

Lear Corporation (LEA)

\$107.21 (As of 06/24/20)

Price Target (6-12 Months): **\$113.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: D

Summary

Lear has differentiated itself from its peers by 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 boosted its market position in connectivity. The firm's healthy balance sheet with low leverage bodes well. However, weak consumer sentiment and low demand of vehicles amid coronavirus are likely to hurt the near-term prospects of Lear. The company expects its Q2 production volumes to decline 60-70% from the prior expectation. While it resorting to temporary cost cut efforts, it is still committed to ramp up investments in R&D and technology, which may mar near-term margins. It has also suspended dividends and stock buybacks, dampening investors' confidence further. Hence, Lear warrants a cautious stance.

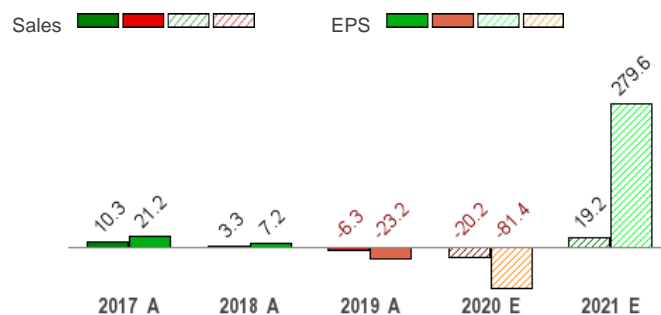
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$143.50 - \$63.20
20 Day Average Volume (sh)	656,681
Market Cap	\$6.4 B
YTD Price Change	-21.9%
Beta	1.63
Dividend / Div Yld	\$3.08 / 2.9%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 38% (95 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	89.8%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	07/24/2020
Earnings ESP	-32.1%
P/E TTM	8.9
P/E F1	41.2
PEG F1	16.5
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,882 E	4,722 E	4,867 E	4,956 E	18,839 E
2020	4,458 A	2,261 E	4,213 E	4,902 E	15,800 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	\$2.60 E	\$2.68 E	\$3.15 E	\$2.89 E	\$9.87 E
2020	\$2.05 A	-\$4.66 E	\$2.00 E	\$3.13 E	\$2.60 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 06/24/2020. The reports text is as of 06/25/2020.

Overview

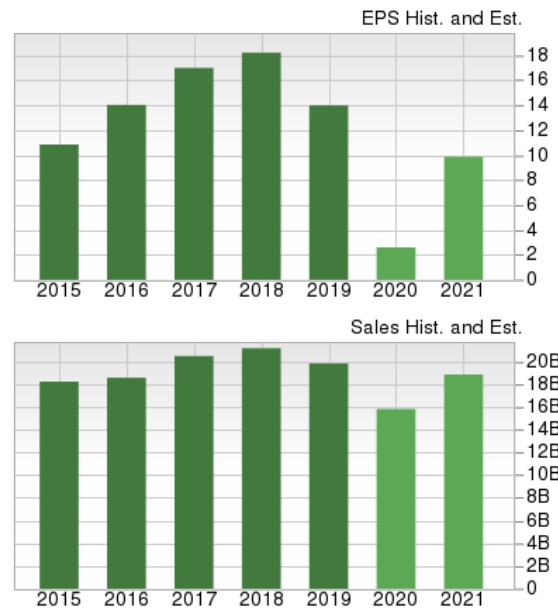
Southfield, MI-based Lear Corporation is a Tier 1 supplier to the global automotive industry. The company supplies automotive seating and electrical systems (E-Systems). The company caters to several major automakers in the world. The primary customers of the company are automotive original equipment 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, enhanced its capabilities in software, services and data analytics, in turn bolstering its market position in connectivity.
- ▲ The company's healthy balance sheet bodes well. Its total debt to capital ratio of 0.35 compares favorably with the industry's 0.45. Low leverage increases the firm's financial flexibility to tap onto growth opportunities. As of Apr 4, the company's cash and cash equivalents came in at \$2,449.1 million, higher than the long-term debt of \$2306.8 million. Lear's times interest earned ratio of 9.12 also compares favorably with the industry's 6.28, thereby lowering the risk of default.
- ▲ Lear's temporary cost-reduction measures including salary deferrals, furloughs, pay cuts and tightening of capex to preserve cash can offer respite amid the coronavirus-led financial crisis. In view of the cost-cut efforts, Lear expects decremental margin of 20-22% for the remainder of the year, suggesting an improvement from 25% in first-quarter 2020.
- ▲ Both Seating and E-Systems segments hold considerable growth opportunities. Growing mix of high-content crossovers, SUVs and luxury vehicles is likely to drive demand for the Seating segment. To add to that, rising consumer demand for vehicle content — requiring signal, data and power management — and the growing need for electrification and connectivity should propel demand for the E-Systems segment.

Xevo buyout and strong balance sheet act as tailwinds.

Reasons To Sell:

- ▼ Declining auto sales across the globe are likely to put pressure on Lear's sales, as the company is heavily dependent on cyclical end-market demand. The coronavirus has rattled the auto industry, with shutdown of factories, less customer traffic at dealerships and supply-chain issues. Such unprecedented challenges have prompted the automotive supplier to withdraw 2020 outlook.
- ▼ The virus impacted Lear's sales and operating earnings to the tune of around \$900 million and \$200 million, respectively, in first-quarter 2020. Weak consumer sentiment and depressed demand of vehicles amid the COVID-19 outbreak are likely to hurt the firm's sales and earnings in the near future. For the second quarter, the company now expects production volumes to decline 60-70% from the prior expectation, which is likely to have an adverse impact on the backlog.
- ▼ As it braces for a period of revenue slump amid the virus mayhem, Lear has suspended quarterly dividend and stock buybacks, in turn dealing a major blow to investors. The company's ROE of 16.9% compares unfavorably with the industry's 21.5%. Unfavorable currency translations are also acting as headwinds for the firm.
- ▼ While it is resorting to temporary cost-containment measures to sail through the uncertain times, the company is still committed to ramp up investments in R&D and technology. Increased spending on advanced engineering to support electrification are expected to dent the company's near-term cash flows.

For the second quarter, Lear expects production volumes to decline 60-70% from the prior expectation, which is likely to have an adverse impact on the backlog.

Last Earnings Report

Lear Q1 Earnings & Revenues Down Y/Y Amid Coronavirus

Lear's first-quarter 2020 adjusted earnings came in at \$2.05 per share, down from the prior-year quarter's \$4. However, the bottom line surpassed the Zacks Consensus Estimate of \$1.08. Higher-than-expected adjusted earnings in its Seating segment led to this outperformance.

At the end of first-quarter 2020, adjusted net income was \$124 million compared with the prior-year quarter's \$253 million.

In the reported quarter, revenues declined 13.6% year over year to \$4,458 million. This downside resulted from lower production amid the coronavirus pandemic and foreign-exchange rate fluctuations, partly offset by the addition of new business. The top line, however, beat the Zacks Consensus Estimate of \$4,281 million.

The company's core operating earnings declined to \$205 million from the \$378 million reported in first-quarter 2019.

Segment Performance

In first-quarter 2020, sales in the Seating segment totaled \$3,367 million, down 14% year over year. Adjusted segment earnings were \$201.3 million compared with the \$297.3 million witnessed in the first quarter of 2019. However, it topped the Zacks Consensus Estimate of \$227 million in the quarter. Adjusted margin for the Seating segment was 6% of sales.

Sales in the E-Systems segment totaled \$1,091.1 million, marking a decline of 12.4% year over year in first-quarter 2020. Adjusted segment earnings amounted to \$52.7 million in the quarter compared with the \$140.3 million recorded in the first quarter of 2019. Further, the figure missed the consensus mark of \$79 million. For the E-Systems segment, adjusted margin was 4.8% of sales.

Dividends & Share Repurchase

During the first quarter, Lear repurchased \$70 million of stock. The company also paid cash dividend of 77 cents per common share on Mar 18, 2020.

However, Lear suspended its quarterly dividend for second-quarter 2020 and existing share-repurchase program until further notice on the coronavirus scare.

Lear has also suspended the 2020 guidance as it expects the coronavirus pandemic's impact to strain its operations in the days to come.

Financial Position

The company had \$2,449.1 million of cash and cash equivalents as of Apr 4, 2020, compared with \$1,487.7 million recorded as of Dec 31, 2019. It had a long-term debt of \$2306.8 million as of Apr 4, 2020, compared with \$2,293.7 million recorded as of Dec 31, 2019.

At the end of the first quarter, Lear's net operating cash inflow was \$222.3 million compared with \$51.6 million as of Mar 30, 2019. During the period, its capital expenditure amounted to \$109.1 million, down from the \$122.8 million recorded in the prior-year quarter.

Quarter Ending **03/2020**

Report Date	May 08, 2020
Sales Surprise	4.13%
EPS Surprise	89.81%
Quarterly EPS	2.05
Annual EPS (TTM)	12.03

Valuation

Lear' shares are down 21.9% and 23% 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 11.9% and up 3.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 8.9% and up 15.5%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period and up 7.7% in the past year.

The stock is currently trading at 17.37X forward 12-month earnings, which compares to 24.82X for the Zacks sub-industry, 24.71X for the Zacks sector and 22.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.67X and as low as 4.85X, with a 5-year median of 8.75X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$113 price target reflects 18.31X 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	17.37	24.82	24.71	22.46
	5-Year High	21.67	25.8	24.71	22.46
	5-Year Low	4.85	8.36	8.2	15.23
	5-Year Median	8.75	11.41	9.9	17.49
EV/EBITDA TTM	Current	4.03	5.48	10.76	11.61
	5-Year High	7.97	8.44	11.31	12.85
	5-Year Low	2.64	3.94	6.94	8.25
	5-Year Median	5.33	6.32	9.24	10.83
P/S F12M	Current	0.37	0.67	0.77	3.51
	5-Year High	0.63	0.78	0.77	3.51
	5-Year Low	0.21	0.44	0.49	2.53
	5-Year Median	0.44	0.61	0.61	3.02

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Adient PLC (ADNT)	Neutral	2
Aptiv PLC (APTIV)	Neutral	3
BorgWarner Inc. (BWA)	Neutral	3
Continental AG (CTTAY)	Neutral	3
Dana Incorporated (DAN)	Neutral	3
Group 1 Automotive, Inc. (GPI)	Neutral	2
Magna International Inc. (MGA)	Neutral	3
Visteon Corporation (VC)	Neutral	2

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	LEA	X Industry	S&P 500	ADNT	APTIV	MGA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	A	D	B
Market Cap	6.42 B	705.56 M	21.05 B	1.48 B	19.02 B	13.04 B
# of Analysts	7	3	14	6	11	6
Dividend Yield	2.87%	0.00%	1.99%	0.00%	0.00%	3.71%
Value Score	B	-	-	B	D	B
Cash/Price	0.37	0.19	0.07	1.02	0.11	0.09
EV/EBITDA	4.00	4.87	12.43	7.08	11.53	3.82
PEG Ratio	16.30	1.97	2.85	NA	7.31	15.70
Price/Book (P/B)	1.53	1.22	2.87	0.79	3.70	1.24
Price/Cash Flow (P/CF)	4.66	4.10	11.32	3.13	9.72	3.72
P/E (F1)	40.74	21.38	20.46	NA	79.92	51.72
Price/Sales (P/S)	0.34	0.35	2.19	0.09	1.36	0.35
Earnings Yield	2.43%	2.28%	4.57%	-3.93%	1.25%	1.93%
Debt/Equity	0.55	0.49	0.77	1.97	1.22	0.29
Cash Flow (\$/share)	23.00	3.19	7.01	5.03	7.67	11.58
Growth Score	C	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	9.09%	9.09%	10.84%	-45.42%	-2.94%	6.86%
Proj. EPS Growth (F1/F0)	-81.43%	-57.37%	-10.79%	-137.73%	-80.55%	-86.23%
Curr. Cash Flow Growth	-17.99%	-5.66%	5.46%	-51.64%	-5.77%	-7.06%
Hist. Cash Flow Growth (3-5 yrs)	7.32%	4.57%	8.55%	-10.30%	-1.25%	3.82%
Current Ratio	1.29	1.62	1.29	1.01	1.69	1.22
Debt/Capital	36.65%	40.91%	45.14%	66.58%	54.90%	22.27%
Net Margin	3.15%	1.92%	10.53%	-3.28%	16.58%	2.45%
Return on Equity	16.90%	12.25%	16.06%	11.52%	27.25%	14.75%
Sales/Assets	1.49	1.26	0.55	1.49	1.01	1.43
Proj. Sales Growth (F1/F0)	-20.24%	-15.21%	-2.70%	-24.33%	-16.26%	-27.33%
Momentum Score	D	-	-	D	D	C
Daily Price Chg	-5.07%	-4.09%	-3.07%	-7.67%	-5.26%	-1.93%
1 Week Price Chg	0.75%	-0.11%	0.92%	-5.29%	2.74%	-0.27%
4 Week Price Chg	-1.98%	-2.49%	-3.03%	-13.31%	-3.88%	0.61%
12 Week Price Chg	51.08%	45.64%	22.03%	108.47%	62.50%	43.57%
52 Week Price Chg	-23.03%	-20.95%	-8.53%	-32.01%	-5.45%	-11.99%
20 Day Average Volume	656,681	207,541	2,805,937	1,298,596	4,120,674	1,095,559
(F1) EPS Est 1 week change	1.11%	0.00%	0.00%	0.54%	0.98%	6.61%
(F1) EPS Est 4 week change	1.11%	0.00%	0.00%	0.54%	-9.91%	6.61%
(F1) EPS Est 12 week change	-74.88%	-51.77%	-12.33%	-336.54%	-76.34%	-82.05%
(Q1) EPS Est Mthly Chg	-1.93%	0.00%	0.00%	-1.32%	-8.78%	-1.71%

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	B
Growth Score	C
Momentum Score	D
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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