Fourth Quarter and Full Year 2019 Financial Results

Tuesday, 28th January 2020

Introduction

Anders Trapp

Vice President, Investor Relations, Autoliv

Welcome everyone to our fourth quarter and full year 2019 financial results earnings presentation. Here in Stockholm, we have our President and CEO, Mikael Bratt, our Interim Chief Financial Officer, Christian Hanke, and myself, Anders Trapp, Vice President of Investor Relations.

During today's earnings call, our CEO will provide a brief overview of our fourth quarter and full year 2019 results, as well as provide an update on our general business and market conditions. Following Mikael, Christian will provide further details and commentary around the financials. At the end of the presentation, we will remain available to respond to your questions. And as usual, the slides are available through a link on the homepage of our corporate website.

Safe Harbour

Turning to the next slide, we have the Safe Harbour statement, which is an integrated part of this presentation and it includes the Q&A that follows.

During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-K that will be filed with the SEC in late February. All figures in this presentation refer to continuing operations, i.e., excluding discontinued operations.

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

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

Q4 2019 Key Events

Mikael Bratt

President and CEO, Autoliv

Positive earnings trend

Thank you, Anders. Looking now into Q4 2019 key events on the next slide. Firstly, I would like to say that I am very pleased that our adjusted operating margin has improved compared to last year despite the challenging vehicle market. The reason for this improvement is mainly a result of the actions initiated in prior quarters to mitigate the effects of tough market condition and high launch activities.

We continue to outperform against global light vehicle production growing sales organically six percentage points more than global LVP. The strong performance is driven across all regions. This quarter marks the seventh consecutive quarter of significantly higher organic growth compared to the market further strengthening our market share position.

I am pleased to also report that 2019 became the fifth straight year that Autoliv achieved an order intake share of around 50%. Our cash flows remained strong, enabling delivering towards our target to maintain a leverage ratio in range of 0.5 to 1.5. Our strong performance in the fourth quarter enabled us to meet or exceed all of the metrics in our guidance despite softening of market conditions.

Deterioration of market conditions

Uncertainty remains high and we do not see any turnaround in light vehicle production in the near term. Additionally, we continued to see high raw material costs. However, the year-over-year effect has slowed and we should start to benefit from lower raw material costs in 2020. We continue to actively manage the business cycle downturn. Compared to a year ago, headcount is about 1,600 less despite unchanged sales.

Adjusted operating margin progression

Looking now on adjusted operating margin progression on the next slide. As illustrated by this chart, we have been able to gradually improve the margin versus last year from more than 200 basis points below in the first two quarters to 20 basis points above in the fourth quarter. This is despite continued headwinds from declining light vehicle production and raw material costs.

The main reason for the sequential improvements is our efficiency program including business cycle management activities, improved launch cost efficiency, as well as our strong focus on continuous improvements throughout the organisation. As implied by our full year 2020 indication, we expect adjusted operating margin to improve. In addition to the positive contribution from our continuous improvement activities, we expect to see further effects from the structural efficiency programme as well as lower raw material prices.

Although uncertainties continue to affect the industry volumes, we expect to outperform light vehicle production in 2020 in all major regions. However, we expect 2020 seasonability to be even more pronounced than what was in the 2019 in terms of quarterly profitability progression.

The start of the year will be challenging but we expect a significantly stronger second half year. This reflects the expectation variation in light vehicle production where IHS expects Q1 to decline by around 6% while the second half year is expected to grow more than 2%.

Q4 2019 financial highlights

Looking now at the recap of fourth quarter financial performance on the next slide. Our consolidated net sales were virtually flat compared to Q4 2018 impacted by weaker currencies. Organic sales increased by 0.5% despite the global light vehicle production falling by more than 5%. Adjusted operating income excluding costs for capacity alignment, antitrust related matters and separation cost was also essentially unchanged year-over-year despite the impact of general market conditions and raw material pricing. Adjusted EPS increased by $0.42 compared to Q4 2018 mainly due to lower income tax and higher adjusted operating income.

Q4 2019 market conditions

Looking now on the market development. The negative light vehicle production trend that started around mid-2018 has continued. Global light vehicle production is estimated to have fallen by 6% in 2019 – the worst performance since the financial crisis in 2008-2009 and by more than 5% in the fourth quarter according to IHS.

China

China light vehicle production increased for the first time since early 2018. However, it was still 14% below the level achieved in Q4 2017. In the near term, vehicle demand is expected to remain stagnant due to the weak consumer confidence as well as the reduction in new energy vehicle subsidies.

Americas

US light vehicle sales finished the quarter down 2% compared to last year, while sales in Mexico fell by more than 9% and Canada by almost 3%. Light vehicle production in North America decreased by 9%. The main reason for the lower light vehicle production was a strike at GM's US facilities. Inventories declined by 180,000 units to December's six-year low of around 3.5 million.

Europe

Europe's light vehicle registrations were 11% higher than during the same period in 2018. The surge in core sales came as some countries announced changes to the bonus-malus component of CO_2-based taxation for 2020. However, despite the increase in European light vehicle registrations, light vehicle production in Europe decreased by 5%. The West European production of vehicles with high safety content dropped by 6% in Q4 2019 on top of the 9% decline in Q4 2018.

Q4 2019 sales growth

Looking to our sales growth on the next slide. Our sales grew organically by 0.5%. As a result of new launches over the previous quarters, we were able to outgrow light vehicle production in all regions.

China

Sales in China increased organically by 13%, outperforming light vehicle production both with global and domestic OEMs. Combined, we outperformed light vehicle production by around 12 percentage points.

Americas

In North America, our sales declined by 3%, which is close to six percentage points better than the decline in light vehicle production, mainly due to product launches from previous quarters, particularly with FCA and Tesla. Our sales in South America increased by 40% organically despite declining light vehicle production.

Europe

The third quarter underperformance versus light vehicle production in Europe turned to outperformance in the fourth quarter impacted by recent launches of high-volume models at PSA, Renault and BMW.

Japan

Sales in Japan decreased organically by 9% compared to the light vehicle production decline of 11%. The market weakness was a reaction to the sales tax increase in October.

Rest of Asia

Rest of Asia organic sales declined by 2%, which was almost eight percentage points better than light vehicle production.

Full year 2019 sales growth and market share

Regional organic growth

Looking at sales performance for full year 2019 on the next slide. In full year 2019, our sales outperformed global light vehicle production by over seven percentage points. At the beginning of the year, the outperformance was expected to be 5% to 6%. The better-than-expected outperformance was partly due to the positive development in the market mix as low content per vehicle segment declined more than the high content per vehicle segment. 2019 marks the second year with 6% to 7% outperformance versus light vehicle production. This trend is expected to continue into 2020.

We outperformed light vehicle production in China, Americas and rest of Asia by between 8 and 13 percentage points. The underperformance in Europe and Japan reversed in the fourth quarter and we believe that this trend will be maintained in 2020.

Market share development

We estimate that our market share of passive safety in 2019 increased by almost two percentage points to more than 41%. The largest increase came from passenger airbags and steering wheels.

Q4 2019 key model launches

Looking to our key model launches in Q4 2019 on the next slide. These models are well distributed across the globe and have an Autoliv content per vehicle of around $100 to $300 per car. Particularly interesting are two new Japanese models with front centre airbags to Honda Fit and the Isuzu D-Max. The new front centre airbag helps avoid driver-to-interior and driver-to-passenger impact. We expect to see strong growth coming from front centre airbags as Euro NCAP has introduced the far-side load case in the 2020 rating programme.

Going into 2020, we again have a high level of launch activities to support new vehicles to be introduced over the coming quarters and we believe that it will prolong outperformance of light vehicle production.

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

Q4 2019 Financial Overview

Christian Hanke

Interim Chief Financial Officer, Autoliv

Thank you, Mikael. Looking now to our financials on the next slide, this slide highlights our key figures for the fourth quarter. Our net sales were unchanged at $2.2 billion. Our gross profit and margin increased slightly year-on-year supported by lower launch-related costs and our structural efficiency programme. In addition, the net operating leverage on the organic sales growth from the ramp up of new vehicle programmes was more than offset by lower capacity utilisation due to the sharp drop in light vehicle production.

Reported earnings per share improved by $2.84 to $1.78. The main drivers behind the increase were $0.242 from lower cost for capacity alignments and antitrust matters, $0.43 from lower tax and $0.02 from higher adjusted operating income. Our adjusted return on capital employed was 26% and return on equity was 31%. We have maintained our quarterly dividend at $0.62.

Q4 2019 adjusted operating margin bridge

Looking now on the next slide, our adjusted operating margin of 11.1% was 20 basis points higher than the fourth quarter of 2018. As illustrated by the chart, the adjusted operating margin was negatively impacted by higher raw material costs of 10 bps which was more than offset by 20 basis points from SG&A and RD&E and 10 basis points from FX effects.

We managed to offset the negative operating leverage effects of the 5% LVT decline by a number of activities such as business cycle management and operating leverage on sales growth from new product launches. Additional support came from normalised launch-related costs and the structural efficiency programme.

Cash flow continuing operations

Looking on the next slide, operating cash flow was strong in the fourth quarter of 2019 and amounted to $312 million which was about $25 million higher than for continuing operations in 2018 mainly explained by improved operating working capital. Capital expenditures amounted to $118 million in the fourth quarter which is about 5.4% in relation to sales, an improvement from the 6.1% a year earlier. For the full year 2019 operating cash flow excluding the EC antitrust fine amounted to $844 million. This was $36 million higher than for continuing operations in 2018. CapEx in relation to sales amounted to 5.6%.

Debt policy

Moving on to the next slide, we have, as you know, a long history of a prudent financial policy. Our balance sheet focus and the shareholder-friendly capital allocation policy remains unchanged despite the current market conditions. As of 31st December 2019, the company had a leverage ratio of 1.7 which is slightly lower compared to what we reported as of 30th September.

Our strong free cash flow generation should allow deleveraging and should allow continued returns to shareholders while providing flexibility. We expect to be within our target leverage ratio range by the end of 2020. This excludes any other discrete items and other non-foreseeable changes to our business.

I will now hand back to Mikael.

FY 2019 Challenges and Achievements

Mikael Bratt

President and CEO, Autoliv

Outperformance of LVP and strong order intake

Thank you, Christian. Looking at the recap of the full year 2019 on the next slide. Year 2019 was one of the most challenging years for the automotive industry with close to 6% decline in global light vehicle production – a sharp contrast to the 1% growth that was expected when the year started. Combined with higher raw material costs, a large number of product launches and improvement initiatives, 2019 was a challenging year indeed. However, 2019 was also a year where we built on the foundation for the sustainable profitability improvement for the coming years.

Our performance progressed throughout the year and in the fourth quarter we showed the first year-on-year improvement in adjusted operating margin since the spin-off of Veoneer. I am also pleased that we, for the fifth straight year, maintained around 50% order intake share supporting our growth for the longer term.

Structural efficiency programme update

Looking at the details of our structural efficiency programme on the next slide. We have already started to see the positive effects of the programme – although limited in the quarter. For full year 2019, the savings amounted to almost $10 million and the programme should reach its full effect by mid-2020.

Most operations will be impacted, and we expect a headcount reduction of around 800. The cost for the programme is now estimated to be around $52 million and a cash-out to be spread from Q2 2019 to Q2 2020.

The sequential savings in 2020 is estimated to be around $30 million to $40 million on top of the savings already achieved in 2019. We continue to evaluate our global operations and to optimise our footprint. This may result in additional restructurings in the future quarters as needed.

FY 2019 order intake share remains strong

On the next slide, you can see that our order intake share for the full year continued on the same high level as in 2018, supporting our growth opportunities also beyond 2020. This is strong evidence that our company is the leading company in the passive safety automotive industry and shows that we have successfully managed operations of ramping up of previous years' high level of order intake.

One of our key performance indicators, customer satisfaction, has improved substantially and is at the high level – the best we have had for several years. However, this does not mean that we can relax. We always strive for improving products, services, processes and costs. We estimate that we booked about 50% of available order value in 2019, making 2019 the fifth consecutive year of booking around or more than 50% of available order value. The order intake is broad based. We have improved our market position in three dimensions: regional, customer and product category.

Light vehicle production outlook

On the next slide, we have the outlook for major light vehicle markets, which has become increasingly more uncertain due to weaker consumer confidence and regulatory changes. Reflecting the increasing uncertainty in the market, our base scenario for global light vehicle production in 2020 is a contraction of 2% to 3%, which is lower than IHS's outlook of a decline of 0.7%. This would be the third year in a row with declining light vehicle production.

Looking further ahead, as we have outlined at the Capital Markets Day in November last year, we do not expect the market to return to historic growth rates in medium term. Our base assumption is that it will take five years from now until we reach the 2017 global light vehicle production level.

Europe

The reason for our more negative view on global light vehicle production compared to IHS is the impact from the strict CO_2 emissions limit in Europe. We know that many OEMs' 2020 launch schedules for electric and plug-in vehicles are back-end loaded, potentially bringing production volatility.

China

Additionally, we do not see a rebound in China in the current weak consumer confidence environment and we are closely monitoring the tragic development of the coronavirus in China and gauging its potential impact on the automotive industry.

United States

In the US, we expect a modest contraction still with a stable consumer environment. As a result of the past year's strong order intake, we expect to outgrow light vehicle production by around six percentage points.

FY 2020 key models

Looking at how we will outperform the light vehicle production in 2020 on the next slide. Here you see some of the key models supporting our outperformance in 2020. These more or less are expected to account for a large share of our organic sales growth during 2020. Seven of these models were launched recently; five are yet to be launched. Annually, these 12 models represent close to 9% of sales and our content to vehicle is in the range of $130 to almost $500.

FY 2020 YoY improvement supporting our targets

Looking to our margin development for 2020 on the next slide. As we communicated at our Capital Markets Day in November, we see some tailwinds and some headwinds for 2020. We believe the net effects of tailwinds and headwinds should result in a year-over-year improvement in adjusted operating margins. To be able to indicate an improvement by at least 40 basis points in a historical weak market environment gives us confidence that we are on track to the 12% medium term target.

You can see the main tailwinds include growth from executing on a strong order book and the structural efficiency programme. The main headwinds include lower inflator replacement sales and continued decline in light vehicle production.

Financial outlook 2020

Now looking on the full year 2020 outlook on the next slide. We have summarised our full year 2020 indications and we do not see any signs of turnaround in the light vehicle demand. Our financial outlook assumes a 2% to 3% decline of global light vehicle production. These indications exclude cost for capacity alignments and antitrust related matters. We expect our organic growth to be around six percentage points higher than the global light vehicle production.

Consequently, our full year 2020 indication is for a 3% to 4% organic sales growth with no expected currency translation effects or net sales growth is assumed to be in line with organic growth.

Reflecting the low light vehicle production assumptions, our indications for the adjusted operating margin is at least 9.5% for the full year 2020. We anticipate the currency effects on the operating margin for full year 2020 to be relatively neutral. Operating cash flow excluding any unforeseen events, excluding unusual items, is expected to be above the 2019 level.

Our focus for 2020

Turning the page. To drive towards our financial targets, our 2020 focus is directed to efficiency and productivity. The number of product launches have now stabilised at the new higher level enabling an increased focus on productivity improvements in 2020. With more than 100 improvement projects being evaluated, we have set a high pace towards factory of the future. These projects are key drivers to our medium-term targets and for shareholder value creation.

We will also continue our effort to flawless execution of our new launches, improving customer satisfaction further and thereby supporting our new and stronger market position. Unfortunately, there will be millions of traffic accidents in 2020 – some fatal, some where people will get injured. Therefore, we will relentlessly continue to innovate and to deliver best quality products that will save more lives.

I will now hand back to Anders.

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

Q&A

Hampus Engellau (Handelsbanken): Thank you very much. Three questions from me. Starting off on the underlying core production and you are talking about 2% to 3%. Is this based on your call-offs or is it – how do you come to that compared to IHS given that there is a sharp first half in IHS and then a recovery in the second half? Are you seeing a sharper first half or how should we think about that?

On the order intake you continue to trend at 50%. I think also you highlighted that this is more broad based. Does this mean that you are also breaking into other products? I mean, firstly, it was more frontal airbags and steering wheels. That was the result of the collapse of Takata and I was wondering if is it becoming more tough to Takata's market shares, i.e., do you feel that you need to do more on pricing and how should we think of the stickiness? If your assumption for this year is correct, where would you end in terms of market shares if we had 41% in Q4?

The last question is more on the efficiency programme, if we should expect them to be more front end loaded in terms of savings. Thanks.

Mikael Bratt: Thank you, Hampus. Starting with light vehicle production outlook here, I, think we are looking at the external underlying guidance that companies like IHS is giving, of course. Then we build in what we see in terms of our collapse, so you are correct there. When it comes to the Q1 horizon and the beginning of the year, we have higher level of visibility. So, that is being baked into our total outlook.

But also of course in dialogues with our customers etc., gives a more complete picture that builds our own view here for the full year. And with what we see there in the beginning of the year, we see, as you said a sharp decline in Q1 here and the challenging first half of the year and then gradually improvement.

And I think of course, further out you get, the visibility is lower and is more of assumptions when you get there than data points, but that is where we are right now. And I think, I would like to stress that with everything that is happening globally here now both in terms of geopolitical and, I would say, also the overall business cycle here adds to the uncertainty here and the potential impact on light vehicle production.

So, we have 2% to 3% down but with a high level of uncertainty. And of course, our job here is to follow the development and making sure that we take countermeasures when necessary here.

On the second question here on the order intake, I think we see the same thing as we have seen and see. I mean, we are in a very competitive and challenging industry here as a tier one supplier into the automotive and there is no changes to that. I think in terms of the wins we have here, it is broad based across the different products but also across the different customers, main customers we have and regions.

So the connection to our Takata-related situation, that is beyond us now. It is beyond us since some time back, I would say. And these are really wins on our own merits across the industry here.

How sticky it is? We will see. But I just would like to stress again here that 50% in terms of the order intake share is not the target that we have per se. Our focus here is to protect the market share that we are growing into and the market share we expect to grow into is the mid-40s, and that is what we are focusing on here.

When it comes to the efficiency programmes, I think of course when we go into 2020, we have with us what was done in 2019 and the foundations that was done in 2019. But of course, we are continuing on our strategic roadmap towards our midterm targets.

And in that context, it is still early days. This is year one, so to speak, in the three- to five-year journey towards around 12% adjusted EBIT that we have as a target in the mid-term. So of course, as we get more and more traction on this roadmap, we will see it also gradually hitting the bottom line here. So in that sense, of course, you will see more the further in we get to the year, and I think also reflects the indication we have given on the quarterly progression here.

Hampus Engellau: Thank you. Is it possible also for you to say how big the passive safety market was last year and how it grew?

Mikael Bratt: No, I cannot give you a number on that now. But as you know, we have said that in average, it grows with 1% year-over-year roughly. And I think without having any confirmation on it, we should expect that to be the case also for 2019.

Mattias Holmberg (DNB Markets): Thank you. Mattias Holmberg at DNB Markets here. At your CMD in November, you guided for 3% to 4% outperformance versus light vehicle production in the medium term. Now with this guidance for 6% outperformance in 2020, just to understand what goes beyond the 2020, then is this an indication that there should be a drop in your outperformance versus LVP beyond 2020? Or is it rather that the 3% to 4% stated at the CMD were too conservative?

Mikael Bratt: No, I think you should see it really as a continuation on the development that we – I mean we talked in the Capital Markets Day in 2017 that we should expect or we should see around 6% outperformance year-over-year up to 2020. And what we have seen here in the past years, I mean 2018, 2019 and now with what we are seeing for 2020 is exactly that. It is around 6% in average throughout these three years. Then what we said in the Capital Markets Day was from 2020 to the midterm, now three to five years out, of course for us knowing that or assuming the 6% that we now are talking for 2020 baked in. So it ties together and there is no change to what we have communicated for a different time period.

So first, what we said first three years from 2017 to 2020 that we are now confirming with last year in that period. And for the next period, we maintain the 3% to 4% knowing what we have in 2020. So, no change basically.

Mattias Holmberg: Thank you. A follow-up on that regarding the market share in the order intake compared to the market share on sales where there still is a rather large discrepancy. Do you expect these two to converge over time? And in that case, how long would that take approximately?

Mikael Bratt: Yes, I think it is important to see these converge in over a longer time period than just between single years here as there is – everything, 18 months to 36 months in average from when you take in orders until it goes into production. And of course if you take a single year, the distribution may look different. You may have some that is more back-end loaded and so on. So that is why you cannot compare really one year to another.

But what we have said here is that our estimation is that we expect within this timeframe that we are talking about midterm here to grow gradually growing into the mid-40s. So we need to see it over a longer period. But this year, 2019, we grew with roughly down two percentage points.

Vijay Rakesh (Mizuho Securities): Just looking at the 2020, you mentioned high number of launches here. Just wondering what the number of launches you are expecting in 2020 versus 2019, and if you could give us some more detail on the launch costs that you expect, the puts and takes in 2020 launch cost versus 2019. Thanks.

Mikael Bratt: I think when it comes to the number of launches, we have no number to give to you here. But what we have said here is that – and I mean we talked more about the actual number of launches when we did this step change. And the step change is now beyond us – well behind us. And we are now seeing launches on the new higher level, which we then call the new normal, so to speak. So we continue to run launches within a high activity level that we have seen now for the last year.

When it comes to the elevated launch costs that we talked about in 2018, that should gradually go away; during 2019, it is done. So with the development that we have seen quarter-over-quarter sequentially in 2019, we have delivered on that. When we go into 2020, we have a normal launch cost level of the launches we are doing. So of course it is more launches than it has been historically but the average cost for a launch is at a historic level. So we are back to where we should be and we know how to do launches and that is where we are at now with where we have adjusted and trimmed the system to the new level of launches.

Vijay Rakesh: Got it. And on the raw material side, I know you mentioned costs going up. What is the expectation for 2020 raw material costs and how much was in 2019? Thanks.

Mikael Bratt: Yes, in 2019, we saw a headwind of roughly 60 basis points, between 2018 and 2019. And the headwind was gradually coming down towards the end of the year. For 2020, we see, I would say, yes, you can say tailwind but marginal tailwind so more of a flattish positive development here. So no significant tailwind from raw materials in 2020 according to our expectations here. And as you know, there are delays in how it comes through also. So therefore, we do not see any major tailwind from raw materials in 2020.

Jason Stuhldreher (Barclays): Hi, this is Jason Stuhldreher on for Brian. First question just on the margin guidance, the at least 9.5%. Question is, what factors could allow your full year margin to be higher than that? Asked differently, why not just guide to around 9.5%; why say at least 9.5%?

Mikael Bratt: Yes, I mean, as always, when you do guidance like this, it is based on, to our best knowledge, how to deliver. And this is what we see in our reactions here under the set of parameters that we have talked about here. So that is to the best of our knowledge guidance. And yes, so I think that is where we are.

Jason Stuhldreher: Okay. But we should not assume that 9.5% assumes the bottom half or the bottom part of the growth range.

Mikael Bratt: Maybe you can clarify growth range, you mean the margin expansion or...?

Jason Stuhldreher: Within the 3% to 4%. I guess I can follow up on that after. But that is helpful colour. Thank you.

And then final question, I was wondering if you could – as it related to your order win rates – I was wondering if you could remind us of what your market share is by region right now and where may be the highest delta is between where your order rates are per region versus what your current market share is per region?

Mikael Bratt: Yes, we do not disclose it per region or in that granularity here. But what we have said here is that we see that we are gaining market shares in the three dimensions that we talked about here. And I think we have showed you before relative progression in the different regions and so on but not in exact numbers. So what you saw on the Capital Markets Day is basically what is coming through here in the numbers we have talked about here. So you can look at that progression there.

Erik Golrang (SEB): Thank you. Two questions from me. You have a slide, I think it is slide 19, where you showed that the 2020 tailwinds I guess on the margin side. And I am just wondering if that is some kind of order of relevance and also wondering why the absence of the Mexico unrest is not on that list.

And if you could, also on the other side of that, perhaps quantify a few of the major headwinds particularly the drag from inflator replacement sales coming down and the increase in depreciation and amortisation.

And then the second question, just looking at your overall volume development, both for the full year 2019 and the fourth quarter, it is quite close to the organic growth you reported implying that price mix is more or less zero. Is that a result of pricing being better or positive mix primarily? Thank you.

Mikael Bratt: I think in terms of tailwinds and headwinds, I think you see on the slide there is the bigger tickets here. And as always when you have the year-over-year improvement, there is a large number of contributing factors to the development here. And of course Matamoros is one that we expect not to have this year but is probably then being met by other headwinds that we see in other areas. So this is more of a net effect picture here.

But what you can say here is of course that we have done and we are doing then the structural efficiency programme that is contributing to the overall operational challenges. With the light vehicle production, we will see the same portfolio mix headwind we have. So that is an important component into this. We have also highlighted here the inflator replacement sales. And what we see then as tailwind is very much of all the efforts that we are doing to manage the business cycle together with the strategic roadmaps here.

So without going into any specific details here, I already alluded to the raw materials here that we see small positive effects from. But other than that, I would say that it is many different components adding up to the totality here.

Erik Golrang: Okay. And on the organic growth in Q4 in 2019 versus the volume development, the delta, they are quite limited. Is that pricing better or mix that is offsetting continued negative pricing?

Mikael Bratt: No, I think, I mean we are not seeing any – what we are talking about here is, I mean, of course the mix comes into it as when we look at our forecast for the year, we are looking at underlying LVP development in different countries together with our own outperformance in respective regions. But you should not read anything into it when it comes to price development or anything like that.

Erik Golrang: Okay. And then just one final question. If I really look at the sort of absolute levels of order intake, to what an extent was 2018 really an extreme year for in terms of industry awards for the market? And to what extent do you feel that 2019 was perhaps a bit of a hangover from that and perhaps a bit lower relative to the sort of the long-term trend?

Mikael Bratt: I think in general, in the business dynamics between the different years varies depending on how the customers' renewal or updates of their product – car model looks like. So that is not evenly spread of course. Then another factor that you have when you look at the life timing also is the light vehicle production volumes assumptions that is at the respective year. So, of course, if you are in a year where you are at the high level and you do not expect to see any dramatic drops or dramatic increases, you have a certain level and then you move forward. And then of course the market development comes into play, which also affects the numbers. So that is assumptions built into it based on the light vehicle production outlook, which affects the numbers also. And then, of course the expected lifetime of the particular model so there is many factors going into it. But the key is of course that when we look at this, the 50% is 50% of available RFQs.

Sascha Gommel (Jefferies): Yes, good afternoon and good morning. Thank you for taking my questions. The first one would actually be on your working capital if there was anything particular in Q4 that you want to highlight. And then more specifically around receivables, we heard other suppliers indicating that OEMs are paying late at the end of 2019. Do you see similar development and then maybe you can also just remind us on your level of factoring at the end of 2019?

And then my second question: on your leverage ratio, you say you are within range by the end of 2020. So I was wondering if that implies we could expect share buybacks to start in 2021. Thank you.

Christian Hanke: Yes, so in terms of working capital, I do not think there is anything in particular in the quarter per se. But I think if you have followed our operating working capital and the ratio to sales, it has improved quite a bit since last year. So, I think it is a continuous improvement and focus that we have in that area.

We do not really see anything on the DSO side, day sales outstanding. I think it slightly improved in the fourth quarter compared to where we were before. And in terms of factoring, it is on the same level as we closed the year last year. So that is on the factoring side.

Now in terms of buybacks, I mean it is obviously not anything that we forecast or indicate to the market when we would do so. I mean it is more in terms of the focus is on the leverage ratio to get within the range. And then we will make any decisions based on where we are at that point in time considering our cash flow performance, future cash flow performance and the market. So there is not so much more than I can say to that, Sascha.

Erik Paulsson (Pareto Securities): First one is on quarterly seasonality. You talked about that you expect seasonality in 2020 to be more pronounced than in 2019. Is this due to your own call-offs or is it more of the underlying market, hence is your own call-offs and your own organic growth in that sense more extreme?

Mikael Bratt: I think you could contribute it to actually both factors. What we see in terms of call-offs is indicating clearly a very challenging Q1 and the beginning of the year. Then of course you have natural seasonality that in the end of the year we also have the engineering income, more pronounced in the fourth quarter and so forth. And maybe I should add also the outperformance there actually as well because we see that also coming much more towards the end of the year here in terms of our own losses.

Erik Paulsson: Thanks. And my final one is on the coronavirus. You mentioned it earlier but if this actually accelerates, what can the actual impact be for you? What do you take in precautious like necessary – what you do here to prevent things happening?

Mikael Bratt: I think it is, first of all, too early to draw any conclusions of where that may end up from a business perspective at this point in time. And we are currently actually in the Chinese New Year break still. Then we know that many regions or cities have talked about prolonging their time off in terms of quarantine time. But first of all, we are following this by the hour, basically, first of all by our local Chinese management team but also on a global level to make sure that we are following all recommendations and suggestions from authorities and likewise first and foremost to make sure that we protect our employees here. So, the travelling ban and restrictions on that both in the regions affected but also in a broader Chinese context looking after that.

We do not have our own facilities within the area that is in the focus right now. But of course we have customers and some suppliers here. And we are following it very, very closely to make sure that we manage it in the best possible way here and do some scenario planning etc., etc., here. So of course if it continues, it will definitely add to the uncertainty and the challenges here. But as of today, too early to draw any conclusions on it.

Sabrina Reeh (UBS Investment Research): Hi, gentlemen. Thank you for taking my questions. I have two. So the first question is actually going back to another question a colleague asked. So just on your 2020 EBIT margin guidance, would it be correct to assume that the 9.5% can be achieved at a 3% organic growth that you guide for and a light vehicle production of minus 3%? Or is the 9.5% margin achieved if light vehicle production ends up being even below minus 3%? That would be my first.

And the second one would be on, you mentioned in your presentation CO_2 impact and specifically in Europe. Do you see an increased risk that OEMs will put more pricing pressure on suppliers depending on the market acceptance for EVs? And how much of that risk, if at all, is baked into your guidance? Thank you.

Mikael Bratt: I think your first question there is that the guidance we have put out here of at least 9.5% is with the indication of the light vehicle production going down with 2% to 3%. Will it be more than – more pronounced decline, then it is a different scenario. Will it be much better? It is at least as we said here. So that is really the foundation for our guidance in totality. So you should see each of the lines together in there in the guidance we have given there.

When it comes down to the pricing pressure, I think there is always pricing pressure from our customers and with high expectations on year-over-year productivity. And we do not see any difference now. And of course, I cannot say that I see something directed towards us specifically related to electrical vehicle. It is more dependent on how the different OEMs are acting and having the challenges altogether. So it needs to be seen more case-by-case and in broader business context in our relationship with the customer. But for sure a challenging discussion all the time around pricing for sure.

Agnieszka Vilela (Nordea): Thank you. My first question is about your guidance for the six-percentage point outperformance I guess the car markets 2020 and that is despite the headwind that you have from the inflator replacement business. Can you tell us about the kind of profile through the year? You mentioned that you expect a higher outperformance towards the end of the year and also what are the main driving regions?

And then additionally on the inflator replacement business, what is your view on the most recent recall of the inflators made by Takata? Thank you.

Mikael Bratt: We do not give a guidance here by quarter but as we said here is that, I mean, it is really a question of gradually increasing the outperformance and the challenging first quarter altogether both when it comes to LVP and our own outperformance. So, I think that is as far as I can say when it comes to the quarterly progression there.

When it comes to the recalls that have been announced around Takata, I have actually nothing more to add than what is already out there. And I do not see that any of these or expect any of these recalls to have any significant impact on us. So it is more outside our areas of speak and scope.

Agnieszka Vilela: Okay. And any colour on the regions?

Mikael Bratt: In terms of?

Agnieszka Vilela: In terms of outperformance in 2020, what will be main driver?

Mikael Bratt: Yes, I think as I said before, we do not go into regional details there. But what we are saying is that it is maybe less of an outperformance in Americas this year as they are through their step change that we saw last year and at least for now. So, in terms of outperformance, it is really a question of Asia and there we have talked before about Japan being late in the outperformance and it started to come through now in the fourth quarter and that is what you will see going into 2020 so Japan catching up with the rest of the regions here. Then we will see China also being on very healthy levels in terms of outperformance and then also Europe but not as strong as Asia and China but still above Americas.

Agnieszka Vilela: Perfect. And then my last question is on the CapEx. Why are you guiding for lower CapEx in 2020 despite the investments that you mentioned in your factories and also kind of how significant this decrease year-on-year could be in CapEx? Thanks.

Mikael Bratt: First of all we support our overall efficiency improvements here to make sure that we scrutinise all our activities including the CapEx. And what we have said here is that the investments in factory of the futures should be done to a very large extent within the frame of the regulatory CapEx here. And as you have seen here, we have more flexible tools, etc. We also have longer periods of usage for this machine and that can cover broader range of programmes as well. So we should see some efficiencies coming through in the CapEx as well here. That is clearly our ambition here and also have support of course of our cash flow focus here.

Ashik Kurian (Jefferies): Hi, thanks for taking my question. I just have one question left as to why are you still winning 50% of the market share on orders? And I do not mean to be cynical but at least on the seatbelt side, you would have thought that at some point cases should start to get some of the orders back given that it is slightly less controversial than awarding maybe contracts for airbags. So maybe just keen to get your thoughts as to why you are seeing in the industry landscape that you are still winning more than 50% or 50% of the order intake?

Mikael Bratt: We are very focused on making sure that we deliver superior quality. That is on top of our agenda in terms of our customer commitment. Together with making sure that we are a supplier that have high or flawless delivery both in the daily production but also very importantly in the development projects because you know all of these programmes are requiring very close collaboration with the OEMs when it comes to tuning our products into the respective car model and of course making sure that we have the top competence and commitment in delivering that and last but not least being price competitive. So, it is really making sure that we are the best choice from these three categories and that is our focus on securing customer expectations on us.

Ashik Kurian: So if I can follow up, I mean, the reason I am asking is you still stick with your view that you continue to defend the 42% to 45% market share. That is your eventual target in terms of what your auto market share is. So at some point, you do expect orders or the market share on orders to go back to maybe mid-40s. I am just wondering in your view, when and how does this flip happen? When is the order momentum and what causes it to go towards the 45%?

Mikael Bratt: Yes, I can only reemphasise our focus on customer commitment here. And we of course think that it is important to be a very strong supplier to our OEMs. And when we say that our focus is to defend our market share is that we think that there is no reason why we should not have any other ambition. If it becomes more, it is great. But I think growth in that sense is not a top priority. We will get the market share that we earned by being the strongest supplier.

Conclusion

Mikael Bratt

President and CEO, Autoliv

Before we end today's call, I would like to say that we will continue to execute on our growing business volumes and new opportunities with a never-ending focus on quality and operational excellence. I would also like to take this opportunity to thank Christian for his great contribution during his time at Autoliv and wish him well on his next adventure. Our first quarter earnings call is scheduled for Friday, 24th April 2020. Thank you everyone for participating on today's call. We sincerely appreciate your continued interest in Autoliv. Until next time. Goodbye for now.

[END OF TRANSCRIPT]