



Transcript

Lear Corporation

Wolfe Research Virtual Autos Summit

March 18, 2025

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It's no secret that suppliers in general have faced their fair share of challenges recently from rising input costs to production volatility and shifting customer mix dynamics. Among the suppliers that may be best positioned to not only offset these headwinds by emerge stronger is Lear, a global leader in both seating and electronic system. Lear has made significant investments in automation and vertical integration, both organically and through acquisitions over the past several years. If they can capitalize on these efforts, management believes it could drive scale and structurally higher profitability across both businesses going forward.

So, to discuss these dynamics and more, I'm very pleased to welcome Lear's President and CEO, Ray Scott; and CFO, Jason Cardew. Thank you both for being with us today.

Raymond Scott
President, Chief Executive Officer & Director, Lear Corp.

Yeah. Thanks, Emmanuel. Great to be here.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

So, maybe to start, can you give us an update on the current state of business? Any update on how things are tracking for the first quarter?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. So, we're two and a half months into the year, and things are tracking really well on the things that we can control. The fact that we put out really an ability to track our performance, I think was really important given a number of events are going on in our industry today. And so, we've talked about in a flat to down market Lear continue to expand and from a net performance perspective in Seating 40 basis points and in E-Systems 80 basis points. And right now, we seem to be doing a really good job at focusing and executing to our plans and that is our plan. And we are absolutely focused on execution and the operations and things are going well. Obviously, a number of things that we'll talk about more, but they're going on in the industry. But from our perspective and the things that we can control and the things that we can manage, the team is doing an excellent job.

I think secondarily to the point of net performance in our operational plans is the general growth and how we're growing in both Seating and E-Systems. And so far things have started off really well for us. We've talked about the continuation of growing in thermal comfort systems, modular systems. We recently had a great announcement of winning the mid-sized trucks for General Motors. I think this only continues to validate this modular solution, and the uniqueness of it not only helps with comfort features from an efficiency standpoint for the customer, but from a quality perspective and from an overall efficiency. So, really, really proud of the team.

We recently just announced that we validated the Ford modular system. We have a number of other really important awards. But what was really unique about this recent award that it was in mid-cycle. And so, we'll be launching that later this year. I think that shows the flexibility, the ability to get out and scale those products to introduce them and not have to wait for a product changeover, but be able to introduce those in mid-cycle. And so, team did a great job. So, we're well on our way. I think we're absolutely comfortable and confident in our plan of taking the thermal comfort systems business from what was approximately \$630 million last year to our \$1 billion goal. So, I think that's absolutely on track.

I think, in addition to this, we've talked about the backlog. We have about \$3 billion of conquest opportunities in seating that ranges across a number of different key customers. But I think the combination of our efficiencies that we've talked about with manufacturing, really creating a defensible moat around our competitiveness and the modular solutions allows us to quote two different scenarios, one on adjusting time, but then also supplementing that with a very efficient modular solution across multiple platforms and customers. So, really strategically looking at those opportunities in two different, I'll call it, paths for our continued growth.

In E-Systems, really confident in the first, like I said, two and a half months of this year. The team is doing a great job operationally. We're seeing some benefits, some tailwinds of the things we put in place last year. I think the simplification of our product portfolio is really aligned and helped with our customers. They actually got some good news just last week. We won a major battery disconnect unit with a current customer that we had, so it's replacement business, but really shows our design capabilities.

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And so, it continues to really differentiate us in that area of electrification. The decline of electrification in some of the content within that is changing. We still are well-positioned to grow within the EV area, and I think that's another area that we've been very excited about. So, E-Systems is doing a nice job, really focused on, like I said, the operational excellence, but also doing a really nice job of growing. And we do have some of the largest growth opportunities in E-Systems in the first half of this year that we're quoting right now.

I think the last one that I couldn't – I've talked about this, Emmanuel. We've been at this for 10 years on the modular components within Seating. But equally as important, the connection of that with the manufacturing opportunities. We've bought several tuck-in acquisitions. We just recently announced another acquisition in manufacturing excellence, operational excellence, and automation. The team is doing a really nice job. We have \$75 million targeted this year, is going extremely well. That will represent about \$150 million on an annual basis heading into next year.

We introduced IDEA by Lear last year, but it was a culmination of a lot of different acquisitions we've been doing over seven to eight years in manufacturing excellence. It gives us our own capabilities within capital, our ability to buy our own capital, what we're doing with software with a company like WIP that we just acquired several months ago. So, things are going extremely well. I think that actually in that area we'll be able to accelerate that much faster. So, yeah, it's early in the year, Emmanuel, but things seem to be shaping up nicely for the things that we can control.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Just to add to Ray's comments in terms of the financial outlook for the first quarter, Emmanuel, I'd say that the first quarter is shaping up in line with what we had expected when we established guidance for the full year and sales and OI both are sort of trending in line with what we expected. And in fact, we didn't provide pinpoint estimates for the first quarter on our last earnings call. But if I look at consensus estimates with revenue sort of approaching \$5.5 billion and operating margins in the low 4s, I think that is in line with what we're seeing.

In terms of the production environment, I would say Europe and Asia are a bit stronger, maybe Europe more than Asia than what we had expected. And North America is slightly weaker, but those are very minor changes across the three major regions there. We do see a modest benefit from the weaker US dollar impacting revenues as well. And then, with free cash flow, the first quarter is typically a seasonally weak quarter for us and that'll be the case again this year. Last year in the first quarter, we used a little less than \$150 million of free cash flow. What's little bit different this year is our quarter ends on March 29. And so, some of our end of March receipts from customers in the US and Europe will fall outside of the quarter. It will benefit the second quarter, but our use of cash will be greater in the first quarter of this year than it was last year.

Just following up on Ray's comments on net performance, we are seeing positive net performance in both business segments in the first quarter year-over-year. So, we're off to a good start. And more importantly, we're setting ourselves up for achieving the structural cost benefits that we need to exit the year with 5% or greater operating margins overall.

And then, lastly, from a share buyback standpoint, we've continued to buy back stock in the first quarter as we usually do. We start the year off a little bit slow given the seasonally weak free cash flow in the first quarter. But we are – we bought back I think \$17 million through yesterday and are on track to buy back about \$25 million in the first quarter.

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Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Great. Thanks so much for the detailed updates. Maybe shifting gears to tariffs, significant amount of focus on this. Can you please remind us what your exposure to Mexico and Canada is and quantify the potential impact of tariffs if they were to be instated? And then, what would be your strategy to mitigate the risk or the impact?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Just reiterate what we said on the fourth quarter earnings call. We had estimated our imports from Mexico into the US for \$2.9 billion. Our latest estimates are about \$2.8 billion. So, pretty darn close to that, less than \$100 million from Canada and about \$20 million from China.

In terms of the – I think the important delineation between USMCA and non-USMCA qualifying material, the vast majority of what we import from Mexico and Canada into the US is USMCA qualifying material. And the portion that is not USMCA qualifying material, the bulk of that is directed by our customers. And so, we don't see under the current configuration of the tariff rules any significant direct impact at this stage. But obviously, we're concerned if that were to reverse course here after April 2 and the exposure would be something beyond that and include the USMCA qualifying material.

We don't – as we sit here today, we don't believe that that's going to be the end result, but that would certainly be a risk. And we're working actively with all of our customers on a path to recovery of those costs, any costs that do fall through there. Our view is that and we've said this previously that the auto supply space and the margin profile of this business is not such that we can absorb any of the tariff costs as we look at the business going forward.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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Yeah. I think it's important, Emmanuel, what we're doing is, one, having a very granular look at everything, every moving part from every different country in and out of Mexico from the US to Mexico, back and forth, Canada included. And then, I think we've done a really nice job of understanding what the risks are relative to being exposed. We do have optionality within each one of the different areas depending on which scenario is announced on April 2. But we're within the mindset of looking at each one of those scenarios and how do we offset 100% of those potential tariffs. And some of that is obviously in the majority of its going to be a pass through to our customers. We've been in constant contact with them.

We've explained the issues relative to what those costs look like. We've explained where those areas are at, making sure if we're qualifying with the USMCA components, if we're not quickly getting all of our components qualified. In some cases, we have optional construction where we can source alternative suppliers where it makes sense and continue to work on engineering changes that will allow us the flexibility to make changes. We've continued to mitigate and move in different countries. I think we've done a nice job both in North Africa and then what we're doing in Central America out of Mexico. So, about 40% of our business in our E-Systems wiring has already been moved. And then, our target, as we've announced, is 60% of our total business will be moved out of Mexico.

So, we do have options, but right now our discussions are more on the commercial side on how we're going to handle directed on day one what those issues mean, how we process the paperwork through the system, and then what alternative options we have longer term. I actually think there's some opportunities. I've mentioned this. With the modular solution we have, Emmanuel, we could move that and scale that in a proper way in the United

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States. So, those type of discussions are being brought up where we can actually do assembly in the US and certain key components. And so, even the extent of us moving – announcing move of different component work I think would be beneficial to our customers and would help our growth strategy.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

And on that last point, the ability to bring some back to the US, does that include also some of the labor-intensive products that you do such as wiring?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Well, it's more of the assembly of modular components. So, I think there's some – when you look at wiring, wiring is a very labor intensive. I think that's more of some of the labor arbitrage that we've already been moving to. We would move those a little bit faster, I think, to help mitigate the tariffs. But we're in discussions on that tariff. I think customers realize that those type of components, there have to be a pass through on the tariffs relative to the cost as we work through this.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

And turning to your full-year outlook, so you expect overall organic revenue to decline by 2% this year, roughly in line with the industry production outlook on the Lear weighted basis. Can you just remind us what are the drivers of this and how can you go back to outgrowing the market in the future?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think that in the – in 2025, the biggest challenge that we have is really customer mix and program mix, and so the markets that were largest in US and Europe are down a little bit and then, the programs that we're on are experiencing decline in volumes. Now, if you kind of rewind the clock going back to COVID, we benefited from the customers' inability to produce all vehicles in their portfolio, and they focused on their highest margin programs and in Seating in particular, we had the right portfolio at the time benefited from what our customers did in terms of producing and prioritizing certain vehicles over others. And so, we – in Seating over four-year period, we had growth over market of about 3.5 percentage points from 2020 through 2024 and a portion of that was due to favorable customer mix. And that's the portion that has reversed course a bit here and is a headwind in 2025.

And I think the other factor is certainly the bulk of our backlog was on new electric vehicle platforms, and those volumes simply haven't materialized as anticipated when those programs were initially sourced. If I look out over the next three, four years, we do see the benefit of the potential conquest awards in Seating that Ray alluded to in his opening remarks of \$3 billion of business that we're quoting. We're not going to win all of that business, of course, but we're going to win a significant portion of that. And I think it's – so if you can sort of look out to 2028 and beyond where a lot of those programs are going to launch, certainly 3 points to 4 points of growth over market is a reasonable target for us in Seating.

And then, on the E-Systems side, I think that certainly the – in addition to lower production volumes in our largest markets that we've experienced towards the end of last year and the first part of this year, in addition to that we have the products that we have exited or decided to exit starting to roll off this year and over the next couple of years, there's about 250 million of electronic products like lighting and audio that we're no longer participating in and those will be a bit of a headwind to growth. But again, with E-Systems, we have significant opportunity for

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conquest awards on our traditional low voltage wire business that we're pursuing this year and early next year that we think we're going to win and that will allow us to maybe not return to 6 points of growth over market, but certainly something in the 4% to 5% range. And then, if electrification possibly inflects again later in the decade, that would be an additional tailwind that could push us back to 6 points of growth over market.

So, yes, in the near term, 2025 growth over market is weak. 2026 looks a little bit better in both segments. Our backlog that we announced is \$1.1 billion next year. So, we do expect positive growth over market in 2026. And then, looking out 2028 and beyond, we see a return to sort of normal growth rates that we've experienced over the last four or five years in the business in both segments.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Hey, that's very helpful. I want to come back to the backlog just in a minute, but I was going to ask you first on the cost saving side. You're targeting considerable cost savings this year, 40 bps of Seating margin, 80 bps in E-Systems, which is even more than what you achieved last year and it seems based on your intro remarks that things are generally on track. So, can you just remind us what the drivers are and how much visibility you have into achieving these targets for the full year?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. And just to sort of level set the conversation here, when we look at our business, the normal business equation entering each year is that we've got to generate efficiencies, commercial benefits, CTO, supplier cost reductions that offset our contractual price reductions with our customers and wage inflation. And so, that activity is progressing as it has in the past. It's sort of at a net zero basis. The 40 basis points and 80 basis points of net performance that we're generating are largely a result of two things. One, our restructuring program and restructuring savings and then, what Ray described earlier and what we're doing with IDEA by Lear and particularly around automation.

And so, those are the key drivers of the net performance improvement that we expect to achieve this year. And we have a good line of sight and as I mentioned early on, the first quarter is off to a great start. So, couple of examples on the restructuring side. We're shifting a significant portion of our thermal comfort footprint out of Eastern Europe to Tunisia that started in the middle of last year and that's been ramping up and will continue throughout this year. And by the end of this year, that will be complete. And then also, and Ray mentioned this briefly, but continuing to shift our footprint from Mexico into Honduras, 40% of our wire footprint head count today for North America is in Honduras, 60% is in Mexico. Over the next two years that that flip flops, you have 60% in Honduras. So those are the big drivers on the restructuring side. And then, Ray, I don't know if you want to talk about an automation example.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

I think what gets us pretty confident in the work that we've been doing, Emmanuel, like I said, we've been at the modular design for over 10 years. And the acquisition of Kongsberg, IGB really helped solidify our position of an integrator in the engineering design. And we have a way to differentiate ourselves and continue to expand our margins and Seating on the product side. On the manufacturing side, equally as important, what we discovered in our modular concept was you had to have very unique automation and manufacturing capabilities. And I think everyone uses the word operational excellence, and I think it's an overused word in some cases without a clear definition of what it means.

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What it means for Lear is what we really established last year and really it gave us a North star on what we're doing with IDEA by Lear, IDEA being innovation, digitalization on the plant floor, engineering, which is really how you engineer a modular component that's designed for the last letter automation. And so there's a lot of components within the manufacturing world that are commodities where you can buy cameras, you can buy cobots, you can buy all these things that are very cost effective. But the integration of those things on the plant floor is what really is unique. So the acquisitions and even the most recent acquisition of StoneShield just shows how we're focused on manufacturing.

And let me give you an example. We have a project called Dim the Lights at the End of Line and Just-in-Time. And it really takes in everything that I described with smart ovens with automation and the detective detection systems with cobots and vision systems. The software that we're embedding in our control panels on the plant floor are only designed for Lear Corporation. So these companies we've acquired, we immediately cut the contracts. We've embedded that human capital and really that innovation for our own personal needs. And we introduced a way to connect the dots last year. But, what we're doing with automation in our manufacturing plants, and we're doing it while production is running. And so I think the complexity that when you think about, boy, we're getting that \$75 million that competitors can't get at, that is something that's durable, that's long lasting, that differentiates our model and how we believe we can expand margins in a flat to down market.

And now I'm confident in our team. I know we've put targets out there. I know and believe the team will beat those targets because I think we're somewhat cautious in how we look at the numbers. I think there's just launch costs and things that we look at that I think will exceed and beat and how fast we get at that.

So, the first half is very important. How we accelerate that in the second half that really sets up what we talk about with exiting at our target margins of a company at 5% really starts to put motion in place for next year. And so that's something that's different than any other company that I look at and listen to. So we have the typical, the restructuring, the downsizing, those type of things. I think we've done a great job. If you look at what we've done with head count reductions, with the same type of goal that we expect this year and we're on track. And so the combination of all those things I think absolutely is the way we're going to differentiate ourselves and expand margins in a flat to down market. And we're focused on it. That's exactly what we're doing. I feel good so far this year, but we're investing in areas where we can get a really good return.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Okay. I appreciate the color. So on the Seating side, help me understand the backlog dynamics. So this year you have virtually no Seating backlog rolling on, but then next year, you expect this significant \$900 million or so. And then you haven't disclosed a backlog number for 2027. So can you help us understand the current OEM sourcing dynamics?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. Do you want to start on the sourcing dynamics?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. I think, Emmanuel, what we're seeing in and again, I think the industry is seeing this is, one, a number of customers, somewhat paused and pivoted around EVs and how they're looking at propulsion systems, what

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demand really looked like. There's a number of quoting activities that were in process that were delayed. Lot of them were pushed from last year into this year and they're pushed from and there's been a lot of recent announcements about programs being pushed out from 2027 to 2028 or even 2029. And so, I think the whole propulsion system and our traditional OEs really looking at what real demand look like, really created this push into 2028 and 2029 with some of the quotes that we were actually quoting on.

I think the second point is, in addition to that, there was different technologies, software development programs with the architecture that, I think our customers took a pause on those type of implementations and how and when they're going to implement those things as far as software, architectural designs, those type of things. And so, we saw quotes getting pushed into 2028. So a lot of the quoting process, I think, has really been an element of how our customers are looking at their position in the marketplace. And I think that's synonymous across every customer. I wouldn't point out one customer over another. I think we've all read about programs being delayed from 2027 to 2028. There's been several announcements recently. And I think in addition to that, what we're hearing is a lot of this implementation around the most cost competitive system, if it's the battery or the harnesses or what they're doing as far as the interiors, really getting aligned with their cost, being the most efficient, the technology implementation and the real demand around propulsion systems, around hybrids, ICE vehicles and EVs. And so, the industry I think as a whole is seeing somewhat of a stagnant 2027 and a push into new program launches in 2028 and 2029. That's my explanation.

I'll let Jason kind of go through the explanation of the numbers.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. Just real quick. What gives us a lot of confidence in the Seating backlog for 2026 is the fact that now two-thirds of that is on ICE powertrain vehicles and high quality vehicles, the largest of which is the Audi Q7, an important, Conquest Award that we took from a competitor that launches towards the end of this year and into next year. And so – and then just real quick on the – our decision not to provide a backlog for 2027 was we just didn't have the confidence in the volume outlooks for that time period given all the uncertainty around ICE versus EV and whether new electric vehicles were going to gain traction in the marketplace. And we just thought it was prudent to focus on what we did have confidence in which was the 2025 and 2026 backlog. And then I'll also just quickly highlight our 2026 non-consolidated backlog in Seating a significant. 70% of that is with the Chinese domestic OEMs and half of the non-consolidated backlog is with BYD. So we have a high degree of confidence in both the consolidated and the non-consolidated backlog in that time period.

Emmanuel Rosner

Analyst, Wolfe Research LLC

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Great. Yeah. Thanks for the color. I had some questions around – more questions around Seating and BYD. But just in interest of time, I'll probably switch to E-Systems and also want to leave some time for questions around the strategic alternatives. So, on E-Systems, is generating margins around 5%? Obviously, it used to be considerably more. What are the drivers to continue to improve the margin towards your mid-term targets? And particularly with the slower acceleration of EV, is there room in general to essentially invest maybe less in EVs based on the new trajectory for this powertrain? And would that help accelerate that trajectory towards the midterm margin targets?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. Certainly, the level of investment required for electric vehicles in the medium – near to medium term is lower than what we were investing in if you go back four or five years. Part of that is because we've exited products like onboard chargers. And part of it is that, that initial R&D investment can be used and applied to new programs that we're pursuing as we move forward. But moving back to the first part of your question, Emmanuel, that we believe we can expand margins in E-Systems even in a flat production volume environment. And that's really what we're focused on now and these efforts around net performance are geared towards generating margin expansion in a flat volume environment. And we have 80 basis points of net performance this year and there's three drivers of that. We talked about restructuring savings and automation already, but the other is what we're doing around efficiencies in our North America operations. We struggled in the first part of last year with launches of a new facility and new programs there. We saw a gradual improvement in the second half of last year. That's accelerated here into the first quarter off to a very good start. And so there's a meaningful benefit to the net performance number in E-Systems and operating margins generally through these efficiency gains that we're experiencing in North America.

And then looking out to 2026 and 2027, the biggest driver is going to be again continuation of this restructuring, shifting the footprint to Honduras from Mexico to North Africa from Eastern Europe and automation. And so we're in the first or second inning of the real automation benefits in E-Systems. We see that accelerating towards the end of this year into next year and then even more so into 2027.

I think you get out to 2027 and 2028 and we would expect automation to exceed the benefits that we're achieving through restructuring savings. And so we think we can generate positive net performance sort of in the 150 basis point range over that 2026 and 2027 timeframe. So even without any backlog or volume, we would see margins in the mid 6s. And I think at that point, we would expect to see some industry volume recovery and some benefit from our backlog which would be additive to those targets.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

I guess as a follow-up, just my bigger question would be, is there any appetite or would it make sense at all to reduce the scope of powertrains you support? Or is sort of like the investment in EVs generally, you need it just because you're a global player and this is where, essentially the industry is going on a global basis?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Well, we've narrowed the focus from an engineering standpoint to Battery Disconnect Units and the Intercell Connect Board. That's really the extent of our investment in the electrification space that's not applicable to ICE vehicles. The rest of the electronics portfolio, the rest of the wire portfolio is benefits equally from any powertrain, whether it's ICE or EVs.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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Yeah, I think, several years ago, we simplified the product portfolio. And it really is obviously, we do a nice job on wiring and we're quoting Emmanuel is above our cost of capital. And now some of that has been negative because of volumes, but we're in negotiations with our customers to get, again, the margin above our cost of capital. And that's what we're focused on. And I think simplifying the product portfolio has really helped us. Like Jason said, the Battery Disconnect and intercell connect boards, we do a very good job. The most recent award which was a replacement for the next generation, was really won because of our design capabilities and we're doing that again at a pricing level that we generate margin above our cost of capital.

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And so we're focused – really focused on where we believe we can continue to create value. And the execution of our plan that Jason went through is the focus. If we don't need to spend capital, we're not going to spend capital, no question about that. But where we can grow and grow our margin, expand our margins is what we're focused on. And there's limitations like we've rolled off the lighting and audio, those type of things where we just couldn't compete long term. Other areas, we've continued to just continue to divest or even roll off and focus in where we can quote even strategically with customers where we think we absolutely can get a fair return on our investment. And so, we position ourselves well. I think we have a good book of business between our engineered components that does a nice job of returns, wiring and then, the smaller portion which is electronics.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Great. So here's really the biggest question I have for you. Having dealt with challenges over the past several years, many suppliers are evaluating strategic alternatives to unlock shareholder value. So things that are way, way above business as usual. How does Lear think about this? And, when we think about it from the outside, it feels like there's so many different layers of optionality. Like, we're curious whether Seating and E-Systems still belongs together, whether if some Seating assets were to come to the market from weaker players, would that be of interest? If E-Systems assets are coming to the market, would that be of interest? Would you be a consolidator? Does the current structure make sense? It's a very broad question, but how are you thinking about strategic alternatives in the current environment?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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Well, I think to just state that my number one objective period is to improve shareholder value. And so that's what I focus on. And the combinations of different solutions that you just mentioned are something that's under consideration every single day that we work on different scenario planning and different options. I do and I actually believe that there will be consolidation. We've seen it. We've seen Aptiv with their announcement of NewCo and spinning off wiring. We've seen American Axle. We've seen others. And probably there'll be another - -other announcements over the next several months to a year. My primary focus right now and I believe we can create great shareholder value and improve the stock. We couldn't be more disappointed we have to improve the stock price, no question about it, is to execute the plan that we just mentioned, Emmanuel. We continue to expand margins in a flat to down market and that's the primary focus.

In either scenario, Emmanuel, improving our business helps us. We have a great product portfolio. And what I mean by that, we have a lot of optionality. We have electronic components that I think could work in a different scenario potentially. We have engineered components in E-Systems that give us a great return and we have wiring. And so we can participate when there's an opportunity to create value for our shareholders. I think there's some valuation issues right now with some of these options that are available at this time. I think that there's more reality that needs to come into those valuations.

And I think that, when we look at our discounted free cash flow on the options we have in front of us as we execute our plan versus other options, we're going to consider those. So nothing's off the table. But I also think Lear is well positioned to execute our plan, drive shareholder value by executing. We don't need to leverage up. We don't need to spend a ton of money, put a burden of balance sheet with these type of scenarios that are in front of us. But in the future, if there's something that we can generate better shareholder value, absolutely, we're going to look at it. And so I think patience is something that is important right now. And I think there's going to be more opportunities in the future, both in, I think, Seating and E-Systems.

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Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

And in the current environment, what are your – just remind us what are your capital allocation priorities then?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. Priorities remain unchanged. We're going to continue investing in the business organically. We're looking at tuck-in acquisitions on the manufacturing automation and integrations side, like we've done over the last five years. And we're going to buy back stock and we started that here in the first quarter. We bought – we expect to buy back no less than \$250 million this year based on sort of the low end of our free cash flow guidance. And as we work our way to the midpoint or high end of that range, then we'll look to increase that appropriately. So that that is our focus in the near term, Emmanuel.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

And then maybe just going back to the BYD question, since I think we have another minute or two. You've disclosed you've won 30% of BYD Seating business for 2026. How does doing business with Chinese customers, how is that different from traditional OEMs? Are they more receptive to some of your vertical integration technologies? And what's usually the margin profile on some of these wins?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah, Emmanuel, one, it's exciting. I was recently over in China meeting with the CEO of BYD, and it's about innovation. And we're competing against the domestic Chinese today and we're doing a really nice job of winning business with BYD. We talked about being – having 30% of their portfolio in Seating. And the way we're positioned with innovation, and I'm not just talking product, I'm talking manufacturing. The – how quick they want to go to production with new vehicle launches fits perfectly with us because, we talked about the ability to own your own capital, design your own capital. It also that helps out with timing, timing of capital. It's not only more efficient from a cost standpoint, but we can move much faster. The innovation, it's all about innovation.

I mean, that's all we talked about was the modular design, what we can do, what we can do not just in China, but what we can do outside of China. And so they're very excited about the innovation that we bring because there isn't a competitor that we have right now that has that type of capability on the manufacturing and the product side of Seating. And so, I feel very confident. There was a very constructive, positive meeting. They gave us insight that they want continue to grow us. So, we're going to continue to push innovation. And I think that goes for a number of domestic Chinese. I'll be back in April, sitting down with a couple of key partners of ours. So there's going to be continued opportunities, not just with BYD, but Chang'an, Xiaomi, XPeng. There's a lot of different, really good customers that we're doing a great job of growing our business from a margin perspective.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. The margin profile of business with the Chinese domestic OEMs and Seating is similar to the rest of our portfolio. And the biggest factor that determines sort of where it fits on the range from, say, 5% to 10% is the level of vertical integration. So if it's Just-in-Time Seating without any components, it's going to be on the lower end. And if it's a fully vertically integrated program with seat covers and structures and foam, then it's going to be on the higher end. And so that's what we're experiencing so far on the Chinese domestics from a profitability standpoint.

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Emmanuel Rosner

Analyst, Wolfe Research LLC

Great. Well, I think that's exciting place to conclude. So, Ray and Jason, thank you so much for your time and insights today. Very much appreciate it.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah, thanks, Emmanuel. Good seeing you.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thanks.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Thanks everyone for joining.