

Autoliv: World's Largest Automotive Safety Supplier

Henrik Andersson presented his in-depth investment thesis on Autoliv (Sweden: ALIV) at European Investing Summit 2014.

Autoliv provides car safety products, including airbags (65% of 2013 revenue), seatbelts (31%), and “active” safety (4%; mostly refers to safety-focused car electronics). Mr. Market still views the company as a price-taking supplier into a tough customer base. However, has evolved into an enviable position to be in “the business of saving lives” and provide products that focus on end-customer priorities while helping auto makers set themselves apart from their competition. The shares are set up for a total annual return of at least 10%, based on a sustainable free cash flow yield of 7% (on a net cash balance sheet) and a long term growth rate of 3%. The growth rate may be higher given the secular tailwinds for Autoliv in a nascent market with currently less than 2% of a car value relating to safety products. Tailwinds include: 1) increasing car safety regulations; 2) active safety features moving from add-on to standard; and 3) favorable emerging markets dynamics (safety value per car: China: ~\$220 vs. US: ~\$420). In addition, the company's operating margin may expand given that its active safety business is still a drag on profit margins and currently high raw materials prices may reverse. Management has started a share buy-back program in the fourth quarter of 2013.

The following transcript has been edited for space and clarity.

Henrik Andersson: I'm going to talk about, which is Autoliv, the Swedish company active in car safety products. So, the ticker is quoted both in the US and in Sweden and its ALV US or ALIVSS the Bloomberg tickers. Lots has changed in this company from 10 years ago and I would argue this is a quality franchise not really being recognised as one. That's the opportunity set we see.

On the first slide or second slide on page 2, the company is really in the business of saving lives, that's what they have done since the start. In a car, there are more safety products than you almost can imagine and in the future, there's almost a certainty there's going to be more even red dots in this car if we come back 5 years from now. So, onto slide 3. In our Global Equity Fund, which I help manage, we always use this triangle in framing our investments and this is the area where we're comfortable hunting in and for people that are of the view that quality is expensive from time to time, now might be a time like that. We would argue that perhaps one is not looking hard enough or referring to what perhaps was yesterdays recognised quality and often there is also disagreement between us and with the markets of the 'validity' of a company's inclusion in our investment triangle.

For example, there is huge argument if the valuation of John Deere or Shiseido is low, there is a great deal of argument if Varian and Aflac are run by great owner/management people and in today's case, there's also an argument if Autoliv is really an outstanding business so, that's what we're going to get into. On slide 4, really quickly, just by way of introducing into my focus areas in Autoliv, I've highlighted a few areas from our framework of trying to pinpoint what, in a company's business that makes it a sustainable great business. The word sustainable there is obviously the most important factor. So, Autoliv's got very high barriers of entry, they're leading by innovation, the customer relations are decades and decades long,

internal efficiency is a great strength of this company, partly because where it's coming from, Europe.

The business is growing, likelihood it is going to grow even more going forward and the balance sheet is as strong as it's ever been in a history of a company I would say, as long as they've published figures at least. Page 5 or slide 5. They've actually grown sales by close to 20% since 1980, which is when they started producing airbags for cars and this is obviously including M&A of which Morton and Delphi, part of Delphi business has been key obviously, but their products save today over 30,000 lives a year and they reduce injuries 300,000 annually. They're in almost thirty countries, they have over 56,000 employees, of which 17% or 18% is of temporary staffing nature, which makes them very flexible and they have over eighty facilities, in terms of production and or crash test tracks. They produce 120 million airbags and 140 million seatbelts.

Slide 6, which is really perhaps the most important one in terms of our focus or my focus on Autoliv as an investment opportunity. So, the corporate execution has been really good the last decade, I would say. Like in all instances, changes happen and are understood perhaps a bit slow. Autoliv is still viewed as a car supplier with very limited abilities to control its own destiny. This might have been true leading up to the mid-2000s perhaps or impression wise over the GFC in 2008, 2009, but it's not true anymore and in almost the same way as the ingredients suppliers to food and beverage companies, they went from being pushovers a decade ago to, now they're outsourcing and innovation driven partners to Unilever or the Danones of this world. We think the same thing is happening with a few select suppliers, that they're making the same journey in dealing with car and truck OEMs.

For all companies we believe its great truth to the statement that positions of strength are created in recessions and upheld in growth periods. I am going to show a little bit more about this later, but Autoliv really did not waste the GFC crisis, they did a few very critical manoeuvres during that time frame. So, they also have a few extremely important secular tailwinds in their back. Regulation is going into a new wave almost starting this year, going into car models for next year, I'm going to talk more about that. Emerging markets are really important in terms of number of units i.e. cars and the value of the products in terms of safety products going into these cars and then also, active safety, which is an emerging area in terms of what products Autoliv supply to car manufacturers.

Another strength is management. Autoliv is not family owned, they don't have a dominating owner in any sense really, but it's the management of the company that's stands out here for really running it in a shareholder, value creating way.

They are truly, truly investing for the future, they're not spending quarters here and there, harvesting the business to show good performance and the CEO, Jan Carlson might be one of the best CEOs in Sweden, in my opinion. They have great focus on R&D and they spent a lot of money and a lot of time in vertical integrate their operations so to supply the absolute best quality to their customers. So, they not only supply the airbag to the customer, they stitch it together, they have their own textiles factory, their own gas generator production and so forth.

Barriers to entry are very high, you can see on the chart there, market shares are pretty... they are pretty dominated by the top three players in almost all the categories, which is Autoliv, TRW and Takata. These haven't changed that much, apart from the fact that Autoliv has slowly been gaining share over the last decade and their balance sheet is as strong as it's ever been. Like I said, that sets then up very nicely in order to take advantage of the high

growth opportunities they have going forward. So, the net cash, they're in a buyback programme right now which started last year and just to indicate, 1x EBITDA is about \$1 billion, which would be 12% of the market cap to get up to the midpoint in that targeted leverage range.

Slide 7, which I'm not going to touch upon that much, is just showing the makeups of the company, how you can slice it and dice it in a few different ways. Their market shares are overall 37% right now, a little bit more in seatbelts, a bit less in frontal airbags, more in side airbags and so on and so forth. In active safety, they're up to 25% market share. So, that's the situation there. The most important clients are shown on the right hand side there, the only thing that can be noted is that they've done business with GM and Renault since the mid-1950s so they go way back and also Ford of course. Regional split is fairly even or it's extremely even, a third each in the big three regions and the split of sales, you can see there, active safety at the end of this year is likely to be over 6% of sales. So, it's growing quickly, we'll come back to that.

Slide 8. The company history as you can see from the picture, seatbelts have evolved quite a bit since they were first introduced to the market, which was in 1956. Other notable events, like I said, in 1980 they started airbag productions, they went into their first JV in China in 1989 and the Morton merger, which was very important in terms of giving them scale in North America and Asia happened in 1994, they bought their first active safety technology or entrance, the market didn't exist at that time really, it was very, very early days, but they bought that in 2002. So, they've been dealing with these products for over a decade. Since then, they've added Tyco's radar business, but they mainly created their active safety offering through internal R&D.

Slide 9 really shows what I just said, but in picture format so, more friendly to the eyes. So, we'll move on to slide 10 really. One of the strengths, like I said, corporate execution. Sometimes it's hard to understand why companies, when you look at the sales line or profit line, to understand what really changed things for the better. I just wanted to highlight what I believe has been underlying the even better performance sales wise and margin wise and profit wise or return capital wise for Autoliv, what happened in the decade of the 2000s. A number of innovations and patents obviously exploded, apparently it went from one to fifty a year, which has been a huge strength in terms of what people they hired and what they spent their case doing or what the focus of the company was.

The factors, much better quality in and the number of employees in low cost countries, obviously tripled and like I said before, they have almost 20% of their employees on temporary staffing contracts. The number of customer rejected products went from fifty per one million units, down to five and it was even lower than this in 2013 and that is very, very important. First of all because it's much easier getting to new models and new platforms for customers and second because it's very expensive having products handed back in terms of margins. So, these things all relate, but that was always crucial. They took the working capital from more than 20% down to 13% and furthermore in the self-reinforcing cycle of a much better run company, a number of training days per employee has gone from 1.8 to 10, which also I guess, cycles back to the number of patents produced per employee.

They consolidated the market at the bottom of the cycle and they did a very... protested or not liked rights issue in 2009, when people thought they were nuts at the current share price to do rights issue, but the companies they bought, Tyco Electronics for \$42 million and Delphi were a passive safety business, the valuations were really low. So, the moves they made there were obviously very foresighted and since 2010, they have the Q5 programme, which

deals with these five areas and this is not something... this is sort of a paper product, this is what's behind the much better performance of the company in the last 5, 6 years. They have issued a very reinforced culture of investment, innovation and quality focus. They run highest capex and highest R&D level of all the players in the market and their focus is, you can see that on the bottom of the slide, where the market shares have slowly, but steadily been creeping up from mid 20s in 1997 to today's 37% and this is just by getting on to new models basically, new platforms for their clients because they're in every client, it's just a matter of which models they produce for.

So, next slide. The secular tailwinds, it's a very colourful and busy slide, but just a few quick points on that. In 2014 marked the start of a second wave of tougher requirements in order to get a five star rating and the five star rating is obviously very, very important for car manufacturers, it really drives sales and how they position themselves in the market. So, all models marked... 2015 car models basically, will need to abide by these tougher requirements and they include things like autonomous enforcement breaking, lane departure warnings etcetera, etcetera and instead of me going through the details of each and every of these increased requirements from NCAP, just refer you to the website, which is very, very informative and a good website if you want to understand more about car safety.

What's also can happen is that previously about 70%, seven zero, of all cars have achieved a five star rating, up to now. That's not going to be the case going forward because these tougher requirements are going to force this to come down basically. Just an example, in 2010 the Renault Megane was awarded a five star rating, today it would be awarded a three star rating and it was state of the art back then, in terms of safety. Things are happening quickly now. So, the car manufacturers, if they really want to have their five star ratings and stand out, are going to have to include these things. Further, even more interesting, China is thinking about benchmarking their NCAPs to UNCAPs starting in 2015. So, that will be interesting to follow up on.

Then also, as you can see in the right hand picture, starting in 2016, there will be dual rating, meaning there will be one for passive safety and one for active safety and this is going to be furthermore a way to stand out for car companies and it's going to benefit the lead suppliers of active safety even more such as Autoliv, Bosch and Continental obviously. Another secular tailwind is going to be active safety, but I'll come back to that on the specific slide. Increased safety value per car, in developed markets, it's going to be driven by regulation and active safety, but in emerging markets there's just going to be more safety products per car as per income gross, specifically the middle class. Leading to a global light vehicle production, steadily increasing by 3% to 5% every year. Regional can be different, there can be huge difference between years. Europe is in a low point in their cycle right now, while the US is doing well, but very likely volume increases 3% to 5% obviously helping Autoliv.

Slide 12. To my point of the safety value per car is increasing. Currently, only 1.5% of a car is spent on safety related products. It probably won't suddenly just jump up through a step change. It could, perhaps in 2015, 2016 where a lot of things are converging, but more likely, it's going to slowly increase as the lead times are very long and once a model is in production it lasts for a number of years obviously and they don't change much until the next model, but 1.5% is pretty certain that's going increase over time, which is a huge aid or tailwind for Autoliv. Next slide, 13. Emerging markets. The middle class emergence and increase uses of cars, very important to them and today EMs are about one third of the company. So, in terms of light vehicle production, China is already now, the largest car market in the world, you can see in the chart there, end of this year likely over 20 million cars. US is about seventeen currently in Europe is at twelve, was at sixteen before GFC.

Autoliv is, which you can see in the top right hand chart, the pie chart there, the market leader in China and the clear number one. They have a long history and it's also driven by the strength of the German OEMs, BMW and Mercedes and Audi of course and they have their local production, vertical integration so, providing the absolutely best quality at a cheap, cheap price without having to import things. Then safety value per car. The US is at about \$420 per car in safety products currently, Germany a little bit more, just a mix effect from having more expensive cars. China, Brazil and India is obviously far, far behind and even within China, there is huge differences. So, number of vehicles up, safety value per car up, is a very beneficial trend that sometimes it's forgotten when you just look at quarterly light people production numbers, but keep that in mind.

Then also, local competition in China seems manageable. If we look at the last two charts there or pie charts towards the bottom, the market shares of Chinese car producers and then, also how the market is made up. The home brands, i.e. the Chinese branded cars and the joint ventures with the European brands and out of the joint brands of 67%, Volkswagen and GM is half that. Market share wise in China, like I said, top right hand there, Autoliv's got almost 40%, Takata and TRWs obviously there. Out of the others, two players worth mentioning that we've looked into. Jinheng and East Joylong, they both have a very limited offering really and the production capacity is not very great. Jinheng previously was listed, but was acquired a company called Wonder Outdoor Technologies, in 2012. That was then delisted due to not filing earnings reports.

East Joy is a private company, but those two players are the main local competitors and they mainly cater to the home brand Chinese people and not to the joint brand, which is two thirds of the market and growing. So, next slide 14, active safety, very interesting area. So, active safety can be divided into camera based, radar based and far-infrared based products. Camera based is either mono or stereo, which means it's either one or multiple cameras running these things and it's things like visual detection of lanes, seeing lights, pedestrian's etcetera. Radar based and far-infrared based is more living objects and measuring distance and velocity of those objects. In this area, like in passive safety, Autoliv has got an intimate relationship based to work from. They've done some early work with first and foremost BMW and Volvo at a very early stage.

Almost 7, 8 years ago they started this and in the pictures below there, all the car models below, Autoliv's got active safety products in all but two of them as of this quarter. They've mainly done all their development in-house since the Visteon acquisition in 2002 sorry, the year's wrong there, it was 2002 and I'll just mention one of the world's best camera image lenses centres are in Linköping in Sweden where Autoliv runs a lot of its R&D from. Their ambition in this space is to be working towards being a systems integrator or an ESDC, I'll come back to that later. So, basically when a supplier of active safety comes towards the car producer and OM, they can either provide a feature to the car, which for example, can be the algorithm on a chip that Mobile-i provides or they can provide this and the component, which in this case could be the camera or they can do all the surrounding electronics and actuators that are involved in this, i.e. connecting it to the breaks, the steering wheel and so forth.

Autoliv is working and will deliver on and their ambition is to be doing all these things and not just providing one product to one service. The value per car on an active safety product is obviously a lot higher, the \$250 are really just basically one product in this sense. If you're a systems integrator today, it's at least around \$600, \$700 and more importantly, Autoliv can capture 50% of this value versus 20% when they deliver passive safety products. Like with airbags for example, active safety products are slowly going to go from an add-on, like when you buy a car, you can select to include night vision or infrared based radar, if it's a really

nice car, towards it becoming standard 3 to 5 years from now, driven by regulation and driven by customer preferences.

Currently, active safety is margin-dilutive, it might break even this year or it's likely it's going to break even this year actually, but it's been a drag on margins for a number of years and it will be profitable next year as Autoliv is launching their own developed mono-camera, not buying the algorithm from Mobile-i anymore and they're also going to launch their own developed steroid dish and camera, which is multiple camera's in at least two car models already contracted for in H2 next year. Next slide. This is just an example of all the things active safety can do for you and it's so much going on in a very exciting area and there's a lot to look at, both at Auoliv's own website and on YouTube and all kinds of different channels. So, I implore you to do this if you're interested in the company. We really believe that the value of Autoliv's active safety part is much higher than what's implied in today's market cap.

Just to put things into perspective, Mobile-i has got sales this year of perhaps \$130 million, their market cap is perhaps \$11 billion. Autoliv's sales is going to be around \$500 million this year, their market cap, in total, is \$8 billion. Just because something is a smaller part of total, does not make it less valuable and the true worth is not perhaps Mobile-i's eighty times sales, but it's something else, but it's certainly more than what's implied in Autoliv today we think. Their competitive positioning is very good. We believe market shares might increase from today's 25% in 2015 when they launch in those two car models. So, slide 16. The end journey of all of this, where cars can drive themselves almost and this is also shown why it's so important to be a full range systems integrator or an electronic safety domain controller, where you link together all the safety sensors and the actuators that control vehicle motion, which could be breaking, transmission, steering etcetera.

Autoliv's mission in here is going to be where their goal is to go from saving 30,000 lives per year to 150,000 lives per year. That's five times obviously and it's going to involve, we think, a much higher sales number when that goal is reached. Slide 17. We look at their operating margins, they have increased steadily throughout time. We believe Autoliv is keeping them down for a good cost, but they... achieve potential for them to increase and it's higher than what you might take from looking at it today. Raw materials have been increasing for 7, 8 years now in a row. When this comes down, Autoliv's going to be... it's going to be beneficial for them obviously, once this reverts, if it reverts. R&D, they take about 5.5% through P&L, they don't capitalise anything. They also get, on top of the 5.5% they've spent, they get engineering income from their clients, which means that Autoliv's R&D is even higher than what you can see in their P&L because the clients fund it, which increases their lead towards other players even more.

Active safety has been dragging down, barely break even, this has cost them about thirty or forty basis points on margins. They spent a lot of money in terms of vertical integration to have their own production facility, to control quality, which is proof to why they've gained market shares and we think the return on capital has found a new level and on the list keep going up a little bit, but at least help Autoliv to compound from the 15%, 20% return on capital level. So, to finish off really, in terms of valuation. I guess most of you, if not all, prefer to do your own numbers work as a way to understand the business. So, I've just provided a very brief outline here. So, you can see sales have been growing at north of 6% the last 5 years, EPS seventeen, they've converted cash on both levels so to speak, operating and free cash flow, about 100%.

Return on capital has been around 16% the last 5 years and EBITDA margins just coming up

really from six and a half, seven 10 years ago to about eight and a half, nine. They're likely going to produce nine this year. They're a little less ten times operating profits, thirteen times PE and we believe a sustainable cash flow is about \$550 million or \$566 million actually, combining that at 7% per cash flow yield with a reasonable growth rate of 3%, which is conservative we think. That gives you a potential forward yield of 10% assuming no valuation change really. So, on 19, just summarising how we value a business quickly. So, we don't look for a selling price, what a business could be worth exactly when we want to sell it, we look for an acquisition or purchase price. So, the base not a ceiling or floor not a ceiling really.

We're going to be very conservative and consistent through our time, we want to find a sustainable number to use across the cycle and on slide 20, just shown for Autoliv, we use 14% on return on capital, which is below what they do today, but in a bad couple of years it could come down to this level. Sustainable free cash flow, we've used five hundred and fifty, sorry mistyping there, not four fifty, five fifty, comes to a base valuation of \$90, which is where the shares at and we would not look to sell the business unless it's at least 40% over our base in terms of when we want to finance other ideas. So, we think the upside is still really good for Autoliv.

MOI Global: Well thank you very much Henrik for your remarks, very interesting. I do also want to refer anybody with questions to get in touch with us and we will facilitate Q&A with Henrik. I have a few questions myself. So, it's interesting, this transition between passive and active safety and what I was primarily interested in, to understand a bit more, was their historical strengths and barriers to entry and so forth, it seems to be one side of the coin and in this transition, is there a risk that there could be entirely new competitors in a way we've seen with Mobile-i, the valuation aside. I'm not sure when Mobile-i was established as a company, but it seems to me that going from physical things like seat belts and airbags to more electronic based safety features in a car. There could be entirely new competitors that could spring up or even the OEMs themselves, could look to seed new companies and so forth. So, I'm wondering how you see this as a risk that as the shift between passive to active continues, that Autoliv could really lose its positioning in the market and its bargaining power with the OEMs.

Henrik Andersson: It's a very interesting topic and it's one we have spent a lot of time on, not only because it's a new, exciting area, but because obviously it's... depending on what you believe it could be different to how you view Autoliv and in some instances, people believe that Autoliv should exit their passive safety products and only focus all their money on the active safety part, but we think all evidence points towards the fact that they are doing the right thing and their position is really strong in the active safety area. For example, what I mentioned what they want to become, a systems integrator and do all the things connecting infrared, for example, to the actuators that control the car motion. So, if you need... if you see a deer or the car notices a deer, the infrared light notices a deer, 100 metres or 200 metres away and starts to control... takes over the car basically. That's going to be very much interlocked 5, 6, 7 years from now. So, if you only provide one thing, you're going to be a less important player to the car OEMs.

I think, 5 years from now, we're not going to speak about passive safety or active safety, we're going to speak about safety because they're going to be so interconnected and people are not going to think that there's a difference between having an airbag and things in case things really go bad or having the car manoeuvre, if you slide out of lane or if there's an object out ahead. So, they definitely have to be in both businesses and in terms of market

positioning in active safety, they're at a 25% market share now. Like within passive safety, there are a couple of dominant players already positioned. So, in passive it's Autoliv, TRW and Takata now, these days and in active safety it's Autoliv, Bosch, Continental really that's taking dominant positioning or a dominant position. I wouldn't say, it's too late, but these things started 10 or 15 years ago in terms of developing these products.

Autoliv bought Visteon in 2002 and there can certainly be a new player like Mobile-i providing a feature of the total safety package, but Mobile-i, for example, are not able to provide currently a multi-camera or a stereo camera product, which Autoliv is going to do next year. They already have two clients set up and they're going to launch their own mono-eye with their own algo. So, stop being provided by Mobile-i and their own stereo, they're alone in this area. So, I would be... and in terms of R&D, they're just, not way ahead, but they're ahead of everybody and as far as I know, there are not any other companies launching these products as early as Autoliv is doing, next year. So, I think the positioning is really good and it's going to be the thing driving sales more than the 5%, 6% which has happened in the last decade with Autoliv.

MOI Global: Henrik, just to focus a bit on the slide that's showing in terms of the valuation, your base case of \$90, which corresponds roughly to where the Autoliv share price is recently. Am I understanding it correctly that you're basically saying that it's a fair valuation, but as an investor buying the shares today, you can expect to get about a 10% return, which corresponds to that 10% free cash flow yield and potentially, that is growing over time. Is that... am I understanding that aspect correctly?

Henrik Andersson: Yes, I mean basically, when we are trying to look at valuations of a company, we think it's easier to find an attractive price at which to buy, where to sell, it sort of depends and it's hard to pinpoint and it's often a range where a company is no longer attractive and it could be no longer attractive in the sense that you found something much, much cheaper. So, our enterprise or our alarm, if we didn't own Autoliv, would be the current share price. So, if we didn't own it, we would buy it at today's level and that's the \$90 and that's the base. Again, it's a very conservative base, we use return on capital and free cash flow, at least return on capital where it's far below what they're producing and far below what they have produced the last 5 years. We think return capital is going to grow from today's sixteen, because it's being pulled down by a number of things that I mentioned.

In terms of free cash flow, this year's not going to be higher than the five fifty that we're modelling, but last year it was higher and in 2010 and 2011 it was higher than what we use, we think that's a conservative number as well because it's 6% of sales and it's being weighed down, again by a number of factors. On top of those very conservative base valuation inputs, we use 3% growth, which is also very conservative. We think they can grow at 5%, 6%. Not easily, but in a conservative environment. So, notwithstanding that they can do things much better than we input in terms of return on capital and growth and free cash flow. So, they can also get a higher multiple because today is fairly low I would say. So, that's how we see it and all things equal, we will not look to sell until it was 40% above this base, which is the start of the range of where a company might be over-valued. So, that's \$130 then.

MOI Global: Perhaps just to touch on the cyclical nature of the underlying industry, the car industry globally. Clearly in 2008, 2009, if I remember on one of the slides, the return on capital for this company has come down dramatically as probably free cash flow and so forth. So, what do you think of the view that says, "Well, in a way you present it, Autoliv is a compounder, but it is related to an industry that is quite cyclical. So, from an investment standpoint, wouldn't it be better to wait for the inevitable downturn again in the car industry,

which presumably, would lead to a substantial decline in Autoliv's revenue, free cash flow and so forth, at which point, it may be more attractive to acquire the shares. It'll be interesting to hear how you assess this from the view of somebody who looks at this as a compounding type investment.

Henrik Andersson: Right, good question. If we get to see a shocker like the DFC again, it might happen, I have a very hard time seeing that, that would happen again, but it could and then a lot of businesses would not lose a lot of money, but the profits would come down heavily. Perhaps, in Autoliv's case also, but I think a number of other names are going to be hit with the exact same situation really, but what's different now compared to 2008 is that today, China is the largest car selling world or car selling nation in the world that's more than 20 million units. In 2008, it was a little bit more than five, I think it was 7 million or 8 million cars sold. So, what happened with Autoliv, was obviously the European and US market crashed at the same time and that was 80%, 85% of the business, but they did a lot of, like I said, good things when that happened, which is they didn't only buy a couple of companies at almost bankrupt valuations, but they also restructured their own operations to improve even more on the KPIs I showed on the slide, to improve on those even more.

So, in 2009 the current capital went down, on the face of it, a lot, which is what that picture shows, but operating profits went from \$300 million to \$70 million, but cash flow was unchanged at three fifty. So, they pushed about... half of the profit decline was just restructuring charges, moving factories to low cost countries. On the slide I showed before, they've gone from about 24% to 63% in low cost countries and about twenty percentage points of that change happened in 2 years. So, on the face of it, yes and if the world is to get another huge reset like that, it could happen, but I think Autoliv is set up differently now and the world is set up differently in terms of where demand is. So, that would be my answer to that. It's not deep value, we think its value for a business that's not recognised as quality, like the food ingredients companies was 10 years ago.

MOI Global: Perhaps just lastly, I know you invest globally and look for these quality type businesses that are under appreciated, outside of Europe as well. So, it would be interesting to hear just how do you assess the opportunities set globally, especially in Europe relative to where you're finding value in the US or in Asia. Give us a sense of the European opportunities set, given that this is a European focused conference, relative to your assessment of the opportunities elsewhere?

Henrik Andersson: Right, just my initial thought or first thought on that would be, like a lot of other people, I guess participating in this conference, companies is first and foremost for us, what we look at. Where they happen to be quoted is not as important, but in terms of what we see through our bottom-up company screens and work with competition, suppliers etcetera, etcetera, where we find ideas. I would say that even though Europe has been the stock markets beating boy over a number of years and it goes in spurts, where if people like Europe or not, depending on what the ECBs doing or what the European Commission is doing and so forth. We tend to find more ideas in Asia and in small-cap US I would say. The reason for that might be, that Europe has been very one sided in terms of, the great companies are often German or UK names and in Germany, we are a little bit wary of... we look carefully at who their competitors are now.

They've been helped by 10 years of a weak Euro almost, vis-à-vis their Japanese and Korean competitors and they do compete with those people head on, in a number of industries and in the UK, we still find lots of ideas, but that's one particular market. Europe has got in terms of the domestic oriented companies in Europe, they have their challenges, we're not... what

we know of, the big picture thing and the macro picture is that the demographics in terms of Europe is talked about, but it's not understood perhaps, the way the Japanese situation is understood because it's happened there already. Germany is looking dreadful from that perspective. So, we're tending to find more long-term, sustainable ideas in Asia and on small-cap US I would say.

MOI Global: Great well, we'll leave it at that. I want to thank you again so much Henrik for this very detailed presentation and for entertaining all my questions and would also encourage everybody with further questions for Henrik to get in touch with us and we will facilitate the Q&A online. With that Henrik, thanks again.

Henrik Andersson: Thank you so much, pleasure to be on again.

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About the instructor:

Henrik has worked within a framework of investing in quality franchises in a concentrated portfolio setting since the early 2000s. After five years as an assistant fund manager and analyst at Handelsbanken Asset Management, in 2003 he launched a discretionary portfolio named European Quality with 15 holdings, inspired by Peter Cundill's approach of "never shoot into the broom". That later branched out to a family of funds named the Selective Funds. In 2011 he joined Didner & Gerge, an employee-owned asset management boutique, to launch a Global Equity Fund together with a colleague. D&G Global is now applying the same principles they have used for over a decade in trying to identify sustainably great companies with an appealing valuation starting point. Over the years, an increased emphasis has been put on corporate leadership with a clear preference for owner-operated companies with a history of outstanding operations.