

Autoliv (Q3 2025 Results)

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Corporate Speakers:

- Anders Trapp; Autoliv; Vice President of Investor Relations
- Mikael Bratt; Autoliv; President and Chief Executive Officer
- Fredrik Westin; Autoliv; Chief Financial Officer

Participants:

- Colin Langan; Wells Fargo; Analyst
- Bjorn Enarson; Danske Bank; Analyst
- Tom Narayan; RBC; Analyst
- Michael Aspinall; Jefferies; Analyst
- Vijay Rakesh; Mizuho; Analyst
- Emmanuel Rosner; Wolfe Research; Analyst
- Jairam Nathan; Daiwa Capital Markets; Analyst
- Hampus Engellau; Handelsbanken; Analyst
- Winnie Dong; Deutsche Bank; Analyst
- Dan Levy; Barclays; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Autoliv, Inc. Third Quarter 2025 Financial Results Conference Call and Webcast. (Operator Instructions) Please note that today's conference is being recorded. I would now like to turn the conference over to your first speaker, Anders Trapp, Vice President of Investor Relations. Please go ahead.

Anders Trapp^ Thank you, Raz. Welcome, everyone, to our Third Quarter 2025 Earnings Call. On this call we have our President and Chief Executive Officer, Mikael Bratt; our Chief Financial Officer, Fredrik Westin; and me, Anders Trapp, VP, Investor Relations.

During today's earnings call we will highlight several key areas including our record-breaking third quarter sales and earnings, as well as our continued strategic investments to drive long-term success with Chinese OEMs.

We also provide an update on market developments and the evolving tariff landscape impacting the automotive industry.

Finally, our robust balance sheet and strong asset returns reinforce our financial resilience and support sustained high levels of shareholder returns. Following the presentation, we will be available to answer your questions.

And as usual, the slides are available at autoliv.com. Turning to the next slide. We have the safe harbor statement, which is an integrated part of this presentation and includes the Q&A that follows.

During the presentation, we will reference some non-news GAAP measures. The reconciliations of historical use GAAP non-use GAAP measures are disclosed in our quarterly earnings release available on autoliv.com and in the 10-Q that will be filed with the SEC or at the end of this presentation.

Lastly, I should mention that this call is intended to conclude at 3:00 pm CET. So please follow a limit of two questions per person. I now hand it over to our CEO, Mikael Bratt.

Mikael Bratt^ Thank you, Anders. Looking on the next slide. I am pleased to share yet another record-breaking quarter, underscoring our strong market position. This success is a testament to the strength of our customer relationships and our commitment to continuous improvement as we navigate the complexities of tariffs and other challenging economic factors.

We saw a significant sales growth, driven by higher-than-expected light vehicle production across multiple regions, especially in China and North America. Our high growth in India continues, accounting for a third of our global organic growth.

I am pleased to highlight that our sales growth with Chinese OEMs has returned to outperformance driven by recent product launches and encouraging development. Looking ahead, we anticipate to significantly outperform light vehicle production in China during the fourth quarter.

We improved our operating profit and operating margin compared to a year ago. This strong performance was primarily driven by well-executed activities to improve efficiency higher sales and the supplier compensation for an earlier recall.

We successfully recovered approximately 75% of the tariff cost occurred -- incurred during the third quarter and expect to recover most of the remaining portion of existing tariffs later this year. The combination of not yet recovered tariffs and the dilutive effects of the recovered portion resulted in a negative impact of approximately 20 basis points on our operating margin in the quarter.

We also achieved record earnings per share for the third quarter. Over the past five years, we have more than tripled our earnings per share mainly driven by strong net profit growth but also supported by a reduced share count.

Our cash flow remained robust despite higher receivables driven by higher sales and tariff compensations later in the quarter. Our solid performance, combined with a healthy debt level ratio supports continuous strong shareholder return.

We remain committed to our ambition of achieving 300 million to 500 million annual in stock repurchases as outlined during our Capital Markets Day in June. Additionally, we have increased our quarter dividend to \$0.85 per share, reflecting our confidence in our continued financial strength and long-term value creation.

Expanding in China is key to strengthening Autoliv's innovation, global competitiveness and long-term growth. To support our growing support our growing partnerships with Chinese OEMs, we are investing in a second R&D center in China. In October, we announced a new important collaboration in China as illustrated on the next slide.

We have signed a strategic agreement with CATARC the leading research institution setting standards in Chinese automotive sector. This partnership marks a new chapter in our commitment to shaping the future of automotive safety.

Together with CATARC, we aim to define the next generation of safety standards and enhance the safety on the roads in China and globally. We're also broadening our reach in automotive safety electronics as shown on the next slide.

We recently announced our plan to form a joint venture with HSAE, a leading Chinese automotive electronics developer to develop and manufacture advanced safety electronics. The joint venture will concentrate on high growth areas in advanced safe electronics including ECUs for active seatbelts, hands-on detection systems for steering wheels and the development and production of steering wheels switches.

Through this new joint venture, we intend to capture more value from steering wheels and active seatbelts while minimizing CapEx and competence expansion enabling faster market entry with lower technology and execution risks.

Looking now on financials in more detail on the next slide. Third quarter sales increased by 6% year-over-year, driven by strong outperformance relative to light vehicle production in Asia and South America. Along with favorable currency effects and tariff-related compensation.

This growth was partly offset by an unfavorable regional and customer mix. The adjusted operating income for Q3 increased by 14% to USD 271 million from USD 237 million last year. The adjusted operating margin was 10%, 70 basis points better than in the same quarter last year.

Operating cash flow was solid USD 258 million, an increase of USD 81 million or 46% compared to last year. Looking now on the next slide.

We continue to deliver broad-based improvement with particularly strong progress in direct costs and SG&A expenses.

Our positive direct labor productivity trend continues as we reduced our direct production personnel by 1,900 year-over-year. This is supported by the implementation of our strategic initiatives including automation and digitalization.

Our gross margin was 19.3%, and an increase of 130 basis points year-over-year. The improvement was mainly the result of direct labor efficiency, head count reductions and compensation from a supplier.

RD&E net cost costs rose both sequentially and year-over-year, primarily due to lower engineering income due to timing of specific customer development projects. Thanks to our cost saving initiatives, SG&A expenses decreased from the first half year level combined with the increased gross margin, this led to 70 basis points improvement in adjusted operating margin.

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

According to S&P Global data from October, global light vehicle production for the third quarter increased 4.6%, exceeding the expectations from the beginning of the quarter by 4 percentage points.

Supported by the scrapping and replacement subsidy policy we continue to see strong growth for domestic OEMs in China. Light vehicle demand and production in North America has proven significantly more resilient than previously anticipated.

In contrast, light vehicle production in other high content per vehicle market, namely Western Europe and Japan, declined by approximately 2% to 3%, respectively. The global regional light vehicle production mix was approximately 1 percentage point unfavorable during the quarter, despite the important North American market showing a positive trend.

In the quarter, we did see call-off volatility continue to improve year-over-year and sequentially from the first half year. The industry may experience increased volatility in the fourth quarter, stemming from a recent fire incident at an aluminum production plant in North America and production adjustments by key European customers in response to shifting demand.

We will talk about the market development more in detail later in the presentation. Looking now on sales growth in more detail on the next slide.

Our consolidated net sales were over USD 2.7 billion the highest for the third quarter so far. This was around USD 150 million higher than last year, driven by price, volume, positive currency translation effects, and USD 14 million from tariff-related compensations. Excluding currencies, our organic growth sales -- organic sales grew by 4% including tariff costs and compensation. China accounted for 90% of our group sales.

Asia including China, accounted for 20% and Americas was 33% and Europe for around 28%. We outlined our organic sales growth compared to light vehicle production on the next slide.

Our quarterly sales were robust and exceeded our expectations, driven by strong performance across most regions, particularly in Americas, West of Asia and China. Based on light vehicle production data from October, we underperformed slightly production by 0.7 percentage points globally as a result of a negative regional mix of 1.3 percentage points.

We underperformed slightly in Europe, primarily due to an unfavorable model and customer. In the rest of Asia, we outperformed the market with 8 percentage points, driven primarily by strong sales growth in India and to a lesser extent, in South Korea.

While the organic light vehicle production mix shift continued to impact our overall performance in China, our sales to domestic OEMs grew by almost 23%, 8 percentage points more than their light vehicle production growth.

Our sales development with the global customers in China was 5 percentage points lower than light vehicle production development as our sales declined to some key customers, such as Volkswagen, Toyota and Mercedes.

On the next slide, we show some key model launches.

The third quarter of 25% or a high number of new launches, primarily in including China. Although some of these new launches in China remain undisclosed here, due to confidentiality, the new launches reflecting a strong momentum for Autoliv in this important market. The models displayed here feature Autoliv content per vehicle from USD 150 to close to USD 400.

We're also pleased to have launched airbags and seatbelts on another small Japanese vehicle, known as Kei cars. This is a meaningful step forward, as Autoliv has historically had limited exposure to this segment in Japan.

In terms of Autoliv's sales potential, the Onvo L90 is the most significant. Higher content per vehicle is driven by front center airbags on five of these vehicles.

Now looking at the next slide. I will now hand it over to Fredrik Westin.

Fredrik Westin^ Thank you, Mikael. I will talk about the financials more in detail now on the line. So, turning to the next slide. This slide highlights our key figures for the third quarter of 2025 compared to the third quarter of 2024. The net sales were approximately \$2.7 billion, representing a 6% increase.

The gross profit increased by \$63 million and the gross margin increased by 130 basis points. The drivers behind the gross profit improvement were mainly lower material costs

positive effects from the higher sales and improved operational efficiency. This was partly offset by negative effects from recalls and warranty, depreciation and unrecovered tariff costs.

The adjusted operating income increased from \$237 million to \$271 million, and the adjusted operating margin increased by 70 basis points to 10.0 %. The reported operating income of \$267 million was \$4 million lower than the adjusted operating income.

Adjusted earnings per share diluted increased 26% or by \$0.48, where the main drivers were \$0.29 from higher operating income \$0.09 from taxes and \$0.08 from lower number of shares. This marks our ninth consecutive quarter of growth in adjusted earnings per share, underscoring the strength of our ongoing operational improvements and further bolstered by a reduced share count from our share buyback program.

Our adjusted return on capital employed was a solid 25.5%, and our adjusted return on equity was 28.3%. We paid a dividend of \$0.85 per share in the quarter, and we repurchased shares for USD 100 million and retired 0.8 million shares. Looking now on the adjusted operating income bridge on the next slide.

In the third quarter of 2025, our adjusted operating income increased by \$34 million. Operations contributed with \$43 million, mainly from higher organic sales and from the execution of operational improvement plans, supported by better call-off volatility. The out-of-period cost compensation was \$8 million lower than last year. Costs for RD&E net and SG&A increased by \$30 million, mainly due to lower engineering income.

The net currency effect was \$6 million positive, mainly from translation effects. Last year's supplier settlement and this year's supplier compensation combined had a \$29 million positive impact.

The combination of unrecovered tariffs and the dilutive effect of the recovered portion resulted in a negative impact of approximately 20 basis points on our operating margin in the quarter.

Looking now at the cash flow on the next slide.

The operating cash flow for the third quarter of 2025 totaled \$258 million, an increase of \$81 million compared to the same period last year, mainly as a result of higher net income, partly offset by \$53 million negative working capital effects. The negative working capital was primarily driven by higher receivables, reflecting strong sales and delayed tariff compensation towards the end of the quarter.

Capital expenditures net decreased by \$40 million. Capital expenditures net in relation to sales was 3.9% versus 5.7% a year earlier. The lower level of capital expenditures net is mainly related to lower footprint CapEx in Europe and Americas and less capacity expansion in Asia. The free operating cash flow was \$153 million, compared to \$32

million in the same period the prior year from higher operating cash flow and the lower CapEx net.

The cash conversion in the quarter, defined as free operating cash flow in relation to the net income was around 87%, in line with our target of at least 80%. Now looking at our trade working capital development on the next slide.

The trade working capital increased by \$197 million compared to the prior year, were the main drivers were \$165 million in higher accounts receivables, \$8 million in higher accounts payables and \$40 million in higher inventories. The increase in trade working capital is mainly due to increased sales and temporarily higher inventories. In relation to sales, the trade working capital increased from 12.8% to 13.9%.

We view the increase in trade working capital is temporary as our multiyear improvement program continues to deliver results. Additionally, enhanced customer call of accuracy should enable a more efficient inventory management.

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

Autoliv's balanced leverage strategy reflects our prudent financial management, enabling resilience, innovation and sustained stakeholder value over time.

The leverage ratio remains low at 1.3x, below our target limit of 1.5x and has remained stable compared to both the end of the second quarter and the same period last year. This comes despite returning \$530 million to shareholders over the past 12 months.

Our net debt increased by \$20 million and the 12 months trailing adjusted EBITDA was \$41 million higher in the quarter. With that, I hand it back to you, Mikael.

Mikael Bratt^ Thank you, Fredrik. On to the next slide. The outlook for the global auto industry has improved somewhat particularly for North America and China.

While the industry continues to navigate the trade volatility and other regional dynamics, S&P now forecast global light vehicle production to grow by 2% in 2025, following growth over -- of over 4% in the first nine months of the year.

The outlook for the fourth quarter has significantly improved. Nevertheless, they still anticipate a decline in light vehicle production of approximately 2.7% in the quarter.

In North America, the outlook for light vehicle production has been significantly upgraded driven by resilient demand and low new vehicle inventories. However, a recent fire incident at an aluminum production plant in North America may impact our customers.

For Europe, S&P forecast of 1.8% decline in light vehicle production for the fourth quarter despite some easing of U.S. import tariffs. We continue to see downside risks for

Europe, like the European light vehicle production, driven by announced production stoppage at several key customers.

In China, light vehicle production is expected to decline by 5%, primarily due to an exceptionally strong Q4 in 2024. Nevertheless, S&P anticipate sustained growth in Chinese LVP over the medium term, supported by favorable government policies for new energy vehicles, more relaxed out the loan regulations, and increasing export volumes.

The outlook for Japan Light vehicle production has improved as carmakers are increasingly shifting exports to markets outside the U.S., aiming to mitigate reduced export volumes to the U.S.

In South Korea, domestic demand has been steadily recovering, while exports have also risen driven by increased shipments to other regions compensating for the decline in exports to the U.S.

Now looking on our way forward on the next slide.

We expect the fourth quarter of 2025 to be challenging for the automotive industry with lower light vehicle production and geopolitical challenges.

However, our continued focus on efficiency should help offset some of these headwinds. Consistent with typical seasonal patterns, the fourth quarter is expected to be the strongest of the year. Despite the expected decline in global light vehicle production year-over-year, we foresee higher sales and continued outperformance, particularly in China. Unfortunately, we are also facing some year-over-year headwind.

Unlike the past three years, we do not expect out-of-period inflation compensation in the fourth quarter given the shift in the inflationary environment.

We expect higher depreciation costs due to new manufacturing capacity to meet demand in the key regions and that the temporary decline in engineering income will persist, driven by the timing of specific customer development projects. These factors combined in the reason for why we currently expect the full year adjusted operating margin to come in at the midpoint of the guided range.

However, our solid cash conversion and balance sheet provides financial resilience and a robust foundation for maintaining high shareholder returns. Turning to the next slide.

This slide shows our full year 2025 guidance which excludes effects from capacity alignment and antitrust-related matters.

It is based on no material changes to tariffs or trade restrictions that are in effect as of October 15, 2025, as well as no significant changes in the macroeconomic environment or changes in customer call of volatility or significant supply chain disruptions.

Our organic sales is expected to increase by around 3%. The guidance for adjusted operating margin is around 10% to 10.5%. With only one quarter remaining of the year, we expect to be in the middle of the range. Operating cash flow is expected to be around USD 1.2 billion.

We now expect CapEx to be around 4.5% of sales, revised from the previous guidance of around 5%. Our positive cash flow and strong balance sheet supports our continued commitment to a high level of shareholder return.

Our full year guidance is based on a global light vehicle production growth of around 1.5% and a tax rate of around 28%. The net currency translation effects on sales will be around 1% positive.

Looking on the next slide. This concludes our formal comments for today's earnings call, and we would like to open the line for questions from analysts and investors. I now hand it back to Raz.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And the questions come from the line of Colin Langan from Wells Fargo.

Colin Langan^ You raised your light vehicle production forecast from down 0.5% to up 1.5%, but organic sales didn't change why aren't you seeing any benefit from the stronger production environment on your organic?

Fredrik Westin^ Yes. Thanks for your question. So, the -- there are a couple of components here. I mean first one is that some of these adjustments that we also don't take into account are for past quarters.

So, some of the volumes have been raised in -- also in the first half, whereas we had already recorded our sales for that. So that doesn't -- so then we had a different outdoor underperformance in the first half of the year.

So that's one part of the explanation. And then we also see a larger negative mix now after nine months and also expect that for the full year. That is close to 2 percentage points. This negative market mix, which is also one of the reasons. And that's even less unfavorable now than we saw a quarter ago.

So those are some explanations. And then on top of that, we see that some of the launches in China have been a bit delayed and that they are not coming through fully in line with our expectations that we had here about a quarter ago.

So those are the main reasons why you don't see that LVP estimate increase comes through on our organic sales guidance.

Colin Langan^ Got it. And then the margin in the quarter was very strong. I thought Q3 is typically your -- one of your weaker margins. Anything unusual in the quarter? I noticed you flagged supplier settlements. I kind of get the non-repeated bad news last year.

Is the \$15 million of supplier compensation additional good news, is that onetime in nature? How should we think of that or anything else that's maybe possibly one time in nature in the quarter that drove the strong margin?

Mikael Bratt^ Yes. The \$50 million there is a one time. It is compensation from a supplier for historical cost that we have versus our customers there.

So, it's one time in the quarter here for previous costs that we have had. So, I would say here also that I think what you saw in the quarter here was that we had slightly higher sales than expected. So that was an important component, of course.

But I think most importantly here is that we continue to see a very strong delivery of the internal improvement work that we are so focused on and that we have been focused on for a while leading to our targets here. So good work done by the whole Autoliv team here across the whole value chain.

Operator^ And the questions come from the line of Bjorn Enarson from Danske Bank.

Bjorn Enarson^ On your implied guidance for Q4 and also on your -- a little bit cautious comments on Q4, it looks like there are a little bit of temporary negative effects that you are talking about, or should we extrapolate the Q4 trends looking into 2026?

Or are you quite happy with the productivity work and also that call-offs looks again a little bit better. So, should we have as a base assumption that you should progress again towards the midterm target of 12%? Or how should we look upon that?

Mikael Bratt^ I think, I mean first of all, that we feel confident when it comes to our ability to eventually get to our 12% target. No doubt about that. And I mean what you see here in the Q3, Q4 movement here is nothing if you read into that.

I think, as I said before here, I mean we see very good progress in terms of the activities that we control ourselves here, and we see really good traction when it comes to the strategic initiatives that we have outdone some time back.

So good progress there. I think -- when you look at Q4 -- over Q4 here, it's, I would say, more of, first of all, a normalization of the quarters here. I mean Q4 is still the strongest quarter in the year.

But of course, in the previous last two, three years here, it has been more pronounced since we had this out-of-period compensation that we referred to earlier here, which you will not see in the same way now in this quarter in Q4 2025. So that there is a difference there.

And I would say also here, I mean you have seen a little bit stronger Q3 when it comes to sales and there is a timing effect between Q3 and Q4 compared to when we looked into the second half year.

So, there is also a part of the explanation. But the bottom line here, we feel comfortable with our own progress here towards the target that we have.

Fredrik Westin^ And then maybe just to build on that, just one more detail on the fourth quarter. We do expect that we will have a slightly lower engineering income also in the fourth quarter, as you saw on the third quarter. This is temporary, and it's very dependent on how the engineering activities are with certain customers. And this should then also recover in 2026.

Bjorn Enarson^ Okay. I saw that comment. And did you say it's likely to be recovered then in early next year then?

Fredrik Westin^ Or next year, overall, yes, should be a recovery ratio that is more in line with -- or a bit higher now than what you see in the second half of this year. And that's, again, very dependent on engineering activities with certain customers and how they reimburse us.

Mikael Bratt^ Yes. Because in some cases, it's built in, in the piece pricing. In some cases, it's paid like engineering income specifically. Depending on how that mix looks over time of course, you have some smaller fluctuation and that is really what we refer to.

Operator^ And the questions come from the line of Tom Narayan from RBC.

Tom Narayan^ Maybe a follow-up to that last one. The Q4 guidance. You called out three headwinds, the less compensation on inflation I guess, the higher depreciation and then this engineering income. Just wondering if you could dimensionalize those three in terms of order of magnitude for Q4?

I mean we know the engineering income is temporary. The other two, I guess, depends on certain factors. Just trying to dimensionalize those three in terms of what is temporary and what continues. And then I have a follow-up.

Fredrik Westin^ Yes. So I think the engineering income, you can look at the Q3 on a year-over-year basis and how that -- as a percent of sales. And that, I think, is a pretty good indication also for how that could be in the fourth quarter. And that's the largest headwind we will have.

The next one is the fact that we had this out of period, the compensation from our customers related to inflation compensation last year that falls away this year -- the second largest and the third largest is the depreciation expense increase.

Tom Narayan^ Okay. And then on the China commentary, we did see -- I think the BYD is losing share in China due to some just government initiatives and whatnot.

I would have thought that alone would maybe benefit you guys more? I know macro in China, the domestics are doing better than the global. So, I see that. I understand that. But just wondering if the share loss at BYD's seen, I know you're under-indexed to them, is benefiting you guys?

Mikael Bratt^ Yes. I mean in the overall mix, of course, since we are selling components to them, and you see them -- their portion of the total market flattening out. Of course, it's supportive in the sense of measuring our outperformance relative to COEMs, LVP as such. So mathematically, yes, that effect that.

Operator^ And our next questions come from the line of Mike Aspinall from Jefferies.

Michael Aspinall^ One first on India. It was a third of the organic growth. Can you just remind us where we are in the shift in content per vehicle in India and how large India is in terms of sales now?

Mikael Bratt^ Yes. I think we are happy to see the really strong development in India there and as I said, a third of the growth in the quarter it's today around 5% of our turnover is coming from India. It's not long ago, it was around 2%. So, a significant increase of importance there. And we have a very strong market share in India, 60%.

So of course, we are benefiting well from the volume growth you see there. And we're expecting India to continue to grow, and we have also invested in our industrial footprint there to be able to defend our market share and to capture the growth here. And content-wise, we expect it to go from it went from \$120 in 2024 to roughly USD 140 this year. So, you have both content and LVP growth in India to look forward.

Fredrik Westin^ And then we are to around \$160 to \$170 in the next couple of years.

Michael Aspinall^ Great. Excellent. And one more. Just on the JV with [HSAE], who are you purchasing these items from before? Were you purchasing from [HSAE] and now to JV or have you formed a JV with them and we're purchasing from someone else previously?

Mikael Bratt^ I mean they have been an important supplier to us in the past as well. And of course, we have worked with them and established a very good relationship there. I could say it hasn't been exclusively with them.

We have a global supplier base here, but we see a great opportunity here to not only produce but also develop components for our future models and programs here, we work together here, both on development and manufacturing.

Michael Aspinall^ Okay. So, they're moving, I guess, from a supplier and now you guys are going to be working together.

Operator^ And the questions come from the line of Vijay Rakesh from Mizuho.

Vijay Rakesh^ Mikael, just quickly on the China side. I know you mentioned subsidies. When you look at the NAV and the scrapping subsea, fleet is down 50% this year. Do you expect that to be extended to '26? Or is there going to be another step down? And I have a follow-up.

Mikael Bratt^ Yes. We I will say we are not speculating in that. So, I guess it's anybody's guess here. But I think, overall, we definitely look very positively on China. And as we have mentioned here before, we are growing our share with the Chinese OEMs here and good development in the quarter here.

And we're also investing in China as well here. So, as I mentioned in the presentation here earlier, I mean we are investing in a second R&D center in Wuhan to make sure that we also continue to work closer with the broader base of customers there to adding capacity.

We talked about the JV of now here. And then also the partnership with CATARC here is important steps here. So, all in all, looking positively on China going forward here for sure. So, subsidies or not, we will see. But overall, it's pointing in the right direction here.

Vijay Rakesh^ Got it. And then I think on the -- as you look at the European market, a lot of talk about price competition and imports coming in from Asia and tariffs, et cetera. How do you see the European market play out European auto market play out for 2026?

Mikael Bratt^ Yes. I think we wait to comment on '26 for the next quarterly earnings here when it's the time for it. But as we have said here for the remainder of the year, we are cautious about the European market more from a demand point of view than anything else.

I think -- that's really the main question mark around the market and anything else in terms of OEM offering or anything like that. I mean it's really in the end a consumer question.

Operator^ And the questions come from the line of Emmanuel Rosner from Wolfe Research.

Emmanuel Rosner^ My first question is actually a follow-up, I think, on Colin's question around the organic growth outlook, which is unchanged despite the better LVP

I'm not sure that I understood all the factors, but if we wanted to frame it as like growth above market, initially, you were going to grow 3% despite a shrinking market, now growing 3% in a market that would be growing 1.5%.

Can you maybe just go back over the factors that are driving this different expectation for outperformance?

Fredrik Westin^ Yes. In that sense, I mean the largest change over yes, a couple of quarters here since we started the year is the negative market mix. So, as I said, we now see a negative market mix for the full year of around 2 percentage points and that has deteriorated over the course of the year.

But that's the largest part. Then we also have seen here in the third quarter, also the negative customer mix for us in mostly North America and Europe.

So that's also a deviation to what we expected going into the year. And then the last one that I already mentioned before is that we see some delays on the new launches, in particular in China. So, they're not coming through at the same pace that we had expected originally.

Emmanuel Rosner^ Understood. And if I go back to your framework and your midterm margin targets. Can you just maybe remind us the drivers that will get you from the 10% to 10.5% this year towards the where are we tracking on some of those?

And I did notice that you mentioned improved -call-offs accuracy, both sequentially and year-over-year. Is that something that you expect to continue, and that will be helpful for that?

Fredrik Westin^ The framework has not changed, as you would probably expect. So, it's still -- if we take 2024 as the base point with 9.7% adjusted operating margin, we still expect 80 basis points improvement from the indirect head count reduction.

In the reported numbers here now, you don't see a movement in that, but we had about 260 employees from a labor law change in Tunisia that we now have to account for head count that distorts that number. You adjust for that, we would also have shown further progress on the indirect head count reduction.

So that is well on track. There was a 60 basis points from normalization of call-offs. That is developing well. We saw 94% call of accuracy here and also in the third quarter, which is an improvement on a year-over-year basis.

We also talked about that we have decreased our direct head count by 1,900 people despite that organic growth was up 4% on a year-over-year basis. So that's tracking very well.

And then the remaining 90 basis points would be from growth component, where we are a little bit behind now this year as we laid or as you talked about before, and then from automation digitalization. And there again, you can see, I think, on the gross margin,

even if you exclude the settlement here with the supplier, you can also see there that we are progressing well on that component.

Operator^ And the questions come from the line of Jairam Nathan from Daiwa Capital Markets America.

Jairam Nathan^ I just wanted to kind of go back to the announcement in out of China. Just wanted to understand the timing, it seems it kind of coincided with also the -- with the announcement of Adient, the zero-gravity product.

So just wonder is there -- is this the timing related to some -- a new business win or more opportunities there?

Mikael Bratt^ You're talking about JV or?

Jairam Nathan^ The JV, the CATARC partnership as well as the kind of announced you kind of finalize the Adient zero gravity product.

Mikael Bratt^ I was going to say they're not connected at all as such because, I mean the JV here is really to vertically integrate in an effective way together with the partner to gain a broader product offering here to say that we can offer also yes, more to our end customer, basically. CATARC is, of course, a development collaboration to make safer vehicles safer roads for everyone.

So it's including light vehicles, commercial vehicles and vulnerable road users, meaning 2-wheelers, et cetera.

So, the broad-based research collaboration there. And then Adient, of course, is connected to the zero gravities. So, I mean yes, to some extent, of course, they are all about safety products as such, but they are not connected in any way.

Jairam Nathan^ Okay. And just a follow-up, I wanted to understand the lower CapEx. Is that something that can be maintained in as a percentage of sales into the future?

Mikael Bratt^ Yes. I think, I mean we have been talking about this in the past also that our ambition is to bring down the CapEx levels in relation to sales compared to where we have been -- and we've been through a cycle here where we have investing a lot in our facilities around the world here, Europe, where we have consolidated and upgraded a number of plants in with investments we talked about before, expanding capacity in China. We also upgraded in Japan, et cetera.

So last couple of years here, we have invested heavily in upgrading our industrial footprint, and we are coming out now into a more normalized phase here, and that's why we can bring it down here. So, we are not expecting to see CapEx jump up back in the near term here.

Operator^ The questions come from the line of Hampus Engellau from Handelsbanken.

Hampus Engellau^ Two questions from my side. Maybe a (inaudible) question, but if I remember correctly, you covered about 80% of the tariff costs in the second quarter, and the remaining 20% came in Q3, and now you're moving around 20% for Q3, you would get in Q4.

Is the net effect like 100% compensation, if you account for the things, you that came from second quarter to Q3? Or you still a net negative there on the margins?

Mikael Bratt^ Let's take the first answer with that one. We are still net negative here, as we said, we have received some of the outstanding 20 in the second quarter in Q3 But most of it remains still. And then in the third quarter here, we got 75. So, we have accumulated more outstandings from Q2 to Q3.

But as we have indicated here, we still expect to get full compensation and catch up on this in the fourth quarter, so when we close the year, we should be fully compensated. That's our expectations here. Of course, the work is ongoing here as we speak with debt, but that's the net result right now.

Hampus Engellau^ Fair enough. And the last question was more related to from what you see today in terms of launches for 2026, maybe compared to 2025 if you have -- could share some light on that?

Mikael Bratt^ I have no figure yet for '26 to share with you here. But I think in general terms, I mean we have good order intake here to support our overall market position here. We see, however, some shifts especially on the EV side, planned programs or launches being delayed or canceled here. So, there are some reshuffling there.

But what kind of impact that we have in '26 compared to '25, we are not ready to communicate that yet. But we, as I said, we have good order intake to support our market position.

Operator^ And the questions come from the line of Edison Yu from Deutsche Bank.

Winnie Dong ^ This is Winnie Dong for Edison. My first question is on the supplier contract that came out of GM, indicating maybe like a more -- a less favorable contract terms of suppliers on a go-forward basis.

Just curious if this is something that's more isolated and more depends on like the OEM. Or do you see like heading into 2026 maybe a broader trend that can close potentially as a headwind heading to next year and (inaudible).

Mikael Bratt^ Yes. No. I don't want to comment specific customer contracts or conditions here. But of course, I mean it's constantly ongoing development here in terms of what the OEMs wants to put into the contract.

But I would say that I see good ability to manage those clauses and contracts that are put in front of us here. And I must say I don't feel any major concerns around more difficult situation.

I think we are quite successful in negotiating and settling contracts with our customers here. So, nothing exceptional there from our point of view, I would say.

Winnie Dong^ Got it. And then on the Ford supplier impact, you did mention some potential impacts into 4Q. So, I was just curious if you can help us delineate that? Is that something to be concerned about? Or is it more of a negligible impact for you guys?

Mikael Bratt^ Yes. I think I mean every car that is not produced is not a good thing, of course, and especially for the customer in question here.

But I mean you have seen the announcement made by the OEMs here. And just as a reference here, I mean the Ford 150 is around 1% of our global sales. And so it's not good but its manageable level from our point of view.

Operator^ And the next question come from the line of Dan Levy from Barclays.

Dan Levy^ Great. I just wanted to just follow up on that prior question. The headlines on Experia yesterday causing some potential supply issues. Just how much of that of a potential risk have you seen or heard on that in the fourth quarter for European production?

Mikael Bratt^ For the European production. No. I think it's too early to comment on that. I mean it's just a few days, hours or most into the situation here.

I think, first of all, I think we have a very good supply chain team that are on alert here and are managing through the situation here. We have been here before with supply chain cost gains. And I would say, the last couple of years, there has been many topics here.

So, I mean the team is well prepared to maneuver through this. And we'll see and come back on that, but I would say it's too early to be too granular or to detailed around that. And as I said solid (inaudible) we don't see so much yet on the customers.

Dan Levy^ Just as a follow-up, I wanted to double-click on the China performance. So, you did very well outperformance with the domestic OEMs.

But in spite of that, the total China performance was negative three points even though the domestics are the clear majority, I think we were all a bit unsure, I know you sort of touched on this a bit before in one of the prior questions.

But can you maybe just explain the dynamics of why even though you outperformed the domestic, the overall China performance was negative. And what -- can you explain what

flips going forward that is leading you to say that your China growth going forward should outperform.

Mikael Bratt^ Yes. I mean we still guide for us, as we said before here, I mean we believe that we will see improvements here in the quarter to come. And I think it's a really important milestone here what we reported on the COEM outperformance, which was really strong here in the quarter.

But still, the global OEMs is the biggest majority of our total sales. And some of our customers here that are significant had a negative mix impact on us this quarter, unfortunately.

So, what was on the negative side here. But we don't see this as major trend shift here it's mix effect that we see from quarter-to-quarter.

But I think the important takeaway here is that we see this strong growth development to the Chinese OEMs that is also growing their share of the total market. So that sets us up for good development in China over time.

Operator^ Given the time constraints, this concludes the question and answer session. I will now hand back to Mr. Mikael Bratt for closing remarks.

Mikael Bratt^ Thank you very much, Raz Before we conclude today's call, I want to reaffirm our commitment to meeting our financial targets. We remain focused on cost efficiency, innovation, quality, sustainability and mitigating tariffs.

Despite ongoing market headwinds, we anticipate strong fourth quarter performance. Our fourth quarter call is scheduled for Friday, January 30, 2026. Thank you for your attention and until next time, Stay safe.

Operator^ This concludes today's conference call. Thank you all for participating. You may now disconnect your lines. Thank you.