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FINAL TRANSCRIPT

Autoliv Inc Capital Markets Day - Leading the way

EVENT DATE/TIME: NOVEMBER 19, 2019 / 6:00PM GMT

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PRESENTATION

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Welcome back. I hope you enjoyed factory tour and all the great stuff that team in IBC showed you there.

Let me start to say that we have the safe harbor statement also in this session, and it's integrated part of all the presentations you will see in the afternoon and including the Q&A leading up to the end of the day.

So let me come back to the Autoliv journey and the road ahead here for our company. As we alluded to during the morning presentation, we have now the medium-term targets. And the medium term for us here is now 3 to 5 years, meaning that year 1 is 2020 in this 3- to 5-year journey, just to make sure that we are on the same page on the time horizon here. So our 2023 journey you had here is really then to go from where we are today up to be the industry transformer, broadening the scope of what we are doing here to address also mobility and society and then take a real step change in terms of driving efficiency along the value chain here.

So the idea here now, leading up to lunch, is to go into some greater detail, and there will be some

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additional team members joining me here in the different presentations to take you into the details on sales, the financial side and also supply chain. And then after lunch, we'll move onto the operations and the RD&E side.

So when we look into the future here and the medium-term time horizon here, for me, then the vision is to make sure that we are viewed as supplying best value by our customers. We have moved closer to our target of saving more than -- saving 100,000 lives per year. We have taken our first steps into new markets. We have also situation that we are the preferred development partner for our customers and partners, so also looking at suppliers and other type of partnerships in our own context here. We will be on our way in our automation journey, and we have started to see these step changes we are talking about. We have strengthened our market position further through our sales outperformance. We see that we have now launched also new products into the areas what we describe as the megatrends, talking about the vulnerable road users, the personal restraint business and also everything around electrical vehicles and autonomous vehicles.

We have further integrated sustainability with our day-to-day business. Last but not least, we have raised our level of profitability and cash generation to further strengthen, what we talk about here, our long-term target of shareholder value and really moved up in line with our targets there.

Let me also reemphasize here the profitable growth as a part -- an integrated part of our strategy to create shareholder value. And here, we're talking about the profitable side of the equation, and we're talking about the growth side of the equation, supported then by an agile governance model and performance culture throughout the whole company.

Coming back then to our starting position, and I talked this morning about our global market share and also looking at the different product categories that we have and how we have strengthened that over the last couple of years and how we expect that to continue with the order book that we have. But going into some more details around that, we see that, that will also continue in the different dimensions we are talking about here. So let's start with the product category.

We have already a market leader position across the different product family we have, and that is expected to continue to strengthen also in all of the different categories. Another dimension that we haven't talked so much about is also how does it look in the different OEMs. And if we take the top 15 OEMs that we have, we see that we have already today, I would say, a strong position. As you can see here, we have a number of customers where we have more than 50% market share in. We have basically none of the 15 below 30% market share within their wallet, so to speak.

With the next couple of years, we expect us to strengthen that even further, moving to the right of this chart. So here you can see that we will, by 2023, according to our expectations, have 6 of the top 15 customers in the range of more than 50% market share, and we will have no at the 30% range. So all of them is moving up in this time frame here, so meaning, further strengthening with the top 15 customers.

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On the sustainability agenda, I would say there, we have a very good starting point. As a purpose-driven company with a vision of saving more lives, I think we have a really head start in this area, and we are continuing to integrate our sustainability work in our day-to-day business here. And I would say that with the sustainability that we have, we are addressing all interest from our various stakeholders here.

When it comes to the step change in our operations, you have seen some of what we are doing today this morning in IBC, and you will see more later on this afternoon. And it's really then applying an end-to-end approach and to utilize new technologies into this. And you see some of the technology enablers here on this chart, where we are applying advanced manufacturing technologies, such as the connectivity. We see process optimizations. And I think what is really exciting is what we see in this end-to-end perspective when it comes to connect and our innovation of new products with innovation on the process side here. And here, the virtual manufacturing and simulation helps us a long way, and we connect that with what we do in our R&D area when it comes to virtual development here. So shorter lead time, I would say, give good leverage to speeding improvements up here. But Magnus and (inaudible) will spend more time on this later on when you go over to our AOA plant here later on.

Automization, high on the agenda. And we basically have 3 main drivers for making sure that we have it high on the agenda here. And that is, first of all, the demographics. We see an increasing shortage of labor in our different countries. As you know, we are having a high presence in many countries like Mexico, Romania, China, et cetera, et cetera, where the shortage of labor become increasingly important to manage. And of course, automization is a part of it. Then I would say the business reality, I mean, high expectations from our customers to continue to drive productivity and being able to making sure that our customers also get productivity into their value chain and our role in that. So that together with our further ambitions when it comes to robustness and reliability on our deliverables here we need to secure and utilize that by securing new technology.

And then of course, last but not least, is that it is possible today with the new technology that comes at hand here. So we can do much more today than what we could do a couple of years ago, so utilizing that new technology. And not to stress the fact that we have talked about here, the end-to-end perspective. And it's not a factory of the future only for what we traditionally think about as factories. Here is in all production activities that we have in the company, including research and development, including the administrative areas, like finance, et cetera. So really an end-to-end perspective, not only looking at the product itself, but looking at all our different processes. So it's the same methodology and same thinking around productivity there.

One example that I think speaks for itself when you look at the output here, where we have applied these new technologies and see tremendous effects. We have the folding process in our airbags. And also, I mean, 2 different bags here, but also seeing that being applied in different plants around the world, where we see reduction of operators in the magnitude of 65% to 75% just in a short time frame here, applying new technologies and processes. This is being done not only in 1 or 2 pilot plants, this is being done across the board globally in our different regions, in our different divisions, in our different product lines. So both geographically as well as product-wise, we're applying this new technology.

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And since we are in a tech center here, I think it's a good opportunity to show you later here how this is being applied today also. And Jordi will come back to some of -- some practical examples here on how this optimization is utilized in RD&E area here. So for example, reduced prototype and testing comes with a lot of benefits, not only short in lead times but also waste in terms of material and looking up time in our laboratories and testing facilities. We can do much more upfront here utilizing the new technology.

Let's move on and take a quick look at the growth, which, of course, is a critical dimension of the value creation that we're looking at here. We have these mega trends that provides a lot of opportunities, I would say, for us. And I think we have also here some good examples to show you later on what we are doing here, but it's really around key technology and product sense that we are answering up to, and I think we are well prepared to do that and do that in combination of applying the connection to the process and how we're manufacturing our different products here. And in our strategy here now, I would say, we have a much closer link between process and products than we ever have had on a very detailed level. So looking at the road maps, they are synchronized in the years to come.

And when we talk about these new megatrends and opportunities provided, when we talk about electrification and self-driving vehicles, et cetera, it may sound like it's things that will come further down the road in a more long-term perspective. And I would say yes to that too, but more importantly there is a lot of things connected to this happening in the product plans today. So if we take electrification, for example, I mean, to have a fully electrical retractor for the EV market, et cetera, in the way that we think about the car fleets being electrified is probably taking a couple of years, but electrical car sensors here is relevant also for today's vehicles. So much of what you see to the left here in 2019, 2020 is what going into the cars that we have on the roads today with, for example, steering wheel becoming more of an HMI device with driver support and managing the vehicle in an efficient way happening now. And then of course, we see more opportunities going forward here. So it's not digital here, it's evolution of our products leading up to this future trends as we talked about.

Just a few words on the adjacency opportunities that we have talked about. I would say, already last year, we mentioned that this is something that we will start to look into and explore as an opportunity being coming from our competence around product and process. So it's really derivative out of that. Here, we have defined a little bit more concrete for you what we are talking about here. So vulnerable road users, pyro-safety components, commercial vehicles, digital service and seed safety modules is the 5 areas that we now are focusing on to develop our adjacent business. And Stephanie, when she makes the presentation later on here on sales and growth, she will come back to these 5 different categories.

So let me then finish this quick introduction to the next block of presentations by saying that we have all the pieces of the puzzle here, and we have a clear strategy with well-defined plans and road maps. And we, I would say, have a strong follow-up of these different road maps, making sure that it materialize as we move forward. And this is on top of an already strong position, which we intend to defend and continue to grow out of and improve.

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So with that, I will hand over to the next speaker. So I would like to introduce Christian Swahn, our new Supply Chain Manager. So welcome, Christian. Thank you.

Christian Swahn ***Autoliv, Inc. - EVP of Global Supply Chain Management***

Thank you, Mikael. Good morning, everyone. My name is Christian Swahn. And as Mikael said, I'm responsible for supply chain management within Autoliv, joined the company quite recently. And then I will take you through today what we will focus on for the next coming years within supply chain management. Supply chain is, of course, extremely important for us. I mean all our suppliers out here supporting us is our extensive production, you could say in a way. So we are very cautious about them, and we have a lot of initiatives that we will both work on today, but also continue to work on for the next coming years.

If we look a little bit on the purchasing side of supply chain management, we are carefully following our ratio of purchased material over sales. We have kept that to slightly below 50% over the years, and we are having the ambition to continue to do so. This is a very important ratio for us because it will tell us a little bit on our evolution on the purchased material. As you can see here, we then have a steady level of that. We have a slight increase in 2019 because we have had quite some raw material impacting us this year. And also, I would say, throughout the years, you can say the mixed factors would also give us a little bit of fluctuation on this, but you can say, give or take, we have been cruising around 50% or slightly below throughout the years.

Going forward on our journey on supply chain. As I said, our suppliers is an integrated part of Autoliv, and we need to work with them in a very cautious way and also tie them up to us so that they understand us and that they can cope with our customer demands and also the demands that we are putting on our suppliers out there.

End-to-end demand chain and supply chain. We will focus a lot, first of all, to work within our company across functionally, but also to work with our suppliers in a way that we can transfer from customer information to us and then to the supplier base so that they can understand how they will need to support us in a good way, both in volumes, but in flexibility, but also capacity, very important.

Supplier partnerships and how to deal with that will become even more increasingly focus for us for the next years. We will do that selectively. We will point out areas where we will focus on having our deep partnership dialogues with some selected suppliers. But also, in general, we have some tools that we will work on to get our suppliers really, really understanding the needs that we have and also understand us in terms of new innovation that will happen and that they can support us in what we need from them. And as Jordi and team will talk to you about later on today, you will see we have a lot of innovations ongoing and, of course, we want to have our suppliers supporting us in that innovation journey.

Also design and optimization to cost. This is an area where we will have more and more increased focus on. And we can also take help from our suppliers there. They can tell us a little bit how their products will

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be best produced from their perspective and then we can have a dialogue around that how we can really, really optimize the cost of our products based on the design.

If we go a little bit on initiatives that will sort of carry what I just said, from a supply chain optimization perspective, we will have a big focus on implementing a sales and inventory operational planning system. That means that we can have a tool taking the needs in terms of customer needs, both volume capacity, flexibility to us and then transfer that to our suppliers in a professional way. That will give us a seamless way of fulfilling customer needs in terms of flexibility and capacity. We have such system in place today, but we will have reinforcement done on that. And that will definitely improve some of our key measures, one of them being inventory turnover rate. So you can see that we have ambitions to improve both on the inventory side on incoming goods, but also, of course, on finished goods.

Global road map supply base and suppliers. We have a concept that we will deepen going forward in the next years. That's the concept of having predefined suppliers that we really have management meetings with, that we take them into our facilities to let them fully understand our needs and that we can have then contracts with them setup so that they really have fully understood what we need, and we can have dialogues with them and them supporting us and also proposing how their products should be produced in the best way. So global road map supply concept is a very important concept for us.

Supplier risk management. We will look into that, not only from a supply perspective, also from a financial risk perspective. So we were looking to have some more deepened tools there for us so that we are having our arms out there with the suppliers understanding how they are performing financially so that we can be one step ahead in case something would be happening out there.

Capacity management, of course, extremely important that we have the right capacity installed at our supplier base. We need to be several steps ahead because you can imagine when we are having the need of new line setup, new tooling setup at our suppliers, it takes time. So we need to have clever tools being sort of a couple of steps ahead before that happens. And we are carefully looking into having improved tools for doing that. So that was a little bit on the supply chain side of Autoliv.

If you go into the cost excellence side and if we talk about that end of the equation when it comes to working with suppliers, we will have a mindset of having a total cost of ownership perspective. That means that now we have since a while back in organization not only in purchasing, we combine that in a bigger perspective with supply chain. That will provide us with having a total ownership of the cost, not only having the purchase cost from the material, but also landed cost at our facilities so that we can optimize that and also that we can reduce our inventory in a good way.

Global best buy, a concept that we will explore a bit more. Of course, we need to be careful of not transporting the most complex products throughout the world, but we can improve a little bit on having a global supply base installed, not only a continental one. Of course, we'll be doing that with cautiousness, of course. But I think we can see that we have some upside to looking into that, having a more global perspective on our supply base.

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Product change management, also an area where we will work deeply together with engineering together with purchasing, to really focus on having the right product change management process in place so that we can, if needed, adopt our products to optimize that to the right cost.

Make, buy, the last portion of the equation on the cost excellence side. We will have a more clear focus on really looking into what we are doing in-house in our facilities, but also what we will then move outside of our company. And we will have then more strict process of doing that, and that will help us to be more clear on our decision-making when it comes to make versus buy. So that said, we are having the ambition then to have a clear understanding of our full supply chain, taking it through the customers into our facilities, but also working with our suppliers in a professional way, on supply/demand, but also on cost side of it.

By that, I will hand over to my colleague, Stephanie, who will talk to us about our dear customers and how we will work with them going forward. Thank you.

Stephanie Jett ***- Senior Vice President, Sales***

Thanks, Christian. Good morning. I'm Stephanie Jett. I'm leading our global sales organization. I'm happy to be here. I have to apologize, I'm fighting a little bit of a cold. My voice is not normally this deep or hoarse, so I apologize. So if you'll bear with me.

So today, I'm going to talk to you a bit about the customers, of which most of you know about, but a little bit of our insight on them, how we manage them in our Autoliv way, and some insights on the market, which Mikael's touched on a bit, but I'll go into a little bit more of how we're going to exercise some things on there.

So from our customer mix side, we probably have the most balanced customer mix of anybody in the industry. We are on -- with every major OEM, we're with almost every major brand, and we're in every automotive region in the world. But the reality is not just simply as that. Every single one of these customers is very, very different. The way that Renault-Nissan-Mitsubishi alliance operates is significantly different than the way PSA operates or FCA or GM, and I could go on and on. But that's one of the reasons of why we have been so successful because, one, we're structured in a way to individually meet with every customer. But on top of it, we understand what they each need, and we'll talk about customization here in a minute, but that's part of our success as we understand what they need.

The other part of our success has been about understanding the competitive landscape, and it has been, obviously, very much evolving over the last couple of years. But we see that there's 4 main quadrants that we have to operate in, in order to continue to be the market leader. The first one is the global full scope supply base. And that's obviously where ZF and JSS operate. But those are the -- these are the suppliers that have full OEM scope, full product development scope as well as manufacturing footprint. Then you have the OEM-associated ones, which are more the keiretsu-like suppliers. So the Korean and the Japanese-type supply base that have their own unique way of supporting their customers.

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Now on the top right, you have the China challengers, which are mainly focused on just the pure China play. And then you have the product specialists, which are trying to focus on a specific product type. It's very small in scope, but it is something that we continue to monitor in terms of if it gains any momentum. So this is the landscape that we have proven to be very quite successful in as it continues to evolve. And that success is overall quite a few years here. And I think if we look back, everybody thought, oh, maybe it's a point in time or maybe 1 year, okay, maybe it's 2 years. But we're running 4 to 5 years straight here of proven performance of order intake. And the reason why we're able to do that is not just purely on a price position. Yes, this is an incredibly competitive market. And even as the market leader, we have to prove to be competitive every day on price, on APR management, et cetera, but it's more than that. There are significant differentiating factors that the OEMs measure us on that we have to succeed in, and we've proven that. For example, product quality. That's a given, okay? But there's more than that. There's innovation and technology and technical expertise. You're going to hear Jordi and Cecilia talk about that this afternoon, the market first that we're going to bring to the market and the ability to adapt to what the customer needs from a technical perspective.

We talk about features and function and also customization. As I noted earlier, every OEM has their own plan. And we have to fit what we have into their plan, and we have to make them feel that what they're doing is of the utmost importance, once again, one of our key success factors. Delivery on project as well as serial production, and then lastly, customer service. You're hearing me say that again and again. That is one of the things that our customers say to us that sets us apart more than any other supplier out there is our ability to meet their needs and customer service. So all of these in total is what makes our proven performance. It's not just purely price, but what we bring to the table.

Mikael noted some of the market trends, the megatrends that we see, but what do those actually mean from the safety system side of things. So we look at electrical powertrains. For us, it means that we need to have electrical solutions, but also that we have to be lighter and quieter. If we look at the HMI and HAD side of things, steering wheels already -- as Mikael noted, already have a higher content on them, but they're a safety product. So how do we continue to utilize them as a safety product and have all that additional electronics content on them? And then lastly, we see these improvements -- ongoing improvements of safety regulation. And that means an evolution of the products and even new products that Cecilia will talk about this afternoon. We talk about more focus on rear seat occupants. We see side pole crash coming more up to the forefront. And also there's pedestrian and vulnerable road users. That's a key part of where we see opportunity to save more lives.

So Jordi and Cecilia will talk. This is my tease of the day. They'll talk later this afternoon after lunch to keep you awake about our technology road map and our innovation portfolio and where we're going to be taking the next steps to address some of these key market trends. Mikael noted this. We have our new mission. It's an evolving mission, and we see the ability that we can save more lives via our world-class life-saving solutions, but the evolution that we see is that it's just -- it's more than what we're doing today. We're really looking at all of mobility and society. That's the key for us. Our expertise, from a commercial perspective, we will continue to focus on the core business, which is the light vehicle

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production. We have to be very sharp there in terms of maintaining our market share and growing where we can. But we've seen additional opportunity, a separate opportunity to address this mobility and society piece via the adjacent markets. And what does that mean? So we see transportation as a very large market. That could be very broad, depending on how you want to apply it. But for us, we see an opportunity to leverage our core expertise into that mission of being the true market leader in mobility and saving more lives.

And Mikael noted these 5 segments. I'm going to give you a little bit more detail and maybe a few examples of what that looks like. So vulnerable road users. It equates to 50% of the global fatalities. We have been, and rightly so, so focused about saving lives in the car. We forgot about the lives outside of the car. And so now we're saying, what can we do outside the car, whether it be wearables, whether it be the pedestrian protection airbags, the cyclist protection airbags, opportunity motorcycle airbags. There's a lot of opportunity here where we can save lives outside of the vehicle.

Pyro-safety. You saw this morning, we have a vast knowledge of pyrotechnics and the ability of how we can use those to quickly instigate an event to happen, and it's more than letting an airbag go off. And we have product out there today in other industries, and we want to grow that in other ways.

Commercial vehicle. We dabble in the commercial vehicle market today. And it is just a dabble. But we see that there is an increased focus in the commercial vehicle segment of adding more safety, of adding more content, and we see there's an opportunity for us to take what knowledge we have and to grow that market with our customers.

Digital services. There's been -- we've been talking about our safety score and how we can leverage that knowledge of all that data and all that processing that we have and package it into other markets and other industries to, quite frankly, influence drivers to be smarter drivers and how we can make the roads more safe.

And then lastly is the seat safety modules. We talk about -- we already have integrated booster cushions out there in some vehicles. We are the world's leader in seatbelts. So how can we bring all of that together and go to different markets, whether it be child seat modules or different -- smarter seatbelts? There's opportunities out there that we are starting to investigate where we could have -- we could really impact the market. We're excited. We're still very much in the infancy here. We don't have a lot of details yet we're going on, but we're excited because we can see there's an opportunity that we're going to go after.

And with that, I'll pass it off to Christian, who's going to give you some insights of our financial strategy.

Christian Hanke ***Autoliv, Inc. - Interim CFO, VP & Corporate Controller***
I'm going to talk some numbers. I'm sure you guys are looking forward to that. So my name is Christian Hanke, and I'm the interim CFO of Autoliv, and I will take you through the financial strategy for shareholder value.

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But starting with the CMD back in 2017, back then, we communicated our new set of targets as a new company in conjunction with the spin of our electronics business. Earlier this year, we pushed out those targets. And this morning, Mikael communicated what our new sets of targets and ambitions are for the next 3 to 5 years and further out. And I will go through those targets in some more detail in this presentation, but I just wanted us to take us back and look at what some of the fundamental changes that has happened since the CMD back in 2017.

So back then, we -- and when compared to where we are now, LVP in 2020 is expected to be around 13% (sic) [13 million units] less than we thought back then. In addition, we have experienced raw material headwinds in '18 and '19, amounting to almost 100 basis points. And as a company and as a management team, we have introduced a number of measures to mitigate some of that headwind. We have, for instance, earlier this year, we communicated that we had a hiring freeze that has resulted in us reducing our headcount by approximately 2,000 in the second and third quarter combined. On top of that, we also introduced a structural efficiency program, which we communicated in some more detail around -- in our third quarter earnings release. And that -- when it's fully implemented, that should give us around USD 60 million in annual run rate savings.

Looking at 2019, specifically as a year and comparing that to the base case back in 2017, we have lost approximately 10 million light vehicles in production. And for us, that translates into around $1 billion in lost revenue at a relatively high operating leverage, considering the quick decline that we've seen in LVP over the past year or so. So combined with the raw material headwinds that we've seen, I think you can all imagine the magnitude of external headwinds that we have experienced during the past year or so. And so looking at our operating margin of 9%, it's about 2 percentage points lower compared to where we were in 2017. We're not pleased with that. But -- however, I think we're quite proud that we've been able to offset almost half of the headwind that we have experienced now in '18 and '19.

So moving to our targets, which Mikael communicated about in some detail earlier this morning, medium term, again, just to remind everyone, is 3 to 5 years. We see that we will grow organically around 3 to 4 percentage points over and above LVP in the medium term. In terms of our adjusted operating margin, we see that in the medium term, we will get to the 12%. And I'll talk you through that in some more detail in the coming slides.

Cash conversion. We have a target of 80%. That's the operating cash flow less CapEx divided by net income that gives you the target of 80%. And in terms of our leverage ratio, there's no change here. We're maintaining that at 1x net debt to EBITDA and the range remains the same at 0.5 to 1.5x.

In the long term, we have an ambition to grow at least in line with the market, and that is around 3%. That's our estimate. And in terms of our adjusted operating margin, once we have fully implemented and completed our strategic initiatives boosting our earnings capabilities, that should translate into a higher margin of 13% in the longer term. That's our ambition.

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So let's dig into the numbers a bit deeper but starting with, first of all, our goal is to maximize long-term shareholder value. We have a focus on improving our profitability year-on-year. That's very important for us. In terms of revenues, we see visible near-term, and sustainable long-term growth is also a focus. I mean, Stephanie talked a bit about what can we do to grow our top line in the longer term.

Profitability. The focus here is on improvement actions, and I'll speak more about that, but also over-the-cycle resilience. And this is on top of our heritage and our foundation. We always have had a focus on strong cash flow generation and returns for our shareholders in addition to maintaining a strong balance sheet as well as a approved and leverage policy. So no change there.

So let's start with looking at the top line in some detail. And I think you have already seen this slide earlier this morning. You can also argue that Stephanie spoke to this one as well. And then we've talked about this on numerous occasions in our earnings calls, talking about the high level of order share that we've had over the past 4 years. I'm also happy to communicate that we see that we are having a similar level of order share gains in 2019 year-to-date for the first 10 months of around 50%. And this will, of course, lead to an outperformance versus LVP in the medium term, the step-up in the market share gains that we have experienced now almost over 5 years.

So looking at our top line in some more detail, breaking it down the various components, what does it look like. Starting with LVP. We see that medium-term growth of 1% to 2%, that it's slightly below the historical average of LVP of around 2% to 3%., and it's also a bit lower than what IHS is currently predicting for the medium term. But we see trade tensions impacting the macroeconomic environment, also increased regulations, for example, related to emissions as well as financing, of course. So taking all of those factors into consideration, we believe that, that on the margin will have a slightly negative impact on LVP here in the medium term.

In terms of content per vehicle, we expect that to grow around 1%, driven by higher installation rates. And then considering the execution of our order book, the market share gains that we have there, that should contribute another 2% to 3% in organic growth in the medium term. So combined with the content per vehicle growth, we expect to outperform LVP by 3% to 4% in the medium term. Consequently, I mean, if you add LVP, we will see a top line growth of 4% to 6% in the medium term here.

We also talk about adjacent market opportunities. We want to grow our top line over and above the 3% to 4% plus LVP, and we have not yet fully quantified those opportunities. So that's a topic that we will have to come back to and share what that additional growth will be at some later stage.

So moving to profitability improvement and that journey and what does that look like. Taking us from where we are today, the 9% to 12% adjusted operating margin here in the medium term. And we see that coming from 3 different levers, each carrying about equal weight in terms of getting us to the 12%, starting with executing on our strong order book. The implementation of our strategic initiatives is also a key and then basically, the day-to-day is all about that. And finally, also, the stabilization and market

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fundamentals. And I'll talk you through these in some more detail in the coming slides. But we also have an ambition to take us to the 30%, as I mentioned earlier, and we expect that to happen once we sort of fully have implemented our strategic initiatives. So in the longer term, that should boost our earnings capacity further.

Starting with the executing on our strong order book, how that will contribute to our EBIT journey going from the 9% to 12%. The strong -- the market share gains that we've had over the past 4 to 5 years, of course, will lead to an outperformance versus LVP, and we should get some leverage from that. And we see it primarily from an improved utilization rates in our plants, in our production lines, but also an improved product portfolio maturity. And here, we're talking about the market share gains has resulted in us really launching more programs than we have in the past. And as that wave of new orders are traveling through the product life cycle, that will improve the EBIT as well.

We also see normalizations around launch-related costs. And we have already seen to some extent an effect of that this year compared to where we were last year. As you might recall in our earnings calls back then we were talking about how launch-related costs were negatively impacting our gross margin. But we can see that throughout the year that has improved related to the first wave that we had in North America.

And last but not least, also, RD&E to sales normalization. We expect to move from where we are to date, closer to 4%.

Turning to the implementation of strategic initiatives and starting first with structural efficiency program. You can debate if that's a strategic initiative per se. But regardless, we have communicated quite a bit about that program already in our third quarter earnings call. That should give us around USD 60 million in run rate savings once fully implemented.

Automization, digitalization and modularization, Mikael spoke quite a bit around that. And hopefully, I think, you already saw some examples of that in our big implant at IBC, some good examples, and we have more examples around the world as well as Magnus will speak quite a bit around that in the afternoon. Factory of the future, design-to-cost and design for manufacturers and concepts, that I'm sure he will address.

And Christian spoke about supply chain management effectiveness and what that will give us. And finally, RD&E effectiveness, Jordi will speak to that. A lot of exciting things within the engineered community, improving our way of working. So we're seeing some good things there. So in total, this will contribute to the 12%.

Turning to the stabilization of market fundamentals. I mean it's been quite a different environment over the past year or so. And we think that the stabilization in and of itself will give us a boost to our EBIT. Prior to the LVP declines, we had been reporting 10-plus adjusted operating margin, if you might recall. But this assumes an LVP trend growth of around 1% to 2% per year and also that we are recovering the

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raw material headwinds that we've experienced in 2019. And we can actually see and which we already communicated in our third quarter release that, that is starting to flatten out in the fourth quarter. So that should be a tailwind for us.

Turning to -- I also wanted to touch around the operational setup of our company and how that is actually helping us in a cyclical downturn. And for many of you that have been following our company for a long time, I think this is no new news. Stephanie, you spoke to this and to some extent around the top line, our revenues that we have a highly diversified customer base, we're not overly dependent on a particular customer, and we also have a well-balanced geographical footprint.

In terms of our labor force, we have some flexibility in our employee structure. Around 10% of our labor force is temporary. Earlier this year, when we started the year, around 14% of our labor force was temporary. So we have already used some of that flexibility to offset some of the headwinds that we have experienced this year. And as indicated by Mikael, I think, a majority of our labor force is in, what we call, best-cost countries. So 80% of our labor force is located in best-cost countries.

And from a cash flow point of view, we have a history of managing our cash flow well. And we actually see improvement in 2019 that we did not get on the slide here, but we definitely have an improvement in working capital. So that helps us as well from a cash flow point of view.

Turning to where we always have the focus as a company is around cash flow generation and shareholder returns, starting with the cash conversion improvement that we expect. So we -- as we are delivering on top line and margin growth and keeping CapEx relatively flat, that will enable the free cash flow to grow at a faster rate compared to our net income, thus improving our conversion ratio.

In terms of CapEx spend, that is expected to grow at a slower rate compared to our top line growth. So slowly moving that ratio to below 5%.

In terms of -- we have a history of being a shareholder-friendly capital allocation policy. I mean there's no change there. We have returned around $2.8 billion over the past decade to our shareholders in the form of dividends and share buybacks. And that policy remains intact despite the challenging market conditions we have experienced here over the past year, 1.5 years.

And finally, in terms of a strong balance sheet and prudent leverage policy, we are committed to maintain a strong investment-grade rating, supported by our cash conversion ratio here. As you might recall, we were downgraded after the summer to BBB+ with negative outlook. However, that has not had any meaningful impact on our funding capabilities as a company nor on our financing cost.

In terms of our leverage ratio, we are above the range. And I think, you know here in the room that, that is driven and due to the Veoneer capitalization we had to do back in 2018 as part of the spin-off as well as the antitrust fund we paid here in the second quarter of this year of around $200 million, we aim to be back in the range in 2020. And we have a short-term focus now on delever. And once we've

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completed that homework and exercise, we will have a renewed focus on increased returns to our shareholders.

So I think on that note, I'm going to hand it over to Mikael before we start.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Thank you, Christian. Let me also invite Stephanie and Christian here so we can take some questions here. I will moderate from here. So let's start over there, Hampus.

QUESTIONS AND ANSWERS

Hampus Engellau ***Handelsbanken Capital Markets AB, Research Division - Automotive Analyst***
Hampus Engellau, Handelsbanken. I have a question more on the process we're seeing in digitalization. I guess that more autonomous functions in the cars will lead to that the people will move differently, sit different in the car, and it's, of course, a change in the design or inside of the (inaudible) but how do you draw the line before -- between having more like (inaudible) and making passenger safety into being more active, like a couple of cameras, radar monitoring, the way you inflate the systems, et cetera. How do you draw the line?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I don't think there is a very clear line when you come that far. I think today, it's quite clear in the sense that it's more a question of how our products communicate with the vehicle. Then, you could say that just because we apply -- could apply other type of technology to our products in itself, doesn't mean that we start to go into -- sorry, go into the architecture of the vehicle. So I would say, it's very difficult -- different depending on how you apply it. I would say, that's probably where you will draw the line going forward. But I think we're quite far from that at this point in time. So right now, I would say, it's very natural on how we interact there.

Hampus Engellau ***Handelsbanken Capital Markets AB, Research Division - Automotive Analyst***
Second to that is your R&D expenditure, is there any talk in the industry of maybe changing that model a bit instead of you taking all the costs upfront and then later on pricing your customers? It's like more sharing cost on the engineering side? Or how is that developing?

Stephanie Jett ***- Senior Vice President, Sales***

The answer is no. There's really no change. To be frank, the customers who themselves are feeling the tightening of the margins are trying to push the cost as far down on the supply base and spreading it out. So the model will not change from where we see it today.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
We'll take the next there.

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Sascha Sebastian Gommel ***Jefferies LLC, Research Division - Equity Analyst***
It's Sascha from Jefferies. My first question would be on your top line assumption for the plan. 1% to 2% light vehicle production looks a lot more aggressive than what most peers of yours are telling us. So I was wondering, in case, we're not seeing any growth in light vehicle production, should we just assume the margin is then 11.5% in the midterm plan?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I think I mean -- as we said here, I mean, the 1% to 2% is still lower than what (inaudible) has been. And I think what we have seen here in the last 2 years around driveline, uncertainty, geopolitical, makes us believe that the way back here is at the lower level. I don't think we have any other crystal ball than -- we don't have another crystal ball than anyone else here. So it's anybody's guess, basically, what's going to happen here. But for us, it's more important as we see stabilization in the market then as we start to grow back to where we were in 2017 or something like that. The stabilization is the key for us in order to move forward towards our targets here.

Sascha Sebastian Gommel ***Jefferies LLC, Research Division - Equity Analyst***
Okay, understood. And my second question would actually be on payables versus receivables compared to other suppliers. You pay quite early your supply base and you get paid quite late from your OEMs. Is there any program or improvement potential you see to close the gap of payables and receivables?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
It's a constant ongoing challenge here, but we...

Christian Swahn ***Autoliv, Inc. - EVP of Global Supply Chain Management***
Yes, we are focusing on that, and we will do that extensively during next year and also quarter 4. So I think, to your point, yes, it's on our radar.

Sascha Sebastian Gommel ***Jefferies LLC, Research Division - Equity Analyst***
How much potential do you see in that, like in terms of days? Or...

Christian Swahn ***Autoliv, Inc. - EVP of Global Supply Chain Management***
Yes, we haven't set any sort of firm targets on that. But definitely, we'll have that as a focus area.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I think you should see the targets we have here on the cash conversion as the target when it comes to how we continue to improve our balance sheet and, of course, our profitability.

We'll move there.

Emmanuel Rosner ***Deutsche Bank AG, Research Division - Director & Research Analyst***
Emmanuel Rosner from Deutsche Bank. I have 3 quick questions, if I may. The first one was on the purchasing strategy. And I think the goal on the slide was to essentially offset the price downs as much as

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you can with the purchasing. So I think, you've said in the past, your price downs are 2% to 4% or so a year. Are you able to -- are you looking to get reductions on the purchasing of 4% to 8% a year? And is that something that you've been able to achieve so far?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Christian?

Christian Swahn ***Autoliv, Inc. - EVP of Global Supply Chain Management***
I would say we are constantly focusing on that a lot. Then, of course, it's also coming into play, the raw material evolution that has played us -- a bit against us this year. So as we showed on the first slide there, we have -- if you compare it to sales, we have a ratio of around 50% or slightly below. So that's our focus to keep really a tight look on that. So that's basically what we are focusing on.

Emmanuel Rosner ***Deutsche Bank AG, Research Division - Director & Research Analyst***
But if the maths is correct, to offset pricing, you need an annual reduction of 4% to 8% in your purchasing. And this is something that you feel comfortable targeting?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I think you should see it as an ambition we have. And utilizing then a different approach than what we have had in the past to watch our suppliers and also work and integrate -- work with them and integrate them much stronger into our product development going forward to make sure that we get this step change also from the supply chain management when we move forward.

Emmanuel Rosner ***Deutsche Bank AG, Research Division - Director & Research Analyst***
Great. Second question is on the midterm margin. So you put a time line of 3 to 5 years around it. So just sort of like to better understand what are the variables in here. So growing above market obviously, with the 50% win rate right now, you probably have 3 year visibility or so, like how would you stretch that growth above market, I guess, 5 years? And then the margin of 12% obviously achieving a 3 versus 5 years is a very big difference. What would drive whether it happens sooner or later?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I mean we don't go into exactly in this range where we will see what because I think the whole point by being the way we express it in the midterm, 3 to 5 years, is because we know everything else is not equal. So there will be some bumps on the road that we need to overcome to manage to get to the 12% adjusted EBIT margin that we're talking about here. So let's keep it to this time frame. And of course, the 2023 focus we have is right in the middle of that period. But it's really a range that we're talking about here in years.

Emmanuel Rosner ***Deutsche Bank AG, Research Division - Director & Research Analyst***
And then just finally, the capital allocation. So I appreciate directionally, right now, the focus is on deleveraging and then more cash returns to shareholder. Can you maybe just give us a little more color around how you're thinking about it? Obviously, at some point in 2020, you will be at least within your

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range, certainly not at the low end, but you will be within it. Is that enough to start returning more cash to shareholders that you need to be in the middle or at the low end, like how are you thinking about it now?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***

No, I think we are pretty clear that we want to be pragmatic in the way we approach that. It's a question of, I mean, first of all, to be in the range, but it's not like we need to be at 0.5 to trigger repurchasing program. It's a combination of that we are in the range. And that when we look forward, we see that from a business cycle point of view, there is no need now to be very conservative on preserving cash for tougher times. And of course, the share price, making sure that it is contributing to shareholder value creation. So look at these 3 parameters pragmatically. So absolutely, we want to be active there.

And maybe we should take someone on this side. Next.

Agnieszka Vilela ***Nordea Markets, Research Division - Research Analyst***

I have 2 quick questions. One is the transition to the factory of the future. We -- I guess, we've had dipped our toast in that during the morning. How much of that automation projects require redesigning of products? So it's sort of it's -- you have to work through product life cycle in order to fully achieve that. And secondly, how much would that transition incrementally affect your capital expenditure to achieve those automation efficiencies?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***

Let me start with the last question there. Our ambition is that, over time, we should manage to have that within our current guidance of the long-term range of CapEx. I mean the magnitude of CapEx that we are looking at here. So of course, there, you can have between quarters and years potentially some discrepancies to that. But over time, that's what we would fit it into. When it comes to, okay, how quickly can you do that? I mean design for manufacturing is a part of it, but I would say that the real driver here is how quickly we can implement it in connection to starter production of new programs with the customers. Because if you want to do bigger changes in your production in a running program, it might require and mostly require, I would say, customer approval if you want to do these magnitude of changes. And therefore, it becomes more natural to do it when you have new starter production. And of course, when you have a new starter production, you normally have some engineering upgrades or changes to the products as well. So I would say it's more the starter production time schedule that defines the progress to a large extent, but there is a lot of things to do in other areas, as we've said, and you can see also on the component level that came up a little bit faster.

Joseph Robert Spak ***RBC Capital Markets, Research Division - Analyst***

Next, it's Joseph Spak from RBC. Mikael, sorry to do this because I know I think you said you were trying to clear it up in the beginning, but I thought you said 2020 is the base, which shows 3 to 5 years, you take 4 years, that brings you to 2024. But then in response to a prior question, you just said '23, takes you to the middle of the target. So can you just clarify that again?

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Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
No. I mean we have a 3 to 5-year horizon on the targets, which you're talking about here. I mean definition of medium-term is 3 to 5 years. Year 1 is 2020. So yes, 2023 is down to (inaudible). So it's not...

Joseph Robert Spak ***RBC Capital Markets, Research Division - Analyst***
2023 is the fourth -- would be the fourth year?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Yes.

Joseph Robert Spak ***RBC Capital Markets, Research Division - Analyst***
So then based on that, the 300 basis points roughly, again, you're talking about is about 75 basis points a year. But you just said you expect to get back 60 right away from R&D -- I'm sorry, from raw materials next year or that's the hope. So it seems like the margin expansion is above that average in 2020, and then it steps down in the later years. Is that right? And I just want to get a better sense for what type of incremental margin you're talking about.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
We have not given any numbers on raw material or anything else for 2020. I think what Christian talked about was the impact for this year of raw material as we saw when we estimate the full year impact. That was to...

Joseph Robert Spak ***RBC Capital Markets, Research Division - Analyst***
Okay. But I thought it was mentioned as part of the hope to get back to...

Christian Hanke ***Autoliv, Inc. - Interim CFO, VP & Corporate Controller***
Yes, it's an assumption in order to...

Joseph Robert Spak ***RBC Capital Markets, Research Division - Analyst***
But not necessarily in 2020, just over that...

Christian Hanke ***Autoliv, Inc. - Interim CFO, VP & Corporate Controller***
Exactly, exactly.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
So when we talked earlier today about the tailwind and the headwind, so what we said was that on the tailwind, we saw some easening coming from that. But how much, we will come back to later on.

Joseph Robert Spak ***RBC Capital Markets, Research Division - Analyst***
Okay. And then the second question is, so 4% to 6% organic growth total and then you said maybe 1% to 2% from content. So on a unit basis, it's like 3% to 5%. Is that what you're capacitized for right now? Is

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that's what's in your plans? And how can you flex up effectively if it comes in greater? And what more can you do on the downside if it comes in (inaudible).

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I think we have showed that we are agile adjusting to the volume changes. And good evidence in IBC here on how floor space is being opened up with the continuous improvement efforts that is being made. So I don't see that we need any brick-and-mortar of any magnitude here to cope with the growth in the years ahead here. Then, of course, you have to do, all you have to do, when you see it's bringing value some changes to the footprint when needed, but no big capacity increases as such. It's more in the production line and inside the plants that we see the increases.

Jairam Nathan ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***
Jairam Nathan with Daiwa. So I was wondering with continuing the discussion on the modularity of production, with the digitization and automation, would it be -- how successful do you expect to be with kind of lessening your exposure to specific production lines? Can you combine vehicle lines? I mean is that a possibility?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Yes, I think, the optimization journey here includes more flexible lines. So we have definite opportunity here to balance the production in a better way in the years to come. But I think it takes time. It's coming back then to the starter production cadence as we alluded to before. So -- but it's a definite opportunity.

Jairam Nathan ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***
And finally, if you kind of look at the business models of ridesharing companies or even scooters, insurance is a big expense for them. And is there a way to work with insurance companies to make sure that the vehicles they use have higher content in airbags?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Stephanie.

Stephanie Jett ***- Senior Vice President, Sales***

Yes, I mean, that's part of some of what we're evaluating in the mobility safety solutions is both from a digital services, working with insurance companies, coming up with our safety score. And as a driver of a scooter, you could have a scooter and you may have a different rate than maybe somebody else, right? That's one opportunity. And then if you look at the actual, I'll say, the airbag side of it, that's another piece of it from RD&E side that we're looking at of how can you put actual product on the scooter, and there's not much there, right? But there could be opportunities in some of the things that we are taking a look at. And even you take about wearables. And you do the right -- the scooter companies require that you have to have a helmet and what does that look like and some of the things that could be there. So there's a number of opportunities that are out there.

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Rod Avraham Lache ***Wolfe Research, LLC - MD & Senior Analyst***

Rod Lache with Wolfe Research. I was just hoping you can just clarify a few things. One was just on the tour today, there was a consistent theme of the company was negatively impacted by this big acceleration in new business that came in, in 2015, and then we were shown examples of how automation is coming in and the output is improving. So I was hoping you can, maybe, characterize how much of that we're already seeing in the numbers today? And how can we sort of think about the magnitude of the benefit? Is that basically the 50 to 60 basis points over the past year or 2 of launch headwinds that you've described that now as we look out to 2020, that goes away?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***

Yes, I think, I mean, when it comes to the elevated launch costs that we talked about for coming -- I mean, for '18, for sure. But that we are gradually reducing during 2019. That's coming through according to expectations. And as we said, should be gone by the end of this year. So that's out. But I think, what they showed today was to how the year-over-year improvements were hampered by the increased focus on the volume increase in that particular plant. That was a unique situation for that plant. Then, of course, when you see big volume increases in other areas, that is also something that can happen. And I think also, we saw that happening in other plants during the step-up we had during last year because you need to shift focus to cope with the launch activities and that takes away attention from the day-to-day continuous improvement efforts. And of course, when you get that normalized, you shift it back. So that's also a part of the improvement here. But I think when we talk about the normalization here and the improvement activities that we have in our strategy plans and so on, it's on top of that. That's more part of the daily business and making sure that the year-over-year machine works in the continuous improvement area, and that's more unique for the different plants, I would say, not as a total company.

Rod Avraham Lache ***Wolfe Research, LLC - MD & Senior Analyst***

Okay. And can you maybe elaborate a little bit on what financially some of those headwinds that you described, like the factory of the future headwinds or the reduction in the inflator business that you're looking at for 2020?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***

I think when it comes to 2020, we will come back with a better guidance for the full year, and then we'll see what kind of details in terms of different components we'll give. But today, we will not give any numbers on the different components there.

Christian Hanke ***Autoliv, Inc. - Interim CFO, VP & Corporate Controller***

On this side, maybe, a bit fair.

Erik Paulsson ***Pareto Securities, Research Division - Analyst***

Erik Paulsson, Pareto Securities. Can you elaborate a bit on the opportunities that you see within commercial vehicles and in terms of future growth rates, et cetera?

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Stephanie Jett *- Senior Vice President Sales*

It comes in really 2 different factors. One is the markets that are underdeveloped in just pure safety. If you look at China and India market, in particular, they don't have requirements. There's no regulations in terms of safety product in the vehicle, no airbags, pretty much the seatbelt, and even that's rudimentary. But the real opportunity we see that is highly, more of a content added in, whether it be more rollover -- excuse me, the curtain airbag for rollover, that's a huge opportunity, improved airbag interfaces, higher contented steering wheels, improved seatbelt pretensioning and what have you, because right now, it's incredibly basic. And I'm not sure if any of you have been in a commercial vehicle anytime recently, but it's as basic as it gets. And so we see that there's pending regulation changes up, hopefully. But we also see some of the commercial vehicle OEMs taking on more ownership of making their occupants stay more safe which is adding content.

Björn Enarson *Danske Bank Markets Equity Research - Head of Equity Research of Sweden*

Björn, Danske Bank. A question on product portfolio maturity. Can you give us some help on talking about how much of a headwind that has been and the fact that you have had a lot of ramp-ups and a little bit different maturity profile of the offering?

Mikael Bratt *Autoliv, Inc. - President, CEO & Director*

Yes, I think, especially a year like this when we have ramped up as a result of our market share gains, our portion of the portfolio, of course, is increased even in a steady state. But now with this reduction, it's really hitting us at the bottom line. We have not given any numbers on that. But I think, Christian, you alluded to that in your presentation. I don't know if you would like to give some color.

Christian Hanke *Autoliv, Inc. - Interim CFO, VP & Corporate Controller*

Yes. And I don't think we'll give a specific number per se other than normally, when these new launches travels through the product life cycle that you provide us with an EBIT boost, but we don't give out any specifics on that.

Björn Enarson *Danske Bank Markets Equity Research - Head of Equity Research of Sweden*

But it typically are in the ramp-up phase for...

Christian Hanke *Autoliv, Inc. - Interim CFO, VP & Corporate Controller*

Typically in the ramp-up phase, like any product life cycle, you don't have the volumes, you don't have the full learnings.

Mikael Bratt *Autoliv, Inc. - President, CEO & Director*

The timing, we could say, is 2, 3 years until it gets to where it should be.

Björn Enarson *Danske Bank Markets Equity Research - Head of Equity Research of Sweden*

Okay. And then second question on operating leverage. Is that anything that will change materially

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looking ahead with Factory of the Future or 1P1P and fewer variants, et cetera?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
No. I think, I mean, it should help and support leverage when we see volume increases. But I think not to add on top of each other here. I think the 3 different areas need to be kept separate for the time being here. But hopefully, with more efficient supply chain, of course, you would, over time, also gain leverage improvements in the running portfolio as well. But I think, that's something that we have to come back to and sort out when we see that coming through.

Stuart Patrick Pearson ***Exane BNP Paribas, Research Division - Chief Financial Analyst & Analyst of Automotive***
It's Stuart Pearson here from Exane BNP Paribas. Yes, 2 questions. Firstly, on the organic growth, just to dive into that a little bit more detail. I wonder if you could just explain how much of that is driven by market share gains and how much by content trends? And particularly, when we think about the content side, what are you assuming in terms of the mix of light vehicle production? Or are you still assuming the SUV penetration is rising and that's driving a content tailwind? So that would be one interesting point. The overall light vehicle production estimates and talking of stabilization going back to Sascha's point and what we hear from some of the European OEMs and Volkswagen yesterday cutting their top line guidance, looking at the inventory or the OEMs have globally, I mean, it's not been this high since '09 quite scarily. So they're cutting production quite steeply into year-end, extended Christmas shutdowns or so they tell us. Are you seeing that? Because it doesn't sound like in terms of the way you're talking about light vehicle production still growing 1% to 2%. It sounds like you don't expect that to continue for long if that's what we are seeing?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Yes. I think I mean, first of all, the time horizon here. I mean what you're alluding to is the year-end, beginning of next year kind of effect. And as we have said, for -- when we guided for the full year here is that, yes, we see a downward market and fourth quarter that's definitely challenging, and it's high uncertainty when you start to look towards the end of the quarter and into 2020. That we see, too. So I mean, that hasn't changed at all since we talked a long time. What we are talking about here is a 3 to 5-year time horizon. And I think looking at that period, our best guesstimate is today that the 1 to 2. But it's not a straight line from where we are today. I think that's pretty clear. So that's really how we base our assumptions. So short term, for sure, a challenging situation here.

And when it comes to the outperformance, as we explained before, I mean, we expect 1% coming from content growth over the year here. And of course, then looking at the different models and what we look -- the different customers are looking for here, I don't know, Stephanie, maybe you can describe a little bit what's going on here in terms of SUVs, smaller vehicles and the different regions here?

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Stephanie Jett ***- Senior Vice President, Sales***

Yes. I mean I think, we continue to see a strong push for SUVs in the market. There's no doubt. And we don't see that ending anytime soon. There certainly is -- there is still those A and B Class, C Class segments out there. So those continue -- those will continue in the market. I think the goal for us has always been to make sure that we're on the right platforms as well. And I think -- so what we're seeing, as Mikael noted, is we are on the right platforms based on where we see the projections going and obviously, have the customer breadth to be able to manage the bumps.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Agnieszka.

Agnieszka Vilela ***Nordea Markets, Research Division - Research Analyst***
Agnieszka. Sorry for getting back to that, but I have some trouble to understand how you kind of define your midterm and when you talk about this 3 to 5 years. And for example, when you talk about 3% to 4% outgrowth versus the market, do you mean that the outgrowth will be through 2025? Or will you be happy if it's only through 2023?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
When we talk about the medium term, as I said, I mean, it's 3 to 5 years out. Year 1 is 2020. So '20, '21, '22 is 3 years out. '20, '21, '22, '23 is then 4 years out, as we said before. And that's really the time horizon we're talking about. So our strategy is aiming for the middle of that range.

Agnieszka Vilela ***Nordea Markets, Research Division - Research Analyst***
Middle of that range, okay. And can you help us about the kind of trajectory of that outperform?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
But just to be clear, it's not that we said that the target is 2023. We have a strategic plan with activities taking us to 2023, but target -- the numbers we're talking about here is midterm. And the definition of midterm is 3 to 5 years out, so yes.

Agnieszka Vilela ***Nordea Markets, Research Division - Research Analyst***
And when it comes to the trajectory of the outgrowth, should we expect kind of stronger outperformance in the near coming years and then a bit weakening of performance, say, after 2023? Or...

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I wouldn't go into that kind of granularity at this point in time. I think we have just the fact that the short-term now is high uncertainty on where the market is going, but we think and believe in a more stable market for next year. What that would mean we will see, but definitely not like we have had this year. And then from that point on, it is not a linear development for sure. So I think it's too early to be granular on the year-over-year improvement. Exactly, the rolled out there.

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Agnieszka Vilela ***Nordea Markets, Research Division - Research Analyst***
Okay. And then lastly for me, what is driving the higher depreciation and amortization in 2020 and probably in the coming years? Can you elaborate on that?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Yes, I mean...

Christian Hanke ***Autoliv, Inc. - Interim CFO, VP & Corporate Controller***
The step-up in the launches. I mean, we have to invest in production equipment. So I mean, it's quite simple as that.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
We've brought in a lot of production lines. And of course, also now with the ambition here to go for more optimized line, that's also initially at a higher cost, but the benefit also is that you have a longer lifetime of that type of equipment and you also gain flexibility. So maybe you don't need as many lines any longer when you have the flexibility there.

Okay, here.

Mattias Holmberg ***DNB Markets, Research Division - Analyst***
Mattias Holmberg from DNB Markets. You gave us some outlook on your market share development looking forward, which seemed positive in essentially all regions and product categories, but I noticed that China stood out as being flat or maybe even slightly down in the coming years. Could you elaborate a bit on that?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
Yes, I think, I mean, on the short term, we had a flat development from up to '23 there. And I would say it's more related to the shorter visibility we have in China as the time horizon from when you get awarded to starter production is much shorter than what we see in the rest of the world here where you have the 18 to 36 months. You have much faster implementation in China; therefore, lower visibility. So maybe we are more cautious there when considering that.

Hampus.

Hampus Engellau ***Handelsbanken Capital Markets AB, Research Division - Automotive Analyst***
I just have one follow-up question again on these targets, but it's more maybe getting into nitty gritty, but I think it's important. When you say the light vehicle production 1% to 2% starting year 2020, is the 2020 base, the IHS numbers for 2020? Because if that base gets changed, your outlook is going to get changed also, like we saw on previous estimates for 2020, starting in 2017.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***

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The basis from where we will end up in '19, right?

Christian Hanke ***Autoliv, Inc. - Interim CFO, VP & Corporate Controller***
Exactly.

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
So from '19...

I think we have one last question down there.

Richard J. Hilgert ***Morningstar Inc., Research Division - Senior Equity Analyst and Securities Analyst***
Richard Hilgert with Morningstar. Just a couple of brief questions. First one, we heard a lot in the plant tour about how you weren't bringing in extra machinery other than maybe a robot here or a robot there and the tooling was just reorganized in many instances. Just wondering how far are you able to take that kind of capital reuse across the company? And do you have any kind of numbers, 40%, 60%, 70%? How much capital reuse you'll have over the next few years? And then in your organic growth numbers, what's the implicit annual contractual price downs going forward?

Mikael Bratt ***Autoliv, Inc. - President, CEO & Director***
I think on the first question, we have no number of that detail to give you today. But when you go to AUA later in the afternoon and get an update on what's going on in terms of driving then the optimization agenda here, they will give you a little bit more flavor to how that will be rolled out in the company here. And when it comes to the annual price downs, there's no change to what we have guided before, the 2 to 4 year-over-year price. So we don't see any changes to that.

So I think that conclude -- maybe one last question if there is one. Okay. We have one more opportunity at the dinner so we can bring some additional questions to the table there.

So with that, it concludes this session, and I hand over to Anders to guide you through the next steps here.

Anders Trapp ***Autoliv, Inc. - VP of IR***
Yes. I have the very important task of informing you about that lunch is now going to be served. A very efficient lunch, only 30 minutes.

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