COMPANY PROFILE

Lear Corporation

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COMPANY OVERVIEW

Lear Corporation (Lear or 'the company') is one of the largest suppliers of automotive seating and electrical distribution systems around the globe. The company also offers high-power and hybrid electrical components and systems. Lear operates in the US, South America, Europe, and Asia. The company is headquartered in Southfield, Michigan.

The company reported revenues of (US Dollars) US$18,557.6 million for the fiscal year ended December 2016 (FY2016), an increase of 1.9% over FY2015. In FY2016, the company's operating margin was 7.7%, compared to an operating margin of 6.1% in FY2015. In FY2016, the company recorded a net margin of 5.3%, compared to a net margin of 4.1% in FY2015.

KEY FACTS

Head Office	Lear Corporation 21557 Telegraph Road Southfield Michigan Southfield Michigan USA
Phone	
Fax	
Web Address	www.lear.com
Revenue / turnover (USD Mn)	18,557.6
Financial Year End	December
Employees	148,400
New York Stock Exchange Ticker	LEA

SWOT ANALYSIS

Lear Corporation (Lear or 'the company') is one of the largest suppliers of automotive seating and electrical distribution systems around the globe. The company's strong presence in low-cost countries increases its competitiveness from a manufacturing, engineering and sourcing standpoint, and also allows Lear to efficiently address evolving customer needs with ease. On the other hand, intense competition across all operating segments could pressurize the operating margins of the company.

Strength	Weakness
Strategic joint ventures Leveraging global presence and expansion of low-cost footprint Robust research and development capabilities	Highly dependent on few customers Substantial indebtedness
Opportunity	**Threat**
Poised to benefit from the growing demand for hybrid electric vehicles Business acquisitions to strengthen global seating capabilities	Slow recovery of automotive industry in Europe Intense competition Extensive laws and regulations

Strength

Strategic joint ventures

The company has established various strategic joint ventures to expand its business and enhance its business relationships with a number of automotive manufacturers particularly in Asian countries. As on December 31, 2015, Lear had 24 operating joint ventures located in seven countries. Of these joint ventures, eight are consolidated and 16 are accounted for using the equity method of accounting. Out of these joint ventures, 16 operate in Asia, seven operate in North America (including one that is dedicated to serving Asian automotive manufacturers) and one operates in Europe.

As on December 31, 2015, the company's investments in non-consolidated joint ventures totaled $157 million. Moreover, the net sales of the company's consolidated joint ventures accounted for approximately 12% of total sales in FY2015. Hence, strategic joint ventures enable Lear to gain entry into new markets, facilitate the exchange of technical information, expand its product offerings and broaden the customer base.

Leveraging global presence and expansion of low-cost footprint

Lear has a robust global network of manufacturing plants, supply sources and engineering centers. The company has manufacturing, engineering and administrative presence in 36 countries. Lear operates through 240 facilities, including 82 just-in-time manufacturing facilities, 112 dedicated component manufacturing facilities, six sequencing and distribution sites, 34 administrative/technical support facilities, and six advanced technology centers.

Moreover, the company has a strong footprint in 22 low-cost countries globally. Lear's low-cost operations spans more than 145 manufacturing and engineering facilities located in low-cost countries, including Malaysia, Russia, Brazil, Mexico, Slovak Republic, China, Moldova, South Africa, Czech Republic, Morocco, Thailand, Honduras, Philippines, Tunisia, Hungary, Poland, India, Romania, Vietnam, and Indonesia. Further, the company has been investing on improving its manufacturing footprint in low-cost countries and increasing its component capabilities in the emerging markets, over the past few years. The company has automotive content on over 350 vehicle nameplates worldwide and serve all of the world’s major automotive manufacturers across its businesses and various component categories in both seating and electrical segments. Hence, the company's strong presence in low-cost countries increases its competitiveness from a manufacturing, engineering and sourcing standpoint, and also allows Lear to efficiently address evolving customer needs with ease.

Robust research and development capabilities

Lear has a strong focus on research and development to create new products with increased customer value. The company operates a global network of technical centers worldwide. Advanced technology development is conducted at the company's six advanced technology centers and at its product engineering centers worldwide. At these centers, Lear engineers its products to comply with applicable safety standards, meet quality and durability standards, respond to environmental conditions and conform to customer and consumer requirements. The company's global innovation and technology center is located in Southfield, Michigan, which develops and integrates new concepts.

Lear's advanced efficiency systems global center of excellence supports growth opportunities in the hybrid and electric vehicle market through the development of high-power electrical and electronic systems and components. In addition, it is also dedicated to the development of high-power wiring, terminals and connectors and power electronics. The company invested $126.8 million in research and development activities in FY2015. The strong research and development has enabled the company to add a number of important patents. The company has 2,000 patents issued and pending. Due to the strong research and development, the company has been able to develop a number of innovative products and features. For instance, the company's Solid State Smart Junction Box enables increased functionality, while delivering up to a 70% reduction in packaging size and weight and up to a 35% reduction in wire gauge due to increased circuit protection reliability. To achieve these results, the Solid State Junction Box integrates advancements in terminal and connector technology, junction box and electronic control module capability and complete electrical distribution system expertise. The company aims to begin production of the Solid State Smart Junction Box in 2016.

Thus, strong research and development capabilities allow Lear to attain competitive advantage over its peers, maintain technological edge over its competitors and to stay ahead of industry trends. In addition, it allows the company to differentiate its products from its competitors.

Weakness

Highly dependent on few customers

Although, Lear offers its products to a range of global automotive manufacturers, it is largely dependent on General Motors (GM), Ford Motor (Ford), BMW, Volkswagen, and Fiat Chrysler for majority of its business. In FY2015, Ford and GM, two of the company's largest customers, accounted for 22.5% and 20% of Lear's net sales respectively. In addition, BMW accounted for approximately 10.5% of the company's net sales. Moreover, the significant declines in economic and industry conditions, including the impact of restrictions on liquidity available to consumers, have caused the demand for automobiles to decrease considerably. This decrease in demand, together with relatively inflexible cost structures, has dramatically impacted the financial health and solvency of Lear's customers.

Thus, heavy dependence on few customers may restrict the company's income growth to the demand dynamics of its clients. Also, large customers besides using their bargaining power to impose unfavorable terms would try to influence the strategies of the company. Further, the down turn in the key customers' performance, would adversely impact Lear's financial position.

Substantial indebtedness

The company has been facing a tough situation due to the rising level of debt. As on December 31, FY2015, Lear had approximately $2 billion of outstanding debt, as well as $1.3 billion available for borrowing under its revolving credit facility. The debt instruments governing Lear's indebtedness contain covenants that may restrict the company's business activities or its ability to execute strategic objectives, and any failure to comply with these covenants could result in a default. Therefore, Lear's inability to generate sufficient cash flow to satisfy its debt obligations, could adversely affect its financial condition, operating results and cash flows.

Opportunity

Poised to benefit from the growing demand for hybrid electric vehicles

The demand for hybrid electric vehicles (HEVs) across the world is rising steadily primarily due to global concerns about reducing carbon emissions coupled with highly volatile prices of fuel. According to industry estimates, electric vehicle sales are anticipated to reach approximately 7.5 million units by the end of 2020, growing at a CAGR of 19% for the 2014–20 period. The key markets for HEVs include the US, Western Europe, and Japan, although the rapidly growing Chinese market is also expected to experience relatively strong demand for these fuel efficient and environmentally friendly vehicles.

Lear's electrical segment designs, manufactures, and supplies electrical distribution systems and components. The segment also offers powertrain electrification systems, including on-board charging systems, charge cord sets, high voltage electrical distribution systems and battery monitoring technology. The growing demand for hybrid and electric vehicles is expected to drive the demand for the company's electrical segment which in turn would enhance its topline performance.

Business acquisitions to strengthen global seating capabilities

The strategic acquisitions of various businesses is expected to strengthen the company's global seating capabilities. For instance, Lear acquired intellectual property and technology from Autonet Mobile, a developer of software and devices for automotive applications, in August 2015. The acquisition is expected to complement the company’s industry-leading wireless capabilities and provide growth opportunities for Lear's Electrical business.

Similarly, Lear acquired Eagle Ottawa, one of the leading suppliers of premium automotive leather, in January 2015. This acquisition enhanced the company's global seating capabilities in the areas of craftsmanship and design options. According to an estimate, nearly half of the cars on the US roadways contain leather supplied by Eagle Ottawa. It generated nearly $1 billion in revenue in 2014. In addition, Eagle Ottawa has established partnerships with automakers for developing proprietary designs and co-branded leather. Also, Eagle Ottawa supplies to Lear's top three customers: Ford, GM, and BMW. This acquisition would also provide cost and margin benefits from the complementary and synergistic relationship Eagle Ottawa has with Lear's seating segment.

Thus, such strategic acquisitions would enhance the company's seating capabilities and thus provide incremental growth opportunities in the medium term.

Threat

Slow recovery of automotive industry in Europe

Automotive sales are gaining momentum as the European economy slowly recovers from the twin setbacks of the global financial crisis and the run on euro zone sovereign debt. However, households remain cautious about buying luxury items. The pace of recovery of the automotive market in Europe is slow and car sales are unlikely to return to pre-crisis levels before the end of the decade. The recovery in European car sales slowed down in May 2015 as buyers' concerns about unemployment and the Greek sovereign debt crisis held back demand. Therefore, the slow automotive market recovery in Europe might lead to weak sales for the company's products in this region which might impact its overall financial performance.

Intense competition

Lear faces substantial competition in all of its business segments. Intense competition across all business segment results in stiff price competition between suppliers. Within each of its operating segments, Lear competes with a variety of independent suppliers and automotive manufacturer in-house operations, primarily on the basis of price, quality, service and technology. Lear is one of the only two primary independent suppliers with global scale and the capability to design, develop, manufacture and delivers complete seat systems and components in every major automotive producing market in the world. The company's seating segment competes with Johnson Controls, Faurecia, Toyota Boshoku, TS Tech, and Magna International. Other automotive manufacturers maintain a presence in the seat systems market through wholly owned companies or in-house operations. In seat components, the company also competes with certain regional suppliers that specialize in particular components in the automotive seating segment.

The company is one of the only four suppliers with complete electrical distribution and manufacturing capabilities for both traditional and high-power systems and related electronic components in every major automotive producing market in the world. In the electrical segment, the company competes with Yazaki, Sumitomo, and Delphi Automotive. As the automotive supplier industry became increasingly global, certain of the company's European and Asian competitors have begun to establish a stronger presence in North America, which is likely to increase competition in this region. Therefore, intense competition across all operating segments could pressurize the operating margins of Lear.

Extensive laws and regulations

Lear and the automotive industry are subject to a variety of federal, state, local and foreign laws and regulations, including those related to health, safety and environmental matters. As a manufacturing company, Lear is subject to these laws and regulations both inside and outside the US. The company has liabilities recorded for various environmental matters. As on December 31, 2015 and 2014, the company had recorded environmental reserves of $9.1 million and $4.8 million, respectively. Its manufacturing facilities are subject to numerous laws and regulations designed to protect the environment. If Lear fails to comply with present and future environmental laws and regulations, it could be subject to future liabilities, which could adversely impact its financial condition, operating results and cash flows.