Transcript

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. And welcome to the Lear Corporation's Second Quarter 2026 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note today's event is also being recorded.

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

Timothy Brumbaugh

Vice President, Investor Relations, Lear Corp.

Thanks, Jamie. Good morning, everyone. And thank you for joining us for Lear's second quarter 2026 earnings call. Presenting today are Ray Scott, Lear President and CEO; and Jason Cardew, Senior Vice President and CFO. Other members of Lear Senior Management team have also joined us on the call. Following prepared remarks, we will open the call for Q&A. You can find a copy of the presentation that accompanies these remarks at ir.lear.com.

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

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

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

Now I'd like to invite Ray to begin.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Tim. Please turn to Slide 5, which highlights our key financial metrics for the second quarter. Lear continued its momentum in the second quarter, delivering meaningful year-over-year improvement across all metrics. Sales increased 3% to $6.2 billion, driving record first half revenue of over $12 billion. Core operating earnings were $313 million, a 7% increase in the quarter and approximately 9% for the first half of the year. Adjusted earnings per share reached $4.28, a 23% increase from the second quarter of 2025. Building on the strong growth we delivered in the first quarter. Operating cash flow increased 55% to $461 million, with free cash flow increasing 69% to $288 million for the quarter.

Slide 6 summarizes our key business and financial highlights for the quarter. We continue to execute on each of our four strategic priorities extending our global leadership in seating, expanding E-Systems margins, growing our competitive advantage and 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 $2.9 billion of business awards year-to-date, with more than $2.3 billion in Seating and over $500 million in E-Systems. Over 50% of this business is for new and conquest programs. Our leadership in Seating continued this quarter, highlighted by a significant set of awards with Audi. Two of the programs are conquest wins of existing vehicles in Europe. And the third is for a future program in North America.

In addition to complete seats, each program includes ComfortFlex application, combining our lumbar and massage. FlexAir will also be incorporated into the third row of one vehicle. Winning these awards required an extraordinary effort. Ultimately, it was our industry-leading automation capabilities combined with our track record of quality and efficiency that secured these wins. One of our largest awards in recent history. Additional seating wins include complete seats for a Hyundai program in North America, as well as ComfortFlex awards with BMW and a North American EV automaker. In total, we won seven new awards for ComfortFlex and FlexAir applications this quarter, bringing our total modular and innovative seat product awards to 45. Automotive News recognized Lear's leadership by naming our Modular Thermal Comfort Systems a finalist for a 2026 PACE Award. Our momentum with Chinese automakers continued in both segments. Leapmotor awarded us a complete seat program for their expansion into South America, an important win as Chinese automakers grow their global footprints. In E-Systems, we continued to drive growth in our core products by securing a wire harness awards in a luxury Chinese automaker and BAIC.

We continued to accelerate our capabilities through IDEA by Lear, particularly in automation and digital tools. During the quarter, we opened our Rochester Hills Advanced Manufacturing Integration Center, hosting both customer visits and our first investor visit, with an overwhelmingly positive response. This facility showcases some of our key product and process innovations, while serving as a working manufacturing facility. Notably, the FlexAir Award announced today will be produced there.

The progress we have made across these strategic pillars is driving our financial performance. Our strong first half has given us confidence to raise full year guidance for revenue, operating income, and free cash flow. We will cover the specific revisions later in the call. Growth over market was approximately 2 percentage points for the total company in the quarter, despite headwinds from program roll offs such as the Escape and the Corsair, and the wind down of our non-core E-Systems products.

Seating grew approximately 3 percentage points above market. Total company margins expanded 20 basis points year-over-year, while E-Systems margins expanded a significant 90 basis points, driven by a strong 155 basis points of net performance. Seating net performance was 40 basis points in line with our full year target. These efforts collectively drove free cash flow growth of $117 million in the quarter, which supports our capital allocation strategy, focused on accelerated share repurchases. We repurchased $100 million of shares in the second quarter, bringing our repurchases in the first half of the year to $175 million. Given our strong cash flow and first half execution, we are raising our full year repurchase target to at least $350 million.

The combination of strong financial results and disciplined capital allocation continues to drive consistent earnings per share. Our second quarter EPS increased by 23% year-over-year, reflecting our continued commitment to creating value for our shareholders. Our second quarter outperformance and full year guidance raise are a direct result of our consistent execution across our key strategic priorities.

Slide 7 provides a further breakdown of our progress on delivering long-term revenue growth and margin expansion. Nearly half of our year-to-date seating awards have been for new or conquest programs, providing a strong foundation for future growth. In the quarter, we secured the most significant seating conquest opportunity in our 2026 pipeline with the Audi business win. Our remaining 2026 pipeline is robust, including several new and conquest opportunities. Over 90% of the year-to-date business awards in E-Systems have been for either new or conquest programs. In the quarter, Lear was awarded a replacement wire program with Renault, which included additional content previously supplied by another supplier. Several key new and conquest opportunities are expected to be awarded in the second half of this year.

The rollout of our thermal comfort modular solutions continues to accelerate. The seven wins this quarter bring our total ComfortFlex, ComfortMax and FlexAir awards to 45 with 17 programs currently in production and an additional 11 launching by year-end. Our strategic focus on Chinese automakers continues to generate new business. The Leapmotor award marks our first win with a Chinese automaker in South America, opening additional opportunities we are currently pursuing in that region. In E-Systems, we secured awards with a luxury Chinese automaker and a non-consolidated award with BAIC. We remain on track to deliver $75 million in IDEA savings this year. Having achieved approximately $35 million in the first half, with savings expected to build in the second half.

Restructuring savings from last year's investments, combined with actions this year, are expected to total $80 million. Through the second quarter, we have generated $50 million in savings, more than half of our full year target. Our first half net performance gives – keeps us on track to achieve our full year margin expansion targets. Seating delivered approximately 25 basis points in the first half, while E-Systems is ahead of their full year target, having generated approximately 100 basis points. Our IDEA by Lear savings and efficiency gains are expected to accelerate in the second half to help us achieve our full year net performance targets, which supports margin expansion in both segments.

Turning to Slide 8. I will provide an update on two key initiatives that highlight the strength of our IDEA by Lear framework. During the quarter, we opened our Advanced Manufacturing Integration Center in Rochester Hills, a facility to showcase our industry-leading capabilities in automation and digital tools across both Seating and E-Systems. The transformation began with the installation of our fully automated ComfortFlex and ComfortMax seat and FlexAir assembly lines. Customer feedback was extremely positive. But we envisioned something bigger. We expanded the center to highlight examples of automation we are deploying across our global facilities. While some are prototypes, several are production-ready and being rolled out across many of our manufacturing plants today. We added displays showcasing digital tools and automation of components in both Seating and E-Systems, as well as just in time seating assembly.

One highlight of the tour is a demonstration of our automated wire taping capability technology we gained through the acquisition of StoneShield. To put this into context, nearly 20% of our direct labor in wiring is in tape application alone. It is one of the most attractive areas to automate and one of the most difficult. We are planning to launch the first production application next year. In Seating, we are highlighting our 2D and 3D automated sewing capabilities. Like taping and wire harness assembly, trim cover sewing is a labor-intensive operation. We have over 18,000 employees in our trim cover sewing operations globally. So, the opportunity is significant.

Automated 2D flat sewing is in production today. We have over 200 automated sewing cells globally reducing our labor in these applications by 50%. 3D sewing is more complex. But by combining our material handling expertise and our manufacturing integration capability, we believe we have a path to an automated solution.

To bring in our just-in-time automation story to Rochester Hills, we installed cells demonstrating our automated seat finesse and end-of-line testing capabilities. Globally, we have over 50 automated seat finesse cells and over 40 end-of-line testing cells either in production or being deployed, delivering a combined $14 million in annual savings. Since the beginning of June, we have hosted 11 customer meetings and an initial investor visit and the feedback has been outstanding. Customers have told us directly, there's no automotive supplier in our product segments doing more to accelerate the use of automation than Lear. The Automotive News PACE judges also toured the facility to see our automated ComfortFlex and ComfortMax lines firsthand, which was instrumental in Lear being named a finalist for a 2026 PACE Award.

IDEA by Lear is truly a global framework, deployed across all regions in both segments. I want to share another example of that leadership. During the quarter, we successfully piloted a lights out shift using 12 fully automated injection molding machines at our Connection Systems plant in Wismar, Germany, producing low voltage and high voltage connectors. Lights out automated – automation of this kind is only possible when digital tools and automated inspection and packing systems are fully integrated to monitor and manage the process in real-time. This is exactly what IDEA by Lear enables. This is a powerful proof point. Demonstrating the art of the possible when our full suite of manufacturing integration capabilities is brought together to enable a new operating model. We will continue to refine these solutions and pursue additional opportunities for similar automation across our portfolio of products. Our commitment to automation, AI and digital tools is driving real, tangible operating performance, positioning Lear years ahead of our competition. I couldn't be more proud of the work that we've done and the team has done to continue to extend our leadership position. And I look forward to demonstrating it to additional customers and investors in the months ahead.

With that, I'll turn it over to – turn the call over to Jason for a financial review.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thanks, Ray. Slide 10 shows vehicle production and key exchange rates for the second quarter. Global production was flat compared to the same period last year. It was down less than 1% on a Lear sales weighted basis. Production volumes were flat in North America, but decreased by 2% in Europe and 4% in China. US dollar weakened against both the euro and the RMB.

Turning to slide 11. I will highlight our financial results for the second quarter of 2026. Our sales increased 3% year-over-year to $6.2 billion. Organic sales were up 1%, reflecting the addition of new business in Seating. Core operating earnings were $313 million, compared to $292 million last year, driven primarily by strong net operating performance. Adjusted earnings per share were $4.28, as compared to $3.47 a year ago, reflecting higher earnings and the benefit of our accelerated share repurchase program. Second quarter operating cash flow increased to $461 million, up from $296 million last year due to higher core operating earnings and an improvement in working capital. This improvement was partially driven by a reduction in inventories as our IDEA by Lear initiatives continued to improve inventory management, as well as from the timing of tariff payments and recoveries.

Slide 12 explains the variance in sales and adjusted operating margins for the second quarter in the Seating segment. Sales for the second quarter were $4.6 billion, an increase of $150 million or 3% from 2025. Organic sales were up 2%, reflecting the addition of new business, including the series M6 and M7 in China, the BMW iX3 in Europe, and the Jeep Cherokee in North America, partially offset by lower volumes in Lear platforms in China. Adjusted earnings were $312 million, up $13 million or 4% compared to 2025, with adjusted operating margins of 6.7%. Operating margins were flat compared to last year as the benefit of net performance in our margin-accretive backlog were offset by lower volumes on Lear platforms and the impact of foreign exchange.

Slide 13 explains the variance in sales and adjusted operating margins for the second quarter in the E-Systems segment. Sales for the second quarter were $1.6 billion, an increase of $28 million or 2% from 2025. Organic sales were down 2%, driven by lower volumes on Lear platforms, including several VW programs in China and the Mustang Mach-E in North America, as well as the build out of the Ford Escape, Focus and Lincoln Corsair reflected in our backlog. Adjusted earnings were $91 million or 5.8% of sales, compared to $76 million and 4.9% of sales in 2025. Operating margins – higher operating margins were driven by a strong net operating performance, partially offset by the build out of the programs in our backlog, the wind down of discontinued product lines and lower volumes on Lear platforms. E-Systems' net operating performance exceeded our initial target through the first half, demonstrating strong execution across the segment. We expect this positive momentum to continue through the remainder of the year.

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 forecasts. At the midpoint of our guidance range, we assume that global industry production will be down less than 2% on a Lear sales weighted basis compared to 2025, down from 1% in our prior outlook, primarily due to lower production assumptions for China, partially offset by higher volumes in North America. We have adjusted our currency estimates, which now assumes an average euro exchange rate of$1.16 per €1 and an average Chinese RMB exchange rate of RMB 6.82 to $1.

Slide 15 provides an update to our full year 2026 outlook. Our current outlook assumes no changes to current tariff policies or significant industrywide disruptions. Our strong financial results in the first half of the year give us confidence to increase our 2026 outlook for net sales, core operating earnings and free cash flow from the midpoint of our prior outlook. The primary adjustments to the midpoint of our guidance are as follows. Revenue is now expected to be approximately $23.8 billion, or 1% higher than our previous guidance of $23.6 billion. Core operating earnings are expected to be approximately $1.14 billion, or 2% higher than our prior guidance of $1.115 billion. Operating cash flow is expected to be approximately $1.3 billion, and our free cash flow is expected to be approximately $640 million at the midpoint of our guidance, a $40 million increase reflecting higher earnings and improved working capital.

Slide 16 compares our July 2026 outlook to the midpoint of our prior outlook. We increased our revenue midpoint by approximately $165 million, driven by higher production volumes on Lear programs, favorable foreign exchange and commodity pass-through impacts, partially offset by the effects of changes in US tariff policy. The midpoint of our core operating earnings outlook has increased by $25 million to $1.14 billion, with operating margins of 4.8%. The improvement is primarily due to higher production volumes on Lear platforms. We've included detailed walks to the midpoints of our guidance for Seating and E-Systems in the appendix.

Slide 17 compares our second half outlook to our first half actual results for sales and core operating earnings. We are forecasting the midpoint of our second half sales outlook to be approximately $11.7 billion, down $289 million from our first half actual results primarily driven by three factors, lower volumes from seasonal shutdowns in the third quarter, particularly in Europe, fewer production days due to Lear's fiscal calendar, and planned downtime associated with the changeover of GM's full-size trucks. These revenue headwinds are expected to be partially offset by the addition of new seating business and the non-recurrence of the one-time adjustments to reverse IEEPA-related tariff recoveries and the application of import adjustment credits applied retroactively and recorded in the first quarter. The midpoint of our second half operating income outlook is $529 million, with operating margins of 4.5%. The reduction in operating income reflects the expected impact from lower volumes on Lear platforms, partially offset by strong net performance driven by IDEA initiatives, restructuring savings and commercial negotiations. Detailed walks to the midpoints of our second half outlook for Seating and E-Systems are included in the appendix.

Moving to slide 18, we highlight our balanced capital allocation strategy. Our balance sheet and liquidity profile continues to be a significant competitive advantage for us. 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 $3 billion of available liquidity. Our capital allocation priorities remain consistent. We are focused on generating strong cash flow, investing in the core business to drive profitable growth, and returning excess cash to shareholders.

During the second quarter, our strong cash flow enabled us to accelerate our share repurchases to $100 million worth of stock, bringing total repurchases for the first half of the year to $175 million. And we continued to repurchase additional shares throughout the quiet period. For the full year, we plan to repurchase at least $350 million worth of stock. Since initiating the share repurchase program in 2011, we have repurchased $6.1 billion worth of shares and returned over 85% of free cash flow to shareholders through repurchases and dividends. Our current share repurchase authorization has approximately $600 million remaining, which allows us to repurchase shares through December 31, 2026.

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

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Thanks, Jason. As we reflect on the second quarter, I'm very proud of what our team has accomplished. We delivered record first half revenue of over $12 billion, grew our core operating earnings by approximately 9%, and increased our adjusted earnings per share by 23%, all while navigating a dynamic and uncertain operating environment. Our results this quarter demonstrate the strength of our strategy and the quality of our execution. We're winning meaningful new business with Audi, with Leapmotor and with customers around the world, while simultaneously expanding margins, accelerating automation, and returning significant capital to our shareholders.

IDEA by Lear is not a future initiative. It is delivering real, measurable results today. From our Advanced Manufacturing Integration Center in Rochester Hills to lights out pilot in Wismar, we are proving that Lear is years ahead of our competition in operational excellence. We entered the second half of 2026 with confidence. We have raised our full year guidance. We have momentum in both segments. And we have a clear and disciplined path to creating long-term value for our shareholders, our customers and our employees.

We will now open up the call for your questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question today comes from Dan Levy from Barclays. Please go ahead with your question.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Thank you for...

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

A

Good morning, Dan.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

Thank you for taking the questions. I wanted to start with the question of just unpacking first half to second half. And I see on Slide 17, I think, you've laid out some of the dynamics. If we just do some of the back of the envelope on the implied volume decline and what you're getting versus performance, it does imply sort of a steeper decremental margin on that lost volume. So, maybe you can just unpack why that volume piece is so heavily outweighing the performance. And maybe just any other comments on what other might be within that performance? What are you assuming within sort of the IEEPA tariff refunds, et cetera?

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

A

Yes, Dan, if you look at the change in operating income relative to sales first half to second half, it does appear to be heavier downward conversion than you would ordinarily expect. And there are some unusual factors that are driving that even outside of volume, backlog and the wind down you have, for example, the impact of the tariff refunds. So, you have a $190 million higher revenue in the second half versus the first half just because of that with no earnings attached to it. But if you just sort of combine that volume mix, backlog wind down together, the sales reduction is about $664 million. And the downward conversion on that is still a bit heavy at 25% or $167 million. And if you unpack that into sort of the basic building blocks of that, you have your typical variable margin conversion on both the volume reduction and the wind down, partially offset by the backlog rolling on at or above our segment average margins. And so, what's happening there is you have, for example, with our new business with Audi in Europe, you have a new facility of a new fixed cost structure. And so, you have that volume rolling on at segment margins, and you have volume reductions on existing platforms rolling off variable margin at the variable margin. And so, the combination of the two is what's leading to that a bit heavier than ordinary conversion.

I think that the other thing to highlight here too is this – in the first half to second half dynamic is there's two unique factors that are particularly impacting the second half. We have one is the change in our fiscal calendar, which ended up putting more workdays in the first quarter and fewer workdays into the fourth quarter just as we roll forward our typical 4-4-5 calendar. That was the impact that resulted from that. And we highlighted that on our first quarter earnings call where we benefited a little bit on the volume line as a result of that. The other factor is GM's changeover of the full-size pickup that starts in the second half of this year. And so, that's a heavily vertically integrated platform. And so, that the conversion on that is a little bit heavier than, say, an average program in our Seating business.

And so, I think, the other important point looking at first half to second half is that, once you work through the impact of lower volumes, partially offset by the backlog, is that there is strong net operating performance factored into the second half outlook with 55 basis points of improvement sequentially. Both business segments have sequential improvements in operating performance that we're anticipating. And so, the momentum that we have built and carried into this year from a strong finish to last year and the strong performance of the first half of this year, we see that continuing in the second half of the year. So, we do expect that to be positively impacting the second half of the year.

And your follow-up question was on IEEPA tariffs. Can you just repeat that? I missed the last part.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

I think you had – it was just that the impact of IEEPA, but I think you addressed that as far as the refunds.

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

A

Okay. Okay.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

Yeah. Thank you. As a follow-up. Thank you. I wanted to ask the margin question zooming out, but I think the challenge that you've had in the past is you put up very good net performance, but there's just been a number of different issues between volume mix that have weighed down the margins. And so, I guess, zooming out here, what is the potential now for finally net performance to begin to outweigh volume mix dynamics and to grind that broader margin outlook higher? And maybe you can double click specifically on E-Systems where I think last month you talked about path to 8%. That was, somewhat volume dependent. But it sounds like there's a few things going on there.

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

A

Yeah. I think, we were anticipating a question on this. And so, I'm going to go into a little bit more detail than the question you've just asked. We're in the middle of our planning process for 2027. So, obviously, we're thinking about the revenue outlook for next year and margin outlook in both businesses, not just next year, but over the next several years. And so, subset of this will be what we see specifically for E-Systems. But let me just kind of take a step back and talk about what we're seeing in terms of our outlook for growth and what that may mean for margins longer term in both businesses. We have tremendous positive momentum with new business awards and conquest awards in both business segments that the strategy that we outlined several years ago and have been executing against that has really been validated through the new business awards that we've announced over the last several earnings calls.

What we're doing with IDEA by Lear has positioned us as the clear industry leader in Seating through both product and process innovation and our intense focus on quality, costs and our manufacturing footprint in E-Systems has led to important new business awards in that segment as well.

Our customers have clearer strategies for their future products. And as a result, the cadence of sourcing has stabilized, it more closely resembles what we experienced before sort of that start-stop transition of the industry from ICE to EVs. As a result of that, we have more clarity on our three year outlook for revenues. And we plan to return to our historical practice of providing a three year backlog with our fourth quarter earnings call and our initial 2027 guidance early next year.

You know, as we sit here today, we see a very robust 2029 backlog, very likely better than either 2027 or 2028 backlog, which collectively are also looking robust. On our fourth quarter earnings call, we announced the North America Truck Conquest Award in Seating the largest in our history, plus the GM Orion full size truck and SUV award. On our first quarter call, we announced the GM T1 SUV wire award and a key electronics award with a North American OEM. In this call, we announced the key award with Audi, both conquest and new. And over the last three earnings calls, we've announced a significant number of new awards with the Chinese OEMs in China and outside of China. And on the last call, we said our 2026 to 2028 backlog had improved by $400 million from what we had on contract to start the year. That's still the case, perhaps maybe a bit more weighted towards 2028 than 2027 as we initially saw it.

But with all that said, the full benefit of the strategy and the results in new business awards will really show itself in 2029. 2028 will also be a pretty solid year, but 2029 is the year where a lot of this new business launches and the full revenue and earnings power associated with that will show up. Sort of offsetting that robust backlog in the near term, we have a few factors to work through. We have the wind down of the non-core electronics products that you highlighted. You know, it's sort of obscuring the net performance in E-Systems. That's $90 million of revenue that goes away this year, $235 million next year that will weigh on the 2027 revenue outlook a bit.

We also have a little bit of a challenging set up on production volumes on key programs which, again, we're in the middle of the planning process and this will continue to be fluid. But just a couple of things to highlight there. And if you look at Mobility Global's forecast, I think, you'll see this as well. You know, JLR has had a fantastic year recovering from that, the cyber impacts last year that disrupted their production. Ford on the Explorer and Stellantis with the Jeep Grand Wagoneer also had really strong years. So, collectively, I think, we expect those three platforms to pull back a bit going into next year. You heard General Motors comments about the full-size truck and SUV volumes being sort of flat next year with this year as they changeover to the new model and launch Orion before going higher in 2028.

And lastly, you've seen significant weakness in the China domestic market through the first half of this year. And some of our important European customers have talked about lower volumes in that market. So, as we finalize our revenue outlook for next year, those are just a few examples of what we're working through. And of course, other changes could be announced between now and the end of the year. You know, for example, I wouldn't be surprised to see China step in and do something to try and repair the weak demand environment that exists in that market.

Now, on the margin side, and what we're seeing coming into, going into next year and beyond, Frank and Nick's teams have made tremendous progress on IDEA savings, restructuring savings and other efforts collectively have us on track to meet or exceed the 40 basis points and 80 basis points of net performance in Seating and E-Systems respectively this year.

We have a very robust pipeline of new opportunities and we expect another 40 basis points and 80 basis points in Seating and E-Systems net performance next year. And that net performance underwrites a multiyear plan of margin improvement in E-Systems in particular. We're not happy with where margins are right now in that business. We've made meaningful progress in the first half of the year. We do have the fact that the wind down of products that we exited plus the build out of the Escape, Corsair and Focus sort of offsetting the benefit of net performance. But as we get through that sort of next couple years complete the wind down, you'll be able to more fully see the margin power potential in E-Systems of net performance. And so, it's not likely, in 2027. But as you progress through that 2027, 2028, 2029 timeframe, we do expect steady improvement in operating margins in E-Systems in particular and really for the company overall.

Dan Levy
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. And that's really helpful detail.

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

A

Thanks, Dan.

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

Joseph Spak
Analyst, UBS Securities LLC

Q

Thanks, Jason. And that was incredibly detailed. So, maybe just shifting gears a little bit back to 2026. I know, you provided a lot of sort of the, changes in the outlook now versus prior and half over half, I guess, the now versus prior, though, it is compared to February. And I know you sort of had already previously talked about sort of the change in tariff recoveries. Was there any sort of change there? Is the half over half benefit on tariff recoveries really just a function of like it's less of a headwind, half over half? And then maybe finally, like previously, you talked about $400 million of cushion on either side of the guidance and, you raised the bottom end. So, some of that cushion is taken away. But would be curious to sort of get your sense of what type of cushion you think is left in the full year view?

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

A

Sure. Yeah. Starting on the tariff side, it's really the refunds that we've recorded in the first quarter that related to 2025 both on the IEEPA tariffs and then the export credits. And so, the only thing that's changed with tariffs in our outlook is the impact of the 301 tariffs and 122 tariffs were – are about $40 million less than what we had assumed. So, now the year-over-year impact on revenue is about $40 million more than it was previously. Nothing else has changed in terms of how it impacts earnings. It's just a mechanical impact on revenue.

In terms of the guidance, I think, what you outlined is exactly what we had said previously. The only thing that has changed, Joe, from sort of mid-second quarter and from our first quarter earnings call is the magnitude of the weakness in China. And so, that, is really influencing the magnitude of our guidance raise. And had it not been for the sort of pervasive weakness in that market, we likely would have raised guidance a little bit more today and also probably would have felt better today about the high end of the guidance range. And if you just look at domestic sales in China, they're down 20% through the first half of the year. I think, as the first half was playing out, the expectation was that by the time you get to the middle of the year and into the second half of the year, there would be an improvement in demand in that market and a recovery in sales. And what we've embedded into our guidance is continued weakness in China in the second half of the year, particularly on our global customers, but also in certain cases on select Chinese automakers as well. And so, that's probably the biggest thing that has changed.

And in terms of where we end up within the range that we're guiding to today, I think that's probably the biggest wildcard. If China steps in and does something to incentivize vehicle purchases and volumes recover, that could push us back towards the high end of the guidance range. We've seen incredible resilience in the North America market, particularly on the truck side. So, if that also could drive us to the high end of the range. And then the low end of the range is in place to protect against perhaps economic weakness stemming from the continued conflict in Iran and the impact that that may have on vehicle purchase decisions in North America or Europe because of affordability or other associated reasons. So, that's what we've tried to protect for at the low end of the guidance range.

And we think, as we sit here today, we're pretty balanced at the midpoint. We're hopeful that some changes happen to drive us towards the high end. And we'll protect it for, maybe some unexpected weakness at the low end.

Joseph Spak
Analyst, UBS Securities LLC

Q

Okay. Thank you for that. And then, Ray, you mentioned the Leapmotor win in South America. And you sort of I think you alluded to some also potential future business there. And I'm just curious, like, my assumption would be that you've got some existing and maybe excess capacity in South America. So, is this sort of an opportunity to sort of refill some of those facilities there? Or is there additional investment needed like major investment needed, I guess, to sort of take on that business?

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

A

No. There's no major investment required. We do have capacity that's available to us. But I think something that's been an important ingredient that not only the Leapmotor, but with Audi was our capabilities, our technology, our innovation. I think we've done a really nice job of with the Chinese and with the traditional OEMs to separate ourselves when it comes to efficiency. Our customers at this point, obviously, there's a lot of pressure on cost, innovation, implementation of speed to market. And everything that we've been really developing internally through acquisitions, organic, positioning yourselves with human capital around software development, digital tools and capital helps us. And so, yes, there's – it's not going be a major investment because we do have open capacity. But in addition to that, one of the bright spots is just the recognition we're getting from our customers. This – -the Audi win was – I mean, equally as important as one of the wins we talked about earlier this year. It was a significant win and it was really valued from Audi's perspective and based on our capabilities.

And I think generally I use the word survival mentality in a lot of respects in the most diplomatic way that we can. But the companies that are differentiating themselves with technology, it's very attractive to the Chinese OEMs. And now more importantly even to the traditional OEMs and it's really how we've been able to like separate ourselves. So, you know there was a simple answer to your question, but I did want to expand on it because there's a lot that's going into how the OEs are looking at the supply base differently and the needs that they have for technology. And so, the importance of what we've been investing in over the last 10 years around digital AI tools and automation couldn't be more important and critical to how our growth is. And Jason mentioned it. Man, I'm happy at where we're at with our growth. And you look at contracts in hand starts in 2028, 2029 and 2030. Man, we're in a solid position of real strong growth. And so, the teams here right now, we're going to continue to push it. They're doing a great job. I think, there's going to be more good news in the second half. We just have to lock down those contracts.

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

A

Just to add one thing to Ray's comments on the award of Leapmotor in South America. You know, we are by far the largest seat supplier in that market. We do have capacity in this particular case, Leapmotor will be building this vehicle in a Stellantis facility where we have the seats today. And so, the capital investment is pretty limited. As a result of that, we have the capacity in place and this is the first program of what may be now several programs ultimately that can be produced in the same just-in-time footprint that we have today.

Joseph Spak
Analyst, UBS Securities LLC

Q

Thank you.

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

A

Yes. Thank you.

Operator: Our next question comes from Itay Michaeli from TD Cowen. Please go ahead with your question.

Itay Michaeli
Analyst, TD Cowen

Q

Great. Thanks. Good morning, everyone.

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

A

Good morning.

Itay Michaeli
Analyst, TD Cowen

Q

Good morning. Just a couple of follow-ups. First, just on the second half outlook in China. I was hoping you maybe quantify a bit more roughly of the kind of how you're thinking about, the assumptions for domestic sales there and production in the midpoint of your guide. It looks like overall volume mix second half is down 6% year-over-year. I'm curious how much of that is tied to China?

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

A

Yeah. I think, the biggest challenge that we see is in the China market. Historically, the fourth quarter is very strong in China. So, it tempers the weakness that I'm describing somewhat. But, what the Chinese automakers have done is supplemented the weak demand in the domestic market with ratcheting up exports. And so, the Chinese automakers are exporting more than the global automakers from that market, although the global automakers also export from that market, and that helps offset some of the weak domestic demand. But I think, the China market is what we're most focused on as we sort of assess the range of outcomes for the balance of this year. And so, we have built into our guidance a continuation of the weakness that we saw in the first half of the year continuing into the second half of the year.

Now, what we didn't talk about and didn't include in the material, but in our non-consolidated joint ventures in China, we do see a bit of an offset to that. We actually saw revenue growth in the second quarter in our non-consolidated JVs there. And so, if you look at growth over market on that basis rather than just the consolidated business, there's a little bit of an offset and that's highly concentrated with Chinese OEM business for us. So, I expect weakness to continue in the domestic market. I don't have any specific figures to share with you. I guess maybe one other data point that's sort of embedded in our outlook is continued share shift from traditional customers to the Chinese automakers. And as we revised our guidance for the year that the percentage market share change went from roughly 1.5% this year to 3%. And so, when we came into the year, we expected global customers to lose about 1.5% share to the Chinese. And now we've embedded 3%. So, we've tried to capture what's happening in that market, but it's very dynamic.

And I think another important point there is we have been very successful at growing with the Chinese automakers. We've had $550 million of new business awards year-to-date. So, what's that? Almost 20% of our new business awards have been with the Chinese automakers. And less than 10% of our revenue today is with Chinese OEM. So, a disproportionate share of our growth is with the Chinese automakers, which I think helps us longer term. We're well on track to get to 50% of our revenue being with the Chinese automakers in 2027. And then that inflects much higher as you kind of work your way through the long range planning time horizon say over the next three years. So, I think, we're doing the right things. We're focusing on the right customers. We certainly could grow faster with them if we chose to, but we're protecting returns. Our return expectation is unchanged. The margin profile of our business in that market is relatively unchanged and strong. And that's sort of the way we're looking at that market.

Itay Michaeli
Analyst, TD Cowen

Q

That's very helpful. As a quick follow-up, maybe zooming out in a couple of years as your kind of backlog begins to kind of inflect in 2028 and then of course, 2029, I was hoping you could maybe dimension roughly kind of how we should think about the company's organic growth capabilities. And I know it's still early and also just kind of how you're thinking about kind of CapEx to revenue through that time period. Thank you.

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

A

Yeah. I think, if you look out to that 2028, 2029 and 2030 timeframe, what we're seeing at this stage is the potential to return to our historical growth above market profile. So, call it 3 or 4 percentage points of growth above market. We're still in the planning process. There's still a lot of moving parts. It's a dynamic market, but we're targeting to get this business back into that range. And if you look at all the business awards that we've achieved over the last three quarters, that positions us to achieve that in that timeframe. And so, what was the follow-up question? You had one more subset to that, I think I missed.

Itay Michaeli
Analyst, TD Cowen

Q

Just the CapEx intensity through that ramp.

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

A

Yeah. We don't see a meaningful change in our CapEx footprint. It's held steady. As we look at this year 2.8% I think is in line with our 5 year average, 10 year average. And really what's happening there is we're investing more in automation and we're offsetting that through efficiencies as a result of all of our acquisitions of manufacturing integrators. We've reduced the cost of our equipment by 20% or more through those acquisitions. And so, that's sort of netting off the impact of our stepped up investments in automation.

Itay Michaeli
Analyst, TD Cowen

Q

Terrific. Thank you.

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

A

– to point out the – if I can just continue with what Jason was saying. It's important to talk about how we are looking at capital through the acquisitions that we've made, ASI, StoneShield, WIP, you name it, over these last 10 years, we've really discovered a way to get at capital in a different way. One, we were seeing significant reductions in our capital costs because we're actually manufacturing our own capital for purpose-built use within our plants that we secure only for Lear Corporation, which has helped us significantly, I think, of it almost like a product through how we engineer costs out. So, it's much, much more efficient. Two, and I just had a review with Nick and the team and Frank's doing very similar. We have modular capital stations where we can flex those and we've talked about how we flex them across different product portfolios with our customers. We can also flex those across multiple different plants within our internal use. And so, we're getting much better at it. We've seen significant improvements already, like Jason just mentioned, 20%. But the capital is just with our own organic capabilities through acquisitions have really opened our eyes in how we're looking at capital long term. And Jason mentioned that we still got more work to do on the long range plan, but I don't see significant changes, there if not reductions.

Itay Michaeli
Analyst, TD Cowen

Q

Great. Appreciate all that detail. Thank you.

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

A

Welcome.

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

Colin M. Langan
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks for taking my questions. Any color on how we should think about, margins sequentially playing out? You kind of mentioned, with maybe the GM launch, does that have a more adverse impact in Q3 than normal? And then maybe it starts to normalize as the launch goes underway in Q4. Any unusual volatility we should think about Q3 to Q4?

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

A

Hey, Colin. I think, that, the normal seasonal reductions in revenue and volumes that we see in the third quarter will weigh on the third quarter margins in both segments. We're not providing a pinpoint guidance by quarter today, but I could sort of frame up the way we're looking at the third quarter. We would expect revenues to be $5.8 billion to $5.9 billion in the quarter. And, that would be about $150 million increase in revenues year-over-year. We expect Seating margins in the low to mid-6s. And E-Systems in the low-4s. So, both segments and total company margins would be up on that basis. They'd be up slightly from the prior year.

With the production schedules fairly well set at this point our ongoing commercial negotiations will be the biggest swing factor that determines where we come out in the quarter. And as we usually do, we'll provide a mid-quarter update at an investor conference this quarter, it will be in September. And so, we can fill in with some additional color there. So, what that means is Q3 margins will be lower than the fourth quarter as we sit here today, primarily as a result of just that lower revenue due to the summer shutdowns in Europe. And maybe to a lesser extent on the commodity side with copper in E-Systems, where we benefited in the first half of the year through revaluing that inventory. And in the third quarter, you have sort of that gap before you get the recovery for the higher copper prices, which will show up in the fourth quarter. Those are kind of the key factors in the third and fourth quarter to think about.

Colin M. Langan
Analyst, Wells Fargo Securities LLC

Q

Very helpful. And just, a lot of discussion on, China and the risk, of sort of them taking a lot of share from Europe. Any color today where do you stand with the locals in China? And are you on a lot of the vehicles that are being sort of imported, export – sorry, exported out of China today? Is that an opportunity or a threat as that happens?

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

A

Yeah. As we sit here today, we're at 44% of our China revenues with the Chinese automakers. That grows to 50% or more next year and continues on an upward trajectory beyond that. We are very focused in, we're again, we're in the middle of our long range planning process, but we are very focused on targeting Chinese programs that are – that have an export element to them. We do have business within China today that is exported out of that market to Europe and elsewhere with the Chinese automakers and with non-Chinese automakers. But that is I would say we're a bit under-indexed on the export front, just given our customer mix and the customers that are exporting from that market. So, in the near term, it's a bit of a risk. I think, longer term, we've got a good plan to close that gap and it becomes an opportunity ultimately.

And then I think as the market evolves, it's likely that we see more localization of production. Certainly if you look at what the EU is saying, what they're saying in South America and Brazil about restricting or penalizing imports over time that production will be localized. We still believe it's the right thing to do to focus on programs that are exported because, incumbency would help as those programs are localized, but your footprint in the regions they're localized too is also important. So, those are some of the factors we're thinking through as we plan for the impact of Chinese automakers displacing traditional customers.

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

A

But I think it's important and we've executed this plan. We've talked about our strength around technology innovation on the manufacturing that we believe that we can still win with the traditional OEs even though their market share might be shrinking. We're growing with those and we've proven it. I mean, through the conquest wins we've mentioned both in E-Systems and Seating and we also believe that we'll win very selectively with the domestic Chinese. And we're doing that. We're very strategic in how we look at it, knowing that policy changes and other things could impact, the exporting volume that we're seeing today. So, we spend a lot of time on strategy longer term in that particular area and growth. And I think that is really proven to benefit Lear Corporation.

And the other one that we've said is that with the Japanese OEMs, there seems to be a door that's open that we're taking advantage of and we continue to see opportunities that we'll be able to grow our business. So, I think, between those three, and we've said this consistently, we believe that we'll still have a very strong backlog and that's exactly what we're producing. And so, we have executed that plan. We will manage it based on returns and how we think strategically different OEMs will play out as far as volume and success in the marketplace. And I think that combination of patience, our technology innovation, the way we're separating ourselves, we're executing to what we said we'd do a year ago. And so, even though there's particular threats in the market, we're delivering on what we committed to our investors on our growth plan around good return business within each region.

Colin M. Langan
Analyst, Wells Fargo Securities LLC

Q

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

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

A

Yes. Thank you.

Operator: And our final question today comes from Emmanuel Rosner from Wolfe Research. Please go ahead with your question.

Emmanuel Rosner
Analyst, Wolfe Research LLC

Q

Great. Thanks so much. Actually I have two questions. One, I wanted to come back on your comments at the beginning of the call around some of the puts and takes for growth and cadence of growth over the next few years. I understand that obviously a lot of these backlog is more 2028 and even more 2029 weighted than 2027. But it sounded a little bit like you were maybe talking down 2027 revenue expectations in a way. And I just want to make sure that I understand exactly your message. So, your backlog as published for next year, it was like $725 million, maybe it's a little bit more now from a portion of the extra $400 million that you've been winning since then. There's some electronics wind down. But, I think, look, consensus is sort of like looking for maybe, I don't know, $700 million of revenue growth in 2027. Are you basically saying that, production, especially based on the underlying platform, could be less than flat and then with the wind down, et cetera? Are you looking at just limited organic growth into next year but then acceleration later on?

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

A

I think your last comment is right. We do expect limited growth in 2027 despite the more than $700 million backlog for the reasons you just articulated. And then returning to growth above market in 2028 and even more so in 2029. And I think in terms of 2027, you've got the wind down, which we just kind of reconfirmed what the impact of that is for next year. So, for your awareness and investors awareness. But also wanted to highlight some of the headwinds on production volumes that could impact us next year. We're early in the planning process. There's lots of moving parts. It's subject to change. But I did – we did want to make it clear that we had some strength on a number of platforms this year that are important to us. JLR is an important customer in both segments. They've had an unusually strong year. Range Rover, Range Rover Sport, Defender across the board, fantastic year. And if you look at Mobility Global's forecast, you get a sense of what's expected for next year. So, I just don't want investors to miss that as they're thinking about what to expect from Lear next year.

While at the same time, I don't want investors to lose sight of the remarkable momentum and progress that we have in terms of new business awards in both business segments on the right platforms at the right customers, and just the tremendous upside that exists with that as well. And so, it's – that's what we were trying to explain in terms of how we answer that question, Emmanuel.

Emmanuel Rosner
Analyst, Wolfe Research LLC

Q

Yeah. No. That's very clear. And then I guess longer term then so this Audi win today any way to frame it for us both in terms of start of production, maybe sort of like magnitude of either volume or revenue I think that it was both a piece of it was either conquest, but a piece of it is sort of like new business. And I believe at some point during this quarter you were sort of framing it as something that could be nearly as large as your all-time record win from a couple of quarters or so ago. So, just any framing there in terms of your opportunity even though it's longer term, would be helpful.

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

A

Yes. So, that launches towards the tail end of 2028 and programs ramp up through 2029 and into 2030. One of the three programs I think launches in 2030. And in terms of magnitude, we don't want to put a pinpoint number on it, but it's about 75% as large as our largest conquest award that we announced at the end of last year. So, it's multiple hundreds of millions of dollars of revenue, I'll say that, without putting a specific number on it. And the biggest backlog impact will probably be in 2029 for that program.

Emmanuel Rosner
Analyst, Wolfe Research LLC

Q

Great. Thank you very much.

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

A

You're welcome.

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

A

Yeah. Thank you.

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

A

Okay. That's it.

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

Yeah. Just I think the remaining people on the phone right now, Lear team around the world. I just want to again, thank you for an incredible quarter, an incredible job of great wins, accomplishments both in E-Systems and Seating across the board. Guys continue to keep delivering. IDEA by Lear is differentiating Lear in a completely different way with how we're performing on net performance, how we're performing in our manufacturing plants, administrative offices around the world, and also how we're really differentiating ourselves with true growth opportunities with new business wins. So, thank you for a great quarter and let's get to work on the second half. Thank you.

Operator: The conference has now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.