



Transcript

Lear Corporation

Goldman Sachs Industrials and Materials Conference

December 4, 2024

LEAR PARTICIPANTS

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

GOLDMAN SACHS PARTICIPANTS

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

FIRESIDE CHAT SECTION

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Okay. Great. Thank you, everybody, for joining. My name is Mark Delaney, and I lead coverage of the US auto and industrial tech sector for Goldman Sachs including Lear. With me today, I'm very pleased to have with us Ray Scott, President and CEO; and Jason Cardew, SVP and CFO. Thank you both for joining.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Mark.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thanks, Mark.

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Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

I thought to kick things off, there's been a lot of volatility and uncertainty in the broader auto market, not only from a fundamental perspective, but also some volatility in terms of public policy. Given that backdrop, can you share your current views and how the year is shaping up? And maybe, Ray, I can start with you.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Thanks, Mark. And thanks for everyone that's here in-person and on the phone line. But yeah, so good news is we're on track as expected to close out the fourth quarter. Things are coming in line as we expected. As we look forward, I think there's a couple of things. One, we've talked quite a bit before about focusing on the things that we can control. There's a lot of noise in the system right now across policy, as you suggested, and then obviously with the OEs around the globe. But Lear has been extremely good at focusing on our cost. And I think in the short-term, that's something that we're really focused on, is how we're controlling our cost, discretionary spending, how we're positioning ourselves for the short-term.

I think mid to longer term, we put ourselves in a really good position. We've been investing in what I think is great innovation and technology and capabilities within our manufacturing plants and our products. And we're seeing some really good benefits of those moves through those acquisitions and the organic capabilities we have within our own facilities. And we're seeing great progress within the modularity with innovation with Seating, and albeit there's been some push in and pausing of the EV market, we see some great opportunities for quoting activities in E-Systems in the first half of next year. And in Seating, particularly around conquest quoting opportunities in Seating in the second half. And so we're really focused on our cost short-term, but I think mid to longer term, we put ourselves in really good position.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

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And Jason would you like to add anything around the market outlook?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Sure. Yeah. As Ray mentioned, we're seeing the fourth quarter sort of play out as we had anticipated and guided to, revenues about \$5.5 billion, just under that, it's consistent with the midpoint of our guidance for the fourth quarter with operating margins about 6% in Seating, right around 5% in E-Systems, and 6.5% and just over 5% for the full year in Seating and E-Systems, respectively. Production's holding up about where we had anticipated. In North America and Europe, you still see some modest disruptions. But most of the production changes that we're seeing from our customers are really driven by demand. And so whether that's trying to lower inventories coming into the end of the year or prevent inventories from increasing, I think our customers have been very focused on inventory management here in the fourth quarter, again, kind of consistent with how we had expected the year to play out. And as Ray mentioned and the things that we can control, the net performance in both business segments, both Seating and E-Systems are operating at a high level and commercial negotiations, restructuring and automation, it's all on track, consistent with what we expected.

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Mark Delaney

Analyst, Goldman Sachs & Co. LLC

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That's a very helpful update. And maybe sticking on the topic of cost and automation, company has highlighted automation as one of the key drivers of cost improvement, including with its IDEA initiative. I think you've said in the past that labor is about 13% of total company sales or roughly \$3 billion on an absolute basis. How much of that could be automated and what are the largest areas of opportunity for automation?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. This is an area that we've been focused on for well over 10 years and we've talked about the acquisitions that we've – and they're nice tuck-in acquisitions, the Thagora, InTouch, ASI and the most recent one WIP Automation. And the benefits that we're seeing and how we're separating ourselves from our competition, and I think believe – and I believe in creating a value proposition is through innovation on the plant floor combined with engineered products for modularity and automation. So we're coupling both those together and really seeing some really good progress.

Looking into 2025, I couldn't be more excited. We really put in place IDEA by Lear, this beginning of last year and we're seeing increase to about 605 different projects that we're heading into 2025 with. And so a substantial increase from what we saw in 2024. And so that gives me a lot of confidence in what we're doing on the operations on the floor of our facilities and the opportunities that we're seeing within, let me give you an example, we're putting in from where you look at finesse on a Just-in-Time. That's one of our higher labor costs is Just-in-Time seating, where finesse all the way through validation and testing and sequencing is 100% automated. That's going into production at the end of this year.

And as we validate and get that into production and prove it out, then we can quickly move across multiple plants that can take out anywhere from 20% to 25% of direct labor within the facility itself. And so those types of progress, those type of steps, I think really are what are differentiating Lear Corporation. And they only came through the integration of these acquisitions. And we are working with integrated manufacturing companies, and from my perspective, it wasn't getting us the full value of what we can do internally.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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What we're realizing is that on our plant floors we can specialize our own capital needs. And so through the algorithm software, how we're developing capabilities with our capital on the floor is making significant differences in our capital cost structure too. We just implemented a plant that kind of a reversal. We used to manufacture about 20% of the capital that was installed on a plant floor. The most recent plant we put in place, we actually manufactured and designed 80% of that. That was 20% lower capital cost for that single plant. I think those numbers are going to continue to come down and we have improved the throughput dramatically.

And so, that's something I'm really excited about. I think that takes a little bit longer period of time when I'm talking about right now short-term cutting all discretionary spending, making sure we're very smart on how we're spending capital, how we're focused on capital. And the ideal situation is to obviously automate as much as possible. It doesn't all makes sense because there's lower cost labor. We're making some great moves with Mexico down to Honduras and just continuing with the labor arbitrage, but where it makes more sense in our Just-in-Time facilities, we're seeing really good benefits.

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And I also think that I talked about we have \$3 billion of conquest quoting activity heading into next year. And I think they are real. I mean, our customers were having great conversations around the modular concept. We just most recently – we're going to validate it with Ford Motor Company. Then this year we talked about that being a significant event. That gives us a lot of confidence that we can take that across multiple programs within an OEM. And so I think we're going to continue to win those type of businesses. But I believe that we're about somewhere north of 10% on our controllable cost more competitive than our peers. And that's a significant step. Now, I can't flight off and I don't think the irrational pricing and some one taking the price, but on a cost-for-cost basis we are significantly lower, and I think that's going to play to our benefit as we continue to quote this business in the second half.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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And just to put some numbers around that to help investors and we'll provide, Mark, a lot more detail on the fourth quarter earnings call on the investments we're making in automation and advanced manufacturing. But we do expect to spend \$150 million of CapEx next year on automation and advanced manufacturing. That's about \$50 million more than what we spent this year. The way we are – we evaluate these projects is no different than a typical capital investment or restructuring program.

On the Seating side, we typically see about a one-and-a-half year payback. As Ray mentioned, those initial investments in automation are really focused on our highest cost facilities, shortest payback opportunities for us. But now we're starting to see on the E-Systems side some of the equipment costs come down, some of the improvements in the equipment and what it's capable of really improving the return profile of those projects as well. And so whereas maybe a year or two ago, it would have been a three- to four-year payback, we kind of shied away from automation in wires as a result of that, we're now seeing sort of two- to three-year payback around two-and-a-half year on average payback on the wire side in certain applications. And so that's really what's leading to that increased investment next year compared to this year. And if you think about this over a two-year period, by the end of 2025, so between 2024 and 2025, we will spend \$250 million of CapEx in this area and generated run rate savings of \$150 million. So it's certainly not insignificant. It's a really important contributor to that margin expansion story in the areas of the business we can control.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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Yeah. And I think that's really important is I think that is a key differentiator for Lear Corporation is, what we're focused on, I would say short-term focusing on making sure we're focused on all of our costs all the way through every line item within our cost structure. But more on the structural changes we're making to our business, the sustainability of gapping out that margin as we look forward and then really offering something that's different to our customers and really differentiating Lear. We're seeing the results. Couldn't be more excited, we just had the operational teams in several weeks ago going through what we're doing globally. We're being very selective on how we prioritizes these on returns.

I mean, the queue behind it is, there's a long list, but it is how do we focus our capital, what we're spending on for the greatest return in structural sustainable changes that are going increase our margin long-term. And so it's exciting on one side, like you said, there's a lot of challenges in the industry. But I think, the timing is right for the investments we've been making over the last several years.

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Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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And Mark, just to add one more point, and Ray alluded to this, these investments in automation and the advancements we've made in manufacturing, particularly on the Seating side, are a competitive advantage for us. As we're quoting new business, we're seeing that materialize in terms of being more competitive. And as Ray mentioned, you could have a competitor that chases a program to a price that we're not willing to accept. But from a cost standpoint, it is a significant advantage, providing a significant advantage for us and for our customers.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

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That's all really interesting. It sounds like even with what you have in the pipeline for 2024 and 2025 in terms of some of these investments, that even with that, you'll still be in the earlier innings of this journey around automation. Is that a fair take away?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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Yeah. Absolutely. So the way we prioritize it right now, as I mentioned, is Just-in-Time. I mean, that's our higher cost. We get the biggest returns straight away. But in parallel, what we're running is, examples within trim and wiring harness. And so there are fast moving events that we'll use with companies that are solving bigger problems that we don't need to invest in that will be solved. But I think, where we can differentiate ourselves in that what I call the secondary priority is trim and wiring harness. We're seeing great, great benefits and changes.

I'll give you an example, Thagora was a company that we acquired, which really is writing software and programs to really scan, hides and trim and utilize it in a much more efficient manner. In the old ways of looking at it, you'd put dyes on every single piece, and utilization rates were higher. That's where the scrap gets – where you really get the cost. Now we're digitizing all that with internal program that only Lear has to really drive efficiencies within that process. And that one example, even though it's an example within a leather hides can be used across multiple different platforms within Lear. And that's why it's so important that we keep these in-house. There's proprietary rights that we have. We're patenting everything that we're doing, especially on the plant floor, the modularity of what we're doing with seat.

We have – and I think it's – I don't want to be overlooked, but the modularity of the components within the trim cover itself, we're in validations – late stage of the validations. We said that's a significant event for us. We're going to – those facilities that are going to build those modules will be automated, and so, it will be a lights out type facility that we can scale across multiple platforms. Once the modular design is done and validated, it's built and it's scalable where we can go across multiple platforms. It is agnostic to any frame system that's out there. So we don't have the legacy issue worrying about the Just-in-Time facility, we can supply the key components to the seat to our competitors.

And what I'm liking it, the highest levels within the executive ranks of the OEs, we're showing them this capability they couldn't be more excited. Now, you have to get through the validation process. There's a certain level of patience that you have to have. But now we're there. We're getting it to, it's validated. That gives a lot of credibility to our customers to say, you can do this. And what I hate to – I say it internally, don't waste a good crisis. Our customers are going through a lot of pressure on cost. This is something that we can take costs down and give a greater value to the customer. And so – and it's something that we can expand and grow on and expand our

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margins. So everything we focus on is generating margins above our cost of capital. That's what we're focused on, and this is a great opportunity.

So as they're struggling with cost and trying to take cost out, it's amazing as they come in and we get to show them this validated process and system that can be automated with confidence that we can – because it's been validated that we can take it across multiple platforms. So that's the business we're quoting heading into next year. Now we're seeing quotes, which is interesting. One of the points that was brought up, can you disrupt the customer sourcing model? And that was what we're out to prove. And we're seeing the customer sourcing model be disrupted because we're getting quotes now for just our modularity. We can quote the independent of the Just-in-Time facility and we're getting a quote for the modular assembly within our automation in our automated facilities.

And so that's the second half next year. A lot of these programs have been pushed for a lot of different reasons. But that \$3 billion of conquest quoting activity that we have in the pipeline, I'm very confident at that because we're getting a lot of positive feedback from our customers on what we can do, and they're looking for changes. There's no question about it.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

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No, that's great. I mean, there's – sounds like a lot that's going on there, both from a cost and business sourcing perspective. And I just want to make sure I got it correctly, so Just-in-Time, 20% to 25% automation opportunity for some of these programs you're looking at?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Yeah.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Jason Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

There's been a lot of market share shifts in the industry, especially in China, maybe talk about how that's affecting Lear?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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Well, we've been in China for 30 years, so we have, I think, a great team on the ground. And you're right, there's been a lot of shifts, particularly with the multinationals and the shift with the domestic Chinese. And we've built an outstanding relationship with some key customers in China. Matter of fact, some of our fastest growing customers. Our fastest growing customer right now is BYD. We will over the next several years have

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30% of their seating business within China. So we've established strong relationships. I think from our perspective and what I'm seeing, even with some of the conversations I've had with the domestic Chinese, is that they're very interested in technology and capabilities.

And so, why we've been able to compete very competitively and win business with the local Chinese suppliers is because of our innovation. I think, the domestic Chinese are much more willing to look at change when we talk about our modular system or technology that really changes their product. And so I think that's one thing that we've been doing a great job of. We've done a nice job with the luxury and with the domestic. We've done a really nice job because of our capabilities. And I think that's really been a nice basis for us to continue to grow. I mean, we have BYD, Geely, we have Changan, now Xiaomi, there's a number of customers that we can continue to grow with.

And so I think as the shifts in market share continue what I've seen, we can still continue to win conquest business with the domestic, let's say the Detroit three or European customers, we're still seeing that shift. We're seeing a fast pace in growth within the Chinese because of the way we can accelerate our capital on the ground. We cut a program down that was typically two years to a year-and-a-half down to eight months. And it's because we actually manufacture on our own capital and we're seeing doors get open that we haven't seen before with the Japanese OEMs, too. So I think looking at the changes, even though there are changes in China, we've seen changes across the board that are allowing us to still continue to grow.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

That's it.

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Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. And Mark, I'll just add. If you look at – our revenue in China from 2021 to 2024, grew by almost \$1 billion from \$4 billion to \$5 billion. Despite that market share shift that's happened and we have – well our business is over indexed to the international OEMs there. It's gone from – the Chinese domestic sales has gone from 22% to 30% of revenue from 2021 to 2024. And as we look out to 2027, it's approaching 50-50. And we expect another – targeting another \$1 billion of revenue growth. Some of that's a bit obscured because much of that revenues are in non-consolidated joint ventures but we're also actively working to try and consolidate some of that business as well.

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Mark Delaney

Analyst, Goldman Sachs & Co. LLC

That's great. And picking up on that broader theme of market share and some of the success the company is having specifically within Seating. And Lear has spoken in the past about it, Just-in-Time market share, having at about 25% as of 2023, you've got a goal to get it to 29% by 2027. Ray, maybe give us an update on how that's progressing.

Q

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. I think this comes in different phases, too. We're very successful. Back at just 2019, we won at that time based on volume, revenue dollars was about \$2 billion. So we saw a nice, a win rate on conquest. And so it wasn't us losing business, it was us actually getting conquest from our competitors. I think we're kind of in that same period of time, too. Like I said, a lot of programs have been delayed, pushed or changed as far as what the

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expectation is with volume. But in the second half, right now, we're starting to see that same type of quoting activity that we saw back in 2019 where we were very successful with conquest wins.

And I think that's, really what we're focused on is the second half next year that will continue to accelerate our growth to 29%. And even though there's been a pause, let's say, or delay or whatever we're calling this, EV slowdown, which is kind of in the interim slowed down our backlog growth. I still see the opportunities in the second half next year allowing us to get to that 29%. And so I'm very confident. I mean, there has been a pause, like I said, because of some factors around EV. But I'm very confident, given the conversations we're having with our customers, that we're going to be successful with a portion of that conquest wins heading into 2025.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

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Okay. That's great. And then another opportunity within your Seating business has been around Thermal Comfort Systems or TCS, is Lear still on track for about \$1 billion in sales and reaching your profitability targets for TCS by 2027?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. The short answer is yes. We're on track for both of those. And we talk a lot and have talked a lot about the development projects that we've been awarded. We have 60 development projects with 22 OEMs. So we haven't talked as much about the production contracts. So we have nine production contracts, the first of which went into production in the middle of this year with Volvo on ComfortFlex. First FlexAir program went into production this year with Hyundai. So we're now converting those development contracts to production contracts. And based on those nine contracts that we have been awarded, it's about a \$100 million of revenue associated with that. So that's the first key step towards achieving that. The growth that we've targeted in Thermal Comfort. And in terms of the margin profile of that business, it's generally higher margin than Seating overall. The 10% to 15% is sort of the normal conversion on the incremental revenue that we're seeing in Thermal Comfort. And beyond the new business, the other key catalyst for the margin expansion in that segment is restructuring. So many of the facilities that we acquired from IGB and Kongsberg were in Eastern Europe and we've moved that footprint and are in the process of moving that footprint to North Africa and that's a meaningful contributor to that margin expansion in that segment.

And as we work through those other development projects throughout the first part of next year, we look forward to providing updates on how many of those have been converted to production contracts, just to give investors a sense of the key drivers and enablers to achieving that \$1 billion target. But as Ray mentioned in his opening remarks, we're seeing a lot of interest from customers and a lot of success. The most important of which is completing the validation on the Ford's ComfortMax module. That's our first ComfortMax award. Completing the durability testing, which we did in the last quarter was a huge milestone. And now that opens it up for other business with Ford, whether we have the JIT or not and with other customers, as Ray alluded to, just reducing that risk profile of that product by completing the validation work that's happened already.

And ComfortMax becomes a more important part of the growth story in Thermal Comfort. As time goes on, let's just give you a, kind of, frame of reference the average CPV of ComfortFlex is sort of \$50 to \$100 that's where you combine in seat heat and massage or pneumatic lumbar and seat heating for example, two components within Thermal Comfort. ComfortMax, you're adding the trim cover to that as well. And the CPV can be \$250 to \$500 a vehicle. So it's a much greater growth opportunity from a revenue standpoint, with similar margin profile as a ComfortFlex product. So getting that first development project through validation and ready for launch is essential and a key enabler to that growth in that business.

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Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Maybe we could shift gears to E-Systems. Lear's electrification businesses seemed to be about \$800 million of revenue in your 2024 guidance. The company had been targeting over \$1 billion by 2025 prior to the EV slowdown, recognizing EV production has been slower. What are some of the growth catalysts you see from here for E-Systems?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. I think we've talked about the pause in the EV and we did a really nice job, I believe, of really streamlining our product portfolio from what we had 25 different products down to 13 and really focusing on where we believe we can get a fair return above our cost of capital and grow the business. And we're doing a nice job. Now we have a pause in EVs, so Battery Disconnect Units and Intercell Connect Boards, we still have great capabilities and believe that we can still grow in that area. We're strong with General Motors right now on the Battery Disconnect Units, with Volvo, with BMW, with Stellantis, still quoting different programs with them as far as the next-generation.

We have right now I talked about the conquest opportunities in Seating, we probably have two of the biggest conquest quoting actions going on right now with E-Systems, significant. And I think I feel just as confident given some of the feedback we're getting from the customers on the opportunities there. That could really be a game changer for growth within E-Systems and really focused on that power distribution. I mean, that's something we're very good at. We believe, we've seen the margins continue to improve. We're obviously rolling off business that we don't believe we can scale properly, not investing in it, not spending the R&D money, putting the R&D and the investment in engineering and programs where we feel we can expand margins quicker. But I think given the pause in the EVs, I still see great opportunities for growth in power distribution, particularly with two big conquest wins that hopefully we'll be able to announce sometime early next year.

I think that's again – it's nice to talk about all these things having great confidence and great conversations with the customers, but we're really trying to put these things so we can make key announcements, one in E-Systems and the conquest opportunities we have. And two, as we just talked about with Thermal Comfort, we're very close. We've gotten verbals on modular assemblies with a key customer that we believe we hopefully can announce early next year. I think that will continue to validate what we're talking about.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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In terms of just the revenue for electrification. It's still been a meaningful contributor to the growth in E-Systems, that business was \$565 million in 2022, it grew to \$750 million this year. So maybe it's a little bit lower than what we had previously estimated. And we think that can grow another 6-percent-or-so next year to \$800 million and maybe a little bit more. It may be less of a contributor to that growth in the near term in E-Systems. But I think that, that if you look out longer term, the conquest awards in wire that Ray just alluded to would certainly allow us to get kind of back to that historical 6 points of growth above market that we've achieved for the last five years in E-Systems and again this year, that's the growth rate we've achieved. We may have a pause there for a year or two as this electrification trend sorts itself out. But longer term, we're poised for growth in that business.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

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And Ray you mentioned two conquest opportunities. I think you said they're both power distribution. Would that be high voltage products you're providing in terms of wiring or is there ICE?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

It's a combination, it's ICE and high power.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Okay.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Okay. One of things that has been very topical for the broader market and industry has been around tariffs. And I'm hoping to double click a little bit on that topic with Lear. Maybe help us better understand how much of the – as you are having conversations with some of your customers and thinking about how you could potentially share some of these costs or tariffs if enacted. How were some of those discussions progressing?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Well, I think there's a lot of uncertainty right now on how those are going to play out. But we have taken a very proactive approach with organizations such as MEMA, and anything that we can get out and our voice can be heard along with our customers. And it's early. It's a little bit too early to really get into any real substantive conversations as far as what it means. But we have approached our customers kind of giving them an idea of how we're looking at it. We have historically looked at this thing and there have been in some of the models and how we quote business in the area for duties and tariffs that we have been in the past been able to get. So I think it's just going to open us up to some type of conversation around what the contracts' terms and conditions and how we're going to have to adjust, if this does materialize. And I think that's going to be just an open dialogue and conversation around how we're going to negotiate the contract because we're not going to pay it. So, we're not going to pay it. There's no way we'll ship a product. And so I think it has to be a discussion that we have with our customers and gets resolved.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Would there be an opportunity to move labor from Mexico to Honduras faster if [indiscernible] (00:29:28)?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. I mean, so there's a lot of things internally that we're doing. So that's one of them. There's other things that we can do to reposition ourselves. So maybe parts come in slightly different than the way they're shipped in today. We've done things in the past that we have to work through with our customers. But I think those are all

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things, I think we are being very proactive about it. And not just sitting here waiting for something to happen, but being very proactive, being very in front of our customers, talking to anyone that will listen on what this means to the industry. But I think the other thing that's very important is that, of a seat system a significant part of that is directed. So it's an industry issue. That's going to be a conversation, maybe a three-way party for us. We're included in the conversation, but that has to be discussed with the directed supplier in our customers. And so, this is an industry issue. This is not a Lear issue, this could be solved a lot of different ways. But we are taking a very proactive steps right now.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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And Mark, you could look at what happened with China with tariffs, as a kind of an indication on the directed material where there was a tariff that was applied that impact was passed through to our customers.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Jason a couple financial questions, if I could, please, for you. Given the increased focus on automation and your IDEA initiative, assuming industry volumes were to be flattish next year, how should investors think about margin improvement in both segments? Maybe you can touch on both 2025 and then also longer term?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. And I know we had previously communicated our target margins in both segments of 8%. And at one point in time, the goal was to get to that in 2025. Obviously, a lot has changed. Volumes are lower, particularly in our key markets. There's been the market share shifts in China that have happened, elevated wage inflation, just to name a few. But what we're in, I talked about this. This is the environment that we've got to operate. And so we're not satisfied with the margin profile of the business right now and are working to aggressively improve the cost structure of both business segments. Obviously, Seating is closer to getting to the 8% target. We're at 6.5% this year. And I think it's reasonable to expect 30 to 40 basis points of net performance improvement in that business year-after-year, driven by automation primarily and maybe to a lesser extent restructuring.

In E-Systems, we have a longer road ahead of us. We're at 5%. So the gap to 8% is larger. But the opportunity to improve the cost structure through net performance and improved margins through net performance is greater in E-Systems. I think it's reasonable to assume 40, 50 basis points a year, year-on-year improvement in margins in E-Systems through net performance. Now what our industry volume is going to be, I think that's likely a headwind. As you look at out to next year, you're probably down a couple of percent globally. But – on the things we can control, we're working very aggressively to improve the return profile of both businesses. And even at 6.5% in Seating that I highlighted, we are generating significant return in excess of our cost capital. E- Systems is the one where we've got more work to do. And Ray alluded to the product portfolio and the changes we've made there. We've paired back our electronics portfolio. Nothing is off limits in that business right now as we embark on this journey to get returns back to where they need to be in E-Systems.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

I'd just add to that too real quick. I mean, it's also just this pause allows us to pivot and be very selective. I mean, when I talk about growth opportunities, we're very selective on programs that historically have run at a real good rate that give us a lot of confidence that they'll continue to run volumes at a very steady pace. And so, this is a time for us to really look selectively.

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We believe we're in a strong position because of what we've done with our cost structure. And there's programs we just – we'll shy away from because we don't believe or we're going to set them up differently contractually with some guarantees if we do move forward with them. But the programs that we talk about that we're really excited about are historically strong programs with a strong demand and a great brand in a great region. And so we are very selective in how we're looking at growth today relative to where we believe the growth will be longer term.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Very helpful. Jason, I was hoping you could provide an update on your priorities for capital allocation.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. If we look at the balance of this year and into next year, they're largely unchanged. We're continuing to invest in automation and CapEx will continue to run in that high-2% range, low-3% range as we support the competitive position of both businesses. Tuck-in acquisitions on the advanced manufacturing side, we'll continue to also – we'll continue to invest in that. But those are sort of \$15 million to \$25 million type deals at this stage. And then the balance of that cash, we're returning to shareholders. Through today, we will bought back about \$350 million of stock. This year, we'll continue buying back shares through the balance of this year and look to do the same as we look out to next year.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Great. Well, unfortunately, we have run out of time. Jason, Ray, thank you both for joining.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Thank you.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Thanks, Mark.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thank you.