



Transcript

Lear Corporation

Morgan Stanley Laguna Conference

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MANAGEMENT OPENING COMMENTS

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

All right. Yeah. Really happy to have the Lear team joining us today. We have Frank Orsini, Executive Vice President of Seating; and Jason Cardew, Senior Vice President and Chief Financial Officer. We're going to give Lear management a chance just to kind of address and provide a little market update and trading update heading into the end of the third quarter. And then we're going to focus a lot of the discussion around automation and Seating and kind of how Lear is taking advantage of new technologies to produce some margin as this industry doesn't get any easier. But if you have more tools and use AI to help improve your efficiency across your operations, that's going to make a really big difference. So, maybe, Jason, over to you. Just to kind of kick things off. Any statement you want to make up front?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Thanks, Adam. And I appreciate the opportunity that speaks to those the investors today and for you hosting the conference. As you just alluded to, we're really excited to talk about some of the progress we've made in automation and our digital platform. I think it is a true differentiator for us as we move forward. At the start of the year, we laid out a couple of metrics that we thought were really important to share with investors around growth and margin expansion. And on the growth side, it was focused on key conquest opportunities, some really attractive platforms that we're pursuing, as well as growth with the Chinese domestics. And we've made a lot of progress in both fronts.

In the first quarter, we announced the award of the F-250 wire program. Portion of that was conquest. That was really important. And then on the Seating side, we have a number of conquest opportunities that Frank and the team are in having very productive discussions with our customers. And so, we expect to have an update later in the year on those opportunities. So, on the growth side, I think we're progressing well. On the margin side as well,

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we highlighted this net performance target at the start of the year, it was a \$125 million of earnings expansion through net performance. And on the second quarter earnings call, we updated that to \$150 million and we remain on track to deliver that to the business and the things that we can control is really progressing well.

You may recall that we reported earnings pretty early in the cycles before the EU trade deal was announced, before the South Korea trade deal was announced, before there was clarity on how the copper tariffs were going to be applied. And so, we were, I think, appropriately conservative in our guidance at that point. As we look at the second half of the year, it's on track to come in a little bit better than what we had anticipated. Production's holding up. Demand, in general, is holding up. Inventory levels on our key platforms are in a good place. And so we're a little bit more optimistic about the second half as a result of that. Now, there have been a couple of kind of one-off issues on the mix side that have hurt the third quarter a bit with GM's downtime in Silao, for example. And then more recently, JLR's cyberattack impacting their global production. They haven't been able to build vehicles for the last two weeks. So that has impacted us as well.

With all that being said, we see full year revenue tracking towards the high end of our guidance range. And so that would lead to second half revenues just a little bit below \$11.5 billion, \$5.7 billion in the third quarter, \$5.8 billion roughly in the fourth quarter. Operating income is tracking sort of in between the midpoint and high end of our guidance range. So, positive from the, converting on the higher revenue, partially offset by the mix issue. I alluded to, some very highly vertically integrated platforms that have been down a bit in the third quarter, but we expect that to come back in the fourth quarter.

In terms of Q3 specifics, we're sort of expecting operating income in the \$230 million to \$240 million range. We did factor in two full down weeks for JLR in that. There's another two weeks, which is all that's left in the quarter, maybe on the lower end of that range. If they restart production next week, we're probably closer to the high end of that range. So, I think the second half is really playing out a little bit better than we had anticipated at this point.

QUESTION AND ANSWER SECTION

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Great. We're going to get into some more operational targets. I want to go straight to automation, actually, just since you teed it up. And that we've got Frank here to also kind of delve into how you're using these tools on the Seating side, and we can bring in any other topic. But what's your -- what is your broad view just for the audience on how AI will impact the auto industry and how Lear is using AI tools? You got a high level, talk about that, existing tools and kind of your direction of travel on automation. And then I'll kind of delve a little deeper.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Perfect. Well, I'll lead this portion of the discussion and thanks again, Adam, for having us today. It really means a lot to be here with you guys. As far as automation, and I'll get to the AI topic because it's also an important topic. For Lear, we've been on more than a decade long journey of really establishing our company as a leader in integrated automation and digital manufacturing. And I know that a lot of our competitors get on stages very similar to this, and everybody talks about automation. But what I'd like to do is get a little more specific about where I believe Lear is really differentiating our capabilities against the competition. And I know how we're attacking this topic, and I think it's very important. So there's no other auto supplier in our competitive set that has bought eight companies in seven years. And our goal with those acquisitions was to create product and process innovation around how we would automate. So we've been very intentional with our strategy. And again, that's eight companies that we've brought into the portfolio.

The other thing that we've done that I think is transformational is we've partnered with Palantir, who's the best in the industry when it comes to digital platforms and certainly great AI capabilities. But, that, Adam, provided a first-mover advantage for us in these extremely important categories of digital platforms for our companies, digitization of the manufacturing process and everything like that. So -- and that's all inclusive of AI. But great cultural fit between us and Palantir, we think they're the best in the industry, and partnering with them, I think, puts us at a very strong, competitive advantage.

The other thing that we've done at Lear is through the acquisitions and organically, we've built a tremendous amount of talent, specialized talent around areas like automation, data science. We've been working very hard on manufacturing integration of all of our systems and equipment, and then, of course, the algorithms that we've been working on to support our AI platforms.

The other thing that Lear brings to the table that none of our competitors do is, we can build 80% of our capital at a 20% to 30% cost-competitive advantage for our customers. And the most important part of that is, we are building what we call purpose-built capital. And what we mean by that is all the work that we've been doing in the design of the products for automation and then the equipment and the integration, to your point, of how we bring those solutions to the shop floor, it's completely specific to Lear and what we're designing into our automation strategy. So, it really does separate us. And then the last thing on automation, and then I'll jump to AI here, we -- Ray mentioned this on our last earnings call, but we're putting an advanced manufacturing and integration center in our backyard in Michigan.

The goal of that facility is to highlight what lights out manufacturing looks like. And the progress has been amazing, what we've been doing with Thermal Comfort Systems and the modularity strategy that we have. The

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equipment and the production process that we put in place is 100% automated for that product. And we're going to be able to demonstrate that at our location in Rochester Hills. And that'll be something that we'll be bringing customers to, which I think will be very helpful to demonstrate our capabilities. We'll be inviting the investment community there as well, and then, of course, for our employees.

So, automation for us is extremely critical, and I think we're doing a lot to differentiate. On the AI topic, because this is a very important topic, from a Lear perspective, we look at digital platforms overall, and we look at how AI will benefit our strategy around digital platforms and bring capabilities to those digital platforms. So, what we're doing right now is we are integrating digitization and AI capabilities into every aspect of our business. So it's in how we engineer the products and how we design them. It's in how we purchase material. It's in how we manufacture our products. As I mentioned, that's a big focus for us. Testing and validating our products is very important and we're using data platforms and AI capabilities there as well. And then how we continue to drive free cash flow and have a broader visibility over the pipeline, how material is moving, how we're buying and storing inventory and things of that nature is really helping us.

The other thing that I think Lear has done over the last several years is differentiate our capabilities by developing in-house AI systems and algorithms and things of that nature. So we've talked in the past about a couple of products that are very interesting. One is LearVUE, where we have our own proprietary algorithms around vision systems for how we manufacture our products. And that technology is being deployed globally. And, I think, actually last year on the stage, we talked a little bit about Thagora and what a great acquisition that was. And Thagora is all based about vision systems and AI and algorithms that are allowing us to nest and cut our leather more efficiently than anyone else in the industry. So again, another differentiation in terms of how we're competing. But the real goal here is to redefine what the future of manufacturing is going to look like. And in our world, it looks like more efficient shop floors. It's less space requirement, less overhead requirements for our future. It's about producing a quality product on a reliable production system. And it's also about having a safe and ergonomic shop floor for our employees.

So when I think about the advantages that we're bringing to the table for our customers and our shareholders, it's really around cost competitiveness on a different level. It's speed to market and it's world-class shop floors. And we've captured that cost competitiveness range depending on the complexity in the particular program somewhere between 200 to 500 basis points of improvement. So I think it really puts us in a different position in terms of how we're competing and how we've really embraced and leveraged these capabilities to differentiate our company.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

And, Adam, just to add a couple of comments to Frank's comments there, I think, in terms of the financial impact of that, certainly the longer-term benefit is much greater than what we're seeing near term, but it is impacting our financial results this year. We have \$65 million of savings, so of that \$150 million of net performance, \$65 million is a result of these efforts. We see that continuing to ramp up \$65 million to \$75 million a year next year and again in 2027. And the full benefit is more easy to -- more readily apparent when you're starting a new facility. So it's one thing to transition an existing manufacturing process and add automation. But as we've launched new facilities, for example, last year, we launched a new Seating facility in Europe and one in China for the BMW 5 and BMW 7 series, and that brought the full arsenal of automation capability that we had in place at that point in time. Next year, we're launching a new facility in Europe with Audi for the Q7 program, which is going to be the next generation of these manufacturing processes. And the programs we're quoting now, these conquest opportunities that we have, which Frank alluded to, where we see a 200 to 500 basis points advantage relative to the competition, we'll see the full suite of these initiatives driving that level of cost improvement.

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So, while it's relatively modest at \$65 million to \$75 million a year for the next several years, as these new programs launch, the impact grows significantly. And on the cash flow side, Frank mentioned briefly this inventory pipeline project we have. That is allowing us to reduce inventory levels. I failed to mention in my opening remarks, we are seeing an improved outlook for free cash flow, likely, something north of \$500 million for the year. That's allowed us to really accelerate the share buyback program that we have in place. We bought or will buy back about \$100 million here in the third quarter, a similar amount likely in the fourth quarter or maybe a little bit more than that. So we talked about \$250 million of share buybacks for the year. We're likely going to be able to do more, again, as a result of these efforts to improve working capital and drive free cash flow and then return that to shareholders.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

And Jason, how has this changed your CapEx outlook? I mean, you have to -- there are costs to achieve and acquire these technologies that you then implement up front. So how do we think about how this changes CapEx or how do you think about payback periods?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, generally what we're seeing, particularly in our high-cost JIT facilities, is a one to two-year payback on these automation efforts. So the payback is very attractive. These are great investments. And while it has led to higher CapEx generally, it's not really moving the needle in terms of our total CapEx as a percentage of sales with sort of...

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Reallocation.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So it's more reallocation plus benefiting from, as Frank described, that purpose-built equipment. So we're building the equipment more efficiently, 20% to 30% less than when we were buying it on the outside. And so we see CapEx as a percent of sales, right around 3%, as we look out over the next several years. It's still a capital-light business.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

I got a couple of questions here before I turn to William. But William, I want to talk about one of William's PA investments, Palantir. You mentioned, yeah, his hit rate is not amazing, but this one is pretty good. And tell us about that relationship? Who approach who? What's it like working with Palantir at the risk of giving away secrets because everyone else will want to work with them too, but just tell us what they're like and how they took your systems and data and helped you make decisions that create better outcome?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Do you want to take a run on it?

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Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, take a run at it.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

As you mentioned, the culture is the same, I'm like really.

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Well, it's similar in that we're both extremely passionate about innovation and moving fast. And the culture between even Ray, our CEO, and Alex is really strong. And we started working together on a couple of projects, Adam, and really started building out what the total opportunity was. And Palantir is great to work with. I mean, they bring a lot to the table in terms of capabilities and talent that they're supporting us with. And we've supported all of that with what we believe to be one of the best use cases in the industry where we're really trying to separate as a Tier 1 automotive provider and making sure that we have the best technology and capabilities. So, we're looking at projects in the administrative functions to help take cost out. We're absolutely focused on the shop floor. And it's heavily centered around live data on the shop floor that allows us to make fast decisions on whether it's dynamic line balancing, cycle time, deviations and how we're manufacturing our products. And that live data is unmatched in the industry, in our opinion, and it's absolutely a competitor...

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

...across the organization. It's not just limited facilities. It's not a pilot. They are embedded.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

We're two years into this. Yeah, it's fully embedded in our organization. I think that's part of the cultural fit that they saw and we saw. They saw how quickly we were willing to scale this platform globally, and we're seeing tremendous benefits from it. I'll just give you one easy example. Frank alluded to the administrative side. When the tariff announcements were made, we were able, within 10 days, to build a system within the Foundry to take the data from our customs brokers and translate it into a commercial claim with our customers. 10 days to build the system and present an auditable documents to our customers in terms of the cost. And that's led to purchase orders coming out quickly. We're starting to collect cash already on tariffs. We could not have done that in the past.

A

I mean, we've had consultants come into our company and talk about, putting a program together to facilitate this. It'll take them 10 days just to develop a proposal. We were already fully implemented with the system by that point in time. So it's really transformative. And I think we had a leader in our European Seat business that that was the first to embrace us and that was the pilot. And that was really the start of last year where we started to deploy it in our just-in-time Seat facilities. And it's really allowed us to reduce labor time in our just-in-time plants, improve efficiencies, 2% to 5% across the whole system. So the impact is massive and the potential is great.

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Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

And we have 11,000 users company-wide working within their Foundry platform for digitization and their AI capabilities are excellent as well. So good choice William.

A

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, I think the other the other point too, so we have 10 of the highest -- kind of highest potential projects that have been separated within all the work we're doing with Palantir. And Frank and Nick, his counterpart in the E-Systems side, have built these global centers of excellence where that team is responsible for deploying each of those 10 technologies across the whole 240-plus manufacturing facilities we have globally. So it's been great initiative, and we're not too far away from probably announcing some additional exciting developments in that partnership with them.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

All right. One more for me on this, because I'm just kind of -- you mentioned automating a module assembly and kind of bringing in some customers and showing them what you're doing. Presumably, this is very low scales and more demonstration proof-of-concept, right? I'm curious, A, who are your benchmarks? I mean, for my Seat, Autoliv gets mentioned a lot and you're increasingly in the same breath with them, which is a good thing, because Autoliv's, they're damn good company and they've got -- they did things in automation that no one believed in terms of their initiators and module assembly here in high-cost countries, taking a lot of labor out and bringing in great results and doing what, just executing. I didn't know if they were a benchmark. If they were, how close were you to be seeing what they do and then what other benchmarks do you see? And then, in terms of really scaling these things, and then, how long would it take for -- what's your outlook for you getting from a kind of demonstrating proof-of-concept to really integrating like a fully automated module or almost fully automated module assembly into your broader operations?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, I think you're right, Autoliv is a benchmark in this area and that's a company we have studied and learned from. And I think, Frank, maybe talk about what we've done with this ComfortMax automation and where we're at in terms of the deployment of it. It's -- I mean, we're maybe a couple of years away from it being in a production facility.

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Yeah. So, actually, Adam, it is -- what we're putting into that facility is actually production intent equipment with production cycle time performance. So it's not a prototype situation. It is really built around integrated manufacturing and full automation. So to Jason's point, there's two product lines in our TCS strategy, ComfortFlex and ComfortMax. ComfortMax is when we take our TCS technology and put it all the way into the trim cover. And what this process is doing right now is it's taking all of the components; lumbar, massage, heat, vent, cooling, all of that goes into a module. That module then gets put into a trim cover. It's fully automated. So our cycle times are good. We're going to continue to make improvements, but it's a full functioning end-to-end lights out application of what real manufacturing can look like with real automation.

A

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Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Human -- what's the human degree in the loop?

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

How about zero...

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Zero.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

What would that operation be like before the automation? What would the pre-automation human componentry be in terms of either people or labor as a percentage of costs?

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Yeah, dozens and dozens of people. I mean, each station would have had a number of people working on them, and there's over 20 stations in the process. So, it's true automation and it was all intentional, like I said earlier, it starts with the product design, though. A big part of this, Adam, is...

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

You wouldn't be able to do...

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Yeah. The design has to evolve. All of our design and engineering around the products themselves was about complexity reduction. We redesigned every component of the lumbar system and the massage system. So, the way we approached it was a design for automation, then we created the equipment around it, and then we laid out the entire manufacturing strategy and process around it. And it truly is impressive. And the team has done an absolute amazing job. So, we'll be able to walk you guys through that as we get closer with dates in the future.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Awesome. William.

Q

William Tackett

Analyst, Morgan Stanley & Co. LLC

I think we talked a lot about the cost side of automation, it's very obvious, the cost savings of automation, but does it even help on the revenue side, your ability to win new business and prove that you're more reliable and maybe scale that better than maybe some of your competitors?

Q

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Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, absolutely. And I think that's extremely important right now. We're helping our customers solve this affordability issue. Cost is a key area of focus for our customers and speed to deployment as well. And this helps in both regards. Just as an example of what we did a couple of years ago, when we took over the Grand Wagoneer, Wagoneer seats from a competitor nine months from the time of the award to the time we launched that JIT facility at full volume, not during a changeover, not during a mid-cycle change, literally Friday to Monday, switched from one supplier to us and launched at full volume. In fact, at a volume level that our competitor wasn't able to achieve throughout the first two years of the program. So, I think, that's a perfect proof point of how all these technologies and capabilities that we have built can lead to revenue growth opportunities.

I think, as we're pursuing these conquest opportunities with a number of customers and important programs, the feedback we're getting from customers is that we are, in fact, at a significant cost advantage relative to our competitors. So what that allows us to do is meet our customers price targets, help them lower the cost of the vehicle, and at the same time continue generating returns well in excess of our cost of capital, which the Seating business has done for a very long time.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

Maybe talk about some of those conquest wins a little bit better. I mean, where are you gaining share? And I guess, when you break up the reasons why people are moving from your competitor to you, do you think it's more of the cost side? Do you think it's some of the Seating innovations that you talked about ComfortFlex, ComfortMax? Do you think it's a combination of the two? What do you think is driving those conquest wins?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think, initially the main driver is our cost and quality advantage. And so as an example, again, this 5 and 7 BMW Series win that we had with BMW in Europe and in China was really a result of that. And that business has launched and met the financial return objectives that we had established. I think longer-term this -- the developments that Frank alluded to in ComfortMax, in ComfortFlex and in automation will be a catalyst for just-in-time seat growth as well. But that's the way the customer product cycles work. It's going to take a few years before you see that really impacting revenues in a significant way. In the meantime, we've had \$150 million or so of Thermal Comfort awards since the acquisitions, and we continue to win new business based on this advantage that we've built from a design and manufacturing standpoint.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

Maybe talk a little bit more about China. So I know you have significant business with BYD, with Xiaomi. I think you're on the SU7. I don't think you're on the YU7, but you're on the SU7.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Right.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

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How do you assess the quality of some of the Chinese EVs that you're on today versus some of the EVs you're on in the West? And then as you're winning new business with the Chinese, what do you think your advantage is?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think, growing with the Chinese domestics is essential for us. We're under-indexed in China right now, about 40% of our revenues with the Chinese domestic automakers. We see that growing to 50% in 2027, maybe a little bit beyond that. And it's really driven by the success we've had with customers. You've alluded to BYD, Xiaomi. We are on the SU7. That program has far exceeded the volume expectations that we had at the time of award. There are several other programs. We're in the quoting process right now with Xiaomi, and we have a good business with Xiaopeng as well. We're both on the Seating and E-Systems side. We're growing with Leap Motors. We're growing with Geely and others. And more importantly, to just highlight for a second, we made an organization change in Asia about two years ago. The leader of our Seating business who's been with us for 20 or 25 years, a fantastic leader in the region with great relationships with the Chinese domestics. We now have him running both Seating and E-Systems in the region and it's leading to growth opportunities on the E-Systems side, on the wire side, where we're maybe a little bit underrepresented with certain customers like Changan, for example, or DFM. That leader running both businesses has opened up a new kind of pipeline of growth opportunities for us in China.

And the Chinese are having great success in the European market. And so it's I think the latest stats roughly 20% of the production in China was exported in the last month. And so what we're focused on is looking at customers and programs where we see the greatest potential for volume, whether it's consumed domestically or exported. And we're also winning business and pursuing business with BYD outside of China. We're in the quote process right now for Seats in Turkey and both Seating and E-Systems content in Brazil with BYD. So, I think, some of the points that Frank alluded to and we talked about a moment ago in terms our pace of innovation, the Chinese move quickly. I think that they've had a demonstrated success and built an advantage on certain car lines from an affordability standpoint that's led to the volume growth there. I think they have an appreciation for our ability to move at that same pace, deploy automation and innovation and be cost competitive. And in the financial returns on our business with the Chinese domestics has been good. So it's working.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

William, just one thing on that point. Do you think that the US and European legacy automakers can narrow the gap to China on those areas of speed and iteration?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think I want to be careful here and not speak on behalf of our customers, of course.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

That's why I'm checking your body language more than anything.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, no, we're seeing changes in the way our customers are developing vehicles. You saw Ford's announcements a month or so ago as an example of that. So, I do think that it's essential that they take steps to

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close that cost advantage that the Chinese have built. And I think that they will achieve that. In the meantime, we're super focused on growing with the Chinese domestics and better kind of reflecting the overall global market share of all of our customers in our respective businesses.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

No, I had maybe more a longer-term question. There's obviously been a lot of growth of the Chinese domestic OEMs. I'd say the supplier complex in China though, is a lot more underdeveloped. How do you think about the threat of Chinese suppliers potentially disrupting your growth in Europe and domestically in China?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Frank, do you want to start on the Seating side?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yeah, I would tell you this, William, that market has always been competitive for us. We've -- Jason kind of referenced, with 30 plus years, we've been operating and competing with local suppliers for the Chinese domestic OEM business. We've been successfully growing that business during that timeframe. And Jason just mentioned something that's very important. Our vertical integration in Asia is, we're the most vertically integrated seat company in the world, but in Asia, we also have full vertical integration. And if you want to compete in that environment, you have to have speed and cost. It has to be two of your key goals. And our product portfolio is second to none in terms of technology. We have the full complement of TCS out there. We've been winning a lot of business with innovation, like zero gravity Seating and things like that. So we have a very strong product portfolio to compete from. We've got -- our vertical integration makes us very competitive.

And I think you can't underestimate this important piece that the relationships are very important and our leader out there has incredible relationships with a very talented and capable team with a ton of experience. So the combination of all that is, sure, it's a very competitive environment, but we're doing quite well. As Jason mentioned, we're growing with every key player in that market and we see that continuing, especially as they expand globally. It's a big opportunity for us. You mentioned South America, Turkey, there's some big wins.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

In terms of the competitor specifically, in China, we have roughly 18% market share there. I think, Yanfeng, Adient, and Lear has a similar level of market share there. So we've competed successfully against the local Chinese suppliers on the Seating side. I don't see a real issue or challenge there particularly. And on the wire side, it's a series of very small private suppliers for the most part. So there aren't large competitors in our E-Systems in the wire business specifically that we see as really disrupting us, particularly outside of China. Really, none of them have branched outside of China. And none of them really have the scale to compete. What we see in terms of competitors in wire is really the traditional competitive set. It's Aptiv, Yazaki, Sumitomo, the large global players in China and outside of China continue to be the primary competition.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

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Just want to see if there's a question just come up for air for a second. Any questions from the audience? Two minutes left. With just a couple of minutes left, I wanted to kind of hit on a bunch of topics, kind of more rapid fire, if that's all right.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

As long as you don't ask me about Taylor Swift

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Did you ask you about that last time? When I moved on to Lady Gaga, Lady Gaga is like my obsession now, as my team will tell you. Just to share a little bit about me you didn't know. Frank, buy, sell, hold, humanoids.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Buy.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Why?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

It's the future. And it's a very compelling opportunity for all of us. I think it's something that's developing. I think it's something that we're seeing a lot of progress in that area. And we're doing some pilot projects with it towards the end of the year and early next. So it's very intriguing.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Buy, sell, hold, Mexico.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

I'd say buy.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Okay, elaborate.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think that Mexico is a crucial source of low-cost and talented labor for our most labor-intensive businesses. I think it's essential for protecting the competitiveness of vehicles built in the US to have access to lower-cost labor. If you think about vehicles built in the US, they're competing against vehicles built in Japan that use low-cost labor from the Philippines, for example, or competing against vehicles built in Europe that have

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access to North Africa. So if the US manufactured vehicles are going to remain competitive not just for the US market but for export purposes, Mexico is an essential part of that equation.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

A couple more for you. Buy, sell, hold, China OEMs coming to the US market in some way over a 10-year period of time.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

I think I'd say over a 10-year period, it's reasonable to assume there's going to be some involvement of the Chinese in this market. You're already seeing small examples of that, whether it's Polestar Building Vehicles here in the US. I think that Stellantis with their relationship with Leap Motor, could use capacity. Just as an example, I have no insight specifically on that, but those types of things seem to make sense where you do have pockets of excess capacity in the US that could be repurposed for producing Chinese domestic or Chinese vehicles.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Frank, eVTOLs or aviation, buy, sell, hold.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Wait, what was it?

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Aviation, eVTOL, urban air mobility, drones with seats?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yeah, yeah. Probably buy because, I think, in a way. all of this technology is going to evolve, Adam, you know, you don't want to be shortsighted on what the art of the possible is on some of these things. And, I do think that there's a lot to play out in that area, but it will be very interesting to participate in it in the future.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

All right. Just last one from me. What's your favorite seat of any car? And they're all great. I know every seat that you make is great.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

That's the dangerous question.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Lear Corporation

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But if you had to like -- if you had to be in a 12- hour journey, okay, what would be the seat? What's the model? What is it? What's the massage feature?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Oh, my God.

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

The advancements that we've made in comfort and technology and it was off the charts. Like the Zeekr seat that we're doing in China right now, is absolutely amazing. But put me in a Ferrari seat any day of the week and I promise you you'll drive 24 hours in that vehicle and you'll feel beyond comfort with all the technology we're doing.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Jason, Frank, thanks for your time.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, appreciate it. Thanks guys,

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Thank you.