



Transcript

Lear Corporation

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Lear Corporation's Second Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note that today's event is being recorded.

At this time, I'd like to turn the floor over to Tim Brumbaugh, Vice President, Investor Relations. Please go ahead.

Timothy Brumbaugh

Vice President-Investor Relations, Lear Corp.

Thanks, Jamie. Good morning, everyone, and thank you for joining us for Lear's second quarter 2025 earnings call. Presenting today are Ray Scott, Lear President and CEO; and Jason Cardew, Senior Vice President and CFO. Other members of Lear's senior management team have also joined us on the call. Following prepared remarks, we will open the call for Q&A. You can find a copy of the presentation that accompanies these remarks at ir.lear.com.

Before Ray begins, I'd like to take this opportunity to remind you that, as we conduct this call, we will be making forward-looking statements to assist you in understanding Lear's expectations for the future. As detailed in our Safe Harbor statement on slide 2, our actual results could differ materially from these forward-looking statements due to many factors discussed in our latest 10-K and other periodic reports. I also want to remind you that, during today's presentation, we will refer to non-GAAP financial metrics. You are directed to the slides in the appendix of our presentation for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

The agenda for today's call is on slide 3. First, Ray will review highlights from the second quarter and provide a business update. Jason will then review our financial results and provide an update on the full year guidance.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Finally, Ray will offer some concluding remarks. Following the formal presentation, we would be happy to take your questions.

Now, I'd like to invite Ray to begin.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Tim. Please turn to slide 5, which highlights key financial metrics for the second quarter of 2025. Lear delivered \$6 billion of revenue in the second quarter. Core operating earnings were \$292 million, and our total company operating margin was 4.8%. Adjusted earnings per share was \$3.47. Our operating cash flow was \$296 million in the quarter, and our second quarter financial performance was generally in line with the second quarter of 2024 for all of our key financial metrics.

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

The momentum of positive net performance we delivered to start the year continued through the second quarter, contributing 45 basis points to Seating and 70 basis points to E-Systems margins. Efficiency improvements and savings from our investments in restructuring and automation are driving durable operating performance in both segments. Through the first half of the year, we delivered 85 basis points of net performance in Seating and 110 basis points in E-Systems.

Although macro uncertainty remains, our confidence in our business enables us to restore our full year guidance. Our strong operating performance is expected to continue through the second half. As a result, we are increasing our full year net performance outlook by approximately \$25 million to more than \$150 million.

Our strong free cash flow in the quarter and confidence in our long-term outlook allowed us to reinstate our share repurchase plan. We repurchased \$25 million of shares in the quarter and \$50 million in the first half, while maintaining our dividend of \$0.77 per share. Yesterday, we completed the refinancing of our \$2 billion revolver, extending its maturity through July of 2030, further strengthening our liquidity position.

Over the last two years, we have partnered with Palantir to develop real-time data analytics and streamlining our manufacturing and administrative processes. We extended our agreement for a long-term partnership to continue to enhancing our digital and operational capabilities, which are driving efficiency gains in our manufacturing facilities and administrative functions.

We continue to win new business in both segments. In Seating, we won a key conquest program in Asia with BMW, and we won key conquest awards in North America for seat components on the Ford 150 – F-150 and the F-250 pickup trucks. Our modularity strategy continues to drive new business. In the quarter, we won two ComfortFlex and one ComfortMax Seat award, including a key program with a luxury EV automaker, combining heat, ventilation, and pneumatic lumbar and massage into the surface materials. We now have 24 total awards for ComfortFlex, FlexAir and ComfortMax Seat applications that will generate over \$150 million of average annual revenue.

In China, we won several awards with domestic Chinese automakers such as FAW, Leapmotor and XPENG. In E-Systems, we continue to win new business, including key conquest wire awards with a large global EV

Lear Corporation (LEA)

Q2 2025 Earnings Call

automaker. These programs start later this year, illustrating our ability to quickly launch new business. Our awards in E-Systems for the year are already approaching \$1 billion in annual sales, with several additional opportunities expected to be sourced in the second half of this year.

Slide 7 provides an update on the key metrics to track our progress on expanding margins and generating long-term revenue growth. For Seating, we've won a conquest award in Asia with BMW and expect to quote additional conquest opportunities in the second half of this year and into 2026. The quote pipeline remains very robust, and although the pace of new awards is improving, we continue to see some delays in sourcing, as customers reevaluate their plans based on recent changes to trade or regulatory policies.

In E-Systems, over 25% of our year-to-date awards have been for conquest business, including the two key programs with the top global EV automakers during the second quarter. Customer interest in our innovative modular seat products is growing. Three additional awards brings our total to 24 programs for ComfortFlex, ComfortMax Seats and FlexAir products.

Our strong relationships with Chinese domestic automakers continue to deliver new program wins. We will supply complete seats for several programs with FAW, Leapmotor and XPENG in China. The FAW award is the second conquest program with FAW this year. We continue to be selective in our business as we quote different Chinese domestic automakers to ensure we are partnering with customers that have a long-term sustainable future.

We're only pursuing high-quality programs that can generate strong risk-adjusted returns in excess of our cost of capital. Investments in IDEA by Lear and our automation projects generated about \$30 million of savings in the first half, with benefits expected to compound over the year. Restructuring investments contributed approximately \$30 million in savings in the first half.

Efficiency improvements in our operations allowed us to reduce our global hourly head count by 4,400 in the first half, despite an increase in head count due to the consolidation of our joint venture in China completed in the first quarter. Since the end of 2023, we have reduced our global hourly head count by nearly 20,000 or 11%. The strong first half performance results on our scorecard metrics are the key enablers to improve margins and drive long-term growth in both segments.

Slide 8 provides an overview of our partnership with Palantir. Over the past 2.5 years, we have leveraged Palantir's Foundry, AIP and large language models to build robust real-time data management solutions. Adoption has been strong with more than 11,000 users driving over 175 active use cases across our organization.

A key area of impact has been the work on the tariff response. Once new tariffs were enacted, our teams quickly developed a fully automated tariff data management system. This system enabled us to provide our customers with real-time documentation, speeding up the invoicing process while providing insight into our greatest mitigation opportunities.

Beyond back-office improvements, Foundry has delivered significant value to our manufacturing operations. Foundry supports dynamic line balancing, optimizing throughput and efficiency on the shop floor in our Just-in-Time Seating plants. The platform's multilingual capabilities enabled us to quickly standardize our processes globally.

This partnership is complementary to our acquisitions and the investments in automation we have made over the last several years. We look forward to building on this momentum in the years to come. Most importantly, it is our Lear team members who are driving these innovations and delivering measurable results. We're approaching

Lear Corporation (LEA)

Q2 2025 Earnings Call

enterprise-wide adoption and developing institutional knowledge that gives us a first-mover advantage in the automotive industry, which will be difficult to replicate.

Turning to slide 9, I will provide more detail on our operational and commercial actions driving our strong performance. We have increased our investment in restructuring to accelerate our footprint rationalization actions and reduce costs. We're prioritizing investment opportunities with the shortest payback periods to drive cost savings that will grow over time.

As a manufacturing integrator, we are leveraging the key competencies we have built and acquired over the last several years to expand our automation capabilities through our facilities. By designing and utilizing purpose-built capital, we have developed proprietary solutions at a lower cost that will be difficult for any competitor to replicate. Our automation in the complete seat assembly plants such as end of line testing, finesse, sequencing and other applications is driving significant efficiency gains. We're expanding the use of these systems more broadly in our facilities, starting in our highest cost regions.

We are excited to open a new industry-first facility that will support the launch of automated ComfortMax Seat assembly. We have fully automated the assembly of these modules, ensuring that no one touches the trim cover from the moment it is unpacked until the complete module is ready for shipment. This facility will be located right here in Michigan. In addition to our ComfortMax Seat automation, this facility will be used to produce additional US content, including FlexAir, our innovative foam alternative.

Our product innovation and process improvements in Seating have enabled us to reduce costs for new programs by 200 basis points to over 500 basis points. This durable cost advantage will allow us to increase our industry-leading seat margins and continue to separate ourselves from our competitors. The investments in restructuring and automation contributed approximately \$60 million in savings in the first half of this year, and we estimate we will drive an additional \$90 million in savings in the second half of this year.

Our E-Systems team continues to improve efficiencies in our wire plants. June was one of the best efficiency months for North America wire since early 2019, due to our strong focus on execution in those operations over the last several quarters. Commercially, we are renegotiating pricing on existing underachieving programs. For future programs, we're reestablishing contract terms that will help us mitigate downside volume risk going forward.

We're implementing stairstep pricing that will ensure strong returns at various volume levels for higher risk programs. Some customers are willing to prepay for capital, especially for some of the vehicle programs that have higher, riskier consumer demand profiles. Lear is being selective about the programs and customers we pursue. We're focused on bidding on programs that will generate higher risk-adjusted returns.

We continue to build long-term relationships with our customers, and our focus is to pursue and grow business with the highest quality automakers and platforms. Our operational and commercial actions are driving consistent strong net performance and highlight our ability to execute our strategy in any macro environment. These strategic initiatives are enabling us to continue to expand our margins in both segments going forward.

Now, I'd like to turn the call over to Jason for a financial review.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thanks, Ray. Slide 11 shows vehicle production, key exchange rates for the second quarter. Global production increased 3% compared to the same period last year, but was flat on a Lear sales-weighted basis, driven by a

Lear Corporation (LEA)

Q2 2025 Earnings Call

lower year-over-year production in North America and Europe. Production volumes declined by 3% in North America and by 2% in Europe, while volumes in China were up 9%. The US dollar weakened against the euro and was flat against the RMB.

Turning to slide 12, I will highlight our financial results for the second quarter of 2025. Our sales were flat year-over-year at \$6 billion. Excluding the impact of foreign exchange, commodities, tariff recoveries, acquisitions and divestitures, sales were down 1%, reflecting lower volumes on Lear platforms and the wind-down of discontinued product lines in E-Systems, partially offset by the addition of new business in both of our business segments.

Core operating earnings were \$292 million compared to \$302 million last year, driven by lower volumes on Lear platforms, partially offset by positive net performance and our margin-accretive backlog. Adjusted earnings per share were \$3.47 as compared to \$3.60 a year ago, reflecting lower adjusted net income, partially offset by the benefit of our share repurchase program. Second quarter operating cash flow was \$296 million compared to \$291 million last year, primarily due to improvements in working capital, partially offset by lower core operating earnings.

Slide 13 explains the variance in sales and adjusted operating margins for the second quarter in the Seating segment. Sales for the second quarter were \$4.5 billion, an increase of \$27 million or 1% from 2024. Excluding the impact of foreign exchange, commodities, tariff recoveries, acquisitions and divestitures, sales were down 1%, due to lower volumes on Lear platforms, including the Jeep Wagoneer and the impact from the Audi Q5 changeover in North America, and several Mercedes and BMW programs in China, partially offset by the addition of new business.

Adjusted earnings were \$299 million, down \$3 million or 1% from 2024, with adjusted operating margins of 6.7%. Operating margins were slightly lower compared to last year, reflecting lower production on key Lear platforms and changes in foreign exchange rates, partially offset by strong net performance and our margin-accretive backlog.

Slide 14 explains the variance in sales and adjusted operating margins for the second quarter in the E-Systems segment. Sales for the second quarter were \$1.6 billion, a decrease of \$8 million or 1% from 2024. Excluding the impact of foreign exchange, commodities, tariff recoveries, acquisitions and divestitures, sales were down 5%. The decline in sales was driven by lower volumes on Lear platforms, including the Ford Escape in North America and several Audi and Volkswagen programs in China, as well as the wind-down of discontinued product lines, partially offset by the addition of new business.

Adjusted earnings were \$76 million or 4.9% of sales, compared to \$82 million and 5.3% of sales in 2024. Lower operating margins were driven by the reduction of volumes on key Lear platforms and the wind-down of discontinued product lines, partially offset by a strong net performance, the roll-on of our margin-accretive backlog and the impact of foreign exchange.

Slide 15 provides an update on our tariff exposure and the actions we are taking to mitigate the risk. As a reminder, our exposure is primarily in two areas: direct exposure, where we are the importer of record into countries with tariffs on components; and indirect exposure to vehicle production that may be disrupted by changes to tariffs and trade policies.

Since our last earnings call, there have been no meaningful changes to our direct exposure to tariffs. Over 90% of our direct imports from Mexico and Canada comply with USMCA requirements, and therefore, remain exempt

Lear Corporation (LEA)

Q2 2025 Earnings Call

from automotive tariffs. Based on the current tariff policies and volume expectations, our gross direct tariff exposure is approximately \$210 million for 2025.

Contractual agreements with our customers allowed us to recover substantially all of the \$63 million in tariff costs we incurred in the first half of the year. Our full year financial outlook assumes a continuation of tariff cost recovery agreements through the remainder of the year. There's been a lag in the cash repayment of tariff recoveries from our customers, which reduced our free cash flow in the second quarter. Our revised full year free cash flow forecast includes a \$30 million impact from the lag in payments.

Our indirect exposure to potential vehicle production disruptions has moderated somewhat, driven by further clarities in tariff policies and changes to customer production and footprint plans. Our estimated exposure is approximately \$1.6 billion for 2025 from vehicles exported to the United States from Mexico and Canada. This is a decline of approximately \$200 million, largely due to lower production on customer platforms produced in Mexico and Canada, a portion of which has been offset by higher production in the US.

Our exposure to vehicles from Europe exported to the US is about \$975 million, of which approximately 37% are from the UK and covered by the trade agreement currently in place. Trade policies continue to evolve and could change our exposure over time. For example, the implementation of tariffs on copper and the increase in rates for steel could impact commodity prices.

For copper, we purchase approximately 200 million pounds per year and have index and scrap recovery agreements that are intended to cover approximately 90% of our exposure. For steel, we purchase approximately 3 billion pounds per year. As with copper, approximately 90% of our steel exposure is indexed.

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

Some customers have announced plans to move some production into the US. We have the capability to support localized production of complete seats, especially for programs we currently supply, and have available capacity for components such as our modular solutions, foam and structures. These moves by our customers create an opportunity to support additional volume for vehicles we supply today, as well as win new business.

We have taken proactive steps and moved aggressively to minimize our gross exposure. Our focus on automation and investments in digital tools such as Foundry support the timely commercial recovery of tariff costs from our customers. While tariffs are impacting the entire automotive industry, Lear is taking a proactive approach to reduce the direct and indirect impact of tariffs through innovative solutions.

Turning now to slide 16. On our first quarter earnings call, we withdrew our 2025 outlook due to significant uncertainty caused by the ongoing international trade negotiations. Over the last few months, industry conditions have somewhat stabilized, allowing us to restore our full year 2025 guidance. Slide 16 provides global vehicle production volume and currency assumptions that form the basis of our full year outlook. We have updated our production assumptions which are based on several sources, including internal estimates, customer production schedules and S&P forecasts.

At the midpoint of our guidance range, we assume that global industry production will be flat compared to 2024 or down 2% on a Lear sales-weighted basis, driven primarily by lower volumes in our two largest markets, North

Lear Corporation (LEA)

Q2 2025 Earnings Call

America and Europe. From a currency perspective, our 2025 outlook assumes an average euro exchange rate of \$1.11 per euro, reflecting the weakening US dollar, and an average Chinese RMB exchange rate of RMB 7.23 to the dollar.

Slide 17 provides detail on our outlook for 2025. Key changes to the midpoint of our guidance include the following. Our revenue is now expected to be approximately \$22.8 billion or 2% higher than our previous guidance, driven by favorable foreign exchange, tariff recoveries and the impact of the consolidation of a Seating joint venture in China, partially offset by the impact of lower production on several Lear platforms.

Core operating earnings are expected to be approximately \$1.025 billion or \$20 million lower than our previous guidance, driven by the impact of lower volume, partially offset by favorable foreign exchange and continued improvements in our strong operating performance. We are increasing our outlook for restructuring costs by \$40 million to accelerate our footprint rationalization actions and reduce costs. At the same time, we're lowering our outlook for capital spending by \$35 million.

Operating cash flow is expected to be in the range of \$1 billion to \$1.1 billion, and our free cash flow is expected to be \$470 million at the midpoint of our guidance. Our free cash flow outlook includes \$30 million of expected cash tariff recovery timing lag into 2026. We have included a detailed walk to the midpoint of our updated guidance from our prior guidance in the appendix.

Slide 18 compares our 2024 actual results to the midpoint of our 2025 outlook. Year-over-year, revenue is expected to decline by \$536 million, primarily due to the impact of lower production volumes on our programs, as well as the divestiture of a non-core Seating operation, partially offset by the addition of new business in both segments, tariff recoveries and the impact of favorable foreign exchange.

The midpoint of our core operating earnings outlook is expected to be \$1.025 billion, with operating margins of 4.5%, reflecting lower volumes on existing Lear platforms, partially offset by continued strong net performance and our margin-accretive backlog. We expect net performance to contribute 60 basis points of margin improvement in 2025, up \$25 million from our prior outlook to over \$150 million. This reflects the positive momentum in both our automation investments and restructuring actions. We've included detailed walks to the midpoint of our guidance for Seating and E-Systems in the appendix.

Moving to slide 19, we highlight our balanced capital allocation strategy. Yesterday, we successfully completed the refinancing of our \$2 billion revolver, extending its maturity from 2027 to 2030. We have a strong balance sheet and liquidity profile, which is a significant competitive advantage for us in today's uncertain environment. We do not have any near-term outstanding debt maturities.

Our earliest bond maturity is in 2027, and our debt structure has a weighted average life of approximately 12 years. Our cost of debt is low, averaging approximately 4%. In addition, we have \$2.9 billion of available liquidity. Our capital allocation priorities remain consistent. We're focused on generating strong cash flow, investing in the core business to drive profitable growth and returning excess cash to shareholders.

After a brief pause in share repurchase activity, we reinstated our repurchase program in June. During the second quarter, we repurchased \$25 million worth of shares, bringing total repurchases for the first half of the year to \$50 million. For the full year, we plan to repurchase \$250 million worth of stock, with additional repurchase opportunities depending on the level of free cash flow generation.

Now, I'll turn it back to Ray for some closing thoughts.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Jason. Please turn to slide 21. Our first half results illustrate our continued resilience in a volatile industry environment. Our strong relationships with our customers have been key to offsetting the impact of tariffs. We're focused on executing our strategic initiatives to improve our margin profile. We continue to win new business across our product lines in both segments, despite slower-than-expected sourcing activity.

We have a strong balance sheet with no near-term debt maturities that allows us flexibility in our capital allocation strategy and positions us well to navigate macro uncertainty. Our investments in restructuring and automation are driving strong operating performances. We are expanding our leadership in our operational excellence and improving the cost profile of our businesses, enabling us to generate sustainable margins and strong cash flow. And we'll remain committed to returning excess cash to our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] And our first question today comes from Dan Levy from Barclays. Please go ahead with your question.

Dan Levy

Analyst, Barclays Capital, Inc.

Hi. Good morning. Thanks for taking the question.

Q

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Hey, Dan.

A

Dan Levy

Analyst, Barclays Capital, Inc.

I wanted to first start with a question on the outlook, as there is a meaningful deceleration in the margins in the second half. And I get it, the majority of that is coming from weaker volume. But the decrements are a bit higher. Can you just talk about performance, which had been particularly strong in the first half, but maybe isn't contributing the same amount in the second half?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Sure. Yeah. So, as you highlighted, we had a very strong first half in net performance really in both business segments. And so, the progress we made in the first quarter really continued into the second quarter. And before I go through kind of that first half/second half, I think it's important to highlight that our confidence in our ability to generate margin expansion through net performance really increased based on the results that we experienced in the first half of the year.

A

Lear Corporation (LEA)

Q2 2025 Earnings Call

And just to really emphasize this, what is effectively happening here now is we're able to offset the full effect of our wage inflation and other economics, as well as our customer contractual price reductions through our normal efficiency programs and commercial negotiations, negotiations with our suppliers, and other cost reduction programs like that, which allows the full effect of our IDEA by Lear savings in automation and restructuring savings to fall through to the bottom line. And that's generating \$150 million of additional earnings here for the full year.

Now, in terms of what's going on from the first half to the second half, I think it's important to highlight a couple of points here. First of all, as I mentioned in the first quarter call, we had about 20 basis points in Seating of commercial recovery timing that we had expected to happen later in the year, got pulled into the first quarter. We saw a similar phenomenon in the second quarter, about 20 basis points as well.

So, there's about 40 basis points of Seating's net performance in the first half of the year that was retimed from the second half of the year to the first half of the year. And that was intentional. At the start of the quarter, we weren't sure if we were going to be able to finalize all our recovery agreements on tariffs with our customers. So, we were very aggressive in trying to close out these commercial issues. And as it turns out, we were able to both secure nearly full recovery for tariffs in the first half of the year and pull ahead some of these commercial agreements. So, if you normalize for that, the first half/second half net performance in Seating would be similar.

Now, in E-Systems, you may recall last year, we talked about some of the efficiency issues and launch issues that we had in our North America wire business at the start of the year. And so, part of that net performance calculation is what happened in the prior year. So, in the first half – we had a weaker first half in E-Systems last year. And so, the efficiency improvements that we drove in the second half of last year and then continued on into the first half of this year really led to that strong net performance in the first half for E-Systems. And in the second half, the comps become a little bit more challenging. So, that's kind of another key factor that's driving that.

And while we're talking about that sort of comparison year-over-year, in the third quarter, we had a particularly strong third quarter last year in Seating. And so, the net performance that we expect year-over-year is going to be way down in the third quarter this year as a result of that tough comparison. We had a high level of commercial settlements in the third quarter last year. And in fact, we may end up with slightly negative net performance in Seating in the third quarter as a result of that.

But in terms of the kind of structural underlying drivers of performance, we're increasingly confident in our ability to not just deliver the \$150 million this year. But as you think about 2026 and 2027, we think we can replicate that through the next several years based on the pipeline of projects that we have in IDEA by Lear and our restructuring program. We're increasingly confident in our ability to use that as a key lever to improve margins in an uncertain production environment.

Dan Levy

Analyst, Barclays Capital, Inc.

Okay. And just to be clear, the second half number, which I think in the past, you said would be the right sort of exit rate jumping off point for 2026, but that's probably not correct now? That would probably be too low for the jumping off rate for 2026?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. I think – Dan, we have talked about the fourth quarter, our target is to exit at 5% and that that would be a good launching point to model heading into 2026. Because of these commercial actions we pulled ahead to the

Lear Corporation (LEA)

Q2 2025 Earnings Call

first half, that makes that a little bit less helpful in terms of a modeling starting point. I would encourage the analysts and investors to think about our full year margin performance in both businesses as the right launching point for thinking through 2026 as a result of some of those timing differences.

Dan Levy

Analyst, Barclays Capital, Inc.

Q

Okay, great. Thank you. Second question is on your awards, and specifically in Seating, if you could double click on the awards you got from Ford. Is that just on the components or is there any JIT there? And maybe you could just talk broadly about the modularity. It seems like GM, someone else is doing the TCS there. So, what is the uptake? And does reshoring at all change any of the way that TCS plays into the strategy?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Dan, to your first question, the component business is a structures business on the F-150, F-250. And so, it was good business, a healthy business from a return standpoint, puts us in a good position. We're still in the process of quoting the Just-in-Time business with Ford Motor Company on the F-150, F-250. That's in process right now. And obviously, the reason we're illustrating a lot of our advantages that we believe we have competitively with efficiency through – if it's the digital software development that we've done or the automation is, I think, putting us in a very competitive position at a level that we can still maintain a healthy margin. And so, that is in process right now.

The continuation of the thermal comfort components, what's nice about that, I mentioned in my narrative around the ability we're going to have here in Michigan, a facility that illustrates the complete modular system being automated. And we have with Ford and with General Motors, and in one of them – one of them with General Motors is a mid-cycle implementation that demonstrates our ability to really get efficient on the modular component with thermal comfort systems. And so, it's a process. We're still going through it. But I think the ability to scale, the onshoring that we're seeing, I think, really adds to the credibility of how we can replicate a very cost-efficient system that can be scaled across multiple programs.

And I think the uniqueness – like I mentioned, some of these programs are mid-cycle. So, we can disrupt even an awarded program. And if the efficiency is there – and that's what our – that's exactly what our customers are looking for. They're looking for cost efficiencies that can be generated. So, introducing those, getting them validated with the key OEMs has always been our strategy. And we're right where we need to be. I think over time, as we illustrate this automated system through the modular components will only help strengthen our position.

And so, I feel good where we're at. I think we've had some nice wins. I mentioned the 24 wins. The combination of the innovation and the combination of the automation are really playing nice as customers are looking at onshoring and continue to expand capacity needs here in the US. And so, we'll continue to work it. I'm happy in where we're at. I think that the next step of this Innovation Center that we're putting here in Michigan to demonstrate it for analysts and for investors and for customers is going to really, really, I think, help us propel the growth strategy within the thermal comfort systems.

Dan Levy

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Operator: Our next question comes from Joe Spak from UBS. Please go ahead with your question.

Joseph Spak

Analyst, UBS Securities LLC

Q

Thanks. Good morning. Maybe, Ray and Jason, just to go back to some of the performance commentary, I just want to make sure I understand, because you're saying now over \$150 million for the year. I think you raised that \$25 million. But it looks like you've done, by my math, \$100 million or so or maybe more in the first half. So, I just want to confirm that that's sort of correct. And like of that \$25 million that you raised, is that all in the back half or was some of that already realized maybe in the second quarter?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think that it's a combination. To the extent we've increased our restructuring savings, Joe, that falls mostly in the back half of the year. And in terms of the – again, just on the math first half to second half, so we had 100 basis points in net performance in the first half. We had just 15 basis points in net performance in the second half. But that's 10 basis points in Seating and 40 basis points in E-Systems.

The 10 basis points in Seating, if you were to kind of retime those commercial settlements and rebalance them throughout the year, we would be at 40 basis points to 50 basis points in the second half of the year. The 85 basis points we generated in the first half of the year in Seating would be 45 basis points. So, it's sort of similar performance first half to second half in Seating after you adjust for those commercial settlements. And so, then the real benefit you're seeing hitting net performance for the full year is primarily restructuring savings associated with that additional investment we're making in restructuring.

Joseph Spak

Analyst, UBS Securities LLC

Q

Okay. And then, just the – to follow up on Dan's questions on some of the F-150 announcement, is that a mid-cycle change or is that the next generation of the program? And Ray, like earlier in the year, you sort of – when you gave that sort of initial backlog, you did sort of talk about an updated backlog at some point during the year. And I know you mentioned there's been delays in sourcing. But it does also seem like there's been some progress and update. So, was wondering when we could expect an update to your backlog outlook.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. The component business that we won with Ford Motor Company is the next generation F-150 and the F-250. So, we will – I think we're at that point – we talked also about E-Systems being a little bit earlier, and we did a great job. We're almost at \$1 billion. I think it's incredible what E-Systems has done. And I just want to remind everyone that we're really focused on earning above our cost of capital. So, these programs that we're winning in E-Systems are accretive to the margin. So, we're going to have this backlog that will be coming on at an accretive rate.

And then, in Seating, we talked about there's going to be more significant awards in the second half. And so, we're going to get to that point. We're in that process right now. I've just mentioned that we're in the quoting process for the F-150 and F-250 with Ford Motor Company and other OEMs today. So, I think we'll be ready to give an update a little bit more around probably the third quarter, fourth quarter of this year.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Joseph Spak

Analyst, UBS Securities LLC

Okay. Thank you.

Q

Operator: Our next question comes from Mark Delaney from Goldman Sachs. Please go ahead with your question.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Yes. Good morning and thank you for taking the questions. I was hoping you could speak a bit more on your volume and sales outlook. The industry production environment has generally improved a little bit year-to-date. But volume, mix and wind-downs are a \$1.3 billion headwind year-over-year in your guidance. I think incrementally, there's an additional \$481 million you're planning on as a headwind from those buckets compared to your last outlook. So, could you elaborate more on what Lear is seeing and why it's incrementally more of a headwind?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. We did see a slight improvement in the second quarter from what we had initially anticipated. And so, part of what we've embedded in the guidance is a little bit of caution around what we think our customers are going to do with their production schedules. We've got about a 2% discount to our customer schedules out through the balance of the third quarter into the fourth quarter from what they're suggesting their production will be. And that reflects some uncertainty around the level of imports, some of our European customers importing vehicles into the US, particularly in the EU, where they're faced with this 25% tariff.

A

We've also reduced our volume assumption on a couple of programs due to impacts with our customers changing over from one model to the next. So, for example, with Audi on the Q5, it's gone through a changeover here in the first half of the year. We ended up lowering our production assumption for the year to reflect that. I think that comes back next year. It's a great platform, a long history of success in the marketplace.

The other is with JLR and the Range Rover, Range Rover Sport. We did reduce our volume assumption there. There was some volume loss during the changeover there. There's a mid-cycle change that's happening. They're launching some new versions of the vehicle, a plug-in hybrid, for example. And again, great demand for that program. But we're a bit cautious based on what we've seen recently with volumes there. And so, those are the – kind of the main changes that we made to our volume outlook.

We also saw some weakness, which we highlighted, in the second quarter, which continues into the full year with the Jeep Wagoneer. And obviously, Stellantis has announced a number of initiatives and changes around trying to stabilize sales here in the US market. And we've seen some headwinds in terms of volume on certain of their platforms like the Wagoneer as a result of that. So, it's a combination of some weakness that we see in the releases, but also some anticipated weakness that we've embedded in the outlook. And if you look at that sort of high-end of our guidance range to the midpoint, that captures that 2% or so that we've discounted our customer schedules by.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Lear Corporation (LEA)

Q2 2025 Earnings Call

Very helpful, Jason. Thanks for that. My other question was around the conquest award that you picked up in wiring. Nice to see that come through. Can you help us better understand, for that conquest award with the EV OEM that you spoke about this morning, how much revenue should we think about as that business ramps either in 2026 or 2027? Thanks.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. That's – it's about \$50 million of additional revenue that will start at the very tail-end of this year, and you should see the full effect of that into 2026 and 2027.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. That was a nice win. That was – like I said, we're focused on returns, and it's a good piece of business. And I think it just goes to the credibility that we have as far as being competitive and being very efficient in the reputation. So, it was a nice second half win for us. But I also, like I said, very, very proud of the team for the nearly \$1 billion backlog wins already this year. And so, I'm anticipating more – to put more pressure on Nick and the team to win more in the second half, and what I like about is – what we're seeing is it's healthy returns for us too.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Thank you.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Thanks, Mark.

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

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Great. Thank you so much.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Hey, Emmanuel.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

I was hoping to focus on the first half to second half walk. You're providing some really good color on this on slide 27. And so, that's where I wanted to focus on. So, it looks – honestly, when you look at the way you framed it from first half to the second half, the entire margin drop is basically volume and mix. I mean, yes, we spoke about net performance, but basically, first half to second half, the margin decline is really volume and mix. But a 90 basis point decline in volume and mix, that's like a \$1 billion headwind sequentially to the EBIT. But your volume and

Lear Corporation (LEA)

Q2 2025 Earnings Call

mix revenue assumption is only going down by like \$600 million, \$700 million. So, it's like 150% decremental on this. So, just trying to understand, within your assumptions for the second half – I understand some caution on some of your customer schedules, but what do these decremental look like and why are they so high?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think the downward conversion is 19%, 20%, something like that. It's pretty much in line with our historical variable margin. So, it's – Emmanuel, I'm not quite following the math that you're using there. But on the \$670 million reduction in sales, I think it's \$130 million lower operating income. And then...

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Yeah, yeah. Sorry. Sorry about the math. Just curious if there's any – it seems like it's all volume-driven very much. And so, just curious if...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, yeah.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

...on the decremental side, especially since you're talking about potential EU imports, and those are typically maybe higher margin business, if there's something that is also impacting on the decremental side, first half versus second half.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. There's nothing really unusual in terms of that conversion. It's pretty much in line. There isn't as much net performance offset as you normally would see or what we saw in the first half of the year, because we had so much of that commercial negotiation pulled forward into the first half of the year. So, overall conversion for the year on volume changes is better than the second half, yes.

And you're exactly right. The margin contraction in the second half is entirely driven by the lower production volume assumption. And some of that's just the normal seasonality. I think 70% of that \$670 million or \$475 million of revenue is just your normal seasonal reductions that we see with the summer shutdowns in Europe, and to a lesser extent, downtime in the US that is taken in July. And so, the other – it's really the other 30% that we're thinking through and wrestling with as we think about the business next year. And I think there's two things within that that are sort of unusual.

One is what we're seeing with the lower JLR volumes on the Range Rover, Range Rover Sport that's driven by the changeover, and then some lower volume on a handful of programs from Europe that we think are tariff-driven. And we've taken the assumption that those volumes are going to come down somewhat with, I'd just give you two examples. With the Mercedes GLC, we have a sequential volume reduction there, and the Defender with JLR. So, about \$100 million of revenue first half to second half. Some of that again is normal seasonality. But the balance of that is, we believe, the – our expectation is lower shipments from Europe to the US that are tariff-driven.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Now, if the EU and the US finalize their trade negotiations and we end up at 15% instead of 25%, that should come back. And I would expect, over time, that will come back, especially as you look out to 2026. So, there are some definite kind of anomalies in the second half of the year that I think are important to strip out as you're modeling 2026. Those are a couple examples.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Great. Yeah. Thanks for the color. And then, my second question was around the updated guidance on the cash flow side. So, I think some of the pieces that you've quantified for us was the lower EBIT guidance, but then also some timing on the tariffs. I think the first piece was \$25 million and another \$30 million timing. Anything else that's sort of like contributing to the lower outlook on cash flow from operations versus the initial outlook?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

It's essentially earnings and then the tariff assumption, with the higher restructuring cash investment of \$40 million mostly offset by lower CapEx of \$35 million. So, it's mostly earnings and tariff recovery timing. And on that assumption, there's a reasonable chance that we do better than that \$30 million. We had to just strike this off the chop line make the call for today. But I'll just give you one example of how that number could improve.

Once this credit program is finalized between our customers and the US Government, it's very likely that some of our wire harness imports will be tariff-free and duty-free. And some other components within Seating will also have that treatment. And so, with those imports, instead of having to recover from the customer, you just won't incur the tariff upfront. I think we're at least 30, 60 days away from that being finalized, and we're hopeful that a significant portion of our imports are applied to that – that our customers apply the credits to those imports, and we reduce that cash exposure as a result of that.

And Frank and Nick and their teams are fighting to try and offset the under-recovery of tariffs due to timing of normal payment terms through other means, whether that's early tooling recoveries or engineering recoveries or other commercial settlements. So, just it's an assumption and we wanted to be clear that that assumption is embedded in the guidance for awareness purpose for investors. But we hope to do better than that.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Understood. Thank you.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Welcome. Thanks, Emmanuel.

Operator: Our next question comes from James Picariello from BNP Paribas. Please go ahead with your question.

James Picariello

Analyst, BNP Paribas Securities Corp.

Q

Hey, everyone.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Good morning.

James Picariello

Analyst, BNP Paribas Securities Corp.

Just to follow on Mark's question with respect to core sales, the organic comp now runs 1 point lower versus the prior guide despite unchanged LVP. Can you just share what's assumed for the business wind-down piece within E-Systems? Year-to-date, it's \$120 million. I believe the original guide had embedded just \$75 million for the full year. So, curious what's slated for the second half and does this headwind completely neutralize for next year? Thanks.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Sure, James. Yeah. We have \$146 million now for the full year. So, it's still first half weighted, and that is a little bit worse than what we had previously guided to. So, we have some of our lighting and audio programs and our Audi gateway program that – some of those are balancing out a little more quickly than we had initially anticipated. And in terms of what that means for future years, we did include some of those figures on our backlog slide in the fourth quarter earnings call. But our current thought process here is there's about \$150 million that will wind down next year, roughly \$200 million in 2027, \$135 million in 2028, and then you're down to less than \$100 million. And that last \$100 million sort of dribbles out over a number of years. So, it is a headwind to growth in E- Systems for the next couple of years, in particular in 2025 through 2027, and then it moderates from there.

James Picariello

Analyst, BNP Paribas Securities Corp.

Understood. That's helpful. And then, my follow-on. Are there any updated thoughts on the backlog with respect to the out years and particularly for the introduction of what 2027 might look like at this point? Thanks.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. I think we're going to save that for, as Ray said, either later in the year or start of next year, because we want to make sure it captures these programs that we're pursuing currently, particularly in Seating. We've had a nice start to the year in E-Systems with new business wins, and a pretty significant portion of that is backlog. Most of that falls sort of outside of our normal three-year window. I think it's mainly late 2027 into 2028, 2029. The recent award that we just received with the global EV OEM does have a 2026 benefit, but the others are a little bit later.

So, we'd like to have more clarity around the longer-term growth profile of the company before we go through a full update to the backlog. Of course, there are kind of puts and takes that happen throughout the year. And I will highlight that one headwind for the backlog for next year is the Stellantis announcement around their production change on the Ramcharger and the Ram REV. Ramcharger was initially slated to launch this year. That got pushed to the middle of next year, and the Ram REV got delayed out another year. So, we have the seating on both and then we have the BDU on the Ram REV. So, there is a bit of a reduction to be expected from that.

Now, it's also important to point out that we were able to offset that impact for this year with higher backlog on our Chinese domestic OEM business, in particular with Xiaomi on the SU7 program, which had a fantastic first half of

Lear Corporation (LEA)

Q2 2025 Earnings Call

the year. So, again, there's going to be puts and takes. But Stellantis did make that announcement after our first quarter earnings call. I think it was on May 15. And so, I just want to make sure that's on everyone's radar screen.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

But I do think it's important – and as our customers, and they are, reevaluating their propulsion systems across hybrid, BEVs and ICE, and there has been a delay in some cases of how they're awarding business based on these decisions with policy and some of the changes that we all are aware of. Our backlog right now – quoting pipeline in Seating is near a record high. We were at, what, \$7 billion?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

\$7 billion.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

\$7 billion. So, Frank is really busy quoting a lot of programs. We got a lot right now that we have in front of us that we're very, very focused on. I think we have proven that – and the reason I illustrate to analysts and to investors, the investments we've made as a manufacturing integrator – I know a lot of companies talk about, yeah, we're in automation and we're doing digital software, and they may be. But our ability to really drive efficiency at a plant floor is differentiating us. And so, we're optimistic. We still have to get through this quoting process. We have a lot of quotes in front of us.

We're very specific on who we're targeting. We obviously like the traditional historical programs that have been successful over a longer period of time. We're being very cautious around the type of programs, where we're quoting from a regional perspective. We're lasered in. And we – and why I talk about the timing is there's still some movement within it. They're still looking at different changes to policy, like I said, or trade. But we're very focused, and I think we have some really good opportunities in front of us.

And as those opportunities emerge, we do want to be clear to investors and analysts on the business we win. So, when it's appropriate, we will come out and talk a little bit more around the backlog and the success. But I do keep saying this, I'm very proud of the E-Systems team. They've really done a nice job in the first half of this year. I guess they're close to \$1 billion of booked business, and we still have opportunities in E-Systems for the remainder of the year. So, Nick's got to get busy on that, and he will. And hopefully, we'll be out soon with an update to the backlog. But it's a robust pipeline, that's for sure.

James Picariello

Analyst, BNP Paribas Securities Corp.

Q

Thank you.

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

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Oh, great. Thanks for taking my questions. Maybe just to start, just to clarify the – I think I followed most of it, but the puts and takes and the change from the prior to the current operating income guidance, I think \$25 million is

Lear Corporation (LEA)

Q2 2025 Earnings Call

performance. It looks like something like \$10 million is FX improvement, offset by \$55 million-ish in sort of lower volume impacts from the prior guide. Is that right? And then, if that's right, the \$55 million seems like a pretty low decremental on the sales decline. Are those the right pieces, I guess?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think you summed it up correctly there. So, yeah, let's look at my notes here. So, from the prior guidance, we're down \$475 million due to volume and about \$90 million of OI on that, and that's converting at 19%. So – and then, positive performance is \$25 million. You get the benefit of the Seating consolidation. And then, you have a little bit of margin dilution from the tariff recovery. So, you get \$210 million of revenue with no earnings attached to it. That's the basic bridge. And then, FX is converting at about 7%, a little bit stronger in E-Systems than in Seating.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. And then, with the recent trade deal with Japan, there's sort of a growing view that we might end up at something like 15%. If that's the rate for your business in Honduras, would that be enough of a decline to make it sort of competitive or you'd have to consider relocating it? Any thoughts or color there?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

I think at 15%, 10%, I mean, those are all good numbers. We're still very, very competitive in Honduras at those rates, and it would still be more competitive in Honduras. And so, the footprint would be very efficient at that level, so.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. And Colin, we've had, I think, some very productive conversations with the administration, with commerce over the last several weeks, and they're listening to us. And I think they understand and share the same objective we do, which is to have US-manufactured vehicles be competitive in the US and on the global stage. And one of the key drivers of that is having components like wire harnesses manufactured in lower cost locations. So, we're not going to make any predictions – any bold predictions on the removal of the harnesses from the annex or when that might happen. But if logic prevails here, that seems to make a lot of sense to protect the competitiveness of US-manufactured vehicles.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. And so – yeah. To Jason's point, we have had – the conversations are going extremely well with the administration and with other senators and congressmen that we're meeting with. And we are starting to see interest that, to Jason's point, remaining competitive here in the US and being able to export is the primary goal, along with workers and other things. But it does help our case and help the fact that we have to remain very cost-competitive here in the US around components.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. All right. Thanks for taking my questions.

Lear Corporation (LEA)

Q2 2025 Earnings Call

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thanks, Colin.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Okay. I think that's it.

Timothy Brumbaugh

Vice President-Investor Relations, Lear Corp.

Yeah. Go ahead.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Okay. Just I think thank you for everyone participating in the call today. I just want to thank the Lear team, outstanding job, first quarter, second quarter. We got some work to do in the remainder of the year, but really proud of everything we've accomplished from the tariffs to how we've mitigated that challenge to what we're doing operationally. I talked about this operational excellence in automation and what we're doing within our manufacturing plants, the work that was done down in Mexico and the improvements around efficiencies. Great job to the team. I appreciate everything you're doing. Let's keep it up in the second half. Thank you.

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

A