

Johnson Controls, Inc. (JCI)



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Business Background

- Manufactures interior automotive systems and batteries (75% of sales).
- Products include seating, instrument displays, door locks, HomeLink, and AutoVision.
- Manufacture products to specifications of OEMs.
- Major customers are GM, Ford, and DaimlerChrysler.
- Provide facility management controls to nonresidential customers such as climate monitoring and security systems (25% of sales).

Investment Thesis

- Automobiles increasingly use electronic components provided by automotive suppliers.
- JCI producing more high-end, value-added electronic systems.
- Johnson Controls has well diversified businesses to hedge it against downturns in auto sales.
- JCI has a very strong financial position and a history of good financial performance.

Electronic Components

- Electronic features such as power windows and locks, power seat adjustment, and keyless entry are standard on most new models.
- DOT report states that automobiles will grow as consumers of electronic components.
- Interior is becoming a key decision point for customers.
- OEMs increasingly outsource the manufacture of their electronic components as they modularize the vehicle.
- Suppliers will benefit by providing a greater number of products to manufacturers.

BMW 760Li

- iDrive concept
- Electronic instrumentation display
- Voice command
- Electronic transmission
- Power seats with integrated heating and ventilation.



Value-Added Systems

- JCI is working on producing high end automotive convenience features.
- Examples: HomeLink, AutoVision, PSI, and BlueConnect.
- HomeLink found in most \$20K+ vehicles and AutoVision is an option on Ford, Lincoln, and Mercury SUVs.
- American consumer is spending a greater proportion of growing income on automobiles and is demanding more convenience features.
- High end systems produce greater profit margins for the suppliers.

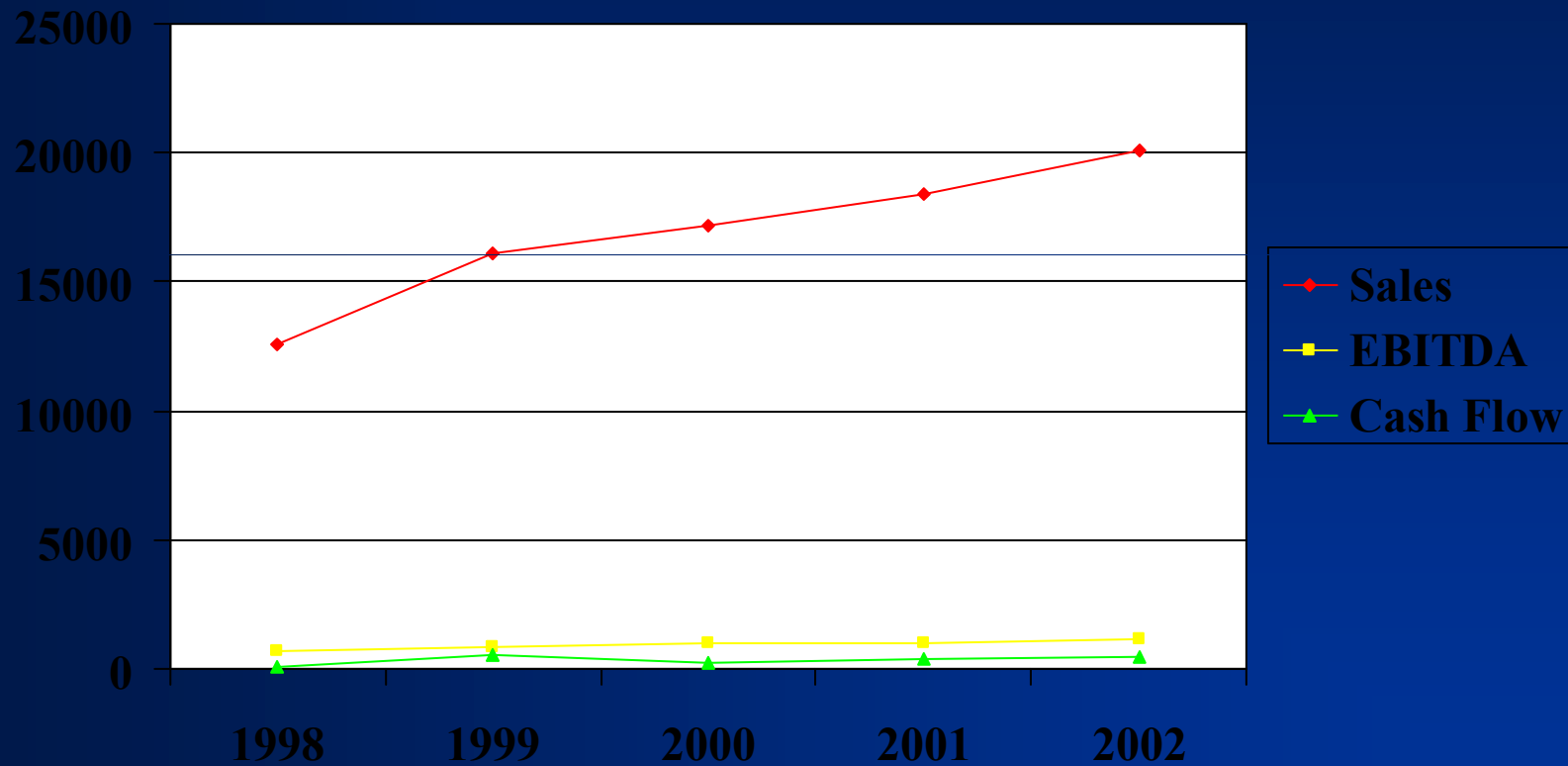
Well Diversified

- Receive 25% of sales from its Control Systems Group.
- Topline growth in Control Systems was 6% in 2002.
- Sell batteries in the secondary automobile market.
- Automotive suppliers have a higher ratio of variable costs to fixed costs than the manufacturers.
- JCI does not have a strong union presence and purchases many of its product parts from its own suppliers.

Financial Position

- Market capitalization: \$7.10 Billion
- Price-earnings ratio: 12.55
- PEG ratio (ttm): 0.52
- Current ratio: 1.03
- Debt-to-equity: 52.19%
- Return on Equity: 18.52%
- Free cash flow: \$492.90 million
- Free cash flow yield: 6.94%

Financial Position (cont'd)



Questions???