

Why We Own Aptiv

Building the eyes and brain of a more efficient vehicle

On a wet motorway at dusk, a camera behind the windscreen has fractions of a second to distinguish a pedestrian from glare. It has to do that repeatedly, at vehicle scale, under strict safety rules and within an automaker's cost, space and power budget. This is where a grand transition becomes an engineering problem.

On 10 September 2026, Aptiv said its next-generation advanced driver-assistance camera had entered mass production for the European vehicle programme of an unnamed leading Chinese new-energy-vehicle manufacturer. The camera combines an 8-megapixel sensor, a 120-degree field of view and perception software on a single system-on-chip. Aptiv says the design reduces hardware size and power consumption by 20%.

That is a promising output, not yet a proved outcome. The announcement does not identify the customer, disclose programme volumes, name the comparator behind the 20% claim or show vehicle-level energy savings or avoided collisions. For us, the value of the news is not that it settles the case. It makes the ownership test sharper.

A structural problem worth solving

Cars are becoming electric, connected and software-defined at the same time. Each shift adds computing, sensors and software, while manufacturers must still control power, weight, cost and complexity. The International Energy Agency estimates that more than 20 million electric cars were sold in 2025, representing over a quarter of new-car sales, and expects about 23 million in 2026. As that installed base grows, small improvements in the efficiency and integration of vehicle electronics can matter at scale.

Safety matters just as much. The World Health Organization estimates that road crashes kill around 1.19 million people a year and remain the leading cause of death for people aged five to 29. Collision-avoidance and driver-support technologies are not a substitute for responsible driving or sound regulation. They are one part of a system that can help prevent errors from becoming tragedies.

Aptiv sits at the intersection. Following the April 2026 separation of its Electrical Distribution Systems business into Versigent, the continuing company reports through Intelligent Systems and Engineered Components. It supplies sensing, compute, software, connectors and related architecture across automotive and adjacent markets. In simple terms, it helps vehicles perceive what is happening, process the information and connect the components that must respond.

Why this fits Climate Action

We classify Aptiv primarily under **Climate Action**, but with an important qualification. Much of the company's historical high-voltage electrification activity sat in the business now separated

as Versigent. We therefore do not use the old electrification revenue as evidence for today's Aptiv until the perimeter has been reconciled.

The current Climate Action case is narrower and more demanding. A software-defined vehicle can accumulate sensors, control units, wiring, cooling requirements and power draw. Integrating functions onto fewer, more efficient computing platforms can reduce hardware and energy burden while making advanced features more practical to deploy. Aptiv's new camera is an example of that mechanism: one chip, a smaller package and lower stated power consumption.

The causal chain is straightforward. Better-integrated sensing and compute can reduce component count, power draw and integration complexity. Lower system burden can help manufacturers deploy advanced functions across more vehicles. At scale, those improvements may contribute to more efficient mobility. The company has evidenced the product and its entry into production; it has not yet evidenced the final environmental outcome.

Human Advancement is a close secondary theme because the product is intended to support safer driving. **Nature Innovation** is relevant through materials, waste, water and the environmental footprint of manufacturing, but it is not the principal investment claim.

Theme membership explains a source of structural demand. It does not make Aptiv's shares attractive at any price - and it is not, on its own, why we trust the company with client capital. That trust has to be earned separately, through the numbers and the people running the business.

How the advantage becomes earnings

Automotive technology rewards suppliers that can solve several problems at once. Hardware must work with software. Components must survive demanding conditions. Systems must be validated for specific vehicle platforms and produced reliably across regions. A supplier that combines sensing, compute, software and integration experience can reduce complexity for the manufacturer and become difficult to replace once a programme moves into production.

Aptiv's 2025 filing says it served the world's 25 largest automotive manufacturers and invested \$1.7 billion in research and development, including customer co-investment. Its reach and engineering spend do not guarantee superior returns, but they indicate the scale required to compete. The involvement of Wind River's real-time operating system and StradVision's perception software in the new camera also shows that advantage depends on an ecosystem, not on a single component.

The economic loop should work like this: engineering capability wins platform nominations; successful validation turns nominations into production; production scale and reusable architectures support revenue and margins; cash generated can fund the next generation of technology. The test is whether Aptiv can complete that loop while earning an adequate return on the engineering capital it deploys.

What the latest numbers say

Aptiv reported second-quarter revenue of \$3.3 billion, up 2% on both a reported and adjusted basis. Adjusted operating margin increased to 14.4% from 12.8%, and adjusted EBITDA margin rose to 18.7% from 17.1%. The clearest signal came from outside the car: non-automotive revenue grew 12% while automotive revenue fell 1%, and new business awards reached \$10 billion in the first half, in line with a \$20 billion full-year target that includes the company's first commercial drone award.

The outlook was less comfortable. Management guided to full-year revenue of \$12.6-12.8 billion - a range lowered by \$300 million at the midpoint, citing weaker production schedules in China, delayed programme launches and the timing of software sales - alongside adjusted EBITDA of \$2.31-2.37 billion and adjusted earnings per share of \$5.60-5.80.

Cash generation is the uncomfortable counterweight. Second-quarter operating cash flow fell to \$137 million from \$326 million, while free cash flow fell to \$12 million from \$219 million. For the first half, free cash flow was negative \$196 million, compared with positive \$264 million a year earlier. Management still expects \$625-725 million for the full year. Delivering that recovery matters more to the investment case than another attractive demonstration.

Capital allocation deserves scrutiny too. Aptiv received a \$1.9 billion cash distribution from Versigent at separation and used it to redeem debt. It also repurchased \$250 million of shares in the quarter and \$325 million in the first half. Buybacks create value only when the price is sufficiently below intrinsic value and the balance sheet and reinvestment needs are secure.

A financially strong business? The honest starting point

A compelling theme only matters if the company behind it can fund its own engineering, protect its margins through the automotive cycle and earn more on its capital than that capital costs. On Aptiv, the honest answer is mixed. Underlying profitability has improved over several years, but reported earnings have been dominated by separation and restructuring charges, returns on invested capital have slipped below our hurdle, and shareholders have lost a great deal of money. We therefore make this part of the case chiefly on what the business is now positioned to deliver, not on what its share price has already delivered.

Profitability - the case ahead. Aptiv's reported return on shareholders' equity - essentially, how much profit it generates for every dollar shareholders have invested - fell from 17.5% in 2024 to 2.0% in 2025 and 2.4% over the twelve months to June 2026, as charges linked to the separation, restructuring and tax swamped the operating result. Stripping out those items, the picture is materially better: normalised return on equity rose from 13.9% in 2023 to 15.5% in 2024 and 18.8% in 2025, before easing to 15.4% over the latest twelve months, while the normalised EBITDA margin widened from 13.9% to 16.5% over the same period. The most recent quarter extended that trend, and management guidance points to an adjusted EBITDA margin of around 18.4% for 2026. The weak point is return on invested capital, which on our own measure fell below our roughly 9% cost-of-equity hurdle in 2025 after two years above it. Underlying margins are improving; returns on capital have yet to follow.

Earnings growth - the case ahead. The historical record does not support the case on its own. Reported net income fell by about 91% in 2025, to \$165 million from around \$1.8 billion, even as revenue grew 3.5% - the opposite of the pattern we look for as evidence of quality. Much of

that decline reflects one-off separation charges rather than a weaker operating business: the normalised net profit margin rose from 5.5% in 2022 to 8.5% in 2025 while revenue growth slowed, so underlying profit did grow faster than sales. The latest quarter pointed the right way, with adjusted earnings per share up 24% to \$1.63 on revenue growth of 2%, helped by higher operating income, lower interest costs, share repurchases and a one-off gain on debt repayment. But management also lowered its 2026 adjusted earnings guidance below its earlier range and guided the third quarter below market expectations. Analysts still project double-digit growth in adjusted earnings per share in 2027 and 2028 from that lower base, supported by the first-half bookings and the growth in non-automotive revenue - a plausible path, but a forecast, not a result.

Shareholder returns - the case ahead. Total shareholder return - share price growth plus any dividends, the full return an owner actually receives - has been poor by any standard. Adjusted for the Versigent separation, Aptiv's shares fell by about 66% over the five years to 18 September 2026, a compound loss of roughly 19% a year, and by about 48% over the past three years. The decline has continued into 2026: the shares fell 16% on the day of second-quarter results and stood about a third lower than at the start of the year. Set against that, the valuation now embeds very low expectations. At \$43.59, the shares trade at under 8 times the midpoint of management's 2026 adjusted earnings guidance, and the average analyst price target in mid-September sat in the mid-\$70s - implying, if realised, a return of around 70% over the following twelve months. Aptiv returns surplus cash through share repurchases, with more than \$600 million planned for 2026 and a stated commitment to return around half of free cash flow, which adds to per-share returns if the shares are indeed undervalued. If the weakness in China proves structural rather than cyclical, however, today's discount may prove justified rather than an opportunity.

Taken together, this gives us a credible, evidenced path to the returns this thesis needs - improving underlying margins, a simpler portfolio, a broadening non-automotive book and a valuation that asks little of the business - though one that is not yet proven in reported earnings, returns on capital or the share price. That is a materially different position from a company with a demonstrated record of compounding shareholder value, and we will judge Aptiv on whether free cash flow recovers as guided in 2026 and whether returns on capital climb back above our hurdle from 2027.

Leadership we can trust

A good business also needs to be well led, and Aptiv's board has many of the structures we look for. Every director stands for re-election each year, so shareholders have a regular say over who governs the company, and there is a single class of share with one vote per share. Even on our stricter, tenure-based standard, more than four-fifths of the board is independent; the Audit and Compensation committees are fully independent, and all three key committees are chaired by independent directors. The board combines newer and longer-serving members with deep technology, finance and cybersecurity expertise. Executive pay is heavily weighted toward multi-year performance, with most of the long-term award tied to return on invested capital and growth in software and adjacent-market revenue, adjusted for relative shareholder returns, and it received strong shareholder support at the 2025 vote. Our principal engagement priority is independent oversight at the top: the Chair and Chief Executive roles are combined, balanced by a Lead Independent Director with a substantive, well-defined mandate, and over

time we would welcome a path towards separating the roles, alongside fuller public disclosure of what the board's annual effectiveness review finds.

Capital allocation is our second priority. Returns on invested capital cleared our cost-of-equity hurdle in 2023 and 2024 but fell below it in 2022 and again in 2025, largely because of the charges surrounding the separation. The separation itself is the defining capital-allocation decision of recent years, and its early execution has been disciplined: the \$1.9 billion cash distribution received at the spin-off was used to redeem around \$1.85 billion of debt, cutting quarterly interest expense by roughly a third, while share repurchases continue under a remaining \$1.8 billion authorisation. Because the largest share of executives' long-term pay depends on return on invested capital, management's incentives point in the direction we need. Taken together, this gives us confidence that Aptiv is overseen by a capable, well-structured board acting in the long-term interests of shareholders and other stakeholders, with clear priorities ahead in independent oversight and in lifting returns on capital reliably above their cost.

Outcomes, not just outputs

Aptiv's sustainability report offers scale indicators, but also reasons to remain disciplined. It reports \$3.0 billion of active-safety platform revenue in 2025 and says 36% of platforms were capable of over-the-air updates. Those measures show commercial reach; they do not tell us how many crashes were avoided, whether driver behaviour improved or how much energy was saved.

The operational footprint is mixed. Renewable electricity increased to 50%, while reported Scope 1 and Scope 3 emissions rose. Waste recycled slipped to 83%, water intensity in high-risk areas increased, and warranty expense rose to 0.53% of revenue from 0.36%.

Comparability is complicated by restatements and the separation. We want the baseline clarified and the most material indicators independently assured.

This is also why advanced driver assistance must not be marketed as autonomy. Independent safety authorities have warned that hands-free systems can encourage overreliance. The relevant questions include false positives, driver monitoring, cybersecurity, software updates and performance in real-world conditions. A more capable camera is valuable only if the whole system uses it responsibly.

Value, decision, and tension

We own Aptiv because three things need to line up, and today they line up unevenly: a durable need for more efficient, safer vehicle electronics as cars become electric, connected and software-defined; a business whose underlying margins have improved and whose new-business pipeline is broadening beyond the car, but whose reported earnings, returns on capital and shareholder returns have not yet shown it; and a board with sound structural foundations and pay tied to returns on capital, with clear priorities around independent oversight at the top. Of the three pillars, financial quality asks us to hold our judgement most open.

We do not own it on the assumption that every production win will convert into cash, that weakness in China is merely cyclical, or that the separation will automatically lift returns. The

central tension is that the valuation looks undemanding precisely because the market doubts the durability of the automotive franchise. A share price below 8 times guided earnings is either a margin of safety or a correct discount for a structurally weaker auto business, and the evidence that distinguishes the two - cash conversion, bookings turning into revenue, returns on capital - will arrive only over the next several quarters. Valuation discipline, not enthusiasm for the theme or the apparent cheapness of the shares, is what governs position sizing here.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- **Demand and execution risk.** Vehicle-production cycles, weaker domestic demand in China, pressure on European premium manufacturers, dependence on large customers and persistent price-down demands could all reduce volumes and margins. Fast-growing export bookings from Chinese manufacturers may take several quarters to convert into revenue, and further programme or software slippage would pressure a business with naturally lumpy, high-margin software sales.
- **Separation and operational risk.** Post-separation Aptiv is still absorbing stranded costs, and Intelligent Systems margin fell to 14.0% in the latest quarter on investment spend ahead of revenue. In safety-critical systems, a serious product, warranty or cybersecurity failure would be especially costly, and technology displacement by in-house or lower-cost suppliers remains a live threat.
- **Financial-quality durability risk.** First-half free cash flow was negative, and the full-year guide depends on a strong second-half recovery. Returns on invested capital are below our hurdle, and repurchasing shares before cash conversion is re-established narrows the margin for error if the cycle weakens further.
- **Governance risk.** A combined Chair and Chief Executive role concentrates authority during a period of heavy strategic change, which makes the quality of independent challenge on capital allocation and succession all the more important.
- **Impact-case risk.** The case can also fail on its own terms. Post-separation Aptiv has not yet demonstrated a reconciled environmental contribution, the 20% efficiency claim rests on an undisclosed comparator, parts of the operational footprint are moving the wrong way, and driver-assistance technology can encourage overreliance if it is not deployed responsibly.

The thesis would weaken materially if free cash flow failed to recover toward guidance in the second half of 2026, if weakness in China spread into export programmes and bookings stopped converting into revenue, if returns on invested capital stayed below our hurdle beyond 2027, or if the company could not evidence an environmental contribution beyond its own product claims. It would also weaken if today's low valuation proved to be compensating, correctly, for a structurally smaller automotive franchise.

The ownership test

We own Aptiv because integrated vehicle intelligence can address two durable needs: making increasingly complex vehicles more efficient and helping them respond more safely. Its installed relationships, engineering scale and ability to combine hardware and software offer a

plausible competitive advantage. The latest production launch is evidence that customers are adopting the technology.

But ownership is not endorsement, and on Aptiv the three pillars are not yet equally proven. The thesis must survive four tests: post-spin Aptiv must demonstrate a defensible environmental contribution; production wins must convert into margins, cash and returns on capital above their cost; reported outputs must mature into independently credible outcomes; and the board must allocate capital with discipline while strengthening independent challenge at the top.

The chain we test is the one set out above: engineering capability wins platform nominations; validation turns nominations into production; scale and reusable architectures support margins; and cash funds the next generation of technology. If Aptiv completes that chain at a price that offers an adequate expected return, it can compound value while enabling more efficient and potentially safer mobility. The investment case rests on Aptiv turning engineering necessity into durable cash flows - overseen by a board we trust and tested against numbers that have yet to prove it - not on a theme alone.

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