

## CreditSights

### Johnson Controls 2Q08 Tearsheet

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#### Summary Data

Ratings	2008	FY07	FY06	FY05	FY04
A3/A-					
Total debt/capitalization	31.0%	33.2%	39.2%	27.9%	33.9%
Net debt/capitalization	29.9%	29.6%	37.7%	26.4%	33.1%
Pension adj net debt/capitalization	32.4%	32.3%	40.7%	32.3%	37.9%
Total debt/Adjusted EBITDA	1.6x	1.7x	2.2x	1.2x	1.5x
Net debt/Adjusted EBITDA	1.5x	1.5x	2.0x	1.1x	1.5x
Pension adj net debt/Adjusted EBITDA	1.7x	1.7x	2.3x	1.5x	1.8x
Adjusted EBITDA/Interest (x)	9.9x	9.1x	8.1x	17.7x	17.6x

#### Credit View

- JCI's stable risk credit profile is rooted in its improving business line and geographic diversity, consistent free cash flow generation, and declining leverage while still engaging in bolt-on deals and shareholder enhancements in measured fashion.
- The York acquisition has been a good strategic fit with JCI's traditional controls business and still offers significant opportunities to target new markets across multiple product and service offerings while supporting the shift in revenues away from the N.A. automotive sector.

#### Event Risk

- As JCI balances its business portfolio and grows its global revenue base, we should anticipate more bolt-on acquisitions. JCI can execute on multi-billion-dollar deals without upsetting credit quality. An overly aggressive financial policy would hurt the credit profile, but is inconsistent with JCI's history.
- Current EV/EBITDA valuations are in the high end of the range for an auto supplier and are more in line with diversified industrial companies. JCI's size and valuation makes it a less attractive candidate for a major leveraging event and as underscored by JCI's stellar stock performance, opportunities are abound to reward shareholders without resorting to an LBO or multi-part spin-off.

#### Balance Sheet Highlights

(\$ mil)	2Q08	FY07	FY06	FY05
Total assets	24,619	24,105	21,921	16,144
Cash & other	233	674	293	171
Short term debt	1,017	1,163	577	765
Long term debt	3,301	3,255	4,166	1,577
Total debt	4,318	4,418	4,743	2,342
Net debt	4,085	3,744	4,450	2,171
Stockholders equity	9,595	8,907	7,355	6,058
PBO-Plan Assets	NA	512	591	713
Unfunded OPEB	NA	280	327	185

#### Annual Results

(\$ mil)	FY07	FY06	FY05
Revenues	34,624	32,235	27,479
Adjusted EBITDA	2,526	2,201	1,915
Adjusted EBITDA margin %	7.3%	6.8%	7.0%
Capital expenditure (Capex)	(823)	(711)	(664)
Adjusted EBITDA - Capex	1,703	1,490	1,251
Capex/D&A	112.6%	100.9%	103.9%
EBIT	1,884	1,411	1,111
EBIT margin %	5.4%	4.4%	4.0%
Net income	1,252	1,028	909
Net margin %	3.6%	3.2%	3.3%

#### Operating Trends

- Solid profitability has been generated historically across all three major business lines. The Automotive Experience segment has evidenced considerable resilience in margins given customer diversity, but had showed some wear and tear in FY07. Segment margins did expand YoY in 1H08 resulting from a rebound in N.A. profitability and improvement in results is expected for FY08 despite end market weakness. Successful expansion of business with transplant OEMs mitigates a relatively lower and declining concentration of business at the legacy Big 3, where global exposure in aggregate approximated 28% and US exposure only at 10% of total company sales. Furthermore, benefits of past restructuring and lower engineering and launch costs are expected to boost results.
- Consolidated revenue growth and margin expansion has been driven by solid improvement in Building Efficiency and relatively resilient Power Solutions results in the face of raw material pressure. Building Efficiency profitability and margin growth has been supported by sharply higher service revenues, increased cross-selling across JCI and York businesses, rationalization of the manufacturing footprint, and favorable end market diversification.
- JCI has maintained a global leadership role in auto batteries and is now investing steadily to capture some additional growth in hybrid batteries. Battery ops generate double-digit margins and consistent FCF. Battery raw material cost risks are managed by flow-through pricing mechanisms and the heavily aftermarket orientation of the business.

## Capital Structure Analysis

(\$ mil except for share price and return data)

Capitalization:	Cash	233	52-Week Stock Data:	
As of 3/31/08	Total debt	4,318	Last (04/18/08)	35.05
	Net debt	4,085	High (10/30/07)	44.42
Short-term borrowings &	Market cap.	20,889	Average	36.77
Current portion of LT debt	EV (04/18/08)	24,974	Low (03/10/08)	31.05
Long term debt	EV/Adj. EBITDA	9.2	Quarterly Dividend	\$0.13
Total debt	Price/earnings	15.2	Dividend Yield	1.48
Stockholders' equity	1 year return	9.9	Shares outstanding	593.77 mln
Total capitalization	3 year return	103.2	Avg. Daily Volume	3.51 mln
	5 year return	188.8		

## Interim Results

(\$ mil)	2Q08	2Q07	LTM 2Q08	LTM 2Q07
Revenues	9,406	8,492	36,812	33,242
Adj EBITDA	616	520	2,713	2,327
Adj EBITDA margin %	6.5%	6.1%	7.4%	7.0%
Capital expenditure	(174)	(211)	(743)	(890)
Adj EBITDA - Capex	442	309	1,970	1,437
Capex/D&A	89.7%	112.2%	100.1%	121.4%
EBIT	453	351	2,060	1,513
EBIT margin %	4.8%	4.1%	5.6%	4.6%
Net income	289	228	1,386	1,088
Net margin %	3.1%	2.7%	3.8%	3.3%

## Business Profile

- JCI's Automotive Experience segment is split between Seating (approx. 65% of segment revenues) and Interiors & Electronics (35%). JCI has had a leading position in the N.A. seating market with approximately a 41% market share and also leads in Europe with almost a 29% share.
- JCI has a dominant position in the lead-acid battery market and could benefit from future opportunities in lithium-ion hybrid batteries. Approximately 78% of the traditional battery business is aftermarket and JCI has a 65%+ market share in North America, 35% in Europe, and nearly 30% on a Global basis.
- With the York acquisition, JCI has a more balanced business mix and the old "Controls" business has morphed into the "Building Efficiency" segment. Building Efficiency is largely an aftermarket business (~75% of total segment revenues) and non-residential end markets account for about 91% of its sales. The low residential mix has helped the segment still report healthy results despite soft NA residential markets.

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