Autoliv Q2 Report 2022

Friday, 22nd July 2022

Introduction

Anders Trapp

VP Investor Relations, Autoliv

Programme for the call

Welcome everyone to our second quarter 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 our CEO will provide a brief overview of our second quarter results, as well as provide an update on our general business and market conditions. Following Mikael, Fredrik will provide further details and commentary around the financials. We will then remain available to respond to your questions, and. as usual. the slides are available on autoliv.com.

Safe harbour statement

Turning to the next slide, we have the safe harbour statement, which is an integrated part of this presentation and 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 10Q that will be filed with the SEC.

Q&A formula

Lastly, I should mention that this call is intended to conclude at 3pm Central European Time, so please follow a limit of two questions per person. I will now hand over to our CEO Mikael Bratt.

Quarterly Overview and Business Update

Mikael Bratt

President and CEO, Autoliv

Progress in customer price discussions

Supply chain problems continue

Looking on the next slide, I would like to start by thanking our employees for a good execution of our mitigating activities in a challenging quarter. We continued to experience tough lockdowns in China that affected the global supply chain and automotive industry, including many of our employees. Although the supply chain situation is improving currently, the automotive industry continues to battle with the semiconductor shortage, limiting the global light-vehicle production.

Organic sales up

Thanks to a strong end of the quarter, our organic sales increased by 8% year-over-year according to IHS Markit. Our organic sales outperformed global light-vehicle production by more than 7 percentage points.

Margins helped by cost mitigations

Our margins developed better than expected despite raw material cost increases impacting our operating margin in the quarter by almost 6 percentage points and extensive inefficiencies from lockdowns in China. Our cost mitigation measures are on track to achieving price increases to compensate for higher costs for raw materials, labour, logistics and utilities. Additionally, commercial compensation for previous periods and a patent litigation settlement together amounted to around $50 million US in the quarter. In response to the ongoing challenging market conditions and to be prepared for possible future challenging conditions, we are strengthening our cost-control measures and implementing other cost-saving activities.

Cash flow

Mainly due to volatile and timing effects, adverse working capital development led to a negative cash flow in the quarter. We expect to recover most of these effects in the second half of the year. The leverage ratio is 1.7 times. In the quarter we paid 64 cents per share in dividends and repurchased 0.3 million shares under our three-year stock repurchase programme.

Product developments

We continue to develop mobility-sector solutions and announced a co-operation with POC to investigate the opportunities with integrating airbag technology into bicycle helmets.

Outlook for the year

Looking at the rest of the year, we expect increased sales outperformance versus light-vehicle production. It is our plan and ambition that our product price increases coupled with strict cost-control measures will gradually offset the raw materials and other inflationary cost increases, therefore we expect a sequential margin improvement in the second half-year, supporting a trajectory towards our midterm target.

Financial overview

Sales and income

Our consolidated net sales of 2.1 billion was 3% higher than in Q2 2021. Adjusted operating income excluding cost for capacity alignments fell from $166 million to $124 million.

Margins

The adjusted operating margin was 6% in the quarter, around 2 percentage points lower than last year. The lower operating margin was mainly a result of inflationary pressure, volatile light-vehicle production, currencies and effects from lockdowns in China.

Cash flow

Operating cash flow was negative $51 million, which was $114 million lower than the same period last year, mainly due to changes in working capital.

Sales growth

Although currency translation effects had a negative impact of 5% or $103 million, the second quarter consolidated net sales increased by almost $60 million to $2.1 billion. Retroactive pricing contributed with approximately $30 million and price-volume mix contributed $132 million or 7% to the growth in the quarter.

Organic sales growth by region

Headwinds from disappointing vehicle production

Our sales in the quarter came in lower than we expected in the beginning of the quarter due to the fact that light-vehicle production in Japan, Western Europe and North America disappointed. According to IHS Markit, global light-vehicle production increased by less than 1% year-over-year in the quarter. This was 2 percentage points worse than expected at the beginning of the quarter and the mix was worse than expected.

Organic sales outperformed

Our second quarter sales grew organically by 8%, which was around 7 percentage points better than global light-vehicle production according to IHS Markit, despite the negative regional light-vehicle production mix. The organic sales growth was mainly driven by the large number of product launches in Americas and Europe, as well as price increases. Based on the latest light-vehicle production numbers from IHS Markit, we outperformed in Europe by 15 percentage points, in Japan by 10 percentage points and in Americas by 8 percentage points. In China, sales underperformed by 4 percentage points. The reason for the underperformance in China was mainly the mix effect from production of low-end vehicles being less affected by the lockdowns.

Good outlook for year

Supported by recent launches and a positive regional mix, as well as further price increases, we see sales outperforming light-vehicle production substantially more for the rest of the year.

Key model launches this quarter

Long-term trend to higher content

On the next slide we see some key model launches from the second quarter. In the quarter, we had a high number of launches, especially in Europe and China. The models shown on this slide have an Autoliv content per vehicle from approximately $120 to more than $550. The long-term trend to higher content per vehicle is supported by the introduction of high-content steering wheels.

Financial Details and Commentary

Fredrik Westin

CFO, Autoliv

Financial overview

Sales and margins

This slide highlights our key figures for the second quarter of 2022 compared to the second quarter of 2021. Our net sales were $2.1 billion. This was a 3% increase compared to the same quarter last year. Gross profits declined by 15% to $326 million while the gross margin decreased to 15.7%. The gross margin decrease was primarily driven by raw materials, currencies and the volatile and lower than expected light-vehicle production.

Operating income

In the quarter we had virtually no additional provisions for capacity alignment activities and the adjusted operating income decreased to $124 million from $166 million. The adjusted operating margin declined to 6%.

Cash flow

The operating cash flow was minus $51 million, and I would provide further comments later in the presentation.

EPS and RoCE

Earnings per share diluted decreased by 28 cents, where the main drivers were 33 cents from lower adjusted operating income, partly mitigated by 4 cents from financial items.

Our adjusted return on capital employed declined to 13% and the adjusted return on equity to 12%.

We paid a dividend of 64 cents per share in the quarter, the same as in the previous quarter, and repurchased around 300,000 shares for $22 million under a three-year stock repurchase programme.

Adjusted operating income bridge

Raw material cost increased

In the second quarter of 2022, our adjusted operating income of $124 million was $42 million lower than the same quarter last year. The impact of raw material price changes was negative $150 million in the quarter year-on-year. FX impacted the operating profit negatively by $20 million as a result of translation effects due to the stronger US dollar and transaction effects mainly relating to the pairings Japanese yen to US dollar and Korean won to US dollar.

SG&A and RD&E net combined was $6 million higher due to higher costs for IT and application engineering as well as timing of engineering income.

Largely offset by pricing

Our improved pricing and other mitigating activities largely offset these significant headwinds.

Adjusted operating income bridge excluding discrete items

In the quarter the operating profit was helped by income from a patent litigation settlement that amounted to $21 million. Also we recovered around $30 million related to cost increases related to earlier periods. Excluding the patent litigation settlement and retroactive cost recoveries, the adjusted operating income was $73 million of 3.6% of sales. This was a notable improvement compared to the first quarter as customer pricing discussions and our strategic initiatives are yielding results.

Cost inflation compensation negotiations

Securing sustainable price increases

To support a sustainable business model in the current high inflationary environment, we continue to work intensely with customers to secure price increases to compensate for inflationary pressure and supply-chain disruptions. We have made progress on cost recovery through sustainable price increases with most customers. In many cases the new pricing is retroactive to cover costs incurred in earlier periods. However, we are still being impacted by inflationary cost increases, so the discussions and negotiations continue. We are also negotiating more flexible customer contracts to ensure that future inflationary pressures are effectively and more timely pushed through the value chain.

Cash flow

Temporary negative effects on working capital

For the second quarter of 2022, operating cash flow decreased by $114 million to negative $51 million compared to last year, mainly due to changes in working capital and the lower net income.

Working capital down

During the quarter, working capital deteriorated by $239 million. The steep ramp up in sales and the fact that we concluded a rather large number of compensation negotiations towards the end of the quarter as well as the patent litigation settlement had a temporary negative effect on working capital. In the second half of 2022, the timing of the customer compensations will support a more favourable cash flow development.

Inventories

In the quarter, the continued volatile light-vehicle production and logistics challenges drove inventories higher. The inefficiency in inventory was in excess of $100 million at the end of the quarter. Our ambition is to eliminate these inefficiencies as soon as possible, which requires a further stabilisation of the supply chain and call-off patterns from our customers.

Capital expenditure

For the second quarter, capital expenditures net increased by 44% to $139 million. In relation to sales, it was 6.7% versus 4.7% a year earlier. The increase is mainly related to the ongoing footprint activities and capacity expansion in China as part of our strategic roadmap.

Free cash flow

For the second quarter of 2022, free cash flow was minus $190 million compared to minus $33 million a year earlier, driven by the lower operating cash flow and the higher capital expenditures.

Cash conversion

The cash conversion over the last 12 months was around 30%. In the quarter we paid $56 million in dividends and repurchased shares for $22 million.

Debt leverage ratio

Temporarily outside range

In the quarter we continued to repurchase shares and we maintained our dividend. The leverage ratio at the end of June 2022 was 1.7 times. This was 0.3 times higher than in the previous quarter, as our 12-months trading adjusted EBITDA decreased by $51 million and our net debt increased by $244 million. We see this as a temporary situation and we expect to be back within the range later in the year.

Substantial raw material cost increases across all commodities

Commodity markets still volatile

We still experience volatile commodity markets coming from the Ukraine war, Covid-related lockdowns and general inflationary pressure. It is encouraging that some commodity prices have decreased since March highs, especially metals. Cost increases for raw materials generated a gross headwind of $115 million or almost 6 percentage points to our operating margin in the second quarter. As expected, this was slightly higher than in the first quarter.

In the current price environment, we believe that raw material costs before any customer compensations could be around 5.5 percentage points in operating margin headwind for the full year 2022.

Targeted actions

This situation is addressed through targeted actions in negotiations with customers as already outlined. We are also stepping up cost-control measures.

Mitigating the impact of the new challenges

Additional cost control measures

In response to the sharp increase in raw material prices and cost inflation, we continue with strict cost-control measures, a hiring freeze and accelerated cost savings and footprint activities. Additionally, we are reducing consultants and temporary employees and we are reviewing and prioritising projects. As a result of these activities, headcount is virtually unchanged year-over-year, despite substantially higher organic sales.

Capital management

We continue to execute on our capital efficiency programme to improve trade working capital. We also focus on balancing headcount with expected demand.

Market Development

Mikael Bratt

President and CEO, Autoliv

Expected light-vehicle production recovery in second half of 2022

Shortages and lockdowns

The second quarter light-vehicle production was influenced by the ongoing component shortages and the Covid-related lockdowns in China. However, there are signs that the situation is improving and that the second quarter was the low point of this year.

Substantial growth forecast

As inventories of new vehicles continue to trend at record low level and strong OEM order backlogs, we believe the short-term light-vehicle production development will depend on the industry's ability to build vehicles, not on the macro sentiment. We expect to see substantial year-over-year light-vehicle production growth in Q3 and Q4, as the light-vehicle production in the second half of 2021 was highly affected by semiconductor shortages, especially the third quarter. However, total volumes are still expected to be well below the light-vehicle production level in the second half of 2020. Additionally, as most light-vehicle production growth is forecast to come in high content-per-vehicle markets, the regional mix is expected to be favourable in the second half of the year.

Light vehicle production outlook

Availability of automotive chips is expected to improve in second half of the year

The automotive industry continues to operate at or near recessionary levels, impacted by supply-chain challenges. For the third quarter of 2022, global light-vehicle production is expected to grow by over 20% compared to the very weak light-vehicle production in the third quarter of 2021, according to IHS Markit. Sequentially, light-vehicle production is expected to improve by 8% compared to Q2 as the availability of automotive semiconductors is expected to improve.

North America

In North America, sales of new vehicles remain well below demand and well below sales a year ago. With dealer inventories remaining at historical low levels, the lockdowns in China affected North American production in the later part of the second quarter. This situation is expected to improve gradually.

Europe

For European production, we expect volume recovery as supply constraints continue to ease.

China

In China, light-vehicle production in June was up over 30% year-over-year as lockdowns were lifted and demand was stimulated by tax incentives. However, continued supply-chain challenges limit the level of growth.

Business outlook for 2022

We expect higher sales outperformance versus light-vehicle production for the rest of the year, supported by launches, regional mix and higher prices. We also expect improvements in the second half of the year from alignment of direct labour with light-vehicle production, footprint optimisation activities and a less volatile light-vehicle production. We expect this to lead to a strong second-half profitability compared to the first half-year.

Full year 2022 indications

Assumptions and adjustments

Our full-year 2022 indications exclude cost for capacity alignment, anti-trust related matters and other discrete items. We adjust our full-year indications to a tighter range reflecting our activities and the shorter timespan remaining of the year. The updated indications assume that global light-vehicle production will grow between 2% and 5% and that we achieve our targeted cost-inflation compensation plus some level of market stabilisation.

We expect sales to increase organically by around 13% to 16%. Currency translation effects on sales are assumed to be around negative 5%. We expect an adjusted operating margin of around 6% to 7%. Operating cash flow is expected to be around $750 million to $850 million.

Outlook summary

In closing to summarise our 2022 outlook, we expect continued strong outperformance versus light-vehicle production, supported mainly by product launches, increasing content per vehicle and price increases. We expect to gradually offset much of the cost inflation in the coming quarters, putting us on a trajectory towards our midterm targets based on the framework outlined at our Capital Markets Day in 2021. Additionally, our balance sheet and cash flow should allow for continued shareholder returns. We remain mindful of the risk of deteriorating economic conditions 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.

Q&A

Mattias Holmberg (DNB): My question is regarding the commercial recovery. It would be very interesting to hear if there is anything you can say, first of all in terms of what we should expect going forward. Is the level of $30 million in Q2 a reasonable assumption for the rest of the year or subsequent quarters? And then I am also interested to hear if you are only negotiating recoveries for periods in 2022 or if you are also looking into getting recoveries for what happened in 2021? Thank you.

Mikael Bratt: When it comes to the price negotiations, we cannot describe in any details how these are going. But I would say that what we have achieved so far is in line with what we need to do going forward to, I would say, restore the balance between our prices to our customers and the cost impacts we see. Focus of course initially here has been on what has come first, so to speak, hitting us in terms of raw material. But of course we are covering all the different parameters that we have talked about when it comes to utilities, inflationary labour cost and the freight side of the business as well here.

In terms of the time horizon which we are covering in the discussion, it is really focusing on restoring the height, so to speak, on the price, and that we get the balance right there. Of course there are, as we have indicated here also, retroactive aspects, but it depends on what kind of cost we are talking about and when they occurred and so on. But as we have said all along, our focus is to get full compensation for the cost increases outside Autoliv's control. That is what we are looking at.

Mattias Holmberg: Thank you. Maybe just a quick follow up and a rephrasing, perhaps, of my question. Can you say, out of all the negotiations that you are in, how many have you concluded in this quarter?

Mikael Bratt: I cannot give you that indication. I think the main message is that of course we are negotiating with the full customer base, meaning all our customers, and depending on the development it is an ongoing effort. So I would say the work continues very much as we move forward and we see the continued inflationary pressure affecting us. It is not finalised in any way, it is an ongoing work as long as we have this cost situation.

Emmanuel Rosner (Deutsche Bank): Maybe just to start off following up on the commercial recovery discussion. So, the retroactive ones that you achieved in the second quarter – I think in the press release you were mentioning June playing out better than expected, partly due to this – were these unexpected or was it just the timing of it a surprise? And should we expect more retroactive recoveries in the second half? I guess where I am trying to get to is, to what extent would the second-half margin run rate be a good base to estimate 2023, or at least a starting point for 2023? Or how much of it would benefit from retroactive recoveries as well?

Mikael Bratt: I could not quantify that for you here. But as I said before, the focus is to get the height. That is the priority for us. And of course when it comes to the timing, as this is negotiations you could say if we had concluded on Monday instead of Friday, at the end of the quarter, it makes a difference of course. And as we have been in these negotiations for some time, we have very detailed discussion and that is why it is taking time as well, because we are negotiating contract by contract with each customer, and it is really on plant level as well. So there is a lot of detail that needs to come into play in those discussions, that is why it is taking time.

And the timing of it depends on how quickly we can conclude the discussions. It is difficult to give that kind of indication at this point in time.

But the bottom line is that we are on track towards what we have told you before, what we need to do to reach our full-year guidance.

Emmanuel Rosner: So let me ask you this differently and then there is a follow-up on commodities. Your second-half implied margin based on your new guidance range at mid-point is 8.2%. Would this second-half margin include also some retroactive recoveries or only forward-looking new pricing?

Mikael Bratt: The short answer is yes. Everything we get retroactive will be booked in the second half-year. You will get it there, so yes.

Emmanuel Rosner: Yes there would be retroactive recoveries as well?

Mikael Bratt: In the case there is retroactive, it will affect the second half-year.

Emmanuel Rosner: Let me just switch to commodities quickly. I think your outlook is still for a 550 basis point hit to margin this year. But basically evenly spread out by quarters. Now, as you noted in your slides, some of these commodities started inflecting down. Can you just give a little more detail on what commodities will be the largest headwinds for you in the second half, and if prices remain where they have fallen back to, could that be a tailwind in 2023?

Fredrik Westin: You can see from the indication we have taken down the impact that we see for the year from around 6 to 5.5 percentage points. The main impact is still from steel. Even though that impact has also come down, it remains our largest year-over-year issue or impact on our cost development. Pretty much all major commodities for us we do see an improvement but due to the contract structure that we have with our supplier base, it takes some time for these spot-price movements to flow through into our cost set-up.

And then for 2023, it remains to be seen. Should they remain at say the lower levels where some of the metals are right now, obviously that should then be beneficial for us going into 2023.

Hampus Engellau (Handelsbanken): This is more of a general question, but given the historic pattern on the cost and the price negotiations for you guys, you are currently almost at 50% global market share, is there any initiative that you might change your pricing model and try to be a little bit more aggressive using your strong market position, given that you probably should be the market leader in pricing? That is the first question. The second question is more related to how it would work when you are in balance on the cost that you are currently compensating for, and we see metal prices coming down, as an example. Would you then be immediately giving back that or would you overcompensate?

Mikael Bratt: Let me start by taking the first question and then let Fredrik answer the second question. I think first of all we should remember here that we have not been in a situation where we have needed to go to our customers with price increases for at least 25 years. Yes, we have the annual negotiation with the customer, where we have, I will say, certain elements of volume, steel prices, et cetera. Very few items that we cover every year. But in this magnitude and this breadth of cost items to be discussed, we have not seen in the industry, I would say, for this very long time period. So this is a new situation and of course it requires a lot of additional work between ourselves and the customer on a very, very detailed level.

And the pricing power, if we put it like that, is really when we have the quote process. So when we have an RFQ for a new programme, that is where you could say that the market position is playing out. Then we are in contract with our customer for the life of that vehicle, simply put, and that is what we are now going through and negotiating. And I would say we have good discussions with our customers and it is fact-based and detailed discussions that we are working our way through now, and that is gradually paying off in line with what we earlier discussed.

So a little bit of new territory but the real pricing is in the RFQ process.

Fredrik Westin: And on your second question, on the correlation between the cost and price development going forward, for us the priority has been to restore our pricing levels to make sure that whatever the cost inflation has been so far, that we get the right adjustment for that going forward, as Mikael said before.

We will after these negotiations, and already now, have a higher level of indexation, which then also will reduce our volatility or exposure to the spread between the raw-material cost development and our top line. And these structures that we are now on with our customers to a large extent, vary between quarterly to annual structures. So it will vary a little bit then how the cost development will ultimately come through on the pricing side, in both directions.

Colin Langan (Wells Fargo): Just following up on commodities, you took it down a bit. Is there any good news left on the 550 for 2022 or is it just given the contract timing that is all going to be recovered in 2023? And what did drive it? Is that just the mark to market help from the spot prices? That has nothing to do with the customer negotiations, right?

Fredrik Westin: No, so this is a cost impact that we are guiding for. It does not include any compensation effects from our customers. It is the pure cost impact on our profit and loss statement that we are expecting for this year. And as I said, we have seen commodity prices come down, mostly on metals, and we also do expect a limited impact from that in the second half of the year on our cost base. But due to the structures that we have with our suppliers, also here we have between quarterly and annual set ups, there is a time lag then of how these spot-price developments translate into our cost structure.

Colin Langan: And then just looking at the full-year guidance change, I think it implies at the mid-point around $12 million increase in operating income for the year. But Q2 came in quite a bit better than expected, you had the $22 million in litigation settlement that I assume was not expected, commodity headwinds I think are roughly $50 million lower than what you are expecting, so why not a bigger full-year increase? What is offsetting that from a second-half outlook at this point?

Fredrik Westin: We are looking at a substantial improvement in the second half of the year, somewhere around 7% to 9% versus around 4.5% in the first half of the year. You highlighted some of the positive factors but there are also some headwinds. We, for instance, see that FX is now a larger headwind than what we had included in our guidance both for the full year and after Q1, so that would have a larger negative impact on us than we had expected just three months ago. And we also see that some other cost components that are non-raw material related, for instance logistics, also have an unfavourable development. So there are a couple of components that are offsetting the ones that you mentioned.

Chris McNally (Evercore ISI): I want to go a bit broader on the raw materials. I apologise that it is the third or fourth question on it, but rather than specific on timing and specific contracts, if we step back and think about that 500 basis points of gross raw-material inflation, there is obviously a net number there that you have covered off a certain amount. Whatever that net number is, we can all make our own estimates, I guess what we are trying to figure out is do you think you will get the majority of that recovered over 2022 and 2023, so that 2024 is 'normalised'? You sound pretty confident on your 12% margin. Is that the right way to think about it, that the recoveries could be the majority of that net and will go away by the end of 2023, on a two-year basis?

Fredrik Westin: Correct, yes. So what we are aiming for is to get pricing compensations that offset these headwinds that you just talked about, including the 5.5 percentage point margin impact of raw materials from this year. And we are not only putting raw materials on the table but also, as we mentioned, utilities, labour costs and also logistics, and we have closed some of those agreements with the height that we were aiming for to be able to offset these costs. And they should come through here, the majority of this should come through during this year.

Chris McNally: And then just thinking longer term, there is always this question of your normalised guidance of 12%. I think the way you phrased it is sort of low $90 million production, the way IHS quotes it, that happens to be what our forecasts are for 2024, and on the raw materials you talk about a flattening. In the second part, the raw materials, are we at a level that the 12% would be realistic? Or is there another consideration because we had a step up from when you first gave that? I am trying to get a sense if the 12% is a good proxy for 2024, since that is where the industry production is expected to be.

Mikael Bratt: I think what we are zooming in on here is of course the framework we gave in the Capital Markets Day, and that is still valid. As we said, at least 85 million vehicles, and that we have a net effect on the raw-materials side that it is back at 2021 level. So that still stands and as we have described here today, I think we are heading in that direction. What the world will look like on a certain date, that is of course a big question. But I feel comfortable that what we can control, we are controlling well, in line with what we have said here. So I think that is as much as we can describe the target of around 12%.

Giulio Pescatore (Exane): The first question, on natural gas. You need it for the manufacturing process of airbags, so I was wondering, are you looking at alternatives to this source, in case we go into restrictions in Europe? And is there an alternative, is there an easy alternative for you? And then the second question, on the top line, you did increase the light-vehicle production guidance but you did not increase the organic growth guidance, which implies that your outperformance is supposed to be slightly lower. Which surprises me, given your comments on adding general positive regional mix going forward, especially in H2. So can you maybe explain what changed there? Thank you.

Fredrik Westin: On your first question, on natural gas, we do not use gas for processing in our manufacturing processes. So we are not exposed to natural gas in that sense. We do use it for heating of some of our facilities, so that is the only exposure we have. So in that sense we are of course monitoring very closely what is happening here in the markets, but our exposure will be more on the impact on our suppliers or then indirectly through impacts on our customers.

Then on light-vehicle production, yes, we are now guiding for 11% outperformance, so a 2% to 5% range. That is mainly as we said in the presentation, that the timeframe has shortened here for the year and we think that range is realistic. We have had a quite significant negative mix year to date of around 6% and that is the main reason why we take down our full-year outperformance from 12% to 11%. So the mix component in there has deteriorated slightly. All the others, like content per vehicle, market share and also pricing, remain unchanged versus our previous guidance.

Joseph Spak (RBC): Maybe just going back to raw materials for a second here and also the comment on being more flexible, I understand there might be timing impacts here but if those inputs continue to be deflationary, I am assuming those flexible pricing arrangements work both ways. So is it possible that as you get beyond 2023 and maybe before that, that you would have to give back even more than the price-downs that you have typically become accustomed to at Autoliv?

Mikael Bratt: No, I think as I said, if we get on more indexation programmes, let me put it like this: the net effect of what we get out over a cycle or a period with this programme, is not changing. I think we get a smoother development with indexation programmes, indexation clauses, because we will get quicker compensation and of course yes, it has a quicker reduction. But net-net, there should not be any difference, because it is tied together also with how we are balancing our supplier base. So that is a very important component to make sure that that it is tying together. We feel comfortable with that set up. We shorten the lead times, that is basically the net effect.

Joseph Spak: And then maybe going back to follow up on Chris's question before, as we think going forward – and I recognise you are not going to give or update guidance here – but even if we think 8% margin level for the back half is maybe a decent base, and then we look at even for next year industry expectations plus your outgrowth algorithm and historical 25% incrementals, you can get back to even around 9%, 9.5%, next year. So just remind us, is it really just volume that gets you to the 12%? I mean, I know you have taken some actions here in the near term but some of them seem maybe more temporary than permanent. So can you just remind us of really the big drivers to get back to 12%?

Mikael Bratt: The drivers to get us to the 12% remain the same. I think what happened from when we started this journey, what has happened in the meantime is all the disturbances we have got from the pandemic, from the consequences of that, and the raw materials and everything we have been through now. So what we need to do and which we are doing now, is to balance that again. And what we need to have going forward is that we get a more stable market, as we are indicating here, because the volatility up and down with very short time horizons we have seen, is disturbing the trajectory in the short term.

So it is still very much around driving our efficiency and productivity in the company, where we have the underlying strategic roadmaps that we have talked about, and that is progressing well. We need to continue to get the price adjustments in place to cover what I talked about, the short-term fluctuations. But other than that, I think we have all the components here to get there, and that is why we feel comfortable to reiterate the targets for this period.

Joseph Spak: Maybe if I could just squeeze one quick one in, what euro rate are you assuming for the back half of the year?

Fredrik Westin: The end rate of June.

Joseph Spak: So about parity?

Fredrik Westin: Yes, 1.0-something. I don’t have it in my head at the moment but we can come back to you on that.

Agnieszka Vilela (Nordea): I have two questions, starting with your organic growth guidance. It seems like you base it on the light-vehicle production assumption of 2% to 5% growth for the year, yet IHS is at 5%. So if you could give us any reasons why you seem to be a bit more cautious here?

Mikael Bratt: Yes, I think the cautious view here, if you call it that, is that we still see that there is a lot of uncertainty out there. As we have indicated, things are moving in the right direction but we also see that we are not through when it comes to the semiconductors, we still have challenges in the logistics chains around the world, pandemic is still here, plus I think in Europe we are also facing a winter with potentially challenging energy situations as well. So there is a lot of uncertainty out there that I think makes it prudent to have a more cautious view on light-vehicle production development.

Agnieszka Vilela: And maybe a follow-up on that. When you speak to your customers, do you feel that they are getting a bit more confident about volumes when they place the call-offs with you?

Mikael Bratt: I think the short answer would probably be yes on that question, but here maybe you can see some reason for our caution also. It is that we see that there has been more confidence in the call-offs than what has actually come out. So that has been a big challenge for us the last couple of quarters, that what has been requested has not been picked up by the customer. So there is of course a will and a wish from the OEM side to get more volume through and that of course is based on what we have talked about here, that there is a strong order book, there is extremely low level of inventory, especially in the US, but there is still disturbance in the industry value chain that makes it difficult to get to the volumes that have been put into the system.

So I would say the only thing that is holding back the volume right now in the short term is the availability of components in the whole industry, not Autoliv specifically.

Agnieszka Vilela: And then a second question is on your cost-alignment programme. You have not provided any quantification for this call per what you are doing there. Do you expect any savings coming from that? Do you expect any cost also to cover this programme? Could you give us a bit more detail on that?

Mikael Bratt: I guess you are referring to the one we have indicated here in June, that we are taking additional steps to reduce cost. We are not expecting to see any meaningful one-time effects or cost-restructuring charges to that at this point, so we have not quantified that for you for that reason. It is also a gradual implementation and the main effect of those activities is really towards the end of the year and for 2023.

Agnieszka Vilela: But you do not provide any cost-savings target for this programme?

Mikael Bratt: No, it is a part of what we are doing here to secure our trajectory towards the mid-term target. So we have not broken that out specifically. It is on top of everything else we do here.

Philipp Koenig (Goldman Sachs): I just want to come back to the recovery. You made some particularly strong progress in June, which we also see in your working capital. I was just wondering, if that sort of run rate continues, is it fair to say that you might even be able to aim for the upper end of the 6% to 7% margin range in terms of what you are baking in for the second half of the year, in terms of the recoveries? And then my second question is just on the near-term volumes. What have the first couple of weeks in July been like? Has the momentum continued from June, has it been even better? Any colour there would be appreciated.

Mikael Bratt: I cannot give you any more details around the progression there. I think what we have said here is that we are making progress and are in line with what we have indicated before, and we have narrowed the range to the 6% to 7% adjusted operating income. I cannot narrow it down even further for you, unfortunately.

When it comes to the momentum in the market, I think we can say that it is holding up. There is no question that there is an underlying demand and it is now all about securing, in the whole industry, the ability to secure components. I would say there is a lot of uncertainty out there regarding that and we just need to see how it comes through. But it is too early to say anything around that, when it comes to the beginning of the quarter.

Vijay Rakesh (Mizuho Securities): I think you made a comment on chip supply having improved. I am just wondering where you had been seeing any constraints and where you are seeing some of the supply improving?

Mikael Bratt: As I said, we see some improvements and of course we also hear from our customers that there are some improvements. It is still very, let us call it spotty, because it is not across all customers. There are some customers that are more confident than others in terms of securing semiconductors for their own production. Of course the lockdowns in China created some bumps on the road here also outside China, when it comes to the semiconductor supply. And I think also we see that there is still lower specs of vehicles to not need as many semiconductors as they otherwise would. So if availability is improving here, I think the demand will also go up. So that is why we are also cautious here that we are not out of the woods yet when it comes to the semiconductors. But it is trending in the right direction, that is what we feel when we talk to our customers. Plus of course our own semiconductor needs are under control.

Vijay Rakesh: And last question, I know a lot of questions on the pricing side, are you pegging it to a commodity index? Because it looks like the broader commodity index is starting to soften a bit. I am just wondering, are these price increases on a six-month horizon? How are you feeling it is somewhat clear – are you using a broader index and what the timeframe for the price increases are?

Fredrik Westin: There is no straightforward answer to that question. It is a mix. Pretty much every OEM uses a different structure for this type of discussions, so some have steel indices based on different types of indices, then you have also commodities that are not covered, others do cover them. So it is a basked of arrangements that you then can choose to have with a certain OEM. So it is difficult to give a simple answer to that question. And as mentioned before, the cadence of these adjustments are between quarterly and annual.

Erik Golrang (SEB): I am returning to the raw-materials subject. I understand it correctly that you said that you were aiming for full compensation of raw material and indeed logistics headwinds that were out of your control. If I just sum up the raw-materials headwinds that you have had since the start of 2021, that is in excess of $300 million and now you have got $30 million in compensation. Do you expect the rest in the second half? Is that the right way to read it?

Mikael Bratt: No, what we are talking about here, as I emphasised before, our focus – when we had the discussion about retroactiveness and so on – our focus here is to get full compensation when it comes to heights. So what we are negotiating here now is for the costs that have hit us and to restore that balance, so to speak, between our income and cost and the price. That is the focus.

Fredrik Westin: And maybe to clarify, the $30 million that we point at is only the recovery that we received that is related to prior to the second quarter. So these are retroactive adjustments going back to 1st January that we are disclosing, that are not related to the second quarter. The recoveries we got overall are higher than $30 million.

Mikael Bratt: Before we end today's call, I would like to say that the recent developments in supply chains, customer production plans, raw-material prices and our cost-recovery discussions, are encouraging and we are well prepared for an improved market development. However, we are also making sure we are agile and prepared for more adverse market development should that be necessary. Autoliv continues to focus on our vision of saving more lives, which is our most important contribution to sustainable society. Our third-quarter earnings call is scheduled for Friday, 21st October 2022. 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]