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# FINAL TRANSCRIPT

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## PRESENTATION

### Anders Trapp

Welcome, everybody, to Autoliv Capital Markets Day 2017 here in Frankfurt. I welcome all of you here in the room, and all of you on the webcast and all of you on the teleconference. Today, we intend to share with you how we at Autoliv relentlessly focus on creating more value and saving more lives.

Now on stage here, we have Jan Carlson, our Chairman, President and CEO; we have Chief Financial Officer, Mats Backman; we have our Chief Technology Officer, Steve Fredin; and we have the CEO of Zenuity, Dennis Nobelius; we also have Mikael Bratt, President of Passive Safety; and Johan Lvfvenholm, President of Electronics; and I am Anders Trapp, Head of Investor Relations.

We have a lot more people here today besides those that you see in front of you. We have a number of experts from Autoliv as well as from some of our partners. In this case, we have NVIDIA and Velodyne representatives here. And they're all eager to meet you and to discuss with you the products and the technology and the future that we are heading into.

Today's agenda, I think, is very interesting. And the news this morning probably made it even more interesting. We'll start off with the strategic direction, and then we will follow up with the technology. There will be a coffee break, where I hope you take the opportunity to visit the interactive exhibition and meet and greet with the experts. We will have a financial overview and targets following on that, and then a fairly long Q&A and CEO conclusion. And then we'll have lunch and continue the interactive exhibitions with our experts.

I also want to highlight the Autoliv app that I assume all of you have downloaded. It's a practical app, lots of information, including the presentations and the press releases.

We will also shoot some questions to you during the day. And with the collective wisdom of all the people here in the room, I am sure we will arrive at some interesting answers that will be presented later during the day.



As always, we have our safe harbor statement. And as always, it's an integrated part of all of today's presentations, and it includes the Q&A that follows.

About the targets and ambitions that we will present today for Passive Safety and Electronics on a stand-alone basis, there are -- they include certain key assumptions and uncertainties, which includes that the separation is approved; that allocation of corporate costs may ultimately differ and may slightly help Passive Safety margin and compress Electronics margin; that the product portfolio remains the same; and finally, that related transaction and transition costs may not be fully reflected in the targets.

It is now my pleasure to hand over to our Chairman, President and CEO, Jan Carlson.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Thank you, Anders. Also from me, a very warm welcome hereto with this Capital Market Day 2017. It is a great day for Autoliv, and I'm very excited to be here together with all of you to give you my view and direction on the way forward for our company and for our different segments in Autoliv.

I've had the pleasure -- and I don't know if you have had the pleasure to walk the show, but I've had the pleasure to walk the show here yesterday and day before yesterday. And it's obvious that there are megatrends out there. We can see clearly the drive and focus on automated driving and connectivity. We can see new environmentally friendly powertrain being developed and focused on electric vehicles. And we can see a lot of discussions around new mobility. There is a change happening here. And is it the biggest change ever? Yes, maybe it is. New mobility, though, has happened before.

Take a look on this picture. This is a picture from Fifth Avenue in the year of 1900. Can you see the car. Well, there it is. Only 13 years later, the environment in this area have changed dramatically. And can you see the horse? Well, there it is. Changes happen only when technology is ready. If we look to the situation today and look to where we think consumers are on technology change, consumers are ready for it. Surveys out there shows that consumers are ready.

Technology is also ready. And technology is ready, but it's only ready when it is robust. Cars for Level 3 are shown. Then the Level 4 are demonstrated. So change will happen.

Are we ready? Is Autoliv ready for the change? Well, if we look into our history, we can see that we have been transforming our company several times. We have gone from mechanical seatbelts into airbags, into electronics, into digital. And if we look to the structural transformation of our company, I think it all started in 1994 when we were introduced to the stock market of Electrolux. We were free to take on the airbag revolution. We moved on into the revolution in China with the huge development of this car market. And last but not least, we have developed our Electronics business over the last 20 years from virtually nothing into where we are today. And we now believe we are ready to take the next step.

Our company is stronger than ever. Our focus has always been #1 on quality first. An important part of the story is the people and the way we act. The behavioral part of Autoliv has always been key. And it starts with me. It starts with me as a leader for this group, and it flows down to every 1 of the 70,000 big family in Autoliv because it is in the behavior you put quality first.

Technology, having the best products is another thing that is important for us. We have launched the majority of the world's first in this space over the years. But at the end of the day, whether you develop a product, whether you're manufacturing a product, it's about behavior.

This is a recent example of good behavior. Viktor Tsysar, he noticed a difference in hardness of a component for an airbag during an assembly process in Poland. He immediately stopped the line. He looked into what was incorrect. And he found out that a supplier had produced an incorrect plastic material when the molding process happened. Thanks to a swift reaction, we were able to save a lot of a problems and avoid quality issues. This is where behavior comes in, and this is where JIDOKA is important.

Sustainability is another important part for Autoliv, and sustainability is nothing new. If we start with innovation for life, saving products, technology, and in the forefront will save lives. Technology will drive products that will make us save more lives. Our commitment to our

employees is done by respect for human rights, diversity, and we will provide the safe work environment. We will limit our impact on the environment by focus on water consumption. We will look on waste. We will look on emissions from our business. And we believe that acting responsible and commit to society and sound business practice is based on our ethical standards and engagement with communities that we work in. We are creating road maps for all these activities to guide our sustainability journey.

Our strategies have been and still is the guiding principles for Autoliv. You have heard me talking about quality, One Product One Process and innovation. It is generating a superior quality record. Remember on this graph that you see here, this is an unweighted number. It doesn't take into account, the right part of this picture, our superior market share as well. This is the foundation for us and all what we have achieved so far.

But there is more to be done. There is -- there are more lives to be saved out there. And if you look to many markets, are not at all at the same standard that we are used to here in Sweden, for instance -- or here in Germany or in Sweden.

We work with governments, we've worked with support from regulatory instances to provide an opportunity to save more lives. But consumers out there are increasingly looking also to demand for comfort and convenience, but only when it is safe.

We have used a decade or more for transforming our company to where we are today. We have been transforming our company based on technology innovation. We have adjusted our footprint over the years. We have build an electronics piece that we believe is one of the biggest entities of this kind in the world. It has the product portfolio that is probably the broadest that you can find of this kind. We have build up capacity of steering wheels in best cost countries. We have restructured our operations in South America. And all of this has led to the company that we have today and transformed it to 2 units that could be ready to stand on its own feet.

But our transformation continues. We have built this company over 60 years together inside Autoliv. And I would like to take this opportunity here and now to thank everybody inside Autoliv, everybody that has contributed to this fantastic result. Now in the company, among the 70,000 people that we have today but also in the past, this is a moment in the journey where we are on, that we have been on, for the 60 last years.

But to continue to lead, we need to continue to change. And therefore, I am very happy that we are able to announce today this strategic review of separating this great company into 2 potentially great companies. And this is something that the board has decided to initiate this strategic review. The decision of separation is not yet made. And the timing for this may be towards the end of the year before we are ready with this strategic review.

The timing for -- if it turns out to be a separation and 2 stock-listed companies, the timing for the first trading may be around a year. The 2 companies would consist of Passive Safety, which is seatbelt, airbags and steering wheels; and Electronics on the other side, which is restrained control, ADAS components, brake control components and also the different type of collaboration that I will elaborate on in a little bit.

But let's start and take a look on Passive Safety. Passive Safety is a phenomenal business. In fact, we are providing, in average, 3 airbags and 3 seatbelts per car in every car produced in the world. And have in mind that far from all cars have airbags. Many cars have only seatbelts in the front still. That's a matter of fact. Over my lifetime as CEO in this company, we have produced 2.5 billion products, life-saving products. That makes me really proud on a day like this.

This, of course, means also that we have a superior market position. We are supplying to 100 brands, we have 1,300 models, and we are globally seeing a 39% market share in our Passive Safety business.

We are working extremely hard when it comes to cost efficiency. Quality, our priority #1, is, of course, there always. But in our business, it's also very important to work on the cost side. In particular, where we have seen a tremendous growth over the last couple of years, we have been able to increase our capacity in our existing plant. And what you see here is an example of how we have been able to take up 50% more production lines, 70% of more product produced per square meter and reduced by 33% material handlers without touching the site, without

touching the factory. This is done on the same floorspace. This is important when we look into the future as we have seen a strong order intake over the last 2.5 years.

If we look to the market opportunity as such, we have a \$20 billion market in Passive Safety today. This market is expected to grow to \$25 billion in 2025. And we are seeing a content increase driving this from the emerging market to a level, at some point in time, in the level what we see in the Triad. This is a content in emerging market today of \$160 compared to its content in emerging markets of \$270.

But there is more that is driving growth in Passive Safety, and this is really the fact of autonomous drive because autonomous drive will also mean that we want to fit in a different way in the compartment in the car. If you are not driving and focusing on the roads, well, then we may want to talk to our friends sitting in the car, we may want to do and sit back and relax and do something else. This will adjust -- will be forcing us to adjust the integration of airbags in the compartment.

Recently, we announced a cooperation with Adient. And this is an example how we also see collaborations and cooperations in the Passive Safety side being important looking ahead. It is not only in the Electronics side but also here, change will lead into different kind of structure.

We have been talking about a 50% or more order intake over 2015 and 2016. If you look to our order intake over the last 12 months, we are on the same level. If you look to the order intake year-to-date 2017, we are even higher. We have year-to-date received a 55% order intake of all the available orders in Passive Safety in year 2017. This drives, of course, our ability to set our targets for 2020 of \$10 billion. And of course, our long-term investment, you have heard me talking many years of investment for growth, of vertical integration, investing in new technology. This is paying off, altogether, leading to a 13% operating margin estimated in 2020.

Beyond 2020, we are also looking for further growth. As I said, light vehicle production, plus 1% going forward, due to the content growth and due to the change of products because of autonomous driving, what's happening in the industry.

So let's take a look now on the next segment, Electronics business. This is a phenomenal business opportunity. If we look to this market, it grows from around \$20 billion in 2017 to over \$40 billion in 2025, a more than a doubling of the market size. If we look to the Active Safety side, the market growth is even more impressive. It comes from around \$5 billion to the size of \$25 billion in 2025. This market, in 8 years out, is going to be equally big alone as the Passive Safety market is at the time.

So our journey in this space, as I alluded to in the beginning, it is much shorter than, of course, the entire corporation. 20 years ago, we were almost nonexistent in Electronics. Since then, we have made a very dedicated and structured development of this business. We have made several acquisitions. A first big start and change of this was the Visteon acquisition of restraint electronics in 2002. And since then, you can see how the business has evolved over time, leading to where it is today.

If we look to the Active Safety part of this business, that journey is even shorter. It virtually started with the acquisition of Tyco Electronics in 2008. We all know where that business is today, and we will see a little bit more on its development later on.

So what is Electronics? Electronics is a global entity consists of over 7,000 employees. It has 3,200 engineers, whereof 65% approximately are software engineers, an impressive asset, an impressive skill set in this world of change. It is a true global organization, and it consists of businesses, as I said, in restraint control, in active safety and in brake control. It has also brought to the market a number of world's first. It has a great history of world's first, starting in 1980s with an airbag ECU.

And if we look to the product portfolio as such, we believe that the bandwidth of the products here are probably one of the broadest in this industry in the world, and it has a leading edge. And behind this product development, again, is a number of skilled people. This is all made by our engineering workforce. It's all made by people that has a passion for saving lives. And this is key when you work with products that supports autonomous drive. It's a focus on both the customer, the application and the product.

We are building trust in our products. We are building trust in everything we do because our product never get a second chance. People need to trust their seatbelt, their airbag, and they need to trust their electronics even more. Quality and robustness is a key part of what we do. And

it's even more necessary if you look to the new world. Electronic products supporting autonomous drive is used every second, every minute that you drive your car. An airbag hopefully is never used in the lifetime of a car. So reliability, goes by nature, is a key must driver for the Electronics development. Customer trust is, of course, something that is coming from a superior record. Our quality DNA has been successfully transferred into the Electronics business from the Passive Safety history.

And again, let's look to what these results leads to from a customer commitment's point of view. And you can see here that in restraint control, coming from virtually nothing in 20 years ago, we are the leading supplier today. In active safety, coming from virtually nothing 10 years ago, we are amongst the top one.

In brake control, where we are very new, just only a couple of years ago with our joint venture with Nissin Kogyo, we have a great opportunity. This is a market of around \$12 billion. We estimate our piece -- of the \$12 billion, we estimate our piece to be around 5%. We are eager to increase our market share. The first step we announced here last year with the major order to a one Detroit 3 customer for a big platform.

But nobody can do this alone. This is an exciting environment, but clusters needs to happen. Cooperation needs to happen. One of the most important cooperation that we have is Zenuity. This is a unique combination of a company being formed with 2 owners, Autoliv and Volvo Car Corporation. It makes decision-making software towards autonomous drive. And this is possible only because we have been transferring people from Autoliv, from Volvo Car Corporation, into the same unit, working with full transparency, having access to the bit level of information without any preprocessed data filtering coming out of the sensors, taking that into account when we do the decision-making algorithms. And this is the way it4s made possible to drive a unique position. Autoliv and Zenuity together has a unique offer of modular off-the-shelf ADAS solution.

Looking to the customers, we have a simple model for our OEMs. We have what we believe are followers in one shape and form, and we have leading innovators that are driving probably their own agenda to a much greater extent. We have some customers that have internal capabilities, and we have some customers that have high ambitions. But altogether, Autoliv combined with Zenuity, we offer an entire system solution for the followers. And for the innovation leaders, we're offering modules from our systems and sensors to those customers. And the initial reactions from these customers are very positive.

We have announced several cooperations over the last number of months. These cooperations that you see here on this page, they are all announced over the last 3 months. This points to the speed of change. It points to the necessity of being agile, of having the opportunity to form collaborations, to be fast, to connect with the skill sets that you don't have in your own company.

If we look to the ecosystem, in summary, this represents a very comprehensive picture. It is illustrating how Autoliv technology from an informed and integrated system solution with our partners. We believe this is one of the more powerful -- or most powerful ecosystems currently in this space.

Looking to the market and the next steps, what does it mean in terms of customer commitments, in terms of product development, and what has happened? The big growth driver for the coming years in the content of vehicles are active safety sensors and ADAS ECU. Content for vehicle is expected to grow fivefold, from around \$50 to around \$250 in 2025.

Let me take a moment to walk you through what has happened with this pyramid since 2013. This was the year when we first announced our way from technology products in -- towards autonomous drive. I will give you a little bit of overview of what had happened in our product offering, what has happened with our customer list, and I will relate that a little bit to the pyramid.

This is how it looked at the Capital Market Day in 2013. This is how it looked in the Capital Market Day in 2015. And as you can see from this page, we started to form collaborations with Volvo Car Corporation through the [CAS 4]. You can see the acquisition of MACOM. And you can see also the Nissin Kogyo joint venture being formed. In 2017, today, you can see the full space of our cooperation filling the pyramid and see the Zenuity taking the upper parts of the pyramid. You can see the Velodyne. You can see the Seeing Machines cooperation filling other very important building blocks of the pyramid. These have happened over the last 2 years.

How is this materializing into products? 2013, when we were here, we had essentially 2 products to sell. We had the radar product. We had the collaboration with some other partner for vision products that ceased to exist. And we had in-house our Night Vision product. In 2015, we were on the bid list for our sensor suite that we launched in 2016 in the Mercedes E-Class. The products here being shadowed, they are not clear, because we were not yet technically qualified. And this is very important. Coming into a bid list is one process. Being technically qualified to be able to receive an order can take up to 2 years. In 2017, you see the full bandwidth of our product portfolio, including radar products, including software development, including LiDAR, including driver monitoring systems and, of course, including our updated sensor suite on radar and vision.

Now how does the customer picture look like? Well, here comes the 2013 picture. And as you can see here from this picture, we had essentially customer orders, to nobody's surprise, on the radar side. We had customer orders on one product on the vision side and on the ADAS ECU. We were technically qualified to 2 products -- we were on the bid list to 2 products on the vision side in 2013. In 2015, this have changed quite a bit. But in 2017, you can see the tremendous movement arriving on the bid list, being technically qualified and also receiving orders.

What is important to point out here is the time lag that it takes to be technically qualified, coming on the bid list, to start with, technically qualified and receiving the order. With this bandwidth of our product, we believe this is an excellent achievement to have arrived this in 2017.

To order intake, how are we doing? Many of you have asked me over many earnings call or many meetings how we're doing on order intake in Active Safety. This is how the pictures look like and have looked like over the years. And as you can see, 2016 was a very good year. You can see 2015 was not such a good year. And with the third -- and with the 3-year development cycle, that will have an impact going forward on our sales coming from the order intake in 2015. Year-to-date, our order intake is a little bit behind where we were last year. But I've also communicated that the orders that we are seeing this year will be back-end loaded. It will come towards the end of the year in the area of Active Safety. And as it always is with these orders, you never know if they come on this side of New Year's Eve or on the other side of New Year's Eve. That you can never guarantee; that you don't have the detailed visibility upon.

Looking ahead and looking into the order list besides this a little bit more in detail. This is a selection from orders received from beginning of 2016 and up to year-to-date. And as you can see from this list, in start of production, this supports very much the growth path that we have been talking about of growth from 2019 and onwards and building up our targets that we have communicated today in our press release.

And talking about orders. As we speak here right now, we are very happy to announce another order with Geely. It's a radar order. It's a 77 gigahertz radar order. And it complements the mono vision order that we have already announced, here now also described it, to Geely. This is a Geely contract with start-up production in 2019, and we're announcing it here today.

So summarizing this. We are seeing a significant broadening of our customer base. We have, over the years, from 2013 to 2015 into 2017, seen a significant broadening of our product portfolio. We have established collaborations and partnerships leading up to this. And as you can see from this picture, the number of customers are increasing, and the relative size of the customers are also significantly changing over time. And this is then supporting our targets for Active Safety of more than \$1 billion for 2020 and for around \$2 billion in 2022. It is an average growth rate of around 23%. Our ambition here going forward beyond 2022 is to have another doubling of sales into 2025 in Active Safety to around \$4 billion.

And for our total business in Electronics, you can see this is a double-digit growth between 2017 and 2020 of around 10%. You can see that we are accelerating our growth beyond 2020 into 2022 to around 15%. And our ambition is here to grow our sales to more than \$6 billion for the total segment in 2025.

I realize that this has been a lot of information in very short time. We started very early, coming out at 7:00 with the press releases unexpected for all of you here in the room.

And what is important for me is to summarize the different success factors of this business. We are seeing different market needs in the different businesses. The technologies, the market is different between the fast-changing movement in the Electronics area. Artificial intelligence, advanced software development, electronic hardware consolidation is something different and put different requirements on the business compared to very stable, very solid pyrotechnical know-how, mechanical know-how, producing airbags, producing many, many millions of seatbelts. The dynamics for collaboration and the speed of collaboration is also different. I gave the example of Adient in our Passive Safety business. There is an increasing need also there, but the speed is different as far as we see it in the Electronics side. Last but not least, this also gives the investors a better choice, we believe, to invest in different company profiles.

I just want to say a couple of things towards the end. I've said many times, and we are saying this, that we are here for 2 reason. We are here for saving lives and creating value. One company is now intended to be 2 companies. And by separating the company, Autoliv, into 2 great companies, we believe that we will provide the best opportunity to save even more lives and create even more value.

Thank you very much.

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### **Anders Trapp**

Thank you, Jan. I think that was a pretty interesting picture of the future that Jan just painted not only for the automotive industry in general but, I guess, for Autoliv in particular. The basis for our future really rests on our technology and the progress that we make in our technology. And this is the topic that Steve Fredin and Dennis Nobelius now will duel on and will tell you all about.

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### **Steven Fredin Autoliv, Inc. - CTO, Group VP of Business Development and Member of Research Advisory Board**

Thank you, Anders. Good morning. I'm Steve Fredin, the CTO for Autoliv, one of the long timers in the company. I've seen the transformation from airbags back in the early '80s; and from the technical perspective, walked through many of the milestones that Jan touched on.

What I want to emphasize here is, is talk about what Jan left you with, with saving lives. And from my perspective, it's about the journey to saving lives and what I call the road to saving more lives. Of course, our safe harbor statement is an integral part of this effort.

Let's first take a look at what we want to accomplish and how we want to succeed. Based on Autoliv research, over the next 30 years, you can see what could happen on global traffic fatalities worldwide, going from roughly 1.4 million fatalities, and maybe over the next 30 years, to close to 2.5 million fatalities. So if we do nothing, we're going to be facing that as an industry. And our role and our objectives here of saving lives needs to be impacting this trend.

And so what I'd like to start with is, is what can we do immediately, and I label this as a confidence aspect. And the confidence that I refer to here is that our customers are confident to put the technologies that we know today into the cars today. So the best of the best today, if you put it in every car, and the consumers weren't confused about an active safety feature or they put their seatbelts on, you could see an impact made worldwide where we could probably save almost 1 million lives just by applying the know-how today worldwide in all markets.

Going forward, when you talk about what is the potential that these new technologies can provide and how this may play out in terms of eliminating the human errors associated with 94% of the fatalities, you could potentially see this type of impact. And here, we call it trusting. So where not only the driver, but maybe there isn't a driver in the future, that all the occupants will trust the car. And it can't be something that's going extremely slow, so -- in the way we use mobility today, so we consider the cars intelligent and, eventually, what I call a full trust in the system. And here, you would able to save over 2 million lives. So this is the journey we're on. It's in a period of time here where you will see implementation assumptions.

I'd like to also call out because many times in our industry, we say, what happens to seatbelts and airbags? And until this happens and until you get the entire fleet operating maybe like the airline industry is today, you're going to have to have protection systems inside these cars. So there's a mixed fleet. And even though there is maybe a fair share of autonomous vehicles, there's always going to be the non-autonomous vehicles that will be a potential threat. So both cars will need to have passive safety protection, and this is not going to go away during this period.



As Jan already mentioned, we have to start by building trust. And specifically here, what we need to do is create a consistent user experience. Today, many of you who experienced some of the early ADAS features in cars, you maybe get confused, and you have to look at they're shutting the systems down. So we have to increase that confidence. We also have to consider how mobility is going to evolve. And the way that is done is this also have to be managed efficiently so that cars can flow at a pace that is accepted by society, but also in a very safe manner, as Jan mentioned. And of course, one of the key enablers of this is going to be artificial intelligence. And here, we all use the power of what's coming in computing, and I'll touch on a little bit later, of how deep learning can be leveraged to facilitate making cars much more smarter.

And for Autoliv, we need to build on our foundation. And we've talked about this, and Jan mentioned it. Our quality history, the robustness of the products, the things that must -- that we do every day in our Passive Safety products have to be cascaded into these new digital technologies. So what we're doing to get to zero defects in our seatbelts every day, we need the same mindset when we deal with the software and some of the things Dennis will be touching on. And of course, the innovation that we've had over the many years will contribute to this.

Briefly looking at some mega trends. Jan touched on them, but here, I look at it a little bit differently. We've got 4 mega trends that you see in our industry and then what's going on around mobility. So the connectivity of vehicles will be important, how cars and other vehicles are used, the user experience, as I had mentioned, and then of course, as things evolve to autonomy. And we will look at this driving our development priorities in each segment. I call out a few here; they're not all inclusive. For example, in connectivity, we have to start to think more seriously in this industry about cybersecurity. In new mobility, we will have different interiors evolving. We'll have different ways of using different life cycles of the products. Maybe the vehicles are going to run 24 hours a day. And we have to think of different lifetime durances on our steering wheels and our seatbelts that we have more generated for a less frequent usage.

Of course, the user experience will be key. Here, we have to think about sensing inside the cars, and I'll come back to that, and creating this trust that I call it. And some people will use the term copilot, where you can interact with the vehicle to complement the driving experience.

And lastly, on autonomy, for us, it's really about the actuators and the control systems and how we sense outside the car. But it's also about public policy and planning. And here, just in the last 2 days, we've seen a couple of significant announcements. But just to give you an indication of what's happening, this week, Euro NCAP announced the Pursuit of Vision Zero, and they've laid out a strategy going forward that's going to impact our customers and the demand for our products. I haven't fully digested all this since it's over 2 days, but it's pointing into the direction of some of the things I'm going to talk about, and they specifically call out driver monitoring, emergency braking system. Here, you start to see emergency steering maneuvers or behaviors and, of course, the vehicle data and how that information is exchanged.

At the same time, this week, the Department of Transportation in the United States announced a guidance for systems, and this is a more volunteering, a soft approach. But again, it's calling on the industry and the state and local governments to promote and advance the implementation of these technologies in a period that will be probably a little bit faster than currently anticipated. And this being kind of a voluntary mandate, we'll see how this plays out. But the point here is that it's driving us to attack the opportunities and the challenges that I laid out earlier.

So let's explore some technologies which might help mitigate the challenge. Here, I want to start with Passive Safety technology. As Jan mentioned, we have a long heritage, over 60 years. And the innovation in Passive Safety has been strong. We have many world first. You can see them here on the screen.

Starting with seatbelts. Over 60 years ago, in the mid-90s, we had a lot of innovations and world firsts in side protection. We've continued to evolve the products, to adapt the passenger airbags and seatbelts. We've started to look at things outside the vehicles, such as pedestrian airbags. And we don't have any intention of stopping here on this journey.

Our current portfolio is very strong, and in many cases, we talk about incremental innovation. But we continue to drive things for the environment. Of course, for fuel economy, which is generally in our business in passive, both size and weight. But we also increased the functions as we go on, where we start to look at providing more protection for rear-seat occupants, more consumer-driven features on steering wheels and enhancements that might be around electrification.

How is this going to evolve with the evolution of autonomous driving? We touched on it earlier that the interiors are going to change, so our road maps are going to have to evolve. And we can see this not only in our traditional passive products, but new concepts are going to have to be enabled to provide new protection strategies in the car. All of it is built upon the foundation we have today, which is strong and market-leading in all segments. And when you look at things as they evolved to a midlevel of autonomy, many of us in the industry refer to it as Level 2 and 3, we will start to see that technology enabling enhancements in Passive Safety. Things that we thought of maybe 10 years ago as a pre-crash airbag might now be enabled, and this would allow us to make things much more friendly to different size occupants in the car. Whiplash protection, which you might think of as purely as a rear impact event, in the future, if the seats turned around, you're in the front of crash and you have a whiplash risk. So we'll start to see things like this come into play. And then of course, as the vehicles themselves get reconfigured, concepts like this lifestyle airbag, you can see on the floor at the break here, and how and the environment of the car, we have to think about this. How can you protect occupants facing each other? What will happen if somebody's carrying a briefcase in the car? Things that aren't really designed around standard crash configurations and standard dummies, they're going to get more complex and put challenges on our industry and opportunities to grow this business.

A couple of specific examples in Passive Safety here, just to give you a flavor of where we said we don't stop. Here, we have a seatbelt integrated microphone. And as cars become smart, there's going to be more of a need to have interaction with the occupant or the driver in the car, to know the intentions, to complement the driver. At the same time, as I said, the new airbag concepts, specifically here, this lifestyle concept that we talk about. This is shown in a normal seating position. But you have to think of it being, what if the seat is reclined, what if the seat is rotated, all of this will lead to a continued innovation that we have in our Passive Safety portfolio.

Let's shift gears a little bit to Electronics. Here, this is where the biggest impact is going to be made. When I talk about trying to save 2 million lives in 30 years, it's going to start with what happens here in electronic technology and how this is implemented in the cars of the future.

As Jan mentioned, we have a long history also in Electronics, over 25 years, and over 20 years in Active Safety. So we look at this as a [more relative thing], but we did start 20 years ago with radar activities. And you can see the milestones that we've implemented in the marketplace, both for our passive restraint controllers but also in terms of our radar and our vision cameras; and more recently, with the ADAS ECU product in terms of autonomous driving.

As Jan also indicated the pyramid, and I'm not going to go through the evolution of the pyramid, but what I'd like to say is that over the 5 years, we've really strengthened our offering here. We now have all the elements that we need for success. Of course, some are more mature than others, but we're confident that all the products, features are ready to bring to reality.

Also, important to note out that really the top 5 levels of this pyramid are highly dependent on software. And for that reason, we formed the company with Zenuity, and Dennis will provide more insights on that in the future.

And now I'd like to get a little bit more specific, and what I will focus on, the 7 important product areas amongst the whole pyramid scheme.

Starting with our most established product, which is our restraint controllers. Here, we have a leading market position. And it's been around for a while, and it just continue to evolve. And so it's complemented not only by the architecture of the ECU and the power that it can handle but also the complementary sensors.

Also, as Jan indicated in our customer acceptance, we continue to grow the customer footprint here beyond the high volumes that we have with the major OEMs today.

Second product. Transitioning more into an active safety discussion here is radar. This will be one of the primary sensors we see it today and will be a primary sensor in the future. And as the market leader in this product segment, we continue to introduce improvements in terms of size and function and obviously costs in our industry, but we are also anticipating the new demands that are coming from our customers. Volvo, who's trying to capture more and more type of features in a product that may have been intended for a certain limited use 5 to 6 years

ago, is now being challenged to do more. So this is a continued evolution, something like I've explained in our passive safety products.

The other primary sensor for ADAS systems and autonomous driving vehicles will be vision systems. And as the NCAP rating systems evolve, higher levels of autonomy will evolve. At the same time, visions will become -- vision systems and cameras will become standard in many of the cars in the future. In this area, we've invested heavily over the last 3 years. Now we believe we have a competitive offering. And we're starting to see this with increasing customer confirmations, as Jan highlighted. In this area, we have new generations evolving here later this year. And we'll have mono vision systems fully capable of handling emergency braking features and being able to adapt to the NCAP standards that are coming out next year. Next, 2019, our fourth generation, here we will both increase both our mono and stereo vision cameras. And these will support the continued evolution of our customers' demands but also the NCAP ratings beyond 2020. We -- also, as we've said earlier, we've conquered more customers with this product. And long term, we will continue to evolve in terms of higher processing power, higher-resolution images et cetera.

Third sensing element that seems to be more of an industry trend and we've touched on here is Lidar. And although it's not a primary high-volume sensor in the market in the near term, we believe it's going to be an important complementary role in the execution of autonomous vehicles in the future. Our products and shown here is where we've cooperated and started with Velodyne. There are early entrants in this area. It's not necessary the high-volume production, but you have a market need today in robo taxis, and those companies trying to look at ride-sharing models. And we intend to maybe use that as a platform to launch the technology, learn ourselves but also evolve it to a more automotive grade. The race in this space, you hear a lot of the discussions about solid state. Today, we are dealing with a rotating sensor with different level of beams. In the future, we and our partner with Autoliv, we intend to bring a product to the market that is more solid state, more small, more cost effective; and enables what is really needed for the production and consumer market going forward. And we're not going to stop there. We know this is going to play out over time. And we continue to see and we'll see how this technology evolves with what we call a wave-3 type product beyond the early 2020, '21 period.

Sorry, backwards.

The ability to handle all this information becomes critical, so as the architecture of the future, ADAS systems and autonomous driving vehicles continue to become more complex, we're going to need a machine to provide higher-performing computing power. We've already started with ADAS ECU, but now we're going to continue to develop this both custom for our customer but also working with Zenuity on how we need to execute our solutions to accomplish a lot of the tasks at hand. Other aspects are going to have to come into it beyond just handling the sensor information, as I touched on, in terms of cybersecurity, connectivity to the vehicle; and having the engine to process all this information in terms of our deep learning power.

A smaller product segment that we have, we don't talk a lot about it, this is something that came along with our MACOM acquisition, is our GPS modules. This is -- this will become more important. A key takeaway here is we need to be much more accurate, in the future, where we are on the road and the environment the cars will operate in. So this product has the opportunity to be leveraged beyond what its initial rollout was some years ago with Ford. And so here we can start to see V2V-type interfaces being built in. We start to look at a horizon being able to use map data to anticipate what is coming ahead in terms of the road surfaces or in the environment and also being able to handle this information in a higher-definition level and filter out what is needed to make the realtime updates within the car space. Our intentions are to evolve this. And we'll probably look at this as a more open architecture for our customers to control the data and to figure out how to use that in different types of economic models.

The last product segment that I want to touch on, which is also relatively new to our pyramid, is driver monitoring systems. These systems will become critical to address driver distraction. We could also think of it to maybe anticipate alcohol use and other things which have been a challenge to detect, but it's basically interior sensing. But this is also a complement to autonomous driving. So in order to handle the transitions between different states of the vehicle, we intend to call and look at this in this level-3 period where the car can't cope with something and it has to come back to the driver and being able to sense that the driver is engaged. These technologies are primarily looking at facial recognition and eye detection, but they can be enhanced to look at other attributes such as voice recognition also when you talk about driving and maybe in a convertible or a noisy vehicle. So these will continue. Our partner with Seeing Machines is a start here. And as I showed you earlier, the euro NCAP, the NCAP ratings system for 2020 is already calling out this to get points for this. So this will come

beyond what we see today as more as a "like to have." This will become a need.

So at this time, I'd like to introduce Zenuity with a short video. And Dennis, the CEO, will then come up to talk a little bit more specific about Zenuity.

(presentation)

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**Dennis Nobelius CEO Zenuity - Analyst**

Good Morning. Thank you for having me here today.

I've got the best job in the world. Sorry, Jan. I have the opportunity to lead Zenuity, which is a great adventure. It's the new kid on the block. We started in mid-April, and we are at a fast pace growing at the moment as we speak.

So I -- only I'll talk about 3 things. I will talk about the corporation. That is the Zenuity company. I'll talk about the technology offer as we have and also share some more details regarding the customer feedback that we got so far.

First of all, we have the opportunity to be in 3 different sites so we can draw on the best talent in the world and recruit them towards the U.S. site in Detroit, towards Munich and in Gothenburg. That's where we are located at the moment. Here you'll see the one team actually from U.S., and the number of persons we are today is that team times 15. That's what we have today.

What about Zenuity then as a company? Well, you already know perhaps that it's the combined efforts from Autoliv and Volvo Cars that is really strong. And why is that strong? Well, first of all, you get all the sensing and component integration knowledge from Autoliv. You bring the [decision and control] and the vehicle integration from Volvo Cars, and you bring that together. And on top of that then, we're bringing 1/3 of software-skilled persons from different industries into the company. That's where we are today. And if you then combine the IP and the patents that we also have access rights to in the company, it's even stronger. And then what gives me more confidence is that, those IP and patents, the people that develop that are now part of the company. So we may be a startup, but we are more like a dragon, something coming from the big OEMs that's getting the freedom and agility in a new context. And that's where we're running now.

[Third], We are a legal entity. We have 450-plus engineers, and that's where we are standing today. We love skilled persons and to work with them. Just one thought about this to images to show what we are working with right now: We're applying machine learning working with vision, working with cars. It's happening now. We have a motto that is "make it real," and that is for real. So autonomous driving will change the world and the society as we know it, and that's not happening in the future. That's happening now.

What do we offer then? First of all, we could see, all right, we are working with autonomous driving. It's happening in the future. Yes, that is true, but we have a very strong base today that will also provide revenue during this journey. And that is the driver support systems, the ADAS. And that is top of the line. So we have Volvo XC60 and the coming. Those kind of technologies in those cars, that's what we have now combined with the talent and knowledge from Autoliv. We also have the responsibility to further develop that, and that is all offered now. And we are delivering. We have time plans. We are working towards them. We have customers. That's really going and flying. More than 200 designed customer features that came and we really go deep and in depth into.

And on top of them then, we have the future of the self-driving technologies. Why is that good then? Well, we have a complete system offered. Jan touched upon that before. And we have that all the way from the sensors to the actuators and then including the cloud; and we believe that, that is key. If you are going to be and we are going to be one of the operating systems of autonomous driving in the future, then you need to have the entire ecosystem in place and the entire knowledge. A Tier 1 and OEM combined effort makes that happen.

We are also working with deep learning. Artificial intelligence is key. We were 5 people, 5 persons a year ago and we are close to 40 in that area today. We have all the hardware in place. We have the relations we need. And we are flying with this one as well. What makes us a bit different as well is that, if you look into some of the startups in the area, the difference for us is that we know what it takes to bring automotive software out and commercialize it, bring it to production with the quality needed. And we do that from the start. We don't develop software and then fix it at the end. It's an integrated part of how we work.

On top of this, the cloud and connectivity is a big trend. And we recently launched a cooperation with Ericsson. We will have more to come in this area. And we also believe these will be a good revenue opportunity in the short term, but we'll also have quite a lot of knowledge. When it comes to the ecosystem, we have established a number of partners already. I mean, if you have the Autoliv, you have the OEMs. You'd add NVIDIA. You add Ericsson. We'll likely see some kind of map provider in the future, probably robotics, cyber security. That's also needs to come into place. And then we do have the full ecosystem to offer, which we believe will be very appetizing for the OEMs.

Moving then into the OEMs. Well, back to the customers. The OEMs are working with this kind of plans. They're trying to make it happen in the infrastructure that exists today. How do we make this fly with the connectivity of autonomous driving and on the journey using the ADAS system to saving lives? The initial reaction is that, if I go back to the slide that Jan touched upon, we do have the offer for the entire segment. We can offer the full segment, the full system, which is really important for some parts of the area. And we also have the software components to the innovation leaders that we can offer. So we are building this modular architecture. What kind of feedback do we get then? Well, first of all, Autoliv is a sales and distribution channel, so we at Zenuity, our role is to come in as technology architects, and visions joining the discussion with the OEMs in the right moment and impact and influence the architecture which also at the end will drive the components sales as well. So what we get as the feedback then? That is we have an exciting business model.

I really appreciate the legal entity. We are not a fluffy thing. We are a legal entity, sealed off; separate facilities; separate IT infrastructures; everything that you need to be able to play independent. Very impressed by our feature offered. When they see the list of 200-plus features and understand how that works in an entire system, that is a good thing. As Steve touched upon, legislation is driving ADAS and that we'll be pushing for that one. So that will also be a good entrance into the relation with the OEMs and then continue to build towards the autonomous driving.

The media position of Zenuity so far and we'll continue to legalize this, I really trust, is very positive. They recognize the new kid on the block. They appreciate the challenge and what we're up to and the strategy that we're having, which looks really positive.

I'll actually close on that one and just reiterate Zenuity is all about make it real. We're here now. We have the talents. We have the 15-, 20-plus years of engineers in the company that have been developing active safety, started active safety in Autoliv and Volvo Cars. And then we'll bring on more software engineers from other industries to complement that culture and make it happen.

Thank you for that. Back to Steve.

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**Steven Fredin Autoliv, Inc. - CTO, Group VP of Business Development and Member of Research Advisory Board**

Okay, coming back to where I started from a little bit here to kind of close up.

We plan to succeed on our road to saving more lives. As Dennis talked to and even in the video, though, the challenge is clear. And the opportunity is here now. We believe we've got a strong foundation for the future, and the advancements we've made in technology are going to pave the way.

From a segment perspective, both of our segments are well positioned, building on our leading passive safety portfolio. We're also in a very strong position now with our active safety efforts and be able to capitalize on the trends in the automotive [industry] from an electronic perspective. And in closing -- all right, the video started. We got the talent in Autoliv here. We got the opportunity to improve automotive safety worldwide and to prevent these 2 million fatalities that I've mentioned about earlier. One thing that thought -- I thought of when I was closing here: This is all possible within our lifetime. I wouldn't have thought that maybe some years ago, when you talk about flying cars et cetera. And how great is that, that we can save a couple million lives as an industry in the next 30 years?

So let's take a peek into the video that seemed to start here earlier.

(presentation)

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**Steven Fredin Autoliv, Inc. - CTO, Group VP of Business Development and Member of Research Advisory Board**

So you'll get to hear more of Autoliv at the CES in Las Vegas in 2018.

With that, I'd like to thank you for taking your time here with me today. And I'd like to turn it back to Anders. Thank you.

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**Anders Trapp**

Thank you, Steve. And thank you, Dennis.

I guess there's no doubt that the pace of change in technology shows no sign of slowing down. It's rather the opposite. It's just increasing. And I think there is no doubt also the Autoliv is really well positioned to be able to capitalize on the opportunities that this brings.

Now it's time for coffee break. During the coffee break, we will send out 6 questions on the app which we really hope that you will answer before the break ends at 10:30. That will give us time to compile the answers into, hopefully, something interesting that we can share with you later during the day. And again, please take this opportunity also to meet and greet and discuss with our experts that you'll find in the exhibition behind you.

Meet you back at 10:30.

(Break)

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**Anders Trapp**

Welcome back. I trust both the coffee and the exhibition was a positive user experience, even though I realize the coffee and the eating was a little bit longer to walk than you might have thought.

We will now move on to the financial update and target update. And the safe harbor statement still applies, as do the assumptions, uncertainties regarding the stand-alone targets that we will discuss.

So with no further ado, Mats Backman, Chief Financial Officer. Welcome.

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Thank you, Anders. So I will in my presentation cover three areas. I will talk, give a little bit of catchup on the Autoliv performance over the last decade or so. Secondly, I will give an update on the financial targets we gave for end of decade back at the capital Markets Day in 2015. And finally, I will elaborate a little bit when it comes to our expectations and targets for electronics and passive safety as a stand-alone entities.

Starting with the recap. Looking on the Autoliv performance, and I will use our guiding financial principles as a base for that recap.

Number one, as always, cash flow generation focus.

Secondly, it's very, very important for us to have a strong investment-grade credit rating in order to have the financial flexibility needed in a cyclical business like our business.

And thirdly, to be shareholder-friendly, that we will distribute excess cash flow, free cash flow to our shareholders.

We can look back on a decade of transformation and also a decade of investments for growth. If we're looking on the current situation, we are investing, adding together the capital expenditures and the RD&E, we are investing about 14% in relation to sales. And this has been increasing over time. And if we go back to pre-financial crisis, we were on the level of about 12% when it comes to investments in RD&E and capital expenditures. During this time period we have been building two strong businesses looking on the segments.

First of all, in terms of our electronics, the starting point back in 2008 was a top line of about \$500 million. We are today above \$2 billion, and we are targeting about \$3 billion, 2020.

Looking on our passive safety business and using our global market share as the baseline, the starting point back in 2008 was approximately 32%. We are today on a level of 39%, and we are expecting a market share in 2020 of 45% or more.

In the same time, as we have been investing for growth, we have been able to distribute about \$2.6 billion back to shareholders in dividends and share buybacks.

Looking on the return on capital employed, we are now on the level of about 20%, which is a step change compared to where we were before the financial crisis of about 15%. So 5% unit improvement over the decade.

We have a very strong balance sheet. Over the business cycle and, in this case all the way back to 2003, we have free cash flow conversion in relation to net income of about 90%. End of the second quarter, we had a gearing ratio or a leverage ratio of 0.7, well within the communicated long-term range of between 0.5 and 1.5. So where we stand today, we have a very strong balance sheet, and we are prepared when it comes to financial flexibility.

Moving into the update of the financial targets and the decade of 2019. I think, most of you have seen this slide, where we are giving long-term targets in 4 different areas. An organic sales growth of at least in line with our market. Secondly, an operating margin range of between 8% to 9% over the business cycles. Thirdly, to grow our EPS faster than organic sales growth. And to have a net debt to EBITDA around 1x with the range of 0.5 to 1.5.

We also gave targets in 3 specific areas at the Capital Markets Day back in 2015. And starting off with the sales, where we talked about a top line for Autoliv as a whole of about \$12 billion, with the distribution of \$9 billion for passive safety, \$3 billion on electronics whereof active safety more than \$1 billion.

And we also talked about expanding the passive safety market shares until end of decade.

Looking on the update and the expectations we have today is to have a top line for Autoliv of more than \$12 billion end of decade.

Looking on the passive safety business, we are expecting a sales of more than \$9.5 billion end of decade. On electronics, we are slightly lower than the target we gave back in 2015. We are looking on a top line of about \$2.5 billion. For active safety, we are expecting a top line of about \$1 billion, which is slightly below the more than \$1 billion we gave in 2015. And supported by the high order intake over the last couple of years, we are expecting to expand market shares in passive safety.

Looking on the operating margin side, we said that we had expectations for electronics to reach the corporate margin of between 8% and 9% end of decade. We talked about passive safety to maintain margin from 2015 to end of decade. What we're expecting now is that operating margin looking on the electronics business being in the range of 0% to 5%. For passive safety, we are looking on margin expansion going forward, driven by the high volume and the leverage we will see within passive safety from the higher order intake.

When it comes to our earnings per share, we said that we will grow faster than the targeted sales growth and we had the target looking back to 2015 of 7% CAGR from 2015 to end of decade. From what we can see right now and the expectations on target is to grow faster when it comes to the EPS than the target that we gave you.

With that, I'm actually leaving the old Autoliv structure, so to speak. So far, I have been talking about Autoliv in its current structure with the consolidated unit as well as business segments. Now I'm moving into passive safety and electronics as stand-alone entities. And please remember the note Anders gave about underlying assumptions in the calculations by doing that, and I think that the most important one is looking on the corporate costs and allocations that we have distributed to entities by kind of dissolving the group in the calculation. But based on assumptions, that's important to remember.

Starting off looking at passive safety and looking a little bit on the market trends and growth drivers, Jan also touched on this one, what I would like to highlight is looking on the difference or the gap you can see between the emerging markets and the Triad. And the Triad in this definition is Western Europe, North America and Japan. We have a gap today of more than USD 100 when it comes to content per vehicle between the fast-growing markets and the Triad. And we can see a faster growth in emerging markets that will mitigate this gap over time. And we can see a number of growth, underlying growth drivers that will support that. With an increasing GDP per capita and higher LVP and, very importantly also the more stringent safety ratings and regulations, I would like to highlight the new China NCAP that will be effective 2018 that will drive content per vehicle as well.

And last but not least also, the new vehicle configuration in the autonomous driving world, and both Steve and Jan talked about that, but that's also an area where we believe will drive growth going forward.

If I look a little bit into the different products for passive safety and starting with the airbag market, we are estimating a CAGR from 2017 to 2020 of about 4%. But even more importantly is that we can see a continued market potential when it comes to passive safety and the airbag products due to installation rates, where we can see a big potential also beyond 2020 when it comes to emerging markets closing the gap with mature markets.

Looking into the seatbelt market, we are estimating a CAGR over the same time period of about 5%, with high-growth drivers coming from the active seatbelts as well as the pretensioners. On the active seatbelts, it's from a low level, but it's a fast-growing area.

And the same goes for the seatbelt market as for the airbag market. We can see a big continued market potential when it comes to installation rates. As you can see in this one, it's pretty low when we are looking at pretensioners, but very low on active seatbelts fast growing. So big potential also beyond 2020 looking on the growth from installations rates.

Looking at the light vehicle production and the outlook and this is based on IHS numbers. They are forecasting an LVP growth looking on 2017 to 2020 of about 2.5%. Taking the time period of 2017 to 2025, it's close to 2%.

What is interesting to see on this slide, in particular, is looking on China and the development in China. And according to the IHS forecast, China will actually have more than 30 million vehicles in terms of LVP in 2022.

Looking at our total addressable market for our passive safety offer. We estimate a CAGR of 4.7%, '17 to '20. The time period '17 to '25, we estimate about 2.9%, which means that our addressable market is estimated to grow between 1% and 2% unit faster than the underlying LVP.

And also to highlight the content per vehicle, looking on today's level of USD 215, we are estimating that one to grow to about USD 230 in 2025.

Moving into our Autoliv specific numbers and looking on the order intake. And I -- actually I got a question out there and maybe we should clarify it. When we are looking on the order intake, this is not the lifetime of the model, this is the annual sales we're looking on. And, I guess, that's a little bit of a difference compared to a couple of other companies giving their order intake. So it's the 1-year sales, not the lifetime of the model. And on average, a model has 5 years, so it's very important to remember that when you see the numbers now.

And as Jan also alluded on, we can see the step change in terms of order intake from 2014 up to 2015. As you all remember, we have been talking about the 50% market share on order intake, which means in absolute values between \$2.2 billion, and if you're looking on the LTM, \$2.4 billion in order intake.

Also important to remember that we see a lead time between order intake and start of production when we can see the order intake materializing in sales of about 18 to 36 months. So if we started back in 2015 when it comes to the higher order intake, we will start to see the launches now in the later part of this year, as we speak, and into '18 and into '19, so you can expect to see order intake start naturalizing in sales now going forward.



So looking on the sales number and the targets we have for sales looking on 2020, we are expecting sales of more than \$10 billion, looking on passive safety, with a CAGR of 8% between 2017 up to 2020. Beyond 2020 and into 2025, an ambition is to grow at least in line with our passive safety market and at least maintain market trends.

Looking on the margin development for passive safety, we have been talking about the upfront investments driven by high order intake where we are investing a lot in terms of RD&E over the last couple of years. And what you can see on this slide is the number of RD&E engineers we have been adding since the third quarter 2014 and also the number of application projects that has been started. And for passive safety, over the last couple of years, in terms of adding RD&E that has been all about application engineering preparing for the launches that we will see starting now during the fall. This will mean, when we see the top line materializing from the order intake, we will see a leverage coming from RD&E. We will also see a leverage coming from a better utilization of our footprint, because we have spent quite a lot when it comes to capital expenditures over the last couple of years, we are doing it this year, but we are mainly doing it for production lines, not necessarily looking on brick and mortars, meaning that we will have higher volumes in existing facilities which will support the leverage going forward. And on top of that, we have the continuous improvement in all the other ongoing efficiency programs.

All in all, we are targeting an adjusted operating margin for passive safety of about 13% in 2020.

Moving over to electronics. Looking on the market trends and growth drivers for electronics, Jan talked about this, he talked about the overall growth drivers that we can see. It's one thing I would like to highlight on this slide, and that's the content per vehicle and the growth we are expecting in that.

We are, today, looking on the total ELE, we have a content per vehicle of a little bit more than \$200. We are expecting that to grow to more than \$400 in 2025. So basically, double it. And as you saw from Jan slides, this is very much driven by the development we can see within active safety and the fast growth we can see within active safety.

Looking at the market overview, and this is our total addressable market, we are estimating a growth '17 to '20 of about 12%. If we're looking on '17 to '25, we are expecting about 10%.

I would also like to highlight, looking on the brake controls and the growth numbers you can see for brake controls, we have a big potential of taking market share in that space, as we already have shown with the orders we announced last year. So an opportunity to grow faster than the market looking on brake controls.

Also worth well highlighting is looking on the active safety. We are estimating total active safety market to be about \$25 billion or close to \$25 billion in 2025. That's actually the same market size as we can see for passive safety, so this is growing fast.

When it comes to the RCS, I think it's important to understand also that we will see some products and revenues from RC&S going up to active safety over time. So that's a little bit explanation when you're looking on the flattish development on the RC&S side.

Looking on the order intake for electronics, Jan already talked about this one, but it's important to see the success we had back in 2016 when we had the broadening of our product offering, so it's a step change looking on what we have seen from '15 into 2016. And also looking on the last 12 months, that as Jan said, when it comes to active safety, what we can see is a more kind of back-end loaded order intake for 2017 in active safety.

And how is this translating into sales now? We are looking on a sales target for ELE as a whole of about \$3 billion in 2020, corresponding to a CAGR of about 10%. If I'm looking beyond 2020, into 2022, we are expecting about \$4 billion with a CAGR of about 15%. And looking on the 2025 ambition, we are looking on an electronic sales totally of more than \$6 billion, whereof active safety sales is about \$4 billion.

Moving into the margins and looking on the operating margins for electronics. I want to remind you about the RD&E and the investments we are making in RD&E. And it's a little bit different if you are looking on the passive safety comparing to electronics. As I said, for passive

safety, it's all about application engineering preparing for launches. Within electronics, we are not yet there. We need to invest more when it comes to RD&E within electronics. So what we see is the continued high investment in new technology and this is to secure the long-term success within ELE and more specifically into active safety.

The limited sales growth in 2018, I mean, that's obvious when you see the order intake number for 2015. Remember the 3-year lead time. That will be visible in 2018. The higher order intake we saw in 2016 that will start materializing in sales in 2019.

All in all, we are targeting an adjusted operating margin in the range of 0% to 5% for electronics as a stand-alone entity in 2020.

And just finally to summarize the financial targets. Looking on the 2020, as I communicated, passive safety sales above \$10 billion. We are looking on adjusted operating margin of about 13%. For electronics, we are looking on a sales of about \$3 billion with active safety being more than \$1 billion. And adjusted operating margin of 0% to 5% in that range.

Looking on 2022 for passive safety to start with, looking at the sales, it's to at least hold market share and at least grow LVP plus 1%. And an adjusted operating margin at least on the level we are targeting for 2020. For electronics, we are looking on sales of about \$4 billion, whereof active safety about \$2 billion and adjusted operating margin improvement versus 2020 target.

So with that, I think I give back to Anders.

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#### **Anders Trapp**

Thank you very much, Mats. So it's time for Q&A. And we will be open for questions here at the floor in Frankfurt. We'll be open for questions from teleconference and also questions sent in through the webcast.

Before we really go in and shoot and ask and answer questions, I just want to sort of remind you that for fairly obvious reasons, we will not be able to answer all of your questions that relates to the strategic review announced this morning. And I already now ask for some patience regarding some of the possibly very detailed questions you might ask regarding this operation. But with that caveat, I think it's time to kick off and everyone has been speaking should be up here. And we need those tables.

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#### **QUESTIONS AND ANSWERS**

#### **Anders Trapp**

Yes, we can start.

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#### **Hampus Engellau *Handelsbanken Capital Markets AB, Research Division - Automotive Analyst***

Hampus Engellau, Handelsbanken. I have 3 questions. First, on electronics, I presume the ownership with Zenuity will be in electronics. And will that long term be a potential to merge these two companies because electronics are very close to Zenuity and on the software, and I guess, that has been one of the questions for some time. Second question is more on, maybe more technical question. But that's on the new collaborations you have with NVIDIA and also on Velodyne. When you're talking about Level 4, level 5 2021, those fusion systems that you are working on, are those including LiDAR, radar vision? And also could you talk a little bit about how you see those fusion systems? Last question is more on the electronics side. I know you've given financial targets for that, but I would like say even more further out, where would you say profitability should be in electronics when it's like more mature growing more in line with light vehicle production? And how would that correspond maybe to passive safety margins?

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#### **Jan Carlson *Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board***

Okay if I start to take the first question maybe, Johan can support me on the second part of the question, the Level 4, level 5 and maybe we'll come back to the profit situation. The first part, the merger with electronics and Zenuity has not been discussed. This is a separate legal entity. It's 50-50 owned by Autoliv and Volvo Car Corporation. So you would assume that the ownership of this would be in that potential entity of electronics going forward. But apart from that, that has not been any discussions about any merger. Johan?

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**Johan Lfvvenholm Autoliv, Inc. - President of Electronics**

Thanks, Hampus. So I will address your question on the sensor fusion, but I'd like to lift it one level actually into decision-making software. So as we look at not only Level 4, level 5, my partner here, Dennis, of course, and his team is driving the decision-making software; through Autoliv, we are offering that to the market. And the reason why I start with that is that, that is really the system part of the offering, and we need to be able to handle a lot of different configurations on sensors and on hardware, in general. So that is not looking in if you will even an Autoliv sensor in the end. We need that software to be open to the whole market. When it comes to our collaborations with some of the partners that you mentioned, these are the market-leading companies in each respective sensor fields, which means that we are very happy to join with them, to be able to offer the sensors as such to our customers. But also they are important building blocks as we build the decision-making software because the input and output of this hardware is really how we learn in how to create really competitive software offer. Does that answer your question? Thank you.

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

And the last one was profit and electronics.

**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

The ELE margins and comparing to passive safety that was the question. I mean it's -- now we are in kind of a built-up phase, and we are looking on high investments, we are growing faster. But when that starts to stabilize, I cannot see a reason to assume that we will reach the passive safety kind of margins when we are getting all the efficiencies in place and so forth. So I think, that's a fair assumption when it stabilizes. But we're not there yet.

**Mattias Ledunger Praktikertjdnst - Analyst**

Mats, in your presentation, I was kind of startled when I saw you envisioning the market to grow by 10% CAGR, '20 over '17. Is it 12%, right? And are you planning to underperform that because you had 10% for the company?

**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Looking at -- so where are you now on the...

**Mattias Ledunger Praktikertjdnst - Analyst**

On the active safety market?

**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

That was the electronics as a whole that you saw when you saw the column. So that's not specifically active safety, because that's also including the RCS business as well as the brake control system. So it's not active safety. It's the total ELE. What you need to remember is that we have a lower-growth rates looking on the RC&S and RCS and the brake controls then. So active safety is growing significantly faster than that.

**Anders Trapp**

Active safety growth that we project for our business is about 23% up until '25, which is very close to the projected market growth.

**David Lim Wells Fargo - Analyst**

David Lim, Wells Fargo. Just a couple of questions, one of which is how should we think about contribution margins in 2022 and 2025 compared to your 2020 outlook when it comes to active safety and electronics? I think you're guiding to 0% to 5%? And then you are seeing incremental revenues flow through in the out years. Is 15% to 20% contribution margin well within reason? And then on the active safety market share, I think you guys mentioned in prior calls, it's like a 20% to 25% win rate. But if we do the math, it looks like your market share in 2025 is 16%. Can you provide us with a bridge of today versus what we're going to see in the 2025 time period?

**Anders Trapp**

Maybe starting with the contribution margin, but I mean, we are not guiding on that and that as well putting targets. But if you are looking on the -- we are talking about end of decade 0% to 5% range in terms of operating margin, and we are looking on 0% to 5% in 2020. I mean, assuming that we are continuing to have high investments when it comes to RD&E, we need to see contribution margin improving in order to support that. But not getting into any kind of details and figures in that.

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

When it comes to the market share, we -- you are right, we are coming down in market share in the closer, in the imminent period of time and all of that is coming from the order intake graph that we showed before and the relatively lower order intake in 2015 also coming for the reasons we have earlier described. But as Anders also said, here, we are looking to an increase of market share than in the outer years, coming from growing in line with the market and coming from a situation that is below the market here in the next few years.

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**Michael Raab Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research**

, Kepler Cheuvreux. Please forgive me if I missed out on that, but could you please refresh my memory of what type of cash conversion do you expect both entities to command in the 2020-plus period?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Again, I mean, we are going into a phase where we're making a kind of strategic review, so we will not kind of disclose that kind of details looking on the different entities. So I think that still we need to talk, in those kind of details, we need to be focused more on the current structure rather than the kind of 2020 numbers for stand-alone entities.

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**Michael Raab Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research**

Okay. Let me perhaps rephrase things a little bit. I guess, it's probably fair assumption to say that your passive safety business is actually the -- well, the bigger of the 2 cash cows and very likely because of all the investments you have to make.

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

That's a fair assumption.

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**Michael Raab Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research**

So electronics are probably more cash consumptive. Are your hopes separating the two entities into two different companies that at some stage the electronics business is going to be cash productive?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Yes.

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**Michael Raab Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research**

Okay. Would that still be in your -- would that still be in your work life...

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

As long as we're not talking time perspective, I can put it there.

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**Michael Raab Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research**

Okay, but look you must have internal assumptions, I worked in accounting myself, so I know the processes pretty well. So I guess you have a certain time horizon for that in you're planning. Later on you'll have to, let's say, produce some details on that, to make an interesting story for your shareholders. So which story would you tell them?

**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Yes. I mean, at starting point, if we are talking about the range when it comes to an operating margin of 0% to 5%. And then, in order to get to an EBITDA, you need to add some percentages as well, kind of indicating that underlying, you're kind of positive in that respect. Then you always have the discrete item with the acquisitions that is kind of difficult to say on. But I think the operating margin targets we are giving is giving kind of an indication also on the cash flow side.

**Michael Raab Kepler Cheuvreux, Research Division - Head of Automobile (Thematic) Research**

Well, that depends on the cash conversion rate you have.

**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Yes, you're right.

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

I think it's a very, it's -- an additional color to this is because it's touching upon the subject and that is the capitalization of the different entities. And if you look to how we see a potential separation and also the capitalization of each businesses, we believe that we will be able, thanks to the strong balance sheet, as Mats talked about here earlier, to be able to capitalize the electronics business going forward. Even -- if you exclude acquisitions. And even doing that, we believe we will be able to keep strong investment grade in the passive safety part of that business. So this is thanks to the strong balance sheet and the good cash generation we have had in Autoliv over the times, it would be a very solid start for both entities.

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Rod.

**Rod Avraham Lache Deutsche Bank AG, Research Division - MD and Senior Analyst**

Rod Lache from Deutsche Bank. Just two strategic questions and then 1 kind of modeling question. First, maybe you can talk a little bit about the breadth of markets that you may be targeting for the electronics business. Are you looking to expand outside of the traditional safety businesses, more towards central compute platforms, connected car, infotainment and HMI, things like these? Is it going to have a broader mission than what we see today? Secondly, maybe a little bit more perspective on what is the market's assessment, your customers' assessment of your capability in active safety, in autonomous driving today? And more specifically, I know you mentioned that you have 3 customers now in this field and certainly there's aspirations to grow that. But one of your existing customers, Mercedes, when they looked at Level 4, they actually expanded to look at Bosch for that opportunity. So are your customers kind of still hedging their bets on who is a leader? Or what do you really see happening behind there? Lastly, from a modeling perspective, when you're talking about the trajectory of margins to 13%, is it kind of a steady trajectory that we should be thinking about in passive safety? And when you provide margin targets for electronics, are you incorporating public company cost and independent company cost in that? Or is it still too early to make a judgment on that?

**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Maybe I should start with the last one. Looking on passive safety and with a higher order intake and with the sales that will come up that we will see kind of leverage starting in 2018 because with the launches we see now during the fall, that will start materializing late this year and into 2018. So it's kind of a steady increase. When it comes to the margin range on electronics that includes distribution of the corporate cost and corporate resources into that one in order to kind of estimate the stand-alone entity costs. So that is included. But with the assumptions that Anders talked about, I mean, it could differ by the end of the day, but we have used the distribution of the current corporate cost into the different entities where it is included to that respect.

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

So let me start with the first question there about the product breadth and the bandwidth of what we wanted to approach. As you can see here today, we probably have in the electronics entity one of the world's broadest product portfolios. And we are addressing the market from a system integration point of view when it includes component sales, component sales of radars, visions and products, it includes the electronic architecture in terms of airbag controllers and brake controls, and it includes ADAS controllers going forward. We see this in extension through partnerships and through Zenuity also, being complemented with software development, artificial intelligence, deep learning

activities to enhance our products and our system offer. This whole ecosystem is important for us. But we are limiting our ecosystem towards autonomous drive to highly-automated driving going forward. We are predominantly, or we are not looking into other areas which might also show growth numbers but like HMI, like infotainment, like other adjacent areas, we are not looking in those areas as such. We believe that the electronic hardware, over time, in the vehicle, and you can see indications of that already [in] cars being launched here, is going towards a different setup from a hardware architecture point of view. You can see domain controllers coming into reality, it has been talked about for quite some time, where you have software slots on a central computer rather than having different electronic control units. Here is an area that we definitely want to participate in. We are definitely interested in participating in that area when it comes to safety domain controllers. And that is a market area that we are approaching and that we will work into. Looking into the customer assessment we tried to illustrate this with our picture of the different progress of being on customer bid list, being a technology qualified and having orders awarded. I think over the years of '15 to '17, we have seen a significant improvement of customer acceptance for our products. This takes time. And we realize that even ending up on a bid list doesn't mean that you necessarily are qualified to get the order. But if you take vision as a key product in the active safety system, we have increased in '15 from being approved bidders to 4 customers in '15 to 13 customers in '17. We have been increasing our customer, our technology qualification level from 1 customer in 2015 to 8 customers in 2017. And being customer -- being technology qualified is actually the next step before the order. So this proves that we are in a good position to take orders. We are in a better position we have ever been to take orders, which points to that the customers have the confidence in us. But now let's have the orders in bigger volumes, so let's make it happen, that's what we are fighting for right now. And as we said we are looking for it towards the end of the year, we should not exclude its maybe moving into next year, but we are in a good position.

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**Cyprian Yonge Bernstein - Analyst**

Cyprian Yonge from Bernstein here. You mentioned your orders in active safety being back-loaded towards the end of the year. If these don't materialize, what would be the likely explanation for this? And should we start to worry if that's the case?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

If they don't materialize, I don't know why they shouldn't materialize today. We have to come back if it doesn't materialize to see what would in such case would be the reason. I cannot say. As I said, this might be delayed because you never control actually the decision point among customers. We are in a good position and we have high confidence in this. But the timing for it is always difficult to estimate. And for whatever reason we would miss out on it, we will have to come back on that one. We believe we are in a good position. What is important with the timing is for us now setting targets, we do not believe that the movement in order awards or timing for the awards would affect the start of production of the vehicles. We don't see that happening. When that is an important factor also when we set our targets, because targets for 2022 and 2020 is of course depending on order intake at this moment. But we don't see that's being effected.

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**Agnieszka Vilela Carnegie Investment Bank AB, Research Division - Financial Analyst**

I just wonder if you will consider changing the way you guide from now on. Will you be guiding for the passive safety separately and for the electronics business?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

We will come back to that. We will see what will make the most sense when we have been through or when we are finishing up our strategic review. So we will come back to that at the later stage.

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**Agnieszka Vilela Carnegie Investment Bank AB, Research Division - Financial Analyst**

And then on the passive safety, if we kind of not consider any delays of the customers, what should we expect -- do you think that your organization is already prepared for the ramp-up? And how this ramp-up will look like towards the end of the year and even in 2018? How much will you outperform the light vehicle production because of the market share gains or...

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

I'm absolutely sure that the organization is standing on their toes for this, Michael, maybe you can elaborate a little bit on it.

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**Mikael Bratt Autoliv, Inc. - President of Passive Safety**

Thank you. Yes, we are absolutely prepared for this, what we call the wave in terms of new launches starting towards the end of the year here. And that goes from the engineering side all the way to the production and the factory sides here. I think you saw a very good example

on how we are also managing to accomplish this through continuous improvement in our plans. So we do not have any major capital investments more than the production line as such. So brick and mortar is about the same as we have had throughout the whole year on year. So a lot of attention, a lot of focus, a lot of dedicated people, and we're definitely ready there to take it on.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Very good. Thank you.

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**Agnieszka Vilela Carnegie Investment Bank AB, Research Division - Financial Analyst**

And last question for me. Because you say that you will be sharing the overhead costs now between electronics and the passive safety business. Can you just tell us what is the margin today in the passive safety business if you already started discussions?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

I mean, we are sharing it today. And then we are using kind of allocations when it comes to kind of paying for the cost. So what you can see in the target 2020, we have been kind of distributed that kind of group resources, the corporate cost, based on sales down to the different businesses. So it's -- it is shared today.

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**Ashik Kurian Jefferies LLC, Research Division - Equity Analyst**

Ashik Kurian from Jefferies. A few questions. Maybe coming at Michael's question in a different way, what is the expected drop in CapEx that you see for the -- from 2018 onwards, either in terms of percentage of sales or on an absolute level? And then when you talk about maintaining your market share at 45% from 2020 onwards, so there's an implied assumption that the -- your troubled competitor probably regains some of the market share. I mean, just if you can share some more color on what you expect in terms of the market share gains from the new reorganized Takata? And there's been very little mention of the share buybacks. And I was just wondering, when you talked about capitalizing the electronics business, would that in itself address your leverage ratio at the passive safety business? And would that come at the cost of maybe share buybacks in the future?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Sure, let's start maybe with the last one when it comes to the balance sheet and related to buybacks. As Johan said, I mean looking on the capitalization of the different entities, we are still targeting to have a strong investment grade when it comes to passive safety. And with the underlying strong cash flow in passive safety, we should be able to kind of continue when it comes to returning to shareholders. Capital expenditures, I mean, we gave guidance looking on 2017, and you can assume that guidance also into 2018, I mean if you're looking on the beginning of the year, because what we have said is that we have delayed some CapEx expenditures, so we will still see a somewhat higher level into 2018 on capital expenditures.

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**Ashik Kurian Jefferies LLC, Research Division - Equity Analyst**

And then there should be a step down from 2019 onwards?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Yes, eventually we will see that. Because I mean now we are preparing for the launches and we are spending capital expenditures for the higher volumes. And now we have seen a stabilization, you've seen in the 50% from the step-change. So it will normalize.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

When it comes to market shares and the longer-term outlook, as we said here, light vehicle production, plus 1%, for content and product changes in relation to autonomous drive is what we think will drive the market and will drive also our ability to grow. When it comes to the Takata situation, et cetera, we cannot speculate what's going on and what's happening. Our focus is to execute as good as ever. Our focus is to launch the wave, as Michael was talking about here as good as ever. And we believe that why would customer change if you have a competitor -- competitive product offer, if you provide superior quality, why would customer go away? We have very high confidence in our ability to execute here, which is the best weapon for market share decrease.

**Kai Alexander Mueller *BoFA Merrill Lynch, Research Division - Associate and Analyst***

Bank of America Merrill Lynch. Just three questions if I may. On the strategic review, you mentioned separating the business as possibly having 2 floated companies. What are your intention if someone would actually step in, and like the electronics business, as an asset for an M&A transaction? I mean, you haven't mentioned that at all. A second point, in terms of your growth targets, you pushed them out to Q3 last year in terms of the active safety. You're now back on expecting to get towards that \$1 billion target and you're actually very confident in the outer years. What has really changed over the last, call it, 9 months? Is it really those orders that are coming through that you haven't had last year that give you that confidence? Or how much of orders are still baked in to come in order to achieve those targets? And if you could also clarify what actually your underlying market assumptions are for these orders especially in light of a possible turn in the cycle in addition to having autonomous vehicles more on the shared mobility side? And a third point is a lot of money is being poured into this active safety market, we can see annuity is costing you at the moment quite a lot of money, the electronics business isn't generating much cash or no cash probably at the moment. How do you see this as a business? We talked about the capitalization of the businesses. Could it be that when you actually separated that, passive safety needs to inject quite a lot of cash into electronics in order to make it viable as a stand-alone entity?

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**Jan Carlson *Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board***

Should we start with the last one, I guess, as always?

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**Mats Backman *Autoliv, Inc. - CFO and Group VP of Finance***

I mean, yes, we will inject capital into the electronics business as a part of the kind of the capital structure. But coming back again to what Jan said, we still -- even injecting the necessary capital into electronics, we still see passive safety to targeting a strong investment grade. So I mean, we are not taking any risks in that respect.

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**Jan Carlson *Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board***

Starting then from the top, two floating companies and if there would be a bid of on one or the other of the entities, well that can happen even today. It can happen at any time, actually, so that you have a bid. It's nothing that you have to deal with when you can prepare for. You have to deal with that if and how that is coming. And that is, of course, a part if it would come as a significant part of the strategic review. So we will have to see. Our intention is to have two stock-listed company and the timing for that would be a first trading in a -- roughly a year. So that's the target that we have. The growth targets, why we pushed it out in active safety, we pushed it from 2019 to 2020, I think a lot of what you've seen here today in the material is around timing. It has taken longer time. We have also communicated. We have missed one or the other order. But it is essentially the timing perspective. We will try to illustrate this that it takes time to get technological qualified, technology qualified. And this have taken some time for us, but we are in a better position than ever right now for meeting our targets in 2020. The underlying assumptions that will -- that are building this up is essentially built on IHS numbers and what we can get from the installation rates and the adoption rates of different product types, that is what we have used for the targets, in general, and when we have communicated for both passive and electronics targets here today in the press releases.

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**Joe Dowling *INVESCO Asset Management Limited - Global Equities Analyst***

Joe Dowling from Invesco. Could I just ask why is now the right time to split the companies?

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**Jan Carlson *Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board***

We believe the companies are ready. This is a good timing. There is a lot of change happening right now and the companies are ready. That's why, why now.

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**Fei Teng *Berenberg - Analyst***

Fei Teng from Berenberg. Two questions. Just the first one is can you talk a little bit about how you see the management structure being divided between the 2 entities if there is a separation? And the second question on the electronics business, the margin difference between that and passive safety in 2020, can you talk about how much of that is related to simply R&D investments? And how much of that is related to gross margins?

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**Jan Carlson *Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board***

Last one.



**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Yes, and the last one is that's a difficult one to answer because, I mean, then we are getting into the kind of more granular on the stand-alone entities. So that's more I mean the answer we can give is more from the kind of current structure looking on the ELE and [PAS] today. And I think looking on the RD&E investments, like I said, when it comes to Mike's passive safety, that is -- we have seen the kind of the peak in relative terms looking on the RD&E investments. When it comes to electronics and, specifically, active safety, it's much more difficult to say because we are still in an investment phase in that side.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

And the first question around management structure, we have really nothing to add on that one. We are now very focused on conducting the strategic review and as a part of this strategic review, we will also work with the structure. But if we are meeting the intention, it will be 2 separate legal entities with separate management and a separate Board of Directors, of course, so we will have to look into that going forward.

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**Thomas Weith Wells Fargo - Analyst**

It's Thomas Weith at Wells Fargo. So I only have 2 questions. The first related to cross fertilization of your active and passive safety businesses. So you're undisputed world market leader in passive safety. You sell to all the major OEMs in the world. And can you talk to us about how that may or may not open opportunities to sell the active safety products to these OEMs and potentially how that works in terms of the economies of scale, i.e., the purchasing, buying decisions that these companies are making vis-à-vis Autoliv? Is it more of an advantage or disadvantage for you? And the second question relates to the kind of the ecosystem in electronics from 2020 to 2025. And as we have, let's say, OEMs and suppliers, such as Autoliv and software players all going for ideally the highest-margin sale in electronics and active safety, if we were to draw a pie chart for 2020 and 2025, how would you divide those 3 players up from today's perspective in terms of who gets what in terms of the lucrative margin business, i.e., OEM #1, #2 the suppliers, #3 the software players?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Okay. If we start with the cross-fertilization between OEMs, I think it had been very important for the electronic business to be a part of Autoliv and grow up within the DNA of Autoliv. We have illustrated here today that an airbag may never be used or hopefully never be used. But when it is going to be used, it has to work perfect. An autonomous drive system is used every second, as I said. That has to have the same reliability, which is the main focus. The capacity and the performance and the feature of the system is, of course, very important. But even more so is that it works 100% all the time when it should work. Because otherwise, you are in a dangerous situation. And this is very important when customers are looking into sourcing, I think. And this has been crucial for us building up the electronics environment. When you really look to the sourcing decision as such, it's not a lot between discussions between passive and electronics, rather very little, if anything. Because it's different departments, it's customers, it's different on engineering side and on purchasing side. And you deal with different questions. So I think it's more of the DNA, the trust in the electronics piece stemming from a 60 year of history of reliable supplier that is the important part.

The ecosystem, I really don't have a good answer to this. I think we are in times of change when it comes to margin development, when it comes to who's going to have the best margin, the software supplier, the OEMs, et cetera. We all know how it looks today and OEMs are certainly not on top. So how will this be in the future? I think there is a room for a lot of change. I think the best for Autoliv is to preserve our strong position of being the trusted system supplier partner. By doing so in an environment that is going to highly reliable product, we have the unique selling point that hopefully we will also be able to get paid for. Hampus?

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**Hampus Engellau Handelsbanken Capital Markets AB, Research Division - Automotive Analyst**

Hampus, Handelsbanken. I have a question on the active system market outlook. \$25 billion by 2025. I would be interested to hear a little bit about your -- is that existing products today that we're talking about? And also what type of penetration rates and I guess price erosion are behind those numbers?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Well, that is -- I think a \$10,000 question, I don't know actually. I know the product range, but the pricing environment, how this will evolve 8 years from now, I can only refer to the history that we are standing in. We are seeing a pricing erosion of between 2% and 4% in this industry and we have seen that over the many decades, I would say. So for a long period of time. When the business model will change and

evolve, also coming back to the previous question here about software or supplier or OEMs profitabilities, how that will change and how that pricing environment will change, I cannot speculate in really. Your other question?

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**Hampus Engellau Handelsbanken Capital Markets AB, Research Division - Automotive Analyst**

It was penetration rates.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Yes. The penetration rates. How this will be? I believe that we will see an increase in penetration rate. This will move faster than what we think. The penetration rates will increase over the years significantly. And I think also it's up to the industry to decide upon the penetration rate, because if the industry decides to go for the reliable solution, you will have this coming. As we saw in the picture of the 1900s, you had a solution that was reliable and reached the customer acceptance. If you have a solution that is disappointing, that is too much of errors in, we will see maybe even a setback here.

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**Anders Trapp**

I can actually maybe add a little bit to that one when it comes to penetration rate and the assumptions. Basically, without being specific in numbers, looking at 2025 and the \$25 billion, there's quite a bit of Level 1, 2 cars in there. Very little, almost nothing, Level 4, 5, virtually nothing. Talking about volumes. And others, yes, some level 3. But it's really Level 1, 2 and some Level 3. So looking at Level 4, 5, that's a lot more to be -- to wait for beyond 2025. And there's also certain assumptions on price erosion included which we are not sharing today.

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**Hampus Engellau Handelsbanken Capital Markets AB, Research Division - Automotive Analyst**

I remember when your NCAPs included inflatable curtain you had a pretty step-up in penetration from like 20% to 80% in Europe. And I know that part of this are also looking at autonomous emerging breaking obviously but I guess maybe forward, do you see a similar take if the NCAPs would include autonomous driving in their rating systems?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Well it has been the pattern for several generations when you have gone from front layer backs to side curtains to ABS systems to AEB Autonomous Emergency Braking, so why would not that happen also here if you would increase the bar or lift the bar here also towards autonomous drive, the likelihood for this to happen is probably high. The same pattern.

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**Bjorn Enarson Danske Bank Markets Equity Research - Head of Equity Research of Sweden**

Bjorn Enarson, Danske Bank. Question on passive safety and if you would assume that you keep your market shares in order intake, when will orders and revenues be in balance? And secondly, on active safety, if you will land orders that you hope or expect, will you have a higher or lower market share versus '16? And it doesn't matter, of course, if the orders are landed in January but the orders that you are mentioning. And then yes, we can start there.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

If you take the passive and the relationship to sales, if you take the R&D, that will start to adjust here in 2018 and onwards. We have said all along we -- or since a couple of quarters now, that we will peak during second half of 2017 in the RD&E in relation to sales in passive. And from there it will improve. The absolute dollar value might still go up though because of the natural growth of the company et cetera. So we cannot exclude that. But in relation to sales, so the key figures will start to adjust in 2018. Your second...

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**Bjorn Enarson Danske Bank Markets Equity Research - Head of Equity Research of Sweden**

How long would it take you to have 50% share in revenues?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

I mean, we have -- it's a 5-year exercise. I mean, we have had the higher -- about 50% for 2.5 years. So from kind of a mathematical point of view, you can kind of consider us to be half the way from the 39% to 40% to 50% being we're at the 45%. So to get all the way up to 50% then, you need to add another 2.5 year on top of that. Just from simple a mathematical point of view.

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

The model cycle is normally 5 years and in average you can calculate the 20% is sourced every year. So we're half way through.

**Bjorn Enarson Danske Bank Markets Equity Research - Head of Equity Research of Sweden**

And then on active safety order intake. If you land those orders, whether you will have a higher, lower market shares than last year?

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

We believe that we will increase the market share from where we are right now, and we will continue to increase the market share. We are probably going down in market shares because of the situation we illustrated here. And from there, we will continue to go up based on what we project right now and also the orders taken in 2016, the 3 years development cycle would start to come in, in 2019 and onwards.

**Bjorn Enarson Danske Bank Markets Equity Research - Head of Equity Research of Sweden**

And lastly, on Zenuity, if you can talk a little bit about the business model, I guess it's licensing revenue model in some way?

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

In some way it is, it's a lot of software sales and this is in its initial stage, and we are talking to customers around this. But it is a licensing software model, and it's also software sales as such. But we are starting this up in discussions with customers right now.

**Anders Trapp**

I think that maybe we should check for questions on the telephone conference if there are any.

**Operator**

We will take a question from Victoria Greer from Morgan Stanley.

**Victoria Anne Greer Morgan Stanley, Research Division - VP**

I want to talk about two things, please. The first is synergies. I want to think about the cross over between passive safety, ECUs and active. Are there synergies between those two on the electronics side? And then if you separated the business, how could it work for passive ECUs to be separated from the physical sensors? I know you talked about the purchasing relationships with OEMs there in saying, it's different on the engineering side and on the purchasing side. But in the end, the passive safety ECUs are still going to be related to the sensors? So yes, could you talk about synergies there? And then, secondly, just on the 45% market share guidance that you've got in your passive safety business. You've talked about winning 50% share over the past three years and referred to that again in the last question. So I guess, that 45% implies that you keep the orders that you've won in 2015, '16, '17, but probably don't continue to win incrementally from here clearly that, that what's what gives us the big margin uplift probably in passive to 2020. So could you just clarify on that point?

**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

So, starting with the synergies between passive and electronics, as I understood your question, we believe that there are limited synergies between passive safety as defined here with seat belts, air bags and steering wheels and our electronics business which we define as electronic control units the ADAS sensors and brake control units. The sourcing process is different, the engineering departments are different, the purchasing departments are different, and also inside Autoliv the factories are different. We have some co-located engineering centers in Autoliv, but in all essences the businesses are different also inside Autoliv. So limited synergies there.

When it comes to the ECU business and the air bag controller business, we believe that there are future synergies between the ADAS product and also the brake control products. When hardware might consolidate towards more safety domain controllers. That is why the natural split is here in the segments that we have already defined, air bag controllers, the ADAS sensors and brake control products. That, we believe is the natural separation for the Autoliv point of view.

When it comes to the 45% and the market share, as we said here earlier, we have seen very strong order intake year-to-date, even 55%. But we are halfway through. We believe that we will improve which is a significant improvement in market share going from 39% up to 45% or more, to 6% market share based on the visibility that we have here right now. We cannot speculate in future order intake. We don't see any reason why we should not be able to continue to have a strong order intake, but that is, as always, it is a customer decision.

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**Victoria Anne Greer Morgan Stanley, Research Division - VP**

OK, but I've understood that correctly in your guidance you are not breaking in to continue to win your 50% or 55% of orders there?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

No, we're -- that's based on the old order intake we already had. So that's two and a half year with 50% and that translates into the 45%.

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**Victoria Anne Greer Morgan Stanley, Research Division - VP**

Yes, that's clear. And then lastly, can you just talk us through what visibility you have into, I guess, Q4 or maybe Q1 next year on the timing of the -- say, the 2015 orders that you have got, what's the timing of them starting to come into production?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

It's starting to ramp up right now. The orders we took in Passive Safety, the strong order intake will start to ramp up towards the end of the year and it will be a stronger ramp-up in 2018, that will also continue into 2019.

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**Anders Trapp**

I don't think there is any more questions. Okay, there is one more question.

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**Itay Michaeli Citigroup Inc, Research Division - Director and VP**

Itay Michaeli from Citi. Just two quick questions. First on the electronics margin range of 0% to 5%. You just mentioned scenarios of where you get to 0% and then scenarios where you get to 5%. Kind of what were the key differences in the low and high-end of the range? And then second question, just remind us kind of where -- in your projections for Active Safety through 2025, is there any potential level for revenue that's tied to that, just update us on where you're seeing Level 4 for the company right now with some of the customer discussions you're having?

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

0% to 5% is coming very much depending on the investments in technology and the success of winning orders and the necessity to invest further in new technologies, as we have seen here, has been a lot of technology investments and new products coming into our portfolio over the last few years. So it's a combination of order intake and the need for investment of customer projects. And also the level of technology that we're investing and deciding upon going forward. The Level 4 revenue stream we are estimating to start to come in 2021. And before that, it will be limited to the highest extent to Level 1 and 2.

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**Mike Small HSBC Bank PLC - Analyst**

My question was about 0% to 5% margin that was just asked because I'm a little bit confused. It looks like the revenue \$500 million reduction in ELE in the chart, page 11 you showed, I think, 8% to 9% before, now it's 0% to 5%. Could you elaborate a little bit more on just how much heavier the R&D investment is because you answered the question earlier that under the current corporate structure, you're starting to fill out the full product array what the customers are looking for and you're getting on the bid list. So operationally, it looks like the current structure of Autoliv is working. You're getting the capability, you're funding that with the cash flow of the company. But something -- I would say the market valuation, which I appreciate, your shareholder value focus, but has always been your capability in the Active Safety, which seems to be from a customer standpoint working. Now, you're talking about unlocking that value because it's not recognized. What I just heard today is, this is getting pushed out further and it requires heavier investment, and the margin has dropped by 400 basis points on a 2020 time line. So it could be a positive story because you've got a lot of business what you think is right around the corner. You guys spend a lot more money on R&D and infrastructure. Well, can you flesh that out a little bit more? It has been asked in a couple of different ways, but I'm still a little bit confused on -- numbers don't look that different than what you had before on ELE and active, but there was a major margin drop in 2020, so is the inflection point. Again, you touched on it, but I need to have it fleshed out a little bit more.

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

First of all, putting a target as a range is reflecting uncertainty as well. Looking on the RD&E, this is to some extent depending also on the success we have in terms of order intake. Because the major driver when it comes to RD&E investment is actually the order intake. So if we're very successful when it comes to new orders, that will trigger investments in application engineering. But we will see by default, being successful in terms of orders, we will see a higher RD&E coming through. And, I mean, but we need to kind of see the orders coming

through in order to know that. So the 0% to 5% is reflecting some kind of uncertainty on the dependents we have also from the kind of order intake numbers in order to see the actual underlying cost. But it's also important to remember that we take all costs related to RD&E basically is upfront costs. We're not capitalizing anything.

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**Mike Small HSBC Bank PLC - Analyst**

(inaudible)

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

No, but then you're going all the way back to 2015, and then referring to that target, I guess.

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**Mike Small HSBC Bank PLC - Analyst**

...today, that can fund that high-risk uncertainty, but you're saying by splitting up the 2 companies, market's suddenly going to recognize that value, which I appreciate the intent. But that's not quite consistent with 8% to 9% dropping to 0% in terms of that business.

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

But we will be able to fund that going forward as well, as we said previously, when it comes to the capital structure for the different entities. So there is no difference from that point of view.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

I think also between the 8% to 9% in 2019, there has been a lot of things happening here. The investments that we have undertaking in this world of rapid change isn't coming for free, simply. The strategy that we have of being the leading supplier in this space, being capable of doing system integration, being capable of providing the technologies of LiDAR or Vision or Radar is, of course, not coming for free in the short run. So when you talk about a margin target of 8% to 9% now becoming to 0% to 5%, it is a different situation, it is a different landscape we're talking about that we're definitely convinced will pay off in growth longer term.

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**Anders Trapp**

One last question.

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**Filippa Gerstedt Nordea Asset Management - Analyst**

Filippa Gerstedt, Nordea Asset Management on the asset management. Continuing on the margin here, and I guess, you have a target for revenue for 2025. So even though there is some certainty, you have a vision of where you want to be, so how should we think about the path beyond than 2020 in terms of choosing -- what kind of leverage do you expect?

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Now you're talking about ELE separately or is it...

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**Filippa Gerstedt Nordea Asset Management - Analyst**

Yes.

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**Mats Backman Autoliv, Inc. - CFO and Group VP of Finance**

Yes, that's part of it. If we take the very, very kind of long-term view, and I think it was maybe Hampus was asking the question on the long-term view, because that -- could that become a comparable with what we have seen within Passive Safety, and we believe that we will be able to increase the margins in that way. But saying that, I would say that the margin and the range we have is more kind of reflecting the uncertainties on this kind of the business we're gaining until when will it start normalizing, so to speak. Because we will always have the upfront costs that is kind of hunting the top line. And that's the time frame is very difficult to say today when it comes to Active Safety.

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**Anders Trapp**

That was the last question we have time for. Before we move over to CEO concluding remarks, I was hoping that we would have the findings from the other Q&A from the app. So from one Q&A to another. We asked a bunch of questions to you guys about consumers' willingness to pay for self-driving mass volume car. I'm not going to dwell on all these results. I think we can just look through them, and you can see for yourself and compare it maybe to what we have said today and maybe what you think yourself, might be a food for thought. People are

probably prepared to pay quite a lot of money for self-driving cars you think. There will be many companies competing also 8 years from now in Active Safety, not 1 or 2 only dominating the market, interesting. Global car sales, when will it peak? Very even, 5 years, 10 years or never. Growth potential in India for many more years apparently and in China. That was it. And now, Jan, for your concluding remarks.

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**Jan Carlson Autoliv, Inc. - Chairman, CEO, President and Member of Research Advisory Board**

Thank you, Anders. Well, first of all, thank you very, very much for coming here, attending this very special day for Autoliv, being here and also, of course, for your active participation and interesting questions. We have been seeing here a automotive industry in change. We have been seeing here also that it's probably not the first time this automotive industry is changing and it certainly is not. We're seeing the megatrends that is interesting to us. And I think for our point of view, we're ready to participate, we're ready to take advantage of what's happening in this very, very exciting industry. Turning the car into something that is a lot more than a car with 4 wheels. But we have to remember that the most important part with the car, no matter what, is that you get safe from A to B. Without that, you probably do not appreciate the connectivity, et cetera, et cetera, so much. We have two distinct markets as we see it from our horizon. We have a passive restraints business that is very steady moving on, which will be there for the foreseeable future. We have a rapid growing market toward autonomous drive. We're ready to take on these two markets. Both of them, we believe, better serve as separate company. We're filling this spot on the side of the electronics. We believe, we're best positioned from a reliability, robustness point of view to capture it. We have also here today, as we have talked a lot about, laid out targets of \$10 billion, 13% in 2020 for Passive Safety; \$3 billion, \$1 billion in Active Safety for the electronics business. And also then the margin of 0% to 5% for Active Safety in 2020. We are very much looking now to deliver on this. This is our main focus. This is what we're doing and this is what we're going to focusing on drive on. Because no matter what we say here today about separation of the business and talking about strategic reviews, there is a life out there. Our products are saving lives every day. We manufacture and supply 1 million units each day of life-saving products. There is nothing more important for the 70,000 people big family of Autoliv right now to continue to focus on performance and execution. That is what creates the bread and butter for us and that is what creates more value and save more lives. Thank you very much for today.

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**Anders Trapp**

So I will thank you all very much for your interest in Autoliv. I thank you all here on the floor in Frankfurt. Everyone on the webcast and everyone on the teleconference. And that concludes the teleconference and webcast. For you here in Frankfurt, there will now be lunch served and it's outside this room, to the right and to the right. And if you can't find it, just follow your nose and you will find it. And please take the opportunity, again, to the Interactive Exhibition and speak to our experts with Autoliv and our partners. Thank you.

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