Autoliv Q3 Report 2021

Friday, 22nd October 2021

Introduction

Anders Trapp

VP, Investor Relations, Autoliv

Welcome

Welcome everyone to our Third Quarter 2021 Financial Results Earnings Presentation. On this call, we have our President and CEO, Mikael Bratt, and our Chief Financial Officer, Fredrik Westin. And I am Anders Trapp, Vice President of Investor Relations.

Agenda

During today's earnings call, our CEO will provide a brief overview of our third quarter results as well as provide an update on our general business and market conditions. Following Mikael, Fredrik will provide further details and commentary around the financials. We will then remain available to respond to your questions, and as usual, the slides are available on Autoliv.com.

Safe Harbour

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 available in our SEC regulatory filings available on autoliv.com.

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.

Q3 Overview

Mikael Bratt

President and CEO, Autoliv

Q3 ’21 Highlights

Dramatic changes in the light vehicle market

Thank you, Anders. Looking on the next slide. First, I’d like to thank our team once again for their unrelenting commitment, particularly in managing the volatility in customer call-offs. Thanks to the team's effort, we were able to supply our customers and achieved solid performance in our plants despite facing a very challenging market.

This slide quite well illustrates how dramatic light vehicle production has developed during 2021, especially since July. Supply shortage of semiconductors and other components severely impacted the light vehicle production in the third quarter. It led to a third quarter global LVP decline of 20%, which was 17% lower than what was expected only three months ago and 12% below Q2, all according to IHS Markit.

Markets with high safety content per vehicle were most affected by the dramatic changes. Europe, Americas and Japan all saw Q3 LVP being 20% to 25% lower than what was expected three months ago. The decline in LVP, unpredictable changes in customer call-offs and high raw material costs resulted in reduced profitability in the quarter despite strict cost control, including a significant headcount reduction.

Q3 ’21 Highlights cont’d

Solid sales outperformance vs. global LVP

Looking on the next slide. Given all that, I am pleased that we continued to strongly outperform the global LVP in the quarter and with strong order intake for the first nine months of the year. We continue to execute strict measures to mitigate the current adverse business headwinds, including capacity alignment in Europe and in North America.

However, as a result of a significant reduced light vehicle production outlook for the year, we are revising our full year indications for sales, adjusted operating margin and operating cash flow. Despite the challenging environment, our cash flow was solid and our debt leverage ratio remains well within our target range. We paid a dividend of $0.62 per share in the third quarter. Looking now on the financial overview on the next slide.

Q3 ’21 Financial Overview

Massive drop in LVP and low call-off visibility limited our operating efficiency

Our consolidated net sales of $1.8 billion was 9% lower than in Q3 2020 due to a 20% decline in LVP. Without our strong sales outperformance, the sales decline would have been almost double. Adjusted operating income, excluding costs for capacity alignment, fell from USD206 million to USD103 million.

The adjusted operating margin was 5.6%. The lower operating margin was a result of lower sales, higher call-off volatility, as well as rising cost for raw materials. Operating cash flow was a solid USD188 million despite the challenging environment. Looking now on sales development on the next slide.

Q3 ‘21 Sales Growth

Outperforming global LVP by 8 percentage points

I am very pleased that our organic sales growth outperformed the global light vehicle production by almost 8 percentage points. This was achieved as we continued to execute on our strong order book and despite the fact that the largest LVP declines were in high content per vehicle markets. We had a very strong outperformance in all regions.

In North America, we outperformed by 7 percentage points, and in Europe by 16 percentage points. In China, we outperformed by 6 percentage points in spite of high-end vehicles being more affected by the semiconductor shortage. Although all regions showed outperformance, only one region, Rest of Asia, showed organic sales growth year-over-year. Within this region, sales in Indian and ASEAN grew strongly with side airbags sales more than doubling compared to last year. Looking on the next slide.

Q3 ’21 – Key Model Launches

Strengthening our EV & PHEV exposure

In the third quarter, we had the highest number of product launches for a single quarter ever and we remain on track to launch approximately 750 new products for the full year, also a new record for the company.

The models shown on this slide have an Autoliv content per vehicle from approximately USD160 to almost USD700. This is one of the highest content we have on any vehicle model. Six of these vehicles are either EVs or plug-in hybrids further extending our exposure to this growing market.

Last year, sales in this market accounted for around 10% of our total sales. We expect an almost doubling of sales to this segment in 2021. The long-term trend to higher content per vehicle is supported by the introduction of front centre airbags, knee airbags, and battery cut-off switches.

I will now hand over to our CFO, Fredrik Westin, who will talk about the financials on the next few slides.

Financial Review

Fredrik Westin

CFO, Autoliv

Q3 '21 Financial Overview

Thank you, Mikael. This slide highlights our key figures for the third quarter of 2021 compared to 2020. Our net sales were $1.85 billion. This was a 9% decrease compared to the same quarter last year, less than half of the 20% decline seen in the global light vehicle production.

Gross profits declined by 25% to $301 million, while the gross margin decreased to 16%. The gross margin decrease was primarily driven by the lower sales and higher raw material costs. In the quarter, capacity alignments had $4 million negative impact on the operating profit. The adjusted operating income decreased to $103 million from $206 million. As a result, the adjusted operating margin declined by 4.5 percentage points to 5.6%.

The operating cash flow was $188 million. Earnings per share diluted decreased by $0.44, where the main drivers were $1.17 from lower adjusted operating income, partly mitigated by $0.31 from lower cost for capacity alignment and antitrust related matters and $0.26 from lower tax.

Our adjusted return on capital employed declined to 11% and the adjusted return on equity to 10%. We declared and paid a quarterly dividend of $0.62 per share in the quarter, the same as in the previous quarter when the dividend was reinstated. Looking now on the adjusted operating margin bridge on the next slide.

Q3 '21 Adj. Operating Income Bridge

Vs. Prior Year

Our adjusted operating profit of $103 million was 50% lower than the same quarter last year. The impact of raw material price changes was a negative $37 million in the quarter. Foreign exchange impacted the operating profit positively by $4 million, mainly as a result of a weaker US dollar. Support from governments in connection with the pandemic was $10 million in the third quarter last year, while it was not material to our financial results in the third quarter this year.

The adjusted operating profit was negatively affected by higher SG&A and RD&E, net of governmental support of $4 million. Lower sales, impact from increased call-off volatility and cost inflation mainly related to logistics and utilities resulted in operational inefficiencies of $56 million in the quarter. Excluding foreign exchange, raw material cost increases and governmental support, the adjusted operating income leverage was approximately 25% on the organic sales decline.

Despite unpredictable customer call-offs, the 25% decremental margin is within our communicated normal range. Looking on the next slide.

Continued strict cost control

Through a number of actions, we have mitigated some of the negative effects from the lower sales, the increased call-off volatility and the cost inflation. These actions include activities such as adjusting production, shortening work week hours and furloughing personnel. For example, footprint and capacity alignment in the Europe, as well as moving overhead functions to best cost countries in Americas. We are also evaluating further footprint adjustments.

In total, we have reduced headcounts by over 4,500 since the end of the first quarter, of which, 2,500 in the third quarter. However, as you can see on the slide, our strict measures include much more than just headcount and work week hour reductions.

Demand planning and forecasting are key for achieving efficient operations. During the quarter, planning of production has been challenging as many customers have initially placed high orders, and then at late stage, substantially reduced them. In Q3, we have frequently seen call-off deviations of around 50%, and in some cases, even higher.

In this environment, we cannot only rely on forecast from our customers for production planning. This means that we need to do our own assessment on weekly volume demand based on customers' behaviour over the past months. We include claims for compensation for lost volumes with short notice in the commercial negotiations with our customers. Our supply chain management teams have been working hard to balance inventories to actual demand. Through negotiations and consolidation of the supply base, we successfully mitigated some of the raw material headwinds in the third quarter.

We have also delayed and reduced the capital expenditure plans where possible. More on the raw material impact on the next slide.

Headwinds from Raw Materials

Supply and demand imbalances continue to drive prices of raw materials higher. Through successful mitigation actions, the raw material headwinds in the third quarter was slightly lower than expected. However, new headwinds involving, for example, higher magnesium and resin costs mean we still expect a full year operating margin headwind from raw materials of around 130 basis points.

Year-to-date, we have limited the impact with close to zero impact in the first quarter, around $8 million in the second quarter, followed by around $37 million in the third quarter. We have some limited contractual pass-throughs to customers. Given this exceptional period of high raw material prices, we believe it is necessary to request compensations from our customers and negotiations are ongoing. It will take time to see the results of these efforts and we do not expect much impact this year. A more significant recovery is expected in 2022. On to the next slide.

Cash flow

For the third quarter of 2021, operating cash flow decreased by $164 million to $188 million compared to the same period last year, mainly due to lower net income and less positive effects from changes in operating working capital. Compared to prior quarter, working capital improved with $35 million, benefiting from a $74 million change in trade working capital. This was mainly a result of a $144 million reduction of receivables, partly offset by $49 million from decreased accounts payables and $21 million from increased inventories.

The increase in inventories was a consequence of the low demand visibility and supply chain challenges. Capital expenditure increased by 46% year-over-year to $112 million. The increase mainly reflects the lower level in the prior year due to the extraordinary measures taken in 2020. Capital expenditure net in relation to sales was 6.0% versus 3.8% a year earlier.

Free cash flow was $77 million impacted by lower operating cash flow and the higher capital expenditure. The cash conversion over the last 12 months was 97%. On to the next slide.

Leverage Ratio

In line with long-term target

In the past two years, we have managed a very difficult market environment with significant declines in vehicle production and low demand visibility as well as severe disruptions of global supply chains and still we have reduced our net debt by $600 million since mid-2019 and thereby recovered to a balance sheet position that is in line with our target.

The leverage ratio is unchanged compared to last quarter at 1.1 times at the end of September 2021. This is a significant improvement compared to 2.4 times one year ago. In the quarter, our last 12 months EBITDA decreased by $96 million balanced by the net debt decrease of $42 million. Now looking at the light vehicle production development on the next slide.

Light Vehicle Production Outlook

Heightened disruption continued through third quarter with little visibility of improvement

In the near-term, the light vehicle outlook will mainly be determined by the evolution of the situation around semiconductors. In North America, the industry continues to struggle to meet consumer demand for new vehicles due to the shortage of semiconductors. Inventory of new vehicles in the US ended September below one million units, the lowest level seen for at least 35 years. Despite healthy underlying demand trends in Europe, component shortages meant that registrations have not returned to the pre-pandemic level.

In China, semiconductor and energy constraints are affecting production, especially for higher-end vehicles. Demand is also being impacted by monetary policy and rising concerns about property prices. As a consequence of the supply chain constraints, production is expected to remain volatile in the fourth quarter. There are some indications of moderate improvement in semiconductor availability in Asia and North America, but the visibility remains poor.

For the full year 2021, our assumption is now that global light vehicle production will be flat compared to 2020. Where possible, OEMs will likely continue to prioritise production of vehicles with no or low CO2 levels as well as larger vehicles. For Autoliv, this trend should support further outperformance versus light vehicle production. Assuming that the component availability improves, we expect the good demand and low inventories to support a recovery in LVP in 2022.

I now hand it back to Mikael.

Conclusion

Mikael Bratt

CEO, Autoliv

Revised full year 2021 Indications

Thank you, Fredrik. Turning to the next slide. Our revised full year 2021 indications exclude cost for capacity alignment. Our full year indication is based on a flat global light vehicle production compared to 2020. Our previous indication from July 17, 2021 was based on an assumption of 9% to 11% LVP growth for 2021. We raise our expectations of sales outperformance versus global LVP from around 7 percentage points to around 8 percentage points.

As a consequence of the lower light vehicle production assumption and higher outperformance, we now expect our organic sales growth to be around 8%. Including positive currency translation effects of around 3%, our net sales increase is expected to be around 11%. We expect an adjusted operating margin of around 8%.

Operating cash flow is expected to be around $700 million. Our strategic initiatives are gradually yielding good results and we are confident of our 2022-2024 targets, based on our internal progress and expected light vehicle market recovery in the next few years. Turning the slide.

Capital Market Day 2021

With relentless focus on quality and execution, as well as mitigating near-term headwinds, we also continue to drive forward toward our targets. This and more will be explored at our virtual CMD on 16th November. The event will be virtual only and live streamed. More details will be made available at the beginning of November.

And I will now hand it back to Anders.

Q&A

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

Emmanuel Rosner (Deutsche Bank): I have two lines of questions. The first one is, could you please talk a little bit more about the operating environment you are seeing out there, in particular what you are seeing so far in the fourth quarter? Your updated guidance suggests some sequential improvement in earnings, and therefore, just curious how much things have improved so far sequentially. And then as part of this question as well, your light vehicle production outlook slide basically speaks about some improvements seen lately in North America and I was curious if you could just elaborate a little bit more about what specifically you are seeing?

Mikael Bratt: Thank you for the questions. First of all, we are affected in the quarter and obviously we are still in the midst of it around the semiconductor question and what we are indicating is that we see some moderate slight improvements, mainly in Asia and the US. And it is based on the feedback and dialogs we have with customers and suppliers as well in the other end. But I just want to state that the visibility is still poor around that.

So for us, it is all about making sure that we continue to focus on our internal activities to mitigate as much as possible of the current situation, which I think we have done successfully in the quarter. And as we have pointed out, we have managed to deliver to our customer what they have expected and we have also made the necessary adjustment, and that we will continue to do in the months and quarters to come of course. So I think that is far as we can state really about the environment connected to the semiconductors.

Then the raw material side, we have seen that increasing throughout the year and we gave you the sequential development, how it has impacted us. And the supply chain team has done a great job to fend off as much as possible.

I think what we have seen in the quarter also is that the energy situation has added to the external headwind and when we come to magnesium and I will say zinc also, it is very much connected to the energy challenge as well. So it is a very volatile environment, but focus on what we can do for sure. So low visibility, but we are getting used to it I would say.

Emmanuel Rosner: And then I was actually going to follow-up on the raw materials, if I may. So it is encouraging to see that you are expecting more recoveries in 2022. If we were to exclude the recovery just for a second and focus on the gross impacts, based on what you have seen so far with raw materials, would you expect an incremental headwind in 2022 of a similar magnitude of what you see in 2021 or less or more? That is again excluding recoveries. And then on the magnesium side, it is obviously an important development. Can you just remind us where your exposure is there?

Mikael Bratt: I think we are not giving any forecast on and details around 2022 today. I think first of all we need to get through Q4 and come to the next earnings call before we start to talk about that. Then of course, the current visibility is not helping in that regard either. So we will have to come back on that question later on.

Fredrik Westin: But the question on the exposure on magnesium, it is predominantly in our steering wheel business.

Hampus Engellau (Handelsbanken): Sorry for coming back on magnesium. But would it be possibly to maybe add some flavour on risk you are seeing in magnesium shortage, given what we are seeing in China or is it just that the price situation for you guys. That is my first question.

And then second question is related, if you could also maybe discuss on order intake. I know you would not provide maybe a market share, but maybe you could indicate on how things are trending on the orders and your long-term target of having a 45% market share in retail sales. Those are my questions.

Mikael Bratt: Thank you, Hampus. On the magnesium side, I would say so far for us, it is more a question of price. Of course, it depends on how the situation in mainly China then develops. But we all know that the reason why we have price increases in magnesium is that they have reduced production in China as a result of power shortage there in the near-term.

That is, of course, a topic that we are following very closely to see what alternatives we have and I would say that right now I feel that in terms of availability, we have that under control as it looks right now, but that is something we follow closely.

On the order intake side, as we indicated, we continue to see strong new order intake and it adds to our order book and supports our expected market shares that we have talked about before around 45%. So good support for that for the years to come.

Hampus Engellau: Just one follow-up, maybe you cannot answer this, but it would just be interesting to know. How crucial magnesium is in the steering wheel business or could you change that for another metal in the design of the steering wheel?

Mikael Bratt: It is crucial, of course. That is a part of the main structure of the steering wheel. There is alternatives, but you do not change to alternative materials overnight. There is a lot of requirements to do that together with our customers. So that is not the short-term option really, especially under current circumstances. But as I said, it is not a concern today.

Colin Langan (Wells Fargo): The decremental margins on your guidance cut are sort of in the low 20% range, which is actually significantly better than some other suppliers that have recently cut. They have indicated volatility in schedules have made it a tough to flex labour. I mean, is that just not structurally an issue for you, or are there other cost savings that are offsetting that, because it does seem to be a much better performance?

Fredrik Westin: So I think it is an equally large problem for us. If you look at the development here in the third quarter, where we have had the sequential decline in volumes. Also there, if we exclude the raw material cost impact, we have been in the mid-20% decremental margin range and I think that is also what we then see as you say yourself for the full year with the guidance that we have now updated if you exclude the raw material cost impact.

Colin Langan: Okay, got it. And then there has been some headlines about recalls around airbags. It does not look like there is a charge, so I assume you have not been directly impacted and is that impacting the competitive landscape at all? I think in the past sometimes you have actually had opportunities to sort of help with the recall needs. Is there anything changing there because some of the numbers that are being investigated seem quite large?

Mikael Bratt: I think it depends on which recall you refer to. We are connected to one, but we are providing the complete module, but we are not providing the inflator. It is an inflator that is sourced from ZF and this is connected to the Volvo recall. So the net effect of insurance and ZF's liabilities in that recall, we expect no material impact from that. And if in the larger scope of other types of recall with other makes and manufacturers, we do not expect to see any volume impact for us in that end. So I would say neutral there.

Agnieszka Vilela (Nordea): My first question is about the capacity alignment actions that you have now in the US and Europe. Could you please elaborate what you are doing there? And also is there any cost or cost savings associated with these actions?

Fredrik Westin: Yes, so the activity that was recorded now in the third quarter, the $4 million net is related to an initiative in the Americas. We are talking about roughly 100 headcount that we are adjusting and that will all come through in the fourth quarter. And then what we are referring to then in terms of the other ongoing activities is the continuation or the finalisation of the structural efficiency programme number two, which is over 90% completed, but there is still a small part left to be concluded in Europe during the fourth quarter and then also the ongoing footprint activities also in Europe related to Germany and Sweden that we are referring to.

But then, as we said, we also continue to evaluate further footprint activities and actions and then we would communicate them as the time would be appropriate.

Agnieszka Vilela: Perfect. And to that point, are not you afraid that you might maybe be more or it will be more difficult for you to ramp up the production if we see the recovery in the global car production if you are doing this kind of actions?

Mikael Bratt: No, the footprint adjustment that Fredrik refers to is a combination of short-term needs together with long-term productivity efforts that we are driving. Then on top of that, we are then doing more short-term initiatives resulting in reduction in headcount and also stoppage days in our plants to offset both the volatility and the lower volumes and that we believe we can quickly ramp up. So we are not taking out any capacity that would limit us from ramping up. So it is more effectively usage there that we are working on. So we do not see that risk.

Agnieszka Vilela: Perfect. And my second question is about the discussions that you are having with the OEMs about getting compensated for the cancelled volumes. How are these discussions proceeding and do you expect any compensation?

Fredrik Westin It is part of larger negotiations that are ongoing and of course raw material is the main component that we are discussing, but then also due to the past behaviour of the OEMs with keeping call-offs at high levels and then at very, very short-term cancelling them and reducing them quite substantially, we are now discussing then compensation for that, not only related to the inefficiencies in production but also in terms of inventory carrying costs and so on.

And yeah, we have to see how much of that will be successful. It is, as I said, part of larger negotiations that tend to happen towards the end of the year with the customers, but it is definitely something that we will seek compensation for.

Erik Golrang (SEB): Most of my questions have been answered. Just I will ask another one on raw material perhaps with differently in 2022. I appreciate the colour you are giving there on expected more compensation. But on a net basis, do you still see a drag from raw materials, even with that, or is it now a positive based on that compensation?

Mikael Bratt: I think, first of all, we have to see how it plays out in 2022. But as Fredrik said, there is discussion ongoing for the current situation. Then it depends also on how the raw material, the cost to development overall will be in a more medium to long-term development and then of course that is a different discussion that is needed with the customer if that would be more long-term scenario with significant higher raw materials.

So I think basically we have to come back to that as we see how it develops in the next quarters.

Erik Golrang: A little bit more specific question on magnesium. Maybe I remember this wrong. But there was a similar situation a number of years back, and if I recall correctly, getting compensation for magnesium was actually a bit more straightforward to you because it was very specific in what components it was and how much it was. Is that a fair recollection of history or is that just something –

Mikael Bratt: No, I do not think you can generalise like that on specifically magnesium. What it is about is, of course, if it is a structural change to the cost in its nature, meaning that it is more long-term and it is also more critical component in our products, it has a different magnitude in the dialogue than maybe other raw materials, but it is very difficult to generalise like that. It is case by case with customer-by-customer situation.

Joseph Spak (RBC Capital Markets): So the decremental margins quarter-over-quarter were a little bit worse this quarter versus last quarter. I think that probably speaks to some of the volatility you were talking about. But then as we look at what is implied for fourth quarter sequentially over third quarter, again, you are pointing to some improvement here. It is like 15%, which I think is below historically what you convert on the upside. So is that the right level we should think about here in the very near-term while a lot of this uncertainty remains in the schedules even into the early part of 2022?

Fredrik Westin: The one seasonality factor that we have in the fourth quarter, if you want to look at it sequentially, is that we typically have a higher engineering income in the fourth quarter. And that then of course impacts that sequential calculation that you just made or referred to. But on the other hand, as we are guiding for, we do expect a more significant headwind from raw material price increases in the fourth quarter versus the third quarter, but overall also sequential volume improvement or also LVP improvement that should help sequentially. So I think those are the main components that you need to consider.

Joseph Spak: Okay. I guess what I am asking is like even if volume is higher given like there is still a lot of volatility in the schedules, should we expect that you on your conversion on volume would be a little bit below what you aim for over the mid-term because of that volatility?

Fredrik Westin: No, as we say, we expect that the visibility remains low also into the fourth quarter and that volatility will most likely remain at similar levels. We do not expect any significant change.

Joseph Spak: Okay. And then the second question is just on the volume planning based on customer behaviours that you have seen over the past couple of quarters. I think you mentioned you are like not adjusting capacity, but would that at all hinder your ability to ramp up faster if your customers decide to do so? Or is there enough flexibility in the planning that you would be able to accommodate customer requests?

Mikael Bratt: No, of course, it is part of the exercise here to make sure that we can flex up when needed. What we talk about is really about optimising our own production schedule based on the net volume over certain time periods, so we are more effective in that. So we can have some stop dates and so on and run more stable the other days and so on. It is more to optimise our own production schedule based on the experience that we have here now from the volatile call-off situation. We are looking back and base our forward-looking on that.

Mattias Holmberg (DNB): One question left for me. And if we take a step back and try to look at the bigger picture, in particular, on your medium-term targets, I am just trying to understand if there is anything in the current situation with the short-term volatility that impacts your trajectory or your ability to reach these targets. I mean we are one year further down the road now and the years of the medium-term are starting to get closer. So I am just trying to get your thinking on what is needed in order to get to that level?

Mikael Bratt: I think the way we see it is that we are holding on to all the improvement initiatives that we have lined up to get towards our target and that is paying off. We see positive results yielding from those activities and I would say that goes on. At the same time, we manage the short-term. We believe also as we have stated here in our report that we assume so and so that the volumes normalise, meaning the LVP volumes normalise in the years to come.

It is true we are one year down the road, but there is still a number of years left within this time horizon, where the expectation would be that we have less volatility and I will say also more normalised level of absolute number of vehicles being produced. And the combination makes us comfortable in stating that we believe in the targets that could be kept, absolutely.

Brian Johnson (Barclays): Yeah, couple of questions. First, I just want to as we kind of think through modelling decrementals with the production volatility, can you help us understand which of your product lines within airbags steering wheels is fungible and you can keep the factories running smoothly and just send the trucks to different factories and which are really start-stop depending on customer schedules and then how that feeds through to decremental margins?

Mikael Bratt: I am not sure I really followed your question there. Are you asking for more flavour on how the different product lines are being impacted by the volatility or –

Brian Johnson: Yes. So how that translates into your overall decrementals?

Mikael Bratt: Yeah,when we are not breaking it down by product line, as you know. I would not say that one product line is easier than another or one is worse than the other. I think it is the same challenges to manage the volatility in the production. Then of course if you go down into certain processes, it may look different because some is more optimised than others where of course in an optimised production level can have maybe more inventory and smoothing it out in that way. And I think you can see that also that we have higher inventory as a result of the volatility, but I would not point out specific product line compared to another in this regard.

Brian Johnson: Okay. And second question is on chips. First, are the chips used in your restraint control systems at all tied up in the whole global chip shortage? And secondly, while I am talking about chips, would you have any interest in the restraint control electronics business of your former subsidiary?

Mikael Bratt: On your last question, I can answer first and say that that is nothing we are entertaining. It is not our interest to look at that. I mean, we spun it off a number of years ago and we spun it off for a reason and that is still valid. Then on where we are using our semiconductors, it is for where I will say most of our product lines and to various extent, but we are not sourcing semiconductors directly ourselves. It is through various tier two suppliers, but of course we are working very closely with them to support them in the effort of securing semiconductors and we also have, of course, direct contact with semiconductor suppliers here in that work.

And so far, I think we have worked very well together to secure semiconductors for our own value chain and we have been able to deliver to our customers what we have committed to deliver to them there. So good job from our supply chain team here.

Rod Lache (Wolfe Research): I was hoping just to follow-up with two points of clarification. People have asked about this. But the decremental margins of 25% are quite good just considering the production volatility. And at some point, that volatility will diminish and you are going to see some increases in production. So would it be reasonable to expect that your incrementals would be better when that happens, or do you have any estimate of what that volatility is costing you? And then secondly, there is a lot of scrutiny that is being applied to the inflators of your competitors still, including non-Takata inflators and I think you referenced the Volvo recall where that is actually a ZF inflator. Just how are your customers thinking about this and why would not Autoliv gain in some way from what is happening around you?

Mikael Bratt: Maybe I can start to answer the second question and Fredrik takes the first there. I do not comment our competition situation here. Our focus is to always have quality on top of our focus list, so to speak, and we are securing that with our efforts and we, of course, work with our customers and support them whenever needed, but with quality, we believe that and proven quality to our customers is the best way to look at business opportunities in the future.

Fredrik Westin: And then on the decremental margin, what we want to highlight is that we have maintained a very strong cost and capital discipline. We will see it throughout this year. And as we indicated, if you look at our headcount development, down 4,500 since Q1 and then a further reduction by 2,500 also during the third quarter, I think that shows how disciplined we have been or how focused we have been on this. And then you also see the SG&A cost coming down sequentially and then that is also together with what we do on production overhead is also then the effect of the structural efficiency programmes that we implemented and again then get the benefit from. So I think those are the main components of the decrementals margins so far, again if you exclude the raw material headwinds.

On the incremental side, of course, we want to achieve then as high margin as possible going into the volume recovery once that starts to kick in, but how that plays out for the next year, we will have to come back to that when we talk about the 2022 guidance. But as we also laid out here, we expect then a meaningful progression towards the mid-term target as we should then pull through on that incremental volume.

Mikael Bratt: Thank you, Martin. While we cannot control short-term market headwinds, we focus on what we can control, including keeping each other safe. Our progress make us confident in our journey towards our targets and our opportunities for shareholder value creation. Our fourth quarter earnings call is scheduled for Friday, 28th January 2022. Thank you everyone for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Hope to see you again in November. Until then, stay safe.

[END OF TRANSCRIPT]