Q1 Report 2022

Friday, 22nd April 2022

Introduction

Anders Trapp

Vice President, Investor Relations, Autoliv

Welcome, everyone, to our first quarter 2022 financial results earnings presentation. On this call, we have our President and Chief Executive Officer, Mikael Bratt, and our Chief Financial Officer, Fredrik Westin, and I am Anders Trapp, Vice President of Investor Relations. During today's earnings call, our CEO will provide a brief overview of our first quarter results, as well as provide an update on our general business and market conditions. Following Mikael, Fredrik will provide further details and commentary around the financials. We will then remain available to respond to your questions and, as usual, the slides are available at autoliv.com.

Turning to the next slide, we have the safe harbour statement, which is an integrated part of this presentation and includes the Q&A that follows. During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release available at autoliv.com and in the 10-K that will be filed with the SEC.

Lastly, I should mention that this call is intended to conclude at 3.00 pm Central European Time, so please follow the limit of two questions per person.

Quarterly Results and General Business and Market Conditions

Mikael Bratt

President and Chief Executive Officer, Autoliv

Cost inflation and LVP setback

The ongoing war in Ukraine is an unconceivable tragedy that has resulted in a massive humanitarian crisis, and my thoughts go to all those affected. We also continue to experience tough COVID-19 developments and lockdowns in China that are affecting many people, including our employees. I would like to thank all our employees for dealing with and managing through these tough and unprecedented times.

In the quarter, we have managed a very difficult market environment with significant declines in light vehicle production towards the end of the quarter, significant cost inflation and low demand visibility, as well as severe disruptions of the global supply chain. Despite adverse regional mix effects, our sales outperformed global LVP by around three percentage points according to IHS Markit. In the quarter, raw material cost increases impacted our operating margin negatively by more than five percentage points and premium freight costs also increased substantially. The higher premium freight cost was a result of logistical bottlenecks and volatile customer call-offs.

In the quarter, we achieved the targeted level of customer compensation, which still was relatively limited compared to the cost increase level. As a result, sales and profitability were lower than expected. In response to the ongoing challenging market conditions, we further strengthened our cost control measures, implemented a hiring freeze and accelerated other cost savings and footprint activities. Despite the challenging environment, our cash flow was positive and our balance sheet remains strong. The leverage ratio remains within our targeted range. In the quarter, we paid $0.64 per share in dividends and initiated the stock repurchase programme.

Looking at the rest of the year, we expect increased sales outperformance versus light vehicle production. It is our plan and ambition that our product price increases, completed with strict cost control measures, will gradually offset the cost increases. Therefore, we expect a sequential margin improvement in the second half of the year, supporting a trajectory towards our mid-term targets.

Direct effects of the war in Ukraine

Our hearts are with everyone affected by the massive humanitarian crisis created by the war in Ukraine. The war has significantly affected the automotive industry, especially in Europe. We have no operations in Ukraine, but we have identified four sub-suppliers in Ukraine. We are in the process of transferring our component procurement out of Ukraine and we have not stopped any of our customers. However, the war has affected our customers' ability to produce vehicles, leading to lost volumes and more volatile customer call-offs. As a result, we lost almost 25% of expected sales in March in Europe, significantly affecting our operational efficiency.

Autoliv has one production plant in Russia with around 200 employees. In 2021, our sales in Russia reflected less than 1% of our global net sales. As this is a very volatile and challenging situation, we continue to monitor developments closely and we are reviewing our presence in Russia.

Q1 2022 financial overview

Our consolidated net sales of $2.1 billion was 5% lower than in Q1 2021 due to negative currency effects and lower global light vehicle production. Adjusted operating income, excluding costs for capacity alignment, fell from $237 million to $68 million. The adjusted operating margin was 3.2% in the quarter. The lower operating margin was mainly a result of rising costs for raw materials, higher costs for freight, especially premium freight, and lower than expected light vehicle production. Operating cash flow was $70 million, which was $116 million lower than the same period last year, mainly due to the lower net income.

Q1 2022 sales growth

Our sales in the quarter came in lower than expected, with light vehicle production in all regions disappointing except Rest of Asia. According to IHS Markit, global light vehicle production declined by 4% year-over-year in the quarter; this was two percentage points worse than expected at the beginning of the quarter. As a result of the decline in light vehicle production, our first quarter sales declined organically by 1%. This was three percentage points better than the light vehicle production according to IHS Markit. The outperformance came despite the very negative regional mix impact of more than eight percentage points in the quarter as a result of production in low safety content markets growing. Supported by recent launches and more positive regional mix, as well as positive pricing, we see sales outperforming LVP substantially more for the rest of the year.

Based on the latest light vehicle production numbers from IHS Markit, we outperformed in Europe by 12 percentage points, in Japan by seven percentage points, and in Americas by three percentage points. In China, sales underperformed by 2%. The reason for the underperformance in China was mainly the mix effects from production of low-end vehicles growing by 17%. For 2022, we are confident of a solid outperformance in all major regions.

Q1 2022 model launches

On the next slide, we see some key model launches from the first quarter. In the quarter, we had a high number of launches, especially in Japan and China. The models shown on this slide have an Autoliv content per vehicle (CPV) from approximately $50 to more than $400. The long-term trend to higher CPV is supported by the introduction of front centre airbags, battery cut-off switches, and pedestrian protection airbags. We are also launching side airbags and curtain airbags on vehicles produced in India, exemplified here by the Suzuki Glanza, supporting the Indian government's intention to make side protection airbags mandatory later this year.

Financial Commentary

Frederik Westin

Chief Financial Officer, Autoliv

Q1 2022 financial overview

This slide highlights our key figures for the first quarter of 2022 compared to the first quarter of 2021. Our net sales were $2.1 billion; this was a 5% decrease compared to the same quarter last year. Gross profit declined by 37% to $288 million, while the gross margin decreased 13.6%. The gross margin decrease was primarily driven by raw materials, premium freight and the volatile and lower than expected light vehicle production. The reported operating income decreased to $134 million from $237 million. In the quarter, capacity alignments had a $66 million positive impact on the operating profit. As a result, the adjusted operating income decreased to $68 million from $237 million. The adjusted operating margin declined to 3.2%.

The operating cash flow was $70 million. Earnings per share diluted decreased by $0.85, where the main drivers were $1.39 from lower adjusted operating income, partly mitigated by $0.49 from capacity alignment, $0.05 from financial items and $0.03 from lower tax. Our adjusted return on capital employed declined to 7% and the adjusted return on equity to 6%. We paid a dividend of $0.64 per share in the quarter, the same as in the previous quarter, and repurchased around 230,000 shares for $18 million under our three-year stock repurchase programme.

Q1 2022 adjusted operating income bridge

In the first quarter of 2022, our adjusted operating income of $68 million was $169 million lower than the same quarter last year. The impact of raw material price changes was a negative $110 million in the quarter, year-on-year. Foreign exchange impacted the operating profit negatively by $5 million, mainly as a result of the stronger US dollar. Support from governments in connection with the pandemic was $7 million higher than in the first quarter compared to last year. SG&A and RD&E net were unchanged.

Our strategic initiatives continue to yield good results. However, these positive effects were more than offset by the difficult market environment. Premium freight and lower than expected sales, but also high call-off volatility and broad cost inflation, for instance, related to logistics and utilities, impacted our operations negatively.

Cash flow

For the first quarter of 2022, operating cash flow decreased by $116 million to $70 million compared to last year, mainly due to lower net income. Compared to the prior quarter, working capital deteriorated by $18 million despite a $20 million improvement in trade working capital. This was mainly a result of $136 million increase from inventories and $125 million from increase of receivables, partly offset by $241 million from accounts payables. The increase in inventories was due to customers in Europe stopping production around quarter end because of supply chain distress related to the war in Ukraine and lockdowns in China.

For the first quarter, capital expenditures net decreased by 82% to $17 million, mainly as a result of the divestiture of a facility in Japan. Capital expenditure net in relation to sales was 0.8% versus 4.1% a year earlier. Excluding the divestiture in Japan, capital expenditure was $112 million.

For the first quarter 2022, free cash flow was $53 million compared to $93 million a year earlier, driven by the lower operating cash flow, partly offset by lower capital expenditure, net.

The cash conversion for the last 12 months was 72%. In the quarter, we paid $56 million in dividends and repurchased shares for $18 million.

Debt leverage ratio

Turning to our leverage ratio development, we are pleased that our focus on capital management is yielding results and we can maintain a strong balance sheet also in these challenging times. This has enabled us to start the repurchasing of shares and to maintain our dividend. The leverage ratio at the end of March 2022 was 1.4 times, a significant improvement since the peak of 2.9 times in 2020 and unchanged versus a year ago.

In the quarter, our 12-month trailing adjusted EBITDA decreased by $176 million, partly offset by the net debt decrease of $19 million.

Substantial raw materials increases across all commodities

The exogenous shock from the war in Ukraine adversely impacted an already distressed global supply chain, driving prices of raw materials further upwards. Cost increases for raw materials generated a headwind of $110 million or around five percentage points to our operating margin in the first quarter. This was higher than the full-year impact in 2021 of $105 million. In the current price environment, we believe that raw material costs before any customer compensations could be up to six percentage points in operating margin headwind for the full-year 2022, with similar year-over-year effects in all quarters. This is, of course, a situation that we must address through serious actions to ensure we are back on the trajectory towards our medium-term profitability targets as soon as possible. A key lever to achieve this is outlined on the next slide.

Cost inflation compensation claims

We are engaging in customer discussions aiming at unprecedented price increases to reflect the significant cost inflation, mainly from raw materials but also lost volumes and logistics costs. Over time, we believe and expect that customer recoveries should offset cost inflation. We were on track to achieve the recoveries we had targeted to cope with the cost increases that we anticipated prior to the latest surge in prices and costs, however, the ongoing inflationary pressures require additional actions. Therefore, we have established a global commercial recovery task force, we have escalated the negotiation processes and are engaged in customer discussions, demanding compensation for the recent additional cost inflation. The main focus is on price increases from mid-year and onwards. In parallel, we are implementing greater pricing flexibility in our new contracts to account for an environment with changing cost levels. For commercial reasons, we will not discuss the level of anticipated recovery or its nature. In addition to commercial recoveries and price increases, we are undertaking other actions as well, as discussed on the next slide.

Mitigating the consequences of new challenges

In response to the increased challenging market conditions, we continue with strict cost control measures, a hiring freeze and accelerated cost savings and footprint activities. In addition to recently announced capacity alignments and footprint actions in Japan, Europe and Americas, we are reducing direct labour, closing one plant in South Korea and have divested a property in Japan. In total, we reduced headcount by over 1,700 versus the same quarter last year despite similar sales levels. Additionally, our measures include management of inventories and payables, negotiating with suppliers to mitigate cost inflation. Our supply chain management teams have been working hard to balance inventories to demand. During the quarter, production planning accuracy declined as a result of the war in Ukraine and the extensive lockdowns in China.

Market Development and Outlook

Mikael Bratt

President and Chief Executive Officer, Autoliv

2022 GLVP forecasts by HIS Markit

While global markets are influenced by the ongoing war in Ukraine, Europe is undeniably the most severely impacted. Beyond the direct impact to Russian LVP, the war in Ukraine also significantly affects wire harnesses production mainly for German automakers. Compared to three months ago, IHS Markit has reduced its global light vehicle production growth for 2022 by more than four percentage points to less than 5%, with Europe accounting for 90% of the reduction. Additionally, we see further risk to supply chains and the broader economic landscape. Given the ongoing uncertainty, we have a scenario-based approach to light vehicle production and, therefore, our updated guidance is based on a light vehicle production range.

Light vehicle production outlook

Looking at LVP forecast in more detail, for the second quarter of 2022, global light vehicle production is expected to further decline compared to Q1 2022. In North America, sales of light vehicles are slowly improving on a quarter-to-quarter basis and should continue strengthening over the remainder of the year. However, due to low inventory levels, deliveries remain well below demand and well below deliveries a year ago.

European production will remain challenged, as weaker Q1 production is expected to carry forward into Q2 as the war in Ukraine continues to stress the supply chains.

Hit by strict COVID containment measures, light vehicle production and sales in China started to decline in March. Lockdowns are also interrupting auto production outside China as exports of components are affected. In the near term, global light vehicle production outlook will be determined by the availability of components as well as the effects of lockdowns in China.

2022 business outlook

We expect higher sales outperformance versus light vehicle production for the rest of the year, supported by launches, regional mix and higher prices. For the second quarter of 2022, we forecast the adjusted margin to be weaker than in the first quarter due to lower and more volatile light vehicle production, and we expect cost inflation to increase faster than our cost compensation. We expect second half of the year improvements from alignment of direct labour with light vehicle production, footprint optimisation activities and less volatile light vehicle production in Europe and China. Most importantly, we are negotiating price increases with our customers to compensate for current cost inflation. We believe and expect that our price increases should gradually offset the cost inflation and assuming some degree of market stabilisation, we should be back on trajectory towards our mid-term target.

Full-year 2022 indications

The updated indications are based on the assumption that global light vehicle production will grow 0-5% and that we achieve our targeted price increases, plus some level of market stabilisation. We expect sales to increase organically by around 12-17%. Currency translation effects are assumed to be around a negative 3%. We expect an adjusted operating margin of around 5.5-7.0%. Operating cash flow is expected to be around $750 million to $850 million. Our full-year 2022 indications exclude cost for capacity alignment, antitrust-related matters and other discrete items.

Changes to full-year 2022 adjusted operating margin indication

We now see global light vehicle production growth being 4-9 percentage points lower than in the previous indications from January 2022. Rising raw material costs are expected to have an additional 300 basis points negative impact. We believe our strategic initiatives and other actions should offset some of these additional headwinds. This should lead to an adjusted operating margin for the full-year 2022 that is 2.5-4.0 percentage points lower than the previous indication.

Our adjusted operating margin outlook may still be impacted by supply chain disruptions in the automotive industry and potential risk of surge in COVID cases and its effect on us and the automotive industry.

2022 outlook summary

In closing, to summarise our 2022 outlook, we expect continued strong outperformance versus light vehicle production, supported mainly by product launches, increase in content per vehicle and price increases. Supported by a somewhat more stable market, we anticipate gradually offsetting much of the cost inflation in the coming quarters, which will take us back to a trajectory towards our mid-term targets. Additionally, our balance sheet and cash flow should allow for continued shareholder return.

Q&A

Hampus Engellau (Handelsbanken): Thank you very much. I just have one question, but it is maybe a dual question here. What I am trying to understand, Mikael, is the pricing situation that you are in and especially when I put it into the perspective that the core OEMs have increased new car pricing by 5-8%, used car prices are up 25% and many of the OEMs reported record margins last year. In some way, has this not impacted your possibility to push forward price increases or could you maybe elaborate on that a bit? Also, what kind of time lag should we expect on the price increases that you have implemented so far? Thanks.

Mikael Bratt: Thank you, Hampus. I feel comfortable going to the customers and discussing and negotiating these price increases. It clearly shows that what we are going to the customers with is the inflationary pressure we see in the industry and it is not Autoliv-specific issues, if I can put it like that. When we go into this discussion, we have well built-up cases and, as you said, they have already started this journey, but as a supplier it is in the business models we have – at least had historically as a supplier – you cannot implement price increases before that happens. Therefore, we can only go to the customer when we have them, so to speak, and that is what we are doing now. Therefore, you have this time lag, as we have talked about, but once again, I feel comfortable in our ambitions of getting compensation for the inflationary pressure that is in the industry.

Hampus Engellau: Okay, thanks.

Colin Langan (Wells Fargo): Thanks for taking my questions. Just looking at slide 12, it is definitely clear that raw material costs have obviously massively increased since the beginning of 2020, but for a lot of them they are not too far off the end of last year. I am trying to line up the big increase in raw material headwinds versus where we ended last year and a lot of these are not too off base. Is it that the assumptions, the initial guidance we are assuming that some of these started to moderate? Is there a timing issue? I am just trying to think about where we were at year end and why the large increase today.

Fredrik Westin: As we laid out after the Q4 earnings, we said that it was also based on, say, an expected development of raw material prices going forward. When we look at what now especially the Ukraine war has done to the raw material situation, we see that the increase that we have now from roughly 300 basis points to 600 basis points, roughly three-quarters of that are from steel and non-ferrous metals. Also, the forward curves have changed significantly, so we now assume that we will roll over these contracts at significantly higher price levels than what we were assuming just three months ago. That is the main difference in the assumptions going forward.

Colin Langan: Okay, got it, so it is a sort of forward-looking change, okay. As I am looking at the full-year guidance, you have indicated next quarter is going to be a bit worse than this quarter, so we are talking three percentage maybe for the first half. To get to the midpoint, which is like 6.25, really requires almost a tripling of margins from first half to second half. You mentioned some items, but what are really the major step functions to get to that big first half to second half leap, because I can only think of ranking order to drive that?

Mikael Bratt: It is all about closing this time gap between the cost increases that we are facing from our value chain with the compensation from our customers. As we indicated in the Q4 earnings release, we stated that the first half of the year will be challenging. We talked then about 500 basis points raw material headwind in the first half and then we should see the compensation coming through the second half of the year, and that is still the dynamics in the guidance we are doing now. The difference compared to that, of course, is that the war in Ukraine put additional pressure on the value chains and drove up the prices not only of raw material but also of logistics costs and energy prices, etc., which meant that we now needed to up our ambitions with the price increases with the customers. Hence then you have the time gap again. We will see gradual improvement on the price side closing this gap, but of course there is a big difference between the first quarter and the last quarter in this forecast, which was also in the regional guidance for the year.

Colin Langan: Got it. All right, thanks for taking my question.

Mikael Bratt: Thank you.

Rod Lache (Wolfe Research): Hi, everybody. I also wanted to ask about the commodities. Last year – thanks for quantifying – you had a 130 basis point drag from raw materials and now you are up to 600 this year, so 700 basis points cumulatively. Can you just remind us, first of all, is that a gross or net number? I was also hoping you could elaborate a little bit on the timeline and magnitude of potential recovery. If you achieve the recovery that you anticipate in the back half of this year, I would imagine some of that spills over to next year. Can you maybe give us a little bit of colour on the magnitude of tailwind that you would then benefit from next year from this?

Fredrik Westin: The guidance on the raw material side continues to be a gross number, as we always had, so there is no recovery or offsets in that number; that is the effect that we see the raw material prices hitting our P&L on the cost level. Then, as Mikael has already indicated, if you look at, say, the margin levels that we achieved during the first quarter and indicating also for the second quarter and then the implied trajectory and then into Q3 and Q4, you can see that we are expecting a significant recovery level. However, with the raw material price increases, the net of the cost increase versus offset then by recoveries is less favourable now than it was in the initial guidance. However, we should be, as we say, back towards the trajectory to meet the 12% margin target that we have for the medium-term and that should be quite visible in the Q3 and Q4 performance.

Rod Lache: Okay. You mentioned premium freight and other cost inflation and that is why you are seeing that $61 million drag on a 1% organic decline. Are you expecting to recover that through pricing as well?

Lastly, you mentioned additional semiconductor risk due to the war in Ukraine; can you elaborate on what you are specifically looking at?

Fredrik Westin: Premium freight was quite substantial in the quarter. As Mikael mentioned, more than 5% was the hit from raw materials, which was pretty much in line with our guidance, but then we saw around about a 2% hit on the margin also from premium freight, of which we believe the majority is recoverable throughout the remainder of the year. However, then we also saw inefficiencies in direct labour, mainly due to the call-off volatility, but also related to COVID cases in Europe, parts of Southeast Asia and in China, which hampered our ability to run at normal productivity levels. On top of that, what you can see in the markets, the freight and utility cost levels have come up quite significantly also in the first quarter. Those are the main components of the $61 million headwinds on the operations side.

Can you repeat your second question on Ukraine? I did not fully understand it.

Rod Lache: On one of your slides, you alluded to additional semiconductor risk due to the war in Ukraine, so it sounded like you were tying that. Was that related to neon gas or was there something else that you are seeing that led you to raise that as a larger risk associated with the conflict?

Mikael Bratt: Yes, that is correct. That is one example, but there are other raw materials also going into the semiconductor production that is affected by the war in Ukraine. However, on the semiconductor side, there are also, of course, still some challenges when it comes to the total supply there and that is also what is challenging. On the overall LVP outlook, as we have outlined, at least the China situation where we have seen semiconductor manufacturing go down slightly in Q1 and, of course, with the lockdowns and the consequences also on the freight out of China, you can expect some disturbances of that. However, it is all part of the 0-5% growth number for LVP included there.

Rod Lache: Okay. All right. Thank you.

Vijay Rakesh (Mizuho Securities): Hi, Mikael and Fredrik. On the full-year guide, I am just wondering, the 12-17% year-on-year, are you able to pass on some of the cost? What price increases are you embedding in that full-year number? Again, give us some colour.

Mikael Bratt: No. We do not go into any details on the levels and so forth here specifically, as we are in the midst of negotiations with our customers. With that said, I started out this Q&A session by stating that I feel comfortable with us going to the customer and achieving the full compensation for what is inflationary pressure in the system. Once again, it is not Autoliv's unique cost increases here, it is cost pressure in the industry here.

Vijay Rakesh: Got it. Makes sense. Yes. You also mentioned some customer call-offs, about 25% of European sales affected. Now with the Shanghai shutdown almost a month into the quarter here, are you seeing that distress in the supply chain resulting in call-offs in both Europe and China? What is being embedded or what are you seeing in your order activity? Thanks. That is it.

Mikael Bratt: No. As I said, I think the consequences from what has happened, so far, in terms of lockdowns in China during the quarter and as we speak, I will say is included in the 0-5% scenario. Then, of course, as we have pointed out, there is a lot of uncertainty around the COVID situation as well as the war in Ukraine, etc., on further impact. However, from what we can identify today, we believe that is within the 0-5% LVP growth there. If that answers your question.

Vijay Rakesh: Yes, thanks.

Joseph Spak (RBC Capital Markets): Thank you, everyone. I just wanted to understand a couple of things on pricing, because on slide 19 you are showing for the full-year that you are basically able to offset pretty much the entire impact of raw material. I know some of that is some of your actions, but that implies that it is a much bigger impact versus the raw material headwind in the second half, because you do not really get any of that in the first half. I am just trying to understand, are you – look, I can understand how you can price for inflation, but it seems like there is maybe also an element of recovery for prior impact. Is that correct? I also want to confirm that, functionally, are any recoveries reported in sales, so it is also impacting your organic growth or is it a counter expense?

Mikael Bratt: I will start and then Fredrik can fill in the details. Of course, when we go now to the customers, we are seeking full compensation for what is then the inflationary pressure, as I mentioned. Then, of course, also you have other claims connected to the specific situations with the customers. As Fredrik alluded to before, some of the premium freights that are caused by the customer are also on the claims list, so we include that. The impact on our full-year guidance is the timing gap between when we are being hit by the cost and when we get the customer compensation here. As I said, this has been a part of the business model for auto suppliers, as you know, and that, of course, is something we are working on to shorten as much as possible. However, when it comes to the height and the facts behind it, I feel comfortable to go to the customer with the full amount here.

Fredrik Westin: Yes, and the recoveries will be in our net sales, so that is how we will report them and, as such, they are then also part of the organic growth outperformance. One of the reasons why we then have increased that from 11% to now 12% is also from a higher than previously expected price adjustment from our customers to offset the stronger raw material headwinds that we are facing.

Joseph Spak: Okay. To Mikael, maybe building off some of the comments you just made here about changing relationships, you mentioned in your report and in your opening comments something about greater pricing flexibility going forward. Does that mean that you are trying to move more towards an indexing model versus prior, similar to other suppliers? If so, is that just for new contracts or is that something you think you can achieve for existing contracts as well?

Mikael Bratt: No, I would not say that the answer to the question is indexation or not. I think it is all about that we are in a different environment now than what we have been in for the last at least 20 years, and of course there is change over time also for our customers as well for ourselves. However, I think we have good speed and good focus when it comes to getting these adjustments in place and as we continue to see continued pressure at least for some time here, that will be an ongoing dialogue, of course, with the customer.

Joseph Spak: Just to follow up, what do you mean by 'greater pricing flexibility' then, when you mentioned that?

Mikael Bratt: It means that we need to make sure that we have a faster response time from our customers to get compensated for the price increases we see in our system. You can achieve that with different means, but it is more, I would say, part of the dialogue with the customers and how you set it up with respective customers. Of course, as we mentioned, indexation is one tool in that toolbox, but it is something we need to develop individually with our respective customers.

Joseph Spak: Okay. Thank you.

Sascha Gommel (Jefferies): Thank you very much. I also have a couple of items. The first one is just a clarification. In that 600 basis points of headwind you are guiding, is the freight cost or the logistics headwind included or would that come on top and how much is that in the full year?

Mikael Bratt: The 600 basis points is pure raw material. We have not specified the freight cost or any other inflationary cost pressures specifically, it is part of the overall guidance effect. However, once again, all that type of cost is what we intend to get compensated for.

Sascha Gommel: I see, but is it fair to assume that this kind of logistics headwind remains at least for the second quarter, if not also for the second half?

Mikael Bratt: Yes.

Fredrik Westin: Yes.

Sascha Gommel: Okay, great. The second thing I wanted to clarify is the share buyback. On your website, you have only reported numbers until the end of March; does that imply you stopped the share buyback at the end of March or are you still buying right now?

Mikael Bratt: As you know, we publish there when transactions are being done and we do not comment on what we intend to do and when we intend to do it and so on. However, we have initiated a buyback programme and we are committed to the $1.5 billion by 2024 in the buyback programme.

Sascha Gommel: That means there was no buying in early April.

Mikael Bratt: We will continue to inform you when we have done something in the programme there.

Fredrik Westin: We have to report it weekly, so if there was nothing reported…

Sascha Gommel: I appreciate it. Thank you.

Fredrik Westin: Thank you.

Agnieszka Vilela (Nordea): Thank you. When I look at the raw material impact on your EBIT, in aggregate, it is expected to be $600 million in the past two years, 2021 and now including guidance for 2022, and you say that you have the ambition to recover that and also recover the freight cost and other costs that you are incurring right now. What gives you confidence that you can reach this kind of recovery and when should we expect that? Will it spill over to 2023 as well? Thanks.

Mikael Bratt: Thank you. The confidence in achieving this lies in the fact that it is external price pressure towards the industry, it is not Autoliv specific. I would rather say that. Through our supply chain team, we have managed to keep down the cost increases here for the better part of 2021 and at low levels, so I think we have done a great job there. We are not asking for anything more than what has ended up here, so I think we have good arguments and good facts behind this. Once again, it is inflationary pressure and inflation, by definition, is passed on here. As we stated before, we see then a gradual recovery over the next coming quarters, so full focus on 2022.

Agnieszka Vilela: Great. Thank you. The last question from me is, if we look at your leverage, it is now approaching 1.5 times, which is the high end of your target. Is it fair to assume that you could pause the share repurchases right now?

Mikael Bratt: As we have said before on when to move forward on the share repurchase, there are a number of factors that need to be built into that decision and leverage, of course, is one. However, it is also our cash flow generating capabilities going forward and where we are, in general, in the cycle. There are a number of factors, so it is not an absolute black and white definition on the buyback if it is 1.5 or 1.6 or 1.4, it is a combination of all three and we have used the phrase before that we have a 'pragmatic view' on that and that is still true going forward.

Agnieszka Vilela: Thank you.

Mikael Bratt: Thank you.

Philipp Koenig (Goldman Sachs): Thank you very much for taking my question. I have a question on the operating leverage. If we think about the second half of the year to sort of get to your guidance, it implies a 9-10% margin. You mentioned earlier and also on slide 19 that you expect to offset the 3% additional raw materials with your pricing and other cost actions. Just thinking about the organic growth, when you have positive LVP growth in the second half of the year, do you expect to be back at the normalised operating leverage level or do you think, because of higher freight costs and everything that flows into that part of the operations, that maybe that will continue to lag and all the margin improvement will come from the pricing? That would be helpful. Thank you.

Fredrik Westin: No. We believe that the underlying operational leverage should be within the range that we are normally talking about, 20-30%, and probably at the higher end of that range when you exclude for, say, the inflationary pressure, so if you take those costs out, but also the recovery. The underlying operational performance should be at the upper end of that 20-30% range is our expectation.

Philipp Koenig: Okay, thank you. My second question, just quickly on the FX, obviously there was a quite a minimal impact on the EBIT line, although it was fairly more material on the revenues. Is that something you expect going forward, given the hedges that you have in place?

Fredrik Westin: We are expecting roughly a 3% translational effect on revenues, so slightly lower for the full year than what we had in the first quarter.

Philipp Koenig: And on the EBIT?

Fredrik Westin: From what we can see at the moment, it is not a material effect.

Philipp Koenig: Okay. Thank you.

Chris McNally (Evercore): One recap and then one on incremental/decremental margin. Focusing on slide 19, just to recap on the extra 300 basis points of raw materials from all the questions so far. Is it fair to characterise that it is not really about spot prices having increased, but essentially when you made the guidance at the beginning of the year, you were expecting let us call it lower steel and magnesium costs for the second half into 2023, that now, because prices are elevated, is an incremental pressure to your guidance and you are obviously going to price for that, but there is a delay? I just wanted to make sure I understood that dynamic.

Fredrik Westin: Yes, that is a correct assessment or conclusion. As we have said many times, we do not buy on the spot markets, but the developments of the spot markets have also impacted the prices at which we now can close our more long-term agreements, and that is the effect that we talk about. We have then increased our commercial recovery ambitions accordingly. However, as Mikael has laid out, there will be a continuous timing or time lag effect should these material costs materialise as they are now, say, as we are guiding for them.

Chris McNally: Okay, well understood. The second question is really on the first bar on decremental margins associated with lower production. Obviously, I do not think that slide 19 is fully to scale, but could you help us understand let us call it the lost 6%, 7% of core production by your adjustment? What was the normal decremental margin? On top of that, you obviously had some disruption and things like that, but just an idea from here of what your decrementals and incrementals could be; because of things like freight, it is hard for us to see what your true decremental margin was on just pure volume.

Fredrik Westin: It is what I said before. If we exclude the inflationary effects, and it is not only raw material but the vast majority is raw material, but then we also have increased labour costs, they have not picked up yet so much in the first quarter, it will be more pronounced from Q2 going forward, and then, of course, also logistics costs and utilities. However, as I said, raw material is the vast majority of that. If you exclude that, then our operating leverage is at the upper end of the 20-30% range if we look at the underlying performance of the business.

Chris McNally: Okay, so at the higher end of the range, then on top of it is things like expedited freight. The only reason I ask is things like labour costs, I am not sure how much that has changed in the last two months.

Fredrik Westin: Labour cost inflation has not been material or not very significant to date. The way that our contracts are set up, it is something that typically starts at the end of the first quarter and then is in the run rate as of the second quarter going forward. However, that was not so much an impact in the first quarter. It was more of what I said before, that the COVID shutdowns and the supply chain volatility led to lower operational efficiency and productivity in our operations and that was an issue here in the first quarter.

Chris McNally: Perfect. Thanks so much guys.

Fredrik Westin: Thanks.

Brian Johnson (Barclays): Thank you, and thank you for a very honest and open look at the situation on the ground with inflation. I just want to get a little bit of understanding. When we came into the year, you were looking towards productive negotiations with the customers to get back to that 10-11% margin targets where you had been. Since then, OEM margins continue to expand, but clearly the pain on suppliers with fixed price contracts is increasing. Do the OEMs expect you to take some pain share and live with lower margins in this environment or can they see their way to getting you – not that this would be their thinking – back to your original margin targets?

Mikael Bratt: I cannot comment on what the OEMs are planning or thinking. However, in terms of pain sharing, I think it is quite visible the effects we have had here as a result of the increased prices. We are absolutely determined that this needs to be passed on and that is what we are working on accordingly, as we have expressed here. Once again, it is not Autoliv-specific costs that are created here and that need to be passed on, it is inflationary pressure and that needs to go on. That is what we are working with and, as I said, I feel comfortable in these dialogues based on that assumption.

Brian Johnson: Just to follow up, thinking of this managerial putting to an OEM. Clearly, I would imagine your competitors are going after the OEMs for discussions; every other component supplier we are likely to hear this earnings seasons is accelerating discussions. Just logistically, how does that get done? Is it a programme by programme negotiation? Do you have to work your way up to the CEO and get final signoff on pricing? With just the sheer overload, I imagine, on procurement organisations that are also trying desperately to find supplies to keep their factories open, how does that affect the timing of recovery?

Mikael Bratt: Those factors you mention are nothing I see or we see. We have our relationships well established within the OEMs and we access them when we need to access them. I would say it is more a negotiation question about time more than anything else. Of course, daily business is running in parallel there, so there is nothing impacting there. No, it is purely a commercial negotiation that is taking place. Of course, it is challenging times for everyone in the industry, but there is nothing dramatic about that in relation to anything that needs to be done.

Brian Johnson: Okay. Just as a final follow up, you do have a substantial presence with Japanese OEMs. They just closed out their fiscal year; usually calendar first quarter is when they true up with suppliers. Were you able to get recoveries there or because the Ukraine war broke relatively late in the quarter, do we have to wait until calendar first quarter 2023 for those negotiations to conclude?

Mikael Bratt: I cannot comment on how we succeeded with specific OEMs, but as we have mentioned, we were on track when it came to the commercial recovery based on the original scenario. However, with the war in Ukraine and the additional pressure that has been applied on the supply chains and price increases coming out of that, we needed to up our ambition levels here and that is what is being brought back to the table additional to what was on top, and that is true for all OEMs and all global players here.

Brian Johnson: Okay, thanks.

Itay Michaeli (Citigroup): Great. Thanks. Thanks for squeezing me in. I have two quick ones, just going back on the pricing negotiations and what you are expecting in the second half of the year for recoveries. Roughly how much of it has already been secured versus still to be negotiated? Secondly, on the new contracts you are signing for forward programmes, are you getting higher pricing on your content per vehicle on those programmes to compensate for the higher inflationary environment?

Mikael Bratt: As I said, we cannot go into and quantify any details around it. The timing of it is built into our full-year guidance and I have to leave it like that, as we are in the midst of the discussions. Of course, all new quotes that are being discussed and awarded are more on the right level than, I would say, the current portfolio currently is running at, so that is, of course, taken care of there.

Itay Michaeli: That is great. Thank you.

Mikael Bratt: Thank you.

I know I speak for everyone at Autoliv in expressing our concerns for all those affected by the war in Ukraine. In this very volatile and challenging situation, we continue to monitor the development closely.

Before we end today's call, I would like to say that we intend to do what is needed in order to get back on track to our medium-term targets and I am confident that Autoliv will come out of this challenging time as a stronger company. Meanwhile, Autoliv continues to focus on our vision of saving more lives, which is our most important contribution to a sustainable society.

Our second quarter earnings call is scheduled for Friday, 22 July 2022. Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]