Autoliv

Q1 Report 2019

Friday, April 26th, 2019

Welcome and Introduction

Anders Trapp

Vice President of Investor Relations, Autoliv

Welcome, everyone, to our first-quarter 2019 earnings presentation. Here in Stockholm we have our President and CEO, Mikael Bratt; our interim Chief Financial Officer, Christian Hanke; and myself, Anders Trapp, Vice President of Investor Relations. During today's earnings call, our CEO will provide a brief overview of our first-quarter results, as well as providing an update on our general business and market conditions. Following Mikael, our interim CFO, Christian Hanke, will provide further details and commentary around the Q1 '19 financial results and outlook for full year '19. At the end of our presentation, we will remain available to respond to your questions, and, as usual, the slides are available through a link on the homepage of our corporate website.

Turning to the next page, we have the safe harbor statement, which is an integrated part of this presentation and includes the Q&A that follows. During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-Q that will be filed with the SEC. All figures in this presentation refer to continuing operations, i.e., excluding discontinued operations.

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 turn it over to our CEO, Mikael Bratt.

Q1 Highlights

Mikael Bratt

President and CEO, Autoliv

Q1 '19 Key Events

Thank you, Anders. Overall, our results were in line with our expectations, despite the fact of the labor conflict in Mexico. Our people did a good job managing the largest quarterly light vehicle market decline in the past decade. The sharp decline in light vehicle production was more than offset by continued growth from recent launches. We were able to outpace global light vehicle production by almost nine percentage points. However, we have experienced continued headwinds from raw material pricing, which, together with the lower capacity utilization in some regions and launch-related costs, significantly more than offset the operating leverage on the sales growth. We saw a clear improvement in launch-related costs compared to the fourth quarter of 2018, although we still expect it will take a few more quarters to be back at normal launch cost levels.

The market-driven decline in running production and the ramp-up of the many new launches created a challenging situation for the organization. It needs to accelerate and brake at the same time. Additionally, new launches, as is normal, have lower profitability until production is fully ramped up to the designed line capacity.

We have implemented a number of actions to mitigate the effect from the lower light vehicle production. We had a solid operating cash flow in the quarter, enabling us to exceed last year's level for continuing operations. Also, although I am pleased that the social unrest in Mexico is closed, I am never satisfied when we have disturbances and cost increases for us and the customers. The strike was not directed towards Autoliv as a company. It involved 59,000 people in the city of Matamoros. The strike started with workers in the factories of 45 different companies and eventually extended to 100 companies.

Our order intake share remains at a good level, while OEM order activity was relatively modest in the quarter.

Q1 '19 Financial Highlights

Executing on the strong order book, this quarter marks the fourth consecutive quarter of substantially higher organic growth compared to the market. Our consolidated net sales declined by 3% compared to the same quarter of 2018, impacted by weaker currencies, with organic sales increases close to 2% despite the global light vehicle production falling by close to 7%.

Adjusted operating income, excluding costs for capacity alignments and antitrust-related matters, decreased by around 32% from $245 million to $166 million, impacted by the strike in Matamoros, elevated launch-related costs, uneven utilization of assets and raw material pricing. The adjusted operating margin decreased by 320 basis points to 7.7% compared to the same quarter of 2018. Excluding the temporary effects of the Matamoros conflict, we would have been 100 basis points higher, or one percentage point higher. Diluted EPS decreased by $0.55 compared to the same quarter of 2018, almost entirely as a result of lower operating income, partly offset by lower effects from tax items.

Market Conditions Q1 '19

The negative trend that started around nine months ago has accelerated in the first three months of this year. In the first quarter of 2019, global light vehicle production is estimated to have fallen by close to 7%, according to HIS: the worst Q1 performance since the financial crisis in 2008-2009.

China

China's new light vehicle market continued to decline in March, but at a slower rate than recent months. Wholesale dropped 6.9% after slumping 17% in the first two months. However, the decrease in new vehicle sales at retail in the first quarter was much milder, indicating destocking at dealers.

Americas

US light vehicle sales surged in March to a SAAR of 17.5, strongly rebounding from sluggish results in the first two months of the year. Inventory increased by 260,000 units during the quarter to 4.1 million. However, we believe that the inventory is not enough above the estimated optimum level that it should be considered a problem. As a result, light vehicle production in North America decreased by 2.6%, which was three percentage points lower than the regional forecast at the beginning of the quarter.

Europe

European light vehicle production declined by 4.9% in the quarter, continuing the downward trend that started with the introduction of WLTP in September. The decline was concentrated in the important West European market that dropped 7%, while Eastern European production decreased by 0.6%.

Q1 '19 Sales Growth

Despite the largest quarterly decline in LVP since the financial crisis, our growth momentum continued in the first quarter. The growth was mainly driven by the large number of product launches in North America, but also supported by positive development in the rest of Asia, especially India and Thailand. Consolidated net sales in the first quarter declined year over year by 3% to $2.2 billion, with an organic growth of 2% offset by negative currency translation effects of 5%.

Regional organic growth

In the quarter, North America contributed $79 million to the organic growth. The sales were driven by previous quarters' product launches, mainly with FCA, Honda and Nissan. The organic growth of close to 13% was 15 percentage points higher than the light vehicle production growth.

Our sales in South America increased by 16% organically, despite a weak LVP.

In Europe, we have been affected by weaker demand from a number of OEMs. Despite the negative mix with the important West European market declining more than the Eastern European market, our sales decline was in line with the region's LVP. One of the key sales drivers in the quarter was steering wheels to Daimler, where we replaced another supplier on several running car models.

Sales in China declined organically by 4%, outperforming light vehicle production by around ten percentage points. The lower sales were mainly a result of domestic OEMs falling 16% organically, which is basically in line with their LVP. This was partly offset by higher sales to global OEMs, largely due to stronger performance with Honda and VW.

Sales in rest of Asia outgrow light vehicle production by more than six percentage points. The growth was mainly driven by sales to Japanese OEMs such as Toyota, Suzuki and Honda.

Q1 '19 Key Model Launches

Here you see some of the key models which have been launched during the first quarter. We continue to have a high level of launch activities to support new vehicles to be introduced over the coming quarters. These models are well distributed across the globe. We are pleased to show a new model, the Range Rover Evoque, with pedestrian protection airbags.

I want also to especially mention Toyota Corolla, as it is a truly global model which will be built in North America, Europe and China, and we have increased content in this generation.

I will now hand over to our interim CFO, Christian Hanke, to speak to the financials.

Q1 Financials

Christian Hanke

Interim CFO, Autoliv

Q1 '19 Financial Overview

Thank you, Mikael. We have our key figures for the first quarter, including negative currency translation effects of around $106 million and organic sales growth of $39 million. Our consolidated net sales reached $2.2 billion. Our gross margin declined year-on-year. The net operating leverage on the higher sales was more than offset by higher commodity costs and costs related to the preparation for upcoming launches, as well as ramp-up of recent launches. Additionally, we experienced lower capacity utilization in most regions due to the sharp drop in light vehicle production and temporary costs related to the strike in Matamoros.

Our adjusted operating margin of 7.7% declined year on year, mainly due to the lower gross profit and the slightly higher RD&E and SG&A in relation to sales, although they were roughly unchanged in absolute dollar amounts. Our reported EPS decreased by $0.55, mainly as a result of lower operating income. Our adjusted return on capital employed and return on equity were 19% and 22% respectively. Our dividend of $0.62 was $0.02 higher than the year earlier.

Adjusted Operating Margin Bridge

Our adjusted operating margin of 7.7% was 320 bps lower year on year. As illustrated by the chart, the adjusted operating margin was impacted by higher raw material costs of 80 bps and 30 bps from SG&A and RD&E, slightly offset by 25 bps from positive FX effects. In addition, we had temporary costs for the social unrest in Matamoros, Mexico. Excluding this cost, our adjusted operating margin would have been 100 bps higher than the 7.7%. The negative leverage on the higher sales was as a result of higher RD&E expenses, other launch-related costs and underutilized capacity of our supply chain, production and logistics systems. The 10 bps higher RD&E was driven by the high number of product launches, especially in China. In the quarter, launches in China alone rose by more than 80%.

Lifecycle Profitability

The profitability development of our products usually follows a typical generic product lifecycle that is illustrated on the slide down in the right-hand corner, and I will try to explain in generic terms the principles behind how profitability over a lifecycle works out. So please bear with me here for a few moments.

During the development phase, costs will be expensed, diving RD&E expenses without additional income. We also invest in new production equipment at this stage. In the introduction or launch phase, revenue is not enough to cover all of the additional expenditure to launch products.

During the growth or ramp-up phase, volumes increase and productivity improves. Results typically move from loss to profit, and we start to recover engineering and launch costs. In this phase, continuous improvement activities are implemented to improve productivity and profitability further.

So, continuing with the quarter, the sharp drop in LVP has mainly affected our more mature products, which have generally higher profitability, and therefore there is a greater impact from products that are in the earlier phases of their product lifecycle. This has subsequently resulted in the period with the product mix carrying lower profitability. Despite this negative mix development, our Q1 performance was in line with our expectations, supporting our full-year indication.

Cash Flow Continuing Operations

Operating cash flow was strong in the quarter and amounted to $154 million, almost twice the level achieved for continuing operations in the same quarter of 2018. Capital expenditures amounted to $108 million in the first quarter, which is about 5% in relation to sales. In the first quarter of 2018, capital expenditures for continuing operations were $110 million, or 4.9% of sales. For the full year '19, we expect capital expenditures to decline in relation to sales as the ratio begins to normalize towards the historical range of 4% to 5%.

Looking at our full year '19, excluding any discrete items, we expect our operating cash flow for continuing operations to improve year on year.

EPS Development

Reported earnings per share declined by $0.55 to $1.27. The main drivers behind the decrease are $0.65 from lower operating income and $0.05 from higher financial net, partly offset by lower tax and lower costs for capacity alignments and antitrust-related matters. In Q1 '19, the adjusted earnings per share decreased by $0.63 to $1.20, compared to $1.83 for the same period one year ago.

Strong Balance Sheet and Prudent Financial Policy

As you know, we have a long history of prudent financial policy. Our balance sheet focus and shareholder-friendly capital allocation policy remains unchanged. Autoliv's policy is to maintain a leverage ratio of around 1x net debt to EBITDA, within a range of 0.5x to 1.5x. As of 31st March 2019, the company had a leverage ratio of 1.6x, which is 0.1x higher when compared to 31st December 2018. The main reason for the increase is the lower EBITDA in the quarter.

Our strong free cash flow generation should allow deleveraging and should allow continued returns to shareholders, while providing flexibility. We are aiming to be well within the target range by the end of the year 2019, despite the fine for the remaining portion of the EC investigation that will be paid in the second quarter. This excludes any other discrete items and other non-foreseeable changes to our business.

Market Development

The outlook for major light vehicle markets has become increasingly more uncertain, due to weaker consumer confidence, trade tariffs and regulatory changes. According to IHS, the US market is seen as slightly down, while Europe and China are expected to stabilize from the recent volatility. Since January, IHS has reduced its full-year 2019 expectations of global light vehicle production by 1.9 million units to 90.4 million, a reduction by two percentage points.

The WLTP impact in Europe has faded. However, we see an increasing risk for uncertainty among end consumers on what drivetrain technology to choose. Corporate and fleet sales seem to be less affected. Other factors to watch are effects from Brexit and the new real driving emission testing, RD&E, that will be mandatory from 1st September.

In China, IHS expects the softness to continue in the second quarter, forecasting a decline of about 3% in light vehicle production year over year. As inventory levels are relatively high and the recent trend in sales has not substantially improved, we believe there is some downside risk to this estimate. However, we have heard encouraging positive signals from a number of OEMs in China pointing to a better second half of 2019. Additionally, policymakers have outlined plans to implement more stimulus measures to boost the economy.

Our base scenario for global light vehicle production in 2019 is in line with the IHS estimate of a decline of 1%. We expect to outgrow light vehicle production at a similar level as we did in 2018, which was almost six percentage points.

Financial Outlook 2019

We have summarized our full-year ’19 indications, Despite the weaker than expected market development, higher costs for raw materials, and costs related to the Matamoros strike, our full-year 2019 indication, excluding currency translation effects, remains unchanged since we last reported in January. Full-year indications assume mid-April exchange rates prevail and exclude costs for capacity alignments and antitrust-related matters. Our full-year ’19 indication is for an organic sales growth of around 5% and a negative currency translation effect of around 2%, resulting in consolidated net sales growth of 3% for 2019.

Our indication for the adjusted operating margin is around 10.5% for the full year. We expect the 2019 raw material costs increase to be at least as much as it was in 2018. We anticipate the currency effect on the operating margin for ’19 to be neutral. The projected tax rate, excluding unusual items, is expected to be around 28% for the year.

The projected operating cash flow, excluding any discrete items, is expected to improve compared to ’18. The projected capital expenditures in relation to sales for full year 2019 is expected to decline compared to the 5.6% for continuing operations in 2018. The projected RD&E in relation to sales for full year 2019 is expected to decline compared to the 4.8% for continuing operations in 2018. We expect the leverage ratio to be well within our target range of 0.5x to 1.5x by the year-end 2019, excluding any unforeseen discrete items.

I will now hand it back to Mikael for some closing remarks.

Summary and Outlook

Mikael Bratt

President and CEO, Autoliv

Focus Areas to Achieve FY ’19 Indication

Thank you, Christian. As you know, we always strive for improved products, services, processes and costs. These continuous improvements have been and remain key for Autoliv in improving profitability and winning new contracts. Geopolitical uncertainty has been increasing. Volatile raw material prices, trade tariffs, Brexit and new emission regulations, as well as more local issues such as increasing difficulties to pass the border between Mexico and the US. These developments lead to increased uncertainty. As a company, we are taking a proactive approach towards these geopolitical challenges. We aim to address volume and cost challenges with cost reduction activities, including higher increase, reduction of temporary personnel and other cost measures. We have implemented actions to improve effectiveness of the product launches, which already have led to significant improvement and, over the course of 2019, we expect to improve our product launch cost effectiveness further.

In addition, as the number of launches is stabilizing at the new higher level, we believe we can gradually increase focus on productivity improvements through operational excellence, while our launch-related costs gradually decline. In parallel, we are streamlining product design and engineering to speed up new launches and improve engineering efficiency. We are managing raw material cost increases by seeking various forms of compensation, by reengineering our products and by other measures. As the light vehicle market may remain volatile, we will monitor and manage accordingly, while we never lose focus on saving more lives.

Capital Markets Day 2019

Autoliv will host its next Capital Markets Day for investors, analysts and financial journalists on 19th November 2019. The purpose of the event is to give an update on the strategy and development of the Autoliv Group and its worldwide operation. We are happy to invite you to our launch hub in Salt Lake Area, Utah, USA, where we have the world's largest inflator manufacturing facility as well as the complete chain of production from propellant to initiator, inflator and final assembly of airbag systems, as well as the seatbelt systems.

Going forward, after our spin-off of Veoneer, we have a solid foundation for continued growth, and an even stronger focus on creating shareholder value and saving more lives. The day will give participants a more in-depth understanding of our continuous improvement activities and our journey towards Industry 4.0. We will also demonstrate innovation in automotive safety, as well as in adjacent product areas, and discuss the road ahead beyond 2020. I hope to see all of you at our 2019 Capital Markets Day.

With that, I will now hand back to Anders.

Q&A

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

James Picariello (KeyBanc Capital): Just trying to dig into the launch-related costs in the quarter, trying to get a sense for if you could quantify maybe what that looks like in the quarter and what your expectations are for the remainder of the year? It sounds like there is going to be some still over for the next quarter or so, just trying to get a bridge to your full-year framework and really digging in on the launch-related stuff.

Mikael Bratt: As we have described earlier, we saw elevated launch costs during 2018 here, and we have indicated that it will take several quarters for us to get that back into the level where it should be. We also talked about the number of measurements that we took to make that happen and that we would see a gradual improvement during 2019. What we are saying here now is that those measurements are biting and getting effects and seeing the effects to our bottom line. We are tracking towards the expectation to see that gradually improve during 2019. We have not quantified it before and, of course, we cannot quantify it, or we will not quantify it, here now in the quarter either, but the message here is really that we are following our plans to resolve that situation.

James Picariello: Understood. I guess, maybe asked another way, I know you are not providing quarterly guidance, but can you just give us a sense maybe of the first-half or second-half cadence that gives you the confidence in the full-year framework?

Mikael Bratt: No. As we stated when we gave the guidance for the full year, it was said that the first half of '19 will be the tougher part of the year, and then more improving during the second half-year. In that sense, it is the back end of the year where the gradient of the improvement here will be seen. We have said that, connected then to the light vehicle production development and, of course, our own launch cost situation here, that also is gradually improving during the year.

James Picariello: Okay. Then just one on the recent announcement by the US on expanding their probe for the ZF's airbag control unit; I believe it is now 12.3 million units. Would this may potentially require the replacement of the airbag itself, or just the DCU? Just trying to get a sense for whether this could be an additional replacement opportunity for you.

Mikael Bratt: We do not have any information about this. This is a specific question related to ZF and its DCU component there that it is related to, so it is a ZF-specific question. No report on that.

Agnieszka Vilela (Nordea): I have a question on your statement that Q1 result was in line with expectations. Do you mean your sales performance in the quarter, or do you also mean the underlying EBIT result?

Mikael Bratt: We also mean the underlying result here. As we stated here, we saw a year here where the first part of the year is more challenging. With that forecast, we had leading up to the 10.5% EBIT adjusted EBIT margin, we are following that. And, as we indicated here, we are in line or slightly better even if you consider the issue we had here.

Agnieszka Vilela: Okay, and the Mexico issue was known when you guided for the full year already? Also, what do you think about the kind of inflationary pressures for labor in Mexico going forward?

Mikael Bratt: The Mexico was not known for any of us at the time when we guided for the full year. So that was not included in our plans here. This was an isolated situation with the social unrest in the Matamoros area, and we have no indications or signals or thinking around that it should mean inflationary pressure on Mexico in large. This is an isolated question.

Agnieszka Vilela: But the minimum salaries in Mexico are rising, and you have 20% of your headcount in Mexico. Is it not affecting you?

Mikael Bratt: No. I think, when it comes to minimum wages, we were on the right side of that from the beginning. So that had a very limited impact to us, as we were on the right side, so to speak, on that, but then this was on top of that, and it was, as I said, a social unrest in that particular area. I would say that what you are referring to here as the minimum wage increases, that is already managed and taken care of in our own books, so to speak.

Garrett Klumpar (RBC Capital Markets): This is Garrett on for Joe. Looking at your guidance, can you just walk through the factors that give you confidence in hitting the 10.5% margin target for the year after the 7.7% in 1Q? I mean, it seems like you need to average in the mid-11% range for the rest of the year, which would all seem like record quarters. So just walk us through the confidence of hitting that, and then what is driving the implied improvement.

Mikael Bratt: We see that with the financial plan we had for the full year, we are starting in the first quarter in a good way with the underlying performance here, and we are in line or slightly better than what we saw there, even considering the additional headwinds we saw in the first quarter. I think the organization here managed the sharp decline in a very good way, and I would say also the recovery work around the Matamoros situation, even as we see here, came at a cost. So that gives us confidence around the underlying performance.

Then, as we said here, it is built on an improving second half here from the beginning, and it is also related to the light vehicle production. We are not changing our projection there. I mean, we had minus 1% light vehicle production already when we guided for the full year, and it still stands. And we also now see that IHS has come in and shown also minus 1%, so that is also according to plan. Then also our improvements, as I said, in the elevated launch costs is giving results, and also there we can see that is biting and giving confidence for the rest of the year, based on what we saw in the first quarter.

But, of course, the bar has raised with this additional headwind, but really the actions that we are taking now on a group level here, on everything from hiring freeze to reviewing all types of costs and spending and projects here to mitigate that, let us call it, additional headwind here. We are working on it and according to our plan.

Garrett Klumpar: Okay. That is helpful. Then, just on the light vehicle production declines having a disproportionately negative impact on the mature platforms, the outlook for 2Q light vehicle production is also challenging. Will that kind of margin impact not repeat in 2Q?

Mikael Bratt: Yes. I think, of course, the mix of that is difficult for us to see exactly at this point. But, as I said, we indicated already in our regional plan guidance that Q1 and Q2 would be challenging, and that we see now also especially in China. But when it comes to the overall light vehicle production on an aggregated global level, I think we have no reason to believe that it should be worse than what we have said here at this point in time, and also the positive signals we get from some of our local OEMs in China indicating also a better second half of ’19 there.

Andrea Abouchacra (One Investments): First, when looking at your moving parts on margins and the current mix, do you need car production to return positive growth to see net benefit in profitability, given the unfavorable mix that you have between the established business and the new launches?

Mikael Bratt: Our guidance is based on the light vehicle production I referred to here, and which we will set to minus 1 for the full year. That is the baseline for our assumptions here. So, no, this does not need to be improved from ’18.

Andrea Abouchacra: Okay. Thanks for the slides. Slide 9 is very useful to understand the path for the new product cycle. I was just wondering what is the timing for the introduction and lead time for the new launches to reach at least group profitability, if you can us a sense? How long is the introduction phase, on average?

Mikael Bratt: As a generic description of how long it takes to get the program up to the expected performance level, I would say it is a two-/three-year time lag until you get to, let us call it, the peak level or the expected level, so you have a ramp-up period that is relatively long. And the challenge for us now, of course, is this situation where we have a sharp decline on the running portfolio as a consequence of the light vehicle production at the same time we have exceptionally high launch activities here. So the portion of the portfolio there, and the mix effect of that, is of course impacting us here. The ramp-up of the program takes a longer time.

Andrea Abouchacra: Right. If I may, just a last one. If you can give us an indication of what was the capacity utilization in Q1, or at least how much lower was the year-over-year?

Mikael Bratt: As you know, our production is an assembly line. It is very much dedicated lines to respective programs, so, in order to give a meaningful number there, you need to look at each line to get that. So it is not on an aggregate level we look at that. We are of course measuring OEM, etc., per line and in the respective plans, depending on what they are doing. There is a big difference in our different processes here. Unfortunately, I cannot give you a total number for the company in that respect. It needs to be more on a lower level, so to speak. Of course, a 7% brake has an impact.

Erik Paulsson (Pareto Securities): I was wondering about the pedestrian protection airbag that you now launched for the Range Rover Evoque here. What is your market expectation going forward for this type of product? And do you think it will be a standard, and if it will be a standard, how long will this take in the different geography markets, let us say?

Mikael Bratt: The pedestrian airbag is something that we have had and worked with for quite some time. And of course we see a gradual increase, not a strong increase at this point in time, but the interest is increasing. Half of the fatalities on the roads are linked to what we call the vulnerable road users where the pedestrian airbags come into play. And we also see that with electrical vehicles, where it is not easy to discover them as they are very silent, there are incidents also where the vulnerable road users are exposed. And there we see also increasing interest in those types of vehicles. Gradually, we see the increase of the interest here. I would not like to say that it is a meaningful ramp-up here in the short term, but in the medium term we see good opportunities here.

Cyprian Yonge (Bernstein): Thanks for taking my questions. I had a couple with regards to your discussions with your customers, firstly on pricing. Are you seeing any higher price pressure than normal, or any higher-than-normal price reduction requests, or are you still in that 2% to 3% range that you give?

Mikael Bratt: No, I cannot say that I see higher pressure. I would say it is always a very competitive business, and has been. We are still within that range you are mentioning in 2% to 4%, so no changes there.

Cyprian Yonge: Okay, and the second one on raw materials. You said you are negotiating reimbursement with your customers. What level of reimbursement are you assuming in your full-year guidance for the raw material headwinds?

Mikael Bratt: WE do not have any mathematic pass-through on raw materials here. It is always a commercial discussion, and we cannot have a figure for you here to say how successful or unsuccessful we will be in that dialogue. Part of the activities we have here when it comes to managing the raw material as such is working with our suppliers to see how we can control it, and then also working with our customers to see how we can offset it. And it depends, of course, also on what the material increase looks like; if it is ordinary fluctuations or if there is a specific situation that calls for compensation to the whole value chain here. That is a constant work ongoing here. What we said here is that the 40 basis points raw material increases we have indicated for 2019 year over year is, as a result of this, most likely to increase with another 20 basis points here, so we are talking 60 basis points for the full year here, and that is the net effect that we are seeing there.

Julian Radlinger (UBS): Two from my side. For the first one, just a clarification on whether you are including the Mexican labor issues that you have experienced in Q1 in your full-year guidance? And if you are including them, is it right to say that you just lost around $20 million of EBIT for the full year in Q1 that you think you can get back in the remainder of the year and, because of that, you are maintaining the 10.5% margin guidance? Or how should we understand it?

Christian Hanke: Well, it was not included in the regional guidance when we gave it in connection with Q4, but it is included in the guidance and the confirmation of the guidance of the 10.5% now, so we expect to be able to offset that through our work here that we are doing for the remainder of the year. That is where we are.

Julian Radlinger: Okay. So could I say that you have implicitly gotten more optimistic about the cost reductions or efficiency improvements and so forth you think you can achieve in the remainder of the year, versus two months ago or three months ago?

Christian Hanke: I would refrain from saying more optimistic or less optimistic. I have to conclude that we are tracking according to our own plans here towards the 10.5% and, with the Matamoros situation, we are saying that we believe that we should be able to manage that as a part of the work that we are doing in the remainder of the year here, and possibly that the bar has increased, but we believe it is doable.

Julian Radlinger: Okay. And then my second question is regarding the 135 bps operational headwinds that you show in your operating margin bridge. I am a little bit surprised about that because, in Q3 and Q4, mature markets like Western Europe were also down quite substantially, and yet the operating headwind part of your EBIT bridge was not as negative – not even close to as negative – as it was now. And on top of that, now you are saying that launch costs were actually less of a headwind in the bridge versus Q2, for instance. Can you just explain what was different about Q1 now, the headwind from these mature platforms or in these mature markets, compared to Q3 and Q4?

Mikael Bratt: If you look at the sequential development here from Q4 to Q1, what is happening here also is that you have the seasonality effect here. Q4 is a strong quarter when it comes to engineering income, so you get some positive effects from that. Also, in the numbers you see here for Q1, we have the Matamoros, which is one percentage unit included there. So, in income, Matamoros alone is 200 basis points, and then you have the ordinary seasonality between the quarters here, where Q1 is a weaker quarter. You have to consider those factors also when you look at the different quarters in the year.

Julian Radlinger: Okay. I am honestly a little confused about that, because the bridge is a year-on-year bridge, not a quarter-on-quarter bridge.

Mikael Bratt: Yes, but your question was in relation to Q3 and Q4, so that was why I thought you were talking about that reference. Because if you look at year-over-year, then I think it is a fact, as we have described here, the different components here. We have the raw materials, 80 basis points; we have the Matamoros 100 basis points; and you have then the operational headwinds with 140 basis points where, of course, the known ramp-up portion of the portfolio is even higher this year than last year. The portfolio mix impact becomes stronger the more we ramp up new programs. At the same time, the light vehicle production of the running portfolio is coming down.

Erik Golrang (SEB): I have two questions. The first one is on the organic growth guidance for the full year. Should we read it as, for the second half, primarily based on IHS on the underlying market, but for the second quarter it is a blend of your own call-offs and the IHS number, given that you say that there is downside pressure to IHS? Is it a mix, more or less?

Mikael Bratt: Yes, you could say that and when we launched the first half of the year, we saw a little bit weaker market than what IHS had at the time. What has happened since the Q4 earnings call is that IHS has now come to where we were, meaning minus 1% for the full year, so we start to correlate there.

Erik Golrang: But your own input limits itself to the near term?

Mikael Bratt: Yes. The second half is fully IHS, yes.

Erik Golrang: Then the second question is on the raw materials side – 80 bps headwind in Q1. Did I hear correct that you expected 60 bps headwind for the full year?

Christian Hanke: For the full year, yes. That is correct.

Erik Golrang: And that is up from previously, right? Was that the case previously as well?

Christian Hanke: Yes. Before, we expected 40 basis points from ’18 to ’19. Now we are saying those 40 to 60.

Erik Golrang: Okay. You have had the headwind both from the Mexico issues and additional raw mat pressure, but you are still sticking to that full-year guidance? I guess this is a repeat of a previously asked question, but there is quite significant room for improvement there that you have now been able to identify.

Mikael Bratt: Yes. The bar has increased, for sure, but as I said, what we see in the first quarter in terms of our underlying performance, and in relation to our own forecast there, we have started well in the first quarter.

Steven Hempel (Barclays): This is Steven Hempel on for Brian. Just a quick question on the temporary personnel cuts that you called out. It sounds like that could be one of the key drivers around an operational improvement or margin improvement to offset the headwinds that have been discussed. Just wondering if you can give us some color as to the regions and product areas where you are making the cuts. It sounds like this is one of the key areas that is helping offset some of the operational headwinds you saw in Mexico in 1Q, along with the raw material headwinds?

Mikael Bratt: We are assessing that plant by plant, function by function, where we need to do adjustments wherever we can, take out the temporary personnel, etc. I would say it is not a cheese slicer here. It is really surgical where we have the opportunities in different areas. What we have done, though, compared to ordinary course of business here is that we have taken a more group view on activities there and tracking the progression on the activities connected to that.

Steven Hempel: Okay. Would you say that is the key driver of the margin offset from the headwinds related to higher raw mats in 1Q and the Mexico issue? Or are there other key drivers outside of it?

Mikael Bratt: There are, of course, other activities also. It is a range of activities you need to do this. First of all, it is to do what we have described here to make sure that the launch cost is completely gone and that we get productivity where it should be, and we are looking at discretionary spending. We are reviewing our different CAPEX projects. We are looking at the situation, as we may have mentioned, etc. It is an array of different initiatives and activities.

Hampus Engellau (Handelsbanken): If you could comment on the market share in order intake during the quarter and if it is new OEMs or if it is already-won OEMs that are adding more models to the order that is driving market share currently? Second question is if you could maybe update us on this electronics/mechatronics business that you are setting up and what that is targeting?

Mikael Bratt: On the new order intake side, we do not give number percentage more than for the full year or once a year. But, as we said in the report, it continued on a good level also in the first quarter here, and it is several OEMs making up the total order intake here. I would say we have, also on a global perspective, good distribution there, so it is not only in one region either here. I would say, in terms of distribution of orders, it is a normal pattern, so nothing particular there.

When it comes to the electrical and mechatronic activities, it is a part of, you could say, our tech centers and our RD&E capabilities to meet the customer demands when it comes to, let us call it, the electrification or power type of products. If you look at the steering wheels with HMI features, that needs to be there. It is also in seatbelts and airbags communication with the rest of the vehicle, etc. There are a lot of opportunities for us to have more sophisticated and involved product also as the vehicle in itself allows those possibilities here. That build-up is also going on according to plan here. It is a part of the work where we have the focus today.

Hampus Engellau: Is there any overlap with what Veoneer is doing in the business you are setting up?

Mikael Bratt: No. This is absolutely not overlapping, and it is not the type of either products or communication that they are working with. Our portion here is what you see in other types of areas where the products have the capabilities of communicating through the new technology that is coming. It is more to create the interfaces here.

Alexandre Raverdy (Kepler): I just had one last, please, on RD&E testing. What do you hear from your customers? Do you feel that there will be some sort of disruption in the production, or do you feel that they are much better prepared than last year?

Mikael Bratt: It is difficult for us to have an insight in it more than what the customers are telling us, and from their side, we do not see any disruption here. But, of course, we were listing it here because that is something, of course, that we need to keep an eye on, so we follow the development. It is less of a rigid process than WLTP was, so I think there is a better chance to have a smaller introduction of these new testing units, but we need to keep it on the radar screen here. That is the thing.

Before we end today's call, I would like to say that we will continue to execute on our growing business volumes and new opportunities with a never-ending focus on quality and operational excellence. Also, I should mention that our second-quarter earnings call is scheduled for Friday, 19th July 2019. Once again, thank you to everyone for participating at today's call. We sincerely appreciate your continued interest in Autoliv and hope to have you on the next call. Goodbye, and wish you all a nice weekend.

[END OF TRANSCRIPT]