



Transcript

Lear Corporation

Goldman Sachs Industrials & Auto Week

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Mark Delaney

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you, everybody, for joining us. My name is Mark Delaney, and I cover US autos and industrial tech. And it's my pleasure to be hosting Lear for this session at the GS17 Annual Industrials & Autos Week.

With us from the Lear, we have a great lineup, we have Jason Cardew, SVP and CFO; Jared Fedele, VP Finance, Seating and E-Systems; and Mike Shanlikian, VP Finance, Corporate FP&A. Thank you all for coming.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Thanks for having us.

Mike Shanlikian

Vice President-Finance, Corporate Financial Planning & Analysis, Lear Corp.

Thanks for having us.

Jared Anthony Fedele

Vice President-Finance, Seating & E-Systems, Lear Corporation

Thanks for having us.

QUESTION AND ANSWER SECTION

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Let's jump into the questions. And I thought, with an industry question, we could start off and, Jason, I can direct this one to you perhaps. There's been a lot of volatility in the industry around potential supply chain disruptions and customer-specific events such as the cyberattack on JLR and Novelis fire. Given that backdrop, can you share your current views on how the quarter is shaping up?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Sure, Mark. And just before I start, I just want to take a brief moment and introduce Jared Fedele and Mike Shanlikian. We were here this week for operations reviews, and thought it'd be a great opportunity for our two top operational finance leaders in the company to speak with investors today. So, look forward to sharing the stage with them today. And I appreciate, Mark, again, you accommodating us here. We always enjoy participating in this conference in London. It gives us a chance to connect with our team in Europe at the end of the year, and really worked out well.

And so, in terms of the fourth quarter and how we see it shaping up, just a reminder of when we provided a guidance on our third quarter earnings call, we expected full year revenues of \$23 billion, operating income of \$1.025 billion and free cash flow of \$500 million. And that midpoint of our guidance range really protected for further disruption from either Nexperia or perhaps a shortfall in JLR's restart of production after the cyberattack, and also the lingering effects of supply chain issues with the Novelis fire.

And as the quarters progressed, in all three cases, things have held up pretty well. And so, the quarter is tracking favorably to the midpoint of our guidance. As we sit here today, we're somewhere between the midpoint and the high end of the guidance range. So, both businesses are on track to outperform the midpoint of the guidance.

And on the free cash flow side, we've seen real strength here in the fourth quarter and that's allowed us to continue buying back stock at a very accelerated clip. We'd now expect to buyback more than \$300 million for the full year, and we had talked about buying back at least \$300 million on the third quarter earnings call, so that's tracking favorably.

In terms of operating margins, Seating in the fourth quarter, looks like it's going to be 6% or a little bit north of that. E-Systems will be in the low-4s. And so, again, a little bit better than what we had anticipated as the disruptions that we talked about haven't been as impactful. And from a business standpoint, we've had a great quarter. We, particularly in E-Systems on the growth side, we've had a series of new business awards since the third quarter earnings call. We talked about a \$1.1 billion in annual sales in new business awards this year. That's now \$1.3 billion or a little bit north of that, so we've had several high value additional awards since the earnings call, and that's a near-record for us in E-Systems.

And on the Seating side, we've had three additional ComfortMax, ComfortFlex, FlexAir awards there, so that now we have 31 awards since we introduced those new products after the acquisition of IGB and Kongsberg, so that's also tracking favorably.

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So, all this really sets us up for, I think, for some positive momentum heading into 2026. We're not going to provide pinpoint guidance at this point – at this stage, but similar to what we talked about on the third quarter earnings call, we do expect revenues to be higher next year, earnings to be higher next year and operating margins overall in the company to be higher next year as well. So, good momentum in the business.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Well, that's some great news. Thank you for sharing those updates and glad to hear how the quarter is developing. Maybe we can pick up on that and talk a bit more on production trends by region. Have there been any surprises relative to your expectations and any early views you want to share on 2026, including the extent to which customer production impacts that you've seen in 2025 may be recovered?

Mike Shanlikian

Vice President-Finance, Corporate Financial Planning & Analysis, Lear Corp.

A

Yeah. So, let me comment on 2025 first, Mark, and then I'll comment on 2026. So, initially, we were concerned about the combined impact of the JLR cyberattack and ramp-up plan, also the Nexperia chip issue, and then whether Ford and Stellantis would be able to deliver on their Q4 production in light of the Novelis issue. Fortunately, a majority of those risks have been mitigated, giving us really good momentum as we go into the year end. And as Jason highlighted, that's part of the reason why our guidance is trending between the midpoint and the higher end of the range. So, it was a pretty good outcome for us so far.

Now, with respect to 2026, as we sit here today, S&P is expecting that global production is going to be lower, about 1% on a Lear sales weighted basis. Looking at it by region, they're expecting North America to be lower about 2.5%, Europe to be relatively flat, and then China to be lower about 1.5%, so we're still working through our planning process. But we think that's a very reasonable entry point, looking at 2026.

Now, that also kind of highlights that there's a potential modest volume mix impact going into 2026. We don't think it'll be as significant as 2025. And if nothing else, we'll have the reversal of the JLR impact as well as Novelis on Ford and Stellantis. And as Jason highlighted, we're not here to provide guidance, we'll do that in our fourth quarter earnings call, but we just want to reiterate once again, that we do believe that our revenue, our earnings and our margins will be higher in 2026 versus 2025.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

And, Mike, just to make sure I understood what you were referring to when you talk about volume mix, you mean the types of vehicles that OEMs are making or you just meant your OEM exposure?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Mark, I'll respond to that. So, you may recall, this year, we've had a pretty significant mix headwind on our platforms relative to the market, and that was really compounded by what happened with the JLR cyberattack and the Novelis fire disproportionately impacting us, just because JLR is such a large customer in both segments for us. And then Ford in E-Systems, in particular, is our largest customer. And so, that negative mix that we experienced this year, we see that moderating next year, if nothing else, because of the reversal of those two issues.

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Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Okay. No. Helpful. Thank you for clarifying, Jason. Maybe we could talk about automation. I mean, it's been such an important focus for Lear. You've acquired a number of companies to enhance your automation efforts, including StoneShield and WIP. You're also partnering with Palantir. Could you speak to where the company is on the journey of its automation efforts, including where it's making progress, what's to come and what might be hard to automate, at least with current technology?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yes. This is an area that we're particularly excited about, Mark. We've been methodically executing the strategy around product and process innovation. On the process side, we've had five acquisitions over the last nearly 10 years, ASI, InTouch, Thagora, WIP and StoneShield. And that's really transformed our ability to deploy capital and automation in our assembly plants. And now, with our partnership with Palantir, which is nearly three years old at this at this point, we're just progressing on the digital transformation side of that equation as well.

And it's amazing the way the company has embraced the foundry tool, it's a powerful tool. and our latest development is the fellowship program we have with Palantir, but it's become institutionalized in the company. We have 14,000 users and 250 different applications for digital tools that have been built on the foundry platform. It's a low code software development platform that we can use across our business that helps with data consolidation, data analytics. It leverages all the large language models from OpenAI to Gemini, Claude and Grok and whatever's to come next. And it's really not just impacting manufacturing, it's impacting product development and engineering, purchasing and the administrative processes. It's helping us on the operating income side and also on free cash flow and what it's doing within inventory management.

And I think the best way to just demonstrate how impactful this is, is to talk through a couple of examples. So, Mike's going to talk through an example where we deployed this on the manufacturing side in our JIT plants. And then, Jared is going to talk about what we've done on the administrative process side with one example in particular. And this deployment of foundry in just on an overall basis has been a key contributor to that \$70 million of savings we've achieved this year in IDEA by Lear, and the \$65 million to \$75 million we're anticipating in 2026 and 2027. We have a clear line of sight and a list or road map of projects that are in process that we're invested in now that will facilitate achieving that task.

So, Mike, why don't you talk about what we're doing just on the manufacturing side?

Mike Shanlikian

Vice President-Finance, Corporate Financial Planning & Analysis, Lear Corp.

A

Yeah. Thanks, Jason. So, within foundry, we have a tool that we call cycle time deviation. And what cycle time deviation does is it provides us real time data on our shop floor performance, putting us in a position to make real time changes and improve our processes and become more efficient. Like for – so for example, we're able to quickly identify bottlenecks that are in our process that, for example, could be caused by equipment failure. And we're able to quickly make those changes, so that we can continue to be more efficient. We've deployed cycle time deviation 100% across North America and our European just-in-time facilities with a plan to deploy it in our global just-in-time facilities by mid-2026.

Now, we started this journey in Europe last year, but we have seen a meaningful improvement this year as we deployed it in North America and in Europe with savings of about \$10 million annually. We've seen on average

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3% to 5% efficiency gains from this tool. And as we deploy it globally next year, we expect the annual savings of \$10 million to increase to about \$15 million.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

And, Jared, if you could, on the administrative side?

Jared Anthony Fedele

Vice President-Finance, Seating & E-Systems, Lear Corporation

A

Yeah. Sure. Yeah. It's been a tremendous tool, as Jason and Mike have highlighted. And what we've been able to do has been fantastic. So, I was being put in charge of the tariffs policies that we had. So, when the tariffs started kicking in – and just to paint some pictures on what we were faced at the time, at the time the tariff policy was kicked in, we had about 150 trucks that would cross the border every day, hundreds of parts, thousands of parts potentially crossing the border every single day that's out there. And what we're faced with was trying to apply all the HTS codes, looking at all the USMCA certifications over and everything. It was a huge undertaking for the team, it was killing the team.

So, we sat down with our internal team and with the Palantir team, and we put together basically this concept, this enterprise solution and took it from concept to completion in 10 days. And so, now what we have is real time information, when the parts cross, we apply the HTS code. We are able to take the USMCA certification, apply it. If it doesn't have a USMCA certification, it buckets it into whether it's an IEEPA, reciprocal Auto 232 tariff. So, it's something that can't be replicated, that other suppliers don't have. And on top of all this, we've been able to write LLM, these large language models that communicates to us, if there's a discrepancy, we can use that to communicate to our customers and the supply base, if we're missing anything.

So, what is it done for us? It's real, tangible results. It's a reason we're able to get a 100% recoverability on all the tariff costs. It's actually you're seeing cash come in. Our customers are extremely pleased with the fact that it's auditable. The information we can give them is real time. They can see daily, weekly what they want to see and what's crossing. And it's extremely, extremely powerful. And we can crack the joke now, but at the time the policies came out, we had all these consultants come to us and we always laughed. We think it would have taken the consultants 10 days to put together the pack to present to us. We're able to take this from the speed to value, right, from concept to completion in 10 days. And it's been a hell of a tool we've been able to use.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Thanks, Jared.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

No, those were some fantastic examples. It really helps to illustrate all the discussions you guys have had on this prior topic for a while now, so thanks for that. Maybe we could just double click with one more on this. And you mentioned the \$65 million to \$75 million of savings annually from these broader set of initiatives/ Anything you can share in terms of typical payback period on those investments?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

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Yeah. So, just in terms of our broader portfolio of IDEA projects, which includes automation and some of these digital projects as well, a typical automation project now is a one-and-a-half to two-and-a-half year payback. For the first phase of our deployment of automation and our highest cost just-in-time facilities, the paybacks were less than a year to a year-and-a-half and now, as we move into more difficult areas to automate, the paybacks stretch out a little bit, but still very attractive paybacks and financial returns. And on the digital side, the payback is unbelievable. There's very little investment that we've made in this foundry partnership and there's very little additional variable cost associated with it. So, as we build these applications using that tool, the payback is immediate.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Very helpful. Maybe we can speak more on the Seating business and the company has spoken about how automation as well as your regionalization efforts are potential drivers of conquest business in Seating. What is Lear seeing on its ability to convert on these opportunities and has the total conquest opportunity of \$3 billion changed?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Mark, I think we've clearly established our position as the leader in Seating. We have the best operating margins and financial returns in the business, the highest quality as evidenced by J.D. Power Scores. We've grown our market share to 26% over the last decade or so. And we have established a target of getting to 29%, and conquest awards are a key enabler to that in addition to growth with the Chinese domestic automakers and our thermal comfort portfolio leading to additional growth.

In terms of the conquest opportunities, specifically, at the start of the year, we did talk about a \$3 billion pipeline. As we sit here today, we've had about \$150 million of conquest awards in Seating this year, and our current pipeline is \$2 billion of new opportunities that we expect to be sourced over the next 12 months. We're not going to win all of that business, but it will be a key driver of our market share and growth ambitions in Seating. And it's really underpinned by the cost advantage, the cost quality and speed-to-market advantage that we've built out through our investments in product and process innovation and the feedback we're getting from customers as we're quoting these conquest opportunities has been fantastic. They clearly recognize what we've done to differentiate ourselves in terms of cost and quality in our manufacturing plants.

And while we're not going to break any news today on a big conquest award, we're getting very close on one that we've been working on throughout this year. These are difficult, complex decisions for our customers when they switch suppliers on an important program. So, we're really close on one large opportunity there that we hope to talk about on the fourth quarter earnings call.

And in terms of the onshoring opportunity, we have Seating business in Korea and Europe and Mexico, where our customers are looking to onshore production into the US. And there's – each of those sourcing opportunities is in a little bit of a different position in terms of the timeline of completion. There's one in particular with a large North America OEM that we're very close on. I don't want to front run the customer on that. Again, we expect to be able to talk about that on the fourth quarter earnings call, but we remain confident that we're going to be able to at least protect the share that we have and perhaps extend our market share through the onshoring initiatives.

In addition to the conquest opportunities, we're seeing great growth with the Chinese automakers. We had – we're ramping-up business with Seres on the M7 program, we have business with them on the M6 and the M8 program

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as well, that's a fast growing customer. We recently consolidated a joint venture where that a portion of that business resides.

We have a great portfolio with Xiaomi. The SU7 has been just an absolute hit for us. Volumes have been far in excess of what we had anticipated when that program was awarded. And we've also now won some business on the Xiaomi Kunlun platforms, which are a group of vans and SUVs which will be launching in 2026 and 2027, mostly in a non-consolidated JV. And so, we continue to win business with both of those growing customers and with BYD as well, so that's another kind of key enabler to growth in Seating in the years to come.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Thank you for all those updates on the Seating business. And I think in your opening comments, Jason, you talked about some awards you've seen even just in this quarter as you – I think maybe you said three. Please correct me, if I had that number wrong, but were those more new program or were those some of the conquest business you just spoke to?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

A little bit of both. With one customer, we had thermal comfort award where we had a portion of the thermal comfort content, and we added content that was taken from a competitor as part of the ComfortFlex system that we will be launching with that customer.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And you also were just referring to the momentum in China, so that I know it's been a big focus for a number of suppliers including Lear, maybe you can put that into perspective for us. You've been targeting to reach 50% of kind of revenue from domestic in 2027, just kind of level set us where you stand with some of the progress and some of the momentum you just spoke about.

Jared Anthony Fedele

Vice President-Finance, Seating & E-Systems, Lear Corporation

A

Yeah. Sure, Mark. I'll be happy to answer that. So, it all starts honestly with the leadership we have there in China and in Asia. And we have a solid local leadership for the local market, and that's a big factor in driving growth in what we're seeing in the market, not only understanding the market, but the speed to market and the nuances of being able to bring in all our vertical integration capabilities on top of that.

From a target standpoint and we've talked about this in the past, the target we had for Chinese OEM, Chinese domestic growth was around 37% in 2025. We're actually around 40% today, up from the 33% that we had last year. And in addition, the 50% target that you mentioned, Mark, for 2027, I'm happy to say here today that we are actually above that as we sit here today. So, the relationship that we're able to build that Jason mentioned on some of the Xiaomi, BYD and Seres is really paying benefits. And the change we made in leadership, we took the leader in 2023, the leader of our Seating business, and put him over Seating and E-Systems. You're now seeing that growth on E-Systems as well with Geely, with Great Wall, with Dongfeng, DPCA and FAW. So, this is leading to wins now on the E-System front.

So, I'm very, very excited for what's happening in China with our team, our leadership, as they continue to build the relationships, and then they're also able to pull in our full on suite of vertical integration that we have

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capabilities in China as well, which is key. When you have – when you can factor in this this comfort, quality and speed in China, that's a launching pad that we're able to have for growth. And we're seeing these wins and we're seeing this pick up throughout the year. So, like I said, very proud, very excited for the team in Asia and in China to watch this growth happen.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And on the China opportunity, the company had consolidated two of its Seating joint ventures in China this year. How is Lear thinking about further consolidation going forward and what impact might that have on margins in Seating?

Jared Anthony Fedele

Vice President-Finance, Seating & E-Systems, Lear Corporation

A

Yeah. You're right, Mark. We did have an opportunity to take operating control of two JVs earlier this year. And the reason or rationale for taking operating control is we want that direct customer communication. We want to be able to talk to the customer, to meet the customer's needs, actually allows us to drive our best-in-class operational efficiencies that are out there. And everything we're doing from an IDEA by Lear with the digitization, automation, we're able to talk to the customers through the direct communication and put these initiatives in to help improve margins that are out there. And every business, everything we're doing in China, we have the financial discipline to make sure we're getting a return in excess of our cost of capital.

So, all these relationships and being able to consolidate, to your point, in Q1, we took operational control of a JV, our BYD JV that does the Han L and Tai 3. And in Q2, we're able to take operational control of the Seres JV, which is the M5, M6, M7, M8 that Jason mentioned as well. And for 2026, this is going to add about \$160 million to the backlog numbers that Jason gave in the Q3 earnings call. So – and we look forward to continue to see this grow with the relationship.

So, we'll always work with our partners, Mark, to see what we want to do from a consolidation standpoint. We've got to make sure it's with the right customers and with the backdrop that whatever we're going to be doing, we're going to make sure we have the financial wherewithal and the discipline to take anything that we are able to improve and have returns greater than our cost of capital.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

And, Mark, just to clarify one point, the \$160 million of Seres backlog is part of that \$1.3 billion – or \$1.2 billion of backlog that we announced for 2026 and 2027. So, it's a big portion of that, the \$600 million of that backlog that's in 2026.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you for that. And then just, on a global perspective, TCS has been an important part of the opportunity for Lear. You already spoke about some of the progress the company has seen there, but as you think about ComfortFlex and ComfortMax, just any more comments around how that product has progressed?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Mike's going to start out, and then I'll finish up on this one.

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Mike Shanlikian

Vice President-Finance, Corporate Financial Planning & Analysis, Lear Corp.

A

Yeah. Thanks, Mark. So, we continue to build – or gain or build momentum with our thermal comfort systems portfolio. 2026 is a critical year for us as we continue to scale both ComfortFlex and ComfortMax. We currently have 9 programs that are in production with 12 programs that we're planning to launch in 2026. And then, the more we get these technologies into the marketplace, the more our customers will embrace the opportunities. And then, also, I do want to highlight that we did just recently open our industry-first fully automated facility for ComfortFlex, ComfortMax and FlexAir.

And with that, I'll let Jason give us some more color on that facility.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Mark, this is something that I think Ray talked a little bit about on the third quarter earnings call. We're excited to be able to bring investors into that facility sometime next year. We, as Mike mentioned, we've launched that facility now. In fact, Ray had a staff meeting there this week on Monday, so the whole team was there to check in on the progress. And it was really remarkable to see what we've been able to do.

On the ComfortFlex and ComfortMax, the biggest challenge that we had was how you automate the handling of soft parts, so trim covers, heater mats, massage and lumbar bladders, that was the greatest challenge that we had. But through the combined capabilities that we acquired, through the acquisitions we talked about earlier today on the process side and our own product engineering capabilities in-house, we were able to fully automate that assembly process. So, there's not one direct labor employee that touches the material from the inception of the process to the end of the process.

And it's the product – the equipment that's in place is production intent equipment. It's not prototype equipment. We still have some work to do on the cycle time of the process, but it's getting very close already. The production equipment that is in that facility will be used on a ComfortMax program that launches in 2028, and it was just really remarkable to see that. And FlexAir as well, we have our first full FlexAir assembly line in place in that same facility. So, we're excited to show that to investors as well. And so, those initial FlexAir programs are launching in kind of low-risk applications, calf rests, and things like that.

Now, we have awards that are close on the third row application, and then from the third row, we'll move to the second row. So, it's really a chance to disrupt that kind of the seat cushioning space in general, and replace what is a challenging product environmentally with a much, much better lighter weight, higher performing system in the market.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

That's great. Thank you for all those updates on thermal comfort. Maybe we could have a couple of questions on the E-Systems segment. The company commented on its third quarter call that it expects E-Systems to have a negative \$100 million backlog in 2026 compared to the February outlook of positive \$170 million. What's the driver of that? Lear has also spoken about the impact to E-System from winddown of electronics business, how much additional revenue headwind would investors expect from this aspect?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

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Yeah. I think, Mark, the biggest kind of overarching driver has been the reduction in demand for electric vehicles, particularly in the North America market and that disproportionately impacted E-Systems. Now, you can contrast that with the remarkable success we've had this year in conquest awards and new business awards. It started with the F-250 wire award in the first quarter of this year that we announced, which we had both a replacement component, but additional harnesses beyond what we have currently. And now, as I mentioned earlier in this conversation, we have a \$1.3 billion of new business awards in E-Systems. So, we have great momentum that we'll see benefiting 2028, 2029 and 2030 in the E-Systems business.

But to answer your question directly in terms of the backlog, that \$270 million change in the 2026 backlog, it's really driven by three factors. The first was Stellantis' decision to cancel the full electric Ram REV truck. So, we had the battery disconnect unit on that, that product is not coming to market. The second change was Ford's decision to build out the Escape and Corsair in the US, which was a large, important program for E-Systems business. And then the third, which is a little less of an impact, but important nonetheless, is lower volumes on some of the new EV platforms in the US, like the Acura ZDX or the early buildout or cancellation of that program. So, those three things taken together really explain the bulk of what's changed.

With that said, we still have some exciting programs that are ramping up or launching next year. We have the continued ramp up of the Volvo EX30 wire in Europe. In addition to that, we have business with the global EV OEM, additional business with them in North America, that's ramping up next year. So, even though we've got some headwinds there in the near term, there are some green shoots of growth that we're seeing as well.

In terms of the wind-down, we took that decision back in 2022, 2023 to wind down certain non-core products, where we did not see a path to sustainable returns in excess of our cost of capital. The biggest of which was our audio and lighting business. And we've been ramping that [audio gap] it's maybe profitable today, but as we looked at the next generation, the combination of the engineering investment required and the weak return profile of those product categories led us to the decision to exit those products entirely.

And so, in terms of the impact on the next couple of years, we've talked about this earlier in the year, our estimates are still the same, it's about \$350 million of wind-down impacts between 2026 and 2027 with \$160 million, \$165 million of that in 2026, and then the balance in 2027. The total umbrella of wind-down remaining is about \$570 million, so the bulk of it comes out in 2026 and 2027. There's a little more than \$100 million in 2028 and then it's just very small impacts in the years beyond that.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And that's all very helpful context on some revenue headwind, but maybe can you talk about margins in E-Systems, to what extent do you think the company can see some margin expansion in part given some of the focus and automation efforts? And just any color on the margin trajectory you see in E-Systems over the next couple years?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. This year, obviously, we took a bit of a step back with the impact of lower production volumes on key platforms. A lot of that we had anticipated at the start of the year, but that was compounded by the downtime that JLR took from the cyberattack and the impact of the Novelis fire on Ford's production. And so, it offset or overwhelmed the impact of that performance. We had a great year in the areas where we can control our performance. We had 75 basis points of net performance in E-Systems this year. We're not at all satisfied with where we're at in terms of operating margins in that business, but we are increasingly confident that we can grow

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margins even in a flat volume environment, in a flat revenue environment for the next several years. We see 80 basis points of net performance in 2026 and 2027, really leveraging everything we're doing in IDEA by Lear. But we also have restructuring opportunities which have a great payback on E-Systems. We're continuing to shift from Eastern Europe to North Africa, for example, in our European business and that's generating significant improvement in the business year-over-year.

And we do have positive backlog that starts up again in 2027 that has margins that are in line or accretive to our overall target margins in E-Systems. So, over time, growth will be an enabler or contributor to margin expansion in E-Systems, but in the near term, the net performance initiatives are going to be the key driver as we look at margins over the next couple of years.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Very helpful. Maybe we could finish up with capital allocation. How should investors think about Lear's capital allocation priorities?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. Our capital allocation priorities remain consistent. We're going to invest in the business first through capital expenditures to support the competitive position in both Seating and E-Systems, and beyond that, some modest tuck-in acquisitions like we described earlier with the on the manufacturing integration and automation side, sort of those \$10 million to \$25 million type deals that – have generated fantastic returns for us. We don't see any transformational M&A at this point in time, so the remainder of our free cash flow generation is going to be returned to shareholders through our dividend and share repurchases. And as I mentioned at the start of this discussion, we're now going to buy back a little bit more than \$300 million this year on the heels of this strong free cash flow performance we're seeing in the fourth quarter.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Well, unfortunately, we are out of time. I'd like to give it a big thank you to the entire Lear team, Jason, Mike and Jared, I really appreciate you joining the conference.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Thank you, Mark. Appreciate it.

Mike Shanlikian

Vice President-Finance, Corporate Financial Planning & Analysis, Lear Corp.

Thanks for having us, Mark.

Jared Anthony Fedele

Vice President-Finance, Seating & E-Systems, Lear Corporation

Thanks.