Autoliv Q1 2024 Results

Friday, 26th April 2024

Introduction

Anders Trapp

VP Investor Relations, Autoliv

Welcome

Welcome, everyone, to our first quarter 2024 earnings call. On this call, we have our President and Chief Executive Officer, Mikael Bratt, and our Chief Financial Officer, Fredrik Westin, and me, Anders Trapp, VP Investor Relations.

During today's earnings call, Mikael and Fredrik will, among other things, provide an overview of our strong sales, earnings and cash flow development in the quarter, how our strong balance sheet and asset return rates support the continued high level of shareholder returns. They will outline the expected sequential margin improvement in 2024 towards our targets. And we will also, as usual, provide an update on our general business and market conditions. We will then remain available to respond to your questions. And as 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 some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly earnings release, which is 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 will now hand over to our CEO, Mikael Bratt.

Overview

Mikael Bratt

CEO, Autoliv

Q1 ’24 Key Highlights

Record first quarter sales and broad-based improvements

Thank you, Anders. Looking on the next slide. I want to express my appreciation to the entire Autoliv team for their unwavering dedication to achieve our goals and for delivering another strong quarter in a challenging environment.

In the first quarter, global light vehicle production declined year-over-year by around 1% according to S&P Global. We saw no improvement in call-off volatility compared to fourth quarter 2023. Despite somewhat weaker-than-expected light vehicle production, we achieved our margin indication for the first quarter, and we are on track towards our full year guidance.

In the quarter, organic sales grew by 5%, outperforming light vehicle production significantly, especially in India, South Korea and Japan. The strong growth was mainly a result of product launches last year.

We generated a broad-based improvement year-over-year in key areas, including gross margin, operating margin and operating cash flow. This quarter marks the seventh straight quarter with more than 30% year-over-year increase in adjusted operating profit. The debt leverage was virtually unchanged versus Q4 2023 despite share repurchases of $160 million in the quarter.

Under the current stock repurchase programme, we have repurchased and cancelled 6.5 million shares for close to $630 million. We are making progress towards our previously announced intention of reducing our indirect workforce by up to 2,000 people. We expect savings of around $50 million in 2024 from these initiatives. We are reconfirming the full year 2024 guidance, which sets a strong base towards continued high level of shareholder returns and our adjusted operating margin target of around 12%. However, the heightened seasonality of earnings of prior years is likely to be repeated in 2024.

Now looking at the sustainability highlights on the next slide.

Q1 ’24 Sustainability Highlights

Sustainability is a fundamental part of our business strategy. It is an important driver for market differentiation and stakeholder value creation. Guided by our vision of saving more lives, we are driving a number of activities to take significant steps towards our climate commitment. For example, during the first quarter, we successfully issued a second green bond using Autoliv's sustainability financing framework aligned with the ICMA Green Bond principles.

The bond drove significant interest from debt investors, reflecting the strong support for Autoliv's climate and sustainability agenda. Following Autoliv's first partnership in 2021 with SSAB, for fossil-free steel, we are now introducing two additional collaborations for carbon reduced steel with Arvedi and Thyssenkrupp. The aim is to reduce greenhouse gas emissions in our products by utilising low emission steel and increased use of recycled material.

In addition to renewable electricity instruments, many Autoliv sites are increasing the use of on-site solar energy generation capacity. On this slide, you can see one of the new solar parks in Utah, US, supporting our operations. We are partnering with BASF to introduce a new type of design for recycling PU foam for steering wheel rims. This new type of foam will enable simplified and scalable recycling.

Significant Sequential Cost Improvements

Looking on our cost improvements on the next slide. We continue to generate broad-based improvements in key areas over the last 12 months. Our direct labour productivity continues to trend up, supported by the implementation of our strategic initiatives, including automisation and digitalisation. Year-over-year, we have reduced our direct production personnel despite higher volumes.

Our gross margin decline from the seasonal strong fourth quarter improved by 170 basis points year-over-year. The improvement was mainly the result of the higher direct labour efficiency and reductions within the indirect workforce. Volume growth and customer

compensation negotiated last year. 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 60 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.

Q1 '24 Financial Overview

Strong sales and profit development

Sales in the first quarter increased by 5% year-over-year despite lower light vehicle production, a negative regional light vehicle production mix, and unfavourable currency translation effects. The sales increase and our cost reduction activities led to a substantial improvement in adjusted operating income, increasing by more than 50% to $199 million from $130 million last year.

The adjusted operating margin was 7.6% in the quarter, an increase by 230 basis points compared to the same period last year. Operating cash flow was $122 million, which was $168 million higher than in the same period last year as a result of improved working capital effect versus last year.

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

Structural Cost Reduction 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 mid-last year with intent of reducing our indirect headcount by up to 2,000. We estimate that the annual cost reduction will amount to around $130 million when fully implemented, with around $50 million already in 2024 and around $100 million expected in 2025.

For 2024, we expect to cash out approximately $85 million related to these initiatives. At the end of first quarter, our indirect headcount had declined by around 1,000 or by more than 5% since a year ago with the majority of the decrease within production overhead, especially in best cost countries.

We are already seeing a positive impact on direct labour productivity as a result of our initiative to reduce the direct workforce by the equivalent of up to 6,000.

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

Q1 '24 Sales Growth and Regional Sales Split

Our consolidated net sales increased to more than $2.6 billion, a new record for the first quarter. This was approximately $120 million higher than a year earlier, driven by price, volume and product mix, partly offset by lower light vehicle production, a negative geographical light vehicle production mix and currencies.

Currency translation effects reduced sales by $12 million or by 0.5%.

Looking on the regional sales split. Asia accounted for 37%, Americas for 34%, and Europe for 29%. The lower than usual share of the total sales in Asia was a result of the Lunar New

Year and low light vehicle production in Japan due to customers having certification issues with certain vehicle models.

We outlined our organic sales growth compared to light vehicle production on the next slide.

Q1 ’24 Organic Sales Growth – Outperforming Global LVP by 6pp

I am very pleased that our organic sales growth outperformed global light vehicle production significantly, as we continue to execute on our strong order book. According to S&P Global, first quarter light vehicle production decreased by 1% year-over-year. This was more than 1 percentage points lower than expectations at the beginning of the quarter, with most of the lower-than-expected production coming in Japan, and with global OEMs in China.

We estimate that geographical light vehicle production mix had 140 basis points negative impact on our outperformance. In the quarter, we outperformed global light vehicle production by more than 6 percentage points, with strong performance especially in rest of Asia and in Japan.

The strong outperformance in rest of Asia was mainly driven by India, where sales outperformed light vehicle production by 20 percentage points due to higher installation rates for side airbags. In comparison, the modest outperformance in China was mainly a result of unfavourable customer mix following strong light vehicle production growth for lower safety content vehicles.

Q1 ’24 Key Model Launches

On the next slide, although we see some changes to our customers' plans for model launches, especially for EV models, we expect a record number of product launches for 2024. Despite some changes to model launch plans by some customers, the trend towards electrification continues, although at a somewhat slower pace.

On this slide, seven models are being made available as electrical versions. The models shown here have an Autoliv content per vehicle from around US$130 to over US$400.

In terms of Autoliv sales potential, the BMW 5 Series Touring launch is the most significant, followed by the Subaru Forester. The long-term trend to higher content per vehicle is supported by front centre airbags on three of these models, more advanced seatbelts and pedestrian protection airbags and hood lifters.

Another interesting launch is the Tata Punch EV that illustrates the trend towards more sophisticated safety systems and higher safety content in India.

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

Q1 ’24 Financial Overview

Thank you, Mikael. This slide highlights our key figures for the first quarter of 2024 compared to the first quarter of 2023.

Our net sales were $2.6 billion. This was a 5% increase. Gross profit increased by $64 million or by 17% to $443 million, while the gross margin increased by 1.7 percentage points to 16.9%. The adjusted operating income increased from $131 million to $199 million, and adjusted operating margin increased by 230 basis points to 7.6%.

Non-GAAP adjustments amounted to $5 million from capacity alignment and antitrust-related matters. Adjusted earnings per share diluted increased by $0.68, where the main drivers were $0.54 from higher operating income and $0.10 from lower income taxes.

Our adjusted return on capital employed and return on equity increased to 20% and 21%, respectively. We paid a dividend of $0.68 per share in the quarter and repurchased and retired 1.4 million shares for around $160 million under our US$1.5 billion stock repurchase programme.

Q1 '24 Adjusted Operating Income Bridge

vs. prior year

Looking now on the adjusted operating income bridge on the next slide. In the first quarter of 2024, our adjusted operating income of $199 million was $68 million higher than the same quarter last year.

Our operations were positively impacted by cost saving activities, higher volumes and commercial recoveries, partly offset by headwinds from general cost inflation. The net currency effect was $8 million negative, as we continue to see negative effects mainly from the strengthening of the Mexican peso and the weakening of the Japanese yen and Korean won, but partly offset by positive impact from the Turkish lira.

The impact from raw materials and out-of-period cost compensation were negligible. Costs for SG&A and RD&E net combined was $4 million lower despite labour cost inflation. In relation to sales, SG&A and RD&E net combined declined by 60 basis points.

As a result of our cost saving activities, the leverage, excluding currency effects, on the higher sales was substantially above our normal 20% to 30% range.

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

Cash Flow

Strong performance from working capital and higher net income

For the first quarter of 2024, operating cash flow increased by $168 million to $122 million compared to the same period last year, mainly due to improved working capital effects versus last year.

Capital expenditures net decreased to $140 million from $143 million last year. In relation to sales, it was 5.4% this year, down from 5.7% last year. The free cash flow improved by $171 million compared to the same period the prior year, mainly due to the improved operating cash flow. The last 12 months cash conversion, defined as free cash flow in relation to net income, was 108%.

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

Trade Working Capital in Relation to Sales

During the first quarter, trade working capital increased by $104 million, driven by $123 million lower accounts payables, partly offset by $15 million in lower inventories and by $4 million in lower receivables. The lower inventories and receivables were mainly due to lower sales than in the fourth quarter of last year.

Compared to the same period last year, trade working capital decreased from 14.1% to 12.8% in relation to sales. Our capital efficiency programme aims to improve working capital by $800 million. And to-date, we have achieved around $500 million.

Improvements in receivables and especially in inventories are lagging due to the high call-off volatility and hence planning challenges that cause inefficiencies. Over the coming years, we expect the inventories to improve significantly in tandem with reduced call-off volatility.

Now looking on our leverage ratio on the next slide.

Debt Leverage Ratio

Our continued focus on balance sheet efficiency is supporting our strong performance for cash flow, cash conversion, and return on capital employed. I am particularly pleased with our leverage ratio, which improved compared to a year ago, despite investing in our footprint and returning $700 million to shareholders.

The debt leverage ratio at the end of March 2024 was 1.3 times, up 0.1 time from last quarter. Compared to the fourth quarter 2023, our net debt increased by $184 million, while the 12-month trailing adjusted EBITDA improved by $72 million. We expect that our debt leverage and positive cash flow trend will allow for continued high shareholder returns going forward.

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

Strong Balance Sheet & Cash Flow Supporting Shareholder Returns

Repurchased 6.5 million shares for $627 million under current mandate

Over the years, Autoliv has shown its ability to generate solid cash flow in periods with varying market environments. 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.

During the last 12 months, we have returned around US$700 million to shareholders through both dividends and share buybacks, a new record for the company.

Over the last five years, we have reduced the net debt significantly, while returning $1.5 billion directly to shareholders. This includes stock repurchases and cancellations of 6.5 million shares for a total of close to $630 million as part of the current stock repurchase programme.

Since we initiated the current stock repurchase programme in 2022, we have reduced the number of outstanding shares by more than 7%. We 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 efficient balance sheet that supports our shareholder returns on the next slide.

Efficient Balance Sheet to Support Shareholder Returns

A strong balance sheet and good return on capital employed is fundamental for long-term shareholder value creation. Despite operating margin impacted by the challenging market environment for the past five years, our return on capital employed have remained strong, averaging around 17%.

Our capital turnover rates, meaning our sales in relation to average capital employed, has improved substantially over the past three years and is now significantly above our five-year average.

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

Conclusion

Mikael Bratt

CEO, Autoliv

Light Vehicle Production Outlook

Global LVP to decline by ~1% in 2024

Thank you, Fredrik. On to the next slide. Despite still elevated interest rates, the global light vehicle production continues to show relative strength.

S&P Global's updated forecast for full year 2024 indicates a modest decline of 0.4% instead of 0.8% three months ago, with additional volume increases primarily in China and North America.

Drivetrain mix developments varied by region as certain markets faced somewhat slower EV growth rates, while other areas continued to see rather high demand for EVs. S&P Global expects second quarter global light vehicle production to increase by close to 3%, while they see second half of the year declining almost 2% compared to last year.

Light vehicle production in China continues to be supported by strong EV demand and export activity. The outlook for North American light vehicle production for 2024 was revised higher to 14.6 million units on demand resilience, less impact from supply chain issues and increasing inventory levels of new vehicles.

The light vehicle production forecast for Europe has increased slightly to minus 2%, mainly due to stronger than expected actuals in the first quarter. Based on S&P Global's forecast and our own analysis, our 2024 guidance is built on a global light vehicle production decline of around 1% for the full year.

Now looking on the business outlook on the next slide.

2024 Business Outlook

We continue to see significant improvements in adjusted operating margin in 2024 compared to 2023, supported mainly by: organic sales growth, a more stable light vehicle production, structural and strategic initiatives, cost control and customer compensations. We continue to face inflationary pressure, especially labour costs, and we expect compensation for what is in

excess of what we can offset through normal productivity measures. The discussions with our customers are progressing according to plan.

We anticipate that price adjustments and cost compensations will gradually throughout the year offset cost inflation. We expect the pattern to be similar to the quarterly pattern seen in 2022 and 2023.

Looking at our 2024 financial guidance on the next slide.

Full Year 2024 Guidance

Based on global LVP declining ~1%

This slide shows our full year 2024 guidance, which excludes effects from capacity alignment, antitrust-related matters and other discrete items. Our full year guidance is based on a global light vehicle production decline of around 1%.

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 US$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 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

Colin Langan (Wells Fargo): It seems like your recovery seems to be trending well in Q1, but there have been some concerning headlines. I think at least one automaker has announced some sort of no more claims policy. Are you finding it harder to get recoveries from automakers? Is there a lot more pushback as we are starting the year?

Mikael Bratt: Thank you for your question. And I think I have mentioned it many times before and it is a fact that, I would say, it has never been easy to negotiate these claims. However, I think that over the last two years, we have found a way of working together with our customers and how to identify a fair compensation. And we have also mentioned it is a very detailed negotiation because it is a fact-based and evidence-based discussion.

And as we have indicated for you here in the first quarter, we are progressing according to plan. And yes, I think we have good discussions with our customers on the way forward. But of course, it is tedious work to go through.

Colin Langan: Got it. I think one of the other factors of getting to the 12% was the lack of call-offs on schedules. I mean, how is that trending? Is that getting closer to back to historical norms? Or is there still room there to improve?

Mikael Bratt: Compared to one year ago, of course, we see improvements, and we saw a gradual improvement during 2023. We ended the year over around 90%-ish accuracy when it comes to the call-offs. And now in Q1, we do not see any sequential improvement. So we are still at around 90%. However, what we see is, of course, that it is not the same

customers that has the same challenges. So it varies a little bit between the customers, but in large it is very much the same as we had in Q4.

Colin Langan: And the 90% compares to like the 98% historically?

Mikael Bratt: Yes. I mean before the pandemic and what we see as normal is more the 98% to 100% accuracy.

Mattias Holmberg (DNB Markets): A bit curious on the margin guidance. Given that you come in stronger than expected in the first quarter and still leave the full year guidance intact, does that imply that the year will be less back-end loaded? Or is it simply that you do not think that the Q1 beat was material enough to warrant a raised guidance for the full year?

Fredrik Westin: Thanks for the question. Yes, we had a bit weaker top line in the first quarter than expected, but that was offset by the better cost control and also some of the cost reduction activities coming through faster than we had planned. But that does not really change the picture for the full year in terms of our expected cost savings.

And so for the full year, I think we had a good start of the year, but most of our assumptions for the full year remain intact, and that is also why we stick to the full year guidance.

Mattias Holmberg: I have another question on the phasing of your market outperformance for the year. Given what seems to be some delays you mentioned here, electric vehicles in particular, does that change in any way when you expect to see your outperformance? Or should we assume that the 5% or 6% that your organic growth guidance implies will be quite evenly spread throughout the year?

Fredrik Westin: We have not indicated really how it plays out here between the different quarters. I think when you see the change in the launch programmes or the movements between the different platforms, I would say due to the very diverse portfolio that we have and the neutrality when it comes to our products and the driveline connection, we expect very limited, if any, impact from this. Of course, there is some work needed to be done to reschedule any plan. But in terms of the overall launch and outperformance, no impact from that or very limited.

Mattias Holmberg: A quick final one just on raw materials, a small headwind in the quarter. Do you have any visibility on where that is tracking for the second quarter?

Mikael Bratt: We do not guide raw materials on a quarterly basis. But I mean, overall, we expect raw materials to have a smaller impact for the full year. We see improvements on steel and non-ferrous metals, but that is offset on the textile side mainly. And also, we expect to have increases on electronic components, but more or less a fairly neutral development for the full year.

Dan Levy (Barclays): Just wanted to get into the pricing cadence for the year. Maybe if you could just comment there. I think the comment you just provided implied that the 1Q margin strength was driven by better cost control. But maybe you could just provide some comments on how the pricing benefits factored into the 1Q strength. Was anything pulled forward or was that as planned?

Fredrik Westin: Yes. I mean we had commercial recovery also in the first quarter in line with our expectations. And as we have said here that we are expecting a gradual

improvement on the compensation for the inflationary headwinds throughout the year. So we do expect higher commercial recoveries in the second quarter sequentially.

But then also we said that we do not expect to have an identical quarterly pattern as we had last year with a step up in every quarter, but that Q2 and Q3, the gap between those two quarters could be a bit narrower this year than last year. But that is, I think as much as we can say of how we expect the cadence of the pricing to come through.

Dan Levy: Great. And then a second question is just on some of the outgrowth dynamics. And maybe just two parts to this. One, maybe you could just provide a comment on the outgrowth in China, which is a contrast versus, I guess, some of your peers. The other one is, I know we do not spend a lot of time on India. But India sales growth at 27%, which I think now with that basically contributed to, even though it is a small base of sales, that is like a whole point of outgrowth for you. So maybe you could just talk about what is going on in India and the sustainability of those results? Is that going to be a meaningful contributor to growth in the future for you?

Mikael Bratt: Thank you. I think what you see here is a reflection of our market position in the different countries. We have a market-leading position in China, where we are working with a broad-based customer portfolio. And obviously, we are on the main Chinese OEMs and have been working with them for a long time. So as they grow, of course, we grow together with them as we move forward here.

India is a very interesting market for us. Also there we have a local presence. And we have, in the last couple of years, also invested in our footprint there to make sure that we are ready and have the capacity for what we have been expecting to see, which is then an increased focus on content and safety regulations in India, and we see that now is coming through. And in India, we have a very strong position as well and a market-leading position. So we look very positively on both these countries.

And India, for sure, is taking significant steps to increase the required rules and regulations around the required safety components in their vehicle. And today, India has grown to become around 4% of our global turnover. So quite meaningful market here and we expect that to grow one very positively viewing that opportunity.

Björn Enarson (Danske Bank): On India, again. I mean you have had higher market shares in your backlog for quite some time. And where are you now in terms of market shares in India? And do you still expect that according to your backlog to continue to grow in the next few years?

Mikael Bratt: We are really in a market-leading position there, and we have 60% of the Indian market, and that is, of course, something that we intend to defend and grow. And as I mentioned before, we have made investments in India in the last couple of years, where we have renewed our footprint, and we have also added capacity and broadly integrated more into the Indian market. So we have now an inflator plant in India, which we did not have before, for example, in order to also respond to the increased demands coming in India here. So yes, I feel we are well positioned here to continue to grow with the Indian market.

Björn Enarson: Capacities there, clearly.

Mikael Bratt: Yes.

Björn Enarson: And then second thing on EV. I mean, what is your take on why EV in certain markets is growing less or less popular? I mean, I guess, and you repeat that you are quite agnostic to the driveline, but still what is your take on that?

Mikael Bratt: I think it is a huge range of reasons in certain markets. I mean, it is very individual for the market, I should say, rather. I mean, in some markets, there has been incentives which has disappeared. It has also been more costly to invest in an EV than a regular vehicle. And of course, now if the overall economic pressure on household is higher, maybe you are not prepared to make investments, etc.

And then also, I think there is some challenges in certain markets when it comes to charging capacity and availability, etc. So of course, there is a lot of things that influence the respective markets. But I would say that the trend for increasing EVs is here to stay. So it is more, I have got to say a bump on the road.

Michael Jacks (Bank of America): My first question is going back on China. With the exception of Chery, your business there was more influenced by the activities of foreign OEMs in Q1. Could you just remind us where does your exposure to domestic OEMs now stand in China? And how is that expected to evolve going forward based on what you currently see in your order book?

Mikael Bratt: Yes. I think when you look at our presence with the Chinese OEM, I feel very comfortable in the close collaboration we have here and we expect the share of the Chinese OEM to continue to grow of our sales in China. In Q1, we are at 30%, and we expect the full year to increase to 40% pacing. So yes, continued increased sales from Chinese OEM as they continue to take market share and grow as well here. So well-positioned with our customers there.

Michael Jacks: Yes, that is quite a big step change. And then my last question, just going back to the lack of improvements in call-off accuracy in Q1. Is that being driven now by volatility on EV platforms? Or are there still some other supply chain tensions around which you might be able to elaborate on?

Mikael Bratt: No, I think it is very much a mix of supply chain issues mainly. And I think you can find the whole range here from still challenging logistics in the world's logistics flows here and ship accuracy and so on. And in some areas, you have some labour challenge with high turnover and lack of workforce. So it varies broadly between the different customers, I would say, and their respective supply chains.

Hampus Engellau (Handelsbanken): Two questions from me. First question is on the 6 percentage point outgrowth on the Q1 numbers. If you could maybe add some little bit flavour of how much is light market share content growth? And if there is also an element of price there? And second question is on orders. I know I understand what really the orders were. But just to get a sense on your fair share of activity in Q1, even if you do not want to comment on market shares, etc.

Mikael Bratt: Thank you. I think, on the outperformance side, it is, of course, content growth that we have talked about when it comes to content per vehicle here, which is in the range of 1 percentage point to 2 percentage points. And then pricing is a part of it, but then

of course the important contributor is the market share growth as we launched the new platforms.

So I would say, mainly CPV and market share growth as we look at the quarter here, but also for the full year. Pricing, as we said, it comes sequentially, contributing throughout the year, but we also got some in the quarter. But we do not break down the exact details on it, but you have the components there.

When it comes to the new order intake, I would say Q1 has been relatively low quarter in terms of award activities from our customers, and that was also according to plan. So nothing strange there. But I feel that we continue to gain orders to defend the market share that we are in here and supporting our way forward in a good way. So backfilling the order book in a good way.

Jairam Nathan (Daiwa Capital Markets): So I just wanted to dig a little further on the last question. If I look at your EBIT walk, $74 million, and it almost seems like the incremental margins is above 50%. Now does that imply that the recoveries was probably a bigger portion, or your cost-saving activities are kicking in? So like how should we think of incremental margins going forward? Yes, and I have one more question.

Fredrik Westin: I think the high operating leverage was a combination of a couple of factors. And of course, the organic growth is one factor, but then it is mainly the contribution here with the cost reductions we have done on both the indirect labour side, but also the very good cost control we saw in the first quarter and also the very good advancement we have on the direct labour productivity. Those are mainly the factors why we get to such a high operational leverage and much less driven by pricing.

But then also we had slightly lower premium freight costs in this quarter related to the better call-off stability from our customers when you compare it year-over-year. So it is really the underlying operational performance that is driving the leverage.

Jairam Nathan: Okay. And when you look at the regions, the regional mix and regional performance, have you considered exports, because you talked about South Korea being strong, and we are seeing a lot of exports out of South Korea, especially into the US. I am guessing those are higher contented vehicles. So have you done some analysis on how much is exports helping you in terms of content?

Mikael Bratt: We have a structure, and I would say, an approach where we sell to our customers in the regions where we produce. Then, of course, our customers can then export their vehicles to different parts of the world. But it does not really change our supply chain to our customers here. So we look at where is the vehicle produced, and that is the basis. And I do not see that we are going to change that. I think this regional approach and decentralised operational responsibility is serving us well.

And yes, it is something we are going to continue to build on.

Agnieszka Vilela (Nordea): I have two questions. So my first question is, again on the out of period compensations. These were quite significant in both Q2 2022 and 2023, I think you reached some $30 million each of these quarters. So the question really is, will the Q2 this year be as important quarter for you to close negotiations and receiving payments? Also do you hope to recover similar level of compensations?

Fredrik Westin: I mean, typically, when we have these negotiations, our ambition is to get compensation for, say, the full year. So we would expect that there should be some retroactivity back to 1st January with the negotiations we closed here in the second quarter. But how much exactly that will be remains to be seen.

Our focus is to get the right height on the compensation, and that is more important to us. So yes, we will come back here in the second quarter of how much retroactivity in that pricing that we negotiated in the second quarter would then be shown.

Agnieszka Vilela: All right. And just a follow-up on that. Are you already closing the negotiations? Or are they still proceeding into Q2?

Fredrik Westin: As I already indicated before, we have closed negotiations and part of negotiations already here in the first quarter. But also, the majority is still outstanding, and then those are the ones we are targeting here to close in the second and third quarter of the year. But it is an ongoing process and it is not always likely closed all at once. You also can take it in steps and we have already secured some of the pricing effect during the first quarter.

Agnieszka Vilela: And then my second question is on the R&D expenses. R&D to sales were at about 4% this quarter. And that is obviously a good improvement if we look at the recent years being it is at 5-6%. So could you please remind us what is driving the R&D cost efficiency? And also, I think you write in the report that specifically in Q1, you had some maybe extra engineering income. So if you could give us a bit more colour on that?

Fredrik Westin Yes. Even in the 12% margin target, and then the way to get there back in 2019, we said that we were striving for a better RD&E efficiency. And then that is, I think, what you are seeing coming through here now. In relation also to the 2,000 headcount reduction target on the indirect side, there is also part of that allocated to RD&E and also some of those savings we do see come through already now as well.

Then the engineering income part, it can fall in one quarter or the next quarter. So that can always impact a little bit between Q1 and Q3. And then you know that we seasonally have a stronger recovery quarter in the fourth quarter. But I would not say that there was anything special here on the recovery side in the first quarter. It is more again that the cost control and also headcount reductions we see come through also impacting RD&E costs positively.

Ross MacDonald (Morgan Stanley): Just to come back to India once more and linked to that point around India supporting top line growth. Could you maybe frame how much growth you expect in India from a content per vehicle perspective in dollar terms? You mentioned regulatory improvements, but it would be helpful to understand where we are starting from and how you expect that to progress over the next few years?

Mikael Bratt: Yes. Thank you. I mean today, we are around $100 in India. So I mean, they are significantly below, you could say, the mature markets average here. But we expect it to quite rapidly grow to $150 to $170 per vehicle here in the next coming year or so. There is a quite rapid increase here. And as I said, it is driven also very much around the legislations.

And you may recall that last year here, there was intention to put in legislations on certain number of airbags in a vehicle, which later was retracted. But I would say, the majority of

the OEMs decided still to carry on with that ambition. So if you see this increase coming through, then of course, that is an important contributor to the $150, $170.

Ross MacDonald: Excellent. Yes. So some of that very strong growth, I guess, we expect it to continue with the market share and the CPV expansion?

Mikael Bratt: Yes.

Ross MacDonald: That is great. And second question is on North America and mix trends in North America. There is obviously a big debate around stretched affordability for consumers and whether that will weigh on mix in the future. Just be curious if you are seeing any signs of mix shifting lower in North America in order bank perhaps from large SUVs into smaller SUVs or crossovers, or any trends like that?

Mikael Bratt: I mean, we see what you are referring to here as well. But in our own numbers and in our dialogues with customers, we are not really seeing that and we do not expect that to have any real impact on our sales. Once again, the diversity here in terms of our portfolio will support us in any transitions like that. So not really a concern from our side here.

Jason Getz (Mizuho Securities): When you look at inflationary pressures for this year, how should we think about that moving through the year? I assume the increases are still rising year-on-year, but wondering more near term, how that is trending? Is that starting to stabilise? Are we still seeing increases on a sequential basis?

Fredrik Westin: There will be still some sequential increases, and that is mainly on our material costs, some of the components that we purchase, and then mainly on the labour content of those purchase components.

On the labour cost side, the vast majority is behind us. I mean, that all happened in the first quarter of the year. There might be a few further labour cost increases that we can expect in higher inflation countries, but that should not have a significant impact. So labour cost, to a large extent, is behind us with what is happened in the first quarter, but we still expect some on purchase material from our suppliers.

Jason Getz: Got you. And then when you look at the broader LVP for the year, how much do you think of that is vehicle inventory build versus true sell-through demand? Do you think we are seeing like kind of a larger inventory build this year than we have in the past few years? How should we think about that moving forward?

Mikael Bratt: We do not expect that. I think right now, we are at a point where it is quite calibrated between supply and demand. I think the restocking, to a large extent, has already happened. I mean, in China, we are at normal levels of inventory, likewise in Europe. In the US, we see, with historical measurements, lower level of inventory, but I would say it is in line with what the OEMs have indicated where they would like to be.

So no indications or any plans on bringing that industry inventory up. So short answer I would say is that no inventory buildup. It is all about the demand from end consumer here.

Mattias Holmberg(DNB Markets): Yes, just if you could, it would be very helpful to share any insights on how much cost savings you managed to realise in the quarter in the context of those $50 million you are targeting for the year?

Fredrik Westin: Yes, I mean, I think we said that we are maybe a bit ahead on the $50 million. We have not broken it down by quarter. By design, the larger part would actually come in the second half of the year, because so far we have taken out more headcount in the best cost countries than we have in high cost countries. So we expect here of Germany, for instance, is coming towards the second half of the year and even more so next year. So it is more second half than first half, and we are a little bit ahead of time in the first quarter.

Mikael Bratt: The world is changing at an accelerating pace, and Autoliv has launched a number of strategic initiatives to meet the needs of our customers, to enhance shareholder value, and deliver safety solutions for society.

I am confident that we will deliver a substantial increase in sales, operating cash flow, and adjusted operating income in 2024, supported by footprint optimisation, structural cost reductions, cost compensations, and a committed focus on innovation, quality and sustainability, and our most important direct contribution to a sustainable society, saving more lives.

Our second quarter earnings call is scheduled for Friday, 19th July 2024. Thank you, everyone, for participating in today's call. We sincerely appreciate your continued interest in Autoliv. Until next time, drive safely.

[END OF TRANSCRIPT]