



Transcript

Lear Corporation (LEA)

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MANAGEMENT DISCUSSION SECTION

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

All right. Good morning, everyone. For those who don't know me, I'm Andrew Percoco; I lead Autos Research here at Morgan Stanley. And up next, pleased to be joined by Ray Scott, President and CEO of Lear; Jason Cardew, CFO; and then, Brian – or Jared Fedele, sorry, Vice President of Finance of Seating and E-Systems. So, thank you guys for joining this morning.

Maybe just to kick us off, Ray, if you want to just give us a general update in terms of what you're seeing in the business, how the year has gone, and kind of how you see the business transforming over time. And then, we can kind of continue the conversation from there.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Thanks. Thanks. It's great to be here, and it's hard to believe it's already middle of September. But looking back at this year, one, I couldn't be more proud of the team. We – first half of this year was record revenue, \$12 billion plus, continued to execute on our core operating income improvement and what we're doing there, EPS up 23%. So, really delivering on the measurables we put in place. And when I think about where we're at, it's been this transformation within our manufacturing processes around IDEA by Lear.

We opened up the Advanced Manufacturing Center this year, which has just been incredible for not just the investor group, but also our customers. And having one location where we can really display our technologies and what we're doing in the manufacturing environment around automation and the digital transformation has been special. And that's really helped us with growth, and you think about the growth and the most recent announcements that we've had with the Ford F-250, F-350 program, one of the I think legendary programs in North America that is going to be great for our business long-term.

The most recent award that with the Audi business that we just announced and we're continuing, we just had the largest India win that we've ever had in history with Mahindra & Mahindra since our Q2 earnings announcement. So, the wins continue and they're very strategic, very selective, very specific on where we really want to grow, how we want to grow, with which customers we want to grow. So, the combination of what we're doing with technology innovation, not just on the product side, but I think equally as important on the manufacturing side is really starting to take shape with our customers with growth.

And so, the recognitions we get with the Supplier of the Year, both in Seating and E-Systems, they just, I believe, confirms what we're doing and how we're differentiating ourselves. So, we still have a lot of work to do in the remainder of this year, but I'm proud of the accomplishments that we've managed already this year.

QUESTION AND ANSWER SECTION

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

That's great. And maybe, Jason, for you, if we just zoom in a little bit in terms of the quarter and I think US, at least, the demand in the US has held up better than I think anyone is expecting it to. But obviously, for the global business, China dynamics is obviously very much in flux. So, can you just help us think about the setup as you see it today relative to maybe what you framed a few weeks ago in the earnings call, and what are some of the puts and takes that you're maybe seeing across the business for the third quarter?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Sure, Andrew. We shared a framework of our third quarter outlook on our second quarter earnings call. We expected revenue of \$5.8 billion to \$5.9 billion, Seating margins in the low- to mid-6s, and E-Systems margins in the low-4% range. And the quarter's playing out essentially in line with what we had anticipated at that point in time.

As you highlighted, there's been a very resilient market here in North America, some weakness in China. You look at retail sales in China were down 21% in July, 23% in August. So, that's certainly presenting some pressures on volumes in the China market. But as we sit here today, we're right in line with that framework, maybe a little towards the low end in terms of the revenue, closer to \$5.8 billion than \$5.9 billion. But really solid performance by the team on the things that we can control and execute on. And as Ray said, we're continuing to hit on all cylinders, both in terms of growth and performance.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

That's great. And on the inflationary side, I think we've heard from some of your peers and some of the OEMs that that continues to be pressure for the business. But from your perspective, understand most of your costs have some level of pass-through, but any updates in terms of what you're seeing there? Maybe it's more of a fourth quarter dynamic than it is a third quarter dynamic. But just curious how the inflationary environment has kind of shaped up versus your prior expectations and how that might impact the P&L over the next few quarters?

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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Yeah. I think, over the last 10 years, we've worked very hard to put in place pass-through mechanisms with our customers, and we've largely insulated ourselves from the direct impact of that. Sometimes there's a timing lag. We don't see anything in terms of the current market dynamics on inflation that'll impact the outlook for the second half of the year at this stage, though.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

Okay. That's great. And then, Ray, you brought up some of the recent wins that you've had in your initial remarks. You've, obviously, shown clear progress in terms of the significant conquest wins that you've had across both Seating and E-Systems. Maybe just talk a little bit about why you've been able to win some of those awards, what have you been leading with to essentially get some of that business to Lear, and what are customers essentially looking for at this point when they're thinking about giving out programs to suppliers? And I'm also curious how that differs by region, North America versus China versus Europe, assuming all have slightly different approaches to how they look at the market. So, how are you kind of approaching it from your perspective?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

It's a good question, and we've done a remarkable job. And I think this really is the credibility that we want to make sure that we are communicating to the investor group and it is around the investments we've made. And so, the Audi win, the Ford new business that we won, the NCAR, the truck business that we won in wiring are really around this focus that our customers have around technology and innovation.

And the domestic Chinese have really, I think, sparked a change not just with the domestic Chinese and how they think about technology specifications, the ability to drive different modular concepts for efficiency, customer preferences, weight, all the different ingredients that our customers are looking for to improve their products are aligning with what we've been at for 10 years.

This journey we've been at to really change our manufacturing process around automation and the digital transformation has really started at a perfect time. So, the work that we put in place, the importance of us having an advanced manufacturing center in place where we can show what's in production and what is the next generation of technology that will be implemented in our manufacturing plants have been the key.

And so, as we go through our customers right now, the alignment has been perfect. We've been at this journey and now our customers are looking at how we can change specifications, how we can get at these changes within the manufacturing plant to really change efficiencies within their products. And so, they do a tremendous amount of work. The amount of work that when we go through these quote processes and the feedback we get from our customers on you are truly doing things that your competitors are not doing. And their need for that innovation and technology is at an all-time high.

And so, we're being very selective. I think what's important, what we learned as EVs really collapsed in North America was how we select programs. The programs we go after have a legacy to them of a consistency in volume. When we're going to invest capital, we want to make sure we're betting on the right platforms, right programs by region. And so, we've been very selective on these programs that we're winning.

So, we won \$2.9 billion, \$2.3 billion of that is in Seating, \$500 million-plus is in E-Systems. E-Systems had arguably the best awards last year of \$1.4 billion. So, us being very selective, being recognized as having this ability to have technology as a differentiator has really paid off. And this Audi business, which I think it was

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interesting, I think about it all the time. There's a lot of skepticism around can you really change the model itself, the sourcing model, from directed to your control.

The Audi, we have sourcing control over the comfort features. So, we have a ComfortFlex system that will combine lumbar and massage. And when we bought IGB and Kongsberg, we needed that engineering capability. So, when others talk about a modular solution, if you're using other components that are not yours, it's not a true modular solution the way we define it. That's what's differentiating us. And so, having 45 contracts, that's so important to the credibility that we talked about and how we're differentiating ourselves. And so, I mean, I could talk about this all afternoon, because...

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

I think for the rest of this session.

Q

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Yeah. I could, because it's important, when we think about our growth strategy and as we start to launch these programs in 2028 and 2029, I think investors should really think about the type of programs that we're investing in and how we're winning that business, and it is around the investments we've made. IGB, Kongsberg, as I mentioned in the product side, what we did with WIP Automation, the partnerships we have with Palantir, what we're doing with automated taping with BMW that will launch later this year is all around technology in our manufacturing plant. So, we're now having the evidence that backs up the investments we've made over the last 10 years.

A

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Yeah. That's great. And maybe on that piece on the innovation that you guys have, obviously, focused heavily on, it seems like that would align itself with how fast the Chinese OEMs move, right, and the innovation cycle that they operate on. But at the same time, I know you guys have talked about how you're slightly under-indexed to some of the export volumes that we're seeing, and that's obviously where most of the volume is going right now.

Q

Just talk about that kind of push-pull and why maybe you aren't more exposed to some of those volumes, just given the level of innovation that you're able to bring to the table, which I would probably argue is better suited to be aligned with some of the Chinese OEMs versus maybe some of your peers that haven't moved as quickly on kind of the innovation around some of the products that you provide.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. So, we have targets. Right now, we're about 45% of our domestic Chinese business with a target of going to 50% next year, and we have clear path to get there. I don't think that's going to be a problem. You're right. Right now, the under-indexing of what is being exported is a very focused strategy of ours to change. And I think with the things that you're mentioning is that we do have these capabilities to produce parts much quicker, to go to market much faster.

A

The thing that we discovered, too, is as we acquired these companies and integrated these companies, on a JIT facility, for example, we manufacture now 80% of our own capital at a 20% to 30% discount to what we were acquiring and buying before that. And so, we're much faster to market, much more capable to get our own

technology on the floor for our customers, and we're seeing that with the domestic Chinese. And so, it's been a big focus of ours. I think you'll start to see that change as our targets start to change and we start to realize that there are going to be opportunities.

I also think longer term, when we think about the domestic Chinese, policies are going to change. As domestic Chinese are starting to onshore, Leapmotor in South America was a great win for us. I mean, so we're starting to see, and I just got a note today about picking up additional domestic Chinese, I can't talk about it right now, but hopefully soon we can talk about it, that we're starting to see as they onshore, our capabilities work out perfectly for them. And so, those new wins, I think, are going to continue for the remainder of this year and into next year.

Jared Anthony Fedele

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

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Yeah. And those – and to Ray's point that the relationships and it starts with the leadership we have in China, too, and the moves Ray made back towards the end of 2023, when he kind of put Seating and E-Systems under one strong leader, you see this momentum being picked up. And if you take a step back, prior years, our COEM revenue was 33% domestically, and then we go to 44%, and then we have a line of sight to over 50%. And we've got this local team for the local market, which is incredible, because you know the intricacies, how fast the market moves. And due to this, we picked up a lot of share.

And we're the clear leader in luxury in China right now in the domestic market. So, we dominate in the mid to upper end of that section. And back on the whole export question, it's a tough question to answer right now. And if we were to kind of look at where we're at today, I would say, we're under-indexed. But the reason for that is, historically, when the exports were going, it's on the lower end of the market. And so, now, they're at the mid to the high end.

So, this is a big opportunity for us, and these relationships the team have built in China with the COEMs domestically is going to help us as they export out. And going back to the \$2.9 billion, the business we won, the net new business awards, \$520 million of that was with the domestic COEMs. So, those relationships help as you go out.

And from a margin standpoint, from the profile of the COEMs, how do they align to the global margins, just to touch on that for a second. They are aligned with our segment targets that are out there. And the team is, and Ray has mentioned, Jason has mentioned, we're very strategic on who we want to work with and why we want to work with them, because we have to make sure we get a return in excess of our cost of capital. And the number one driver for margin is the level of vertical integration. And the one benefit we have is, obviously, the en suite of vertical integration we have. But the COEM sourcing model goes to the Tier 1s and they allow to source Tier 2 and Tier 3. So, if you've got those capabilities, you have the ability to grow bigger margins. And so, that's why we're selective with certain customers that we want to focus on to grow.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

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Yeah. That's great. And I was going to ask about margins, but it sounds like the pricing environment is relatively healthy for those programs. It's not something that's decremental to margins. And the reason I bring it up is because I think there's a big debate in the industry around, as you presumably win more business with the Chinese OEMs, that is potentially cannibalizing something, whether it's in Europe or South America with the local OEMs. Is that margin accretive or is it destructive to the overall profitability of the business? And it sounds like, as you sit here today, it's I guess net neutral is the way you would kind of frame it. In a positive/negative, it's kind of a neutral for you.

Jared Anthony Fedele

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

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No, that's 100% correct, and that's why we're so strategic with the customers we work with. And if you take the South American example, what a lot of people don't realize, in South America, we're the leader in market share. So, we're the number one from a seating standpoint. And so, what we're able to do, particularly on the Leapmotors award that we had is bring Leapmotor in, we already have the overhead structure, we already have the capacity to bring them in. So, you're doing it from a capital-light standpoint, which also helps from a return.

So, we see this as a big avenue as the Chinese continue to localize. And we've already won with Chinese as they localize in Europe. So, as they continue to localize, particularly in South America, we've got a heck of a leg up right now from a margin standpoint, from a capital standpoint, from a production standpoint.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

And what's the pace of that localization? Is it happening quicker than you expected, slower than you expected, or like, what's their incentive to do it versus just continuing to export without some massive policy change in Europe? Just curious from your perspective how quickly that's been moving.

Jared Anthony Fedele

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

A

Yeah. It depends. Honestly, it's region by region specific, and it all depends on the regulations. I mean, we've been in talks with the COEMs, particularly, with our local team in China and with our global teams. And there's a handful of customers, that want to localize, and there's another handful that are going to keep on the export. But right now, it's going to be export until something happens from a policy standpoint that changes that.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. That makes sense. I do want to shift gears a little bit to 2027. I know we're still a few months out and a lot could change between now and then. But I think on the second quarter call, you guys kind of highlighted that you see a lot of growth coming in 2028 and 2029 based on your backlog. But 2027 is a little bit more of a in-between year with some of the roll-offs within the portfolio.

If you could just kind of double-click on that a little bit between E-Systems and Seating in terms of that portfolio contribution, the growth that you're seeing. And ultimately, like, what should give us confidence that 2028 and 2029 will see the level of growth that you've articulated.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. Starting with 2027, on the second quarter earnings call, we provided a lot of detail on our outlook, which is a little bit early in the cycle to do that. But we thought it was important, because we felt like there were some dynamics within our portfolio that the sell-side analysts and other investors may not appreciate, and we took the decision to be a little bit more forward leaning in the level of detail we shared.

And so, despite the very strong backlog that we have for 2027 with over \$700 million of new business rolling on, we do expect limited growth in 2027. And that's really a function of the continued roll-off of the E-Systems noncore products that we were exiting. It's the peak year of that roll-offs at \$235 million of revenue that rolls off next year.

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There's about \$250 million in the three or four years after that. So, it's far and away the most significant year in terms of the impact of that.

And then, you have programs specific to our customer and platform-specific issues that are weighing on our outlook for revenue next year. We had several customers that had really strong years this year and I highlighted all those details on the call. I won't go back through each of those, but that's kind of the other component that offsets the impact of the backlog rolling on, and the dynamic between the two segments is pretty similar.

In terms of the 2028 and 2029 outlook, and I think Ray touched on a little bit of this in his opening remarks. I think what should give investors confidence in our ability to achieve that level of growth that we've articulated for 2029, which is getting back to that 3 points to 4 points of growth over market is the quality of the programs that are in that backlog. If I just look at the Ford Super Duty, the Audi Q8, BMW NCAR, just these handful of programs taken together between Seating and E-Systems, that's more than \$1 billion of backlog that's rolling on in 2029. So, these are programs with a long history of success in the market and we have a high degree of confidence that those are going to launch on time and at the volumes that we've embedded in the backlog.

The other thing we've done is we've looked out at 2028, 2029, 2030 as we've taken a very conservative view on how market share changes between our traditional customers and the Chinese are going to play out. If you look at Mobility Global, I think they have the Chinese market share growing by 4 percentage points globally from 2026 to 2030. We've built our plan around 6 points of market share shift. So, we've really tried to sort of derisk that outlook and build confidence first for ourselves and then for investors in our ability to deliver that level of growth in 2029.

On top of all the backlog that we've already secured, we have a very strong pipeline of additional opportunities, conquest opportunities that Frank and Nick and the two segments are working on that we think will be realized over the next six months and further bolster that 2029 backlog. And we would expect at the end of this process that 2029 will be a record backlog year for the company, again, both because of the quality of the programs that have already been awarded and the line of sight we have to new business awards there, too.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

That's great context. And on the noncore exits, it sounds like next year is kind of the peak.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

But do you feel like you have your hand around? Is there anything else, I guess, in the portfolio when you think about that, that could add to either 2028 or 2029? Just curious like how thoroughly you've gone through the portfolio to make sure you've got your handle on kind of what you're going to be rolling off and the timeline in which you're going to be doing that.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

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Yeah. And we really made those decisions three or four years ago in terms of the portfolio, and we spent a lot of time looking at the return profile of those products in the electronics portfolio, not just the current programs, but next generation programs. And that's when we took the decision to exit audio and lighting, and some of the commoditized power electronics like onboard chargers, where we just did not see a return in excess of our cost of capital in the next generation of products.

We're very comfortable with the portfolio as it sits today and we don't anticipate any changes there. We're winning business in the remaining electronics portfolio, and they're good programs with good customers, returns in excess of our cost of capital and that will fuel growth in that segment over time.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

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I think it's important, too, okay, going through all that, the continuation of when you think about the business wins we've had and 50% of that is conquest or new programs, and we still have requests from our customers today that bring us in very familiar with these systems where we picked up a percentage of the Tier 1 wiring that we'll launch later next year.

And so, those opportunities are still there. We're still talking to different OEMs right now about different opportunities that could present themselves in a 2027 or 2028 timeframe based on some of the challenges that they're faced with. So, we don't consider that, but I still see those opportunities in front of us and we're still having discussions that are very similar to what we did with the Grand Wagoneer, with Stellantis and taking that program over what we just recently were awarded on the E-Systems business in a mid-cycle, taking over a portion of that business.

So, those conversations are still going on, and it's to my earlier point of our customers are in a position where they are looking at things differently, and that does lead to opportunities for us, both with the domestic Chinese and with the traditional OEMs.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. And from a margins standpoint for E-Systems, is it the portfolio wind down that essentially is – is that's the only thing that's required to get the margins closer in line to some of your peers? Like, what else needs be done for the margin profile in that business to look closer to some of the peers that we all can see publicly?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. So, it's a combination. One, the plan that we put in place several years ago, which is more like three or four years ago, on really focusing on core products that we know we can generate what is a fair return. We absolutely can and will generate a fair return. And so, that roll off next year is important, because I think you'll see a lot more clarity on the new business that we're winning and how it's coming on accretive. And so, that's a big part of it. But also the continued work, the team has done a remarkable job of our net performance. When you look at the net performance in E-Systems, the net performance, it's been remarkable.

So, we had some of our own issues in-house that we needed to fix, particularly here in North America. And you're starting to see that trajectory and that change within the operating improvements within those plants. And so, we have more work to do. We are nowhere near satisfied with where we're at. So, we have a lot more hard work to do within our own house. But you're going to see a lot of clarity on how we position ourselves on the product

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portfolio we can generate fair returns. And as that business starts to launch, you're going to see the accretive nature of that business, because of the profitability in those programs.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

And I think if you compare us to a competitor that has higher operating margins, the key differentiating factor in addition to everything we've outlined is, if you look at the scale and volume of the programs in the portfolio. And so, that's a reason we're focusing on programs like the Ford Super Duty, like the GM full-size SUV program. If you go back to 2017, 2018, we had the highest operating margins in the wire business. And at that point in time, the Ford C2 platform was our largest platform. It was a 1.9 million unit global platform, fantastic business for us. And that's – that platform is 500,000 units now.

So, we have to both fix and improve our customer diversification and target these high quality, high volume programs that have a consistent track record of producing at high volumes. The scale benefit you get is not just on the manufacturing side, but it's also on the engineering side, the program management side, the commercial oversight of those programs. And I think that's the key distinction between the two companies in terms of the margin profile of the wire business. And I think all the things that were outlined in terms of where our future growth is focused will begin to close that gap.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

That make sense. And is there anything else you want to add to E-Systems? Like, when you think about capital allocation priorities, obviously, you're winding things down that were lower margin. But I'm just curious, from a vertical integration standpoint, from a product standpoint, there's anything that is out there that is attractive from a margin accretion standpoint from – or from just a customer acquisition standpoint, customers saying, hey, I want you to have this, it would be nice if you had that, just to complement what you have in E-Systems. Just kind of curious if there's anything out there that you guys have looked at.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Yeah. I don't think there's anything of any significance as far as significant acquisition in E-Systems. We have what we need on the product side. But these tuck-in acquisitions that we've made, particularly around automated taping, the most recent acquisition that we had in E-Systems was beautiful. I mean, it quickly recognized – we're recognized as the leader in automation within taping, within our manufacturing plants. And so, it gave us a significant leg up on a great program with BMW.

And so, we will be the leader in automation within taping. So, if there's other acquisitions, it would be around how we're looking at transforming our manufacturing process around automation and digital changes. The cycle time deviations, the things that we're doing with cameras, the things that we're doing with automation are really starting to accelerate. And from a cost perspective, too, it's lower capital, it's much more efficient.

We're driving a cost-down of the product itself, changing the specifications with our customers that help us redesign how we think about different components. So, if there was, it would be just a small, I think, acquisition within the continuation of what we're doing around being a manufacturing integrator and being recognized as a pure manufacturing integrator.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

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And we are making investments, organic investments with connection systems. That's the highest-margin subset of the E-Systems portfolio. And as Ray said, we have all the capabilities that we need. It's about making investments in that product line that is leading to growth opportunities, both in the top line and operating margins in that segment.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

And then, when it comes to automation, you've talked about the lights-out production in Germany. You've got Advanced Manufacturing Integration Center in Rochester Hills. Like, when should we think about that being rolled out to a broader set of your footprint and more of your facilities globally? What's the timeline in when that gets integrated more broadly across the footprint?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Well, we've been at it for some time. So, these are business decisions that we make based on returns and makes sense on the product cycle, where we're at in the timing, when is the end of life, those type of things where we – by region, if you have low-cost labor versus the investment in higher-cost regions. And so, we're going to continue with that.

What you're seeing is a much broader application and platform initiative, like with our Orion facility, what we're doing for General Motors. That will be state-of-the-art. That's 100% across our manufacturing facility. And so, we'll continue with the step-by-step where it makes sense on a return perspective. But the newer plants that we're putting in place are state-of-the-art, most advanced manufacturing plants in the world, particularly in our just-in-time facilities.

And I think you'll see the evolution of the continued development, like with the automated taping for BMW in our Honduras facility. So, you're going to continue to see those things, but those are based on business returns, too. And so, they have to generate a good return for us to invest. And so, we'll continue both the acceleration of our complete platform within a facility as we launch new programs and what the continuation of smaller good returns for us.

I mean, we did a great job, last year with the \$70 million of savings in IDEA. This year, we're scheduled to have – our target is \$75 million. It's just been amazing how we continue to transform our plants and get the good returns that we need for our facilities.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

That's great. And then, maybe shifting gears a little bit, the other topic of the day in the sector is non-auto growth opportunities. And some of your peers have expressed some business wins, whether it's energy storage, robotics, humanoids. Curious what your thoughts there are in terms of what's the opportunity set for you guys and what's the realistic timeline for it to even move the needle for the P&L for your business. Just curious your latest thoughts there.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Well, first of all, there's no one that thinks about how we can create shareholder value more than me. And in studying, even in our core business, our core business has been the focus, it's been the core of how we're going to generate good returns for our investors. But with that said, I'll say this, we are doing more than just investigating. When you think about the 800-volt needs in independent power solutions, not just in data centers, but in other solutions, in other industries, we have an incredible capability that's very unique, not just on the manufacturing side, but our technical capabilities on engineering. And so, there is a pole there.

Like I said, we're more than investigating. We do have partnerships or NDAs signed, some things that we're doing to continue to evaluate. But before we have anything of any significant announcement, we want to make sure that we've studied this thoroughly, we understand this is not going to be a distraction from our core business. We have to continue to hit the targets we put in place for our investors. But there is opportunity there that we're continuing to review. And at this time, we don't have an announcement, but we're not going to limit ourselves to just automotive if there's a good place for us to fit where we can get really good returns. And where I'm kind of looking at is an independent power solution, both for data centers and for other industries.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

And when you looked at those solutions, like how much rework or re-engineering of your technology is needed for that market? And because I think there's a concern that it's going to require a lot of capital, it's going to require a lot of expertise and a lot of time, and there might be a five to seven year journey, and who knows where we're going to be in five to seven years on the data center opportunity. So, as you – again, I know you have nothing to announce, but as you've kind of gone through that process, what do you think...

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Those are the things that we absolutely go through. I mean, that is the question that we're going to get the answer to is that we're not going to put capital, \$1 of capital into something that isn't going to generate returns. And we're not going to continue to invest in areas where we don't have a meaningful ability to use or share investments or capabilities that we have in-house today. And so, there – like I said, there's a lot of complementary aspects of what we do with power management within the EV world that really can help, and our manufacturing expertise is an area that can be very helpful, but we're not going to double down in capital in an area that is a what-if. And so, those are things that we're studying. But it does seem relatively positive at this time. But until we have a clear path on how we're going to generate fair returns for our investors, we're not going to go down that path.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Q

It's good to hear. And I guess, balancing that with you raised the buyback for the year. You've got a significant amount left on the authorization. Can you just reframe or either reiterate or reframe your capital allocation priorities over the next year or two? Obviously, keeping in mind that there are some other maybe strategic opportunities on the horizon that you might want to keep some capital on the balance sheet to make sure you can attack those when they come to fruition. But just curious if it's changed at all or?

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

A

Lear Corporation (LEA)

Morgan Stanley Laguna Industrials Conference

Yeah. Just real quick, one, we're in a great position. We have a solid balance sheet. And so, we're mindful of that. I think what we've done to date were small acquisition, tuck-in acquisitions that are really differentiating us, and we're being recognized as a pure leader in automation and digital transformation within our manufacturing plant has worked. We get great returns on those investments we made in place. And so, I don't see significant changes.

We talked a little bit about if there's adjacencies or other areas that we can grow, but we're going to make sure we're very mindful of those opportunities, better be real, and they better be much more short-term in how we think about returns as opposed to a 5 or 10 year with everything else we have and are focused on in our industry today. So, I don't see significant changes, making sure we're being mindful of our cash and giving that back to our investors.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

A

Yeah. We're very focused on free cash flow generation. And if you look at the outlook we provided for this year, well north of our 80% free cash flow conversion target, and that's supporting a more aggressive approach to share buybacks. We increased our plan for share buybacks from \$300 million to \$350 million on our last earnings call. And given the pullback in the stock price after the earnings call, we've taken full advantage of that to really accelerate share repurchases. We'll largely complete the \$350 million in the third quarter, and take another look at free cash flow or excess cash in the fourth quarter and make a decision on whether to further increase that. That remains a priority for us.

And it's supported the earnings per share growth that Ray talked about, 23% earnings per share growth in the second quarter, 12% or so for full year this year, 64% I think over the last four years from 2022 to 2026. So, that combination of even modest earnings growth combined with share repurchases has really fueled solid earnings per share growth for the business.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

That sounds great. Well, I appreciate your time. Thanks for joining us today and thanks everyone for listening in.

Raymond Scott

President, Chief Executive Officer & Director, Lear Corp.

Yeah. Thank you, Andrew.

Jason M. Cardew

Senior Vice President & Chief Financial Officer, Lear Corp.

Thank you, Andrew.

Jared Anthony Fedele

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

Thank you.

Andrew S. Percoco

Analyst, Morgan Stanley & Co. LLC

Yeah. Thanks.