Autoliv

1st Quarter 2023 Financial Results

Friday, 21st April 2023

Introduction

Anders Trapp

VP Investor Relations, Autoliv Inc.

Welcome

Welcome everyone to our first quarter 2023 earnings call. On this call, we have our President and CEO, Mikael Bratt; and our Chief Financial Officer, Fredrik Westin; and me, VP Investor Relations.

During today's earnings call Mikael and Fredrik will, among other things, provide an overview of the strong sales development in the first quarter; discuss operating leverage and outline the expected sequential margin improvements for 2023; as well as provide an update on our general business and market conditions.

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

Safe Harbour Statement

Turning to the next slide, we have the Safe Harbour statement, which is an integrated part of this presentation and, of course, 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 available on autoliv.com and in the 10-Q that has been 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.

I will now hand over to our CEO, Mikael Bratt.

Q1 2023 Key Highlights

Mikael Bratt

Chief Executive Officer, Autoliv Inc.

Strong sales growth and outperformance

Thank you, Anders. Looking on the next slide. I would like to start by thanking our employees for a good execution, supporting our strong growth in a challenging environment. The sales performance and strong profit recovery was in line with our earlier communicated expectations. Thanks to a strong ending of the quarter, our organic sales grew by more than 20%, outperforming light vehicle production significantly. The strong growth was a result of product launches, higher prices, and higher safety content per vehicle, and also supported by a positive regional mix.

Our profit development was as expected, considering that market conditions continued to be challenging, especially in Europe, with significant inflationary pressure and continued customer call-off volatility. Mainly due to strong sales growth, adverse working capital development led to negative cash flow in the quarter. We expect a more positive cash flow trend for the rest of the year. Our leverage ratio increased to 1.6 times, to 1.4 times three months ago. In the quarter, we paid $0.66 per share in dividends and repurchased and retired 450,000 shares.

We issued our first green bond that allows us to reach new investors and, at the same time, help fund advancement of our climate targets. We have a strong commitment to climate actions, and this is a milestone in supporting our customers in achieving their sustainability ambitions.

We are expanding to Vietnam, investing in increased production capacity of airbag cushions in Asia for Asia. We saw updates to crash test standards and safety regulations in the US and in India, which will support continued increase in safety content per vehicle already this year as well as coming years. We also continue to look for ways to improve our footprint and reduce our costs structurally. The first quarter development was as expected and we continue to expect a gradual improving adjusted operating margin during the year. This should allow us to reach the full year indications we set at the beginning of the year.

Adjusted operating margin progression

Now looking at the expected adjusted operating margin progression for 2023 on the next slide. For 2023, we expect a gradual improvement of the adjusted operating margin quarter-by-quarter, similar to the trajectory in 2022. We expect continued high sales growth supported by launches, higher light vehicle production and content per vehicle increase. We anticipate price adjustments will gradually, throughout the year, offset cost inflation that affected us in the first quarter.

The positive trajectory will be further supported by improvements from cost reductions, footprint optimisation, as well as expected gradual improvement of the supply chain and light vehicle production stability. FX are limited in the first half of the year and significantly larger in the second half of the year. This undertaking makes me confident in a gradual improving performance, which should allow us to deliver a significant full year increase in cash flow and adjusted operating income.

Q1 2023 sales growth and regional sales split

Looking now on our sales growth in more detail on the next slide. Our consolidated net sales increased to $2.5 billion, a record for the first quarter. This was close to $317 million, or 17%, higher than a year earlier, despite $77 million, or 4 percentage points currency headwind. Price volume mix contributed with $444 million.

Looking on the regional sales split, Asia accounted for 38%, Americas was 33% and Europe was 29%. The China share decreased from 21% a year ago, to 18% now, as light vehicle production grew in all regions in the quarter, except in China, where it declined significantly. We outline our organic sales growth compared to light vehicle production on the next slide.

Q1 2023 organic sale growth - outperforming global LVP by 15pp

I am very pleased that our organic sales growth significantly outperformed global light vehicle production growth in the first quarter. This was achieved as we continued to execute on our strong order book. According to S&P Global, light vehicle production increased by around 6% year-over-year in the quarter. This was slightly higher than expectations in the beginning of the quarter. Based on the latest light vehicle production numbers, we outperformed global light vehicle production by around 15 percentage points in the quarter.

In the quarter, we outperformed in Japan by 17 percentage points, in China by 16 percentage points and in Europe by 14 percentage points. Compared to the fourth quarter last year, light vehicle production in the first quarter fell by around 4%. Despite this, our sales increased by 7% sequentially, supported by new launches, market share gains and content-per-vehicle growth. We expect this positive sales trend to continue, and we expect to outperform light vehicle production by around 12 percentage points for the full year 2023.

Q1 2023 financial overview

Looking now on financials in more detail on the next slide.

The strong sales increase led to a substantial improvement in adjusted operating income, excluding effects of capacity alignment and anti-trust-related matters, which increased from $68 million to $131 million. The adjusted operating margin was 5.3% in the quarter, an increase of 2.1 percentage points from the same period last year.

Operating cash flow was negative $46 million, which was $116 million lower than the same period last year, mainly from adverse working capital as an effect of significantly higher sales level towards the end of the quarter. Fredrik will provide further comments on cash flow later in the presentation.

Q1 2023 Key model launches

On the next slide, we see some key model launches from the first quarter. In the quarter, we had a high number of product launches, especially in China and Europe. The models shown on this slide have an Autoliv content per vehicle from approximately $140 to close to $550. These models reflect the changes seen in the automotive industry in the recent years, with several relative new OEMs represented, and that six out of nine [inaudible] as pure EV.

In terms of Autoliv sales potential, the Subaru launches are the most significant. The long-term trend to higher content per vehicle is supported by front centre airbags, more advanced seatbelts and pedestrian protection airbags.

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

Financial Update

Fredrik Westin

Chief Financial Officer, Autoliv Inc.

Q1 2023 Financial Overview

Thank you, Mikael. This slide highlights the key figures for the first quarter of 2023 compared to the first quarter of 2022. Our net sales were $2.5 billion. This was 17% higher than the first quarter of 2022. The gross profit increased by 32% to $379 million, while the gross margin increased to 15.2%. The gross profit increase was primarily driven by price increases, volume growth and lower costs for premium freight.

In the quarter, we made $4 million in provisions for capacity alignment activities and anti-trust-related matters. The adjusted operating income increased from $68 million to $131 million. The adjusted operating margin increased from 3.2% to 5.3%. We do recognise that the operating leverage on the strong sales growth was limited in the quarter, and I will explain more when we go through the operating income bridge.

The operating cash flow was negative $46 million. Earnings per share diluted decreased by $0.08, where the main driver was $0.52 from capacity alignments and $0.05 from taxes, partly offset by $0.51 from higher adjusted operating income.

Our adjusted return on capital employed and return on equity increased to 13% and 12% respectively. We paid a dividend of $0.66 per share in the quarter, and repurchased and retired around 450,000 shares for $42 million under our stock repurchase program.

Q1 2023 adjusted operating income bridge

Looking now on the adjusted operating income bridge on the next slide. In the first quarter of 2023, our adjusted operating income of $131 million was $63 million higher than the same quarter last year. The impact of raw material price changes was negative $12 million in the quarter. Foreign exchange impacted the operating profit negatively by $25 million. This was mainly a result of FX transaction effects from the Mexican peso.

Costs for SG&A and RD&E, net combined, was $26 million higher mainly due to higher personnel costs and projects. Operations were positively impacted by improved pricing, higher volumes, lower costs for premium freight as well as our strategic initiatives, partly offset by the significant headwinds from general cost inflation. The impact of the strong sales growth was relatively low in the quarter as new product launches have a lower operating leverage initially. As a result, the leverage on the higher sales, excluding currency effects, was at the low-end of our typical 20-30% operational leverage range. The actions we are now taking, that Mikael talked about previously, should lead to significantly higher operating leverage, profitability and cash flow as the year progresses, very much like last year.

Cash flow

Looking now on the cash flow on the next slide. For the first quarter of 2023, operating cash flow decreased by $116 million to a negative $46 million, due to higher working capital and lower net income. During the quarter, trade working capital increased by $226 million, essentially from higher receivables. The higher receivables were a result of high sales towards the end of the quarter. The inefficiencies in inventories did not materially improve as light vehicle production continued to be volatile.

For the first quarter, capital expenditures net increased to $143 million from $17 million in the previous year's quarter. The first quarter last year was positively affected by the sales of a property in Japan for $95 million. Excluding the property sale, CAPEX in relation to sales this quarter increased to 5.7% from 5.3% a year ago. The current high level of investment is related to the ongoing footprint activities and capacity expansion for growth, especially in China.

For the first quarter of 2023, free cash flow was negative $189 million, $242 million lower than a year earlier. Although our cash flow was temporarily weaker in the first quarter, we expect a gradual positive cash flow development for the rest of the year from higher net income and a more stable sales level. Our full year indication is for an operating cash flow of $900 million and that is unchanged.

Debt leverage ratio

Now looking on our leverage ratio development on the next slide. The leverage ratio at the end of March 2023 was 1.6 times. This was 0.2 higher than in the previous quarter as the net debt increased proportionally more than the 12 months trailing adjusted EBITDA increased. We do remain committed to our 2022-2024 share repurchase programme and, as you know, we are considering several factors when executing the programme.

As we have mentioned many times, we are not only considering the debt leverage ratio when deciding on the pace of the repurchases, we're also considering our balance sheet, cash flow outlook, the debt rating, and the general business outlook. We always strive for the balance that is best for our shareholders, both long and short-term.

Autoliv’s First Green Bond

Now looking at the next slide, sustainability is integrated into everything we do. By reducing the number of road fatalities and making transportation systems safer for everyone, our core business directly contributes to the United Nations Sustainable Development Goals, STGs.

During the first quarter, we successfully issued our first €500 million green bond using Autoliv's sustainable financing framework aligned with the ICMA green bond principles. The issuance drew significant interest from debt investors, leading to a successful pricing of the bond, resulting in a coupon of 4.25%. The proceeds of our first green bond will be used exclusively for financing green projects including clean transportation, renewed energy, energy efficiency and de-carbonisation of operations and products. With the projects financed by the green bond, we believe we can further contribute to sustainable society.

Refinancing - Strong Liquidity Position

Now looking at the liquidity position onto the next slide. At the end of the quarter, we had a strong liquidity position with approximately $1.8 billion in cash and unutilised committed credit facility. With a sustainable financing framework, we have diversified our long-term funding sources. We also have a maturity profile that is well spread out over the coming years. Note that none of our credit facilities are subject to financial covenants. With a leverage ratio of 1.6 times, our BBB S&P rating with stable outlook, a balanced maturity profile and the strong liquidity position, we are well positioned to operate in any environment.

I’ll now hand it back to you, Mikael.

2023 Market Environment and Financial Outlook

Mikael Bratt

Chief Executive Officer, Autoliv Inc.

Light vehicle production outlook

Thank you, Fredrik. Let’s look at the market environment and financial outlook for 2023 on the next few slides. Due to supply constraints of semiconductors, a large part of the auto industry has been operating at or near recessionary levels. As the supply of semiconductors has improved somewhat, S&P Global has upgraded their near-term light vehicle production forecast.

For second quarter, global light vehicle production is now expected by S&P Global to improve by 13% compared to last year. Compared to the first quarter, volumes are expected to be about unchanged. Despite concerns surrounding elevated vehicle pricing in some markets and deteriorating credit conditions, global production is expected to increase by 3% to close to $83 million in 2023, according to S&P Global.

The Chinese market remains volatile short term, due to the discontinuation of last year's lower purchase tax and the introduction of new emission rules, leading to destocking of inventories at the dealerships. Light vehicle production in North America is projected by S&P to increase by more than 5% in 2023. However, due to recessionary figures and increasing inventory levels, the forecast for second half of 2023 has been revised lower.

S&P outlook for European light vehicle production has increased by 300,000 units. However, we remain cautious regarding European vehicle demand for 2023.

Full Year 2023 Indications

Looking at the 2023 financial indication on next slide.

Our full year 2023 indications are unchanged and exclude costs and gains from capacity alignment, anti-trust-related matters, and other discrete items. Our full year indication is based on light vehicle production growth assumption of around 3%. We expect sales to increase organically by around 15%. Currency translation effects are assumed to be around negative 1%. We expect an adjusted operating margin of around 8.5% to 9%. Operating cash flow is expected to be around $900 million. Our positive cash flow trend should allow for increasing shareholder returns.

Welcome to Autoliv Investor Day 2023

Turning to the next slide. I am looking forward to seeing you at our Investor Day, which will be held on Monday, 12th June at our technology centre in Auburn Hills, Michigan, US. The focus of the event will be on medium- and long-term growth opportunities, world-leading products, our strategic road map as well as our innovation wins in optimisation and operational efficiency and what progress we are making. The format is a half day with presentations by members of our executive management team and exhibitions of Autoliv's latest innovation and technologies showcased by subject matter experts. I am looking forward to seeing many of you there.

Turning to the next slide. This concludes our formal comments for today's earnings call, and we would like to open the line for questions.

Q&A

Colin Langan (Wells Fargo): Great. Thanks for taking my questions. Just in terms of the labour cost recoveries, any framing of any impact in Q1? And then I think in the past, you have given an update of what percent of contracts you have been able to renegotiate. Any sort of colour there on how that's trending in Q1 and so far in Q2.

Mikael Bratt: When it comes to the price negotiations, I would say it is too early at this point to start to give you an indication on this. So, I would say that in relation to the full year expectations here on the price adjustments, we are in the early stage here. I would say it is a limited impact, but it is an impact in line with our expectation for this point in time. So, what I would like to say here is that we are making the progress we need to do to support our confidence when it comes to for the full year. But it is not meaningful to give a percentage point at this point in time regarding contracts connected to labour.

Colin Langan: Got it. And during the quarter, steel prices have jumped quite a bit. Can you just remind us, what your risk would be? Because I know you have changed the way your contracts are structured. So are there triggers that renegotiate this [inaudible], or any risk there to the outlook from that jump in steel prices?

Fredrik Westin: No, you are right. We have also seen that the steel prices have now turned upwards again in certain areas. So that means that whereas a quarter ago, we were expecting actually to have a positive effect from steel prices on us, for the full year, we now expect that to be more or less flat with the outlooks that we have here. We have indicated that we have now a better balance of how we are set up versus our suppliers and then our customers, so we should be able to manage this and not have any significant impact on profitability from this development.

Colin Langan: Okay. Any colour on the percent of contracts that have clauses that trigger renegotiation? I thought in the past, you said something like 90% but maybe I am misinterpreting that.

Fredrik Westin: No, we said that we had closed more than 90% of the negotiations related to raw materials. And roughly half of our business, on the customer side, now has an indexation type of setup that would adjust for raw material fluctuations. And steel has a larger part than other commodities.

Colin Langan: Great. All right. Thanks for taking my questions.

Mikael Bratt: Thank you.

Emmanuel Rosner (Deutsche Bank): Thank you very much. Just a fairly specific question here on a piece of your operating income bridge on slide number 10. It seems like currency was a fairly large headwind. It seems like a meaningful portion as a percentage of last year operating income, but obviously, a much smaller impact on the revenue side, which is only a few percent. So, can you just go over what is happening there on the FX side? Because it seems like, excluding that, I think your margins would have been somewhat meaningfully better.

Fredrik Westin: Yes. So, we are showing here year-over-year effect of negative $25 million. Close to $20 million of that is from transactional currency effects. And the translational and the revaluation parts are smaller, also both negative by about $2 million each. And so, the negative impact is from the appreciation of the peso against the US dollars. That is roughly two-thirds of the negative transactional effects. But we also have negative effects on a year-over-year basis still from the US dollar/Japanese yen and also US dollar/Korean won. They have improved sequentially, but still on a year-over-year view here, they also have a negative impact for us.

Emmanuel Rosner: Okay. And in your outlook, is that a meaningful contributor in the full year?

Fredrik Westin: No, [inaudible], we do indicate here that on the revenue side, we still see the negative 1% and then how all the currency pairs that of play out over the year [inaudible]. We, of course, do expect if the currency rates stay where they are, that in the second half of the year, we should have a pretty favourable effect from the Asian currencies against the dollar. But then we have to see also then how the peso develops here, and others.

Emmanuel Rosner: Okay. And then I was hoping to get a little bit more colour from you on the characterisation of operating conditions in Europe. I think you have qualified them as still challenging. Obviously, latest IHS suggests that at least in absolute volume terms, things have played out meaningfully better than maybe expected just sort of like a few months or so ago at the start of the quarter. So maybe quite a bit more volume than expected. I understand the inflation piece. I am just curious about what you're seeing in terms of the choppiness of schedules and the sequential improvement in volume?

Mikael Bratt: Yes, as we said here, S&P Global expect 300,000 vehicles more increase here. We are maybe on the more cautious side there. And the reason for that is we continue to see some volatility here. It has improved, but it is far from over and behind us here, so that is still a factor. And of course, that, in combination with the inflationary environment and challenges also on the labour side here, it is [inaudible] to operate here, but we are moving in the right direction. But I would say the overall environment has some way to go before we are out on the other side.

Emmanuel Rosner: Okay, thank you.

Rod Lache (Wolfe Research): Hello everybody. Firstly, the quarter itself benefited from stronger-than-expected production and obviously stronger-than-expected revenue. Can you talk about whether that production part itself actually converted at its historical rate? I am not talking about the new business side. And if it did, what were the negative variances versus what you expected at the start of the year? Is it largely currency, or are there any other developments that you would count as negatives?

Fredrik Westin: No, as we indicate, it is not at the level that we would want it to be, the leverage ratio. And predominantly, it is still the call-off volatility and the impact that that has on our ability to operate efficiently in our plants, where we have issues to pull through at the historical leverage rates that we would expect. But then on top of that, as you already mentioned, there is a significant contribution here from new launches, market share gains. And of course, that does not have the same margin impact or leverage rate as just the floating with LVP. And that also then is a contributing factor to the somewhat lower leverage in the quarter.

Rod Lache: Okay. But relative to your expectations, you are suggesting that it was a bit more volatile, it sounds like.

Fredrik Westin: No, I would not say it is more volatile than we had expected. We had indicated around 5%. That is where we come in. I think the top line is also very close to our expectations. So, at least for us, there are no big surprises in the quarter.

Rod Lache: Okay. Can you just give us a little bit more insight into the drivers of this margin improvement from the low fives to the low double digits, which would be implied by your full year guidance? It would seem that you would get there by late this year. How much of that is the internal savings that you anticipate? How much do you need to recover of costs that you have been absorbing?

Fredrik Westin: The factors are, we still expect in the top line growth, sequentially in the quarter, that will be a contributing factor. Then, of course, the price adjustments, to be able to negotiate and then come through with here starting in the second quarter. And then the third one is the stabilisation component, which I already mentioned. It is difficult to now give a split of those three, but those are the main factors here that we expect to contribute to the margin improvement sequentially.

Rod Lache: Have you defined the automations and digitisation savings for this year and what your objectives are? It sounded like those are bigger than what you had originally planned two or three years ago.

Mikael Bratt: No, we have not given a specific number for that and not on a yearly basis here, but, of course, that is part of our overall journey here towards the midterm targets. But I think for this year, it is really all about the work that we are doing now to negotiate price adjustments for the inflationary components and then continue with our strict cost control and improvement work here to support the leverage that we have discussed here before.

And as we have guided for this year, we are then indicating around 2 percentage points improvement year-over-year. And we are starting now, the Q1, with 2 percentage point's improvement, Q1 versus Q1. So that set us off to a good start for the full year in line with our plans and expectations.

And as we have also said here, we expect a sequential improvement quarter-by-quarter similar to the way we saw it in 2022. And that, of course, that comes to, that 2023 is very much the same as 2022 in terms of inflationary pressure hitting us first, then we are going through the price negotiations with our customers, and they are trickling in gradually here throughout the year – in combination with what is also a normal seasonality that we have the productivity coming through throughout the year while price downs ectetera is happening in the beginning of the year.

And instead of price downs here, we are talking about the inflationary pressure, but the analysis is the same.

Rod Lache: Right. Thank you.

Philipp Konig (Goldman Sachs): Yes, hi guys, and thanks for taking my questions. My first question is just on the SG&A which stepped up quite meaningfully in absolute terms compared to the previous quarters. I know that your[?] top line and there is inflation in the system, but were there maybe some agreements that you had, including one-time payments, that weighed on to your SG&A in the first quarter? Or do you expect that to remain in above 5% of sales in the coming quarters?

And then my second question is just, Mikael, on the point that you just touched on earlier, is that you mentioned 2% ahead of last year is what you need to get to the guidance that you set up for the year. If we now think about the second quarter, you mentioned better leverage, obviously higher volumes, and better recoveries. Is it fair to say that maybe in the second quarter we could see maybe an even better step-up compared to the first quarter, given that you should have quite a few tailwinds? Any colour there would be much appreciated. Thank you.

Mikael Bratt: Thank you. Three questions. Maybe I start there on Q2, and Fredrik take the SG&A question there. As you know, we are not guiding by quarters here, but I think what we are saying here is that you should expect the similar pattern as last year. And with the 2 percentage points improvement and around 2 percentage points improvement in the first quarter, which also translates throughout the year to get to the around 8.5-9 percentage points. And we also said here that in terms of, let us call it step-up improvement here, it is more geared towards the second half, also I would say in line with how last year developed.

So, I think that is as much commentary as I can give regarding the sequential development on the quarters to come here in 2023.

Fredrik Westin: Yes, and on the SG&A question, you can see from our headcount development that our indirect headcount is up around 4.5%. And that is also the case on the SG&A side. And that is to support business here that has grown by 21% year-over-year. That is one factor. Then of course, we have the inflation component also moving into our SG&A cost. It is both on the labour side but also on the indirect spend. And then we had, in this quarter, maybe a somewhat higher project-related cost. But for the future, our ambition is to also get the right leverage also on our support cost structure, meaning that we aim to keep the SG&A as lean as possible and then with the top line growth, see a more favourable ratio going forward.

Philipp Konig: Thank you very much.

Hampus Engellau (Handelsbanken): Thank you very much. It will be interesting if you guys could maybe give us a flavour on how the production at your customers has been during the quarter. Your call-offs during the quarter, have they been lumpy or more stable? And how should we think about that going forward?

And then on your outlook, Mikael, the 50% organic growth outlook, is that based on a more conservative number for Europe than the +7% that [inaudible]? Those are my questions. Thank you.

Mikael Bratt: Thank you, Hampus. I would say that the volatility has improved, but it has not normalised yet so, there is still some way to go. It varies quite a lot between the different customers here, which you will also have seen in the past and in the last couple of quarters here that is not one size fits all here in terms of volatility. And it is very much connected to semiconductor supply, meaning supplier in [inaudible], and also what kind of versions of semiconductors they are using. And as we are seeing here, you have later, the more new technology you have in your semiconductors, you have some better position compared to if you have, let us call it, the older and more traditional OEM semiconductors. And there is a lot of activities going on with the ones that are still on the old technology platforms you put down to semiconductors, to redesign and resource there. So, our expectation is that it should move in the right direction. And that is also in that space where the semiconductor manufacturers are putting in new capacity.

So, more work to be done there. But we are moving in the right direction but expectations is that we should see less volatility as we move forward. But as you know, there is a lot of other moving ports going on at the same time that can have some disturbances. And we are seeing that also connected to logistic issues. For example, [inaudible] on certain shipping lines and freight schedules are not as reliable as it was before the pandemic here. So, there are also other things going on, on top of the semiconductor issue. So I guess that is the first question.

And regarding the outlook and Europe's weight, I guess the short answer is yes to your question. Of course, the cautiousness around Europe that I expressed before is a part of our light vehicle growth of around 3% that is the basis for our organic sales is there. So, yes to your second question.

Hampus Engellau: Super, and maybe on that, is it for what you see in your customer base or is it just a general thinking surrounding the European economy and all of that that makes you more cautious?

Mikael Bratt: I think it is a combination of the two, but, of course, it is very much connected to the customer interaction, I would say.

Hampus Engellau: Thanks.

Vijay Rakesh (Mizuho Securities): Yes, hi. Just a quick question. When you look at the global LVP, 3.7% this year, what slowdown are you assuming for the US, second half on first half? And any thoughts on Europe if US slows down? I am just wondering what the assumptions are.

Mikael Bratt: No, I think distribution of our number is not very much different from what you see from S&P Global. I would say, if you see the different weights from the region's, it ties into to our US well, with maybe the exception that we are a little bit lower on Europe, as we said, but that has affected around 3% instead of 3.5%. So, it is already in there. In terms of regional mix, it does not differ too much.

Vijay Rakesh: Yes. And then on China, obviously, it looks like they are assuming a pretty strong growth. Are you assuming any subsidies from China, either on the EV side that drives that LVP in China through the back half as well?

Mikael Bratt: No, it is nothing we see here, and I have on radar screen here. I think overall, we see a high level of activity in the Chinese market here. And as you know, the Shanghai Auto Show is currently ongoing here this week. So, a very dynamic market, and we are – I would say, positive to the Chinese LVP .

Vijay Rakesh: Last question.

Mikael Bratt: Yes, go ahead.

Vijay Rakesh: Last question, I know you mentioned 90% of the products have been negotiated with the cost inflation side. Broadly, is there a way to look at what the pricing tailwind would be from the cost pricing negotiations as you run through 2023? Because some of these pricing have continued to go up. But just wondering broadly, what is the ballpark pricing tailwind?

Fredrik Westin: Well, it is more than 90%. We have not said the exact number, but it is more than 90%. I think the indication we can give is that in the 15% organic growth, we still assume around 3% global LVP. We have said around 3% in content per vehicle, and then the remaining to come from pricing and from market share gain. And that pricing would be the larger of the two components. And I think that is as much as we can say on the pricing contribution.

Vijay Rakesh: All right. Thank you very much.

Fredrik Westin: Okay. Thanks.

Erik Golrang (SEB): Thank you. I will start with two questions. The first one is a follow-up on the pricing comment. If it is around 5% for the year, how much was pricing up in the first quarter here, since you say that there is more to come? And then the second question on the expectations of LVP stability and visibility improving. I guess that is completely out in your hands, right? So, if that does not happen, how much lower would the full year margin be?

Mikael Bratt: Let me start with the second question, and Fredrik can take the first one there. In our guidance, of course, we are aware of the market situation here, and we are working hard to manage it. So, of course, volatility is here, even though we think it's going to improve. Of course, we need to improve our way to work in such an environment. And I think last year, you saw that we had a significant premium freight. We do not have that this year. And, of course, a part of that is that we have been improving, and I would say, added on support in our plants to create more stability in our own production to offset that constraint from our customers here.

So, we find a way to operate in such an environment. And as we move forward, we continue to improve that work. It is not as, Fredrik alluded to before, optimal at this point in time. But the combination of improving and stabilising what we see from our customers and our own ability should support what we are talking about here in terms of full year guidance. I do not see any reason why we should not be able to contain that volatility that we are talking about here within our framework here. So, I feel comfortable with the current situation.

Fredrik Westin: Yes. And then on the pricing side, I think we need to refer back to what we said after the fourth quarter earnings for this year. And the way that these negotiations go is that we need to have the cost increases in our cost structure first before we can then get the compensation from the customer. And that has now happened here in the first quarter. As we have indicated, the two largest components of inflation that we are facing is the impact of the non-raw material-related inflation in our supply base and then the labour cost inflation in our own operations. And those have materialised now in the first quarter already with not so much compensation that came in from the customer side. So, pricing has remained relatively flat sequentially.

Erik Golrang: So, the vast majority of that 5% is not yet in the books.

Fredrik Westin: Correct.

Erik Golrang: Okay. And then a final question on the drag from new volumes or new contracts ramping and there being weaker leverage on that initially. I mean, that is something we have seen a couple of times historically. And you always need new volumes and new contracts to grow over time. So is there anything you could put a number or frame, how much there is the share of new contracts or new volumes this quarter compared to an average or something like that, to put it in perspective?

Fredrik Westin: Well, I do not think I need to explain why they have initially lower profitability. But the contribution from these launches have been significantly larger in this first quarter than what you would typically see. In LVP, it is up 6%; our volumes are up significantly more than that. And it was a larger part of the volume growth that came from these launches than in a more normalised quarter.

Erik Golrang: Okay. But that means that the higher outperformance, the lower the leverage. Is that always how one should think about it?

Fredrik Westin: Initially, yes.

Erik Golrang: Thank you.

Michael Jacks (Bank of America): Hi, good afternoon. Thanks for taking my questions. Maybe the first one, following on from Fredrik's comments on the factors that you consider when deciding on the pace of share buybacks. Would it be fair then to assume that there should be somewhat of a linear relationship between your margin and cash evolution through the year and the execution on the programme?

Fredrik Westin: I do not want to talk about how it develops by quarter. But I think you can look at our normal seasonality and the margin progression that we're also indicating here for the year. And I think those two together gives you maybe also an indication about how the cash flow generation will look per quarter. Then of course, as I said, it is not only profitability, but then it also means the leverage ratio, which is clearly connected to that, but also the cash flow and the visibility we have in the near term on the market development and our own business development. So yes, somewhat, is maybe my answer to your question.

Michael Jacks: Right. Understood. And then I guess, we are all now very well used to watching out for downside risks to light vehicle production, but the aggregate unit sales ambitions of the OEMs for this year clearly require perhaps an even higher LVP growth than what S&P is expecting. Just curious if this delta is perhaps visible in the production schedules that your customers have provided to you for the coming quarters.

Fredrik Westin: If I look at what we see for the first quarter, that the production volatility is still around us. The vast majority of the case is that deviation is on the downside. So, meaning that the high call-offs we get are then revised downwards for the vast majority of our customers. So maybe that is an indication of where that delta then sits, going forward.

Michael Jacks: So they start the quarter then really high and then cut back as the quarter progresses, is that the trend?

Fredrik Westin: Yes, yes, and very few deviate on the upside, yes.

Michael Jacks: Yes. Thank you.

Mikael Bratt: But at the same time this is not a new phenomena, so it is normally how it looks.

Michael Jacks: Thank you.

Mattias Holmberg (DNB): All right. Thank you. A bit of a philosophical one perhaps. And if we look at your customers, the OEMs, where you see some of them basically cutting prices as if it was going out of fashion. So, it would be interesting to hear if you can share your view on how lower final selling prices for light vehicle works its way through the value chain, and perhaps more importantly, explain the logic on how you are meant to raise prices when your customers are generally cutting prices at this point? Thanks.

Mikael Bratt: Yes. This is a philosophical question here, but first of all, I think what we are talking about here with our customer is not anything else than the inflationary components of doing business in this industry here. So, we are coming with request here to offset external factors. I think in the same fashion that we are being hit with the inflationary costs, then going through customer, we have the sequential here before we have the negative impact first, and then we get compensation when we provide evidence here in our negotiations. I think if you look at our forecasts, I think many of them rather have actually increased prices on the car side.

Then I [inaudible] what you are referring to there, but I think in a broader extent, I think there is no doubt about that the industry as such are aware of what needs to be done here to compensate the value chain to make sure that we have a sustainable value chain in the industry. So, in my discussions with our customers, that is not a factor that we are considering here. We are looking at the facts around inflationary components hitting the value chain here and that is what we are negotiating around.

Mattias Holmberg: Thank you.

Dan Levy (Barclays): Hi, good afternoon to you. Thank you. First, I think this was slightly alluded to, but maybe you could just talk about on the cash flow specifically, the working capital dynamic, which was quite negative and just the swing of receivables that was a $200 million decline? Could you just explain that movement, what we should expect going forward on the working capital front?

Fredrik Westin: Yes. It was a bit of an unusual first quarter but it was a very high month over month growth, started from January, then into March. And that created a fairly large receivables balance at the end of the quarter. Whereas the other two working capital components, inventory and payables, follow also a normal pattern but the very significant sales increase towards the end of the quarter drove up the receivables. But this should normalise then also and we do not expect the same type of growth profile for the next quarter that we have now within the first quarter. And then that working capital build-up should revert somewhat.

Dan Levy: Okay. Great. Okay. Thank you. So, the working capital should reverse; great. And then just, want to go to the question on inflation, and specifically, your release talked about inflation pressures in Europe, which did not flag Europe specifically in the past. Maybe you could just walk through the inflation dynamics by region and specific to labour, how labour is evolving, and what has been the tone and tenor of conversations with automakers to compensate on labour.

Mikael Bratt: Yes. I think if I start with the negotiations, I think it is just what we have said before here, that it is never easy to discuss and negotiate the price increases with our customers. We were successful in those discussions during 2022 related to raw materials, and we are making progress also here in the non-raw material area. Of course, it becomes a little bit more complicated in this space because in difference to the raw material side, you do not have the same type of reference points as you have on the raw material side, meaning that each plant and each site and each country are unique. So you need to go through much more of an even more detailed discussion with your customer, but that aside, it is very much the same as on the raw material side. So, we are making progress in that area.

Fredrik Westin: Yes. On how the inflation is hitting us, in general, it is no different from all the data you can get publicly. So, yes, there is not much to say other than that. On the labour cost side, there have been some countries where minimum wages have increased significantly or been raised significantly, such as Mexico, so that has a larger impact. But then also Turkey, where we have large operations, it is pretty significantly impacted by inflation, of course. But in general, you can look at where these industries are and they are publicly available, and we typically follow them also for the countries that we operate in.

Dan Levy: Okay. And then Europe specifically, is there some unique dynamic in Europe?

Mikael Bratt: I think in Europe, of course the war in Ukraine has impacted, to some extent, here, of course, the energy and also on freight, as the consequence of that. So yes, each region has their own reason, so to speak, and we [inaudible] the challenge within Europe.

Fredrik Westin: Yes. But on that, and of course energy has been a much larger topic in Europe and also driving then up, the price of purchased components from our supply base. So that has been significantly much more of the challenge in Europe than it has been in other regions.

Dan Levy: Got it. Thank you.

Mikael Bratt: Thank you.

Before we end today's call, I would like to say that we are continuing to execute on productivity and cost reduction activities, relying on our strong company culture. Our actions are creating both short-term and long-term improvements, and additionally we are evaluating ways to improve our footprint and to reduce our cost structures. We believe these actions will enable us built an even stronger position. Autoliv continue to focus on our vision of saving more lives, which is our most important direct contribution to sustainable society.

Our second quarter earnings call is scheduled for Friday, 21st July 2023.

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]