# Autoliv Q3 2024 Results

Friday, 18th October 2024

# Introduction

Anders Trapp

*VP, Investor Relations, Autoliv*

**Welcome**

Welcome everyone to our Third Quarter 2024 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 cover several key topics, including our sales, earnings and cash flow development, the high number of new product launches, an in-depth look at the China market and how we succeed with the growth of Chinese car manufacturers. Our strong balance sheet and asset return rate that support continued 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.

**Disclaimer**

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

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

I now hand over to our CEO, Mikael Bratt.

# Overview

Mikael Bratt

*CEO, Autoliv*

**Q3’24 Key Highlights – Solid Sales Outperformance**

Thank you, Anders. Looking on the next slide.

Firstly, I want to express my gratitude to all of our employees for their contributions to our third quarter results and their ongoing efforts to enhance our competitiveness in the near and medium term. Despite facing significant market headwinds from weak light vehicle production, we maintained solid sales and earnings in the quarter. This is a testament to the company's ability to adapt and thrive, leveraging our diverse product portfolio and strong customer relationships.

Autoliv managed to outpace light vehicle production by 4 percentage points. Despite lower sales and a relatively significant supplier settlement, the adjusted operating profit was virtually unchanged. This was driven by effective cost reductions and cost compensations.

I am also pleased that the inflation compensation negotiations have developed in line with our expectations with only few negotiations still outstanding. We are making good progress towards our previously announced intention of reducing our indirect workforce by up to 2,000 and related savings of US$50 million in 2024. We also managed to reduce direct headcount by around 6%.

Cash flow continued to be strong, supporting a high level of shareholder return. In the quarter, we repurchased and retired 1.3 million shares for around US$130 million. Under the current mandate, we have repurchased over 10% of outstanding shares for US$917 million.

Earnings per share improved 11%, mainly from the lower number of outstanding shares and a lower tax rate. We are reiterating the adjusted operating margin guidance of around 9.5% to 10%. With only a few months left of the year, we expect to come in at the low end of the around 9.5% to 10%.

Our operating cash flow is on track towards the full year guidance of US$1.1 billion. Our balance sheet remains strong, which supports our continued commitment to a high level of shareholder returns.

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

**Q3'24 Light Vehicle Market Development**

*Global LVP almost in-line with expectations, but regional mix substantially more negative*

The total global light vehicle production for the third quarter declined by nearly 5%, which was almost in line with expectations at the beginning of the quarter according to S&P Global. However, the regional mix differs significantly.

We observed further reductions in North America, primarily due to slow vehicle sales and inventory adjustments by key OEMs. Similar trends were noted in Europe and Asia, excluding China. However, these production cuts were mostly offset by increased output from domestic OEMs in China, driven by scrapping incentives and subsidies. This shift resulted in a more unfavourable regional light vehicle production mix, significantly impacting our top line performance.

We did see call-off volatility improving slightly from the second quarter, which is unchanged year-over-year. We will talk about the market development more in detail later in the presentation.

Looking now on our cost improvements on the next slide.

**Continued Significant Sequential Cost Improvements**

We continue to generate broad-based improvements in key areas. Our direct labour productivity continues to trend up as we have reduced our direct production personnel by 3,100 year-over-year. This is supported by the implementation of our strategic initiatives, including automation and digitalisation.

Our gross margin improved by 110 basis points from the first quarter and by 10 basis points year-over-year. The improvement was mainly the result of direct labour efficiency, reduction of the indirect workforce and customer compensations, partly offset by lower sales and cost for a supplier settlement.

As a result of our structural efficiency initiatives, the positive trend for RD&E and SG&A in relation to sales has continued, declining by more than 130 basis points since Q1 2023. Combined with the gross margin improvement, this led to a substantial improvement in adjusted operating margin versus Q1 2023.

Looking now on financials in more detail on the next slide.

**Q3'24 Financial Overview**

*Stable sales and profit*

Sales in the third quarter decreased by 160 basis points year-over-year or by US$42 million due to unfavourable currency translation effects, lower light vehicle production and a negative regional light vehicle production mix.

The adjusted operating income for Q3 decreased by 2% to US$237 million from US$243 million last year. The adjusted operating margin was virtually unchanged despite lower sales. Operating cash flow was US$177 million, which was US$25 million lower compared to third quarter last year.

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

**Q3'24 Sales Growth and Regional Sales Split**

Our consolidated net sales were US$2.6 billion. This was $42 million lower than a year earlier, driven by lower light vehicle production and negative currency translation effects, partly offset by higher out-of-period cost compensation and by a positive price and product mix.

The negative currency translation effects reduced sales by almost 1% in the quarter. Out-of-period cost compensation contributed with approximately US$8 million in the quarter. This was US$2 million higher than in the same period last year.

Out-of-period compensations are retroactive price adjustments and other compensations that mainly relate to the first half year but were negotiated in the third quarter.

Looking on the regional sales split.

China accounted for over 19%. Asia, excluding China, accounted for 20%, Americas for 33% and Europe for 27%. We outline our organic sales growth compared to light vehicle production on the next slide.

**Q3'24 Organic Sales Growht – Outperforming Global LVP by 4pp**

Our quarterly sales were slightly below our expectations, primarily due to more unfavourable regional mix. According to S&P Global, light vehicle production declined by 4.8% year-over-year in the quarter, which was 70 basis points better than anticipated at the beginning of the quarter. We estimate that the geographical light vehicle production mix has 130 basis points negative impact on our outperformance. Despite this, and that some key customers were adjusting inventories, our organic sales growth outperformed global light vehicle production by 4 percentage points.

We continued to outperform light vehicle production significantly in Japan, rest of Asia and in Europe, fuelled by product launches and pricing. The outperformance in rest of Asia was driven mainly by India. We expect a continued strong outperformance in India from a number of launches in the third quarter.

We underperformed light vehicle production by 1 percentage points in the Americas despite outperforming light vehicle production by more than 15 percentage points in South America and performing in line with light vehicle production in North America.

The underperformance was due to a strong light vehicle production growth with low content vehicles in South America and a sharp decline in light vehicle production in the high content market of North America. Our underperformance in China narrowed somewhat from the second quarter despite the stronger-than-expected performance of vehicles with relatively low safety content in the quarter.

Domestic Chinese OEMs accounted for 39% of our China sales in Q3. We grew sales to this group by 18% versus a year ago, more than twice their light vehicle production growth of 8.5%.

On the next slide, we have the key model launches in the quarter.

**Q3'24 Key Model Launches**

We saw a record number of significant launches this quarter. As shown on this slide, four of these models are from Chinese OEMs and two from OEMs in India. This highlights our growing position with Chinese OEMs and our success in capturing growth in the Indian market.

The trend towards electrification continues, particularly in China, but also in Europe. As shown on this slide, all but two models are being offered as electric versions. The models shown here have an Autoliv content per vehicle from around US$100 to close to US$400.

In terms of Autoliv sales potential, the NIO and the Zeekr launches are the most significant. This is the first time we have two Chinese models having the highest sales potential. The long-term trend to higher CPV is supported by front centre airbags on five of these models, more advanced seatbelt and knee airbag.

Now looking on the next slide.

**China Market Update**

The importance of the Chinese car market is increasing. Already today, one out of every three cars in the world is produced in China. The rapid growth of Chinese car manufacturers is impressive. Over the past decade, the Chinese manufacturers have transformed from producing low-cost vehicles to becoming global players in automotive innovation, production and connectivity.

This shift in the China market has created a significant interest, and we will therefore provide some additional information regarding the China market development.

Now looking at the next slide.

**Autoliv – the Leading Automotive Safety Supplier in China**

*Vertical integrated operations with full system development capabilities*

Autoliv is the leading automotive safety supplier to both global and domestic OEMs in China. China contributed 20% to Autoliv's global sales in 2023. Over the past decade, we have made significant investment in China and now operate 15 plants across eight locations. We are at the forefront of innovation, providing comprehensive safety system development to help our customers achieve top results in real life safety as well as for safety assessment done by, for instance, China NCAP and Euro NCAP.

We currently serve 68 customers and collaborate with local universities, research institutes and leading customers to drive enhancements in the automotive safety technologies.

On the next few slides, I will highlight some of Autoliv's success factors in China.

**Significant Shift in China Market – Our Response**

Chinese automakers are rapidly expanding their market shares within China. Sales of new energy vehicles, or NEVs, have now surpassed those of internal combustion engine vehicles, and China has become the world's largest vehicle exporter. Five years ago, Autoliv made significant investments to break into the NEVs market, which has borne fruit with notable market share gains over the past three years.

While the performance of some global OEMs have negatively impacted our sales outperformance, we expect to start outperforming in 2025 based on the latest light vehicle production forecast from S&P, driven by major new launches in the second half of 2024.

Some of our major achievements are *i)* achieved over 50% market share with a broad range of high-end NEVs manufacturers; *ii)* secured the global first autonomous L4 full passive safety system development and supply contract in July; *iii)* expanded our components business with BYD with ongoing discussions for closer collaborations; *iv)* successfully reduced costs and increased margins through modularization; *v)* well-positioned to be the overseas expansion partner for major Chinese OEMs like Great Wall Motors, Chery, Geely and ChangAn.

Looking on the next slide.

**Full System Launches Q3'24**

On this slide, you can see some of the recent launches of premium models with full Autoliv passive safety systems, meaning airbags, seatbelts and steering wheels, that we expect will support our sales growth in 2025. All of these models are NEVs, and some of them are expected to be exported as well as sold domestically.

Now looking at how we are expanding our business with the fast-growing domestic OEMs on the next slide.

**Expanding Business with Fast Growing Domestic OEMs**

Chinese car manufacturers have become increasingly important contributors to Autoliv sales. Over the past few years, the rapid growth and innovation within the Chinese automotive market have led to a substantial increase in demand for advanced safety solutions. As a result, Autoliv has strengthened its partnership with leading Chinese OEMs such as Geely, Great Wall Motor and Chery. These partnerships have been instrumental in driving our sales growth in China. This has enabled us to capture a growing share with the local OEMs.

Today, Chinese OEMs represents around 40% of Autoliv's sales in China, and we expect the positive trend to continue based on the order intake over the past years. As you can see on the chart to the right, we are closing the gap between Chinese OEMs shares of light vehicle production and the share of our sales.

Our market share with Chinese OEMs is projected to rise from approximately 20% in 2022 to around 30% in 2024, and 32% by 2025. While our share with global OEMs in China is expected to remain steady at around 42%.

Looking on the next slide.

### What Makes Autoliv a Preferred Partner in China?

We have established ourselves as the preferred partner for automotive safety solutions in China, thanks to our comprehensive approach and strong relationships with major customers.

The reasons behind our success are *i)* that we have built close partnerships with leading Chinese automakers. Our speed and strong local competencies makes us a trusted partner. *ii)* We actively sell advanced and differentiated solutions, supporting our customers in delivering safe and competitive vehicles across all markets. *iii)* We leverage our global volumes and footprint to optimise our supply base and to support our customers' overseas expansion strategies.

*iv)* We drive collaboration to deliver comprehensive system solution. This includes developing zero-gravity seat solutions for flexible cabin configurations, working with technology partners to create personalised safety systems, and *v)* We have been at the forefront of automation for many years, and we have come a long way also in China.

These efforts have led to significant efficiency gains, which our customers appreciate for the standardisation and quality assurance they bring to automated production. Thanks to increased automation, we have maintained virtually the same headcount, while our sales have grown by nearly 50% since 2018.

This concludes the China market update. Turning to the next slide.

I will now hand over to Fredrik.

## Financial Review

Fredrik Westin

*CFO, Autoliv*

### Q3'24 Financial Overview

Thank you, Mikael. And I will now talk about the financials more in detail on the next few slides. So if we turn the slide.

This highlights our key figures for the third quarter of 2024 compared to the third quarter of 2023. Our net sales were almost $2.6 billion. This was close to a 2% decrease. Gross profit was virtually flat at $459 million, while the gross margin increased by 10 basis points to 18.0%. The adjusted operating income decreased from $243 million to $237 million, and the adjusted operating margin decreased by 10 basis points to 9.3%.

Non-GAAP adjustments amounted to $11 million from capacity alignments and antitrust-related matters. Adjusted earnings per share diluted increased by $0.18, where the main drivers were $0.12 from lower number of shares and $0.10 from lower income taxes, partly offset by the lower operating income.

Our adjusted return on capital employed was a solid 24%. The adjusted return on equity increased to 25% from 21% driven by share buybacks impacting total equity. We paid a dividend of $0.68 per share in the quarter and repurchased and retired 1.33 million shares for around US$130 million.

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

**Q3'24 Adjusted Operating Income Bridge**

In the third quarter of 2024, our adjusted operating income was virtually unchanged despite market headwinds from lower light vehicle production. Operations contributed with $12 million driven by cost saving activities and commercial recoveries. The net currency effect was $4 million negative, driven mainly by the Mexican peso versus euro and the Japanese yen versus US dollars, partly offset by peso versus US dollar.

The impact from raw materials was around $1 million negative. Out-of-period cost compensation of $8 million was $2 million higher than last year. Costs for SG&A and RD&E net were virtually unchanged. A supplier settlement cost of $14 million. This cost will gradually decrease over the next few quarters.

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

**Cash Flow**

*Continued strong performance from higher net income*

For the third quarter of 2024, operating cash flow decreased by $25 million to $177 million compared to the same period last year, mainly due to an increase in working capital. The capital expenditures net decreased by $6 million compared to the same period the previous year. Capital expenditures net in relation to sales was 5.7% versus 5.8% a year earlier.

The free cash flow was positive $32 million compared to positive $50 million in the same period in the prior year. The decrease was due to the lower operating cash flow, partly offset by the lower capital expenditures net. The last 12 months cash conversion, defined as free cash flow in relation to the net income was around 80%.

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

**Trade Working Capital in Relation to Sales**

During the third quarter, the trade working capital increased by $138 million, driven by $102 million in higher receivables and $61 million higher inventories, partly offset by higher accounts payables. The higher inventories and receivables were partly due to higher sales towards the end of the quarter.

Compared to the same period last year, trade working capital in relation to sales increased from 12.5% to 12.8%. Our capital efficiency programme aims to improve working capital by $800 million, and to-date, we have achieved around $470 million. Improvements in inventories are lagging due to the high customer call-off volatility, and hence, planning challenges that cause inefficiencies.

Over the coming years, we expect the inventories to improve significantly in tandem with a reduced call of volatility.

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

**Debt Leverage Ratio**

*Remains within the Long-term target range*

Autoliv has consistently focused on maintaining a balanced leverage ratio, which reflects its prudent financial management and commitment to sustaining a strong balance sheet. This approach helped the company navigate economic fluctuations, invest in innovation and continue delivering value to its stakeholders.

While investing in our footprint and returning over US$820 million to shareholders during the last 12 months, our leverage ratio is virtually unchanged at 1.4 times. Compared to the second quarter, our debt leverage ratio increased by 0.2 times, and our net debt increased by $214 million, while the 12-month trailing adjusted EBITDA decreased by $4 million.

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

## Outlook

Mikael Bratt

*CEO, Autoliv*

**Light Vehicle Production Outlook**

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

Thank you, Fredrik. On to the next slide.

As we enter the last quarter of 2024, the full year 2024 outlook for the global light vehicle production has been reduced by around 20 basis points since July to minus 2.4% by S&P. The light vehicle production update is factoring in region specific influences, particularly recent scrapping incentives and stimulus actions in China, persistent headwinds in Europe and continued inventory correction in North America.

The updated forecast indicates a light vehicle production decline of 4% for the fourth quarter. Light vehicle production in China is projected to decrease by 1.6% in the fourth quarter, following a particularly strong performance in the same period last year. The ongoing trend of global OEMs losing market share is expected to persist. The forecast for North American fourth quarter light vehicle production has been adjusted down by over 4 percentage points to minus 4.1%. The main reason for the adjustment is continued need for more vehicle inventory corrections.

The light vehicle production forecast for Europe has reduced to minus 9% for the fourth quarter, mainly due to upcoming fleet emissions requirements and inventory adjustments. Based on S&P Global's forecast and our own analysis, our 2024 guidance is built on the global light vehicle production decline of around 3% for the full year.

Now looking on the business outlook on the next slide.

**Business Outlook – Expected Significant Increase in profitability in Q4’24**

We anticipate a significant increase in profitability in the fourth quarter compared to the first nine months of this year. This improvement is primarily supported by a substantially higher light vehicle production, the normal seasonality from engineering income, structural cost reduction and strategic initiatives, customer compensations, favourable currency effects. However, this is expected to be partly offset by supplier cost inflation.

Looking at our 2024 financial guidance on the next slide.

**Full Year 2024 Guidance**

*Based on global LVP declining ~3%*

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

Our organic sales is expected to increase by around 1% instead of previously expected around 2% due to the unfavourable market mix development. Net currency translation effects are expected to be around -1% on sales.

The guidance for adjusted operating margin is around 9.5% to 10%. With only one quarter remaining of the year, we expect to be in the low end of the around 9.5% to 10% range. Operating cash flow is expected to be around $1.1 billion. Our positive cash flow trend and our strong balance sheet supports our continued commitment to a high level of shareholder returns. We foresee a tax rate of around 28%.

Looking on the next slide.

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

## Q&A

**Hampus Engellau (Handelsbanken Capital Markets):** Two questions from me. It was quite a big step-up in the cost takeout programme if I compare, I think, in the second quarter, you had headcount reduction around 1,100 people on this 8,000 capacity alignment programme and over 2,000 in third quarter. Could you maybe in the ballpark may talk a little bit about what you see for Q4? And previously, you also indicated that it might not be all the 8,000 that will be affected by this capacity alignment programme. Yes, I will come back with the second question.

**Fredrik Westin:** Okay. I mean, you see that we have reduced the indirect headcount here up to now a bit more than 1,200. So that is an increase here versus the second quarter. And then we have reduced the direct headcount by around 6%. So we are not at the 8,000 combined that you are talking about. But we are progressing in line with our expectations. So the savings that we have indicated for this year are coming through as we had expected, and as indicated earlier

However, it is not only headcount reductions that are impacting the cost development here. There are many other improvements that are coming through as well.

**Hampus Engellau:** Yes. Fair enough. And I mean, it is quite also a big step-up on the Chinese domestic OEMs. I guess, I mean, how do you see that going forward? What do you think you will be able to get more in balance, given the significant pickup in market shares from the domestic OEMs as many of these new battery electric vehicles also have quite high content, at least many of them on the bigger players?

**Mikael Bratt:** I think we are, as maybe indicated here, and you saw on the slides also making quite good progress in terms of increasing our share of the Chinese OEMs, and we expect this to contribute to outperformance in 2025 here. We don't have an indication or guidance to say

on market share here. But all in all, we feel comfortable that we are gaining good traction with the Chinese OEMs as they also grow together with us.

**Colin Langan (Wells Fargo):** Just to start, I mean, you mentioned that you called out the $14 million of a supplier settlement in the quarter. I am not sure if I misheard. I thought you had made a comment that this would gradually decrease. I always think of settlements as being more onetime in nature. So should we think of it one time or is there actually costs that are going to keep trailing? And is this maybe an issue we should be thinking about with maybe the stress and the sub suppliers that you work with?

**Fredrik Westin:** Yes. So this is the impact from the settlement in the third quarter. That is $14 million, and we expect this to come down to close to zero, I would say, around the third quarter next year in a fairly linear manner. So we will also have an impact from this in the fourth quarter and also in the first half of next year.

**Colin Langan:** Is this all related to the same supplier or is this just your expectations given the stress in the supply base?

**Fredrik Westin:** This was related to one supplier, but I cannot go into more details on this particular legal case or legal settlement.

**Colin Langan:** Okay. Got it. And then it's a pretty big step up. I mean if I look at even at the low end of guidance, you are going from like the 9.3% in this quarter, the 12.5% to 13.5% in Q4. I appreciate the slide 23. I mean, any framing of the big drivers here? I mean is it like usually like 200 basis points is the seasonal engineering recovery that helps? And how should we think about the other big puts and takes, particularly the headwind that you called out from supplier cost, a material factor we should be thinking of?

**Fredrik Westin:** Yes, sure. I mean the two, I would say, normal factors are that we continue to expect higher volumes in the fourth quarter than in the third quarter or also in all other previous quarters here in the year. And then as you said, the normal seasonality of higher engineering income, I do not expect that to be the step-up in the fourth quarter to be higher than the normal. But it is also then that we have the completion of customer compensation negotiations coming through, so that will also add and then continued savings from the structural cost initiatives and the strategic initiatives and we also expect a favourable currency transaction effect in the fourth quarter coming through.

Then as we already alluded to, we expect headwinds from the supplier cost settlement and also from supplier cost inflation in general but to a lower magnitude than we had in the third quarter.

**Colin Langan:** Got it. Okay. And so those items are in size order to the way you mentioned them? Is that the way to think about it in terms of the impact.

**Fredrik Westin:** I did not list to that, but no. No, I would have to think of that list then again, so no. Do not take it that way.

**George Galliers (Goldman Sachs):** The first question I had just relates to slide four, where you show the customer call-off accuracy. I realise that we are tracking substantially below what you classify as normal historically. But do you think this rate that we have seen through 2023 and 2024 maybe represents the new normal? And if indeed it does, does that create any risk to the potential target for a 12% margin next year, or are there factors you can take to kind of mitigate the new normal being lower than was historically the case?

The second question I had was just again coming back to the Chinese OEMs, and thank you for all the detailed presentation there. But obviously, one of the very large Chinese OEMs is a purchaser of components from you but not yet complete systems. Based on your historical relationships with the customers who have started off as component buyers, is there a point in time or a catalyst where they tend to switch from just buying components to buying full systems, or is there no obvious trend there?

**Mikael Bratt:** Thank you for your questions. Let us start with a call-off accuracy here. Is this the new normal? I do not think it is the new normal, and I have alluded to that in the past because there is no reason for anyone to have this kind of volatility, either be it suppliers or OEMs or anyone in the value chain here. You want to have predictability and around that, you can build your efficiency and have a robust delivery.

As you can see from the chart also here, it goes a little bit up and down. And the first two months in the quarter, we saw an improvement. And altogether, we have seen an improvement compared to the second quarter, even though it is flat versus Q3 last year here. But what that is also describing is everybody's ambition here to get back to where it was before.

I think when you dive into the detail, which we, of course, cannot disclose here. But if we look at the different customers we have, we have, for sure, customers that are back to where we were in the past in terms of net volatility or no volatility whilst others are struggling. And it also moves a little bit between the month who is having the higher volatility than the others.

Long story short, it is really the current market conditions and challenges you see in the industry that creates the volatility and my expectation is to get back to normal. And we have also been quite clear here when it comes to our around 12% target here that normalisation of the call-offs is one of these building blocks. So our assumption builds on the fact that we should get back to where we have been.

If we then move on to the Chinese OEMs and the component transition into more of a system supply, I would say, yes, that is what we have seen historically when we have had customers that started out more with their in-house supplier setup buying components. As you, of course, move out, especially if you have a globalisation of your footprint that is almost a necessity to transition into more of a system supply from Tier 1s than doing it all in-house for many different reasons. So that's the tendency we see.

In the meantime, of course, we have a lot of contributions from our components sales and especially around inflators where we are the market leader and have a great, I would say, product development and production of those components that we can support our customers with. So that is, I would say, the summary of that.

**Mattias Holmberg (DNB Markets):** I would be interested to hear if you could elaborate a bit on the margin, looking at the low end of your margin guidance for this year at 9.5% and how to get to the target of 12%. I will assume the big boxes are volume call-offs price versus cost and your cost-out actions. But if you could help to quantify or at least range in order of size or magnitude, what the biggest moving part are to get to that 12% ambition?

**Fredrik Westin:** Yes. I would reference back to what we said with the starting point of around 9% where we ended up last year, where we said that around 1 percentage points then after closing the gap up to the 12% would be from our structural cost initiatives, so meaning they

are indirect costs or headcount reduction. Then around 1% from a normalisation of call-offs and direct labour efficiency, and they go to some extent, hand-in-hand. Then the third component from our strategic initiatives, automation, digitalisation, but also the market growth. This is where we see in this year, we have had, as you know, revised on our organic growth number. That moves that target up a bit then versus where we expected to come in at the beginning of the year.

But then we are, as you said, $50 million. We are expecting to get in terms of savings for the structural cost efficiency. That then narrows that 1 percentage point. Then we are also making progress here on the direct labour. Those are the two components that we are then fighting off here in the current year. Then the delta then is what will remain to the 12%.

**Michael Jacks (Bank of America):** My first one is just on guidance. Compared with the June, July forecast, the latest S&P estimate seemed to reflect a larger deterioration in customer and regional mix than the 1 point reduction that you have made to your organic growth guide. Are there any specific regions or areas where your own call of information is looking a little bit more favourable? I will stop there and ask my next question after that.

**Fredrik Westin:** Yes. I mean the LVP is actually up versus comparably a little bit, but it is the negative mix that offsets that. We would quantify the 130 basis points in the quarter that has been fairly consistent throughout the year. That is also then the reduction in the guidance here from 2% to 1% organic growth, or, let us say, more or less flat LVP and then the 1 percentage point is still around 1 percentage point on the negative mix that we talked about.

**Michael Jacks:** Okay. Understood. Then if I can just ask two very short questions. Firstly, how much of compensation received this year should we consider as sustainable into 2025? Finally, are your call-offs showing any evidence yet of a ramp in BEV production in Europe towards the end of Q4, or is that still flatlining?

**Fredrik Westin:** I am not sure I understood the first part of your question.

**Michael Jacks:** In terms of the compensation that you have received this year for inflation, how much of that represents a pricing level adjustment and can be carried over into next year versus onetime payments?

**Fredrik Westin:** Well, also this year, there will be one-time settlements with the customers that will need to be renegotiated also next year. However, it will be an increased number or share of piece price adjustments versus what we had last year. How that exactly ends up remains to be seen. As we said, we still have a few outstanding customers here for the full year. But there will for sure be a need to also renegotiate lump sums settlements next year.

Then on the outlook here for Europe, yes, I would say it is pretty much in line so far with what also the S&P numbers would be indicating that we see a decline here of around 9% in the fourth quarter in Europe.

**Michael Jacks:** Okay. Then maybe just on the pricing question, just to clarify. Would you say is it more than 50% that is carried over into next year or less than that?

**Fredrik Westin:** It was around that number. But as I said, we can come back on that after the fourth quarter of where we end up for the full year.

**Agnieszka Vilela (Nordea):** I have two questions. Starting with the supplier settlement, if we can go back to it again. Can you just clarify and tell us, was it related to compensating them for cost inflation in their operations or is it anything else?

**Fredrik Westin:** No. As I said, I cannot comment on that legal case. We cannot say more than what we are saying. It was related to a settlement with the supplier, but the nature of it I am not allowed to say more than that.

**Agnieszka Vilela:** Okay. Then the second question on Europe. I mean, you reached a very solid outperformance during the quarter. Can you tell us what was the reason behind it? Also should we try to extrapolate this outperformance into the coming quarters as well? Then maybe on Europe as well, what are you hearing from your customers right now given a quite negative commentary overall from some European OEMs?

**Fredrik Westin:** Yes. The outperformance in Europe is as you would expect, two components. We had indicated also in some of the previous calls, some significant launches that we have had in the prior quarters that are now contributing to the top line. That is one driver. Then it is also, of course, the cost compensations that are coming through that are also driving up the top line.

**Mikael Bratt:** When it comes to the outlook here and what we hear from the customers, I would say, it is, of course, a challenging market environment out there right now, and we have no indications that it will suddenly turn into a more stable and positive outlook here.

On the other hand, we do not hear anything that would have a downside which compared to what we have alluded to here when it comes to the rest of the year here.

**Jairam Nathan (Daiwa):** Just it looks like based on the China commentary, there is a path to increasing share and with Chinese local OEMs and reducing that mix impact. The other component seems to be content, and of course, that is not under your control. But how should we think about content within the local OEMs increasing over time? Any historical perspective? And I have just one more question.

**Mikael Bratt:** No. I mean, the trend is clearly that we see an increase in content in China. I mean if you compare the Chinese OEMs with the global OEMs, I would say when it comes to the premium level, I mean, there is equal in terms of content. The difference really, if you look in the Chinese market is that the global OEMs have maybe more higher average when you look all the different models they have while the Chinese OEM has a wider range between the premium and the low-end content vehicles if we call it that.

But I mean, clearly over time here, there is growth on all those models as well. So we are looking very positively on China when it comes to safety content going forward.

**Jairam Nathan:** Okay. Just as a follow-up, you talked about a $6 million higher engineering income in the third quarter. Should we consider that as like kind of a pull forward from fourth quarter typically, or would the fourth quarter still be a 200 basis point benefit?

**Mikael Bratt:** No, I think, I mean the fourth quarter we have the seasonality higher. And I think you need to focus really what we are saying about the full year guidance here, and, of course, you can make your own calculations on what it means between the quarters here, but nothing specifically to report on the engineering income tendency and cyclicality, it is the same every year.

**Fredrik Westin:** Yes. And it can always fluctuate a bit between the quarters. So nothing extraordinary out of the ordinary in the third quarter that would also have implications for the fourth quarter.

**Erik Golrang (SEB):** I have two questions. Thank you for the extra colour on China. The first one on China and looking at vehicles, I mean, such as the NIO Onvo there and some of the others. What is really different? I mean, what changes did you do to get better traction on orders with these? And what do you think is key to really improve with someone like BYD?

Then the second question on CAPEX into next year. This year, 5.5% of sales. I think you have always said that your normalised level is lower than that. Fair to assume it drops a bit further into next year or just an update on where you are in your investment cycle?

**Mikael Bratt:** Thank you. Let me start with the China there. I think, I mean, it is no difference there compared to anywhere else in the world in terms of what you can offer to gain tractions with different OEMs here. I mean it is all about our innovation capabilities here to provide the right products to our customers and do that in a robust way with superior quality. I think with the Chinese OEM, of course, if we back up a few years, the Chinese OEM space was much smaller than it is today. But we were very early on to invest in new OEMs racing in China. And of course, we have gradually grown as they have been growing here.

However, we also, at the same time, have had new OEMs growing as well. As you saw on the slide, I mean, we are working with 60 plus OEMs in China. So there are quite a few, and has over the years also been clearly increasing. So we are establishing a relationship with them in early stage and gradually adding on there.

I think we have just a very good team in China, and we are really here making sure that we show our capabilities here in being a close partner with them to develop new models. So far, we have been successful in that, and we put a lot of focus on it going forward as well as to add to our portfolio of customers there.

**Fredrik Westin:** Yes. Then on your CAPEX question, we are in the first nine months here, we are at 5.5%, which is also what we are guiding for the full year. We have said that we have a plan here to come down to a ratio more around 5% over time. Next year, we will still be somewhat above that 5% target number as we still have some significant factors and footprints here that are coming in line with investments also next year. However, it should start to trend down from the around 5.5% here.

**Elias Cohen (Nuremberg Berman):** I have two questions. The first is just any comments around profitability in China would be very helpful to us investors. I believe margins are accretive there. But any comments on the trajectory of margins or maybe the difference between being a supplier of components versus being a supplier of full systems. And then I will go on to the next one.

**Mikael Bratt:** Yes. Thank you for your questions there. I mean, as you know, we do not disclose the profitability in any dimension here. For us, it is really about the portfolio of programmes that we are working with. And of course, you have some that is better and some that is less profitable. What you see here is the average of all our different programmes around the world here. So we do not go into any greater detail on that, unfortunately.

**Elias Cohen:** Okay, fine. Then just related to that, I think it was George from Goldman who asked the question. However, you made the comment that the market share losses of the Western OEMs will persist. Obviously, there is a structural change happening in the global auto industry. The Chinese OEMs behave differently. They operate differently. They have different priorities. I guess it is a little counterintuitive to me that if the industry is structurally changing, why the call-off will normalise back to a level where it was before. I guess maybe a different way of asking it is, how does call-off work in China? And is that a dilutive impact?

Secondly, also, how do the Chinese OEMs impact your net working capital of the business?

**Mikael Bratt:** When it comes to the call-off, I mean, the call-off is very much a sign of disturbances in the value chain, be it going back here, everything from the component shortage to logistical challenges around the world to what is now maybe a little bit cooling off on the EVs and so forth, uncertainty around the drive lines, etc.

And some specific customers have their own challenges that call for some rapid changes here within the normal frozen period. I am convinced that the way back is really to improve, for everyone's interest is to get back to less volatility in this area.

I mean the China transition, you could say, or the growing number of Chinese OEM is not creating a call of volatility. If you go to China and look at how they work, I mean, their predictability and stability is the same as we have seen elsewhere in the world over time. There is not, I would say, characteristics coming from, let us say, the newer OEMs here that calls for high volatility. I confirm what I said before.

**Elias Cohen:** On the working capital, because you tend to see much longer account receivables and so forth in China with businesses across different industries?

**Fredrik Westin:** That is correct. I mean they tend to have longer payment terms than other suppliers. But we have been very clear also with our supply base that to enter into this setup and also participate in this growth that we also need the support from our supply base. Then in China, that is a very common way of working. The net does not necessarily have to be significantly different than for the other part of our business.

**Trevor Young (Barclays):** Just starting out here, I appreciate the regional drivers behind the 4 points of growth over market. But I was curious if you could help bucket perhaps the drivers between pricing and launches and then customer mix. Specifically, the last piece there was customer mix. We generally expected a drag from that. I was curious how you managed to offset that, including in the Americas.

**Fredrik Westin:** Yes. I mean, so our performance is 4 percentage points and we are getting the smaller numbers, right, overall?

**Trevor Young:** Sure.

**Fredrik Westin:** Pricing is a component of that. But as also historically here, we will not disclose our pricing ambitions and also not the realisation of pricing. But it is, of course, a large part of that outgrowth.

**Trevor Young:** Yes. That makes sense. Then just as a follow-up, definitely understand the logic as to why you would be a strong partner for Chinese OEMs seeking to expand internationally. I was just curious if there was any notable distinctions to call out in what you

see as your opportunity between exports from China and then volumes produced from international facilities of Chinese OEMs that they are starting to open up. Do you see any difference between the two in terms of share, in terms of content?

**Mikael Bratt:** Not really. I think, as I said, the premium vehicle is a premium vehicle everywhere, and less content is more basic vehicle maybe and such. So no, there is no real difference as I said before. And then I mean if you look at the exports have tended to be more premium so far from China EVs. However, it depends on where in the world it goes to as well. So there is no general statement on that. I think there is the same ambitions as any other OEM.

**Mikael Bratt:** Before we conclude today's call, I want to emphasise that we remain fully committed to achieving our targets of around 12% adjusted operating margin. Our focus continues to be on structural cost reductions, cost compensation, innovation, quality and sustainability.

The positive trends in our cash flow and balance sheet reinforce our dedication to delivering strong shareholder returns. Our fourth quarter and full year earnings call is scheduled for Friday, 31st January, 2025. Thank you all for joining today's call. We truly value your continued interest in Autoliv. Until next time, drive safely.

[END OF TRANSCRIPT]