



Transcript

Lear Corporation

Morgan Stanley Laguna Conference

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Frank C. Orsini

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Adam Michael Jonas

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William Tackett

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FIRESIDE CHAT SECTION

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Okay. We'll get started. All right. Yeah. Really delighted to have representing Lear, Jason Cardew, Senior Vice President and Chief Financial Officer; and Frank Orsini, President of Seating. Frank, thanks for coming and give us a perspective on the Seating side of the business.

I just want to -- just, what do you want to talk about? Let's start out at the top. What are the key messages that you wanted to kind of convey to investors here? And then, I'll let William kind of go into double-click on some of the topics.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Sure.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Thank you.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Well, thanks, Adam. I appreciate participating today. And I'll start by just maybe talking a little bit about what we're seeing in the third quarter and how the business is evolving throughout the balance of this year. And first of all, I'd say that both Seating and E-Systems are continuing to execute at a high level and operationally performing very well on the things that we can control. In Seating, we continue to extend the leadership position that we have in

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that space really through our thermal comfort acquisitions and the modularity that comes with that. And then, also the process-related acquisitions really, I think differentiating ourselves on the manufacturing side through those investments.

And it's showing itself in terms of near-term performance, but also, from a quality standpoint, I think what we're doing is pretty unique. If you look at the J.D. Power initial quality survey results, again, we had more than twice as many top three finishes as any other seat maker. We swept the premium category with all top three finishes there. And so, the Seat business continues to really build on the very strong competitive position that was established.

In the E-Systems, we're really focused on execution, improving operating margins, continue to grow that business. That business is going to grow roughly 6 points above market this year, continuing that trend. So, over a five-year period, that business is growing at 6 points above market. We continue to improve the customer diversification there as well. And we've had eight consecutive quarters of improved operating margins. From an IDEA by Lear perspective, something we'll talk about throughout today, really like what we're doing with automation and continuing to improve our manufacturing processes and lower our costs.

In terms of the third quarter, specifically and the way it's developing, when we had our second quarter earnings call and revised our guidance, we had visibility to a series of customer production reductions and we just kind of extended those out into the fourth quarter, made some assumptions that we felt like at the time we're pretty conservative.

Stellantis is a big customer of ours in North America and Europe, and they were cutting production to realign their inventory levels. GM had provided a new EV production target, which we had further discounted a little bit in our guidance. And Volvo is an important customer for us in both Seating and E-Systems. We have a launch of the EX90 and the Polestar 3 program here in North America. We have lowered our volumes associated with that.

So, we felt like we had really a balanced set of assumptions in our guidance that we are seeing further deterioration in the production volumes here in the third quarter. We're now expecting revenue in the third quarter to be \$5.5 billion. We didn't provide Q3 guidance specifically on the earnings call, but that's about \$150 million lower than what we had anticipated when we did issue our full year guidance.

Operating margins are holding up in both segments. So, the performance side is holding together pretty well. We expect E-Systems margins to be about 5% in the quarter and Seating margins to be about 6% in the third quarter.

In terms of the full year, I think that \$150 million reduction in sales kind of works its way into the full year number as well. And so, we're -- as we sit here today, we'd probably see revenue between the midpoint and low end of our guidance range. And we see operating margins sort of in line with the midpoint of our guidance range.

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Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Thanks, Jason. You basically answered my next two questions. I was going to say, sometimes you use these opportunities to update some of the guidance. We just had a big chunk of the German auto complex warned. Our team thinks Stellantis is next. Ford, well, depends it on the quarter. GM hasn't warned yet, which means, well, I don't know, draw your own conclusions. So, anything else you want to -- like, this is revenue driven, right? This is just...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

...this is pure production. Is there anything mix related as well beyond the EV cancellations that you've noted?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

No, I mean, we're continuing to see this market shift in China from the traditional international customers to the Chinese domestics. But particularly on the Seating side, we have a pretty good portfolio of new customers there that are benefiting from that shift as well. Our BYD business on the nonconsolidated side is doing well. On the consolidated side, Xiaomi in the SU7 program is doing very well. So, there's Leapmotors, two programs there. We're seeing higher revenue than we had anticipated in the guidance. So, there are some positives happening as well.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

So, you've seen Ford, Volvo, you mentioned they pulled back more formally on the timing of the EVs and taking some charges, some large charges at Ford to help compensate suppliers that where you made investments for product, that won't be made, it won't be made in the top line or volume anticipated. How disruptive is that for you? And does that provide you -- would you have been building up some of the capacities yet to make those products such that what starts out as a restructuring charge or an impairment at your customer then provides an opportunity for you to make restructuring improvements in your business going forward, or is it just -- or is it -- or have you not developed far enough into those programs to find that?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. In this case, we didn't have the seat program that relates to the vehicle at Ford delayed or cancelled. So, there is no impact. But yes, I think you would have been close enough to the launch that you probably would have had some costs that you were incurring...

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Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

...and take a charge associated with that.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

And do you think these kinds of things -- I don't know if you want to express, do you think that this is the kind of thing you are expecting maybe some other of your OEM customers to follow through on, these delays?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

What we're seeing mostly right now is just lower volumes than anticipated.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

And there's lots of -- I think there's more transparency with customers in terms of maybe not deploying the capacity any sooner than you have to and avoiding some of that...

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Yeah.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

...unnecessary underutilized capacity that otherwise would have happened in a traditional sense. When you invest a couple of years in front of a program launch, there's more active dialogue with our customers now to make sure that doesn't happen to the extent you can prevent it.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Thanks. Thanks, Jason. William?

Q

William Tackett

Analyst, Morgan Stanley & Co. LLC

Maybe just to double-click China for a second. I think, in the past, you've said you're winning your fair share of business with the Chinese domestic OEMs. I guess, how should we think about the opportunity for Lear in China? And I guess how do you think about the competitive landscape as well? I think right now there's not really a lot of

Q

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domestic seating competition. How do you think about the potential for a rise of domestic seating competition in China?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Certainly, there are some smaller private seating suppliers that we compete with in China, but it's mostly the large players that we deal with outside of China. Adient, Yanfeng and Lear are the three largest seat makers in China and we all have a similar market share. We feel like we are outcompeting both of them and doing very well in that market. We do see competition in maybe some of the lower end of the market from local Chinese suppliers. But in the premium space where we play, and maybe Frank can elaborate a little bit on this, too, we're seeing a pull from customers that want access to the capabilities that we have. And we have almost 50% of the global luxury market in seating. And so, we're doing particularly well in the higher ends of the market in China with the Chinese domestics.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yeah. It's a great point. And thank you for having me as well today. I'm happy to be here. Yeah. To Jason's point, I think with companies like BYD and some of the partners that we have in the region that we're winning with, they're well aware that we're a leader in premium luxury seating. And as they look to upscale their products, they look to us to help support that initiative, whether it be through thermal comfort products that we've invested in or even our ability to automate and bring plants to market faster. Cycle times are important.

So, for the China region in general, we've been there a long time, 30-plus years. We have a very experienced operating team out there that's helping us win business with the Chinese domestics. We have very strong relationships that have developed over the years of that 30 years plus operating time line. One thing that makes us very attractive in the region is we have full-scale capabilities from an engineering standpoint and from a manufacturing standpoint. So, we can literally produce every single product that we make around the world in that region, including thermal comfort now. And we can design, engineer, validate all of our products in the region. So, it's really been a great opportunity for us.

The fact that we are vertically integrated -- we are the most vertically integrated seat company in the world, but the fact that we're vertically integrated in China has served us very well because it allows us to bring product to market faster. We can launch plants faster. And if you think about it, that's really what some of the Chinese domestic OEMs are trying to accomplish; shorter cycle times. And we're a great partner for them in that regard.

And the business is evolving out there. Year or so ago, we were 80%, Western OEM, in terms of revenue profile. That's now 70%. So, we're moderating that. And our backlog is about two-thirds with Chinese domestics and about one-third with Western OEMs. So, we have a number three market share position, and in the next couple of years, we'll have about 30% of BYD's seating business in China. So...

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

30% of BYD in three years?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yes.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Where is that today?

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

It's growing. We're in the 10%.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

10%, 15%.

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Yeah.

A

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

It's ramping up rapidly. It's our fastest-growing customer. It's half of our nonconsolidated sales backlog...

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

...Xiaomi, who does the seats for SU7?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

We do the Xiaomi SU7 seats as well. That's been a great success.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

What are they like to work with? What's it like working with a phone company?

Q

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

They're great. No, they're great to work with. They're the -- the technology that they put in that vehicle, Adam, is amazing. They are state of the art with their product offering. The execution is phenomenal. We benchmark a lot

A

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of the products out there. They have very high-end content in the vehicle and it's very competitive. To Jason's point, it's been a huge success in the market as well.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

In E-Systems we're performing well with the Chinese domestics in China as well. We have a great business with Geely and all the brands under Volvo Geely family, with Great Wall, with FAW. So, we have a strong business with E-Systems there as well.

And we recently made a leadership change there where the leader of our Seat business is now providing oversight for both segments and really leveraging the strong customer relationships we have in Seating to bring some exposure to E-Systems as well with those same customers.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

So, automation, maybe to get onto that topic. So, you mentioned IDEA by Lear, obviously it's a huge focus of your team, but seating, wiring, it's some of the most difficult areas to automate, like, as you guys know. I guess where are you finding areas to automate that have historically been difficult? And when we think about the automation benefits, how should we think about the timing of that?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Well, I'd say from a timing standpoint, we're seeing the benefits right now. And we talked about in the second quarter earnings call that we anticipated reducing our head count in the Seating by 8% and E-Systems by 6%. A big driver of that is automation, in addition to our other efficiency programs. We made a series of acquisitions in this space to really accelerate our ability to automate.

And as a total company, overall, labor is about 13% of sales. So, it's -- but we have a kind of a wide range. E-Systems is more labor-intensive than Seating. Within Seating, the JIT business is not very labor-intensive. Cut and sew, trim covers are very labor-intensive. So, it's kind of a wide range in the different businesses. The biggest opportunities near term that we see continue to be in Just-in-Time Seating. Even though it's our least labor-intensive business, the opportunities for automation are greatest there.

But we are also making some progress on both wire and cut and sew. So, 2D sewing we've automated. On the wire side, we're also seeing a reduction in the equipment costs -- automation equipment costs, which are improving the business cases for the financial returns associated with automation and wire. So, in a very low labor cost business like that, the return profile was a little bit lower than what we would like to see. That's changing now as we're finding new sources of equipment in China that have lowered the cost and an improved return profile.

And Frank, maybe you could talk about Thagora, which is another area of automation that we haven't really talked a lot about, but one of our acquisitions on the process side in leather.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Yeah. Yeah. So, automation can be challenging. So, we've been at it for over a decade now with the acquisitions that we made and the skill sets that we've been bringing in. And we're making a lot of progress in the areas of automation, robotics, vision systems. We actually have a proprietary software platform for our own vision systems

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called Lear View. And we've created a skill set of system integration where we're manufacturing, to Jason's point, our own equipment, and then we're able to layer on top of that our software, our AI systems and platforms. So, Thagora is about as good of an example as you can get of how we're taking a traditional process and automating how it works.

So, I don't know if everybody knows this, but we're the largest provider of leather to the automotive industry. And typically, when you go to cut leather, it's a quite labor-intensive process. The way it works is you take a cowhide, you mark the hide for its imperfections, and then we have very skilled labor that places cutting dies on that cowhide. And it's skilled labor because you have to really optimize the patterns and the nesting.

What Thagora brought to the table that was truly new to the industry and state of the art is algorithms and software that allow us to scan those hides. We know exactly which ones we have in inventory now. And when you go to place the cutting dies onto the hide, it's all done through algorithms. We're not reliant on skilled labor at that point. We're reliant on the software. And it's all vision projected onto the hide and it's optimized for the best utilization of that particular application. We even know what hides we have in inventory and what we're going to be cutting that day. So, backs, cushions, whatever that pattern might be, it will select the most ideal hide for that application for us. So, it's truly revolutionary.

I think the thing that excites us the most, though, about what we're doing with automation and everything, it's certainly about efficiency, but it's all about safety, ergonomics in our facility, better work environment for our employees. It's about reliability of the equipment in the production process. It's about reducing scrap. It's all of that. That's really what automation is bringing to the table. I think it's why we are separating ourselves from the competition in the industry because nobody has the skills and capabilities that we brought in through ASI and InTouch and Thagora and most recently our WIP acquisition. That's bringing AI capabilities, software capabilities to our manufacturing process. Really exciting times for us.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

So, automation is kind of the key enabler for us in terms of offsetting wage inflation. Historically, labor arbitrage, moving from a high cost location to a lower cost location was the key driver of that. We're in the later innings on that. And so, now sort of supplementing that in the near term and then replacing it ultimately, I think, automation is a key part of the story there.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Maybe just a moment if we can just check with the audience any questions for the team here. I'm going to double-click on anything. Have a think on that. I'm going to come back to you before it's over. William, keep going.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

But shareholder return, top of mind for investors, especially in the suppliers, anything automotive. You've said in the past that you're targeting \$500 million of dividends and buybacks this year. Obviously, maybe some M&A fits into that. You've done a lot of automotive -- sorry -- automation-related M&A. But can you maintain that level of cash return into the coming years while also investing internally? And I guess, kind of going back to the M&A point, where does M&A fit into that strategy?

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Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Certainly. Well, the short answer is, yes, we can continue to return that level of cash to shareholders through dividends and share repurchases. We talked about buying back \$325 million this year. We've really accelerated our share repurchases in the third quarter. We bought back \$130 million through yesterday. So, we bought back more in the third quarter than we did in the first half of the year. So, really kind of pulling forward that plan to take advantage of the recent weakness in the whole auto supply, whole auto space for that matter. And so, we're very focused on that.

If you look at what we've done with M&A over the last five years, I think that we would expect to do something very similar over the next couple of years. So, in the near term, our focus is on process, small tuck-in acquisitions. There's not anything significant on the horizon. So, the free cash flow we're generating, we're going to return to shareholders largely through both share repurchases and dividends.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Jason, why can't your legacy auto customers make money with EVs?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Well, I think, in the near term, volume is probably the biggest challenge. And so, I think, over time, you need more demand. And absent that, it's going to be a very challenging business case. So, I don't have a silver bullet answer for you on that.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Would you say is it costs, is that the main -- so, why is the volume not there?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Well, the volume is not there because the demand isn't there. Demand isn't there because the price of vehicles probably too high.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Okay. So, then, given your knowledge of the automobile, not just the seating, but of the electrical architecture and through E-Systems, do you believe that there is a credible path? And then, also of your increasing knowledge of the winning kind of formula in China with the Chinese domestics, you're really growing relationships with BYD, Xiaomi, et cetera, do you see a path for like very affordable EVs, kind of like -- the kind where you can look back and be like, I cannot believe how expensive EVs were in 2024? Is that something you think is realistic this side of 2030?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I mean, I think, if you look at what we're doing in Seating in terms of designing modules and systems that are lower cost, you look at what we've done in E-Systems, on the power electronics products that we provide like

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battery disconnect, there is massive opportunities to reduce the cost from the first generation of the program to the second generation program. I think that there's -- we've seen plenty of signs of maybe overengineered products. And so, I think that's maybe the first lever that can be pulled, if you look at the next generation of products. I think, if you look at what's happening in E-Systems more broadly or electrical distribution more broadly with zonal architecture, that has the potential to reduce the cost of the vehicle pretty dramatically.

So, I think there are enough opportunities longer term to make -- to help solve that affordability equation. And I don't think it's -- if you can't solve the affordability equation, then the regulatory environment is going to have to change. So, it's kind of a circular process the way I'm looking at it.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Do you see scope for Chinese firms to work with your Western legacy OEMs onshore in Europe and US in some capacity?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

That's an interesting question. I haven't -- Adam, I haven't given it a tremendous amount of thought. I don't want to speak on behalf of our customers, but...

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

I know you don't.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. So, that usually doesn't go over very well. But yeah, I think you're seeing signs of more collaboration generally in the industry. We have the wire for the GM vehicles built in collaboration with Honda in Mexico. So, you have the Blazer EV, the Honda Prologue and the Acura ZDX. So, GM is building those vehicles for Honda. You have Honda's talked about their collaboration with Nissan and Mitsubishi. And so, I think you're seeing more signs of partnership that will help drive costs down, too.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And I respect -- I don't want you speaking on behalf of your OEM customers. I get it. I get it. But given, again, what you're learning about the Chinese and your perspective of what's driving the success there is evident and valuable. What is it -- beyond volume, beyond the Chinese, like BYD just has X times more volume than a Western player in a similar segment, is there something about the way the cars are designed or the piece of their innovation or something cultural or vertical integration? I mean, I don't want to put words in your mouth, but what would be the one or two major differences when you see how BYD and Xiaomi vehicles are designed and engineered versus others that are maybe struggling now in China, including some of your Western customers but not all of them? How do you -- where are the biggest gaps, not speaking for any one OEM?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

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Yeah. I think one general point you can make is the development cycle and the fact that the Chinese domestics have found a way to develop and bring to market vehicles much more quickly than our traditional customers.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Is that cultural? Is this [indiscernible] (00:28:28)...?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

I think, if you take a step back and you look at, they were able to start with a clean sheet. So, they had the benefit of studying what the Japanese did studying and what the American and German automakers did. And it's really improving upon that with their offerings. And you see the influence, of course, technology. If you look at, Huawei working with SERES, and others where they have a technology platform that facilitates faster development and bringing vehicles to market. We've talked a lot about this, too. I think they've made some decisions around sharing of the -- in seating, for example, the seat structure across multiple programs, allowing them to bring derivative vehicles to market more quickly. So, there are certainly things that can be learned from the Chinese.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

And one of the things we've learned in the last year or so is consumer seems to be -- incremental consumer is going towards hybrid, either PHEV or just HEV, away from BEV, at the margin, at the margin. And you look at the year-on-year growth rates as evidence. And then, you've seen that the Japanese and Koreans, in particular Japanese inventory is like one-third of that -- of, let's say, US domestic players like Stellantis, Ford, GM collectively, talking 25 days versus 70 days or something like this or thereabouts in August. So, remind us your exposure to the Japanese OEMs either in E-Systems and Seating? I don't know what...

[indiscernible] (00:29:58)

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Well, on the Seating side, we have a large leather business with Toyota and Honda, particularly with Toyota globally. So, not just here in North America, but also in Asia and in Europe. And we have some exposure to both through thermal comfort. We have a growing Seat business with Toyota in Japan through a joint venture, but we're also quoting Seat business with Toyota in China on...

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Complete seat?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Complete seat. Yeah. And so, I would say we have a growing opportunity with the Japanese automakers in Seating. In E-Systems, we have very little exposure to the Japanese other than Nissan at this stage.

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William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

Maybe kind of going back to EVs. You mentioned EV costs. Obviously, the easiest way to reduce the cost in EV is you just cut out content. And so, I guess how you think about the risk of de-contenting on EVs, because obviously that would affect both the Seating and the E-Systems business?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

So, we haven't really seen any signs of that at this stage. I think in order for the customers to be competitive in the marketplace, they're including -- the seats are typically more aligned with the luxury space -- and so, they're including thermal comfort products and other luxury features. We haven't seen evidence of de-contenting on the Seating side. It doesn't seem to be an area that they're using as a lever to lower costs.

In the E-Systems side, you're not seeing tremendous difference in the CPV between -- in the features in a battery electric vehicle versus an ICE vehicle. Of course, you don't have an engine harness in a BEV. So, less content there, but you have all the high-voltage wiring that more than compensates for that. So, in E-Systems, our CPV opportunity is much greater in electric vehicle than it is in an ICE vehicle. So -- but to answer your question directly, we're not seeing any signs in our business de-contenting is impacting us.

William Tackett

Analyst, Morgan Stanley & Co. LLC

Q

Maybe kind of just switching pages. So, you talked about JIT, automating JIT, but I think another, like, some of the rumblings that we're hearing in the industry, especially in Europe, is the insourcing of JIT. And so, I guess, like, how do you think about the risk of insourcing? And then, just Europe, broadly, one of your competitors has had a number of headwinds, and so I guess what are you seeing in the region in terms of oversupply, any kind of other headwinds that you're observing from your position?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. I'll start and then I'll hand that one over to Frank, because I know one of our competitors has talked about that. There -- our customers in certain cases do make their own seating. So, this isn't a new phenomenon. We're not seeing a wholesale change in that regard. We really love our ability to compete. And so, if they're going to do a make versus buy business case, that's -- 95 times out of 100 that's going to come out in our favor, given our unique capabilities.

The European market generally has been challenging. We're 5 million units below the peak in 2017. So, our restructuring has been concentrated in Europe. We're doing a lot to reduce costs in Europe, moving from Eastern Europe to North Africa. Roughly half of the head count in our thermal comfort business is shifting from Eastern Europe to North Africa over the next two years. In the wire business, we've largely moved that to North Africa as well. So, there's some things with restructuring that we're doing.

But in terms of what's happening with customer insourcing in Seating, Frank, why don't you take that part of it?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

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Yeah. I think you captured it perfectly. It is a pretty isolated topic with one customer where they are looking at make or buy studies for their particular business. By no means is this a widespread industry trend that we're seeing. And we deal with every customer all over the world.

I think the mindset that we have at Lear is just you have to have a value proposition. Even if they're going to insource, what's the value proposition? For us, it's thermal comfort modularity. It's a lower cost system that provides better performance. And we've offered that system to be sold directly to Tier 1s or directly to the OEMs.

I think we have a very unique position in the market with this particular product offering, where we'll grow our component sales as Lear and we'll also be able to offer it to the market. And where they're insourcing, in the case of Stellantis, it's an opportunity for us in my mind to grow our business, whether we're supplying through other Tier 1s or new manufacturing facilities where they may have decided to insource the production.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

I want to wrap up with buy, sell, or hold. Okay? We're going to play a game, buy, sell, hold. I'm going to give you some topics, some brief topics, maybe some words. Jason, I'm going to kind of start with you. Okay. You're going to do this one. Frank, I might throw a couple at you.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

A

Okay.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

You just tell me, buy, sell or hold. You good?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

We'll see.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

So, your heart rate...

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

No promises.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

You feel the tension? Okay. Morocco?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Buy. I mean, that's -- it's a huge opportunity.

Lear Corporation

Morgan Stanley Laguna Conference

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Is that what you're talking about when it comes to North Africa?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

It's Morocco and Tunisia. We have a much larger presence in Morocco, though.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay. 800 volt?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

You want to try that one?

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

It's a tough call. It's a ways out there, I think. That's probably hold because of the longer horizon.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Hydrogen?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

I think that's a hold.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay. China growing share in Western markets?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

I think that's overblown at this point. I think there's some opportunity, but I don't think it's -- I think that with the tariffs that have been put in place in Europe and in the US and elsewhere...

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Sounds like a sell.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah, hold or sell.

A

Lear Corporation

Morgan Stanley Laguna Conference

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

All right. So, holders, certainly sell for now.

SU7?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Buy.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Buy.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Talk in your book.

The IRA, as it applies to EVs?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Let's say hold.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay.

[indiscernible] (00:36:38)

OEM consolidation?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Collaboration. Buy, collaboration.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay. Detroit Lions?

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Buy.

Q

A

A

Q

A

Q

A

Q

A

Lear Corporation

Morgan Stanley Laguna Conference

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Buy.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Taylor Swift?

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Marianne, what do you think?

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Okay. And humanoids? We've talked about automation.

Q

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. I'm buying. I'm buying.

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

It's coming. The technology is getting there.

A

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Absolutely...

A

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

The technology is getting there.

A

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Jason, Frank, thank you for your time.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Yeah. Thanks, Adam.

Frank C. Orsini

Executive Vice President & President-Seating, Lear Corp.

Thank you.
