



*Transcript*

# Lear Corporation

Q4 2024 Earnings Call

February 6, 2025

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone, and welcome to the Lear Corporation Fourth Quarter and Full Year 2024 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please also note today's event is being recorded.

At this time I'd like to turn the floor over to Tim Brumbaugh, Vice President, Investor Relations. Please go ahead.

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**Timothy Brumbaugh**

*Vice President-Investor Relations, Lear Corp.*

Thanks, Jamie. Good morning, everyone, and thank you for joining us for Lear's fourth quarter and full year 2024 earnings call. Presenting today are Ray Scott, Lear President and CEO, and Jason Cardew, Senior Vice President and CFO. Other members of Lear's senior management team have also joined us on the call. Following prepared remarks, we will open the call up for Q&A. You can find a copy of the presentation that accompanies these remarks at [ir.lear.com](http://ir.lear.com).

Before Ray begins, I'd like to take this opportunity to remind you that as we conduct this call, we will be making forward-looking statements to assist you in understanding Lear's expectations for the future. As detailed in our Safe Harbor statement on slide 2, our actual results could differ materially from these forward-looking statements due to many factors discussed in our latest 10-Q and other periodic reports.

I also want to remind you that during today's presentation, we will refer to non-GAAP financial metrics. You are directed to the slides in the appendix of our presentation for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

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The agenda for today's call is on slide 3. First, Ray will review highlights from the year and provide a business update. Jason will then review our fourth quarter and full year financial results and provide our outlook for 2025. Finally, Ray will offer some concluding remarks. Following the formal presentation, we would be happy to take your questions.

Now, I'd like to invite Ray to begin.

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### **Raymond Scott**

*President, Chief Executive Officer & Director, Lear Corp.*

Thanks, Tim. Please turn to slide 5, which highlights key financial metrics for the fourth quarter and full year 2024. Lear generated \$23.3 billion of revenue in 2024. Core operating earnings were \$1.1 billion, or 4.7% of net sales for the year. Adjusted earnings per share was \$12.62, an increase of 5% from last year, driven by the benefit of our share repurchase program and higher earnings. Operating cash flow was \$1.1 billion and free cash flow was \$561 million in 2024.

Slide 6 highlights the key financial and strategic initiatives we delivered on in 2024. As a reminder, we have four strategic priorities. One, innovation. Two, building on our automation and digitalization advantage through IDEA by Lear. And three, improving our market share with growing customers, and four, delivering financial performance for our shareholders.

Our execution on these key priorities enabled us to generate strong free cash flow conversion, beating our target of 80% for the year driven by our operating performance and inventory management. This allowed us to repurchase \$400 million worth of shares, surpassing our \$325 million target while maintaining our dividend. The restructuring and efficiency plans we implemented helped us reduce our global head count by 15,000. Our head count was reduced by 9% in Seating and 8% in E-Systems. These reductions exceeded the targets for both segments we laid out earlier in the year.

We grew adjusted earnings per share for the fourth consecutive year, up 5% year-over-year. Our total company revenue outperformed the market by 2 percentage points. Sales in both segments beat the industry, with E-Systems outperforming by 6 percentage points. While consolidated Seating outgrowth was less than 1 percentage point, it was 2 percentage points including growth through our non-consolidated joint ventures. Additionally, we improved E-Systems margins for the second consecutive year to over 5%. We clearly have more work to do, but we are executing our strategic and operational initiatives to drive margin improvements.

Our growth with Chinese OEMs has been significant. We launched our seats on the Xiaomi SU7 and won new awards with BYD, Geely and other Chinese domestic OEMs in Seating, as well as Changan and Dongfeng in both Seating and E-Systems. In E-Systems, we also won an award for a Geely program in Europe, displacing the current Chinese supplier who produces the same components for the local market. In terms of innovation, we introduced IDEA by Lear and acquired WIP Automation to enhance our capabilities in automation and artificial intelligence, investing in these areas with proven returns.

We recently announced the acquisition of StoneShield Engineering, which specializes in the development of automation technology for wire harness application.

StoneShield's capabilities will further improve our efficiency and operational excellence in our wire harness assembly business, which is our most labor intensive manufacturing process. We launched the Industry First ComfortFlex module and secured 19 contracts representing annual revenues of approximately \$135 million. We validated the ComfortMax Seat with Ford Motor Company opening new growth opportunities.

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We recently received approval from General Motors to incorporate Lear's Innovative ComfortMax Seat Solution into their midsize trucks. Through our partnership with GM, we are integrating thermal comfort components into Lear's trim covers in a modular solution to enhance occupant comfort by bringing the seat heat closer to the occupant, while streamlining the manufacturing process. This will be the first ComfortMax Seat application to enter the market with a scheduled launch mid-year 2025.

Finally, we won our first program award for Bentley for our INTU Health and Wellness Award in Software Technology. This is the first vehicle award from the agreement we announced during our Seating Product Day in June of 2023, and we expect future vehicle awards in additional INTU applications.

Slide 7 highlights the actions we are taking to improve margins and cash flow generation in both business segments. In 2025, we are seeing incremental savings from our strategic actions we have been executing over the last few years. We're continuing to improve efficiency in our wire plants and are benefiting from lower launch and engineering costs.

Although we are investing in automation, our capital efficiency from in-house capabilities and reuse allows us to maintain our CapEx spend below our target 3% of revenue. We are seeing the benefits from automation investments we have been making and expect approximately \$75 million of cost savings in 2025, growing to an annualized savings of \$150 million. We continued to optimize our capacity and move facilities to lower cost countries to mitigate wage inflation and implement capital and automation actions in our new facilities.

In 2024, we closed or sold 13 facilities, reducing our total facility count by 4% during the year, when the industry production was down 1%. This year, we are in the process of selling or closing an additional five facilities, primarily in Europe where we see the most excess capacity. As these savings are realized through the year, we expect operational margins to improve and target to exit 2025 with approximately a 5% run rate for the total company. We are investing in areas with proven returns such as automation and efficiency through our IDEA by Lear and we'll continue with our capacity optimization strategy.

We continued to grow the Chinese domestic automakers and excited to see additional progress and potential new growth opportunities with Japanese automakers.

The awarded programs for ComfortFlex and our ComfortMax Seat are starting to launch. The conquest awards we are pursuing will drive continued market share gains in both Seating and E-Systems. Our product and process innovations will help us win these programs as our customers are looking for suppliers that can deliver components that meet their quality and reliability metrics, while delivering innovative products at a competitive cost.

In the long-term, our lower return non-core electronic products will build out. And as the next generation replacement programs launch in our core business, their pricing will fully reflect current economics which has weighed on margins for the last couple of years. The combined effects of these actions will enable us to grow faster than the market while improving margins and cash flow generation, allowing us to continue to return capital to our shareholders.

Moving to slide 8. We highlight the sustainable cost advantage we have created through our product and process innovations in Seating. Our ComfortFlex and ComfortMax Seat by Lear Solutions can drive a 5% to 20% thermal comfort cost improvement by reducing components, weight and complexity, while also enabling us to remove assembly labor from our just-in-time facilities. The savings potential is dependent on the scale of the complexity of

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the existing system. The systems with more components will result in higher potential savings. For example, there is greater opportunity for savings in a luxury three-row SUV with lumbar vent and massage systems compared to a mid-market vehicle that only has heater mats. Process improvements driven by our IDEA initiatives are estimated to reduce cost for the additional value-added content by approximately 10% to 20%.

We expanded our Thagora capabilities into all of our leather facilities, driving better utilization. Our rollout of our LearVUE defect detection and finesse operations, as well as designing a product to leverage our automation capabilities is expanding our competitive advantage in Seating. Product innovation and process improvements have allowed us to reduce Seating cost for new programs by 200 to over 500 basis points. This durable cost advantage will allow us to increase our industry leading seat margins and continue to separate ourselves from our competitors. And when combined with innovative designs that drive better efficiency in time to sensation, we're able to provide a better value proposition to our customers.

Slide 9 provides an update on Lear's growth with Chinese domestic automakers. Lear has 30 years of automotive experience in China. Over that time, Lear has strengthened its local presence, built strong relationships with key customers, and has become the clear leader in luxury seating. In 2025, we have several launches with BYD, Geely, Changan, Dongfeng and NIO. We also continue to see growth with additional sourcing opportunities with Xiaomi.

The portion of our total revenue from Chinese domestic automakers grew from about 20% three years ago to approximately 33% in 2024, and increasing to more than 37% in 2025. With our current backlog and the new business opportunities we are pursuing, we expect 50% of our revenue in China to be from Chinese domestic automakers by 2027. China continues to be an important market for Lear, and our relationships with key domestic automakers is driving consistent growth.

Now please turn to slide 10, which provides details on the changes to our 2024 to 2026 sales backlog since it was originally announced last February. As a reminder, our sales backlog includes awarded programs net of any lost business and programs rolling off. It excludes Pursuit business, net new business in our non-consolidated joint ventures and the roll-off of the discontinued product lines in E-Systems. We typically provide an update on our sales backlog for the next three years at this time. However, we have limited visibility into 2027 due to the rapidly evolving industry, environment and customer production plans. Our customers are reassessing the product and powertrain strategies due to the changes in customer demand and potential changes in regulations, which has led to a delay in new program sourcing activities and awards.

As OEMs reassess their powertrain strategies in 2024, they made significant cuts to EV production volumes, delayed EV launches and canceled several programs. Throughout the course of the year, our 2024 backlog declined due to lower-than-expected volumes on programs including the Volvo EX90, Polestar 3, BMW EVs and several GM EVs, partially offset by stronger than expected volume on the Xiaomi SU7 and the new vehicles for Leapmotor. The pace of the sourcing activity slowed significantly in 2024, resulting in a buildup of quoting activity into 2025, including several large conquest opportunities in both segments.

In 2025, we expect approximately \$230 million of net new business compared to the \$800 million we had expected when we provided our last backlog update at the start of 2024. The reduction is primarily driven by lower production assumptions for various vehicles, including the Ramcharger, Volvo EX90, the Polestar 3 and several GM EVs, as well as the launch delay of the Ram REV. The decrease in our 2025 backlog is partially offset by an increase in our 2026 backlog from \$800 million to approximately \$1.1 billion. Several ICE programs that were expected to roll off by 2026 have been extended, including the Lincoln Aviator. In addition, new business awards with Changan, Leapmotors and others are launching in 2026. Some programs that have been scheduled to

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launch in 2024 or 2025 are now expected to launch in 2026, such as the Ram REV. We've provided an overview of key program launches for 2025 for both segments in the appendix.

The 2024 to 2026 sales backlog at our non-consolidated joint ventures increased by \$100 million from our prior update to \$750 million. Our non-consolidated joint ventures continue to win new business, particularly with Chinese domestic OEMs. BYD remains a pivotal customer representing approximately 50% of our non-consolidated backlog. We are exploring options to consolidate selected Seating joint ventures, which also would increase our consolidated backlog. We anticipate the new program sourcing activity that was delayed in 2024 will resume in the coming months and it will result in increase to our backlog for 2027 and beyond. We expect to provide an update on the future three year backlog later this year in 2025.

Slide 11 outlines the key metrics investors can use to track our progress towards expanding margins and generating long-term revenue growth. For Seating, we have about \$3 billion worth of conquest opportunities that we expect to flow throughout the year. And in E-systems, we are pursuing two of our largest conquest opportunities in our history. We expect our customers to complete their award activity over the course of the year or early 2026, and we'll provide updates on key awards as the sourcing process is completed. We continue to see significant interest from our customers for innovative modular seat products. These opportunities along with continued growth with our core thermal comfort products, are driving revenues from \$630 million in 2024 to our target of \$1 billion by 2027.

Our pipeline of new business with Chinese domestic automakers is strong and growing. We will continue to give updates on growth and new awards with key customers, both in China and globally. We will also update our progress on the key metrics that will drive margin improvement.

The investments we are making in IDEA and automation projects are expected to generate over \$75 million of savings this year, growing to \$150 million of annualized savings. The restructuring investments we are making will drive an additional \$55 million of savings in 2025. The actions we are taking will continue to improve efficiency in our operations. In 2024, we were able to reduce head count by 15,000 and are targeting a very similar reduction in 2025, allowing us to lower labor costs throughout our operations. You will see the benefits from these actions come through in the net performance we report on a quarterly basis.

In 2024, we delivered 30 basis points of net performance in Seating and 50 basis points of net performance improvement in E-Systems. In 2025, we expect to accelerate our positive net performance and deliver about 40 basis points in Seating and about 80 basis points of performance improvement in E-Systems. Demonstrating strong performance on these metrics will put us on a clear path for sustained growth and improved margins.

Margins for both segments are expected to improve throughout the year and we expect the underlying core operating margin run rate to improve to approximately 5% for the total company as we exit 2025. Our focus is to continue to convert at least 80% of our adjusted net income to free cash flow, allowing us to continue returning capital to our shareholders through our repurchase program.

The strong operating performance combined with our share repurchase will continue to drive earnings per share growth based on our outlook. EPS is on track to grow on average 19% per year from 2020 through 2025.

Now, I'd like to turn the call over to Jason for financial review.

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## Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

Thanks, Ray. Slide 13 shows vehicle production and key exchange rates for the fourth quarter. Global production increased 1% compared to the same period last year, but was down 1% on a Lear sales weighted basis. Production volumes declined by 3% in North America and by 8% in Europe, while volumes in China were up 8%. The US dollar was flat against the euro, but weakened against the RMB.

Slide 14 highlights Lear's growth compared to the market for the full year, as well as for the fourth quarter. For the full year, total company growth over market was 2 percentage points, with Seating slightly up and E-Systems six points above market.

Looking at our full year growth by region, in 2024, North America growth over market was three points, reflecting favorable backlog in both business segments. New conquest programs such as the Jeep Wagoneer and Grand Wagoneer in Seating, as well as new E-Systems business on the General Motors' Ultium platform, including the Chevrolet Blazer EV, Honda Prologue and Acura ZDX, contributed to the growth in the region.

Europe growth over market was 1 percentage point, with both business segments benefiting from higher volumes on the Land Rover, Range Rover and Range Rover Sport. Seating also benefited from new business with the BMW 5 series and i5. New electronics business across several BMW and Renault vehicles contributed to E-Systems outperformance. The growth in the region was partially offset by lower volumes on the Audi e-tron in Seating and the Volvo XC40 in E-Systems.

China revenue growth lagged the market by 3 percentage points driven by lower volumes on Lear platforms, such as the Buick Regal, BMW X3 and iX3 in Seating and the Volvo XC40 in E-Systems. When you include revenue from our non-consolidated joint ventures, our China growth over market improves by six points to three percentage points for the year. New business on the Xiaomi SU7 in Seating and Xiaopeng Mona in E-Systems offset a portion of the underperformance in consolidated sales in China. And we continue to grow our share with key Chinese automakers such as BYD and Geely, which will improve our customer mix in China going forward.

We're also in active discussions with our Seating JV partners in China to potentially consolidate select joint ventures, which would have a positive impact on our consolidated growth over market going forward, and provide investors with a clearer view of the strength of our competitive position in this key market.

In the fourth quarter, total company revenue growth lagged the global market by 1 percentage point, with Seating underperforming by 2%, partially offset by E-Systems outperforming by 3%. Including the impact from our non-consolidated joint ventures, our total company revenue growth was in line with the global market.

Turning to slide 15, I will highlight our financial results for the fourth quarter of 2024. Our sales declined 2% year-over-year to \$5.7 billion. Excluding the impact of foreign exchange, commodities, acquisitions and divestitures, sales were also down 2%, reflecting lower volumes on Lear platforms, partially offset by the addition of new business in both of our business segments.

Core operating earnings were \$258 million compared to \$288 million last year, driven by lower volumes on Lear platforms, partially offset by positive net performance in our margin accretive backlog.

Adjusted earnings per share were \$2.94 as compared to \$3.03 a year ago, reflecting lower adjusted net income partially offset by the benefit of our share repurchase program. Fourth quarter operating cash flow was \$681 million compared to \$570 million last year, primarily due to improvements in working capital partially offset by lower core operating earnings and higher cash restructuring costs.

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Slide 16 explains the variance in sales and adjusted operating margins for the fourth quarter in the Seating segment. Sales for the fourth quarter were \$4.2 billion, a decrease of \$157 million or 4% from 2023. Excluding the impact of foreign exchange, commodities, acquisitions and divestitures, sales were down 3% due to lower volumes of Lear platforms, partially offset by the addition of new business. Adjusted earnings were \$257 million, down \$37 million or 12% from 2023, with adjusted operating margins of 6.1%. Operating margins were down compared to last year, reflecting lower production on key Lear platforms, partially offset by the roll-on of our margin accretive backlog and positive net performance.

Slide 17 explains the variance in sales and adjusted operating margins in the E-Systems segment for the fourth quarter. Sales for the fourth quarter were \$1.5 billion, an increase of \$31 million or 2% from 2023. Excluding the impact of foreign exchange and commodities, sales were also up 2% driven primarily by our strong backlog, partially offset by lower volumes on key Lear platforms. Adjusted earnings were \$77 million or 5% of sales compared to \$84 million or 5.6% of sales in 2023. The decrease in margins reflected lower volumes on Lear platforms, negative net performance in foreign exchange partially offset by our margin accretive backlog. The negative net performance resulted primarily from year-over-year reductions in finished goods inventory levels.

Slide 18 explains the variance in sales and adjusted operating margins for the full year in the Seating segment. Sales for 2024 were \$17.2 billion, a decrease of \$327 million or 2% from 2023. Excluding the impact of foreign exchange, commodities, acquisitions and divestitures, sales were also down 2% due to lower volumes on Lear platforms, partially offset by the addition of new business. Adjusted earnings were \$1.1 billion, down \$76 million or 6% from 2023, with adjusted operating margins of 6.5%. Operating margins were down compared to last year, reflecting lower production on key Lear platforms, the impact of foreign exchange and acquisitions and divestitures, partially offset by positive net performance and the roll-on of our margin accretive backlog.

Slide 19 explains the variance in sales and adjusted operating margins for the full year in the E-Systems segment. Sales for 2024 were \$6.1 billion, an increase of \$166 million or 3% from 2023. Excluding the impact of foreign exchange and commodities, sales were up 4%, driven primarily by our strong backlog, partially offset by lower volumes on Lear platforms. Adjusted earnings were \$310 million or 5.1% of sales compared to \$275 million and 4.6% of sales in 2023. The increase in margins reflected strong net performance in our margin accretive backlog, partially offset by lower volumes on Lear platforms.

Now shifting to our 2025 outlook. Slide 20 provides global vehicle production, volume and currency assumptions that form the basis of our full year outlook. We base our production assumptions on several sources, including internal estimates, customer production schedules and S&P forecasts. At the midpoint of our guidance range, we assume that global industry production will be 1% lower than in 2024, or down 2% on a Lear sales weighted basis, driven primarily by lower volumes in our two largest markets, North America and Europe. Our global production assumptions are generally aligned with the latest S&P forecast. Our estimates differ for a few programs, such as the GM full size SUVs and key Land Rover vehicles due to a combination of customer releases and current demand expectations. From a currency perspective, our 2025 outlook assumes an average euro exchange rate of \$1.4 per euro and an average Chinese RMB exchange rate of RMB 7.3 to the dollar.

Slide 21 provides detail on our outlook for 2025. Due to the uncertainty of size, scope and implementation, we have not assumed any impact from potential changes to tariffs. Our revenue is expected to be in the range of \$21.9 billion to \$22.9 billion. At the midpoint, this would be a decrease of \$931 million or 4%, compared to 2024. Excluding the impact of foreign exchange, commodities, acquisitions and divestitures. Our revenue would be down 2%.

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Core operating earnings are expected to be in the range of \$915 million to \$1.175 billion. At the midpoint, this implies a decrease of 5% compared to 2024. Adjusted net income is expected to be in the range of \$575 million to \$765 million.

Restructuring costs are expected to be approximately \$175 million to support our continued footprint rationalization actions as we continue to aggressively reduce excess capacity particularly in Europe and reduce manufacturing costs through automation and by shifting our footprint to lower cost regions. Capital spending is expected to be approximately \$625 million to fund our new vehicle launches and investments in automation.

Our outlook for operating cash flow for the year is expected to be in the range of \$1.1 billion to \$1.3 billion, and our free cash flow is expected to be \$530 million at the midpoint of our guidance. The midpoint of our outlook is consistent with our free cash flow conversion target of 80%. Lear's strong focus on generating cash allows us to maintain a strong balance sheet, while making organic and inorganic investments to strengthen our business, as well as to continue funding share repurchases.

Slide 22 walks our 2024 actual results to the midpoint of our 2025 outlook. Year-over-year revenue is expected to decline by \$931 million due to lower volumes and the negative impact from foreign exchange, as well as the divestiture of a non-core Seating operation. We expect to maintain overall company adjusted margins at 4.7%, driven by strong net performance in our margin accretive backlog. Positive net performance primarily reflects the benefits from our IDEA by Lear initiatives and savings from restructuring actions with wage inflation and customer contractual price reductions fully offset by material cost reductions from our suppliers, cost technology optimization, commercial recoveries and normal plant efficiency programs.

Seating operating margins are expected to be flat at 6.5%, reflecting strong net performance offset by the impact of lower volumes on existing platforms. The E-Systems segment is expected to maintain flat operating margins at 5.1%, driven by continued performance improvements in our margin accretive backlog offset by the impact of lower volumes on existing platforms. We've included detailed walks to the midpoint of our guidance for Seating and E-Systems in the appendix. We expect net performance to contribute 40 basis points of margin improvement in Seating and 80 basis points in E-Systems in 2025, an increase from the 40 to 50 basis points we previously estimated, reflecting the positive momentum in both our automation investments and restructuring actions.

Moving to slide 23, we highlight our commitment to continue to return capital to shareholders. In 2024, we achieved our target of approximately 80% free cash flow conversion, which enabled us to accelerate share repurchases in the second half of the year. In the fourth quarter, we bought back \$101 million worth of stock, bringing our full year repurchases to \$400 million, exceeding our target of \$325 million. Over the course of the year, we reduced our share count by approximately 6%, which will support EPS growth going forward. In 2025, we are again targeting 80% free cash flow conversion, which will enable us to buyback a minimum of \$250 million worth of stock with additional repurchases depending on free cash flow generation and acquisition opportunities.

Since initiating the share repurchase program in 2011, we have repurchased \$5.6 billion worth of shares and returned over 85% of free cash flow to shareholders through repurchases and dividends. Our current share repurchase authorization has approximately \$1.1 billion remaining, which allows us to repurchase shares through December 31, 2026.

Now, I'll turn it back to Ray for some closing thoughts.

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## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

Thanks, Jason. Please turn to slide 25. We are focused on executing our strategic initiatives to grow and improve our margin profile. In Seating, we're expanding our market share by growing with all customers, particularly the Chinese domestic automakers while our innovative solutions are reducing cost and complexity. We're accelerating the deployment of our thermal comfort products and continue to win new business at accretive margins. In E-Systems, we are winning new business across all powertrains while continuing to improve our operational performance.

Investments we are making in advanced manufacturing and capacity optimization including aggressive steps to accelerate the deployment of automation, will drive margin expansion in both segments.

Our strong focus on generating cash will help us continue to achieve free cash flow conversion of 80%, and we will remain committed to returning excess cash to our shareholders.

Now, we'd be happy to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] And our first question today comes from John Murphy from BOA. Please go ahead with your question.

### John Murphy

*Analyst, BofA Securities, Inc.*

Q

Good morning, guys. If I could ask maybe one question with kind of two parts. I'm just curious, if you could talk about sort of the dynamics of competition in the Seating business, specifically as you think about market share in 2025, 2026, 2027 in the next few years from two specific angles. I mean, first, on the innovation side particularly like stuff like ComfortMax which it sounds like you're winning business very quickly and it's being launched very quickly on ComfortMax with GM. And then also from the angle of your cost actions and automation, which kind of go hand in glove with that, and are you able to underprice the competition and still earn good margins and adequate returns? I'm just curious what you think those two factors will drive as sort of your market share go forward and your ability to potentially win even greater business in these out years?

### Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

A

Yes. Thanks, Murphy. That's a good question. And obviously, we've been at this for some time. I mean, we've been thinking about Seating and the need to really change and drive efficiency in the process. I've been in Seats since 1988, so I've seen even back to the cushion rooms where things were very similar to the way we were even building years ago, and the need to change. There absolutely was a need to change. And so we've been acquiring very, very selectively strategic companies that allow us to really change the dynamics of the seat and think about it in a more modular approach, which really eliminates a lot of cost, weight, mass.

And in a lot of respects from all the data that we're seeing, improves the comfort feel and time of sensation for the end consumer. And so right now, we have been continuing to work is that combination of the components themselves and the manufacturing facility itself with automation, digitalization, how we're looking at components. So, it's a combination.

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So, being able to buy your own manufacturing equipment, as of going out and buying selective, very generic capital is very inefficient. The way we're looking at it now, we can lower our capital costs much more geared towards efficiency on the plant floor and is really driving a benefit. I think the IDEA by Lear was really the next step that we had to take was really grabbing a hold of all the different capabilities, what we're seeing in our plants and commonize them into really a holistic look at how we get it into all of our facilities. And so, one, is just a continuation within our facilities to drive our margin expansion within Seating.

But your second question is really good. And what we're seeing is now we can actually look at a quote holistically across all of our innovation, both on the modular side with the components and how they integrate with the manufacturing facility.

And what we're seeing is absolutely our whole goal is to continue to generate really nice returns in Seating, but driving our cost down so that makes it very, very competitive. And that's where I talk about really a durable, sustainable approach to how we look at margins. We think this is very competitive where we've been using the model now in our quote assumptions as we look at future applications. And it really has built and we're protecting our margins, we're going to protect our margins. We think that we have done a nice job through the investments we've made, and we deserve a margin that gets a really nice return. And we're being able to actually really compete at a level that I think sets the benchmark.

And so, what I'm careful of, we put in this presentation intentionally and I'm a little bit hesitant about it, because I don't want our competition to see the type of advantages we're seeing internally. But I also think it's fair for investors to understand how we've created a durable, lasting margin, I think, advantage in how we're looking at the business and that's what we're tracking ourselves to. And so we, we get to retain the margin on that. That's the goal. And we get to drive a different process, a different way of thinking. And so that's why we're really confident, even though we've had delays in some of these quoting programs, we feel really, really confident in our ability to go in and show our customers what we're doing.

And I think this most recent announcement and I talked about Ford and the modular approach and what we did there, and it's validated. That was a big step. That gave us enormous amount of confidence as we went in and won the mid-sized truck with General Motors. And that's later this year we're going to launch it. And so what we used to kind of think about these programs was it had to be a new program launch. This kind of sets the tone that we can go in and drive cost inefficiency in an existing program. And the timing couldn't be better. Our customers, when we talk about these delays is getting it right on the cost side, they're looking for innovative solutions, something that's different. We were just in China several weeks ago. And what they're looking for is innovative solutions through automation, digitalization, and we have it. And so, it's helping us across the board and we get to really retain that that margin profile.

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### John Murphy

*Analyst, BofA Securities, Inc.*



Ray, just one follow-up. Bid to book to launch, obviously is faster in China, but it now sounds like what you just did GM with ComfortMax, that actually your products are on a shorter schedule than that traditionally. So I mean, are we looking at bid to book to launch that might be 18 to 24 months as opposed to 36 to – three years to six years like we used to think. And what's kind of just the timeframe traditional players at in China now, because it sounds like it's a lot faster?

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## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

A

Yeah. I think everybody's on that push for a much faster turnaround. And I think, like I said, by validating and having our system validated, it was designed, so it's agnostic to frame, so we don't have to – it isn't determined by a certain style seat. We can actually move much quicker. And I think the results with this recent award, I think the award we got, we announced it, was significant. I think seeing how quick General Motors is moving towards a modular approach really again gives a lot of credibility to what we've been talking about with how we're looking at seats. It allows us the scale. I think one of the questions that comes to mind is as we're putting capital in, it allows us to be flexible with our capital. And so we can run multiple modules across capital that's invested for a single program, continue to lower our cost.

## John Murphy

*Analyst, BofA Securities, Inc.*

Q

Thank you very much.

## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

A

Yeah.

**Operator:** Our next question comes from Colin Langan from Wells Fargo. Please go ahead with your question.

## Colin M. Langan

*Analyst, Wells Fargo Securities LLC*

Q

Great. Thanks for taking my questions. Just can you help us frame the market assumption, you're down one. There's a lot of uncertainty how the markets actually are going to settle out this year. Any color on how we should think about incrementals, decrements? Is there any more opportunity to cut costs if things slow down? And you also commented that you're in line with S&P, but you're different on GM SUVs and Land Rover, is that you're more cautious there? I was trying to understand what that reference was?

## Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

Sure. Let me start with the last part of that question, Colin. When we look at S&P's forecast for those platforms in particular, we saw they were too cautious and the GM full-size SUV, they've just gone through a design change. I think that S&P had their volume assumption on that platform down year-over-year pretty significantly, I think 15%. That didn't make sense to us. And I just – given the magnitude of that, the CPV on that platform for us, I thought it was important to highlight that.

The other group of programs, the Range Rover, Range Rover Sport and Defender, we saw really strong performance from JLR in December in particular. That was one of the primary reasons we exceeded our guidance for the fourth quarter. Volumes were stronger than expected, and I think finally, sort of in line with the demand for those platforms. And so there were a number of supply disruptions that JLR dealt with throughout last year, whether it was the aluminum issue or other part shortages. And finally, at the end of the year, they were able to run at their targeted level of production. And so we see that continuing into 2025 as well. So we're a little bit higher than IHS or S&P and those platforms as well.

In terms of the overall market, we do have Europe and North America down again year-over-year. So, we are expecting a relatively weak market or weak demand. And we see that January started off that way, particularly in

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Europe. In terms of decremental margins, they're right around that 20% range, a little bit richer than that just given the mix of programs that are down in Seating and a little richer than that in E-Systems as well, and you'll see that in the slides we included in the back, in the appendix of the presentation.

In terms of the decremental margins for the company overall, that's what really we were laser focused on as we built our plan for this year and thought about our guidance for the year. And so the downward conversion on the sales that are down \$931 million is less than 5%. I think we're down \$50 million year-over-year. And so we were very focused on that downward conversion, offsetting the impact of lower volumes through the investments we're making in automation and restructuring and driving that net performance in both segments. So that's a key part of the story here for 2025.

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### Colin M. Langan

*Analyst, Wells Fargo Securities LLC*

And any color on the cadence of margins, a lot of people are warning about Q1 being kind of tough. Is that something we should be considering?

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### Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

Yeah. We, we haven't guided to the first quarter specifically or didn't plan to today, but we do expect the first quarter to be the trough margin for the year. As we were building the plan and looking at the cadence of revenue and earnings, we sort of see that first half pretty similar to the second half of last year in terms of revenues, maybe even down slightly. And then we see an improvement in the second half of the year.

And in terms of the performance improvements in the business, we see that happening steadily throughout the year. First, we've got to offset customer price downs and wage inflation. But we have some nice momentum heading into the year, because of the investments we made in automation last year and the restructuring efforts that are in process from last year, sort of carrying into the start of this year.

And so as we progress through the year, the underlying run rate will improve on a quarter-to-quarter. You may have some choppiness due to commercial negotiations, often times those will be concentrated in one particular quarter and include some retroactive adjustments. But outside of that kind of the underlying run rate, what we're really trying to stress today is that you're going to see that steadily improve throughout the year, driven by that combination of automation and restructuring.

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### Colin M. Langan

*Analyst, Wells Fargo Securities LLC*

Got it. All right. Thanks for taking my questions.

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### Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

Thanks.

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**Operator:** Our next question comes from Dan Levy from Barclays. Please go ahead with your question.

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## Dan Levy

*Analyst, Barclays Capital, Inc.*

Hi. Good morning. Thanks for...

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## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

Good morning.

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## Dan Levy

*Analyst, Barclays Capital, Inc.*

...taking the question. I wanted to first start with a question on the recoveries, and how you're pricing your programs. Interesting that you're saying there is less visibility, so only two years of backlog and you've had some cancellations. So to what extent are you having discussions with automakers, A, on recovering for some of these programs where you've allocated resources, but the volumes never materialized, and B, reflecting the fact that there's just less visibility on the launches than what we've seen in the past?

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## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

Well, I think, first of all, from a customer perspective, we obviously are in negotiations, and in some cases, even settlement of commercial recovery for lost volume. And that's not typical given the contract nature of guaranteeing volume, but in these particular cases where the volumes have changed so dramatically and the capital we put in place requires some type of ability to recover, we've been successful in our negotiations. And we'll continue that as we start to see volumes change.

I think the other thing that we are a little bit more aggressive on was the conservative nature of how we're deploying capital. And so in some cases, we didn't completely capitalize a facility given the uncertainty if there was a good historical track record, we would deploy particular capital for a particular run rate for a particular volume. And so I think the combination of those two. Even though we do have capital that we deployed that's excess, we go after and get recovery from our customer. But we're much more tempered in how we look at deploying capital, particularly in new areas of investment with our customers.

And Jason, if you want to talk a little bit about just how we look at it.

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## Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

Yeah. Well, I think if you look at our capital expenditure guidance at the start last year and where we ended up the year, that's the best indication of how we've been able to quickly scale back the new capacity we were deploying in response to lower volumes that we're seeing in the market. And so that certainly helps in the pricing negotiations when you can demonstrate to your customers that you've already taken steps to try and help them by not putting that capacity in place. And I think that certainly you're seeing an impact on the business as a result of lower volumes on these new programs. But we have repriced them to a point where the margin, when you look at the margin on the backlog growing on, it's consistently accretive to overall segment margin. So, we've seen over the last several years and that continues with our guidance for the coming year. We're converting the backlog at about 10% this year, albeit a smaller backlog.

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## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

And I think Dan, just as we quote and we're talking about this build-up of quoting activity both in E-Systems and

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Seating, you have traditional programs that we have a higher confidence level in what the run rate will look like as they get into production. But then there's others that are a little bit more questionable.

We really look at the contract and how we're signing up the capital for deployment of capital or investment dollars and working through those. I mean, some of the delays that we've talked about are not just how customers are looking at deploying and looking at different powertrains, but what is the real volume. And so, some of the delays and some of the quotes is, volumes have significantly come down in the quoting process and we make modifications. But given the history, we do have the ability to kind of look at it contractually, so that we cover our cost and that we're not putting capacity in place on a very questionable program. And in some cases if it's too questionable, it's not something that's really a targeted program.

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### Dan Levy

*Analyst, Barclays Capital, Inc.*

Q

Okay. Thank you. That's helpful commentary. Second question, I wanted to ask about E-Systems. And in light of the move by one of your competitors to spin-off their wire harness business, which I think some may look at as isolating a piece of the business that was punching at lower margin, just wondering how you view the competitive landscape playing out in E-Systems? Is there an opportunity for consolidation, will consolidation emerge.

And then maybe you could just mention, I know in the past you gave some long-term targets on where E-Systems margins could go. At one point you said 8%, that was I think a long time ago at this point. What is the updated view today given all of the labor inflation that we've seen? Thank you.

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### Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

A

Well, I think the first point that you made, one, I think given the industry and where we're at, I believe that there's not just particularly in E-Systems, but across the board, we're going to see a lot of different consolidations. I think companies are going to have to make sense of where they're at, their ability to scale, efficiencies, synergies, all that stuff. And I think that we're probably at the front of this thing. We've seen other announcements. So I don't think it's just exclusive to E-Systems.

And so, in respect to Lear Corporation, I mean, we're constantly looking at ways that we can create and increase shareholder value. And it's obviously something we stay very focused on both, how we look at it within Lear today or how it may look over the course of the next year. And so, we're always open to any way that we can create value for our shareholders and we'll remain very flexible.

But our plan right now is to continue to generate. I think we talk about executing, executing, executing. We have a plan to continue to generate and build durable margins in both segments. And if something else is to present itself that creates more value faster, then we're absolutely willing to look at it.

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### Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

And Dan, the other thing I'll add is that we don't see any difference in terms of the long-term margin target in that segment. That is the right operating margin given the level of working capital and fixed asset deployment in that space. And as we continue to see some stability in volumes, the benefit of our restructuring actions and automation investments as well as improvements in the underlying performance of our business, we have highlighted some challenges, particularly in our North America operations last year and in the North American wire business in particular.

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We've made significant improvements kind of as you move throughout last year, towards the end of the year and into this year, we see a continuation of those efficiency gains happening throughout the first part of this year. And longer term, I think 8% is still the right target. We're not going to provide pinpoint timing in terms of when that will happen today on this call, but I think that's still the right way to think about that business long-term.

**Dan Levy**

*Analyst, Barclays Capital, Inc.*

That's helpful. Thank you.

Q

**Jason M. Cardew**

*Senior Vice President & Chief Financial Officer, Lear Corp.*

Welcome.

A

**Operator:** Our next question comes from Joe Spak from UBS. Please go ahead with your question.

**Joseph Spak**

*Analyst, UBS Securities LLC*

Good morning. If I could start just maybe a point of clarification or housekeeping. I just want to understand, like in the walk and I guess even for first part and when you talk about the backlog like this wind down, what exactly is that? Because I think it says it's excluded from above on the backlog slide, but I thought you said today. And I know in the past you've said that's sort of a net number. So I guess I just want to understand what that is.

Q

And then also, just – sorry, if I missed this, but in the full year sales walk, what are you divesting that's that headwind? And then what is the nearly \$200 million in other?

**Jason M. Cardew**

*Senior Vice President & Chief Financial Officer, Lear Corp.*

Okay. All right. So, starting with the wind down, so we broke that out last year separately, Joe, when we disclosed our backlog, that's initial 2024 to 2026 backlog. And we've talked about this for multiple years that we have exited certain product categories on the electronic side, the most significant of which is our lighting and audio business. And so that is kind of rapidly winding down. Now, we're closing the largest facility that produces that product in Germany as we speak. And so, we have separated that from the go-forward business that's captured in the backlog. And given the magnitude of the programs winding down over the next several years, we thought it was important just to separate that and provide some level of visibility to it.

A

In terms of what we're divesting. The primary driver of what you see in the walk there is a transaction that's not yet complete, but we anticipate completing here towards the end of the first quarter where we're selling a small non-automotive fabric business, a portion of that non-automotive fabric business that we have today and that that deal is nearly complete. And that was a kind of a key driver to that special item we had in the fourth quarter. We wrote down the assets by \$24 million in the fourth quarter, reflecting the expected proceeds from that sale relative to the book value of that business.

And in terms of the other assets. The last part of your question was in regards to what comprises others in the walk, is that it?

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**Joseph Spak**

*Analyst, UBS Securities LLC*

Q

Yeah. Yeah.

**Jason M. Cardew**

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

Okay. So, how much was that? I don't have it in front of me.

**Joseph Spak**

*Analyst, UBS Securities LLC*

Q

It was like [indiscernible] (00:57:26).

**Jason M. Cardew**

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

Yeah. I think, Joe, we'll have to get back to that. No, ones – you're talking about the other on the revenue side?

**Joseph Spak**

*Analyst, UBS Securities LLC*

Q

Yeah.

**Jason M. Cardew**

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

Yeah. That's primarily the pass-through for inflation and commodity increases that we receive from our customer that we pass through to directed suppliers. That's the biggest driver of that. I'm sorry I missed ones you were after.

**Joseph Spak**

*Analyst, UBS Securities LLC*

Q

Okay. That's helpful. The second question is, I guess just in terms of cash and capital, I guess maybe two parts of that, if I could. One, you mentioned a number of times or alluded to some potential consolidation of the China JVs. I guess, I'm wondering like if you're earmarking cash for that and how significant that could be. And also on cash, and again Ray sort of talked about this as a driver for the improvement, investment in automation. And you've talked in the past about higher CapEx for that as well. I am wondering, like not that you would sort of completely go off that path, but are you pausing that at all near-term just to sort of see exactly how policy plays out, just in case you need to move facilities or anything, or is it sort of just all systems go on the continued automation investment?

**Raymond Scott**

*President, Chief Executive Officer & Director, Lear Corp.*

A

Well, I think on the automation, the capital, we've been doing the best paybacks we get. One of the biggest is just-in-time facilities. And so really no need to pause. I think right now the only thing – and again I don't – we have a very, I think a good target around that 3% or less of capital on revenue dollars. We don't see a need that we're going to go above that. We actually are seeing our capital numbers come down significantly and our efficiency numbers improving, because as we've integrated it in-house in manufacture our own capital, it's significantly lower and more specialized for our needs. And so the investment dollars we've been spending are really around higher cost areas, higher cost regions. And I don't see a change based on policy right now that's going to change the way we will look at it. We got some, I think, really good, and plans are going in place. Some of it it's just more

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validation and process improvements within our plants, but no significant changes.

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## Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

Yeah. You know those investments we target programs that have a long-remaining life or at the start of the program even better incorporating that automation when the programs launch. And so you get the full benefit of that. And as Ray mentioned, we have there are ample opportunities just on the just-in-time side where the paybacks are short. And so there's no – we don't see any benefit to holding back that investment.

Again as long as we can hit that 80% free cash flow conversion target, that's sort of the baffle that we're using to make decisions around capital investments, restructuring cash investments, sort of balancing what we can do in terms of returning cash to shareholders through share repurchases by meeting that 80% target. So that's the way we're making decisions around free cash flow deployment.

In terms of the non-consolidated JVs, we don't anticipate that being a significant cost, if any, to reach the consolidation. It will be a likely a small contributor to capital allocation this year. So that's, that's not a particular factor in our, our plans for capital allocation overall.

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## Joseph Spak

*Analyst, UBS Securities LLC*

Q

Thanks. I appreciate it.

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## Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

A

Yeah. Thanks.

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**Operator:** And our final question comes from Mark Delaney from Goldman Sachs. Please go ahead with your question.

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## Mark Delaney

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Good morning and thanks for taking my question. I think we did 1% of growth under market in 4Q and guidance for 2025 implies some headwinds again this year. You spoke to some of those factors including the program cancellations and push outs. As you look at where these schedules are now landing and the new backlog, including for 2026, maybe you can help us better understand when you think you get to your targeted growth over market levels and if that could occur in 2026 based on what you're seeing in the business today?

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## Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

Yeah. I think that near-term growth is going to be a little choppy. So 2025 is weak as you've highlighted coming off a relatively weak fourth quarter. But 2026 will be a strong year for growth for us and 2027 is still open. There's programs that we're quoting that may be launched in that timeframe. There may be programs that are extended in that timeframe. And that's really the reason we chose not to provide a 2027 backlog today is there's just so many moving parts, it's difficult to provide an accurate number to investors that would be helpful for them or for the analysts modeling the business. But we see a pretty clear path to both the 2025 and 2026 backlog. And so that's what we could see in the sort of near to mid-term.

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Looking out to 2028, 2029, 2030, that's where you see the competitive advantage we've built in Seating, leading to significant new growth opportunities. In the prepared remarks, we highlighted the \$3 billion of conquest opportunities that we're pursuing in Seating. We're not going to win all of that, but we're going to win a significant portion of that. And that's going to launch sort of in that 2028, 2029, 2030 window and will lead to significant growth in the Seating business and allow us to achieve the market share targets that we've previously communicated.

And we have seen our market share continue to grow even with the relatively weak growth of the market last year. We still did have positive growth over market, including our non-consolidated JVs and added market share. And so we expect that trend to continue, 2026 will be a bigger step forward than certainly 2025 though.

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### Mark Delaney

*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks for that, Jason. And then on tariffs, maybe you could speak in a little bit more in detail around how much of your business, both in Seating and in E-Systems, might be exposed to the potential increase in tariffs. And if the 25% tariffs do go into effect that, I recognize it's not in your guidance, but if it does maybe speak more around the incremental steps Lear might be able to take and how much of the extra cost you may be able to mitigate. Thank you.

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### Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

A

Yeah. I'll give you a little insight. I, obviously, learned over the last several days leading up to Saturday night, midnight, and the one thing I've realized talking to executives from all of our customers here and then obviously suppliers, that this clearly is an industry issue. And I see this more of a holistic, I'm not going to sit here pound on the table, tell you we're going to get 25 or 20 or 10. It's going to come with a solution for the whole industry. And what I mean by that is, what I realized, like I said, talking to the executives from the customers is that they have choices. And one of the might be that they may have a pass on and then hope that they can get it from the end customer, which doesn't really seem reasonable. Or they can shut down or try to run their business intermittently for as long as they can. I think very similar to what happened back in COVID, that you run through inventory to run again, to run through inventory and run highlighted programs and move product around.

So, this is going to be an industry issue. It's going to be solved holistically. It isn't – you're only as strong as your weakest link in some respects across the board. But on Sunday, there was a lot of work that was done. And how we're looking at protecting ourselves, how customers would position themselves. And so it's going to be solved, like I said, but it could be solved across the board with all suppliers, and it's got to be solved in a very similar fashion. But I think at the end of the day, it's going to lead to a lot of shutdowns and a lot of intermittent downtime, because it was clear that we had suppliers, they had letters in with all kinds of different requests that were all different.

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### Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

A

And Mark, just I think one point, I do want to make. I'm glad you asked the question. There's been lots of numbers floating around in terms of what our imports are from Mexico to the US and just take this to level set everyone on that. So our total imports last year from Mexico to the US were \$2.9 billion and \$2.2 billion of that's in Seating and about \$700 million in E-Systems. And so I think that's a little larger number than what's been circulated in various estimates. In Seating, it's primarily our trim, it's our seat cover business structures and our thermal comfort components, so anything that's labor intensive in North America, and Seating is manufactured in Mexico. And ,

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that's going to be the same case for all of our competitors as well. On E-Systems, it's primarily our wire harness business and so often times we're the importer of record before that wire harness is eventually shipped to a customer.

In terms of Canada and China, our exposures are much smaller, less than \$100 million of imports to the US from Canada and roughly \$20 million of imports last year from China to the US. And it's had a very negligible impact on us, most of that is recoverable, extracted by our customers. So modest impact. And I know we are working actively with our customers in the near-term to try and reduce the near-term risk of tariffs by building up some inventory. And so, Frank and Nick, the teams are working with us on that actively as well, but just wanted to kind of level set you on the level of imports, you have that.

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### Mark Delaney

*Analyst, Goldman Sachs & Co. LLC*

Thank you.

Q

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### Jason M. Cardew

*Senior Vice President & Chief Financial Officer, Lear Corp.*

Welcome.

A

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### Raymond Scott

*President, Chief Executive Officer & Director, Lear Corp.*

Okay. I think that's the last question. Just for those on the call and I think the majority is tied to Lear team, but thank you for attending the call. And again to the team, the Lear team, thank you for everything you did in 2024. We continued to invest in the right areas. We continued to differentiate ourselves and continue to focus on what we're going to do as far as executing this year. So I appreciate all the efforts we're going to go through this year to continue to execute and build a sustainable long path for margin growth. So, thank you very much.

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**Operator:** And ladies and gentlemen, with that we'll be concluding today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.