



# **Autoliv Second Quarter 2024 Financial Results**

Friday, 19<sup>th</sup> July 2024

## Introduction

Anders Trapp

*Vice President, Investor Relations, Autoliv*

### Welcome

Welcome, everyone, to our Second Quarter 2024 Earnings Call. On this call, we have our President and Chief Executive Officer, Mikael Bratt; and our Chief Financial Officer, Fredrik Westin; and me Anders Trapp, VP, Investor Relations.

### Agenda

During today's earnings call, Mikael and Fredrik will, among other things, provide an overview of our sales, earnings and cash flow development in the quarter, how our strong balance sheet and asset return rates support a continued high level of shareholder returns. They will outline the expected sequential margin improvement in the second half of 2024 towards our targets, and the continued improvement of our business with domestic Chinese OEMs.

And we will also, as usual, provide an update on our general business and market conditions. We will then remain available to respond to your questions. And as usual, the slides are available on [autoliv.com](http://autoliv.com).

Turning to the next slide.

### Disclaimer

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 earnings release available on [autoliv.com](http://autoliv.com), and in the 10-Q that will be filed with the SEC.

Lastly, I should mention that this call is intended to conclude at 15:00 Central European Time. So please follow a limit of two questions per person.

I now hand over to our CEO, Mikael Bratt.

## Overview

Mikael Bratt

*CEO, Autoliv*

### Q2'24 Key Highlights – Increased profitability despite unchanged sales

Thank you, Anders. Looking on the next slide.

I would like to thank all our employees for managing through a challenging quarter with lower and more volatile light vehicle production than expected. Profitability improved both year-over-year and sequentially despite lower net sales, driven by successful execution of cost reductions and pricing.

I am pleased that we have been able to settle cost compensation claims with the majority of our customers and target to close most of the remaining claims in Q3. We are making good progress towards our previously announced intention of reducing our indirect workforce by up to 2,000 and related savings of US\$50 million in 2024.

Sales in all regions in the second quarter developed less favourably than what we had expected, especially in June. This was due to lower light vehicle production with certain key customers following weaker sales and inventory adjustments. We saw no improvement in call-off volatility compared to first quarter 2024.

However, it is encouraging that customer production plans for the third quarter are stronger, indicating that the June weakness should be temporary. The lower-than-expected sales impacted our adjusted operating margin in the quarter with an operating leverage at the higher end of our normal 20-30% range.

Cash flow continued to be strong, supporting both a high level of shareholder returns and an improvement of the leverage ratio to 1.2 times even with shareholder returns of US\$215 million in the quarter. I am also pleased with the high return on capital employed.

In addition to the credit ratings from S&P, we have now added a second credit rating as Moody's on 17<sup>th</sup> July assigned a long-term credit rating of Baa1 with stable outlook. Although we adjusted our full year 2024 guidance down, mirroring softer global light vehicle production, we remain focused on delivering on our around 12% adjusted operating margin target while the positive development of our cash flow and balance sheet supports our continued commitment to a high level of shareholder returns.

Illustrating our close cooperation with innovative and fast-growing Chinese OEMs, we have signed a strategic cooperation agreement with XPENG AEROHT, China's leading flying car innovator, to pioneer safety solutions for future mobility.

Looking now on the market development in the second quarter on the next slide.

### **Q2'24 Light Vehicle Market Development**

The global light vehicle production for the second quarter came in more than 3 percentage points lower than expected in the beginning of the quarter according to S&P Global. The largest reductions were in Europe, Japan and in China. In part, the reductions reflect a focus from OEMs on inventory management due to recent sales weakness in China and increasing headwinds for certain OEMs.

As a result, we continue to experience high call-off volatility throughout the quarter, especially in June. The lower volumes and the higher volatility, together with a negative customer mix had a substantial impact on our top line and earnings, especially in June when our sales was 12% lower than expected at the beginning of the quarter.

However, we expect this to be a temporary headwind as customer production plans are developing better so far in the third quarter. We will talk about the market development more in detail in the presentation.

Looking now on our cost improvements on the next slide.

**Significant Sequential Cost Improvements**

We continue to generate broad-based improvement in key areas. Our direct labour productivity continues to trend up, supported by the implementation of our strategic initiatives, including automisation and digitalisation. Year-over-year, we have reduced our direct production personnel by 1,400.

Our gross margin improved by 130 basis points from the first quarter and year-over-year. The improvement was mainly the result of the higher direct labour efficiency, reductions within the indirect workforce and customer compensations. As a consequence of the lower-than-expected sales, RD&E and SG&A in relation to sales increased by 30 basis points versus Q2 2023.

Now looking on financials in more detail on the next slide.

**Q2'24 Financial Overview***Profit growth despite lower sales*

Sales in the second quarter decreased by 1% year-over-year on unfavourable currency translation effects, lower light vehicle production and a negative regional and customer light vehicle production mix.

The adjusted operating income for Q2 increased by 4% to US\$221 million from US\$212 million last year. The adjusted operating margin increased by 50 basis points to 8.5%, despite lower sales. Operating cash flow was \$340 million, which was US\$39 million lower compared to the unusually strong second quarter last year. Q2 last year was positively affected by a reversal of negative working capital effects.

Looking now on our sales growth in more detail on the next slide.

**Q2'24 Sales Growth and Regional Sales Split**

Our consolidated net sales was US\$2.6 billion. This was approximately US\$30 million lower than a year earlier, driven by negative currency translation effects of \$49 million, lower light vehicle production and lower level of out-of-period cost compensation, partly offset by a positive price volume and product mix.

The negative currency translation effect reduced sales by almost 2% in the quarter. Out-of-period cost compensations contributed with approximately US\$6 million in the quarter. This was US\$24 million lower than in the same period last year, reflecting the lower level of inflation this year.

Out-of-period compensations are retroactive price adjustments and other compensations that mainly related to our first quarter but were negotiated in the second quarter.

Looking on the regional sales split. Asia accounted for 37%, Americas for 34% and Europe for 29%. We outlined our organic sales growth compared to light vehicle production on the next slide.

**Q2'24 Organic Sales Growth – Outperforming Global LVP by more than 1pp**

Our sales in the quarter came in lower than expected as light vehicle production in all major regions was lower than predicted. According to S&P Global, light vehicle production declined by 1% year-over-year in the quarter. This was more than 3 percentage points worse than expected at the beginning of the quarter.

We estimate that geographical light vehicle production mix had 190 basis points negative impact on our outperformance. Despite this, and that some key customer where adjusting inventories, our organic sales growth outperformed global light vehicle production by 140 basis points.

We continued to outperform light vehicle production significantly in Japan, rest of Asia and in Europe, fuelled by product launches and pricing. The outperformance in rest of Asia was driven by South Korea and India. For India, we expect a strong outperformance in the second half of the year from a number of launches early in the third quarter.

In the Americas, we have underperformed slightly as some key customers reduced production. In China, the market developed unfavourably with certain brands and models with low Autoliv content growing strongly, while some of our key global customers' production declined significantly, leading to 7 percentage points underperformance in China.

On the next slide, we look a bit closer on the Chinese market and our development there.

### **Strengthening Our Position with Fast Growing Domestic Chinese OEMs**

We are rapidly strengthening our position with fast-growing domestic Chinese OEMs. It has been a long road for China's domestic producers to really rival global vehicle manufacturers. With China taking the lead in the production of electric vehicles and with the high rate of new domestic Chinese car models coming to market, we have seen a major pivot towards domestic brands in the Chinese market.

As a result, Chinese OEMs have grown their share of the Chinese light vehicle production from around 40% in the beginning of 2022 to close to 55% in the second quarter of this year. As a result of our strong order intake in recent years, we have continued to expand our business with domestic Chinese OEMs. They accounted for 38% of our Chinese sales in the Q2 2024, up from 20% in the beginning of 2022.

In Q2 2024, our sales to this group increased by 39% versus a year ago and by 25% versus Q1 2024. The safety content per vehicle, CPV, is on track to grow by around 10% from 2022 to 2024 for both global and domestic Chinese OEMs. Due to the large difference in CPV between the two groups and the fast-growing market share for Chinese OEMs, the average CPV is expected to grow by only 5% during the same period.

This has a negative impact on our ability to outperform light vehicle production in China currently. Although incentive programmes such as subsidies for ICE vehicles replacement and vehicle financing programmes have been implemented to support light vehicle sales, demand remains stagnant in China.

Due to stiff competitions between OEMs, a wide-ranging crisis price war has taken place since last year. Therefore, many end consumers have become hesitant to purchase a new vehicle on expectations for further price reductions. However, lately, we have seen signs of a moderation of the price war.

The potential impact of the new EU tariffs on Chinese exports remains difficult to assess. In this context, it is important to understand that the large majority of the Chinese exports on conventional ICE cars to Asia, the Middle East and Africa. However, we see global OEMs relocating production from China to Europe and Chinese OEMs accelerating efforts to add production capacity outside of China.

Looking at our recent model launches on the next slide.

### **Q2'24 Key Model Launches – whereof six in China**

Although we see some changes to our customers' plans for model launches, we continue to expect a record number of product launches for 2024. As can be seen from this slide, six of these models are produced in China, reflecting our strong position with Chinese OEMs as well as with global OEMs producing in China. The trend towards electrification continues, especially in China. On this slide, all models but one are being made available as electric versions.

The models shown here have an Autoliv content per vehicle from around \$130 to over \$500. In terms of Autoliv sales potential, the Nissan Kicks launch is the most significant, followed by the Stelato S9, which is a collaboration between Huawei and BAIC.

The long-term trend to higher CPV is supported by front centre airbags on five of these models, more advanced seatbelts and pedestrian protection hood lifters.

Now looking at the sustainability highlights on the next slide.

### **Q2'24 Sustainability Highlights**

Guided by our vision of saving more lives, we are taking significant steps towards our sustainability commitments. For example, Autoliv and the UN Road Safety Fund are collaborating to enhance motorcycle safety. The collaboration supports the UN Sustainable Development Goal 3.6, which aims to reduce road traffic fatalities and injuries and Autoliv's goal of saving 100,000 lives annually.

We have also completely phased out sulphur hexafluoride (SF<sub>6</sub>) that was used in steering wheel production. SF<sub>6</sub> was our largest source of fugitive emissions that was responsible for around 6% of Autoliv's total Scope 1 and 2 emissions in 2023. We have continued to increase the use of renewable electricity, through additional renewable electricity instruments and further increasing on-site solar energy generation capacity.

In collaboration with key supply chain partners, we have developed airbag cushions made from 100% recycled polyester. Using recycled materials is a crucial step towards Autoliv's commitment to reduce emissions across its product range and will contribute to Autoliv's ambition to achieve net zero greenhouse gas emissions across the supply chain by 2040.

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

## **Financial Review**

Fredrik Westin

*CFO, Autoliv*

### **Q2'24 Financial Overview**

Thank you, Mikael. This slide highlights our key figures for the second quarter of 2024 compared to the second quarter of 2023. Our net sales were \$2.6 billion. This was a 1% decrease. Gross profits increased by \$28 million or by 6% to \$475 million, while the gross margin increased by 1.3 percentage points to 18.2%.

The adjusted operating income increased from \$212 million to \$221 million, and the adjusted operating margin increased by 50 basis points to 8.5%. Non-GAAP adjustments amounted to \$15 million from capacity alignments and anti-trust related matters.

Adjusted earnings per share, diluted, decreased by \$0.05 where the main drivers were \$0.13 from higher income taxes and \$0.09 from the financial net and non-operating items, partly offset by \$0.07 from higher operating income and \$0.10 from the lower number of shares.

Our adjusted return on capital employed and return on equity were a solid 22% and 26%, respectively. We paid a dividend of \$0.68 per share in the quarter and repurchased and retired 1.3 million shares for around US\$160 million.

Looking now on the adjusted operating income bridge on the next slide.

### **Q2'24 Adjusted Operating Income Bridge**

In the second quarter of 2024, we managed to increase our adjusted operating income despite cost inflation and no volume growth. This was due to successful execution of cost reductions and cost compensations. The net currency effect was \$3 million positive, driven by the Turkish lira, partly offset by the negative effect from the Mexican peso and the Japanese yen. The impact from raw materials was negligible.

Out of period cost compensation of \$6 million was \$24 million lower than last year, reflecting the lower level of inflation. Costs for SG&A and RD&E net combined was \$4 million higher. This was driven by higher SG&A due to several smaller cost items of predominantly temporary in nature, such as the UN Road Safety Fund contribution and higher legal fees. As a result of our cost saving activities, the operating leverage, excluding currency effects on the organic sales increase was substantially above our normal 20-30% range.

Looking now on the cash flow, more in detail on the next slide.

### **Cash flow**

*Continued strong performance from working capital and higher net income*

For the second quarter of 2024, operating cash flow declined by \$39 million to \$340 million compared to the unusually strong second quarter last year, which was affected by the reversal of the negative working capital effects from the first quarter last year.

Capital expenditures net increased to \$146 million from \$124 million last year. In relation to sales, it was 5.6% this year, up from 4.7% last year.

Free cash flow declined by \$61 million compared to the same period the prior year, mainly due to the lower operating cash flow. The last 12 months' cash conversion, defined as free cash flow in relation to the net income, was 84%.

Now looking at our trade working capital development on the next slide.

### **Trade Working Capital in Relation to Sales**

During the second quarter, trade working capital decreased by \$167 million, driven by \$104 million in lower receivables, \$61 million lower inventory and \$3 million lower accounts payables. The lower inventories and receivables were partly due to lower sales towards the end of the quarter.

Compared to the same period last year, trade working capital decreased from 12.3% to 11.2% in relation to sales. Our capital efficiency programme aims to improve working capital by \$800 million. To-date, we have achieved around \$640 million.

Improvements in inventories are lagging due to the high call-off volatility, enhanced planning challenges that cause inefficiencies. Over the coming years, we expect the inventories to improve significantly in tandem with a reduced call-off volatility.

Now looking on our debt leverage ratio development on the next slide.

### **Debt Leverage Ratio**

*Improved despite continued high shareholder returns*

Our continued focus on balance sheet efficiency is supporting our strong performance for cash flow, cash conversion and return on capital employed. Our leverage ratio improved compared to the same quarter a year ago despite investing in our footprint and returning over \$810 million to shareholders.

The debt leverage ratio at the end of June 2024 improved by 0.1 times from the end of the first quarter. Compared to the first quarter of 2024, our net debt increased by \$9 million while 12 months trailing adjusted EBITDA improved by \$11 million.

We expect that our debt leverage and positive cash flow trend will allow for continued high shareholder returns going forward.

Autoliv has entered into an additional revolving credit facility agreement with Standard Chartered Bank that can be used for general corporate purposes. The agreement provides for a \$125 million revolving credit facility that matures in 2029 and does not contain any financial covenants.

Now looking at shareholder returns over the past five years on the next slide.

### **Strong Balance Sheet & Cash flow Supporting Shareholder Returns**

*Repurchased 7.8 million shares since the beginning of 2022 for almost \$800 million under current mandate*

Over the years, Autoliv has shown its ability to generate solid cash flow in periods with varying market environments. We have used both dividend payments and share repurchases to create shareholder value. Historically, the dividend has usually represented a yield of approximately 2-3% in relation to the average share price.

During the last 12 months, we have returned around \$810 million to shareholders through dividend and share buybacks, a new record for the company. Over the last five years, we have reduced the net debt significantly while returning \$1.7 billion directly to shareholders. This includes stock repurchases and cancellations of 7.8 million shares for a total of close to US\$800 million as part of the current stock repurchase programme.

Since we initiated the current stock repurchase programme in 2022, we have reduced the number of outstanding shares by close to 9%. We consider several factors when executing the programme such as our balance sheet, our cash flow outlook, our credit rating and the general business conditions, not only the debt leverage ratio. We always strive to balance what is best for our shareholders, both short and long term.



Now looking on our efficient balance sheet that supports our shareholder returns on the next slide.

### **Efficient Balance Sheet to Support Shareholder Returns**

The strong balance sheet and good return on capital employed is fundamental for long-term shareholder value creation. Despite an operating margin impacted by the challenging market environment for the past five years, our return on capital employed has remained strong, averaging around 17%.

Our capital turnover rate, meaning our sales in relation to average capital employed, has improved substantially over the past three years and is now significantly above our five-year average.

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

## **Outlook**

Mikael Bratt

*CEO, Autoliv*

### **Light Vehicle Production Outlook**

*Autoliv expects global LVP to decline by ~3% in 2024*

Thank you, Fredrik. On to the next slide.

As we enter the second half of 2024, the outlook for the global light vehicle production has been reduced by 2 percentage points since April, to minus 2.2% by S&P. The light vehicle production update is factoring in region-specific influences, particularly recent light vehicle sales weakness in China, persistent headwinds in Europe, vehicle homologation issues in Japan and growing vehicle inventories in North America.

The updated forecast indicates a light vehicle production decline of 4% for the second half of the year with the third quarter falling 5.5%. Light vehicle production in China is expected to decline 7% in the third quarter on a very strong third quarter last year and a weak domestic demand.

The outlook for North America is light vehicle production has been revised down 3.4% over the short term horizon on the need for a greater inventory correction. The light vehicle production forecast for Europe has decreased to minus 5% in the third quarter, mainly due to higher for longer interest rate effects and consumer demand and continued inventory reductions at some OEMs.

Based on S&P Global's forecast and our own analysis, our 2024 guidance is built on a global light vehicle production decline of around 3% for the full year.

Now looking on the business outlook on the next slide.

### **Business Outlook Second Half of 2024**

We expect a significant increase in profitability in the second half of the year with an adjusted operating margin of around 11-12% compared to the first half year's 8%. This is supported mainly by a more stable and slightly higher light vehicle production, structural and strategic

initiatives, cost control and customer compensations. This is expected to be partly offset by higher cost for raw materials, driven mainly by steel and nylon.

Looking at our 2024 financial guidance on the next slide.

### **Full Year 2024 Guidance**

*Based on global LVP declining ~3% (previous: decline ~1%)*

This slide shows our full year 2024 guidance, which excludes effects from capacity alignment, antitrust-related matters and other discrete items. Our updated full year guidance is based on a global light vehicle production decline of around 3% instead of 1%.

The lower light vehicle production assumptions has a negative impact on our sales, adjusted operating margin and operating cash flow. Our organic sales is now expected to increase by around 2%. Net currency translation effects are now expected to be minus 1% on sales. The guidance for adjusted operating margin is around 9.5-10%. Operating cash flow is expected to be around US\$1.1 billion. Our positive cash flow trend should allow for continued high shareholder returns. We foresee a tax rate of around 28%.

Looking on the next slide.

This concludes our formal comments for today's earnings call, and we would like to open the line for questions from analysts and investors.

### **Q&A**

**Colin Langan (Wells Fargo):** Just to start, if I look at the midpoint of your guidance cut, it looks like close to a 30% decremental on lower sales, which is a little bit higher than normal. Any thoughts on why is it towards the higher end, particularly with the peso? Because I thought there was a big headwind last year and the peso seems to now maybe help. So would not that actually have helped the decrementals actually improve into the second half? And how are you thinking about that?

**Fredrik Westin:** Yes. Sure. Thanks for the question. I mean we always said, if it is basically LVP that is driving the sales development, then we would expect that the decremental margin would be at the higher end of the 20-30% range. And that is basically what you are also then calculating here.

On top of that, we also have, as I said, a slight headwind also from raw materials versus what we had expected previously. So those are the main things.

Then on the peso, we have included here what we have based our guidance for. So that is a peso rate of around 17 to the dollar. Yes, depending on how that moves in the second half of the year, that could be a difference than to what we are assuming at the moment.

**Colin Langan:** Okay. So 30% is at the higher end and the peso help maybe is all washed out by the raw material headwind. Is that the right way to think about it?

**Fredrik Westin:** Potentially.

**Colin Langan:** And then just overall, the guidance came down from 5% to 2%. I think with rounding, it is light vehicle production is down just 2%. You talked a lot about mixed headwinds, particularly in this quarter. I thought you said it was 12% worse than you

expected versus production being 3% worse for Q2. How much of a mix headwind is baked in for the second half of the year? Is that expected to persist? Or is most of that, I guess, 1% extra customer mix headwind already occurred in Q2?

**Fredrik Westin:** No, the 12% that we are referring to was how the volumes in June developed compared to our expectations at the beginning of the quarter. So basically, the whole deviation for the quarter was in June, whereas April and May were more or less in line with our expectations. That is what we are seeing.

Then on the mix in the quarter had a negative 2 percentage point or close to 2 percentage point effect and we expect that for the full year to be around negative 1%. And that is mainly based on say that the sales mix in China would improve in the second half for us versus the first half.

I mean, if you look at how the Chinese OEMs developed in the second quarter, they were up 20% year-over-year, whereas the global OEMs were down 10%. And this number for the full year is expected to be plus 10, minus 10. So it means that this negative trend we had in Q2 should reverse in the second half. But again, that is what we are basing it all and remains to be seen how that plays out. But based on those assumptions, it is a negative 1 percentage point mix effect for the full year.

**Hampus Engellau (Handelsbanken):** Two questions for me. Firstly, if you could maybe talk a little bit about your view on the light vehicle production being -3% for this year, slightly more than the -2% expected by S&P. I mean where you there when this is Europe is that you are more cautious on?

Second question is more on your price compensation with customers. Has those talks become tougher now when we have seen adjustments on production and inventory reductions also? Those are my two questions.

**Mikael Bratt:** Thank you, Hampus. On the first point there regarding our slightly more negative view on the full year than S&P here is, as you said correctly, connected to a more cautious view on Europe.

There we, of course, also see effects coming from the overall business cycle and consumer demand here that are slightly weaker as a result of higher cost of living and higher interest rates, etc. So there are some, I would say, more economic-related topics there than what we may be seeing in other parts of the world. So we are slightly more conservative there.

On the price compensation, I think we are making good progress there. As we have reported here, we have closed with a majority of our customers here. Is it easier or harder? I would say, as it has always been, a very detailed negotiation. And I think in terms of evidence here, I mean, it is an evidence-driven negotiations and it is all about external inflationary impacts on our value chain and it is well documented. So I think we have found a way to work with our customers on this. And this is the third year that we have an extensive negotiation related to inflation yields. So I think we have quite a good way to manage this process.

So I think we have a good setup, but it is never easy, and it requires a lot of details in those negotiations. And as we have said before, it is really component by component and plant by plant. So that continues.

**Michael Jacks (Bank of America):** My first question is on this headwind reported from out-of-period compensation. Is this just a timing issue? Or is there perhaps some inflation in the system that you are unable to recover? Will this headwind repeat again in Q3 and Q4?

And then maybe just more broadly speaking on the topic of retroactive pricing. Is the idea that suppliers are going to continue needing this retroactive pricing for prior year's wage increases not becoming somewhat tenuous, especially if the cumulative effect continues to roll up. Is there a risk here that OEMs perhaps start to draw the line in terms of how far back they are willing to go on this?

**Mikael Bratt:** I think the retroactiveness we referred to here was really that last year in comparison, we got a higher portion connected to out-of-period in the result Q2 2023 than we got this year. So you could say that it is not, I would not say, a headwind. It is just in comparison here, you need to make that adjustment. So it does not indicate anything that goes back further in time, more or less than it has been before.

So you can say that, of course, as the inflation comes down and the negotiations is being concluded, of course, out-of-period become less when you talk about less of an impact. So that is a real question here.

I think the base is really this year that we are negotiating. So it is not a 2023 overhang or anything like that. It is really between the quarters in the current year that we have this out-of-period impact, so to speak.

**Fredrik Westin:** Sorry, just to be clear on this out-of-period compensation. I mean what we are simply reporting there is what we negotiated in the second quarter of this year that is then retroactive and from a reporting point of view, should have been reported then in the first quarter of this year. And since the magnitude of the price conversations we got last year that ended up being \$30 million, because of the retractive components in the first quarter, so it was not really a run rate related for the second quarter whereas that number this year was only \$6 million. So you get a mathematical effect here of the \$24 million.

**Michael Jacks:** Maybe just to clarify then on the second part. How much compensation is still required on wage increases that were affected in 2023? And given that some of these, I guess, are being settled by customers via lump sum payments, does this affect not just continue to roll up over the years?

**Mikael Bratt:** Right now in 2024, we only negotiated impacts arriving in 2024. So there is no 2023 impact in that. Then, of course, if there was a lump sum payment in 2023 for 2023, of course, when we go to our customers and we got the lump sum last year, that lump sum needs to be included, of course, in this year's compensation. But that has nothing to do with the out-of-period because the out-of-period is, as we said before here, as we reported here is between the quarters in the current year. So it has nothing to do with 2023.

And as I said, it was a higher number last year because it was a higher base which we were negotiating. This year, it was lower because the inflation has come down and is a lower number that we are needed to negotiate in this year than it was last year. And in comparison, of course, between Q2 and Q2, if you had a bigger out-of-period last year, it shows up as a headwind here, but it is not a headwind in comparison mathematically.

**Erik Golrang (SEB):** The first question is on the call-off volatility. You illustrated the development there on the slide. And there has not really been any improvement over the past year, in fact, a deterioration towards the end there. What is the main reason for why you expect that to improve ahead?

And then a second question related to that. So the new margin target puts you 75 bps or so more distance from the 12% target. How much of that is just the unexpectedly high call-off volatility and how much is volume, i.e., what comes back if you only get a more stable market?

**Mikael Bratt:** Thank you for the question there. Of course, we are expecting that call-off volatility eventually should come back to normal. I think the automotive industry is definitely used to work effectively with the call-off towards the supplier base. And I have no reason to believe that that should not be the case going forward.

I think this is a reflection that we still are in a very uncertain economic environment around the world. And as we went through the different regions here before, you can see there are, of course, different reasons. And this is not an average across all our customer base. I mean some customers are definitely very close or on pre-pandemic targets, others are further away.

And of course, if you are an OEM out there that maybe losing market share, you may be losing some specific platform sales out in regions, you need to adjust your inventories, and that maybe with some short notice. And there are, of course, a variance of reasons for it, but it is all reflecting the uncertainty in the industry as such.

I mean, you could say that, why do we believe it then? It is because we see many customers are returning to that level at some point.

Then the impact here on the reduction, I would say, it is more connected to the absolute light vehicle production levels. So we are not discounting too much on the volatility side here. But maybe, Fred, if you can develop that a little.

**Fredrik Westin:** No, it is basically what we have said here previously that from the 8.8% where we were last year, then the bridge up to the 12% margin target that we expect 1 percentage point of that 3 percentage point gap to be closed by the improved call-off volatility and with that also our ability then to operate with better direct labour efficiency. So there is nothing changed on that. It is just as Mikael said, that the underlying LVP here is developing a bit differently than what we had expected a quarter ago.

**Erik Golrang:** And just a follow-up then on Mikael's answer. Is there a particular region or group of OEMs that we should focus on to find that positive delta in call-off instability?

**Mikael Bratt:** No. I think when it comes to regions, I think it is more Europe, Americas situation. And I would not like to go into any specific OEMs there. But of course, depending on the unique situation, it varies between them.

**Dan Levy (Barclays):** I wanted to just go back to the question on customer mix. And you mentioned that you are only assuming down 1%. But if we just do some rough back of the envelope math, one of your key customers, large European OEM with a heavy North America exposure, they have revised negatively another customer. We have seen some negative revisions there. And then the China piece, we are well aware of the revisions there. So a 1%

negative mix seems a bit light in the context of that. Maybe you could just provide a little more context on that assumption of 1% negative mix in the GOM.

**Mikael Bratt:** As I said, I cannot comment a specific OEM here. But generally, I can say that this, of course, that it maybe has one bigger impact here, as you are alluding to is, of course, because we are very well positioned across the universe here. I mean we are well represented with all the different OEMs. We have a regional mix that is also well represented across the board.

And as we alluded to here also, we are growing significantly with the Chinese OEMs here and supported by their growth in the region. So that is offsetting of also a lot of related to the comment you had here. So we have a good portfolio to offset that impact.

**Fredrik Westin:** And maybe on the 1 percentage point, I mean, what we are talking about there is the negative regional mix that we are expecting and then also the customer mix within China. That is the negative 1%.

**Dan Levy:** Understood. And then as a follow-up, I am wondering if you could just discuss the competitive dynamics a bit in China. I believe at one point, you said that you were aiming for 40% market share in China and improvements from there. But maybe you could provide us to the extent possible, any colour on your share within the domestic versus the multinationals? How much of that total 40% market share is domestic versus multinationals? And then as a follow-up to that, how you view the competition from some of the other local Chinese suppliers in China and then also outside of China as well.

**Mikael Bratt:** No, I mean, first of all, we do not have a market share target either globally or regionally more than we want to defend our strong position. And as we said in the Q2 here, I mean, the Chinese OEM stands for 38% of our sales in China and it has grown significantly, and we expect to continue to grow here. So well positioned there.

And I mean, we have also had this regional strategy for long. And in China, obviously, we are in China for China, and we are a market leader in China. So I think we have also a good position here to work towards, how you say, in competition with our peers in the industry also in China. So we are well prepared and well set up for that to continue that effort there.

Globally, I think it is very much the same in the sense that you have three, you could say, three global players with a similar portfolio, then you have more of a regional players and also players with smaller, more narrow product offering that also is operating here. But I think there is no dramatic change to the landscape that we have seen here for quite some time.

It is a competitive industry, and we are well prepared, and we have a very strong offering to be able to continue to defend our market leadership position here.

**Agnieszka Vilela (Nordea):** I have a question on your margin guidance for H2 2024. You expect 11% to 12% margin. And just looking at H2 2023, you were at underlying, I think, 11.1% with a quite good finish to car production in 2023. So the question really is, if you could maybe specify and quantify what buckets will be driving this margin improvement in H2, especially in the light with some raw material headwinds and car production headwinds that are increasing into H2?

**Fredrik Westin:** Yes, sure. So I mean yes, you rightfully say it, 11-12% is what we are seeing here compared to 8% for the first half. And as already pointed out in the

presentation, we expect a slightly higher LVP in the second half than in the first half and also more stable development. Then we also expect continued impact here from our structural and strategic initiatives, cost control, especially on the SG&A side and then increased customer compensations.

So those are the positives and then a slight headwind or a bit more headwind than we expected at the beginning of the year from raw materials.

**Mikael Bratt:** So when you sum it up, it is really, I would say, a good development here when it comes to all the initiatives and activities that we are driving here to improve our results towards around 12% target. So we are making progress. It is giving the intended results. And that, of course, in combination with good progress on the price negotiation. So the challenges here is very much around the absolute light vehicle production volume and, of course, also the volatility that we have seen here.

**Agnieszka Vilela:** It is just a gap seems quite big from, say, 8% margin in H1 to 11% in H2. So probably I mean, we would appreciate a bit more detailed quantification of what will be driving that?

**Fredrik Westin:** It is the elements that I just mentioned. I mean, the largest one will, of course, be the customer compensations, and we have never talked about what how we are targeting and what the effect of that will be, but that is one important part of it. I mean, as you know, we always have a seasonality effect that our Q4 is traditionally always stronger than the other three quarters. So we are not expecting that to be different this year than any other year.

**Bruno Dossena (Wolfe Research):** I wanted to ask on the cost reduction opportunity on my math in the second quarter, cost reductions, I believe added \$20 million to \$25 million year-over-year. But could you give us a sense of the trajectory of cost reductions this year, both the \$50 million of indirect that you said as well as the direct headcount reductions, what could those cost savings be on an annualised basis exiting this year?

And then as a follow-up to that, when we think about these cost reductions, how much of those are offsetting normal price reductions versus offsetting but beyond the normal productivity improvements that would flow straight to the bottom line?

**Fredrik Westin:** Yes. No, I mean, there are planned savings here from structural initiatives are unchanged. They are still \$50 million this year and then ramping up to \$100 million next year and then \$130 million when fully implemented. So there is no change on that.

We had about \$10 million already last year. So the year-over-year effect is about \$40 million. And these are cost-out activities, and they are not part of our traditional toolbox that we work with to offset the APR, so the annual price reductions with our customers. Those we typically offset with both price negotiations with our supply base, VEVA activities, direct labour efficiency and so on. So this is on top of what we would have done under normal circumstances to offset the price reductions.

**Bruno Dossena:** And then if we step back and think about the company's market outgrowth, historically, we thought about it in the mid single-digit range half from content half for market share. But as you look forward and you consider the shift in customer mix dynamics, you consider the changing price cost and the market share you have already taken over the

several years, what is right calculus on the outgrowth? And how should we think about a normalised level going forward?

**Mikael Bratt:** I can, of course, not give an indication or guidance on what the outperformance will be going forward. But of course, we believe that and strongly see that the content is continuing to grow and growing importance, both in terms of absolute content also among premium but also the catch-up effect, you could say, where you have the lower specification models adding on gradually. I mean, like we see in India, for example, where the content is growing. So that trend is there, and we see more advanced solutions.

Then, of course, also price as we drive that forward is an element. It was market share growth will be less as we have potentially because what we have said here, we do not have a new market share target above the around 45% where we are, but that is something we are going to defend. So what we have said instead going forward of the outperformance reference here is really the organic growth guidance or target, rather than we have disclosed before, which is the four to six.

Where we say one to two is connected to light vehicle production growth, one to two is connected to content growth. And one to two is additional business opportunities that we see mainly in the mobility and safety solution area. So as we said, the focus should be more on the organic growth ambitions that we have there on the four to six.

Before we end today's call, I would like to say that we remain fully focused on delivering on the around 12% adjusted operating margin target. We continue to focus on structural cost reductions, cost compensations, innovation, quality and sustainability.

The positive development of our cash flow and balance sheet supports our continued commitment to a high level of shareholder returns.

Our third quarter earnings call is scheduled for Friday, 18<sup>th</sup> October 2024. Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, drive safely.

[END OF TRANSCRIPT]