



Transcript

Lear Corporation (LEA)

Wells Fargo Industrials & Materials Conference

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Senior Vice President & Chief Financial Officer, Lear Corp.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

OTHER PARTICIPANTS

Colin M. Langan

Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Yeah. Happy to kick off the next session with Lear. Today, I'm pleased to have Jason Cardew (SVP and CFO) and the President of Seating, Frank Orsini.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Lear's a global leader in seating and wiring. The company has been on quite a roll year to date. And I think in Q4, you announced a large pickup win in seating, and then in Q1, you had another large win in wiring with the GM large SUVs. So maybe you want to – how is Q2 trending from – yeah, any color maybe to kick it off on how the quarter is trending so far. We've seen S&P has actually lowered production forecast. So far, it seems like it hasn't had a major impact on other companies. What are you seeing?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Sure. Yeah. I think that the momentum that we talked about on the first quarter earnings call and the fourth quarter earnings call that you've referred to, that positive momentum really continued into the second quarter. Both businesses are performing at a high level operationally, commercially. It's being recognized by our customers as well. We had the GM Supplier of the Year event a few weeks ago. And we have a long history with GM on the Seating side. I think we've won 25 Supplier of the Year, Overdrive Awards with them. But we also won our first GM Supplier of the Year Award on our wire business. And I think it's just a validation of all the progress that we're seeing internally in terms of the performance of the business now being recognized by the customer. And right on the heels of the award, as you've mentioned, the T1 SUV Wire Award that we announced on the first quarter earnings call. So it's just really a lot of positive momentum with the business.

In terms of the second quarter outlook, we framed up our expectations for the second quarter during our first quarter earnings call, talked about revenue between \$6.1 billion and \$6.2 billion, operating income sort of in line with the first quarter, right around \$300 million or a little bit better than that with Seating margins in the mid-6s and E-Systems in the low 5s. Everything is on track in the second quarter consistent with that, maybe a little bit better. There's some ongoing commercial negotiations that could swing the number a little bit, but we feel comfortable sort of reaffirming our – what we had committed to for the second quarter. E-Systems might be a little bit better than what we suggested, maybe as high as 5.3% or 5.4%, but generally on track.

In terms of the production outlook for the balance of the year. As you mentioned, S&P lowered their forecast. We're really not seeing any meaningful changes in production schedules from our customers. North America has been particularly strong. Europe is sort of in line with what we've expected. There's been a couple pockets of weakness in Asia, some supplier disruptions and a fire at a supplier, but pretty negligible overall. So in general, I'd say second quarter is on track and the full year as well.

And on the first quarter earnings call, we talked about a desire to increase our guidance, and we held off for another quarter just because of the uncertainty around the war and general economic concerns of the second half of the year. But as we sit here today, we're continuing to feel even more confident that when we have our second quarter earnings call, we'll be revising guidance up, probably take the low end of the range out. And we still see our outlook for the full year sort of trending between the midpoint and the high end of our guidance range. So I'd say we're in a really strong spot right now.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

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I thought in last quarter, you said on the call that you were trending in that range.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah.

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Colin M. Langan

Analyst, Wells Fargo Securities LLC

...officially. You started off – I think it was – 5.1% was the margin in Q1. The guide for the year is only 4.7%. So, what drove that sort of strong margin and how should we think about the cadence for the rest of the year? I think your initial guide had volume and wind-down headwinds more than offsetting the performance. Is that the right framework in the second half?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, the framework that you described is unchanged. But in terms of the margin in the first quarter, there were a couple of anomalies and we talked about that in the first quarter earnings call. We had the tariff refunds which reduced revenues by \$175 million. And so that led to about 20 basis points of margin benefit in Seating and 40 basis points in E-Systems. So that sort of inflated the headline margin for the quarter.

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In addition to that, we benefited in the first quarter from revaluing our copper inventory as copper prices have come up. And so moving into the second quarter, we see the effects of higher copper prices kind of weighing on E-Systems a little bit. There is another reevaluation of inventory in the second quarter because copper is continuing to go up, but it's less impactful than what we saw in the first quarter. So, net-net, it is a sequential headwind from the first quarter to the second quarter in E-Systems.

In terms of the first half to second half, the basic framework that we're seeing at this point is we see lower margins in the second half of the year, driven by the normal seasonality, the downtime in Europe, primarily a little less so in North America, which will impact the third quarter negatively. The tariff refund that benefited the first half of the year won't recur obviously in the second half of the year. So that'll be a headwind. And then those will be partially offset by a continued ramp-up of our performance program. So net performance will be better in the second half of the year than it was in the first half of the year. We're on track to deliver our 40 and 80 basis points of net performance in Seating and E-Systems respectively. So you'll see some benefit from that in the second half of the year too.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Can we go back to the commodity, the copper and the other raw materials you just mentioned? So there's another re-val in Q2. But then there's also going to be – isn't there a timing lag? Should we think about that? And then how big of an impact are you expecting from raw mats for the full year? Does it all wash out by the end of the year with recoveries? And maybe if you could just remind us what is your hedging on all the raw mat.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. So two points to make on commodities. Certainly, commodity costs are higher year-over-year. Steel and copper are both up more than 30% year-over-year. That's one point. I mean, it is impacting the industry overall. The second key point though is we have really changed our contractual relationships with our customers over

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many years. And so 90% of that is on an index or other customer recovery program. And so the net impact to us is pretty minor. We have \$20 million of net impact embedded in the guidance for the full year. Our initial guidance had \$10 million and that increased to \$20 million.

And so I think that as you think about commodities more broadly, the bigger question maybe is how it may impact affordability of vehicles and volumes ultimately. But in terms of how it impacts Lear directly, it's a pretty minor impact because of those indexing agreements we have in place. Yes, there is a lag effect to some of those. And so the second quarter and third quarter, we'll see a little bit of the headwind in both businesses, maybe more in E-Systems in copper than in Seating. And then that will normalize again in the fourth quarter.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. Maybe you talk about, business in autos typically is pretty sticky, but you've had some pretty big wins. I think as I mentioned upfront, you won sort of the Orion facility for GM SUVs. And then also thinking about – any color on what is driving this sort of new wins? What do you think is causing it? Are the automakers maybe more open to changing suppliers as a technology? And any notable wins since Q1 that you could highlight?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yeah, I'll take this one, Colin. And again, thank you for having us. We appreciate the opportunity to be part of the conference. From a new business awards perspective, it is a competitive environment, but our goal is always to provide a value proposition to our customers. And when we think about that value proposition, we think about a number of things. One, leadership and cost competitiveness and the strategy that we have of IDEA by Lear, which is deploying digital and automation technologies and solutions across our entire enterprise, are helping us create a cost advantage to the tune of 200 to 500 basis points. And we're seeing that with the business that we're winning and the quoting that we're doing in the market right now.

You also have to have a technology driven product portfolio, and we have that. We have that within E-Systems, we have it in Seating. And in particular, the work that we're doing in thermal comfort with our modularity strategy is really supporting some of our growth strategy. The other thing that's becoming more important right now is speed to market. It's very important in Asia, but it's becoming more important in all aspects of our business and everywhere we compete. So, if you think about it, Lear is the only company in seating and in our product lines with E-Systems where we have vertically integrated in our CapEx. And we have intentionally acquired companies and capabilities over the last several years to put ourselves in a position where we can manufacture, integrate 80% plus of what goes on our shop floor in a JIT environment. And that's creating a 20% to 30% cost advantage for us whereas we quote and win business.

So year to date, we're at about \$1.6 billion of awards in Seating. Some of those have been conquest awards. The pipeline for growth remains very rich right now. There's over \$5 billion of opportunities in front of us right now that we're going to be quoting. And about half of that is new opportunities and half of that is replacement. And our team recently just did a very good job of locking down one of our key platforms in North America with the North American customer. And we'll be able to talk about that, a little more detail on a future date. But it's a very good win for our team. And I think we're just extremely well positioned to not only grow but compete and win in the environment that we're in right now.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

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Did you say 200 to 300 basis point cost advantage...

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

200 to 500 basis points.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

200 to 500 basis points...

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

...200 to 500 basis point cost advantage.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

...relative to – in seating and wiring or...

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

In seating.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

...seating I think?

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Seating.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

And then the win you indicated, that's a replacement – locking in an important replacement win.

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Yes.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Okay.

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

It's a replacement business. Yes.

A

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Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

How about when it comes to onshoring? The Japanese, Koreans, I think, over the next few years have plans based on tariffs to bring more to the US. Those are historically not the easiest customers, particularly the Japanese, to penetrate with. Do you think you have meaningful opportunities, or you think you could sort of launch some of those localization opportunities?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yeah, I think onshoring in general is an opportunity for Lear. And if you just take a look at onshoring as a topic, it really is heavily based on our OEM customers deciding where they're going to manufacture in the US and what products they want to bring production back to the US from. So for us, Colin, there's a number of factors that go into those sourcing decisions. Some of it is where the customers are located. There's a factor of where suppliers are located around those assembly plants. And then the supply chain that's in place for some of these products as they transfer from Europe or Asia or Mexico back into the United States. So when you think about that, for the most part, there's a net neutral effect of production just shifting within regions. But for us, it represents some opportunities, as you mentioned, with certain key customers.

So just a mention on that. We are actively working with a number of European OEMs right now on onshoring opportunities. You mentioned Korean and Japanese. From a Korean perspective, Hyundai is taking a look at their US footprint and taking a look at what those opportunities are. We're going to participate in that quoting activity. As a matter of fact, we're 40% of Hyundai's seating business outside of their in-house capability. So we're a big player with Hyundai and we will be participating, as I mentioned, in some of those product offerings in the US.

And then Japanese OEMs for us is a big focus right now. It's a category that we want to grow and expand in. We have some positive momentum right now with a business award that we had in China for a seat, complete project with Toyota that took place this year. We have a big tech show with Toyota in July of this year in Japan. So we are looking at how we can support Japanese OEMs' plans to onshore production back into the United States. Overall, we have 26% market share of the seating industry, and we're targeting 29%. And a lot of that progress will be made as we quote that \$5 billion pipeline and land some of that business in the future. So onshoring is one of many opportunities for us to get to that market share objective that we have.

And you referenced the Orion success. I think that's a great example of a true value proposition when I said that earlier and the goal is to create value for both companies. I think we did that for General Motors when we proposed our latest and greatest technology for our manufacturing facility in Orion. And our speed to market was a factor there as well. So, yeah, I think onshoring in general for Lear for Seating and E-Systems is an opportunity for us.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Just, Colin, I'll add, on the E-Systems side, we have a new opportunity with the Japanese automaker. We can't talk about the specific customer program, but this would be a new customer for E-Systems and wire in North America. It'll take probably the balance of the year and into next year to go through the validation and sourcing process. But it creates a new pocket of opportunity for us to grow the wire business longer term as well. And that's a result of some of the onshoring that the Japanese are doing, but also the Japanese automakers rethinking their supply chain, where in some cases, they're bringing product out of Asia that they want to localize in the North American market.

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Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

No, that makes sense. Maybe on the margin side, I think before COVID, seating was over 8% margin. In the last year, I think it was mid 6%. And I think at your Investor Day a couple of years ago, it was – 8.5% was the target. What are the key drivers getting to over 8% or 8.5%?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. When we established that target, the outlook for production volumes was a little bit different than what we're seeing right now. I think it's – that was a 2027 objective. And the North American European markets are 6% or 7% lower than what we had estimated. So that's certainly a factor that's weighed on our ability to achieve that target. In the mid-6s, our Seating business is generating returns well in excess of our cost capital. It's a great business, generates a lot of cash. We're not satisfied with where we're at. We do see room to expand margins, but it is a high return business for us as it sits today in the mid-6s.

The biggest catalyst for margin expansion in Seating in the next two or three years is going to be a combination of net performance. We generated more than 40 basis points in net performance last year. We've guided to 40 basis points this year. We have a line of sight on 40 basis points again next year. So pretty consistent track record of significant positive net performance. And then our backlog. I think this year, margins benefit by 25 basis points from the roll on of a very robust backlog. We have a strong backlog again next year. So those are going to be the two primary drivers of recovering margins and achieving the longer-term objective that we had articulated three years ago.

But again, I think that in the mid-6s and sort of progressing to mid-7s, that's going to be a very high return business. I think the other just kind of overarching support for margin expansion is the cost advantage that we've built that Frank mentioned, the 200 to 500 basis points. Now some of that is shared with customers as we secure new business, but the balance of it is showing up in the margins on the backlog as those new programs launch. So those are going to be the primary catalyst to improve margins in Seating.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. IDEA by Lear benefits have already started to materialize. I think you had \$70 million in 2025, \$75 million expected this year. Any examples of the automation and digital tools that you're implementing? And how do you see these benefits sort of growing over time?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I'll start here and Frank is going to cover this question. I think in addition to the numbers you just mentioned, the \$70 million last year and \$75 million this year, there's another layer of savings that is showing up in the results in our new programs that we're launching, particularly when you're launching a new facility. So this year, for example, we have the Audi Q7 and Q9 program, which we took from a competitor a few years ago. That's launching now. So brand new facility in Eastern Europe where the full suite of our automation capabilities has been deployed. When we launch Orion next year, there'll be a further step forward in terms of the level of automation that we're able to incorporate in the program.

And then we had announced on the fourth quarter earnings call the North America truck conquest win, which has two facilities that will launch in 2028, 2029 or later in that time period before we can – we'll have enough time to

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deploy the full suite of automation capabilities and you'll see the full effect of IDEA by Lear embedded in the financial results of those facilities as they launch. And so while the savings are important in the near term in terms of the \$70 million and \$75 million last year, and this year, the real impact, I think, is higher margins and the backlog as it ramps up and new programs roll on.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

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And I think I would just add to that, maybe it would be helpful to define what IDEA is for the audience so that everybody can understand what the strategy is. But IDEA is an acronym. It stands for innovative, digital, engineered and automated. Innovative in both our products and how we manufacture them. From a digital perspective, we're really looking at how we can deploy AI and digital capabilities to improve the entire enterprise at Lear. Engineered really starts with the process of engineering and how we're utilizing AI tools to be more efficient. But it also refers to how we are designing our products for automation. And automated is about deploying those automation strategies onto our shop floor so that we're not only becoming more efficient as an operation, but we're creating a world-class shop floor for our employees, which includes ergonomic improvement, safety improvements and reliability of our production process.

So I mentioned earlier we've been acquiring companies to build these in-house capabilities, eight companies over the last seven years. And the goal has been to build capabilities in digital manufacturing and automation solutions. And as you ask, I'll give you a couple examples, Colin, of what that means. So just beginning with digital, we've deployed digital technology to help us do a couple of things. One, hit our net performance targets and expand margins, but also to improve free cash flow. Two examples there. Cycle time deviation is a platform that we've deployed around the world where we're able to collect live data off the shop floor equipment so that we can make decisions on how we dynamically balance our lines or improve our operation from a process optimization standpoint. And where we've deployed those technologies, we've seen efficiency gains of up to 5% in those just-in-time manufacturing facilities.

The other place that we're using digital tools is for inventory transparency and getting a really clean look at what the material pipeline visibility looks like between our just-in-time manufacturing facilities and our component facilities, but also into the supply chain as well. And that's helping us optimize days on hand. It's helping us improve inventory accuracy and ultimately improving working capital and free cash flow. So digital is a key part of our strategy. And we have about 20,000 users on our digital platforms and we have about 300 active projects right now. Those are just two examples of what we're doing.

From an automation standpoint, I think I'm most excited about what we're doing with our Rochester Hills advanced manufacturing and integration center. And we've talked about this a little bit publicly, but it is a state-of-the-art facility that really highlights a lot of the automation capabilities that we're building around the world. And just to give you an example of a few of the items that you can see in Rochester Hills, we have automated wire taping, automated 2D and 3D sewing. From a just-in-time manufacturing perspective, we have automated seat finesse, automated end of line testing and validation. And all of those types of technologies, Colin, are what's helping us generate that 200 to 500 basis point improvement.

But really what is a true highlight within the facility is what we've done with thermal comfort modularity, where you see the full power of our IDEA strategy coming to fruition, where we have completely reimaged what thermal comfort can look like in a seat system by reducing the part numbers, reducing the complexity by 50%. And every one of those components were designed into a new module that doesn't exist today. And then that module is being incorporated into our trim covers, and all of that is being done with 100% lights out manufacturing. There

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isn't a single person that touches the production of the module or the incorporation of the module into the trim cover. So it's truly first to market technology that we've put in place.

We've recently had an opportunity to host a customer event out there. We had over 70 people attend, and it was with the North American customer. And the feedback was really positive. I mean, they haven't seen anything like what we're doing compared to our competitive set in the market. And we're excited too, because we're going to be hosting investor meetings later in June and we're excited to host everybody that we can get there to see the facility. We'd love to have you come as well. There's a lot to see at that location and we're really excited to host you soon.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Cool.

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Yeah.

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Colin M. Langan

Analyst, Wells Fargo Securities LLC

Maybe switching to China and Europe, the Chinese OEMs clearly had been taking a lot of share, particularly in the local market. And now they're taking a ton of share in Europe. What is your strategy with the locals in China? I think you were roughly 44% of revenue last year, and I think you're targeting over 50% by 2027. Is that still on track? And any color on the landscape in that market it's always historically been? Well, it's getting more and more competitive it feels like from an outside perspective. How should we think about margins in that region and how you could hold them?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, maybe I'll start and Frank can add on to my comments. Now, first of all, we are on track to achieve greater than 50% share with – of our business in China with the Chinese OEMs in 2027. We were at 44% last year and so that trend is on track. In the first quarter, we announced a very strong performance with new business wins with the Chinese. We had \$280 million, \$140 million in Seating and \$140 million in E-Systems. And just to put that into context, we only had \$120 million of wins in E-Systems with the Chinese automakers for all of last year. So we got off to a great start. That momentum continued in the second quarter. We had \$180 million of wins so far in the second quarter. So really strong performance with the Chinese, with Geely and many others.

A

In terms of the margin profile of that business, I know some have talked about that – shifting of share within China from traditional customers. Traditional global customers to the Chinese OEMs has weighed on margins. We're not seeing that impact our margins in the Asia region, and both segments are holding consistent with what we've seen in the past. Again, as a frame of reference, our Seating margins in China are a little bit higher than the segment average overall. In E-Systems, they're in line with the segment. And the biggest factor really that impacts the operating margins on any business that we have in China on the Seating side is the level of vertical integration. So a just-in-time seat program with the Chinese automaker versus a traditional Western OEM. The margin profile is the same. The level of vertical integration is ultimately going to determine if the margins are higher than the segment average or in line with it.

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And so, we've made some changes to our approach to the China market. And we announced back in 2023 that we have consolidated the leadership of that region under Charles Chang, who's run our Seating business for many, many years. He now runs our E-Systems business. And I think that change that we made in his relationships with customers in China, it's really had the biggest impact on the business for us in E-Systems and led to the growth that we announced both last year and in the first quarter of this year. So a lot of positive momentum on our business with the Chinese overall.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

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Yeah. And I would say China is a very dynamic growth market right now that does represent a lot of opportunities for Lear Corporation. And recently, Ray Scott, our CEO, and myself and Nick Roelli, who runs our E-Systems business, we had an opportunity to go to Beijing for the auto show and see how the market's evolving. And it was remarkable. I mean, there were over 1,400 vehicles displayed throughout the entire show. I think the total of new product launches was just over 180 that were on the floor for the exposition. So, truly remarkable. And really, it comes down to our Chinese OEM customers are growing and our traditional customers in China are launching new products to compete in that market. And all of that is very positive for Lear. If you think about it, our goal is to grow with the Chinese OEMs within China and within Asia as they expand but especially as they look to grow in Europe and in South America and different locations. As they plan their global expansion goals and objectives, we want to be a part of that as well. But we're also going to continue to support all of our traditional OEMs as they launch new products in China in particular. And because of that, I think we're really well positioned to grow.

Like Jason mentioned, we have a very experienced leadership team out there that have excellent relationships and are helping us accomplish our growth objectives. And we've been operating in China for over 30 years. But we're also very cost competitive in that part of the world. Everything we're doing with IDEA that I mentioned a minute ago, all the digital strategies, all the automation strategies, we're also deploying in China and in Asia. And this speed to market dynamic that is making us very competitive is very key in China. Our Chinese OEMs and partners want to launch product very quickly. And those shortened life cycles are real. We see products launching in under 12 months in some cases. So, our ability to integrate our own capital into our manufacturing facilities is a catalyst for us moving quick in the market. And we're also being smart about the shorter life cycles. We're putting multiple customers into one manufacturing location. We're creating flexible manufacturing lines that can produce more than one OEM product. So we're being very smart about how we're deploying capital and allocating capital to all these opportunities.

The other thing I would say is in China in particular, you have to have a winning product portfolio there as well. And we have that. We have zero gravity seating. We were in production with that back in 2022. We have multiple platforms and customers on that product line. Our thermal comfort business is taking off there. We have a lot of content that's going into the Chinese OEM products as well as into applications like second row where heat and cooling and lumbar and massage are becoming more important for that market.

And one thing that we noticed at Beijing auto show is autonomy is becoming a very key focus for a lot of Chinese OEMs. And we have a lot of great technologies that will support autonomous driving, whether it's health and wellness through our INTU Seating product lineup or even reconfigurability, with products like ConfigurE+ and things of that nature that we have in the market today. So, I think in terms of our ability to compete and win in that part of the world, we're extremely confident that we can do that, especially with the team that we have in place.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

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Got it. And following your announcement of the T1 SUV wiring win, there is definitely some interesting back and forth with your competitor, suggesting you won it as a build to print and therefore a lower margin business. Can you help us understand the distinction between build to print and co-develop programs and where this win, in your view, falls on that spectrum?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So it is a build to print program. It's an extremely important program for us. We don't really have a bias towards engineered programs versus build to print. Our focus is more on finding the right programs and customers to target. And you see that with the F250 Wire Award last year, where we have a portion of that program today and we're expanding our business with Ford on that platform in the next generation. And now you see it with GM, and the T1 SUV taking a portion of that that business. So, we're really targeting high quality programs that have a long track record of success.

The biggest difference between the two, if you're controlling the design and engineering work, you're going to have more investment upfront. The margin might be a little bit higher, but the financial return profile of the business is the same. And ultimately, it's the customer that's going to decide if they want to engineer the electrical architecture or if they want suppliers to do that. And I would say there has been a general transition away from suppliers controlling that engineering work and to the customers controlling it. So more of our business, I think, is going to be build to print.

We do have programs where we control the design with General Motors. We have the Colorado Canyon. I think the biggest factor in why this is a built-to-print program is the fact that it launches next year, so it wouldn't make sense to have the engineering source changed. So, we're super excited about that award. We've worked hard to build our relationship with GM on the E-Systems side. We have a great partnership with General Motors. They are our largest, most important customer, for the company overall. And we're really looking forward to continuing to grow that relationship now on the E-Systems side.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

No, that's helpful. On E-Systems, you've talked about improving the margins. I think you had some targets of 8% to 10% in the past. I mean, how should we think about that? And maybe how does the wind down business impact hitting those targets and how long does that wind down continue?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So when we – on our fourth quarter earnings call, when we updated the backlog and our wind down estimates, we talked about \$350 million of wind down between 2026 and 2027, around \$120 million this year and the balance next year. As we sit here today, looks like the wind down will be a little less impactful this year, a little bit more so next year. But on a two-year basis, those numbers are holding up. That is a factor that's weighing on operating margins this year, as well as the negative backlog, which is the result of Ford building out the escape in Corsair and the Focus, which was a \$260 million revenue headwind for us.

As we look out to 2027, we do see a positive backlog again in E-Systems, likely more than the wind down impact. So getting back to either at least revenue stability or growth and then looking out to 2028, 2029 and 2030, we see meaningful revenue expansion in E-Systems and that will support margin expansion in that business. In the meantime, we're generating 80 basis points in net performance each year in that business. And so that is leading

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to higher margins this year than last year. We expect 2027 margins again to increase on a year-over-year basis. So we do have a lot of positive momentum there. But additional revenue growth supported by our strong backlog will certainly help accelerate that margin expansion.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

I mean, just to wrap it up, how about buybacks? I think you've talked about over \$300 million. How should we think about the cadence of the year from that perspective?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Sure, Colin. And one of the points I failed to make in my opening comments was just how strong free cash flow has been to start the year. We're going to generate more than \$200 million free cash flow in the second quarter. It will be more than \$200 million positive free cash flow for the first half of the year. So, we're off to a stronger start than last year. We're increasingly confident in delivering our full year free cash flow outlook of \$600 million at the midpoint. The \$300 million of buybacks was sort of aligned with the low end of our free cash flow guidance range. And so now as we gain confidence in generating \$600 million or more for the full year, we look to increase share buybacks, probably more likely \$350 million now than \$300 million. We bought back \$75 million in the first quarter. We're on track to buy back at least \$75 million in the second quarter. So the balance of that would be in the second half of the year.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Okay, great. That's great. All right. Thank you very much. We'll wrap it up there.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, thank you.