have been extremely solid over the past three years.
- In May 2013, the group revised its net debt-to-EBITDA target down to about 1.0x (within a range of 0.5x to 1.5x), from significantly below 3.0x.
- We are revising our outlook on Autoliv to positive from stable and affirming our 'BBB+/A-2' ratings on the group.
- The positive outlook reflects our view that Autoliv's credit measures could remain strong despite weaker auto demand in Western Europe, shareholder remunerations, and possible acquisitions and antitrust fines.

Rating Action

On May 30, 2013, Standard & Poor's Ratings Services revised its outlook on Sweden-based automotive supplier Autoliv Inc. to positive from stable. At the same time, we affirmed our 'BBB+/A-2' long- and short-term corporate credit ratings and our 'K-1' Nordic regional scale short-term rating on the group.

Rationale

The outlook revision reflects that we could raise the rating over the coming two years if the group's operating margin did not deviate from management's target of 8%-9% EBIT and its credit ratios remained in line with a "modest" financial risk profile, despite future acquisitions, share buybacks, and antitrust fines.

The ratings on Autoliv reflect its "satisfactory" business risk profile and "modest" financial risk profile, according to our criteria.

Over the past three years, Autoliv reported extremely solid credit ratios. At year-end 2012, the ratio of FFO to debt, as adjusted by Standard & Poor's, was 328% and discretionary cash flow (DCF) to adjusted debt was 49%, well above what we consider indicative of an "intermediate" financial risk profile. Since the 2008-2009 crisis, the company has adopted a more conservative approach with respect to shareholder remuneration and has not concluded any large acquisition. In May 2013, the company announced that its leverage target was revised to about 1x (within a range of 0.5x to 1.5x), from significantly below 3x. We take this as a sign that any future shareholder distribution or acquisition plans will be sized to meet the management's new targets. We have

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therefore revised our financial risk profile to "modest" from "intermediate," according to our criteria.

We assume Autoliv will gradually use some of the headroom currently available under its new leverage ratio guidance over the next few quarters. We expect FFO to debt to fall in the coming years from 328% in 2012. However, we see a possibility that over time credit ratios could be commensurate with an 'A-' rating, including adjusted FFO to debt of about 50% and debt to EBITDA of about 1.5x.

When deciding the amount and timing of shareholder remunerations and acquisitions, we believe management will aim to maintain financial flexibility in order to face potential fines from the antitrust authorities following investigations in Europe and a few other countries.

Under our base-case scenario, we believe that Autoliv has about $1.5 billion of headroom in the current financial profile that could be used in the next two years for acquisitions, share buybacks, and potential fines. We will look at how Autoliv uses its headroom over the next few quarters in light of event risk surrounding the pending antitrust fines.

Liquidity

We assess Autoliv's liquidity as "strong," based on our criteria. We estimate the coverage ratio of sources to uses at about 2.5x in 2013.

Principal liquidity sources as of March 31, 2012, include:

- $990 million of cash and cash equivalents, of which we consider $200 million to be tied to operations.
- Access to $1.1 billion of committed revolving lines that were fully undrawn. The majority of these lines mature in 2018.

Principal liquidity uses include:

- €72 million of short-term debt financial maturities.
- At least $150 million of DCF at year-end 2013, after the dividend payment.
- A dividend payment of about $200 million.
- $500 million for acquisitions, share buybacks, or payments for antitrust fines in 2013.

Outlook

The positive outlook reflects our opinion that Autoliv may be able to maintain credit ratios commensurate with an 'A-' rating, such as adjusted FFO to debt of about 50% and adjusted debt to EBITDA of about 1.5x.

In our base-case scenario for 2013 and 2014, we expect Autoliv's adjusted FFO to debt to be at a high double-digit percentage at year-end 2014, assuming 2% annual revenue growth, a reported EBIT margin of 8%-9%, and $500 million in annual spending for acquisitions, share buybacks, or antitrust fines.

An upgrade would depend on the company's adherence to its new leverage target and its ability to maintain flexibility to pay potential fines from the antitrust authorities.

We could revise the outlook to stable if Autoliv's operating performance weakened markedly, for instance owing to sluggish auto demand in Europe. We could also revise the outlook to stable if severe antitrust fines or too-aggressive shareholder remuneration or acquisitions resulted in adjusted FFO to debt falling below 45% and Autoliv generating negative DCF.

Related Criteria And Research

- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Business And Financial Risks In The Auto Component Suppliers Industry, Jan. 28, 2009
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Autoliv Inc.		
Autoliv ASP Inc.		
Corporate Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2

Ratings Affirmed

Autoliv Inc.	
Corporate Credit Rating	
Nordic Regional Scale	--/--/K-1
Autoliv Inc.	
Senior Unsecured	BBB+
Junior Subordinated	BBB+
Autoliv AB	
Senior Unsecured*	BBB+
Commercial Paper*	K-1
Commercial Paper*	A-2
Autoliv ASP Inc.	
Senior Unsecured*	BBB+
Commercial Paper	A-2

*Guaranteed by Autoliv Inc.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

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