

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 2, 2022.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 001-11311



(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3386776
(I.R.S. Employer
Identification No.)

21557 Telegraph Road, Southfield, MI 48033
(Address of principal executive offices)

(248) 447-1500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01	LEA	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 28, 2022, the number of shares outstanding of the registrant's common stock was 59,778,409 shares.

LEAR CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED APRIL 2, 2022

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LEAR CORPORATION AND SUBSIDIARIES

PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have prepared the unaudited condensed consolidated financial statements of Lear Corporation and subsidiaries pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 2021.

The financial information presented reflects all adjustments (consisting of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of operations, cash flows and financial position for the interim periods presented. These results are not necessarily indicative of a full year's results of operations.

LEAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	April 2, 2022 ⁽¹⁾	December 31, 2021
ASSETS		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 1,162.0	\$ 1,318.3
Accounts receivable	3,236.1	3,041.5
Inventories	1,642.1	1,571.9
Other	888.3	833.5
Total current assets	<u>6,928.5</u>	<u>6,765.2</u>
<i>LONG-TERM ASSETS:</i>		
Property, plant and equipment, net	2,826.7	2,720.1
Goodwill	1,675.3	1,657.9
Other	2,296.8	2,209.2
Total long-term assets	<u>6,798.8</u>	<u>6,587.2</u>
Total assets	<u>\$ 13,727.3</u>	<u>\$ 13,352.4</u>
LIABILITIES AND EQUITY		
<i>CURRENT LIABILITIES:</i>		
Accounts payable and drafts	\$ 3,209.8	\$ 2,952.4
Accrued liabilities	1,876.5	1,806.7
Current portion of long-term debt	0.8	0.8
Total current liabilities	<u>5,087.1</u>	<u>4,759.9</u>
<i>LONG-TERM LIABILITIES:</i>		
Long-term debt	2,595.8	2,595.2
Other	1,218.5	1,188.9
Total long-term liabilities	<u>3,814.3</u>	<u>3,784.1</u>
<i>EQUITY:</i>		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 64,571,405 shares issued as of April 2, 2022 and December 31, 2021	0.6	0.6
Additional paid-in capital	1,000.4	1,019.4
Common stock held in treasury, 4,805,135 and 4,945,847 shares as of April 2, 2022 and December 31, 2021, respectively, at cost	(663.8)	(679.2)
Retained earnings	5,075.4	5,072.8
Accumulated other comprehensive loss	(762.6)	(770.2)
Lear Corporation stockholders' equity	<u>4,650.0</u>	<u>4,643.4</u>
Noncontrolling interests	175.9	165.0
Equity	<u>4,825.9</u>	<u>4,808.4</u>
Total liabilities and equity	<u>\$ 13,727.3</u>	<u>\$ 13,352.4</u>

(1) Unaudited.

The accompanying notes are an integral part of these condensed consolidated balance sheets.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in millions, except share and per share data)

	Three Months Ended	
	April 2, 2022	April 3, 2021
Net sales	\$ 5,208.4	\$ 5,354.4
Cost of sales	4,886.9	4,861.6
Selling, general and administrative expenses	177.3	168.9
Amortization of intangible assets	15.7	16.5
Interest expense	24.9	22.3
Other expense, net	27.3	6.3
Consolidated income before provision for income taxes and equity in net income of affiliates	76.3	278.8
Provision for income taxes	20.4	58.9
Equity in net income of affiliates	(10.7)	(5.9)
Consolidated net income	66.6	225.8
Less: Net income attributable to noncontrolling interests	17.2	22.1
Net income attributable to Lear	\$ 49.4	\$ 203.7
Basic net income per share attributable to Lear (Note 15)	\$ 0.82	\$ 3.38
Diluted net income per share attributable to Lear (Note 15)	\$ 0.82	\$ 3.36
Cash dividends declared per share	\$ 0.77	\$ 0.25
Average common shares outstanding	59,932,030	60,312,573
Average diluted shares outstanding	60,210,979	60,560,859
Consolidated comprehensive income (Condensed Consolidated Statements of Equity)	\$ 74.0	\$ 139.4
Less: Comprehensive income attributable to noncontrolling interests	17.0	21.0
Comprehensive income attributable to Lear	\$ 57.0	\$ 118.4

The accompanying notes are an integral part of these condensed consolidated statements.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions, except share and per share data)

	Three Months Ended April 2, 2022					
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity
Balance at January 1, 2022	\$ 0.6	\$ 1,019.4	\$ (679.2)	\$ 5,072.8	\$ (770.2)	\$ 4,643.4
Comprehensive income:						
Net income	—	—	—	49.4	—	49.4
Other comprehensive income (loss)	—	—	—	—	7.6	7.6
Total comprehensive income	—	—	—	49.4	7.6	57.0
Stock-based compensation	—	13.9	—	—	—	13.9
Net issuance of 140,712 shares held in treasury in settlement of stock-based compensation	—	(32.9)	15.4	—	—	(17.5)
Dividends declared to Lear Corporation stockholders	—	—	—	(46.8)	—	(46.8)
Dividends declared to noncontrolling interest holders	—	—	—	—	—	—
Change in noncontrolling interests	—	—	—	—	—	—
Balance at April 2, 2022	\$ 0.6	\$ 1,000.4	\$ (663.8)	\$ 5,075.4	\$ (762.6)	\$ 4,650.0

The accompanying notes are an integral part of these condensed consolidated statements.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions, except share and per share data)

	Three Months Ended April 2, 2022		
	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity
Balance at January 1, 2022	\$ 4,643.4	\$ 165.0	\$ 4,808.4
Comprehensive income:			
Net income	49.4	17.2	66.6
Other comprehensive income (loss)	7.6	(0.2)	7.4
Total comprehensive income	57.0	17.0	74.0
Stock-based compensation	13.9	—	13.9
Net issuance of 140,712 shares held in treasury in settlement of stock-based compensation	(17.5)	—	(17.5)
Dividends declared to Lear Corporation stockholders	(46.8)	—	(46.8)
Dividends declared to noncontrolling interest holders	—	(6.7)	(6.7)
Change in noncontrolling interests	—	0.6	0.6
Balance at April 2, 2022	\$ 4,650.0	\$ 175.9	\$ 4,825.9

The accompanying notes are an integral part of these condensed consolidated statements.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions, except share and per share data)

	Three Months Ended April 3, 2021					
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity
Balance January 1, 2021	\$ 0.6	\$ 963.6	\$ (598.6)	\$ 4,806.8	\$ (705.1)	\$ 4,467.3
Comprehensive income (loss):						
Net income	—	—	—	203.7	—	203.7
Other comprehensive loss	—	—	—	—	(85.3)	(85.3)
Total comprehensive income (loss)	—	—	—	203.7	(85.3)	118.4
Stock-based compensation	—	17.7	—	—	—	17.7
Net issuance of 78,171 shares held in treasury in settlement of stock-based compensation	—	(17.0)	9.0	—	—	(8.0)
Dividends declared to Lear Corporation stockholders	—	—	—	(15.3)	—	(15.3)
Balance at April 3, 2021	\$ 0.6	\$ 964.3	\$ (589.6)	\$ 4,995.2	\$ (790.4)	\$ 4,580.1

The accompanying notes are an integral part of these condensed consolidated statements.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions, except share and per share data)

	Three Months Ended April 3, 2021		
	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity
Balance January 1, 2021	\$ 4,467.3	\$ 147.6	\$ 4,614.9
Comprehensive income (loss):			
Net income	203.7	22.1	225.8
Other comprehensive loss	(85.3)	(1.1)	(86.4)
Total comprehensive income (loss)	118.4	21.0	139.4
Stock-based compensation	17.7	—	17.7
Net issuance of 78,171 shares held in treasury in settlement of stock-based compensation	(8.0)	—	(8.0)
Dividends declared to Lear Corporation stockholders	(15.3)	—	(15.3)
Balance at April 3, 2021	\$ 4,580.1	\$ 168.6	\$ 4,748.7

The accompanying notes are an integral part of these condensed consolidated statements.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Three Months Ended	
	April 2, 2022	April 3, 2021
Cash Flows from Operating Activities:		
Consolidated net income	\$ 66.6	\$ 225.8
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	143.4	140.8
Net change in recoverable customer engineering, development and tooling	(36.1)	(24.1)
Net change in working capital items (see below)	38.1	(102.4)
Other, net	8.7	7.4
Net cash provided by operating activities	220.7	247.5
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(130.3)	(112.9)
Acquisition	(184.2)	—
Other, net	11.9	(30.0)
Net cash used in investing activities	(302.6)	(142.9)
Cash Flows from Financing Activities:		
Term loan repayments	—	(4.7)
Dividends paid to Lear Corporation stockholders	(47.4)	(15.7)
Other, net	(23.8)	(9.3)
Net cash used in financing activities	(71.2)	(29.7)
Effect of foreign currency translation	(3.4)	(10.9)
Net Change in Cash, Cash Equivalents and Restricted Cash	(156.5)	64.0
Cash, Cash Equivalents and Restricted Cash as of Beginning of Period	1,321.3	1,314.5
Cash, Cash Equivalents and Restricted Cash as of End of Period	\$ 1,164.8	\$ 1,378.5
Changes in Working Capital Items:		
Accounts receivable	\$ (219.1)	\$ (227.3)
Inventories	(49.0)	(87.4)
Accounts payable	276.9	42.6
Accrued liabilities and other	29.3	169.7
Net change in working capital items	\$ 38.1	\$ (102.4)
Supplementary Disclosure:		
Cash paid for interest	\$ 9.6	\$ 14.6
Cash paid for income taxes, net of refunds received	\$ 49.9	\$ 31.0

The accompanying notes are an integral part of these condensed consolidated statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

Lear Corporation ("Lear," and together with its consolidated subsidiaries, the "Company") and its affiliates design and manufacture automotive seating and electrical distribution systems and related components. The Company's main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.

The accompanying condensed consolidated financial statements include the accounts of Lear, a Delaware corporation, and the wholly owned and less than wholly owned subsidiaries controlled by Lear. In addition, Lear consolidates all entities, including variable interest entities, in which it has a controlling financial interest. Investments in affiliates in which Lear does not have control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

The Company's annual financial results are reported on a calendar year basis, and quarterly interim results are reported using a thirteen week reporting calendar.

(2) Current Operating Environment

Due to the overall global economic conditions in 2020, largely as a result of the COVID-19 pandemic, the automotive industry experienced a decline in global customer sales and production volumes. Production disruptions continued in 2021 and are continuing in 2022, again largely due to the ongoing impact of the COVID-19 pandemic, particularly through supply shortages and, to a lesser extent, the resurgence of the virus in certain regions, as well as the Russia-Ukraine conflict. The most significant supply shortage relates to semiconductor chips, which is impacting global vehicle production and resulting in reductions and cancellations of planned production. In addition, the Company is experiencing increased costs related to labor shortages and inefficiencies and ongoing costs related to personal protective equipment, all of which are likely to continue for a period of time. Increases in certain commodity costs, as well as transportation and logistics costs, are also impacting, and will continue to impact, the Company's operating results for the foreseeable future. Further, a resurgence of the COVID-19 virus or its variants in other regions, including corresponding "stay at home" or similar government orders impacting industry production, could impact the Company's financial results.

In March 2022, as the Company's customers began to suspend their Russian operations as a result of Russia's invasion of Ukraine, the Company similarly suspended its Russian operations. Although the Company's net sales and total assets in Russia represent less than 1% of consolidated net sales and total assets, the Russia-Ukraine conflict and sanctions imposed on Russia globally have resulted in economic and supply chain disruptions affecting the overall industry, the ultimate financial impact of which cannot be reasonably estimated. Further, although the Company does not have operations in Ukraine, the Ukrainian operations of certain of the Company's suppliers and suppliers of its customers have been and will continue to be disrupted by the Russia-Ukraine conflict.

The accompanying condensed consolidated financial statements reflect estimates and assumptions made by management as of April 2, 2022, and for the three months then ended. Such estimates and assumptions affect, among other things, the Company's goodwill; long-lived asset and indefinite-lived intangible asset valuations; inventory valuations; valuations of deferred income taxes and income tax contingencies; and credit losses related to the Company's financial instruments. Events and circumstances arising after April 2, 2022, including those resulting from the impact of the COVID-19 pandemic, will be reflected in management's estimates and assumptions in future periods.

(3) Acquisition

On February 28, 2022, the Company completed the acquisition of substantially all of Kongsberg Automotive's Interior Comfort Systems business unit ("Kongsberg ICS"). Kongsberg ICS specializes in comfort seating solutions, including massage, lumbar, seat heat and ventilation, with annual sales of approximately \$300 million, of which approximately 20% are intercompany.

The acquisition of Kongsberg ICS was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated balance sheet as of April 2, 2022. The operating results and cash flows of Kongsberg ICS are included in the condensed consolidated financial statements from the date of acquisition in the Company's Seating segment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The preliminary purchase price and related allocation are shown below (in millions):

	April 2, 2022
Preliminary purchase price, net of acquired cash	\$ 184.2
Property, plant and equipment	121.8
Other assets purchased and liabilities assumed, net	28.0
Goodwill	23.3
Intangible assets	11.1
Preliminary purchase price allocation	\$ 184.2

Goodwill recognized in this transaction is primarily attributable to the assembled workforce and expected synergies related to future growth.

Intangible assets consist of amounts recognized for the fair value of developed technology based on an independent appraisal. It is currently estimated that the developed technology will have a weighted average useful life of approximately seventeen years.

The purchase price and related allocation are preliminary and will be revised as a result of adjustments made to the purchase price, additional information obtained regarding liabilities assumed, including, but not limited to, certain tax attributes and contingent liabilities, and revisions of provisional estimates of fair values resulting from the completion of independent appraisals and valuations of property, plant and equipment and intangible assets.

The Company incurred transaction costs of \$10.0 million in the three months ended April 2, 2022, which have been expensed as incurred and are recorded in selling, general and administrative expenses.

The pro-forma effects of this acquisition do not materially impact the Company's reported results for any period presented.

For further information related to acquired assets measured at fair value, see Note 19, "Financial Instruments."

(4) Restructuring

Restructuring costs include employee termination benefits, asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. Employee termination benefits are recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Other incremental costs principally include equipment and personnel relocation costs. In addition to restructuring costs, the Company incurs incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in the Company's condensed consolidated financial statements in accordance with GAAP. Generally, charges are recorded when restructuring actions are approved and/or implemented.

In the first three months of 2022, the Company recorded charges of \$29.9 million in connection with its restructuring actions. These charges consist of \$29.5 million recorded as cost of sales and \$0.4 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination costs of \$27.3 million, asset impairment charges of \$0.5 million and contract termination costs of \$1.0 million, as well as other related costs of \$1.1 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Asset impairment charges relate to the disposal of buildings, leasehold improvements and/or machinery and equipment with carrying values of \$0.5 million in excess of related estimated fair values.

The Company expects to incur approximately \$26 million of additional restructuring costs related to activities initiated as of April 2, 2022, and expects that the components of such costs will be consistent with its historical experience. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A summary of 2022 activity is shown below (in millions):

	Accrual at January 1, 2022	2022 Charges	Utilization		Accrual at April 2, 2022
			Cash	Non-cash	
Employee termination benefits	\$ 126.1	\$ 27.3	\$ (11.5)	\$ —	\$ 141.9
Asset impairment charges	—	0.5	—	(0.5)	—
Contract termination costs	3.3	1.0	(0.2)	—	4.1
Other related costs	—	1.1	(1.1)	—	—
Total	\$ 129.4	\$ 29.9	\$ (12.8)	\$ (0.5)	\$ 146.0

(5) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

A summary of inventories is shown below (in millions):

	April 2, 2022	December 31, 2021
Raw materials	\$ 1,251.4	\$ 1,171.0
Work-in-process	135.7	119.9
Finished goods	425.8	453.4
Reserves	(170.8)	(172.4)
Inventories	\$ 1,642.1	\$ 1,571.9

(6) Pre-Production Costs Related to Long-Term Supply Agreements

The Company incurs pre-production engineering and development ("E&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling.

During the first three months of 2022 and 2021, the Company capitalized \$63.2 million and \$66.7 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first three months of 2022 and 2021, the Company also capitalized \$46.4 million and \$31.4 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets.

During the first three months of 2022 and 2021, the Company collected \$72.9 million and \$77.0 million, respectively, of cash related to E&D and tooling costs.

The classification of recoverable customer E&D and tooling costs related to long-term supply agreements included in the accompanying condensed consolidated balance sheets is shown below (in millions):

	April 2, 2022	December 31, 2021
Current	\$ 232.2	\$ 207.4
Long-term	155.4	143.5
Recoverable customer E&D and tooling	\$ 387.6	\$ 350.9

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(7) Long-Lived Assets*Property, Plant and Equipment*

Property, plant and equipment is stated at cost. Costs associated with the repair and maintenance of the Company's property, plant and equipment are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency or safety of the Company's property, plant and equipment are capitalized and depreciated over the remaining useful life of the related asset. Depreciable property is depreciated over the estimated useful lives of the assets, using principally the straight-line method.

A summary of property, plant and equipment is shown below (in millions):

	April 2, 2022	December 31, 2021
Land	\$ 106.9	\$ 108.7
Buildings and improvements	860.5	850.3
Machinery and equipment	4,672.2	4,497.7
Construction in progress	349.2	345.6
Total property, plant and equipment	5,988.8	5,802.3
Less – accumulated depreciation	(3,162.1)	(3,082.2)
Property, plant and equipment, net	<u>\$ 2,826.7</u>	<u>\$ 2,720.1</u>

Depreciation expense was \$127.7 million and \$124.3 million in the three months ended April 2, 2022 and April 3, 2021, respectively.

Impairment of Long-Lived Assets

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, the Company performs the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized.

In the first three months of 2022 and 2021, the Company recognized fixed asset impairment charges of \$0.5 million and \$0.2 million, respectively, in conjunction with its restructuring actions (Note 4, "Restructuring"). In the first three months of 2022, the Company recognized additional asset impairment charges of \$1.1 million.

The Company will continue to assess the impact of significant industry and other events on the realization of its long-lived assets.

(8) Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, in the three months ended April 2, 2022, is shown below (in millions):

	Seating	E-Systems	Total
Balance at January 1, 2022	\$ 1,249.3	\$ 408.6	\$ 1,657.9
Acquisition	23.3	—	23.3
Foreign currency translation and other	(6.2)	0.3	(5.9)
Balance at April 2, 2022	<u>\$ 1,266.4</u>	<u>\$ 408.9</u>	<u>\$ 1,675.3</u>

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. In conducting its annual impairment testing, the Company may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then compares the fair value of the reporting unit to the related net book

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The annual goodwill impairment assessment is completed as of the first day of the Company's fourth quarter.

There was no impairment of goodwill in the first three months of 2022 and 2021. The Company will, however, continue to assess the impact of significant industry and other events on its recorded goodwill.

For further information related to the acquisition, see Note 3, "Acquisition."

(9) Debt

A summary of long-term debt, net of unamortized debt issuance costs and unamortized original issue premium (discount), and the related weighted average interest rates is shown below (in millions):

Debt Instrument	April 2, 2022				
	Long-Term Debt	Unamortized Debt Issuance Costs	Unamortized Original Issue Premium (Discount)	Long-Term Debt, Net	Weighted Average Interest Rate
3.8% Senior Notes due 2027 (the "2027 Notes")	\$ 550.0	\$ (2.5)	\$ (2.1)	\$ 545.4	3.885%
4.25% Senior Notes due 2029 (the "2029 Notes")	375.0	(2.2)	(0.8)	372.0	4.288%
3.5% Senior Notes due 2030 (the "2030 Notes")	350.0	(2.2)	(0.7)	347.1	3.525%
2.6% Senior Notes due 2032 (the "2032 Notes")	350.0	(3.0)	(0.6)	346.4	2.624%
5.25% Senior Notes due 2049 (the "2049 Notes")	625.0	(6.0)	13.5	632.5	5.103%
3.55% Senior Notes due 2052 (the "2052 Notes")	350.0	(3.9)	(0.4)	345.7	3.558%
Other	7.5	—	—	7.5	N/A
	<u>\$ 2,607.5</u>	<u>\$ (19.8)</u>	<u>\$ 8.9</u>	<u>\$ 2,596.6</u>	
Less — Current portion				(0.8)	
Long-term debt				<u>\$ 2,595.8</u>	

Debt Instrument	December 31, 2021				
	Long-Term Debt	Unamortized Debt Issuance Costs	Unamortized Original Issue Premium (Discount)	Long-Term Debt, Net	Weighted Average Interest Rate
2027 Notes	\$ 550.0	\$ (2.5)	\$ (2.2)	\$ 545.3	3.885%
2029 Notes	375.0	(2.3)	(0.9)	371.8	4.288%
2030 Notes	350.0	(2.3)	(0.7)	347.0	3.525%
2032 Notes	350.0	(3.1)	(0.8)	346.1	2.624%
2049 Notes	625.0	(6.1)	13.7	632.6	5.103%
2052 Notes	350.0	(3.8)	(0.5)	345.7	3.558%
Other	7.5	—	—	7.5	N/A
	<u>\$ 2,607.5</u>	<u>\$ (20.1)</u>	<u>\$ 8.6</u>	<u>2,596.0</u>	
Less — Current portion				(0.8)	
Long-term debt				<u>\$ 2,595.2</u>	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Senior Notes

The issuance, maturity and interest payment dates of the Company's senior unsecured 2027 Notes, 2029 Notes, 2030 Notes, 2032 Notes, 2049 Notes and 2052 Notes (collectively, the "Notes") are shown below:

Note	Issuance Date(s)	Maturity Date	Interest Payment Dates
2027 Notes	August 2017	September 15, 2027	March 15 and September 15
2029 Notes	May 2019	May 15, 2029	May 15 and November 15
2030 Notes	February 2020	May 30, 2030	May 30 and November 30
2032 Notes	November 2021	January 15, 2032	January 15 and July 15 ⁽¹⁾
2049 Notes	May 2019 and February 2020	May 15, 2049	May 15 and November 15
2052 Notes	November 2021	January 15, 2052	January 15 and July 15 ⁽¹⁾

⁽¹⁾ Commencing July 15, 2022.

Covenants

Subject to certain exceptions, the indentures governing the Notes contain certain restrictive covenants that, among other things, limit the ability of the Company to: (i) create or permit certain liens and (ii) consolidate, merge or sell all or substantially all of the Company's assets. The indentures governing the Notes also provide for customary events of default.

As of April 2, 2022, the Company was in compliance with all covenants under the indentures governing the Notes.

Credit Agreement

The Company's amended and restated unsecured credit agreement ("Credit Agreement") consists of a \$2.0 billion revolving credit facility (the "Revolving Credit Facility"), which expires on October 28, 2026, and a \$250 million term loan facility, which was repaid in full in 2021.

As of April 2, 2022 and December 31, 2021, there were no borrowings outstanding under the Revolving Credit Facility.

Advances under the Revolving Credit Facility generally bear interest based on (i) the Eurocurrency Rate (as defined in the Credit Agreement) or (ii) the Base Rate (as defined in the Credit Agreement) plus a margin, determined in accordance with a pricing grid. As of April 2, 2022, the ranges and rates are as follows (in percentages):

	Eurocurrency Rate			Base Rate		
	Minimum	Maximum	Rate as of April 2, 2022	Minimum	Maximum	Rate as of April 2, 2022
Revolving Credit Facility	0.925 %	1.450 %	1.125 %	0.000 %	0.450 %	0.125 %

A facility fee, which ranges from 0.075% to 0.20% of the total amount committed under the Revolving Credit Facility, is payable quarterly.

Covenants

The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness and liens.

As of April 2, 2022, the Company was in compliance with all covenants under the Credit Agreement.

Other

As of April 2, 2022 and December 31, 2021, other long-term debt, including the current portion, consists of amounts outstanding under an unsecured working capital loan and a finance lease agreement.

For further information related to the Company's debt, see Note 7, "Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(10) Leases

The Company has operating leases for production, office and warehouse facilities, manufacturing and office equipment and vehicles. Operating lease assets and obligations included in the accompanying condensed consolidated balance sheets are shown below (in millions):

	April 2, 2022	December 31, 2021
Right-of-use assets under operating leases:		
Other long-term assets	\$ 677.2	\$ 627.9
Lease obligations under operating leases:		
Accrued liabilities	\$ 130.5	\$ 125.6
Other long-term liabilities	569.1	523.6
	<u>\$ 699.6</u>	<u>\$ 649.2</u>

Maturities of lease obligations as of April 2, 2022, are shown below (in millions):

	April 2, 2022
2022 ⁽¹⁾	\$ 115.2
2023	130.3
2024	110.8
2025	95.5
2026	84.9
Thereafter	237.7
Total undiscounted cash flows	774.4
Less: Imputed interest	(74.8)
Lease obligations under operating leases	<u>\$ 699.6</u>

⁽¹⁾ For the remaining nine months

Cash flow information related to operating leases is shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Non-cash activity:		
Right-of-use assets obtained in exchange for operating lease obligations	\$ 62.5	\$ 63.8
Operating cash flows:		
Cash paid related to operating lease obligations	\$ 40.4	\$ 40.4

In addition to the right-of-use assets obtained in exchange for operating lease obligations shown above, in the three months ended April 2, 2022, the Company acquired \$34.1 million of right-of-use assets and related lease liabilities in connection with its acquisition of Kongsberg ICS. See Note 3, "Acquisition."

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Lease expense included in the accompanying condensed consolidated statements of comprehensive income is shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Operating lease expense	\$ 41.4	\$ 39.0
Short-term lease expense	5.4	4.2
Variable lease expense	2.0	2.2
Total lease expense	\$ 48.8	\$ 45.4

The weighted average lease term and discount rate for operating leases are shown below:

	April 2, 2022
Weighted average remaining lease term	Seven years
Weighted average discount rate	2.9 %

The Company is party to a finance lease agreement, which is not material to the accompanying condensed consolidated financial statements (Note 9, "Debt").

For further information related to the Company's leases, see Note 8, "Leases," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

(11) Pension and Other Postretirement Benefit Plans

The Company sponsors defined benefit pension plans covering certain eligible employees in the United States and certain foreign countries. The Company also sponsors postretirement benefit plans (primarily for the continuation of medical benefits) covering certain eligible retirees in the United States and Canada.

Net Periodic Pension and Other Postretirement Benefit (Credit) Cost

The components of the Company's net periodic pension benefit (credit) cost are shown below (in millions):

	Three Months Ended			
	April 2, 2022		April 3, 2021	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$ —	\$ 1.0	\$ —	\$ 1.3
Interest cost	3.9	2.9	3.6	2.6
Expected return on plan assets	(6.0)	(4.4)	(5.9)	(4.8)
Amortization of actuarial loss	0.5	1.1	1.0	1.5
Settlement loss	0.4	—	0.4	—
Net periodic benefit (credit) cost	\$ (1.2)	\$ 0.6	\$ (0.9)	\$ 0.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The components of the Company's net periodic other postretirement benefit cost are shown below (in millions):

	Three Months Ended			
	April 2, 2022		April 3, 2021	
	U.S.	Foreign	U.S.	Foreign
Interest cost	\$ 0.4	\$ 0.2	\$ 0.3	\$ 0.2
Amortization of actuarial gain	(0.3)	—	(0.3)	—
Net periodic benefit cost	<u>\$ 0.1</u>	<u>\$ 0.2</u>	<u>\$ —</u>	<u>\$ 0.2</u>

Contributions

In the three months ended April 2, 2022, employer contributions to the Company's domestic and foreign defined benefit pension plans were \$4.4 million. The Company expects contributions to its funded pension plans and benefit payments related to its unfunded pension plans to be \$5 million to \$10 million in 2022.

(12) Revenue Recognition

The Company enters into contracts with its customers to provide production parts generally at the beginning of a vehicle's life cycle. Typically, these contracts do not provide for a specified quantity of products, but once entered into, the Company is often expected to fulfill its customers' purchasing requirements for the production life of the vehicle. Many of these contracts may be terminated by the Company's customers at any time. Historically, terminations of these contracts have been infrequent. The Company receives purchase orders from its customers, which provide the commercial terms for a particular production part, including price (but not quantities). Contracts may also provide for annual price reductions over the production life of the vehicle, and prices may be adjusted on an ongoing basis to reflect changes in product content/cost and other commercial factors.

Revenue is recognized at a point in time when control of the product is transferred to the customer under standard commercial terms, as the Company does not have an enforceable right to payment prior to such transfer. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for those products based on the current purchase orders, annual price reductions and ongoing price adjustments. In the first three months of 2022 and 2021, revenue recognized related to prior years represented less than 2% of consolidated net sales. The Company's customers pay for products received in accordance with payment terms that are customary within the industry. The Company's contracts with its customers do not have significant financing components.

The Company records a contract liability for advances received from its customers. As of April 2, 2022 and December 31, 2021, there were no significant contract liabilities recorded. Further, in the first three months of 2022 and 2021, there were no significant contract liabilities recognized in revenue.

Amounts billed to customers related to shipping and handling costs are included in net sales in the condensed consolidated statements of comprehensive income. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales in the condensed consolidated statements of comprehensive income.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Company from a customer are excluded from revenue.

A summary of the Company's revenue by reportable operating segment and geography is shown below (in millions):

	Three Months Ended					
	April 2, 2022			April 3, 2021		
	Seating	E-Systems	Total	Seating	E-Systems	Total
North America	\$ 1,841.9	\$ 355.9	\$ 2,197.8	\$ 1,668.6	\$ 342.6	\$ 2,011.2
Europe and Africa	1,269.5	521.7	1,791.2	1,474.7	602.3	2,077.0
Asia	662.6	367.5	1,030.1	716.7	368.8	1,085.5
South America	138.5	50.8	189.3	136.0	44.7	180.7
	<u>\$ 3,912.5</u>	<u>\$ 1,295.9</u>	<u>\$ 5,208.4</u>	<u>\$ 3,996.0</u>	<u>\$ 1,358.4</u>	<u>\$ 5,354.4</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(13) Other Expense, Net

Other expense, net includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense.

A summary of other expense, net is shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Other expense	\$ 30.2	\$ 9.9
Other income	(2.9)	(3.6)
Other expense, net	<u>\$ 27.3</u>	<u>\$ 6.3</u>

In the three months ended April 2, 2022, other expense includes net foreign currency transaction losses of \$20.0 million, including \$11.4 million related to foreign exchange rate volatility in Russia following the invasion of Ukraine. In the three months ended April 3, 2021, other expense includes net foreign currency transaction losses of \$4.2 million.

(14) Income Taxes

A summary of the provision for income taxes and the corresponding effective tax rate for the three months ended April 2, 2022 and April 3, 2021, is shown below (in millions, except effective tax rates):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Provision for income taxes	\$ 20.4	\$ 58.9
Pretax income before equity in net income of affiliates	\$ 76.3	\$ 278.8
Effective tax rate	<u>26.7 %</u>	<u>21.1 %</u>

The Company's provision for income taxes is impacted by the level and mix of earnings among tax jurisdictions. In addition, the Company recognized discrete tax benefits on the significant items shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Restructuring charges and various other items	\$ 10.3	\$ 5.2
Valuation allowances on deferred tax assets	0.5	0.2
Share-based compensation	1.2	0.1
	<u>\$ 12.0</u>	<u>\$ 5.5</u>

Excluding the items above, the effective tax rate for the first three months of 2022 and 2021 approximated the U.S. federal statutory income tax rate of 21%, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

The Company's current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. The Company's future provision for income taxes will include no tax benefit with respect to losses incurred and, except for certain jurisdictions, no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by changes in valuation allowances and the mix of earnings among jurisdictions. The Company evaluates the realizability of its deferred tax assets on a quarterly basis. In completing this evaluation, the Company considers all available evidence in order to determine whether, based on the weight of the evidence, a valuation allowance for its deferred tax assets is necessary. Such evidence includes historical results,

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

future reversals of existing taxable temporary differences and expectations for future taxable income (exclusive of the reversal of temporary differences and carryforwards), as well as the implementation of feasible and prudent tax planning strategies. If, based on the weight of the evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized, a valuation allowance is recorded. If operating results improve or decline on a continual basis in a particular jurisdiction, the Company's decision regarding the need for a valuation allowance could change, resulting in either the initial recognition or reversal of a valuation allowance in that jurisdiction, which could have a significant impact on income tax expense in the period recognized and subsequent periods. In determining the provision for income taxes for financial statement purposes, the Company makes certain estimates and judgments, which affect its evaluation of the carrying value of its deferred tax assets, as well as its calculation of certain tax liabilities.

For further information related to the Company's income taxes, see Note 9, "Income Taxes," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

(15) Net Income Per Share Attributable to Lear

Basic net income per share attributable to Lear is computed by dividing net income attributable to Lear by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement are considered common shares outstanding and are included in the computation of basic net income per share attributable to Lear.

Diluted net income per share attributable to Lear is computed using the treasury stock method by dividing net income attributable to Lear by the average number of common shares outstanding, including the dilutive effect of common stock equivalents using the average share price during the period.

A summary of information used to compute basic and diluted net income per share attributable to Lear is shown below (in millions, except share and per share data):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Net income attributable to Lear	\$ 49.4	\$ 203.7
Average common shares outstanding	59,932,030	60,312,573
Dilutive effect of common stock equivalents	278,949	248,286
Average diluted shares outstanding	60,210,979	60,560,859
Basic net income per share attributable to Lear	\$ 0.82	\$ 3.38
Diluted net income per share attributable to Lear	\$ 0.82	\$ 3.36

(16) Comprehensive Income and Equity

Comprehensive Income

Comprehensive income is defined as all changes in the Company's net assets except changes resulting from transactions with stockholders. It differs from net income in that certain items recorded in equity are included in comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Accumulated Other Comprehensive Loss

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended April 2, 2022, is shown below (in millions):

	Three Months Ended April 2, 2022
Defined benefit plans:	
Balance at beginning of period	\$ (199.4)
Reclassification adjustments (net of tax expense of \$0.3 million)	1.4
Other comprehensive loss recognized during the period (net of tax impact of \$— million)	(0.5)
Balance at end of period	<u>\$ (198.5)</u>
Derivative instruments and hedging:	
Balance at beginning of period	\$ (18.6)
Reclassification adjustments (net of tax benefit of \$1.4 million)	(6.6)
Other comprehensive gain recognized during the period (net of tax expense of \$7.9 million)	31.6
Balance at end of period	<u>\$ 6.4</u>
Foreign currency translation:	
Balance at beginning of period	\$ (552.2)
Other comprehensive loss recognized during the period (net of tax expense of \$0.4 million)	(18.3)
Balance at end of period	<u>\$ (570.5)</u>
Total accumulated other comprehensive loss	<u><u>\$ (762.6)</u></u>

In the three months ended April 2, 2022, foreign currency translation adjustments are primarily related to the weakening of the Euro, offset by the strengthening of the Brazilian real, relative to the U.S. dollar, and include pretax losses of \$0.5 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

In the three months ended April 2, 2022, foreign currency translation adjustments also include derivative net investment hedge gains of \$0.3 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended April 3, 2021, is shown below (in millions):

	Three Months Ended April 3, 2021
Defined benefit plans:	
Balance at beginning of period	\$ (276.9)
Reclassification adjustments (net of tax expense of \$0.4 million)	2.2
Other comprehensive loss recognized during the period (net of tax impact of \$— million)	(0.9)
Balance at end of period	<u>\$ (275.6)</u>
Derivative instruments and hedging:	
Balance at beginning of period	\$ 12.6
Reclassification adjustments (net of tax benefit of \$1.4 million)	(5.3)
Other comprehensive income recognized during the period (net of tax expense of \$0.7 million)	2.3
Balance at end of period	<u>\$ 9.6</u>
Foreign currency translation:	
Balance at beginning of period	\$ (440.8)
Other comprehensive loss recognized during the period (net of tax expense of \$2.1 million)	(83.6)
Balance at end of period	<u>\$ (524.4)</u>
Total accumulated other comprehensive loss	<u><u>\$ (790.4)</u></u>

In the three months ended April 3, 2021, foreign currency translation adjustments are primarily related to the weakening of the Euro, and to a lesser extent the Brazilian real, relative to the U.S. dollar, and include pretax losses of \$0.1 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

In the three months ended April 3, 2021, foreign currency translation adjustments also include derivative net investment hedge gains of \$9.9 million.

For further information regarding reclassification adjustments related to the Company's defined benefit plans, see Note 11, "Pension and Other Postretirement Benefit Plans." For further information regarding reclassification adjustments related to the Company's derivative and hedging activities, see Note 19, "Financial Instruments."

Lear Corporation Stockholders' Equity

Common Stock Share Repurchase Program

The Company may implement share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which the Company may repurchase its outstanding common stock and the timing of such repurchases will depend upon its financial condition, results of operations, capital requirements, prevailing market conditions, alternative uses of capital and other factors.

The Company has a common stock share repurchase program (the "Repurchase Program") which permits the discretionary repurchase of its common stock. Since its inception in the first quarter of 2011, the Company's Board of Directors has authorized \$6.1 billion in share repurchases under the Repurchase Program, and the Company has repurchased, in aggregate, \$4.8 billion of its outstanding common stock, at an average price of \$90.97 per share, excluding commissions and related fees. As of April 2, 2022, the Company has a remaining repurchase authorization of \$1.3 billion under the Repurchase Program, which expires on December 31, 2022.

In addition to shares repurchased under the Repurchase Program described above, the Company classifies shares withheld from the settlement of the Company's restricted stock unit and performance share awards to cover tax withholding requirements as common stock held in treasury in the condensed consolidated balance sheets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Quarterly Dividend

In the first three months of 2022 and 2021, the Company's Board of Directors declared quarterly cash dividends of \$0.77 and \$0.25 per share of common stock, respectively.

Dividends declared and paid are shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Dividends declared	\$ 46.8	\$ 15.3
Dividends paid	47.4	15.7

Dividends payable on common shares to be distributed under the Company's stock-based compensation program will be paid when such common shares are distributed.

(17) Legal and Other Contingencies

As of April 2, 2022 and December 31, 2021, the Company had recorded reserves for pending legal disputes, including commercial disputes, and other legal matters of \$21.1 million and \$19.5 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

Commercial Disputes

The Company is involved from time to time in legal proceedings and claims related to commercial or contractual disputes with its customers, suppliers and competitors. These disputes vary in nature and are usually resolved by negotiations between the parties.

Product Liability and Warranty Matters

In the event that use of the Company's products results in, or is alleged to result in, bodily injury and/or property damage or other losses, the Company may be subject to product liability lawsuits and other claims. Such lawsuits generally seek compensatory damages, punitive damages and attorneys' fees and costs. In addition, if any of the Company's products are, or are alleged to be, defective, the Company may be required or requested by its customers to participate in a recall or other corrective action involving such products. Certain of the Company's customers have asserted claims against the Company for costs related to recalls or other corrective actions involving its products. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend such claims.

To a lesser extent, the Company is a party to agreements with certain of its customers, whereby these customers may pursue claims against the Company for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims.

In certain instances, allegedly defective products may be supplied by Tier 2 suppliers. The Company may seek recovery from its suppliers of materials or services included within the Company's products that are associated with product liability and warranty claims. The Company carries insurance for certain legal matters, including product liability claims, but such coverage may be limited. The Company does not maintain insurance for product warranty or recall matters.

The Company records product warranty reserves when liability is probable and related amounts are reasonably estimable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A summary of the changes in reserves for product liability and warranty claims for the three months ended April 2, 2022, is shown below (in millions):

Balance at January 1, 2022	\$	46.0
Expense, net (including changes in estimates)		3.4
Settlements		(6.6)
Foreign currency translation and other		(0.7)
Balance at April 2, 2022	\$	<u>42.1</u>

Environmental Matters

The Company is subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. The Company's policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance with this standard. However, the Company currently is, has been and in the future may become the subject of formal or informal enforcement actions or procedures.

As of April 2, 2022 and December 31, 2021, the Company had recorded environmental reserves of \$8.0 million. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial condition, results of operations or cash flows; however, no assurances can be given in this regard.

Other Matters

The Company is involved from time to time in various other legal proceedings and claims, including, without limitation, intellectual property matters, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, the Company does not believe that any of the other legal proceedings or claims in which the Company is currently involved, either individually or in the aggregate, will have a material adverse impact on its business, financial condition, results of operations or cash flows. However, no assurances can be given in this regard.

Although the Company records reserves for legal disputes, product liability and warranty claims and environmental and other matters in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates.

(18) Segment Reporting

The Company is organized under two reportable operating segments: Seating, which consists of the design, development, engineering and manufacture of complete seat systems, seat subsystems and key seat components, and E-Systems, which consists of the design, development, engineering and manufacture of complete electrical distribution and connection systems and electronic systems. Key components in the Company's complete seat system and subsystem solutions are advanced comfort, wellness and safety offerings (including massage, lumbar, seat heat and ventilation), as well as configurable seating product technologies. All of these products are compatible with traditional internal combustion engine ("ICE") architectures and the full range of hybrid, plug-in hybrid and battery electric architectures (collectively, "electrified powertrains"). Key seat component product offerings include seat trim covers, surface materials such as leather and fabric, seat mechanisms, seat foam and headrests. Key components in the Company's electrical distribution and connection systems portfolio include wire harnesses, terminals and connectors, and engineered components for both ICE architectures and electrified powertrains that require management of higher voltage and power. Key components in the Company's electronic systems portfolio include body domain control modules and products specific to electrification and connectivity. Electrification products include on-board battery chargers, power conversion modules, high voltage battery management systems and high voltage power distribution systems. Connectivity products include telematics control units ("TCU") and gateway modules to manage both wired and wireless networks and data in vehicles. In addition to electronic modules, the Company offers software that includes cybersecurity, advanced vehicle positioning for automated and autonomous driving applications and full capabilities in both dedicated short-range communication and cellular protocols for vehicle connectivity. The Company's software offerings include embedded control software and cloud and mobile device-based software and services. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, advanced research and development, corporate finance, legal, executive administration and human resources.

Each of the Company's operating segments reports its results from operations and makes its requests for capital expenditures directly to the chief operating decision maker. The economic performance of each operating segment is driven primarily by automotive production volumes in the geographic regions in which it operates, as well as by the success of the vehicle platforms for which it supplies products. Also, each operating segment operates in the competitive Tier 1 automotive supplier environment and is continually working with its customers to manage costs and improve quality. The Company's production processes generally make use of hourly labor, dedicated facilities, sequential manufacturing and assembly processes and commodity raw materials.

The Company evaluates the performance of its operating segments based primarily on (i) revenues from external customers, (ii) pretax income before equity in net income of affiliates, interest expense and other expense, net ("segment earnings") and (iii) cash flows, being defined as segment earnings less capital expenditures plus depreciation and amortization.

A summary of revenues from external customers and other financial information by reportable operating segment is shown below (in millions):

	Three Months Ended April 2, 2022			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	\$ 3,912.5	\$ 1,295.9	\$ —	\$ 5,208.4
Segment earnings ⁽¹⁾	200.1	15.9	(87.5)	128.5
Depreciation and amortization	92.8	46.2	4.4	143.4
Capital expenditures	77.1	46.1	7.1	130.3
Total assets	7,975.0	3,631.7	2,120.6	13,727.3

	Three Months Ended April 3, 2021			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	\$ 3,996.0	\$ 1,358.4	\$ —	\$ 5,354.4
Segment earnings ⁽¹⁾	292.0	89.3	(73.9)	307.4
Depreciation and amortization	90.4	46.6	3.8	140.8
Capital expenditures	63.0	43.2	6.7	112.9
Total assets	7,761.2	3,493.6	2,167.7	13,422.5

⁽¹⁾ See definition above

For the three months ended April 2, 2022, segment earnings include restructuring charges of \$16.6 million and \$13.3 million in the Seating and E-Systems segments, respectively. The Company expects to incur approximately \$11 million and \$15 million of additional restructuring costs in the Seating and E-Systems segments, respectively, related to activities initiated as of April 2, 2022, and expects that the components of such costs will be consistent with its historical experience.

For the three months ended April 3, 2021, segment earnings include restructuring charges of \$12.8 million, \$4.7 million and \$4.2 million in the Seating and E-Systems segments and in the other category, respectively.

For further information, see Note 4, "Restructuring."

A reconciliation of segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates is shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Segment earnings	\$ 128.5	\$ 307.4
Interest expense	24.9	22.3
Other expense, net	27.3	6.3
Consolidated income before provision for income taxes and equity in net income of affiliates	\$ 76.3	\$ 278.8

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(19) Financial Instruments*Debt Instruments*

The carrying values of the Notes vary from their fair values. The fair values of the Notes were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). The estimated fair value, as well as the carrying value, of the Company's debt instruments are shown below (in millions):

	April 2, 2022	December 31, 2021
Estimated aggregate fair value ⁽¹⁾	\$ 2,530.1	\$ 2,868.6
Aggregate carrying value ⁽¹⁾⁽²⁾	2,600.0	2,600.0

⁽¹⁾ Excludes "other" debt.

⁽²⁾ Excludes the impact of unamortized debt issuance costs and unamortized original issue premium (discount).

Cash, Cash Equivalents and Restricted Cash

The Company has cash on deposit that is legally restricted as to use or withdrawal. A reconciliation of cash, cash equivalents and restricted cash included in the accompanying condensed consolidated balance sheets and the accompanying condensed consolidated statements of cash flows is shown below (in millions):

	April 2, 2022	April 3, 2021
Balance sheet:		
Cash and cash equivalents	\$ 1,162.0	\$ 1,375.4
Restricted cash included in other current assets	—	1.5
Restricted cash included in other long-term assets	2.8	1.6
Statement of cash flows:		
Cash, cash equivalents and restricted cash	\$ 1,164.8	\$ 1,378.5

Accounts Receivable

The Company's allowance for credit losses on financial assets measured at amortized cost, primarily accounts receivable, reflects management's estimate of credit losses over the remaining expected life of such assets, measured primarily using historical experience, as well as current conditions and forecasts that affect the collectability of the reported amount. Expected credit losses for newly recognized financial assets, as well as changes to expected credit losses during the period, are recognized in earnings. The Company also considers geographic and segment specific risk factors in the development of expected credit losses. As of April 2, 2022 and December 31, 2021, accounts receivable are reflected net of reserves of \$32.7 million and \$35.5 million, respectively. Changes in expected credit losses were not significant in the first three months of 2022.

Marketable Equity Securities

Marketable equity securities, which the Company accounts for under the fair value option, are included in the accompanying condensed consolidated balance sheets as shown below (in millions):

	April 2, 2022	December 31, 2021
Current assets	\$ 1.8	\$ 3.5
Other long-term assets	56.5	58.8
	\$ 58.3	\$ 62.3

Unrealized gains and losses arising from changes in the fair value of the marketable equity securities are recognized in other expense, net in the condensed consolidated statements of comprehensive income. The fair value of the marketable equity securities is determined by reference to quoted market prices in active markets (Level 1 input based on the GAAP fair value hierarchy).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)*Equity Securities Without Readily Determinable Fair Values*

As of April 2, 2022 and December 31, 2021, investments in equity securities without readily determinable fair values of \$18.2 million and \$15.4 million, respectively, are included in other long-term assets in the accompanying condensed consolidated balance sheets. Such investments are valued at cost, less cumulative impairments of \$10.0 million.

Derivative Instruments and Hedging Activities

The Company has used derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates and interest rates and the resulting variability of the Company's operating results. The Company is not a party to leveraged derivatives. The Company's derivative financial instruments are subject to master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. On the date that a derivative contract for a hedge instrument is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge), (3) a hedge of a net investment in a foreign operation (a net investment hedge) or (4) a contract not designated as a hedge instrument.

For a fair value hedge, the change in the fair value of the derivative is recorded in earnings and reflected in the condensed consolidated statements of comprehensive income on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a cash flow hedge, the change in the fair value of the derivative is recorded in accumulated other comprehensive loss in the condensed consolidated balance sheets. When the underlying hedged transaction is realized, the gain or loss included in accumulated other comprehensive loss is recorded in earnings and reflected in the condensed consolidated statements of comprehensive income on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a net investment hedge, the change in the fair value of the derivative is recorded in cumulative translation adjustment, which is a component of accumulated other comprehensive loss in the condensed consolidated balance sheets. When the related currency translation adjustment is required to be reclassified, usually upon the sale or liquidation of the investment, the gain or loss included in accumulated other comprehensive loss is recorded in earnings and reflected in other expense, net in the condensed consolidated statements of comprehensive income. Changes in the fair value of contracts not designated as hedge instruments are recorded in earnings and reflected in other expense, net in the condensed consolidated statements of comprehensive income. Cash flows attributable to derivatives used to manage foreign currency risks are classified on the same line as the hedged item attributable to the hedged risk in the condensed consolidated statements of cash flows. Upon settlement, cash flows attributable to derivatives designated as net investment hedges are classified as investing activities in the condensed consolidated statements of cash flows. Cash flows attributable to forward starting interest rate swaps are classified as financing activities in the condensed consolidated statements of cash flows.

The Company formally documents its hedge relationships, including the identification of the hedge instruments and the related hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded at fair value in other current and long-term assets and other current and long-term liabilities in the condensed consolidated balance sheets. The Company also formally assesses whether a derivative used in a hedge transaction is highly effective in offsetting changes in either the fair value or the cash flows of the hedged item. When it is determined that a hedged transaction is no longer probable to occur, the Company discontinues hedge accounting.

Foreign Exchange

The Company uses forwards, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates on known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset gains and losses on the hedged transaction in an effort to reduce exposure to fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso, various European currencies, the Chinese renminbi, the Japanese yen, the Philippine peso and the Thai baht.

Foreign currency derivative contracts not designated as hedging instruments consist principally of hedges of cash transactions, intercompany loans and certain other balance sheet exposures.

Net Investment Hedges

The Company uses cross-currency interest rate swaps, which are designated as net investment hedges of the foreign currency rate exposure of its investment in certain Euro-denominated subsidiaries. In the three months ended April 2, 2022 and April 3,

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2021, contra interest expense on net investment hedges of \$1.6 million is included in interest expense in the accompanying condensed consolidated statements of comprehensive income.

Balance Sheet Classification

The notional amount, estimated aggregate fair value and related balance sheet classification of the Company's foreign currency and net investment hedge contracts are shown below (in millions, except for maturities):

	April 2, 2022	December 31, 2021
Fair value of foreign currency contracts designated as cash flow hedges:		
Other current assets	\$ 37.3	\$ 19.4
Other long-term assets	8.1	0.1
Other current liabilities	(6.8)	(10.1)
Other long-term liabilities	(1.1)	(2.8)
	37.5	6.6
Notional amount	\$ 1,146.1	\$ 1,077.6
Outstanding maturities in months, not to exceed	24	23
Fair value of derivatives designated as net investment hedges:		
Other current liabilities	\$ —	\$ (3.2)
Other long-term liabilities	(4.4)	(1.6)
	(4.4)	(4.8)
Notional amount	\$ 300.0	\$ 300.0
Outstanding maturities in months, not to exceed	48	33
Fair value of foreign currency contracts not designated as hedging instruments:		
Other current assets	\$ 1.1	\$ 2.2
Other current liabilities	(4.1)	(3.3)
	(3.0)	(1.1)
Notional amount	\$ 559.7	\$ 445.5
Outstanding maturities in months, not to exceed	9	12
Total fair value	\$ 30.1	\$ 0.7
Total notional amount	\$ 2,005.8	\$ 1,823.1

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Accumulated Other Comprehensive Loss — Derivative Instruments and Hedging

Pretax amounts related to foreign currency and net investment hedge contracts that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Gains recognized in accumulated other comprehensive loss:		
Foreign currency contracts	\$ 39.5	\$ 3.0
Net investment hedge contracts	0.3	9.9
	<u>39.8</u>	<u>12.9</u>
(Gains) losses reclassified from accumulated other comprehensive loss to:		
Net sales	(1.6)	0.2
Cost of sales	(7.0)	(7.5)
Interest expense	0.6	0.6
	<u>(8.0)</u>	<u>(6.7)</u>
Comprehensive income	<u>\$ 31.8</u>	<u>\$ 6.2</u>

As of April 2, 2022 and December 31, 2021, pretax net gains (losses) of \$15.7 million and (\$16.1) million, respectively, related to the Company's derivative instruments and hedging activities were recorded in accumulated other comprehensive loss.

During the next twelve-month period, net gains (losses) expected to be reclassified into earnings are shown below (in millions):

Foreign currency contracts	\$ 30.5
Interest rate swap contracts	(2.4)
Total	<u>\$ 28.1</u>

Such gains and losses will be reclassified at the time that the underlying hedged transactions are realized.

Fair Value Measurements

GAAP provides that fair value is an exit price, defined as a market-based measurement that represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are based on one or more of the following three valuation techniques:

- Market:* This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Income:* This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.
- Cost:* This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Further, GAAP prioritizes the inputs and assumptions used in the valuation techniques described above into a three-tier fair value hierarchy as follows:

- Level 1:* Observable inputs, such as quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2:* Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.
- Level 3:* Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

The Company discloses fair value measurements and the related valuation techniques and fair value hierarchy level for its assets and liabilities that are measured or disclosed at fair value.

Items Measured at Fair Value on a Recurring Basis

Fair value measurements and the related valuation techniques and fair value hierarchy level for the Company's assets and liabilities measured at fair value on a recurring basis as of April 2, 2022 and December 31, 2021, are shown below (in millions):

April 2, 2022						
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency contracts, net	Recurring	\$ 34.5	Market/ Income	\$ —	\$ 34.5	\$ —
Net investment hedges	Recurring	(4.4)	Market/ Income	—	(4.4)	—
Marketable equity securities	Recurring	58.3	Market	58.3	—	—

December 31, 2021						
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency contracts, net	Recurring	\$ 5.5	Market/ Income	\$ —	\$ 5.5	\$ —
Net investment hedges	Recurring	(4.8)	Market/ Income	—	(4.8)	—
Marketable equity securities	Recurring	62.3	Market	62.3	—	—

The Company determines the fair value of its derivative contracts using quoted market prices to calculate the forward values and then discounts such forward values to the present value. The discount rates used are based on quoted bank deposit or swap interest rates. If a derivative contract is in a net liability position, the Company adjusts these discount rates, if required, by an estimate of the credit spread that would be applied by market participants purchasing these contracts from the Company's counterparties. If an estimate of the credit spread is required, the Company uses significant assumptions and factors other than quoted market rates, which would result in the classification of its derivative liabilities within Level 3 of the fair value hierarchy. As of April 2, 2022 and December 31, 2021, there were no derivative contracts that were classified within Level 3 of the fair value hierarchy. In addition, there were no transfers in or out of Level 3 of the fair value hierarchy in the first three months of 2022.

Items Measured at Fair Value on a Non-Recurring Basis

The Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included in the table above. As these non-recurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy.

As a result of the acquisition of Kongsberg ICS (Note 3, "Acquisition"), Level 3 fair value estimates related to property, plant and equipment of \$121.8 million and developed technology intangible assets of \$11.1 million are recorded in the accompanying condensed consolidated balance sheet as of April 2, 2022. Fair value estimates of property, plant and equipment were based on independent appraisals, giving consideration to the highest and best use of the assets. Key assumptions used in the appraisals were based on a combination of market and cost approaches, as appropriate. Fair value estimates of developed technology intangible assets were based on management's estimates using a discounted cash flow method.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

As of April 2, 2022, there were no additional significant assets or liabilities measured at fair value on a non-recurring basis.

(20) Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") as summarized below.

Pronouncements adopted in 2022:

Government Assistance

The FASB issued ASU 2021-10, "Disclosures by Business Entities about Government Assistance." The guidance, effective January 1, 2022, requires disclosures about certain government assistance transactions. The adoption of this guidance did not have a significant impact on the Company's financial statements.

ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**EXECUTIVE OVERVIEW**

We are a global automotive technology leader in Seating and E-Systems, enabling superior in-vehicle experiences for consumers around the world. We supply seating, electrical distribution and connection systems and electronic systems to all of the world's major automotive manufacturers.

Lear is built on a foundation and strong culture of innovation, operational excellence, and engineering and program management capabilities. We use our product, design and technological expertise, as well as our global reach and competitive manufacturing footprint, to achieve our financial goals and objectives. These include continuing to deliver profitable growth (balancing risks and returns); investing in innovation to drive business growth and profitability; maintaining a strong balance sheet with investment grade credit metrics; and consistently returning capital to our stockholders. Further, we have aligned our strategy with the key trends affecting our business — electrification, connectivity, autonomy and shared mobility. At Lear, we are *Making every drive better*[™] by providing technology for safer, smarter and more comfortable journeys, while adhering to our values — *Be Inclusive. Be Inventive. Get Results the Right Way*.

Our business is organized under two reporting segments: Seating and E-Systems. Each of these segments has a varied product and technology range across a number of component categories.

Our Seating business consists of the design, development, engineering and manufacture of complete seat systems, seat subsystems and key seat components. Our capabilities in operations and supply chain management enable synchronized (just-in-time) assembly and delivery of high volumes of complex complete seat systems to our customers. Included in our complete seat system and subsystem solutions are advanced comfort, wellness and safety offerings, as well as configurable seating product technologies. Our advanced comfort, wellness and safety offerings are facilitated by our system, component and integration capabilities, together with our in-house electronics, sensor, software and algorithm competencies. Our comfort offerings have been enhanced by our first quarter 2022 acquisition of substantially all of Kongsberg Automotive's Interior Comfort Systems business unit ("Kongsberg ICS"), which specializes in comfort seating solutions, including massage, lumbar, seat heat and ventilation. As the most vertically integrated global seat supplier, our key seat component product offerings include seat trim covers, surface materials such as leather and fabric, seat mechanisms, seat foam and headrests. All of these products are compatible with traditional internal combustion engine ("ICE") architectures and the full range of hybrid, plug-in hybrid and battery electric architectures (collectively, "electrified powertrains").

Our E-Systems business consists of the design, development, engineering and manufacture of complete electrical distribution and connection systems and electronic systems. The combination of these capabilities enables us to provide our customers with customizable solutions with optimized designs at a competitive cost. Electrical distribution and connection systems utilize low voltage wire, high voltage wire, high speed data cables and flat wiring to connect networks and electrical signals and manage electrical power within the vehicle for all types of powertrains – from traditional ICE architectures to the full range of electrified powertrains. Key components in our electrical distribution and connection systems portfolio include wire harnesses, terminals and connectors and engineered components for both ICE architectures and electrified powertrains that require management of higher voltage and power. Electronic systems facilitate signal, data and power management within the vehicle and include the associated software required to facilitate these functions. Key components in our electronic systems portfolio include body domain control modules and products specific to electrification and connectivity. Electrification products include on-board battery chargers, power conversion modules, high voltage battery management systems and high voltage power distribution systems. Connectivity products include telematics control units ("TCU") and gateway modules to manage both wired and wireless networks and data in vehicles. In addition to electronic modules, we offer software that includes cybersecurity, advanced vehicle positioning for automated and autonomous driving applications and full capabilities in both dedicated short-range communication and cellular protocols for vehicle connectivity. Our software offerings include embedded control software and cloud and mobile device-based software and services. Our customers traditionally have sourced our electronic hardware together with the software that we embed in it.

We serve all of the world's major automotive manufacturers across both our Seating and E-Systems businesses, and we have automotive content on more than 450 vehicle nameplates worldwide. It is common for us to have both seating and electrical and/or electronic content on the same vehicle platform.

Our businesses benefit globally from leveraging common operating standards and disciplines, including world-class product development and manufacturing processes, as well as common customer support and regional infrastructures, all of which contribute to our reputation for operational excellence. Our core capabilities are shared across component categories and include: high-precision manufacturing and assembly with short lead times; management of complex supply chains; global engineering and program management skills; the agility to establish and/or transfer production between facilities quickly; and a unique customer-focused culture. Our businesses utilize proprietary, industry-specific processes and standards, leverage

common low-cost engineering centers and share centralized operating support functions. These functions include logistics, supply chain management, quality, health and safety, and all major administrative functions.

Industry overview

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on the availability of raw materials and components and consumer demand for automotive vehicles, and our content per vehicle. Due to the overall global economic conditions in 2020, largely as a result of the COVID-19 pandemic, the automotive industry experienced a decline in global customer sales and production volumes. Although industry production increased 3% in 2021 over 2020 and is expected to increase 5% in 2022 over 2021 (based on April 2022 IHS Markit projections), production remains well below recent historic levels and consumer demand. This is largely due to the continuing impact of the COVID-19 pandemic, particularly through supply shortages and, to a lesser extent, the resurgence of the virus in certain regions, as well as the Russia-Ukraine conflict. The most significant supply shortage relates to semiconductor chips, which is impacting global vehicle production and resulting in reductions and cancellations of planned production. In addition, we are experiencing increased costs related to labor shortages and inefficiencies and ongoing costs related to personal protective equipment, all of which are likely to continue for a period of time. Increases in certain commodity costs, as well as transportation and logistics costs, are also impacting, and will continue to impact, our operating results for the foreseeable future. Further, a resurgence of the COVID-19 virus or its variants in other regions, including corresponding "stay at home" or similar government orders impacting industry production, could impact our financial results. For risks related to the COVID-19 pandemic, including supply shortages, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

In March 2022, as our customers began to suspend their Russian operations as a result of Russia's invasion of Ukraine, we similarly suspended our Russian operations. Although our net sales and total assets in Russia represent less than 1% of our consolidated net sales and total assets, the Russia-Ukraine conflict and sanctions imposed on Russia globally have resulted in economic and supply chain disruptions affecting the overall industry, the ultimate financial impact of which cannot be reasonably estimated. Further, although we do not have operations in Ukraine, the Ukrainian operations of certain of our suppliers and suppliers of our customers have been and will continue to be disrupted by the Russia-Ukraine conflict.

Global automotive industry production volumes in the first three months of 2022, as compared to the first three months of 2021, are shown below (in thousands of units):

	Three Months Ended		% Change
	2022 ⁽¹⁾	2021 ⁽¹⁾⁽²⁾	
North America	3,551.4	3,614.9	(2)%
Europe and Africa	3,995.0	4,877.4	(18)%
Asia	10,699.2	10,609.6	1 %
South America	561.7	649.2	(13)%
Other	480.7	389.1	24 %
Global light vehicle production	19,288.0	20,140.2	(4)%

⁽¹⁾ Production data based on IHS Markit

⁽²⁾ Production data for 2021 have been updated from our first quarter 2021 Quarterly Report on Form 10-Q to reflect actual production levels

In addition to the factors noted above, automotive sales and production can be affected by the age of the vehicle fleet and related scrappage rates, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, the availability and cost of credit, the availability of critical components needed to complete the production of vehicles, restructuring actions of our customers and suppliers, facility closures, changing consumer attitudes toward vehicle ownership and usage and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as the level of vertical integration and profitability of the products that we supply for these platforms. The loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could adversely affect our operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

LEAR CORPORATION

Our percentage of consolidated net sales by region in the first three months of 2022 and 2021 is shown below:

	Three Months Ended	
	April 2, 2022	April 3, 2021
North America	42 %	38 %
Europe and Africa	34 %	39 %
Asia	20 %	20 %
South America	4 %	3 %
Total	100 %	100 %

Our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

The automotive industry, and our business, continue to be shaped by the broad trends of electrification, connectivity, autonomy, and shared mobility. We also consider demand and regulatory requirements related to improved energy efficiency, sustainability, enhanced safety and communications (e.g., government mandates related to fuel economy, carbon emissions and safety equipment) to be significant drivers of these trends, each of which is likely to be at the forefront of our industry for the foreseeable future.

In addition to key foundational attributes imperative for success as an automotive supplier (quality, service and cost), our strategic initiatives focus on furthering our competitive differentiation through vertical integration, disruptive innovation and advanced manufacturing technology. We have expanded key component capabilities through organic investment and acquisitions to ensure a full complement of the best solutions for our customers. We have restructured, and continue to align, our manufacturing and engineering footprint to attain a leading competitive cost position globally. We have established or expanded activities in new and growing markets, in support of our customers' growth initiatives and in pursuit of opportunities with new customers. These initiatives have helped us achieve our financial goals overall, as well as a more balanced regional, customer and vehicle segment diversification in our business.

For further information related to these trends and our strategy, see Item 1, "Business — Industry and Strategy," in our Annual Report on Form 10-K for the year ended December 31, 2021.

Our customers typically require us to reduce our prices over the life of a vehicle model and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our financial performance is largely dependent on our ability to offset these price reductions with product cost reductions through product design enhancement, supply chain management, manufacturing efficiencies and restructuring actions. We also seek to enhance our financial performance by investing in product development, design capabilities and new product initiatives that respond to and anticipate the needs of our customers and consumers. We continually evaluate operational and strategic alternatives to improve our business structure and align our business with the changing needs of our customers and major industry trends affecting our business.

Our material cost as a percentage of net sales was 66.4% in the first three months of 2022, as compared to 64.9% in the first three months of 2021, reflecting increases in certain commodity costs. Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand, logistics issues, global trade and tariff policies, and geopolitical issues. Our primary commodity cost exposures relate to steel, copper and leather. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments, contractual recovery mechanisms and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. Further, our exposure to changes in steel prices is primarily indirect, through purchased components, and a significant portion of our copper, leather and direct steel purchases are subject to price index agreements with our customers and suppliers. However, these strategies, together with commercial negotiations with our customers and suppliers, typically do not offset all of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity price environment. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control. If these costs increase or availability is restricted, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

Financial Measures

In evaluating our financial condition and operating performance, we focus primarily on earnings, operating margins, cash flows and return on invested capital. Our strategy includes expanding our business with new and existing customers globally through new products, including electrification. Asia continues to present long-term growth opportunities, as we focus on expanding our market share and content per vehicle in response to increasing demand for luxury and performance features in this region. In addition to our wholly owned locations, we currently have fifteen operating joint ventures with operations in Asia, as well as two additional joint ventures in North America dedicated to serving Asian automotive manufacturers. We also have selectively increased our vertical integration capabilities globally, as well as expanded our component manufacturing capacity in Asia, Eastern Europe, Mexico and Northern Africa and our low-cost engineering capabilities in Asia, Eastern Europe and Northern Africa.

Our success in generating cash flow will depend, in part, on our ability to manage working capital effectively. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we generally have been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be impacted by adverse automotive industry conditions, changes to our customers' payment terms and the financial condition of our suppliers, as well as our financial condition. In addition, our cash flow is impacted by our ability to manage our inventory and capital spending effectively. We utilize return on invested capital as a measure of the efficiency with which our assets generate earnings. Improvements in our return on invested capital will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

Acquisition

On February 28, 2022, we completed the acquisition of Kongsberg ICS, which specializes in comfort seating solutions. With almost 50 years of experience in comfort seating solutions, Kongsberg ICS has leading technology, a well-balanced customer portfolio built on longstanding relationships with leading premium automotive manufacturers and an experienced team. The Kongsberg ICS acquisition is expected to further advance our seat component capabilities into specialized comfort seating solutions that further differentiate our product offerings and improve vehicle performance and packaging - important features across various vehicle segments. The transaction is valued at approximately \$184 million, on a cash and debt free basis.

Operational Restructuring

In the first three months of 2022, we incurred pretax restructuring costs of \$30 million and related manufacturing inefficiency charges of approximately \$2 million, as compared to pretax restructuring costs of \$22 million and related manufacturing inefficiency charges of approximately \$3 million in the first three months of 2021. None of the individual restructuring actions initiated in the first three months of 2022 were material. Further, there have been no changes in previously initiated restructuring actions that have resulted (or will result) in a material change to our restructuring costs.

Our restructuring actions include plant closures and workforce reductions and are initiated to maintain our competitive footprint or are in response to customer initiatives or changes in global and regional automotive markets. Our restructuring actions are designed to maintain or improve our operating results and profitability throughout the automotive industry cycles. Restructuring actions are generally funded within twelve months of initiation and are funded by cash flows from operating activities and existing cash balances. We expect to incur approximately \$26 million of additional restructuring costs related to activities initiated as of April 2, 2022, all of which are expected to be incurred in the next twelve months. We plan to implement additional restructuring actions in order to align our manufacturing capacity and other costs with prevailing regional automotive production levels. Such future restructuring actions are dependent on market conditions, customer actions and other factors.

For further information, see Note 4, "Restructuring," and Note 18, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Share Repurchase Program and Quarterly Cash Dividends

We may implement share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which we may repurchase our outstanding common stock and the timing of such repurchases will depend upon our financial condition, results of operations, capital requirements, prevailing market conditions, alternative uses of capital and other factors (see "— Forward-Looking Statements" below).

Since the first quarter of 2011, our Board of Directors has authorized \$6.1 billion in share repurchases under our common stock share repurchase program. At the end of the first quarter of 2022, we have a remaining repurchase authorization of \$1.3 billion, which expires on December 31, 2022.

LEAR CORPORATION

Our Board of Directors declared a quarterly cash dividend of \$0.77 per share of common stock in the first quarter of 2022.

For further information related to our common stock share repurchase program and our quarterly cash dividends, see "— Liquidity and Capital Resources — Capitalization" below and Note 16, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

Other Matters

In the three months ended April 2, 2022 and April 3, 2021, we recognized tax benefits of \$12 million and \$6 million, respectively, related to restructuring charges and various other items.

Our results for the three months ended April 2, 2022 and April 3, 2021, reflect the following items (in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Costs related to restructuring actions, including manufacturing inefficiencies of \$2 million and \$3 million in the three months ended April 2, 2022 and April 3, 2021, respectively	\$ 32	\$ 24
Acquisition costs	10	—
Typhoon in the Philippines	11	—
Foreign exchange losses due to foreign exchange rate volatility in Russia	11	
Tax benefit, net	(12)	(6)

For further information regarding these items, see Note 3, "Acquisition," Note 4, "Restructuring," and Note 14, "Income Taxes," to the condensed consolidated financial statements included in this Report.

This Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

RESULTS OF OPERATIONS

A summary of our operating results in millions of dollars and as a percentage of net sales is shown below:

	Three Months Ended			
	April 2, 2022		April 3, 2021	
Net sales				
Seating	\$ 3,912.5	75.1 %	\$ 3,996.0	74.6 %
E-Systems	1,295.9	24.9	1,358.4	25.4
Net sales	5,208.4	100.0	5,354.4	100.0
Cost of sales	4,886.9	93.8	4,861.6	90.8
Gross profit	321.5	6.2	492.8	9.2
Selling, general and administrative expenses	177.3	3.4	168.9	3.2
Amortization of intangible assets	15.7	0.3	16.5	0.3
Interest expense	24.9	0.5	22.3	0.4
Other expense, net	27.3	0.6	6.3	0.1
Provision for income taxes	20.4	0.4	58.9	1.1
Equity in net income of affiliates	(10.7)	(0.2)	(5.9)	(0.1)
Net income attributable to noncontrolling interests	17.2	0.3	22.1	0.4
Net income attributable to Lear	\$ 49.4	0.9 %	\$ 203.7	3.8 %

Three Months Ended April 2, 2022 vs. Three Months Ended April 3, 2021

Net sales in the first quarter of 2022 were \$5.2 billion, as compared to \$5.4 billion in the first quarter of 2021, a decrease of \$146 million or 3%. Lower production volumes on Lear platforms in Europe and Asia, largely due to production downtime as a result of industry-wide supply shortages and the Russia-Ukraine conflict in the first quarter of 2022, and foreign exchange rate fluctuations negatively impacted net sales by \$437 million and \$130 million, respectively. These decreases were partially offset by new business in North America, Asia and Europe and the impact of commodity recoveries, which increased net sales by \$209 million and \$134 million, respectively.

(in millions)	Cost of Sales
First quarter 2021	\$ 4,861.6
Material cost	(18.4)
Labor and other	40.4
Depreciation	3.3
First quarter 2022	<u>\$ 4,886.9</u>

Cost of sales was \$4.9 billion in the first quarter of 2022 and the first quarter of 2021. Lower production volumes on Lear platforms in Europe and Asia and foreign exchange fluctuations reduced cost of sales. These decreases were partially offset by new business in North America, Asia and Europe and higher commodity costs, which increased cost of sales.

Gross profit and gross margin were \$322 million and 6.2% of net sales, respectively, in the first quarter of 2022, as compared to \$493 million and 9.2% of net sales, respectively, in the first quarter of 2021. Lower production volumes on Lear platforms, partially offset by new business, negatively impacted gross profit by \$77 million. Favorable operating performance, including the benefit of restructuring actions, were more than offset by the impact of selling price reductions, increased commodity costs and higher restructuring costs. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were \$177 million in the first quarter of 2022, as compared to \$169 million in the first quarter of 2021, primarily reflecting transaction costs of \$10 million related to our acquisition of Kongsberg ICS. As a percentage of net sales, selling, general and administrative expenses were 3.4% in the first quarter of 2022, as compared to 3.2% in the first quarter of 2021.

Amortization of intangible assets was \$16 million in the first quarter of 2022, as compared to \$17 million in the first quarter of 2021.

Interest expense was \$25 million in the first quarter of 2022, as compared to \$22 million in the first quarter of 2021.

Other expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was \$27 million in the first quarter of 2022, as compared to \$6 million in the first quarter of 2021. In the first quarter of 2022, we recognized foreign exchange losses of \$20 million, including \$11 million related to foreign exchange rate volatility in Russia following the invasion of Ukraine.

In the first quarter of 2022, the provision for income taxes was \$20 million, representing an effective tax rate of 26.7% on pretax income before equity in net income of affiliates of \$76 million. In the first quarter of 2021, the provision for income taxes was \$59 million, representing an effective tax rate of 21.1% on pretax income before equity in net income of affiliates of \$279 million, for the reasons described below. For further information, see Note 14 "Income Taxes," to the condensed consolidated financial statements included in this Report.

In the first quarters of 2022 and 2021, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. In the first quarters of 2022 and 2021, we recognized tax benefits of \$12 million and \$6 million, respectively, related to restructuring charges and various other items. Excluding these items, the effective tax rate for the first quarters of 2022 and 2021 approximated the U.S. federal statutory income tax rate of 21%, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

Equity in net income of affiliates was \$11 million in the first quarter of 2022, as compared to \$6 million in the first quarter of 2021, primarily reflecting the earnings of our Shenyang Jinbei Lear Automotive Seating joint venture established in the third quarter of 2021.

Net income attributable to Lear was \$49 million, or \$0.82 per diluted share, in the first quarter of 2022, as compared to \$204 million, or \$3.36 per diluted share, in the first quarter of 2021. Net income and diluted net income per share decreased for the reasons described above.

Reportable Operating Segments

We have two reportable operating segments: Seating and E-Systems. For a description of our reportable operating segments, see "Executive Overview" above.

The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, advanced research and development, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's pretax income before equity in net income of affiliates, interest expense and other expense, net ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income attributable to Lear, net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies.

For a reconciliation of consolidated segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates, see Note 18, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Seating

A summary of the financial measures for our Seating segment is shown below (dollar amounts in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Net sales	\$ 3,912.5	\$ 3,996.0
Segment earnings ⁽¹⁾	200.1	292.0
Margin	5.1 %	7.3 %

⁽¹⁾ See definition above

Seating net sales were \$3.9 billion in the first quarter of 2022, as compared to \$4.0 billion in the first quarter of 2021, reflecting a decrease of \$84 million or 2%. Lower production volumes on Lear platforms, largely due to production downtime as a result of industry-wide supply shortages and the Russia-Ukraine conflict in the first quarter of 2022, and foreign exchange rate fluctuations reduced net sales by \$282 million and \$86 million, respectively. Net sales benefited as a result of new business and commodity recoveries.

Segment earnings, including restructuring costs, and the related margin on net sales were \$200 million and 5.1% in the first quarter of 2022, as compared to \$292 million and 7.3% in the first quarter of 2021. Lower production volumes on Lear platforms reduced segment earnings by \$56 million, largely due to production downtime as a result of industry-wide supply shortages in the first quarter of 2022. Favorable operating performance, including the benefit of operational restructuring actions, was more than offset by the impact of selling price reductions and increased commodity costs.

E-Systems

A summary of financial measures for our E-Systems segment is shown below (dollar amounts in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Net sales	\$ 1,295.9	\$ 1,358.4
Segment earnings ⁽¹⁾	15.9	89.3
Margin	1.2 %	6.6 %

⁽¹⁾ See definition above

E-Systems net sales were \$1.3 billion in the first quarter of 2022, as compared to \$1.4 billion in the first quarter of 2021, reflecting a decrease of \$63 million or 5%. Lower production volumes on Lear platforms, largely due to production downtime as a result of industry-wide supply shortages and the Russia-Ukraine conflict in the first quarter of 2022, and foreign exchange

rate fluctuation reduced net sales by \$135 million and \$44 million, respectively. Net sales benefited as a result of commodity recoveries and new business.

Segment earnings, including restructuring costs, and the related margin on net sales were \$16 million and 1.2% in the first quarter of 2022, as compared to \$89 million and 6.6% in the first quarter of 2021. Lower production volumes on Lear platforms reduced segment earnings by \$38 million, largely due to production downtime as a result of industry-wide supply shortages in the first quarter of 2022. Improved operation performance was more than offset by the impact of selling price reductions, increased commodity costs and higher restructuring costs.

Other

A summary of financial measures for our other category, which is not an operating segment, is shown below (dollar amounts in millions):

	Three Months Ended	
	April 2, 2022	April 3, 2021
Net sales	\$ —	\$ —
Segment earnings ⁽¹⁾	(87.5)	(73.9)
Margin	N/A	N/A

⁽¹⁾ See definition above

Segment earnings related to our other category were (\$88) million in the first quarter of 2022, as compared to (\$74) million in the first quarter of 2021, primarily reflecting transactions costs of \$10 million related to our acquisition of Kongsberg ICS.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance.

Cash Provided by Subsidiaries

A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations.

As of April 2, 2022 and December 31, 2021, cash and cash equivalents of \$732 million and \$661 million, respectively, were held in foreign subsidiaries and can be repatriated, primarily through the repayment of intercompany loans and the payment of dividends, without creating additional income tax expense. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear.

For further information related to potential dividends from our non-U.S. subsidiaries, see Note 9, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Adequacy of Liquidity Sources

As of April 2, 2022, we had \$1.2 billion of cash and cash equivalents on hand and \$2.0 billion in available borrowing capacity under our revolving credit facility. Together with cash provided by operating activities, we believe that this will enable us to meet our liquidity needs for the foreseeable future and to satisfy ordinary course business obligations. In addition, we expect to continue to pay quarterly cash dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program, although such actions are at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, prevailing market conditions, alternative uses of capital and other factors that our Board of Directors may consider at its discretion.

Our future financial results and our ability to continue to meet our liquidity needs are subject to, and will be affected by, cash flows from operations, including the continuing effects of the COVID-19 pandemic, as well as restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers, supply chain disruptions and other related factors. Additionally, an economic downturn or further reduction in production levels could negatively impact our financial condition.

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For further discussion of the risks and uncertainties affecting our cash flows from operations and our overall liquidity, see "— Executive Overview" above, "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

Cash Flows

A summary of net cash provided by operating activities is shown below (in millions):

	Three Months Ended		
	April 2, 2022	April 3, 2021	Increase (Decrease) in Cash Flow
Consolidated net income and depreciation and amortization	\$ 210	\$ 367	\$ (157)
Net change in working capital items:			
Accounts receivable	(219)	(227)	8
Inventory	(49)	(87)	38
Accounts payable	277	43	234
Accrued liabilities and other	29	169	(140)
Net change in working capital items	38	(102)	140
Other	(27)	(17)	(10)
Net cash provided by operating activities	<u>\$ 221</u>	<u>\$ 248</u>	<u>\$ (27)</u>
Net cash used in investing activities	<u>\$ (303)</u>	<u>\$ (143)</u>	<u>\$ (160)</u>
Net cash used in financing activities	<u>\$ (71)</u>	<u>\$ (30)</u>	<u>\$ (41)</u>

Operating Activities

In the first three months of 2022 and 2021, net cash provided by operating activities was \$221 million and \$248 million, respectively. The overall decrease in operating cash flows of \$27 million is primarily due to lower earnings in 2022, offset by a decrease in working capital in the first three months of 2022, as compared to an increase in working capital in the first three months of 2021.

Investing Activities

Net cash used in investing activities was \$303 million in the first three months of 2022, as compared to \$143 million in the first three months of 2021. In the first three months of 2022, we paid \$184 million for the acquisition of Kongsberg ICS. Capital spending was \$130 million in the first three months of 2022, as compared to \$113 million in the first three months of 2021. Capital spending is estimated to be approximately \$650 million to \$700 million in 2022.

Financing Activities

Net cash used in financing activities was \$71 million in the first three months of 2022, as compared to \$30 million in the first three months of 2021. In the first three months of 2022, we paid \$47 million of dividends to Lear stockholders, as compared to \$16 million in the first three months of 2021.

Capitalization

For information related to our senior notes and credit agreement, see Note 9, "Debt," to the condensed consolidated financial statements included in this Report and Note 7, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021.

For information related to our common stock share repurchase program and dividends, see "— Executive Overview — Share Repurchase Program and Quarterly Cash Dividends" above, Note 16, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report and Note 12, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Commodity Prices and Availability

Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand, logistics issues, global trade and tariff policies, and geopolitical issues. We have commodity price risk with respect to purchases of certain raw materials, including steel, copper, diesel fuel, chemicals, resins and leather. Our primary commodity cost exposures relate to steel, copper and leather. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments, contractual recovery mechanisms and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. Further, the majority of the steel used in our products is comprised of fabricated components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and other mechanical components. Therefore, our exposure to changes in steel prices is primarily indirect, through purchased components. Additionally, approximately 88% of our copper purchases and a significant portion of our leather and direct steel purchases are subject to price index agreements with our customers and suppliers. However, these strategies, together with commercial negotiations with our customers and suppliers, typically do not offset all of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity price environment. If these costs increase, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance," in our Annual Report on Form 10-K for the year ended December 31, 2021, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

For further information related to the financial instruments described above, see Note 19, "Financial Instruments," to the condensed consolidated financial statements included in this Report.

OTHER MATTERS

Legal and Environmental Matters

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of April 2, 2022, we have recorded reserves for pending legal disputes, including commercial disputes, and other legal matters of \$21 million. In addition, as of April 2, 2022, we have recorded reserves for product liability claims and environmental matters of \$42 million and \$8 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021. For a more complete description of our outstanding material legal proceedings, see Note 17, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates

Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, these estimates and assumptions are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates. For a discussion of our significant accounting policies and critical accounting estimates, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Accounting Policies and Critical Accounting Estimates," and Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first three months of 2022.

Recently Issued Accounting Pronouncements

For information on the impact of recently issued accounting pronouncements, see Note 20, "Accounting Pronouncements," to the condensed consolidated financial statements included in this Report.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. The words "will," "may," "designed to," "outlook," "believes," "should," "anticipates," "plans," "expects," "intends," "estimates," "forecasts" and similar expressions identify certain of these forward-looking statements. We also may provide forward-looking statements in oral statements or other written materials released to the public. All such forward-looking

statements contained or incorporated in this Report or in any other public statements which address operating performance, events or developments that we expect or anticipate may occur in the future, including, without limitation, statements related to business opportunities, awarded sales contracts, sales backlog and ongoing commercial arrangements, or statements expressing views about future operating results, are forward-looking statements. Actual results may differ materially from any or all forward-looking statements made by us. Important factors, risks and uncertainties that may cause actual results to differ materially from anticipated results include, but are not limited to:

- general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;
- the impact of the COVID-19 pandemic on our business and the global economy;
- changes in actual industry vehicle production levels from our current estimates;
- fluctuations in the production of vehicles or the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;
- the outcome of customer negotiations and the impact of customer-imposed price reductions;
- increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components and our ability to mitigate such costs and insufficient availability;
- disruptions in relationships with our suppliers;
- the financial condition of and adverse developments affecting our customers and suppliers;
- risks associated with conducting business in foreign countries, including the risk of war or other armed conflicts;
- currency controls and the ability to economically hedge currencies;
- global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies;
- competitive conditions impacting us and our key customers and suppliers;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- the operational and financial success of our joint ventures;
- our ability to attract, develop, engage and retain qualified employees;
- our ability to respond to the evolution of the global transportation industry;
- the outcome of an increased emphasis on global climate change and other ESG matters by stakeholders;
- the impact of global climate change;
- the impact and timing of program launch costs and our management of new program launches;
- changes in discount rates and the actual return on pension assets;
- impairment charges initiated by adverse industry or market developments;
- our ability to execute our strategic objectives;
- limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;
- disruptions to our information technology systems, or those of our customers or suppliers, including those related to cybersecurity;
- increases in our warranty, product liability or recall costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;
- the impact of regulations on our foreign operations;
- costs associated with compliance with environmental laws and regulations;
- developments or assertions by or against us relating to intellectual property rights;
- the impact of potential changes in tax and trade policies in the United States and related actions by countries in which we do business;
- decline in the production levels of our major customers, particularly with respect to models for which we are a significant supplier; and
- other risks described in Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report, and in our other Securities and Exchange Commission filings.

The forward-looking statements in this Report are made as of the date hereof, and we do not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date hereof.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we are exposed to market risks associated with fluctuations in foreign exchange rates, interest rates and commodity prices. We manage a portion of these risks through the use of derivative financial instruments in accordance with our policies. We enter into all hedging transactions for periods consistent with the underlying exposures. We do not enter into derivative instruments for trading purposes.

Foreign Exchange

Operating results may be impacted by our buying, selling and financing in currencies other than the functional currency of our operating companies ("transactional exposure"). We may mitigate a portion of this risk by entering into forward foreign exchange, futures and option contracts. The foreign exchange contracts are executed with banks that we believe are creditworthy. Gains and losses related to foreign exchange contracts are deferred where appropriate and included in the measurement of the foreign currency transaction subject to the hedge. Gains and losses incurred related to foreign exchange contracts are generally offset by the direct effects of currency movements on the underlying transactions.

A summary of the notional amount and estimated aggregate fair value of our outstanding foreign exchange contracts is shown below (in millions):

	April 2, 2022	December 31, 2021
Notional amount (contract maturities < 24 months)	\$ 1,706	\$ 1,523
Fair value	35	6

Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Chinese renminbi, the Brazilian real, the Japanese yen and the Honduran lempira.

A sensitivity analysis of our net transactional exposure is shown below (in millions):

	Hypothetical Strengthening % ⁽¹⁾	Potential Earnings Benefit (Adverse Earnings Impact)	
		April 2, 2022	December 31, 2021
U.S. dollar	10%	\$ 11	\$ 7
Euro	10%	(11)	(7)

⁽¹⁾ Relative to all other currencies to which it is exposed for a twelve-month period

A sensitivity analysis related to the aggregate fair value of our outstanding foreign exchange contracts is shown below (in millions):

	Hypothetical Change % ⁽²⁾	Estimated Change in Fair Value	
		April 2, 2022	December 31, 2021
U.S. dollar	10%	\$ 54	\$ 48
Euro	10%	49	49

⁽²⁾ Relative to all other currencies to which it is exposed for a twelve-month period

There are certain shortcomings inherent in the sensitivity analyses above. The analyses assume that all currencies would uniformly strengthen or weaken relative to the U.S. dollar or Euro. In reality, some currencies may strengthen while others may weaken, causing the earnings impact to increase or decrease depending on the currency and the direction of the rate movement.

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars ("translational exposure"). In 2021, net sales outside of the United States accounted for 77% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

LEAR CORPORATION

ITEM 4 — CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on the evaluation described above, the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved as of the end of the period covered by this Report.

(b) Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended April 2, 2022, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In February 2022, the Company completed the acquisition of substantially all of Kongsberg Automotive's Interior Comfort Systems business unit ("Kongsberg ICS") and is currently integrating Kongsberg ICS into its operations, compliance programs and internal control processes. Kongsberg ICS constituted approximately 2% of the Company's total assets as of April 2, 2022, including goodwill and intangible assets recorded as part of the purchase price allocations, and approximately 1% of the Company's net sales in the three months ended April 2, 2022. SEC rules and regulations allow companies to exclude acquisitions from their assessment of the internal control over financial reporting during the first year following an acquisition while integrating the acquired company. The Company will exclude the acquired operations of Kongsberg ICS from its assessment of the Company's internal control over financial reporting as of December 31, 2022.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial or contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2021. For a description of our outstanding material legal proceedings, see Note 17, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

ITEM 1A — RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, except for the modification of the risk factor set forth below:

- ***Our industry is cyclical and a decline in the production levels of our major customers, particularly with respect to models for which we are a significant supplier, or the financial distress of one or more of our major customers could adversely affect our financial performance.***

Our sales are driven by the number of vehicles produced by our automotive manufacturer customers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. The automotive industry is cyclical and sensitive to general economic conditions, including geopolitical issues, global credit markets, interest rates, inflation, consumer credit and consumer spending and preferences. Automotive sales and production can also be affected by the age of the vehicle fleet and related scrappage rates, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, tariffs and other non-tariff trade barriers, the availability and cost of credit, the costs and availability of critical components needed to complete the production of vehicles, logistics issues, restructuring actions of our customers and suppliers, facility closures and increased competition, as well as consumer preferences regarding vehicle size, configuration and features, including alternative fuel vehicles, changing consumer attitudes toward vehicle ownership and usage, such as ride sharing and on-demand transportation, and other factors.

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Due to the overall global economic conditions in 2020, largely as a result of the COVID-19 pandemic, the automotive industry experienced a decline in global customer sales and production volumes. Although industry production increased 3% in 2021 over 2020 and is expected to increase 5% in 2022 over 2021 (based on April 2022 IHS Markit projections), production remains well below recent historic levels and consumer demand. This is largely due to the continuing impact of the COVID-19 pandemic, particularly through supply shortages and, to a lesser extent, the resurgence of the virus in certain regions, as well as the Russia-Ukraine conflict. The automotive industry is suffering from supply chain delays and stoppages due to shipping delays resulting in increased freight costs and closed supplier facilities and distribution centers. The industry also is facing workforce and staffing shortages, as well as scarcity and increases in prices of raw materials. As a result, we have experienced and may continue to experience reductions in orders from our customers in certain regions. An economic downturn or other adverse industry conditions that result in a decline in the production levels of our major customers, particularly with respect to models for which we are a significant supplier, or the financial distress of one or more of our major customers could reduce our sales or otherwise adversely affect our financial condition, operating results and cash flows. Further, our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall. We may not be successful in such diversification.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As discussed in Part I — Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Executive Overview — Share Repurchase Program and Quarterly Cash Dividends," and Note 16, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report, we have a remaining repurchase authorization of \$1,329.7 million under our ongoing common stock share repurchase program. A summary of the shares of our common stock repurchased during the quarter ended April 2, 2022, is shown below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)
January 1, 2022 through January 29, 2022	—	\$—	—	\$ 1,329.7
January 30, 2022 through February 26, 2022	—	\$—	—	1,329.7
February 27, 2022 through April 2, 2022	—	\$—	—	1,329.7
Total	—	\$—	—	\$ 1,329.7

LEAR CORPORATION

ITEM 6 — EXHIBITS

Exhibit Index

Exhibit Number	Exhibit Name
* 31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
* 31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
* 32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
** 101.INS	XBRL Instance Document
*** 101.SCH	XBRL Taxonomy Extension Schema Document.
*** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
*** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
*** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
** 104	Cover Page Interactive Data File
* Filed herewith.	
** The XBRL Instance Document and Cover Page Interactive Data File do not appear in the Interactive Data File because their XBRL tags are embedded within the Inline XBRL document.	
*** Submitted electronically with the Report.	

CERTIFICATION

I, Jason M. Cardew, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lear Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2022

By: _____

/s/ Jason M. Cardew

Jason M. Cardew

Senior Vice President and Chief Financial Officer

