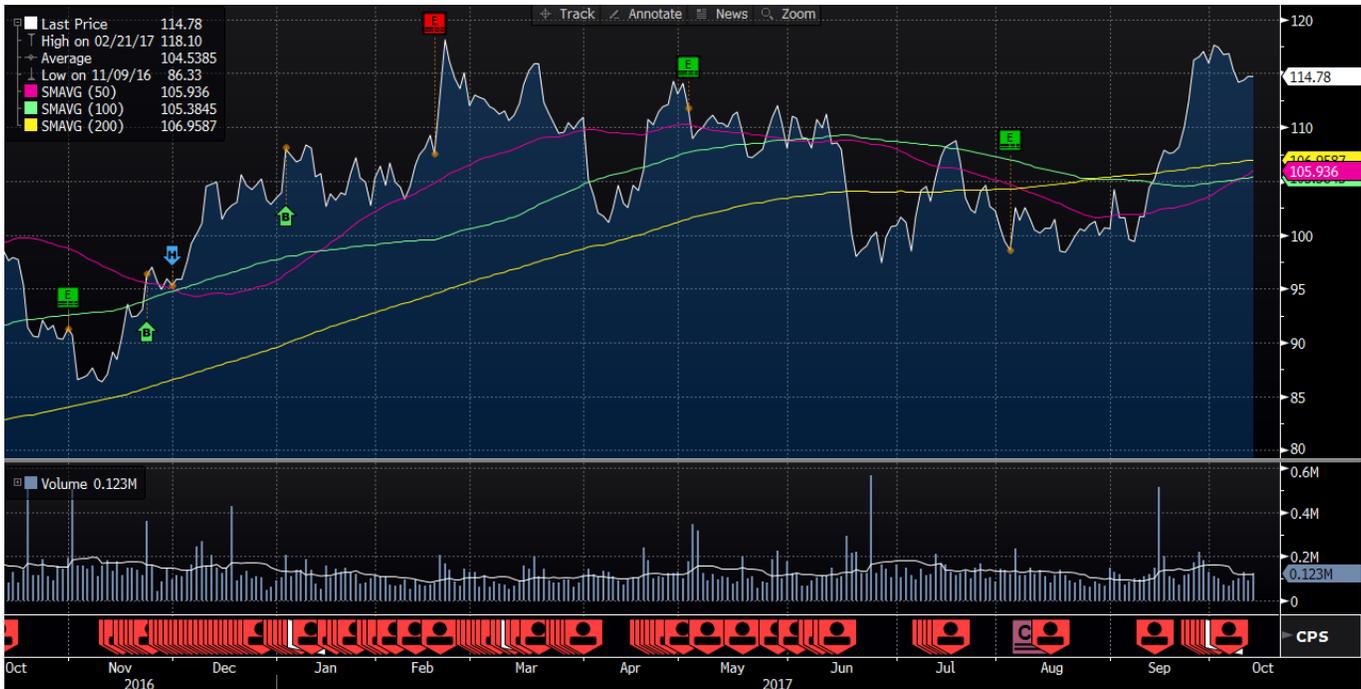


October 14, 2017

**Cooper Standard Holdings Inc: CPS**  
Michael Vitale

Sector: Consumer Discretionary  
Industry: Auto Components  
Current Price: \$114.77  
Target Price: \$125.87

**Company Description:** Cooper Standard, headquartered in Novi, Mich. USA, is a leading global supplier of systems and components for the automotive industry. Cooper Standard operates as a holding company and through its subsidiaries, produces rubber and plastic sealing, fuel and brake lines, fluid transfer hoses and anti-vibration systems. Their operations are divided into four divisions: North America, Europe, South America, and Asia Pacific.



**BUY**

Current Price:	\$114.77	ROIC:	12.78%
Target Price:	\$125.87	WACC:	8.32%
Market Cap:	2.04B	ROE:	21.37%
P/E:	13.5%	EBITA Margin:	12.2%

**Thesis:**

CPS has strong growth factors due to their leading market positions across all product lines. They have significant organic growth opportunities via increasing their content per vehicle (CPV), through the increasing trend of global lightweight vehicle production. Their adjacent market strategy, coupled with their global manufacturing footprint will allow them to diversify their revenue/profit base, as well as improve capacity utilization and overhead absorption.

**Catalysts:**

- Short Term(within the year): Increasing their industry leading content per vehicle following increasing CAGR trends.
- Mid Term(1-2 years): Leveraging innovative products and technology in automotive and adjacent markets
- Long Term(3+): Aggressive growth and improving capacity in China

## Business Description/ Product overview:

Cooper Standard believes that to innovate, you must establish new pathways to success. That is why they created the i<sup>3</sup> Process, which has enabled Cooper Standard to reinvent areas of the automobile that have not been touched in decades. To more effectively harness and explore employees' valuable insight and innovative ideas, the i<sup>3</sup> Process consists of three basic steps: imagine, initiate, and innovate. Their large fragmented markets represent significant growth potential. Their sealing systems controls \$1.8 billion dollars (24%) of an 8.3 billion dollar global market. They are the #1 global supplier of sealing systems, and it occupies 52% of their revenue. Their fuel & brake delivery systems controls \$.7 billion dollars (9%) of a \$6.3 billion dollar global market. CPS is the #2 global supplier of fuel & brake delivery systems, and it occupies 21% of their revenues.. Their fluid transfer systems, and anti-vibration systems occupy 23% of their revenue combined with a total of 10% global market share (7%- 3% respectively), of which they are #3 globally and the leading north American supplier.

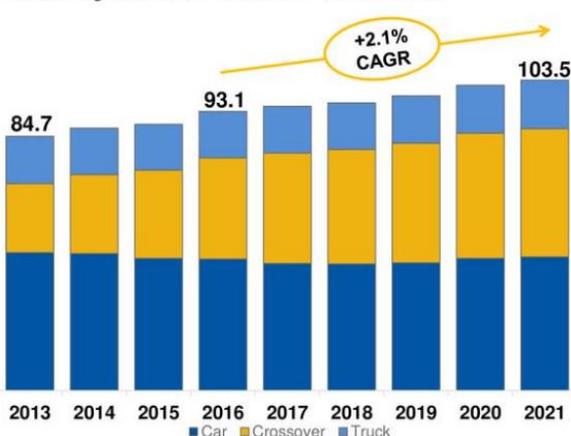


Cooper Standard provides customer solutions through their innovation. Their products drive sustainable competitive advantages against their competitors. Their Fortrex Sealing reduces weight, improves performance, and offers appearance options. ArmorHose I, II, and III all eliminate the requirement for protective sleeves and hoses, elevating any future costs for consumers. Their MagAlloy coating improves corrosion performance and product life utilizing proprietary technology. Lastly, their GenII Posi-Lock Quick Connector simplifies systems by reducing mass and complexity. All of these breakthrough innovations to the market yielded a total contract award (annualized revenue) of \$385 million.

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## Industry Outlook:

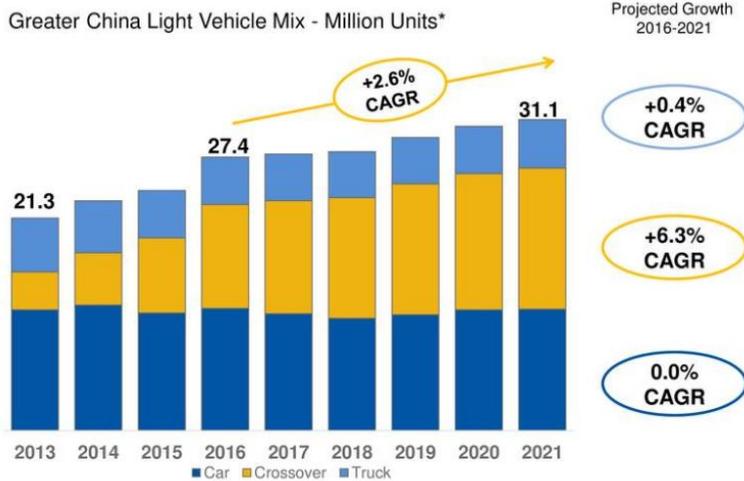
Global Light Vehicle Production - Million Units\*



Projected Growth 2016-2021



Worldwide sales reached a record 88 million autos in 2016, up 4.8 percent from a year earlier, and profit margins for suppliers and auto makers (also known as original equipment manufacturers, or OEMs) are at a 10-year high. Various performance indicators have shown that the industry as a whole may not be as healthy as it seems. Rates of return on capital have been a problem endemic to the auto industry for years, which is one reason for the many bankruptcies or near liquidations among



OEMs and suppliers, particularly in the past decade or so. This is not the case for Cooper Standard. Their ROIC has experienced an average annual growth of 30% since year-end of 2013. At year-end of 2016 their ROIC posted a strong, industry leading 12.78%. They have been able to achieve this through their recent M&A ventures, and their consolidation of facilities specifically in Canada. One of Cooper Standard's growth vehicles will be their increase in content per vehicle. 62% of CPS's global revenue has come from supplying light vehicles

production with their industry leading products. The bulk of CPS's earnings come from crossovers and light trucks. Their content per vehicle (CPV) on crossovers and light trucks is 26% and 120% higher than on cars respectfully. Based on industry analysis, crossovers and light trucks are to comprise 57% of the global market by 2021. As for their North American business, 77% of their North American revenue comes from light vehicles. Crossover and trucks will comprise 66% of the N. Am. Market by 2021. Cooper Standard's CPV on crossovers and trucks are 42% and 260% respectively higher than on cars. Another area for growth for CPS is their increasing expansion in China. Greater China light vehicle mix is expected to have a 2.6% positive CAGR into 2021. Cooper Standard average CPV in china is expected to double by that year. The growth in CPV for Cooper Standard will be a result of the +6.3% CAGR of crossover vehicles.

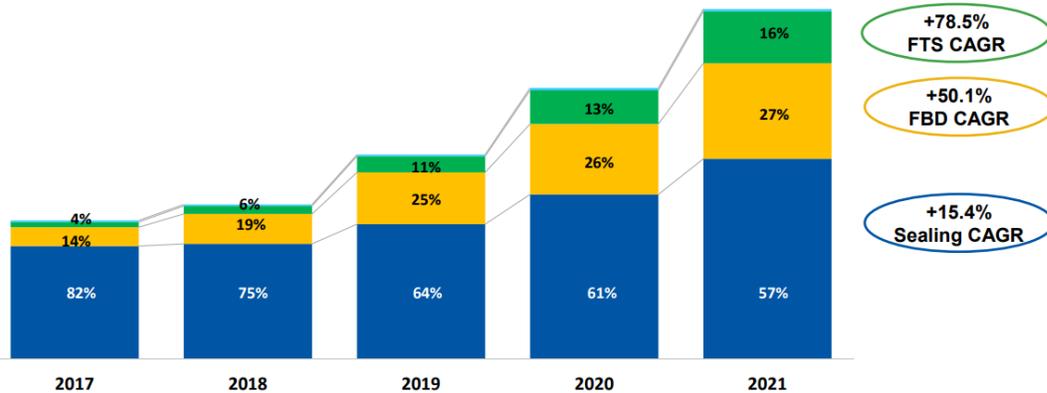
## Growth Strategy:

Cooper Standard's growth continues to outpace the industry. The illustration to the right shows CPS's 2017-second quarter YOY change. They plan on continuing growth through their organic channels by increasing their CPV, following the increasing global industry CAGR trends of their most profitable products (crossovers and

	LV Production Growth <sup>1</sup>	CS Sales Growth	CS Adj. Sales Growth <sup>2</sup>	Adj. Sales Growth vs Market
North America	(3.0%)	4.5%	1.3%	↑
Europe	(3.0%)	(7.7%)	(3.6%)	↓
Asia Pacific (ex. Japan)	(0.5%)	21.2%	12.0%	↑
South America	15.9%	30.7%	19.7%	↑
Global (ex. Japan)	(1.1%)	3.4%	1.6%	↑

trucks). Other areas that signify promising growth is their entrance into adjacent markets. The non-automotive rubber market is a \$76 billion dollar market opportunity. There is a \$59B opportunity in industrial equipment/ wire & cable/ consumer/ medical, \$10B opportunity in defense and \$7B in building/ construction. Cooper Standard signed their first license agreement of their Fortrex technology for outside the automotive industry during Q2 of 2017. They signed 1.75B lbs. for building / construction, 1.5B lbs. for

wire/ cable, and 1.5B lbs. for footwear. They also plan to look into leveraging core technologies in the immediate adjacent markets, which is a \$2.2B addressable market. The primary adjacent segment is the electric vehicle market. The global light vehicle production by powertrain trends has hybrids and all electric vehicles boasting a 14/3% increase respectively by 2021 with 39/40% CAGR. All of Cooper Standards innovative niche products are used at the same capacity across all powertrains, giving them a superior growth advantage in this adjacent market.



Cooper Standard’s next endeavor for growth is the expansion of their Asian Pacific market share. This market is a part of their global manufacturing footprint. This market provides access to high-volume growth. As of 2016, it consisted of 16% of their total revenue, where they have 29 manufacturing facilities, 5 R&D, 4 admin/ sales. Their revenue in China is

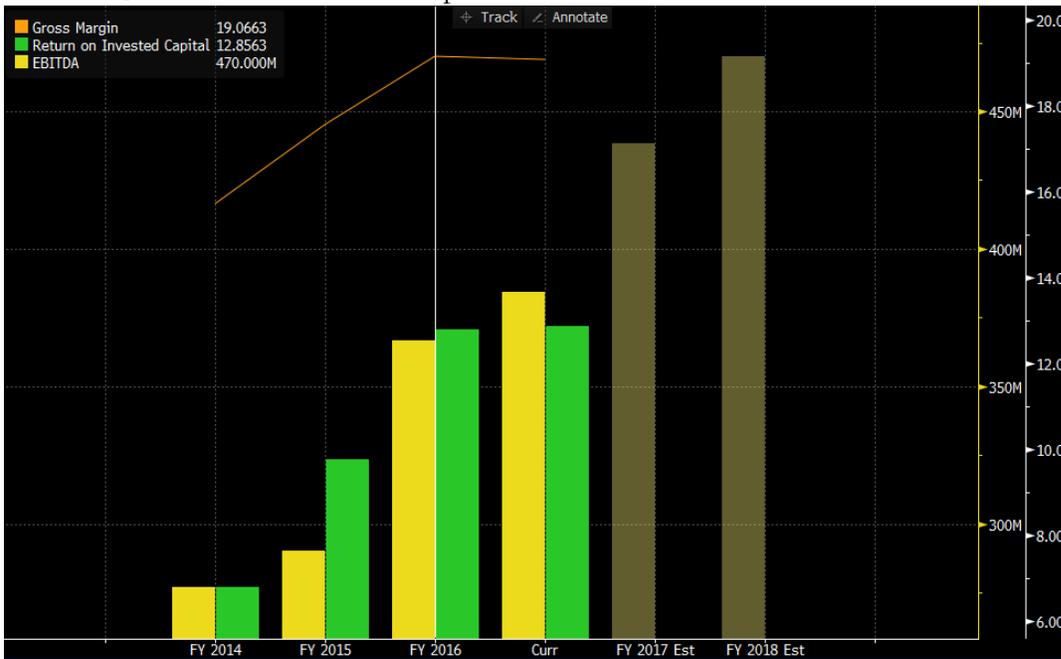
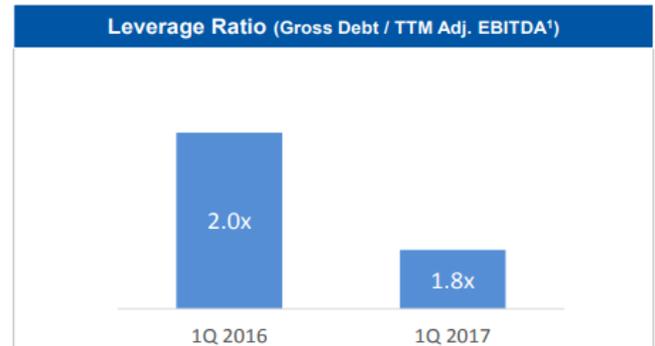
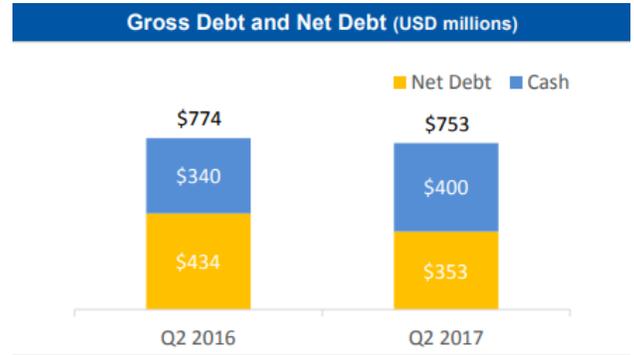
expected to grow faster than the market with a +21.1% CAGR through 2021. Increasing production will improve capacity utilization and overhead absorption. Increasing localization of technical capabilities and vertical integration of key components is expected to further drive higher margins and ROIC. CPS plans to expand their product portfolio in china with a 79.5% CAGR increase of their fluid transport systems, a 50.1% increase in fuel & brake delivery systems, and a 15.4% increase of their sealing systems. Concerning their capacity utilization, it is to increase from 70% to greater than 90%. This calls for eight plants in China with more than \$100m in revenue by 2021 vs two plants in 2017. Planned launches are up nearly 8% vs. 2016, majority of which are on global platforms including China. Newly launched business, continued improvements in operating efficiency and restructuring savings is expected to drive higher margins in the second half of 2017. Third quarter margins are subject to industry seasonality, where 4th quarter margins are to benefit most from the ramp up of new launches, and operating efficiencies.

	Q1	Q2	Q3	Q4	Total
North America	7	18	12	7	44
Europe	14	20	19	21	74
Asia Pacific	5	15	13	17	50
South America	0	1	4	0	5
<b>Total</b>	<b>26</b>	<b>54</b>	<b>48</b>	<b>45</b>	<b>173</b>

2017 Planned New Product/ Plant Launches

## Financial Overview:

Cooper Standard, has strong financials moving forward to help allow them take on future endeavors. They have freed up a significant amount of cash to help fund their new product launches, while elevating some of their long term and short-term debt. Their net income, EBITA, and revenue have all increased over the past 5 years, substantially. Their trailing twelve-month EBITA margin for Q1 of 2017 is currently at 12.1%, considerably higher than Q1 of 2015, which was 9.7%. Long term and short term debts have decreased over the last 2 years from 45.5M-33.4M and 732.4M- 729.5M respectively. Their net debt to EBITA margin has been decreasing significantly over the past three years helping them delever the company, allowing them to borrow at a lower rate in the future. Through their delevering process, they have also freed up more capital. This newly freed up capital allows them to increase their capital expenditures (CAPEX) from \$26.3M in 2016 to \$39.9M. in 2017. These expenditures are the result of their revenue diversification by region campaign. They



have been increasing, and will continue to increase their global manufacturing footprint especially as it pertains to China's high volume opportunity. Cooper Standard's YOY for EBITA, ROIC, and gross margin have all been steadily increasing since 2014. Their current ROIC has leveled since 2016 due to their continuing advancements in expanding Chinese production.

## Ownership:

Compare Current Stats Against		09/08/17	
Ownership Type		09/03/17	Curr ↓ Change
11) Investment Advisor		80.23	80.57 +0.34
12) Hedge Fund Manager		12.75	12.30 -0.45
13) Sovereign Wealth Fund		1.56	1.57 +0.01
14) Insurance Company		1.32	1.41 +0.09
15) Pension Fund		1.17	1.18 +0.01

Cooper Standard's change in ownership from the last month has been favorable from Investment Advisors. Of those investors, the Vanguard Group Inc. and Blackrock hold the largest positions. Vanguard has a position of 2,036,130 shares and Blackrock holds 1,527,392. Both investors have been increasing their shares over the last month considerably. Vanguard has increased holdings by 68,126, while Blackrock has increased by 78,670. These industry-leading investors' confidence hasn't just started in the last month.

BLACKROCK FUND ADVISORS			USD
Est. Holding Period (yrs)	3.75	Cost Basis/Share (LIFO)	89.89
Current Mkt Val	175.73M	Cost Basis/Share (FIFO)	89.68
First Holding Date	03/31/14	Cost Basis/Share (Average)	89.72

Holding Period		Position	Position Change	Average VWAP
8.	2015 Q4	323,782	17,574	72.60
9.	2016 Q1	316,305	-7,477	71.34
10.	2016 Q2	365,065	48,760	80.85
11.	2016 Q3	1,149,618	784,553	94.22
12.	2016 Q4	1,340,491	190,873	96.03
13.	2017 Q1	1,448,722	108,231	109.19
14.	2017 Q2	1,527,392	78,670	106.54

VANGUARD GROUP INC			USD
Est. Holding Period (yrs)	4.00	Cost Basis/Share (LIFO)	76.24
Current Mkt Val	234.26M	Cost Basis/Share (FIFO)	76.24
First Holding Date	12/31/13	Cost Basis/Share (Average)	76.24

Holding Period		Position	Position Change	Average VWAP
9.	2015 Q4	996,828	38,262	72.60
10.	2016 Q1	1,234,693	237,865	71.34
11.	2016 Q2	1,345,386	110,693	80.85
12.	2016 Q3	1,645,697	300,311	94.22
13.	2016 Q4	1,838,780	193,083	96.03
14.	2017 Q1	1,968,004	129,224	109.19
15.	2017 Q2	2,036,130	68,126	106.54

They have been increasing their shares considerably each quarter since 2015. This type of consistent investing signifies that the management of CPS has a strong hold on their vision, as well as their strategies for moving forward. Vanguard, and Blackrock showing this level of confidence in CPS illustrates that the company holds value and will create new value moving forward.

## Conclusion:

Cooper Standard Holdings' organic growth opportunities via increasing their content per vehicle (CPV) is evident. Their innovative industry leading products will continue to increase in sales as the current global market trend for light vehicles continues to grow. Their adjacent market strategy, coupled with their global manufacturing footprint will allow them to diversify their revenue/profit base, mitigating any future nonsystematic risk. Increasing their production in their Asian Pacific market will improve capacity utilization and overhead absorption as they continue to outpace the Chinese market. Their current financial standing is stable and ready to take on any future investments, as well as sustain any costs that arise from their on pace new product/ plant launches. The confidence industry leading investors have in the value of CPS only enhances my reasoning for why I believe CPS is a strong, value driven company that we should buy.

**Cooper-Standard Holdings Inc. (CPS)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

**BULLISH**

Analysis by Michael Virale  
10/13/2017

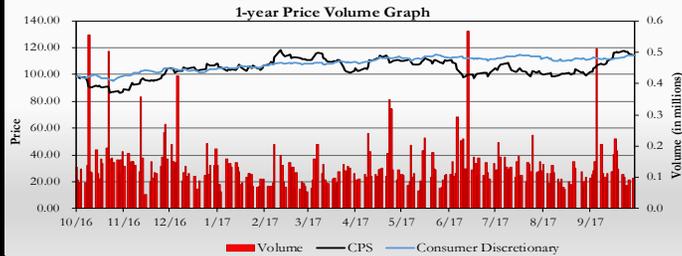
Current Price:  
Divident Yield:

\$114.77  
0.0%

Intrinsic Value  
Target Price

\$125.27  
\$146.58

Target 1 year Return: 27.71%  
Probability of Price Increase: 93.2%



Description	
Cooper-Standard Holdings Inc., through its subsidiary, Cooper-Standard Automotive Inc., designs, manufactures, and sells sealing, fuel and brake delivery, fluid transfer, and anti-vibration systems worldwide.	
General Information	
Sector	Consumer Discretionary
Industry	Auto Components
Last Guidance	November 3, 2015
Next earnings date	October 31, 2017
Estimated Country Risk Premium	6.83%
Effective Tax rate	29%
Effective Operating Tax rate	28%

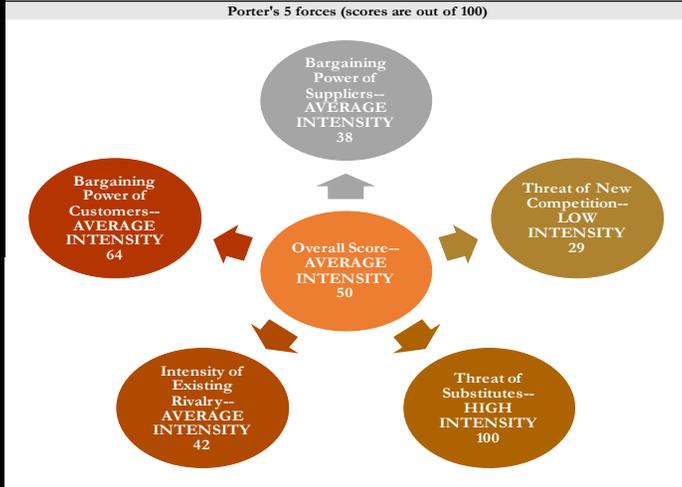
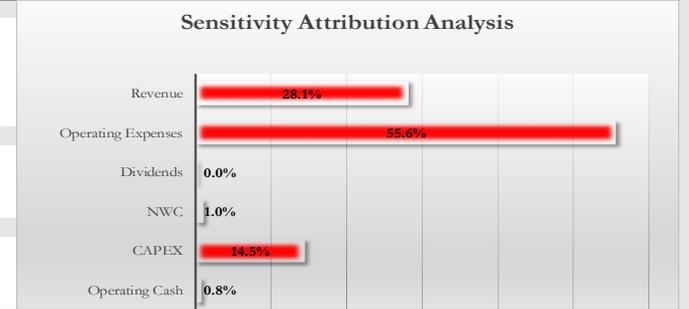
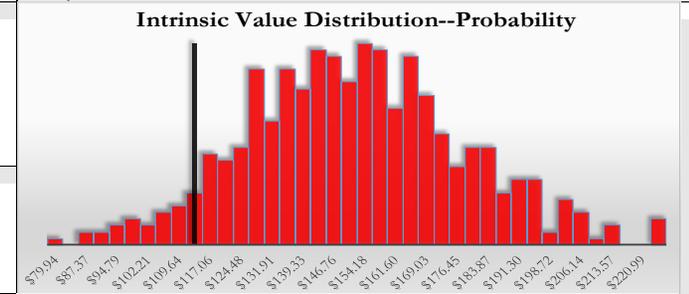
Market Data	
Market Capitalization	\$2,035.35
Daily volume (mil)	0.09
Shares outstanding (mil)	17.73
Diluted shares outstanding (mil)	18.86
% shares held by institutions	84%
% shares held by investments Managers	83%
% shares held by hedge funds	13%
% shares held by insiders	1.80%
Short interest	2.11%
Days to cover short interest	2.96
52 week high	\$118.60
52-week low	\$82.50
Volatility	26.48%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
6/30/2016	-1.25%	2.13%
9/30/2016	0.08%	-0.62%
12/31/2016	1.95%	-0.06%
3/31/2017	0.90%	0.37%
6/30/2017	0.64%	4.31%
Mean	0.46%	1.23%
Standard error	0.5%	0.9%

Management	Position
Edwards, Jeffrey	Chairman & CEO
Stephenson, Keith	Executive VP & COO
Lee, Song	Senior VP & President of Asi
Banas, Jonathan	Executive VP & CFO
Brusate, Peter	Chief Accounting Officer, VP
Kampe, Susan	VP & Chief Information Officer

Peers	
Dana Incorporated	
BorgWarner Inc.	
American Axle & Manufacturing Holdings, Inc.	
Visteon Corporation	
Genetex Corporation	
Lear Corporation	
Delphi Automotive PLC	

Profitability	CPS (LTM)	CPS (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	22.5%	13.21%	48.66%
Operating Margin	6%	4.69%	9.97%
Revenue/Capital (GAAP)	3.52	2.81	4.88
ROE (GAAP)	20.7%	13.9%	29.8%
Net margin	4.2%	3.3%	8.5%
Revenue/Book Value (GAAP)	4.91	4.14	3.49
Invested Funds	CPS (LTM)	CPS (5 years historical average)	Peers' Median (LTM)
Cash/Capital	25.5%	24.4%	27.1%
NWC/Capital	13.9%	18.2%	11.0%
Operating Assets/Capital	49.9%	48.6%	45.6%
Goodwill/Capital	10.8%	10.7%	16.3%
Capital Structure	CPS (LTM)	CPS (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.48	0.52	0.37
Cost of Existing Debt	5.6%	7.7%	4.8%
CGFS Rating (F-score, Z-score, and default Probability)	BBB	BBB	AAA
WACC	9.6%	10.5%	10.3%



Period	Revenue Growth Forecast
Base Year	3%
6/30/2018	0%
6/30/2019	4%
6/30/2020	6%
6/30/2021	6%
6/30/2022	5%
6/30/2023	5%
6/30/2024	4%
6/30/2025	4%
6/30/2026	3%
6/30/2027	2%
Continuing Period	2%

Valuation	Revenue to Capital Forecast
NOPAT Margin Forecast	
Base Year	8.5%
6/30/2018	7.5%
6/30/2019	7.7%
6/30/2020	8.1%
6/30/2021	7.8%
6/30/2022	7.5%
6/30/2023	7.2%
6/30/2024	6.9%
6/30/2025	7.2%
6/30/2026	6.9%
6/30/2027	6.7%
Continuing Period	6.5%

Period	Return on Capital Forecast
Base Year	14.1%
6/30/2018	11.2%
6/30/2019	10.5%
6/30/2020	10.0%
6/30/2021	8.9%
6/30/2022	7.9%
6/30/2023	7.2%
6/30/2024	6.5%
6/30/2025	6.4%
6/30/2026	5.8%
6/30/2027	5.3%
Continuing Period	4.9%

WACC Forecast	Price per share Forecast
Base Year	\$119.86
6/30/2018	\$141.09
6/30/2019	\$163.92
6/30/2020	\$187.13
6/30/2021	\$210.59
6/30/2022	\$234.30
6/30/2023	\$258.23
6/30/2024	\$282.24
6/30/2025	\$308.04
6/30/2026	\$331.72
6/30/2027	\$355.27
Continuing Period	