



Transcript

Lear Corporation

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Lear Corporation Third 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 conference call 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 third 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.

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The agenda for today's call is on slide 3. First, Ray will review highlights from the third quarter and provide a business update. Jason will then review our financial results and provide an update on our full year guidance. Finally, Ray will offer some concluding remarks. Following the formal presentation, we would be happy to take your questions.

Now I'd like to invite Ray to begin.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Tim. Now, please turn to slide 5, which highlights key financial metrics for the third quarter of 2025. Lear delivered \$5.7 billion of revenue in the third quarter, an increase of 2% from the third quarter of 2024. Core operating earnings were \$241 million and our total company operating margin was 4.2%. Adjusted earnings per share was \$2.79, and our operating cash flow was \$444 million in the quarter, one of our strongest operating cash flows in our history.

Our third quarter financial performance was at the higher end of our expectations, despite the significant impact of a cybersecurity incident that disrupted production for one of our key customers, Jaguar Land Rover, for the entire month of September. Excluding the impact of Jaguar Land Rover disruption, total Lear third quarter core operating earnings and operating margins would have been higher than the prior year. Jason will provide additional details on the impact of this disruption to our third quarter results in our full-year outlook.

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 in the first half of the year continued through the third quarter, contributing 50 basis points to Seating and 95 basis points to E-Systems' margins. This performance was remarkable considering the third quarter of 2024 was also very strong, making a very tough comparison for the year.

It is a testament to our commitment to operational excellence and the benefits we are capturing from our investments in digital tools, automation, and restructuring. Through the third quarter of the year, we delivered 70 basis points of net performance in Seating and 105 basis points in E-Systems.

Our operating cash flow of \$444 million was one of the highest third quarters in Lear's history, second only to the third quarter of 2020, which was skewed by working capital fluctuations resulting from the impact of COVID. Our strong cash flow generation allowed us to accelerate our share repurchases, which totaled \$100 million for the quarter, while maintaining our dividend of \$0.77 per share. The solid momentum we experienced in the quarter enabled us to raise the midpoint of our full-year free cash flow outlook. Had it not been for the impact of the Jaguar Land Rover disruption, we would have further increased the midpoint of our revenue and free cash flow and increased our operating income outlook.

We continue to extend our leadership and operational excellence through IDEA by Lear initiatives. To advance our employees' understanding and applications of digital and AI technologies, we have launched the Lear fellowship program with Palantir. This 12-week intensive training will engage 90 Lear team members from across functions, including IT, engineering, finance, and purchasing, empowering them to harness AI capabilities to address real business challenges.

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This is the first such company-focused fellowship program for Palantir. They are excited to work with Lear because of our company-wide commitment to use digital and AI tools to rapidly improve our business and manufacturing process and further improve our cost structure. I couldn't be more excited about the potential of this program, and I will be directly involved to gain the first-hand view into the transformative possibilities of these tools that they offer.

We continue to win new business in both segments. In E-Systems, we have been awarded approximately \$1.1 billion of business year-to-date. This is the fourth year of the last five years where Lear E-Systems has generated over \$1 billion of business awards. In Seating, we won new business with several automakers, including awards with BMW, Ford Motor Company, Nissan, Hyundai, and Jaguar Land Rover, as well as awards with key Chinese domestic automakers.

Our modularity strategy continues to drive new business. In the quarter, we won four ComfortFlex awards, including a conquest award with Hyundai and awards with BMW, Leapmotor, and Seres. During the quarter, we took operational control of our second joint venture in China this year. The joint venture supplies key programs for Seres. Consolidating this joint venture is expected to add approximately \$75 million to our reported revenue for 2025 and a significant growth in 2026.

In E-Systems, key business wins include eight wire awards, among which are conquest awards for Stellantis and four awards with Chinese automakers. We also received two new electronic awards for power distribution boxes on Ford Motor Company's F-Series trucks. For the third straight year, Lear led the J.D. Power U.S. Seat Quality and Satisfaction Study with seven top-three finishes.

And our customers continue to recognize us for our dedication to quality and performance. Ferrari honored Lear with their highly coveted Fearless Organization Award, recognizing us as a trusted supplier due to our commitment to transparency and reliability and dedication to quality. Nissan also recognized Lear for our industry-leading quality by granting us their 2025 Global Quality Award as well as their 2025 Global Quality Award in North America. During the quarter, we published our 2024 Sustainability Report, providing an update on our commitments to sustainability and governance.

Slide 7 provides an update on the key metrics to track our progress on expanding margins and generating long-term revenue growth. In Seating, we won conquest awards for complete seats in Asia and South America, as well as for seat components with several automakers across multiple regions. In E-Systems, we won two conquest wire awards with Stellantis in North America and a third conquest award with a key Chinese automaker. Awards for our innovative modular seat products continue to grow. We received four additional awards during the third quarter, including a conquest award combining lumbar and seat suspension for Hyundai.

Our other solutions combine heat and our foam comfort layer for BMW and heat with seatbelt reminder functionality for both Seres and Leapmotor. These additional wins bring our total to 28 programs for ComfortFlex, ComfortMax Seat, and FlexAir products.

Our strong relationships with Chinese domestic automakers continue to deliver new business wins. In Seating, we won five complete seat awards with BAIC, Seres, Dongfang, Leapmotor, and SAIC. Four of our wiring awards in E-Systems were with Chinese domestic customers. IDEA by Lear and our investments in automation generated \$20 million of savings in the third quarter, keeping us on track to deliver approximately \$70 million of savings for the full year.

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Restructuring investments contributed approximately \$25 million in savings in the third quarter, positioning us to achieve \$85 million of savings in the full year. As a result of our strong operating performance, we are increasing our full-year net performance outlook from \$150 million to \$170 million. This reflects the positive momentum in the benefits of both IDEA by Lear investments and restructuring actions.

Our global hourly head count reduction is 3,400 through the third quarter. Despite an increase in head count due to the consolidation of our second joint venture in China, we anticipate the fourth quarter restructuring actions will allow us to approach our target by the end of the year. We continue to outperform our scorecard metrics. These strong results are key enablers to improve margins and drive long-term growth in both segments.

On slide 8, I will highlight the strategic opportunities emerging as automakers accelerate their US production plans. We are currently in advanced discussions with a North American automaker who is looking to increase volume on one of their signature platforms here in the United States. We believe the award is imminent and we will provide an update when it's appropriate. We view this as the first of several incremental opportunities.

While estimates vary, the total addressable market for increased US production is significant. Automakers continue to announce commitments to increase their production footprints in the United States. We are currently in active discussions with multiple OEMs, including a luxury European automaker leveraging their existing US facility, several Asia-based manufacturers expanding their footprint, and North American automakers adjusting their portfolio to supply both Seating and E-Systems content.

Lear is well positioned to maintain or increase our market share due to this shift. Our strong customer relationships, proven execution, and extensive US manufacturing footprint gives us a distinct competitive advantage. By investing in the automation and designing capital specifically optimized for our manufacturing processes, rather than relying on the off-the-shelf solutions, we enhance operational efficiencies and we reduce our costs and we accelerate our speed to market.

We remain the only supplier to have launched a full seat assembly plant in under nine months in the US, a testament to our agility and operational excellence. We see the onshoring trend as a multi-year growth catalyst and a compelling opportunity to drive incremental revenue and margin expansion while supporting the administration's goal of increasing US manufacturing.

Slide 9 provides an update on two of our key pillars of our IDEA by Lear strategy. Our process innovation, leveraging digital tools and automation is transforming our operations, enhancing our competitiveness and delivering meaningful value creation. Lear's relentless focus on being the industry leader in technology-driven operational excellence is accelerated by our partnership with Palantir.

The Lear fellowship program is a strong endorsement of our culture to embrace operational excellence. Today, we have over 14,000 users fully embedded on the Foundry platform, driving performance across more than 10 global centers of excellence. We've deployed over 250 digital tools and AI use cases across product engineering, material purchasing, manufacturing, testing, and inventory management, each contributing to smarter, faster and more efficient decision-making.

Over the past seven years, we've acquired eight companies, each focused on advancing product and process innovation. Our global automation and digital team now includes more than 700 specialists. We've developed proprietary AI tools like Thagora RoboSCAN and LearVUE. Thagora's RoboSCAN uses exclusive algorithms and automation to optimize the cutting patterns for our leather hides. LearVUE is a vision system that enhances our

defect detection capabilities and ensures proper color and motion of our seats amongst other end-of-line function tests.

And we built the industry's first automated assembly of our FlexAir, ComfortFlex and ComfortMax systems to demonstrate our innovative manufacturing capabilities to our customers and eventually to our investors in a production setting. By integrating approximately 80% of our capital, which is designed specifically for our manufacturing processes into our complete seat operations at a 20% to 30% cost advantage, we have a significant competitive advantage in both efficiency and scalability. These efforts are already delivering results.

We expect approximately \$70 million in cost savings this year with an additional \$65 million to \$75 million of savings annually in 2026 and 2027. In addition to the cost benefits, these initiatives improve working capital and free cash flow. Our product and process innovations improve our underlying cost structure, resulting in stronger financial returns for new business quotes. These tools also enhance the safety, quality and ergonomics of our world-class operations and improve employee retention. Our digital and automation strategy is not just about operational excellence; it's a key driver of our long-term value creation.

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 and key exchange rates for the third quarter. Global production increased 4% compared to the same period last year, driven primarily by higher year-over-year production in North America and China. Production volumes increased by 5% in North America, 1% in Europe, and 10% in China. 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 third quarter of 2025. Our sales increased 2% year-over-year to \$5.7 billion. Excluding the impact of foreign exchange, commodities, tariff recoveries, acquisitions and divestitures, sales were down 1%, reflecting the impact of JLR production disruption, lower volumes on other 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. The JLR disruption reduced our revenue by \$111 million in the quarter.

Core operating earnings were \$241 million compared to \$257 million last year, driven by the impact of the JLR production disruption and lower volumes on other Lear platforms, partially offset by positive net performance and our margin accretive backlog. The JLR disruption, including the impact of trapped labor, reduced our core operating earnings by \$31 million in the quarter.

Adjusted earnings per share were \$2.79 as compared to \$2.89 a year ago, reflecting lower adjusted net income, partially offset by the benefit of our share purchase program. Third quarter operating cash flow was \$444 million, a significant increase to the \$183 million generated last year due to improvement in working capital, partially offset by lower core operating earnings.

Slide 13 explains the variance in sales and adjusted operating margins for the third quarter in the Seating segment. Sales for the third quarter were \$4.2 billion, an increase of \$138 million or 3% from 2024. Without the JLR disruption, sales would have increased 5% year-over-year. Excluding the impact of foreign exchange, commodities, tariff recoveries, acquisitions and divestitures, sales were up 2% due to higher volumes on Lear platforms, including the Ford Explorer and Aviator, as well as the GM full-size trucks and SUVs in North America, the Hyundai Palisade and Xiaomi SU7 in Asia, and the addition of new business such as the BYD Tai 3 and the

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Seres M7 in China, and the Citroën C3 Aircross in Europe, partially offset by the impact of the disruption to JLR's production.

Adjusted earnings were \$261 million, flat compared to 2024, with adjusted operating margins of 6.1%. Operating margins were lower compared to last year, primarily due to lower volumes and the mix of production by program, including the disruption to JLR, partially offset by strong net performance and our margin-accretive backlog.

Slide 14 explains the variance in sales and adjusted operating margins for the third quarter in the E-Systems segment. Sales for the third quarter were \$1.4 billion, a decrease of \$42 million or 3% from 2024. Without the JLR disruption, sales would have been down approximately 1% year-over-year. Excluding the impact of foreign exchange, commodities, tariff recoveries, acquisitions and divestitures, sales were down 7%. The decline in sales was driven by the JLR disruption and lower volumes on Lear platforms, including GM electric vehicle platforms in the Ford Escape and Corsair in North America, and the Audi A6 and several Volvo Geely programs in Asia, as well as the wind down of discontinued product lines, partially offset by the addition of new business, such as the Renault 4 and Renault 5, the Citroën C3 and C3 Aircross in Europe.

Adjusted earnings were \$60 million or 4.2% of sales compared to \$74 million and 5% of sales in 2024. Lower operating margins were driven by the reduction of volumes on Lear platforms, including the disruption of JLR and the wind down of discontinued product lines, partially offset by strong net performance and our margin-accretive backlog.

Slide 15 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 up 2% compared to 2024 or flat on a Lear sales-weighted basis, driven primarily by lower volumes in our two largest markets, North America and Europe. From a currency perspective, our 2025 outlook assumes an average euro exchange rate of \$1.13 per euro and an average Chinese RMB exchange rate of RMB 7.21 to the dollar.

Slide 16 provides an update to our full-year 2025 outlook. Our current outlook assumes no changes to current tariff policies or significant industry-wide disruptions due to Nexperia or other supply constraints. The primary adjustments to the midpoint of our guidance are as follows. Revenue is now expected to be approximately \$23 billion or 1% higher than our previous guidance of \$22.8 billion. This increase is driven by favorable volume on Lear platforms, foreign exchange, and the impact of the consolidation of a Seating joint venture in China, partially offset by the JLR production disruption.

Core operating earnings are expected to be approximately \$1.025 billion, unchanged from our prior guidance, as higher volumes on our platforms and further improvements to net performance are offset by the impact of the JLR disruption. We are increasing our outlook for restructuring costs by \$20 million to reduce excess capacity and lower our structural costs. At the same time, we are reducing our outlook for capital spending by \$30 million. Operating cash flow is expected to be in the range of \$1 billion to \$1.1 billion, and our free cash flow is now expected to be approximately \$500 million at the midpoint of our guidance, a \$30 million increase reflecting improved working capital, including better inventory management and lower capital spending, partially offset by higher restructuring costs.

Slide 17 compares our October 2025 outlook to the midpoint of our prior 2025 outlook. Revenue is expected to increase by approximately \$230 million, primarily due to higher production volumes on Lear programs, favorable foreign exchange, and new business growth at a recently consolidated Seating joint venture, partially offset by

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lower JLR volumes. The midpoint of our core operating earnings outlook is expected to remain unchanged at \$1.025 billion, with operating margins of 4.5%.

While higher volumes on existing Lear platforms and an increase of expected net performance from \$150 million to \$170 million are positive contributors, these benefits are offset by the impact of the JLR production disruption. Excluding the lower JLR production, the midpoint of our operating income outlook would be approximately \$70 million higher, and our full year margin would be above 4.7%. We have included detailed walks to the midpoints of our guidance for Seating and E-Systems in the appendix.

Moving to slide 18, we highlight our balanced capital allocation strategy. Our balance sheet and liquidity profile continues to be a significant competitive advantage for us. We do not have any near-term outstanding debt maturities. Our earliest debt maturity is in 2027, and our debt structure has a weighted average life of approximately 12 years. Our cost of debt is low, averaging less than 4%. In addition, we have \$3 billion of available liquidity. Our capital allocation priorities remain consistent. We are focused on generating strong cash flow, investing in the core business to drive profitable growth, and returning excess cash to shareholders.

Given our current valuation and confidence in our ability to enhance the long-term value of the business, we believe the best use of excess cash is to prioritize share repurchases and our sustained dividend. At this time, we do not see a compelling strategic acquisition opportunity in either segment that would deliver superior returns. During the third quarter, our strong cash flow enabled us to accelerate our share repurchases to \$100 million worth of stock, and we continue to repurchase additional shares throughout our quiet period.

We increased the midpoint of our full-year free cash flow outlook and are on track for conversion of approximately 80%, providing capacity to repurchase additional shares in the fourth quarter, exceeding our original \$250 million target for the year.

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

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Jason. Please turn to slide 21 (sic) [slide 20]. Our third quarter results demonstrate our relentless focus on areas of the business we can control is improving our structural profitability of the company. Unfortunately, the disruption of Jaguar Land Rover, one of our key customers in both segments, obscured the underlying progress we are making to grow our revenue and strengthen our margins.

We continue to win new business across our product lines in both segments, particularly in China. We still see significant opportunities in a robust pipeline. Our focused investments in restructuring and automation are resulting in strong operating performance and will drive margin expansion in both segments. Our strong focus on generating cash will allow us to achieve approximately 80% free cash flow conversion, and we remain committed to returning excess cash to shareholders.

While it's still early to provide a specific outlook for 2026, we see several positive tailwinds over the next two years. These include the non-reoccurrence of the Jaguar Land Rover disruption, a strong and positive backlog, and continued benefits from our automation and restructuring investments. In addition, the business solutions emerging from the Lear fellowship program with Palantir are expected to significantly enhance operating efficiency and reduce costs across the organization, including within our administrative and headquarter functions.

Looking further ahead, our robust pipeline of opportunities, especially those driven by customers' onshoring efforts, position us for additional growth in 2027 and meaningful growth beyond. I couldn't be more proud of the team's third quarter performance, and I'm excited about the opportunities ahead.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] 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. Thank you for taking the question.

Q

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Good morning.

A

Dan Levy

Analyst, Barclays Capital, Inc.

Appreciate – yeah, appreciate the disclosure for the fourth quarter on the JLR assumptions, and it seems like, Nexperia, you're not really assuming anything. Maybe you could just talk about what the impact might be or what's embedded related to the Ford, Stellantis, Novelis issues and just sort of any other broader supply chain issues we're maybe seeing. Does the guide fully reflect these points, knowing that Nexperia is a bit of a wild card?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, Dan, we were a bit cautious in our volume – production volume assumption for the fourth quarter, and it's really a combination of – if there's additional risk related to the Novelis issue, if there's a slower ramp of JLR's production restart, and if there's a modest disruption due to Nexperia, that's sort of captured in the range. So, absent any meaningful change on those three issues, we would expect revenues to come in closer to the high end of the guidance range. And so, you could say we sort of have \$150 million of revenue protection from the high end to the midpoint for those three issues, and then another \$150 million from the midpoint to the low end.

A

And I will say that there is about \$55 million of impact for the Novelis-related production disruptions impacting both Ford and Stellantis. That's embedded in the guidance, so it would have to be something incremental to that. Anything that's been announced is captured in the guidance. And I will say that, generally speaking, JLR's restart and ramp up of their facilities has really been a remarkable effort on the part of the customer and the supply chain just going from zero back to approaching full production here in a relatively short period of time. So, it's been pretty impactful for the company, but they've done a great job so far in getting their lines back up to rate. They're not all the way there yet, but we think by the end of November, they will be.

Dan Levy

Analyst, Barclays Capital, Inc.

Q

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Great. Thank you. As a follow-up, I wanted to ask about – Ray, you made a comment at the end of your prepared remarks about just some early considerations on 2026, and specifically on backlog. And I know you'll give us a more defined set of backlog comments when you report 4Q. But maybe you could just give us a sense, given the moving pieces that we've seen here on how tariffs and reshoring may be shifting some of the production plans or how EV has shifted plans in North America, is there still opportunity to have a healthy backlog in 2026 or is it possible that given some of these shifts, there's still a bit of an air pocket as automakers sort of figure out their product plans, given the uncertainties here?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Well, no, it's something, obviously. We've been dealing with it for over some time. It is starting, and we are seeing some stabilization in our customer plans for timing and volume on new programs, which is good. And the industry, I think, is not yet back to a normal, what we've seen historically, source cadence, but we are heading in that direction.

So, I feel we're in a much better position to evaluate where we're at with 2026, 2027, beyond. And in addition to the onshoring and the new program announcements by our key customers provides additional opportunities, like you mentioned, for incremental new business awards, GM with their additional volumes in Orion and Fairfax, and Ford Motor Company is adding volume on their Super Duty and their F-150 pickup trucks and Stellantis. With new derivatives now in the Grand Wagoneer and the new midsize trucks, we do see catalysts for better sourcing environment and growth potential that will be meaningful for 2027, 2028, and 2029.

But even before we considered those longer-term opportunities, and I think we have put ourselves in a very good position, like I said, to not just maintain our market share on those announcements, but even grow. We have increased confidence in our 2026 and 2027 backlog, which we expect will be approximately \$1.2 billion. And that is after the net impact of canceled, delayed ending programs, such like the cancellation of what was the original Ram REV and the delay of the hybrid version, the buildout of the Escape + and the Corsair are in our backlog number I am mentioning as far as a net number. And the late launch of the Audi A7 and Q9 are considered in that, and that's been almost a 12-month delay.

So, we still have a strong backlog in 2026 and 2027, despite all those significant changes or canceled programs. And so, we are very optimistic on how we are looking at growth. And again, the new programs that we are currently quoting, particularly the onshore volumes, we expect will improve in the 2027 timeframe and beyond.

And so, I think, perhaps more importantly, we continue to get very positive feedback from our customers on our automation and digital efforts. I think that's something that is very important. As our customers are considering onshoring, footprint is a key criteria, but they are looking at how they are going to change and the technology innovation that is going to go into these facilities. And so, the timing couldn't have been better for us to have this complete automated facility that we have in Rochester Hills to really go through and experience our technology. And the continuation of what we've done on the digital side is very impressive. And in some cases, we are getting incredible feedback from our customers.

And so, there's a lot of different things that were still going on. I was hopeful we'd have some announcements by now, but we are following the process and being respectful of our customers and where they are at. But I do feel very good about the feedback we are getting from our customers on those opportunities.

And in E-Systems, I think we've done an excellent job. We have a lot more work to do. We are not, by any stretch, happy on where we are at. I think Nick and the team are doing an excellent job of expanding margins. And they've

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done a nice job this year. Like I said earlier, there is \$1.1 billion of awarded business. And most recently, the new awards we're getting now with the domestic Chinese is critical. And most recently, we just got requests from several OEMs on potential conquest opportunities, and that was very surprising to get those requests.

And so, those are things I am not going to get ahead of myself on those, but I see some very constructive, good signs from our customers on continued growth in E-Systems. And so, we will discuss a little more formal and update our backlog on the fourth quarter earnings call, but I feel really good. And again, I think we have a solid backlog right now, given all the canceled programs, delayed programs, what we have done. I feel better where the customers are at now. I think they have really sized up their portfolios. We have a good understanding of where they are at. And that's our net number and we have a lot more opportunities.

Like I said, hopefully, by the end of the year, early next year, we will have some of these onshoring announcements. But I think from a technology, innovation, automation, we put ourselves in a very, very competitive position to win some good business there. And so, I am very optimistic and positive on what we are doing with growth.

Dan Levy

Analyst, Barclays Capital, Inc.

Q

Thank you. That's all really helpful color.

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

Joseph Spak

Analyst, UBS Securities LLC

Q

Thanks. I guess maybe one clarification here. On slide 7, you are showing like you are ahead of the net performance targets year-to-date versus sort of the annual ones. So I just want to understand, does that mean there is some bad guys in the fourth quarter, because of some of the volume headwinds you are pointing to, or are you trying to sort of imply that you're just running ahead and there might be a little bit better performance that you could eke out for the year?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. That's effectively what's implied in the full year guidance. And so, we had a particularly strong third quarter, Joe, net performance. And some of what we had anticipated on commercial settlements, commercial negotiations, what were planned in the fourth quarter were pulled into the third quarter. And it's about \$10 million that we were able to pull ahead. So Q3 is a little stronger than anticipated, and then that's offset in the fourth quarter.

And then, the other factor impacting sort of that sequential performance from the third quarter to the fourth quarter, we have some higher engineering spending. And that's a combination of spending and the timing of customer recoveries, particularly in E-Systems, where we had really strong new business wins this year and we're ramping up the engineering resources to support those programs. That's a factor. And then, on just salary compensation, this is the time of year where we have our annual compensation increases. So the fourth quarter reflects some additional costs relative to the third quarter. And then, that's partially offset by some incremental performance through restructuring and IDEA by Lear. Those are sort of the net puts and takes.

And again, I think I would characterize the guidance as appropriately conservative, given the other factors I listed a moment ago in response to Dan's question with JLR, Nexperia and Novelis. And absent deterioration in those three areas, we would expect to outperform the midpoint. We do have an investor conference we are participating in, in early December, and we look to provide an update for investors at that point in time on how things are tracking.

Joseph Spak

Analyst, UBS Securities LLC

Q

Okay. Thank you. And then, maybe just on some of the backlog commentary, Ray, I guess I just want to make sure, I thought I heard the \$1.2 billion number. Was that a 2026-2027 combined number? I just want to – maybe we could clarify that. And then, also related to some of the wins, and I know you even sort of talked about an F-Series win on distribution boxes this quarter. I think you already won some thermal. I know you've previously expressed some optimism that more can be done on the seat side. But I think that you had mentioned some of the sourcing decision for that program has been delayed. I'm just wondering if you have an update specifically there, whether that program has been awarded yet.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So maybe I'll start, and then Ray can answer the second part of the question. So to clarify, the \$1.2 billion is, in fact, the 2026 and 2027 number. At this stage, it's roughly 50-50 between the years, so roughly \$600 million in each of those two years. And so, we had not previously provided a 2027 backlog at the start of the year when we updated 2025 and 2026. And a lot has happened.

And we just felt like we had shared a lot of the headwinds impacting 2026 and 2027 with the program cancellations and programs that are ending production like the Escape and Corsair. But we hadn't talked about all the positives, which we've had significant new business awards in that 2026 and 2027 timeframe in both business segments that helped offset it. We also had the benefit of this new business with Seres in China as a result of taking control of the joint venture there. Excited about the growth potential of that as well.

So, I think on balance, all things considered, we're pretty happy with where we're at, and we feel like we have some additional upside for some of the sourcing and onshoring that has yet to take place that may impact the sort of tail end of 2027 and maybe more so 2028 and 2029.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah, I think, the process, albeit it's been longer than what we anticipated, I kind of look at two different buckets. One is the onshoring opportunities that we're engaged with different OEs throughout the US and European customers, obviously North American customers, and looking at opportunities there. Those are taking, which I think is the right process, a lot of technical analysis, what we're going to do with automation, how we're going to lay plants out, how we're going to set up facilities near their facilities. Those are all very constructive, and I'm very confident that those are going in the right direction. The conquest wins or opportunities we talked about are equally, I think, as balanced as far as opportunities, and they're still available.

Through the process, it's taken a little bit longer than what we would have originally targeted, but nonetheless, it hasn't changed our optimism around our ability to win some really good conquest opportunities, and then also the onshoring relative to some of the different OEMs I've mentioned. And so, it's just taken a little bit longer. I was hoping that – Jason mentioned an investor conference we're going to go at. Hopefully, we can let a little bit out

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there, but if not, as it's coming out and it's appropriate and we get approval from our customers to announce it, we'll make sure that you know.

Joseph Spak

Analyst, UBS Securities LLC

Q

Okay. One really quick follow-up, just to make sure we're properly covered. That's the consolidated backlog numbers you're talking about, correct or does that include some...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

That's correct.

Joseph Spak

Analyst, UBS Securities LLC

Q

Okay, thank you.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah, that's just the consolidated.

Joseph Spak

Analyst, UBS Securities LLC

Q

Thanks.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah.

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

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Good morning. Thank you very much for taking the questions. I guess one topic I wanted to start with was around the increased ability to do automated manufacturing in the US. And you spoke about just how automated this new facility is. And so, as you think about doing more work in the US and hopefully supporting some of these programs that you referred to, could you just talk about the margin implications? I mean, I think clearly labor costs tend to be higher in the US, but there's so much automation. So, as you do that kind of a business locally, is that supportive of the near and medium-term margin targets of the company?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, I think that looking at the onshoring opportunities specifically, we're seeing operating margins that are very similar to our North America seat business. And so, the automation is helpful in terms of being able to offset

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maybe the higher cost of labor between Mexico and the US. And the net effect of that may be a little higher CapEx, but with the resulting benefit being strong operating margins in those facilities.

And so – and then on the conquest award, sort of the same story. We see leveraging automation in our unique position with automation and our digital strategy as a way to earn higher returns on our seat business that we're conquering and use that as a catalyst to expand returns or protect returns. And our overall returns in Seating are industry-leading now. So, part of it is maintaining that level of ROIC that we have achieved pretty consistently over the last 10 years in the seat business. And so, we don't see a real shift in terms of ROIC. You may have a little bit higher operating margin to fund the added investment though.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

I think it's important too, I mean we emphasize this, how we're differentiating ourselves in the focus on not just product. We've really focused on the disruption of the purchasing model, and that's taking some time, but 28, significant awards with ComfortFlex, ComfortMax and FlexAir. That's a significant change in the purchasing model or what they've typically done. And so, that is something that we're going through. And there's a significant savings and opportunity there in the way we're automating it. So, it's tied to the manufacturing facility.

And the acquisitions we've made, I think we got to look at, we've been at this for over 10 years. And the timing is very good for the technology innovation that we brought in. You cannot gap this out and catch up in any reasonable time. This is something we've been working on for a long period of time, and we're being recognized from our customers. There's feedback that we got that they're looking now at technology innovation within the supplier base and we had a significant advantage over our closest competitor. And we're going to just keep pushing the gas on that. I mentioned that by having these in-house capabilities and building very purpose-built capital allows us to significantly take the cost down. That's very important.

We're manufacturing our own capital now. Historically, we would buy 80%, 90% of our capital, very generic, very standard, very across the board use of capital. We're very purpose-built. And just like you think about VAVE or cost savings through engineering designs on the product side, that whole opportunity exists. And we're seeing it. And I say 20%, 30%. We're going to push that even harder.

And so, we're seeing our capital numbers come down significantly. And I think the important ingredient here with our domestic Chinese that are pushing timing and now what we're seeing here with onshoring, the speed of delivery, we can get at that. It's very important to keep bringing up the most recent launch that we had here in the US and be able to launch that in eight months. That's because we have full control.

So, I think about a full-service manufacturing integrator. And there's not a lot of companies out there. And we're benchmarking different companies. And there's some great companies that we look at and say, okay, we got to gap that out. We have to prove that. But from product design to manufacturability, we have the elements. And so, as we're having these, why I'm so confident is the feedback we're getting from the customers. And again, a lot of this is about retention. The employees love the technology on the plant floor. We get great feedback on job satisfaction, the ergonomics, the ability to see better around inventory levels and how we can really focus on working capital. This isn't an accident when we look at our cash flow and what we're doing. These all benefit everything you want to check off.

And so, having a leadership position in that, the timing couldn't be better. And, like I said, I'm optimistic. We're going to wait until we get the appropriate feedback from our customers on these awards. But I think that will just lead to more evidence on everything we're doing is in a constructive good way disrupting how you think about

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just-in-time Seating. And you can have others that talk about what they have and don't have. But having that ability to have it in-house is a differentiator.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

We'll stay tuned for December 4. Hopefully, I get some news there at the conference. Thanks for all that. My second question was on net performance. I think, Jason, last quarter, you described an expectation that net performance in 2026 could be replicated relative to what you were seeing in 2025. And at the time, that was \$150 million. So, as you look into 2026 and think about net performance, is the \$150 million level you've been expecting 90 days ago still a reasonable framework at this point or any updates that you can share on your net performance thoughts for next year? Thanks.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Sure. Yeah, I think just to clarify, what we've said is that we believe that what we can – we had established a target for net performance in business for this year, 40 basis points in Seating and 80 basis points in E-Systems, and that we could replicate that in 2026 and again in 2027. We've done better than that this year.

As we're building our plan for next year, we'll provide more details on that, but I think it's north of \$100 million of net performance in that range. If you, again, achieve 40 basis points and 80 basis points in Seating and E-Systems, respectively, as we look out to next year, it's a key margin expansion catalyst for the business, and we're confident that we can continue to repeat the performance that we saw this year. Maybe not to the \$150 million or \$170 million level now that we have embedded in this year's outlook.

We're certainly going to work towards achieving that, but I can say with confidence that we can generate 40 basis points to 80 basis points, 40 basis points in Seating, 80 basis points in E-Systems of net performance in 2026.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

And I think it's important. We put those metrics out there because they really are driving us, and we are going to expand our margins in both business segments. That is the focus. That is the focus, and we're trying to illustrate with the ability to execute how we're getting at that. And having that confidence, why we're talking about it is, I think introducing IDEA by Lear and what we were doing prior to that really illustrated what the company can do.

Our culture is built around getting at this, and so I think it's a baseline for how we see this year, but we're very confident in what we're going to be able to deliver next year. It is going to be about expanding margins in both business segments.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

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

Emmanuel Rosner

Analyst, Wolfe Research LLC

Thank you very much. Good morning.

Q

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Hey, Emmanuel.

A

Emmanuel Rosner

Analyst, Wolfe Research LLC

I appreciate all the – hey, good morning. I appreciate all the color on the onshoring opportunities. Any way to dimension this for us in terms of addressable markets, either in terms of volume or revenue, like how many units are you sort of seeing customers looking to potentially bring to the US and what sort of timeframe?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, I think the way that we can dimension it is, we've established and communicated a market share target in Seating, for example, growing from 26% to 29%, and we've said that we believe the onshoring on balance will support our market share or expand our market share. So, I think it's premature to get into specifics around revenue dollars or units of production in terms of what will be done in the US given the state of the discussion with customers. I think that that level of granularity would be misplaced at this point, Emmanuel.

A

Emmanuel Rosner

Analyst, Wolfe Research LLC

I understand. And then I appreciate also the color on the backlog, certainly encouraging to see some wins for 2027. Can you also give us a sense of potentially the breakdown between your two product lines, Seating versus E-Systems within that? And how should we think about growth over market for E-Systems progressing from here between maybe the end of the wind down at some point and then some of these big wins that you have mentioned?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. So, if we look at next year, Seating backlog is expected to be north of \$700 million and E-Systems is right around negative \$100 million. And so, the biggest factor driving that next year is the balance out of the Escape, Corsair and beginning wind down of the Focus and C-Max in Europe, \$230 million, \$240 million of revenue that goes away on those kind of key platforms. Just to talk a little bit about backlog composition in both business segments, next year, we have the Audi Q7 and Q9, which is that, the Seres M7 and the Jeep Cherokee here in North America. Those are the big three programs that drive the bulk of the Seating backlog next year, but we also have some growth with BMW on their Neue Klasse or NCAR program. And we have some growth with a global EV OEM with BAIC and with BMW.

A

On E-Systems, we also have growth with a global EV OEM that rolls on next year. That was a conquest win for us. We have the continued ramp up of the Volvo EX30 in Europe, which is a great program for us. And then, we have electronics business with BMW, which we talked about when we announced our PACE award, a zonal control module with BMW that ramps up next year. And you see kind of the full impact of that production starting more in 2027 and 2028. That's the single biggest program over the next two years rolling on in E-Systems.

As you highlighted, we are still digesting the wind down of product lines that were exiting in E-Systems. Those numbers are consistent with what I shared on the prior earnings call. And so, it's about \$350 million over 2026 and 2027. And so, that's certainly going to weigh on growth over market over that time period.

And then, in 2028, you start to see – and in 2029 – the benefit of the conquest awards and new business growth opportunities that we've won this year and are pursuing throughout the balance of this year and into next year, like the F-250, where a portion of that was replacement business, but there's a significant portion of that that was conquest. And we have several other opportunities that we're quoting right now in wire that would be conquest opportunities and lead to further growth in that window. And so, the near-term growth of the market is going to be weighed down by the wind down of the programs and the roll off of that Escape, Corsair program.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Just very quickly, a clarification. So this wind down in E-Systems, that would already be included in the small negative backlog in 2026. And then, would you talk about the breakdown of the backlog between businesses in 2027, please?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think I'll save the 2027 detail for the fourth quarter earnings call. It's more balanced in 2027 than in 2026. Again, in 2026, the E-Systems backlog is negative, and that's independent of the wind down of the electronics business that we've spoken about in the past.

Emmanuel Rosner

Analyst, Wolfe Research LLC

Q

Great. Thank you.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Thanks, Emmanuel.

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

Great. Thanks for taking my questions. Just as we think about 2026 margins, you mentioned this year, the starting point, excluding JLR, would be 4.7%, and then there's \$65 million to \$75 million of automation savings. Is that the right way to think about, as we step into next year, that the baseline is 4.7%, and then you have the \$70 million-ish of additional help? Any other factors that I should be considering or is that the right starting point?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think it's early, obviously, to provide pinpoint numbers for next year, and we're still deep in our planning process. But you hit on some of the key puts and takes as we look out to next year, and I think the right way to

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model 2026 for Lear, the right exit rate to use for that is kind of the JLR-adjusted operating margin of 4.7%, and that's why we thought it was important to share that with investors today.

Looking at the S&P forecast, they're calling for lower production, particularly in North America, I think down 2.5%. We haven't concluded our view at this point, but we're trying to use conservative volumes for our planning process in order to get the cost structure aligned and our margin improvement plans set based on that relatively conservative set of assumptions. And from there, you can overlay the benefit of our backlog, offset a little bit by the E-Systems wind down and the benefit of our net performance improvements, which will be higher in E-Systems than Seating.

So kind of summarizing all that, at a very early stage here, we do see revenues higher next year and earnings higher next year. We see margins higher in both segments, probably a little bit more in E-Systems.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. Just, I mean, to summarize it, everything we're doing, I feel really good about the work we're doing around this net performance and what we're doing with IDEA by Lear. I think the topic that I brought up with this continued partnership with Palantir and what they brought to us with the fellowship program, I think, is really going to get us. I think we've done a great job operationally in manufacturing, but now we're really getting at our administrative offices and our headquarters, those type of things are going to only continue to allow us to get at our cost structure.

So we're going to expand margins in both business segments. I see that the results, what we're doing in our plants, what we're doing operationally, what we're doing with cash flow, very confident. And I think we have some great tailwinds despite some of this unfortunate customer downtime, that's going to really push us into 2026. And so, we're going through it. The team, Nick and Frank are here. We all know it. We're going to expand margins and get more efficient, and we got the tools to do it.

So I'm confident, and I think we have some good tailwinds heading into 2026 despite everything else going on.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Got it. And then, just lastly, on buybacks. I think you commented that there's sort of no big M&A on the table, and the pace in the quarter, just \$100 million. I think your commentary implies another \$100 million. Is that maybe the pace we should consider that most of the cash flow starts getting allocated to buybacks, or is that reading too much into the outlook?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

No. That is clearly what we are signaling here for the balance of this year and into next year. We think that's the best use of our excess cash, and we're targeting about \$300 million in the fourth quarter. We had a program in place to buy throughout the quiet period. I think we've bought almost \$50 million through the month of October, and we're going to continue through the balance of the fourth quarter.

If we have a line of sight on a free cash flow number beyond the midpoint, we may buy back a little bit more even. We're going to be very opportunistic with our buyback program, and we see that continuing into next year. Now,

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we do have our board meeting in November where we discuss capital allocation, and so ultimately, that's a board decision, but that is our current thinking.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah, well, we're focused on that cash. I like this quarter, the \$444 million, and I love some of the things that we're putting in place around working capital and inventory levels. It's continuing to improve, and we're going to continue to push the team because cash is important, and we're going to continue to drive good results there.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Did you just say \$300 million in Q4 on buybacks or \$100 million? Maybe I'm unsure if I misheard.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

\$300 million for the year.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

For the year. Oh, okay. Got it. Okay. All right. Thank you.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Just to clarify.

Colin M. Langan

Analyst, Wells Fargo Securities LLC

Q

Thanks for taking my questions.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

You're welcome.

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

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah, thank you, and I'm sure the Lear team's on the phone. I just want to, again, extend my appreciation and thank you for a great quarter. I know we got a lot to do to finish up the full year, but I know, like I say, we're built

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differently. I know we're all going to get at it, and we're going to knock this thing out of the park. So, I appreciate everything you did in the third, and I'm looking forward to what we're going to achieve in the fourth. Thank you.

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