

Lear Corporation

A company profile

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## Introduction

Lear Corporation is a global supplier of automotive seating systems, mainly to original equipment manufacturers (OEMs) such as Ford, General Motors, Fiat and Saab. Its products include complete seat systems, seat covers, seat frames and other components, all designed to achieve maximum passenger comfort through a wide range of manual and power features (lumbar supports, cushion and back bolsters, and leg and thigh supports). Lear seats are used in light trucks, sport utility vehicles, and mid-size, luxury, full size, sport and compact cars. Annually, the company produces approximately 30 million seat systems.

The company's extensive product offerings were recently expanded through the acquisition of Masland, a leading Tier I designer and manufacturer of automotive floor and acoustic systems and interior and luggage trim components. This acquisition, together with the August 1995 acquisition of Automotive Industries, has made Lear Corporation the world's largest independent supplier with the ability to design, engineer, test and deliver products for a total automotive interior systems. The company is leader in the \$23 billion interior market. In 1995, Lear had net sales amounting to \$4,714.4 million. Its pro forma sales (including AI and Masland) would have been approximately \$5.7 billion. In 1995, Lear was the third largest independent automotive supplier in North America and the tenth largest in the world.

In addition, the company in 1995 held a leading 34% share of the estimated \$6.9 billion total North American seat systems market and was the leading independent supplier to the estimated \$5.5 billion total Western European seat systems market, with a 19% share.

As of June 1, 1996, after giving pro forma effect to the Masland Acquisition, the company's products would be manufactured by more than 40,000 employees in 131 facilities located in 19 countries. In Europe around 8,000 people are employed.

Main goals of the company are to maintain a low-cost producer status and to continue its strategic acquisition program<sup>1</sup>.

The company's North American content per vehicle has increased from \$12 in 1983 to \$227 in 1995. In Europe, the company's content per vehicle has grown from \$3 in 1983 to \$102 in 1995.

In the following chapters we will take a closer look at the activities of Lear Corporation.

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<sup>1</sup> Mac Almond, Laer Seating Corporation, 10-07-1996.

## History

In 1917 the company was founded as a metal products company, supplying seat frames to General Motors and Ford. In 1966 the merger with Lear Siegler took place, and the name changed into: Lear Siegler Seating Corporation. In 1988 a management-led buy-out took place.

In 1991 and 1992, the company acquired the seat systems businesses of **Saab** in Sweden and Finland and of **Volvo** in Sweden.

On November, 1 1993 the company purchased certain assets of the Plastics and Trim Products Division of **Ford Motor Corporation**, The North American seat cover and seat systems business (NAB) producing seat trim and covers.

In September 1993 Lear closed its **Lear Finland** car seat plant in Uusikaupunki<sup>2</sup>.

In December 1994 the company acquired **Sepi SpA**, for approximately \$156 million. In that same month the Fiat Seat Business (FSB) was acquired<sup>3</sup>, through its wholly-owned subsidiary **Lear Seating Italia Holdings SrL.**, establishing Lear as the leading independent supplier of automotive seat systems in Europe.

In August 1995, the company acquired all the outstanding common stock of **Automotive Industries**, a leading designer and manufacturer of high quality interior systems and blow molded plastic parts to automobile and light truck manufacturers. This acquisition made Lear the world's largest independent automotive supplier of products for a total vehicle interior.

In February 1996 Lear Seating Corporation unveiled its new identity with a new company name: **LEAR CORPORATION**, effective as of May 9, 1996. Seats was only one of the many systems developed and produced by Lear, so the new name would better represent the company's ability to integrate design, engineering, testing and manufacturing for the complete vehicle interior from concept to final production<sup>4</sup>.

On 5 February 1996 Lear announced the opening of the Ford Design Engineering Support Center in Dunton, UK, to support Ford Motor Co.'s European activities. The center will provide support to many of Lear's manufacturing facilities located throughout Europe<sup>5</sup>.

July 1, 1996, Lear Corporation announced that it had completed the acquisition of **Masland Corporation** for approximately \$384.9 million in cash, plus estimated indebtedness of Masland of \$81.7 million. The acquisition was structured as a two-step transaction. On June 27, 1996, Lear acquired approximately 97.2% of the outstanding shares of common stock of Masland in a tender offer. On June 28, 1996, Lear completed the acquisition by means of a merger of Lear's wholly-owned subsidiary, PA Acquisition Corp., with Masland<sup>6</sup>.

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<sup>2</sup> Helsingin Sanomat, 13-05-1993.

<sup>3</sup> Moody's Industrial Manual, p.5886.

<sup>4</sup> PR Newswire & Chicago Newsdesk, 28 February 1996.

<sup>5</sup> PR Newswire, Reuter, 05-02-1996.

<sup>6</sup> Mac Almond, Lear Seating Corporation, 10-07-1996.

## Structure & Management

Lear (excluding Masland and AI) in 1995 had 107 facilities in 18 countries, of which 89 manufacturing facilities. Furthermore 15 product engineering centers, 3 R&D centers, and over 35,000 employees worldwide. Headquarters in Southfield measured about 70,000 square feet of owned space in 1995. Additional facilities in North and South America, Europe and Asia measure more than 8840 million square metres<sup>7</sup>. Today (August 1996) the company's operations are conducted through 111 manufacturing facilities, 16 product engineering centers and 4 R&D centers, in 19 countries and one Crown Colony. Of the 131 facilities, 70 are owned and 61 are leased.

Automotive Industries Holding Inc. has subsidiaries in the UK, Germany and Sweden<sup>8</sup>.

### DIVISIONS

In the period when the company was still named 'Lear Siegler, Inc.', it was structured in the 7 following divisions:

Metal Products; Power Equipment; General Seating; Automotive; No Sag spring; Foam Products; and Anchorlok Division.

In 1988 the Power Equipment Division was sold to Lucas Industries.

Today, in order to maintain close personal communications with automobile manufacturers, the company is organized into seven independent divisions, organised parallel to their main customers and acquisitions, instead of product groups. Each of the divisions has the ability to focus on its own customers and programs and each is having complete responsibility for the product, from design to installation. In publications of the Lear Corporation the author of this report could not find a list of the today operating divisions, but assumes that it are the following ones:

AI division  
Masland Division  
Fiat Division  
BMW Division  
GM Division  
Ford Division  
Chrysler Division

The company's sales are originated almost entirely by its sales staff. This marketing effort is augmented by design and manufacturing engineers who work closely with automobile manufacturers from the preliminary design to the manufacture and supply of interior systems or components.

In addition, the company has established several engineering sites in close proximity to its OEM customers to enhance customer relationships and design activity.

The company has implemented a program of dedicated teams consisting of interior trim

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<sup>7</sup> Moody's Industrial Manual, p.5886.

<sup>8</sup> Rubber and Plastics News, Vol.25, no.4, 21-11-1995.

and seat system personnel who provide a single interface for Lear's customers and avoid duplication of sales and engineering efforts.

The company conducts advanced product design development at its technical centers in Southfield, Michigan, Rochester Hills, Michigan, Plymouth, Michigan and Turin, Italy and at 16 worldwide product engineering centers.

In Europe the company's principal joint ventures and minority-owned affiliates are:

<u>Name</u>	<u>location</u>	<u>product</u>	<u>% ownership</u>
Guildford Kast Plastifol Ltd.	England	Interior trim	33
Sommer Masland (U.K.) Ltd.	England	Interior trim	50
Industrias Cousin Freres	Spain	Seat components	49

Locations of the company's facilities in Europe, including those acquired in connection with the Masland acquisition:

GERMANY:	Ebersberg Eisenach Gustavsburg Munich Plattling Quakenbruck Rietberg	UNITED KINGDOM:	Abington Coventry Lancashire Nottingham Tipton Washington
SPAIN:	Pamplona	FRANCE:	Meaux Paris
ITALY:	Bruino Caivano Grugliasco Melfi Novara Orbassano Pozzili	AUSTRIA:	Koflach
		SWEDEN:	Bengtfors Trollhattan
		POLAND:	Myslowice Tychy

## MANAGEMENT

CEO and Chairman of the Board: Kenneth L. Way  
CFO and Exec. Vice President: James H. Vandenberghe  
COO and president: Robert E. Rossiter

The latest function (since June 1996) within the list of executive officers is: Senior Vice President Global Mergers, Acquisitions and Strategic Alliances held by Robert Lawrie.

On 13 December 1995 the appointment was announced of Mary Jo Gresens to be Director of Strategic planning<sup>9</sup>. The author of this report does not know whether this only female director is today still employed by Lear Corporation.

<sup>9</sup> PR Newswire, Reuter, 13-12-1995.

## Activities & Strategy

Twenty years ago, most carmakers built their own seats. Today, many are handing that work to suppliers like Lear, and therefore auto part manufacturers benefit from increasing outsourcing. Known as Lear Seating until recently, the company in this profile has been expanding into other segments of the automotive interior business. It is also increasing market share through a series of acquisitions. August 1995 it purchased Minneapolis-based Automotive Industries Holding for \$626 million. Tellingly, in 1983, Lear accounted for about \$12 worth of parts for every vehicle built in North America. This year, that figure should exceed last year's \$227 worth of content per vehicle. The strong and sustained growth of new and emerging markets is tremendous. Those companies that have their structures and strategies set to consolidate their positions in mature markets, while developing their positions in emerging markets, will benefit greatly<sup>10</sup>.

Management believes that suppliers such as Lear will be increasingly asked to fill the role of "Systems Integrator" to manage the design, purchasing and supply of the total automotive interior. Lear's full-service capabilities make it well-positioned to fill this role, according to company spokesmen.

The company's principal operations are directly related to domestic and foreign automotive vehicle production. Automobile sales and production are cyclical and can be affected by the strength of a country's general economy. In addition, automobile production and sales can be affected by labor relations issues, regulatory requirements, trade agreements and other factors.

Purchase orders from many of its customers, are usually renewable on a year-to-year basis, rather than for manufacturing a specific quantity of products. In addition, certain of the company's manufacturing and assembly plants are dedicated to a single customer's automotive assembly plant. The customer's decision to close any such plant would require the company to obtain alternate supply agreements, relocate existing business to such facility or close such facility.

There is substantial and continuing pressure from the major OEMs to reduce costs<sup>11</sup>.

The company has positioned itself as the leading global Tier I supplier of interior systems and components to OEMs. Tier I status typically means that the supplier is awarded a program for a particular vehicle in the early stages of a vehicle's design. The Tier I supplier becomes responsible for total product management, including design, development, component sourcing, quality assurance procedures, manufacture and delivery to the OEM's assembly plant. The OEMs benefit from lower costs, improved quality, timely delivery and the administrative convenience of being able to outsource complete systems to a single supplier or a small group of suppliers. The Lear company is increasingly given the opportunity to participate earlier in the product planning process.

The company's present customers include 24 OEMs, the most significant of which are

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<sup>10</sup> Paul Eisenstein, June 1996.

<sup>11</sup> Annual Report 1995, on Form 10-K.

Ford, General Motors, Fiat, Chrysler, Volvo, Saab, Volkswagen, Audi and BMW<sup>12</sup>. OEMs have increasingly required their suppliers to manufacture automotive interior systems and components in multiple geographic markets. In recent years, the company has aggressively expanded its operations in Western Europe and emerging markets in South America, South Africa, the Pacific Rim and elsewhere<sup>13</sup>.

**Number of facilities 1991 - March 1996\***

1991 (June)	40	1994 (Dec.)	79
1992 (June)	45	1995 (Apr.)	82
1993 (June)	48	1995 (Dec.)	107
1993 (Dec.)	61	1996 (Mar.)	116

\*Includes facilities operated by the company's less than majority-owned affiliates and facilities under construction.

As we can see the number of facilities of the Lear Corporation has been growing steadily during the past five years, mainly due to acquisitions and new establishments. The largest growth in number took place in 1995, when 28 facilities were added to the corporation.

A major focus of Lear's research and development efforts is to identify new interior features that make vehicles safer and more comfortable, while continuing to appeal to consumer preferences. Lear has made substantial investments in product technology and product design capability to support its products. As was already stated, the company maintains four advanced technical centers (in Southfield, Michigan, Rochester Hills, Michigan, Plymouth, Michigan and Turin, Italy) where it develops and tests current and future products to determine compliance with safety standards, quality and durability, response to environmental conditions and user wear and tear. The company has also made substantial investments in advanced computer aided design, engineering and manufacturing ("CAD/CAM") systems.

Furthermore all of the company's seat system facilities and many of its other manufacturing facilities are linked by computer directly to those of the company's suppliers and customers. These facilities receive components from their suppliers on a just-in-time ("JIT") basis, and deliver interior systems and components to their customers on a sequential just-in-time basis, which provides products to an OEM's manufacturing facility in the color and order in which the products are used. This process enables the company to deliver products on as little as 90 minutes' notice<sup>14</sup>. In 1995 the £9 million Advanced Technology and Test center in Southfield was opened. It houses the world's first HYGE Sled crash simulator to use all-digital, high-resolution color onboard imaging at 1,000 frames per second<sup>15</sup>.

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<sup>12</sup> Current Report Lear Corp., on Form 8-K, 27-6-1996.

<sup>13</sup> Annual Report, on Form 10-K, 31-12-1996.

<sup>14</sup> Annual Report, 31-12-1996, on Form 10-K.

<sup>15</sup> Ward's Automotive Reports 24 July 1995 Page 4.

In August 1995, the company acquired all of the issued and outstanding common stock of **Automotive Industries**, a leading designer and manufacturer of high quality interior trim systems and blow molded products principally for North American and European car and light truck manufacturers. The aggregate purchase price for the AI Acquisition was \$885.0 million (including the assumption of \$250.5 million of AI's existing indebtedness and fees and expenses of \$18.1 million). These funds were provided by borrowings under the Credit Agreement.

The acquisition afforded Lear a significant presence in the door panel and headliner segments of the interior market, which account for approximately 15% of the global automotive interior market.

In July 1995, prior to its acquisition by Lear, AI had acquired **Plastifol GmbH & Co. KG**. The AI Acquisition included a 40% interest in **Industrias Automotrices Summa, S.A. de C.V.** (in Mexico), as well as a 33% interest in **Guildford Kast Plastifol Ltd.(UK)**.

As a division of Lear, AI continues to consider strategic acquisitions as a means to further growth.

As mentioned before, very recently, on July 1, 1996, the company completed the acquisition of all of the issued and outstanding shares of common stock of **Masland**, sometimes referred to as the 'crown jewel of automotive carpet companies'<sup>16</sup>. In 1995, Masland held a leading 38% share of the estimated \$1 billion North American floor and acoustic systems market. Masland is also a major supplier of interior and luggage compartment trim components and other acoustical products which are designed to minimize noise and vibration for passenger cars and light trucks. For its fiscal year ended June 30, 1995, Masland had net sales, and net income of \$496.6 million, and \$21.3 million, respectively<sup>17</sup>.

In addition to the experience and expertise of Masland's management team, the company believes that the Masland Acquisition will provide Lear with several benefits, including Lear's ability to provide a total interior system; additional access to the European market; improvement of the company's consolidated operating margin; and access to leading-edge technology.

One year before being acquired, on July 31, 1995, Masland had formed a joint venture, **Sommer Masland (U.K.) Ltd.** by purchasing 50% of Sommer Allibert S.A.'s existing manufacturing facility in Washington, England for approximately \$8 million. This facility had annual sales of approximately \$20 million. The Lear Corporation today has a 50% interest in Sommer-Masland.

With the Masland Acquisition, Lear also acquired an interest in **Precision Fabrics Group** (29%), and **Amtex** (both in the USA). PFG is an airbag maker, and also makes highly engineered fabric for the aerospace, medical and computer industries<sup>18</sup>.

Lear is currently outsourcing about \$25-30 million of carpet business which Masland should be able to pickup<sup>19</sup>.

On June 24, 1996 Masland corporation acquired the assets of the **Acoustic Materials Business of The Dexter Corporation**, headquartered in Auburn Hills, Michigan. The

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<sup>16</sup> US Equity Research, Salomon brothers, May 31, 1996, p.1.

<sup>17</sup> Annual reports, on Form 10-K, 1995 and 1996.

<sup>18</sup> Autoparts Report, 3 October 1995.

<sup>19</sup> US Equity Research, Salomon Brothers, May 31, 1996, p.6.

business operates one manufacturing facility in Kansas City, Missouri and has approximately \$ 40 million in annual sales and is a leading supplier of specialty acoustic materials designed to reduce noise and vibration levels in vehicles during operation<sup>20</sup>.

## PRODUCTS

The JIT concept, is the cornerstone of the company's manufacturing and supply strategy. And with the acquisitions of Automotive Industries and Masland, the company has expanded its product offerings:

The seat systems business consists of the manufacture, assembly and supply of seating requirements for a vehicle or assembly plant. Seat systems typically represent approximately 50% of the cost of the total automotive interior. The company's core business is seating systems. From its 68 seating facilities it produces complete seat systems including frames, cushions, covers, motors etcetera<sup>21</sup>.

The Lear company's seating plants are typically no more than 30 minutes or 20 miles from its customers' assembly plants and manufacture seats for delivery to the customers' facilities in as little as 90 minutes. Constant computer and other communication is maintained. The company's principal bonding technique involves its patented 'SureBond'. The SureBond process, moreover, is reversible, so that seat covers that are improperly installed can be removed and repositioned properly with minimal materials cost.

Today's car seats unfortunately spell trouble for recyclers. Automakers say they would like a material that could be ground up with the rest of the seat, including the fabric and the backing. Car seats have been made of polyurethane foam for generations, so when a material comes along to challenge foam in any part of that application, you can expect a lot of unrest in the sector. The substitution material the industry is beginning to look at is polyester fiber. It is easier to recycle than PU foam, and the polyester nonwoven fibers that would be used can be made from post-consumer items like soda pop bottles. 'There really is no advantage in polyester except recycling,' said Jim Crankshaw, Lear director of foam and trim development. 'However, recyclability is a real issue'<sup>22</sup>.

Floor systems consist both of carpet and vinyl products, molded to fit precisely the front and rear passenger compartments of cars and trucks, and accessory mats. Recently, Masland developed Maslite(TM), a lightweight material which has the advantage of 40% less weight than vinyl.

Floor systems are complex products which are based on sophisticated designs and use specialized design materials to achieve the desired visual, acoustic and heat management requirements in the automotive interior. The Masland Division's primary acoustic product, after floor systems, is the dash insulator, separating the passenger compartment from the engine compartment.

Door panels consist of several component parts that are attached to a base molded

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<sup>20</sup> Chemical Marketing Reporter, Vol. 249, No. 24, 28-06-1996;  
PR Newswire Reuter, 24-06-1996.

<sup>21</sup> Schroder wertheim & Co., November 3, 1995, p.3.

<sup>22</sup> Plastics News 2 October 1995 Page 9.

substrate by various methods.

The Lear company designs and manufactures headliners which consist of the headliner substrate, covering material, visors, overhead consoles, grab handles, coat hooks, lighting, wiring and insulators. The door panel and headliner market is highly fragmented, with no dominant independent supplier.

In addition to the interior systems and other products described above, the company produces a variety of interior trim products, such as pillars, cowl panels, scuff plates, trunk liners, quarter panels and spare tire covers, as well as blow molded plastic products, such as fluid reservoirs, vapor canisters and duct systems.

## SECTOR EUROPE

Consolidation is already under way in Europe, as a result of an outsourcing by European automobile manufacturers of their seating systems. There are now 4-5 major competing suppliers of polyurethane seat components plus a group of small niche-orientated firms. Compared with around 40 % in 1993, almost two thirds of the \$3.6 Million market is now thought to be outsourced. Around one third of the market is controlled by Johnson Controls Inc.<sup>23</sup>.

Last year, in 1995, the number of independent components makers fell sharply, with 157 mergers or takeovers involving European groups alone, according to Union Bank of Switzerland.

While more than half the Dollars 2.45bn of transactions took place in one country, the pressure of internationalisation was reflected in the fact that 73 deals crossed European borders, while 39 involved a non-European parent company either buying or selling an operation<sup>24</sup>.

The company's major independent competitors in Europe, besides Johnson Controls, Inc., are Bertrand Fauré (headquartered in France) and Keiper Recaro (headquartered in Germany).

May 31, 1996, Lear Corporation was honored with Ford Motor Co.'s Corporate Citizenship Award for its successful minority supplier development program. The award was presented to Terry O'Rourke, President of Lear's Ford Division. The Corporate Citizenship Award recognizes a Ford Tier 1 supplier that has established its own successful minority supplier development program and supports Ford's minority sourcing goals. Lear's minority development program, which began in the late '80s, and the company's recent joint venture with Bing Manufacturing Inc. to build an interior systems plant in Detroit's Empowerment Zone, represents Lear's continued commitment to the success of minority businesses. "Conducting business and establishing partnerships with minority suppliers is an important part of our business strategy. We are very pleased that Ford has recognized our efforts in this area," said Lear Chairman and CEO Kenneth L. Way<sup>25</sup>.

**Lear Seating GmbH & Co.KG**, founded in 1952 in Germany, is a producer of rubber

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<sup>23</sup> Rubber and Plastics News, Vol. 25, No. 4.

<sup>24</sup> Financial Times Survey - Automotive Components, May 1996.

<sup>25</sup> Leslie Touma, Director Corporate Communications of Lear, 6-'96.

products, metal springs and body parts and seats for motor vehicles. Springs are also produced in Germany by another subsidiary **Lear No-Sag Drahtfedern GmbH**.

**AB LEAR Seating Sweden**, founded in 1990, manufactures motor vehicle and truck body parts and seats. **Souby S.A.**, in France since 1968, is a producer of metal springs and shock absorbers.

In Italy **Lear Seating Italia SpA** produces mechanical vehicle components and parts; while **Lear Seating Sweden AB** manufactures interior equipment and accessories for vehicles.<sup>26</sup>

## STRATEGY

The company's principal objective is to expand its position as the leading independent supplier of automotive interior systems in the world. To this end, the company's strategy is to capitalize on two significant trends in the automotive industry: (1) the outsourcing of automotive components and systems by OEMs; and (2) the consolidation and globalization of the OEMs' supply base.

Outsourcing of interior components and systems has increased in response to competitive pressures on OEMs to improve quality and reduce capital needs, costs of labor, overhead and inventory. Consolidation among automotive industry suppliers has occurred as OEMs have more frequently awarded long-term sole source contracts to the most capable global suppliers. Increasingly, the criteria for selection include not only cost, quality and responsiveness, but also certain full-service capabilities including design, engineering and project management support. With the recent acquisitions of Al and Masland, Lear has substantial manufacturing capabilities in four of the five principal automotive interior segments: seat systems; floor and acoustic systems; door panels; and headliners. The company intends to enter into the remaining interior segment, instrument panels, through strategic alliances, acquisitions, supplier relationships and/or joint ventures.

Elements of the company's strategy include:

- Strong Relationships with the OEMs;
- Global Presence;
- Increased Interior Content;
- Product Technology and Product Design Capability;
- Lean Manufacturing; and
- Growth Through Strategic Acquisitions<sup>27</sup>.

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<sup>26</sup> European Kompass on Disc, 1996.

<sup>27</sup> Annual Report, on Form 10-K, 31-12-1995.

## Financial Data

On February 28, 1995 the number of stockholders was 252<sup>28</sup>.

Effective December 31, 1993, the company changed its fiscal year end from June 30 into December 31.

The company has experienced substantial growth in market presence and profitability over the last five years both as a result of internal growth as well as acquisitions. The company's sales have grown from approximately \$1.1 billion for the year ended June 30, 1991 to approximately \$4.7 billion for the year ended December 31, 1995, a compound annual growth rate of 38%. After giving pro forma effect to the AI and Masland acquisitions, the company's sales would have been approximately \$5.7 billion for the year ended December 31, 1995. The company's operating income has grown from approximately \$44.7 million for the year ended June 30, 1991 to approximately \$244.8 million for the year ended December 31, 1995, a compound annual growth rate of 46%<sup>29</sup>.

### Consolidated Financial Data 1993-1996

	As for the three months ended		As of or for the year ended		
	March 30, <u>1996</u>	April 1, <u>1995</u>	Dec. 31, <u>1995</u>	Dec. 31, <u>1994</u>	Dec. 31, <u>1993</u>
(in \$ millions)					
Net sales	\$1,405.8	\$1,043.5	\$4,714.4	\$3,147.5	\$1,950.3
Net income	25.8	17.0	91.6	59.8	(13.8)
Cap. exp.	33.7	23.6	110.7	103.1	45.9
North American content per vehicle*	274	182	227	169	112
European content per vehicle**	107	78	102	48	38

\* "North American content per vehicle" is the company's net automotive sales in North America divided by total North American vehicle production. "North American vehicle production" comprises car and light truck production in the US, Canada and Mexico estimated by the company from industry sources.

\*\* "European content per vehicle" is the company's net automotive sales in Western Europe divided by total Western European vehicle production<sup>30</sup>.

<sup>28</sup> Moody's Industrial Manual, 1996, p.5886.

<sup>29</sup> Annual Report on Form 10-K, 31-12-1995.

<sup>30</sup> Annual Reports on Form 10-K 1995 and 1996; Quarterly Reports on Form 10-K, 30-3-1996 and 01-4-1995; Current Report on Form 8-K, 27-06-1996.

Lear's sales have grown rapidly, both internally and through from approximately \$159.8 million in the fiscal year ended June 30, 1983 to approximately \$4.7 billion in the year ended December 31, 1995, a compound annual growth rate of approximately 33%. As a result of this growth, the company has experienced substantial upfront costs for new programs and new facilities.

Selling, general and administrative expenses, including research and development, as a percentage of net sales increased to 2.9% in 1995 as compared to 2.6% in the previous year.

The company believes it can further increase interior content through the development of more advanced automobile safety features, such as side impact airbags and fully integrated seatbelts.

The company's sales for the year ended December 31, 1995 were comprised of the following vehicle categories: 41% light truck; 23% mid-size; 15% compact and other; 12% luxury/sport; and 9% full-size.

Two of the company's main customers, General Motors and Ford, accounted for approximately 34% and 33%, respectively, of the company's net sales during fiscal 1995. Fiat accounts for about 10% of sales and Chrysler for 6%. Over 50% of sales are outside of the USA<sup>31</sup>. In Europe 28% of sales were realised.

In 1995 Seat systems accounted for 72% of sales; Component production and interior trim production each for 14%<sup>32</sup>.

Net sales of \$4,714.4 million in 1995 represented the company's fourteenth consecutive year of record sales and increased by \$1,566.9 million or 49.8% over net sales for the year 1994. Net sales in 1995 benefited from the acquisitions of Automotive Industries on August 17, 1995 and the Fiat Seat Business on December 15, 1994 which together accounted for \$795.3 million of the increase; and from new seating programs in North America and increased production and improved performance in Europe.

Net sales in European operations were \$1,325.4 million in the year 1995 and \$572.5 million in 1994. Sales in 1995 benefited from \$547.2 million in sales from the FSB and AI acquisitions, incremental volume on existing programs in Sweden and England and favorable exchange rate fluctuations in Germany and Sweden.

Only 1% of Lear's sales in 1995 were attributable to regions outside of North America and western Europe<sup>33</sup>.

In Europe the sales increase in 1994 compared to 1993 (\$435 million<sup>34</sup>) had been due primarily to the addition of new seat programs in Germany and England and vehicle production increases on established programs in Germany, Sweden and Austria.

Furthermore cost reduction programs at existing seat and seat component facilities had been implemented.

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<sup>31</sup> Scroder Wertheim & Co., November 3, 1995, p.3.

<sup>32</sup> Lear corporation, Highlights, by Jonathan Preisner, p.2.

<sup>33</sup> Lear Corporation, Highlights, by Jonathan Preisner, p.1.

<sup>34</sup> Reuter german News service, 16-06-1994.

Industrias Cousin Freres, S.L. (49%), had a 1991 turnover of Ptas. 2,600 million. Lear Seating GmbH & Co. KG, in 1993 had a total turnover of DM 95 million, and in 1995 of DM105 million.

AB LEAR Seating Sweden, in 1995 had total sales amounting SEK 3 million.

Souby S.A., in France realised a turnover in 1995 of FFr.5 million.<sup>35</sup>

Automotive Industries (UK) Ltd., producer of felt and textile goods, had 1994 sales of \$51,456,300.

Lear Corporation (UK) Ltd., manufacturer of metal and fabricated textile products, realised in 1993 a turnover of \$97,380.

Lear Corporation Italia Sud SpA, had estimated 1995 sales amounting to \$247 million, in vehicle parts and auto & apparel trimming.

During 1995, the company's capital expenditures aggregated approximately \$110.7 million. For the years 1994 and 1993, capital expenditures of the company were \$103.1 million and \$45.9 million, respectively. For 1996, the company anticipates capital expenditures of approximately \$175.0 million (3% of sales), reflecting a full year of AI operations and approximately \$10.0 million relating to the Masland Division.

Net sales of \$1,405.8 million in the quarter ended March 30, 1996 surpassed the first quarter of 1995 by \$362.3 million or 34.7%. Sales as compared to prior year benefited primarily from the acquisition of AI in August 1995 and new business in North America.

#### Geographic operating results 1993-1996

	As for the three months ended		As of or for the year ended		
	March 30, 1996	April 1, 1995	Dec. 31, 1995	Dec. 31, 1994	Dec. 31, 1993
(in \$ millions)					
NET SALES:					
USA & Canada	916.6	714.4	3,108.0	2,378.7	1,357.0
Europe	382.9	276.5	1,325.4	572.5	403.8
Mexico&other	106.3	52.6	281.0	196.3	189.5
Total	1,405.8	1,043.5	4,714.4	3,147.5	1,950.3
OPERATING INCOME:					
USA & Canada	56.7	44.6	204.8	155.6	86.9
Europe	9.4	.1	26.5	4.4	(9.6)
Mexico & other	3.9	3.0	13.5	9.6	20.3
Total	70.0	47.7	244.8	169.6	79.6

Net sales in the United States and Canada of \$916.6 million in the current quarter benefited from the contribution of \$175.4 million in sales from the AI Acquisition and new Ford passenger car and Chrysler and Ford truck programs introduced within the past twelve months. Partially offsetting the increase in sales was the impact of a

<sup>35</sup> European Kompass on Disc, 1996.

General Motors work stoppage in March 1996.

Net sales in Europe of \$382.9 in the quarter ended March 30, 1996 benefited from \$42.7 million in sales from the AI Acquisition, additional volume on carryover programs in Italy and favorable exchange rate fluctuations in Sweden, Germany and Italy.

Total net sales benefited furthermore from new business operations in Australia, South America and South Africa.

Net sales for the financial years 1996 and 1997 are estimated to amount respectively: \$5,951.7 million and \$6,374.4 million<sup>36</sup>.

The **PRO FORMA** (unaudited) consolidated financial data for the year 1995 and the first quarter of 1996 were calculated by the company to illustrate the estimated effects of the Masland and AI acquisitions; the Common Stock offering and other financial transactions and consequences.

Total net sales would, considering these conditions, have amounted: \$5,708 million for the financial year 1995. Pro forma net sales in the first quarter of 1996 were estimated at \$1,527.3 million. The calculation was as follows:

**Pro Forma unaudited Consolidated statement of operations:**

**Fin. year 1995 and 1Q-1996**

(in \$million)

	NET SALES		NET INCOME	
	<u>1995</u>	<u>1Q-1996</u>	<u>1995</u>	<u>1Q-1996</u>
Lear	4,714.4	1,405.8	91.6	25.8
AI	523.7	---	18.0	---
Masland	473.2	122.5	17.4	6.3
fin.adjustments	(3.3)	(1.0)	(23.3)	(4.2)
total pro forma	5,708.0	1,527.3	103.7	27.9

In 1995, the company's sales outside the United States and Canada, after giving pro forma effect to the AI and Masland acquisitions, would have grown to approximately \$1.7 billion, or approximately 30% of the company's total pro forma sales. The company's sales of non-seating systems and components would have been approximately \$1.4 billion, or approximately 25% of the company's total pro forma sales<sup>37</sup>.

A significant portion of the funds needed to finance the company's recent acquisitions, including the Masland Acquisition and the AI Acquisition, were initially raised through borrowings. As a result, the company has debt that is greater than its stockholders' equity and a significant portion of the company's cash flow from operations will be used to service its debt obligations. As of March 30, 1996, after giving effect to the

<sup>36</sup> US Equity Research, Salomon brothers, May 31, 1996, p.4.

<sup>37</sup> Annual Report 31-12-1996, on Form 10-K.

Pro Forma Transactions, the company would have had total debt of \$1,289.9 million, so that total debt as a percentage of total capitalization would have been approximately 60%. This makes the company vulnerable and places it in a competitive disadvantage. If the company is unable to generate sufficient cash flow to service its debt obligations, it will have to adopt one or more alternatives, such as reducing or delaying planned expansion and capital expenditures, selling assets, restructuring debt or obtaining additional equity capital. There can be no assurance that any of these strategies could be effected on satisfactory terms<sup>38</sup>.

Performance of the Masland Corporation before its acquisition by Lear was as follows:

**Consolidated Financial Data of Masland Corporation 1993-1996**

	As for the nine months ended		As of or for the year ended		
	March 29, <u>1996</u>	March 31, <u>1995</u>	June 30, <u>1995</u>	July 1, <u>1994</u>	July 2, <u>1993</u>
(in \$ millions)					
Net sales	\$343.4	\$373.8	\$496.6	\$429.9	\$353.5
Oper. income	26.5	34.2	47.0	45.0	25.8
Cap. exp.	20.6	14.7	22.0	17.8	18.0
North American content per vehicle (in \$)	34	31	33	30	26

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<sup>38</sup> Current Report on Form 8-K, 22-5-1996.

## Employment

As of June 1, 1996, after giving pro forma effect to the acquisition of Masland, the company would have employed approximately 40,000 people in 19 countries and operated 131 manufacturing, research, design, engineering, testing and administration facilities<sup>39</sup>. Of this total staff number, the company would have employed approximately:

18,700 persons in the US and Canada,  
12,100 in Mexico, and  
7,900 in Europe.

Of the total, about 6,200 were salaried employees and the balance were paid on an hourly basis. Approximately 25,500 of the company's employees are members of unions, which is almost 66%. The company has collective bargaining agreements with several unions including: the UAW; the Canadian Auto Workers (the "CAW"); the Textile Workers of Canada; the International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America; the International Association of Machinists and Aerospace Workers; and the AFL-CIO.

The existing collective bargaining agreements expire in September 1996 and are presently being renegotiated. Among other things, wage, benefit and outsourcing levels are anticipated to be issues in such negotiations. There can be no assurance as to the outcome of such negotiations, the company states.

The majority of the company's European and Mexican employees are members of industrial trade union organizations and confederations within their respective countries. The majority of these organizations and confederations operate under national contracts which are not specific to any one employer.

Lear states in its Annual report 1995: 'The company has experienced some labor disputes at its plants (...but) has been able to resolve all such labor disputes and believes its relations with its employees are generally good'.

According to Reuters on Internet Masland at the moment of acquisition by Lear employed 3,200 people in 15 facilities. Its manufacturing facilities are in the US, Canada, and Mexico, apart from the Joint-Venture with Sommer Allibert in the UK<sup>40</sup>. Lear Finland, a car seat plant in Uusikaupunki, Finland was closed by Lear in September 1993. 130 employees were given redundancy notices<sup>41</sup>.

In June 1994 Lear transferred some areas of production from Turkey and Spain to Eisenach in Germany. DM1.2 million was planned to be invested in the Lear plant in Eisenach, which was opened in 1992. The workforce was to be increased from 40 to 145 to allow production of seat covers to take place<sup>42</sup>.

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<sup>39</sup> Lear Corp. Current Report on Form 8-K, June 27, 1996.

<sup>40</sup> PR Mewswire Reuter, 24-06-1996.

<sup>41</sup> Helsingin Sanomat, 13-05-1993.

<sup>42</sup> Handelsblatt, 17-06-1994.

## Annex I List of available addresses

### USA

Lear Corporation  
21557 Telegraph Road,  
Southfield, MI 48034

tel.: 313 746-1500  
fax.: 810 746 7782

Total number of employees: 40,000 (1-6-'96)

Automotive Industries Holding Inc.  
Chilton Way  
Radnor, Pennsylvania 19089

tel.: 610 964 4255  
fax.: 610 964 4251

Masland Corporation  
Carlisle  
Pennsylvania

number of employees: 3,200 (1995, before merger with Lear)

### Germany

Lear Seating GmbH & Co. KG  
Varenseller Strasse 11-15  
D-33397 Rietberg  
Postfach 12 40, D-33384  
Rietberg

tel.: +49 05244 480  
fax.: +49 05244 48279

number of employees: 870 (1994)

Lear No-Sag Drahtfedern GmbH  
Hindenburgstrasse 38  
49610 Quakenbrück

tel.: +49 5431 1810

number of employees:?

NS Beteiligungs GmbH

???

Plastifol GmbH & Co. KG (July '95 acquired by AI)

D-8017 Ebersberg  
Ringstrasse 130

tel.: 08092 20940

fax.: 08092 20193

number of employees: 400 (1992)

**Sweden**

AB LEAR Seating Sweden

Installatörv 21  
Box 942  
S-46129 Trollhättan

tel.: +46 0520 99300

fax.: +46 0520 99399

number of employees: 1,500

**France**

Souby S.A.

ZI  
Bois Pataud route de Vierzon  
F-37150 Blere

tel.: 33 47 57 93 41

fax.: 33 47 57 97 27

number of employees: 6

No Sag Francaise S.A.

2, rue des Trinitaires  
77100 Meaux

tel.: (1) 6434 0337

fax.: (1) 6434 4218

number of employees: ?

Lear France E.U.R.L.

Paris

?

### Italy

Lear Corporation Italia Sud SpA  
18-20 Via San Luigi  
10043 Orbassano (TO)

tel.: +39 11 903 0911  
fax.: +39 11 903 8970

number of employees: 1200 (1994)

### Austria

Spitzer GmbH  
Koflach  
?

Lear Seating Autositze GmbH  
??

### United Kingdom

Lear Corporation (UK) Ltd.  
Gielgud Way Crosspoint Business Pk.  
Coventry, West Midlands  
CV2 2SA

tel.: 01203 867200  
fax.: 01203 695366

number of employees: 50 (1993)

Automotive industries (UK) Ltd.  
Spring Gardens Mill  
Green road, Colne  
Lancashire BB8 8EL

tel.: 01282 863550  
fax.: 01282 869796

number of employees: 701 (1994)

### Spain

Industrias Cousin Freres, S.L. (49%)  
Iturrondo, 19  
31600 Burlada (Navarra)

tel.: 948 120909  
fax.: 948 111555

Number of employees: 170 (1991)