Autoliv Inc.
4th Quarter 2022
Financial Results

Friday, 27th January 2023

Anders Trapp: Welcome everyone to our fourth quarter and full year 2022 earnings call. On this call, we have our President and CEO, Mikael Bratt and our Chief Financial Officer Fredrik Westin, and I am Anders Trapp, VP Investor Relations. During today's earnings call Mikael and Fredrik will, among other things, provide an overview of the strong sales and margin developments in the fourth quarter; give an update on the price negotiations; outline the expected sequential margin improvement in 2023 and the journey towards our medium-term targets, as well as provide an update on our general business and market conditions. We will then remain available to respond to your questions and, as usual, the slides are available on autoliv.com.

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 available on autoliv.com and in the 10-K that will be filed with the SEC. Lastly, I should mention that this call is intended to conclude at 3:00 PM Central European Time, so please follow a limit of two questions per person. I now hand over to our CEO, Mikael Bratt.

CEO's Report

Mikael Bratt

President and Chief Executive Officer, Autoliv

Adjusted Operating Margin Progression

Thank you, Anders. Looking on the next slide, I would like to recognize the entire team for delivering another strong quarter, which I believe reflects our strong execution culture. The fourth quarter and full year 2022 were important steps towards our medium-term targets as we, through price adjustments, managed to gradually offset the highest raw material cost inflation that our industry has seen in decades. In the fourth quarter, our organic sales growth outperformed light vehicle production significantly as a result of price increases, product launches and higher safety content per vehicle. Our sales in the quarter were well over US$2.3 billion, despite a 7% currency headwind. We also achieved a strong profit recovery, increased the adjusted operating margin to 10% for the fourth quarter and to 6.8% for the full year, in line with our full year guidance.

Our strong performance in the fourth quarter is especially encouraging considering that market conditions continued to be challenging with significant inflationary pressure and continued high level of customer call-off volatility. We generated a strong operating cash flow meeting our full year indication. This, combined with improved EBITDA, lowered our leverage ratio to 1.4 times from 1.6 times last quarter. In the quarter, we paid $0.66 per share in dividends, an increase of around 3% from third quarter, and repurchased and retired 650,000 shares. Additionally, we retired 10 million of our Treasury shares from previous stock repurchase programs. The second half year development in 2022 strengthens our confidence in our mid-term targets. In addition, we expect that our balance sheet and positive cash flow trend will allow for higher shareholder returns.

Looking now on an update of the 2022 margin progression on the next slide. During 2022, we reduced our cost base in a challenging market environment. We implemented hundreds of cost efficiency projects, especially in production and supply chain. As illustrated by this chart, we started the year at a very low adjusted operating margin level, mainly from severe inflation in raw materials and so also due to inflation in other cost categories, such as labour and freight. We then managed to gradually improve the adjusted operating margin progressing from 3.2% in the first quarter to 10% in the fourth quarter after successful negotiations with our customers regarding cost compensation.

This sequential improvement also reflects our high volumes and our strong focus on continuous improvement throughout the organisation and our strategic road map initiative. We managed to offset this raw material related cost shock successfully by Year End 2022. For 2023, the main challenge is tackling the inflation in the non-raw material cost base, without neglecting the raw material cost risks.

Continued price negotiations heading into 2023

To support a sustainable business model in an inflationary environment, we continue to work closely with our customers to secure price increases to compensate for inflation, volatile LVP and supply chain disruptions.

During 2022, we reached agreements with almost all OEMs on raw material related price adjustments as well as, to a limited extent, also for other cost categories such as labour and freight. At the end of the year, product pricing largely reflected the cost level for raw materials. We have initiated discussions with our customers on non-raw material cost inflation, such as labour, logistics and energy.

We believe that price adjustments will offset the non-raw material cost inflation, with small positive effects in the first quarter of 2023 and gradually larger positive effects as the year progresses.

FY’22 Order Intake

Looking now on the order intake, on the next slide. Our order intake for the full year continued to develop well, supporting long-term growth in a rapidly changing technology environment with many new OEMs and fast growing in the number of EV platforms. The lifetime value of the 2022 order intake was in line with last year, despite currency headwinds and a more negative LVP outlook.

The strong order intake over the past year is evidence that our company is the leading company in the passive space the automobile industry. One of our key performance indicators, customer satisfaction, has continued to improve and is at a high level. However, this does not mean that we can relax. We always strive for improving products, services, processes and costs.

Our strong order intake and current customer satisfaction support our confidence regarding our mid-term sales targets.

FY’22 Order intake highlights

Looking on the order intake in more details on the next slide, in 2022 order win rates for new EV platforms were high, both with new EV makers and traditional OEMs. We estimate that around 45% of our order intake in 2022 was for future battery electric vehicles. We are proud that we were successful in winning many contracts with new auto makers. New auto makers, mainly in North America and China, accounted for over 30% of our order intake, up from 12% last year.

We won multiple awards supporting new markets and industry trends like knee air bag, side air bags in India; integrated child seats, seat belt specifically designed for electrical vehicles as well as seat belts for zero gravity style seats for self-driving vehicles.

As a result of strong order intake over the past years, we expect an increase in overall product launches in 2023. This development contributes to building an even stronger platform for our long-term success.

Q4’22 Financial Overview

Looking now on the financial overview, on the next slide. Our consolidated net sales of US$2.3 billion was 10% higher than a year earlier despite 7% currency headwind. Adjusted operating income, excluding costs for capacity alignment increased from US$177 million to US$233 million. The adjusted operating margin was 10% in the quarter, 1.7 percentage points higher than the same period last year.

The higher operating volume was mainly a result of higher prices, operational leverage on higher volumes as well as cost-saving activities. Operating cash flow was US$452 million, which was US$146 million higher than the same period last year, mainly due to improved working capital and higher net income.

Q4’22 Sales Growth

Looking now on sales growth in more detail, on the next slide. Despite the currency headwind, the fourth quarter of consolidated net sales increased by more than US$200 million to US$2.3 billion. Organic sales grew by 18% in the fourth quarter, compared to last year. Retroactive pricing contributed with approximately US$8 million and price/volume mix contributed with almost US$350 million in the quarter.

Regional sales split

Looking on the regional sales split, Asia accounted for 42%, North America for 32% and Europe for 26%.

Q4’22 Organic Sales Growth versus LVP

We outline our organic sales growth compared to LVP on the next slide. I am very pleased that our organic sales growth out-performed global light vehicle production growth in the fourth quarter. This was achieved as we continued to execute on our strong order book. According to S&P Global, light vehicle production increased by around 2% year over year in the quarter. This was slightly lower than expected in the beginning of the quarter as production in North America, Japan and China were lower than expected.

Based on the latest light vehicle production numbers, we out-performed global light vehicle production by around 15% in the quarter and by around 7% for the full year. In the quarter we outperformed in Europe by 23%, by 14% in both China and Japan and by 9% in America.

Supported by new launches, market share gains and CPV growth, as well as further price increases, we expect sales to out-perform light vehicle production by around 12% in 2023.

Key Model Launches in Q4'22

On the next slide, we see some key model launches from the fourth quarter. In the quarter we had a high number of launches, especially in China and Japan. The models shown on this slide have an Autoliv content ranging from approximately $200 to close to $500. These models reflect the changes seen in the automotive industry in recent years, with several relative new OEMs represented and that four out of nine are available as pure electrical vehicles.

In terms of Autoliv sales potential, entirely redesigned Honda Pilot and Honda Accord launches are the most important. The long-term trend to higher content per vehicle is supported by front centre air bags, knee air bags, more advanced seat belts and active pedestrian protection systems.

Sustainability at Autoliv

Looking to our sustainability approach, on the next slide. Guided by our vision of saving more lives, our mission is to provide world-class lifesaving solutions for mobility and society. Sustainability is an integral part of our business strategy and a fundamental driver for market differentiation and stakeholder value creation, helping to ensure that our business will continue to thrive and contribute to sustainable development in the long term.

Our sustainability approach is based on four focus areas, saving more lives, safe and inclusive workplace, climate, and responsible business, each consisting of broad ambitions and more specific short-term targets.

Our sustainability approach is anchored in well-established international frameworks, such as the UN Global Compact, of which we have been a signatory for several years. We aim to be carbon-neutral in our own operations by 2030, and furthermore, aim for net zero emissions across our supply chain for 2040. These commitments place Autoliv among the front runners in the broader group of automotive suppliers.

As a part of this commitment, our reduction targets were approved by the Science Based Targets initiative in February 2022.

We co-operate with international organisations, suppliers and customers to ensure maximum possible impact. A few examples of such partnerships include the UN Road Safety Fund, the green steel collaboration with SSAB, and Piaggio and POC to push the boundaries of safety to include vulnerable road users.

Sustainability highlights 2022

Now looking at the sustainability progress in 2022 on the next slide. During 2022 we initiated and concluded a number of activities to ensure our commitment and contribution to the UN Sustainable Development Goals and our own sustainability targets.

For example, we took steps to reach our ambition of saving 100,000 lives per year by expanding our activities in the vulnerable road-user area. We conducted sustainability audits and carried out climate surveys, covering 98% of our direct material suppliers. We substantially increased our use of renewable electricity. We trained all senior management members in the main areas of our climate programme, including decarbonisation levers.

Autoliv is committed to provide safe working conditions for our employees. As a result of our continuous improvement activities, the incident rate was reduced by over 20 percentage points in 2022. We will provide more information on our progress in our coming Annual and Sustainability report.

I will now hand over to our CFO, Fredrik Westin, who will talk you through the financials on the next slides.

Financial Report

Fredrik Westin

EVP & Chief Financial Officer, Autoliv

Financial Overview

Thank you, Mikael. 2022 was again a turbulent year, with both lower and more volatile light vehicle production than expected at the beginning of the year, mainly due to supply chain disruptions. Our net sales were $8.8 billion with sales increasing organically by close to 14%, twice the underlying light vehicle production.

The adjusted operating income decreased by 12% to $598 million. The adjusted operating margin was 6.8% compared to our latest guidance of reaching the upper range of between 6% and 7%. The operating cash flow was $713 million compared to the guidance of between $700 to $750 million. Earnings per share was $4.85. Dividends of $2.58 per share were paid and we re-purchased and retired $1.44 million shares for US$115 million.

Full Year Adjusted Operating Income Bridge

Looking now at the full year adjusted operating income bridge on the next slide. For the full year of 2022, our adjusted operating income was $598 million, this was $85 million lower than the previous year, which was the result of higher costs for raw materials and FX combined, of approximately $460 million.

Costs for call off volatility such as premium freight and labour and material inefficiency increased substantially as well. This was partly offset by positive effects from actions including price increases and cost saving activities, as well as higher volumes.

SG&A and RD&E net combined was virtually unchanged despite 14% organic growth.

Q4'22 Financial Overview

Looking on the quarterly performance on the next slide. This slide highlights our key figures for the fourth quarter of 2022 compared to the fourth quarter of 2021. Our net sales were $2.3 billion, this was 10% higher than Q4 2021. Gross profit increased by 8% to $399, while the gross margin declined slightly to 17.1%. The gross margin decrease was primary driven by cost inflation and the volatile light vehicle production and has largely been compensated by price increases and cost savings.

In the quarter, we made $3 million in provisions for capacity alignment activities. The adjusted operating income increased from $177 million to $233 million. The adjusted operating margin increased from 8.3% to 10.0%.

The operating cash flow was $462 million, and I will provide further comments on our cash flow later in the presentation.

Earnings per share diluted increased by 49 cents, where the main drivers were 43 cents from higher adjusted operating income and 4 cents from lower tax costs. Our adjusted return on capital employed and return on equity both increased to 25% up from 19% and 18% respectively. We paid a dividend of 66 cents per share in the quarter, an increase of 2 cents from last year, and repurchased and retired 650,000 shares for US$55 million under our stock repurchase programme.

Q4'22 Adjusted operating income bridge.

Looking now on the adjusted operating income bridge on the next slide. In the fourth quarter of 2022 our adjusted operating income of $233 million was $56 million higher than the same quarter last year. The impact of raw material price changes was negative $83 million in the quarter. Foreign exchange impacted the operating cost profit positively by $9 million. This was mainly a result of positive re-evaluation effects, partly offset by negative translation effects.

SG&A and RD&E net combined was $22 million lower, mainly due to timing of engineering income and positive currency translation effects. Our operations were positively impacted by improved pricing, higher volumes as well as our strategic initiatives, partly offset by the significant headwinds from call-off volatility and general cost inflation.

As a result, the leverage on the higher sales, excluding currency effects, was in the upper end of our typical of 20-30% operational leverage range, despite the substantial headwinds from raw materials.

Cashflow Overview

Looking at our cashflow overview on the next slide. For the fourth quarter of 2022 operating cash flow increased by $146 million to $462 million, mainly due to strong performance in working capital and higher next income.

During the quarter trade working capital decreased by $132 million as a result of improved payables in part due to our capital efficiency programme, partly offset by higher inventories. The continued inefficiency in inventories is a result of the volatile light vehicle production and logistics challenges. Our ambition is to eliminate these inefficiencies as soon as possible, which requires the stabilisation of the supply chain and call off patterns from our customers.

For the fourth quarter, capital expenditure is net increase by 8% to $165 million. In relation to sales, it was 7.1%, virtually the same as a year ago. The high level is related to the ongoing footprint activities and capacity expansion for growth, especially in China.

For the fourth quarter of 2022 free cash flow was $297 million, $133 million higher than a year earlier. For the full year of 2022, operating cash flow declined somewhat from the prior year to $713 million, mainly due to inventory inefficiencies. Free cash flow amounted to $228 million, down $72 million from 2021. CAPEX in relation to sales was 5.5% in line with our full year indication, and the cash conversion was around 54%.

In 2023 we expect positive cash flow development from higher net income and a gradually more stable light vehicle production.

Debt Leverage Ratio

Now looking on our leverage ratio for development on the next slide. The leverage ratio at the end of December 2022 was 1.4 times. This was an improvement from the 1.6 times in the previous quarter as our 12-months trailing adjusted EBITDA increased by $49 million and our net debt decreased by $99 million.

Strong liquidity position

Now looking at the liquidity position on the next slide. At the end of the quarter we had a significant liquidity cushion of approximately $1.7 billion in cash and unutilised committed credit facility. To minimise refinancing risks, we have diversified our long-term funding sources and we also have a maturity profile that is well spread over the coming years. None of the credit facilities are subject to financial covenants.

With that, I hand it back to you, Mikael.

Business Outlook

Mikael Bratt

President and Chief Executive Officer, Autoliv

Thank you, Fredrik. Let’s look at the financial and market environments we see for 2023 on the next few slides.

Light Vehicle Production Outlook

A large part of the auto industry continues to operate at or near recessionary levels, mainly due to supply chain constraints. Despite concerns surrounding the ongoing volatility of the supply chain and recessionary fears, global production is predicted to increase by 3.5% to 82 million vehicles in 2023, according to S&P Global in January 2023.

The first quarter global light vehicle production is expected to improve by 2.6% compared to last year but decline by 6%, more than one million units, compared to the fourth quarter. This decline versus fourth quarter is mainly an effect of supply chain issues from the recent wave of COVID-19 in China. With the relaxing of the COVID policy in China, LVP, as well as short-term demand have been negatively impacted. As a result, first quarter production in China has been lowered by close to half a million units, with volume losses expected to be recovered in subsequent quarters.

In North America and Europe, the near-term production forecast continues to be limited by auto makers ability to produce, not by demand.

2023 Inflationary Pressure

Now looking on the next slide. We expect 2023 to be a challenging year as inflation impacts our non-raw material cost base, which is almost twice as large as our raw material costs base.

In 2022 the main cost challenge was related to raw materials, affecting our costs for purchased components.

Raw materials

Although many commodity indices are down since their peaks in 2022, we currently assume raw material costs unchanged in 2023. The reason being that the prices of specific raw materials used in our product, such as automotive grade steel, has not declined as much as the generic steel indices would indicate. Additionally, we see higher costs for some materials, such as yarn and resin.

Labour cost inflation

For 2023 the main cost challenge is related to labour and energy inflation, which impacts us directly as well as through suppliers' value-added costs. Already during 2022, the tight labour market, mainly in North America, resulted in significantly higher than normal labour cost inflation. For 2023, we foresee further headwinds from wage increases, especially in Europe. We also predict cost increases from suppliers due to labour cost inflation and higher energy costs.

Logistics and utilities

Additionally, we expect higher costs for logistics and utilities in our operations, mainly in Europe. We have initiated new discussions with our customers aimed at offsetting this broader inflation. We believe it will be challenging but nevertheless we expect the price adjustments will gradually throughout the year offset non-raw material cost inflation.

2023 Business Outlook

Looking at the 2023 business outlook on the next slide. We expect a significant improvement in adjusted operating margin in 2023, compared to 2022, supported mainly by 15% organic sales growth, cost control and product price adjustment. We expect continued high sales out-performance versus light vehicle production in 2023, supported by launches, higher prices, content per vehicle increases and regional mix.

We expect the adjusted operating margin in the first quarter to be around 5% due to lower LVP and that cost inflation is expected to increase faster than our cost compensations in the beginning of the year.

We anticipate price adjustments will gradually throughout the year offset non-raw material cost inflation and the pattern will be similar to the quarterly pattern seen in 2022, with limited positive effect in the first quarter and gradually more as the year progresses.

This trajectory will be further supported by improvements from strict cost control, footprint optimization as well as expected gradual improvement of the supply chain and light vehicle production stability.

Full Year 2023 Indications

Looking at our 2023 financial indications on the next slide. Our full year 2023 indications exclude costs and gains from capacity alignment, anti-trust related matters and other discrete items. Our full year indication is based on a light vehicle production growth assumption of around 3% in line with S&P Global outlook. We expect sales to increase organically by around 15%, currency translation effects are assumed to be around negative 1%. We expect an adjusted operating margin of around 8.5-9%. Operating cash flow is expected to be around US$900 million. Our positive cash flow trend should allow for increasing shareholder returns.

Growth target on track

Turning to the slide to look at progress towards our mid-term targets. In the medium term, we are expecting to continue to grow our core business, air bags, seat belts and steering wheels through execution on the current strong order book. The other important growth driver is safety content per vehicle, driven by continuous updates of government regulations and crash test ratings.

Based on our order book and expected CPV increases, our growth target for the medium term is to grow organically by around 4% more than light vehicle production growth per year on average. This excludes any price compensation for raw materials and other inflationary costs.

In 2022 our out-performance was 7%, including price adjustments. And, for 2023, we expect to outperform light vehicle production by around 12 percentage points. This is substantially above our growth target. Even if we disregard the effect of the price increases on the out-performance, we are still on track to deliver on the growth target of 4 percentage points out-performance on average. To maintain the growth momentum beyond the market-share driven growth, we are pursuing an ambitious innovation programme.

Achieving our Adjusted Operating Margin target

Now looking on the multiple levers for margin improvements on the next slide. In the past two years, Autoliv has significantly reduced its cost base in a challenging market environment. We have implemented hundreds of cost efficiency projects, especially in production and supply chains.

Our medium term adjusted operating margin target of around 12% is based on the previously communicated framework. This relies on the continued implementation of our strategic initiatives, including automisation, digitalisation and footprint optimisation, together with the following conditions. A business environment with a stable global light vehicle production of at least 85 million, and that headwinds from inflation do not have a greater negative impact on our operating margin than it had in 2021, offset through price compensation or declining raw material prices.

We remain confident that if these conditions are met for the full year 2024, which we see as possible if the geopolitical and macroeconomic situation improve, we should reach the 12% adjusted operating margin target in 2024.

Welcome to Autoliv Investor Day 2023

Now, looking on the next slide. I look forward to sharing more about our journey with you at our Investor Day on June 12, 2023, where the main focus will be on product, strategic road map as well as automisation and operational efficiency. The event will be held at our technology centre in Auburn Hills, Michigan, USA. I am looking forward to seeing many of you there.

FY'23 vs. FY'22

Turning to the next slide. In closing, to summarise our 2023 outlook, we expect continued strong sales out-performance versus light vehicle production, a challenging first quarter in terms of operating margin, which should gradually improve throughout the year. A significant full year adjusted operating margin improvement compared to 2022. We remain mindful of the risk of deteriorating economic conditions and supply chain disruptions, but I am confident that our leading position, the work we have done to become more resilient and our experience and agility will enable us to manage future challenging conditions.

I will now hand back to Anders.

Anders: Thank you, Mikael. Turning to the next slide. This concludes our formal comments for today's call, and we would like to open the line for questions. I now turn it back to you, Raz.

Q&A

Operator: Thank you, sir. As a reminder, to ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, you can please press star one and one again. Once again, it is star one and one to register for a question. We are now going to proceed with our first question. The question has come from the line of Rod Lache from Wolfe Research, please ask your question, your line is open.

Rod Lache (Wolfe Research): Hi everybody, thanks for taking my questions. Just firstly, in 2021 you announced a digitisation and automation programme that should save about $160 million I think over two years, and it was $60 million from footprint changes and there was also an expectation the R&D would decline by 100 basis points. Can you just provide a little bit more colour on what you've achieved so far on those and what you see as achievable in front of you in 2023?

Mikael Bratt: Thank you, Rod. I think when it comes to those activities that we laid out there in 2021, and originally actually in 2019 as part of our journey. And as I say, it was a number of strategic road maps initiatives that should strongly support our journey. I should say that we are performing well on those and I think we have been consistent throughout the last couple of challenging years to hold on to the majority of these initiatives to secure the underlying improvements are still on track despite that we have this challenging environment, of course, disturbing overall the net result. But I would say, thanks to those initiatives, we are feeling comfortable on the way forward. And, of course, they have also contributed for us to deliver the results that we are delivering here in this quarter as well. So, long story short, I would say we are on track when it comes to the strategic road map initiatives that you referred to.

Rod Lache: Can you maybe provide some quantification of what is still in front of you from those? And the reason I'm asking maybe just, I'm looking at the fourth quarter strong margin, and I know that there is typically a seasonal lift of about 120 basis points from engineering recoveries, but it would look like you would, even adjusted for that, you would be in the mid to high 9% range off of that. Presumably there's some positive from these restructurings and digitisation and automation, but your target margin for the full year 2023 is only 8.5-9. So, could you help me reconcile to that maybe with a little bit of a bridge?

Mikael Bratt: Let me start and I will hand over to Fredrik here to take you through the different steps there. But in coming back to the strategic initiatives, they are on track. But, with that said, we also see that we have still a lot of opportunities in that area. I mean, some of them have longer lead times and we are in progress of securing many of the footprint initiatives that we have launched, for example, as part of those initiatives. And, specifically, when it comes to automisation, it is of course a gradual journey as we are implementing it also when we have new programme launches. So, we have a sequential development that could take some calendar time, so good progress but still great opportunities as we move forward.

And, of course, the bridge from where we are in 2023- – expect us to be here in relation to the mid-term targets, there are a number of components as we just went through, but I'll let Fredrik take you through that.

Fredrik Westin: Okay,for '23, I mean the main contributors will be the carry over effect and then the incremental additional pricing versus what you compare what the pricing was going into last year. And then, of course, the organic growth that we see, excluding pricing, and those are the two main components that are the positive drivers. But then don't neglect that we also are laying out here that we do see quite significant inflationary headwinds, and the largest part of that is actually on the value-add components that we see from our supply base, and then followed by our labour costs inflation that we expect. And then, to a smaller extent, on logistics and utilities.

If you then look at, going beyond that, it is the continued volume growth that we expect and also delivering on the market share expansion, I mean the launch activities that will drive up the margin further. Further improvements from the strategic initiatives that you see that have started to bite and have effect. And then the valuable component is, of course, what is the incremental inflation effect that we then need to offset, either through further cost reduction activities or through negotiations with our customers. And those are the main building blocks both for '23 but then also beyond.

Rod Lache: Okay. Maybe just lastly. Can you quantify the labour, energy and logistic inflation that you need to offset it, and are you saying that you will offset it for the full year or by the end of the year?

Fredrik Westin: We would offset it by the end of the year. Hence also the somewhat lower margin that we're indicating in the first quarter, and that is also due to the – it is a calendar year effect of how some of these inflationary components come in, not the least on the labour cost side. What I can indicate is that, as I said, the highest headwind we're facing, what we're expecting is on the value-add component of our suppliers, the components that we procure. And then followed by labour and then the smallest component being, as I said, logistics and utilities. Overall it is less than what we had in terms of raw material headwinds in 2022.

Rod Lache: Okay, thank you.

Operator: We are going to proceed with our next question. The question has come from the line of Mattias Holmberg from DNB Markets, please ask your question.

Mattias Holmberg (DNB Markets): Hello and thank you. I wonder if you could break down the out-performance of 12% versus light vehicle production in 2023 a bit? So, if the delta [inaudible] 4% on performance, target all price increases or are there any other moving parts that you can quantify? And, if you don't want to quantify, perhaps you could just rank the different drivers in order of importance, so it adds up to the 12% please?

Fredrik Westin: Sure, so it is, I mean the largest component will be price and, as I said, it's both a carry-over effect from 2022 but then also the incremental pricing that we are expecting, that's the largest contributor, then followed by pretty much on even levels CPV growth and the underlying LVP growth and then you also have market share gains that we expect to be larger in 2023 than they were in 2022. But, and to be clear, not only LVP but also then the third component is the launches that we have.

Matthias Holmberg: All right. A second question from me. On the buy-back programme could you just remind us on how much is left of the programme? And given that you've been quite conservative in utilising the mandate so far, do you believe that you are in a position to become a bit more aggressive with the buybacks now?

Mikael Bratt: First of all, we are committed to our programme, that is US$1.5 billion programme. We have two remaining years, 2023 and 2024 in that programme. And then, as we have said before, we let you know regularly when we have made repurchases. And, of course, what we have done here is also that the timing and the volumes, etc, is judged from time to time. But I feel confident on our way forward with the traction we have laid out here that we will be able to provide good shareholder returns over time through the buy-back programme, as well as the dividends. So, I can't give you more details on the breakdown there because that will come gradually.

Operator: We are now going to proceed with our next question. And the question has come from the line of Vijay Rakesh from Mizuho Securities. Please ask your question, your line is open.

Vijay Rakesh (Mizuho Securities): Hi, Mikael, Fredrik, just a quick question. First, great – a good call and a great guide for 2023. But on the 2023 guide specifically under 15% top line, I know you talked about market share and pricing and units; is there a way to parse what would be the approximate magnitudes of all those in the 15% – embedded in that 15%?

Fredrik Westin: Well, as I said, I mean the order of magnitude is pricing first and then, as I said, launches, market share number two, and CPV number three. And, as CPV we see around 3% and then, yeah, light vehicle. And then, light vehicle production, of course around 3% as well. So, that gives you the 15% and then I leave it to you how you distribute the rest between pricing and market share gain.

Vijay Rakesh: Okay, that's good. And then on the, actually, a little bit to the 2023 LVP, obviously we've had two years of benefitting from a pretty nice mix shift to premium vehicles. How do you see 2023? Do you see any mix, any mean reversion in that shift – mix moving back to mid end? And I also saw you kind of showed much higher design wind rate into EVs but I am just trying to see how that changes as you look at 2023? Thanks.

Mikael Bratt: Thank you. No, we don't expect any dramatic shifts in the distribution there between premium and low-end as you said there. I think what we feel very positively about is how we continue to be a part of the transition over to electrical vehicles. I mean, we are, of course, working very closely with the pure EV makers here and also let's call it the traditional OEMs that are getting more and more electrical EV platforms. So, we are well-positioned in our order book here for the transition over to EVs, and we see that as a very positive momentum. And also, as you know, content in electrical vehicles is positive and it requires also, in many cases, more sophisticated products over time. So, we're developing that.

Vijay Rakesh: Okay. Thank you.

Operator: We are now going to proceed with our next question. And the question comes from the line of Giulio Pescatore from Exane BNP Paribas. Please ask your question.

Giulio Pescatore (Exane BNP Paribas): Hi thanks for taking my question. I have a couple of ones on China first. So, the first one, I mean, do you see a large number of product launches in China in the last few quarters with Chinese car makers and [Inaudible], NIO, Xpeng; what percentage of your business in China at the moment is with local players as compared to international brands? And the second question, again on China. How do you expect to continue to outgrow the market there? Is it correct China approaches Europe and North America with more market share gain? Thank you.

Mikael Bratt: Yes. I think on Chinese OEMs, we are roughly at 25%, I would say, of our sales in China is towards them. As you are correctly stating here, we work very closely with many of them, and also, many of the upcoming OEMs. We are also, of course, providing the opportunity for them by being a robust supplier outside China, as they continue to grow outside. However, I think we have a lot of very interesting development agreements and programmes with the Chinese OEMs for further growing that part of the portfolio. I look very positively on our collaboration with our Chinese customers for the future, both inside China but also outside China.

Fredrik Westin: Maybe to build on that, for 2023, we actually see the largest outperformance in terms of markets in China and Asia.

Giulio Pescatore: Thank you, very clear.

Hampus Engellau (Handelsbanken): Thank you, two questions from me. I am not sure if you want to disclose this, but if you negotiate it would be interesting hear what type of wage increases we are looking at. That is the first question.

Second question is on these price increases that you are being compensated for, contracts that have already been delivered if you have any number for what type of a contribution you have that on EBIT for fourth quarter if there were any? Those are my two questions. Thanks.

Mikael Bratt: Hi Hampus, sorry, but can you repeat your first question, you were breaking up a little bit there?

Hampus Engellau: Okay. No, I was asking if you have a number on how much wage increases you have seen for the year in the organisation on average if it is like 5% or 10%.

Mikael Bratt: In 2022 or 2023?

Hampus Engellau: 2023, of course.

Fredrik Westin: Okay. Yes, it is a single-digit per cent number above what we would normally have. Mid-single-digit per cent number increase versus what we would normally have, so above normal wage inflation.

Hampus Engellau: Fair enough. Then, did you have any cost compensation for the delivered contracts in the quarter?

Mikael Bratt: No. We do not that level of detail. Sorry, Hampus.

Hampus Engellau: Okay, fair enough.

Colin Langan (Wells Fargo): Great. Thanks for taking my question. Just a follow-up on an earlier question, looking at the second-half rate. The margin that you are guiding to for 2023 is actually almost in line with the second-half rate, yet sales, if you annualise the second half, were up a lot. Why the low conversion on those higher sales? What are the offsets there?

Fredrik Westin: I do not think we are guiding for the second half. What we are indicating is a margin for the first quarter. We are not giving any guidance on top line or anything on a quarterly level, so I am not sure I understand.

Colin Langan: Yes. If I average your margin on the second half of 2022, it was around 8.8%, and your guidance for the midpoint for this year is around 8.8%, and yet sales are supposed to be up into next year. So what are the offsets relative to where we stood in the second half on the industrial account? Do you think that is a jumping-off point?

Fredrik Westin: Okay. Then the major issues are the headwinds that we are seeing on inflation in general, so not raw material costs development, that we expect to be more or less flat year-over-year. However, as we indicated here several times, it is the inflation we expect on the value-add from our suppliers; and that is mainly energy and labour, but then also the labour cost inflation that I describe before, and logistics costs, and, to a very limited extent, utilities in our own operations. Those headwinds are significant, but, as I indicated, they are not as high as a headwind as we had from raw materials last year. However, that is the main challenge that we are facing this year.

Colin Langan: Got it, very helpful. Actually, that relates to my second question. The net impact in guidance of the expected increase in inflationary costs and what you are expecting in terms of price recoveries is still a net negative for the year, you are not expecting to get the full recovery within the full year; maybe by Q4, you get full recovery. Is that what is baked in there?

Fredrik Westin: Yes. For the full year would be a net negative, but then still with a different phasing that we have, not fully recovered it in the first quarter, and then you would see a gradual improvement, like in 2022, throughout the year, and then we would be at compensated levels coming out of the year.

Colin Langan: Great, that's very helpful. Thank you very much.

Agnieszka Vilela (Nordea): Perfect. Thank you. If we can get back to outperformance next year, what you expected for 2022, with your first guidance you expected about 11-12%, even, outperformance against car production; and the outcome, in the end, was seven per centage point outperformance. You also mentioned in the beginning that you will have product launches and so on, and we, obviously, saw quite good price momentum in H2 2022. Can you just explain what went wrong when it comes to your actual outperformance in 2022?

Fredrik Westin: Yes. The main difference when we compare to the beginning of last year was the regional mix. Europe was expected to be up, I think it was 17-18% on a year-over-year basis, and it actually ended up being down 1% or 2%. That, as it is one of our highest value markets, that created a very large negative regional mix, which is the main explanation of that difference.

Agnieszka Vilela: Perfect. Thank you. Then the second question on your expected price trajectory for 2023. You mentioned somewhat lower price compensations in Q1 if I understood that correctly. If you could just tell us what you really expect, and also with the spot prices coming down for raw materials if you could tell us if your customers will not expect price decreases in mid-2023?

Mikael Bratt: We do not put out a specific price target here, in all of this. However, what we are saying is that we are working with our customers to get full compensation one way or another. And, of course, we are in parallel also working with our own cost base, especially now when we are talking about in other inflationary costs outside the raw material bucket so to speak. That is what Fredrik talked about with gradually compensation here for throughout the year.

Then, of course, as raw materials potentially is gradually coming down, and as you have seen on the index side here, it is coming down, but in our case here, we have many products that is not really correlating with broad indices, so we do not see the same reduction. However, on a conceptual note, of course, when we see raw materials starting to come back eventually, there is a mechanism and discussion with our customers to give back on that. However, at the same time, we are going to get compensation from our supplier base. It is throughout the whole value chain of course, that needs to be regulated. As it was on the way up, it will be on the way down eventually.

Agnieszka Vilela: Perfect, thank you.

Itay Michaeli (Citi): Great. Thanks, everybody. Just wondered as you pursue the commercial recoveries for labour and other inflation, hoping you give us a bit of insight as to how the initial conversations are going, is it pretty consistent across regions and various automakers, and just how to think about when you think you will become a largely complete or have real good line-of-sight into the targets that you provided today on those negotiations?

Mikael Bratt: I think, first of all, we have now been spending the better part of the last 12-15 months here in discussions with our customer around the increased cost base, starting out with raw materials we have said here. This is a new territory for our customers, it is new territory for the supply base, so, of course, it has been a lot of discussion. It is a very detailed discussion, and we have made good progress, as we can report here. Of course, where we are now moving into territory where it is outside the raw material that we have seen to some extent historically, this is more challenging. However, I think we are all recognising here as an industry that we need to find a way to work in a potentially higher inflationary environment, and that calls for a more regular discussion around price adjustments. That is ongoing. It is constructive dialogues with our customers. However, there is, of course, a natural timeline because we are not discussing price adjustments on anything else than what has been already impacted us. The discussion is around already agreed agreements that needs to be updated. Therefore, it is on a product and plant level going through the cost impact from different cost drivers, as we mentioned here. It is far from one-size-fits-all in the discussions, it is on a product and plant level. It is a lot of work and therefore some time delays in it.

Itay Michaeli: That is very helpful colour. Thank you.

Mikael Bratt: Thank you very much. Before we end today's call, I would like to say that we are continuing to build resilience and strength in turbulent times, relying on our strong company culture. Our actions are creating both short-term and long-term improvements, and we believe these actions will enable us to build an even stronger position despite the challenging macro environment. We remain agile and prepared for a more adverse market development, should that be necessary.

Autoliv continues to focus on our vision of saving more lives, which is our most important direct contribution to a sustainable society. Our first-quarter earnings call is scheduled for Friday, 21 April 2023. Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]