Q3 2020 Report

Friday, 23rd October 2020

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Autoliv, Inc. Q3 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. To ask a question during the session, you need to press star one on your telephone. I must advise you that this conference is being recorded today.

I'd now like to hand the conference over to Anders Trapp, VP, Investor Relations speaker. Please go ahead, sir.

Introduction

Anders Trapp

VP, Investor Relations, Autoliv, Inc.

Agenda

Thank you, Nadia. Welcome, everyone, to our Third Quarter 2020 Financial Results Earnings presentation. On this call, we have our President and CEO, Mikael Bratt; and our Chief Financial Officer, Fredrik Westin; and myself Anders Trapp, VP, Investor Relations.

During today's earnings call, our CEO will provide a brief overview of our third quarter results as well as provide an update on our general business and market conditions. After Mikael, Fredrik will provide further details and commentary around the financials. 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.

Safe harbour

Turning to the next slide. We have the safe harbour statement, which is an integrated part of this presentation and includes the Q&A that follows. During 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.

Lastly, I should mention that this call is intended to conclude at 3:00 p.m. CET. So please follow a limit of two questions per person.

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

General Business and Market Conditions

Mikael Bratt

CEO, Autoliv, Inc.

Q3 2020 highlights: Sales, profits, and cash flow better than Q3 2019

Focusing on health and safety

Thank you, Anders. Looking now into the Q3 2020 highlights on the next slide. Before we start with the formal presentation, I would like to acknowledge our employees for their hard work and commitment to health and safety, cost control, quality, and delivery precision in these challenging times.

The COVID-19 pandemic is, first and foremost, a human crisis, where safeguarding health and safety is our first priority. I am very pleased that our operations reported higher sales, higher profit margins, and higher cash flow, compared to last year, despite challenging market conditions. The strong performance was a result of faster than expected light vehicle production recovery and the forceful actions we initiated earlier in 2020 to manage the effects of the pandemic on our operations.

Sales growth despite global light vehicle production (LVP) down 4%

The LVP recovery is – in the quarter started slow and volatile, but grew gradually stronger and more stable, supported by incentives, pent-up demand, and inventory restocking post-lockdown. We continued to execute on our strong order book and our sales increased despite global LVP falling by over 4%.

Adjusted operating margin improving year-on-year

To manage the evolving situation, we have accelerated cost savings, reduced expenses, and strengthened our balance sheet. This includes personnel and material cost reductions and executing on structural efficiency programmes. I am confident that the actions implemented and planned are positioning Autoliv well, regardless of how the market will develop.

Strong cash flow and strengthened balance sheet

It is encouraging that we can report the strongest operating cash flow in our history for the third quarter and that we were able to reduce CAPEX by close to 40% compared to a year earlier. This enables delivering towards our target to a leverage ratio in the range of 0.5x to 1.5x.

The order intake in the first nine months of the year supports a prolonged period for outgrowth. However, customer sourcing activities was, as expected, low in the quarter, with more than half of planned sourcing for the year expected in the fourth quarter.

We see the positive sales trend continuing in the first weeks of the fourth quarter. However, economic uncertainty, risk for further lockdowns, and the risk of increasing unemployment and its impact on consumer demand may temper the outlook for the fourth quarter light vehicle production.

Q3 2020 financial highlights

Organic sales growth despite market decline

Looking now on the financial highlights on the next slide. Our consolidated net sales increased 0.5% compared to Q3 2019 despite the global light vehicle production falling by more than 4%.

Adjusted operating income, excluding cost for capacity alignments, antitrust-related matters, and in 2019, separation of our business segments, increased by 13% to $206 million mainly as a result of our forceful cost reduction activities. The adjusted operating margin increased by 110 basis points to 10.1%, which is the second highest margin for a third quarter in the past ten years.

Operating cash flow of $352 million and free cash flow of $276 million were significantly above the Q3 2019 levels and the highest cash flow on record for the third quarter.

Q3 2020 sales growth

Outperforming LVP in all regions

Looking now on sales development on the next slide. I am pleased that our sales outperformed organically the global light vehicle production by almost 5% with outperformance in all major regions.

We had a solid sales development in China, growing organically by more than 10%, outperforming light vehicle production by close to two percentage points.

Sales in North America increased organically by around 2%, which was more than two percentage points better than the light vehicle production. Our outperformance was mainly coming from positive vehicle mix and recent launches with several customers such as Tesla, VW, and Toyota.

In Europe, the trend from previous quarters continued as our sales outperformed light vehicle production by three percentage points, impacted by recent launches at PSA and Toyota.

In Japan, the light vehicle production mix was negative, with production of smaller vehicles for the domestic market being less affected by the pandemic than larger export vehicles. Despite this, our sales decreased organically, in line with the light vehicle production decline.

In rest of Asia, organic sales increased by 5%, which was 22 percentage points better than the light vehicle production decline. Within the region, sales in South Korea showed a strong increase. In the quarter, slowing sales of replacement inflators had a 0.6 percentage point negative effect on sales mainly affecting North America, China, and Japan.

Q3 2020 key model launches

Looking on the next slide. We had several high-volume, high-content model launches during the quarter. We did not experience any major delays of launches and we expect the high number of launches to continue into the fourth quarter.

The models shown on this slide have an Autoliv content per vehicle between $120 and $330. Two of the vehicles are pure EVs and many of the remaining models will be available with some sort of electrified powertrain.

The long-term trend to higher CPV is supported by the continued trend of more front-centre airbags and knee airbags. For example, Nissan Rogue and Ford Mustang Mach-E will have dual knee airbags from Autoliv.

Now, I will hand over to our Chief Financial Officer, Fredrik Westin, who will talk about the financials on the next slide.

Q3 2020 Financial Overview

Fredrik Westin

CFO, Autoliv, Inc.

Key figures for the quarter

Thank you, Mikael. This slide highlights our key figures for the third quarter. Our net sales were $2 billion, a 0.5% increase compared to the same quarter last year.

Gross profit increased by $21 million and the gross margin increased by 90 basis points compared to the same quarter 2019. The higher gross margin was primarily driven by labour and direct material productivity despite direct COVID-19 related costs and operational inefficiencies. The adjusted operating income increased by $23 million to $206 million mainly due to the higher gross profit.

Reported earnings per share was $1.12 and our adjusted return on capital employed and return on equity were 22% and 25% respectively. The operating cash flow improved by $157 million to $352 million for the third quarter 2020. We did not pay a dividend in the quarter.

Q3 2020 adjusted operating margin bridge

Positive impacts

Looking now on the adjusted operating margin bridge on the next slide. Our adjusted operating margin of 10.1% was 110 basis points higher than in the third quarter 2019. As illustrated by the chart, the adjusted operating margin was positively impacted by lower cost for raw materials of 40 basis points and lower combined cost for SG&A and RD&E of 20 basis points.

SG&A

SG&A declined by $6 million, or 6%, compared to the prior year mainly due to lower costs for personnel. RD&E net costs increased by $3 million compared to the prior year as reduced personnel cost was more than offset by negative effects from lower engineering income.

FX effects

FX effects impacted the operating margin negatively by 60 basis points. This is caused by transactional effects from a number of different currency pairs. The operational improvements contributed with 110 basis points. This was a result of strict cost discipline put in place during the first half of the year and the effects from our structural efficiency programmes, partly offset by the negative impact of COVID-19 related costs and inefficiencies. Additional support came from governments, in connection with furloughing short-term workweeks and similar activities, totalling approximately $10 million.

EPS development

Y-o-Y increase of 18% in adjusted EPS in Q3 2020

Looking on the next slide, we have the EPS development. The reported earnings per share improved by $0.14 to $1.12. The main drivers behind the increase are around $0.17 from higher adjusted operating income and $0.06 from favourable impact from tax, which was partially offset by $0.04 from higher capacity alignment and $0.05 from financial items. In Q3 2020, the adjusted earnings per share increased by $0.18 to $1.48 compared to the same period one year ago.

Cash flow

Higher net income and improved working capital resulted in increased cash flow

Looking now to our cash flow on the next slide. For the third quarter of 2020, operating cash flow was $352 million, an increase of $157 million compared to last year. The increase in operating cash flow was a result of the higher net income and improved working capital. Our strict inventory control, close collaboration with suppliers, reduced overdues, and improved

payables together with positive effects from other non-cash items were the main drivers for the improvement.

Capital expenditures amounted to $76 million in the third quarter, which is about 3.8% in relation to sales. Compared to last year, CAPEX decreased by 38% as we suspended or delayed investments substantially. Our free cash flow was $276 million, an increase of $203 million, year-over-year.

As a consequence of the sharp reduction in CAPEX, our last 12 months depreciation and amortisation was in line with CAPEX. A more normalised market will lead to some increase in investments again. But our ambition is, however, to reduce the gap between CAPEX and D&A over time.

The last 12 months cash conversion was more than 200% as a result of both the low CAPEX level, positive contribution from changes in working capital, and non-cash items. Over the last 12 months, operating cash flow was almost $700 million, with a free cash flow of almost $350 million.

Leverage ratio

Improving net debt

Now, looking on the next slide. We have, as you know, a long history of a prudent financial policy. In the current volatile market conditions, our balance sheet focus remained unchanged.

The leverage ratio decreased from 2.9x at the end of last quarter to 2.4x as of 30th September. The improved leverage was a result of our net debt decreasing by $265 million in the quarter while EBITDA over the last 12 months at the same time increased by $29 million. It is worth noting that our net debt is the lowest since the spin-off of Veoneer in 2018.

Our ambition is to improve our net debt and EBITDA in the near future. However, as the leverage ratio is calculated on the last 12 months data, we expect the ratio to remain elevated for some time.

Strong liquidity position

Significant liquidity position of around $2 billion as of 30th September

On the next slide, you can see that our liquidity position remains strong. We had around $2 billion in liquidity and unused credit facilities on 30th September. The revolving credit facility was fully repaid on 2nd October 2020 and is available as needed.

We have no need for any major refinancing of existing debt until 2022. Therefore, we believe that we have secured a significant liquidity cushion to manage our business successfully in the current challenging environment.

Structural efficiency programmes

SEP 2

Now, looking on the next slide. We have an update on the structural efficiency programmes. We have seen the expected positive effects of the programmes. We estimate the savings from our two structural efficiency programmes in the quarter to be around $15 million. The second programme should reach its full effect during the second half of 2021 with annualised savings of $60 million.

The programmes are mainly impacting Americas and Europe. And when the two programmes are fully implemented, we expect headcount to have been reduced by more than 1,700 employees. The cost for Structural Efficiency Programme 2 is estimated to be around $65 million and cash-out to be spread from this quarter until the fourth quarter of 2021.

Footprint optimisation

In addition to the structural efficiency programmes, we made a further provision of around $30 million in the third quarter for footprint optimisation in Europe, including a plant closure involving more than 200 employees in Germany. Production is expected to end mid-2023 subject to negotiations with the local works council. We continue to evaluate further footprint optimisations.

Light vehicle production outlook: Uncertainty prevails

Assumption for the fourth quarter

Looking on the next slide. We are closely monitoring the development of the COVID-19 pandemic and gauging its continuing impact on the automotive industry. The outlook for major light vehicle markets is still difficult to predict due to economic uncertainty and the risk of further lockdowns. These factors may have major effects on light vehicle production in the fourth quarter.

The expectations on light vehicle production in North America have continuously improved and Q4 is now expected to show only a modest contraction, supported by stronger US light vehicle sales expectations and continued need to restock depleted inventories. In Europe, the low inventory level induced by the lockdowns is expected to support production into the fourth quarter.

Our full-year guidance is based on our customer call-offs and light vehicle production outlook according to IHS

Despite this, IHS assumes European production to fall around 1% in the fourth quarter due to a decline in Eastern Europe. In China, light vehicle sales have shown a year-over-year growth over the past six months and inventories are balanced.

IHS expects some demand stagnation in the fourth quarter with light vehicle production dropping 5% as the year-over-year comparisons get more challenging. Our full-year guidance is based on our customer call-offs and light vehicle production outlook according to IHS.

Business impact on Q4 2020 adjusted operating margin versus Q4 2019

Tailwinds and headwinds of similar magnitude

On the next slide, we have the impact on our business in the fourth quarter. As we have communicated earlier this year, we see both tailwinds and headwinds for 2020. Related to the fourth quarter of 2020, you can see the main tailwinds include growth from executing on the strong order book and the structural efficiency programmes. The main headwinds include operational headwinds from COVID-19, declining and unpredictable light vehicle production as well as lower inflator replacement sales.

We believe the tailwinds and headwinds for the fourth quarter are of similar magnitudes and should lead to an adjusted operating margin for the full year 2020 of around 6%. However,

economic uncertainty risks for further lockdowns and the potential increase in unemployment and its effect on consumer demand may still impact this fourth quarter outlook.

I will now hand back to Mikael.

Financial Outlook for Full Year 2020

Mikael Bratt

CEO, Autoliv, Inc.

FY 2020 financial summary

Outlook assumes that the current relative business stability prevails

Thank you, Fredrik. Moving on to the next page. We have summarised our full year 2020 indications. These indications exclude cost for capacity alignment and antitrust related matters. Backed by recent product launches, we expect a further pickup of sales outperformance compared to light vehicle production in the fourth quarter, supporting a full year outperformance of around six percentage points.

We expect a 13% organic sales decline. Our net sales decline is assumed to be around 14.5%, including negative currency translation effects of around 1.5%. We expect an adjusted operating margin of around 6%. Operating cash flow is expected to be below the 2019 level of $844 million. It is important to note that the outlook assumes that the current relative business stability prevails.

Our priorities

Turning the page. To summarise, the Q3 outcome reflects our efforts to come out of this crisis as a stronger company. We see the positive sales momentum continuing into the first weeks of the fourth quarter. However, it is important to realise that this crisis is not behind us. There are still potential risks for further lockdowns affecting business stability and visibility.

I am proud that we have a solid organisation that can manage a strict cash and cost control while continuing to execute on our long-term strategy with the health and safety of our employees as the first priority.

I will now hand back to Anders.

Anders Trapp: Thank you, Mikael. Turning the page. We conclude our formal comments for today's earnings call and we would like to open up the line for questions. So I hand it back to you, Nadia.

Q&A

Operator: Thank you. Ladies and gentlemen, we now begin the question-and-answer session. As a reminder, if you wish to ask a question, please press star one on your telephone. And if you wish to cancel your request, please press the hash key. Once again, please press star one if you wish to ask a question.

And the first question comes from the line of Hampus Engellau from Handelsbanken. Please ask your question.

Hampus Engellau (Handelsbanken Capital Markets): Thank you very much. Two questions for me.

First, just a question on engineering income. If we should expect any other situation on this seasonal pattern that we have seen on Q4, with engineering income being slightly higher? That's my first question.

Second question is more on the operating leverage. If I remember correctly, I think Autoliv had 1.4% EBIT margin in 2009 and then it went up to 12% in 2010. And we see a similar pattern here on the operating leverage. What kind of a pushback should we think about 2021, in terms of operating leverage? I mean, provided that the IHS outlook of 13% growth of LVPs sticks and you have some outperformance on that. Those are my two questions. Thank you.

Mikael Bratt: I think on the first question there on the engineering side, I mean, we have no changes to the seasonality in engineering income as such. But it doesn't mean that it needs to be the same year-over-year, of course. But seasonality-wise, it is the same and that is to be expected also this year.

When it comes to the operating leverage, as you know, we have talked about that in the previous quarters and we have guided, in terms of a rule of thumb there, on a growth scenario with around 20% and when you have these sharp declines more in the magnitude of 30%. And also, of course, when you have big rebounds, in the same way also you should be in the 30s. And sequentially, I think that's what you also have seen here and actually a little bit stronger than that.

When it comes to 2021 I think we wait with any comments around 2021 until we get into the time for making a call on the next year. I would say with the current circumstances, the further out you look, the more difficult it becomes. So I think right now, we are focussing then on the end of this year and the full 2020 outlook as we have reinstated the guidance for the remaining months here.

Hampus Engellau: Fair enough. Thank you.

Operator: Thank you. And your next question comes from the line of Emmanuel Rosner from Deutsche Bank. Please ask your question.

Emmanuel Rosner (Deutsche Bank Securities): Yes, thank you very much. So your reinstated guidance implies a very strong revenue outgrowth exit rate in 2020. And to be fair, you've always said that, you know, in the fourth quarter, that, you know, some of these launches were backend-loaded and they will be strong. But this seems potentially better than, you know, close to double-digit or even better.

Any sort of a fundamental read-through in here? Are you seeing just general acceleration or have seen just a shift out, from a timing point of view, just more concentrated in the fourth quarter than initially thought?

Mikael Bratt: No, I would say generally not. I think it's followed the base assumptions that we went into this year with, that our full year outperformance is around 6%, and that's what we're reconfirming here. We have also said from the beginning that it would be backend-loaded end of year. And we have not really seen any delays in launches either, despite this very volatile time.

So of course, there is ones or twos here and there that slides a little bit. But I would say that's also happening in a normal year. So nothing exceptional there. So bottom line is that it's following the original outlook for the year here and meeting the around 6% outperformance.

Emmanuel Rosner: Okay. Great. And then, second question around your order intake. So you said, I guess, it was, as expected, a little bit on the softer side in the third quarter. The fourth quarter would be more than half of the year. If I remember well, in the first half, you had said that it was flat, year-over-year, in dollar terms, despite obviously meaningful decline in production.

So putting all together, it feels that your order intake for the year could be up quite a bit on the full year basis versus 2019. Is that correct or is that consistent with your initial expectation? And what does that mean for your midterm growth profile?

Mikael Bratt: We haven't given any specific guidance on order intake for the year. I think the working assumptions that we have said is that the market share that we are growing into is what we intend to defend in the after years here.

Then, in terms of new order intake, specifically, in quarters and specific years, it may fluctuate a little bit, of course, as they always do because it's not a straight line, in terms of activities from the OEM side. And I would say that as far as we have communicated this year, we will come back to the exact win rate when we close 2020. But what we've indicated is that, in terms of activities, we are still backfilling our order book so we can continue to outperform the market in the years to come.

Emmanuel Rosner: Great. Thank you.

Operator: Thank you. And your next question comes from the line of James Picariello from KeyBanc Capital. Please ask your question.

James Picariello: A question on 2021. So, you know, what are some of the offsets for next year related to, you know, possible lapping COVID-related costs like the unwind of this year's temporary austerity measures?

How should we think about what the company's base incremental margin range is, the structural cost savings layered on top of that? And then, are there any cost offsets that come to mind? You know, is there anything you can share with us, you know, to get to that bridge? Thanks.

Mikael Bratt: I think a little bit too early to make a bridge to 2021, based on what I said earlier around the uncertainty in the market, to start with. But also, that it's not until the beginning of next year, we will give a guidance on where we think we will end up at in 2021.

But what I can say is that, our focus is, of course, to manage through this crisis as effectively as possible. And I think the whole organisation has shown the strength, in terms of strict cost control, managing the liquidity and, of course, with that also, making sure that we carry as much as possible into the sustainable part, of course. But when we also move further into the recovery, the immediate harsh stops, when it comes to cost control and so on, of course, will really fade out.

But with that said, we also have a very strong focus inside the company every day to make the company leaner and more effective as we move forward. And also on the strategic side, the roadmaps we laid out in the Capital Markets Day last year leading up to our ambitions in the outer years is still ongoing. So it's all-hands- on-deck to deliver on those.

Then, of course, under these circumstances, we need to find, in some cases, new ways of working around that. But there is a full agenda around that. So as long as we see end-market or light vehicle production that holds up, we believe that 2021 should be a good stepping stone towards our midterm targets.

James Picariello: Got it. Is there any quantification around the German plant closure – the savings and the timing related to that move?

Fredrik Westin: No. It's just what we presented here is that the reserve we took is around $30 billion and it relates to 200 employees roughly and that the production will end in around 2023. But that's as much as we would like to share on that.

Mikael Bratt: As you know, we have a footprint review as a part of the strategic road map. And we are not communicating a big package here. We communicate when we have decisions and when we move forward on it. So this – what we communicated now in connection with the Q3 was one of those decisions. And if and when we have more, we will come back to that. But it's an area for our long-term strategy.

James Picariello: Got it. Thanks, guys.

Operator: Thank you. And the next question comes from the line of Brian Johnson from Barclays. Please ask your question.

Brian Johnson (Barclays): Yes. Two questions. One, kind of keeping – probing at the issue of cost takeout and the second, more strategic.

On the cost takeout, you know, if you look year-over-year, $30 million improvement in operating income, you know, just – I know you're not giving '21 guidance. But if we kind of think about the base of fixed versus variable costs that that implies, how much of that actually comes back because it's a temporary measure?

Mikael Bratt: We haven't broken it down. And I think it's – in large, I would say, the majority of it will come back as we get into more normalised situation, when you look at the total number, I mean we flexed out very, very hard the workforce when we had to basically, come to a halt in April. Now, when we're coming back and the volumes are increasing again and as we also take in market share, we need to backfill that and get the people back.

So it has been a challenging quarter, in that regard, when we had such big fluctuations. But when you get into more stable situation, the majority will, for sure, come back here. But I would say right now, for sure in Q3, we have not been able to run the whole operation effectively either.

So, at the same time, we have strict cost control and strict control over our cash here. There is, of course, inefficiency in the whole volume swings and also the extra measurements for the corona – the COVID-19 situation as well. So it's difficult to give you a complete breakdown on that. I just referred to my answer earlier that it's all-hands-on-deck to drive towards our midterm target.

Brian Johnson: Great. Second Question

Fredrik Westin: You've seen that we have, in effect, about $15 million from the structural efficiency programme. So that's broken out.

Fredrik Westin: And the cost structure, I think you can assume that it's fairly close to a normal structure again, also now for the third quarter.

Brian Johnson: Okay. And the second question. You did flag the two BEV key launches as well as the EV variant. Is there anything in the seatbelt airbag world that's materially different between an electric vehicle and a similar-sized light vehicle, in terms of your CPV and/or your competitive position?

Mikael Bratt: No, , the increase in electrical vehicles is neutral to positive for us. At the starting point, it's the same type of products. Then, of course, weight and noise becomes increasingly important in electrical vehicles. So it tends to be more silent and it's more quiet inside the vehicle. So that is very, very important.

Then, we have also additional products going in like the power safety switch, which is a feature where you cut the battery source in the event of a crash. So that's additional product coming into EVs. So neutral to positive for us.

Brian Johnson: And in terms of your competitive position, you have two or three very strong competitor. Are they showing up at the EV bids as well? And is there any difference in your win rate on EVs versus the broader – the traditional product lines?

Mikael Bratt: They are, of course, also into electrical vehicles. So as a starting point, it is the same type of products. And I would say that relative our market position, we are also well-represented in the EVs in relation to that.

Brian Johnson: Okay.

Mikael Bratt: At least related to our position for now.

Brian Johnson: Thank you.

Operator: Thank you. And your next question comes from the line of Joseph Spak from RBC Capital Markets. Please ask your question.

Joseph Spak (RBC Capital Markets): Thank you, everyone. I want to get back to some of the performance this quarter because I know you mentioned between SEP 1 and 2, I think it was a $15 million year-over-year benefit. But your direct workforce, I believe, actually increased year-over-year on similar sales levels. So it would seem to suggest there is some inefficiencies there as well. And I was wondering if you could provide any sort of additional colour as to just sort of what else sort of drove some of the improved performance in the quarter?

Fredrik Westin: Yeah. I think it's basically a list of what we try to describe also in the bridge that we have a favourable impact on, say, productivity on the material side, to a larger extent, and then, to some extent, also on the personnel side. But it's more on the production overhead than direct labour. There, we still have inefficiencies due to the COVID-19 restrictions we have in the operations.

And then, the other component is, of course, that we still are benefitting from lower discretionary spending, which has continued from the second quarter into the third quarter, which should also carry forward to some extent also into the next quarter, but to a lesser extent.

Joseph Spak: Okay. Thank you. And then, the second question is, you know, there's been some news about a competitor potentially facing a seatbelt recall. Is that a potential opportunity for you to help out the industry like with the inflator situation?

Mikael Bratt: Seatbelt is, of course, a big part of our portfolio and we are always there to support our customers. But in relation to this, I have no specific comments or insight into that. And I think it's early days there as well.

Joseph Spak: Okay. Thank you very much.

Operator: Thank you. And your next question comes from the line of Rod Lache from Wolfe Research. Please ask your question.

Rod Lache (Wolfe Research): Thank you. I had a few things. One is, just typically the Q4 exit rate of revenue outperformance says something about the subsequent year, just as your backlog for the new model year kicks in. And of course, next year, regional mix could be pretty good, if Europe and North America accelerate more than China.

Are there any offsets or things that we should be keeping in mind? I know that you're not providing guidance for next year. But just at a high level, anything that you would want to mention as a potential offsetting headwind?

Mikael Bratt: I have nothing specific to comment. As I said, we don't go into the details for 2021. I think it's early days also. But I think we have, in last year, laid out what we believe is our expected average growth rates, going forward, in outperformance. So I think that's still standing.

And of course, with the regional swings that you have seen this year and when that normalise, you mathematically get a reversed effect of that also. So on top of that, I would say, there is nothing additional to the equation.

Rod Lache: Okay. And then, the savings on Slide 13. I just was hoping you can clarify Programme I and Programme II was $10 million and $5 million in Q3. And then, for 2021, you expect $10 million plus $25 million step-up from the Programme II and plus maybe some benefit from incremental footprint reductions. Is – am I reading that correctly?

And, maybe you could just also – just reference that the original plan that – where you laid out 300 basis points of margin improvement to get to 12%, about 100 basis points of that was structural savings. To what extent are these – any of these incremental to what you had originally contemplated?

Mikael Bratt: No. I think the baseline is, in terms of what we see as opportunities, going forward, is the communication we had last year. Then, everything we do here now is, of course, a part of the overall journey and just managing through the ordinary course of business and driving efficiency and productivity across the board.

So in relation to our – if I understand your question right here, in terms of our regional journey, it is not incremental to that, if that was what you're asking. So it's a part of it, of course.

Rod Lache: Okay. And just lastly, one – just a minor issue. It looks like mathematically, you're expecting Q4 EBIT to increase by something like $26 million and a revenue increase of something like $186 million. And it looks like eve, just factoring in the FX changes, there's – it's less than the 30% normal incremental. Is this just the unusual cadence of Q4 true-ups and recoveries or anything like that that would be affecting that or am I getting something wrong?

Mikael Bratt: It's nothing exceptional with this Q4 compared to any other Q4s per se. And of course, the full-year guidance that we are giving is to the best of our knowledge. And as we have indicated here, , we have, of course, cloud in the skies here, in terms of the COVID-19. But I would describe it that it's in the sky, but it's not raining yet. So we have to wait and see if we will have any impact. But with everything we know now, this is the best we can predict.

Rod Lache: Okay. All right. Thank you.

Mikael Bratt: There is nothing other than that.

Operator: Thank you. Your next question comes from the line of Ryan Brinkman from JP Morgan. Please ask your question.

Ryan Brinkman (JP Morgan): Hi. Great. Thanks for taking my question.

You know, just given the faster pace of recovery in the industry, your reduction in net debt, do you have any updated thoughts on capital allocation? I did hear you say that you aim to improve both EBITDA and net debt in the near future.

Are there any, particular milestones, whether in terms of your own net debt or leverage or, you know, a macro, or industry sales figures, etc., that the Board may be looking to before reinstating the dividend?

Mikael Bratt: I would also say that there is no specific triggering point. I think it's like we have always said, that our ambition is to have a pragmatic view on how to and when to return to a more normal dividend situation. I think it's still too early.

The uncertainty is still very high, as a result of the COVID-19. And it's a question for a later date. But it is a question about where are we, in terms of stability in the industry and what we think about our own performance, going forward from that point on. So we have to come back to that when we have come through this immediate COVID-19 crisis. But that's where we are. Right now, it's too early.

Ryan Brinkman: Okay. Thanks. And I realise there have been several questions sort of around this but, you know, looking at that 110-basis-point improvement attributed to operations on the margin bridge. It would be great if you just sort of speak to what you think kind of the underlying sustainable progress.

Is there, let's say, that there's a vaccine between now and 3Q 2021 such that you no longer have these inefficiencies and direct costs stemming from COVID. You retain some portion of your savings and you cycle past some of the austerity measures. You know, what do you

think would be wise to model now if you thought the virus is going away by the third quarter of next year, in terms of operations, you know, going forward?

Mikael Bratt: It's a lot of ifs and buts in that question and it becomes very hypothetical answer if I would get into any details. Plus that we are not talking about 2021 yet.

So I just would like to reiterate what I said before about if we have a stable more – reasonable market, a healthy market for 2021, we should see that as a stepping stone towards our midterm targets. But more than that, I think, is difficult to say at this point in time when the uncertainty is so high.

Ryan Brinkman: Okay, I see. Thank you very much.

Operator: Thank you. And your next question comes from the line of Erik Golrang from SEB. Please ask your question.

Erik Golrang (SEB): Thank you. Two questions from my side.

If I read it correctly, your overall volumes were slightly down in the third quarter, yet organic growth was positive. So is that a mixed factor or has there been any kind of change on the pricing development?

Then, the second question around – returning to a topic discussed. But could you just help us out what's the – what the big swing is Q3 into Q4? Clearly, higher organic growth expected in the fourth quarter, yet a much more muted year-on-year margin development. What's happening between Q3 and Q4 for you to give that outlook? Thanks.

Mikael Bratt: So maybe Fredrik, if you can take the second question and help with that?

Fredrik Westin: Okay. So the – can you repeat the second question again, please?

Erik Golrang: Sure. So just – I mean, we've talked about it. But you indicate a flat – more flattish margin development in Q4, year-on-year, in spite of clearly higher organic growth than what we saw in Q3. So what's the big delta that shifts the development to such a big extent from Q3 into Q4?

Fredrik Westin: I'm – sorry, I'm not sure I understand your question. Can you ask it in a different way? I appreciate it.

Erik Golrang: You have a slide there where you indicate the balanced – balance between negative and positive factors on margins for Q4.

Erik Golrang: And I get that also the full-year margin outlook implies a much more muted year-on-year development for the margins in spite of organic growth. So what moves between Q3 and Q4, in terms of holding back the margin development, year-on-year?

Fredrik Westin: We will run into a more as a – assuming that the volumes now, they come as we have predicting them with the outlook, we will come into a more normalised operating level. And with that, the savings we have currently from, say, a lower discretionary spend, our assumption is that they will, let's say, be reduced and also – going into the fourth quarter. So you will have a smaller benefit from that in the fourth quarter than what you've had in the third quarter.

Then also, we've had a net positive from – if you look at the costs incurred relative to COVID-19 and the benefit or subsidies we received, that was also a net, say, benefit also

because of timing of how we recovered some of these subsidies. So those are two elements that will go away.

And if we can also look at the productivity in the plants, we are still operating as we've said at not optimal and efficient levels. So those, I think, are the main components such of the factory and if you then look at the leverage for the fourth quarter.

Erik Golrang: Okay. Thanks.

Operator: Thank you.

Erik Golrang: And then, on the first question on pricing – on why organic growth is better than volumes?

Mikael Bratt: It's mixed. It's a mixed effect you see coming through there. So there's no changes to the pricing.

Erik Golrang: Thank you.

Operator: Thank you. And your next question comes from the line of Sascha Gommel from Jefferies. Please ask your question.

Sascha Gommel (Jefferies): Yes. Good afternoon. Thanks for taking my questions.

The first one would actually be on your margin again. I think historically, you said that in phases with a very high number of ramp-ups, you tend to have a bit of a margin dilution. Now, we see that you have a lot of ramp-ups or a lot of high-volume models. Should we think that as a – like quality sign for your order book that you have a very healthy order book with very high profitability and the historic comparison doesn't really fit here?

Mikael Bratt: No. I think, as always, it's a lot of work to trim the system when you have a ramp-up. I think when you look at this quarter, it's so many things going on at the same time. And I would say this has also been a quarter where you have had not so many launches as we have had before. As we said, that also is geared towards the later part of the year.

So we see that coming through more in the Q4 than in Q3. But there is no changes to the, I would say, the normal effect where you have a lower performance of the programmes in the ramp-up phase than you have when it's mature. That – so there's no changes to that.

Do we have a healthier order book? I said it also hangs together more with the question about how is the mix coming through, in terms of product and the different platforms coming through. So that is nothing, I think, you should read into this short-term analysis of the – of Q3.

Sascha Gommel: I see. And then, my second question. The reduction in inventories, is that a reflection that your OEM customers are less volatile in their behaviour and you think you can run a bit, like, more efficient ship? Is that the right interpretation?

Fredrik Westin: Well, definitely, it is a much more stable environment now, coming out of the third quarter, than we had at the beginning of the quarter. So there is – we have a much better ability to operate at more efficient inventory levels at the end of the quarter than we had at the beginning of the quarter.

I think you can see that both – if you look at the inventory turnover rates versus the previous quarter but also year-over-year, there's improvement. So yes, that is significantly improved over the last couple of months.

Sascha Gommel: And you think that there is further room or is that the level where you think you can hold it, relatively speaking, obviously?

Fredrik Westin: I think for the moment, I think we believe this is a healthy level. We still have suppliers that are distressed. And it's not going away yet, say, the issues that we have in the supply chain. So for the time being, we think that this is a healthy inventory level that – to operate on, considering the risk in the entire supply chain.

Sascha Gommel: Appreciate it. Thank you very much.

Operator: Thank you. And your last question comes from the line of Victoria Greer from Morgan Stanley. Please ask your question.

Victoria Greer: Great. Just two questions please.

Firstly, thinking about CAPEX for 2021, should we think about any delayed spending that you might need to come back to there? You know, probably if you could in – thinking about that in absolute terms would be helpful, given that there's a bit of volatility, obviously, around sales expectations.

And the second one. Are you seeing any restriction – any disruption as the restrictions increase again for COVID, particularly in Europe? I think you said that actually things are okay right now. But do you see anything coming down the track there that we should bear in mind? Thanks.

Mikael Bratt: Thank you. Let me take the last question first. And then, I'll hand over to Fredrik to comment on the CAPEX.

We see some restrictions coming into play here in Europe. But so far, nothing is impacting what we can see in our supply chain here or in our customers. So, so far, so good. But we remain very active and on alert here to take any measurements or actions necessary, if that would come into play.

And we have maintained our taskforce here to review, for example, on a almost daily basis here, the – our supplier base and the freight lines here. So we are well-prepared to take that on. But so far, so good.

Fredrik Westin: On the CAPEX side, we have now, as you see in the third quarter, a higher investment level than the second quarter and you should expect that also to continue into the fourth quarter.

Our ambition is to, over time, get the CAPEX to sales ratio to below 5%. But specifically for 2021, I think we will come back to that specific guidance when the time is right for that.

Victoria Greer: So probably not to think about below 5% for '21 at this point?

Fredrik Westin: I think we will give that guidance when the time is right.

Victoria Greer: Great. Thank you.

Operator: Thank you. And you can please continue. We're not taking any more questions.

Mikael Bratt: Thank you very much, Nadia. So let me just say that before we end today's call, I would like to say that we are operating from a position of strength, in terms of liquidity, in flexibility, and dedicated employees. And we will continue to improve efficiency, optimise our footprint, and implement our strategic roadmap to support next year being a solid stepping stone on the journey to our 2022-2024 targets.

Our fourth quarter earnings call is scheduled to Tuesday, 26th January 2021. And thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. And until next time, stay safe.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]