

Lear Corporation (LEA)

\$138.55 (As of 01/09/20)

Price Target (6-12 Months): **\$147.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

Summary

Lower production volume and fluctuations in foreign currency will hamper Lear's sales in 2019. For the current year, it has downwardly revised its sales forecast in the range of \$19-\$19.5 billion, owing to lowered volume demand projections in North America, Europe and China. Additionally, rapid industry changes have impacted Lear cost structure. It has led to a disproportionate impact on the company E-systems business overall and on the wire harness business, specifically in China. Despite significant industry headwinds, Lear's efforts to revive its performance bodes well for its future growth. Significant actions are taken by the company such as accelerating the growth in Ts and Cs, in order to reduce cost and improve profitability. Acquisition of Xevo Inc will bolster its market position in connectivity.

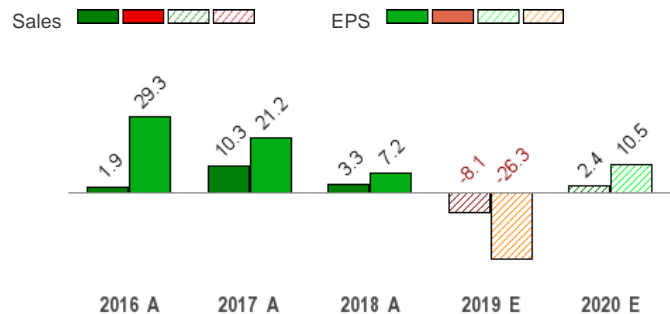
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$160.00 - \$105.10
20 Day Average Volume (sh)	1,113,563
Market Cap	\$8.4 B
YTD Price Change	1.0%
Beta	1.49
Dividend / Div Yld	\$3.00 / 2.2%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 13% (221 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.4%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	01/28/2020
Earnings ESP	0.0%
P/E TTM	9.0
P/E F1	9.3
PEG F1	3.7
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	5,217 E	5,086 E	4,873 E	4,687 E	19,907 E
2019	5,160 A	5,008 A	4,825 A	4,449 E	19,432 E
2018	5,734 A	5,581 A	4,892 A	4,942 A	21,149 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.83 E	\$3.97 E	\$3.84 E	\$3.10 E	\$14.84 E
2019	\$4.00 A	\$3.78 A	\$3.56 A	\$2.02 E	\$13.43 E
2018	\$5.10 A	\$4.95 A	\$4.09 A	\$4.05 A	\$18.22 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 01/09/2020. The reports text is as of 01/10/2020.

Overview

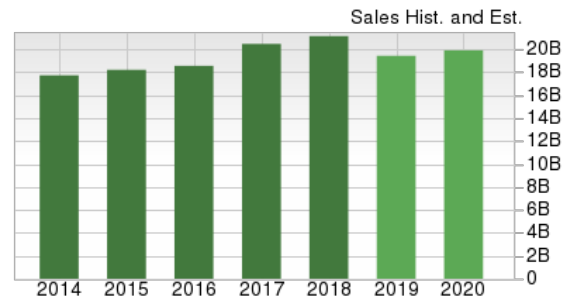
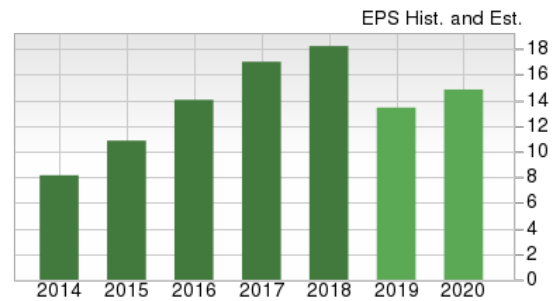
Southfield, MI-based Lear Corporation is a Tier 1 supplier to the global automotive industry. The company supplies automotive seating and electrical systems (E-Systems). The company caters to several major automakers in the world. The primary customers of the company are automotive original equipment manufacturers (OEMs). Lear's products are designed, engineered and manufactured by a team of around 165,000 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:

- ▲ Lear's acquisition of Xevo Inc., the Seattle-based Tier-1 automotive software supplier, will allow the firm to enhance its capabilities in software, services and data analytics, and bolster its market position in connectivity.
- ▲ 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. In 2019, it signed two separate partnerships with Hyundai and Gentherm to develop advanced systems that will aid Lear's long-term growth.
- ▲ Lear pursues aggressive capital-deployment strategies to reward its shareholders. The company is shareholder friendly with a dividend yielding 2.8% as well as a share buyback program which began in early 2011. At the end of third-quarter 2019, the company has share-repurchase authorization of \$1.2 billion, which will expire on December 31, 2021. This figure represents approximately 17% of Lear's total market capitalization at current market prices.
- ▲ 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:

- ▼ The company trimmed its outlook for 2019 mainly due to the estimated effect of a labor strike at its largest customer. Lear now expects net sales of \$19-\$19.5 billion versus \$19.8-\$20.3 billion stated earlier. Adjusted net income is anticipated to be \$765-\$845 million for the current year compared with previously mentioned \$885-\$965 million.
- ▼ 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 Sep 28, 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.

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

Last Earnings Report

Lear Lags Q3 Earnings & Revenue Decline Y/Y

Lear reported third-quarter 2019 adjusted earnings came in at \$3.56 per share, down from \$4.09 recorded in the prior-year quarter. However, the bottom line surpassed the Zacks Consensus Estimate of \$3.14. At the end of third-quarter 2019, adjusted net income was \$217 million compared with \$269 million in the prior-year quarter.

In the reported quarter, revenues declined 1% year over year to \$4.8 billion. The downside was caused by lower production on key Lear platforms and net foreign exchange rate fluctuations, partly offset by the addition of business. However, the top line surpassed the Zacks Consensus Estimate of \$4.73 billion.

The company's core operating earnings declined to \$338 million from \$399 million in third-quarter 2018.

Segment Performances

In the reported quarter, margins and adjusted margins for the Seating segment were 7.6% and 8.2% of sales, respectively.

For the E-Systems segment, margins and adjusted margins were 6.7% and 7.6% of sales, respectively.

Share Repurchase

During the reported quarter, Lear repurchased 616,635 shares for \$76 million. At the end of the quarter, the company had remaining share-repurchase authorization of \$1.2 billion, which will expire on December 31, 2021. The figure represents approximately 17% of Lear's total market capitalization at current market prices.

Financial Position

The company had \$1.3 billion of cash and cash equivalents as of Sep 28, 2019, compared with \$1.49 billion recorded as of Dec 31, 2018. It had long-term debt of \$2.29 billion as of Sep 28, 2019, compared with \$1.94 billion recorded as of Dec 31, 2018.

At the end of the quarter under review, Lear's net operating cash inflow was \$343.4 million compared with \$267.9 million as of Sep 29, 2018. During the period, its capital expenditure amounted to \$150.8 million, down from \$160.5 million recorded in the prior-year quarter.

Trimmed Outlook

The company trimmed its outlook for 2019 mainly due to the estimated effect of a labor strike at its largest customer.

Lear now expects net sales of \$19-\$19.5 billion versus \$19.8-\$20.3 billion stated earlier. Adjusted net income is anticipated to be \$765-\$845 million for the current year compared with previously mentioned \$885-\$965 million. Further, the company projects capital spending of roughly \$625 million for the year compared with \$650 million stated previously.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	2.00%
EPS Surprise	13.38%
Quarterly EPS	3.56
Annual EPS (TTM)	15.39

Recent News

Lear Invests in Venture Capital Firm, Autotech Ventures – Jan 07, 2020

Lear Corporation, recently announced investment in Silicon Valley-based venture capital firm, Autotech Ventures to support startups in deploying revolutionary mobility technologies. The investment will be made through Lear Innovation Ventures, to identify advanced development teams and early stage technologies and provide direct capital to innovation initiatives.

Valuation

Lear' shares are down 3.1% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are up 13.9% and up 12.2%, respectively., over the past year.

The S&P 500 index is up 27.1% in the past year.

The stock is currently trading at 9.13X forward 12-month earnings, which compares to 13.02X for the Zacks sub-industry, 10.71X for the Zacks sector and 18.82X 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 8.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$147 price target reflects 9.68X 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	9.13	13.02	10.71	18.82
	5-Year High	11.79	13.46	11.75	19.34
	5-Year Low	6.46	8.52	8.23	15.17
	5-Year Median	8.88	11.61	9.93	17.44
EV/EBITDA TTM	Current	5.05	6.24	8.67	11.99
	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	5.47	6.63	9.27	10.67
P/S F12M	Current	0.42	0.63	0.67	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 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (221 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	LEA Neutral	X Industry	S&P 500	ADNT Neutral	APTIV Underperform	MGA Neutral
VGM Score	C	-	-	B	C	B
Market Cap	8.38 B	768.66 M	23.94 B	1.93 B	23.42 B	16.50 B
# of Analysts	6	3	13	6	12	6
Dividend Yield	2.17%	0.00%	1.78%	0.00%	0.96%	2.70%
Value Score	A	-	-	A	B	A
Cash/Price	0.16	0.10	0.04	0.48	0.01	0.05
EV/EBITDA	4.45	4.93	13.97	9.39	12.66	4.17
PEG Ratio	3.72	1.31	2.03	NA	1.52	1.40
Price/Book (P/B)	1.91	1.51	3.33	0.88	6.19	1.53
Price/Cash Flow (P/CF)	5.26	5.12	13.73	4.10	11.47	4.68
P/E (F1)	9.31	11.87	18.79	13.00	16.86	8.40
Price/Sales (P/S)	0.42	0.45	2.64	0.12	1.63	0.41
Earnings Yield	10.71%	8.25%	5.32%	7.71%	5.93%	11.91%
Debt/Equity	0.53	0.41	0.72	1.69	1.13	0.28
Cash Flow (\$/share)	26.33	3.65	6.94	5.03	8.00	11.55
Growth Score	C	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	17.37%	9.38%	10.56%	-49.40%	0.23%	9.38%
Proj. EPS Growth (F1/F0)	10.51%	7.68%	7.49%	-2.66%	16.55%	7.80%
Curr. Cash Flow Growth	5.25%	6.02%	14.83%	-51.64%	15.76%	6.78%
Hist. Cash Flow Growth (3-5 yrs)	16.26%	10.36%	9.00%	-10.30%	2.02%	17.78%
Current Ratio	1.35	1.56	1.23	1.07	1.39	1.21
Debt/Capital	35.84%	35.95%	42.99%	63.20%	53.03%	21.74%
Net Margin	4.21%	3.02%	11.08%	-2.97%	6.99%	4.43%
Return on Equity	22.07%	14.34%	17.16%	6.23%	34.88%	17.59%
Sales/Assets	1.61	1.30	0.55	1.58	1.12	1.49
Proj. Sales Growth (F1/F0)	2.44%	1.72%	4.20%	-4.74%	5.75%	0.84%
Momentum Score	F	-	-	A	F	F
Daily Price Chg	0.66%	-0.17%	0.53%	-1.48%	-1.46%	-0.17%
1 Week Price Chg	-1.18%	-0.43%	-0.30%	-2.68%	-2.29%	-2.04%
4 Week Price Chg	6.49%	-2.35%	1.92%	-16.21%	-4.26%	-2.35%
12 Week Price Chg	16.05%	2.30%	6.54%	-15.70%	3.02%	1.28%
52 Week Price Chg	-4.65%	5.74%	22.58%	7.17%	30.61%	7.87%
20 Day Average Volume	1,113,563	133,781	1,580,816	893,294	1,095,944	438,206
(F1) EPS Est 1 week change	-2.06%	0.00%	0.00%	2.65%	-0.51%	-1.25%
(F1) EPS Est 4 week change	-2.06%	0.00%	0.00%	2.65%	-0.66%	-1.25%
(F1) EPS Est 12 week change	-6.11%	-5.26%	-0.50%	-30.80%	-5.18%	-2.28%
(Q1) EPS Est Mthly Chg	-3.93%	0.00%	0.00%	4.07%	-0.19%	-3.03%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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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