# Financial strategy for shareholder value


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Leading the Way
Capital Markets Day 2019

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# Fundamental changes since CMD 2017

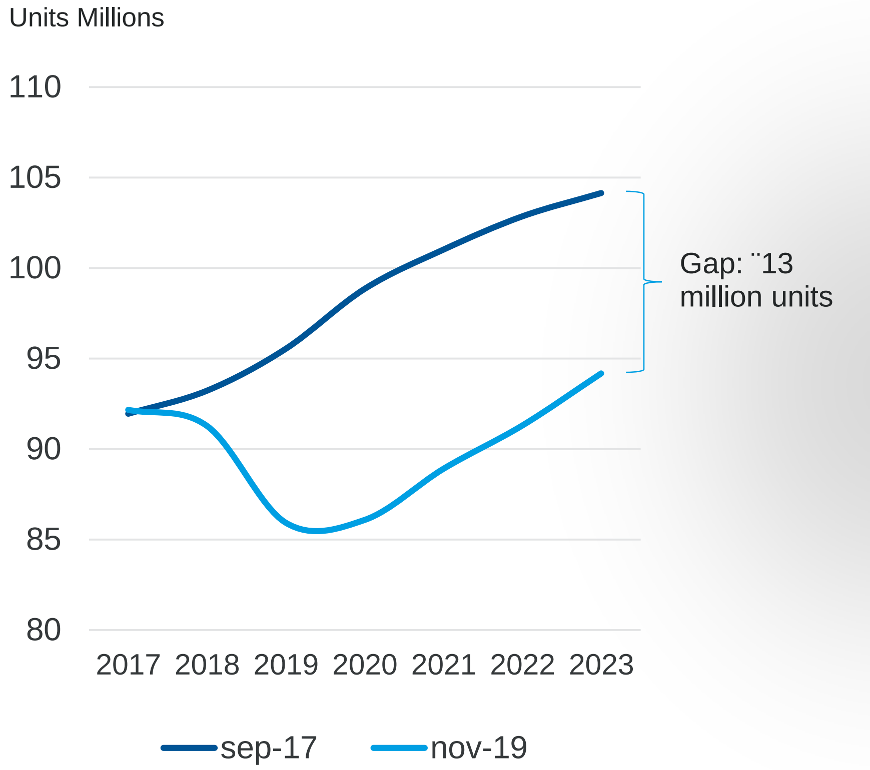
**- Neg**

- IHS has reduced their FY'20 expectations of LVP by ~13 million units, to ~ 86 million.
- Raw material costs have had 100bps negative impact on operating margin

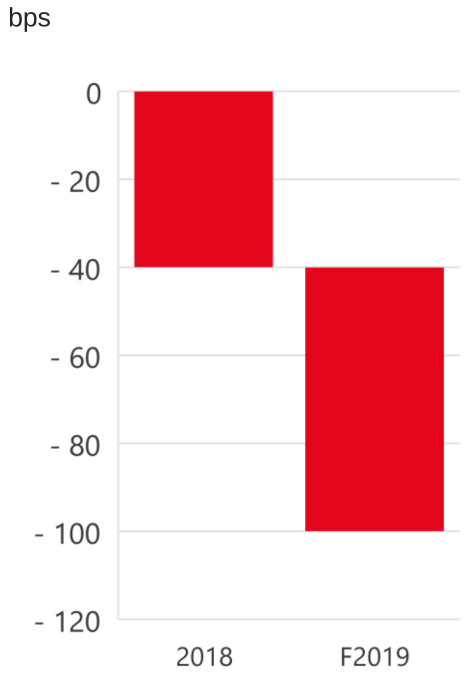
**+ Pos**

- Launched program for stepping up operational excellence
- Structural efficiency program

## IHS LVP Forecasts




## Accumulated raw material headwinds



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# Autoliv Key Targets and Ambitions

Medium term

**Organic growth vs. LVP**
**+3-4% per year**

Medium term

**Cash conversion[2]**

**≥80%**

Medium Term

**Adj. Operating Margin[1]**

**~12%**

Medium term

**~1.0x Leverage Ratio[3]**
(0.5-1.5x Range)

Long-Term

**Grow at least in line with market**
**Adj. Operating Margin[(1)] ~13%**

Targets    Ambitions


*(1) Non-US GAAP measure excludes costs related to Antitrust matters. The forward looking non-U.S. GAAP financial measures herein are provided on a non-U.S. GAAP basis. Autoliv has not provided a U.S. GAAP reconciliation of these measures because items that impact these measures, such as costs related to capacity alignments and antitrust matters, cannot be reasonably predicted or determined. As a result, such reconciliation is not available without unreasonable efforts and Autoliv is unable to determine the probable significance of the unavailable information.*
*(2) Non-US GAAP measure. Operating cash flow less capex, net in relation to net income excluding anti-trust related costs and payments*
*(3) Non-US GAAP measure. Leverage Ratio = Debt per the Policy/ LTM EBITDA; Debt per the Policy = Net Debt + Pension Liabilities*





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# Autoliv is Creating Long-Term Value for Shareholders

## Overview Key Financial Principles

**Visible Near-Term and Sustainable Long-Term Growth**

**Profitability Improvement and Over-the-Cycle Resilience**

**Cash Flow Generation Focus for Shareholder Returns**

**Strong Balance Sheet and Prudent Leverage Policy**

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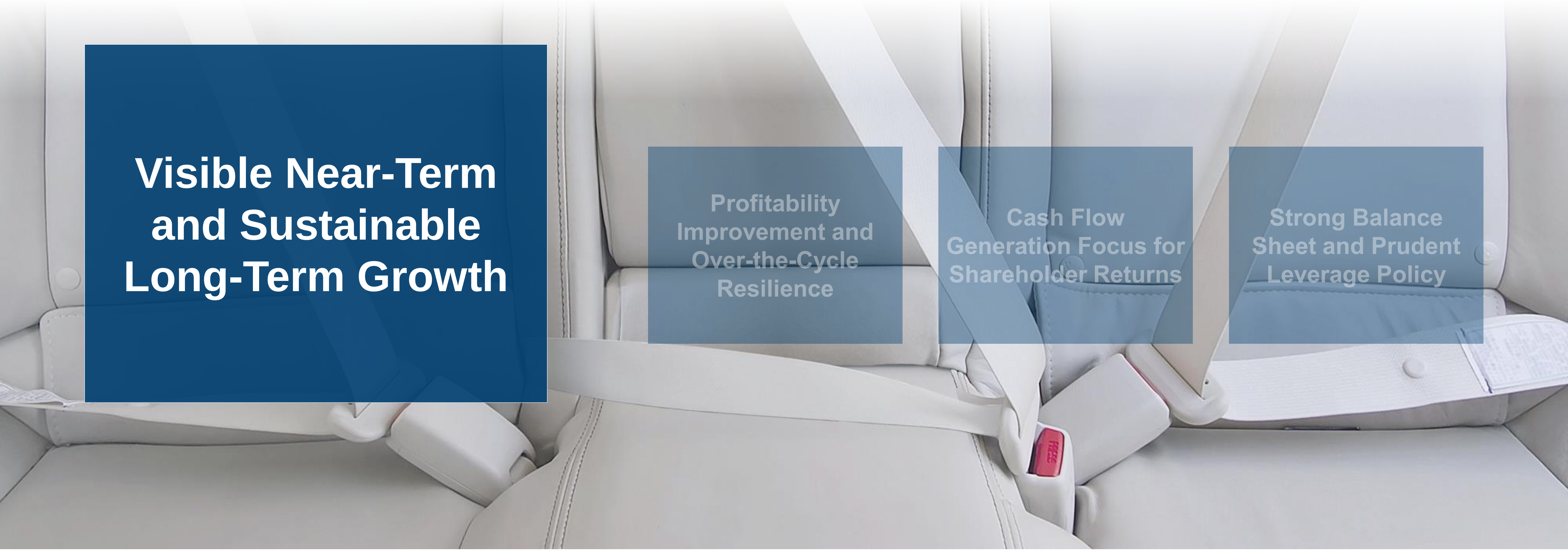




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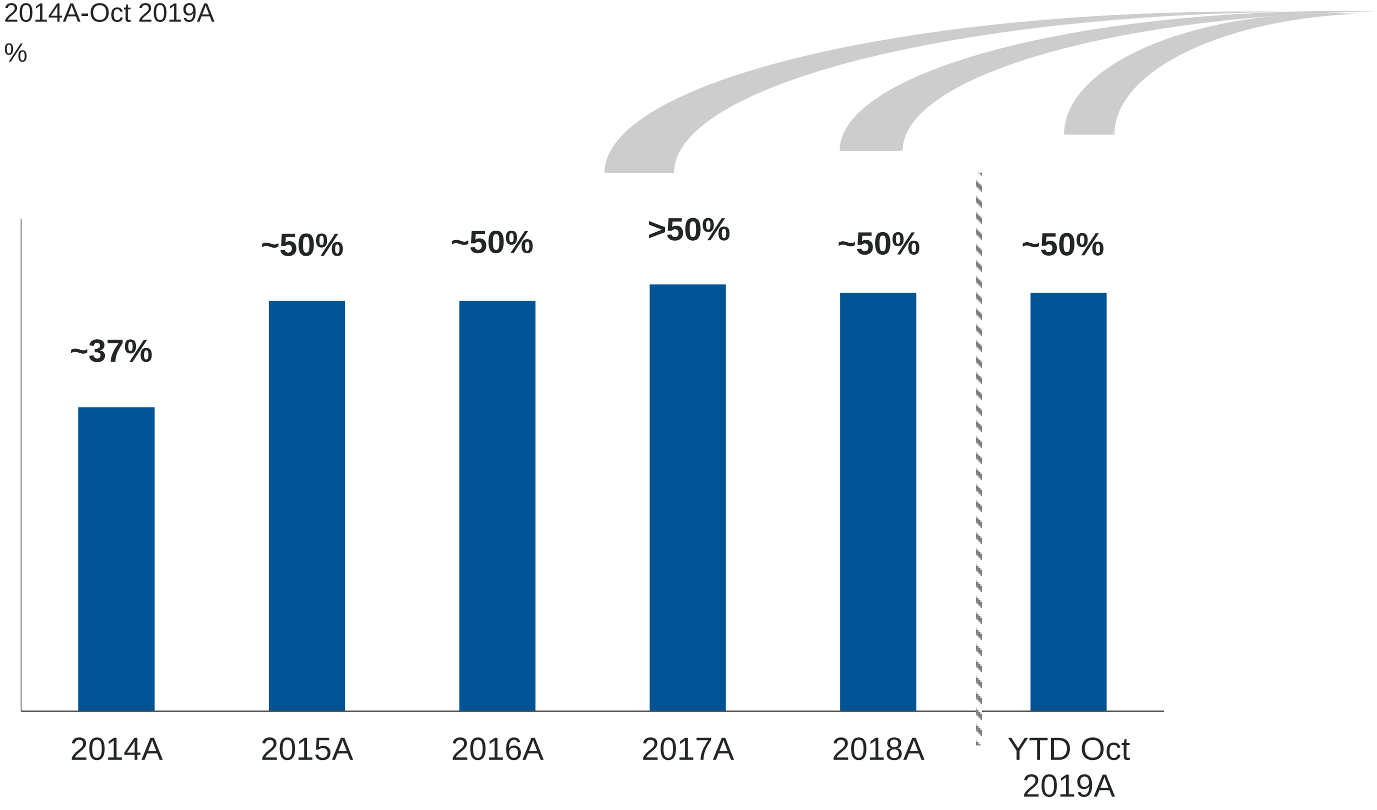
# Continued strong order intake extends growth outperformance

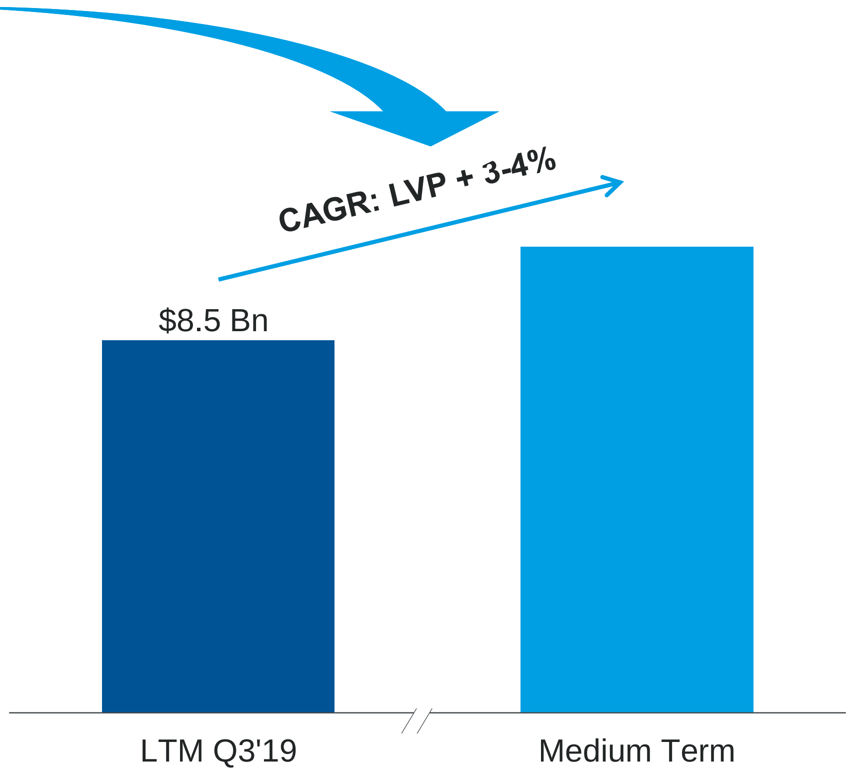
## Order Intake Share

2014A-Oct 2019A

%




## Sales: Medium term organic growth LVP +3-4%







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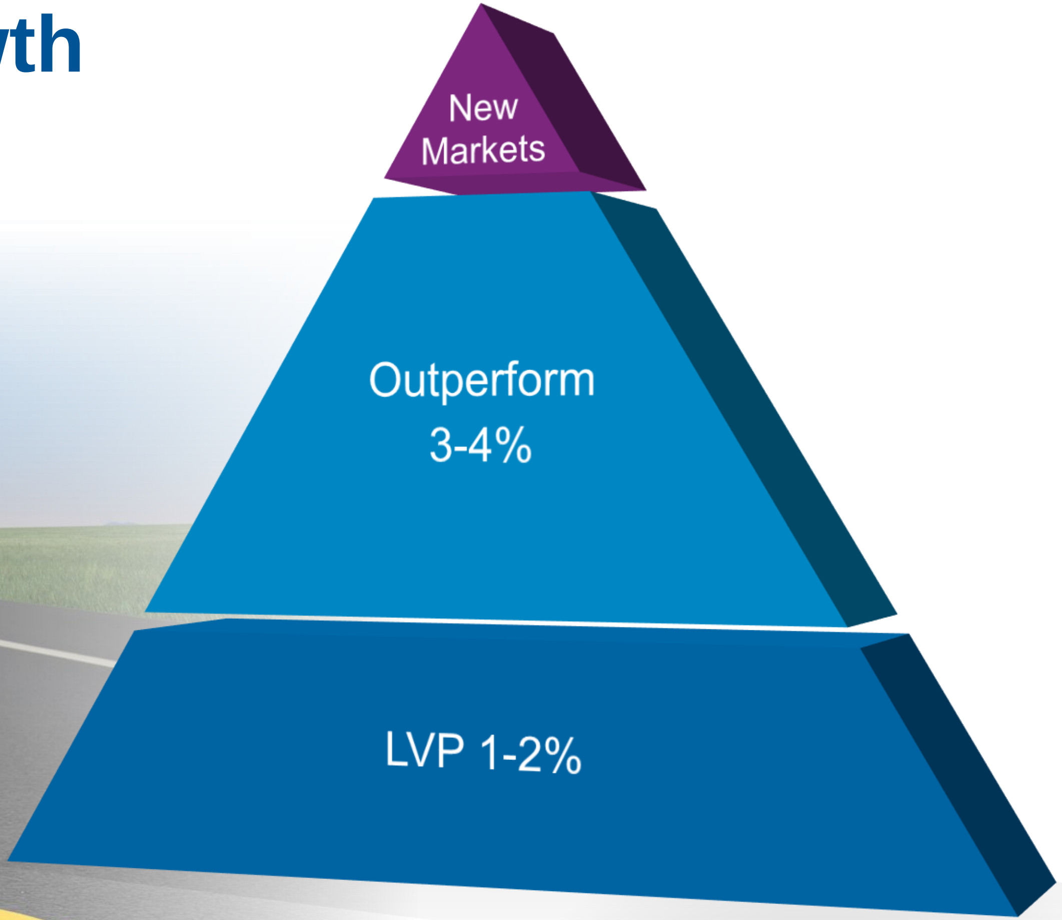
# Medium-term organic sales growth LVP +3-4%

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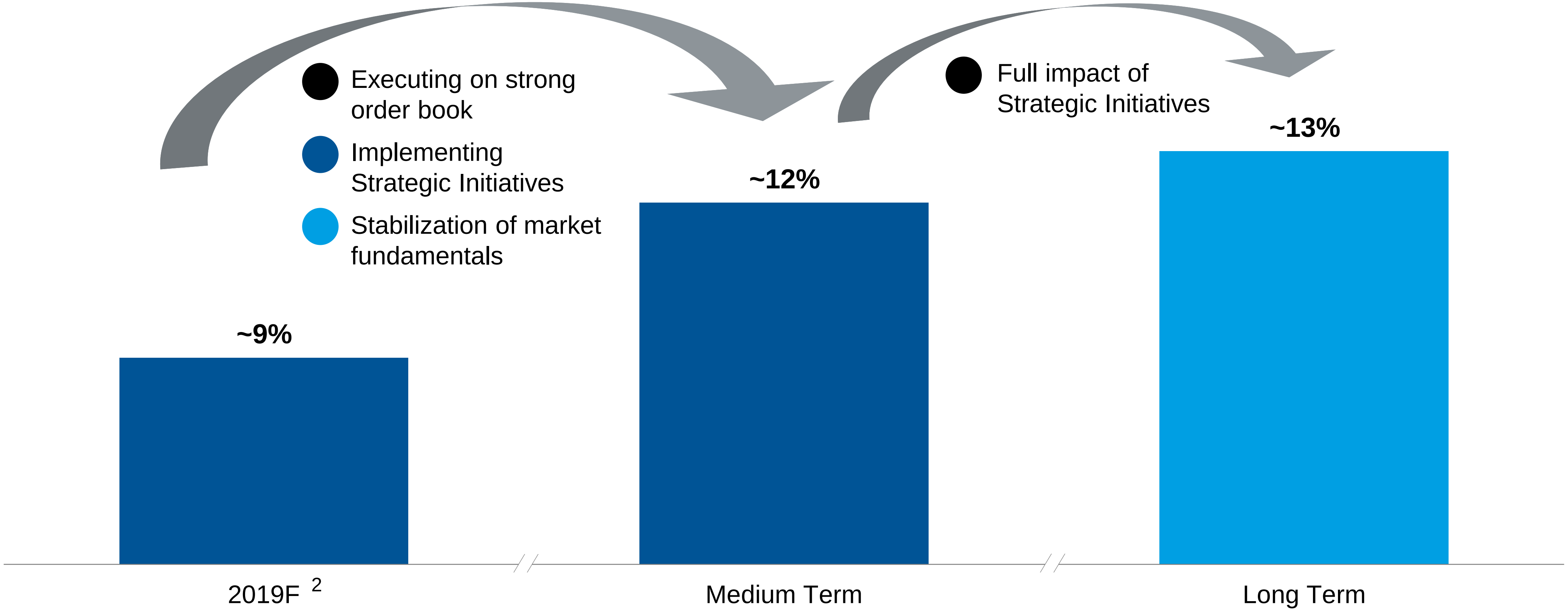
# Financial targets – Adjusted operating margin

## Adj. operating margin[1]




*(1) Non-US GAAP measure. Adjustments for capacity alignments and antitrust related matters*
*(2) FY2019 indication from October 25, 2019*



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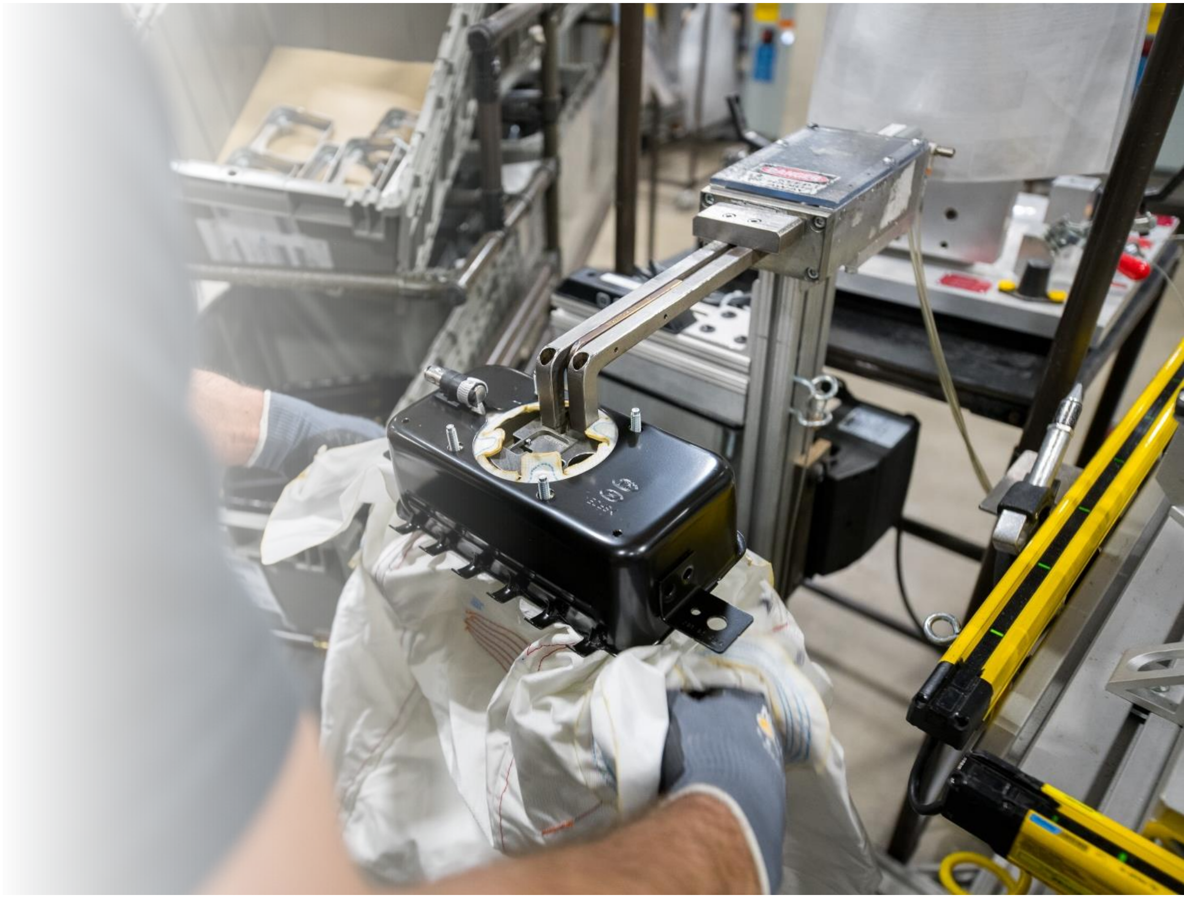
# Financial targets – Executing on strong order book

- Order book secures an outgrowth vs LVP of 3-4% per year medium term
- Operating leverage from
  - Improved utilization rate
  - Improved product portfolio maturity
  - Normalized cost per launch
  - RDE to sales normalization





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# Financial targets – Implementing Strategic Initiatives

- Structural Efficiency Program
- Automation, Digitalization & Modularization
- Supply Chain Management Effectiveness
- RD&E Effectiveness



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# Financial targets – Stabilization of market fundamentals

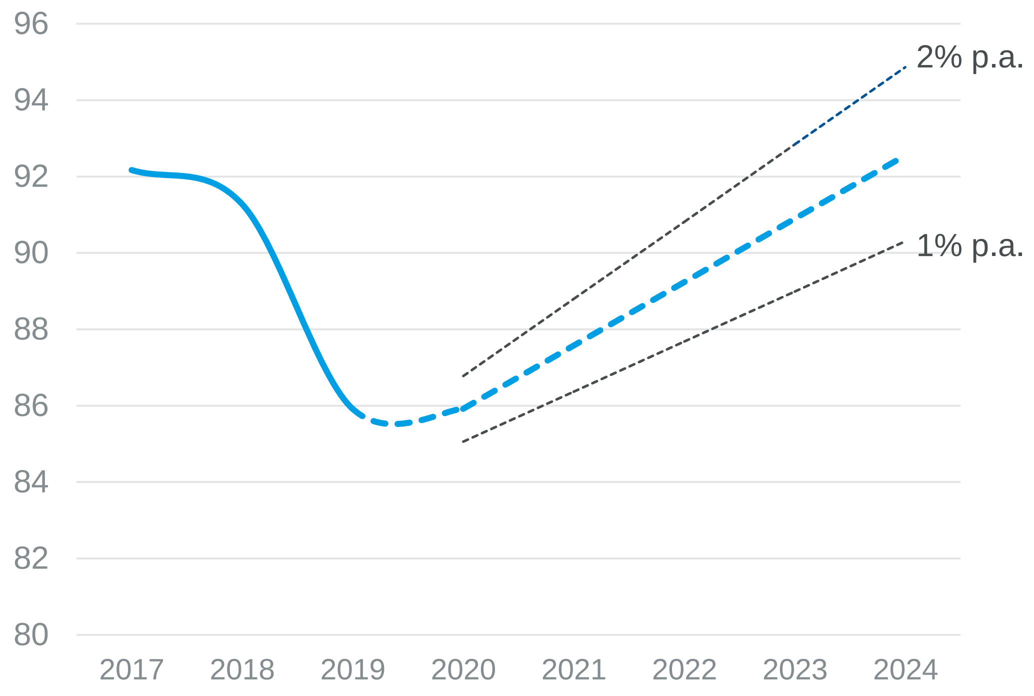
- Stabilization market fundamentals

This assumes

- LVP trend growth ~1-2% per year
- Raw material improvement assumes recovery of our 2019 cost increase

## Our LVP Assumption

Units Millions



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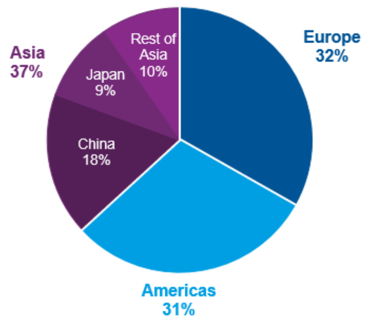
# Financial Resilience Through Well-Adapted Operational Setup

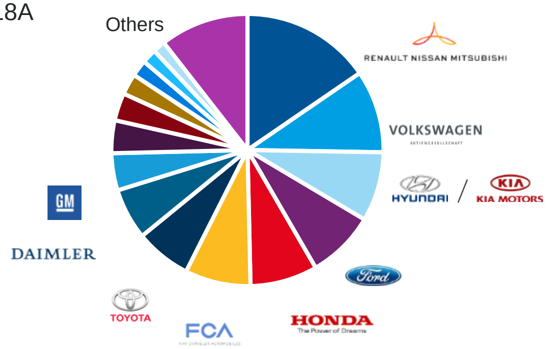
Diversified – Flexible – Lean

## Diversified Sales Streams

**Well Balanced Geographic Footprint**
2018A

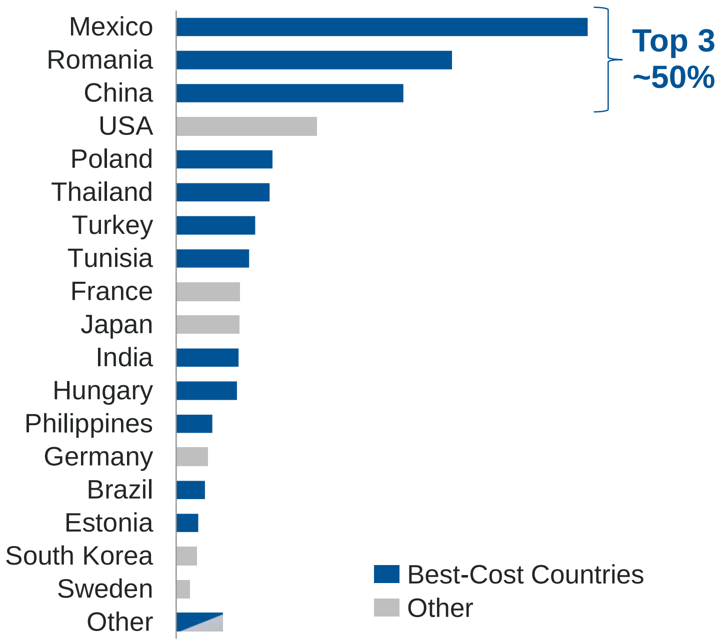



**Highly Diversified Customer Base**
2018A



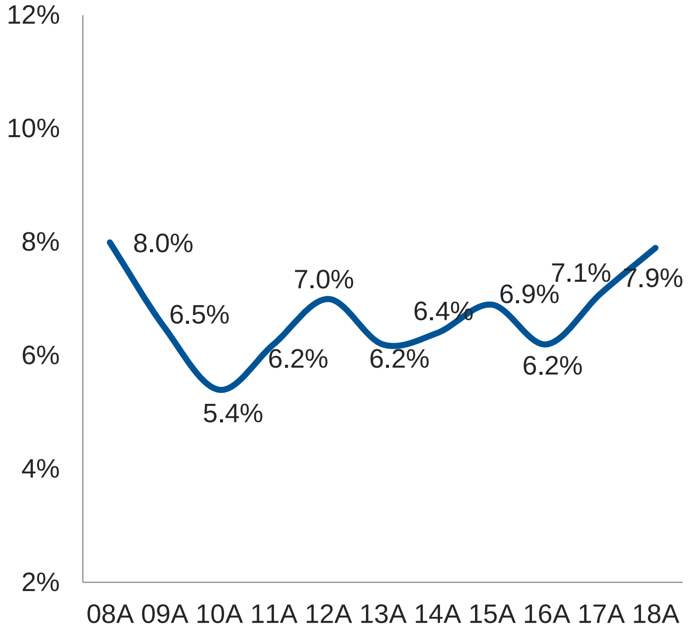

## Flexible Employee Structure

**Employees by Country**(1)
September 2019A




## Working Capital Control

**Operating Working Capital**[1]
As % of Sales




*(1) Autoliv Inc. Group data, includes Electronics for the period 2008-2017*





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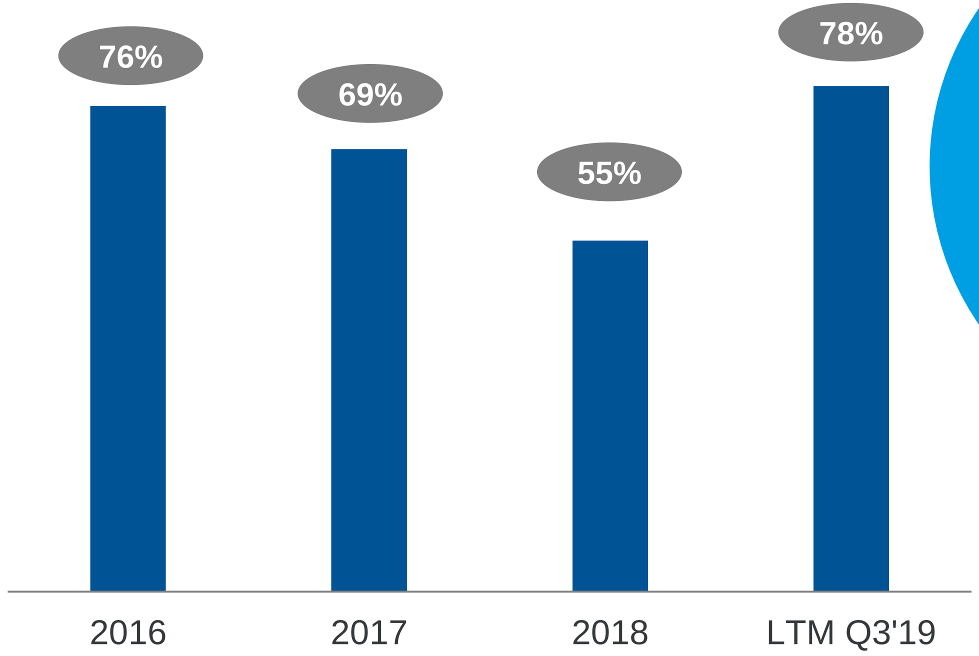
# Financial targets

## Cash conversion[1] target ≥80%

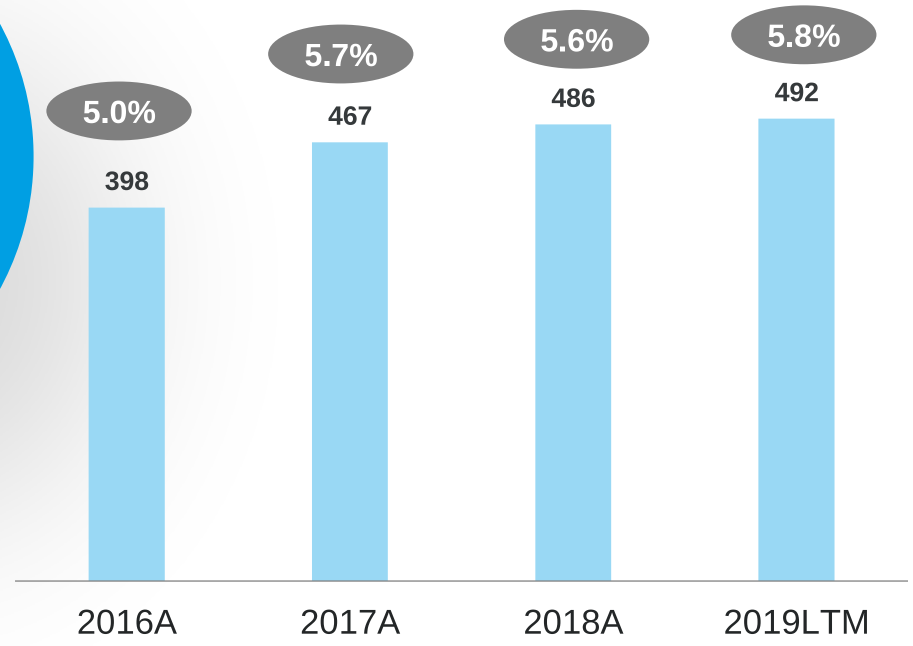



FCF (Operating Cash Flow-Capex, net) in relation to Net Income

Cash conversion improvement when net income grows faster than capex

## Capex, net to sales target <5%

$ Mn




% of Sales

*(1) Defined as Free Cash Flow, e.g. Operating Cash Flow less Capex, net, in relation to Net Income, adjusted for antitrust related costs and payment*

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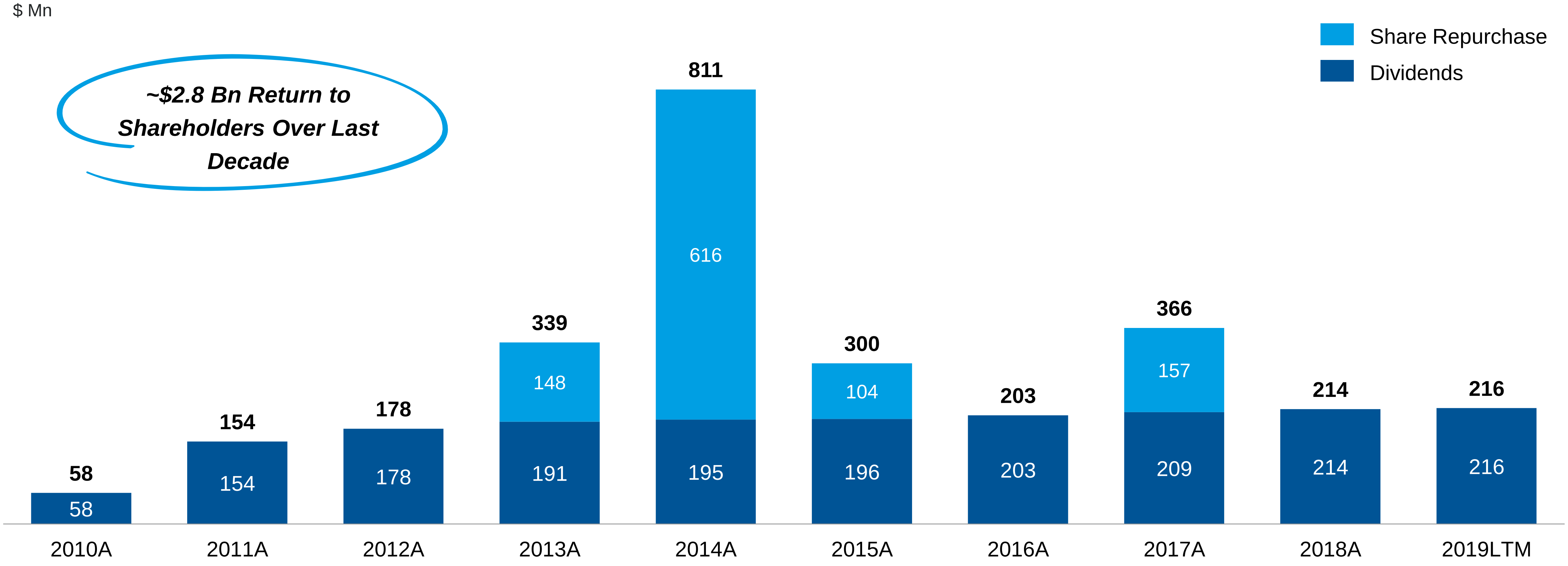
# Supporting Shareholder Returns

## Value Creation Remains Core

### Shareholder Returns (buybacks and dividends) Over L10Y



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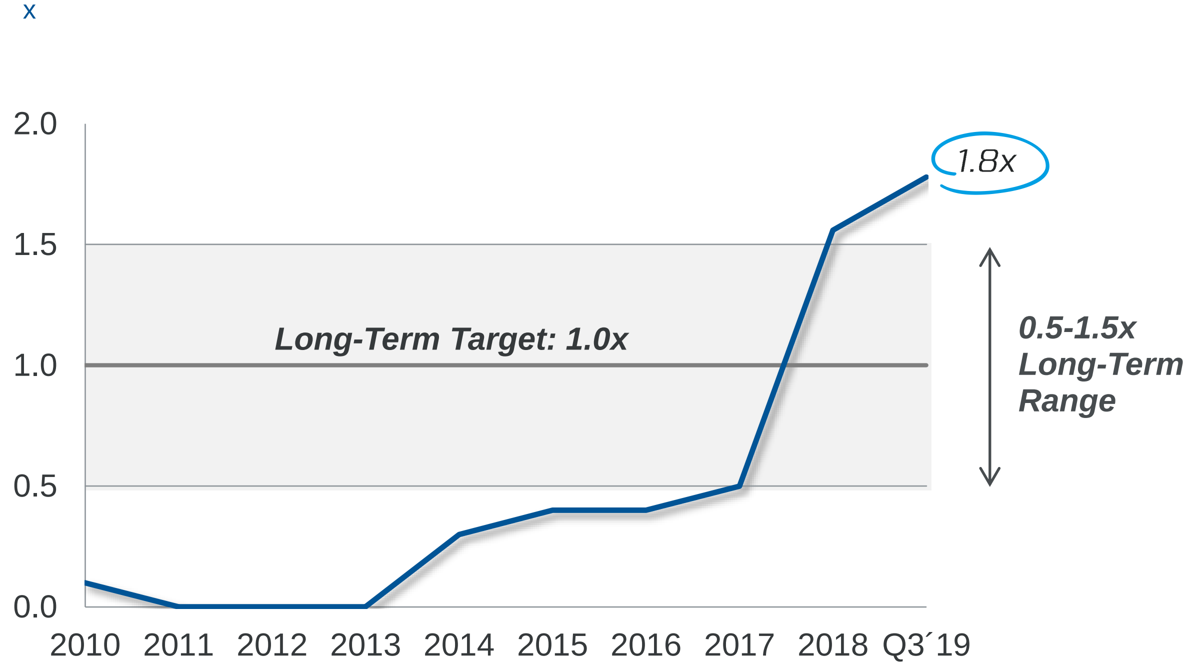
# Balance Sheet and Financial Policy

## Committed to Maintain "Strong Investment Grade" Rating Supported by High FCF Conversion*

### Net Debt/ EBITDA*




- Above target range due to Veoneer capitalization and antitrust fine
- Aim to be back in the range in 2020
- Short term focus on deleveraging, followed by renewed focus on increased returns to shareholders

*(*) Autoliv Inc. group statistics, prior to spin; Non-US GAAP measure, Leverage Ratio and Net Debt includes Pension Liability.*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# Reconciliation of U.S. GAAP to NON-U.S. GAAP measures

In this presentation we sometimes refer to non-U.S. GAAP measures that we and securities analysts use in measuring Autoliv's performance. We believe that these measures assist investors and management in analyzing trends in the Company's business for the reasons given below. Investors should not consider these non-U.S. GAAP measures as substitutes, but rather as additions, to financial reporting measures prepared in accordance with U.S. GAAP. It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies.

## Operating Working Capital

Due to the need to optimize cash generation to create value for shareholders, management focuses on operationally derived working capital as defined in the table below. The reconciling items used to derive this measure are, by contrast, managed as part of our overall management of cash and debt, but they are not part of the responsibilities of day-to-day operations' management. The historical periods in the table have been restated to only reflect continuing operations.

| (Dollars in millions) | 2018 | 2017 | 2016 | 2015 | 2014 1) | 2013 1) | 2012 1) | 2011 1) | 2010 1) | 2009 1) | 2008 1) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total current assets | $3,285.4 | $3,557.5 | $3,495.2 | $3,592.0 | $4,136.2 | $3,700.4 | $3,289.2 | $3,000.3 | $2,688.6 | $2,179.6 | $2,086.3 |
| Total current liabilities 2) | (2,655.5) | (2,086.4) | (2,047.4) | (1,825.2) | (2,138.6) | (2,428.5) | (1,849.8) | (2,085.9) | (1,834.5) | (1,693.5) | (1,380.7) |
| **Working capital** | **$629.9** | **$1,471.1** | **$1,447.8** | **$1,766.8** | **$1,997.6** | **$1,271.9** | **$1,439.4** | **$914.4** | **$854.1** | **$486.1** | **$705.6** |
| Cash and cash equivalents | (615.8) | (959.5) | (1,226.7) | (1,333.5) | (1,529.0) | (1,118.3) | (977.7) | (739.2) | (587.7) | (472.7) | (488.6) |
| Short-term debt | 620.7 | 19.7 | 216.3 | 39.6 | 79.6 | 339.4 | 69.8 | 302.8 | 87.1 | 318.6 | 270.0 |
| Derivative asset and liability, current | (0.8) | (2.1) | (1.0) | 2.6 | (0.8) | 1.1 | 0.0 | (4.0) | (0.7) | 3.4 | 15.9 |
| Dividends payable | 54.0 | 52.2 | 51.2 | 49.3 | 47.9 | 49.1 | 47.7 | 40.2 | 35.6 | - | 14.8 |
| **Operating working capital** | **$688.0** | **$581.4** | **$487.6** | **$524.8** | **$595.3** | **$543.2** | **$579.2** | **$514.2** | **$388.4** | **$335.4** | **$517.7** |
| Net Sales | 8,678.2 | 8,136.8 | 7,921.6 | 7,635.9 | 9,240.5 | 8,803.4 | 8,266.7 | 8,232.4 | 7,170.6 | 5,120.7 | 6,473.2 |
| **Operating working capital in relation to sales** | **7.9%** | **7.1%** | **6.2%** | **6.9%** | **6.4%** | **6.2%** | **7.0%** | **6.2%** | **5.4%** | **6.5%** | **8.0%** |

1) Including Discontinued Operations. 2) 2018 excluding the EC antitrust accrual.



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# Reconciliation of U.S. GAAP to NON-U.S. GAAP measures

**Free Cash Flow**

| (Dollars in millions) | Latest 12 months[1)] | Full year 2018[1)] | Full year 2017[1)] | Full year 2016[1)] |
|---|---|---|---|---|
| **Net income** | **$214.1** | **$377.5** | **$588.0** | **$560.0** |
| Changes in operating assets and liabilities[2)] | 34.3 | (148.1) | (19.0) | (45.0) |
| Depreciation and amortization | 348.8 | 341.8 | 307.0 | 280.0 |
| Other, net[3)] | 18.6 | 236.3 | (6.0) | 27.0 |
| **Operating cash flow** | **$615.8** | **$807.6** | **$870.0** | **$822.0** |
| Capital expenditure, net | (491.5) | (486.1) | (464.0) | (398.0) |
| **Free cash flow[4)]** | **$124.3** | **$321.5** | **$406.0** | **$424.0** |

1) Full year 2018, 2017 and 2016 management estimate for Continuing Operations based on operations that includes Discontinued Operations. 2) 2018 including separation cost. 3) 2019 and 2018 including EC antitrust non-cash provision and payment. 4) Operating cash flow less Capital expenditures, net.

**Cash Conversion**

| (Dollars in millions) | Latest 12 months[1)] | Full year 2018[1)] | Full year 2017[1)] | Full year 2016[1)] |
|---|---|---|---|---|
| **Net income** | **$214.1** | **$377.5** | **$588.0** | **$560.0** |
| EC antitrust non-cash provision | 203.0 | 210.0 | | |
| **Adjusted Net income** | **$417.1** | **$587.5** | **$588.0** | **$560.0** |
| Operating cash flow | 615.8 | 807.6 | 870.0 | 822.0 |
| EC antitrust payment | 203.0 | | | |
| Adjusted Operating cash flow | 818.8 | 807.6 | 870.0 | 822.0 |
| Capital expenditure, net | (491.5) | (486.1) | (464.0) | (398.0) |
| **Adjusted free cash flow** | **$327.3** | **$321.5** | **$406.0** | **$424.0** |
| **Cash conversion[2)]** | **78.5%** | **54.7%** | **69.0%** | **75.7%** |

1) Full year 2018, 2017 and 2016 management estimate for Continuing Operations based on operations that includes Discontinued Operations. 2) Free cash flow relative to Net income.

Management uses the non-U.S. GAAP measure free cash flow to analyze the amount of cash flow being generated by the Company's operations after capital expenditure, net. This measure indicates the Company's cash flow generation level that enables strategic value creation options such as dividends or acquisitions. For details on free cash flow see the reconciliation table below. Management uses the non-U.S. GAAP measure cash conversion to analyze the proportion of net income that is converted into free cash flow. The measure is a tool to evaluate how efficient the Company utilizes its resources. For details on cash conversion, see the reconciliation table below.



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