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PRESENTATION

Operator

Good morning, and welcome to the Sensata Technologies Fourth Quarter and Full Year 2019 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Joshua Young, Vice President of Investor Relations. Please go ahead.

Joshua S. Young - *Sensata Technologies Holding plc - VP of IR*

Thank you, Andrew, and good morning, everybody. I'd like to welcome you to Sensata's Fourth Quarter and Full Year 2019 Earnings Conference Call. Joining me on today's call are Martha Sullivan, Sensata's CEO; Jeff Cote, Sensata's CEO-elect and current President and Chief Operating Officer; and Paul Vasington, Sensata's Chief Financial Officer.

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In addition to the earnings release we issued earlier today, we will be referencing a slide presentation during today's conference call. The PDF of this presentation can be downloaded from Sensata's Investor Relations website. We will post a replay of today's webcast shortly after the conclusion of today's call.

Before we begin, I'd like to reference Sensata's safe harbor statement on Slide #2. During the course of this conference call, we will make forward-looking statements regarding future events or the financial performance of the company that involve certain risks and uncertainties. The company's actual results may differ materially from projections described in such statements. Factors that might cause these differences include, but are not limited to, those discussed in our Forms 10-Q and 10-K as well as other subsequent SEC filings.

On Slide #3, we show Sensata's GAAP results for full year 2019. We encourage you to review our GAAP financial statement in addition to today's presentation.

Most of the subsequent information that we will discuss during today's call will be related to non-GAAP financial measures. Reconciliation of our GAAP to non-GAAP financial measures are included in our earnings release and in our webcast presentation. The company provides details of its segment operating income on Slides 11 and 12, which are the primary measures management uses to evaluate the business.

Martha will begin today's call with brief comments on Sensata's growth and transformation over the past 7 years. After which, Jeff will review our overall business summary and provide more details on our outlook for 2020, including a discussion of key progress in megatrends. Paul will then cover our financials for the fourth quarter and full year 2019 and provide guidance for the first quarter and full year 2020. We will then take your questions after our prepared remarks.

Now I'd like to turn the call over to Sensata's CEO, Martha Sullivan.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Thank you, Joshua, and thanks to everyone on the call for joining us this morning. By now, I am sure that many of you read our press release on January 23, detailing our planned management succession process at Sensata. On March 1, I will officially pass the baton of CEO over to Jeff Cote as part of a well-planned transition process, and I am delighted to do so. While I will be retiring as CEO, I will remain as a strategic adviser and Board member as the company executes the strategy we have laid out for our investors over the past several years.

As you know, Jeff and I have worked closely together since his arrival at Sensata 13 years ago. Over the past 7 years, he has had significant company-wide operational responsibilities, including leading our global operations team and all of our business segments with full P&L responsibility.

Jeff and I, along with the rest of the leadership team at Sensata, have collaborated closely in developing and executing the strategy to position Sensata for the next wave of future growth. Key to this effort is leveraging our industry leadership to take advantage of the megatrends that transform our industry and deliver growth to Sensata. This effort, which we first unveiled at our Investor Day in December 2017, provides excellent preparation for Jeff as he moves into the CEO position.

So as we close out 2019 and I conclude my tenure as CEO, I wanted to share some perspective on Sensata's progress and achievements and convey my excitement for Sensata's future. I am confident that Jeff and the rest of the leadership team will build on our past accomplishments to create strong returns and shareholder value.

One of the differentiating features of Sensata is that we have built long-standing relationships with customers around the world who rely on us to develop mission-critical, sensor-rich solutions that address both their current and evolving needs. Our relationships, combined with our innovation capabilities and strength in engineering, enable us to outgrow our end markets.

We have also built and are constantly optimizing a highly efficient global manufacturing and supply chain network. These pillars of our strategy have produced differentiated sensing solutions for our customers and industry-leading margins, and will remain important elements of our strategy as we go forward.

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Over the past 7 years, we have implemented an effective capital deployment strategy that has created value for our shareholders while providing the company greater flexibility and optionality. We've completed 11 acquisitions, which are generating strong returns, have added new capability and have led to greater diversification of our end market exposure.

Our expanded position and focus on executing growth opportunities in the industrial, HVOR and aerospace industries have reduced our exposure to the automotive market, from over 70% to approximately 59% today and will continue to decline -- this will continue to decline.

Our Sensing Solutions business has greater scale and a broader portfolio to capitalize on attractive opportunities in this large and fragmented market. Our M&A strategy has added important new capability in wireless sensing, software and subsystem integration and high-voltage electrical architecture. These capabilities, along with our best-in-class sensing portfolio, had provided the foundation for our electrification and Smart & Connected initiative.

In addition, since our redomicile to the U.K. in 2018, we have repurchased approximately $750 million of Sensata's stock while further strengthening our balance sheet, enabling us to make returns-based trade-offs between investing in our business, completing M&A and buying back our own shares.

In light of this progress, you can see why we are so confident in Sensata's future. Jeff and the rest of the leadership team have been integral to our effort to expand in high-growth auto and accelerate growth in HVOR, industrial and aerospace industries.

Our capital deployment decisions, combined with disciplined operational management, have enabled us to deliver solid financial performance.

While our end markets have been weak, during my tenure as CEO, we have grown our revenue from $1.9 billion to $3.5 billion, while meaningfully outgrowing our end markets and nearly doubling our employee base. Additionally, our focus on cost efficiency and our ability to capture M&A cost synergies, helped us to generate a 7-year EPS CAGR of approximately 9%.

While I am proud of our team and their achievements, I am even more excited about the opportunities that lay ahead for the company. Jeff is the perfect leader to deliver strong value creation for our shareholders, our customers and our employees.

Our progress thus far is a strong testament to the high-caliber leadership and team who comprise Sensata today, and I am deeply grateful for their commitment and support over the years. I have tremendous confidence in the entire team and could not be more excited about the future. I look forward to continuing to provide support as an adviser and a Board member, especially around innovation, as we move forward.

I also want to thank our long-term shareholders for your support of me and Sensata. Many of you have owned our shares for more than 5 years. I appreciate the constructive feedback you have provided me over the years, your conviction in our vision and strategy and your trust in us to be responsible stewards of your capital.

I'd like to now turn the call over to Jeff to speak in more depth about our recent performance and our key priorities for 2020. Jeff?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Thank you, Martha. It is an honor to be named the next CEO of Sensata, and I'm thrilled to lead such a talented group of individuals during this very exciting time for our company. Martha and I have worked closely to develop our strategy, which will continue to focus on mission-critical, hard-to-do applications, further diversifying our business, investing in high-growth megatrends and capitalizing on opportunities where we develop sensor-rich solutions that create value for our customers. I look forward to continuing our legacy of growth, profitability and success.

Now let me turn my attention to our performance in the fourth quarter of 2019. On Slide 4, I list some of the key highlights of the fourth quarter. We reported revenues of $846.7 million, which represented an organic revenue decline of 0.8% but exceeded the high end of our guidance range. We delivered adjusted earnings per share of $0.89, which was also at the high end of our guidance range. We faced a very difficult end market environment in the fourth quarter, particularly in our heavy vehicle off-road end market, which declined 14% in the quarter. Despite these market

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headwinds, we continue to significantly outgrow our end markets, posting market outgrowth of 490 basis points in automotive and 1,190 basis points in heavy vehicle off-road. One of the key drivers of our overall secular growth was China, which generated 20% organic revenue growth in the fourth quarter. This performance was primarily driven by strong market outgrowth as our customers prepare to comply with China VI regulations.

We generated adjusted operating margins of 22.7% in the fourth quarter, which was in line with our guidance and includes incremental growth investments made in our megatrend initiatives.

We generated $148 million in free cash flow in the quarter, which exceeded our adjusted net income and represents a conversion rate of 104%.

Finally, we continue to make important long-term investments in megatrends for future growth and are excited about the progress we are making in our Smart & Connected and Electrification initiatives, which I will describe in more detail later in this presentation.

Slide 5 shows organic revenue growth or performance by end market in the fourth quarter. I will begin with our aerospace, industrial and other end markets. For the fourth quarter of 2019, we posted 0.7% organic growth in this business. Our aerospace business had a particularly strong fourth quarter, posting double-digit organic revenue growth as a result of a strong end market, continued content growth and solid aftermarket performance.

Our industrial business in China continued to decline, but improved significantly on a sequential basis. While channel inventory reductions are pressuring results, our fourth quarter performance benefited from modestly better market dynamics.

Our automotive business posted an organic revenue decline of 1.1% in the quarter. This was 490 basis points better than the global end market decline of 6% in the fourth quarter and was in line with the expectations we shared with you in October.

During the fourth quarter, we generated double-digit organic revenue growth in our China automotive business as a result of strong content gains and end market growth of 3%. Our North American automotive business saw its fourth quarter performance adversely affected by the GM strike, which resulted in meaningful end market decline, even though content growth remained strong in this region. In Europe, we continue to be affected by a volatile end market, primarily as a result of a general market decline due to softer exports to China and specific weakness in the U.K. and Turkey.

Our heavy vehicle off-road business posted an organic revenue decline of 1.9%, which represented 1,190 basis points of outgrowth versus a 13.8% end market decline during the fourth quarter. The largest end market decline in the quarter was from the construction end market, which was down 25%, followed by double-digit end market declines for both North America and European on-road truck. The bright spot for this business remains our China on-road truck business, which continues to post healthy growth as a result of strong content performance, especially as OEMs prepare for the implementation of China VI regulations.

On Slide 6, we show outgrowth versus end market over the past 2 years. At our Investor Day in 2017, we made a commitment to significantly outgrow our end markets. Specifically, we stated our outgrowth in our automotive business would be in the range of 400 to 600 basis points, and our heavy vehicle off-road business would be in the range of 600 to 800 basis points.

After 2 years of execution, I'm pleased to report that we are operating right in the middle of the targets we set. Our automotive business has generated average outgrowth of 495 basis points while our heavy vehicle off-road business operated at an average of 735 basis points outgrowth over that 2-year period. This performance speaks to the visibility that we have into our content performance, even during periods of end market volatility.

Unfortunately, our strong outgrowth has been offset by unanticipated declines in our end markets. For example, in automotive, we have seen end market decline of 3.2% on average since 2017 compared to our expectation that the market would be flat. In heavy vehicle off-road, our end markets grew 0.8% per year since 2017, in contrast to our expectations that, that market would grow 3% per year.

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In 2019, we closed nearly $400 million in new business wins, which is lower than our expectations as customers pushed out decisions on a number of new platforms. We would expect an acceleration of new business wins in 2020 as we capture some of these delayed opportunities and we have a strong pipeline to support that outcome.

The key message that I want you to take away from this slide is that we have confidence in our ability to sustain a consistent level of outgrowth into 2020 and beyond.

Moving to Slide 7. I want to share some updates about progress we are making in our megatrend initiatives as well as our plans to accelerate our investment in these areas in 2020. I described on our last quarter's call our activities related to Smart & Connected. We are currently testing proof of concepts with some of the world's leading fleet managers. Our solution is working in real-world environments and is currently capturing data on trucks and trailers in our customers' fleets. Our tire pressure sensing application has demonstrated a clear and compelling value proposition. We are helping fleet managers identify which trucks and trailers in their fleet are not ready to be driven, well before they hit the road. This is helping them eliminate downtime, reduce operating costs and create safer driving conditions in their fleets.

We expect to be able to announce additional business wins with both fleet managers and OEMs later this year. Due to our progress and excitement about this initiative, we plan to increase our investment in Smart & Connected in 2020 to support our efforts.

On the Electrification front, we continue to have confidence that a large portion of our solutions that serve the market for combustion engines, will continue to be required in an electrified environment. Further, we continue to add capabilities to allow us to capitalize on this electrification trend. For instance, a little more than a year ago, we acquired GIGAVAC to expand our electrification offering into high-voltage contactors, and we are quickly establishing ourselves as the standard for premium electrified vehicles, particularly with the most challenging applications with high current levels.

Additionally, Sensata has a leadership position in the DC fast-charging infrastructure segment, which is growing greater than 30% a year. Also, we were the first company in the industry to develop a smart sensor that addresses safety issues associated with risk of thermal runaway in batteries, and we have had several wins related to this solution in 2019.

We continue to extend our market share leadership in various thermal management and motor position applications in both hybrid and full electric battery vehicles. And we have an active new business pipeline in electrification applications, and we are increasing our R&D investment to pursue this growth. A significant portion of our new business wins will eventually serve electrification trends in all of our end markets that we serve.

So for both Smart & Connected and Electrification, we are very excited about our efforts thus far and continue to believe that our progress in these important initiatives will help Sensata differentiate itself with customers and lead to long-term advantages for our company and our shareholders.

On Slide 8, we summarize some key messages, which we have discussed. We are delivering on our promise for outgrowth to market despite end market volatility. We are accelerating our investments for growth, given the opportunities we see. We are generating solid free cash flow, and we will continue to strengthen our portfolio through disciplined value-add M&A.

I'd now like to turn the call over to Paul to review our fourth quarter and full year 2019 results in more detail and also to provide guidance for the first quarter and full year 2020. Paul?

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

Thank you, Jeff. Key highlights for the fourth quarter, as shown on Slide 10, include: revenue of $846.7 million in the quarter, a decrease of 0.1% from the fourth quarter of 2018; changes in foreign currency decreased revenues by 0.3%; the acquisition of GIGAVAC increased revenue by 1%. The net result was 0.8% organic revenue decline in the quarter.

Adjusted operating income was $192.5 million in the quarter, a decrease of 8.4% compared to the fourth quarter of 2018, driven primarily by the decline in organic revenues; productivity headwinds, partially due to increasing new product launches; greater design and development effort to

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support new business wins and megatrend growth initiatives; and higher incentive compensation. These factors were somewhat offset by savings from repositioning actions taken this year.

Adjusted net income was $141.7 million in the quarter, a decrease of 10.1% compared to the prior year quarter.

Adjusted EPS was $0.89 in the fourth quarter, a decrease of 6.3% compared to the prior year quarter.

Now I'd like to comment on the performance of our 2 business segments in the fourth quarter of 2019. I will start with Performance Sensing on Slide 11.

Performance Sensing reported revenues of $632.9 million for the fourth quarter, a decrease of 1% compared to the same quarter last year, reflecting a negative impact from foreign currency of 0.3% and a positive impact on the acquisition of GIGAVAC of 0.6%. Excluding these factors, Performance Sensing organic revenue declined 1.3% compared to the prior quarter.

Our automotive business reported an organic revenue decline of 1.1% in the fourth quarter of 2019, but outpaced the end market by 490 basis points. Organic revenue growth in China was offset by organic revenue declines in North America and Europe. The GM strike reduced our fourth quarter revenues in North America by approximately $10 million, which was less than expected. Excluding the GM strike, our North American auto business delivered organic revenue growth in the quarter, driven by high single-digit content growth.

Our HVOR business reported an organic revenue decline of 1.9% in the fourth quarter, far outpacing a 14% end market decline by 1,190 basis points, primarily due to strong content growth in our China on-road truck business.

Performance Sensing operating income was $165.1 million, a decrease of 7% as compared to the prior year quarter. And operating income as a percent of revenue was 26.1% in the fourth quarter, a decline of 170 basis points. The decline in segment operating income was due primarily to the decline in organic revenue, productivity headwinds partially due to increasing new product launches and greater design and development effort to support new business wins and megatrend growth initiatives, somewhat offset by savings from restructuring actions.

As shown on Slide 12, Sensing Solutions reported revenues of $213.8 million in the fourth quarter, an increase of 2.3% as compared to the prior year quarter.

Organic revenue increased 0.7%, which excludes a negative impact from foreign currency of 0.4% and a positive impact from the acquisition of GIGAVAC of 2%. This increase was a result of double-digit organic growth in our aerospace business driven by shorter content in a healthy end market, partially offset by industrial market declines, albeit less significant than previously anticipated.

Sensing Solutions operating income was $68.2 million in the fourth quarter, a decrease of 0.8% from the prior year quarter. The slight decline in operating income was due primarily to productivity and foreign currency headwinds, somewhat offset by savings from repositioning actions and the acquisition of GIGAVAC.

Corporate and other costs, not included in segment operating income, were $52.3 million in the fourth quarter. Excluding charges added back to our non-GAAP results, corporate and other costs were $39.1 million in the fourth quarter of 2019, up approximately $5 million from the fourth quarter of 2018, primarily due to higher variable compensation and administrative costs.

Slide 13 shows Sensata's fourth quarter 2019 non-GAAP results. Adjusted gross profit declined 4.5% year-over-year to $298 million, and gross margins declined 160 basis points to 35.2%. The decline in gross profit and margin were primarily due to declining organic revenues; productivity headwinds, partially related to increasing new product launches; higher variable compensation; and unfavorable foreign currency, somewhat offset by the acquisition of GIGAVAC and savings from repositioning actions.

R&D costs were up 8.3% due primarily to increasing design and development effort, support new business wins and investment in megatrends.

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SG&A costs increased 1% through the acquisition of GIGAVAC. Excluding the impact of GIGAVAC, SG&A costs were flat with the prior year quarter as we align our cost structure to the lower revenues we are experiencing.

As a result, adjusted operating income was down 8.4% compared to the prior year quarter.

Our tax rate, shown on the slide as a percent of adjusted profit before tax, was roughly flat compared to the prior year.

Finally, adjusted EPS was down $0.06 or 6.3% as compared to the fourth quarter of 2018, as the decline in operating income was partially offset by the benefit of share repurchases.

Slide 14 shows Sensata's full year 2019 non-GAAP results. Adjusted gross profit declined 5.4% year-over-year to $1.2 billion, and gross margins declined 130 basis points to 35%. The decline in gross profit and margin were primarily due to the decline in organic revenues; productivity headwinds, partially related to increasing new product launches; the net impact from acquisitions and divestitures, partially offset by favorable foreign currency and lower variable compensation costs.

R&D costs were $148.4 million, up 0.8% year-over-year, as increases in design development efforts to support new business wins and megatrend growth initiatives were mostly offset by the favorable impact of foreign currency.

SG&A costs were $267.4 million, or 8.6% lower year-over-year, due primarily to lower variable compensation and selling costs, favorable foreign currency and cost savings from repositioning actions.

As a result, adjusted operating income was down 5.6% compared to the prior year.

Our tax rate shown on the slide as a percent of adjusted profit before tax was up 40 basis points year-over-year to 8.6%, in line with our guidance.

Finally, adjusted EPS was down $0.09 or 2.5% as compared to 2018, as the decline in operating income was mostly offset by the benefit of share repurchases.

Free cash flow was $458.3 million during the year or 79.6% of adjusted net income and exceeded the free cash flow guidance provided last October.

Net leverage ended the year at 2.8x and within our target range of 2.5 to 3.5x.

On Slide 15, I show our financial guidance for the first quarter of 2020, which includes our best estimate of the business impact related to the recent coronavirus outbreak, which is quickly changing and highly uncertain. Furthermore, it's very difficult to predict when the government-imposed quarantines will end, when travel restrictions will be lifted, when our plants will be fully operational and the ultimate impact on end market demand. That said, we estimate for both the first quarter and full year 2020 a $40 million revenue and a $20 million operating profit negative impact. The $20 million operating profit drop reflects the normal impact from the expected lost revenue as well as underutilized and stranded costs related to this sudden event. We continue to monitor the situation closely, and we are doing everything possible to protect our employees and serve our customers.

For the first quarter of 2020, we expect to report revenues between $793 million and $817 million, representing a reported revenue decline between 6% and 9%. At the midpoint of our guidance, we expect that foreign currency will decrease revenues year-over-year by approximately $5 million. [Excluding] the impact of foreign currency, we expect to report an organic revenue decline of 6% to 8% in the first quarter.

Our current fill rate was approximately 93% of the revenue guidance midpoint for the first quarter and reflects lower-than-normal production of our manufacturing sites in China and reduced customer demand.

We expect to report adjusted operating income between $149 million and $155 million. On the bottom line, we expect to report adjusted net income between $98 million and $104 million, which would represent a decline of 25% to 30%.

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We expect to report adjusted EPS between $0.62 and $0.66, which includes a $0.01 negative impact from foreign currency at the guidance midpoint.

Throughout 2019, we implemented significant restructuring actions to better align our costs with the lower volumes we are experiencing. More recently, we announced the closing of our Carrickfergus plant in Northern Ireland to further optimize our manufacturing network and footprint. This action will result in approximately $7 million of annualized savings. We expect this manufacturing plant to be fully shut down in early 2021 and expect to incur approximately $15 million in restructuring costs in 2020 to complete this closure. Looking forward, Northern Island will remain an important expanding R&D center for Sensata.

Now let me turn to our guidance for full year 2020 shown on Slide 16. For full year 2020, we expect revenue between $3.4 billion and $3.5 billion, representing a range between a 1% decline and 1% growth.

We expect foreign currency to decrease revenue by approximately $15 million. Excluding foreign currency, our organic revenue guidance represents a range between a 1% decline and 2% growth.

We expect adjusted operating income between $753 million and $781 million, which would represent a range between a 1% and 4% decline.

On the bottom line, we expect adjusted net income between $539 million and $565 million and adjusted earnings per share between $3.42 and $3.58 for the full year 2020, which represents a decline of 4% to growth of 1%.

We expect foreign currency will have a $0.04 negative impact on EPS in 2020.

Our EPS performance in 2020 reflects continued strong revenue outgrowth to our major end markets which continue to decline, and in the case of China, significant market uncertainty, as noted earlier in our prepared comments. Currently, we expect the effects of the coronavirus will reduce our EPS by $0.11, with all that occurring in the first quarter.

With that said, we expect ongoing net productivity gains and savings from repositioning actions to fund our efforts to further strengthen our core business as well as expand our initiatives to intersect promising new megatrend growth opportunities, most of them will be in the areas of Electrification and Smart & Connected.

We expect that our adjusted tax rate will increase by approximately 100 basis points over 2019 and be in the range of 9.8% of adjusted profit before tax.

We expect to generate free cash flow of approximately $430 million and $470 million. This free cash flow guidance assumes annual capital expenditures of approximately $165 million to $175 million for the full year 2020.

At our Investor Day in 2017, we shared with investors a 3-year financial plan. Since then, we have achieved a number of critical objectives, such as accelerating content growth over that period and creating greater flexibility in deploying capital. However, with our current 2020 guidance, we expect to fall short of our revenue, earnings and cash flow targets.

First, our end markets have weakened significantly, below the market growth assumptions embedded in our 3-year projection. This end market weakness will result in nearly $425 million less revenue over the 3-year period than originally expected.

Second, we divested a profitable but very slow-growing nonstrategic business in valve and purchased a small but very fast-growing business in GIGAVAC, which is critical to our electrification growth platform. These 2 factors, combined with lower-than-expected productivity gains, mostly due to lower volumes, are the main contributors to our expected shortfall to our 3-year targets.

On Slide 17, I share our expectations regarding most of our major end markets in 2020, which all continued to decline. We expect another difficult end market environment in 2020. But overall, we expect less of a headwind from our end markets in 2020 due to the modest improvements in the global auto and industrial markets, somewhat offset by a weaker HVOR end market.

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Now I'd like to turn the call back over to Joshua.

Joshua S. Young - *Sensata Technologies Holding plc - VP of IR*

Thank you, Andrew. Please assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Samik Chatterjee of JP Morgan.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Before I start, congratulations to both Martha and Jeff. I just wanted to start off with the content gains in 2020 relative to 2019. You're guiding to similar levels of content gains or even modestly higher. If you can help me with the drivers of the content gains you're thinking about in 2020. It looks like China VI regulation will be one on the heavy vehicle side.

And then how to think about the change in mix of the content gain towards the megatrends that you're investing towards?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. Great question. So we tend to look at the content gains over a very long period of time, much like we look at our NBO opportunities given the long cycle nature of our business. As we mentioned in our prepared comments, we would expect similar content gains in 2020 and beyond that we've experienced over the last couple of years. And so that's an average in automotive of about 490, 500 basis points, and on HVOR in that 600 to 800 range, so midpoint, about 700.

In terms of the opportunities that we're seeing, very much similar to the trend that we've been seeing in the past in terms of all of our customers aiming to achieve regulatory requirements around the world. And also, we are seeing impact of megatrend-related activity. And so about 1/3 of our NBO activity in 2019 was related to megatrend-related opportunities that will eventually turn into content growth. And so over the long period of time of 3, 5, 7 years, we'll see content shift more toward megatrends in the business, helping our customers achieve their objectives.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. That's helpful. And if I can just clarify one more thing, which is you now guide to China automotive production being down 6% in 2020. That's relative to some third-party forecasts that are more for flat. So I'm assuming a big part of that impact is the 1Q impact given the events there. So if you can just help me think about how much of that -- how are you thinking about 1Q China automotive production? And if you can remind me what the average content per vehicle is for Sensata in China right now.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Sure. So yes, a very large portion of the decline of 6% is related to the impact in the first quarter. Although there is a slight decline expectation in our forecast for China, but the biggest component of that is related to the virus, very fluid situation. We'll come back to that, I think, in terms of providing a little bit more color on it. So that's the trend that we see there.

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Client Id: 77

Operator

The next question comes from Amit Daryanani of Evercore.

Amit Jawaharlaz Daryanani - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

I guess, first of all, best of luck, Martha, it's been a pleasure working with you. And congrats, Jeff, on the new role. Yes, I guess maybe to start off on the -- the 2 growth initiatives that you guys have been talking about, Smart & Connected and Electrification. Is there a way to think about how much are the investments you're making from a dollar terms in 2020 for those 2 initiatives? And when do you think revenues will start to accrue or show up on your P&L from these investments?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So when you compare '19 to '20, there's about a $20 million incremental investment in Smart & Connected. Some of that is reallocation within other investments, but net $10 million to $15 million incremental R&D spend associated with growth opportunities that's baked into 2020. But there is some reallocation as well. So we have been shifting over time our investments, our long-term investments associated with growth to megatrend. And year-over-year, there's about a $20 million incremental spend on that side.

In terms of when we will start to see impact, we see some impact already. So we have some revenue in our 2020 plan that relates to some of the megatrend-related areas. But I think it's also important to note that a large portion of the revenue that we are experiencing today will apply in the future as well. So it's not a shift completely from one platform to another. There are elements of our product categories that will continue to have a role going forward even as those megatrends get implemented more broadly in the end markets that we serve.

Amit Jawaharlaz Daryanani - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Got it. If I could just follow up on China with the health concern. I heard the numbers you guys have just $40 million in revenues, $20 million in operating income impact from Q1. I'm hoping if you could just talk a little bit more on what impact it's having on your supply chain at this point. And do you see that being an issue in terms of your ability to ship products globally to meet demand trends beyond just China?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So I appreciate the comment. Let me provide a little bit more context associated with the virus and what we're seeing. So I think everyone knows that we have 2 manufacturing plants based in China. We also have a business and engineering center based in China. So we're getting firsthand information regarding what's going on, on the ground. And we're doing everything we possibly can to make sure that we protect our people and we serve our customers. And we're having constant dialogue with both to make sure that we're doing what we need to as well as with the local governments to make sure that we're complying with the mandates that they've put in place. Based upon those, that's how we came up with the estimate. We're also speaking with our supply chain to make sure that our suppliers more deep in the supply chain are ready to respond as this recurs.

And we're examining the inventory levels that our suppliers have, we have, our customers have to make sure that we can have a certain continuity of supply. Having said all that, it is a very fluid situation. And we're watching day-to-day how demand unfolds and also the impact that it has overall on our supply chain. But it's an active dialogue. Our best estimate at this point is the $40 million of revenue and $20 million of profit. Largely, the profit drop-through is more significant than you would expect because the way that the government implemented the quarantines is to extend the holiday. So there was an obligation during some portion of that time to continue to pay our employees, which is also the right thing to do for them, given that -- the situation they're in. And so that's more color that we have, and we'll continue to monitor the situation very closely.

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Operator

The next question comes from David Kelley of Jefferies.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

And I'd also like to convey my congrats to Martha and Jeff as well. Just following up on that coronavirus commentary. I guess could you provide some color on how we should think about the actual individual end market impacts? Is it mostly automotive? And where else do you see the flow-through as well?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So we have a broader business obviously in China outside of automotive. And it's pretty widespread in terms of the impact across all of those end markets that we serve. So when you think about the $40 million impact in Q1, that represents about 4.5% of our decline in revenue that we've guided to, a decline in overall market. And it's pretty consistent across each of the end markets, automotive, industrial, HVOR. Because candidly, all of the customers that we serve in that region are impacted in the same way.

The interesting question will be on the rebound side of this, we're not expecting that there will be a recovery of this $40 million loss. But we'll watch closely because I think on the recovery side, you might see a different outcome across those end markets going forward, which we'll update when we have more data on.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

And I got one other comment, just if you look at our exposures in China, about 2/3 or 70% of our business is auto- or truck-related. And our -- the impact here is roughly aligned to our exposure in China in those end markets.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

Okay, great. And a follow-up. I guess, how are you thinking about the timing of your customers returning to production and how that flows through to $40 million? We've heard from others and certainly seen the headlines around some sort of mid-February time frame. Is that in line with your thinking? Or are you trying to take a more cautious approach? And again, recognizing this is a very fluid situation and hard to pinpoint at this point.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So the government is lifting quarantines in a different way across different provinces. I can speak to the specifics that we see. It's hard to really understand how that would impact others in the supply chain because it's very facts- and circumstances-specific. At both of our manufacturing plants, we've been given a clear sign to restart production. Now the challenge with that is when our workers come in from outside of the province, they, in some instances, need to go through a quarantine period. And there are also instances where if there are indications of the virus in that area, not in our plant, but in that area, then we might be asked to put a halt. And so for instance, on Monday, when we restarted our Baoying, China location, there was an instance of a virus outside of the plant in the area that the government asked us to postpone the rest of the day. So our plan is to get back to close to full production by the end of the 17th so that gives us a little bit of leeway. And we'll again continue to monitor the situation very closely here.

Operator

The next question comes from Wamsi Mohan of Bank of America Merrill Lynch.

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Wamsi Mohan - *BofA Merrill Lynch, Research Division - Director*

Congrats to Martha and Jeff as well. Can you maybe address the fact that if you take out the $40 million impact from coronavirus, you're still guiding 1Q somewhat subseasonal at roughly flat versus up? So can you talk about some of the factors that are driving that? And how should we think about the seasonality? If, let's say, you get back to full production, as you said, Jeff, after -- on the 17th or so, how should we think about the sequential projections from there forward as you go through the course of the year? Obviously, it's starting from a very depressed 1Q level.

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

Wamsi, it's Paul. Just a couple of comments. I mean the first would be that, as you know, Q1 is always our lowest-margin quarter. It's when a lot of the new pricing kicks in at the beginning of the year. And our productivity initiatives, they accelerate over the course of the year. So this is a normal -- somewhat normal trend that we see every year. We're still -- even if you exclude the $40 million, we're still down, we're still struggling a little bit in terms of productivity with a lower volume and operating leverage. We have some timing around expenses related to compensation. So all in all, I think it's a solid quarter. It's consistent with what you've seen in the past. As volumes improve over the course of the year, our productivity will continue to improve. So I think it's similar to what our trends and patterns have been historically.

Wamsi Mohan - *BofA Merrill Lynch, Research Division - Director*

And can you maybe also address what your expectation in 2020 for free cash flow is, I might have missed that. But can you just talk about how you're thinking about the flow-through and how much restructuring -- cash restructuring impact we should expect in 2020?

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

Be happy to share that -- share that range of $430 million to $470 million with a midpoint of $450 million, which is somewhat -- is in line with what we delivered this year, we delivered $458 million, it's lower given the lower profit levels with a higher CapEx in '20 versus '19. So it's largely in line. Restructuring payments will be slightly less than we saw in 2019. So that does help a bit. And we have some one-time expenditures this year that don't repeat next year. So it's consistent and in line, I think, with the level of operating profit that we're generating.

Operator

(Operator Instructions) The next question comes from Dan Galves of Wolfe Research.

Daniel V. Galves - *Wolfe Research, LLC - Director of Equity Research & Senior Analyst*

In terms of the EV opportunity, our sense is that the current batch of EVs launching now aren't very optimized, partially due to not having fully optimized automotive-grade parts from the supply chain. Is that your impression as well? Do you have content on kind of some of the EVs that are launching late last year, this year? And kind of what is the sourcing environment currently in terms of pipeline of new business?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

So yes, we do have content on the vehicles that are being launched today. And yes, I would agree with you that as customers use new evolving technology, the R&D and product road maps that they experience vary sometimes based upon the challenges that they face as they really iron out what their vehicle architecture will look like. And I think what you mentioned in terms of the supply chain, them largely pulling on suppliers that were more typically in the industrial supply chain is accurate. The good example I would give you is that the GIGAVAC acquisition that we had primarily served that market. And we're then bringing it to automotive levels, the product quality and the manufacturing standards. So I think your observations are absolutely accurate and, I would say, were consistent with what we're experiencing.

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Daniel V. Galves - *Wolfe Research, LLC - Director of Equity Research & Senior Analyst*

Okay, got it. And just one housekeeping, the negative FX impact of $0.04. Is that related to the top line impact that's happening this year? Or is that more of a nonrecur of some of the hedging that benefited 2019?

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

It has to do with some of the hedges that are coming off. Our hedging program is consistent. We hedge out about 18 to 24 months. We try to be about 80% hedged on the major currencies, which would be the CNY, the euro, the peso and the pound. And so just a reflection of what we've hedged and where spot rates were at the end of December and the exposure that we have.

Operator

The next question comes from Joe Spak of RBC Capital Markets.

Joseph Robert Spak - *RBC Capital Markets, Research Division - Analyst*

I wanted to talk a little bit about some of the comments on HVOR. I think again you mentioned the potential that some programs could be pushed out a little bit. I think you mentioned that last quarter as well, even though it looks like organic growth or our outgrowth this quarter came -- became a little bit better than expected. But how does that sort of, I guess, dovetail with the 700 basis points of outperformance that you're guiding to in that segment from a cadence perspective? And also with the virus, does that not at all impact the potential outperformance? I guess is the -- does the virus really impact some of the potential outperformance and sort of further push out some of the programs?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So on the HVOR business, we've talked during 2019 about the fact that some of our customers pushed out launches, partly due to market circumstances, also partly due to readiness more broadly on the architecture and systems that they're implementing. But we also see, at the end of the day, we -- although we saw some lumpiness in terms of content by quarter within HVOR, we landed quite nicely. And over the last 2 years, we landed quite nicely. And so although market circumstances, customer readiness, other supplier readiness to launch platforms could have quarter-to-quarter impacts on overall content growth, we continue to have very high confidence in the long-term content growth. In terms of the virus impact, it's a broader impact. It's a demand. And when there's lower demand, there's lower content clearly. But we don't expect that, that would have a lasting impact in terms of how customers think about new product launches.

Joseph Robert Spak - *RBC Capital Markets, Research Division - Analyst*

Okay. And then just -- I appreciate your comments on sort of the migration impact within China, I think that's been a little bit underreported. I guess as you're starting to -- maybe it's still too early for this, but as you're starting to see some employees come back, are you noticing any hesitance of workers to come back? And like could there be a potential for a little bit of ramp-up or start-up disruption as you might have to also do some new hiring?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

No, on the employee desire to come back to work part. And we are doing other activities associated with providing masks and where they gather to eat to make sure that we're taking the necessary precautions to make them feel comfortable with the working environment. Obviously, testing temperatures. We have doctors on staff at our plants to make sure that we're monitoring that situation, a variety of other logistics things associated

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with wiping down flat surfaces and so forth. So we're doing everything to make sure that our employees, as they come back, feel comfortable with the working environment that they're coming back to.

Operator

The next question comes from Shawn Harrison of Longbow Research.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

Just following up on the China virus topic. I know most -- kind of the automotive supply chain is localized to a region. But are you seeing any potential risk, either into Europe or other regions, of another supplier maybe not being able to get product to either the integrator or the auto OEM themselves and that potentially impacting demand for you in the first quarter or the first half of the year?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

So the $40 million that we've quoted is China region-specific. As we examine the potential impact to our customers in Europe and North America, we do not see any impact on that right now. I would also mention that over the last several years, we, as a company, have worked to make sure that we have regionalized manufacturing to minimize that impact. But you're absolutely right that it is a very complex supply chain and there are subsuppliers and others deeper in the supply chain that could have an impact that we're monitoring. In terms of our view, we don't feel as though there's any incremental impact. The question that you're bringing up is a good one, which is will other suppliers in the supply chain impact that more broadly? And we're not seeing that right now. But again, we'll continue to monitor it very closely.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

Okay. And then as a brief follow-up, Jeff, you mentioned, I think, program wins were down $100-and-some million over the average -- relative to the average of the past 2 years. What gives you confidence in terms of maybe the pushout that you saw in 2019 that it accelerates in 2020 and that it maybe doesn't get pushed again a little bit?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So 2 things. The first would be if you look at the average new business win over the last 5 years, it's $440 million. So although in individual years, we might see higher amounts of opportunities and wins due to just timing of when customers choose to launch new items. But given it's a long-cycle business, that long-term average, I think, is the more meaningful number in terms of what we should watch, and also the pipeline. So when we look at the pipeline of opportunity that we have now versus what we had at the beginning of 2019, it's a bigger pipeline. And nothing replaces the personal contact with customers to make sure we understand where they are in their decision-making process. And all of those things give us comfort in the fact that we will see a higher NBO award in 2020 than we did in 2019.

Operator

The next question comes from Brian Johnson of Barclays.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Just want to talk a bit about the margin guide for 2020. If you kind of strip out the virus impact, looks like slightly growing top line but flattish margins. Can you kind of give us some color on the puts and takes: a, is that directionally right; and b, the puts and takes around the margin?

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Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

Sure. The -- if you back out the $40 million, we're in a 1%, 1.5% organic growth and in earnings we're operating profit growth at a similar level. So what's happening there, we continue to benefit from the repositioning actions that we took. But as Jeff mentioned, we have a significant increase in investment around megatrends. Those 2 are somewhat offsetting. And then we look at compensation costs, investing in the core business for sustainable long-term growth. Those things are being funded by continued productivity gains and net productivity gains in the P&L. So net-net, if you back out the virus impact, it's about flat earnings, earnings growth in line with revenue growth on an organic basis. Currency is a little bit of a headwind, like we noted, about $0.04.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Okay. So not really any margin expansion with those puts and takes?

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

No. When you back out the impact, it's about flattish to slightly down on operating margins year-over-year.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

I've got a bunch of strategic questions. We'll get those in Florida, I look forward to seeing you, Jeff. We'll miss you, Martha, but congrats. Just one quick, and hate to just keep beating the virus, but with about sort of 5, mid-5s, 5.4-ish million of production expected in China this quarter, can you give us a sense of, just so we can track it every week or so, the production assumption embedded in your virus guide?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So we believe there's about 450,000 to 500,000 units per week of production. So given the fact that we're down 3 -- call it, 3 weeks, you can -- that math is -- translate to 1.5 million units would be around the estimate.

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

[Just the incremental] impact on HVOR and industrial businesses that add to that.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Right.

Operator

The next question comes from Christopher Glynn of Oppenheimer.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Congrats to Martha and Jeff on the transitions. Had a question about the vehicle area network topics on HVOR. You've been right down the middle on your content growth targets for the last couple of years. Is this something that you'd see improving on that? Or is it more sustaining at a year or 2 out?

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Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. It's -- the goal would be to have it improve. And the interesting part that I think you and others have caught on is that it's -- we're serving a different market segment, right? So it's an aftermarket, which might have shorter periods or will have shorter periods in terms of the NBO pipeline. So it would be incremental, our megatrend investments broadly when you think of some of these things that are, if you will, beyond the center component, will naturally have larger ASPs and create more content growth for us as a company. And as you know, there are very large addressable markets in terms of the opportunity that we're pursuing.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

And my follow-up is on your new business wins as, in particular, with China content and with light vehicle being great and EVs taking off, is this still primarily a single-sourced business? Any particular variations as it pertains to EV or China, for instance?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. No major changes in terms of how our customers are thinking about their sourcing strategies. The fact that we focus on those mission-critical, hard-to-do applications requires a lot of engineering effort on the part of our customers. And so the dynamics associated with that and the need for us to make sure that we can deliver for them when they need it is critically important to them in terms of selecting their suppliers.

Operator

The next question comes from Deepa Raghavan of Wells Fargo.

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Let me also echo my congratulations to both Martha and Jeff. A couple of questions from me. First one, how are you thinking about the full year organic decline that you guided a split between Performance Sensing and Sensing Solutions, given that you exited Sensing Solutions on a positive organic growth in Q4?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

So for the full year, if you look at the -- our guide is essentially flat around revenue. We would expect our Performance Sensing business to be down, largely driven by the HVOR market. We're expecting the automotive business to be slightly better than it was last year. And the Performance Sensing business will be up. So really, the impact, aside from the virus obviously, the impact of the virus is the HVOR business in terms of year-over-year decline versus some improvement.

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

Yes. So Sensing Solutions -- I think it means Sensing Solutions, and yes, that's right -- [stronger] at aerospace business, that continues to show really strong content growth into '20.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Right.

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Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Got it. And that's why the organic growth in Sensing Solutions is positive, but Performance Sensing is impacted by the virus and -- generally?

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

Yes. Virus at the HVOR.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. That's right.

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Yes, got it. My follow-up is on the virus, sorry about that. I know that you're getting a lot of questions. But why do you think the lost revenues from the virus may not be recouped? Is that your -- is that your worst-case scenario? Just curious why you think this is lost demand? And on the flip side, how are you situated from a production capacity or utilization perspective if demand were to come back? I mean what are some of the governing factors there?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So I wouldn't say it's our worst-case scenario. The worst-case scenario is that there is continued disruption here, right? So I think it's right down the middle of the road in terms of the impact. It's a great question around whether or not it will snap back. And it really does, in my view, depend on a couple of things. The consumer sentiment, which may be driven by government in terms of other incentives, we've experienced in the past certainly the government in China can implement very quickly incentives to create incremental demand. And so that's an option that may exist that could change this outcome.

And the other is around the capacity. Now you're bringing up a great one. And so it's capacity with us and also deeper in the supply chain and with our customers in terms of them being able to catch up. We'd like to think that we can always find a way to make sure that we can deliver for incremental demand. But there are areas of capacity within our business where we are running pretty much at close to full capacity within 5% or so and so there could be minimal impact. But our goal would be, if demand materializes, to make sure that we can deliver on it.

Operator

The next question comes from Joe Giordano of Cowen.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD of Industrials, Automation and Robotics*

Just starting on Sensing Solutions, some other players in China industrial have talked about like a pull-forward of demand into the fourth quarter, given the timing of Lunar New Year and kind of stocking ahead of that. So did you see -- I know you said that Sensing Solutions did better than you thought on industrial. I was wondering if that has anything to do with it there.

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Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

It does have some of the impact when you peel back the -- what we believe to be the market impact in the industrial business. In the fourth quarter, it was about -- it was down about 5%. We are expecting that to improve into 2020. But it's the combination of market decline and also inventory takeout. It's a very fragmented, complicated supply chain on the industrial side. And we saw a fair amount of inventory takeout in the supply chain, that is the channel inventory takeout, which ultimately impacted our demand for our products. So that's separate from raw demand from customers. So we saw more of an impact in 2019 than pure demand reduction because of that channel inventory takeout.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD of Industrials, Automation and Robotics*

Yes. I guess I was referring to -- some were talking about like a positive impact just in fourth quarter from China specifically ahead of new year, something like. So there was a little bit of a surge in demand from kind of stocking ahead of that, outside of the general destocking that happened all throughout 2019.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. I mean I think that -- yes, I think that would be a normal market cycle for us. I don't think that we saw anything that was different than what we would normally see in terms of our quarterly trend in the businesses.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD of Industrials, Automation and Robotics*

Okay. That's what I was getting to. Okay, perfect. And then Paul, just on the tax rate guidance for next year, I guess the ramp, a little bit quicker than we probably -- than most probably anticipated. How do you kind of see that progression over the next couple of years? I know you generally talked about like 50 bps a year, now this is 100 in '18. So how quickly should we see that kind of increase over the next few? And do you have kind of like an end game number that we should think about?

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

So if we go back to 2017 Investor Day, we did talk around -- about 50 basis points a year for a few years. We've done better than that. Some of that's around the mix of where the profits are generated and the tax rates in those different jurisdictions. So we are a little bit ahead of where we thought we were going to be. We've had some tax benefits that naturally expired in 2019 that won't benefit '20 so that's driving some of the increase. But over the 3-year period, we're about where we thought we would be. It's just that we did better in the first 2 and now we're giving a little bit of that back in 2020.

Operator

The next question comes from Steven Fox of Cross Research.

Steven Bryant Fox - *Cross Research LLC - MD*

Just on the HVOR markets, obviously a lot of those end markets are in cyclical decline. I was wondering if you can sort of give us a sense of where you think construction versus ag versus commercial vehicles are at this point in that cycle.

And secondly, when you look at your growth over market, it was -- in those markets, it was substantially above the 2-year average. I was wondering what you would attribute that to, given that -- the cyclical pressures I just mentioned.

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Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So we started seeing a decline. We had -- let me start with we had forecasted a decline in the latter part of 2019 in those markets. We saw that come a little bit earlier. Starting really in the tail end of the second quarter of 2019, we started to see the decline in some of those end markets. And it really accelerated as we got to the end of the year. And so we quoted some of the stats on market in the fourth quarter of 2019, on-road truck down 14%, Europe -- North America, Europe, down almost 14% as well, ag down 10%. And so across that overall market, down 14%.

So going forward, we're expecting it to be some similar trends. But overall, about 9% in the market, so less than fourth quarter but more than full year 2020. In terms of the timing on that, I think that our view is that it's a year to 18-month cycle. So we'll see more come to balance of -- at the end of 2020. But we're not forecasting that there's any big uptick in terms of that market during this year.

Operator

The next question comes from Mark Delaney of Goldman Sachs.

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Martha, thanks for all your help and time over the years. And Jeff, best of luck in your new role. The question is about the comment, Jeff, you made in your prepared remarks about a goal of -- one of your goals as CEO of diversification by end markets. Are you referring mostly to organic growth in markets like aerospace, which I know did pretty well for the company in 2019? Or are you alluding to potential M&A, potentially CST-size or maybe even something larger in order to achieve that objective?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Both. So it's nice to have an aerospace business that's growing at the rate that it is while some of our end markets are down or seeing decline. But it will also be on the M&A front to identify potential targets that would help to continue to diversify the business over the long term.

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. And my follow-up question is around SG&A in the first quarter. I mean the company has done a very good job, especially second half '19, of managing SG&A expense. But I know typically in the first quarter, there was some step-up. Just trying to get a better sense for where to be thinking about SG&A dollars in the first quarter.

Paul S. Vasington - *Sensata Technologies Holding plc - CFO, CAO & Executive VP*

First quarter 2020, we would expect it to move up a little bit from where we exited the fourth quarter. Part of that's just normal timing of employee costs and then there's also just the timing around incentive comp.

Operator

The next question comes from William Stein of SunTrust.

William Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

I wanted to ask a question and a follow-up about the Electrification megatrend. Over the last few quarters, I'm hoping you can help us understand how your end OEM customers' plans might have changed regarding the anticipated mix of internal combustion versus hybrid versus electric vehicle?

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Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So I don't think we're seeing any major shift. Every one of our customers has a pretty robust product development strategy associated with electrified platforms. But I don't think we've seen any major shift. I think what we've observed as we've been engaging with customers on this new product category for us is a couple of things. I alluded to the fact that as customers implement new emerging technologies, the product development life cycle doesn't always follow the same path as what it historically has with more mature technologies. And the second is they tend to be a little bit more lumpy as would be expected. Given that platforms will be more concentrated in an electrified environment, the opportunities tend to be a little bit more lumpy in terms of the size of the opportunities that we're pursuing.

William Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

That's helpful. And then another thing you mentioned in the prepared remarks was a significant overlap between the 2 categories, broadly speaking, internal combustion and EV within your portfolio. That was a surprise to me. I thought most of the products that are used in internal combustion relate to that power type. Can you maybe elaborate as to what the overlap is, what types of sensors? Any details on that would be helpful.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes, absolutely. So braking, electronic stability control-type applications will be still applied in an electrified platform for redundancy associated with the vehicle, cabin management-type, thermal management-type applications, tire pressure monitoring. So there are a number of applications outside of the engine and transmission that we serve today that would be applicable and are being designed into those vehicles going forward. Half or better of the total portfolio ports right over to an electrified platform.

Operator

The next question comes from Jim Suva of Citi.

Jim Suva - *Citigroup Inc, Research Division - Director*

I just have one question. And that is regarding, you mentioned your plants you expect to be back into production February 17. And you mentioned the sales shortage or the challenges associated with that for the plant closures. We talked a lot about automotive so far. Is it fair to assume that you're also making a similar adjustment to the heavy vehicle, the construction side and all that? And do you expect that to come back kind of to the same magnitude? Or how should we think about that? Because a lot of the commentary so far was kind of on automotive.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So 2/3 of the business in China is automotive. But we would, Jim, expect a similar impact, proportionate impact to the other end markets that we serve, not just HVOR, but also the industrial markets as well. We don't have an aerospace presence in China. And so it would be those 3 end markets that would be impacted proportionately, given the shutdowns that have occurred.

Operator

The next question comes from Craig Hettenbach of Morgan Stanley.

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Craig Matthew Hettenbach - *Morgan Stanley, Research Division - VP*

Just had a question on the strong outgrowth in China on the automotive side, just your visibility into that sustaining. And then is there anything on the competitive front in terms of how you're positioned in that region versus some of the things you're seeing kind of in Europe and North America?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. Great visibility into the sustaining content growth in the China market and more broadly in the other automotive markets and other end markets that we serve. The long-term nature of the business and the NBO wins and engagement with customers provides that level of visibility into the future.

Craig Matthew Hettenbach - *Morgan Stanley, Research Division - VP*

Got it. And then just a quick follow-up on GIGAVAC. Can you kind of help frame just that -- the growth that you're seeing in that business maybe versus the overall growth for the company. And then just the commentary about kind of some special applications moving to EV, just kind of where you are in that process?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So we're seeing strong double-digit growth in the GIGAVAC business despite the market headwinds that we're facing. So the investment case that we had laid out that we underwrote is playing out as we would expect, as we look beyond this year and into the next 5 years in terms of platform development.

I mentioned in my prepared comments some of the other areas where we're exploring beyond the acquisition of GIGAVAC, that we're looking at battery pressure sensors to enable this battery monitoring motor position. There are a number of different other organic applications that we're working on that will allow us to be able to continue to serve the electrification market as that unfolds.

So feel really good about those initiatives, both the ones that we've acquired and will continue on investing and the ones that we're working on organically.

Operator

That is all the time we have allotted for today's call. I'd like to turn the call back over to Joshua Young for closing remarks.

Joshua S. Young - *Sensata Technologies Holding plc - VP of IR*

I'd like to thank everybody for joining us this morning. Sensata will be attending the following conferences in the first quarter: the Goldman Sachs Technology Conference, the Barclays Industrial Conference, the Citi Industrial Conference and the Wolfe Research Investor Conference. We also invite you to visit us at our headquarters in Attleboro, Massachusetts.

Thank you for joining us this morning and for your interest in Sensata. Andrew, you may now end the call.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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