



Transcript

Lear Corporation (LEA)

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MANAGEMENT DISCUSSION SECTION

Emmanuel Rosner

Analyst, Wolfe Research LLC

All right. Good afternoon, everyone. Thank you so much for joining us for this session with Lear, as part of Wolfe Research Autos and Mobility Conference. My name is Emmanuel Rosner. I'm the lead autos analyst here at Wolfe Research. I'm extremely pleased to have with me today Lear's CEO Ray Scott and Lear's CFO Jason Cardew.

Lear, as you all know, is one of the leading global Tier 1 suppliers built around two main businesses: Seating, where Lear is a clear market leader; and E-Systems, which is the electrical and electronic distribution arm. Lear is also at the forefront of leveraging AI and automation, driving significant cost efficiencies, and it has had a strong start to the year, a record run of conquest wins across both segments and a full year outlook that the team has so far left unchanged.

So to discuss these dynamics and more, thank you so much for being with us. I look forward to the conversation.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Thanks, Emmanuel. It's great to be here.

QUESTION AND ANSWER SECTION

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Maybe as we begin, Ray, can you give us a general update on the business?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Well, Emmanuel, we just had a town hall meeting yesterday because I really wanted to discuss with the team and say thank you to the team for all the things that we've accomplished. It's hard to believe it's six months into this year, but we had a good first quarter. Obviously, we're in a position to have a solid second quarter. We're in a really good position financially. But I think what's really important is the new business wins. And what I want to do is really thank the team because it's really been outstanding.

We ended last year; I was talking about a major conquest win in Seating with a North American OEM for some truck business. We secured that. We were able to announce that with the fourth quarter earnings call. And then equally as important and with the next earnings call, we announced significant wins in E-Systems. And so I feel very comfortable and confident that we're on the cusp of another major announcement here. We have a lot of work to do still with this particular OEM, but that's – it's coming together nicely in Seating.

So going from the Seating awards to the E-Systems awards to hopefully not in the too distant future, we could have another major announcement in Seating. And so things are going extremely well.

The backlog or the pipeline is still very strong: \$5 billion in Seating, \$2 billion in E-Systems. Won Supplier of the Year. And this has been something that I really wanted to talk to the team about globally, because for the first time in Lear's history, both E-Systems and Seating were recognized as the best supplier supporting General Motors globally. And so it was a very unique opportunity for me to recognize the team, because I think it really shows how we're separating ourselves, not just from a performance perspective, but from a customer perspective. Really focusing on the customer, delivering what the customers are looking for and really continuing to execute at a level that exceeds their expectations. And so couldn't be more proud of what we've accomplished already this year.

And I think, and you mentioned a little bit about this, but the continuation and the adoption of technology innovation in our manufacturing plants and our products. Emmanuel, we've been at this for 10 years. It's interesting all the buzzwords that talk about AI and the digital transformation and automation within the manufacturing plant. But we've been securing and acquiring great companies over that 10-year span. With ASI, InTouch, Thagora, WIP Automation, IGB, Kongsberg, all putting us – and most recently, StoneShield with the automation of taping in our wire harness plants, all that is coming together really nice.

And we were just at our facility in Rochester Hills. I extend an open invitation, Emmanuel. Love to have you out there. I'd love you to see it. Because I think that's what's really differentiating our company. We have two great product divisions, but at the heart of what we're doing is technology and innovation around manufacturing. And it's designed for our personal uses. And so it's an area that we've been able to accelerate, I think, last year and why we're putting ourselves out there for our investors. We really drove \$75 million of improvements – or \$70 million last year, \$75 million is the target this year. So we are continuing to really pressure the company around continuing to drive efficiency improvements within our manufacturing plants.

But this Rochester Hills facility really illustrates, and we've had customers come through, the feedback we're getting is, boy, no one's really getting at it the way you're getting at it. And I really believe it's a defensible moat. It's something that you can't replicate. We've been at this for 10 years.

Why I extend the invitation, Emmanuel, to you? I think you – it'd be really important for you to see what we're doing, because when you see at the core, what's in production, how we're driving technology, how we're really transforming the digital, AI capabilities within our plants really becomes clear. And these are things that are not in theory; they're in our manufacturing facilities today.

And so things like the Orion facility that we're putting up in Michigan later this year will be the benchmark. It will have all the latest technologies. The new facilities are putting in components, what we're doing within wiring are really changing the way you think about manufacturing. And I think about this this way. Maybe it's the right adjective or not, but our diversification of manufacturing capabilities are very unique. From E-Systems to Seating, we have a broad understanding of how to manufacture under all kinds of different applications.

And when you bring technology innovation that is organic through acquisitions or organic investments we've made, it revolutionizes the way you think about the manufacturing plant and the products. And so, the combination of technology and our manufacturing capabilities are really coming together. And that's what really excites me right now is that we've talked about this for some time, but we have now 38 contract awards with modular components and FlexAir.

The awards that we're winning in Seating are focused on technology and innovation. I've talked about it before where the North American OEM did an audit of our capabilities in technology and awarded it on the fact that we can produce at a different rate, a different efficiency, a different quality level.

And so, we have a lot more work to do, Emmanuel. I said this to the team yesterday. I'm really proud of what we've accomplished in the first six months. We got another six months and we got next year and we got the following year. We're not content with where we are at. And we have to constantly push this industry that we're in, call it survival mentality with a focus on how you survive and make sure your driving technology is working. I'm happy where we are at. Like I said, we have more work to do. But I'd really like to extend an invitation, Emmanuel, for you to see what we're doing, because I think you would have a really good understanding of how we're differentiating ourselves.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Yeah, no, that sounds good. Looking forward to it. And then, focusing maybe on the current quarter, you recently reiterated that the second quarter is shaping up to be strong. Can you just remind us how you're tracking for revenue, margins, free cash flow for Q2 and touch upon some of the puts and takes in the second quarter versus the start of the year maybe?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Sure. Yeah. The second quarter is continuing to track in line or slightly better than how we initially saw it at the start of the quarter. We expect revenues of \$6.1 billion to \$6.2 billion in the second quarter with operating income at \$300 million or just above that.

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Free cash flow, I think, has been a particular highlight. It's approaching \$250 million in the second quarter. So significant positive free cash flow, which is really allowing us to accelerate our share repurchases this year. Initially, we planned on buying back \$300 million. I think we're on track now to buy back \$350 million. And through the second quarter, it looks like we'll be at about \$175 million of share repurchases. So we're being pretty aggressive to take advantage of the strong free cash flow to return that cash to shareholders.

In terms of the operating margins, we expect E-Systems to be around 5.4%, maybe a little bit better in the second quarter, and Seating to be in the mid-6s. Both of those could be a little bit higher, depending on how some of our commercial negotiations turn out here late in the quarter. The first quarter margins were higher in both segments. But you may recall, we had this kind of unique issue with the tariff refunds, the accounting for that. So, we had a \$175 million reduction in revenue that had no corresponding impact on earnings. And so, Seating and E-Systems margins were a bit inflated in the first quarter as a result of that 20 basis points in Seating and 40 basis points in E-Systems.

And then also in E-Systems, we did benefit from the run up in copper prices. We revalued our inventory and that benefited the first quarter. And so you strip those out and that largely kind of bridges the first quarter and second quarter operating margins.

In regards to the production environment and how we see that here in the second quarter, things are tracking in line overall. North America has been stronger than expected for us. Europe's largely in line and Asia has been a little bit weaker. There were some one-off issues with supplier disruptions in Korea. There was a fire at a supplier. And certain platforms in China have been a little bit lower than anticipated. But that's been offset by the strength in North America. And again, we're sort of in line with what we expected in terms of revenue in the quarter.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Yeah, great. No, that's extremely helpful. Turning back to the new business then, you announced \$400 million in incremental new business wins in the first quarter. You indicated some conquest wins like the GM T1 SUV for some of the wiring come in mid-cycle. Can you just touch upon the new business bidding environment and why you think you're winning conquest business in those segments?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah, I think they're slightly different between the two segments. But we have been extremely successful with these conquest wins. And like I said earlier, the pipeline is still very deep, and we still see opportunities. And I mentioned, we're in the process right now of quoting a significant platform that 50% would be conquest and the other 50% would be new business. And so, it'd be great backlog for us. And so, we're doing everything we need to do to secure that. And hopefully over the next several weeks, we'll be able to make an announcement. But we feel like we're putting ourselves in a good position.

I think in Seating, like I mentioned, right now, with what's going on in the industry, particularly around being cost competitive, driving technology, looking at your business differently, our customers are really paying attention to the capabilities we've put in place.

The modularity success that we've had is very unique. We bought Kongsberg and IGB for the reason to integrate components into a singular design. And I know modularity is used in a lot of different ways and is defined differently even by some of our competitors. But the way we're looking at is re-engineering products for modular components that drive efficiency and cost out. And that's really accelerated.

And I know we differentiate ourselves there because we are the only ones designing those products. We have over 200 patents on it. And every time I talk to Jason or Frank in Seating, they tell me, we've got a new win. And so, what was 29 is now 38 wins. And so, I think we're differentiating ourselves there just because we're the only ones that can really design products, because we have the engineering capabilities. The IGB, Kongsberg acquisitions were absolutely essential and necessary for us to be successful.

The technology that we're putting in our manufacturing plants and why the open invitation is there, Emmanuel, I think you have to see what we're doing in the plants. That's 10 years of us really looking at how you build capabilities and capital within a plant for manufacturability around automation and digital transformation. And so, the acquisitions we've made have allowed us to accelerate that.

And the first thing we did, we're not selling this externally, we're keeping it all internally. We manufacture our own capital now. So, in a typical plant where we would maybe manufacture 20% of the capital, we're now manufacturing up to 80%. It's very purpose-built capital for our own consumption, and we're retaining that.

When the customers and we quote these programs, and they're very sophisticated when they come through an audit, they understand that we have a different way of assembling products within our plants and we're much more competitive. And so, I think that's been very successful.

And in E-Systems, we've really went through, and you've seen it where we've focused our product portfolio in areas where we can be successful. And we have a role office in different types of business right now that we didn't have a long-term success or didn't think it would be successful long term. But we've really minimized the portfolio where we think and actually believe we can get a great return, and that's really helping us. And the continuation of some of the competitive elements that are out there right now, there are some strategic elements. There's others that are having quality issues. There's others that are having issues that are allowing us to gain access to quotes. That's the facts.

And so, the win that we had on the T1 was very unique. And I think it is very representative of continuing to execute to the customer's expectation. The Supplier of the Year, I think, backs that really in a strong way in how we're performing and then just continuing to deliver where we can. I mean, Supplier of the Year was last year. We have to execute this year and we have to execute next year. So, the pipeline in E-Systems is still really strong.

We had more wins in China in the first quarter in E-Systems than we had all last year. And we had a strong award cycle in E-Systems for \$1.4 billion. And Emmanuel, what's important is I absolutely know in my mind that we're going to continue to drive and expand margins in E-Systems and Seating, and the new business, as we quote, is at our target margins.

And so, it's important to think about, from an operations perspective, we're fixing the business. We've seen great improvements in the operation, both commercially and what we're doing in the manufacturing plant. But equally as important, as we talk about these new business awards, they roll on with accretive margins.

And so we're not chasing business. I want to be clear on that. We have targets internally that we are going to stay disciplined to. It's important that we expand our margins. It's our number one goal. It's above everything else. But the new business that we're quoting is at target margins and is accretive to the margins we have today.

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And so we have to continue to work. We're not happy where we're at by any stretch in both businesses. We've got to continue to expand margins. But the pipeline is really deep and we're putting ourselves in a good position. And I hope over the next several weeks I have another announcement, but we've got some work to do on that one.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

And just Emmanuel, two comments to add to Ray's comments. One, the sourcing environment has finally normalized after a couple of years where there's a lot of uncertainty around our customers plans with powertrain – their powertrain strategy. And now we've returned to a nearly normal sourcing cadence. And so I think that's one reason you're seeing sort of a pickup in the new award dollar values that we're talking about in terms of what happened at the end of last year and the start of this year.

And also just want to point out, the \$400 million of awards that we talked about in the – on the first quarter earnings call, that's the benefit to our three year backlog, 2026, 2027, 2028, and \$250 million of that will benefit our 2026 and 2027 backlog. A little bit of that's in the tail end of 2026, but the bulk of that is in 2027. So that momentum that we had in the fourth quarter and the start of the year is really continuing. And as Ray mentioned, we were close on a couple of additional awards, but we've already seen some meaningful progress on the near-term backlog that we had announced in our fourth quarter earnings call through these awards.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Okay. That's great color. And I guess just zooming back on that T1 SUV, Ray, you emphasize how the conquest win was significant basically for Lear. The CEOs of Aptiv and Versigent, they responded pretty forcefully to this, and in particular suggested that might be lower content or so lower margin build-to-print. Can you speak about the return or – and capital hurdles on this type of business and if there is any difference versus the rest of the business?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Well, first of all, I was surprised it goes as much play as it did. I must have hit a sore spot or something. It was a win for us that I was extremely excited about. I thought it was a great win for Lear Corporation. And when we look at – and we do both, Emmanuel. We fully engineer and design harness assemblies for all of our customers, including General Motors, and we have build-to-print contracts with our customers too.

So what we do is we ensure that we're there for our customers in any type of solution. And what we look at is returns. I mean, each have pros and cons from our perspective. We have build-to-print contracts that do extremely well financially, and we have full engineered programs that we manage that do extremely well financially. And so at the end of the day, we look at returns, we look at where our customers need us as far as growing our business and the type of applications and platforms.

But I think it's important to understand, particularly on that program, that is a very unique program. I mean, to be sourced that business on that platform in that timeframe, I think the smartest decision by our customer is build-to-print. It minimizes risk.

And the thing that we want to do right now is be successful. At the end of the day, it's all about execution. If it's build-to-print or if it's a full engineered wire harness program, we have to be successful because I know, if we can

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keep delivering for General Motors or other customers, that it puts us in a really good position to win more business.

And so, listen, I think the build-to-print is great. It minimizes risk, it gets us good returns, and it puts us in a great position to continue to win business. And so I don't see a downside to it. And we don't differentiate between those two different types of products, between engineered or design – responsible versus non-design. It's all about returns with us and we have to expand margins.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

And I think Emmanuel, just to add to Ray's comments, the key distinction between the two is oftentimes the level of investment. So as you think about engineering investment, CapEx, working capital, those are impacted by design responsibility and the complexity of the harness. And so you would expect a program where you have design responsibility, and that's very complex to have a larger upfront investment, and you would expect higher margins as a result of that.

But if you look at the return profile of our current portfolio, it's very similar between our build-to-print programs and our design responsible programs. There really isn't much difference in the return profile.

I think one distinction on a program where you have early design involvement, it does give you an advantage in terms of sourcing your own connection systems. And so, that's attractive to us. We have a great connection systems portfolio, and so that is one advantage. That's not to say that you couldn't ultimately put your connection systems on a program that's build-to-print, but it's harder. And so, we typically do see higher margins where we're more vertically integrated.

But just looking at a high level, the big driver is the level of investment in the program that will determine the margin. But the return profile itself is very similar.

Emmanuel Rosner

Analyst, Wolfe Research LLC

And on the Seating side, you announced the award for the Orion facility as GM expands its US footprint. How well is Lear positioned to capture additional onshoring business opportunities?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Well, first of all, I thought that was a great win. It really was in some respects. It was a conquest win, how we're positioning ourselves on that platform. And we remain the Tier 1 supplier on the T1 truck business for Seating. So, as they expand their product portfolio and their volumes will continue to expand our revenue dollars. And so, it was a great win.

I mentioned earlier, too, Emmanuel, it's going to showcase the best of the best capabilities here in our facility. So, it's going to become a showcase for us as far as technology innovation around IDEA by Lear. And as we look at the continuation of onshoring, we have a number of different opportunities that are being presented and we're reviewing and quoting. But they all come with different scenarios under different types of returns.

And so, we'll continue to "quote", "monitor" and we'll be very strategic in our approach to the onshoring. There are opportunities that are being presented today that we are reviewing and quoting with our customers, but they are

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all not equal. And so, we look at them slightly different. There's capital that could be in a particular location that may not make sense for us to compete against or other areas regarding the platform itself that we're not necessarily interested in because of risk. And so, we monitor that.

But I think on a broader approach, we continue to stay focused. We have 26% of the market share today. We have a target of 29%. We continue to see opportunities with not just the traditional OEMs around the world, as we continue to expand and win conquest and new business opportunities with those customers, but with the domestic Chinese and with the Japanese.

And so, we're still focused on our overall market share target. We've been successful early out of the gate, particularly with the traditional OEMs. We continue to win and are quoting with the domestic Chinese, and we think the door is open with the Japanese OEMs. And so, I think we're in a really good position, but we look at it broader. In each different quote, each different platform, each different customer, there's different risk that we take into consideration. But at the end of the day, we feel like we're in a really good position to continue to grow market share.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Let's turn to your full-year outlook and guidance. It sounded like the midpoint of your guidance incorporates quite a bit of conservatism. I think you said that you would have been a beat and raise in Q1 if it wasn't for the Middle East uncertainty. And that's none of the \$400 million midpoint to higher end or \$400 million low to midpoint protection had been used through the first half.

And then recently, it sounded like you're more confident that you may raise your full-year outlook on the second quarter call. So, I guess, what are the puts and takes and is that indeed the case?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. As we sit here today, with a strong first quarter and strong second quarter, it certainly puts us in a good position to raise our full-year guidance. And we'll go through our typical process, which includes talking to customers, looking at sales data, looking at inventory levels, talking to our global teams and – but all indications are, at this point, we don't see a need for the low end of that guidance range. And so, we would likely be in a position to raise the midpoint based on what we know today and maybe take out all or certainly a significant portion of the low end of that guidance range.

And so, nothing has changed from what we said last week. There's been some talk recently about weakness with certain customers in certain markets. But our latest reviews with the team here suggests that the full year is sort of tracking in line with what we've said publicly last week at another conference or between the midpoint and the high end of the guidance range. And so we're particularly confident in free cash flow. And I mentioned that again at another conference last week where the midpoint of our guidance range was at \$600 million. We definitely see room to bring that number up, and that's supportive of being a little bit more aggressive around share repurchases.

And so, I think the business is performing at a real high level operationally, commercially, and that's fueling the confidence that we have that we should be in a position to formally raise guidance on the second quarter earnings call.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

And I guess within that, how should investors think about the first half to second half bridge? I think you flag some – the usual Europe downtime in Q3, the fourth quarter calendarization dynamic, but will continued cost savings and accelerating backlog, would that basically provide an offset?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, those are the sort of puts and takes as I think about the first half, the second half. We do expect revenues in the second half to be a little bit lower than the first half as a result of what you described there with the typical summer shutdowns, particularly in Europe and maybe to a lesser extent in North America and then have production come back in the fourth quarter. And revenues in the fourth quarter will be similar to what we saw in the first and second quarter of the year.

So, we do expect about \$400 million lower revenue due to volume, mix, backlog, wind down, all those pieces taken together from the first half to the second half, offset by about \$200 million of kind of non-recurring tariff refunds that impacted revenue. So, net-net, something like \$200 million of lower revenue in the second half of the year.

And then offsetting the impact of the volume reduction or lower production volume assumptions would be the benefits of our performance improvement programs, and that's a combination of our traditional programs on efficiencies in the plants, supplier negotiations, commercial negotiations, but also the continued benefits of ramping up IDEA-related savings with digital and in automation as well as restructuring. That's the basic framework, first half and second half.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

And as part of that, the net performance dollar target that you've highlighted is \$135 million, 40 bps in Seating, 80 bps of margin in E-Systems, after a record almost \$200 million in 2025. Can you help us frame the long-term cost savings opportunity? Is this year's run rate a reasonable run rate over the next few years?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think that as we look out at this year, we're very confident in delivering the 40 basis points and 80 basis points in Seating and E-Systems net performance, respectively. Looking at 2027 and the pipeline of opportunities that are in process and on track for implementation next year, we're comfortable continuing with that level of performance commitments to investors for next year. So a similar profile next year with 40 basis points and 80 basis points in Seating and E-Systems, respectively.

As we move out into 2028 and 2029, we're in the early stages of our annual long-range plan process and we do see similar level of savings in that time period, but we also have a stronger backlog, particularly in 2028, 2029. And so there are some engineering investments to support that in 2028. There are some launch costs associated with that higher level of backlog, new facilities that we're putting in place that may weigh on that number a little bit, moving out into that time horizon.

But I think the key point is we're continuing to generate improvements in the run rate that are sustainable and durable in both Seating and E-Systems. And so I think that underpins our margin expansion plans in both

segments. And then as the backlog strengthens in that longer time horizon, 2028 and 2029, you see the benefits of the backlog rolling on at or above segment margins.

And I think a really important point to make is when we think about the level of savings we're generating through IDEA by Lear, it's as we launch new facilities, we're embedding those ideas in production at the start of production. So margins will be a little bit higher. Of course, we're sharing some of that with customers to motivate the sourcing decision. But the balance of that we're retaining. So over time, we would expect maybe the savings derived from automation to diminish because they're showing up in the backlog as their backlog converts at a higher level.

And I think there's three examples, just really quickly to talk through, that are driving the savings that we're seeing in net performance in IDEA within that. One is the cycle time deviation project in our just-in-time seat facilities. And where we've deployed that, we've seen an efficiency improvements of 3% to 5%. We had \$10 million of savings last year. That grew to \$15 million this year. We're continuing to roll that out globally. That could be as much as \$25 million next year, so an incremental \$10 million opportunity.

Another area which we just reviewed again yesterday at our automation center is what we're doing with automated sewing. And think about how labor intensive our cut and sew operations are. We have roughly 18,000 employees that sew, trim covers. And about 10% of that sewing is 2D sewing, and we have in production today automation of 2D sewing. So we believe we can automate 100% of that over time.

The more complicated automation is 3D sewing. We've reviewed some technology yesterday and we are making great progress there. I think we're the only ones doing this. We think that ultimately 5% to 10% of our 3D sewing, which makes up the bulk of the employment in our cut and sew plants, will be automated longer term.

And then the last one, which Ray alluded to with StoneShield, is automated taping. And we've reviewed that as well. And 15% to 20% of our head count in our wire facilities are involved in taping. That's the most labor-intensive portion of the wire harness assembly. And we see an opportunity to reduce cost through automation. It's one of the more challenging automation projects that we have.

But the partnership with StoneShield and ultimately the acquisition of StoneShield, bringing that capability in-house is really accelerating the path to do just that. And we had the first program launching next year with automated taping. And so, that's a really exciting opportunity. So, those are just three examples, and we have lots more, as Ray mentioned, on display at our Rochester Hills facility. And I think seeing it in person really brings to light just the magnitude of this opportunity that we're on the cusp of achieving. So, we're very excited about the runway we have in front of us to generate savings through this IDEA by Lear initiative.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

And Emmanuel, like I mentioned, those are acquisitions, we consume those internally. And so, we don't share those. Those are not something that you buy in the open market. Everything that we're designing is for our own use. And so, we're doing it with the intent to be much more efficient, much more focused on our manufacturing processes, but solving solutions that will revolutionize the way you think about the manufacturing process itself.

And so, that's where I mentioned earlier on, I couldn't be more excited. We are really connecting the dots at an accelerated pace. And so, we have examples, but they'll continue to expand our margins, too.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Okay, great. And then so, maybe focusing on E-Systems' longer-term picture, I think in the past, you've characterized E-System as an 8%-plus margin business. Obviously, it's faced significant headwinds in recent years, including the EV not playing out as hoped. What are the key actions that you're taking to expand the E-Systems margin back to generating returns above the cost of capital?

And then, if I can sort of put that inside that as well, a follow-up to a question I asked on the earnings call, which is obviously one of your newly independent North American competitor is printing these – already these kind of like 8%, 8.5% target EBIT margins. What do you see as the main delta between your performance and that of those peers?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Well, first of all, we're not satisfied with where we are at, Emmanuel. I think the E-Systems division and business is really good business. And we are tracking to where you mentioned some of – a competitor may be mentioning their margins are at, and we believe, without question, we will get there and we can get there.

I think when you think about E-Systems, we've done a lot of different things. Obviously simplifying the portfolio was a great step in the right direction. We had invested and done a great job of winning new business in EVs. And, obviously, the decline of the EV market here, particularly in North America took – we took a step back with the capacity we had installed, the inefficiencies that we're trying to commercialize, or at least negotiate with our customers because of volume. So, we did take a step back.

And then, we've re-pivoted, re-thought through the product portfolio. I think last year's business wins is an example of what we can do. I've said this before. We're not chasing business. The business that we're winning is at the target margins that you're suggesting and where we believe we can get to. Right now, we're still continuing to work the operations. We have some issues that we're still managing through. We've seen some good improvements. The trajectory is on the right trajectory. I think the team's doing a great job operationally. We are working hard primarily in Mexico, in that we've seen great turnarounds within our Mexico operations.

Commercially, we still negotiate the most – for most part of the deals, we still have some commercial settlements we're working on with our customers, but a smaller portion of that. So, the operation part of that is the continuation of improvement and expanding margins. But I think equally as important as we mentioned is as we roll on new business, one business we are launching with domestic Chinese later this year, heading into next year, we have the 2027 launch with General Motors and then the continuation of the new backlog that's going to be launching that will be on an accretive margin.

And so, the combination of those are a simple way of thinking about where we're at with the business. But nothing that we haven't managed before and nothing that I would sit here and say, it's going to set us back. We have everything in front of us to get the job done. I'm happy where the team is pushing the margins, but we have more work to do. We're not happy where we are at, but we absolutely believe we can get there.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

I think, Emmanuel, it's important to highlight, we are expanding margins this year in E-Systems, albeit modestly, based on the midpoint of our current guidance. And that will be a little bit better when we update our guidance for

the full year. And we're expanding them in – even with two pretty significant headwinds. The negative backlog resulting from Ford building out the Escape, Corsair and Focus was a pretty significant program for us, plus the wind down of products that we took the decision to exit is still the right decision, but that's impacting revenues. The peak of that impact is in 2026 and 2027. It's about \$350 million of business rolling off over that time period.

And so as I think about getting back to 8%, there's really three key drivers to that. One, as Ray just described, continuing to execute operationally and commercially, achieving the 80 basis points in net performance this year, next year and beyond. Second is returning to growth. So once we get through this wind down period and you start to see the benefits of all this business we're winning, rolling on at or above segment margins.

And then the third is, I think, improving customer mix. And if you look at the business we're targeting and the programs that we've won over the last couple of years with the F-250, with Ford, a program we're on, but we also conquered some additional content on that at the start of last year. In E-Systems, we had the T1 SUV that we've won. So we're targeting programs that have appropriate scale, long history of success in the marketplace, more stability around volumes as a result of that.

And then lastly, growing with the Chinese domestic automakers. And not all of them, but targeting – we've got 8 to 10 that we're particularly focused on that we think have the clearest path to long-term success and to returns for us in excess of our cost of capital. So those are really the three kind of key drivers to getting us back to 8% and closing that gap with our competitor, which I think is very achievable over the next several years.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Great. Then maybe just to conclude, I think, Ray, you recently said there's no M&A alternative today that creates more value than buying back our own stock. And so is that still your capital allocation strategy? And what would have to change, whether it's valuation, availability, balance sheet for Lear to pursue an acquisition in either Seating or E-Systems?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Well, I think, first of all, we study and review and think through any different ways we can create value for our shareholders. That's the number one thing. And at the particular moment that I said that, there was nothing on the horizon that would make sense. But we're always looking at opportunities that would make sense for our shareholders, and studying those in a way that could be strategic or could change the way we look at an acquisition. We have been focused at this point on our capital allocation. It's been very disciplined and it's worked for us with the tuck-in acquisitions. It's accelerated our technology innovation.

But I do believe, and I've said this before too, Emmanuel, I believe the dynamics in this industry are going to create consolidation. I think it's necessary. I think there's too much capacity out there. I think – and I don't just mean from a supplier perspective; I mean from an OEM perspective too. We are going to see changes that are going to be necessary to be more efficient across the board.

And so that's why we keep a close eye on what's going on. We want to make sure that we're monitoring opportunities that could present themselves, that would make sense for our investors. But I do believe the dynamics in the industry have shifted in a way that it's going to take and it will be necessary for consolidation in certain areas and with certain OEMs to really drive efficiency within our industry.

Emmanuel Rosner

Analyst, Wolfe Research LLC

That's great. Great place to end. So thank you so much. Really appreciate all your time and insights. We look forward to keep monitoring the progress on those awards and on the operational front. So thanks again and thanks everyone for joining.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Thanks, Emmanuel.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Great. Thank you.