

Lear Corporation (LEA)

\$124.49 (As of 02/04/20)

Price Target (6-12 Months): **\$132.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

Summary

Lear has differentiated itself from competitors by its continued focus on innovation, luxury, and customization. The firm's Seating and E-Systems segments hold considerable growth opportunities. Lear's acquisition of Xevo has bolstered its market position in connectivity. The company's 2020-2022 backlog stands at \$2.7 billion and is expected to drive the revenue growth. Lear's aggressive capital-deployment strategies to reward its shareholders is a booster. However, the firm estimates 2-3% decline in overall global production amid economic slowdown, which is likely to adversely impact its prospects. Incremental investments to support backlog, along with increased spending on advanced engineering may clip the firm's margins. As such, investors are advised to wait for a better entry point.

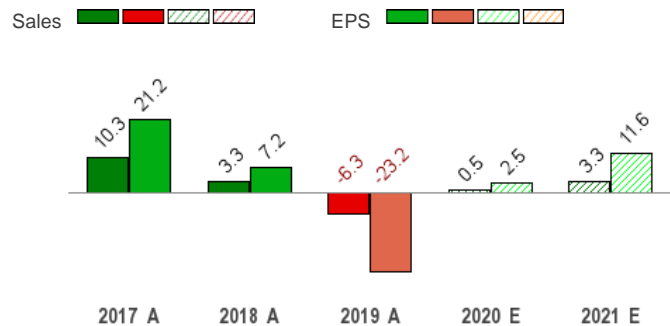
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$159.55 - \$105.10
20 Day Average Volume (sh)	576,924
Market Cap	\$7.5 B
YTD Price Change	-9.3%
Beta	1.55
Dividend / Div Yld	\$3.00 / 2.4%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 36% (162 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.3%
Last Sales Surprise	7.2%
EPS F1 Est- 4 week change	-5.4%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	8.9
P/E F1	8.7
PEG F1	3.5
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					20,555 E
2020	5,006 E	4,889 E	4,956 E	5,052 E	19,904 E
2019	5,160 A	5,008 A	4,825 A	4,818 A	19,810 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.01 E	\$4.02 E	\$4.24 E	\$4.47 E	\$16.00 E
2020	\$3.49 E	\$3.43 E	\$3.77 E	\$3.75 E	\$14.34 E
2019	\$4.00 A	\$3.78 A	\$3.56 A	\$2.64 A	\$13.99 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

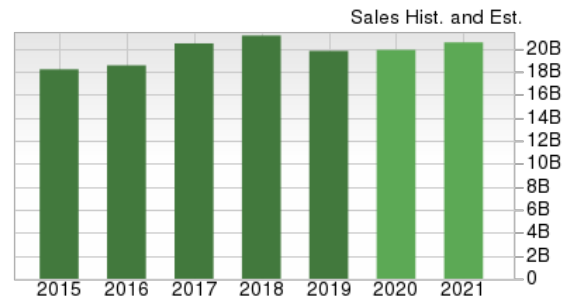
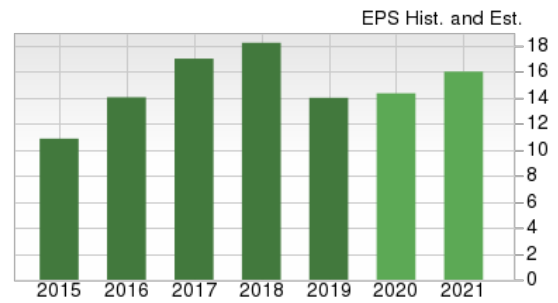
Southfield, MI-based Lear Corporation is a Tier 1 supplier to the global automotive industry. The company supplies automotive seating and electrical systems (E-Systems). The company caters to several major automakers in the world. The primary customers of the company are automotive original equipment manufacturers (OEMs). Lear's products are designed, engineered and manufactured by a team of around 164,100 employees, located in 39 countries.

The Seating business involves designing, development, engineering, assembling and delivery of complete seat systems and seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests.

The E-Systems business involves designing, development, engineering and manufacturing of complete electrical distribution systems. Electrical distribution systems help in managing electrical power in the vehicle for all types of power trains — traditional internal combustion engine (ICE) architectures as well as hybrid, plug-in hybrid and battery electric architectures. Key components in the electrical distribution portfolio include wire harnesses, terminals and connectors, and junction boxes for ICE and electrification architectures that require managing higher voltage and power.

The company serves major automotive manufacturers across Seating and E-Systems businesses. Also, it enjoys supplying automotive content to more than 400 vehicle nameplates all over the world. Further, the seat is gradually turning out to be a more dynamic and integrated system, requiring higher levels of electrical and electronic integration. This requires accelerating the convergence of Seating and E-Systems businesses. Lear is the only global automotive supplier with complete capabilities in both of these critical business segments.

On Apr 17, 2019, Lear completed the earlier-announced acquisition of Xevo Inc., the Seattle-based Tier-1 automotive software supplier. The company acquired all of the outstanding shares of Xevo for around \$320 million on a cash and debt-free basis. This acquisition will allow Lear to enhance its capabilities in software, services and data analytics, and bolster its market position in connectivity.



Reasons To Buy:

- ▲ Over the years, Lear Corporation has been boosting its portfolio via several strategic acquisitions. Last year, Lear's acquisition of Xevo Inc., the Seattle-based Tier-1 automotive software supplier, has enhanced its capabilities in software, services and data analytics, and has bolstered its market position in connectivity.
- ▲ Lear has differentiated itself from competitors by its continued focus on innovation, luxury, and customization. Its high-profile clientele includes Ford, General Motors, Fiat Chrysler, Volkswagen and Daimler. Lear plans to launch a number of programs within the Seating and E-Systems segments. In addition to these, the company's developmental programs and partnerships, along with production contracts, are expected to drive its financials in the current year. The firm's 2020-2022 backlog stands at \$2.7 billion and is expected to drive the revenue growth.
- ▲ Lear pursues aggressive capital-deployment strategies to reward its shareholders. The company is shareholder friendly with a dividend yielding 2.4% (higher than the industry's dividend yield of 1.8%) as well as a share buyback program which began in early 2011. Since the first quarter of 2011, Lear has authorized \$5.8 billion in share repurchases. As of December 31, 2019, the company has a remaining repurchase authorization of \$1.2 billion, which will expire on December 31, 2021.
- ▲ Both Seating and E-Systems segments hold considerable growth opportunities. Growing mix of high-content crossover, sports utility vehicles (SUVs) and luxury vehicles are likely to drive the demand for the Seating segment. On the other hand, rising consumer demand for vehicle content — requiring signal, data and power management — and growing need for electrification and connectivity should propel the demand for E-Systems segment.

Aggressive capital-deployment strategies, considerable growth opportunities in both Seating and E-Systems segments and program launches are aiding Lear.

Reasons To Sell:

- ▼ Plagued by macro-economic headwinds, global vehicle production and sales are expected to decline, especially in Europe and China. The firm estimates 2-3% decline in overall global production, which is likely to adversely impact the automotive suppliers like Lear.
- ▼ Incremental investments to support backlog, along with increased spending on advanced engineering to support long-term growth in electrification and connectivity, and footprint expansion are hampering Lear's margins.
- ▼ Rapidly changing industry and macro environment has impacted Lear's cost structure and business model. These factors have had a disproportionate impact on the company's E-Systems business overall and on the wire harness business in China, in particular. Historically, the business in Asia had margins well above overall segment margins. However, over the past two years, E-Systems margins in Asia witnessed decline by more than 50%.
- ▼ The company's rising debt is a concern. It had long-term debt of \$2.29 billion as of Dec 31, 2019 compared with \$1.94 billion recorded as of Dec 31, 2018. As such, higher debt will lead to increased interest expense and hurt margins. Weakening of global currencies against U.S. dollars are also acting as headwinds.

Lower production volume in key markets and higher investments to support backlog are headwinds for Lear.

Last Earnings Report

Lear Q4 Earnings & Revenues Down Y/Y

Lear's fourth-quarter 2019 adjusted earnings came in at \$2.64 per share, down the \$4.05 recorded in the prior-year quarter. However, the bottom line surpassed the Zacks Consensus Estimate of \$2.25. Higher-than-expected revenues in both its Seating and E-Systems segments led to this outperformance.

At the end of fourth-quarter 2019, adjusted net income was \$161 million compared with the prior-year quarter's \$261 million.

In the reported quarter, revenues declined 2.51% year over year to \$4.8 billion. This downside resulted from lower production on key Lear platforms and net foreign-exchange rate fluctuations, partly offset by the addition of business and the Xevo acquisition. However, the top line surpassed the Zacks Consensus Estimate of \$4.5 billion.

The company's core operating earnings declined to \$241 million from the \$389 million reported in fourth-quarter 2018.

Segment Performance

In fourth-quarter 2019, sales in the Seating segment totaled \$3,629 million, down 2.82% year over year. Adjusted segment earnings were \$212.7 million compared to \$299.4 million in the fourth quarter of 2018. However, it topped the Zacks Consensus Estimate of \$201 million in the quarter. Adjusted margins for the Seating segment was 5.9% of sales.

Sales in the E-Systems segment totaled \$1,188.5 million, marking a decline of 1.62% year over year, in fourth-quarter 2019. Adjusted segment earnings amounted to \$91.9 million in the quarter compared to \$136 million in the fourth quarter of 2018. However, it surpassed the consensus mark of \$71 million. For the E-Systems segment, adjusted margins were 7.7% of sales.

Share Repurchase

During the fourth quarter, Lear repurchased 215,200 shares for \$25 million. At the end of the quarter, the company had remaining share-repurchase authorization of \$1.2 billion, which will expire on Dec 31, 2021. The figure represents approximately 15% of Lear's total market capitalization at current market prices.

Financial Position

The company had \$1,487 million of cash and cash equivalents as of Dec 31, 2019, compared with \$1,493 million recorded as of Dec 31, 2018. It had long-term debt of \$2.29 billion as of Dec 31, 2019, compared with \$1.94 billion recorded as of Dec 31, 2018. The long-term debt to capital ratio stands at 33.8%.

At the end of the quarter, Lear's net operating cash inflow was \$485 million compared with \$758.2 million as of Dec 31, 2018. During the period, its capital expenditure amounted to \$193.8 million, up from the \$184.3 million recorded in the prior-year quarter. Free cash flow came in at \$291.2 million, down from the year-ago figure of \$573.9 million.

2020 Outlook

For full-year 2020, Lear expects net sales of \$19.4-\$20.2 billion. Adjusted net income is anticipated in the band of \$780-\$880 million. Further, the company projects capital spending of roughly \$600 million, while free cash flow is expected between \$600-\$700 million.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	7.21%
EPS Surprise	17.33%
Quarterly EPS	2.64
Annual EPS (TTM)	13.98

Valuation

Lear' shares are down 9.2% and 19.7% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 2.4% and up 8.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 2.8% and 17.3%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period and 19.7% in the past year.

The stock is currently trading at 8.57X forward 12-month earnings, which compares to 12.96X for the Zacks sub-industry, 11.25X for the Zacks sector and 18.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.79X and as low as 6.46X, with a 5-year median of 8.85X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$132 price target reflects 9.09X forward 12-month earnings per share.

The table below shows summary valuation data for LEA:

Valuation Multiples - LEA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.57	12.96	11.25	18.6
	5-Year High	11.79	13.46	11.75	19.34
	5-Year Low	6.46	8.52	8.23	15.18
	5-Year Median	8.85	11.6	9.91	17.46
EV/EBITDA TTM	Current	5.07	6.05	8.74	12.25
	5-Year High	7.98	8.66	11.33	12.86
	5-Year Low	3.96	4.63	7.05	8.48
	5-Year Median	5.46	6.62	9.27	10.7
P/S F12M	Current	0.38	0.63	0.68	3.49
	5-Year High	0.63	0.81	0.76	3.49
	5-Year Low	0.31	0.49	0.5	2.54
	5-Year Median	0.45	0.65	0.62	3

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 out of 255)



Top Peers

Group 1 Automotive, Inc. (GPI)	Outperform
Adient PLC (ADNT)	Neutral
Aptiv PLC (APTIV)	Neutral
BorgWarner Inc. (BWA)	Neutral
Dana Incorporated (DAN)	Neutral
Magna International Inc. (MGA)	Neutral
Visteon Corporation (VC)	Neutral
Continental AG (CTTAY)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	LEA Neutral	X Industry	S&P 500	ADNT Neutral	APTIV Neutral	MGA Neutral
VGM Score	C	-	-	A	C	A
Market Cap	7.53 B	779.02 M	24.31 B	2.54 B	23.11 B	15.65 B
# of Analysts	8	3	13	5	12	6
Dividend Yield	2.41%	0.00%	1.78%	0.00%	0.97%	2.83%
Value Score	A	-	-	B	C	A
Cash/Price	0.20	0.12	0.04	0.40	0.02	0.05
EV/EBITDA	3.96	4.73	13.98	10.60	13.44	3.98
PEG Ratio	3.55	1.13	2.01	0.51	1.61	1.33
Price/Book (P/B)	1.67	1.27	3.29	1.22	5.76	1.46
Price/Cash Flow (P/CF)	8.11	4.77	13.58	5.39	11.80	4.47
P/E (F1)	8.87	11.28	18.82	16.67	17.96	8.00
Price/Sales (P/S)	0.38	0.43	2.66	0.16	1.61	0.39
Earnings Yield	11.52%	8.25%	5.30%	6.01%	5.57%	12.50%
Debt/Equity	0.51	0.41	0.71	1.79	1.07	0.28
Cash Flow (\$/share)	15.36	3.65	6.92	5.03	7.67	11.55
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	13.63%	8.47%	10.80%	-48.21%	-1.17%	9.38%
Proj. EPS Growth (F1/F0)	2.47%	7.21%	7.40%	-0.12%	4.98%	7.89%
Curr. Cash Flow Growth	-45.04%	5.67%	10.22%	-51.64%	-5.77%	6.78%
Hist. Cash Flow Growth (3-5 yrs)	-1.00%	9.98%	8.55%	-10.30%	-1.31%	17.78%
Current Ratio	1.37	1.56	1.21	1.03	1.31	1.21
Debt/Capital	34.89%	35.95%	42.91%	64.45%	51.74%	21.74%
Net Margin	3.80%	3.38%	11.79%	-3.93%	6.90%	4.43%
Return on Equity	19.61%	14.34%	17.24%	9.32%	32.61%	17.59%
Sales/Assets	1.56	1.30	0.55	1.56	1.09	1.49
Proj. Sales Growth (F1/F0)	0.47%	0.00%	4.10%	-4.89%	3.38%	-0.56%
Momentum Score	F	-	-	F	F	C
Daily Price Chg	-0.51%	1.27%	1.49%	3.59%	4.37%	1.72%
1 Week Price Chg	-7.90%	-3.65%	-2.60%	26.84%	-7.37%	-4.18%
4 Week Price Chg	-8.67%	-4.08%	0.51%	28.03%	-0.75%	-4.95%
12 Week Price Chg	-1.61%	-3.36%	4.44%	23.32%	-4.91%	-7.03%
52 Week Price Chg	-18.90%	-4.11%	14.65%	33.45%	15.06%	-1.75%
20 Day Average Volume	576,924	149,099	1,935,862	1,781,404	1,582,610	616,331
(F1) EPS Est 1 week change	-2.99%	0.00%	0.00%	2.50%	-7.96%	0.00%
(F1) EPS Est 4 week change	-5.36%	-0.02%	0.00%	3.04%	-9.09%	-0.97%
(F1) EPS Est 12 week change	-5.94%	-3.88%	-0.10%	-22.95%	-10.56%	-1.75%
(Q1) EPS Est Mthly Chg	-12.43%	-0.27%	0.00%	-0.91%	-26.40%	-2.42%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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