

LEAR CORP
Form 10-Q
April 26, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 001-11311

(Exact name of registrant as specified in its charter)

Delaware 13-3386776
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

21557 Telegraph Road, Southfield, MI 48033
(Address of principal executive offices) (Zip code)
(248) 447-1500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 23, 2018, the number of shares outstanding of the registrant's common stock was 66,321,719 shares.

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FOR THE QUARTER ENDED MARCH 31, 2018

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PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have prepared the unaudited condensed consolidated financial statements of Lear Corporation and subsidiaries pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 2017.

The financial information presented reflects all adjustments (consisting of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of operations, cash flows and financial position for the interim periods presented. These results are not necessarily indicative of a full year's results of operations.

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LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	March 31, 2018 ⁽¹⁾	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,268.5	\$ 1,500.4
Accounts receivable	3,795.2	3,230.8
Inventories	1,266.3	1,205.7
Other	769.7	676.1
Total current assets	7,099.7	6,613.0
LONG-TERM ASSETS:		
Property, plant and equipment, net	2,560.9	2,459.4
Goodwill	1,464.7	1,401.3
Other	1,555.9	1,472.2
Total long-term assets	5,581.5	5,332.9
Total assets	\$12,681.2	\$ 11,945.9
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	\$2.9	\$ —
Accounts payable and drafts	3,483.0	3,167.2
Accrued liabilities	1,801.4	1,678.1
Current portion of long-term debt	9.1	9.0
Total current liabilities	5,296.4	4,854.3
LONG-TERM LIABILITIES:		
Long-term debt	1,950.0	1,951.5
Other	709.9	694.1
Total long-term liabilities	2,659.9	2,645.6
Redeemable noncontrolling interest	170.3	153.4
EQUITY:		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 72,563,291 shares issued as of March 31, 2018 and December 31, 2017	0.7	0.7
Additional paid-in capital	1,156.4	1,215.4
Common stock held in treasury, 6,191,389 and 5,689,527 shares as of March 31, 2018 and December 31, 2017, respectively, at cost	(851.7) (724.1
Retained earnings	4,474.8	4,171.9
Accumulated other comprehensive loss	(380.8) (513.4
Lear Corporation stockholders' equity	4,399.4	4,150.5
Noncontrolling interests	155.2	142.1
Equity	4,554.6	4,292.6
Total liabilities and equity	\$12,681.2	\$ 11,945.9

⁽¹⁾ Unaudited.

The accompanying notes are an integral part of these condensed consolidated balance sheets.

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LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions, except share and per share data)

	Three Months Ended	
	March 31,	April 1,
	2018	2017
Net sales	\$5,733.7	\$4,998.5
Cost of sales	5,102.3	4,416.0
Selling, general and administrative expenses	155.4	155.7
Amortization of intangible assets	13.1	10.1
Interest expense	20.7	20.8
Other (income) expense, net	(5.6)) 3.7
Consolidated income before provision for income taxes and equity in net income of affiliates	447.8	392.2
Provision for income taxes	77.7	89.1
Equity in net income of affiliates	(4.1)) (15.4)
Consolidated net income	374.2	318.5
Less: Net income attributable to noncontrolling interests	20.5	12.7
Net income attributable to Lear	\$353.7	\$305.8
Basic net income per share available to Lear common stockholders	\$5.19	\$4.39
Diluted net income per share available to Lear common stockholders	\$5.16	\$4.35
Cash dividends declared per share	\$0.70	\$0.50
Average common shares outstanding	67,086,326	69,658,368
Average diluted shares outstanding	67,562,452	70,327,348
Consolidated comprehensive income (Note 13)	\$520.0	\$422.1
Less: Comprehensive income attributable to noncontrolling interests	33.7	13.8
Comprehensive income attributable to Lear	\$486.3	\$408.3

The accompanying notes are an integral part of these condensed consolidated statements.

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LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Three Months Ended	
	March 31, 2018	April 1, 2017
Cash Flows from Operating Activities:		
Consolidated net income	\$374.2	\$318.5
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	120.2	96.9
Net change in recoverable customer engineering, development and tooling	22.5	7.4
Net change in working capital items (see below)	(252.6)	(145.3)
Other, net	(27.5)	1.4
Net cash provided by operating activities	236.8	278.9
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(162.8)	(120.8)
Other, net	(25.3)	(7.9)
Net cash used in investing activities	(188.1)	(128.7)
Cash Flows from Financing Activities:		
Credit agreement repayments	(1.5)	(6.2)
Short-term borrowings, net	—	1.4
Repurchase of common stock	(145.4)	(115.6)
Dividends paid to Lear Corporation stockholders	(50.7)	(36.7)
Dividends paid to noncontrolling interests	(19.2)	(26.5)
Other, net	(55.8)	(41.7)
Net cash used in financing activities	(272.6)	(225.3)
Effect of foreign currency translation	18.0	13.2
Net Change in Cash, Cash Equivalents and Restricted Cash	(205.9)	(61.9)
Cash, Cash Equivalents and Restricted Cash as of Beginning of Period	1,500.4	1,271.6
Cash, Cash Equivalents and Restricted Cash as of End of Period	\$1,294.5	\$1,209.7
Changes in Working Capital Items:		
Accounts receivable	\$(460.7)	\$(526.6)
Inventories	(35.0)	(35.4)
Accounts payable	227.9	374.7
Accrued liabilities and other	15.2	42.0
Net change in working capital items	\$(252.6)	\$(145.3)
Supplementary Disclosure:		
Cash paid for interest	\$45.6	\$42.6
Cash paid for income taxes, net of refunds received	\$63.6	\$65.1

The accompanying notes are an integral part of these condensed consolidated statements.

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

Lear Corporation ("Lear," and together with its consolidated subsidiaries, the "Company") and its affiliates design and manufacture automotive seating and electrical distribution systems and related components. The Company's main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.

The accompanying condensed consolidated financial statements include the accounts of Lear, a Delaware corporation, and the wholly owned and less than wholly owned subsidiaries controlled by Lear. In addition, Lear consolidates all entities, including variable interest entities, in which it has a controlling financial interest. Investments in affiliates in which Lear does not have control but does have the ability to exercise significant influence over operating and financial policies are accounted for under the equity method.

In the second quarter of 2017, the Company completed the acquisition of Grupo Antolin's automotive seating business ("Antolin Seating"). The acquisition was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated financial statements from the date of acquisition. For further information on the acquisition of Antolin Seating, see Note 3, "Acquisition," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company's annual financial results are reported on a calendar year basis, and quarterly interim results are reported using a thirteen week reporting calendar.

Certain amounts in the prior period's financial statements have been reclassified to conform to the presentation used in the quarter ended March 31, 2018.

(2) Restructuring

Restructuring costs include employee termination benefits, fixed asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. In addition to restructuring costs, the Company incurs incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in the Company's condensed consolidated financial statements in accordance with GAAP. Generally, charges are recorded as restructuring actions are approved and/or implemented.

In the first quarter of 2018, the Company recorded charges of \$18.4 million in connection with its restructuring actions. These charges consist of \$14.9 million recorded as cost of sales and \$3.5 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination costs of \$16.3 million, fixed asset impairment charges of \$0.9 million and contract termination costs of \$0.3 million, as well as other related costs of \$0.9 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Fixed asset impairment charges relate to the disposal of buildings, leasehold improvements and/or machinery and equipment with carrying values of \$0.9 million in excess of related estimated fair values.

The Company expects to incur approximately \$30 million of additional restructuring costs related to activities initiated as of March 31, 2018, and expects that the components of such costs will be consistent with its historical experience. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

A summary of 2018 activity is shown below (in millions):

Accrual as of	2018	Utilization		Accrual as of
January 1, 2018	Charges	Cash	Non-cash	March 31, 2018

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Employee termination benefits	\$ 93.0	\$ 16.3	\$(13.8)	\$ —	\$ 95.5
Asset impairment charges	—	0.9	—	(0.9)	—
Contract termination costs	5.0	0.3	(0.2)	—	5.1
Other related costs	—	0.9	(0.9)	—	—
Total	\$ 98.0	\$ 18.4	\$(14.9)	\$ (0.9)	\$ 100.6

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(3) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. A summary of inventories is shown below (in millions):

	March 31, December	
	2018	31, 2017
Raw materials	\$918.8	\$869.3
Work-in-process	129.0	120.8
Finished goods	334.6	324.8
Reserves	(116.1)	(109.2)
Inventories	\$ 1,266.3	\$ 1,205.7

(4) Pre-Production Costs Related to Long-Term Supply Agreements

The Company incurs pre-production engineering and development ("E&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling.

During the first quarters of 2018 and 2017, the Company capitalized \$33.5 million and \$62.9 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first quarters of 2018 and 2017, the Company also capitalized \$31.8 million and \$33.6 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets.

During the first quarters of 2018 and 2017, the Company collected \$79.0 million and \$87.6 million, respectively, of cash related to E&D and tooling costs.

The classification of recoverable customer E&D and tooling costs related to long-term supply agreements is shown below (in millions):

	March 31, December	
	2018	31, 2017
Current	\$ 225.1	\$ 248.1
Long-term	66.8	59.3
Recoverable customer E&D and tooling	\$ 291.9	\$ 307.4

(5) Long-Term Assets

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Costs associated with the repair and maintenance of the Company's property, plant and equipment are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency or safety of the Company's property, plant and equipment are capitalized and depreciated over the remaining useful life of the related asset. Depreciable property is depreciated over the estimated useful lives of the assets, using principally the straight-line method.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of property, plant and equipment is shown below (in millions):

	March 31, 2018	December 31, 2017
Land	\$ 120.4	\$ 118.8
Buildings and improvements	821.6	797.7
Machinery and equipment	3,244.2	3,077.4
Construction in progress	384.6	355.6
Total property, plant and equipment	4,570.8	4,349.5
Less – accumulated depreciation	(2,009.9)	(1,890.1)
Property, plant and equipment, net	\$ 2,560.9	\$ 2,459.4

Depreciation expense was \$107.1 million and \$86.8 million in the three months ended March 31, 2018 and April 1, 2017, respectively.

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, the Company performs the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. Except as discussed below, the Company does not believe that there were any indicators that would have resulted in long-lived asset impairment charges as of March 31, 2018. The Company will, however, continue to assess the impact of any significant industry events on the realization of its long-lived assets.

In the first quarters of 2018 and 2017, the Company recognized fixed asset impairment charges of \$0.9 million and \$0.1 million, respectively, in conjunction with its restructuring actions (Note 2, "Restructuring").

Investments in Affiliates

In January 2018, the Company gained control of Changchun Lear FAWSN Automotive Electrical and Electronics Co., Ltd. ("Lear FAWSN") by acquiring an additional 20% interest from a joint venture partner and by amending the joint venture agreement to eliminate the substantive participating rights of the remaining joint venture partner. Prior to the amendment, Lear FAWSN was accounted for under the equity method.

This transaction was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated balance sheet as of March 31, 2018. The operating results and cash flows of Lear FAWSN are included in the accompanying condensed consolidated financial statements from the effective date of the amended joint venture agreement and are reflected in the Company's E-Systems segment. A preliminary summary of the fair value of the assets acquired and liabilities assumed in conjunction with the transaction is shown below (in millions):

Property, plant and equipment	\$ 10.5
Other assets and liabilities assumed, net	7.2
Goodwill	21.4
Intangible assets	7.5
	\$46.6

Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition.

Intangible assets consist of amounts recognized for the fair value of customer-based assets and were based on an independent appraisal. Customer-based assets include Lear FAWSN's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. It is currently estimated that these intangible assets have a weighted average useful life of approximately ten years.

The fair values of the assets acquired and liabilities assumed in conjunction with the transaction contain preliminary estimates that may be revised as a result of additional information regarding such assets and liabilities.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

As of the effective date of the transaction, the fair value of the Company's previously held equity interest in Lear FAWSN was \$23.0 million, and the fair value of the noncontrolling interest in Lear FAWSN was \$14.0 million. As a result of valuing the Company's previously held equity interest in Lear FAWSN at fair value, the Company recognized a gain of \$10.0 million, which is included in other (income) expense, net in the accompanying condensed consolidated statements of comprehensive income for the three months ended March 31, 2018.

Lear FAWSN's annual sales are approximately \$100 million. The pro forma effects of this consolidation would not materially impact the Company's reported results for any period presented.

For further information related to acquired assets measured at fair value, see Note 16, "Financial Instruments."

(6) Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, in the three months ended March 31, 2018, is shown below (in millions):

	Seating	E-Systems	Total
Balance at January 1, 2018	\$1,274.4	\$ 126.9	\$1,401.3
Affiliate transaction	—	21.4	21.4
Foreign currency translation and other	19.3	22.7	42.0
Balance at March 31, 2018	\$1,293.7	\$ 171.0	\$1,464.7

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. In conducting its annual impairment testing, the Company may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then compares the fair value of the reporting unit to the related net book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The Company conducts its annual impairment testing as of the first day of its fourth quarter.

The Company does not believe that there were any indicators that would have resulted in goodwill impairment charges as of March 31, 2018. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

For further information related to the affiliate transaction, see Note 5, "Long-Term Assets."

(7) Debt

A summary of long-term debt, net of unamortized debt issuance costs, and the related weighted average interest rates is shown below (in millions):

Debt Instrument	March 31, 2018				December 31, 2017			
	Long-Term Debt	Debt Issuance Costs ⁽²⁾	Long-Term Debt, Net	Weighted Average Interest Rate	Long-Term Debt	Debt Issuance Costs ⁽²⁾	Long-Term Debt, Net	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	\$246.9	\$(1.8)	\$245.1	3.24%	\$248.4	\$(1.8)	\$246.6	3.0%
5.375% Senior Notes due 2024 ("2024 Notes")	325.0	(2.3)	322.7	5.375%	325.0	(2.4)	322.6	5.375%
5.25% Senior Notes due 2025 ("2025 Notes")	650.0	(5.6)	644.4	5.25%	650.0	(5.8)	644.2	5.25%

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3.8% Senior Notes due 2027 ("2027 Notes") ⁽¹⁾	745.0	(5.8)	739.2	3.885%	744.9	(5.9)	739.0	3.885%
Other	7.7	—	7.7	N/A	8.1	—	8.1	N/A
	\$1,974.6	\$(15.5)	1,959.1		\$1,976.4	\$(15.9)	1,960.5	
Less — Current portion			(9.1)				(9.0)	
Long-term debt			\$ 1,950.0				\$ 1,951.5	

⁽¹⁾ Net of unamortized original issue discount of \$5.0 million and \$5.1 million as of March 31, 2018 and December 31, 2017, respectively

⁽²⁾ Unamortized portion

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Senior Notes

The issuance date, maturity date and interest payable dates of the Company's senior unsecured 2024 Notes, 2025 Notes and 2027 Notes (together, the "Notes") are as shown below:

Note	Issuance Date	Maturity Date	Interest Payable Dates
2024 Notes	March 2014	March 15, 2024	March 15 and September 15
2025 Notes	November 2014	January 15, 2025	January 15 and July 15
2027 Notes	August 2017	September 15, 2027	March 15 and September 15

Covenants

Subject to certain exceptions, the indentures governing the Notes contain restrictive covenants that, among other things, limit the ability of the Company to: (i) create or permit certain liens and (ii) consolidate, merge or sell all or substantially all of the Company's assets. The indenture governing the 2024 Notes limits the ability of the Company to enter into sale and leaseback transactions. The indentures governing the Notes also provide for customary events of default.

As of March 31, 2018, the Company was in compliance with all covenants under the indentures governing the Notes.

Credit Agreement

The Company's unsecured credit agreement (the "Credit Agreement"), dated August 8, 2017, consists of a \$1.75 billion revolving credit facility (the "Revolving Credit Facility") and a \$250.0 million term loan facility (the "Term Loan Facility"), both of which mature on August 8, 2022.

As of March 31, 2018 and December 31, 2017, there were no borrowings outstanding under the Revolving Credit Facility and \$246.9 million and \$248.4 million, respectively, of borrowings outstanding under the Term Loan Facility. In the first quarter of 2018, the Company made required principal payments of \$1.5 million under the Term Loan Facility. In the first quarter of 2017, the Company made required principal payments of \$6.2 million under the Company's prior term loan facility.

Advances under the Revolving Credit Facility and the Term Loan Facility generally bear interest based on (i) the Eurocurrency Rate (as defined in the Credit Agreement) or (ii) the Base Rate (as defined in the Credit Agreement) plus a margin, determined in accordance with a pricing grid. The range and the rate as of March 31, 2018, are shown below (in percentages):

	Eurocurrency Rate		Base Rate			
	Minimum	Maximum	Rate as of March 31, 2018		Rate as of March 31, 2018	
Revolving Credit Agreement	1.00 %	1.60 %	1.30 %	0.00 %	0.60 %	0.30 %
Term Loan Facility	1.125 %	1.90 %	1.50 %	0.125 %	0.90 %	0.50 %

A facility fee, which ranges from 0.125% to 0.30% of the total amount committed under the Revolving Credit Facility, is payable quarterly.

Covenants

The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness and liens.

As of March 31, 2018, the Company was in compliance with all covenants under the Credit Agreement.

Other

As of March 31, 2018, other long-term debt consists of amounts outstanding under capital leases.

For further information related to the Company's debt, see Note 6, "Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(8) Pension and Other Postretirement Benefit Plans

The Company sponsors defined benefit pension plans and other postretirement benefit plans (primarily for the continuation of medical benefits) for eligible employees in the United States and certain other countries.

Net Periodic Pension and Other Postretirement Benefit (Credit) Cost

The components of the Company's net periodic pension benefit (credit) cost are shown below (in millions):

	Three Months Ended			
	March 31, 2018		April 1, 2017	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$—	\$ 1.7	\$—	\$ 1.7
Interest cost	5.0	3.8	5.4	3.8
Expected return on plan assets	(6.9)	(5.9)	(5.9)	(5.6)
Amortization of actuarial loss	0.5	1.6	0.6	1.2
Settlement loss	0.2	—	0.2	0.8
Net periodic benefit (credit) cost	\$(1.2)	\$ 1.2	\$0.3	\$ 1.9

In the three months ended April 1, 2017, the Company recognized a pension settlement loss of \$0.8 million related to its restructuring actions.

The components of the Company's net periodic other postretirement benefit (credit) cost are shown below (in millions):

	Three Months Ended			
	March 31, 2018		April 1, 2017	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$—	\$ 0.1	\$—	\$ 0.1
Interest cost	0.5	0.4	0.6	0.4
Amortization of actuarial (gain) loss	(0.6)	—	(0.6)	0.1
Amortization of prior service credit	—	(0.1)	—	(0.1)
Net periodic benefit (credit) cost	\$(0.1)	\$ 0.4	\$—	\$ 0.5

Contributions

In the three months ended March 31, 2018, employer contributions to the Company's domestic and foreign defined benefit pension plans were \$4.1 million.

The Company expects contributions to its domestic and foreign defined benefit pension plans to be approximately \$10 million to \$15 million in 2018. The Company may elect to make contributions in excess of minimum funding requirements in response to investment performance or changes in interest rates or when the Company believes that it is financially advantageous to do so and based on its other cash requirements.

Accounting Standards Update

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The new standard requires the classification of the non-service cost components of net periodic benefit cost in other (income) expense, net and the classification of the service cost component in the same line item as other current employee compensation costs. The provisions of the standard were applied retrospectively, and the effects of adoption were not significant.

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(9) Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," using the modified retrospective method as applied to customer contracts that were not completed as of January 1, 2018. As a result, financial information for reporting periods beginning on or after January 1, 2018, are presented in accordance with ASC 606. Comparative financial information for reporting periods beginning prior to January 1, 2018, has not been adjusted and continues to be reported in accordance with the Company's revenue recognition policies prior to the adoption of ASC 606. The Company did not record a cumulative adjustment related to the adoption of ASC 606, and the effects of adoption were not significant.

The Company enters into contracts with its customers to provide production parts at the beginning of a vehicle's life cycle. Contracts do not provide for a specified quantity of products, but once entered into, the Company is generally required to fulfill its customers' purchasing requirements for the production life of the vehicle. These contracts may be terminated by the Company's customers at any time. Historically, terminations of these contracts have been minimal. The Company receives annual purchase orders from its customers, which provide the annual terms for a particular production part, including price (but not quantities). Contracts may also provide for annual price reductions over the production life of the vehicle, and prices are adjusted on an ongoing basis to reflect changes in product content/cost and other commercial factors.

Revenue is recognized at a point in time when control of the product is transferred to the customer under standard commercial terms, as the Company does not have an enforceable right to payment prior to such transfer. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for those products based on the annual purchase orders, annual price reductions and ongoing price adjustments (some of which is accounted for as variable consideration). The Company does not believe that there will be significant changes to its estimates of variable consideration. The Company's customers pay for products received in accordance with payment terms that are customary within the industry. The Company's contracts with its customers do not have significant financing components.

The Company records a contract liability for advances received from its customers. As of March 31, 2018, there were no significant contract liabilities recorded. Further, there were no significant contract liabilities recognized in revenue during the first quarter of 2018.

Amounts billed to customers related to shipping and handling costs are included in net sales in the condensed consolidated statements of comprehensive income. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales in the condensed consolidated statements of comprehensive income.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Company from a customer are excluded from revenue.

A summary of the Company's revenue by reportable operating segment and geography is shown below (in millions):

	Three Months Ended			April 1, 2017		
	March 31, 2018		Total	Seating		Total
	Seating	E-Systems		Seating	E-Systems	
North America	\$1,740.1	\$315.0	\$2,055.1	\$1,707.8	\$281.4	\$1,989.2
Europe and Africa	1,752.2	691.0	2,443.2	1,339.0	576.4	1,915.4
Asia	686.1	358.0	1,044.1	691.1	232.2	923.3
South America	151.5	39.8	191.3	130.1	40.5	170.6
	\$4,329.9	\$1,403.8	\$5,733.7	\$3,868.0	\$1,130.5	\$4,998.5

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(10) Other (Income) Expense, Net

Other (income) expense, net includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense.

A summary of other (income) expense, net is shown below (in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Other expense	\$ 5.5	\$ 8.0
Other income	(11.1)	(4.3)
Other (income) expense, net	\$ (5.6)	\$ 3.7

In the three months ended March 31, 2018, other income includes a gain of \$10.0 million related to gaining control of an affiliate (Note 5, "Long-Term Assets").

In the three months ended April 1, 2017, other income includes net foreign currency transaction gains of \$5.6 million.

(11) Income Taxes

A summary of the provision for income taxes and the corresponding effective tax rate for the three months ended March 31, 2018 and April 1, 2017, is shown below (in millions, except effective tax rates):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Provision for income taxes	\$77.7	\$89.1
Pretax income before equity in net income of affiliates	\$447.8	\$392.2
Effective tax rate	17.4 %	22.7 %

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on all offshore earnings that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2017, the Company had not completed its accounting for the tax effects of the Act. In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, "Income Taxes - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." The guidance provides for a provisional one year measurement period for entities to finalize their accounting for certain tax effects related to the Act. In the first quarter of 2018, the Company recognized a \$1.3 million tax benefit adjustment to the provisional income tax expense related to the remeasurement of the December 31, 2017 deferred tax balances. The Company expects to finalize its provisional amounts by the fourth quarter of 2018.

On January 1, 2018, the Company adopted ASU 2016-16, "Income Taxes - Intra-Entity Transfers of Assets Other than Inventory." The new standard requires the recognition of the income tax effects of intercompany sales and transfers of assets other than inventory, in the period in which the transfer occurs. The standard also required modified retrospective adoption. Accordingly, the Company recognized a deferred tax asset of \$2.3 million and a corresponding credit to retained earnings in conjunction with the adoption. The effects of adopting the other provisions of ASU 2016-16 were not significant.

In the first quarters of 2018 and 2017, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. The provision for income taxes was also impacted by the reduction in the U.S. federal corporate income tax rate in the first quarter of 2018. In the first quarter of 2018, the Company recognized tax benefits of \$35.1 million related to the reversal of valuation allowances on the deferred tax assets of a certain foreign

subsidiary, \$10.1 million related to share-based compensation and \$4.1 million related to restructuring charges and various other items, offset by tax expense of \$22.0 million related to an increase in foreign withholding tax on certain undistributed foreign earnings. In addition, the Company recognized a gain of \$10.0 million related to obtaining control of an affiliate, for which no tax expense was provided. In the first quarter of 2017, the Company recognized net tax benefits of \$19.1 million, of which \$15.5 million related to share-based compensation and \$3.6 million related to restructuring charges and various other items. Excluding these items, the effective tax rate for the first quarters of 2018 and 2017 approximated the U.S. federal statutory income tax rate of 21% and

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35%, respectively, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

As of March 31, 2018, the Company made its best estimate of the annual effective tax rate ("EAETR") for the full year of 2018. The Company continues to examine the potential impact of certain provisions of the Act that could affect its 2018 EAETR, including the provisions related to global intangible low-taxed income ("GILTI"), foreign derived intangible income ("FDII") and the base erosion and anti-abuse tax ("BEAT"). Accordingly, the Company's 2018 EAETR may change in subsequent interim periods as additional analysis is completed.

The Company's current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. The Company's future provision for income taxes will include no tax benefit with respect to losses incurred and, except for certain jurisdictions, no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by changes in valuation allowances and the mix of earnings among jurisdictions. The Company evaluates the realizability of its deferred tax assets on a quarterly basis. In completing this evaluation, the Company considers all available evidence in order to determine whether, based on the weight of the evidence, a valuation allowance for its deferred tax assets is necessary. Such evidence includes historical results, future reversals of existing taxable temporary differences and expectations for future taxable income (exclusive of the reversal of temporary differences and carryforwards), as well as the implementation of feasible and prudent tax planning strategies. If, based on the weight of the evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized, a valuation allowance is recorded. If operating results improve or decline on a continual basis in a particular jurisdiction, the Company's decision regarding the need for a valuation allowance could change, resulting in either the initial recognition or reversal of a valuation allowance in that jurisdiction, which could have a significant impact on income tax expense in the period recognized and subsequent periods.

For further information related to obtaining control of an affiliate, see Note 5, "Long-Term Assets." For further information related to the Company's income taxes, see Note 7, "Income Taxes," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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(12) Net Income Per Share Attributable to Lear

Basic net income per share available to Lear common stockholders is computed using the two-class method by dividing net income attributable to Lear, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement are considered common shares outstanding and are included in the computation of basic net income per share available to Lear common stockholders. Diluted net income per share available to Lear common stockholders is computed using the two-class method by dividing net income attributable to Lear, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding, including the dilutive effect of common stock equivalents computed using the treasury stock method and the average share price during the period. A summary of information used to compute basic and diluted net income per share available to Lear common stockholders is shown below (in millions, except share and per share data):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net income attributable to Lear	\$353.7	\$ 305.8
Less: Redeemable noncontrolling interest adjustment	(5.4)	—
Net income available to Lear common stockholders	\$348.3	\$ 305.8
Average common shares outstanding	67,086,310	66,658,368
Dilutive effect of common stock equivalents	476,126	668,980
Average diluted shares outstanding	67,562,436	67,327,348
Basic net income per share available to Lear common stockholders	\$5.19	\$ 4.39
Diluted net income per share available to Lear common stockholders	\$5.16	\$ 4.35

For further information related to the redeemable noncontrolling interest adjustment, see Note 13, "Comprehensive Income and Equity."

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(13) Comprehensive Income and Equity

Comprehensive Income

Comprehensive income is defined as all changes in the Company's net assets except changes resulting from transactions with stockholders. It differs from net income in that certain items recorded in equity are included in comprehensive income.

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three months ended March 31, 2018, is shown below (in millions):

	Three Months Ended March 31, 2018		
	Equity	Lear Corporation Stockholders' Equity	Non- controlling Interests
Beginning equity balance	\$4,292.6	\$ 4,150.5	\$ 142.1
Stock-based compensation transactions	(31.2)	(31.2)	—
Repurchase of common stock	(155.4)	(155.4)	—
Dividends declared to Lear Corporation stockholders	(47.7)	(47.7)	—
Dividends declared to noncontrolling interest holders	(19.7)	—	(19.7)
Adoption of ASU 2016-16 (Note 11, "Taxes")	2.3	2.3	—
Affiliate transaction	14.0	—	14.0
Redeemable non-controlling interest adjustment	(5.4)	(5.4)	—
Acquisition of outstanding non-controlling interest	(3.4)	—	(3.4)
Comprehensive income:			
Net income	370.7	353.7	17.0
Other comprehensive income, net of tax:			
Defined benefit plan adjustments	2.3	2.3	—
Derivative instruments and hedging activities	37.4	37.4	—
Foreign currency translation adjustments	98.1	92.9	5.2
Other comprehensive income	137.8	132.6	5.2
Comprehensive income	508.5	486.3	22.2
Ending equity balance	\$4,554.6	\$ 4,399.4	\$ 155.2

A summary of comprehensive income and a reconciliation of Lear's redeemable non-controlling interests for the three months ended March 31, 2018, is shown below (in millions):

	Three Months Ended March 31, 2018
Beginning redeemable noncontrolling interest balance	\$ 153.4
Redeemable noncontrolling interest adjustment	5.4
Comprehensive income:	
Net income	3.5
Foreign currency translation adjustments	8.0
Comprehensive income	11.5

Ending redeemable noncontrolling interest balance \$ 170.3

In accordance with GAAP, the Company records redeemable noncontrolling interests at the greater of (1) the initial carrying amount adjusted for the noncontrolling interest holder's share of total comprehensive income or loss and dividends ("noncontrolling interest carrying value") or (2) the redemption value as of and based on conditions existing as of the reporting date. Required redeemable noncontrolling interest adjustments are recorded as an increase to redeemable noncontrolling

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interests, with an offsetting adjustment to retained earnings. The redeemable noncontrolling interest is classified in mezzanine equity in the accompanying condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.

For further information related to the redeemable noncontrolling interest adjustment, see Note 12, "Net Income Per Share Attributable to Lear," as well as Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended March 31, 2018, is shown below (in millions):

	Three Months Ended March 31, 2018
Defined benefit plans:	
Balance at beginning of period	\$(184.0)
Reclassification adjustments (net of tax expense of \$0.3 million)	1.3
Other comprehensive income recognized during the period (net of tax impact of \$— million)	1.0
Balance at end of period	\$(181.7)
Derivative instruments and hedging:	
Balance at beginning of period	\$(22.9)
Reclassification adjustments (net of tax benefit of \$0.7 million)	(2.4)
Other comprehensive income recognized during the period (net of tax expense of \$11.0 million)	39.8
Balance at end of period	\$14.5
Foreign currency translation:	
Balance at beginning of period	\$(306.5)
Other comprehensive income recognized during the period (net of tax impact of \$— million)	92.9
Balance at end of period	\$(213.6)

In the three months ended March 31, 2018, foreign currency translation adjustments are related primarily to the strengthening of the Chinese renminbi and the Euro relative to the U.S. dollar and include pretax losses of \$0.3 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

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A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three months ended April 1, 2017, is shown below (in millions):

	Three Months Ended April 1, 2017		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	\$3,192.9	\$ 3,057.2	\$ 135.7
Stock-based compensation transactions	(25.8)	(25.8)	—
Repurchase of common stock	(127.5)	(127.5)	—
Dividends declared to Lear Corporation stockholders	(35.7)	(35.7)	—
Dividends declared to noncontrolling interest holders	(17.0)	—	(17.0)
Adoption of ASU 2016-09	54.5	54.5	—
Comprehensive income:			
Net income	318.5	305.8	12.7
Other comprehensive income, net of tax:			
Defined benefit plan adjustments	0.7	0.7	—
Derivative instruments and hedging activities	52.1	52.1	—
Foreign currency translation adjustments	50.8	49.7	1.1
Other comprehensive income	103.6	102.5	1.1
Comprehensive income	422.1	408.3	13.8
Ending equity balance	\$3,463.5	\$ 3,331.0	\$ 132.5

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended April 1, 2017, is shown below (in millions):

	Three Months Ended April 1, 2017
Defined benefit plans:	
Balance at beginning of period	\$(192.8)
Reclassification adjustments (net of tax expense of \$0.5 million)	1.7
Other comprehensive loss recognized during the period (net of tax impact of \$— million)	(1.0)
Balance at end of period	\$(192.1)
Derivative instruments and hedging:	
Balance at beginning of period	\$(45.1)
Reclassification adjustments (net of tax expense of \$3.0 million)	8.8
Other comprehensive income recognized during the period (net of tax expense of \$14.7 million)	43.3
Balance at end of period	\$7.0
Foreign currency translation:	
Balance at beginning of period	\$(597.7)
Other comprehensive income recognized during the period (net of tax impact of \$— million)	49.7
Balance at end of period	\$(548.0)

In the three months ended April 1, 2017, foreign currency translation adjustments are related primarily to the strengthening of the Euro, the Chinese renminbi and the Brazilian real relative to the U.S. dollar and include pretax losses of \$0.6 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

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For further information regarding reclassification adjustments related to the Company's defined benefit plans, see Note 8, "Pension and Other Postretirement Benefit Plans." For further information regarding reclassification adjustments related to the Company's derivative and hedging activities, see Note 16, "Financial Instruments."

Lear Corporation Stockholders' Equity

Common Stock Share Repurchase Program

On February 13, 2018, the Company's Board of Directors authorized an increase to the existing common stock share repurchase program to provide for a remaining aggregate repurchase authorization of \$1.5 billion and extended the term of the program to December 31, 2020.

Share repurchases in the first three months of 2018 are shown below (in millions except for shares and per share amounts):

Three Months Ended March 31, 2018	As of March 31, 2018			
Aggregate Repurchases	Cash paid for Repurchases	Number of Shares	Average Price per Share ⁽²⁾	Remaining Purchase Authorization
\$155.4	\$ 145.4	829,360	\$187.41	\$ 1,349.6

⁽¹⁾ Includes \$5.1 million of purchases prior to the increased authorization

⁽²⁾ Excludes commissions

Since the first quarter of 2011, the Company's Board of Directors has authorized \$5.0 billion in share repurchases under the common stock share repurchase program. As of the end of the first quarter of 2018, the Company has repurchased, in aggregate, \$3.7 billion of its outstanding common stock, at an average price of \$81.72 per share, excluding commissions and related fees.

The Company may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which the Company will repurchase its outstanding common stock and the timing of such repurchases will depend upon its financial condition, prevailing market conditions, alternative uses of capital and other factors.

In addition to shares repurchased under the Company's common stock share repurchase program described above, the Company classified shares withheld from the settlement of the Company's restricted stock unit and performance share awards to cover tax withholding requirements as common stock held in treasury in the accompanying condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.

Quarterly Dividend

In the first three months of 2018 and 2017, the Company's Board of Directors declared quarterly cash dividends of \$0.70 and \$0.50 per share of common stock, respectively. Dividends declared and paid are shown below (in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Dividends declared	\$47.7	\$ 35.7
Dividends paid	50.7	36.7

Dividends payable on common shares to be distributed under the Company's stock-based compensation program and common shares contemplated as part of the Company's emergence from Chapter 11 bankruptcy proceedings will be paid when such common shares are distributed.

Noncontrolling Interests

In the first three months of 2018, the Company gained control of an affiliate and acquired the outstanding non-controlling interest of another affiliate. For further information related to the affiliate transaction, see Note 5, "Long-Term Assets."

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(14) Legal and Other Contingencies

As of March 31, 2018 and December 31, 2017, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$25.6 million and \$25.8 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

Commercial Disputes

The Company is involved from time to time in legal proceedings and claims, including, without limitation, commercial or contractual disputes with its customers, suppliers and competitors. These disputes vary in nature and are usually resolved by negotiations between the parties.

Product Liability and Warranty Matters

In the event that use of the Company's products results in, or is alleged to result in, bodily injury and/or property damage or other losses, the Company may be subject to product liability lawsuits and other claims. Such lawsuits generally seek compensatory damages, punitive damages and attorneys' fees and costs. In addition, if any of the Company's products are, or are alleged to be, defective, the Company may be required or requested by its customers to participate in a recall or other corrective action involving such products. Certain of the Company's customers have asserted claims against the Company for costs related to recalls or other corrective actions involving its products. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend such claims.

To a lesser extent, the Company is a party to agreements with certain of its customers, whereby these customers may pursue claims against the Company for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims.

In certain instances, allegedly defective products may be supplied by Tier 2 suppliers. The Company may seek recovery from its suppliers of materials or services included within the Company's products that are associated with product liability and warranty claims. The Company carries insurance for certain legal matters, including product liability claims, but such coverage may be limited. The Company does not maintain insurance for product warranty or recall matters. Future dispositions with respect to the Company's product liability claims that were subject to compromise under the Chapter 11 bankruptcy proceedings will be satisfied out of a common stock and warrant reserve established for that purpose.

The Company records product warranty reserves when liability is probable and related amounts are reasonably estimable.

A summary of the changes in reserves for product liability and warranty claims for the three months ended March 31, 2018, is shown below (in millions):

Balance at January 1, 2018	\$46.5
Expense, net (including changes in estimates)	3.4
Settlements	(9.5)
Foreign currency translation and other	0.5
Balance at March 31, 2018	\$40.9

Environmental Matters

The Company is subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. The Company's policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance with this standard. However, the Company currently is, has been and in the future may become the subject of formal or informal enforcement actions or procedures.

As of March 31, 2018 and December 31, 2017, the Company had recorded environmental reserves of \$8.9 million and \$9.0 million, respectively. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial condition, results of operations or cash flows; however, no assurances can be given in this regard.

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Other Matters

The Company is involved from time to time in various other legal proceedings and claims, including, without limitation, intellectual property matters, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, the Company does not believe that any of the other legal proceedings or claims in which the Company is currently involved, either individually or in the aggregate, will have a material adverse impact on its business, financial condition, results of operations or cash flows. However, no assurances can be given in this regard.

Although the Company records reserves for legal disputes, product liability and warranty claims and environmental and other matters in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates.

(15) Segment Reporting

The Company has two reportable operating segments: Seating, which includes complete seat systems and all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests, and E-Systems, which includes complete electrical distribution systems, electronic control modules and associated software and wireless communication modules. Key components in the electrical distribution system include wire harnesses, terminals and connectors and junction boxes, including components and systems for high power battery electric vehicle and hybrid electric vehicle power management and distribution systems. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment.

The Company evaluates the performance of its operating segments based primarily on (i) revenues from external customers, (ii) pretax income before equity in net income of affiliates, interest expense and other expense, net, ("segment earnings") and (iii) cash flows, being defined as segment earnings less capital expenditures plus depreciation and amortization.

A summary of revenues from external customers and other financial information by reportable operating segment is shown below (in millions):

	Three Months Ended March 31, 2018			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	\$4,329.9	\$ 1,403.8	\$ —	\$ 5,733.7
Segment earnings ⁽¹⁾	339.5	190.8	(67.4)	462.9
Depreciation and amortization	80.0	36.6	3.6	120.2
Capital expenditures	112.3	48.2	2.3	162.8
Total assets	7,901.5	2,631.3	2,148.4	12,681.2
	Three Months Ended April 1, 2017			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	\$3,868.0	\$ 1,130.5	\$ —	\$ 4,998.5
Segment earnings ⁽¹⁾	320.3	164.9	(68.5)	416.7
Depreciation and amortization	65.0	28.3	3.6	96.9
Capital expenditures	82.7	29.5	8.6	120.8
Total assets	6,824.5	1,835.7	1,940.3	10,600.5

⁽¹⁾ See definition above

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For the three months ended March 31, 2018, segment earnings include restructuring charges of \$14.4 million, \$1.9 million and \$2.1 million in the Seating and E-Systems segments and in the other category, respectively (Note 2, "Restructuring").

For the three months ended April 1, 2017, segment earnings include restructuring charges of \$6.7 million, \$1.7 million and \$0.1 million in the Seating and E-Systems segments and in the other category, respectively (Note 2, "Restructuring").

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A reconciliation of segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates is shown below (in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Segment earnings	\$ 462.9	\$ 416.7
Interest expense	20.7	20.8
Other (income) expense, net	(5.6)	3.7
Consolidated income before provision for income taxes and equity in net income of affiliates	\$ 447.8	\$ 392.2

(16) Financial Instruments

Debt Instruments

The carrying values of the Company's debt instruments vary from their fair values. The fair values were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). The estimated fair value, as well as the carrying value, of the Company's debt instruments are shown below (in millions):

	March 31, 2018	December 31, 2017
Estimated aggregate fair value ⁽¹⁾	\$ 1,994.8	\$ 2,033.5
Aggregate carrying value ^{(1) (2)}	1,971.9	1,973.4

⁽¹⁾ Credit agreement and senior notes (excludes "other" debt)

⁽²⁾ Excludes the impact of unamortized original issue discount and debt issuance costs

Cash, Cash Equivalents and Restricted Cash

On January 1, 2018, the Company adopted ASU 2016-18, "Restricted Cash." The new standard requires that changes in restricted cash be reflected with changes in cash and cash equivalents on the statement of cash flows and that a reconciliation between cash and cash equivalents presented on the balance sheet and to cash, cash equivalents and restricted cash presented on the statement of cash flows be provided. The provisions of the standard were applied retrospectively, and the effects of adoption were not significant.

The Company has on deposit with banks cash that is legally restricted as to use or withdrawal. A reconciliation of cash, cash equivalents and restricted cash reported on the condensed consolidated balance sheets to cash, cash equivalents and restricted cash reported on the condensed consolidated statements of cash flows is shown below (in millions):

	March 31, 2018	April 1, 2017
Balance sheet - cash and cash equivalents	\$ 1,268.5	\$ 1,209.7
Restricted cash included in other current assets	8.4	—
Restricted cash included in other long-term assets	17.6	—
Statement of cash flows - cash, cash equivalents and restricted cash	\$ 1,294.5	\$ 1,209.7

Marketable Equity Securities

Marketable equity securities, which the Company accounts for under the fair value option, are included in the accompanying condensed consolidated balance sheets as shown below (in millions):

	March 31, 2018	December 31, 2017
Current assets	\$ —	\$ 3.2
Other long-term assets	45.6	40.6
	\$ 45.6	\$ 43.8

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Unrealized gains and losses arising from changes in the fair value of the marketable equity securities are recognized in the accompanying condensed consolidated statement of comprehensive income as a component of other (income) expense, net. The fair value of the marketable equity securities is determined by reference to quoted market prices in active markets (Level 1 input based on the GAAP fair value hierarchy).

Derivative Instruments and Hedging Activities

The Company has used derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates and interest rates and the resulting variability of the Company's operating results. The Company is not a party to leveraged derivatives. The Company's derivative financial instruments are subject to master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. On the date that a derivative contract for a hedging instrument is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge), (3) a hedge of a net investment in a foreign operation (a net investment hedge) or (4) a contract not designated as a hedging instrument.

For a fair value hedge, the change in the fair value of the derivative is recorded in earnings and reflected in the condensed consolidated statement of comprehensive income on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a cash flow hedge, the change in the fair value of the derivative is recorded in accumulated other comprehensive loss in the condensed consolidated balance sheet. When the underlying hedged transaction is realized, the gain or loss included in accumulated other comprehensive loss is recorded in earnings and reflected in the condensed consolidated statement of comprehensive income on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a net investment hedge, the change in the fair value of the derivative is recorded in cumulative translation adjustment, which is a component of accumulated other comprehensive loss in the condensed consolidated balance sheet. Changes in the fair value of contracts not designated as hedging instruments are recorded in earnings and reflected in the condensed consolidated statement of comprehensive income as other expense, net.

On January 1, 2018, the Company early adopted ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities." The new standard eliminates the requirement to separately measure and report hedge ineffectiveness, due to a difference between the economic terms of the hedge instrument and the underlying transaction, and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same line as the hedged item in the condensed consolidated statement of comprehensive income. The standard also modifies the accounting for components excluded from the assessment of hedge effectiveness and simplifies the application of hedge accounting in certain situations. The provisions of the standard were applied on a modified retrospective basis, and the effects of adoption were not significant.

Foreign Exchange

The Company uses forwards, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates on known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset gains and losses on the hedged transaction in an effort to reduce exposure to fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso, various European currencies, the Thai baht, the Japanese yen, the Chinese renminbi and the Philippine peso.

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The notional amount, estimated fair value and related balance sheet classification of the Company's foreign currency derivative contracts are shown below (in millions, except for maturities):

	March 31, 2018	December 31, 2017
Fair value of foreign currency contracts designated as cash flow hedges:		
Other current assets	\$39.4	\$ 16.9
Other long-term assets	6.4	1.3
Other current liabilities	(15.5)	(28.4)
Other long-term liabilities	(0.7)	(8.0)
	29.6	(18.2)
Notional amount	\$1,408.0	\$ 1,538.5
Outstanding maturities in months, not to exceed	24	24
Fair value of foreign currency contracts not designated as hedging instruments:		
Other current assets	\$6.5	\$ 1.8
Other current liabilities	(5.0)	(6.4)
	1.5	(4.6)
Notional amount	\$1,229.9	\$ 681.1
Outstanding maturities in months, not to exceed	9	12
Total fair value	\$31.1	\$ (22.8)
Total notional amount	\$2,637.9	\$ 2,219.6

Foreign currency derivative contracts not designated as hedging instruments consist principally of hedges of cash transactions, intercompany loans and certain other balance sheet exposures.

Accumulated Other Comprehensive Loss - Derivative Instruments and Hedging

Pretax amounts related to foreign currency derivative contracts designated as cash flow hedges that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	Three Months Ended March 31, 2018	April 1, 2017
Gains recognized in accumulated other comprehensive loss:	\$50.9	\$ 58.1

(Gains) losses reclassified from accumulated other comprehensive loss to:

Net sales	1.7	0.1
Cost of sales	(4.8)	11.7
	(3.1)	11.8
Comprehensive income	\$47.8	\$ 69.9

As of March 31, 2018 and December 31, 2017, pretax net gains (losses) of approximately \$29.6 million and (\$18.2) million, respectively, related to the Company's derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. During the next twelve month period, the Company expects to reclassify into earnings net gains of approximately \$24.0 million recorded in accumulated other comprehensive loss as of March 31, 2018. Such gains will be reclassified at the time that the underlying hedged transactions are realized.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Fair Value Measurements

GAAP provides that fair value is an exit price, defined as a market-based measurement that represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Fair value measurements are based on one or more of the following three valuation techniques:

Market: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income: This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.

Cost: This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

Further, GAAP prioritizes the inputs and assumptions used in the valuation techniques described above into a three-tier fair value hierarchy as follows:

Level 1: Observable inputs, such as quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.

Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability.

Level 3: Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

The Company discloses fair value measurements and the related valuation techniques and fair value hierarchy level for its assets and liabilities that are measured or disclosed at fair value.

Items Measured at Fair Value on a Recurring Basis

Fair value measurements and the related valuation techniques and fair value hierarchy level for the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, are shown below (in millions):

	March 31, 2018					
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$ 31.1	Market/ Income	\$ —	\$ 31.1	\$ —
Marketable equity securities	Recurring	\$ 45.6	Market	\$ 45.6	\$ —	\$ —
	December 31, 2017					
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$ (22.8)	Market/ Income	\$ —	\$ (22.8)	\$ —
Marketable equity securities	Recurring	\$ 43.8	Market	\$ 43.8	\$ —	\$ —

The Company determines the fair value of its derivative contracts using quoted market prices to calculate the forward values and then discounts such forward values to the present value. The discount rates used are based on quoted bank deposit or swap interest rates. If a derivative contract is in a net liability position, the Company adjusts these discount rates, if required, by an estimate of the credit spread that would be applied by market participants purchasing these

contracts from the Company's counterparties. If an estimate of the credit spread is required, the Company uses significant assumptions and factors other than quoted market rates, which would result in the classification of its derivative liabilities within Level 3 of the fair value hierarchy. As of March 31, 2018 and December 31, 2017, there were no derivative contracts that were classified within Level 3 of the fair value hierarchy. In addition, there were no transfers in or out of Level 3 of the fair value hierarchy in 2018.

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Items Measured at Fair Value on a Non-Recurring Basis

The Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included in the table above. As these non-recurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy.

In 2018, as a result of the Lear FAWSN transaction, Level 3 fair value estimates of \$10.5 million related to property, plant and equipment, \$7.5 million related to intangible assets and \$14.0 million of noncontrolling interests are recorded in the accompanying condensed consolidated balance sheet as of March 31, 2018. In addition, the Lear FAWSN transaction required a Level 3 fair value estimate related to the Company's previously held equity interest of \$23.0 million. These Level 3 fair value estimates were determined as of the effective date of the transaction.

Fair value estimates of property, plant and equipment were based on independent appraisals, giving consideration to the highest and best use of the assets. Key assumptions used in the appraisals were based on a combination of market and cost approaches, as appropriate. Fair value estimates of customer-based intangible assets were based on the present value of future earnings attributable to the asset group after recognition of required returns to other contributory assets. Fair value estimates of noncontrolling and equity interests were based on the present value of future cash flows and a value to earnings multiple approach and reflect discounts for the lack of control and the lack of marketability associated with noncontrolling and equity interests.

As of March 31, 2018, there were no additional significant assets or liabilities measured at fair value on a non-recurring basis.

For further information related to assets and liabilities measured at fair value on a non-recurring basis, see Note 5, "Long-Term Assets."

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(17) Accounting Pronouncements

Standards Adopted in 2018

On January 1, 2018, the Company adopted the ASUs summarized below:

Standard Adopted	Description	Effective Date
ASU 2014-09, Revenue from Contracts with Customers	The standard replaces existing revenue recognition guidance and requires additional financial statement disclosures. See Note 9, "Revenue Recognition."	January 1, 2018
ASU 2016-01 and ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities	The standard requires equity investments and other ownership interests in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings. A practicability exception exists for equity investments without readily determinable fair values. The effects of adoption were not significant.	January 1, 2018
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	The standard addresses the classification of cash flows related to various transactions, including debt prepayment and extinguishment costs, contingent consideration and proceeds from insurance claims. The effects of adoption were not significant.	January 1, 2018
ASU 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other than Inventory	The standard requires the recognition of the income tax effects of intercompany sales and transfers (other than inventory) when the sales and transfers occur. See Note 11, "Income Taxes."	January 1, 2018
ASU 2016-18, Restricted Cash	The standard provides guidance on the presentation of restricted cash on the statement of cash flows. See Note 16, "Financial Instruments."	January 1, 2018
ASU 2017-01, Clarifying the Definition of a Business	The standard provides a new framework to use when determining if a set of assets and activities is a business. The effects of adoption were not significant.	January 1, 2018
ASU 2017-05, Gains and Losses from the Derecognition of Nonfinancial Assets	The standard provides guidance for recognizing gains and losses on nonfinancial assets (including land, buildings and intangible assets) to noncustomers. Adoption must coincide with ASU 2014-09. The effects of adoption were not significant.	January 1, 2018
ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	The standard was issued to address the net presentation of the components of net benefit cost. The standard requires that service cost be presented in the same line item as other current employee compensation costs and that the remaining components of net benefit cost be presented in a separate line item outside of any subtotal for income from operations. See Note 8, "Pension and Other Postretirement Benefit Plans."	January 1, 2018
ASU 2017-09, Stock Compensation - Scope of Modification Accounting	The standard provides guidance intended to reduce diversity in practice when accounting for a modification to the terms and conditions of a share-based payment award. The effects of adoption were not significant.	January 1, 2018
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	The standard contains changes intended to better portray the economic results of hedging activities, as well as targeted improvements to simplify hedge accounting. The Company elected to early adopt the standard effective January 1, 2018. See Note 16, "Financial Instruments."	January 1, 2018 (early adopted)
ASU 2018-05, Income Taxes - Amendments to SEC Paragraphs Pursuant to SEC	The standard provides guidance for companies that may not have completed their accounting for the income tax effects of the Act in the period of enactment. See Note 11, "Income Taxes."	January 1, 2018

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Standards Effective After 2018

The Company has considered the ASUs summarized below, effective after 2018, which could significantly impact its financial statements:

Standards Pending Adoption	Description	Anticipated Impact	Effective Date
ASU 2016-02 and 2018-01, Leases	The standard requires that a lessee recognize on its balance sheet right-of-use assets and corresponding liabilities resulting from leasing transactions, as well as additional financial statement disclosures. Currently, GAAP only requires balance sheet recognition for leases classified as capital leases. The provisions of this update apply to substantially all leased assets.	The Company is currently evaluating the impact of this update. For additional information on the Company's operating lease commitments, see Note 11, "Commitments and Contingencies," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.	January 1, 2019

The Company has considered the ASUs summarized below, effective after 2018, none of which are expected to significantly impact its financial statements:

Standards Pending Adoption	Description	Effective Date
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The new standard allows for the reclassification from accumulated other comprehensive income to retained earnings, "stranded" tax effects resulting from the Act.	January 1, 2019
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	The standard changes the impairment model for most financial instruments to an "expected loss" model. The new model will generally result in earlier recognition of credit losses.	January 1, 2020
ASU 2017-04, Simplifying the Test for Goodwill Impairment	The standard simplifies the accounting for goodwill impairments and allows a goodwill impairment charge to be based on the amount of a reporting unit's carrying value in excess of its fair value. This eliminates the requirement to calculate the implied fair value of goodwill or what is known as "Step 2" under the current guidance.	January 1, 2020

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ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

We are a leading Tier 1 supplier to the global automotive industry. We supply seating, electrical distribution systems and electronic modules, as well as related sub-systems, components and software, to all of the world's major automotive manufacturers.

We use our product, design and technological expertise, global reach and competitive manufacturing footprint to achieve our financial goals and objectives of continuing to deliver profitable growth (balancing risks and returns), maintaining a strong balance sheet with investment grade credit metrics and consistently returning excess cash to our stockholders.

Our Seating business consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests. Further, we have capabilities in active sensing and comfort for seats, utilizing electronically controlled sensor and adjustment systems and internally developed algorithms.

Our E-Systems business consists of the design, development, engineering and manufacture of complete electrical distribution systems that route electrical signals and manage electrical power within the vehicle for traditional vehicle architectures, as well as high power and hybrid electric systems. Key components in the electrical distribution system include wire harnesses, terminals and connectors and junction boxes, including components and systems for high power battery electric vehicle and hybrid electric vehicle power management and distribution systems. We also design, develop, engineer and manufacture sophisticated electronic control modules that facilitate signal, data and power management within the vehicle, as well as associated software. We have electronic hardware and software capabilities in wireless communication and cybersecurity that securely process various signals to, from and within the vehicle, as well as capabilities to provide roadside modules that communicate real-time traffic information to vehicles in the area.

We serve all of the world's major automotive manufacturers across both our Seating and E-Systems businesses, and we have automotive content on more than 400 vehicle nameplates worldwide. It is common to have both seating and electrical content on the same and multiple vehicle platforms with a single customer. Our businesses benefit globally from leveraging common operating standards and disciplines, including world-class product development and manufacturing processes, as well as common customer support and regional infrastructures. Our core capabilities are shared across component categories and include high-precision manufacturing and assembly with short lead times, management of complex supply chains, global engineering and program management skills, the agility to establish and/or move facilities quickly and a unique customer-focused culture. Our businesses utilize proprietary, industry-specific processes and standards, leverage common low-cost engineering centers and share centralized operating support functions, such as logistics, supply chain management, quality and health and safety, as well as all major administrative functions. Further, the seat is becoming a more dynamic and integrated system requiring increased levels of electrical and electronic integration and accelerating the convergence of our Seating and E-Systems businesses.

Industry Overview

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. Global automotive industry production volumes in the first quarter of 2018, as compared to the first quarter of 2017, are shown below (in millions of units):

	Three Months Ended		
	March 31, 2018	April 1, 2017	% Change
North America	4.4	4.5	(3)%

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Europe and Africa	6.0	6.1	(1)%
Asia	12.0	12.1	(1)%
South America	0.8	0.7	12 %
Other	0.6	0.5	14 %
Global light vehicle production	23.8	23.9	(1)%

Automotive sales and production can be affected by the age of the vehicle fleet and related scrappage rates, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, the availability and cost of credit, the availability of critical components needed to complete the production of vehicles, restructuring actions of our customers and

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suppliers, facility closures, changing consumer attitudes toward vehicle ownership and usage and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as the profitability of the products that we supply for these platforms. The loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could adversely affect our operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

Our percentage of consolidated net sales by region in the first quarters of 2018 and 2017 is shown below:

	Three Months Ended March		April	
	31,	1,		
	2018	2017		
North America	36 %	40 %		
Europe and Africa	43 %	38 %		
Asia	18 %	19 %		
South America	3 %	3 %		
Total	100%	100%		

Our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

Key trends that specifically affect our business include automotive manufacturers' utilization of global vehicle platforms, increasing demand for luxury and performance features, including increasing levels of electrical and electronic content, and China's emergence as the single largest major automotive market in the world. In addition, three trends have broadly emerged as major drivers of change and growth in the automotive industry: efficiency, connectivity and safety. These trends are rapidly evolving and advancing into the technology trends of electrification, connectivity and autonomy / advanced driver assistance, all of which are likely to be at the forefront of our industry for the foreseeable future with each converging long-term toward fully autonomous, connected, electric or hybrid electric vehicles.

Our sales and marketing approach is based on addressing these trends, while our strategy focuses on the major imperatives for success as an automotive supplier: quality, service, cost and efficiency and innovation and technology. We have expanded key component and software capabilities through organic investment and acquisitions to ensure a full complement of the highest quality solutions for our customers. We have restructured, and continue to align, our manufacturing and engineering footprint to attain a leading competitive position globally. We have established or expanded our capabilities in new and growing markets, especially China, in support of our customers' growth and global platform initiatives. These initiatives have helped us achieve our financial goals overall, as well as a more balanced regional, customer and vehicle segment diversification in our business.

Our customers typically require us to reduce our prices over the life of a vehicle model and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our financial performance is largely dependent on our ability to achieve product cost reductions through product design enhancement and supply chain management, as well as manufacturing efficiencies and restructuring actions. We also seek to enhance our financial performance by investing in product development, design capabilities and new product initiatives that respond to the needs of our customers and consumers. We continually evaluate operational and strategic alternatives to improve our business structure and align our business with the changing needs of our customers and major industry trends affecting our business.

Our material cost as a percentage of net sales was 64.9% in the first quarter of 2018, as compared to 65.3% in the first quarter of 2017. Raw material, energy and commodity costs can be volatile. We have developed and implemented

strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control. If these costs increase or availability is restricted, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017.

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Financial Measures

In evaluating our financial condition and operating performance, we focus primarily on earnings, operating margins, cash flows and return on invested capital. In addition to maintaining and expanding our business with our existing customers in our more established markets, our expansion plans are focused primarily on emerging markets. Asia, and China in particular, continues to present significant growth opportunities, as major global automotive manufacturers implement production expansion plans and local automotive manufacturers aggressively expand their operations to meet increasing demand in this region. We currently have fourteen operating joint ventures with operations in Asia, as well as an additional joint venture in North America dedicated to serving Asian automotive manufacturers. We have also aggressively pursued this strategy by selectively increasing our vertical integration capabilities globally, as well as expanding our component manufacturing capacity in Asia, Brazil, Eastern Europe, Mexico and Northern Africa. Furthermore, we have expanded our low-cost engineering capabilities in India and the Philippines.

Our success in generating cash flow will depend, in part, on our ability to manage working capital effectively. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we generally have been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be impacted by adverse automotive industry conditions, changes to our customers' payment terms and the financial condition of our suppliers, as well as our financial condition. In addition, our cash flow is impacted by our ability to manage our inventory and capital spending effectively. We utilize return on invested capital as a measure of the efficiency with which our assets generate earnings. Improvements in our return on invested capital will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

Acquisition

On January 10, 2018, we completed the acquisition of Israel-based EXO Technologies ("EXO Technologies"), a leading developer of differentiated GPS technology providing high-accuracy positioning solutions for autonomous and connected vehicle applications. EXO Technologies has operations in San Mateo, California and Tel Aviv, Israel and has developed core technology that addresses the need for high-accuracy positioning of a vehicle. Its proprietary technology works with existing GPS receivers to provide centimeter-level accuracy anywhere on the globe without the need for terrestrial base-station networks. The integration of this technology with our vehicle and connectivity expertise enables an industry-leading vehicle positioning solution.

Operational Restructuring

In the first quarter of 2018, we incurred pretax restructuring costs of approximately \$18 million and related manufacturing inefficiency charges of approximately \$6 million. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

For further information, see Note 2, "Restructuring," to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q (this "Report").

Share Repurchase Program and Quarterly Cash Dividends

Since the first quarter of 2011, our Board of Directors has authorized \$5.0 billion in share repurchases under our common stock share repurchase program. In the first quarter of 2018, we repurchased \$155 million of shares and have a remaining repurchase authorization of \$1.35 billion, which will expire on December 31, 2020.

In the first quarter of 2018, our Board of Directors declared a quarterly cash dividend of \$0.70 per share of common stock, reflecting a 40% increase over the quarterly cash dividend declared in 2017.

For further information related to our common stock share repurchase program and our quarterly dividends, see "—Liquidity and Capital Resources — Capitalization" below and Note 13, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

Other Matters

In January 2018, we acquired an additional 20% interest in Changchun Lear FAWSN Automotive Electrical and Electronics Co., Ltd. ("Lear FAWSN") from a joint venture partner and amended the existing joint venture agreement to eliminate the substantive participating rights of the remaining joint venture partner. Prior to the amendment, Lear FAWSN was accounted for under the equity method. In conjunction with obtaining control of Lear FAWSN and the

valuation of our prior equity investment in Lear FAWSN at fair value, we recognized a gain of approximately \$10 million in the three months ended March 31, 2018.

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In the first quarter of 2018, we recognized tax benefits of \$35 million related to the reversal of the valuation allowance on the deferred tax assets of a foreign subsidiary, \$10 million related to share-based compensation and \$4 million related to restructuring charges and various other items, offset by tax expense of \$22 million related to an increase in foreign withholding tax on certain undistributed foreign earnings.

In the first quarter of 2017, we recognized net tax benefits of \$19 million related to share-based compensation, restructuring charges and various other items.

As discussed above, our results for the three months ended March 31, 2018 and April 1, 2017, reflect the following items (in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Costs related to restructuring actions, including manufacturing inefficiencies of \$6 million in the three months ended March 31, 2018	\$ 24	\$ 9
Acquisition and other related costs	—	2
Acquisition-related inventory fair value adjustment	—	2
Gain related to affiliate	10	—
Tax benefit, net	27	19

For further information regarding these items, see Note 2, "Restructuring," Note 5, "Long-Term Assets," and Note 11, "Income Taxes," to the condensed consolidated financial statements included in this Report.

This Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017.

RESULTS OF OPERATIONS

A summary of our operating results in millions of dollars and as a percentage of net sales is shown below:

	Three Months Ended			
	March 31, 2018		April 1, 2017	
Net sales				
Seating	\$4,329.9	75.5 %	\$3,868.0	77.4 %
E-Systems	1,403.8	24.5	1,130.5	22.6
Net sales	5,733.7	100.0	4,998.5	100.0
Cost of sales	5,102.3	89.0	4,416.0	88.3
Gross profit	631.4	11.0	582.5	11.7
Selling, general and administrative expenses	155.4	2.7	155.7	3.1
Amortization of intangible assets	13.1	0.2	10.1	0.2
Interest expense	20.7	0.4	20.8	0.4
Other (income) expense, net	(5.6)	(0.1)	3.7	0.1
Provision for income taxes	77.7	1.4	89.1	1.8
Equity in net income of affiliates	(4.1)	(0.1)	(15.4)	(0.3)
Net income attributable to noncontrolling interests	20.5	0.3	12.7	0.3
Net income attributable to Lear	\$353.7	6.2 %	\$305.8	6.1 %

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Three Months Ended March 31, 2018 vs. Three Months Ended April 1, 2017

Net sales in the first quarter of 2018 were \$5.7 billion, as compared to \$5.0 billion in the first quarter of 2017, an increase of \$735 million or 15%. Net foreign exchange rate fluctuations, new business, primarily in North America and Europe, and the April 2017 acquisition of Grupo Antolin's automotive seating business ("Antolin Seating") positively impacted net sales by \$349 million, \$308 million and \$161 million, respectively. These increases were partially offset by lower production volumes on key Lear platforms, primarily in North America, which reduced net sales by \$203 million.

(in millions)	Cost of Sales
First quarter 2017	\$4,416
Material cost	461
Labor and other	206
Depreciation	19
First quarter 2018	\$5,102

Cost of sales in the first quarter of 2018 was \$5.1 billion, as compared to \$4.4 billion in the first quarter of 2017. Net foreign exchange rate fluctuations, new business, primarily in North America and Europe, and the acquisition of Antolin Seating resulted in an increase in cost of sales of \$723 million. These increases were partially offset by lower production volumes on key Lear platforms, primarily in North America, which reduced net sales by \$161 million. Gross profit and gross margin were \$631 million and 11.0% of net sales in the first quarter of 2018, as compared to \$583 million and 11.7% of net sales in the first quarter of 2017. Net foreign exchange rate fluctuations, new business and the acquisition of Antolin Seating positively impacted gross profit by \$95 million. The impact of favorable operating performance, including the benefit of operational restructuring actions, of \$61 million was more than offset by the impact of selling price reductions and lower production volumes on key Lear platforms. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were \$155 million in the first quarter of 2018, as compared to \$156 million in the first quarter of 2017. As a percentage of net sales, selling, general and administrative expenses were 2.7% in the first quarter of 2018, as compared to 3.1% in the first quarter of 2017.

Amortization of intangible assets was \$13 million in the first quarter of 2018, as compared to \$10 million in the first quarter of 2017.

Interest expense was \$21 million in the first quarter of 2018 and the first quarter of 2017.

Other (income) expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was (\$6) million in the first quarter of 2018, as compared to \$4 million in the first quarter of 2017. In the first quarter of 2018, we recognized a gain of approximately \$10 million related to obtaining control of an affiliate.

In the first quarter of 2018, the provision for income taxes was \$78 million, representing an effective tax rate of 17.4% on pretax income before equity in net income of affiliates of \$448 million. In the first quarter of 2017, the provision for income taxes was \$89 million, representing an effective tax rate of 22.7% on pretax income before equity in net income of affiliates of \$392 million, for the reasons described below.

In the first quarters of 2018 and 2017, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. The provision for income taxes was also impacted by the reduction in the U.S. federal corporate income tax rate in the first quarter of 2018. In the first quarter of 2018, we recognized tax benefits of \$35 million related to the reversal of a valuation allowance on the deferred tax assets of a foreign subsidiary, \$10 million related to share-based compensation and \$4 million related to restructuring charges and various other items, offset by tax expense of \$22 million related to an increase in foreign withholding tax on certain undistributed foreign earnings. In addition, we recognized a gain of approximately \$10 million related to obtaining control of an affiliate, for which no tax expense was provided. In the first quarter of 2017, we recognized net tax benefits of \$19 million

related to share-based compensation, restructuring charges and various other items. Excluding these items, the effective tax rate for the first quarters of 2018 and 2017 approximated the U.S. federal statutory income tax rate of 21% and 35%, respectively, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

Equity in net income of affiliates was \$4 million in the first quarter of 2018, as compared to \$15 million in the first quarter of 2017.

Net income attributable to Lear was \$354 million, or \$5.16 per diluted share, in the first quarter of 2018, as compared to \$306 million, or \$4.35 per diluted share, in the first quarter of 2017. Net income and diluted net income per share increased for the

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reasons described above. In addition, diluted net income per share was impacted by the decrease in average shares outstanding between periods.

Reportable Operating Segments

We have two reportable operating segments: Seating, which includes complete seat systems and all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests and E-Systems, which includes complete electrical distribution systems, electronic control modules and associated software and wireless communication modules. Key components in the electrical distribution system include wire harnesses, terminals and connectors and junction boxes, including components and systems for high power battery electric vehicle and hybrid electric vehicle power management and distribution systems.

The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's pretax income before equity in net income of affiliates, interest expense and other expense ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income attributable to Lear, net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates, see Note 15, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Seating

A summary of the financial measures for our Seating segment is shown below (dollar amounts in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net sales	\$4,329.9	\$3,868.0
Segment earnings ⁽¹⁾	339.5	320.3
Margin	7.8	% 8.3

⁽¹⁾ See definition above

Seating net sales were \$4.3 billion in the first quarter of 2018, as compared to \$3.9 billion in the first quarter of 2017, an increase of \$462 million or 12%. Net foreign exchange rate fluctuations, new business and the acquisition of Antolin Seating positively impacted net sales by \$247 million, \$233 million and \$161 million, respectively. These increases were partially offset by lower production volumes on key Lear platforms, which reduced net sales by \$182 million.

Segment earnings, including restructuring costs, and the related margin on net sales were \$340 million and 7.8% in the first quarter of 2018, as compared to \$320 million and 8.3% in the first quarter of 2017. New business, net foreign exchange rate fluctuations and the acquisition of Antolin Seating positively impacted segment earnings by \$59 million. The impact of favorable operating performance, including the benefit of operational restructuring actions, of \$42 million was more than offset by the impact of lower production volumes on key Lear platforms and selling price reductions.

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E-Systems

A summary of financial measures for our E-Systems segment is shown below (dollar amounts in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net sales	\$1,403.8	\$1,130.5
Segment earnings ⁽¹⁾	190.8	164.9
Margin	13.6	% 14.6

⁽¹⁾ See definition above

E-Systems net sales were \$1.4 billion in the first quarter of 2018, as compared to \$1.1 billion in the first quarter of 2017, an increase of \$273 million or 24%. Sales as a result of obtaining control of affiliates, net foreign exchange rate fluctuations and new business positively impacted net sales by \$113 million, \$102 million and \$75 million, respectively.

Segment earnings, including restructuring costs, and the related margin on net sales were \$191 million and 13.6% in the first quarter of 2018, as compared to \$165 million and 14.6% in the first quarter of 2017. Net foreign exchange rate fluctuations, earnings as a result of obtaining control of affiliates and new business positively impacted segment earnings by \$38 million. The impact of improved operating performance of \$21 million was more than offset by the impact of selling price reductions and lower production volumes on key Lear platforms.

Other

A summary of financial measures for our other category, which is not an operating segment, is shown below (dollar amounts in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net sales	\$ —	\$ —
Segment earnings ⁽¹⁾	(67.4)	(68.5)
Margin	N/A	N/A

⁽¹⁾ See definition above

Segment earnings related to our other category were (\$67) million in the first quarter of 2018, as compared to (\$69) million in the first quarter of 2017.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program. Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations.

As of March 31, 2018 and December 31, 2017, cash and cash equivalents of \$927 million and \$952 million, respectively, were held in foreign subsidiaries and can be repatriated, primarily through the repayment of intercompany loans and the payment of dividends, without creating additional income tax expense. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information related to potential dividends from our non-U.S. subsidiaries, see "— Adequacy of Liquidity

Sources" below and Note 7, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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Cash Flows

A summary of net cash provided by operating activities is shown below (in millions):

	Three Months Ended		
	March 2018	April 1, 2017	Incremental Increase (Decrease) in Operating Cash Flow
Consolidated net income and depreciation and amortization	\$494	\$ 415	\$ 79
Net change in working capital items:			
Accounts receivable	(461)	(527)	66
Inventory	(35)	(35)	—
Accounts payable	228	375	(147)
Accrued liabilities and other	15	42	(27)
Net change in working capital items	(253)	(145)	(108)
Other	(4)	9	(13)
Net cash provided by operating activities	\$237	\$ 279	\$ (42)

In the first three months of 2018, increases in accounts receivable, inventories and accounts payable primarily reflect higher working capital to support the increase in our sales. In the first three months of 2018, changes in accrued liabilities and other primarily reflect the timing of payment of accrued liabilities.

Net cash used in investing activities was \$188 million in the first three months of 2018, as compared to \$129 million in the first three months of 2017. Capital spending was \$163 million in the first three months of 2018, as compared to \$121 million in the first three months of 2017. Capital spending in 2018 is estimated at \$660 million.

Net cash used in financing activities was \$273 million in the first three months of 2018, as compared to \$225 million in the first three months of 2017. In 2018, we paid \$145 million for repurchases of our common stock, \$51 million of dividends to Lear stockholders and \$19 million of dividends to noncontrolling interest holders. In 2017, we paid \$116 million for repurchases of our common stock, \$37 million of dividends to Lear stockholders and \$27 million of dividends to noncontrolling interest holders.

Capitalization

From time to time, we utilize committed and uncommitted credit facilities to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries, in addition to cash provided by operating activities. As of March 31, 2018, our outstanding short-term debt balance was \$3 million. As of December 31, 2017, we had no short-term borrowings outstanding. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

Senior Notes

As of March 31, 2018, our senior notes (collectively, the "Notes") consisted of the amounts shown below (in millions, except stated coupon rates):

Note	Aggregate Principal Amount at Maturity	Stated Coupon Rate
Senior unsecured notes due 2024 (the "2024 Notes")	\$ 325	5.375 %
Senior unsecured notes due 2025 (the "2025 Notes")	650	5.25 %
Senior unsecured notes due 2027 (the "2027 Notes")	750	3.8 %
	\$ 1,725	

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The issue, maturity and interest payable dates of the Notes are shown below:

Note	Issuance Date	Maturity Date	Interest Payable Dates
2024 Notes	March 2014	March 15, 2024	March 15 and September 15
2025 Notes	November 2014	January 15, 2025	January 15 and July 15
2027 Notes	August 2017	September 15, 2027	March 15 and September 15

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 7, "Debt," to the condensed consolidated financial statements included in this Report and Note 6, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Credit Agreement

Our unsecured credit agreement (the "Credit Agreement"), dated August 8, 2017, consists of a \$1.75 billion revolving credit facility (the "Revolving Credit Facility") and a \$250 million term loan facility (the "Term Loan Facility"), both of which mature on August 8, 2022.

As of March 31, 2018 and December 31, 2017, there were no borrowings outstanding under the Revolving Credit Facility and \$247 million and \$248 million, respectively, of borrowings outstanding under the Term Loan Facility. In the first quarter of 2018, we made required principal payments of \$2 million under the Term Loan Facility.

For further information related to the Credit Agreement, including information on pricing, covenants and events of default, see Note 7, "Debt," to the condensed consolidated financial statements included in this Report and Note 6, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Scheduled Interest Payment and Covenants

Scheduled cash interest payments on the Notes and the Term Loan Facility are \$46 million for the remaining nine months of 2018.

As of March 31, 2018, we were in compliance with all covenants under the Credit Agreement and the indentures governing the Notes.

Common Stock Share Repurchase Program

On February 13, 2018, our Board of Directors authorized an increase to our existing common stock share repurchase program to provide for a remaining aggregate repurchase authorization of \$1.5 billion and extended the term of the program to December 31, 2020.

Our share repurchases in the first three months of 2018 are shown below (in millions except for shares and per share amounts):

Three Months Ended March 31, 2018			As of March 31, 2018	
Aggregate Repurchases (1)	Cash paid for Repurchases	Number of Shares	Average Price per Share (2)	Remaining Purchase Authorization
\$155	\$ 145	829,360	187.41	\$ 1,350

(1) Includes \$5.1 million of purchases prior to the increased authorization

(2) Excludes commissions

Since the first quarter of 2011, our Board of Directors has authorized \$5.0 billion in share repurchases under our common stock share repurchase program. As of the end of the first quarter of 2018, we have repurchased, in aggregate, \$3.7 billion of our outstanding common stock, at an average price of \$81.72 per share, excluding commissions and related fees.

We may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which we will repurchase our outstanding common stock and the timing of such repurchases will depend upon our financial

condition, prevailing market conditions, alternative uses of capital and other factors (see "—Forward-Looking Statements").

For further information related to our common stock share repurchase program, see Note 13, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

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Dividends

The quarterly cash dividend declared in the first quarter of 2018 reflects a 40% increase over the quarterly cash dividend declared in the first quarter of 2017. A summary of the 2018 dividend is shown below:

Payment Date	Dividend Per Share	Declaration Date	Record Date
March 26, 2018	\$ 0.70	February 13, 2018	March 7, 2018

We currently expect to pay quarterly cash dividends in the future, although such payments are at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board of Directors may consider in its discretion.

Adequacy of Liquidity Sources

As of March 31, 2018, we had approximately \$1.3 billion of cash and cash equivalents on hand and \$1.75 billion in available borrowing capacity under our Revolving Credit Facility. Together with cash provided by operating activities, we believe that this will enable us to meet our liquidity needs to satisfy ordinary course business obligations. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program (see "— Common Stock Share Repurchase Program," above). Our future financial results and our ability to continue to meet our liquidity needs are subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, an economic downturn or reduction in production levels could negatively impact our financial condition. For further discussion of the risks and uncertainties affecting our cash flows from operations and our overall liquidity, see "— Executive Overview" above, "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017.

Market Risk Sensitivity

In the normal course of business, we are exposed to market risks associated with fluctuations in foreign exchange rates, interest rates and commodity prices. We manage a portion of these risks through the use of derivative financial instruments in accordance with our policies. We enter into all hedging transactions for periods consistent with the underlying exposures. We do not enter into derivative instruments for trading purposes.

Foreign Exchange

Operating results may be impacted by our buying, selling and financing in currencies other than the functional currency of our operating companies ("transactional exposure"). We may mitigate a portion of this risk by entering into forward foreign exchange, futures and option contracts. The foreign exchange contracts are executed with banks that we believe are creditworthy. Gains and losses related to foreign exchange contracts are deferred where appropriate and included in the measurement of the foreign currency transaction subject to the hedge. Gains and losses incurred related to foreign exchange contracts are generally offset by the direct effects of currency movements on the underlying transactions.

A summary of the notional amount and estimated aggregate fair value of our outstanding foreign exchange contracts is shown below (in millions):

	March 31, 2018	December 31, 2017
Notional amount (contract maturities < 24 months)	\$ 2,638	\$ 2,220
Fair value	31	(23)

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Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Thai baht, the Chinese renminbi, the Japanese yen, the Brazilian real and the South African rand. We have performed a sensitivity analysis of our net transactional exposure, as shown below (in millions):

		Potential Earnings Benefit (Adverse Earnings Impact)	
	Hypothetical Strengthening % ⁽¹⁾	March 31, 2018	December 31, 2017
U.S. dollar	10%	\$(21)	\$ (19)
Euro	10%	19	25

⁽¹⁾ Relative to all other currencies to which it is exposed for a twelve-month period

We have performed a sensitivity analysis related to the aggregate fair value of our outstanding foreign exchange contracts, as shown below (in millions):

		Estimated Change in Fair Value	
	Hypothetical Change % ⁽²⁾	March 31, 2018	December 31, 2017
U.S. dollar	10%	\$33	\$ 23
Euro	10%	69	76

⁽²⁾ Relative to all other currencies to which it is exposed for a twelve-month period

There are certain shortcomings inherent in the sensitivity analyses above. The analyses assume that all currencies would uniformly strengthen or weaken relative to the U.S. dollar or Euro. In reality, some currencies may strengthen while others may weaken, causing the earnings impact to increase or decrease depending on the currency and the direction of the rate movement.

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars ("translational exposure"). In 2017, net sales outside of the United States accounted for 81% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Commodity Prices

Raw material, energy and commodity costs can be volatile. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity cost environment. If these costs increase, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance," in our Annual Report on Form 10-K for the year ended December 31, 2017.

We have commodity price risk with respect to purchases of certain raw materials, including steel, copper, diesel fuel, chemicals, resins and leather. Our main cost exposures relate to steel, copper and leather. The majority of the steel used in our products is comprised of fabricated components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and other mechanical components. Therefore, our exposure to changes in steel prices

is primarily indirect, through these purchased components. Approximately 91% of our copper purchases and a significant portion of our leather purchases are subject to price index agreements with our customers. For further information related to the financial instruments described above, see Note 16, "Financial Instruments," to the condensed consolidated financial statements included in this Report.

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OTHER MATTERS

Legal and Environmental Matters

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of March 31, 2018, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$26 million. In addition, as of March 31, 2018, we had recorded reserves for product liability claims and environmental matters of \$41 million and \$9 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017. For a more complete description of our outstanding material legal proceedings, see Note 14, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates

Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, these estimates and assumptions are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates. For a discussion of our significant accounting policies and critical accounting estimates, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Accounting Policies and Critical Accounting Estimates," and Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first quarter of 2018, with the exception of revenue recognition. See Note 9, "Revenue Recognition," to the condensed consolidated financial statements included in this Report.

Recently Issued Accounting Pronouncements

For information on the impact of recently issued accounting pronouncements, see Note 17, "Accounting Pronouncements," to the condensed consolidated financial statements included in this Report.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. The words "will," "may," "designed to," "outlook," "believes," "should," "anticipates," "plans," "expects," "intends," "estimates," "forecasts" and similar expressions identify certain of these forward-looking statements. We also may provide forward-looking statements in oral statements or other written materials released to the public. All such forward-looking statements contained or incorporated in this Report or in any other public statements which address operating performance, events or developments that we expect or anticipate may occur in the future, including, without limitation, statements related to business opportunities, awarded sales contracts, sales backlog and ongoing commercial arrangements, or statements expressing views about future operating results, are forward-looking statements. Actual results may differ materially from any or all forward-looking statements made by us. Important factors, risks and uncertainties that may cause actual results to differ materially from anticipated results include, but are not limited to:

• general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;

• currency controls and the ability to economically hedge currencies;

• the financial condition and restructuring actions of our customers and suppliers;

• changes in actual industry vehicle production levels from our current estimates;

• fluctuations in the production of vehicles or the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;

• disruptions in the relationships with our suppliers;

- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;

• the outcome of customer negotiations and the impact of customer-imposed price reductions;

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the impact and timing of program launch costs and our management of new program launches;

the costs, timing and success of restructuring actions;

increases in our warranty, product liability or recall costs;

risks associated with conducting business in foreign countries;

the impact of regulations on our foreign operations;

the operational and financial success of our joint ventures;

competitive conditions impacting us and our key customers and suppliers;

disruptions to our information technology systems, including those related to cybersecurity;

the cost and availability of raw materials, energy, commodities and product components and our ability to mitigate such costs;

the outcome of legal or regulatory proceedings to which we are or may become a party;

the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;

unanticipated changes in cash flow, including our ability to align our vendor payment terms with those of our customers;

limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;

impairment charges initiated by adverse industry or market developments;

our ability to execute our strategic objectives;

changes in discount rates and the actual return on pension assets;

costs associated with compliance with environmental laws and regulations;

developments or assertions by or against us relating to intellectual property rights;

our ability to utilize our net operating loss, capital loss and tax credit carryforwards;

global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies;

the impact of potential changes in tax and trade policies in the United States and related actions by countries in which we do business;

the anticipated changes in economic and other relationships between the United Kingdom and the European Union;

and

other risks described in Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017, and our other Securities and Exchange Commission ("SEC") filings.

The forward-looking statements in this Report are made as of the date hereof, and we do not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date hereof.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on the evaluation described above, the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the desired control

objectives were achieved as of the end of the period covered by this Report.

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(b)Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. In April 2017, the Company completed the acquisition of Grupo Antolin's automotive seating business ("Antolin Seating") and is currently integrating Antolin Seating into its operations, compliance programs and internal control processes. As permitted by SEC rules and regulations, the Company has excluded Antolin Seating from management's evaluation of internal controls over financial reporting as of March 31, 2018. Antolin Seating constituted approximately 4% of the Company's total assets as of March 31, 2018, and approximately 3% of the Company's net sales in the three months ended March 31, 2018.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial or contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017. For a description of our outstanding material legal proceedings, see Note 14, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

ITEM 1A — RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As discussed in Part I — Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capitalization — Common Stock Share Repurchase Program," and Note 13, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report, we have a remaining repurchase authorization of \$1,349.6 million under our ongoing common stock share repurchase program. A summary of the shares of our common stock repurchased during the quarter ended March 31, 2018, is shown below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)
January 1, 2018 through January 27, 2018	18,606	\$178.96	18,606	\$ 542.2
January 28, 2018 through February 24, 2018	90,102	\$189.48	90,102	1,484.7
February 25, 2018 through March 31, 2018	720,652	\$187.37	720,652	1,349.6
Total	829,360	\$187.41	829,360	\$ 1,349.6

(1) On February 13, 2018, our Board of Directors authorized an increase to our existing common stock repurchase program to provide for a remaining aggregate repurchase authorization of \$1.5 billion.

ITEM 6 — EXHIBITS

The exhibits listed on the "Index to Exhibits" on the following page are filed with this Form 10-Q or incorporated by reference as set forth below.

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Index to Exhibits

Exhibit Number	Exhibit
* 31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.</u>
* 31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.</u>
* 32.1	<u>Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
* 32.2	<u>Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
** 101.INS	XBRL Instance Document.
** 101.SCH	XBRL Taxonomy Extension Schema Document.
** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
*	Filed herewith.
**	Submitted electronically with the Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

LEAR
CORPORATION

Dated: April 26, 2018 By: /s/ Raymond E. Scott
Raymond E. Scott
President and Chief Executive Officer

By: /s/ Jeffrey H. Vanneste
Jeffrey H. Vanneste
Senior Vice President and Chief Financial Officer