

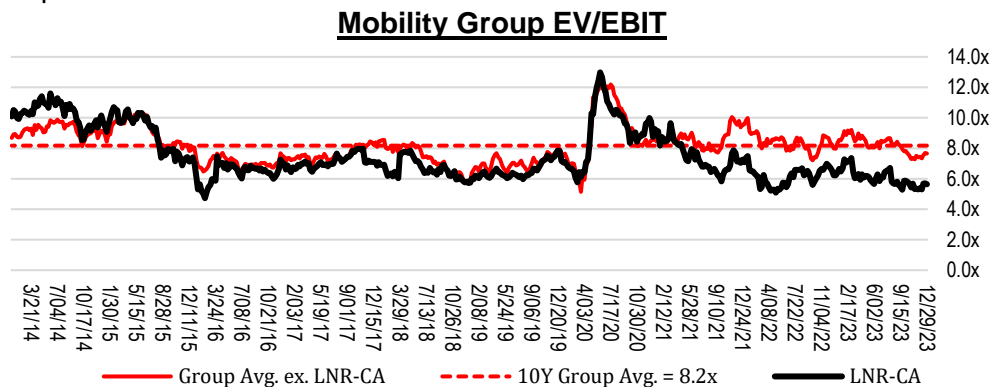
Linamar is a global precision manufacturing company. It operates in two segments: Mobility, as a Tier 1 supplier to major automotive Original Equipment Manufacturers (OEMs) and Industrial, which is composed of construction and agricultural equipment. The company was founded by the Hasenfratz family who remains the largest shareholders of the stock today.

Thesis

- Over the long term, management has demonstrated good capital allocation evidenced by growth in earnings and book value at low double-digit rates, above average ROE and solid ROIC while remaining conservative in their use of debt
- Sales in Linamar’s Mobility segment grew 8% per year over the last 10 years as Linamar grew its content per vehicle as OEMs outsourced parts, while the number of autos produced globally was flat.
- Over the past decade, management recognized OEMs shift to common vehicle powertrains and the transition to electric vehicles (EVs) so they invested in capabilities such as steel forging, aluminum casting and stamping and moved into parts for EVs and structural components for all types of cars.
- Linamar’s Industrial segment is underappreciated. Its products are market leaders, high margin, and not as capital intensive as its auto segment. The cash this segment generates is invested into the larger Mobility segment, which keeps debt low.

Opportunity

- The trend of OEMs outsourcing parts continues. Linamar’s business mix shift is well underway. By 2025, > 50% of Linamar’s mobility sales will be from EV and combustion agnostic parts. At present, margins are low, but these should revert to normal as programs ramp up.
- Cars in North America are older than they have ever been and will eventually need to be replaced. Linamar can also mine profitable parts for combustion engines using its flexible manufacturing process.
- On the Industrial side, Linamar will continue expanding the market for its construction and agricultural equipment by leveraging its strong brands and technology outside North America, generating cash to invest in further growth.
- We expect Linamar to achieve a normal cyclical recovery and we believe its shares will provide a healthy return at current prices.



Source: FactSet & Sionna Estimates.2024.

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