LEAR CORP
Form 10-K
February 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015.

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .
Commission file number: 1-11311

LEAR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-3386776
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21557 Telegraph Road, Southfield, MI	48033
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (248) 447-1500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports)

and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 27, 2015, the aggregate market value of the registrant's common stock, par value $0.01 per share, held by non-affiliates of the registrant was $8,899,839,473. The closing price of the common stock on June 27, 2015, as reported on the New York Stock Exchange, was $116.40 per share.

As of February 5, 2016, the number of shares outstanding of the registrant's common stock was 74,467,389 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Notice of Annual Meeting of Stockholders and Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders to be held in May 2016, as described in the Cross Reference Sheet and Table of Contents included herewith, are incorporated by reference into Part III of this Report.

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LEAR CORPORATION AND SUBSIDIARIES
CROSS REFERENCE SHEET AND TABLE OF CONTENTS

(1) Certain information is incorporated by reference, as indicated below, to the registrant’s Notice of Annual Meeting of Stockholders and Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders to be held in May 2016 (the "Proxy Statement").

(2) A portion of the information required is incorporated by reference to the Proxy Statement sections entitled "Election of Directors" and "Directors and Corporate Governance."

(3) Incorporated by reference to the Proxy Statement sections entitled "Directors and Corporate Governance — Director Compensation," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

(4) A portion of the information required is incorporated by reference to the Proxy Statement section entitled "Directors and Corporate Governance — Security Ownership of Certain Beneficial Owners, Directors and

Management."

(5) Incorporated by reference to the Proxy Statement sections entitled "Certain Relationships and Related Party Transactions" and "Directors and Corporate Governance — Independence of Directors."

(6) Incorporated by reference to the Proxy Statement section entitled "Fees of Independent Accountants."

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PART I

ITEM 1 – BUSINESS

In this Report, when we use the terms the "Company," "Lear," "we," "us" and "our," unless otherwise indicated or the context otherwise requires, we are referring to Lear Corporation and its consolidated subsidiaries. A substantial portion of the Company's operations are conducted through subsidiaries controlled by Lear Corporation. The Company is also a party to various joint venture arrangements. Certain disclosures included in this Report constitute forward-looking statements that are subject to risks and uncertainties. See Item 1A, "Risk Factors," and Part II — Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements."

BUSINESS OF THE COMPANY

General

Lear Corporation is a leading Tier 1 supplier to the global automotive industry. We supply seating, electrical distribution systems and electronic modules, as well as related sub-systems, components and software, to virtually every major automotive manufacturer in the world. We have 240 manufacturing, engineering and administrative locations in 36 countries and are continuing to grow our business in all automotive producing regions of the world, both organically and through complementary acquisitions. Our manufacturing footprint reflects more than 145 facilities in 22 low cost countries.

We use our product, design and technological expertise, global reach and competitive manufacturing footprint to achieve the following financial goals and objectives with the aim to maximize shareholder value:

- Continue to deliver profitable growth, balancing risks and returns
- Maintain a strong balance sheet with investment grade credit metrics
- Consistently return cash to our shareholders

Our business is organized under two reporting segments: Seating and Electrical. Each of these segments has a varied product range across a number of component categories:

- Seating — Our seating segment consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests. We also have capabilities in active sensing and comfort for seats, utilizing electronically controlled sensor and adjustment systems and internally developed algorithms.
- Electrical — Our electrical segment consists of the design, development, engineering and manufacture of complete electrical distribution systems that route electrical signals and manage electrical power within a vehicle. Key components in the electrical distribution system include wiring harnesses, terminals and connectors, junction boxes and high power components for hybrid and electric vehicles. We also design, develop, engineer and manufacture sophisticated electronic control modules that facilitate signal, data and power management within the vehicle. We have added capabilities in wireless communication modules that process various signals to, from and within the vehicle, including cellular, WiFi and GPS.

We serve the worldwide automotive and light truck market in both our seating and electrical segments. We have automotive content on over 350 vehicle nameplates worldwide and serve all of the world's major automotive manufacturers across our businesses and various component categories in both our seating and electrical segments. It is common to have both seating and electrical content on the same and multiple vehicle platforms with a single customer. Our businesses benefit globally from leveraging common operating standards and disciplines, including world-class development and manufacturing processes, as well as common customer support and regional infrastructures. Our core capabilities are shared across component categories, including high-precision manufacturing and assembly with short lead times, management of complex supply chains, global engineering and program management skills and a unique customer-focused culture. Our businesses utilize proprietary, industry-specific processes and standards, leverage common low-cost engineering centers and share centralized operating support functions, such as logistics, supply chain management, quality and health and safety, as well as all major administrative functions.

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Available Information on our Website

Our website address is http://www.lear.com. We make available on our website, free of charge, the periodic reports that we file with or furnish to the Securities and Exchange Commission ("SEC"), as well as all amendments to these reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. We also make available on our website or in printed form upon request, free of charge, our Corporate Governance Guidelines, Code of Business Conduct and Ethics (which includes specific provisions for our executive officers), charters for the standing committees of our Board of Directors and other information related to the Company. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Report.

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information related to issuers that file electronically with the SEC.

History

Lear was founded in Detroit in 1917 as American Metal Products, a manufacturer of seating assemblies and other components for the automotive and aircraft industries, and was incorporated in Delaware in 1987. Through a management-led buyout in 1988, Lear Corporation established itself as a privately-held seat assembly operation for the North American automobile market with annual sales of approximately $900 million. We completed an initial public offering in 1994 and developed into a global supplier through organic growth and a series of acquisitions.

In May 1999, we acquired UT Automotive, Inc. ("UT Automotive") for a purchase price of approximately $2.3 billion from United Technologies Corporation. UT Automotive was a leading supplier of automotive electrical distribution systems. The acquisition of UT Automotive represented our entry into automotive electrical and electronic systems and was the basis for our current electrical segment. In addition to electrical distribution systems, UT Automotive produced a broad portfolio of automotive interior products, which were subsequently included in the transfer of substantially all of the assets of our interior business to International Automotive Components Group in October 2006 (European assets) and March 2007 (North American assets).

We have subsequently augmented our internal growth plans with selective acquisitions to expand our component capabilities and global footprint, as well as expand our technology portfolio. In May 2012, we acquired Guilford Mills, a leading supplier of automotive seat and interior fabric, from Cerberus Capital Management, L.P., for approximately $243 million. In January 2015, we acquired Everett Smith Group, Ltd., the parent company of Eagle Ottawa, LLC ("Eagle Ottawa"), the world's leading provider of leather for the automotive industry, for approximately $844 million. In August 2015, we acquired intellectual property and technology from Autonet Mobile, a developer of wireless communication software and devices for automotive applications. In November 2015, we completed the acquisition of Arada Systems Inc., an automotive technology company that specializes in vehicle-to-vehicle and vehicle-to-infrastructure ("V2X") communications.

Industry and Strategy

We supply all vehicle segments of the automotive light vehicle original equipment market and in every major automotive producing region in the world. Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. Global automotive industry production volumes improved 3% in 2014 from the prior year and another 2% in 2015 to a record 86.9 units.

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Details on light vehicle production in certain key regions for 2015 and 2014 are provided below. Our actual results are impacted by the specific mix of products within each market, as well as other risks described in Item 1A, "Risk Factors."

(In thousands of units)	2015 [1]	2014 [1, 2]	% Change
North America	17,496.6	17,029.6	3%
Europe and Africa	21,482.7	20,553.0	5%
Asia	43,806.5	43,061.1	2%
South America	2,854.8	3,586.7	(20)%
Other	1,281.0	1,375.1	(7)%
Total	86,921.6	85,605.5	2%

(1) Production data based on IHS Automotive for vehicle weights up to 3.5 tons.

(2) Production data for 2014 has been updated to reflect actual production levels.

Details on light vehicle production in certain emerging markets for 2015 and 2014 are provided below.

(In thousands of units)	2015 [1]	2014 [1, 2]	% Change
China	22,350.9	21,306.2	5%
India	3,773.1	3,565.3	6%
Brazil	2,311.1	2,958.1	(22)%
Russia	1,290.3	1,770.1	(27)%

(1) Production data based on IHS Automotive for vehicle weights up to 3.5 tons.

(2) Production data for 2014 has been updated to reflect actual production levels.

Details on our sales in certain key regions for 2015 and 2014 are provided below.

(In millions)	2015	2014	% Change
North America	$7,755.7	$6,769.8	15%
Europe and Africa	6,756.1	7,004.6	(4)%
Asia	3,235.5	3,101.8	4%
South America	464.1	851.1	(45)%
Total	$18,211.4	$17,727.3	3%
China (consolidated)	$2,141.9	$2,092.9	2%
China (non-consolidated)	1,508.0	1,434.2	5%

Key trends that have been specifically affecting our business include automotive manufacturers' utilization of global vehicle platforms, a shift among many automotive manufacturers away from integrated systems to directed component sourcing, increasing demand for luxury and performance features and content and China's emergence as the single largest major automotive market in the world with above average long-term growth expectations.

Our strategy is built on addressing these trends and the major imperatives for success as an automotive supplier: quality, cost and efficiency and innovation and technology. We have expanded key component and software capabilities through organic investment and acquisitions to ensure a full complement of the highest quality solutions for our customers. We have restructured, and continue to align, our manufacturing and engineering footprint to attain a leading competitive position globally. We have established or expanded activities in new and growing markets, especially China, in support of our customers' growth and global platform initiatives. These initiatives have helped us achieve our financial goals overall, as well as a more balanced regional, customer and vehicle segment diversification in our business.

In addition, three major mega-trends have broadly emerged as major drivers of change and growth in the automotive industry: connectivity, safety and efficiency. These mega-trends have become widely accepted and also are attracting new, non-traditional entrants to the automotive industry that are leveraging technology, vehicle electrification and consumer relationships to exploit growth opportunities in the industry. Regulation is also a major influence with these

mega-trends, as government mandates (e.g., for vehicles to meet or be equipped with minimum fuel economy and emissions standards or certain safety-related

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components) are driving vehicle design and technology plans. We believe that the following mega-trends are likely to be at the forefront of our industry for the foreseeable future with each of these trends converging long-term toward a vision of fully-autonomous driving:

- Connectivity — Customer and consumer demand to have constant communication and information exchange. This trend began with consumer demand to extend and integrate their mobile connectivity into the vehicle by connecting mobile devices with vehicle infotainment systems. Connectivity requirements will continue to grow as we believe that vehicles will increasingly have direct communication with cellular networks, satellites and other vehicles in the grid to enable more advanced safety and fuel efficiency functionality. Vehicles are effectively becoming smart devices on wheels as the automobile is increasingly becoming a platform connected to various types of communication networks. We expect these trends to continue, making the vehicle a constantly connected device, receiving and transmitting data through a variety of signals, which communicate directly with the on-board vehicle network.
- Safety — Customer and consumer demand for safety features and systems that protect vehicle occupants when a crash occurs, and also, with an increasing prevalence, for advanced driver assistance systems that proactively respond to driving situations to reduce the likelihood or severity of a crash.
- Efficiency — Customer and consumer demand for more energy efficient vehicles that meet increasingly strict fuel economy and emission standards and reduce the environmental impact of automobiles. This requires further use of electronically controlled powertrains and related components to improve fuel efficiency, adoption of alternative energy powertrains, such as hybrid, electric and other powertrain technologies that facilitate high power electrification of the vehicle, and use of lighter weight materials throughout the car.

We are well positioned for growth capitalizing on these mega-trends as we supply high value systems and components that drive critical functionality and core elements of the vehicle’s architecture and design. The systems and components that we design, develop and manufacture facilitate connectivity of various vehicle systems, impact a vehicle’s safety and crashworthiness and support more fuel efficient alternative powertrains. Many of our systems and components also directly impact the consumer, providing us with the opportunity to offer our automotive customers technology, solutions and designs that will differentiate their vehicles in the consumer marketplace.

We are well positioned to directly participate in the connectivity mega-trend as we design, develop and supply systems and components that connect the various electrical and electronic systems within the vehicle into integrated on-board power and data communication networks. We further have the technology and expertise to wirelessly and securely connect these on-board vehicle networks and systems with external networks over various standards and protocols. This expertise allows us to offer our automotive customers electronic modules, such as connected gateway modules, that offer functionality such as over-the-air software updates or cellular communication of vehicle performance data to the automotive manufacturers, their dealers or the vehicle owners. Further, our expertise in dedicated short range communications (“DSRC”) technology allows us to provide modules and software that facilitate direct, high speed communication between vehicles and roadside infrastructures.

Furthermore, a seat is an active part of the vehicle safety system. As a result of our innovative product design and technology capabilities, we are able to provide seats with enhanced safety features, such as the active head restraint and seat structures that withstand collision impact well in excess of what is demanded by regulatory agencies. We have developed products and materials to reduce cost and enhance seat design and packaging flexibility, including our mini recliners and micro adjust tracks. Another way in which we are well-positioned to benefit from this mega-trend related growth is our belief that the seat system will become increasingly more sophisticated, dynamic and connected to both the occupants and the vehicle. The seat is the logical focal point for monitoring the driver and passenger and for facilitating feedback between the vehicle and the occupants. Most recently, the addition of DSRC and other V2X capabilities positions us to provide high speed communication between vehicles, even in extreme weather conditions, potentially reducing crashes through real time advisories alerting drivers to imminent hazards in the roadway ahead, including other vehicles on a potential path for collision.

Continued growth in more fuel efficient, complex and electronically controlled powertrains is helping to drive growth in the vehicle's electrical distribution system. The emergence and continued development of alternative energy powertrains, including electric, hybrid electric and other technologies, is driving growth in high power electrical

systems and components. Hybrid and electric vehicles incorporate both high power and low power components. As a result, they offer a significant incremental content opportunity for us. These trends all support continued growth in electrical and electronic content on the vehicle, as well as associated software. This content growth will require far more complex vehicle electrical architectures. Our significant experience designing and manufacturing highly integrated and standardized architectures that optimize size, performance and quality leaves us well positioned to take advantage of the growth in electrical content and the increasingly complex architectures.

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We believe that the potential long-term convergence of these mega-trends and eventual wide-spread adoption of autonomous vehicles will benefit both our seating and electrical segments. We believe that autonomous vehicles will likely have seat designs and requirements that are far more flexible and demanding in both autonomous and piloted driving states and the transitions between the two. Further, more active monitoring of the driver and the driver's position and physical state will likely be required. We also believe that autonomous vehicles will not only need to be fully connected and networked to maximize their safety and efficiency, they will have much higher levels of power consumption to support the array of sensors and processing power required to operate such vehicles.

Seating Segment

Lear is a recognized global leader in complete automotive seat systems and key individual seat components. The seating segment consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests. We have the most complete set of component offerings of any automotive seating supplier and are a market leader in every automotive producing market in the world. Further, our global manufacturing and engineering expertise, low-cost footprint, complete component capabilities, quality leadership and strong customer relationships provide us with a solid platform for future growth in this segment.

We produce seat systems that are fully assembled and ready for installation in automobiles and light trucks. Seat systems are generally designed and engineered for specific vehicle models or platforms. We develop seat systems and components for all vehicle segments from compact cars to full-size sport utility vehicles. We are the world leader in luxury and performance automotive seating, providing craftsmanship, elegance in design, use of innovative materials and industry-leading technology required by premium brands, including Alfa Romeo, Audi, BMW, Cadillac, Ferrari, Jaguar Land Rover, Lamborghini, Lincoln, Maserati, Mercedes-Benz and Porsche.

We have been executing a strategy for vertical integration of key seat components to enhance growth, improve quality, increase profitability and support our current market position in just-in-time seat assembly. In this regard, we have expanded our seat structures and mechanisms capabilities to provide complete development and manufacturing capabilities in all major automotive producing regions in the world and have developed standardized seat structures and mechanisms that can be adapted to multiple segments minimizing investment costs. We believe that our low-cost