Transcript

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Lear Corporation Third Quarter 2026 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there'll be an opportunity to ask questions. Please also note 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 of Investor Relations, Lear Corp.

Thanks, Jamie. Good morning, everyone, and thank you for joining us for Lear's third quarter 2026 earnings call. Presenting today are Ray Scott, Lear President and CEO, Jason Cardew, Senior Vice President and CFO, and Jared Fedele, Vice President of Finance for Seating and E-Systems, who will succeed Jason as CFO starting in March. Other members of Lear's senior management team have also joined us on the call. Following the 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're directed to the slides in the appendix of our presentation for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

The agenda for today's call is on slide 3. First, Ray will review highlights from the quarter and provide a business update. Jason will then review our third quarter results, and Jared will 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. Before I begin, I want to touch on the upcoming important change to the leadership of our finance organization. After more than 34 years of dedicated service to Lear, Jason Cardew has elected to retire. I want to thank Jason for his leadership, his commitment, and his many contributions to Lear. Jason and I have worked closely together for many years, and not only has he been a trusted partner, but he is also a dear friend. Jason, your next chapter is incredibly well-deserved, and I wish you and your family all the best.

Jared Fedele will succeed Jason as the CFO effective March 1. Jared has been with Lear for 23 years and has a broad global financial and operational experience. He has been working closely with Jason and me for many years and is more than ready to assume the role. Jared, congratulations. I look forward to continuing to work closely with you, and I know you will continue to execute our strategy to deliver improved financial performance and value to our shareholders.

Okay. With that, please turn to slide 5, which highlights our key financial metrics for the third quarter. Lear continued delivering meaningful year-over-year improvements across all metrics in the third quarter. Sales increased 2% to $5.8 billion, despite global industry production declining by 2% on a Lear-weighted basis.

Core operating earnings were $256 million, a 6% increase, and the fourth straight quarter of year-over-year improvement. Adjusted earnings per share reached $3.71, a 33% increase from the third quarter of 2025, accelerated by our robust share repurchases this quarter. We generated operating cash flow of $329 million and free cash flow of $158 million in the quarter.

Slide 6 summarizes our key business and financial highlights for the quarter. Our four strategic priorities continue to drive our focused execution, extending our global leadership in Seating, expanding E-Systems margins, growing our competitive advantage in operational excellence through IDEA by Lear, and supporting sustainable value creation with disciplined capital allocation.

During the quarter, we continued our momentum of winning key awards in both segments, generating approximately $3.9 billion of net business awards year-to-date, with approximately $3.1 billion in Seating and approximately $800 million in E-Systems. This represents an increase of $1 billion during the quarter, with E-Systems on track for another year of over $1 billion of business awards.

Key Seating wins in the quarter include the complete seat, foam, and heat for two programs with a North American automaker. One award is the replacement of a program we currently supply, and the second is a new award for a future program to support this customer's expansion of their product portfolio for the North American market. Our IDEA by Lear capabilities were instrumental in winning these awards.

Lear is the number one seat supplier in India. During the quarter, we were awarded the largest complete-seat program in our long history with Mahindra & Mahindra. The award includes both replacement and incremental

new business. Our new awards for ComfortFlex, ComfortMax, and FlexAir applications this quarter bring our modular and innovative seat product total to 47.

Program with Mercedes is a conquest award, replacing current lumbar and massage components with a ComfortFlex modular solution. Awards with Jaguar Land Rover include a FlexAir application as well as a ComfortMax solution, integrating heat into the trim cover.

Five modular projects launched during the third quarter, and seven additional programs will be launching during the fourth quarter, accelerating the adoption of our modular solutions in the marketplace.

Our momentum with the Chinese automakers continued in both segments. In Seating, we were awarded an upcoming program with a Chinese luxury EV automaker projected to launch in 2028. This program is currently projected to be sold in China and exported to other markets. BYD also awarded us two key programs as they expand their production in Thailand and Indonesia. We currently supply those programs in China.

In E-Systems, we won a conquest award with JMC Ford Joint Venture, new wiring business with FAW-VW, and two non-consolidated wire awards with BAIC, all in China. We continue to drive growth in our core E-Systems products by securing electronics and wire conquest awards.

The electronics awards is for power distribution box on a commercial and passenger van in Europe with a North American automaker. An additional conquest wire award is with Honda in China. As we continue to grow with Japanese customers, we also retained an important wire program with Jaguar Land Rover in Europe.

During the quarter, we released our annual sustainability report, providing an update on our IDEA by Lear initiatives, as well as progress towards achieving our environmental stewardship, social responsibility, and governance goals. Our strategic focus continues to drive improved financial performance despite challenging industry conditions.

Total company revenue increased 2% compared to the third quarter of 2025, reflecting growth over market of approximately 4 percentage points. Both segments outperformed the market despite headwinds from the roll-off of programs such as the Escape and Corsair, and the wind-down of our non-core E-Systems products.

With Seating growing approximately 4 percentage points above market, and E-Systems approximately 2 percentage points above market, excluding the impact of the wind-down business, E-Systems growth over market was 5 percentage points. Operating margins expanded 20 basis points year-over-year for the total company, with E-Systems margins expanding 60 basis points, driven by another strong quarter of 120 basis points of net performance.

Seating margins grew 20 basis points, driven by 40 basis points of net performance, keeping us on track to deliver our full-year target. Our strong free cash flow generation allowed us to further accelerate our share repurchases. We repurchased $175 million of shares in the third quarter, completing our full-year repurchase target of $350 million. As a result of our strong earnings growth and accelerated share repurchases, our third quarter EPS increased 33% year-over-year.

With our current authorization set to expire in three months, we increased our share repurchase authorization to $1.5 billion and extended it through 2029, reinforcing our commitment to returning capital to shareholders.

Slide 7 provides a further breakdown of our progress on delivering long-term revenue growth and margin expansion, providing confidence we will achieve our full-year targets. Over half of our year-to-date Seating awards have been for new or conquest programs, providing a strong foundation of future growth. In the quarter, we were awarded conquest programs with Stellantis in Europe and with Honda in Thailand, as we continue to build our relationships with Japanese customers.

In E-Systems, approximately 70% of our year-to-date business awards have been for new or conquest programs, continuing the trend from the first-half of the year. During the quarter, wire conquest awards included programs in China with JMC Ford and Honda. The rollout of our thermal comfort modular solutions continues to gain momentum with the modularity and FlexAir wins in the quarter. The pace of business awards with Chinese automakers continues to accelerate.

In Seating, our year-to-date awards are estimated to generate over $600 million of average annual revenue, up almost 90% from where we were tracking at the end of the second quarter. This reflects the growing momentum of our global wins with Chinese automakers, including with BYD in Thailand and Indonesia, following our second quarter award with Leapmotor in South America.

In E-Systems, approximately 25% of our year-to-date awards are with Chinese domestic automakers, up significantly from 2025. We remain on track to deliver $75 million of IDEA savings this year, with approximately $55 million achieved year-to-date, accelerating through the end of the year, and are on track to significantly exceed our targeted restructuring savings.

Our net performance continues to drive increased adjusted operating margins in both segments. Despite rising commodity and other input costs, Seating has generated 30 basis points of net performance through the first three quarters. And we expect a step-up in the fourth quarter to deliver our full-year target of 40 basis points.

In E-Systems, we delivered a very strong 105 basis points of net performance through the first three quarters. We expect E-Systems to deliver positive net performance in the fourth quarter, despite increasing copper and launch costs, a testament to our team's ability to execute.

I want to spend a moment on slide 8, which provides an overview of our Orion, Michigan facility that will support three of GM's most important nameplates, the Cadillac Escalade, Chevrolet Silverado, and the GMC Sierra. The Orion facility, which represents a critical milestone in the execution of IDEA by Lear technology roadmap, is the most tangible demonstration of how our strategy is redefining JIT seat assembly, reinforcing Lear's position as the clear leader in Seating and creating a path to future market share gains and sustainable profitable growth.

IDEA by Lear is our framework for reimagining how we operate, embedding innovation, digital tools, engineering, and automation into every layer of the processes. We've been building towards this facility, which integrates the technology and talent we have compiled through our targeted acquisitions and significant internal development to deliver something that, quite frankly, doesn't exist in the Seating world outside of Lear.

Production in the state-of-the-art just-in-time Seating facility begins next year. This facility is designed from the ground up with a digital foundation and automation embedded throughout from day one, not retrofitted. The financial impact is meaningful and immediate. We expect automation to reduce the conversion cost requirements by 10% to 15%.

The more important story is what this represents strategically. Orion is the blueprint we intend to scale across our global Seating footprint to support our future key programs, such as the Ford Super Duty. Each of the key

technologies we are developing reflects a deliberate capability we've built or acquired, and together they tell the story of what IDEA by Lear looks like in practice.

The first is what we call integrated intralogistics. I want to be precise about the term because it goes well beyond traditional automated warehousing. Intelligent intralogistics is the connected intelligence layer of the entire factory. It ties together inventory, material management, storage, and real-time decision-making from the moment a component arrives at our dock to the moment a finished seat leaves our facility.

We think about it across three dimensions. The first one is connected. This is about end-to-end visibility and control. Nothing moves without us knowing about it. At Orion, that means our overhead suspended material storage and delivery system is fully integrated into the production floor to track parts in real time. Our automated guided vehicles, or AGVs, keep the lines continuously fed with complete traceability. Our automated trailer loading sequencing closes the loop, connecting finished goods all the way through to the customer's shipment with precision and without manual intervention. From inbound components to outbound delivery, we see everything.

The second dimension is intelligent. Visibility alone isn't enough. The system has to think and react. Advanced analytics are continuously driving decisions around inventory positioning, replenishment, and flow. Our 4D four-directional storage system utilizes autonomous mobile robots, or AMRs, that navigate dynamically within the racking structure itself to optimize in real time based on production demand.

Our raw component automated storage and retrieval systems, or ASRS, manage foam and trim storage, while our finished goods ASRS are both continuously informed by analytics and anticipating needs before they become disruptions. Both of these ASRS systems were developed internally by our ASI team, which is the company we acquired. We own the IP, we control the roadmap, and we can scale it across our global footprint. That is a genuine competitive advantage that cannot be easily replicated.

Not only is our material handling intelligent, but so is our balancing of human capital. We are utilizing proprietary tools like cycle time deviation and dynamic line scheduling to make real-time adjustments to optimize the efficiency of our employees.

The last one is autonomous. This is where the financial impact becomes most tangible. We are moving towards automated execution, meaning our people are focused on solving problems, not performing routine tasks. Robotic part loading is active in our production today, feeding our lines and installing components with a level of consistency and repeatability that manual processes simply cannot match.

Our AGV network operates without human direction. Our ASRS systems retrieve the position material without manual intervention. The factory increasingly runs itself, allowing our teams to focus on more value-added adjustments. Our automated smart ovens, robotic finesse, and end-of-line testing improve our process consistency, cycle time, and quality. They also improve the job satisfaction of our team.

Interconnectedness is what is new at Orion. We've been adding independent systems in our existing location, but the interconnectedness across multiple processes driven off demand will improve efficiency and inventory management due to real-time monitoring, analysis, and adjustments.

Built by Lear's team and leveraging historical knowledge, our systems don't just reduce costs. They create a factory that sees everything, decides intelligently, and executes autonomously. What we built at Orion will become the blueprint for scaling productivity across our complete Seating footprint.

And with that, I'm going to turn the call over to Jason and Jared for the financial review.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thanks, Ray. Slide 10 shows vehicle production and key exchange rates for the third quarter. Global production was down 2% compared to the same period last year. Production volumes declined by 5% in North America and 7% in China, while volumes in Europe were up 1%. The US dollar strengthened against the euro, but weakened against the RMB.

Turning to slide 11, I will highlight our financial results for the third quarter of 2026. Our sales increased 2% year-over-year to $5.8 billion. Organic sales were also up 2%, primarily reflecting the addition of new business in Seating. Core operating earnings were $256 million compared to $241 million last year, driven primarily by strong net operating performance.

Adjusted earnings per share were $3.71 as compared to $2.79 a year ago, reflecting higher earnings and the benefit of our share repurchase program. Third quarter operating cash flow was $329 million compared to $444 million last year due to higher tooling and engineering investments and the timing of working capital.

Year-to-date, operating cash flow is higher compared to 2025, driven by improvements in inventory management through our IDEA by Lear initiatives, as well as the timing of tariff payments and recoveries.

Slide 12 explains the variance in sales and adjusted operating margins for the third quarter in the Seating segment. Sales for the third quarter were $4.3 billion, an increase of $76 million or 2% from 2025.

Organic sales were also up 2%, reflecting the addition of new business, including the BMW iX3, Mercedes GLC with EQ, and Audi Q7 in Europe, the Seres M6 in China, and the Jeep Cherokee in North America, and higher volumes on JLR platforms, which were negatively impacted by the cybersecurity attack during the third quarter last year, partially offset by lower volumes on Lear platforms in China and North America.

Adjusted earnings were $274 million, up $13 million or 5% compared to 2025, with adjusted operating margins of 6.3%. Higher operating margins were driven by strong net performance and a margin accretive backlog, partially offset by lower volumes on Lear platforms.

Slide 13 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, an increase of $17 million or 1% from 2025.

Organic sales were up less than 1%, driven by higher volumes on Lear platforms, including several JLR programs in Europe, partially offset by the build-out of the Ford Escape, Focus, and Lincoln Corsair reflected in our backlog, as well as the wind-down of discontinued product lines.

Adjusted earnings were $69 million or 4.8% of sales compared to $60 million and 4.2% of sales in 2025. Higher operating margins were driven by strong net performance and higher volumes on Lear platforms, partially offset by the build-out of the programs in our backlog and the wind-down of discontinued product lines.

Jared will now provide an update on our full-year outlook.

Jared Anthony Fedele

Vice President of Finance for Seating and E-Systems, Lear Corp.

Thanks, Jason. Slide 14 provides global vehicle production volume and currency assumptions that form the basis of our 2026 full-year outlook. Our production assumptions are based on several sources, including internal estimates, customer production schedules, and Mobility Global forecast.

At the midpoint of our guidance range, we assume that global industry production will be down 1% on a Lear sales-weighted basis compared to 2025, a slight improvement from down less than 2% in our prior outlook, primarily due to higher volumes in Europe, particularly offset by lower production assumptions for China. We have adjusted our currency estimate, which now assumes an average euro exchange rate of $1.15 per euro and an average Chinese RMB exchange rate of RMB 6.80 to the dollar.

Slide 15 provides an update to our full-year 2026 outlook. Our current outlook assumes no changes to current tariff policies or significant industry-wide disruptions. In recent weeks, we have seen reductions in production schedules across several customers, particularly in China. We have reduced our full-year 2026 outlook for net sales to reflect these changes.

However, our strong operational execution, savings from our additional restructuring actions, and anticipated resolution of ongoing commercial negotiations are expected to offset the impact of lower volumes, as well as rising costs from commodities and other inputs. Therefore, we are maintaining our full-year outlook for core operating earnings.

We increased our outlook for restructuring costs by $25 million, reflecting additional actions we are taking to further optimize our cost structure and position Lear for stronger long-term profitability. We adjust our outlook for operating cash flow and free cash flow to support this investment. As we move through the remainder of the year, we will continue to monitor the China domestic market, where consumer demand and production schedules continue to deteriorate.

Slide 16 compares our October 2026 outlook to the midpoint of our prior 2026 outlook. We reduced our revenue midpoint by approximately $225 million, driven by lower production volumes on Lear programs, particularly in China, and the impact of foreign exchange, partially offset by increasing supplier pass-through due to the rise in commodity costs and commercial recoveries.

We maintained the mid-point of our core operating earnings outlook as savings from our restructuring actions and improved net performance is expected to offset the impact of lower production volumes on Lear platforms.

Moving to slide 17, we highlighted our balanced capital allocation strategy. Our balance sheet and liquidity profile continues to be a significant competitive advantage for us. Our cost of debt is low, averaging less than 4%, and our debt structure has a weighted average maturity of approximately 11 years. In addition, we have $2.9 billion of available liquidity. Our capital allocation priorities remain consistent. We are focused on generating strong cash flow, investing in the core business to drive profitable growth, and returning excess cash to shareholders.

During the third quarter, our strong cash flow enabled us to take advantage of our undervalued share price and repurchase $175 million worth of stock. This brought year-to-date repurchases to $350 million, achieving our increased full-year target ahead of schedule. Since initiating the share repurchase program in 2011, we have repurchased $6.3 billion worth of shares and returned over 85% of free cash flow to shareholders through repurchases and dividends.

In September, Lear's board increased the share repurchase authorization to $1.5 billion and extended the authorization period through December 31, 2029, reinforcing our commitment to return cash to our shareholders.

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

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Nice job, Jared. Sounds great.

Jared Anthony Fedele

Vice President of Finance for Seating and E-Systems, Lear Corp.

Thank you.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Q3 was another strong quarter, continuing our track record of consistent execution and progress. Despite a global production environment that contracted 2% on a Lear-weighted basis, our team delivered $5.8 billion in sales, expanded margins in both segments, and grew core operating earnings for the fourth consecutive quarter. Our resilience is the result of a focused strategy and a team that knows how to execute.

The breadth of our business wins this quarter demonstrates our global reach and competitiveness. From our largest complete seat award in India to BYD programs in Thailand and Indonesia, and modular seating solutions with Mercedes and Jaguar Land Rover, we are winning in the markets with the customers that matter the most for our long-term growth. Our year-to-date net business awards now stand at approximately $3.9 billion, and the pipeline of new opportunities remains very robust.

In E-Systems, the transformation of our portfolio is evident, with approximately 70% of our year-to-date awards coming from new or conquest programs, and Q3 margins expanding 60 basis points year-over-year. We're demonstrating that our focused portfolio strategy is working. The wind-down of our non-core products is nearly behind us, and what remains is a stronger business with a significant runway ahead.

And perhaps the most exciting development this quarter is what we shared about our Orion facility. This is IDEA by Lear in action, not a pilot, not a concept, but a fully integrated, purpose-built manufacturing environment that reduces the conversion cost requirements by approximately 10% to 15% and sets a new standard for what a Seating facility can be.

The technologies we are deploying at Orion, from intelligent intralogistics to autonomous material handling to AI-powered quality inspection, are proprietary, scalable, and represent a genuine competitive moat that will be difficult for others to replicate.

And we continue to return meaningful capital to our shareholders. Completing our $350 million repurchase target ahead of schedule and expanding our authorization to $1.5 billion through 2029 reflects both the strength of our cash generation and our conviction in the long-term value of this company. As we head into the fourth quarter, we recognize the challenges ahead, from commodity pressures to softness in the China market. These are dynamics we've successfully navigated throughout the year, and our team has the tools, talent, and track record to continue to execute. We are maintaining our full-year outlook for operating income and remain confident in our ability to finish the year strong.

And now, we'll go ahead and open up the call to questions.

QUESTION AND ANSWER SECTION

Operator: We will now 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.

Q

Hi. Good morning. Thank you for taking the questions. And Jason, congratulations. Jared, congratulations to you as well.

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Thanks, Dan.

Jared Anthony Fedele
Vice President of Finance for Seating and E-Systems, Lear Corp.

A

Thanks, Dan.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

Wanted to start with a question on the sales outlook, and particularly with what's happening in China. There's been a number of quarters now where you've underperformed. And I think this is similar to some of your other peers out there. But maybe you can give us a sense of, within China, what the path is to finally starting to see growth in line with the market.

I know you are saying that you are targeting 50% domestic mix, but the issue is industry is at, call it, 75% plus. I think you talked about winning some programs here, but at what point do you finally start to have China be in line? And maybe you could just unpack the underperformance. Is it just this customer mix? Is it competition? What's going on in China, and how is this fixed?

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Thanks, Dan. First, I think it's important to point out that as we look out to next year and beyond, the strategy that we put in place over the last several years will really improve the profile of our business in China and with the Chinese OEMs globally.

In terms of what happened in the third quarter, there's a couple factors that weighed on that growth or growth under-market in China. A significant portion of our revenue in China with the Chinese OEMs is in our non-consolidated joint ventures. And so, if you account for that, that business actually grew in the quarter, and that would eliminate more than half of the negative growth of the market in the quarter. So, there are parts of the business there that are performing in line or even better than the market.

And I think the other point that's weighed on our business in the near term is the level of exports out of the China market as the domestic demand has weakened this year. And we've talked about this in the past. We're under-indexed on exports, and that's primarily because the exports-to-date have really focused on primarily the lower end of the market, where we're underrepresented.

We have a very strong business, particularly in luxury in China and the higher ends of the market. And I think over time, as the export mix shifts to higher ends of the market, we'll better reflect the market overall in terms of the ratio of exports in our business.

And I think that there's a lot of evidence that we've shared this year that, again, that our strategy for growing with the Chinese automakers in China and globally is working. We had $900 million of our $3.9 billion of new business awards this year, 23% of the new business awards this year are with the Chinese automakers. Only 8.5% of our revenue today, consolidated and non-consolidated, is with the Chinese OEM. So, we are clearly seeing a growth inflection point with the Chinese automakers that will benefit the business longer term.

We've talked about this year and last year, our share of revenue within China that's with the Chinese OEMs, 44%. So yes, we're under-indexed there. That grows to 50% or a little bit above that next year. We see a path to 55% and beyond if you look out two or three years and include the benefit of the new awards that we've announced this year. And so, all signs point to our business more closely reflecting the mix that is represented in the market in China.

And I think that there are some regulatory changes that are coming over the next several years that will encourage more localization for the Chinese. And we're seeing good performance in terms of our wins with the Chinese OEMs as they localize. We had Leapmotor in South America we announced last quarter. And then we had the two wins with BYD this quarter. But Jared, why don't you talk about some of those regulatory changes that we think will change the composition of exports going forward?

Jared Anthony Fedele
Vice President of Finance for Seating and E-Systems, Lear Corp.

A

Yeah, sure, Jason. Yeah. And you're correct. There are a few factors and potential regulations that have come up that we look at favorably from our standpoint. I mean, first is a potential regulation, we've talked about it, on the Industrial Accelerator Act. That's the IAA, and something we've been monitoring closely. And this is that Made in Europe Act, and that's being discussed in the EU. That would potentially put a threshold on local content rules.

Second, there is that hybrid export cap in Europe, where China and the EU are expected to agree to limit hybrid exports out of China up to 350,000 vehicles annually, starting on December 1 of this year, which could help aid in the acceleration of the localization with the C-OEMs in Europe.

And then finally, there's one more starting on April 1 of 2027. China is going to lower the value-added tax export rebate for new energy vehicles to 9%, down from the 13%. So in simple terms, China is lowering the rebate in which they give to the OEMs for exporting NEVs. So all these regulations, it plays to our favor, and mixed with our strategy in China, winning with the C-OEMs and the relationships we've built over the last 30 years, it's going to be a positive as we continue to grow and gain market share within, and now outside, as Jason mentioned, with Leapmotors and BYD already outside of China.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

So, just the net of that, do you feel confident that given everything that we're seeing in China, that eventually when your larger backlog comes online, that you can eventually return to more meaningful growth? I know 2027, you've sort of talked that down, but in the 2028, 2029 period, I think you've given some upside numbers there?

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. As we said on the last call, we see in 2029 this business returning to significant growth above market with both segments getting back to the historical targeted range, 3% to 4% in Seating and 4% to 6% in E-Systems. And one of the updates we want to provide today is on the backlog, just this continued progress we're making with new business awards is increasing the confidence level we have and the strength of that three-year backlog. Jared, why don't you provide an update on that?

Jared Anthony Fedele
Vice President of Finance for Seating and E-Systems, Lear Corp.

A

Sure. And you're correct. We do feel good about the trajectory of our backlog. And now, obviously, we are not giving official backlog update on the call. The recent wins we've communicated, it really reinforces our confidence in the long-term growth outlook. I'll shed some color on this.

In Seating, the most notable awards include significant conquest awards. We've talked about Audi in Europe, North America with the Ford Super Duty, along with complete seat awards. We just mentioned Leapmotors in South America, and additional wins with the C-OEMs and awards in India now with Mahindra. Over half of those year-to-date awards have been for newer conquest programs in Seating, providing that foundation for future growth.

Then, in E-Systems, we secured important new awards with Renault, Stellantis, BAIC, General Motors, and multiple Chinese automakers. And more importantly, over 70% of our year-to-date E-Systems awards come from the conquest business, from newer conquest business. And based on what we know right now, knowing that the timing of launches can move, and more importantly, new awards can be sourced from now until when we report, our three-year core backlog is about $2.25 billion. The key is, with our backlog, we've been very, very selective on the profile and the quality of the business we're going after and winning. Every program has been scrutinized to make sure it's returning in excess of its cost to capital, and we're not chasing business to win business.

If you look at the Ford Super Duty JIT and wire business, the Audi JIT business, the T1 SUV wire, the JIT in Orion, just these handful of programs taken together, Dan, between Seating and E-Systems, it makes up more than 70% of our backlog that's rolling out over the three years. So these are programs, has a long history of success in the market. We have a high degree of confidence that those are going to launch on time at the volumes that we've embedded in our backlog. So the momentum is building, and more importantly, the quality of the awards is there, and the pipeline remains robust as we sit here today. So the team is doing a really good job.

Raymond Scott
President, Chief Executive Officer & Director, Lear Corp.

A

Let me weigh in on this, Dan, because this is important, and I know we're focused on China, but we've laid out a plan, and we've talked about it for some time now, and we've been looking at the domestic Chinese and what was going on with market share gains throughout the world. But we said, listen, we can still win with the traditional OEMs as they are shrinking, and we have done that. I mean, it's remarkable.

I sit here, and I have an enormous amount of confidence when I hear from the team, both Nick and Frank, the conquest wins we're getting, and to Jared's point, how we are being very selective after, I'll say, high-quality wins, programs that we have a high confidence in that they're going to run. They're not a one-and-done program that we've all experienced over the last several years, but the high confidence that the OEs, the customers are putting a tremendous amount of effort and energy and money in, and that's where we're betting and then putting our dollars.

The second thing is, I was just in China last week. It was incredible and remarkable different in respect to what's going on on the ground in China. They're looking for companies that are and have profitability, technology, innovation. They're taking the next step. They're concerned about some of the domestic Chinese around their profitability, and because they're not profitable. And so, a strong company that has a global footprint like we have, man, was just really attractive.

Every meeting that we had, every dinner that we had, every event that we went to was another reassurance of our technology capabilities really mirror well as they increase into the upper ends of the luxury markets. And that's where we participate, that's where we play really nice. And the third leg of this thing that we've been talking about for years now is a continuation of the Japanese customers. We've been somewhat limited. I love to see that door opening. What we're talking about here is you have the traditional OEMs that we're gaining and conquesting and gaining market share, which is beautiful.

The Chinese that now they're starting to get into luxury and technology-focused type of components around E-Systems and Seating. You're seeing that accelerate. And then we have the Japanese growth that we mentioned on the call. So I'm very confident. I love where we are at. It's all been about tracking net performance. The team's doing a remarkable job in net performance. That's important to really show the sustainability we have despite whatever challenges we have. But equally as important is how we look at that backlog. And that's one of our strong points right now.

I'm very, very confident in our backlog. I mean, I feel really good. And I got Nick and Frank in here too, and we got more work to do. We got a robust pipeline right now of quotes, and we're going to push through it and continue to gain more market share across those three different elements I mentioned. So I think it was a good question. I don't want to overly focus on China because we're hitting it in all different cylinders when we talk about those three different areas.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. I'll pass it on. Thank you.

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, and echo the congrats to both Jason and Jared. Maybe one just shorter term and then one longer term. You didn't really tighten your operating income range for this year, and if we sort of look, like, up versus down, it's like 22% for the fourth quarter. So just given that we've seen some changes to schedules recently here in the fourth quarter, was wondering if you could try to hone in on sort of where you think you're tracking, at least for the year, within that range? And then on those, if we continue that into sort of like at least

early 2027, where we've also seen some maybe revisions to schedules, how you're thinking about 2027 right now?

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Starting with the outlook for the fourth quarter, it's a little bit wider range than we ordinarily would have, and we just decided to leave it intact sort of from the prior guidance at this stage. The factors that will determine where we fall within that range and what we're focused on is really continued flawless execution operationally, as we've seen over the last really two years in both Seating and E-Systems, very strong operating performance.

We have a number of commercial negotiations, as you might imagine, that could swing the number one way or the other, and that's another reason for the range. And the deterioration in the demand in the China market is the other key factor, and really that change in our production outlook on our platforms in the China market is what drove the revision of our revenue guidance. 90% of the $256 million shown on the slide is in China, and then there's a little bit in Europe.

So, it is a dynamic market. There has been very weak domestic demand in China throughout the year. It's accelerated a bit over the last several months, and we tried to protect for that with that wider range. As we sit here today, our best estimate is right at the midpoint, but the factors I outlined will ultimately determine where we fall within that range, and then we have an investor conference in December where we'll provide an update on how the quarter's tracking at that point.

Joseph Spak
Analyst, UBS Securities LLC

Q

Okay.

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

In terms of 2027, we provided a lot of color on the last earnings call. We were probably a little bit early relative to others. And I know others have provided updates in this reporting cycle. And the building blocks that we outlined in terms of what would drive revenue growth and what some of the challenges were on specific platforms, nothing has changed. Nothing in the outlook for this year really has an impact on our view on 2027 on the revenue side.

And on the earnings side, the 40 basis points and 80 basis points in net performance that we articulated for Seating and E-Systems respectively are still right on track. We do expect to do a little bit better than that in both segments this year. We did a little better than that last year, so the momentum is clearly there operationally. And we're increasingly confident in being able to deliver that net performance next year as well. So, between now and February, we'll work through the final assumptions around production volumes and the timing of launches and solidify guidance and provide that in February.

Joseph Spak
Analyst, UBS Securities LLC

Q

Thank you. And then Ray, the Orion commentary is super interesting, and you mentioned it's a blueprint for global Seating. So maybe just some commentary on how easy or how long you think you could sort of scale that across the enterprise? And are there any parts of the world where there might be something structural that would actually prevent you from accomplishing what you're doing in Orion?

Raymond Scott
President, Chief Executive Officer & Director, Lear Corp.

A

Well, I think – I'm glad you are asking this question because it is, I think, one of the most significant part of our strategy that we've been developing over 10 years to have that footprint. And we're obviously learning along the journey, but how we can scale that. We have been, through IDEA by Lear, implementing in production environments changes to our manufacturing plants.

So, we have been getting at some of it, but to have a full-scale, ground-up facility like what we are doing in Orion is very unique. And I think as we set up the next plants, like we talk about with the heavy duty with Ford Motor Company, will be exactly, but probably at another level. And so, I focus, when I say scaling, particularly around the brand-new plants, on the new plants that we're putting out for our customers.

There are elements that we continue to learn that we are going to continue to improve our net performance. I think the foundation of what we talk about with sustainable margin and how we're offsetting some of these external costs is through what we're doing. And so some of them are very easily replicatable, like cycle time deviation, for example. We were able to scale that across the majority of our manufacturing plants and get at a significant opportunity in savings within our plants globally.

So there are some that are very easy, and there is no – I think you mentioned a roadblock or inability for us to get at. Some of them are more, I think, around the ability to get at it because production is running, and having the downtime to get in and make the capital adjustments. And so they're all somewhat different in how we look at it, but the majority of them we can get at. We already have plans to get at. That's all part of our – how we're looking at capital, how we're looking at investments, the payback timeframe, those type of things.

But, one thing that I mentioned, what's great about this is, when we acquired these companies, for example, like ASI and the others, we're manufacturing – becoming a manufacturing integrator leader. And we can control our own destiny when it comes to capital. So we manufacture our own capital, which is very unique. And we can design it just like we design products with a cost savings intent. And so we're seeing significant reductions in how we look at our capital and invest in our capital, and how we get a much better cost of our capital.

So, I said a lot there, but I'm glad you brought the Orion facility and why we want to get that out there, because we have been differentiating ourselves. It is very unique. No one has it. In my narrative, it says, hard to replicate. I think it's almost near impossible to replicate unless you go buy the companies we bought, and that's been a 10-year. Boy, Jason, we've been at this for...

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

For 10 years, yeah.

Raymond Scott
President, Chief Executive Officer & Director, Lear Corp.

A

10 years.

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Absolutely.

Raymond Scott A
President, Chief Executive Officer & Director, Lear Corp.

And so, it's great to see what's going. I was just out at the Orion facility a couple weeks ago. I can't wait to have you out there and others, because you're going to see a game-changing event when it comes to how you think about just-in-time and how we think about modularity. You have to buy the companies, particularly as you vertically integrate, you have to own the lumbar company. Our acquisitions have been intentional, and now we're starting to see it. 47 contracts, when you talk about ComfortFlex, ComfortMax, FlexAir.

It's not where I want to be. I'm never happy. I want to sell more, Frank is sitting here. Some of it has been delayed programs, things that are going on with our customers, but man, this thing is starting to take off. And I remember two years ago, three years ago, when investors, analysts were saying, man, you're going to have to change the whole model. And that's exactly what we're doing. We're changing the model around how you think about sourcing a seat system and how you manufacture a seat system. So, yeah, I could talk about this for hours, but I'll leave it at that.

Joseph Spak Q
Analyst, UBS Securities LLC

Thank you.

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

James Picariello Q
Analyst, BNP Paribas Exane

Hey, good morning, everybody. How can we start to think about the commodities bridge for next year, both from a top line recovery and net EBIT perspective? I know it's early, but just curious on your prelim thoughts there regarding Seating metals exposure and E-Systems' Index Copper. And then, for this year's tariff reversal impacts to revenue, can you confirm the portion that was truly one-time and represents a static tailwind to revenue next year? Thank you.

Jason M. Cardew A
Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, I guess, if you want to start with the last part of that question, I think we provided the non-recurring portion of the tariff revenue that's embedded in the guidance for this year, and it's $200 million or so.

Jared Anthony Fedele A
Vice President of Finance for Seating and E-Systems, Lear Corp.

Correct. That's correct.

Jason M. Cardew A
Senior Vice President & Chief Financial Officer, Lear Corp.

So that would be non-recurring, the refunds from last year. And our go-forward tariff costs are very modest, because most of our tariffs are avoided through the customer offset credits. And so we don't see it as a significant issue going forward.

In terms of commodities, it's been a significant issue for us this year in terms of the gross impact. But we have a long history of indexing and back-to-back agreements that we put in place going back six, seven, eight years. And so the vast majority of that has been passed through. We have over $300 million in gross impact this year, and the net impact is only about $10 million.

Looking out to next year, certainly copper has run up continuously throughout the year. And we've benefited a little bit in terms of the revaluation of our inventory as that has increased, and that will be non-recurring, so that'll be a little bit of a headwind for next year. But all of those components that are embedded in commodities are part of the 40 and 80 basis points of net performance. So whatever we see in terms of leakage on commodities, we're offsetting through our performance activity. And we remain confident in meeting or exceeding the 40 and 80 basis points in net performance again next year, in Seating and E-Systems respectively.

James Picariello
Analyst, BNP Paribas Exane

Q

That's really helpful. Thank you. And then just as we think about restructuring savings that are clearly showing through this year, is there a sizing of what that restructuring savings number could be for next year? I know we already have the automation savings in place for 2027. Thank you.

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I think we increased the level of savings we're going to achieve this year in restructuring, I think from $80 million to $95 million in the guidance here. And the investments we're making here in the fourth quarter will continue to benefit next year. The paybacks continue into next year.

If you just look at restructuring overall, there are projects that have no payback because a program has ended production and you're restructuring capacity out with no future benefit. And then there are projects where we're embarking on labor arbitrage or other cost reduction opportunities. And those typically have about a 1.5 to 2.5-year payback. And those are the projects that we're really focused on in the fourth quarter here and into next year to ensure that we have the most competitive footprint for the long-term. And in the meantime, it remains a key contributor to that net performance narrative that we've seen this year and expect to continue to see next year.

James Picariello
Analyst, BNP Paribas Exane

Q

Thank you.

Operator: And our final question today comes from Rajat Gupta from JPMorgan. Please go ahead with your question.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for taking the question. Just wanted to touch on the 2027 outlook or just preliminary outlook. I know you've given a lot of color on the revenue dynamics, some of the China pressures, also like some of the performance benefits that expect to remain on track. I'm just curious if there are any offsets we should think about, particularly from like some of the wind-down business that you're seeing? If you look at the E-Systems bridge this quarter, the decremental seemed pretty high on some of the backlog and the wind-down. I'm just curious how we should think about those puts and takes in the 2027 margin bridge? And I have a quick follow up.

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah, again, Rajat, We've provided a lot of color on our view on 2027 on the last earnings call, and we'll until February to provide the full guidance. But what we typically see on the wind-down is, that's converting in the 20% range. It depends on the particular program within that. Backlog typically is converting in the 10% range, and volume and mix on both Seating and E-Systems tend to be 15% to 25% in that rate of conversion, depending on the level of vertical integration on the program, the underlying profitability of the program. But that is the typical range, and I think those ranges in terms of how we convert on the backlog growth into next year and the wind-down impact for next year, as well as the production changes on our platform, should basically hold within that range.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Understood. And then, just anything we should keep in mind when it comes to available capital for return this year versus next? From a restructuring standpoint, I know CapEx is a bit heavy this year with Orion and the automation build. I'm curious, like, any meaningful changes we should expect as we head into 2027? Thanks.

Jason M. Cardew
Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Again, we'll save the pinpoint guidance for next year on that. But what I will say is that our priorities around capital allocation remain consistent. We're going to focus on investing in the business first through CapEx and tuck-in acquisitions if they become available. We don't see anything of scale in terms of on the M&A side. And we're going to continue returning our excess cash to shareholders through share repurchases and dividends. I think 80% of the free cash flow we generated this year will be returned to shareholders through share repurchases and dividends. I see that level of capital return to shareholders continuing into next year. And we look forward to providing more color on the specific guidance on the fourth quarter earnings call.

Rajat Gupta
Analyst, JPMorgan Securities LLC

Q

Understood. Thanks for the color, and good luck.

Raymond Scott
President, Chief Executive Officer & Director, Lear Corp.

Yeah, just again. Well, you're still around. We'll still be able to see you, so I won't get into this. I don't want to get emotional right now. But just to the team, I think probably Lear members are still on the phone. Just want to say thank you. Another outstanding quarter going on. A lot of dynamics in the marketplace, but we continue to stay focused on what we can control. Great job, Nick, Frank, to the teams and the operations. Great wins. I appreciate all the hard work. Jared, nice job with the narrative today. I tried to mess you up, but you did a great job anyway, so well done.

Jared Anthony Fedele
Vice President of Finance for Seating and E-Systems, Lear Corp.

Thank you.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks to the team. Appreciate all the hard work.

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.