

## Lear Corporation (LEA)

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<b>Ticker:</b> LEA	<b>Current Price:</b> \$142.18	<b>Stock Exchange:</b> New York Stock Exchange
<b>Sector:</b> Consumer Discretionary A	<b>Industry:</b> Automotive Manufacturing	<b>Headquarters:</b> Southfield, Michigan

### Introduction:

Lear Corporation (LEA) manufactures automotive seating and electrical systems. Lear was founded in 1917 in Detroit Michigan, now their headquarters is in Southfield, Michigan. Their Initial Public Offering (IPO) was in 1994. Since then, Lear has made 18 acquisitions to keep up with the industries need as technology keeps advancing. Among the Fortune 500 companies Lear Corporation is ranked 148, reporting sales of \$21.1 billion in 2018. Lear operates two divisions; Seating and E-Systems. They operate 257 factories in 39 countries. Lear is focusing on improving their products to stay ahead of innovation and new technologies.

**Seating:** Lear's seating segment includes the design, development, production, assembly, and delivery for all the major components of their seats. The major seat components include; seat covers, surface materials, seat mechanisms, seat foam, and headrests. Lear's seating focuses on safety, comfort, active sensing, and connectivity. Lear has acquisitions and partnerships that also allows them to provide heating and cooling technologies.

**E-Systems:** Lear's E-System segment includes the design, development, and manufacturing of their E-Systems. Their E-Systems also include electronic controls and connectivity products. Their E-System technologies are compatible with gas, hybrid, and fully electric vehicles. Electronic controls include software that signals and manages electric signals and power within the vehicle. Lear's connectivity products include connected access and communication for all wired and wireless networks and data. It also includes cybersecurity and communication related to the vehicle and traffic related information.

### Recommendation:

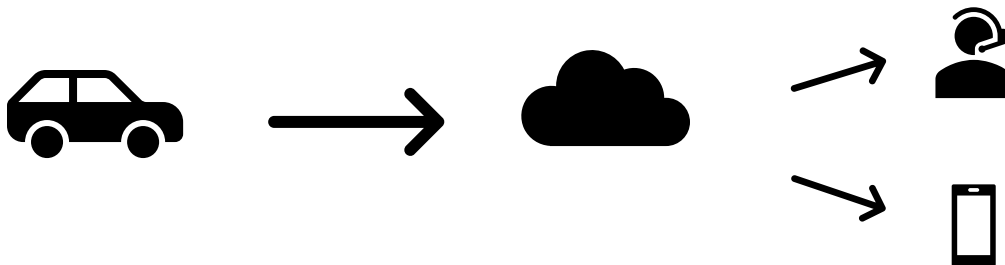
We issue a BUY recommendation on Lear Corporation with a one-year target price of \$168.59, which is a 19% upside of the March 15, 2019 closing price of \$142.18. The upside is a result of Lear Corporation investing in innovation, increasing technologies, and exposure to other economies.

### Investment Thesis:

Technology is constantly evolving and being a leading innovator is a key success factor for the automotive manufacturing industry. Lear is introducing many new technology systems to stay on top of their competition. Their new systems are compatible with electric vehicles. Lear is also working to have their products compatible with self-driving cars.

**ConfigurE+:** ConfigurE+ is a driver for the seating side of Lear's business. Lear's ConfigurE+ provides adaptive seating solution suitable for consumers-changing lifestyles. It allows limitless configuration of seats including full removal, and optional functions like storage and transportation of equipment. ConfigurE+ seating also adds comfort to rides. With more ride share options available Lear's ConfigurE+ is offering seats with comfort tilt and sleep capabilities.

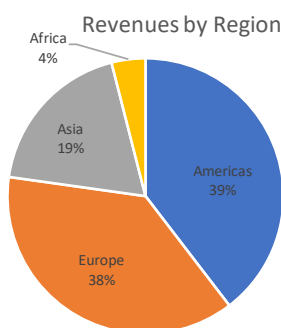
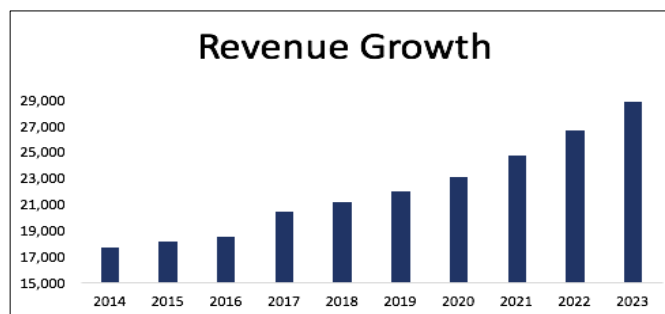
**ConnexUs:** ConnexUs is Lear's integrated solution for vehicle connectivity providing software and hardware managing and distributing communication signals all around the vehicle. Lear's ConnexUs includes Connected-Vehicle-To-Everything Communication (V2X) software with the acquisition of Autonet Mobile's intellectual property and Arada Systems, cyber security and a virtual car key. The V2X software is making life more convenient for drivers. Lear's cybersecurity technology protects the vehicle and connects it to a cloud-based security operations center. If something goes wrong with the software a signal is sent to the security operations center. This allows them to update the software remotely. The virtual car key allows a driver's smartphone to be used as the key fob for their vehicle through an app. Drivers can unlock, start, and open the trunk of their vehicle through this app. This app also notifies drivers is someone is trying to enter their vehicle. Users can also give or revoke access to the vehicle through the app.



**EXO High Accuracy Positioning:** Lear has recently acquired EXO Technologies, an Israeli based company. EXO Technologies operate in Israel and San Mateo California. The EXO High Accuracy Positioning software provides centimeter-level accuracy without the need for terrestrial base-station networks. It corrects satellite orbit, clock error and atmospheric delays with maximum precision reducing the inherent error sources of GPS from the final position. These technologies will help make roads safer by providing sensors that go off if the driver is too close to another object.

**Implementation:** By 2022, Ford plans to install a version of Lear's V2X software in every new vehicle. Ford is one of Lear's biggest customers and a leading industry provider. Lear has also signed a contract with Hyundai being their first development partner for their EXO Technology Partnership Program. Hyundai will install this program into their new vehicles.

**Revenue Growth:** Lear has had an average growth rate of 3% over the past five years. However, from 2016 to 2017 sales grew 10%. We expect sales to continue to grow at an average rate of 8% over the next five years.



**Diversification:** Lear Corporation operates in 36 countries. 40% of Lear's revenues are from emerging economies, while 56% is from developed. Lear is well diversified and is exposed to many economies. The top five countries that contribute to the revenue for Lear Corporation are the United States (17.6%), Mexico (15.3%), China (12.8%), Germany (10.3%), and Canada (3.3%).

### Valuation:

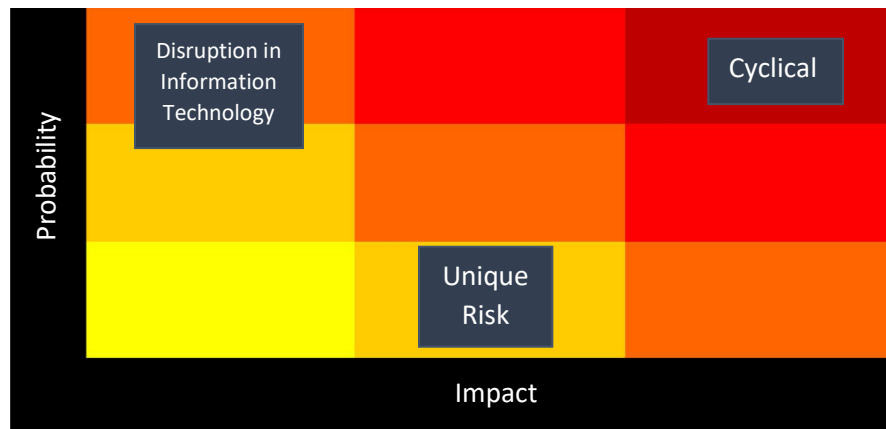
While valuing Lear Corporation, two models were used. The first model was a five-year discounted cash flow model (DCF). For the DCF model we used a discount rate of 12% and a terminal growth rate of 4%. This gave us a one-year target price of \$156, a 9% upside. The second model used was EV/EBITDA multiples model. Three related companies were compared to Lear Corporation. Using the multiples approach we came up with a target price of \$187.48, a 32% upside. These valuations were split 60/40 favoring the DCF method. This is because LEA's peers had a wider range of variables, leading the DCF method to be more accurate. Our one-year target price is \$168.59 with a price band of \$155-\$190 per share. This is an upside of 19% since the March 15, 2019 closing price of \$142.18.

### Management:

Lear Corporation strives to hire from within. Raymond E. Scott has been the president and Chief Executive Officer (CEO) of Lear Corporation since March 1, 2018. However, Scott has been with the company since 1988, holding multiple executive positions. Scott's experience with the company includes roles in both the seating and E-system departments. In preparation for taking over as CEO, Scott worked under the previous CEO, Matthew Simoncini, for six years. Scott is a bankable CEO. He has only missed one EPS estimate. Raymond Scott is planning for increasing technology and self-driving cars. Lear's Chief Financial Officer (CFO), Jeffrey H. Vanneste, has been with the company since 1991 when he started as the controller of the Detroit plant. In 2007 Vanneste left Lear and became the CFO of International Automotive Components Group (IAC). He later returned to Lear to operate as their CFO and has brought many years of experience to the table. Aside from the CEO and CFO, Lear Corporation has many executive employees with years of

experience. Lear Corporation breaks up their executive roles for each department. This is ensuring high level of expertise go into all their products they produce.

### Risks:



**Cyclical:** (Impact: High/Probability: High) The automotive industry is cyclical and sensitive to automotive manufacturer customers, which is highly dependent on consumer demand and the general economic conditions. Besides, an overall diversification will be needed to lower risks internally for a business thereby maintaining the financial performance in the future.

**Unique Risks:** (Impact: Medium/Probability: Low) Certain operations are conducted through joint ventures where ownership and management responsibilities are shared with one or more partners that may not have similar goals and objectives. Additional risks include one or more partners failing to comply with the obligations, arising conflicts, change in ownership of any of our partners, and limited ability to control compliance with rules and regulations like the Foreign Corrupt Practices Act, and sell our interest in a joint venture which may be subjected to contractual and other limitations.

**Disruption in Information Technology:** (Impact: High/Probability: Low) E-Systems heavily rely on accuracy, capacity and security information technology. Incidents like vehicle and component breached have become more prevalent and pervasive in many industries and is expected to continue in the future which could affect business performance. There is also limited assurance that the actions to improve security and risk management is enough to prevent the impact of cyber intrusion. Lear is also dependent on security measures taken by customers, suppliers and other third-party service providers to protect their own systems and properties as any breach on their part could result in unauthorized access in Lear's information, which could lead to non-compliant with laws and regulations and lower consumer confidence.

### Stock Chart of Past Year Performance:

Lear has been outperforming the S&P 500. The drop in 2018 is a result of the Fed raising interest rates and a missed EPS estimate in June. Lear met all other estimates for the year and the stock price is recovering. It is a good time to buy Lear's stock now before the price is fully recovered.



### Peer Analysis:

When comparing Lear corporation to their closest competitor, Magna International Inc, in terms of sales and market cap Lear is slightly out performing.

Name	Ticker	Market Cap	Sales	EBITDA	P/E	Enterprise Value
Lear Corporation	LEA	8.89	2.11	2.2	8.26	9.67
Leoni AG	LEO.DE	0.728	4.9	0.18	5.57	1.42
Magna International Inc	MGA	15.82	3.89	4.28	7.39	20.02
Denso Corporation	DNZOY	30.51	85.4	40.4	12.25	31.1

### Ownership:

% of Shares Held by Insider	1.9%
% of Shares Held by Institutions	98.1%

### Top 5 Shareholders:

Holder	Number of Shares Held
Vanguard Group Inc	6,286,382
Norges Bank	5,315,199
Blackrock Inc	4,046,228
Harris Associates LP	3,424,807
Massachusetts Financial Services	2,841,520