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EDITED TRANSCRIPT

ST.N - Q1 2022 Sensata Technologies Holding PLC Earnings and Acquisition of Dynapower Company LLC Call

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PRESENTATION

Operator

Good day, everyone, and welcome to Sensata's First Quarter 2022 Earnings Conference Call. (Operator Instructions) Please also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Mr. Jacob Sayer, Vice President of Finance. Sir, please go ahead.

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

Thank you, Jamie, and good morning, everyone. I'd like to welcome you to Sensata's First Quarter 2022 Earnings Conference Call. Joining me on today's call are Jeff Cote, Sensata's CEO and President; Paul Vasington, Sensata's Chief Financial Officer; and Vineet Nargolwala, Sensata's Executive Vice President of Sensing Solutions and Heavy Vehicle off-road.

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In addition to the financial results and other press releases 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. This conference call is being recorded, and we will post a replay webcast on our Investor Relations website shortly after the conclusion of today's call.

As we begin, I'd like to reference Sensata's safe harbor statement on Slide 2. During this conference call, we will make forward-looking statements regarding future events or the financial performance of the company that involve risks and uncertainties. The company's actual results may differ materially from the 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 filings with the SEC.

We encourage you to review our GAAP financial statements in addition to today's presentation. Most of the subsequent information that will be discussed during today's call will relate to non-GAAP financial measures. Our GAAP and non-GAAP financials, including reconciliations are included in our earnings release and in the appendices of today's presentation materials. 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 performance of the business.

Jeff will begin today with highlights of our business results during the first quarter. He will then provide an update on recent progress in our key electrification and insights strategic growth areas as well as share details about our recently announced acquisition of Dynapower. Paul will cover our detailed financials for the first quarter including revenue growth and market outgrowth by segment and business unit, and he'll also provide financial guidance for the second quarter and full year 2022. We'll 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 strong performance during the first quarter, as outlined on Slide 3. While production across all of our end markets declined nearly 6% during the quarter compared to last year due to supply chain disruptions and shortages. Our business model, which includes acquisitions and market outgrowth served us well. As a result, we produced solid financial results in the quarter for shareholders delivering $976 million of revenue or growth of 3.5% from the prior year, above the guidance range we provided in February.

We once again demonstrated strong market outgrowth above our target ranges. As a company, we delivered 790 basis points of outgrowth during the quarter. This includes 140 basis points of pricing recovery. Paul will discuss our strong revenue outgrowth in more detail.

Quoting activity for new business awards has been extremely active during the first quarter, and we are currently on track to exceed the record $640 million in new business wins we secured last year. More than half of these new business wins are in our megatrend growth factors, and we expect them to translate into Sensata's future revenue outgrowth.

Sensata's current revenue outgrowth is increasingly driven by rapidly growing positions in megatrend areas, including electrification and insights. We are investing more in these areas, and we believe this increased organic and inorganic investment, which for the first -- which for the full year is expected to impact our margin index by about 250 basis points is the right trade-off to expand our exposure in these fast-growing areas.

Acquisitions completed in these areas over the past year contributed 410 basis points to company-wide revenue growth in the first quarter, and this is in line with our targeted acquired revenue growth. I'll share more details regarding our latest acquisition, Dynapower in a moment.

During the first quarter, we benefited from our resilient, flexible and focused organization that continues to successfully navigate the ever-changing supply chain landscape and deliver on our customers' needs. The war in Ukraine and the COVID related lockdowns in China are currently having minimal direct impact on our business, but we are watching these situations closely as these and other external factors could potentially impact near and longer-term demand.

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Also continued inflationary impacts on input costs have led us to become more agile, and we aim to offset these costs with commercial pricing actions. The timing of these actions impacted first quarter results, but we are confident that the full year impact will be limited and will allow us to continue to deliver on our promise of strong differentiated operating profits. I'd like to recognize the innovation, agility and hard work of our entire team and the support from our customers in achieving these strong results.

Sensata is in a strong financial position today, we have more than $1.6 billion of cash on our balance sheet. We generate significant free cash flow each year. And our net debt-to-EBITDA ratio is within our target range of 2.9x. Acquisitions in the megatrend areas of electrification and insights continues to be our primary focus for capital allocation as this activity drives our strategy and long-term sustainable growth for the company.

In addition to acquisitions, we have deployed capital for our share repurchase program. And today, we announced the addition of our quarterly dividend of $0.11 per share starting next month. We are confident that our business will continue to generate sufficient cash flow to execute on this balanced capital allocation program.

Moving to Slide 4. Sensata is continuing to make excellent progress in winning new business in electrification, building upon our success in 2021. As an example of Sensata's continued strength in thermal management, we received multiple new business awards for thermal management centers in electric vehicles this quarter, representing $9 million in annual revenue. These primarily support key pump architectures preferred by electric vehicle makers due to their low power usage.

Additionally, we were awarded new tire management business -- a new tire management business opportunity from a leading electrification manufacturer. This win represents more than $40 million in annual revenue. This solution is unique in the industry today because it combines tire pressure with temperature and tread depth in a single sensor to provide a more complete picture of tire health, which will drive higher efficiency and safety.

Revenue from electrification efforts across our business was $260 million in 2001. We continue to expect greater than 50% increase in this revenue in 2022, and our first quarter results and order pipeline support this forecast.

As shown on Slide 5, we are pleased to announce that we have agreed to acquire Dynapower. Dynapower is a leader in power conversion and energy storage solutions. They offer a comprehensive suite of high voltage inverters, converters and power rectifiers as well as aftermarket sales and services. This transaction will be funded using cash on hand. Pending customary regulatory approvals, we expect to close the transaction in July.

Dynapower is a fast-growing business. It is expected to generate over $100 million in annual revenue in 2022 and grow in excess of 30% per year over the next several years to more than $300 million in revenue by 2026. They are profitable with 20% EBITDA margins expected this year. And as a result, the acquisition is expected to be $0.05 accretive to Sensata's EPS in the second half of the year.

Like Sensata, Dynapower focuses on mission-critical, highly engineered and differentiated solutions that create customer stickiness and enjoy higher margins. They are experts in DC-to-DC conversion, power inversion and rectifier control and are the only power control supplier to focus across renewable energy, industrial and defense applications. Dynapower has a well-earned reputation for deep technical knowledge, product quality and longevity and high customer responsiveness. Dynapower is headquartered in Burlington, Vermont, and we look forward to welcoming their 200-plus employees to the Sensata team.

Dynapower is a natural extension of Sensata's electrification strategy, as shown on Slide 6. We are focused beyond the electric vehicle opportunity to the broader electrification ecosystem, including renewable energy generation, storage and usage. Dynapower Solutions handle the high voltage needs of renewable power generation and large-scale battery energy storage for industrial and defense applications, as well as areas where rapid energy use is required such as green hydrogen production and DC fast charging for electric vehicles. These are large and fast-growing segments, with a $1.1 billion addressable market this year and are expected to grow over 25% per year to an over $3.2 billion addressable market by 2026.

As discussed during our electrification Teach-In, Sensata's strategy is to build a $2 billion electrification business by 2026. Our current electrification revenue, growth in the market, and new business wins to date give us confidence in achieving the organic revenue target of $1.5 billion. Dynapower

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is expected to provide over half of the targeted $500 million acquired revenue as part of this goal. Dynapower's leading high-power conversion capabilities help unlock synergies with Sensata XOLTA and Spear Power Energy Storage Solution businesses and utilize electrification components such as high-voltage contactors, fuses, current sensors, inverters and battery management systems already in the Sensata portfolio. Furthermore, Dynapower's capabilities combined with Sensata's global presence and manufacturing expertise will allow us to pursue the large and fast-growing opportunities in front of us.

In summary, Dynapower accelerates Sensata's journey to become a leading provider across electrification industries, continuing our progress in this very exciting megatrend. This is a key component of our objective to deliver higher growth and long-term shareholder value.

On Slide 7, we share an update on our continuing progress in Sensata Insights. Sensata Insights delivers actionable data to our customers and their partners to drive operational efficiency, cost savings and safer operations. As evidence of the value and nature of our solutions, we were awarded a new business wins over -- worth over $19 million during the first quarter, putting us on track to double our Insights business wins this year compared to last year.

The Insights growth initiative generated $75 million of revenue in 2021 and as we mentioned, we expect to double this in 2022. Our performance during the first quarter and our bookings to date support this goal. An example of new product development in Insights is a jointly developed solution with Ossia, an innovative wireless power technology company that enables safe storage and charging of telematics devices for use in high-value properties such as shipping yards and distribution centers. This novel solution won a Top 20 Products Award for 2022 from Heavy Duty Trucking magazine.

We are also pleased with the acquisition of Elastic M2M during the quarter. Elastic M2M is a pioneer in delivering flexible, scalable and cost-effective and intuitive IoT analytics for telematics service providers and their end customers. Their IoT cloud platform utilizes machine learning and artificial intelligence capabilities to digest and analyze an increasingly rich amount of data from connected assets to enable customers to make better operational decisions. We see sizable markets that we can pursue with these broadened technology solutions.

In summary, I'm really encouraged that we are making excellent progress on our megatrend growth initiatives. As I've said before, we see numerous opportunities to utilize our strong financial position, engineering capabilities, supply chain and customer relationships to meaningfully enlarge the addressable markets through both organic efforts and through bolt-on acquisitions and partnerships in these areas.

Now I'd 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 first quarter, as shown on Slide 9, include revenue of $975.8 million an increase of 3.5% from the first quarter of 2021. Adjusted operating income was $182.5 million, a decrease of 7.9% compared to the first quarter of 2021, primarily due to lower volumes, inflationary material and related supply chain costs net of higher pricing and investments in our megatrend growth areas.

Now I'd like to comment on the performance of our 2 business segments in the first quarter of 2022, starting with Performance Sensing on Slide 10. Our Performance Sensing business reported revenues of $717.7 million, an increase of 0.4% compared to the same quarter last year. This was driven primarily by our market outgrowth of 650 basis points as well as revenue from acquisitions. Looking back, it appears customers built approximately $20 million of inventory in the first quarter last year that we are excluding from the outgrowth calculation.

Performance Sensing op income was $180.6 million, with operating margins of 25.2%. Segment operating income declined due to lower organic volumes and inflationary material and related supply chain costs, somewhat offset by higher pricing, income from acquisitions and favorable foreign currency.

As shown on Slide 11, Sensing Solutions reported revenues of $258.1 million in the first quarter of 2022, an increase of 13.2% as compared to the same quarter last year. This was driven by strong outgrowth, including the launch of new industrial electrification applications and acquisitions, somewhat offset by declines in the aerospace market.

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Sensing Solutions operating income was $72.5 million, an increase of 8.4% from the same quarter last year, with operating margins of 28.1%. The increase in segment operating income was primarily due to higher volumes and higher pricing, somewhat offset by inflationary material-related supply chain costs and higher selling expenses to support business growth.

On Slide 12, corporate and other operating expenses not included in segment operating income were $76.1 million in the first quarter of 2022. Adjusted for charges excluded from our non-GAAP results, corporate and other costs were $68.9 million, an increase of $7.1 million from the prior year quarter, primarily reflecting higher research and development and business development spend to support our megatrend growth initiatives.

We continue to expect between $60 million and $70 million in megatrend-related spend in 2022 to design and develop differentiated solutions for the fast-growing and transformational megatrend vectors of electrification and insights. We are confident that the increase in this spend this year is the right long-term trade-off and is supported by record new business wins and rapid revenue growth that we are experiencing in these transformational megatrend-related areas.

Moving to Slide 13. We generated $12 million in free cash flow during the first quarter and $344 million in free cash flow over the last 12 months. Free cash flow in the quarter was impacted by our decision to increase inventory to ensure continuity of supply to our customers and in anticipation of volume growth in the coming quarters. It was also affected by an increase in the accounts receivable reflecting growth in our business and the impact of revenue linearity in the quarter.

Annual bonuses and acquisition-related incentive compensation for achieving key milestones were both paid in the quarter. For the full year 2022, we expect free cash flow conversion to be approximately 75% to 80% of adjusted net income, and we expect capital expenditures to be in the range of $165 million to $175 million.

Sensata's net debt-to-EBITDA ratio was 2.9x at the end of March and within our target range. Pro forma for the acquisition of Dynapower, Sensata's net debt-to-EBITDA ratio would have been 3.6x. Sensata's primary use of cash on hand is to require businesses that will extend our position within our key growth vectors of electrification and insights. Given the strength of Sensata's balance sheet and expected future free cash flows, we also look to return capital to shareholders. Consequently, we repurchased 67 million of our shares in the first quarter and earlier today, we announced the initiation of a quarterly dividend of $0.11 per share and is expected to be paid on May 25 to shareholders of record on May 11.

We are providing financial guidance for the second quarter of 2022, as shown on Slide 14. Our expectations are based upon the end-market growth outlook as shown on the right side of the page. We remain somewhat more conservative than IHS production automotive estimates for both the quarter and full year, even as they recently lowered their estimates reflect impacts from the war in Ukraine and the recent COVID-related lockdowns in China. The revenue components of our guidance on market outgrowth, completed acquisitions and FX. We do not expect supply chain inventory to unwind during the quarter but would remind investors that approximately $25 million of inventory was built by automotive customers in the second quarter of 2021, increasing revenue in that period and complicating the year-on-year comparison.

Our current fill rate is approximately 95% of the revenue guidance midpoint for the second quarter. At the midpoint, adjusted operating income margin is expected to be 19%, which includes the impact of lower volumes, inflationary material and related supply chain costs, partially offset by higher pricing and our investments for growth in megatrend-related areas including acquisitions, as we rapidly scale these growth vectors.

As we mentioned last quarter, we expect productivity improvements throughout the balance of the year, in addition to sequential revenue growth to lead to improving adjusted operating margins in each of the quarters this year. We are reiterating our financial guidance for the full year 2022, which does not include Dynapower as shown on Slide 15.

We expect lower market estimates that I will discuss in a moment, to be offset by stronger expected outgrowth and higher pricing during the balance of the year. Revenue growth between 8% and 12% includes the impact of markets, outgrowth, completed acquisitions and FX. We do not expect the roughly $110 million of inventory built by automotive customers during 2021 to reoccur or unwind in 2022.

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At the midpoint, adjusted operating income margin is expected to be 20.7%, which includes the benefit of higher volumes, higher prices offsetting inflationary pressures and investments in our megatrend growth areas. Given the recent foreign currency changes, we have updated our estimates for the impact of our currency exchange rates on both our revenue and adjusted EPS.

On Slide 16, we provide our updated estimates for OEM production growth for 2022 as compared to 2021. We currently expect automotive production decreased approximately 4% this year, with declines in Europe and China from our prior expectations, partially offset by increased growth expectations in North America.

Our outlook at this point remains somewhat more conservative than current IHS automotive production estimates on a regionally weighted basis. The heavy vehicle off-road market is now expected to contract by 5% this year as electronics and other parts shortages curtail production of machinery.

As Jeff highlighted earlier, Sensata's organic revenue outgrowth of 790 basis points for the first quarter, as shown on Slide 17, is well above our target range. This includes price increases in the first quarter of 140 basis points that largely offset material cost inflation. Looking forward, we continue to expect that outgrowth for 2022 will be above our target range. Each of our businesses will contribute to that total, some higher and some lower in any period so that in aggregate, we reflect the value of our innovative engineered solution for all customers through revenue that grows faster than underlying markets.

In addition to the organic revenue growth over market, we also increased revenues by acquiring businesses that give us access to fast-growing differentiated applications that address our customers' needs. Our long-term target is to require new revenue streams that add an additional 400 to 600 basis points of inorganic M&A growth to Sensata each year. We acquired 410 basis points of revenue growth in the first quarter within the target range.

Now let me turn the call back over to Jeff for closing comments.

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

Thanks, Paul. Let me wrap up with some key messages as outlined on Page or Slide 18. Sensata's business and organizational model is strong, resilient and reliable as we deliver mission-critical, highly engineered solutions required by our customers. While our customers' markets are cyclical, we aim to outgrow these markets by 400 to 600 basis points per year. We are confident in our ability to sustain this attractive end market outgrowth. Based on our record levels of new business awards and our large and expanding pipeline of new opportunities.

We continue to invest in our megatrend-driven growth initiatives that are opening large and rapidly growing opportunities for Sensata across all of our end markets. We are making excellent progress in electrification and insights, both organically through strong new business wins and inorganically through bolt-on acquisitions and/or joint ventures. We are targeting adding 400 to 600 basis points of inorganic revenue growth annually. We will continue to innovate on behalf of our customers, solving their hard-to-do engineering challenges. We will also continue to provide differentiated solutions to a broad array of customers. Solving these mission-critical challenges enable Sensata to continue to deliver industry-leading margins for our shareholders, while also increasing investments in our growth opportunities and our people.

And finally, I'm excited about Sensata's long-standing mission to help create a cleaner, safer and more connected world. Not just for our customers' products, but also through our own operations, we believe we are meaningfully contributing to a better world. We are on our way to achieving the targets laid out in our first sustainability report last year, bolstering the long-term sustainability and success of the company for all of its stakeholders. We look forward to sharing our progress through an updated sustainability report to be published during the second quarter.

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

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

Thank you, Jeff. We'll now move to Q&A. Given the large number of listeners on the call, please limit yourself to one question each. Jamie, please assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Wamsi Mohan from Bank of America.

Wamsi Mohan - *BofA Securities, Research Division - MD in Americas Equity Research*

Congrats on the deal. So when we look at your 2Q trajectory here, it's a bit weaker, but you maintained your full year guidance despite the end markets, weaker both on auto and HVOR from your prior assumptions. So can you maybe help us understand what the offsets are? Is it pricing? Is it inventory build? Or is it something else? And to the extent that it has increased content growth, what is it that's giving you higher content growth versus your prior assumptions?

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

Yes. Wamsi, let me share some high-level thoughts. So obviously, Q1 came in better than we anticipated. So that was in the positive column. But as we do look at the second quarter in terms of impact on overall demand, continued supply chain challenges and really exacerbated supply chain challenges associated with deeper in the supply chain, not necessarily caused by us, but caused by some of our customers' other suppliers that's causing them to have slightly lower demand. Second quarter is going to be a little lower than what we had originally forecasted internally. I know we didn't provide second quarter specific guidance back in February, but it's coming in a little bit lower.

As you noted, content or outgrowth is higher, that's a combination of acceleration of events that we've always expected to accelerate in terms of the megatrends that's going to naturally drive more outgrowth for us as well as pricing. So first, in the first quarter, pricing was a little bit muted. It recovered most of the cost, but overall pricing impact in the first quarter was about 1.5% positive. We're expecting that to go up a little bit more in the latter part of the year.

And then obviously, the M&A aspect or the acquired growth will help us as well. So there are several items on the positive and negative side overall market. We think is a little bit lower. But on the other side of our strategy in terms of outgrowth and inorganic growth, we're seeing those businesses that we acquired performed quite well and they'll contribute to offset some of that. Hopefully, that gives you a sense of things.

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

Thanks, Wamsi, for the question.

Operator

Our next question comes from Mark Delaney from Goldman Sachs.

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

I was hoping to better understand some of those price cost dynamics. Could you be more specific about how much higher you're expecting cost to be from raw materials and supply chain logistics cost. And you spoke a bit around what pricing did versus costs in the first quarter. But how much incremental pricing is now baked into guidance for the full year? Can you also talk through your confidence in being able to fully pass through those price increases and customers' willingness to accept them?

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

Mark, it's Paul. So the traction we're getting on the pricing side is continuing to improve every quarter. As Jeff said, it was a bit of a headwind in Q1, still a little bit headwind in Q2, but we expect it to become a tailwind in Q3. So the pricing continues to grow as material costs start to flatten out. So it's more of a second half improvement off the first half. And like I said, we're doing a really great job with commercial teams in terms of being able to work with customers to pass a lot of that cost on and to continue to make us very competitive financially.

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

Thanks, Mark, for the question.

Operator

Our next question comes from Matt Sheerin from Stifel.

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

I wanted to get back to your full year guide specifically on the transportation side. It looks like, Jeff, just backing into the rest of the year guidance, you're looking at a fairly big step-up in Q2 -- sorry, Q3 and Q4 in automotive. Is that an expectation that production and customers will finally start to improve as supply improves? What gives you that confidence that we're going to see that step up?

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

Yes, you're reading it right. If you look at the company-wide in first quarter was -- market was down 6%. Second quarter, we expect market to be down again, off of second quarter of last year, call it 2% or 3%. So the first half, from a market standpoint, there's a net decline. We are expecting that to pick up. It's coming in a couple of specific areas. It is around automotive will recover off of the first half of the year. Also, some of our insight-driven revenue will increase in the second half of the year. So we're seeing some pockets where we see an increase versus last year. But I think you're absolutely right, the HVOR business has -- the overall market dynamic has come down. The European market expectation has come down, and China has come down slightly as well, but there are pockets of opportunity that will offset some of that.

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

Thanks, Matt, for the question.

Operator

Our next question comes from Samik Chatterjee from JPMorgan.

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Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

I guess, Jeff, you mentioned in your prepared remarks the visibility that you have in relation to wins for 2022 already being on track to eclipse 2021. And I wanted to dig into that a bit because it's still ratably early in the year. What are you seeing in terms of maybe you can share what's the run rate compared to this time last year in terms of your wins? And some investors would have assumed that given the macro, some of the quoting activity would have moderated, but clearly, you're seeing that ex rate. So is it really being driven by auto OEMs? Or is it more on the industrial side? If you can share some color there.

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

Yes. I think the key here is, remember, we're primarily serving long-cycle businesses. So there has not been a slowdown in opportunity in terms of the NBOs and the quotes that we've had. It's been very robust. We mentioned in our Teach-In that we have over $1 billion of NBOs that we'll be quoting during 2022 in electrification alone. So the quoting activity is quite high right now.

In terms of trajectory, what I would tell you is it was an extraordinarily strong first quarter, and it was an extraordinarily strong through the first 4 months of the year sitting here towards the end of April. And we're not expecting that trend to continue, but we're well ahead of our last year run rate of 640 on an annualized basis. And so we have a lot of confidence in that. Again, more than half of them are coming in the areas that we're focused associated with electrification and insights. And again, remember, electrification is broadly not just auto electrification, but all of the end markets that we serve. And so that opportunity set continues to grow, and we're having some tremendous success in terms of selling our offering through to our customers, giving us, again, continued confidence in that out growth longer term.

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

Thanks for the question.

Operator

Our next question comes from William Stein from Truist Securities.

William Stein - *Truist Securities, Inc., Research Division - MD*

Congrats on the acquisition and good results. I'm hoping you can speak in a little bit more detail about effects of the war in Ukraine and the COVID in Shanghai, as to how you see these influencing the markets you serve overall and then your business specifically. I think in your prepared remarks, it sounded like this isn't having -- neither of these is having a material impact, but I wonder if you could maybe a good one deeper for us.

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

Yes. I'd be glad to. And I'm glad you asked the question because it's not having an impact that, that doesn't mean that it's not causing disruption more broadly in the supply chain, right? So when it impacts our customers, there's movement in terms of order book, they swap out some orders for others based upon the need that they have based on what components they're able to procure to allow them to make vehicles or other equipment. And so there is volatility in the market, but the team has done a very good job in terms of managing through that.

Additionally, there's minimal revenue or supply chain in the region, right? So when we talk about direct impact, that's the impact of Sensata. We're not dramatically impacted directly associated with that, but the knock-on effect associated with volatility in the market, we're managing through right now to have an end result which doesn't impact our business in a meaningful way. But we're watching it closely like everyone is in terms of the longer-term impact of this conflict in the region on the European markets, overall demand and so forth. But right now, when you look at our order book, it's 95% filled against our guide for the second quarter, we're not seeing that impact as we sit here today.

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

I mean I guess the one thing I would add is that the market itself is assuming a decline in production in China in the second quarter. So we're embracing that and seeing and embedded that into our guidance for Q2 and actually, we're a little bit more conservative there in the market. So that is having an impact in Q2, but we expect it reverses in the second half. So it's more timing than absolute demand.

Operator

Our next question comes from Luke Junk from Baird.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Jeff, I was just hoping to unpack Dynapower's exposure is a little bit better on Slide 5 in the presentation, you showed their clean energy exposure at about 55% of sales. Is it possible to parse that out a little bit more relative to some of the applications that you've highlighted this morning? And to what extent, if at all, are you including legacy exposures there such as mining for clean [tech-related] materials or similar things.

Vineet A. Nargolwala - *Sensata Technologies Holding plc - EVP of Sensing Solutions*

Yes, Luke. This is Vineet. I'll take your question. So Dynapower brings to us some really exciting opportunities to expand our end markets into the clean energy space. And this is running the gamut from renewable energy, so working closely with the solar field as well as green hydrogen extraction, which is supporting the electrolysis process as well as micro grids. So it really runs the gamut, and we're really pleased with the end market exposure and the portfolio that Dynapower brings to Sensata.

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

Thanks, Luke, for the question.

Operator

Our next question comes from Joe Spak from RBC Capital Markets.

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

Maybe just some quick clarifications. The -- you mentioned that the inventory nonrepeat is now $110 million headwind, I think it was $90 million prior, but you also said $20 million in the first quarter. So is that the delta? Or is part of that increase the remainder of the year?

And then on Slide 4, the $40 million EV win for a tire management system, I just want to clarify that. Are you including such business in your electrification classification? And if so, what is that $260 million that's just -- that just relates to like an electric powertrain?

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

Sure. Do you want to get the inventory question and then I'll cover?

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

Yes. So we're looking at the growth year-over-year. I went back and recasted Q1 based on our analytical tool where we use a high market share pressure sensor to kind of gauge the market versus production. And what we found is that we were shipping more into last year into production that was being built. So it was like Q2 and Q3, but in Q1, we didn't capture it, we didn't have the model to do that at the time. So it's a recap of some of the growth really was a headwind because of last year's inventory build. So we've excluded that from the growth profile, and it's just a Q1 impact.

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

And that does represent the delta between the $90 million we had set and the $110 million citing now.

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

But it's all isolated to Q1.

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

Joe, when you -- in your question on the opportunity on the wind, as we've talked about it, a large portion of our solutions or our product categories apply in an electrified environment, right? So there's -- I think there's a perception that all of our offering to combustion engine platforms goes away. That's not true. There are a lot of products that port over and in fact, have a stronger pull because the efficiency of the system is even more accentuated in an electrified environment. So tire pressure or what we're talking about is a broader tire management. So we've expanded the offering to include a higher value proposition, given how important tire pressure and management of the tire is in an electric environment.

So to answer your -- the first part of your question, absolutely, when we're selling our legacy offering to an electrified platform customer, that's an electrification win because it's going to last for the duration of electric vehicles. In terms of your other part of the question, the $260 million of revenue, we have a demonstrated 20% uplift today. When you convert from an ICE application to an electric vehicle application, we've talked about that. And so embedded in that $260 million is electrified content we're providing for EV manufacturing for our customers, 20% demonstrated uplift. But given the wins that we're experiencing and the forecast going forward, we see a line of sight that doubling.

So as the shift occurs from combustion engines to electrified, there'll be significant outgrowth associated with that transition that we're selling in today. Some of it is embedded in those electric vehicles produced, but the forward look is dramatically higher in terms of overall content. Hopefully, that helps clarify things.

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

I think the one thing to add there would be that the $260 million is a company-wide figure. It's not just on the automotive side. So it also includes industrial and heavy vehicle electrified revenue, including content that goes into charging stations, for example, which will go to our industrial business.

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

Thanks, Joe, for the question. We have the next one.

Operator

Our next question comes from Chris Snyder from UBS.

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Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

So the guidance seems a very strong back half margin recovery despite continued or ongoing cost inflation, the commentary suggest that the majority of this is being driven by price. So I guess my question is, is this expected price improvement already agreed to. And we just have to wait for it to flow through the numbers? Or are these price discussions still being negotiated? And then also, are there any margin drivers into the back half the size price that we should be aware of?

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

So I would comment on the 3 things. So yes, pricing does elevate in the second half of the year versus the first as we continue to push that commercial excellence activity. Some of that's already baked in, some of it still has to be achieved and work with customers, but we feel confident in our ability to achieve that outcome.

Second is volumes do increase sequentially from the first half to the second half. So we are getting volume benefit and we are getting leverage on that volume. And the third would be continued productivity improvements as we always continue to improve our cost structure quarter-by-quarter, and we see some additional cost savings coming in the second half that we did not realize in the first half.

Operator

And our next question comes from Nik Todorov from Longbow Research.

Nikolay Todorov - *Longbow Research LLC - Analyst*

Just another question around pricing. Is your pricing assumptions for this year changed compared to 90 days ago? And it sounds like, obviously, the outgrowth for this year is trending above the 400, 600 basis points target. Can you talk how much of that do you expect to come from pricing for the full year?

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

I mean a significant portion of the outgrowth is going to come from pricing in the second half. Yes, the narrative has changed in the last 90 days. Material costs continue and other costs continue to rise. So we see inflationary pressures, and we're reacting very quickly and proactively to work with customers to pass it all on. And as I said, we've been pretty successful in the first half. We expect to be more successful in the second half as we gain momentum here. But it's something we going to have to continue to do as long as the input costs are rising, we're going to need to respond this way. And like I said, we've been successful so far in doing that and believe we'll do better in the second half.

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

And just to clarify, the 790 basis points in the first quarter, net of pricing is still above the high end of the range. And we would expect that we'll continue that. But when we look at outgrowth, including pricing, it's going to be even higher given the need for us to implement those commercial actions.

Operator

And our next question comes from Amit Daryanani from Evercore.

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

I guess I just want to clarify this part. When you think about this back half margin expansion that you're embedding, are you sort of assuming that your input cost aren't going to get any worse in the back half versus first half. Is that how you're thinking? Because I think the big concern investors are having today is the confidence around the operating margins ramping from 19% to 22%. So I'm just curious, given the answer you had before. Is your assumption input costs stay stable or get worse? I would love to understand that. And then, Paul, I didn't quite get this. Are you including Dynapower in the 2022 guide or not yet?

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

So we're not including Dynapower in the guide.

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

It's our practice not to do that. We have a closure occurs on, Amit.

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

But we gave you what we think the EPS accretion would be if we close early in the second half. Yes. So on the pricing piece, I would say that -- and we've been pretty consistent. The material costs have been rising very quickly. And so in the first half, we are a bit behind in terms of offsetting that, but we have a tremendous amount of momentum and effort to overcome that. And so I would say the pricing rises faster than the assumptions around material costs. So material costs start to level out and we catch up and that generates positive income in the second half that we didn't have in the first half.

And then volumes, as I said, it's a [matter of] the conversion on incremental volumes, the profit conversion is very high. We expect volumes to grow in the second half above where they were in the first half.

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

And Amit, the only item I would add is, given that we've seen inflationary pressures for the last 18 months, when we do a forward look, we don't ignore the trend that's behind us. So we do forecast that it's going to continue to some extent. Now where that ends up, I don't know the answer to that. There's going to be a lot that's going to have to happen to conclude, but we haven't assumed that bad stuff stops, and we're only getting the recovery. We're expecting that those inflationary pressures will continue for some period of time.

Operator

And our next question comes from Brian Johnson from Barclays.

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

Yes. I would like to ask you a bit about just contractually, and you don't have to obviously go into trade secrets, but how the pricing works vis-a-vis the automotive suppliers versus your other end markets? A lot of Tier 1s are stuck in contracts with annual productivity price-downs and really have to go and beg the OEMs for price recovery. Since you're more of a Tier 2, a very important one, however, in the auto supply chain. Are you subject to the same pricing dynamics? Or do you have more flexibility in pricing your products?

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

We are -- so let me start with we take pricing with our customers very seriously, right? So I do not want to be cavalier regarding this because we do have long-term arrangements with our customers regarding what normally is productivity based upon volume expectations. Very frequently, we have material adder clauses. More frequently, we have inflationary clauses that we've baked into contracts. And so we're trying to adapt to the new world that we're living in, but there are instances where we had to go to customers and explain to them that the cost to make their product is going up dramatically and in order for us to be a long-term viable sustainable supplier for them, we need to have the pricing discussion. And they're hard conversations to have, but we're having really good success as evidenced by the first quarter results and our expectation is that those results will improve into the latter part of the year, but there are conversations that we must have, and I know every company out there is having with their customers. Hopefully, that helps.

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

When you say customers -- just a follow-on. Is that the OEMs? Or is that generally Tier 1?

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

It could be either. As you know, we're largely directed by the OEM. But oftentimes, we have to go to a tier as well and discuss that. So sometimes it's a 3-party conversation in terms of what we need to accomplish. But it can be both in terms of who we are ultimately contracted with.

Operator

And our next question comes from David Kelley from Jefferies.

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

Just in light of the strong industrial outgrowth in the quarter, can you talk about industrial order visibility today and how maybe we should think about the content opportunity versus that 1% end market decline you're expecting for the full year?

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

Yes. So historically, our industrial business has shorter lead times and therefore, less visibility into the order pipeline. But given the general market conditions, we're seeing very strong fill in industrial as well, well above where we historically have and we're factoring that into our guide. You see that in the form of the fill rate against the whole company, but it's safe to assume that across each of our businesses, we're seeing higher field than we would normally see.

And so the other element of what you're mentioning is, we are seeing significant content growth, which we had historically, when I say historically 3 or 4 years ago, we were not seeing as much in industrial. Part of that is due to trends that we're seeing. Our clean energy solutions business lands in our Industrial segment. And we're seeing trends toward acceleration in that area. So think of the GIGAVAC acquisition and the contactors that go into industrial applications as well as the businesses that we're acquiring that land in that space. So we're seeing more opportunity for outgrowth in that market than we historically would have seen. And you see that in the results given basically an assumption of a flat market on a year-over-year basis, we're down 1% on a year-over-year basis.

The strategy is playing out, right? We're investing in more high-growth market segments -- and we're seeing it in near-term revenue, we're going to see it more in long-term revenue as well.

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Operator

And our next question comes from Shreyas Patil from Wolfe Research.

Shreyas Patil - *Wolfe Research, LLC - Research Analyst*

Last quarter, you talked about kind of the nature of the -- of the cost inflation you're incurring this year. And it sounded like it's a little more structural related to whether it's wage inflation and/or Tier 2 price increases. So I'm wondering the nature of the price recoveries that you're getting, are these going to be such that they carry forward for the next few years, if we are going to be in kind of a structurally higher price environment? Or are these sort of one-off recoveries and that you'll have to go back to the OEM customers periodically for recovery?

And then you talked about a step-up in productivity in the second half. And I just wanted to kind of understand what are some of the -- what are some of the factors that drive the productivity improvement? And typically, what do you see per year in terms of productivity for the business?

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

Yes. So let me hit the pricing question and maybe Paul can hit the question on productivity. So if you recall, when we were talking about this last year, in the first half of last year, we basically, as a company, absorbed a lot of the incremental costs that we are experiencing with our customers. In the second half, we started to go back to them and recover a lot of that cost and more of what I would describe as a surcharge rather than a pricing change.

But during the fourth quarter of last year, we pivoted on that pretty hard to have discussions with customers about an ASP, an average selling price on the piece part change. And so that gets to your point where it's a more embedded cost. We don't anticipate that some of these costs will go away. And so the pricing will stay. But it is a -- it's on a customer by customer, part-by-part discussion that we're having. But way more of our discussions are around it's a change in price as opposed to just an add or for a higher logistics costs that we would expect to go away over time. And obviously, we'll readdress that in the future as we go forward, but it wouldn't be my expectation that a lot of those costs would magically go away at some future point in the quarter, and we need to make sure that we're preparing for that.

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

Yes. On the productivity side, get to the weeds here a bit, but it is -- it often comes from better throughput through the factory. So less -- better yields moving manufacturing to higher-performing locations where we get better output, better cost structure. It's continuously driving more efficiency in the plants, more automation of our manufacturing processes to mitigate the inflation that we're seeing on the labor side. So it's a lot of different levers that we pull consistently within our manufacturing as well as we get the leverage on the volume when we don't have to add cost at that to deliver that incremental volume. So there is a bit -- quite a bit of operating leverage that we gain as well as volumes increase. Those are the main things. Obviously, material is a challenge where it used to be a cost savings for us. And we're just taking a different approach by dealing with that material inflation now with higher customer pricing.

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

And also this is not an unusual phenomenon for our company. Usually, our first quarter is a lower margin quarter for us because typically, a lot of our pricing takes effect then and also our merit increase -- global merit increase happens in the first quarter, and then we have to digest that throughout the quarter or throughout the year, excuse me.

Operator

And our next question comes from Joe Giordano from Cowen.

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Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

I know we're not -- how do you think of inventory levels of components at your customers now? I know you're not calling for any build or liquidation, but like how elevated is it in like whether you want to think about it in dollar terms or like unit terms? Like where are they right now, do you think?

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

It's difficult for us to know that because we don't get insight. But what we do know is how many days of inventory, let's say, the dealerships, which remains to be pretty low. We do know that Europe is struggling a bit. So I don't think anything has changed dramatically, and we saw what they built up. We're not assuming that's unwind or anything new to happen, so stable.

And if we're still in a situation where we're still feeling the pressure on making sure we're supplying our customers on a real-time basis. So there's still a lot of pressure on the supply chain. So I don't think this -- if anything, I think things are starting to get a little bit better, but I think we said back in Q4, we felt that was the worst, it probably still is the worse and things are slightly getting better. But obviously, it's going slow given what we're seeing in the first half. And now you add in the Ukraine and COVID in China, that just continues to create disruption. But again, we're looking for a better second half, which is in line with what the market is expecting. And we've seen improvement over the last 6 months, although just slow.

Operator

Our next question comes from Jim Suva from Citi.

James Dickey Suva - *Citigroup Inc., Research Division - MD & Research Analyst*

Just to, again, bridge the math difference here, you just had a spectacular Q1, great results, you beat your expectations and everything. But then again, the full year, you're not increasing. And I think you said you're not including the recently announced acquisition. But then the reason why you're not increasing the full year for the peak, is it mostly on the auto side or the HVOR side? Or you mentioned you're more conservative than the industry consultants out there. But can you just help us again bridge why Q1 strength is absolutely not flowing through to the rest of the year?

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

Yes. I would say Q2 is probably coming in a little lighter than given some of the macro factors that we're all dealing with. But the -- in our second half looks a little different than when we started the year where volumes were a little weaker in automotive and HVOR, but we're seeing better outgrowth and we're seeing better pricing environment. So it's -- the mix has changed a little bit, but the outcome remains largely the same.

James Dickey Suva - *Citigroup Inc., Research Division - MD & Research Analyst*

I get it now.

Operator

And our next question comes from Michael Filatov from Berenberg.

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Michael R. Filatov - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Just a quick one. I mean, obviously, HVOR outgrowth has been quite remarkable over the last, call it, I don't know, 2 years or so. And I was just wondering if you could speak maybe the dynamics that are driving that? I know there's been some regulatory tailwinds on TPMS and in other aspects. But yes, just the working dynamics that are driving that outperformance? And when should we expect that outgrowth to maybe moderate a bit? Yes.

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

So I think the one thing we keep bringing up is that we're still getting a very nice tailwind from the adoption of (inaudible) for trucking in China. And we're not at the end of that cycle. So that's still benefiting our outgrowth quite a bit here in Q1 and will continue in Q2. And we've talked about other levers, other launches of new content for new application starts to pick up, whether it's tire pressure sensing, seeing really nice content growth and operator sensing controls, which is just hydraulics to electronics and offered equipment. Sorry to jump in Vineet, [that you run this business].

Vineet A. Nargolwala - *Sensata Technologies Holding plc - EVP of Sensing Solutions*

Yes. So the only thing I would add is, as we look further ahead, we see the impact of electrification coming in, and we do see much higher content on electrified platforms than we do on traditional diesel platform. So we expect the outgrowth to continue to be in the range that we've guided to.

Operator

And ladies and gentlemen, with that, we've reached the end of today's question-and-answer session. I'd like to turn the floor back over to Mr. Sayer for her closing remarks.

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

Thanks, Jamie. I'd like to thank everyone for joining us this morning. Sensata will be participating in a couple of investor conferences later in the quarter, were sponsored by Oppenheimer and then Stifel. We look forward to seeing you at one of those events or on our second quarter earnings call, which will be in late July.

Thank you again for joining us this morning and for your interest in Sensata. Jamie, you can now end the call.

Operator

Ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending the presentation. You may now disconnect your lines.

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