



*Transcript*

# Lear Corporation

Q1 2025 Earnings Call

May 6, 2025

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## CORPORATE PARTICIPANTS

**Timothy Brumbaugh**

*Vice President of Investor Relations, Lear Corp.*

**Raymond Scott**

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

**Jason M. Cardew**

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

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## OTHER PARTICIPANTS

**Joseph Spak**

*Analyst, UBS Securities LLC*

**Dan Levy**

*Analyst, Barclays Capital, Inc.*

**Emmanuel Rosner**

*Analyst, Wolfe Research LLC*

**Colin M. Langan**

*Analyst, Wells Fargo Securities LLC*

**John Murphy**

*Analyst, BofA Securities, Inc.*

**Itay Michaeli**

*Analyst, TD Cowen*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone, and welcome to the Lear Corporation First Quarter 2025 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.

I would now like to turn the conference call over to Tim Brumbaugh, Vice President, Investor Relations. Please go ahead.

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**Timothy Brumbaugh**

*Vice President of Investor Relations, Lear Corp.*

Thanks, Jamie. Good morning, everyone, and thank you for joining us for Lear's first quarter 2025 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 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-K and other periodic reports.

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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.

The agenda for today's call is on slide 3. First, Ray will review highlights from the quarter and provide a business update. Jason will then review our first quarter results and provide an update on the factors impacting our full-year guidance. 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 first quarter of 2025. Lear delivered \$5.6 billion of revenue in the first quarter. Core operating earnings were \$270 million, and our total company operating margins improved to 4.9%, near our previously-targeted exit run rate of 5%, despite a challenging production environment. Adjusted earnings per share was \$3.12. Operating cash flow was a use of \$128 million in the first quarter.

Slide 6 summarizes key business and financial highlights from the quarter. As a reminder, our strategic priorities continue to be extending our global leadership position in Seating, expanding margins in E-Systems through our focused product portfolio, growing our operational excellence and competitive advantage through IDEA by Lear, and supporting our sustainable value creation with disciplined capital allocation.

Our execution on these key priorities enabled us to improve our operating margins in both Seating and E-Systems, as well as for the total company in the quarter, despite the challenging market conditions. This improvement was driven by historic levels of positive net performance, contributing 125 basis points to Seating and 155 basis points to E-Systems margins.

Efficiency improvements, particularly in E-Systems and savings from our investments in restructuring and automation in both segments, are driving durable operating performance. This was our best single quarter of net performance since the second quarter of 2021.

We're extending our global leadership position in Seating, winning two new ComfortFlex programs and new global seat programs with key Chinese domestic automakers. For Volvo, we will provide a ComfortFlex module combining ventilation and pneumatic lumbar support.

We will also supply our combined steering wheel heat and hands-on detection module for a second program with Hyundai. This award illustrates how winning and validating a module for a customer can lead to the sourcing of additional programs.

The performance improvements driven by our ComfortFlex modules are gaining recognition from third parties such as MotorTrend. In a recent review of the Lucid Gravity, MotorTrend noted the massage seats for both front passengers were nothing short of exceptional, offering a deeper and more therapeutic experience than most rivals. We supply the ComfortFlex module that combines heat, ventilation, and lumbar and massage for the Lucid Gravity.

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In China, we won several awards with domestic Chinese automakers such as BYD, FAW, and XPeng. In April, we took operating control of one of our joint ventures in China, which supplies seats on two key programs for BYD. Consolidating this joint venture is expected to add approximately \$70 million to our reported revenue for 2025.

In E-Systems, we continue to win new business across all our focused product lines. The awarded business, totaling more than \$750 million in annual sales, was the most in any quarter in more than a decade. In wiring, we won two key awards with Ford and BMW. For Ford, we won a large award for a program with production in North America, including conquest volume incremental to the portion we currently supply.

We were awarded our third major wire harness program with BMW, launching in 2028. And building on the momentum we have with BMW, this is our first BMW wire award in China.

Our teams continue to develop innovative solutions. This quarter, we were awarded a second-generation battery disconnect unit with a key customer by providing an enhanced design relative to the current generation.

Our innovation continues to be recognized by third parties. Our Zone Control Module won a PACE award from Automotive News. It's highly configurable software increases scalability and enables flexibility in wire harness designs. I'd like to congratulate the team for this incredible honor.

The first quarter results highlights our ability to execute our strategy in any macro environment. During the quarter, we repurchased \$25 million worth of shares, demonstrating our confidence in our long-term outlook for the company.

Slide 7 provides an update on the key metrics we introduced during our last quarterly earnings call, which investors can use to track our progress on expanding margins and generating long-term revenue growth. For Seating, we still expect to quote up to \$3 billion in conquest opportunities this year, with most programs awarded in the second half.

While the quote pipeline remains robust, customers have delayed sourcing on some programs into 2026, and there could be more as customers re-evaluate their plans based on the recent changes to tariff policies. In E-Systems, approximately 20% of our first quarter awards were for conquest business, including incremental content on the existing Ford wire programs. We continue to pursue additional conquest opportunities.

Customer interest in our innovative module seat product is growing. Two additional awards for our ComfortFlex modules bring our total to 21 programs for ComfortFlex, ComfortMax Seat, and FlexAir products, and our robust pipeline of development projects will lead to further program wins. Our strong relationships with Chinese domestic automakers continue to deliver new program wins.

We will supply complete seats for several programs with BYD, FAW, and XPeng in China, and continue our discussions with BYD to support their global growth outside of China. The FAW award is conquest business, and we are actively quoting additional opportunities with both FAW and XPeng, as well as other Chinese domestic customers that we expect will be sourced in the coming quarters.

Our first quarter performance was driven by strong performance across the key metrics we previously outlined as enablers to improve margins in both segments. Investments in IDEA by Lear and our automation projects generated \$11 million of savings in the first quarter, with benefits compounding over the year.

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Restructuring investments contributed \$12 million of savings in the first quarter. Efficiency improvements in our operations allowed us to reduce our global hourly head count by 3,600 in the first quarter, primarily in Mexico and Eastern Europe.

Since the end of 2023, we have reduced our global hourly head count by nearly 19,000, or 10%. Our strategic actions drove our strong net performance in the quarter. We are on pace to deliver at least 40 basis points in Seating and 80 basis points of net performance in E-Systems this year. And lastly, the 4.9% operating margin we delivered in the first quarter increases our confidence that we can continue to expand margins in both business segments over time.

Turning to slide 8, the global trade landscape is shifting rapidly, and tariffs are at the forefront of these changes. I will provide an overview of our exposure and the proactive steps we are taking to mitigate the risks. Our exposure is primarily in two areas. Direct exposure, where we are the importer of record in the countries with tariffs on the components, and indirect exposure to the vehicle production that may be disrupted due to tariffs or softening demand. The tariff impact was minimal in the first quarter, and we are working with our customers to ensure full recovery of the costs we incurred.

Our direct exposure is primarily in Mexico and Honduras. On an annual basis, we import into the United States from Mexico approximately \$2.8 billion of components, where either Lear or suppliers provide the parts, and Lear is the importer of record. These components are primarily trim and structures in Seating, and wire harnesses in E-Systems.

Approximately 94% of the components imported into the US from Mexico and Canada are USMCA compliant, a significant increase from approximately 77% that were fully compliant at the end of 2024, due to the work that we have done to ensure all compliant parts are certified.

On an annual basis, we import approximately \$625 million of components from Honduras, primarily wire harnesses in E-Systems, which are subject to the Section 232 tariffs. We already have customer commitments in place which cover more than 90% of the Honduras exposure and expect to complete agreements with customers for the remaining 10% in the coming days.

Changes to North American production due to customer schedules or softening customer demand is our primary indirect tariff exposure. Approximately \$1.8 billion of our 2024 North American sales was derived from vehicles exported to the United States from Mexico and Canada. Additional indirect exposure is on European vehicles exported to the US. Of approximately \$8 billion of sales in Europe for 2024, about \$1 billion or 13% were on vehicles exported to the US.

We have taken proactive steps and moved aggressively to minimize our gross exposure. Our first step was to build a team of 60 individuals from across the organization focused on measuring our exposure through our supply chain development processes to track and report our costs and execute our mitigation actions. Our continued focus on automation and investments we made in digital tools such as Foundry have enabled us to quickly develop operational capabilities to track the impact of tariffs and support our commercial recovery claims with our customers.

Our message to customers has been very clear. 100% of all tariffs must be recovered. At the same time, the team has worked very aggressively to provide solutions to minimize the overall exposure for our customers. Innovative designs, engineering changes, and alternative sourcing options can reduce the overall tariff costs.

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As the largest US-based automotive supplier, we continue to have conversations with the administration and other key elected officials to clearly explain how our supply chain has been optimized as well as the rationale for sourcing certain labor-intensive products from Mexico and Honduras. This ultimately ensures our customers can produce and sell vehicles at competitive prices in the US market and globally.

The evolving trade policy environment has clearly created uncertainty for the automotive industry. We're developing multiple planning and manufacturing scenarios to quickly respond to changes in trade policy. Our investments in automation provide us with a competitive advantage to grow capabilities we currently have in the US, such as injection-molded components, stamping, foam, FlexAir, fabrics, and the assembly of battery disconnect units, intercell connect boards. While tariffs are impacting the entire automotive industry, Lear is taking proactive approaches to reduce the direct and indirect impact of tariffs through innovative solutions.

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

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## Jason M. Cardew

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

Thanks, Ray. Slide 10 shows vehicle production and key exchange rates for the first quarter. Global production increased 1% compared to the same period last year, slightly better than expected due to higher production in all regions, but still down 5% on a Lear sales-weighted basis driven by lower year-over-year production in North America and Europe. Production volumes declined by 5% in North America and by 7% in Europe, while volumes in China were up 12%. The US dollar strengthened against both the euro and the RMB.

Slide 11 highlights Lear's growth over market. In the first quarter, sales performed in line with global industry production with Seating growth over market in line and E-Systems down 1%. Excluding the impact of the wind-down of discontinued product lines, E-Systems' growth over market would have been 4%.

In Europe, sales outperformed industry production by 2 percentage points. Driven by new business with BMW and Renault in E-Systems, as well as higher volumes in several Mercedes and Land Rover programs in Seating. North America revenue growth lagged the market by 2 percentage points, reflecting lower volumes on Lear platforms such as the Jeep Wagoneer and Ford Explorer and Aviator in Seating and the Ford Escape in E-Systems.

New seating and E-Systems' business on the Volvo EX90 and the Chevrolet Equinox EV in Seating offset a portion of the underperformance in the region.

Our China business lagged industry growth estimates by 5 percentage points, driven by lower volumes on several BMW programs in Seating and the wind-down of onboard charger business for several JLR programs in E-Systems. New business on the Xiaomi SU7 and two Leapmotor programs in Seating and the XPeng MONA in E-Systems offset a portion of the underperformance in China.

We continue to grow our share with key Chinese automakers such as BYD and Geely, which will further improve our customer mix in China going forward. We recently took operating control of a seating joint venture in China supporting two BYD programs, which will 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.

Turning to slide 12, I'll highlight our financial results for the first quarter of 2025. Our sales declined 7% year-over-year to \$5.6 billion, excluding the impact of foreign exchange, commodities, acquisitions, and divestitures. Sales

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were down 5%, reflecting lower volumes on Lear platforms, partially offset by the addition of new business in both our business segments.

Core operating earnings were \$270 million compared to \$280 million last year, driven by lower volumes on Lear platforms, partially offset by positive net performance and our margin-accretive backlog. Adjusted earnings per share were \$3.12, as compared to \$3.18 a year ago, reflecting lower adjusted net income, partially offset by the benefit of our share repurchase program.

First quarter operating cash flow was a use of \$128 million. As expected, operating cash flow was negatively impacted in the quarter by the timing of the close of this quarter as compared to last year and higher cash restructuring costs, which will further improve our cost structure going forward.

Slide 13 explains the variance in sales and adjusted operating margins for the first quarter in the Seating segment. Sales for the first quarter were \$4.2 billion, a decrease of \$327 million or 7% from 2024. Excluding the impact of foreign exchange, commodities, acquisitions, and divestitures, sales were down 5% due to lower volumes on Lear platforms, partially offset by the addition of new business.

Adjusted earnings were \$280 million, down \$15 million or 5% from 2024, with adjusted operating margins of 6.7%. Operating margins were higher compared to last year, reflecting strong net performance, partially offset by lower production on Lear platforms.

Slide 14 explains the variance in sales and adjusted operating margins in the E-Systems segment for the first quarter. Sales for the first quarter were \$1.4 billion, a decrease of \$108 million or 7% from 2024. Excluding the impact of foreign exchange, commodities, acquisitions, and divestitures, sales were down 5%, driven primarily by the wind down of discontinued product lines and lower volumes on Lear platforms, partially offset by the addition of new business.

Adjusted earnings were \$74 million or 5.2% of sales compared to \$77 million and 5.1% of sales in 2024. Operating margins were higher compared to last year, reflecting strong net performance and the roll-on of our margin-accretive backlog, partially offset by lower production on Lear platforms, and the wind down of discontinued product lines. The strong net performance in the quarter was driven by operating improvements across all regions that we expect to result in durable improvements to our margins going forward.

Slide 15 provides an update on our full-year outlook. While our first quarter results were solid and we have made significant progress on our operational improvement initiatives, the ongoing international trade negotiations have introduced significant uncertainty in both the broader global economy as well as the automotive industry.

As Ray indicated earlier, there are two exposures that we're managing, the direct impact of tariffs and the indirect impact on production volume and mix. We remain confident that we will recover the direct impact of tariffs. This has been our position from the start and we have made significant progress in our negotiations with customers.

On the other hand, the indirect impact associated with production volume and mix is not yet clear. External production forecasts have deteriorated since February and we expect that OEMs will need time to adjust their production and mix plans to account for the recent changes in global trade policy.

On the positive side, we expect the recent weakening of the US dollar to have a favorable impact on our full year results and we continue to make progress on negotiations with customers to recover the full cost of tariffs. In

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addition, we are making significant progress on our operating performance initiatives and remain on track for the net performance targets outlined at the beginning of the year.

We are increasing our investment in restructuring to accelerate our footprint rationalization actions and reduce costs. At the same time, we are lowering our capital spending by roughly the same amount as we adjust our new capacity and other discretionary capital investments in response to the weaker industry production outlook.

While, as a result of the uncertainty in the industry, we are not reaffirming our 2025 full year outlook, we do remain confident we can deliver the operating performance improvements highlighted on our last earnings call. We typically speak at a public investor conference during each quarter and we'll use those opportunities to provide updates on the business and we'll reintroduce a full year outlook when we have increased clarity from customers on their production plans for the remainder of the year.

Moving to slide 16, we highlight our balanced capital allocation strategy. We have a strong balance sheet and liquidity profile, which is a significant competitive advantage for us in today's uncertain environment. We do not have any near-term outstanding debt maturities. Our earliest bond maturity is in 2027 and our debt structure has a weighted average life of approximately 12 years.

Our cost of debt is low, averaging approximately 4%. In addition, we have \$2.8 billion of available liquidity. Our capital allocation priorities remain consistent. We are focused on generating strong cash flow, investing in the core business to drive profitable growth, and returning excess cash to shareholders.

During the quarter, we repurchased \$25 million worth of shares. Our current share repurchase authorization has approximately \$1.1 billion remaining, which allows us to repurchase shares through December 31, 2026. We are temporarily pausing share repurchase activity to ensure we maintain our strong liquidity position during this period of uncertainty. Based on recent developments, we believe this pause will be short and are planning to reinstate share repurchases as soon as visibility improves.

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 18. Our first quarter results provided another clear example of our ability to deliver strong performance in a volatile industry environment. We continue to execute on our strategic initiative to position the company for revenue growth and margin improvement.

In Seating, we are winning new business in thermal comfort and expanding our presence with Chinese domestic customers. MotorTrend recognized the performance improvements we can deliver through our ComfortFlex and ComfortMax seat module solutions.

In E-Systems, our historic quarter of business wins, particularly in wiring and the next-generation battery disconnect unit, sets us up for the long-term revenue growth of our focused product portfolio. The Automotive News PACE Award for our Zone Control Module highlights the innovation our teams are developing for our customers.

Extending our leadership in operational excellence through our investments and IDEA by Lear is driving margin improvement throughout the business. We have a strong balance sheet with no near-term debt maturities that

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allows us flexibility in our capital allocation strategy and positions us well to navigate tariff-related industry headwinds.

As we work through challenging industry conditions, we are proactively taking steps to position Lear for future success, and we're committed to keeping the investor community updated in the current dynamic environment. I couldn't be more proud to lead the Lear team, and I want to thank all our employees for their dedication and hard work.

And now, we'd be happy to take your questions.

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## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] And our first question today comes from Joe Spak from UBS. Please go ahead with your question.

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**Joseph Spak**

*Analyst, UBS Securities LLC*

Thanks. Good morning, everyone. Ray,...

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Q

**Raymond Scott**

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

Good morning, Joe.

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A

**Joseph Spak**

*Analyst, UBS Securities LLC*

...I guess this is first question, have you seen any meaningful changes to the production schedules yet, or are you just anticipating this? And the reason I ask is it just seems interesting that the further we get into earnings season here, the more guidance withdrawals we're getting. So I'm wondering if we're seeing some more breaking changes to the schedules?

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Q

**Jason M. Cardew**

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

Yeah, I think we have seen changes announced throughout the last four or five weeks. I wouldn't say that there has been any recent uptick in the number of announcements, but clearly the environment remains pretty dynamic. And maybe Joe, I'll just take a minute to explain our thought process on why we decided to withdraw guidance at this point.

A

As a result of having our call a little bit later in the cycle, we've had the benefit of hearing from our customers what they're saying on their calls. We've seen some positive developments in terms of the cost of tariffs for the industry. And certainly this industry has faced challenges over the last five years from COVID to the chip shortage issue and supply chain disruptions.

But I think this is really a very different situation. And as we were thinking about how to guide in this environment, what would be helpful to investors, what we struggled with is the wide range that we would end up guiding to account for all the variability in the production outlook. There's really three variables that remain right now.

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First, how do the end consumers respond to price increases higher pricing in the market, which seems likely to happen. Then how do our customers react to that, to those changes? Do they have a preference for market share or do they try and capture some price benefit and the opportunity for their margins associated with that?

And then lastly, what additional trade policies are enacted by the US or our trading partners as these negotiations evolve? And listening to our customers' earnings calls, you could hear the sort of tension in that decision-making framework between market share and margins that they're working through. And so given that uncertainty and what their plans are, we thought that we ended up with too wide of a range to be helpful for investors. And so until there's visibility, at least on those first two variables, we're not in a position to provide guidance that would be useful, I think, for investors.

Now, we have fairly decent clarity and visibility on the second quarter, but there still are changes coming. And we are presenting at an investor conference in the second week of June, June 10th or 11th, and we will provide more clear guidance on the second quarter specifically at that event once we see a little bit more visibility on the items I just mentioned.

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## Joseph Spak

*Analyst, UBS Securities LLC*

Q

Thanks for all that color. As a second question, I just want to make sure I understand, and sorry to sort of go back to tariffs here. But it seems like with the disclosure you laid out on the direct impact, actually, Honduras ends up being one of the bigger factors here. Is there a way to get your customers to be the importer of record or get anointed as an approved importer of record such that they could claim that 3.75% reimbursement?

And then as you think about that particular country exposure and the reimbursement is expected to go down in a year, maybe away in two years, is that where you need to see most of the work done? Ray, I know you've made some comments about potentially moving some production around.

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## Raymond Scott

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

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Yeah, well, I think to the first point, Joe, yes. I think the team has done a remarkable job of presenting all options to our customers, and one of those options is who is going to be the importer of record as far as locations. And so, that is an option we have put on, and it absolutely is something that we're considering and talking to our customers about.

In respect to the ability to move parts and manufacturing, I mean, those are the things that we're looking at. It's still a very competitive location for us, and obviously, like Jason mentioned, there's still a lot of work to be done, or there's still work that's going to be done on what that's going to be at the end of the day. And so, it's really going to come down to what that reciprocal tariff or what that tariff would be on those components in Honduras will look like.

And so, those discussions are going on with our customers. I don't know, Jason, if you want to add a little bit on that.

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## Jason M. Cardew

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

A

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Yeah. And our understanding, Joe, on the 3.75% exemption credit, so to speak, is that the OEMs, our customers, can indicate which of their components can be given that exemption. And so, I think a product like wire harnesses has a fairly high likelihood of being a product that would be imported to the US tariff-free, whether we're the importer of record or the customer is. I don't think that that necessarily has to shift from us to our customer in order to take advantage of that new rule there.

And just to kind of go back to your first comment in regards to Honduras, yes, it is our most significant exposure. And since I'm sure this is a question that is going to come up as the call progresses, I can address that now.

Overall, we see our gross tariff costs at about \$200 million. And so, about half of that is Honduras. And that's because the wire harnesses are on the annex that accompanies the Section 232 auto tariffs. And so, they're subject to the 25% tariff.

We think it's highly likely that tariff rate is adjusted because wire harnesses really don't have a place on that annex in the same way engines, transmissions, or other highly-technical parts do. I think it's kind of misplaced and you've heard customers and others advocate for that change.

So, as a result of that, you would then revert to the 10% tariff rate, the reciprocal tariff rate that's in place with Honduras. And at a 10% rate, Honduras is still competitive with Mexico. And so, we think ultimately that's where it ends up. But there's clearly some uncertainty on how long that process takes to get there.

The other half of our tariff exposure, the other \$100 million for this year, roughly half of that is on components where our customers control the sourcing with our suppliers. And so, they have direct responsibility for that. They're having negotiations and discussions with those suppliers; and that would be passed through, whatever the outcome of that negotiation would be passed through from our customer to the supplier.

And then, so what we're really focused on in terms of the direct exposure is that remaining \$50 million, roughly 25% of the gross exposure is for products where we are the importer of record and we are – we control the sourcing. And we've already made tremendous progress in reducing that exposure through design changes and sourcing changes. And we will continue to reduce that. And we've had very productive discussions with our customers about recovering the cost of that tariff in the interim.

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### **Raymond Scott**

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

A

Yeah. I think it's important to mention that we've been very clear with the customer that we expect a 100% recovery, if it's direct or indirect, on the components. And for the majority, or the majority of our customers, they've agreed on 100% of, what I'll call, directed, their source components. And the indirected, I feel very, very confident that we're going to get full recovery on a net position.

I think the team has done a great job of commercializing what our expectation is. And we're making really good improvements on that side of it. But I also think that there are alternative solutions that can work to, I think, our advantage with how we can relocate components. I mentioned some of the manufacturing, the strong manufacturing presence we have in the United States, and how we can relocate things to the United States in certain areas around the ones I mentioned with foam and textiles and stampings and those type of components that would work really well here in the US.

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And so, I think the team has done a really nice job. And I have confidence because the conversations are going extremely well. I think we've made some very good progress. I think what the team has done with E-Systems on the wire harness shows the level of expectations and the results we expect across the board from all customers.

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### Joseph Spak

*Analyst, UBS Securities LLC*

Appreciate all the detail, guys.

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Q

**Operator:** Thanks, Joe. 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 taking the question. I wanted to start with a question on the outlook. And I recognize there's uncertainty, and you'll provide us with an update. But maybe we could just go back to the original outlook that you provided.

And just give us a sense, because it feels like you're getting most of the recoveries on the tariffs, and you say you expect 100% recoveries. But what is the lower end of your outlook contemplating as far as LVP by region? Maybe you could just talk about maybe some of the pluses and minuses outside of tariffs that we've seen versus the guidance that you provided back in February?

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### Jason M. Cardew

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

Yeah. Dan, our February guidance contemplated production down 1% globally and down 2% on a Lear-weighted basis. And so, I think we had \$1 billion range on revenue. So, you could – there would be another 2% roughly decline there beyond that. So, it's got 4% down on a Lear-weighted basis.

And the other kind of key assumption, expecting the top line, would have been around the foreign exchange rates. We had the Euro at €1.04 and the RMB at 7.30. So, I think we're going to see some top-line improvement as a result of FX. You're going to see some revenue as a result of the pass-through of tariffs. And then you're going to see some reduction in revenue associated with the volume reductions that are anticipated, and some of which have been announced and are taking place here in the second quarter.

Just the North America market is probably the biggest question mark. S&P's forecast is for 14 million units, I believe, of production, and we were at 15 million units in the prior guidance. So, that's the biggest risk factor if you look at what the external prognosticators are suggesting.

And as we think about where the kind of puts and takes are, I think we're looking at Europe, we're looking at vehicles produced in Mexico and Canada, and then we're looking at vehicles produced in Japan and Korea that are imported into the US. And so what our customers ultimately decide to do, again, around market share versus margin preservation is going to have a profound impact on the volumes of vehicles imported into the US market and ultimately on our production of vehicles that we supply parts to. And so, that's the big variable that's difficult to predict.

In terms of the other things we can control, we talked about tariff costs and recoveries. We expect full recovery. We don't see that as a particularly large issue. In terms of our cost structure in general, we are on track to deliver

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the commitments we made around automation and restructuring savings and our other efficiency program improvements.

And I certainly don't want to lose sight of the very strong first quarter we had in both business segments. It really increased our confidence in being able to achieve the full year guidance that we provided for net performance, which was 40 basis points in Seating and 80 basis points in margin improvement in E-Systems for the net performance. We far exceeded that in the first quarter. So, the things that we can control remain well on track and maybe a little bit ahead of where we started the year.

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## Dan Levy

*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you. And maybe just a follow-up question. And if you could just maybe double click on the pieces that are driving the performance. But broadly, it feels like the tariffs just place an added pressure on both the Seating and electrical architecture wire harness businesses, which as it was these are tight-margin businesses to begin with.

You've laid out a series of all of these strategic actions. How are you starting to see this play into maybe separating yourselves from the pack and taking share? I know you referenced that you want some awards in E-Systems?

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## Raymond Scott

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

A

Well, first of all, it was a great quarter. I think the E-Systems team did a remarkable job, not just when we talk about expanding our margins and operational excellence and what they did as far as performance, but the growth side. It was a really good quarter for us.

And I think it comes down to a couple things. One, the performance and how they're performing with a particular OE. I do think that we can't overlook the innovation and capabilities that we've been able to deliver, both on the product side and I think equally as important is the operational side.

It's interesting. We've been really strategically looking at how we can change our operational excellence in advanced automation and software development. Some of the things we've mentioned with how we're designing different efficiencies on the plant floor. That allows us to be extremely competitive and still get a return above our cost of capital. That's everything we're focused on.

And I think those elements that we've been working on for more than 10 years are really starting to show the benefits in the operations today. We had great – we really put ourselves out there as far as being able to track us to our investors and show how we're performing from a net performance perspective and the team did a great job. But it also shows up in growth because we can quote business where we still get a return above our cost of capital as we're introducing new technology innovation on the plant floor.

And so I think that's an important message because we've been talking about that for some time and we're seeing the conviction in how we're delivering not just from a performance standpoint but from a growth perspective. And so we absolutely believe that that is something that we can continue to do. It puts us in a great position today and currently as we expand our margins but more importantly as we're winning new business.

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## Dan Levy

*Analyst, Barclays Capital, Inc.*

Great. Thank you.

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Q

**Operator:** Our next question comes from Emmanuel Rosner from Wolfe Research. Please go ahead with your question.

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## Emmanuel Rosner

*Analyst, Wolfe Research LLC*

Hi. Great. Thank you so much. I was actually hoping to follow up on the cost performance which obviously was quite impressive in the quarter. And so you mentioned an accelerated investment in restructuring. Curious to what extent you could still inflect up the benefits from these actions still this year, especially in case some of these indirect tariff impact come and the volume plays out sort of weaker? Do you have any room to offset some of that with accelerated benefits on the net performance side basically higher than your initial guidance?

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Q

## Jason M. Cardew

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

Yeah, that's certainly our goal. And we're looking to increase our restructuring investment this year by between \$30 million and \$40 million. And some of that will produce an immediate benefit to our cost structure.

And so there will be some additional net performance that results from that investment in restructuring. Now we are dialing back our capital spending as well by a similar amount. And most of that relates to capacity that we don't need as a result of lower volumes and some discretionary spending.

But a little bit of it is also on the automation side where you have some longer payback projects that we're going to push out to next year. Emmanuel, what we really did is just kind of took a step back and looked at all of the investment opportunities that we have across both our capital expenditure program and our restructuring program and force rank those based on payback and sort of reprioritize our investments.

And that led to some, again, additional investment in restructuring and a little lower investment in CapEx. But the net effect of that should be positive for net performance this year.

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## Raymond Scott

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

Yeah. I think that's important, Emmanuel, that during this time of uncertainty, our priorities are operational excellence. And as Jason mentioned, how we're focused on capital deployment, where we're focused based on returns, how we can accelerate particular areas of our products or region or manufacturing facilities.

The second priority is our balance sheet. We're very disciplined on what we're looking at, how we're spending capital, where we're spending capital, even building some assumptions around changes in volume and how we deploy capital, really getting at – potentially even getting at and cutting our capital costs based on what we see relative to volumes and how we're really focused on cash.

I mean, even our commercial agreements that we're putting in place are two elements. One is to get 100% recovery, but also to minimize any type of cash impact relative to how we're solving those commercial issues. And

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the two disciplines between operation and commercial are equally weighted as far as how we're really aggressively going after that.

And the last one is the strategic options how we're positioned. We're a US-based company, a large US-based company. We believe we have some strategic options that we can take advantage of.

And I think that's going to play out over a little time as they've got these rebates that they're going to receive and those wear out over three years, how we're going to reposition for our customers. But I'll tell you one thing that comes up as we discuss all these with our customers.

We learned quite a bit through COVID. We learned quite a bit through the EV collapse with volumes. We're really focused on terms and conditions. If we're going to deploy capital, what do the terms and conditions look like relative to how we're going to get returns above our cost of capital based on volume, based on deployment of capital, how we're focused.

And so, we also look at this as an opportunity to go back and really discuss the terms and conditions relative to our customers because I think we've learned quite a bit over the last five years. And those terms need to change. I mean, particularly around suppliers and making investments for our customers not just short-term but longer-term.

So, we've really got at this. I'm really proud of the team. I tell you that mitigation ideas, innovation ideas, the engineering ideas, the things that they've come up with really, I think, put us in a better position to really get at the things I mentioned as far as priorities within this company right now.

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## Emmanuel Rosner

*Analyst, Wolfe Research LLC*

Q

Yeah. Thanks for the color. And then, actually, two quick follow-ups. The first one is beyond just the impact or risk to industry volumes, do you see any risk from the current uncertainty on the backlog that you announced last quarter?

And then, specifically, on the balance sheet, obviously, continued commitment in returning excess cash to shareholders, but are you pausing the buyback at all while figuring out what the outlook and free cash flow for the year looks like, or is it just continuing?

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## Jason M. Cardew

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

A

Yeah. Emmanuel, I'll start with the second question first. We are pausing our share repurchases here for a short period of time until there is more visibility on the production environment and we believe that will be brief. And we hope to restart that soon once we have a better understanding of our customers' production plans for really the second half of the year.

In terms of the backlog, I think it's too early to provide an update on the two-year backlog we announced, the 2025-2026 backlog, but certainly the award in wire and the other awards in E-Systems in general in the quarter will help the longer-term growth rate of that business. \$150 million of the \$750 million of new business awards were conquest awards. So, those are market share gains. Those will drive growth for the business longer term.

And I think once we sort of get through this wind-down of products that we're exiting in E-Systems, you'll see a return to the more normalized growth rates we've enjoyed over the last five or six years in that segment.

### Emmanuel Rosner

*Analyst, Wolfe Research LLC*

Thank you.

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Q

### Jason M. Cardew

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

You're welcome.

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A

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

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### Colin M. Langan

*Analyst, Wells Fargo Securities LLC*

Oh, great. Thanks for taking my question. And congrats on a pretty good margin in the quarter. Just wondering I think a couple of weeks before the quarter ended, you were talking about a low 4%. You ended at 4.9%. What came in so much better at the end of the quarter to kind of get you so much higher than what you were thinking?

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Q

### Jason M. Cardew

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

Yeah. There were really two things that happened. The production held up better than we had anticipated and what we were seeing at that time. Particularly in Asia, we saw a very, very strong March, much better than we had expected.

A

And then, in addition to that, we did see a little bit of a pull ahead of some of our commercial performance in the Seating segment in particular. And so, there's probably 20 basis points of that net performance that we delivered in the first quarter that we had anticipated in the second quarter and beyond. And so, those are the two primary factors.

And then, just generally speaking, just strong operating performance in both business segments. It's not – it doesn't often happen that way where you get sort of everyone performing at such a high-level simultaneously. And that's what we had. We had great performance in both Seating and E-Systems and really across all regions. And so, it was just a testament to the strong finish to the quarter for the team more than anything.

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### Raymond Scott

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

I appreciate the recognition too, because I feel the same way. I felt really good about the first quarter. Unfortunately, we're – like we've talked about, the indirect situation around tariffs is kind of the uncertainty that we're faced with right now as an industry.

A

But I think it gives you a good indication. Even during a very tough quarter relative to volatility around production, we could perform well. And so, I think it's really a great job by the operation teams, both in Seating and E-Systems and how they performed. I was really happy with the numbers.

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### Colin M. Langan

*Analyst, Wells Fargo Securities LLC*

Q

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Got it. That's a helpful color. And just talking on performance, as I covered a couple times on the call already, but if I look at the initial full-year guide, I think it implies something like \$130 million, 55 basis points. I believe you got more than half of that already in Q1.

Is that what you were anticipating? I mean, I guess it sounds like from comments earlier that performance is actually coming in stronger. And should we interpret that as that if it wasn't for tariffs, you'd actually be raising guidance today?

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**Jason M. Cardew**

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

A

Yeah. I think that certainly the first quarter came in better than we expected. And that could lead to an improved number for the full year. But there's still lots of moving parts that we're managing here.

And I think your math is right. More than half of our full-year net performance was achieved in the first quarter what we had guided to previously. Now, part of that is kind of that year-over-year look at the business.

And so, the first quarter, in E-Systems in particular, last year was pretty weak. We had very high launch costs. We had some efficiency issues in our North America operations, which we talked about throughout last year. Those improved significantly from the first half of last year to the second half of last year. And so, the comp gets a little harder in the second half of the year than it is – than it was for the first half count. So, that's also a driver.

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**Colin M. Langan**

*Analyst, Wells Fargo Securities LLC*

Q

I mean, would you have raised guidance if it wasn't for the tariff issue? Or is that – it's just too early to say?

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**Jason M. Cardew**

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

A

That's a theoretical question. I mean if there wasn't this level of volume uncertainty, we certainly wouldn't have been talking about...

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**Raymond Scott**

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

A

Last year.

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**Jason M. Cardew**

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

A

... lowering guidance.

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**Raymond Scott**

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

A

I'll put it this way. We've been very confident in the year.

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**Jason M. Cardew**

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

A

Yeah.

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## Raymond Scott

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

We'd be in a good position, especially coming out of that first quarter.

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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.*

You're welcome.

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**Operator:** Our next question comes from John Murphy from Bank of America. Please go ahead with your question.

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## John Murphy

*Analyst, BofA Securities, Inc.*

Good morning, guys. Just a very simple question to start. When you think about doing wiring harnesses in Honduras. I just wonder, Ray, if you could walk us through sort of the evolution of how that wound up being in Mexico and then got pushed down to Honduras from a labor costs' perspective, but also maybe a labor availability perspective as well?

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## Raymond Scott

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

Yeah. So, we've done a lot of work, even working with Washington, trying to explain wire harnesses in very similar, like, trim covers. They're very labor-intensive, unattractive jobs that I say that like Jason mentioned, need to get up and moved off the annex. But the migration was about labor arbitrage and having enough labor. We have facilities that can have anywhere from 5,000 to 6,000 employees in a facility running multiple platforms to be the most efficient for our customers that we ship to.

And so, the move from Mexico to Honduras was really driven around the continuation of the labor arbitrage. Honduras is a very good location for us. I mean, we have great quality. The absentee is very low. The job satisfaction, the work environment, everything is a really, really good location for us. So, it was ideal for us.

As a matter of fact, we talked a little bit previously about migrating more of our business to Honduras. Obviously, we put that on pause until we get some clarity around what's going to happen. But it's been a move from what was Juárez to Central Mexico down to even further South of Mexico, now to Honduras. And so, it's worked out extremely well for us in both locations. And that's really how we've moved our wire harness business from Mexico to Honduras.

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## John Murphy

*Analyst, BofA Securities, Inc.*

Okay. Maybe just to follow up, when you think about wiring harness and other stuff that's done outside of the US, what's kind of the hurdle bringing back to the US? Is it just labor costs, labor availability, and how much do you think you can automate it? I'm just trying to understand really here. So, I mean, it kind of gets out there in the public, a little bit more...

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## Raymond Scott

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

A

Yeah. No, it's a good question. And I think the first roadblock would be the labor scarcity, the labor issue of attracting that type of work here in the US. It's – the way I describe it, there are very – there's very attractive jobs that are very sophisticated, technical. We do just-in-time assembly of seats here in the US. And UAW represented workers, great work. That type of work makes a lot of sense.

I think when you get in – when you look at a wire harness, it is very labor intensive. The automation's coming. It's going to take some time. It's not quite there yet. There's some very challenging aspects of a harness, even though we're – we've made significant improvements with automation and harnesses. It's not quite there yet. So, I think the roadblocks really are the labor scarcity, the workforce development that would be required to bring those type of jobs here.

I think the attractiveness from a worker's perspective would be extremely low, very tough. And the technology just quite isn't there yet to bring and automate a major wire. I mean, these harnesses are hundreds of pounds. They're extremely labor intensive as you're doing the taping and the crimping and the assembly of the harness itself. And so, those are probably the big roadblocks that I think would be a very tough move to move to the United States.

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## John Murphy

*Analyst, BofA Securities, Inc.*

Q

Okay. And then just another question. You highlighted, and it was incredibly helpful, the tariff commentary, \$1 billion of parts that are coming across the Atlantic from Europe on European-produced vehicles. Some of those might not make it here. It might be fewer. But in reality there might be market share shifts that occur in the US market that offset that.

So, could you kind of just remind us generally what's coming across the pond there, and then also maybe your exposures here in North America? Because there might be a really good story to market share gains from your domestic automakers as well as a result of that.

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## Jason M. Cardew

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

A

Yeah, John, just to clarify, so that's \$1 billion of revenue that's associated with parts we sell to customers that are for vehicles produced in Europe and imported into the US. So, it's not part imports.

Yeah. So, the biggest component of that is with Jaguar Land Rover. So, Range Rover, Range Rover Sport, Defender, that whole product lineup. And we just saw that they announced that they're restarting shipments into the US. So, they're going to continue participating in this market. And then the VW Group and their luxury brands, Audi and Porsche in particular, and then, to a lesser extent, Mercedes and Stellantis.

And with Mercedes, they've also announced the move of one of their key programs, which we have the seating for in Europe, to Tuscaloosa. And so we see over time that we will likely benefit from that business that's relocated from Europe into the US as our customers adjust their footprint.

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And then in terms of who may benefit here in the US, I don't want to go too far down that path, but I think our largest platform in the US market is the GM full-size SUV program that's produced down in Arlington, Texas. But we also have the Ford Explorer. We have business with Hyundai, with BMW, with lots of customers here that have a domestic footprint that could benefit longer term from this tariff regime. So, it's hard to say exactly how it's going to play out, but those are some of the highlights of programs that may be impacted.

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## John Murphy

*Analyst, BofA Securities, Inc.*

Q

So, it's fair to say the uncertainty and the guidance is not all to the downside. It may actually eventually be to the upside, right? Yeah, uncertainty...

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## Jason M. Cardew

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

A

Yeah. That's right. I mean, yeah, if you look at the GM full-size SUV inventory levels, I think that came out again yesterday or the day before 30 days on hand. Yeah, certainly, it seems like there could be some opportunities as well, and that affected our thought process around not reaffirming guidance.

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## John Murphy

*Analyst, BofA Securities, Inc.*

Q

And then just lastly, it sounds like there's some program extensions and stuff that's getting pushed out on wins. Can you just remind us as programs are extended, if we're looking at a 5-year or 6-year program that goes to 7-year or maybe 8 years, whatever it may be, what are the requirements for refurbishing tooling or extending tooling and other plant equipment for another year or two? Are there big capital commitments, or is this more of a gravy situation for you?

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## Raymond Scott

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

A

No, it's more of we like that. We like the situation. There's the extending programs. Usually, programs that are long in the tooth. We've done a nice job with BEV, engineering changes, cost savings. No, we like it.

And there isn't a tremendous amount of – there might be some modification to some capital that we have in place, but there's no significant reinvestment that's required. We can run the current capital that's in place and also gives us an opportunity to re-evaluate contracts because they need to extend the contract, so the terms and conditions that are in place need to be extended, which means in some respects, you get to sit down and re-establish where you're at.

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## John Murphy

*Analyst, BofA Securities, Inc.*

Q

Okay. Very helpful. Thanks, guys.

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## Raymond Scott

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

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Thank you.

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**Operator:** Our next question comes from Itay Michaeli from TD Cowen. Please go ahead with your question.

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**Itay Michaeli**

*Analyst, TD Cowen*

Great. Thank you. Good morning, everyone.

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Q

**Raymond Scott**

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

Morning.

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A

**Itay Michaeli**

*Analyst, TD Cowen*

Just two quick ones for me. First, going back to slide 8, you mentioned mix headwinds due to components on high content trims. Just curious whether you're actually seeing any pressure on trim mix thus far in Q2 both in North America, perhaps globally?

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Q

**Jason M. Cardew**

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

Yeah, Itay, it's something we're anticipating. We haven't seen a lot of it, but there are some specific examples where we have seen this impact, and most notably things like rear-seat entertainment where there's a component that's imported with a high-tariff rate, and so the customer may reconsider their option packages, and so we lose that content if that screen is on the back of the seat, for example, things like that.

We haven't seen significant changes in features generally, so we wouldn't be surprised to see that as part of the response to customers managing higher costs, and so that was the reason we included that on the slide.

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A

**Raymond Scott**

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

And as part of our mitigation plans, we're giving our customers alternative options, so we have some insight, even the options we're giving them to mitigate tariff costs or other-related costs or lack of components. And so I think it's just more our insight of what we're doing, and how we're communicating with our customers.

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A

**Itay Michaeli**

*Analyst, TD Cowen*

That's very helpful, and a quick follow-up on the new business awards in the quarter. Congrats on the progress. How should we think about the timing of when these awards flow into revenue? Do some of these actually launch as early as 2027?

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Q

**Jason M. Cardew**

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

Most of it is in 2028. I think there may be a little bit at the tail end of 2027, but I think it's mostly 2028.

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A

**Itay Michaeli**

*Analyst, TD Cowen*

Great. That's very helpful. Thank you.

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Q

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## Jason M. Cardew

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

A

Thank you.

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**Operator:** And, ladies and gentlemen, with that, we'll be wrapping up today's question-and-answer session. I'd like to turn the floor back over to Ray Scott for any closing remarks.

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## Raymond Scott

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

Yeah, thank you. And I'd like to thank everyone for participating in the call today. I'd also like to thank the Lear employees that are on the call. You guys did a great job in the first quarter. I couldn't be more proud of the work that you're doing and an exceptional job on what we're doing as far as the organization and really protecting the company with tariffs and costs and giving our customers options to mitigate their own costs. And so, I appreciate all the hard work. So proud of the work that you've done, and thank you.

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