

Lear Corp.

# Take a seat and go for a ride, solid 4Q23 and conservative outlook – first take

Maintain Rating: BUY | PO: 220.00 USD | Price: 134.36 USD

## 4Q:23 operating beat driven by strong execution

LEA reported 4Q:23 adjusted EPS of \$3.03, slightly above our estimate of \$3.02 and just below the Bloomberg consensus of \$3.12. The bottom line beat and strong operating performance include: execution, solid backlog conversion, and some net benefit from commodities/net performance, which were partially offset by higher taxes and other expenses. Total revenue increased 9% YoY (+5% ex. FX/M&A and commodities) to \$5.84bn, slightly below our estimate of \$5.88bn. This growth combined with solid execution drove op margin of 4.9% (BofAe 4.7%), flat YoY from 4.9% in 4Q:22. Core op earnings of \$288mm were ahead of our estimate of \$278m and consensus of \$286mm, and up from \$265mm in 4Q:22.

## 2024 outlook conservative, upside likely above consensus

LEA released its 2024 outlook, but it should be noted that it includes several conservative assumptions. If these factors are adjusted, sales and core operating profit would come in above the current consensus and more in-line with our estimates, which is what occurred last year. Specifically, the outlook includes an underlying assumption of a 1% decline in global production volume versus 2023 (flat Lear weighted), which is where believe there is the most upside. LEA expects 2024 net sales of \$24.0bn-\$24.6bn (BofAe \$25.4bn) and core operating earnings of \$1,155m-\$1,305m (BofAe \$1,418mm), for an operating margin of 4.8%-5.3% (BofAe 5.6%). LEA also expects adjusted EBITDA of \$1,795m-\$1,945m (BofAe \$2.01bn), operating cash flow of \$1,275m-\$1,425m, free cash flow of \$600m-\$750m, CapEx of \$675m, and \$125m in restructuring charges. LEA also released its latest backlog figures, which now stands at \$2,800m with Seating at \$1,800m and E-systems at ~\$1,000m.

## Segments: lighter revenue, but better margins

LEA's 4Q:23 Seating revenue of \$4.34bn was slightly below our \$4.35bn estimate, with segment margin of 6.8% (BofAe 6.6%), driving segment EBIT of \$294mm (BofAe \$287mm). For E-Systems, revenue of \$1.49bn was slightly below BofAe \$1.53bn, with margin at 5.6% (BofAe 5.0%) driving EBIT of \$84mm (BofAe \$77mm). Backlog was a strong positive driver for both segments while volume/mix was a headwind. Other items, including FX, M&A and commodities/net, had a mixed effect to results.

## Reiterate Buy on execution, cycle, cap allocation

LEA delivered a solid 4Q:23 driven by strong execution and solid backlog conversion. As industry production volumes are recovering and disruptions that characterized the operating environment for the last 2 years are fading, we have confidence in continued LEA performance. In addition, we think we are just at the beginning of a cyclical recovery, with volumes expected to grow higher until 2027/2028. Given this, combined with the fact that LEA is a strong operator, we reiterate our Buy rating.

06 February 2024

### Equity

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### Stock Data

Price	134.36 USD
Price Objective	220.00 USD
Date Established	17-Oct-2023
Investment Opinion	B-1-7
52-Week Range	117.79 USD - 157.91 USD
Mrkt Val (mn) / Shares Out (mn)	8,119 USD / 60.4
Free Float	99.8%
Average Daily Value (mn)	63.90 USD
BofA Ticker / Exchange	LEA / NYS
Bloomberg / Reuters	LEA US / LEAN
ROE (2023E)	14.6%
Net Dbt to Eqty (Dec-2022A)	31.0%
ESGMeter™	High

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LEA = Lear

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Timestamp: 06 February 2024 07:49AM EST

**Exhibit 1: LEA YoY and Variance table versus BofA**

LEA reported 4Q:23 diluted EPS of \$3.03, versus BofAe of \$3.02

Income Statement	YoY Comparison			Variance Vs. BofAe		
	Actual 4Q:23	Actual 4Q:23	Var YoY	Actual 4Q:23	BofA 4Q:23	Var vs BofA
<b>Net Sales</b>	<b>5,841.2</b>	<b>5,370.9</b>	<b>8.8%</b>	<b>5,841.2</b>	<b>5,884.9</b>	<b>-0.7%</b>
Cost of Sales	5,379.4	4,928.6	9.1%	5,379.4	5,408.8	-0.5%
<b>Gross Profit</b>	<b>461.8</b>	<b>442.3</b>	<b>4.4%</b>	<b>461.8</b>	<b>476.1</b>	<b>-3.0%</b>
SG&A	159.0	162.2	-2.0%	159.0	181.7	-12.5%
Amortization of intangibles	15.1	15.3	-1.3%	15.1	16.0	-5.6%
<b>Operating Income</b>	<b>287.7</b>	<b>264.8</b>	<b>8.6%</b>	<b>287.7</b>	<b>278.4</b>	<b>3.4%</b>
Interest expense	25.5	24.0	6.3%	25.5	26.3	-2.9%
Other (income) expense, net	12.6	12.3	2.4%	12.6	4.0	215.0%
<b>Earnings before taxes</b>	<b>249.6</b>	<b>228.5</b>	<b>9.2%</b>	<b>249.6</b>	<b>248.1</b>	<b>0.6%</b>
Income taxes	56.9	53.3	6.8%	56.9	53.3	6.7%
<b>Consolidated net income</b>	<b>192.7</b>	<b>175.2</b>	<b>10.0%</b>	<b>192.7</b>	<b>194.8</b>	<b>-1.1%</b>
*Noncontrolling interest	15.7	7.7	103.9%	15.7	17.0	-7.6%
<b>Net income to LEA</b>	<b>177.0</b>	<b>167.5</b>	<b>5.7%</b>	<b>177.0</b>	<b>177.8</b>	<b>-0.4%</b>
Diluted shares	58.5	59.5	-1.8%	58.5	58.9	-0.7%
<b>Diluted EPS</b>	<b>3.03</b>	<b>2.81</b>	<b>7.6%</b>	<b>3.03</b>	<b>3.02</b>	<b>0.3%</b>
<b>Margins</b>						
Gross margin	7.9%	8.2%	-30bps	7.9%	8.1%	-20bps
SG&A	2.7%	3.0%	-30bps	2.7%	3.1%	-40bps
Operating Income	4.9%	4.9%	0bps	4.9%	4.7%	20bps
Tax rate	22.8%	23.3%	-50bps	22.8%	21.5%	130bps
Net Income	3.0%	3.1%	-10bps	3.3%	3.3%	0bps

\* Includes Equity in net income affiliates

Segments	YoY Comparison			Variance Vs. BofAe		
	Actual 4Q:23	Actual 4Q:23	Var YoY	Actual 4Q:23	BofA 4Q:23	Var vs BofA
<b>Segment Revenue</b>						
Seating	4,342.8	4,036.8	7.6%	4,342.8	4,354.8	-0.3%
E-systems	1,498.4	1,334.1	12.3%	1,498.4	1,530.1	-2.1%
<b>Total</b>	<b>5,841.2</b>	<b>5,370.9</b>	<b>8.8%</b>	<b>5,841.2</b>	<b>5,884.9</b>	<b>-0.7%</b>
<b>Segment Income</b>						
Seating	293.8	275.1	6.8%	293.8	287.1	2.3%
E-systems	84.0	63.9	31.5%	84.0	77.2	8.8%
<b>Segment Income</b>	<b>377.8</b>	<b>339.0</b>	<b>11.4%</b>	<b>377.8</b>	<b>364.3</b>	<b>3.7%</b>
Corporate expenses	(90.1)	(74.2)	21.4%	(90.1)	(85.9)	4.9%
<b>Core Operating Income</b>	<b>287.7</b>	<b>264.8</b>	<b>8.6%</b>	<b>287.7</b>	<b>278.4</b>	<b>3.4%</b>
<b>Margins</b>						
Seating	6.8%	6.8%	0bps	6.8%	6.6%	20bps
E-systems	5.6%	4.8%	80bps	5.6%	5.0%	60bps
<b>Segment Income</b>	<b>6.5%</b>	<b>6.3%</b>	<b>20bps</b>	<b>6.5%</b>	<b>6.2%</b>	<b>30bps</b>
Corporate expenses	-1.5%	-1.4%	-20bps	-1.5%	-1.5%	-10bps
<b>Core Operating Income</b>	<b>4.9%</b>	<b>4.9%</b>	<b>0bps</b>	<b>4.9%</b>	<b>4.7%</b>	<b>20bps</b>

Source: Company Filings, BofA Global Research

BofA GLOBAL RESEARCH

**Price objective basis & risk****Lear Corp. (LEA)**

Our \$220 price objective on LEA shares is based on an EV/EBITDA multiple of roughly 7.0x on our 2024 estimates. This multiple is a slight premium to the company's historical average since we believe adjustment to a lower volume environment and the company's

vertical integration will bolster already strong cash flow that is being returned to shareholders through dividends and growing share buybacks.

Downside risks: 1) a slower or further decline in US/global automotive volume growth, 2) disruption from the re-emergence in the Seating market of LEA's largest competitor (ADNT), 3) increased pricing pressure from OEM customers, 4) loss of business at key customers, 5) fierce competition in the automotive supply base, 6) a new rise in raw material costs, 7) execution risk of restructuring, operations, and acquisitions.

Upside risks: 1) faster recovery than expected in global auto production volumes, 2) continued execution and progress on margin expansion, 3) shareholder-friendly actions including accretive M&A and share repurchases support earnings and the stock.

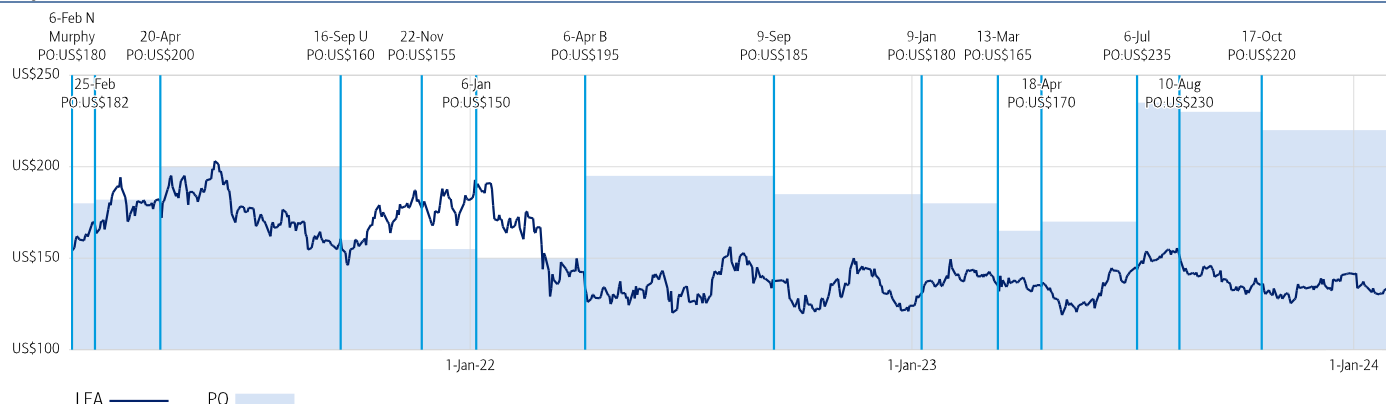
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### Equity Investment Rating Distribution: Autos Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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