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FINAL TRANSCRIPT

Autoliv Inc Capital Markets Day - Strategic Direction and Targets

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PRESENTATION

Anders Trapp *Autoliv, Inc. - VP of IR*

Welcome to Utah.

So glad that so many of you have chosen to take the time and effort to be here, today and to share this beautiful day with us. I am sure it's going to be a great day, where you're going to learn a lot about the improvement opportunities that we have in our company and how our strategic initiatives ties onto what's going on, on the shop floor.

The agenda for today: We'll start with Mikael with something our new strategic directions and the updated targets and then there will be the first tour of the day, where we will demonstrate exactly what our strategic direction really means in reality.

And the inflator facility we have here in Ogden, in Birmingham city, is very well advanced in automation, but you will still see that there's a lot of improvement projects going on.

After that, we'll transfer to Ogden tech center. And for the main presentation block starts at 11. And after the Q&A, there would be a very efficient lunch served. Followed by interactive exhibitions and plant tours with insights into the future, what we see in terms of products and production and research into the long-term market drivers.

And then at 5 p.m. we will transfer to Snowbasin for a nice dinner.

We have the safe harbor statement, which is an integrated part of this and all other presentations held during the day and it will include the Q&As that will follow.

And with that, it's time to invite Mikael Bratt, President and CEO, to talk about strategic directions and targets. Mikael, please.

Mikael Bratt *Autoliv, Inc. - President, CEO & Director*

Thank you, Anders. Very good. Good morning to you all. It's a pleasure to see you here with us today. But before we jump in to the presentation, let me start with a short movie.

(presentation)

So once again, warm welcome to Autoliv Capital Markets Day 2019, here in Utah. I really appreciate you taking the time and effort to join us here today. But I think we have a great agenda in front of us that I think you will find worthwhile, coming here. So Utah here is the birthplace of our U.S. business.

It came out of the airbag industry here, came out of the core competence around rocket fuel development that took place and is taking place here in Utah. So you could actually say that our airbag technology here is really coming out of rocket science here and that's what we're talking about here today.

So we are really pleased to be here in the birthplace of our airbag technology, so to speak.

During the day today, we will take you through the journey that we have in front of us here, capturing the new technologies that are, I would say, available for us when it comes to developing our products, but also developing our processes.

And I think there's a lot of concrete exciting stuff to show you there. And with this new technology and the drivers in our industry when it comes to new development, we see that we also can broaden our safety products into new opportunities. This is done also in a situation where we are starting from a strong position as a market leader company, and we also have a strong order book where we see continued growth coming out of -- from the -- in the years to come. So a strong starting point. And I think, here we are now in a situation where we as a fully focused company on our core products here new opportunity to capture these opportunities.

Once again, warm welcome to the Capital Markets Day 2019, here in Utah.

We are really looking forward not only to the day-to-day, but also into the future here with great anticipation.

So, Utah. Why did we select Utah to have our Capital Markets Day? I think it is very important to be in one of our sites where we have and can demonstrate concrete activities connected to our overall strategy that we have alluded to, before, on our opportunities.

Here in Utah we have a number of plans where you basically have the end-to-end flow of bringing an airbag module to the customers here.

We have the propellant plant here, we have the initiator production, we have the inflator production, and that's what we have exactly in this plant. And then we have the airbag assembly plant, which you will come to later today. And we have a tech center that is closely connected to our operational activities here. So really and end-to-end perspective on the site here.

We are fully focused on creating shareholder value, and it all begins with creating value for all our stakeholders here.

The foundation is really our strategic initiatives that comes out of our strategic plan, where we are looking at, I would say, a very clear roadmap to what to do. So the how and the roadmap is well defined. Here we're talking about structural efficiency programs, here we're talking about the factor of the future, here we're talking about the end-to-end value chain improvements of all of that you will see during the day today.

Delivering this, creates a stronger company, and we have also legacy of being able to invest in innovation, and we have a strong history there of being the industry's first. And that's something we intend to continue to do. And I would say innovation for saving more lives with the purpose-driven company, that we are, gives us a very, very strong market position in the market position. And the market position we have today is, once again, on innovation, being the industry's first. But also when it comes to quality leadership, delivering superior quality to our customers and the result of that giving us the market leadership position that we have.

I will come back to all these fundamentals, I would say, for our journey going forward, later on here. But the market position then is what gives us value creation than for all our stakeholders. And as I mentioned before, fully focused on shareholder value, but through then value for all the stakeholders, we will get there.

So talking about society, saving more lives. For our employees, making sure that they are able to deliver what is needed to our customers, developing our employees, the attractiveness for the employees to join Autoliv, and for our customers here to have a robust supplier delivering world-class products.

But we have, with this, also very clear, I would say, approach to creating shareholder value, and you see it on this page here, where profitable growth is put in the forefront.

We're talking here about the sustainable, I would say, long-term as well as near-term growth, top line, driving profitability improvements and making sure that we are over the cycle resilient in delivering continuous improvements and increased profitability. And I would say the strength of Autoliv, historically, here, and which we intend to maintain here, is a strong cash flow generation to generate shareholder return out of that, at the same time, maintaining a prudent financial profile of the company. And we will also come back later on during the day today and dive more into the details here, but well-defined approach to creating a shareholder value.

And the best way to, I would say, show our commitment on creating shareholder value is, I would say, described in our new updated targets, where we're talking about medium-term outlook. And when we talk about medium-term here, we refer to 3 to 5 years out. And the starting point here is 2020. So that's the baseline year.

And here we see that we expect to continue to outgrow the light vehicle production with 3 to 4 percentage points per year. We see an adjusted operating margin of around 12%, the cash conversion of

more than 80%, and this is a new target that we are introducing. And as I said before, a prudent view on our balance sheet, meaning that we also here maintain then the leverage ratio targets that we have had in the past. So 1x -- around 1x leverage ratio but a range there of 0.5 to 1.5 net debt-to-EBITDA. If we go beyond the medium-term horizon here, we are saying that long-term we should grow at least in line with the market, and we should then go towards adjusted operating margin of around 13%.

So let's take a look on the growth drivers when we look now at the medium-term horizon here. As we have seen before, we still have a job to do when it comes to reduced traffic fatalities around the world.

1.3 million people are losing their lives on our roads, annually. And if we then count all the people that are injured, we are talking about 20 million to 50 million people a year. So the challenge is big here and the World Health Organization has taken on the target to reduce these numbers with 50% by 2030. And our contribution to this is, of course, very, very important as we have seen from the history here. And one of the main drivers when you look at the map here is, of course, the low income countries, where we see a catch-up work to be done when it comes to -- start to come up to the high income or the Western markets. But we see the same pattern here where the growth and the wealth in the different countries starts to move in the positive direction here, the interest and also the ability to invest in safety products increasing. And so you could say here we see the exact development as we seen in the Western world here. And a good examples of this is what you have on the right side here where we see for certainly that curtain airbag penetration in China going from 40% to close to 60% in just a couple of years. And also when you look here at the side airbag penetration in South America where it goes from just above 20% to more than 80%.

In just a few years, we see this development and of course, there is a lot of other examples also like this, where you see increasing penetration of certain types of safety products into the vehicle. So content per vehicle in the low income countries is continuing to grow. Also in the high income countries, we see the development continuing. And you saw us announcing the front center airbag just yesterday here, where we talked about that new type of airbag that is coming more and more. And you can see here that it went from basically 0 in 2018 to more than 20% in 2023 as we expect it to be. Also knee airbag, another feature that is coming, it's also moving quite rapidly in the years to come according to our expectations, and also what we see, of course, in terms of customer interests and orders.

The drivers here, of course, is also awareness. We have NCAP educating and driving the development of new features. And of course, we have some mega trends here also connected to new type of configurations in the vehicles, when we talk about, for example, self-driving cars and so forth. But also more focused on the people outside of the vehicle as well as more Personalized Restraint System here.

More sophistication coming in the Western world here also in terms of advanced products.

So when we look at this, content per vehicle and also then, of course, building in what we see in our order books and our market share growth expectations, we see that adding up to then 3% to 4% outperformance, on top of a light vehicle production that we expect to be between 1% and 2% annually

in the medium-term here.

So looking now on the starting point, and I think as I already mentioned here, we have a strong starting position and well -- we're recovering well the different product types we are talking about here.

So looking at our market share development, you have seen here, we were at 38% in '17, and as we already communicated, we moved up to 40% in 2018. That's also seen across the different product types that we have. So market leader globally, but also market leader when you look at the different product families that we are offering. The way we have got here is built on different core methods, a number of core methods that we apply inside the company. Of course, Autoliv Production System, where we're talking about lean and lean approach to all the different types of activities we have in the company; quality focus; a Q5 approach that has been in place since 2010; 1P1P; where we are looking at product development and production processes together in order to drive cost effectiveness and also, I would say, robustness, when it comes back into the quality question here; and of course, innovation, being the market leader and innovator in the industry here is core fundamentals for us when we move forward here. And it has paid off, as you can see here, we stand for around 2% or less than 2% of all the vehicles globally, where we should also consider and of course, the population that we have out there, I think that's a good evidence of our quality focus inside the company. But also on the productivity side, we have seen here roughly about 5% of productivity year-over-year since the end of short year in 2011.

Once again, a strong foundation to stand on where we now look forward.

We also are truly global here. We have a global footprint close to our customers and that's really, really important to be able to develop new products and to be a really integrated part of the customers' supply chain here in an effective way. So production tech centers, globally, to support our customers wherever they are around the globe. And that's also critical when you look on how we have been able to grow our market share per region. I've showed you this before where we have seen and expected to see market growth -- market share growth coming through, not only on a global level but also in our different regions and our expectations here for 2020 is that we have, basically across the board here, improvements in terms of regional market share. And looking even further into 2023, we expect this trend to continue. So North America to South America here, good development when it comes to market share according to our own expectations here.

The closeness to the customers and innovation together with the customer here is critical for our success.

When it comes to innovation, it's also an important parameter when it comes to continue growth. And first of all we have more work to do, as I started out to talk about when it comes to our traditional products. You see an example here of the airbag, but a lot of new opportunities also within, let's say, the traditional space. So that's something we continue to focus on and more to come during the day today here on what that actually means. But there is also a number of mega trends driving the requirement for new type of solutions. We are talking about electrical vehicles, we are talking about different interiors in

the cars that comes from the more self-driving vehicles. And already today, I would say, with driver support solutions also puts new demands on our type of products, but it also gives us opportunities to tune our systems differently with the higher number of data coming from the vehicle and signals coming from the vehicles.

So some interesting stuff in that space there.

But also new markets and here we see, of course, the vulnerable road users that has traditionally not been so much in the focus, but with the continuous effort here to saving more life on our roads, the vulnerable road users' needs to be much more in the spotlight here. And here we're also talking about the two-wheelers, and you see one examples here. So new -- broader definition of our market here gives us a lot of opportunities.

Looking at the different strategic initiatives, then that should give us increased efficiency in our operations. But before we go into any details there, let me just emphasize again here that the new Autoliv here now, post the spinoff our electronics business, roughly 15 months ago, has given us the opportunity to have a much more simpler organizational structure, simpler meaning-efficient organization to really focus cross functionally on what we're talking about here today, the traditional passive safety products, but also with a broader perspective.

We can really look after the full value chain in, I would say, a very strong way as we move forward here. So in short, we have now a new strategy. We are fully focused, the whole organization's fully focused on safety. We have a new management team in place, ready to take on the challenges here. And we see also with the support from the new technologies here, good opportunity to do some step changes when it comes to improving our processes end-to-end. So we're really looking forward to show you some examples here during the day today. And we know how to do this, and we have done in the past. And you can see here the improvements we have seen in the total value chain where we have worked intensively to reduce complexity and creating efficiency from the supplier to the customer here. And you see we worked on the supply side reducing the number of suppliers. We have seen quality measurements improving, I mean, it is quite strong numbers here, I think, if you take the middle short for example, here, 48% over a number of years at the same time, where we have seen increasing volume. So these numbers is not considering any volume adjustment here. This is actual numbers improving nonconformity events down to 48%, but at same time we have seen volumes increasing more than 50% here.

So really, really strong numbers here. And then on the productivity side, as I mentioned before, around 5% annually here. But with that said, we are not -- never satisfied here, so it's an ongoing journey to see improvements. And Autoliv Production System is a foundation for our way forward. And we have shortened the way we are applying Autoliv Production System and connecting that really to the performance. So making sure that it's sustainable improvements as we move forward here.

Of course, the Autoliv Production System is also subject to continuous improvements. So as we move

forward, we are also raising the bar and raising the ambitions when it comes to the journey ahead.

In other area, the 1P1P we talked about, when it comes to reduced complexity, I just wanted to show one example here when it comes to the seatbelts, and the seatbelt webbing production here. And as you can see here, we do quite a few meters here on webbing, actually, if you all -- add it up, it should be around 15 laps around the world and of course, if you can do that with scale and efficiency, it's great benefits here. And in 2011, we had around 50 variants of the webbing. Today, we have come down to just below 10, I think we have 9 today, actually. And then we have ambitions to go down further, so the target here is to come down to 2 variants here.

And of course, with these volumes and this reduction of variance, it gives good leverage to our webbing production here.

So continues improvements will continue to be, of course, the foundation of our improvement work going ahead and applying that across the board. But we we'll also add, I will say, more, what we call, in a tailor-made operational excellence efforts here. So we will look after the opportunities that is when you look at the whole value chain, and you can get most leverage for your efforts here. So when we look at our total end-to-end production here, we can see that we are well advanced in many areas, but we have great opportunities in others. And maybe there, we should put extra effort and also the majority in applying then the new technology is different in the different parts of the company. So it's not basically one-size-fits-all here, it is to be exactly what we are saying here, more tailor-made and more surgical in the way we are looking at driving continuous improvements here.

What we'll talk about today here also is really what we call the accelerators. And here we really want to emphasize on the modernization and design for manufacturing. It's really the 1P1P to the next level, you could say. So marrying the processes with the development of new products harder, and as I said before, here we have a new focused organization here that puts more emphasis on the cross functional opportunities here and the modernization and design for manufacturing is such an area.

Then automozation, digitalization and footprint make bi-questions also, and here really, we want to say that we are looking at all corners in the company here to see what we can do differently? And what can we do to improve the current situation here? So we are not shying away from any topics here. And also RD&E effectiveness.

So it's really looking at, I would say, the RD&E also from a production perspective and see how that can be improved further. So we can enhance our innovation ambitions here going forward with the right focus. So that's what we call the accelerators, and throughout the presentations today, different speakers will come back to these different topics here.

An example of an accelerator that we have implemented here is the seatbelt assembly where we have gone basically from a number of operators into a fully automated line. So here is a -- really a showcase on how it's possible to go for full automated lines effectively. And you will see some examples of that

also when you go around here today, not seatbelt, but from other type of production processes but the same concept. And also looking at the flow inside the plant we had in Turkey, we had the steering-wheel production there based on 3 different processes, where there were basically single flows for all 3. Now there is one flow capturing all the 3 different processes. So taking care of foaming, wrapping an assembly in the same flow. And of course, you can imagine the effectiveness coming out of that, everything from floor space to logistical costs, and also in this case, labor. So some very concrete examples of what we're talking about there.

Throughout the day here, you will see examples from AOA, talking about Autoliv Production System and how we free up floor space by being -- I mean, focusing and optimizing our flows inside the plant. Automation. Also at AOA, where we have the Driver Airbag folding process showcasing there. Here at IBC, you will see factory of the future, talking about connected production processes, and how we then gained speed in driving productivity and responsiveness in the plant. And also we will have another example of factor of the future tomorrow at ITO. So 4 very tangible activities here connected to our improvement journey here.

I hope by now you get the sense that there's a lot of different things going on in Autoliv here, driving then productivity, driving profitable growth and by that enhancing and creating long-term shareholder value. And let me then, in summary, before we hand over to the plant here, just describe then the Autoliv journey as we see it for the next few years here. And that is really to come from where we are today as a solid industry leader to an industry transformer. It is to go from our traditional focus on light vehicle production, light vehicle safety to safety for mobility and society, coming back to what I said before, broaden the addressable market here for what we are doing, capitalizing on what we are good at. And then of course, continue our operational excellence, manufacturing excellence journey by, also, here addressing the whole value chain in the same fashion here.

So next -- a step change in operational excellence, that's really what we're talking about here. And this journey then is made or done with a backdrop of continuing growing business. And as you have seen and heard us commenting before, we have had a good, continuous good order intake during the year. And actually looking at the year-to-date, as of October here, we are around 50% of new orders.

Also looking at our activities here to drive improvement and productivity in our company, we see that the facts from what we're doing with all from the structural initiatives to applying then step changes to operational excellence is giving effect. And we see here a positive trend where we have had quarter-over-quarter improvement in a falling market. So we see that it starts to give effects to our ambitions here.

Looking then into 2020, you can say that we are, as always here looking at the number of tailwinds and headwinds. We see from the tailwinds from example that we are expecting to see raw materials coming down connected to our sourcing. We see and expect the structural efficiency programs continuing to deliver. We see the strategic initiatives starting to deliver and so forth. So adding it all up, we see a number of tailwinds for 2020 here. We have noted here the light vehicle production stabilization, and I

think here we see that it should be expected to be a less dramatic year than what it has been this year. But we will come back with a more detailed outlook later on here, when we present Q4 results in the beginning of next year.

On the headwind side, we see lower inflator replacements coming our way. Depreciation and amortization are increasing as a result of more fixed installations that we are getting in place here. But also investments into the factory of the future in terms of the different projects that we are running.

But when we add it all up, we still believe that we should see tailwinds greater than the headwinds in 2020 and should give us a year-over-year improvement. So let me then finalize my presentation and state here that we are fully committed on the journey ahead here to create shareholder values. We are, I would say, confident in our ambitions here to deliver on all the different initiatives that we have in place. And we will be very focused on driving the continuous improvement journey ahead here. And we have more than 100 projects that we are either driving or that we are evaluating at this point in time. So it's close tracking and follow up on all of these initiatives. And once again, a fully focused management team on these task ahead. So time for execution, and I think, that gives a very natural hand over to Dave Anderson, our plant manager here at IBC. So he will take care of us for the next hour and so. So please, Dave, join me on stage here, thank you. Thank you.

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