Adient plc (NYSE: ADNT)

March 31, 2019

Price (in $)	13	P/S (TTM).	0.08x
Shares Out (in M)	93.52	TTM EBITDA (in $M)	765
Market Cap (in $M)	1,215	EV/EBITDA	6x
Net Debt (in $M)	3,003	TTM adj EBITDA (in $M)	1,109
EV (in $M)	4,576	EV/adj EBITDA	4.13x

Recommendation

We recommend ADNT a buy with a one-year price target of $33, representing approximately 150% annual ROI from its current price. Our price target is based on our projection that ADNT will successfully remedy its operational issues, turnaround its core businesses, and thus fully realize the intrinsic values of its underlying businesses. We believe our price target uses conservative assumptions and has captured controllable risks inherent in ADNT's businesses. Separately, in our worst-case scenario, ADNT is worth approximately $14, representing 10% annual ROI from its stock price at the time of this writing.

Backstory

In a nutshell, ADNT ran into multiple operational difficulties and macro headwinds throughout 2017 and 2018, including issues related to launches in both SS&M and Seating, increased common front seat architecture volume and complexity in Europe, additional freight, operational waste and scrap, weakness in China's auto market, downward macro pressures from commodity costs and FX, and finally the distractions outside its core business.

The first series of problems surfaced in 4Q 2017, when ADNT ran into production issues associated with the wide-scale launch of a new product line of metal components. These new components, called the 3000 series, are a meaningful improvement over the prior 2000 series. Production headwinds intensified throughout the winter and caused management to reduce FCF guidance from $525M to $225M.

The stock dropped from the low $80s to the low $60s within a month of the guidance cut.

In the following quarters, ADNT experienced production issues at number of its SS&M factories, creating a domino effect of inefficiencies. ADNT had to staff hundreds of extra people to monitor quality at multiple production facilities. Due to the backup in production, ADNT also had to air freight significant content to lessen liquidated damages since ADNT was creating line-stoppages at its customers. In addition to the equipment issues, ADNT's European supplier of specialty alloys failed to perform. This led to on and off raw material shortages creating further production inefficiencies.

The root cause of these production issues was an overambitious launch program coupled with an overly complex footprint and supply chain. According to management's comment during Q1 2019 earnings call:

"The launches have been brutally painful. They've extended far beyond the normal launch window of 90 days. We're carrying a tremendous amount of labor and freight penalties associated with that poor performance… A large portion of North America's CD underperformance is the result of increased volume and complexity of our launch load. These issues have been exacerbated by other factors such as higher than normal volatility and customer releases unplanned legacy program extensions, and stretched resources, not to mention macro factors, such as righting the input costs."

In Q4 2018, ADNT recorded $1.48B after-tax impairment charges associated with asset impairments of SS&M and the Interior segment, as well as the recording of valuation allowances against certain deferred tax assets, resulting in a whopping $1.36B net loss for the quarter. The after-tax net loss impacts were $718M, $322M and $439M for SS&M, interior, and DTA, respectively. Management then spooked investors by suspending quarterly cash dividend and amending the company's main credit agreement, increasing net leverage covenant ratio to 4.5x from 3.5x. These moves are to increase ADNT's financial flexibility in an effort to turn its business around. Investors, however, started to raise questions about ADNT's financial health.

Sell-off continued after Q1 2019 results were announced, primarily due to the fact that no significant improvements were observed in the first quarter of 2019, and management gave a rather grey outlook for the year. On Q1 2019 earnings call, although management assured investors that results will be improved in the back half of the year, they also projected that first half of FY2019 is expected to continue to experience the negative impact of launch related headwinds in both seating and SS&M. Consequently, full year adjusted EBITDA is expected to be lower compared to the full-year 2018.

Shares continued to freefall in the month following Q1 2019 earnings. DFP started to build positions in ADNT at around $14.

Investment Thesis

1. **ADNT's recent issues are not structural in nature, thus, the company's situation is likely to get better as these issues are addressed**

In our investment selection process, we always try to answer a simple question: is the future likely to get better or worse when compared to the present? In ADNT's case, we believe that although a handful of things that are beyond the company's control can potentially turn worse, most of the major issues that brought about ADNT's recent underperformance have been fully cooked into its stock price. As ADNT's management relentlessly addresses the issues primarily related to operation and execution, ADNT's situation is likely to get better in the future.

2. **ADNT is currently trading at an extremely attractive multiple of 0.05x its TTM total revenues (consolidated + unconsolidated revenues)**

All else equal, we typically prefer to own a company with strong topline but poor margin profile, rather than a company with strong bottom-line but average to poor topline. The rationale is that the former has quite a few levers to pull to improve its bottom-line, whereas topline growth is difficult to obtain and much less sustainable.

In the last 12 months, ADNT generated total revenues of $24.6B, comprising $17.4B consolidated revenues, a 50% JV share in $9.16B unconsolidated Seating and SS&M revenues, and a 30% JV share in $8.7B unconsolidated interiors revenues. As of the time of this writing, ADNT has a total market cap of $1.2B, producing a price to TTM sales multiple of 0.05x.

To put this into perspective, ADNT's closest US competitors, LEA Corporation (LEA) and Magna international Inc. (MGA), are trading at 0.4x TTM sales, and 0.39x TTM sales, respectively. LEA and MGA expect their revenues to increase by 0.7% and 1.2% in FY2019, respectively. In comparison with its competitors, ADNT expects its FY 2019 revenues to contract by 4.8%.

Another important metric closely tracked by Wall Street analysts is EBITDA margin. In FY2018, ADNT produced an EBITDA margin of 4.7%, lagging its peer average EBITDA margin of 9%. To make the situation worse, ADNT's EBITDA margin fell further to 2.2% in Q1 2019, reaching its lowest level since the company went public in October 2016.

In our opinion, ADNT's low P/S multiple can be attributed to deteriorating revenues and EBITDA margin. So let's dig into both revenues growth, and EBITDA margin outlook next.

Exhibit 1.

$ in millions	FY2019*	Q1 2019	FY2018	FY2017
Net Sales	16,600	4,158	17,439	16,213
yoy growth	(4.8%)	(1.1%)	7.6%	(3.4%)
Adj - FX exchange	500	94	(497)	97
Adj – Futuri acquisition & China affiliate consolidation	(877)	(235)	(877)	(64)
Organic comparable Sales	16,223	4,017	16,065	16,246
yoy growth	1%	4.6%	(1.1%)	N/A

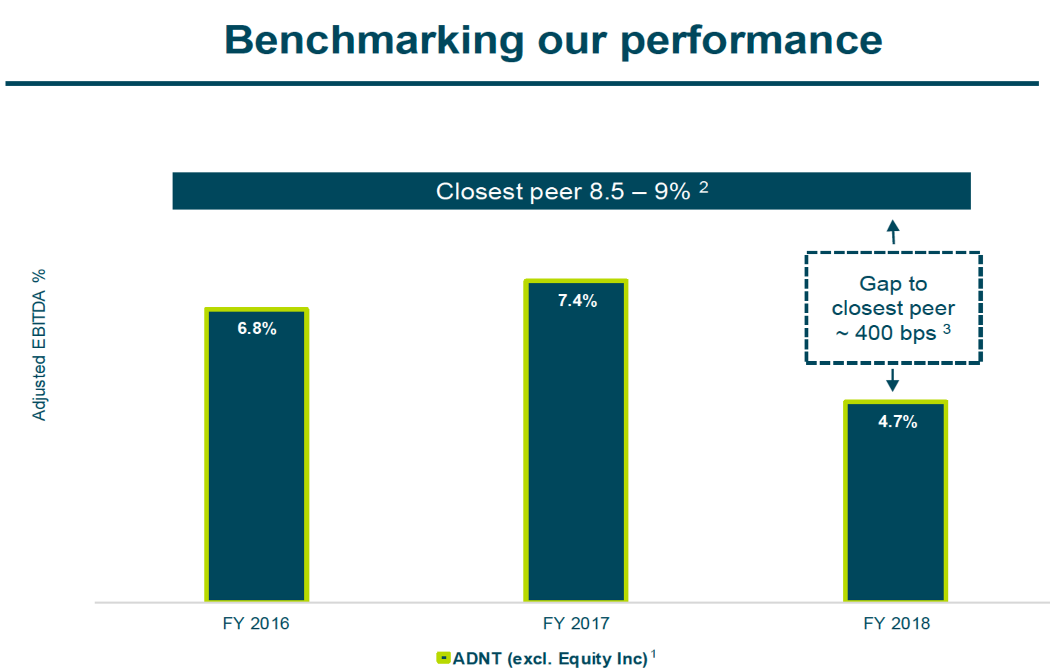
*2019 guidance from Q1 2019 earnings conference

Here we attempt to strip out the effects of FX exchange and recent acquisition & consolidation to highlight the underlying health of ADNT's core businesses year-over-year: FX exchange gains/losses are deducted/added back, and acquisition & consolidation are subtracted from net sales to obtain organic comparable sales, as the table above illustrates.

Surprisingly, despite ADNT's guided FY2019 net sales represent 4.8% yoy decline, the organic comparable sales are to increase by 1%, which is similar to LEA and MGA's 2019 revenues growth guidance. Next, let's shift gears to EBITDA margin.

3. **Although ADNT's EBITDA margin is 4% behind its closest peers, there are no structural reasons ADNT's margins should not be comparable to its peers**

Exhibit 2.



According management's comment on Q1 2019 earnings call:

> *"There are no structural issues preventing Adient from achieving best-in-class margins. Performance headwinds alluded in significant operational challenges, primarily launch related, reduced focus on core business, too much emphasis on growth, which also has contributed to undisciplined commercial decisions. **When drilling down into the nonperformance, we see roughly 200 basis points of opportunity in opportunity in our SS&M group and another 150 basis points of opportunity in Seating America**. Looking forward, we expect to close the margin gap."*

Our model suggests that, if ADNT were able to deliver the guided margin improvements, **its EBITDA margin will improve to 7.6%**, approximate to its FY2017 EBITDA margin. We consider our estimate conservative as we didn't account for the fact that ADNT is committed to downsize its SS&M business that carries a lower margin profile. In the following section, we shortly discuss why it makes sense for ADNT to downsize SS&M.

Exhibit 3.

	Seating		**SS&M**	
$ in millions	**Q1 2019**	**FY2018**	**Q1 2019**	**FY2018**
EBITDA excl. equity income	198	1132	(81)	(212)
EBITDA margin	5.3%	7.2%	(11.1%)	(7.1%)
Revenue/Capex	51x	56x	10x	12x
EBITDA/Capex (ROI)	2.7x	4x	(1.1x)	(0.8x)
YOY change				
EBITDA excl. equity income	-85	-182	13	-257
EBITDA margin	-2.2%	-1.7%	+2%	-8.7%
Net material economics (pricing + material economics)	2	-36	-2	-46
Volume	3	-41	-6	0
Operating performance related	-72	-176	21	-200
SG&A related	-10	81	1	2

1). Seating carries a substantially higher EBITDA margin than SS&M

Despite recent EBITDA underperformance, which is mostly operating performance related, Seating still carries a much healthier EBITDA margin profile than SS&M. Also, Seating is much less capital intensive than SS&M as measured by Revenue/Capex: for each dollar of Capex spent in Q1 2019, Seating generated $51 of revenue whereas SS&M only generated $10.

2). Seating EBITDA margin deterioration is largely business performance related, as a significant portion of the company's resources were, and are continued to be spent, on SS&M. According to management's comment on Q1 2019 earnings call*:*

> *"…you can take a lot of those resources that have historically been running around trying to fix problems and you can point them inward and drive a lot more productivity into the business, which, quite frankly,* ***we haven't done and you could argue that's part of the reason we're struggling in the Seating business in North America is we diluted our resources to solve launch-related issues and we haven't been taking steps to drive productivity, activities like BABE and improve margins****."*

3). A substantial amount of capital and resources are still tied up in SS&M, which can be released, and subsequently invested into Seating that carries a much higher margin profile. According to management's comment on Q1 2019 earnings call*:*

> *"Regarding SS&M, we're still spending a fair amount of capital on that business right now because those are programs that we're committed to launch. We're contractually obligated to launch."*

4). Both segments' net material economics and volume progressed nicely in Q1 2019, confirming that the issues are performance related, rather than business fundamentals related. The question then becomes how long it will take for ADNT to close the margin gap. According to management's comment on Q1 2019 earnings call*:*

> *"With SS&M, that in 2018, and to a certain degree in 2019, we suffered through a lot of launch-related, commercial-related issues that we're trying to unwind and address. That requires a tremendous amount of resources as we do that. As we look to scale down the business, that means our revenues will come down.* ***You should think about that in a two-year timeframe. And that began about a year ago so we're a year out****."*

So, we can ballpark that the 200 bps EBITDA margin improvement in SS&M will kick in in the next 12 months. In fact, SSM already delivered 200bps yoy EBITDA margin improvement in Q1 2019, mostly driven by better business performance.

As regard to Seating's EBITDA margin improvement, we expect that it will take longer to materialize as SS&M downsizing is still underway. However, given ADNT's focus and track record in Seating, we believe the segment's margin improvement will come at a faster pace than SS&M, possibly within the next 24 months. According to management's comment on Q1 2019 earnings call:

> *"When you look at our technology, when you look at our capability, when you look at the way we've got diversification within region and within customer and not*

overconcentration, our fundamentals stand up against anyone, certainly, in the seating business"

4. **ADNT's JIT assembly/delivery structure requires scale and vertical integration**

In addition to minimizing working capital needs, JIT assembly/delivery allows ADNT to respond faster to OEMs' new designs and innovations. On the other hand, JIT assembly requires a high degree of scale and vertical integration in order to meet OEMs' requirements. According to management's comment on Q1 2019 earnings call*:*

"Look at the Seating business, during the course of the development (2 years for BMW 7 series and Ford F-150) from award to start of production, the scope of the product changes. Specifications, applications to meet consumer requirements all change. And it's through that process that you have to take action and ensure that your product is properly priced"

5. **ADNT's manufacturing footprint makes overseas use of untaxed, low-cost metals possible**

US domestic auto parts suppliers are facing rising input costs due to tariffs (25% on imported steel and 10% on imported aluminum). In contrast, ADNT's manufacturing footprint could provide a competitive edge when those finished goods are imported into the US. According to management's comment on Q1 2019 earnings call*:*

"if I look at our manufacturing footprint, if I look at the fact that we have locations in the proper regions of the world, we've got great scale in those regions, be it China, Mexico, Eastern Europe, so we're very capable of operating in those regions"

6. **Negative currency effects are overstated as currency headwind on topline benefits gross margin and EBITDA**

For 2019, ADNT projected $16.6B in net sales, negatively impacted by $500M currency headwind. We will take ADNT's sales forecast for granted as the company has strong visibility into its topline. At first glance, ADNT's 2019 sales represent 4.8% yoy decline. After adjusting for FX exchange effects, however, the organic comparable sales are expected to be up 1% from FY 2018. On the other hand, ADNT's 2019 COGS will decrease due to increasing dollar, which in turn, benefits gross profit margin. We estimate that $500M currency headwind on ADNT's topline will translate to approximately $458M currency tailwind on gross profit, **although the net effect is close to zero**. So the math here is quite simple: without adjusting for FX exchange effects, in FY2018, currency gains on revenues, and currency losses on COGS resulted in what appears to be a lower gross margin; the reverse will also be true in FY 2019, where currency losses on topline and currency gains on COGS will result in a higher gross margin, which directly translates to a higher EBITDA.

7. ADNT's recent business wins demonstrate OEMs confidence in the company

Recent new business wins include complete seat business for the next generation Ford F-150, and BMW 7-series, both of which are the flagship models for BMW and Ford. Given ADNT's recent operational difficulties, presumably its OEMs would be concerned with the future quality and delivery of their orders. The fact that ADNT was able to win these new businesses in a competitive bidding environment indicates that its core seating business remains strong, competitive, and valuable to its customers.

8. Investors' fear that ADNT may go bankrupt is unwarranted

Along with a dividend suspension, ADNT amended its debt covenant in Q4 2018, raising its total net Leverage requirement to 4.5x, from 3.5x previously. These actions rattled some investors, and most likely resulted in some forced institutional sales. Investors in the public domain have expressed their concerns that ADNT may run into liquidity squeeze in the near term, which can potentially bring about a bankruptcy. Some investors extrapolate LEA's bankruptcy in 2009 and assume that ADNT is facing similar destiny. We, however, believe the possibility of a bankruptcy event for ADNT is null, and here is why:

1). ADNT has $1.5B undrawn revolver to cover its near-term debt service, over $1B net cash in China JVs, a positive FCF Seating business, and its SS&M segment is expected to become cash flow neutral in 2020

2). The situation facing LEA in 2009, and the situation that ADNT is in now, are entirely different

a. LEA was in serious financial distress in 2009 – $4.6B of net debt with interest rates averaging over 12%. Net debt to tangible assets ratio was 3.7x given $1.25B worth of tangible assets. Additionally, LEA's $1.2B credit facility was fully drawn months before the company declared bankruptcy.

   ADNT on the other hand, has a relatively more robust balance sheet – Of the $3.3B net debt on its balance sheet, only $1.39B is due in the near term, with $1.2B and $189M due in 2021 and 2022, respectively. Additionally, these liabilities are secured, and carry interest rates between Libor +0.9%, and Libor +1.75%. Net debt to tangible assets ratio as of Q1 2019 was 0.43x, compared to LEA's 3.7x in 2008. Furthermore, ADNT has $1.5B undrawn revolver and over $1B net cash from China JVs if they were monetized, bringing its total near term excess liquidity to $1.2B+, net of cash netting cap of $250M.

b. LEA had high customer concentration at the time of its bankruptcy - its top three customers, GM, Ford, and Chrysler, together accounted for almost 50% of its total sales in 2008. GM in particular, accounted for 23% of LEA's 2008 sales. In

2009, both GM and Chrysler filed for chapter 11, which directly brought about LEA's collapse.

In comparison, ADNT's most significant customers include Fiat Chrysler Automobiles N.V. and Volkswagen Group, which accounted for 11% and 10% of ADNT's FY 2018 consolidated net sales, respectively. Both Fiat Chrysler and Volkswagen appear to be financially healthy at the time of this writing.

c. From a macro perspective, both the fixed income market and equity market are much healthier today than they were in 2008. And there is a massive content/vehicle growth tailwind behind auto parts makers.

9. ADNT's long-term oriented shareholders are either holding or buying

Exhibit 4.

Entity	Shares owned	% of total shares outstanding	% of portfolio	Cost basis	Recent change
Davis Selected Advisers	11,185,755	12.0%	0.94%	56.37	+2%
Hotchkis & Wiley Capital management	8,131,130	8.7%	0.54%	37.46	+67%
Black Rock	7,671,044	8.2%	NA	NA	new
Blue Harbour Group	6,550,490	7.0%	5.26%	75.63	0%
Barrow Hanley Mewhinney & Strauss LLC	4,862,744	5.2%	0.14%	64.54	-18%
Price T Rowe	2,196,995	2.3%	NA	NA	-67%
Greenlight Capital	1,982,292	2.1%	2.16%	40.83	+74%
Towle & Co.	1,348,234	1.4%	2.61%	47.83	+31%
Total	43,928,684	47.0%			

A few notable investors are Blue Harbour Group, Greenlight Capital, and Towle & Co, all of which are value oriented long-term investors. Unfortunately, they paid hefty prices in the midst of ANDT's business deterioration. Blue Harbour group in particular, initially purchased 5.8M shares in Q3 2017, at prices ranging from $66 to $77; and subsequently purchased 750K shares in May 2018, when the stock was trading at $55 range. No buying or selling activities have been reported since then.

10. ADNT has a few catalysts and near-term opportunities going for it

- ADNT expects China's performance to improve significantly in the second half of 2019
- Restructuring costs consist primarily of workforce reductions and plant closures, which are expected to be substantially complete in fiscal 2019
- Fourth quarter is the launch season, where most difficulties appeared; following quarters are likely to be smoother

11. New management has been quite transparent and upfront on the previous two earnings calls

Business Description

From a high level, ADNT is the largest auto seat manufacturer in the world. With 33% global seating market share, one in every three seats manufactured in the world comes from ADNT's facilities. The company holds #1 market share in both China (45% of PV market share) and North America, and #1 or #2 market share in most other markets. ADNT operates through three segments: Seating, Seat Structures and Mechanisms (SS&M), and interiors. The company has 12 core engineering technical centers and 238 plants across 34 countries. ADNT was spun out of Johnson Controls (NYSE: JCI) and began trading on NYSE at $47 per share in October 2016.

In August 2017, ADNT completed its acquisition of Futuris Group for $360M in cash, adding 15 facilities in North America and Asia, and $500M to its topline. Futuris, owned by affiliates of Clearlake Capital Group, was a global designer and manufacturer of fully integrated automotive seating and interior systems.

In January 2018, ADNT (50.01%) formed a JV with Boeing (49.99%) to develop and manufacture airliner seats for new installations or retrofit, a $4.5B market in 2017 and is expected to growth to $6B by 2026.

In June 2018, ADNT announced its new leadership transition plan to replace Bruce McDonald, who served as CEO since ADNT's separation from JCI. Subsequently, in September 2018, ADNT named Douglas Delgrosso its new CEO. Prior to joining ADNT, Douglas served as CEO at two auto suppliers, VP and general manager at TRW automotive, and before that, he served as COO at LEA and spent 23 years there in a variety of operational roles. Needless to say, Douglas brings a lot of critical experience and skills to the table when it comes to operational improvement and turnaround.

Industry

The top10 automotive seating giants like ADNT, LEA, Toyota Boshoku and Faurecia currently grab a combined share of over 90%. ADNT, the biggest player (33% global market share), forges long-term partnerships with automakers by establishing joint ventures with them, with a large client base almost covering all OEMs. In comparison, its largest competitor LEA (~20% global market share) has four major clients, Ford, GM, BMW and FCA for targeting North American and European markets.

Competition

Industry barriers to entry are high due to its capital-intensive nature, with raw materials making up approximately 85% of the value of the seat, which translates to thin margin around 2%. JIT assembly, increasing vertical integration, as well as long-term relationships with OEMs also deter any new entrants. Competition among incumbents is centered on price, quality, delivery, and reliability. According CEO Douglas's comment on Q1 2019 earnings call:

“Our customers are really focused on the same thing they're always focused on. They want us to be cost-competitive. They want us to execute. They want us to focus on quality and delivery. They want us to have candid conversations with them. They want a level of transparency on what's happening in our business. They want to understand what our strategy is.

Competitive Advantage

- Scale

  ADNT's manufacturing footprint makes overseas use of untaxed, low-cost metals possible, which could provide a competitive edge when those finished goods are imported into the US. ADNT also benefits from high switching costs as it has become entrenched in all of the global OEM’s production process.

- Vertical integration

  ADNT is the most vertically integrated global seat supplier that provides both assembly and components to OEMs. Vertical integration implies higher margin potential as components (8-9%) carry much higher margin than assembly (2-3%).

- China JVs

  Although China JVs are a double-edged sword for ADNT, the downside is limited as ADNT can choose to monetize China JVs to realize $1B+ net cash should China’s auto market continues to deteriorate. Conversely, China JVs provide massive upside if China’s auto market recovers.

Opportunities

1. Decent step-up in the backlog from 2019 of about $450 million on the consolidated Seating, to about $1 billion in 2020. Strong backlog growth provides significant growth opportunities once the operation issues are fixed

2. Thanks to tariffs (25% on imported steel and 10% on imported aluminum), vertically integrated OEMs are more likely to reduce their imports of foreign steel and aluminum for use in the finished goods they make, and instead increase their imports or purchases of finished goods, which are not subject to tariffs - tailwind for auto parts makers

3. Future content/vehicle growth driven by electrification, autonomous vehicle, and SUVs growth

VALUATION – SUM OF PARTS ANALYSIS

1. Consolidated Seating Valuation (DCF)

Item	Raw data	Adjustment	Adjusted data	Comment
A/R	1,766			More conservative to be higher (higher assets lead to higher invested capital, thus lower ROIC)
Inventories	839			
Other current assets	657			
Other non-current assets	882			
A/P and accrued exp	2906	50%	1,453	More conservative to be lower (lower liabilities lead to higher invested capital, thus lower ROIC)
Other current liabilities	609	50%	305	
Other non-current liabilities	414	50%	207	
Invested capital tied up with Seating	3562			
Seating EBIT (TTM)	1059			
Seating equity income (TTM)	270			
Seating EBIT adjusting for equity income (TTM)	789			
2019 Int exp	143			All interest exp are borne by Seating
2019 effective tax rate	20%			
Seating NOPLAT	517			
ROIC	15%			
WACC used by ADNT (Q3 2018)	13%			Implied cost of equity of 27% given WACC of 13% - a very conservative estimate
Growth	0%			
EV	3,975			
MV of equity	495			
Per share value of Seating stand-alone	**5.3**			All corp level liabilites are included in seating segment valuation

Our sum of parts analysis breaks ADNT into three parts: Consolidated Seating, Consolidated SS&M and YFAI, as well as unconsolidated Seating and SS&M. In addition, we subtracted all corporate level liabilties from Consolidated Seating due to the fact that ADNT is downsizing its SS&M segment, and can potentially scrap interior, unsolidated Seating and SS&M to realize cash should its execution issues persist.

We valued conslidated seating segment as a separate entity using DCF method. We first calculated Seating's TTM ROIC using TTM NOPLAT and Q1 2019 invested capital; we then ran our DCF model based on 15% ROIC, 13% WACC, and 0% revenues growth rate; finally we subtracted all corporate level liabilities from Consolidated Seating segment to arrive at our per share estimate of $5.3. We believe our assumptions are conservative, and are consistent with management's guidance and Seating's near-term outlook. For example, the 13% WACC used by management implies a 27% cost of euqity, an extremly conservative estimate in our point of view.

Sensitivity Table

	COD	PV = 72.38, FV = -100, PMT = 4.875/4=-1.21875, N = (2026-2019)*4+2 =30, 1/Y= 2.55%*4= 10.19%					
	WACC	13.0%					
		WACC					
		11%	12%	13%	14%	15%	
	3%	20.11	13.74	8.65	4.48	1.01	
	2%	17.23	11.78	7.33	3.62	0.48	
Growth rate	1%	14.92	10.18	6.23	2.89	0.02	
	0%	13.03	8.84	5.30	2.26	-0.37	
	-1%	11.45	7.71	4.50	1.72	-0.71	
	-2%	10.12	6.74	3.81	1.24	-1.02	
Implied COE		19%	23%	27%	31%	35%	
Comment		1. WACC is unikely to increase to 15%					
		2.WACC is unlikely to increase above 13% when growth rate exceeds 0					

We then tested Seating's value per share by changing the revenues growth rate and WACC. We believe our estimate of $5.3 is near the bottom of the range of possible values, with potentially 2 to 4x upside if management were able to deliver better than expected results.

For Consolidated SS&M, we simply used the most recent fair value of the long-lived assets attributable to SS&M, ignoring any working capital additions. For YFAI, we assume that recent $358M impairment reflects that FY2017 equity income of $93M is entirely eliminated, implying an impairment-to-loss multiple of 3.9x. Notably, should we use TTM YFAI equity income, or assume partial impairment, the multiple used would be considerably higher. By multiplying 3.9x by YFAI TTM equity income, we arrived at our estimated YFAI asset value. We believe both estimates are conservative as they assume assets attributable to SS&M and YFAI have no reproductive value.

Finally, Unconsolidated Seating and SS&M produced $311M equity income in the last 12 months, which translates to 6.8% NPM based on 50% equity interest in 9,163 TTM revenues. The value per share based on the same 3.9x multiple came out to be $9.

Summing up our valuation estimates for all three parts, we arrived at our bear case price of $20. Our bear case is based on our assumption that turnaround continues to weigh on short-term business performance. However, we believe using the firm level WACC understates Consolidated Seating's true value. Hence, in our base cases, we adjusted WACC down to 11% to reflect Consolidated Seating's higher margin profile and competitive position, which gave us a base case price of $27. We then further adjusted Seating's revenues growth rate to capture its strong backlog, producing a base case price of $34. In our bull case, we assume ADNT will close its EBITDA and revenues growth gap, thus being valued at peer average P/S multiple. Our probability weighted price target came out to be $33, approximately 150% above ADNT's stock price at the time of this writing

2. Consolidated SS&M & YFAI Valuation

Item	Raw data	Adjustment	Adjusted data	Comment
Long-lived assets attributable to Consolidated SS&M	313			Written down to fair value using DCF; expected to be CF neutral in 2020
Total assets attributable to YFAI	185			Written down to fair value using DCF & approximately 3.9x TTM adjusted equity income of $48M
Per share value of SS&M and YFAI	**5**			Assuming SS&M and YFAI assets have no future growth potential

3. Unconsolidated Seating and SS&M Valuation

Item	Raw data	Adjustment	Adjusted data	Comment
Seating & SS&M equity income (TTM)	311			
Cash conversion	0.7			Only account for the portion of eqiuity income that can be received via dividend
Unconsolidated Seating and SS&M NPM	6.8%			Unconsolidated Seating and SS&M carry much higher margin than YFAI
Seating EBITDA margin	7.2%			Unconsolidated Seating and SS&M NPM is comparable to Seating EBITDA margin
Valuation multiple	3.9			As a result of the fiscal year 2018 YFAI impairment, the intangible assets related to YFAI were deemed to be fully impaired. Impairment is approximately 3.85x loss. Implied valuation multiple of rest Seating and SS&M JVs > 3.85x
Per share value of Unconsolidated Seating & SS&M	**9.0**			

1 + 2 + 3 = SUM OF PARTS VALUE

Shares outstanding	93.52			
Current stock price	13			
Time horizon (in yrs)	2			
Scenarios	**Price target**	**ROI**	**Probability**	**Comment**
Bull case	70	439%	10%	Close EBITDA gap, and achieve positive revenue growth - 2020 revenues x peer average P/S
Base case a.	34	165%	40%	Successfully turnaround SS&M and Seating to close EBITDA gap, but revenue growth lags
Base case b.	27	110%	30%	Turnaround progresses slowly
Bear case	20	51%	15%	Turnaround continues to weigh on short-term business performance
Worst case	14	10%	5%	Turnaround fails to deliver; ADNT sells off YFAI and scale down SS&M to generate cash
Probability weighted Price target	**33**	**151%**		

Risks

1. ADNT's working capital management remains mysterious

2. China's weakness may prolong, which is beyond ADNT's control

3. More commercial issues may surface as they are difficult to anticipate until ADNT gets further into the negotiations

4. ADNT's current focus on fixing operational issues may give competitors opportunities to seize market share

5. Rising input costs can persist. However, historically ADNT has been able to recoup raw material inflation with a 6-month lag

6. Tariffs on automotive imports could have negative impact on ADNT's business