



Transcript

Lear Corporation

Wells Fargo Industrials Conference

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MANAGEMENT DISCUSSION SECTION

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Yeah. Why don't we kick off the next fireside chat? Very excited to host our next group, which is Lear, leading supplier of seating and electronics, as you probably know. Really it stood out, I think, over the last year for their ability to cut cost. Pretty impressive job last year, taking a significant margin from performance.

And today, we're here with Jason Cardew, CFO and Lear's VP of Finance, Jared Fedele.

QUESTION AND ANSWER SECTION

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Maybe to kick it off, why don't we just start with any opening remarks on how things are going in particular with Q2?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Thanks, Colin, for hosting us today. Second quarter has really sort of continued the positive momentum that we had built in the first quarter, strong operating performance, particularly in the things that we can control. We've made a lot of progress on our restructuring efforts on automation. We continue to have strong net performance from our wire business in Mexico, which struggled last year. That's the efficiency improvements that we saw in the first quarter and towards the second half of last year, sort of continued into the second quarter. So, a lot of positive momentum around operating performance and net performance, as you alluded to.

In terms of the financial results that we expect in the second quarter, we did withdraw guidance for the full year on our first quarter earnings call, but we are seeing another solid quarter. In the second quarter, we expect revenues of \$5.9 billion in the quarter, operating income of \$260 million to \$270 million, so operating margin sort of in the mid-4s, free cash flow of \$50 million to \$100 million. Strong enough performance that we're now ready to restart our share repurchases. And so, we're looking to do that. Coming out of this discussion today, probably, target around \$25 million of repurchases in the quarter. So, similar to what we did in the first quarter.

And we're also seeing a very strong new business pipeline. Our quote activities remain at a high level. So, we're very confident in our ability to continue to win business and grow our tariff negotiations, which I know we'll talk about more in a few minutes, have gone very well. We don't expect any leakage really in the second quarter. So, everything's on track and progressing in a positive manner right now.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

I think you said that you would reinstate guidance in Q2 earnings. So what gives you that confidence?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. We fully expect to be able to reinstate guidance on the second quarter earnings call. Now, something could change between now and then, but our current plan is to do that. And we do see – we have pretty good visibility into the second half of the year. Our initial guidance had anticipated lower production year-over-year in the second half. And so, as we look at the second half, there have been some modest changes in our customers' plans, but really not outside of what we had anticipated previously at this point.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

So, your schedules at this point haven't materially changed...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. There's been a handful of disruptions in the second quarter, but nothing significant.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

And how should – there's still a lot of uncertainty. How should we think about incrementals and decrementals? And then, I think you even mentioned last quarter call concerns – potential trim issues, mix issues. Is that playing out? Or how should we think about that?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. I'll start with the last part of that question first. We did identify one change was particularly around the take rate for rear seat entertainment systems in one vehicle line where that part was imported at a very high tariff rate. And there was a reduction in the take rate. It's really been isolated to that. We were closely monitoring customer schedules, but we haven't seen any signs of mix erosion beyond that. So, that's – I would take it as a positive or encouraging sign.

A

In terms of the incremental and decremental margin expectations, given the volatility in the production environment, I think it is important to sort of level set that for investors, so they can build their models on what to expect from Lear for this year and beyond.

In seating, our variable margins range from 15% to 20%. That's consistent with what we've said in the past. But we do have programs below that and above that. And the key driver or determining factor there is the level of vertical integration. So if you have a just-in-time seating program without any componentry, you may have a variable margin that's more like 10% to 15%. If you have a program that is just-in-time seating plus seat covers, plus leather, plus foam, plus structures, you certainly could be in that 20% to 30% range.

So, it just really depends on the level of vertical integration, on the program in seating. And on average, that seems to work out for the 15% to 20%. Again, though, it also depends on the region. North America and Asia tend to have higher margins in our seat business; Europe tends to be a little bit lower than the average; and South America is generally in line with the average.

In E-Systems, the range is typically 20% to 25%. The biggest factor there is both vertical integration and the region where we see the production. So, our European wire margins or margins in E-Systems are a little bit higher than North America. So, volumes are down in that market. It would tend to have a bigger impact than, say, North America or Asia. So, that's kind of it in a nutshell.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Got it. Can you remind us your tariff exposure? I think you said you were 94% USMCA-compliant. So, how should we think about Honduras – potentially, I guess, challenge now. At one point, we thought it was good news.

Q

Jared Anthony Fedele

Vice President, Finance, Lear Corporation

Yeah. And I appreciate the question, Colin. So from a gross tariff exposure for 2025, we're looking at about a \$200 million impact. That's without recovery. And we kind of look at that in two different ways. Half of that \$100

A

million is from our business in Honduras. That's getting hit with the auto Section 232 tariffs at 25%. Now, in Q1, when we first spoke about this, we had customer agreements for about 90% recoverability of that. Where we stand today, we're almost at 100%. So, the team's done a phenomenal job, working with the customer, getting agreements in place to offset that risk, which is fantastic.

The remaining 100%, again, in Q1, we kind of split it out as to 50/50, meaning 50% of that remaining \$100 million was with directed suppliers. They have customer agreements, direct pass-through, no risk to Lear Corporation. Where we stand today, it's about 60/40 now, with some of the changes that have happened with the reciprocal tariffs and everything. So, it's 60% directed that has customer recoverability pass-through. About 40% that we're left dealing with, working with our customers with negotiations and agreements. And quite frankly, I mean, we owe it to our customers to mitigate as much as humanly possible from a tariff standpoint. But our position hasn't changed. We're still going after 100% recoverability on anything tariff-related, and the team's doing a fantastic job getting there.

And then, to your earlier point on where are we at with USMCA, we still have that focus, that laser focus on making sure everything we have is USMCA-certified in Mexico and Canada. And we are over 90%, which is great. And from this time kind of last year, we were only at 77% in 2024. So over the last year, the team has made great strides in getting that up into this kind of over 90% rate, which is fantastic.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Do you have anything else that – we know about – Mexico, Honduras are obviously the biggest. Anything, like, anywhere else in the world and then, like, China in particular, a tiny amount depending on where the tariff plan maybe it'll be a little less now or bigger. Historically, it could be a big impact. Do you have anything that was in that initial \$200 million that was from China because that had an outsized impact...

Jared Anthony Fedele

Vice President, Finance, Lear Corporation

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Yeah. So, the regional breakdown of kind of where we say – you are correct. I mean, we import from Mexico, Canada, Honduras, we have Europe and Africa, and very little from China. I mean, we've got about – if you go kind of down the list, from Mexico about \$2.8 billion of imports into the States from Mexico. And that depends, fluctuates a little bit based on volume. Seating is around \$2 billion of that. E-Systems is around \$800 million of that. Again, it flexes with the volume.

Majority of it is trims, seat covers, structures, thermal comfort components. And on the E-Systems side, it's really wire harnesses. Canada, about \$100 million impact from – excuse me, of imports into the US. Honduras, about \$625 million, recoverability with almost 100% right now. Europe and Africa is about \$100 million, \$150 million of imports. And a majority of the stuff we get from Europe is directed from our customers. And China is really not monetary, really. It's nothing in the grand scheme of things for us. So, not too much, which is good.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

And I think as you're expecting full recoveries, any long-term risk of having to resource? And then, I guess, the news this morning, we were talking right before about GM, maybe it's actually good news for you. How should we be thinking about the long-term implications here, because maybe your footprint is an advantage to win some business and there might be some cost of having to shift business.

Jared Anthony Fedele

Vice President, Finance, Lear Corporation

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Yeah. So, I guess, a few ways we look at it from a long-term standpoint, how we're set up, we're pretty fortunate that we're in North America for North America. We're in Europe for Europe; in Asia for Asia. So, that helps to a certain extent. Any moves or anything we want to be doing from a production standpoint, we also make sure we're in lockstep with our customers to make sure that we have agreements in place. For wherever we move, they understand, they know, they're supportive of that.

Like anything else we do, any business we're looking at, we want to make sure returns cost in excess of its cost of capital. And then, if we have excess capacity, we'll look at that.

And to your earlier point, I mean, we did flag in Q1 some indirect impacts as well, too. When you look at the revenue in North America for 2024 that we had for vehicles made in Mexico and Canada came into the US, we had about \$1.8 billion of revenue sitting in North America. Europe was around 13% of sales, so around \$1 billion sitting there. [indiscernible] (00:26:05) the majority of that is with JLR.

And we see with the deal that was made with the UK, JLR has returned shipments. So, that's a positive for us. And then, in Asia, there's about \$350 million of sales that we have, primarily from South Korea with GM and Hyundai, quite frankly. So, it's something we got to keep our ears on. And to your point, with the recent announcement that was just made on, I don't know if you want to add to that, Jason?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think – so, we're seeing some initial signs that there it's likely to be more US production. GM's announcement yesterday suggests that – and we have a great relationship, great partnership with General Motors. We're their largest seat supplier. They're our largest customer for the company overall. And we view the announcement as generally positive from yesterday or late yesterday.

My understanding is that there will be additional production and some key platforms that we're on today. So, we're looking forward to supporting that move to add capacity and maybe reallocate some production from plants in Mexico to the US. And so we think it's a step in the right direction and a positive generally for Lear. And we think there's going to be more of that – more production in the US that results from the tariff and trade policies of this administration over time. And we're fully prepared to put additional just-in-time seat capacity in place to support our customers.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

And the positive mix you're referring to is the SUVs...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. My understanding is there's additional full-size SUV production, and so that's a key program for Lear. And we look forward to supporting GM as they add production capacity on that platform.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

On the Honduras impacts, when do you actually have to take action there? I guess, there's a lot of uncertainty. And with the labor, it is massively lower than Mexico actually from Honduras' kind of surprising. So, I guess, some tariff premium is still okay, I imagine.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think at a 10% rate, what we've said previously, and this still holds true is that that's about a breakeven with Mexico. We believe that ultimately that 25% tariff rate is going to come down either to zero, and Central America gets folded into USMCA ideally, or even just to a diminished rate, say, of 10%, in which case, our footprint and many of our competitors on the wire side Yazaki, Sumitomo, DRÄXLMAIER, all have capacity for wire production in Central America.

And I think we're looking to our customers, too, to get a sense of what they want us to do. And at this point, they're not asking us to make any changes to that footprint. We can avoid some of the tariff costs by redirecting the programs that we produce in Honduras to support vehicle production in Mexico instead of the US to avoid the tariffs. And so, we're taking some of those actions in collaboration with our customers. But ultimately, I think the goal of the administration is to have competitive vehicle manufacturing in the US.

And in order for that vehicles produced in the US to be competitive on the world stage, they need access to the lowest cost labor for the labor-intensive products that go into the vehicle. Wire harness has been a perfect example of that. And so, I think ultimately when the USMCA is renegotiated and as these trade negotiations continue, that's where we're most likely to end up would be our view.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

And in terms of capital allocation, you mentioned at the beginning that you will start buybacks again from the pause. How do you think about buybacks and M&A broadly? I mean, do you still see more tuck-in deals? Do you do you think – I think earlier in the year, you talked about wiring needing consolidation. Do you think there's opportunities in that area?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So first, generally, our capital allocation priorities remain the same. We're going to invest in the business through CapEx to support both business segments, the competitive position that we have in those segments through CapEx. And to the extent we have excess cash available, we are going to continue returning that to shareholders through share repurchases. We had initially targeted, I think, \$250 million of repurchases this year. We'll have to revisit that once we have an updated outlook for the full year. But we are going to, as we talked earlier, start buying back stocks again here in the second quarter.

And we really like the tuck-in acquisitions that we've done on the process innovation side, these manufacturing integrators that we bought that support both our seating and most recently our E-Systems business with the StoneShield acquisition. If there are more of those that we can do, those have had a great financial return for us. They continue to differentiate us on a cost basis and in a quality basis in our manufacturing plants. So, we'll look to do more of that.

And I do think that consolidation in the auto supply space is necessary. It's a question of when and which components. We talk generally about complete seats and wire, but also, look at seat components. We're the most

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vertically integrated seat maker. If there's an opportunity to get further scale in certain seat components, I think there may be some consolidation that happens there.

I certainly think consolidation in the wire space is possible down the road. The management team and our board are laser-focused on improving shareholder returns. And so if we see something that creates value and involves consolidation in either business, as a consolidator or having a portion of our business consolidated with someone else, we're open to anything and everything in that regard.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

What type of seating components are you thinking about? Because there's been some issues with others doing like structures and frame...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think that seat structures is probably not the best example. That is the most challenging kind of subset of the seating business. And we have a smaller structures business than some of our competitors. But think about cut and sew, trim covers, maybe leather. There are other components in seating that have more attractive return profiles that could be interesting if they become available, too.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

So maybe, how is the competitive landscape for seating looking today, and particularly, any update on the comfort and thermal seating tech that you acquired and how that's trending? That was supposed to be a margin and growth driver. Is that still on track from your investor day two years ago.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Thermal Comfort remains an important part of the growth story for seating. So maybe start with that part of the question. We have 21 production awards, about \$135 million of incremental revenue per year that's come out of those new awards in ComfortFlex, ComfortMax and FlexAir. We have 39 active development projects ongoing. We've had a total of 80 – more than 80 development contracts that have either started and led to a production award or are still in process with 30 different customers. So, a tremendous amount of interest in the innovations that we're bringing to seating.

And I think in terms of our competitive position in seating, we are the industry leader there. And that's something that's resulted from a multi-decade commitment to organic and inorganic investments. I think we've invested more consistently than our competitors in that space over a very long period of time. We have a deep bench of industry experts. We have all kinds of folks that were on the team that are in important roles in other competitors now. But we have a fantastic team in place, and that is an important point of differentiation.

But what that team's done from an execution standpoint on both the product acquisitions and the process acquisitions is a key point of differentiation. We talked about that a little bit on our fourth quarter earnings call. We believe we have a 2% to 5% cost advantage versus the competitors through a combination of the process innovation, leading to lower manufacturing costs in our chip plants, in our leather plants, and then, also on the product side through our modularity offerings.

Lear Corporation (LEA)

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And so, that is really what will fuel growth in additional market share for us in seating over the long term. And so, we're very confident that we can continue what we've done over the last five years, which is increase our market share in that business on the back of that superior competitive position that we have built.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Would that 2% to 5% translate directly to margins? Do you think you have like a pretty massive margin lead, and seating margins aren't super high, so 5% is quite high for...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So I think that's one of the reasons why our margins are higher. And I think it's an important reason why our margins will remain higher. The investments we've made in automation and innovation in our plants are not easy to replicate. We took a lot of capacity off the market by acquiring those companies and having them focus exclusively on Lear instead of supporting our competitors.

And so, yeah, I think that we have room for margin expansion in seating. We've talked about 8%, 8.5% being the target margin in that business. We guided to 40 basis points of margin improvement through net performance this year. We see that as repeatable in 2026, 2027, 2028, maybe not that precise number, but we see margin expansion through net performance on a reoccurring basis over the next several years there. And so we see both the margin growth opportunity and a top line growth opportunity – more longer term, I'd say, on the revenue side. But certainly, nearer term, we expect to expand margins regardless of the volume environment.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

On performance, I mean, it was very strong in Q1. How do we think about it? Sounds like you have a few more coming but rest of the year, or should we – the level in Q1, I think was the peak I think for the year, tougher comp in the second half...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I'd say that the first quarter would be our peak net performance improvement, and part of that is the easier comp from the first quarter of last year. But we do expect in the second quarter a positive net performance again in both business segments, although at a lower rate than what we generated in the first quarter. But we see that continuing and we see meeting or exceeding the targets we set for the full year in both business segments. When we update guidance, we expect that's what you'll see on the net performance line.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

The initial guide for performance was...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

It was 40 basis points in seating and 80 basis points in E-Systems, and we expect to meet or exceed that in both businesses.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. Outside of tariffs, what are the big risks that we should be thinking about for the rest of the year?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

I think there's both a risk and an opportunity. Our guidance assumed that production would weaken in the second half of the year and be down year-over-year, more so than the first half of the year. If this sort of economic strength and resiliency that the US economy has exhibited thus far this year continues into the second half of the year, perhaps there's a little bit of a volume opportunity there.

At the same time, there are some difficult trade negotiations that are taking place, and everyone's heard about the restrictions on the export of rare earths out of China. And that has the potential to impact production at some point. This year, we've seen very modest impacts so far. We've reached out to all of our customers and virtually all of them feel confident that production won't be impacted this year. There are a couple of exceptions to that. But if I had one risk on my mind for the second half of the year, from a volume standpoint, that would be it.

In terms of additional opportunities, I think just – we're more focused on executing on that pipeline of new business that we're pursuing. This year, we had a strong growth quarter in E-Systems. In the first quarter, we have a number of programs that we're targeting in seating. The only question mark on the growth side is whether those programs get sourced this year or next year. But we have several programs that we're confident we're going to be able to secure and take from our competitors, and we're working hard to achieve that in the second half of this year or into the beginning of next year.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Those are programs for vehicles currently made in the US. So, you're conquering the US production...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. And it's also vehicles made in China for China and Europe for Europe. But yeah, it includes vehicles made in the US for US market.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Okay. Just sort of getting at it – what about – there's – I personally think at some point, like the Japanese, Korean brands, European, they need to localize more in the US. Is any of that coming to market yet? Any interest from customers and bids for some of that that's an opportunity for you guys?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, there hasn't been a lot of that. There's been – we're hearing the same chatter that you're hearing, suggesting that there will be more to come, but there are no additional real active quotes for that other than we talked about a few minutes ago with General Motors.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Yeah. What was your original outlook for the second half of the year? I mean, what were you thinking to start the year?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

I think we had volumes down – well, for the full year, we had on a Lear-weighted basis production down 2%. And I think it was sort of flat to down 1% in the first half and down 2% to 3% in the second half of the year, year-over-year.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

I mean, do you think that – but still in line where we're at.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

That's pretty close to where S&P is. But if you're asking whether there's – where the opportunities lie that's certainly one area that could turn into an opportunity. I think there's a fairly pessimistic outlook in IHS or S&P in the second half of the year on certain platforms that may or may not materialize. So, it's something that we're looking at closely as we think about how we update our full year guidance here in another month or so.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. What about steel, maybe even copper? I mean, steel prices are up, and I don't think there's any news yet on copper, but I think there's an investigation there. Who knows what happens there? What is your current pass-through protection that you have on those because, feel like it might be tougher to get, like, material recoveries after all the tariff recoveries.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. With the inflation in materials that we saw going back four or five years ago, coming out of COVID, we work to continue to increase the pass-through and indexing mechanisms that we had in place. And so, I think we went from 80% to 85% on steel. Now, we're up to 90%. And so, we're almost entirely insulated from risk on raw steel purchases. And copper has always been sort of in that 90% range. So, most of the wire is covered. And in some of the connection systems, it's on an indexing agreement, and other components are not in that case.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. What about FX? A lot of companies are saying FX is turning favorable. Is that something that's relative to your initial guide, that could be good news.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think the weaker dollar generally is going to help us. I think, gosh, initial guidance was, what, €1.04, €1.05 for the euro, and we're at €1.14 now. So that's certainly a tailwind. I think also the R&D is going to be a bit of a

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tailwind. Peso's kind of gone the other direction, but we're mostly hedged for this year. I think we're 85% locked in. I think we guided to MXN 19.50, and it's floating around MXN 19 right now. So, it could be a modest headwind on that, but it's nothing meaningful.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. What about innovation? You did just got a PACE Award for your zonal control, which I'm not familiar with. Any awards yet on that? What is the interest there? Yeah, maybe any color on that opportunity with that – the very growth area, and all that, because it's hard to find these days, growth area.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think over the last seven or eight years, we've been – we've had a renewed focus on product innovation, and that's been recognized both by our customers through new business and through industry experts like Automotive News that have this annual PACE Award process. So, the most recent award was our seventh PACE or PACE Pilot Award that we've received over the last seven years. So, it's become an important part, I think, of the Lear story that may be a little bit underappreciated.

And with the zonal controller, there's a production contract with a European luxury OEM that goes into production in the second half of this year and on multiple models. And so that is a growth opportunity for us in electronics. That's one of the areas that we continue to invest in, in electronics. But we've also won a PACE Award for a battery disconnect unit that we had initially launched with GM in the battery electric truck. And we've had PACE Award on our Thermal Comfort module as well, and we've won a number of programs through that award, too.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Anything that's differentiated about the controller that made it win the award versus other tech that's out there, maybe it's all brand-new, it's kind of hard to answer...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think it's really the flexibility, the way it's scalable and flexible, the way the software is designed for the module. That's what the award was based on, and that's what differentiates it.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. What about China and your local mix in China? Where are you today? When do you think you're going to catch up with the growing locals from China?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Well, we've continued to make progress there. I think when we issued guidance this year, we talked about 37% of our China revenue being with the Chinese domestic OEMs. Through the first four months of this year, it's 38%. I wouldn't be surprised to see it end up around 40% for this year. And we talked about 50% in 2027. I wouldn't be surprised to see that pulled ahead a little bit as well based on current volume performance on key platforms, and just the ongoing new business awards that we've received in China.

So, we're trending in the right direction. We're not walking away from some of our traditional customers there. If you think about even 20% or 30% of a 29-million unit market, that's a really attractive opportunity. So, there are great opportunities even with our traditional customers, they're good businesses, they may have lost share on certain platforms, but there's others that continue to do quite well.

In terms of the Chinese domestics that we're performing well with BYD, Xiaopeng, Xiaomi, Leapmotor, we've had a lot of success with those customers. With Xiaomi, the SU7 was an absolute positive surprise for us. The level of volume that that program achieved far exceeded what we had initially planned for. We continue to build and cultivate our relationship with BYD.

But there's also a baffle on the level of growth we may experience with some of the newer automakers in China. We're not going to chase every program, every customer that's available to us. We're going to be selective, everything that we quote, win, has to earn a return in excess of our cost of capital. And we've seen a number of great opportunities that have allowed us to achieve those goals and continue to grow our business there.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

In addition to pausing guidance, you also normally provide a three-year backlog. You decided to sort of delay that to later into the year...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

...before tariffs really took off here. When do you think we could get the three-year backlog? Is that potentially delayed even further? Because I imagine automakers aren't really ready to make a lot of product decisions yet, either.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. We've seen continued uncertainty. And I think we'll update our three-year backlog when we feel like we have a high degree of confidence in that third year, because the customers' production plans have settled down a bit. And I think you're going to see more extensions on programs that were ICE programs that were previously going to build out. So, that's a factor.

We did see a gap in the sourcing of new programs, as customers tried to sort out what to do with their powertrain strategies that will weigh on the 2027 backlog. We talked about that on the fourth quarter earnings call, and nothing's really changed with that time period. The great success we had in the first quarter in E-Systems on the new wire awards and other awards largely benefit 2028 and 2029. And so, you won't really see an impact in 2027 from that. So, 2027 continues to look like a bit of a light year from a revenue growth standpoint, but we're encouraged by the progress we're seeing on 2028, 2029 and 2030 with all the programs that are in the pipeline right now.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Why is 2027 looking like a lighter year, just...

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Just really the lack of sourcing activity last year, which would have fueled new business growth in that in 2027. So, 2024 was a year where we saw a number of programs canceled, delayed or the sourcing was delayed outside of 2024, pushed into 2025. And then, some of that is even kind of dragging from early in 2025 to later in 2025. And so, it's the lack of new program activity with our customers generally that would launch in the 2027 timeframe that's weighing on that number.

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

So, this isn't a Lear-specific issue...

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

I view it as an industry issue...

A

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Yeah, which I guess is still occurring, because, I don't know, automakers can't make any decisions right now. Maybe on that front, because not only do they not know where to build capacity, you don't know what kind of powertrain because we don't know the regulations. But what are you seeing and what is your view on the EV side, because that was a big growth driver for E-Systems and seems to be probably taking longer now than you originally expected?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. I think that's fair. I think that the adoption curve is definitely flattened out here in the US, and that it will take longer. I still see it as a meaningful part of the market over the next 5 to 10 years. But we don't see that kind of hockey stick of growth that maybe was anticipated by most. If you just go back a year or two years ago and look at what the industry prognosticators were predicting.

A

In Europe, we still see a pretty good demand and growth in EV. So I think that market will be – again, it may not meet the original adoption curves, but we'll see continued growth there. And then, certainly, in China, it's been a strong growth story there, and we see that continuing. But we do see, generally speaking, again, more ICE extensions, more work on ICE vehicles, new ICE platforms. And so that mix between ICE and EV is shifting a little bit back towards ICE.

And I think that's generally positive for us, programs that are extended where we've achieved all the efficiency improvements, in the production process, that's a good thing for us from an operating margin standpoint. So, we're certainly not fearful of that taking place.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Great. I think we're out time. So yeah, we'll just wrap it up there. Thank you very much

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Well, thank you, Colin.

Jared Anthony Fedele

Vice President, Finance, Lear Corporation

Thank you.



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