

March 6, 2015

Dear clients and colleagues,

At Global Alpha our preference is to invest in industries that are growing at a rapid rate, driven by either innovation or mass consumption. The automotive industry is one such example. On the surface, it may appear as though this industry has matured; however, there are several sub-segments that continue to grow.

### A Brief History

Today's cars have come a long way since the first model was developed in 1885. The first car, designed by Karl Benz, had only three wheels, was extremely difficult to control, and collided into a wall during its first public demonstration. Brakes were only invented in 1901. Since then, we have seen an impressive series of innovations such as the car radio, electric indicators, air conditioning, seat belts, air bags, and much more.

In the early part of the 20th century, owning a car was considered a luxury. However, around the time of WWII, markets began to produce comfort and convenience goods in mass quantities. This made items like cars more accessible to the general public. As the popularity and affordability of cars increased, so too did the abundance of available features.

### How have our holdings performed in this industry?

Since inception in 2008, we have continuously maintained exposure to the automotive segment. Below are a few highlights.

#### **Polypore International, Inc:** Profiled in our October 19, 2012 weekly

- World leader in polymer-based membranes used in separation (batteries) and filtration (medical/environment) processes
- Provided exposure to the growing Electric Drive Vehicle market developing with hybrid vehicles
- Providing separators for Tesla's upcoming gigafactory
- In February, 2015 it was acquired by Asahi Kasei from Japan and 3M from the US

#### **Gentex Corporation:** Highlighted in our July 31, 2009 weekly

- World leading supplier of automatic-dimming rearview mirrors for automobiles
- Such mirrors automatically darken to reduce glare from the headlamps of vehicles approaching from the rear
- The brighter the glare, the darker the mirrors become, which improves safety for night-time driving
- We exited the position late last year as the market cap exceeded \$5B

#### **Monro Muffler/Brake:** Profiled in our October 10, 2008 weekly

- Largest chain of company-operated undercar care facilities in the United States
- Operates 1,017 stores in 25 states (previously 713 stores in 17 Northeastern states when profiled)
- Exited in Q4, 2013 as it had reached our fair value

### **What's next?**

The first ventilated seats arrived in 1998 on the Saab 9-5, and have since trickled down to the mass-market. This week, we shall introduce you to a portfolio holding that, due to its innovation, is ideally situated to benefit from this trend. The company is Gentherm.

### **Gentherm Inc (THRM US – \$46.15)**

<http://www.gentherm.com>

### ***Business Overview***

Founded in 1991, it is a visionary company that applies thermoelectric and resistive heating technologies to various aspects of the automotive environment in order to provide comfort and convenience features. It is focused on the auto industry and sells to every auto manufacturer in the world.

### ***What does that mean?***

Gentherm is the leading manufacturer of climate control seating systems. It is also the world's largest producer of resistive wire seat heating mats. Its technology uses energy already generated by the vehicle to power its products. The hot/cold cup holder and the heated steering wheel are both products by Gentherm.

Taking it a step further, Gentherm has applied its know-how to mattresses as well. This technology allows for heating and cooling each side of the bed independently - a valuable asset to any marriage, if you ask us!

### ***Target Market***

According to IHS, worldwide Light Vehicle Sales are projected to increase from 86 million in 2014 to 100 million by 2019. In 2014, the industry saw around 115 new vehicle launches. This is compared to the 161 expected for 2018, which means growth of 40% over the next four years.

Of the 86 million cars built every year, 10 million of them are luxury vehicles. Currently, Gentherm has less than a 50% share of the luxury market.

It has a 50-60% market share of seat heaters worldwide, and being the only player in both heated *and* cool seats, Gentherm dominates a small but growing market.

### ***Gentherm's Competitive Advantages***

- 22 patents, plus 18 foreign patents
- A flexible manufacturing strategy

### ***Growth Strategy***

- Increase content per car
- Implement current technology into higher level products
- Increase penetration in Europe

### ***Management***

CEO Daniel Coker has been with the company since 1996. The management team has worked together for many years and has a strong Board of Directors for a company of its size.

**Risks**

- Customer concentration
- Market risk
- Low barriers to entry

**Market Data**

Market Cap \$1.6B, P/E (2016) 17.2x, Ev/Sales (2016) 1.6x, Ev/Ebitda (2016) 9.5x, 5 year average sales growth 87.1%

Global small cap companies are not always known by name, but they almost always touch our daily lives in important ways. Next time you are enjoying cool seats on a blistering summer day or a warm steering wheel in the frigid cold - or even Gentherm's hot/cold cup holder - you will know they were built by a company you own through the fund.

Have a good weekend.

The Global Alpha Team