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Lear Corporation (NYSE: LEA) Investment Overview – BUY

Current Share Price: \$96.20 as of 11/21/2024

Market Capitalization: \$5.27B

Key Valuation Multiples: P/E: 8.14x, EV/EBITDA: 7.5x, Debt/EBITDA: 2.1x

Company Overview

Lear Corporation is a global leader in Seating and E-Systems, providing advanced automotive technology for superior in-vehicle experiences.

Seating Segment:

- Represents 75% of total revenue (\$17.5B in 2023).
- Key products include seat structures, foam, leather, and fabric covers, along with premium thermal comfort features like heated and ventilated seats. Notable partnerships include luxury automakers such as BMW and Lexus, where Lear supplies integrated seating systems for high-margin vehicle segments like SUVs.

E-Systems Division:

- Contributes 25% of revenue (\$5.9B in 2023).
- Focuses on high-voltage wiring, battery disconnect units (BDUs), and control modules essential for electric vehicles (EVs).
- Backlog exceeds \$2.8 billion through 2026, reflecting strong growth prospects tied to electrification trends. Customers include Tesla, Rivian, and key Asian automakers.

Lear operates in over 200 locations across 38 countries, with a notable footprint in China, contributing 20% of revenue in 2023.

Investment Thesis

1. Margin Recovery Potential:

- Implementation of Industry 4.0 technologies, including IoT, automation, and predictive analytics, is expected to generate \$100 million annually in savings by 2025.
- Leaner manufacturing processes and recovery from supply chain disruptions are forecast to drive EBITDA margins to 9.5% by 2026.

2. Strategic Expansion in China:

- China's automotive market accounted for 33 million vehicles in 2023, with 12% YoY growth.
- Lear plans to increase revenue share from 20% to 25% by 2028, leveraging partnerships with BYD and Geely.

3. Positioning for Electrification:

- Global EV adoption is expected to rise to 35% of all vehicle sales by 2030.
- Lear's E-Systems backlog of \$2.8 billion underscores its role in electrification, providing critical high-voltage wiring and power systems for EV platforms.

Key Financial Metrics

2023 Financials:

- Revenue: \$23.5B
- Gross Margin: 7.3%
- EBITDA: \$1.9B (8.1% margin)
- Free Cash Flow: \$622M

-3% Dividend Yield

Year	Revenue (\$B)	EPS (\$)	Free Cash Flow (\$M)
2024	22.7	11.34	664
2025	23.3	12.28	546
2026	23.9	13.73	600
2027	24.6	15.11	647
2028	25.5	16.67	698

Growth Drivers

- Electrification Focus: Lear's E-Systems backlog of \$2.8 billion underscores its leadership in the growing demand for EV-related components. Products such as high-voltage wiring systems and battery disconnect units address the increased complexity of EV systems, which require twice as many electrical components as traditional vehicles.

- China Expansion: Revenue from China is projected to grow from 20% to 25% by 2028, driven by regional partnerships with automakers like BYD and Geely, as well as localized R&D centers that align with the country's rapid adoption of EVs.

- Innovative Products: Lear's advanced technologies, such as AI-driven customization and thermal comfort systems, cater to increasing consumer demand for premium features. Examples include massage seats in Lexus SUVs and enhanced electrical needs for autonomous and smart vehicles, highlighting the company's ability to integrate high-tech solutions into modern automotive designs.

Risks

- Economic Sensitivity: Lear's performance is tied to global vehicle production volumes, making it vulnerable to economic slowdowns.

- Supply Chain Challenges: Persistent semiconductor shortages and geopolitical tensions could disrupt manufacturing timelines.

- Interest Rate Pressure: Sticky interest rates increase the cost of capital and could impact margins.

Lear Corporation NYSE: LEA		Financials	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Share Price 11/14/2024	\$96.4	Revenue	\$19,263	\$20,892	\$23,467	\$22,763	\$23,332	\$23,974	\$24,693	\$25,495
FDSO	56.8	Growth Rate %		8.5%	12.3%	(3.0%)	2.5%	2.8%	3.0%	3.2%
FCF / Share (2024)	\$3.3	Gross Profit	\$1,475	\$1,532	\$1,843	\$1,801	\$1,859	\$1,925	\$1,997	\$2,076
Market Cap	\$5,219.0	Gross Margin %	7.7%	7.3%	7.9%	7.9%	8.0%	8.0%	8.1%	8.1%
Net Debt	\$2,721.3	EBITDA	\$1,362	\$1,370	\$1,657	\$1,621	\$1,678	\$1,743	\$1,812	\$1,886
EV	\$8,082.1	EBITDA Margin %	7.1%	6.6%	7.1%	7.1%	7.2%	7.3%	7.3%	7.4%
Target Share Price	\$109.6	EBIT	\$797	\$802	\$1,054	\$1,061	\$1,106	\$1,158	\$1,215	\$1,276
Multiples Consensus	(x)	EBIT Margin	4.1%	3.8%	4.5%	4.7%	4.7%	4.8%	4.9%	5.0%
EV/2024E EBITDA	4.5x	Net Income	\$ 462	\$ 409	\$ 646	\$ 644	\$ 670	\$ 721	\$ 764	\$ 813
P/E 2024E	7.8x	Profit Margin	2.4%	2.0%	2.8%	2.8%	2.9%	3.0%	3.1%	3.2%
P/E 2025E	7.8x	EPS	\$7.64	\$6.82	\$10.92	\$11.34	\$12.28	\$13.73	\$15.11	\$16.67
P/E 2026E	8.0x	EPS Growth Rate %		(10.7%)	60.1%	3.8%	8.3%	11.8%	10.0%	10.3%