THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ST.N - Q2 2020 Sensata Technologies Holding PLC Earnings Call

EVENT DATE/TIME: JULY 28, 2020 / 12:00PM GMT

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

Jacob A. Sayer *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Jeffrey J. Cote *Sensata Technologies Holding plc - President, CEO & Director*

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

CONFERENCE CALL PARTICIPANTS

Bharat Daryani *JPMorgan Chase & Co, Research Division - Analyst*

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

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

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

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

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

Matthew John Sheerin *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

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

Zhen Yang *Citigroup Inc., Research Division - VP*

PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies Second Quarter 2020 Earnings Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Jacob Sayer, Vice President of Finance. Please go ahead.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Thank you, Constantinos, and good morning, everyone. I'd like to welcome you to Sensata's Second Quarter 2020 Earnings Conference Call. Joining me on today's call are Jeff Cote, Sensata's CEO and President; and Paul Vasington, Sensata's Chief Financial Officer.

In addition to the financial results, press release that 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'll post a replay of today's webcast shortly after the conclusion of today's call.

As we begin, I would like to reference Sensata's safe harbor statement on Slide 2. During the course of this conference call, we'll 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 the projections described in such statements. Factors that might cause such differences include, but are not limited to, those discussed in our Forms 10-Q and 10-K as well as other subsequent filings with the SEC.

On Slide 3, we show Sensata's GAAP results for the second quarter of 2020. We encourage you to review our GAAP financial statements in addition to today's presentation. Most of the subsequent information that we will discuss during today's call will relate to our non-GAAP financial measures. Reconciliations of our GAAP to non-GAAP financial measures are included in our earnings release and in our presentation material, the company provides details of its segment operating income on Slides 10 and 11 of the presentation, which are the primary measures management uses to evaluate the business.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jeff will begin with a review of our overall business during the second quarter, including the impact from COVID-19 and the strong financial position of the company. He will also discuss Sensata's revenue growth relative to our end markets during the second quarter and first half of 2020. He will then provide an update on recent progress in some of our key megatrend growth areas, including the recent acquisition of PRECO Electronics. Paul will then cover our detailed financials for the second quarter, provide a description of changes in our financial model and liquidity position, provide insight into what we are expecting for our end markets for the balance of the year and then provide select financial guidance for the third quarter of 2020. We will then take your questions after our prepared remarks.

Now I'd like to turn the call over to Sensata's CEO and President, Jeff Cote.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Thank you, Jacob, and welcome, everyone. I'd like to start with some summary thoughts on our performance as outlined on Slide 4. Sensata recognized the global impact of COVID-19 early, and we took a wide range of actions designed to protect our employees and enable us to meet essential customer demand while enhancing our financial flexibility. Our focus on these priorities and quick action helped us navigate through this unprecedented environment. These actions will help position Sensata to emerge from this worldwide disruption stronger so that we can better serve our customers, employees and shareholders as well as the communities in which we operate.

The lockdowns and quarantines that were instituted by governments around the world in response to the spread of COVID-19 caused the end markets we serve to decline almost 40% during the quarter. Our strong market outgrowth during the quarter offset a portion of this market decline, which resulted in our net revenue contracting by 33.9% organically.

For the first half, our net revenue decreased 22.3%. We delivered market outgrowth of 750 basis points in our heavy vehicle off-road business, and 890 basis points in our automotive business for the second quarter and 840 basis points and 750 basis points through the first half of 2020, respectively.

Certain customers have delayed some of their product launches for the second half of the year, which will impact our market outgrowth in Q3 and Q4. However, we continue to be confident that our market outgrowth for 2020 and beyond will be sustained in the range of 600 to 800 basis points for heavy vehicle off-road and 400 to 600 basis points for automotive, in part due to our continued new business wins.

During the quarter, we closed over $125 million of new business wins, as part of $225 million in new business wins for the first half of 2020. This pace is faster than our average new business wins over the past 5 years and included $108 million in electrification wins. We believe these new business wins demonstrate the mission-critical nature of Sensata's products, as our customers have continued to award new business to us, even in the midst of COVID-19-related shutdowns.

From a demand standpoint, we saw improvements month-to-month during the second quarter, as customer sites reopened in May and ramped up production in June. This trajectory has continued for the first half of July. And on that basis, we anticipate sequential improvements in the third and fourth quarters this year. However, we remain cautious regarding the impact that potential COVID-19 surgeons-related shutdowns may have on this recovery trend.

Despite the challenges, we believe we are in a strong financial position and have taken the steps necessary to enhance our financial flexibility. For example, we generated $45 million in free cash flow in the second quarter and $114 million year-to-date. We reduced capital expenditures for the year and aggressively managed our working capital. We lowered our operating expenses in the second quarter through a number of temporary measures and have since implemented permanent cost actions that will align our cost structure to more normalized demand. Paul will address these cost actions later.

We are seeing enough stability in the markets we serve and our order book to provide financial guidance for the third quarter. Finally, as I will discuss in more detail, we continue to invest in capabilities that will drive our future growth with our acquisition of PRECO Electronics.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

It was a challenging quarter, but we are pleased with our accomplishments. Now I'd like to discuss our performance by end market in the second quarter of 2020, as outlined on Slide 5. Overall volume during the second quarter was lower than both the first quarter of 2020 and the second quarter of 2019. We reported revenues of $576.5 million which represents an organic revenue decline of 33.9% year-on-year against an overall end market decline of almost 40%.

Our industrial business decreased 14.6% organically, driven by pandemic-related shutdowns and a global industrial market slowdown of approximately 15.2%. Outperformance in the industrial business was primarily due to growth in our medical equipment business, in particular, providing sensors to ventilator manufacturers.

Our aerospace business decreased 39.4% organically. Reduced production drove 32% end market decline and grounding of planes impacted our aerospace aftermarket business. Global air traffic is currently down 50% from the beginning of the year, which is better than the trough levels in April that were down 80%.

Our heavy vehicle off-road business posted an organic revenue decrease of 31.5%, outperforming a 39% end market contraction, representing 750 basis points of market outgrowth. Our China on-road truck business continued to post strong growth as a result of the adoption of NS VI emissions regulations. While our China business grew in the second quarter, we experienced substantial declines in both Europe and the Americas as production levels in these markets declined.

Our automotive business posted an organic revenue decrease of 41.6%, outperforming a 50.5% global end market production contraction, representing 890 basis points of market outgrowth. This outgrowth continues to be led by emissions, electrification and safety-related launches as well as slightly better pricing.

The China automotive end market grew 4.3% in the second quarter versus the prior year, snapping back from the first quarter shutdown-related declines. We do expect the recovery in Europe and the Americas to be more measured where plants were shuttered for the average of 6 to 7 weeks in the second quarter. IHS, and we expect that the global automotive market, will grow sequentially from the second quarter into the third and fourth quarters.

During the first quarter, we attributed a portion of automotive revenue growth to supply chain inventory building, especially with Chinese customers. Automotive inventory movements in the second quarter were negligible, although we do believe that there was a shift from China to Europe and North America. We expect global inventory at our customers to return to normalized levels by the end of the year.

Moving to Slide 6. I want to share some updates about important progress we are making in our key megatrend initiatives. We continue to believe investments in electrification, smart and connected and autonomous megatrends will further our end market diversification, increase our long-term growth rate and provide important competitive advantages as these trends transform our world.

Despite the impact of COVID-19, we do not see evidence that customers are slowing their investments in these areas. To provide greater transparency into our megatrend spending and the operating performance of our segments, we are moving the cost of these investments from the reporting segments to corporate and other. Paul will discuss this in more detail.

In electrification, we are expanding the solutions we provide for critical applications across all end markets we serve. During the second quarter, we closed another $50 million in electrification new business wins, now $108 million year-to-date. As electrification trends accelerate, driven by broad legislation, such as the European Green new deal, they present increasing opportunities for our solutions, representing an expected $6.5 billion addressable market for Sensata by 2030.

In Smart & Connected, we continue testing proof-of-concepts with several leading fleet managers and are working to turn these efforts into orders by the end of this year. As part of this initiative, we are also working with several telematics companies that will transmit data collected by Sensata's vehicle area network to the cloud in order to provide valuable insights to fleet managers.

Our Smart & Connected initiative opens up an expected $1 billion in OEM and $7 billion in fleet management addressable market Sensata by 2030.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

In addition, we are increasing our focus on high-growth areas such as industrial IoT, smart manufacturing, buildings and infrastructure. These segments represent fast-growing opportunities that will benefit and drive new business and market out growth for our industrial business unit.

Moving to Slide 7. On the autonomy front, on July 1, we closed a small but important acquisition that represents an early step into advanced driver assistance applications. PRECO Electronics based in Boise, Idaho, is a leader in developing radar object detection application for heavy vehicles, providing crucial blind spot detection and side turn assist functionality. Their solutions improve efficiency and overall safety. We believe PRECO is well positioned to benefit from upcoming EU Vulnerable Road User and Other Object Detection regulations and expands our addressable market by $600 million in 2030 with sticky, mission-critical content. While currently a small business with approximately $15 million in net revenue, PRECO's growth potential is substantial. And we believe its differentiated offering will drive strong margins.

We see substantial synergies between PRECO and Sensata as well, including leveraging our strong OEM relationships and supply chain. We are pleased with our progress against these megatrend initiatives and intend to continue these efforts that expand the Sensata's markets, provide strong growth and differentiation for our future.

I'd now like to turn the call over to Paul.

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

Thank you, Jeff. Key highlights for the second quarter, as shown on Slide 9, include revenue of $576.5 million, a decrease of 34.8% for the second quarter of 2019. Organic revenue decreased 33.9%, largely due to the impact of the COVID-19 pandemic and change in the foreign currency decreased revenue by 0.9%.

Adjusted operating income was $75 million, a decrease of 63.4% compared to the second quarter of 2019, primarily due to lower revenues, productivity headwinds from our manufacturing facilities operating at significantly lower capacity, elevated costs to safeguard our employees and local government restrictions, which all together, impacted our ability to align our costs to contracting end markets. These items were partially offset by temporary cost reductions in the quarter, including salary reductions and furloughs as well as savings from repositioning actions taken last year.

Adjusted net income was $27.7 million, a decrease of 81.6% compared with the second quarter of 2019. Adjusted EPS was $0.18 in the second quarter, a decrease of 80.6% compared to the prior year quarter.

Now I'd like to comment on the performance of our 2 business segments in the second quarter of 2020. I will start with Performance Sensing on Slide 10. Our Performance Sensing business reported revenues of $385.2 million, a decrease of 40.2% compared to the same quarter last year. Excluding the negative impact from foreign currency of 0.9%, Performance Sensing reported an organic revenue decrease of 39.3%.

Our Automotive business reported an organic revenue decrease of 41.6% but outpaced its end market by 890 basis points. Revenue outgrowth was strong in all major end markets, led by new central launches and mission-critical emissions, electrification and safety applications. Pricing was favorable when compared to the prior year quarter.

Our heavy vehicle off-road business reported an organic revenue decrease of 31.5% but outpaced its end market by 750 basis points, primarily from accelerated content growth in China on-road truck business, driven by the adoption of NS VI emission regulations. Consequently, we expect our content growth related to China on-road truck to moderate in the second half of this year.

Performance Sensing operating income was $60.8 million, a decrease of 65% as compared to the same quarter last year. Performance Sensing profit as a percentage of revenue was 15.8%. The decrease in segment operating income is due primarily to lower revenues, manufacturing facilities offering at significantly lower capacity and elevated operating costs related to COVID-19, somewhat offset by temporary cost reductions in the quarter as well as savings from restructuring actions taken last year.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

As shown on Slide 11, Sensing Solutions reported revenues of $191.3 million in the second quarter of 2020, a decrease of 20% as compared to the same quarter last year. Excluding the negative impact from foreign currency of 0.7%, Sensing Solutions organic revenue decreased 19.3%.

In the second quarter, revenue in our industrial business decreased 14.6% organically as industrial end markets contracted 15.2%. And revenue in our aerospace business decreased 39.4% organically from reductions in commercial OEM production and substantially weaker aftermarket.

Sensing solutions operating income was $55.8 million, a decrease of 28.2% from the same quarter last year. Sensing Solutions profit as a percentage of revenue was 29.2%. The decrease in segment operating income was primarily due to lower revenues, manufacturing facilities operating at significantly lower capacity and elevated operating costs related to COVID-19, somewhat offset by temporary cost reductions in the quarter and savings from restructuring actions taken last year.

As Jeff mentioned earlier, we are moving costs related to growth investments in emerging megatrends that are impacting and shaping our end markets from our business segments to corporate and other. This change provides better insight into the underlying operating results of our business segments and increased visibility into our ongoing megatrend investments that are expected to increase from approximately $25 million in 2019 to approximately $35 million this year. The operating profit and operating margins on Slide 10 and 11 reflect the reclassification of these costs. To help with your modeling, we have provided quarterly reconciliations of the segment results for fiscal year 2019 and the first quarter of 2020 in the appendix.

Corporate and other costs not included in segment operating income were $47.5 million in the second quarter of 2020. Excluding charges added back to our non-GAAP results, corporate and other costs were $40.4 million, a decrease of $3.4 million from the prior year quarter due to lower incentive compensation, lower global support costs from temporary cost actions and favorable foreign currency, somewhat offset by higher megatrend investments.

Slide 12 shows Sensata's second quarter 2020 non-GAAP results. Adjusted gross profit decreased 47.2% as compared to the same quarter last year to $165.4 million, and gross margins decreased 670 basis points to 28.7%. The decrease in gross profit and gross margin reflects lower revenues, largely due to COVID 19. Productivity headwinds from our manufacturing facilities operating at significantly lower capacity, elevated cost of safeguarding our employees and local government restrictions, which all together impacted our ability to align our costs to contracting end markets.

R&D costs improved 17.6%, and SG&A costs improved 15.9% from the same quarter last year, with both benefiting from temporary salary reductions and furloughs this quarter, savings from repositioning actions taken last year and favorable foreign currency. As a result, adjusted operating income was down 63.4% compared to the prior year quarter.

Our tax rate as a percent of adjusted profit before tax was 18.2% in the second quarter, up 950 basis points compared to the prior year quarter, primarily due to jurisdictional profit mix. Tax as a percentage of EBIT was 8.4%, up 140 basis points compared to the prior year quarter. We expect tax as a percentage of EBIT in the second half of this year to remain consistent with the second quarter. Finally, adjusted EPS was $0.18, down $0.75 or 80.6% as compared to the second quarter of 2019, as the decrease in adjusted net income was partially offset by the benefit of share repurchases in intervening periods.

On Slide 13, we provide a breakdown of the types of spend that make up our cost structure in their relative size to net revenue. The majority of our costs are variable. These are followed by semi-variable costs, which are structural and scaled to some extent with revenue that requires specific management action to drive change and the remainder of fixed costs.

In the second quarter, we incurred year-on-year decremental gross margins of 48%, a 500 basis point improvement from the first quarter of 2020, despite a significant drop in customer demand in the second quarter due to the rapid spread of COVID-19 to North America and Europe.

During the second quarter, our manufacturing plants were running at significantly reduced levels. However, better alignment of our manufacturing costs to the lower volume moderated some of the impact related to this volume contraction.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Manufacturing costs remain elevated during the second quarter to protect and safeguard our employees, to comply with government mandates to pay our direct labor despite not being needed due to our reduced production levels and from higher freight costs as logistics supply chains remain disrupted. To temporarily help mitigate these higher manufacturing costs during the quarter, we reduced salaries from management by 25% and implemented employee furloughs, thereby achieving savings of approximately $22 million, which exceeded our previous savings expectation of $15 million to $20 million.

Recognizing the potential of an extended economic recovery, we have taken a series of actions to structurally reduce our semi-variable cost by about 10% to achieve an expected $60 million to $65 million in savings next year. We have rigorously analyzed our operations and expect that these changes will better align our cost structure, the demand levels that we anticipate over the coming quarters. These cost-saving actions will be largely implemented throughout the second half of 2020 and will generate increasing savings as we progress through the remainder of the year and into early 2021, with about $7 million of savings expected in the third quarter of 2020. The includes an action to reduce our workforce, affecting approximately 980 positions worldwide.

Restructuring charges related to this workforce reduction include $35 million to $39 million in people-related charges and $8 million to $10 million in site-related closure costs. During the second quarter, we recognized $26 million of charges related to these actions.

Slide 14 demonstrates Sensata's strong liquidity position. We entered the second quarter with approximately $800 million in cash on the balance sheet. On April 1, we drew down $400 million from our revolving line of credit, provided additional financial flexibility. With $45 million in free cash flow generated during the second quarter, we exited the quarter with $1.24 billion in cash on hand. We have substantial buffers to our leverage covenants in our debt agreements, and the first outstanding maturity of our debt is not until October 2023, when a $500 million unsecured note becomes due. Consequently, we are confident our liquidity position is sufficient to enable us to weather a severe downturn.

Free cash flow during the second quarter of 2020 was 162% of adjusted net income, a dramatic improvement compared to 66% of adjusted net income in the same quarter last year. We managed working capital effectively during the quarter, reducing inventory by $25.5 million or 5% sequentially from the first quarter.

Our capital expenditure guidance for the full year 2020 remains $120 million to $130 million, and we are on track for the first half of 2020.

Lastly, our stock repurchase program remains on hold until end market conditions show greater improvement in stability.

On Slide 15, I show a number of economic indicators that we track to help assess future demand for our products and solutions. IHS is our primary third-party source for information on future automotive production. In addition, we monitor key economic indicators such as consumer confidence, and we communicate routinely with our automotive customers to gain alignment on future demand expectations, which all strongly influence our view of the end market.

For our heavy vehicle and off-road business, we use various production forecasts from third-party firms such as LMC for on-road production levels and KGP for off-road production levels. We also evaluate economic indicators to gauge the health of our heavy vehicle off-road customers in the markets they serve, which we believe are strongly correlated to the demand for our products. These indicators include freight load factors, inventory sales ratios, building permits, industrial production, crop futures and farm machinery.

Public statements from our large customers in the construction and agriculture sectors also help to form our view of the market. For our industrial business, we evaluate regional PMI data and forecast for GDP and housing starts to develop a forward-looking view of industrial demand, given their strong correlation with our historical industrial revenue.

For aerospace, expectations for future OEM, commercial and defense production and passenger miles flown are good indicators of future demand for our aerospace products and aftermarket services.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Slide 16 provides details on end market performance year-on-year for the second quarter and expectations for the balance of the year. This data reflects our view of our end markets, leveraging information from third-party forecasters as well as customer order patterns and commercial engagements. The data on this page represents what we know today and is subject to change as customer and economic conditions change.

North American automotive production levels are expected to improve sequentially from the second quarter as a result of improving vehicle sales, which are currently at historically low levels and from OEMs ramping up production. Within Europe, customer and business confidence are expected to improve driving vehicle registrations and OEM faction production levels well above the low levels in the second quarter. And in China, after a historic drop in GDP and auto production during the first quarter, vehicle production has snapped back in the second quarter and is expected to moderate through the third and fourth quarters.

While IHS is a primary data source for developing light vehicle production expectations by region, our market expectations for North America and Europe, as shown on the page, are more conservative than IHS, reflecting our expectation for summer-related shutdowns in Europe and a continued trend of lower customer product take rates relative to initial orders during the quarter.

The heavy vehicle end markets have been in decline globally since the second quarter of 2019. COVID-19-related shutdowns caused a sharp drop in the first quarter in China, expecting North America and Europe during the second quarter accelerating the already downward cycle. However, heavy vehicle off-road production declines year-on-year are expected to ease in the third and fourth quarters, with key economic indicators pointing to sequential growth from the second quarter.

Industrial end markets fared better than other markets in the second quarter, and PMI in all areas of the world improved sequentially. Percentage year-on-year declines for the balance of the year in the industrial space are expected to improve from the second quarter levels.

The defense portion of the aerospace end market is expected to remain steady this year, while commercial production is expected to improve from very low levels in the second quarter. As Jeff mentioned earlier, we expect for the company a moderate decrease in market outgrowth in the second half of 2020 as compared to the first half of 2020. However, we are confident that full year and long-term outgrowth will remain in the expected ranges.

In summary, due to the improvements in end markets from the second quarter, we expect Sensata's revenue performance to improve sequentially each quarter through the balance of the year. In April, we withdrew our full year guidance as the negative impact of the COVID-19 pandemic created great uncertainty and unpredictability for our business.

During our first quarter call, we highlighted our intention to resume providing financial guidance as soon as practicable. As a result of improving economic conditions and better stability in both customer order patterns and global supply chains, we are providing financial guidance in the third quarter of 2020, as shown on Slide 17.

Our guidance assumes our customers and we are able to keep our manufacturing facilities open despite potential resurgence in the COVID-19 pandemic and government responses to try to prevent the spread of the virus.

For the third quarter of 2020, we expect to report revenues between $675 million and $705 million, representing a reported year-over-year revenue decrease between 21% and 17%. At the midpoint of our guidance, we expect that foreign currency will decrease revenues year-over-year by approximately $4.4 million. Excluding the impact of foreign currency, we expect to report an organic revenue decrease of 20% to 17% in the third quarter.

Our current flow rate is approximately 94% of the revenue guidance midpoint for the first quarter. We expect to report adjusted operating income between $110 million and $124 million.

On the bottom line, we expect to report adjusted net income between $60 million and $74 million, which would represent a decline of 58% to 49% compared to Q3 2019.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We expect operating margins will expand from Q2 levels sequentially in Q3, primarily due to higher revenue. This includes an expected increase of approximately $15 million in operating expenses sequentially in the third quarter as temporary cost reductions in the second quarter and as the financial benefits from our semi-variable cost reduction programs begin to ramp up.

We expect to report adjusted EPS between $0.38 and $0.46, which includes a $0.02 positive impact from foreign currency at the guidance midpoint. We are not currently providing full year financial guidance until longer-term visibility improves.

In closing, I will echo Jeff's comments that while we are operating in unprecedented times, I'm very proud of our organization. We have made significant progress in strengthening our business during the quarter despite significant challenges. We are working diligently to ensure Sensata emerges from this time as a stronger and more resilient company.

I will now turn the call back to Jeff.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Thank you, Paul. Before turning over to Q&A, I want to wrap up with a few key messages, as outlined on Slide 18. We continue to monitor all of our end markets and customers to ensure that our resources are balanced against forecasts and prioritized against critical growth opportunities, and we have taken the necessary actions to align our cost with the market. We remain confident in our ability to deliver attractive end market outgrowth for the full year 2020 and into the future. And this confidence is supported by strong new business wins.

We continue to deliver solid free cash flow, which demonstrates Sensata's resilient financial model, and we ended the quarter with more than $1.2 billion in cash on hand. We continue to invest in our megatrends and other growth initiatives that are opening up significant new markets for Sensata. And we are making excellent progress as evidenced by the $108 million in new business wins in electrification so far this year and the customer engagement on Smart & Connected. In addition, we continue to believe that the overall market environment may provide interesting opportunities to further strengthen our portfolio through strategically important value-creating acquisitions such as PRECO Electronics.

Now I'd like to turn the call back to Jacob.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Thank you, Jeff. For participants, Jeff and Paul are in separate locations this morning, so feel free to direct your questions to one or the other of them. Also, given the large number of listeners on the call, I'd ask each of you to limit yourself to one question and a follow-up. Constantinos, if you would please assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question is from the line of Mark Delaney with Goldman Sachs.

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

To start, I was hoping to better understand the reason Sensata as being more conservative than IHS for North American and European auto production in the third quarter. Is this conservatism on the part of Sensata in case there's COVID-related factory shutdowns that are anticipated or in case retail demand were softened? Or is this more about what your customers are telling you their production build rates are going to be?

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. Thanks for the question, Mark. So let me just frame it. We are lower than IHS in terms of expectations in North America and Europe and were slightly higher in China. The net difference is about 1.7 million vehicles across that range, which is substantial in terms of the impact that, that would have on Sensata's revenue. There are really 4 key factors that weighed into our decision around this. The first is clearly regarding caution associated with potential resurgence and lockdowns and impact on demand that, that would result in. There are also some differences between us and what we believe IHS is forecasting regarding the shutdown schedule with our customers, which we're tracking on a customer-by-customer basis. And then the other factors are relating to just generally understanding our customer order patterns. We're coming off a period of time where the volatility and customer order patterns have been substantial. And until we get a better feel for the orders and how they will materialize into revenue, we're taking some caution on that. You'll note that, historically, the order patterns going into the quarter is our best indicator of performance in the quarter. But certainly, we're coming off a period where that isn't as much the case.

And then the last factor, which is a smaller one, is just the general automotive supply chain and the risk that we wouldn't or our customer wouldn't have a disruption in demand or orders, but there might be some other implication in the broader supply chain, and so we're cautioning for all of the factors which we've outlined. Obviously, if things turn out better, we're prepared to be able to deliver, but it's based upon all of that input.

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

That's really helpful, Jeff. And for my follow-up question, the company mentioned in the prepared remarks about the good wins in electrification and even being an acceleration compared to what the company was realizing in new wins than a year ago despite the pandemic. What do you think is leading to that acceleration in bookings? And maybe you can level set investors about where Sensata's content per car stands now for an EV compared to internal combustion engine vehicles?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Sure. So that and the old quote was across the company. So it's not just automotive, and there's a substantial portion of that, that is outside of the automotive market. My view is to why that's accelerating is that every customer around the world as the electrification trend is continuing, is accelerating their internal programs. We knew that there was going to be eventual escalation as they prepare to launch new platforms that will be more driven toward electrification trends. And so that's what we're seeing. We had talked about the order book that or the -- not the order book, but the opportunity book that we have with our customers, which is very substantial as well. And so it is the material -- it's basically that opportunity set materializing.

In terms of content per vehicle, in the U.S. and Europe, I'll speak generally, it's in the high 30s to low 40s in terms of content per vehicle. When we look at a battery electric vehicle, it's higher than that in the 50 range. So the trend associated with conversion from internal combustion engine to electrification is a positive trend in terms of content per vehicle and therefore, revenue for Sensata.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

I suggest, we have the next question please.

Operator

The next question is from the line of Deepa Raghavan with Wells Fargo.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

This question is for Jeff. Just tagging on that comment where you mentioned accelerating internal programs just based on those electrification trends in triangulating to your business wins. In the past, the business wins that were awarded converted over a 3 to 5-year time frame, roughly, is that still the same? Or does that push to electrification change that time line?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So it's pretty much the same where it's variable. Remember, the $108 million is across dozens of programs. So there are lots of factors to consider, but the general development time line associated with electric vehicles is equivalent to that of a combustion engine. When we start to talk about wins in some of the other markets, it may be a shorter period than what we might be normally accustomed for automotive or heavy vehicle off-road, especially when you go into the industrial markets, but the electrification wins in those markets are consistent with those markets, which may tend to be a little bit shorter in terms of the development cycles.

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

My follow-up is on your thoughts. It's a little bit of a longer question, but Jeff, can you talk through how the summer production schedule is shaping up? And if I -- let's just say, if we assume stable macros here, when can we expect to return to a more normalized level of production? By that, I don't necessarily being back to pre-COVID, but more from an equilibrium perspective, I'm assuming the summer production was skewed to the upside a little bit. But -- and if you can focus -- and if you can just talk through the key regions, U.S., Europe and China on how that normalized production expectations would be from your end, that would be helpful?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Sure. So let me speak to the summer shutdown question first, and then I can go to the comment around normalized demand profile globally. So as I mentioned, we are tracking customer shutdowns at the customer level. What I would tell you is that the observation I would make based upon reviewing that is that for the most part, when you get into the tier level below the OEM, there's a general theme of canceling summer shutdowns. And my expectation is that, that is to catch up to make sure that they're ready to be able to deliver to the broader supply chain.

When you get to the OEM level, whether it be in automotive or in heavy vehicle or in other markets, it tends to be a little bit more variable. Some are continuing the same shutdown schedules, some are shortening it, and some are canceling it altogether. And again, I suspect that, that's largely driven based upon the demand they see, their inventory positions, how stable their manufacturing operations are. And so it's a wide range across those. But the point of their -- at the Tier level, they tend to be stopping summer shutdowns to try to catch up on demand. And we're seeing signals of that in terms of all of us in our everyday lives in terms of availability of product that we want and the supply chain disruptions that have occurred. And as demand is snapped back, that's created some issues in terms of availability of product.

In terms of returning to more of a normalized level, that is obviously a very difficult question to answer. But let me break it down a little bit geographically to give you a little bit of insight. So from a China standpoint, things have rebounded quite quickly, right? So in the second quarter, China actually saw a 10% growth in Q2 versus Q2 of the prior year. And we're forecasting growth in the third quarter as well. Lower growth than what we saw year-over-year in the first quarter, but nonetheless growth. So China has snapped back pretty strongly. When you go to the other markets, it's obviously not back to those levels yet, but it's significantly better in the third quarter, and we would expect that trend to continue into the third quarter -- or excuse me, into the fourth quarter as well. And so let me give you some data points, right? So the heavy vehicle off-road market was down Q2 to Q2, about 39%. This is market data, not our revenue, but market data. And then when you go into the third quarter, we're expecting that to be quarter-over-quarter down only 23% to 24%. So an improvement from the second quarter but still pretty significantly off where we were last year at the same time. And you see similar trends across the other end markets we're serving automotive second quarter versus second quarter of last year is down 50% from a market standpoint when you think of Q3 last year versus Q3 this year about 22%. So an improvement sequentially but not back to those levels. And we're watching it very closely. Things are coming back. But again, we're looking at it with an eye of caution given the disruptions that could cause that demand profile to deteriorate.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Constantinos, can we have the next question.

Operator

The next question is from the line of Samik Chatterjee with JPMorgan.

Bharat Daryani - *JPMorgan Chase & Co, Research Division - Analyst*

This is Bharat on for Samik. So if I could just start with industrial end market, and you highlighted in your prepared remarks that you expect the outlook to improve through the year. So if I could just ask what are some of the pieces of business or subsegments that are maybe stronger versus the other?

And if you could also help us think about how big a exposure you have within the medical end market within industrial?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So the medical end market is not a huge portion of our overall industrial business, but it is an important one. And we took it, obviously, very seriously as these customers started to come to us to look for help associated with temperature or pressure sensors in the market. Across the significant parts of industrial, we have some big segments associated with material handling that we serve major home appliances, lighting, industrial lighting. So there are a variety of end markets. It's truly a diversified industrial segment. But it's important to note in the second quarter, the impact associated with medical devices was about a $10 million impact associated with the revenue related to that initiative that we had. So it felt good to get the revenue. It felt good to serve the community in terms of being able to deliver on that.

Bharat Daryani - *JPMorgan Chase & Co, Research Division - Analyst*

Got it. And if I could just ask on the acquisition you made in the quarter of PRECO Electronics. You noted that's primarily for HVOR end market right now. So if you could talk about any synergies that you see in terms of leveraging that technology for end markets such as automotive as well in the long term?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes, absolutely. So I think that it's -- today, PRECO is largely serving the on-road and off-road heavy vehicle markets. Again, where there is regulation forthcoming associated with vulnerable road users, pedestrians and cyclists on the road, as you can imagine, with a large vehicle, the risk that the driver doesn't observe those pedestrians or bicyclists is significant. And so there is regulation associated with that. It's a very difficult application because the radar applications need to work with a wide range of truck configurations. And equipment configurations articulating vehicles, and so the radar required -- the radar solution requires a lot of application-specific knowledge and software development to make it work in a way that their aren't false positives or negatives that would make the application unusable on the road.

Beyond the heavy vehicle off-road market, we see opportunities in other industrial applications as well. Less so in the light vehicle market, but it's certainly something that we would be exploring in terms of going there, but it's more around the industrial airport equipment and heavy vehicle off-road markets.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Next question is from the line of Matt Sheerin with Stifel.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Jeff, just wanted to follow-up on your commentary. Near-term demand trends in auto, particularly relative to inventory in the supply chain, you did talk earlier about some headwind there, particularly in North America and Europe. How much does that play into your near-term forecast?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. Thanks, Matt. It's not a big number. We had talked about the first quarter there being about a $25 million inventory build. Specifically, as it relates to China customers, we think that migrated away from China into North America, Europe during the second quarter, so an equivalent amount but we're getting to the level where it's a little bit difficult to distinguish the exact amount, to be honest with you Matt in terms of the impact, but it's not a huge number, and we would expect it to unwind by the end of the year. My sense is it's -- the volatility of our customer order patterns in terms of what they're seeing from demand is causing them to build a tiny bit of inventory and also just generally making sure that they have stock available as they build vehicles for the market. So it's not a big number relative to the overall business, but it's something that we thought worthy of calling out.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. And then just a question regarding the guidance for margins, backing into gross margin based on your operating profit and SG&A guide. It looks really like a very significant quarter-to-quarter contribution margin. And I know there's some cost cutting. I think you talked about $7 million in savings from the cost-cutting initiatives. But what are the other drivers of that?

And as we look to December based on expectations of sequential growth, should we expect a similar margin contribution or not?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Paul, would you like to take that? Please.

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

Sure. So in the remarks, revenue certainly is going to drive a lot of the margin expansion. So as revenues coming down, we were seeing a significant level of decremental margins because we were not able to adjust our semi-variable and fixed cost to that volume decline quickly. But we did have significant savings in Q2 around furlough and pay cuts of $22 million. So as you go forward into Q3, as the revenues rise, you see a similar improvement in incremental margins in the high 40% range. We're going to see the $7 million come through from those cost actions that we're taking that are permanent. But we're not going to see the temporary cost saves because we're not putting those pay cuts and furloughs in place for Q3. So that's the $15 million headwind. $7 million of savings coming on and the $22 million of the temporary cost reduction is not continuing. And then the volume ramping up is really what's driving the significant improvement in operating profit and contribution from that higher revenue.

Operator

The next question is from the line of Wamsi Mohan with Bank of America.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

I have one for Jeff and one for Paul. Jeff, your expectations for market upgrowth, you've alluded to those getting a little more subdued in the second half given some product launch push-outs. I was hoping you can share some more color on that? I mean, you are expecting sequential volume improvement. So is it the case that you're anticipating some large program roll offs? Or what are the puts and takes here that's driving that in the second half? And I have a follow-up for Paul.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. Great. Wamsi, thanks for the question. So just to make sure that the message you got across, we're still confident that for the full year and beyond, we'll be within the ranges that we've quoted. We had a very strong first half year in terms of content growth or outgrowth. For the first half, we were at 750 basis points year-to-date in automotive and heavy vehicle we were at 840 basis points through 6 months. So that's above where the normal range was and confidence continues to be there. In terms of what we're seeing, that will impact the second half, it's largely time phasing, in terms of the NS VI regulation, the deadline was July. So there was some pull ahead associated with that. And then there's another impact associated with just time out at our customers in terms of the COVID period. So some of the launch activity that would normally have occurred, that was a little disrupted associated with time out-of-office during this very difficult time, has resulted in some temporary delays in terms of launches that were going to happen in the third and fourth quarter of this year. They are temporary. Nothing is canceling to any meaningful amount. Obviously, there are always some small amounts of movement associated with cancellations as customers refine this, but we're not seeing any major impact associated with cancellation. There are delays in the order of magnitude of, call it, 3 months to 6 months, and they're pushed through the following quarters. So we'll see that coming in later, first part of 2021.

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

Okay. And Paul, you called out $60 million to $65 million in savings in 2021. Can you clarify if these are gross or net savings? And will they be pretty consistent across the quarters? And should we think of these savings as proportional to your revenue exposure by market? Or are they more concentrated in auto and aerospace?

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

No, there -- I would say they're spread evenly across the company in terms of the business that are being impacted by the cost reduction programs. The $60 million, $65 million, it's mostly people. It's mostly related to the workforce reduction. There are other cost actions that we have in place around third-party spend and productivity improvements that are going to drive the $60 million to $65 million. A lot of it will be implemented this year in the second half. So when we get into the first quarter, we should be at that run rate per quarter. So we should get the full $60 million, $65 million in the year, and with it being at that full run rate, pretty much by the end of the first quarter. So that's -- and that aligns to the demand that we're expecting over the coming quarters.

Operator

The next question is from the line of Brian Johnson with Barclays.

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

Yes. Just want to follow-up on decrementals then talk a bit about the ADAS opportunity. So when we think about the decrementals for 3Q on a year-over-year basis, I think I got the answer, which is the roll-off sequentially of the temporary cost reduction is what's going to take your decrementals back to the higher end of the range, is that correct?

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Well, the way I would think about it is that we laid this out that right now our profit on impact from volume is moving in line with our variable cost and our variable contribution. You can see in that pie chart, about half of our cost is variable. So when we lose $1 or gain a $1, it's about a 45% to 50% impact. Now we weren't able to get at the semi-variable cost in Q2, so we took temporary actions around furloughs and pay cuts. Now in Q3 and going to Q4, we're getting at those semi-variable costs. And that's where the $60 million, $65 million highlight in the chart, about 10%. The semi-variable costs running the $600 million range. So we're taking about 10% of those costs out. Now that's what's driving improvement in cost. And so we're getting a combination of volumes are going higher, we're getting a variable contribution. And now we're getting at that sticky semi-variable costs that we weren't able to action in the first half of 2020. Does that makes sense?

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

Yes. Yes. My second question is really around your new acquisition and the role of ADAS in commercial vehicles. We've been aware, of course, of WABCO and others with vision-based systems, and that this is -- seems a little bit different. But it gets to my question, which is, when you think of an ADAS solution, in addition to the sensors, whether it's camera, radar, ultrasonic, there's, of course, a fair amount of algorithms around object identification, detection, left laning. Are you moving into that space? Or will you be working with Tier 1s who are already acting as CV ADAS integrators?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So we're not -- a great question. We're not going fully off the stack on this, but it is a more complicated system than you would normally see in a pressure sensor or a high-temperature sensor for an application. So we're providing more information to deal with it, and we're working both with OEMs and their choice on how they want to develop those overall system architectures. Some OEMs choose to leverage a Tier 1 in the development of that. Others want to hold it more closely to what their application is there. So it does depend on where we -- the ultimate customer approach on how they're doing it. But we're part of that overall system, both with Tiers and OEMs.

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

And a follow-on on LIDAR coming down. Is that a market that you have relationships with? Do you see that coming into their commercial vehicle? Certainly, we've seen the Luminar trucks at CS? or would you want to play a role either there in light vehicle?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So this is a radar solution. PRECO does not have a LIDAR capability. You know that we have a partnership with Quanergy on solid-state LIDAR. That is not at the stage where it's available to bring to market. So right now, it's largely the radar solutions that we're working on with PRECO to bring to market in this space that we're referring to.

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

Okay. And is your relationship with Quanergy exclusive? Or if you see better or different solutions can you take advantage of those?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. It's not exclusive. But again, right now, given that we've made the investment in PRECO and that there are opportunities that are growing very rapidly associated, which is the radar dimension, that's our focus area. We continue to look at other object detection technologies to enable us to continue to build on this platform but what we're announcing today is the small acquisition, but an important acquisition of PRECO associated with radar capability.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

The next question is from the line of Joseph Spak with RBC Capital Markets.

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

Just wanted to go back to the outgrowth. And you talked about that taking a step back in the back half even with the impressive 890 bps in the second quarter in automotive, but you compare that in the quarter versus the overall automotive industry. And when you look at your exposure, you're actually overweight versus the industry in North America and Europe versus (technical difficulty) a weighted basis, it actually suggests you did even better than that. So as we go forward and North America and Europe come back, why wouldn't the outgrowth continue and remain strong and sort of the geographic weighting work in your favor?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So you're right. There is -- outgrowth is not equal across all markets. We do tend to see both from new business opportunity standpoint and ultimately, in the form of content growth or outgrowth, which new business turns into outgrowth several years later that there is more concentration in China than there is in other markets. And hey, you look at the content per vehicle, China is half of what it is around the rest of the world. So that fact is absolutely true. But all OEMs have had challenges associated with product launches. And so that aspect of that associated with the disruption that has occurred is not specific to North America and China. It's a global challenge that has been -- we're all dealing with. So that's the reason for the change going into the second half.

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

Okay. And then just on the inventory. I know you said it's small, and we agree. But I just want to be clear, like when you talk about it unwinding by year-end, is that to your below IHS view of the industry? Meaning if I chose this correct, there's a little bit of extra conservatism in there?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Well, I'm not sure, honestly, if some of the difference between us and IHS relates to inventory unwinding to these. To be true, that might be a factor of it. So again, if you're talking $25 million, maybe it's $10 million, $12 million of the $60 million difference that we would have in the third quarter. So there may be some of that that's not factored in as well. That's an accurate statement.

Operator

The next question is from the line of Craig Hettenbach with Morgan Stanley.

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

A question for Jeff. Just thinking through the cost savings actions, the $60 million to $65 million. Obviously, this has been a very unique cycle to say the least. But just how do you think through kind of this environment? And as you looked at the business, some changes that you can make just kind of more on a structural basis to improve margins?

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. Thanks for the question, Craig. So let me first start by saying this was -- taking these actions was an incredibly difficult thing to do. We're talking about our people who are driving the business. And so I don't want to minimize it. It's necessary. We need to take action to respond to the unprecedented market changes. But I want to sort of formally thank the people who are impacted by this for their contributions over the years. These are very, very tough decisions. Having said that, we take lemons and turn them into lemonades in terms of what we do going forward. And so as we think about where we're going, as we hire back, as the growth resumes in the business and markets recover, we'll hire in different locations, we'll hire skill sets that are about the future for the company. We do a lot of work to train and tool people that work with the company for that as well. But clearly, we'll take the opportunity with this market disruption to plan for the future in terms of where we're going as a business. We do that across people, we do that across where we need to manufacture as well, where our engineering needs to be to make sure it's closer to where our customers are. So there is no question that when we get faced with these very difficult times, that we accelerate things that we've considered that we are now able to do in an environment that's very challenging in terms of the markets that we serve. So your point is valid. We have done that as part of this program.

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

Got it. I appreciate that context. And then just as a follow-up for automotive production, just thinking for the full year. I know it sounds like you guys are a little bit more positive on China and just maybe cautious on North America and Europe relative to IHS. But on a blended basis, I think IHS is down around 23% for the year. Are you close to that blended? Or how do you think about that for globally?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So we're not providing full year guidance at this point. But that range is consistent with what we're looking at. And our view is, let's get through the view of the third quarter. And as the order book develops, as we get a best feel for the markets in the fourth quarter, and as we have continued conversations with our customers, we'll forecast out into the fourth quarter and therefore, what the full year impact is.

But as we had mentioned, we do expect a sequential improvement from Q2 to Q3 into Q4. So what the numbers you're talking are directionally accurate, but refining them will come with time as we get a better view as to what we're seeing.

Operator

The next question is from the line of Tim Yang with Citi.

Zhen Yang - *Citigroup Inc., Research Division - VP*

On pricing, you mentioned better pricing in Q2 in automotive market. Can you talk about what's driving the pricing? And how sustainable it is?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So what we mentioned is that a portion of the outgrowth is due to better pricing. Most of our contracts with our customers provide for volumes associated with the market. Obviously, when our customers engage with us and we contract with them, there's an expectation around what that volume will look like. And when you have major disruption like this, the volume is lower. And so the recovery of that impact could be either in the form of better pricing or it could be in the form of new awards on new business.

When we're given that choice, we always take new business, long-term growth for the company, but there are some instances where we've seen some better pricing across our end markets, not just in automotive, when you have significant dips in volume in terms of what we're expecting in a quarter or in a year.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Zhen Yang - *Citigroup Inc., Research Division - VP*

Got it. My next question is on the outgrowth that you mentioned would decelerate a little bit in the second half. Can you talk about how much of that moderation is due to customer inventory destocking? And how much of that is due to the content mix?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So it's a combination of those. It's another good point. The -- is it -- we put the inventory stocking in there as well. That was in there in the first half of the year, the $25 million, we talked about that being part of the automotive outgrowth in the first quarter. So if that unwinds, which we are forecasting that it will, that will come out of content.

Tough to judge exactly how much is due to that versus program launch, temporary deferrals or program launch. But certainly, the $25 million unwinding would be an element of that content decline going into the balance of the year, but that's quantifiable. We know that's $25 million of the overall impact.

Operator

Ladies and gentlemen, we have reached the time allotted for this call. I would like to turn the conference back over to Mr. Jacob Sayer for any closing remarks. Thank you.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Thank you, Constantinos. I'd like to thank everyone for joining us this morning. Sensata will be participating in the upcoming Jefferies Industrial Investor Conference on August 5, the Citigroup Technology Investor Conference on September 9, and the RBC Industrial Investor Conference on September 14. Thank you for joining us this morning and for your interest in Sensata. Constantinos, you may now end the call.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS