Autoliv Q4 2023 Results

Friday, 26th January 2024

Introduction

Anders Trapp

VP, Investor Relations, Autoliv

Welcome

Welcome everyone to our Fourth Quarter and Full Year 2023 Earnings Call. On this call, we have our President and CEO, Mikael Bratt; and our Chief Financial Officer, Fredrik Westin; and me, Anders Trapp, VP, Investor Relations.

Agenda

During today's earnings call, Mikael and Fredrik will, among other things, provide an overview of the record sales and earnings, the strong cash flow, balance sheet and order intake for 2023. They will also outline the expected sequential margin improvement in 2024 and the journey towards our targets. Mikael and Fredrik will also provide an update on our general business and market conditions. We will then remain available to respond to your questions. And as per usual, the slides are available on autoliv.com.

Disclaimer

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

Lastly, I should mention that this call is intended to conclude at 15.00 Central European Time; so please follow a limit of two questions per person.

I will now hand over to our CEO, Mikael Bratt.

Overview

Mikael Bratt

President & CEO, Autoliv

Q4’23 Key Highlights

Record sales and earnings

Thank you, Anders. Looking on the next slide. I would like to recognise the entire team for delivering another strong quarter, which reflects our strong execution culture. We ended 2023 on a strong note as we achieved or exceeded all our 2023 indications.

In the quarter, our organic sales grew by 16%, outperforming Light Vehicle Production significantly, especially in rest of Asia and Japan. The strong growth was mainly a result of product launches and customer compensations for inflationary pressure as well as higher than expected Light Vehicle Production.

We generated a broad-based improvement in key areas, including gross margin and adjusted operating margins, both year-over-year and sequentially. Our cash flow was strong and the

net debt leverage improved, while we increased our dividend and repurchased shares for $150 million in the quarter or approximately $352 million for the year.

We are making progress towards our intention of reducing our indirect workforce by up to 2,000. We now expect savings of around $50 million in 2024 from these initiatives. Order intake developed well. It is especially encouraging to see the strong order intake with fast-growing Chinese OEMs. For 2024, we foresee sales growing in mid single-digit despite an expected modest decline in Light Vehicle Production.

2024 should take us one important step closer to our adjusted operating margin targets, driven by improved call-off stability, growth, structural and strategic initiatives and customer compensations. However, the heightened seasonality of earnings of prior years is likely to be repeated in 2024.

Now looking at the order intake more in detail on the next two slides.

FY'23 Order Intake

Continued on a high level, supporting growth in coming years

Our order intake for the full year continued to develop well, supporting long-term growth in a rapidly changing technology environment with many new OEMs and EV platforms. The estimated lifetime value of our 2023 order intake was the highest in the past five years. The strong order intake is an evidence that our company remains the clear leader in the passive safety automotive industry.

One of our internal key performance indicators, customer satisfaction, continues to be on a high level. We continue to strive for improving products, services, processes and costs while maintaining industry-leading quality. Our strong order intake with a good mix of EV and ICE platforms and the high level of customer satisfaction support, our confidence regarding growth also beyond 2024.

Looking on the next slide.

FY'23 Order Intake Highlights

In 2023, order intake for new EV platform was high, both with new EV makers and traditional OEMs. We estimate that around 45% of our order intake in 2023 was for future electric vehicles. Consumer demand for EVs may have faded somewhat in the short term, but regulatory changes supporting EVs will increase, at least in Europe.

Although our products are drivetrain-agnostic, it is important to have a balanced exposure both to EVs and ICE to capture future market growth. With the order book that we have built, we believe that we have a good exposure to all growing segments. New automakers, mainly in North America and China, accounted for around 25% of our order intake.

Fast-growing Chinese OEMs accounted for around 50% of our order intake in China. And we expect this group of OEMs to account for close to 40% of our Chinese sales in 2024, up from 22% in 2022. We won multiple awards supporting new markets and industry trends like pretensioner seatbelts for rear-seat passengers, airbags with low carbon cushion material as well as anti-submarining airbags for zero gravity style seats for self-driving vehicles.

As a result of the strong order intake in the past years, we expect an increase in overall product launches in 2024, especially in China and Europe. This development contributes to building an even stronger platform for our long-term success.

Now looking at the significant sequential cost improvements during 2023 on the next slide.

Significant Sequential Cost Improvements since Q1'23

Year-to-date, we have generated a broad-based improvement in key areas, both year-over-year and sequentially. On this slide, we highlight the sequential improvements. In the fourth quarter, we continued to actively address our cost base while successfully negotiating with our customers to secure pricing and other compensations that reflect the higher inflation.

Our direct labour productivity continues to trend up, supported by the implementation of our strategic initiatives, including automatisation and digitalisation. Our gross margin improved by 410 basis points compared to the first quarter and by 140 basis points from the third quarter. This is mainly the result of the higher labour efficiency and customer compensations.

The positive trend for RD&E and SG&A in relation to sales have continued and have now declined by 270 basis points since Q1, partly as a result of normal seasonality with high engineering reimbursements in the fourth quarter. Combined with the gross margin improvement, this led to substantial improvement in adjusted operating margin.

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

Q4'23 Financial Overview

Strong sales and profit development

Sales in the fourth quarter increased by 18% year-over-year, mainly due to higher Light Vehicle Production, new product launches, higher prices and other compensations, and favourable currency translation effects. The strong sales increase and cost reduction activities led to substantial improvement in adjusted operating income.

Adjusted operating income increased by more than 40% to $334 million from $233 million last year. The adjusted operating margin was 12.1% in the quarter, an increase by over 2 percentage points from the same period last year and by almost 7 percentage points from the first quarter.

Operating cash flow was $447 million, which was $15 million lower than the same period last year. The main reason for the lower cash flow was the unusual strong cash flow last year which was related to timing effects of customer recoveries.

Looking now on the structural cost savings activities on the next slide.

Structural Cost Reductions Initiatives

Simplifying our logistics and geographic footprint to significantly lower our cost base

To secure our medium and long-term competitiveness and to support our financial targets, we launched a cost reduction initiative in June 2023, with the intent of reducing our indirect headcount by up to 2,000 and the direct workforce headcount reduction of up to 6,000. We estimate that the annual cost reductions will amount to around $130 million when fully implemented with around $50 million already in 2024 and around $100 million expected in 2025.

Total accrual for capacity alignment in 2023 amounted to US$218 million. We do not plan to announce further major reduction initiative details.

At the end of 2023, around 75% of the planned indirect reductions were detailed and announced. We also see positive impact on direct labour productivity.

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

Q4'23 Sales Growth and Regional Sales Split

Our consolidated net sales increased to almost $2.8 billion, a new quarterly record. This was over $400 million higher than a year earlier, driven by price, volume, mix and currencies. Out of period cost compensations contributed with $45 million, out of period compensations are retroactive price adjustments and other compensations that mainly relate to the first three quarters but were negotiated in the fourth quarter.

Looking on the regional sales split. Asia accounted for 41%, Americas for 31% and Europe for 28%. We outlined our organic sales growth compared to LVP on the next slide.

Q4'23 Organic Sales Growth – Outperforming Global LVP by 7pp

I am very pleased that our organic sales growth significantly outperformed global Light Vehicle Production growth in the fourth quarter as we continue to execute on our strong order book.

According to S&P Global, fourth quarter Light Vehicle Production increased by 9% year-over-year. This was more than 5 percentage points higher than expectations at the beginning of the quarter, with most of the higher than expected production coming from domestic OEMs in China and in North America as the impact of the UAW strike was smaller than expected.

In the quarter, we outperformed global Light Vehicle Production by around 7 percentage points, with strong performance, especially in rest of Asia and Japan. The modest underperformance in China was mainly driven by a negative customer mix, following strong Light Vehicle Production growth for lower safety content vehicles. On to the next slide.

FY23 Organic Sales Growth – Outperforming Global LVP by 9pp

For the full year, we outperformed global Light Vehicle Production by around 9 percentage points despite a negative regional Light Vehicle Production mix. We outperformed in Japan by 15 percentage points, in rest of Asia by 14 percentage points, and in China by 8 percentage points.

The performance in China was mainly driven by increasing sales to domestic Chinese OEMs. Our sales to this Group outperformed Light Vehicle Production by 17 percentage points and accounted for 28% of our sales in China, up from to 22% in 2022.

In 2023, our global market share was around 45%. This is almost 6 percentage points higher than five years ago when the electronic business was spun off. Our global market position is strong in all product categories with 47% of airbags, 45% of seatbelts and 40% of steering wheels. Supported by new launches, market share gains and content per vehicle growth, as well as our further price increases, we expect sales to outperform Light Vehicle Production by 5 to 6 percentage points in 2024.

On the next slide, we see some key model launches for the fourth quarter.

Q4'23 Key Model Launches

During 2023, we had a record number of product launches, especially in China, Europe and Japan. For 2024, we see another step up in a number of product launches, particularly in the first half of the year. The trend towards electrification is clear on this slide, with seven models being available as electric versions. The models shown here have an Autoliv content per vehicle of around $110 or higher with the highest at over $800.

In terms of Autoliv sales potential, the Zeekr 007 launch is the most significant.

I will now hand it over to our CFO, Fredrik Westin, who will talk you through the financials on the next slide.

Financial Review

Fredrik Westin

CFO, Autoliv

Q4'23 Financial Overview

Thank you, Mikael. This slide highlights our key figures for the fourth quarter of 2023 compared to the fourth quarter of 2022.

Our net sales were almost $2.8 billion. This was an increase of 18% year-over-year. Gross profit increased by $131 million or by 33% to $530 million, while the gross margin increased by 2.2 percentage points to 19.3%. The adjusted operating income increased from $233 million to $334 million, and the adjusted operating margin increased by 220 basis points to 12.1%.

Non-GAAP adjustments amounted to $97 million, almost entirely for capacity alignments. Adjusted earnings per share diluted increased by 191 cents, where the main drivers were 75 cents from higher adjusted operating income, 109 cents from tax and 10 cents from other items, partly offset by financial items.

Our adjusted return on capital employed and return on equity increased to 33% and 47%, respectively. We increased the dividend to $0.68 per share in the quarter, and we purchased and retired 1.5 million shares for around $150 million under our existing $1.5 billion stock repurchase programme.

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

Q4'23 Adjusted Operating Income Bridge

In the fourth quarter of 2023, our adjusted operating income of $334 million was $101 million higher than the same quarter last year. Our operations were positively impacted by improved pricing and other customer compensations, higher volumes, lower cost for premium freight as well as our strategic initiatives but partly offset by headwinds from general cost inflation.

The impact from raw material prices was $14 million positive. Out of period cost compensation was approximately $37 million higher than during the same period last year. The FX impact was limited.

Cost for SG&A and RD&E net combined was $30 million higher, mainly due to lower engineering income and labour cost inflation. In relation to sales, it was unchanged compared to last year.

The margin was also affected by the accruals for warranty and recalls of $17 million or 65 basis points. The accruals are related to three different cases. As a result, the leverage on the higher sales, excluding currency effects and warranty and recall costs was in the upper half of our typical 20-30% operational leverage range.

Looking now on the full year financial results on the next slide.

FY2023 Financial Overview

Despite higher than expected Light Vehicle Production, 2023 was again a turbulent year with labour cost inflation, supply disruptions, customer price negotiations and continued volatile Light Vehicle Production.

Our net sales were $10.5 billion, with sales increasing organically by over 18%, twice the increase in the underlying Light Vehicle Production and 3 percentage points higher than expected in the beginning of the year. The adjusted operating income increased by 54% to $920 million. The adjusted operating margin was 8.8% compared to our guidance of around 8.5 to 9%.

The operating cash flow was $982 million compared to the guidance of around $900 million. Adjusted earnings per share increased by $3.79 per share to $8.19, where the main drivers were $2.51 from higher adjusted operating income and $1.31 from lower income taxes, partly offset by $0.18 from financial items.

Dividends of $2.66 per share were paid and we repurchased and retired 3.7 million shares for around $352 million. Sales, adjusted operating income, operating cash flow as well as the adjusted earnings per share were all the highest we have ever achieved.

Looking now at the full year adjusted operating income bridge on the next slide.

FY2023 Adjusted Operating Income Bridge

vs. prior year

In 2023, our adjusted operating income of $920 million was $322 million higher than last year. The impact from raw material prices was limited. FX impacted the operating profit negatively by $54 million. This was mainly a result of negative translation effects from the Mexican peso.

Cost for SG&A and RD&E net combined was $95 million higher. However, in relation to sales, it was down 60 basis points. As a result, the leverage on the higher sales, excluding currency effects, was slightly above our typical 20-30% operational leverage range. This is despite not getting any leverage on the inflation compensation from our customers.

Looking now at the cash flow on the next slide.

Cash Flow

Strong performance from working capital and higher net income

For the fourth quarter of 2023, operating cash flow decreased by $15 million to $447 million compared to the same period last year, which was impacted by positive timing effects of customer compensations.

Capital expenditures net decreased to $150 million from $165 million. In relation to sales, it was 5.4% this year, down from 7.1% last year. Free cash flow was $297 million, about the same as last year. Our full year operating cash flow was $982 million, a new record for the company. Full year capital expenditures net in relation to sales was virtually unchanged at 5.4%.

Free cash flow for the full year improved year-over-year by $186 million to $414 million. Our cash conversion, defined as free cash flow in relation to net income, was 85%.

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

Trade Working Capital in Relation to Sales

During the fourth quarter, trade working capital decreased by $71 million, driven by $120 million higher accounts payables, partly offset by $30 million higher inventories and by $19 million in higher receivables. The higher inventories and receivables were mainly due to the higher sales.

Our capital efficiency programme aims to improve working capital by $800 million, and to-date, we have achieved $580 million. Improvements in receivables and especially in inventories are lagging due to the high call-off volatility, and hence, planning changes resulting in inefficiencies. We expect this to improve significantly in tandem with the reduced call-off volatility over coming years.

Now looking at shareholder returns over the past five years on the next slide.

Strong Balance Sheet & Cash flow Supporting Shareholder Returns

Over the years, Autoliv has shown its ability to generate solid cash flow in periods with difficult market environments such as COVID lockdowns, the war in Ukraine, industry supply chain challenges and related volatile and declining Light Vehicle Production. We have used both dividend payments and share repurchases to create shareholder value.

Historically, the dividend has usually represented a yield of approximately 2-3% in relation to the average share price. Over the last five years, we have reduced the net debt significantly while returning almost $1.4 billion directly to shareholders. This includes stock repurchases of 5.1 million shares for a total of $467 million as part of the current stock repurchase programme.

Since we initiated the stock repurchase programme, we have reduced the number of outstanding shares by almost 6%. We do consider several factors when executing the programme such as our balance sheet, the cash flow outlook, our credit rating and the general business conditions and not only the debt leverage ratio. We always strive to balance what is best for our shareholders, both short and long term.

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

Debt Leverage Ratio

Despite increased stock repurchases and higher dividend, the debt leverage ratio at the end of December 2023 improved to 1.2 times from 1.3 times at the end of the third quarter. This was a result of $108 million higher 12 months trailing adjusted EBITDA as the net debt was unchanged. We expect that our debt leverage and positive cash flow trend will allow for continued high shareholder returns going forward.

I now hand it back to you, Mikael.

Conclusion

Mikael Bratt

President & CEO, Autoliv

Light Vehicle Production Outlook

Autoliv expects global LVP to decline by ~1% in 2024

Thank you, Fredrik. On to the next slide.

After a year where the global auto industry finally reached pre-pandemic levels, 2024 is shaping up to be something of a transitional year. With many regions having already rebuilt inventories, S&P continues to see a production outlook that is more reliant on the end customer demand.

Global Light Vehicle Production is projected to decline by close to 1% in 2024. This is due to affordability of new vehicles, somewhat softer interest in EVs in some regions and high interest rates. Most of the expected decline is in Japan and Europe. S&P Global expects first half year global Light Vehicle Production to increase by 1%, while they see second half year declining almost 3% compared to last year.

Light vehicle production in China continues to be supported by a strong EV demand and export activity. In North America, the UAW strike and the strong vehicle sales towards the end of 2023 have reduced inventories somewhat, bolstering production volumes slightly for 2024.

Production in Europe is expected to decline as inventory restocking will no longer boost output, as was the case over the last two years. We based our full year sales indication on a global Light Vehicle Production decline of around 1%.

Now looking on the next slide.

2024 Inflationary Pressure

In 2023, the main cost challenges were around labour, cost inflation and energy. For 2024, we expect inflation mainly to impact labour costs for us and for our suppliers. We estimate the combined labour exposure, our own and our suppliers, represents more than 40% of our cost base.

Already during 2023, the tight labour market in some countries resulted in significantly higher-than-normal labour inflation. For 2024, we foresee further headwinds from wage increases, especially in Europe and North America.

Although many commodity indices are down since their peak in 2022, we currently assume raw material costs to only decline slightly in 2024, the reason being that the prices of specific raw material used in our products, such as automotive grade steel has not declined as much as the generic steel indices indicate.

Additionally, we see higher costs for some materials such as yarn and resin. The Red Sea situation has not yet had any measurable impact on our own operations. We have noticed that some customers have reduced their volumes short-term, but it is too early to estimate what potential impact it may have for 2024.

Cost compensation negotiations will again be challenging, but nevertheless we expect that price adjustments and other compensation will offset cost inflation.

Looking at the 2024 business outlook on the next slide.

2024 Business Outlook

We expect a significantly improvement in adjusted operating margin in 2024 compared to 2023, supported mainly by organic sales growth, a more stable Light Vehicle Production, structural and strategic initiative, cost control and customer compensations. We expect the adjusted operating margin in the first quarter to be around 7%, a significant decline from the fourth quarter in 2023 due to lower Light Vehicle Production, lower engineering income, cost inflation and timing of cost compensation. This is in line with the seasonality in the past two years.

We anticipate price adjustments and cost compensations will gradually, throughout the year, offset cost inflation and the pattern is expected to be similar to the quarterly pattern seen in 2022 and 2023 with limited positive effects in the first quarter. This trajectory should be further supported by improvements from strict cost control, structural savings, as well as expected gradual improvement of the supply chain and Light Vehicle Production stability.

Looking at our 2024 financial guidance on the next slide.

Full Year 2024 Guidance

This slide shows our full year 2024 guidance, which excludes costs and gains from capacity alignment, antitrust-related matters and other discrete items. Our full-year guidance is based on a Light Vehicle Production decline of around 1%. Despite lower Light Vehicle Production, our organic sales is expected to increase by around 5%.

No net currency translation effects are expected on sales. The guidance for adjusted operating margin is around 10.5%. Operating cash flow is expected to be around $1.2 billion. Our positive cash flow trend should allow for continued high shareholder returns. We foresee a tax rate of around 28%, in line with our previous indications of 25-30% as the new normal tax rate.

Looking to our sustainability approach on the next slide.

Sustainability at Autoliv

Saving More Lives Guides the Way

Guided by our vision of saving more lives, our mission is to provide world-class life-saving solutions for mobility and society. Sustainability is an integral part of our business strategy and an important driver for market differentiation and stakeholder value creation, helping to

ensure that our business will continue to thrive and contribute to sustainable development in the long term.

Our sustainability approach is based on four focus areas: saving more lives, safe and inclusive workplace, climate, and responsible business, each consisting of long-term ambitions and more specific short-term targets.

Our sustainability approach is anchored in well established international frameworks such as the UN Global Compact and Science Based Targets. We aim to be carbon neutral in our own operations by 2030, and further aim for net zero emissions across our supply chain by 2040. These ambitions place Autoliv among the frontrunners in the broader group of automotive suppliers.

Now looking at the sustainability progress in 2023 on the next slide.

Sustainability Highlights 2023

During 2023, we initiated and concluded a number of activities that highlight our commitment and contribution to the UN sustainable development goals and our own sustainability targets. For example, we are at the forefront of broadening test models and to include more body shapes and parameters such as age and gender. We have increased the use of renewable electricity, contributing to a significant decrease in greenhouse gas emissions from our own operations.

The incidence rates have improved, and we carried out our annual climate survey at direct material suppliers to track their alignment with our climate requirements and ambitions.

Turning the slide to look at progress towards our targets.

Growth Target on Track

Average +4 pp growth over LVP excluding price compensations

In the medium term, we are expecting to continue to grow our core business, airbags, seatbelts and steering wheels, through execution on the current strong order books. The other important growth driver is safety content per vehicle, which is driven by continuous updates of government regulation and crash test ratings.

Our growth target for the three years, 2022, 2023 and 2024, was to grow organically by around 4 percentage points more than Light Vehicle Production growth per year on average. This excludes any price compensation for raw material and other inflationary costs.

The growth in 2022 and 2023 and the guidance for 2024 means that we expect to exceed these targets. To maintain the growth momentum beyond 2024, we are pursuing an ambitious innovation programme, and the strong 2023 order intake supports continued growth momentum.

Now looking on the multiple levers for margin improvement on the next slide.

Achieving our Adjusted Operating Margin Target

Clear Levers and Conditions

In the past two years, Autoliv has significantly reduced its cost base. We have implemented hundreds of cost efficiency projects, especially in production and supply chain. Our adjusted operating margin target of around 12% is based on the framework communicated at our

Investor Day in June 2023. A business environment with a stable global Light Vehicle Production of at least $85 million and that headwinds from inflation is offset through price compensations.

We remain confident that when these conditions are met for the full year, we are capable to reach a 12% adjusted operating margin target. We now expect that the Light Vehicle Production conditions will be fulfilled during 2024. We expect that call-off volatility through 2024 will be lower than in 2023 but remain higher than the pre-pandemic level, having a negative impact on our productivity and efficiency.

We expect continued inflationary pressure in 2024 with customer compensations lagging behind the cost increases. To offset the negative effects from inflation and market conditions and to secure our long-term competitiveness, we have launched a number of cost saving activities. We believe that the net effect of our actions and headwinds should result in a substantial step in 2024 towards our adjusted operating margin target.

Now looking on delivering shareholder value through our 2024 business agenda on the next slide.

Delivering Shareholder Value through our 2024 Business Agenda

To drive towards our financial targets and deliver shareholder value, the health and safety of our employees is our first priority, while continuing more activities to further improve quality and efficiency.

We also continue our efforts of flawless execution of new launches, improving customer satisfaction further, and thereby supporting our new and strong market position. Through our capital efficiency programme, we aim to unlock capital from receivables, inventory and payables. Combined with the execution of our strategic plan, this should lead to a strong cash flow generation, which sets Autoliv up for attractive shareholder value creation.

By executing on our strategic initiatives, footprint optimisation and negotiating compensation from OEMs, we believe we will mitigate headwinds from cost inflation. To progress towards our climate targets, we will focus on increased resource efficiency and reduction of carbon footprint.

I will now hand it back to Anders.

Anders Trapp: Thank you, Mikael. Turning to the last page. 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

Colin Langan (Wells Fargo): Just looking at, you commented on this a bit, your long-term target, is 4% over market. The guidance implies about 6%. I think you said 5-6%. Any reason why it is so strong this year? And maybe is that including some of the inflationary cost recoveries that you are expecting? I know that was a bit of a help last year. And any thoughts on the China headwind you called out in the quarter. Is that also going to continue?

Mikael Bratt: Thank you for your questions The 4% outperformance versus LVP takes us into 2024. So this is the last year of the three-year period that we have communicated on. And as we said, we expect to over-deliver on that target.

And of course, it is thanks to the growth we have created through the order intake over the last couple of years. Of course, we have seen a good development on the content per vehicle also, and we expect to see that also next year. This excluded, as we mentioned here, also the price negotiations that is on top of that.

Then beyond 2024, we have the 4-6%, where the core 4-6% organic growth target, where the current, let us say, core business should be 2-4%. So that is our target beyond 2024.

Regarding China, the minus 2% versus LVP, we saw in the fourth quarter is due to mix effects. As we mentioned, we had significant growth on the low-end vehicles or, let us say, the vehicles with lower safety content than usual.

But if you look at the full year, we had a very strong outperformance there of 8% for the full year. So we look very positively on China, and we feel that we are well positioned with, let us say, the new EV players and also the OEMs in general. So we have a positive view on China going forward.

Colin Langan: Got it. And you called out labour inflation again with other costs. Is there any way to frame how large this is in terms of dollars or the impact that is dragging your margins this year?

Fredrik Westin: Yes, I mean we expect it actually to be about the same level as we had last year, which, what we said, would be somewhere mid-single-digit above normal inflation. So pre-2023, basically. And we are also giving some breakdown here on the slides on the labour cost as a percent of sales. So with that, you can calculate what the impact is. And that is the major inflation we are expecting.

Then on top of that, we also expect some energy increases basically as a surcharge on materials that we are buying, especially on textiles. So those are the main two components.

Giulio Pescatore (BNP Paribas Exane): The first one on the buybacks. Just wondering if you would be comfortable getting closer to the upper end of the leverage range in 2024, especially considering a further uplift in margin potentially in 2025 and the good cash flow generation you expect for this year?

Then my second question on inflation and compensation. You mentioned that you expect full compensation for costs. Does that mean at the end of the year? So we should not expect full compensation on 2024 as a whole but by the end of the year, you think you can have full compensation with potentially some slippage in the first few months; is that a fair way to describe it? Thank you.

Mikael Bratt: Thank you for your questions. On the buybacks, as you know, we only report on what we have done on a regular basis through our web page. We are, very committed to our programme that we have. I think you can see that we have, in the fourth quarter, a healthy level of buybacks. Of course, we are focusing a lot on making sure that we have the cash flow generation needed. And as you see from the report, we are committed to be a shareholder-friendly company when it comes to both the regular dividend and also to the

buyback programme. And we will come back on that as we progress. But that is as much as I could say today.

Regarding the inflation, there is a lead time. And as we have indicated here already, you see, let us say, the cost effect from inflation hitting us earlier in the year, and then we have the negotiation throughout the year. And in the same fashion as we were stating last year, our focus here is to get the full compensation and the height of the compensation rather than looking at the quarter-by-quarter. So it is the full year compensation that is the priority and the height of it.

So therefore, you get this, let us say, new seasonality, if we call it that, where you have, obviously, Q1 and then revenue improved throughout the year. So that is the reason behind that. I do not know, if you would like to add anything there, Fredrik?

Fredrik Westin: No. Well, overall, our expectation is we should be compensated also for the full year effect. And then that was also the case in 2023, whereas 2022, with the raw material compensation, there was a component that we were not compensated for in 2022. Hence, there was a carryover effect into 2023, but we do not expect that same pattern for 2024.

Emmanuel Rosner (Deutsche Bank): My first question, I was hoping to ask you about, could you comment a little bit more about your path towards the 12% reiterated operating margin target? I very much appreciate the scorecard that you put at the end of the slide deck. So if I'm understanding it correctly, it looks like production is probably in the right level at least, maybe cost recovery sort of like offset by some of your cost reduction programmes. So is the main impediment to getting to your targets, the call-off accuracy? And if so, I guess, what is the line of sight? Is it fair to assume that this will normalise? Or are there further actions that you need to get you to these targets?

Fredrik Westin: Okay. There's a lot of components in your question. So overall, the framework is, I think, pretty clear. 85 million, we say as it looks right now in 2024, 85 million seems to be in place as an assumption here for 2024. Then when it comes to the others two that we are made whole on the inflation compensation, that will potentially have an impact also on a full year as long as we have inflation and there is always this catch-up effect from when the costs come in until we are compensated for.

Again, here, our ambition is to have that also in place for 2024, but that remains to be seen also how inflation develops during the year.

Then the last component is on call-off stability, and here, we have a graph in our presentation where it is clearly not in place going into the year. We have seen it stabilising at around 90% now or during the second half of last year. We are not assuming right now that this will improve significantly during 2024. And then even if it were to come up to pre-pandemic levels, closer to the 100%, there is also a time lag of when say that accuracy is actually in place until we can also get the efficiency out in our network.

So yes, it is trending towards the framework, but for sure, 2024, it will not be in place and it remains to be seen how much of the number two and three here will come in place during 2024, and then what the impact is for 2025.

Looking at the building blocks of how to get from the 8.8% that we had now in 2023, up to the 12%, you can divide into three buckets. One is the structural initiatives and the headcount reductions. The second one is the volatility improvement, combined with the labour productivity development. And then the third component is sales growth and our strategic initiatives. And it is roughly, I would say, one-third margin contribution from those three buckets.

Emmanuel Rosner: That is great colour. So let me just hone in for my second question on the sales growth piece of it, as we look past this year and towards some of your targets. I think we started in the past, you had reported sometimes on your annual win rate. And oftentimes, they were at like 50% or better. Obviously, your market share, you reported that 45%. Can you comment on the win rates? And I guess, what is the confidence level in being able to capture additional market share over the next three years beyond the 2024 framework?

Mikael Bratt: Yes. As you know, we have, since last year communicated here around the lifetime revenue on the order intake. And I think we had a very good 2023 and the highest in 5 five years in terms of lifetime revenue. And what we are saying is that we reached the 45% market share in 2023, which we have indicated since some years back that that was what we expected to grow into. And with the order intake and the order book we have, we expect to defend this market share.

We do not have, I would say, a target or an ambition to set a new level of our market share. It is really to defend this market share position with healthy business, of course.

If we can grow more in a healthy way, of course, we will do it, but it is not a target in itself. So the growth that we expect going forward, the 2-4%, as I talked about, and we have announced earlier, beyond 2024 is connected to Light Vehicle Production and content with more sophisticated products.

Michael Jacks (Bank of America Securities): First one, just on price recoveries. Some other suppliers have struggled to compensate for wage inflation, and Autoliv has clearly been more successful. Is there anything structural you could point towards that gives you the confidence that you can achieve the same in 2024?

And then second question is just on working capital. What is the magnitude of improvement expected in 2024 in relation to the remaining gap of $220 million to the $800 million reduction target that you have in mind?

Mikael Bratt: Thank you. Let me start with the price recovery, and Fredrik will comment on the working capital. But on the price recovery, I cannot say that it is structural to it. I meanI can only comment on what we are doing here,and we have now, for the last two years, have had very constructive dialogues with our customers around the over and above normal cost increases we see in the system.

I mean, we were starting out with raw materials. And there, we have also mentioned that we have made some higher level of indexation to those contracts. So I mean, it works both ways, obviously. when we see that come down, we will also hand that back to our customers.

When it comes to the other components, it is a little bit different to its nature. But I think it is very important to get compensation for what is the inflationary component. And we, for this

year definitely, have the labour in focus. And I mean that is the nature of inflation. It needs to be passed on into the end consumer and meaning the price of the car at the end of the day.

So we need to push that on because there is no possibility for us to compensate our suppliers unless we get the pass on. It is not sustainable, and that is something we also need to continue to work hard with and we will do that. And that is our focus going forward as well.

Fredrik Westin: Michael, on your second question, working capital. Yes, so we reported that we have achieved around $580 million of the $800 million target that we set ourselves. In the $800 million target, we had also detailed that around $500 million of that would come to improved payables. And that we have achieved or even overachieved already to-date. So we do not expect more to be contributed from that component.

So the inventory is challenging right now due to the call-off volatility as we show here that it is stabilising still to the core levels. And as I mentioned, we do not expect this to improve significantly during 2024. And accordingly, we do not also expect that we will be able to do so much on the inventory side either in 2024. And we do not guide for working capital specifically, but you see a very strong operating cash flow guidance here of $1.2 billion, but there is then more opportunity coming later from improving working capital further.

Hampus Engellau (Handelsbanken Capital Markets): Two questions for me, despite [inaudible] crest over. But I am curious about the drop in active seatbelts sales during the quarter, minus 11%, given the big spread to the LVP that increased by more than 9%. If you do not have, we can take that later, but it is just my curiosity.

I mean, sorry to come back on this cost inflation because I am trying to understand the dynamics here. I can definitely see that the OEMs are retroactively compensating you guys for rising cost in the quarters. But on the labour side, could you maybe give us some more detail on how those negations are going, given that those costs are quite permanent and sticky? And are you guys getting compensated retroactively for these also? And, how does the process work?

Mikael Bratt: I think on the active seatbelt side, there is no drama into that. Of course, you get mix effect also in specific years where you have maybe some outgoing car models where you had a high level of, in this case, active seatbelts. And my expectation here is that you should see that recovering in the next year here. So no drama to that. It is more of a temporary mix effect.

Then on the cost compensation, if I understand you right. I mean the nature of that. As you said, labour cost increase is sticky, and therefore, , it will not come down. I think we can call it. So, of course, there is an absolute necessity, that inflationary component has to come through. There is no room for anything else, and that is what we are doing here. And we, of course, have very detailed supporting documents when we go to our customers, how that connects to their specific business and how it is correlated. So that is not yet something we need to go through. I mean we went through that partly already last year when we saw in some cases and in some regions that impact already in 2023. So we expect to do more of that.

Björn Enarson (Danske Bank): I had a question also on price. I mean, you have been very successful in getting compensation, but also we have seen, OEMs coming from high profitability. And as I say, as you mentioned yourself, we need to see inflation coming to the price of the cars. But we have also seen price cuts on cars. We have also seen OEMs reporting lower profitability and accepting perhaps a lower profitability as they are investing in price in a way. Is this a situation that impact some suppliers in general? Or how has it been in the past? That is first question.

Mikael Bratt: Thank you, Björn. No, I think I see what you are referring to. But I mean, first of all, it has never been easy these negotiations, not even when we saw record profitability at the OEMs. And I think the point from my side is that it has nothing to do with their profitability or our profitability. This is inflation that needs to be passed on. It is not sustainable for us to pay our suppliers unless we can get the pass-through. So that is just something that we are very firm on and needs to continue to be firm on. There is no other way than that.

Then I think when you look at the price reductions and so on towards the end consumers, I think there is, , different reasons for that you see those prices coming down, which probably is more on an individual basis between the OEMs. So I have no comments around that, but we need to focus on our business here, which we are doing, so just to continue to press on there.

Björn Enarson: And just a follow-up and perhaps in the past, we have not really seen a correlation between car prices and your price negotiations. I mean, you have your negotiations with the team at your customers and then there are other teams setting in the price on the actual cars; or is there a correlation?

Mikael Bratt: From our perspective, there is no correlation, and I think that is my point. I mean each company takes care of their business. And in our case here, we need to get compensation for the inflation in our system.

Björn Enarson: And one more thing. I mean, last year, I would like to remember that you had an outlook that was based on an LVP a little bit below what was in the market back then or by S&P and now you are in line with them. And last year, we also saw this catch-up driven sales and now it is more assets you highlight more in line with the market. Is there a nervousness on where the market will end up when you are talking to your customers or people in the industry as we are maybe heading into more of a slowdown or more visible this year than last year?

Mikael Bratt: No, I think, at least from the dialogues we have with our customers on the way forward here, I do not see any discrepancies to what we refer to here as the minus 1% from S&P Global in general. I think there is more of this mix effect between ICE and EVs, especially in Europe, where maybe the EVs is slowing down somewhat, but it is more a mix effect there.

And for us, that is neutral, because as you know, we are well represented in both categories, and we are agnostic to the driveline question. So we do not see the effect on our end.

Closing remarks

I am confident that we will deliver a substantial increase in sales, operating cash flow and adjusted operating income in 2024 while maintaining substantial shareholder return.Our actions are creating both short-term and long-term improvements, and we believe these actions enable us to take important steps towards our targets. While we remain agile and prepared for more adverse market development should that be necessary.

Autoliv continues to focus on our vision of saving more lives, which is our most important direct contribution to a sustainable society.Our first quarter earnings call is scheduled for Friday, April 26th 2024.

Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, stay safe.

[END OF TRANSCRIPT]