REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ST.N - Q2 2022 Sensata Technologies Holding PLC Earnings Call

EVENT DATE/TIME: JULY 26, 2022 / 12:00PM GMT

OVERVIEW:

ST reported 2Q22 revenue of $1,021m and adjusted operating income of $193.8m.
Expects YoverY FY22 revenue growth to be 4-6%.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

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

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

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

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

Nikolay Todorov *Longbow Research LLC - Analyst*

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

PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies' Second Quarter 2022 Earnings Call. (Operator Instructions) Please note that this event is being recorded. I would now like to turn the conference over to Mr. Jacob Sayer, Vice President of Finance, Investor Relations. Please go ahead, sir.

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

Thank you, Cole. Good morning, everyone. I'd like to welcome you to Sensata's Second Quarter 2022 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 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 would 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 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.

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 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. The company provides details of its segment operating income on Slides 7 and 8 of the presentation. These are the primary measures that management uses to evaluate the performance of the business.

Jeff will begin today with highlights of our business results during the second quarter. He will also provide an update on recent product developments. Paul will cover our detailed financials for the second quarter, including market outgrowth, and he'll also provide financial guidance for the third

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

quarter and full year 2022. 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 very much, Jacob, and welcome, everyone. I'd like to start with some summary thoughts on our strong performance during the second quarter as outlined on Slide 3 of the presentation. While our markets declined 90 basis points due to supply chain disruptions, shortages and lockdowns, and foreign exchange rates represented a 220 basis point headwind to revenue.

Our strong business model produced 650 basis points of market outgrowth and 280 basis points of acquired growth during the second quarter. As a result, we produced solid financial results for shareholders, delivering a record $1.021 billion in revenue or growth of 2.8% and from the prior year period, with revenue and margins in line with the guidance we provided in April.

Operating activity for new business awards was extremely active during the quarter, and we remain on track to exceed the record levels of new business wins we secured last year. More than half of these new business wins are in the growth vectors, including the largest single business win in our history, which I'll discuss more in a moment.

And we expect these wins to translate into future revenue growth. Sensata's current revenue outlook is increasingly driven by our rapidly growing positions in Electrification and Insights. And we're investing more in these areas, and we believe this increased organic and inorganic investment, which for the full year is expected to impact margin by 220 basis points, is the right trade-off to expand our exposure in these fast-growing areas.

After the quarter ended, we closed the previously announced acquisition of Dynapower. They are a leader in mission-critical, highly engineered and differentiated solutions, in DC to DC conversion, power inversion and rectifier control. Most importantly, they are the only power control supplier to focus across renewable energy, industrial and defense applications.

Dynapower is currently on a run rate to generate more than $100 million in annualized revenue and approximately 20% operating margins, while growing more than 30% per year over the next several years. After the quarter ended, we also sold our Qinex, semiconductor thermal test and control business to Boyd Corporation for $219 million. Qinex contributed nicely to Sensata over the years, but does not align with our growth strategies and will be better positioned as a part of Boyd.

The impacts of both the Dynapower and Qinex transactions are reflected in the Industrial business and Sensing Solutions segment and are included in the updated financial guidance we're providing today. During the second quarter, we benefited from a resilient, flexible, and focused organization that continues to successfully navigate the ever-changing supply chain landscape and deliver on our customers' needs.

We continue to monitor the ongoing war in Ukraine and COVID-related lockdowns in China for further impacts on supply chains or customer production or consumer demand. Continued inflationary impacts on input costs have led us to become more agile to offset these costs with commercial pricing actions. We remain confident that the full year net impact will be limited and that our strong execution will enable us 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 very strong financial position today. We have more than $1.5 billion in 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 at 3x.

We do recognize that the economic outlook is less certain today, and we are working closely with our customers across diverse business segments to understand their underlying demand, to carefully manage our cost structure and preparing the organization for this uncertain market dynamic. The combination of our strong balance sheet, an experienced management team who have executed through previous market challenges, and our ability to tightly manage costs enables us to weather near-term pressures while continuing to drive our growth strategy.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

We are executing well in our growth areas, and we are confident that Sensata will emerge from any period of market turmoil stronger and better positioned to continue to grow. During the quarter, we published our second sustainability report, detailing our greenhouse gas emissions, progress on diversity, equity and inclusion initiatives, and responsible sourcing efforts. I encourage you to review the report.

We are committed to continuing progress in these areas going forward. Sensata is continuing to make excellent progress in utilizing in-house and acquired capabilities to better serve a broadening base of customers and win new business in our growth areas. On Slide 4, we outlined progress in one specific area that has led us to create a new product category, high voltage junction boxes.

Sensata's high voltage junction boxes are system-level solutions that perform critical functionality and enable customers to electrify their applications. As we expand our capabilities in Electrification and our customers design architectures for the future, we are responding to demand for more system-level high-voltage solutions.

These solutions take the form of power distribution units, DC charging units, and battery disconnect units, depending on the specific application and they represent a significant growth opportunity. Sensata designs, pairs and controls all components in the junction boxes while optimizing the layout to minimize weight and thermal profile while meeting customer power requirements.

We are working with our tier and OEM customers to bring the best solutions to the market in this critical area. We have previously announced meaningful business wins in this area with several global customers. And in the second quarter of this year, we were awarded a single largest piece of business in Sensata's history: To provide battery disconnect units to a leading North American customer.

We are pleased to report that Sensata was chosen in a competitive process based upon our unique design capabilities. This program will launch in 2025 and represents more than $150 million in annual revenue thereafter. We are so proud of the entire team involved in the successful new business award. Another example of new product development in our core industrial business is the introduction of a line of gas sensors designed to be used with new environmentally friendly refrigerants.

This is another new category for Sensata where we've already won our first piece of business with a leading customer worth more than $10 million in annual revenue. These gas centers are specifically designed to detect leaks of A2L, A3 and other new refrigerants being introduced in various markets. Due to the expected increased use of these refrigerants and safety requirements around their use, this category of gas sensor is expected to represent a more than $100 million incremental addressable market by 2030. Now I'd like to turn the call over to Paul.

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

Thanks, Jeff. Key highlights for the second quarter, as shown on Slide 6, include revenue of $1.021 billion, our highest quarterly revenue ever, an increase of 2.8% from the second quarter of 2021. Revenue growth reflected strong outgrowth of 650 basis points and acquisitions, partially offset by market declines in foreign currency. If you recall, automotive and heavy vehicle off-road built approximately $34 million of inventory in the second quarter of last year that we are excluding from the outgrowth calculation.

Adjusted operating income was $193.8 million, a decrease of 7.4% compared to the second quarter of 2021, primarily due to continued supply chain challenges, impacting volume to productivity and investments in our Megatrend. Inflationary impacts on input costs for components were offset by higher customer pricing. These results were largely in line with our financial guidance for the quarter to suffer unfavorable foreign currency impact from remeasuring foreign net monetary assets to the U.S. dollar, coupled with a significant weakening in the Chinese Renminbi during the quarter.

Sensata's threshold differentiated target adjusted operating margin remains 21%, and we are working our way back to this profitability level while addressing the current challenging markets and investing in growth. Now I'd like to comment on the performance of our 2 business segments in the second quarter of 2022, starting with Performance Sensing on Slide 7.

Our Performance Sensing business reported revenues of $746.9 million, an increase of 0.7% compared to the same quarter last year. The decline in automotive revenue despite market growth and higher pricing was driven primarily by the $25 million of inventory built in the second quarter

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

of last year, unfavorable foreign currency, and the timing of new product shipments and customer mix. Growth in heavy vehicle off-road revenue reflects strong outgrowth, including higher pricing and acquisitions, offset somewhat by declining markets, $9 million in inventory built in the second quarter last year, and unfavorable foreign currency.

Performance Sensing operating income was $185.5 million with operating margins of 24.8%. Segment operating margins declined due to continued supply chain challenges impacting volume and productivity, inflationary impacts on input costs for components, offset by higher customer pricing and dilution from acquisitions.

As shown on Slide 8, Sensing Solutions reported revenues of $273.7 million in the second quarter of 2022, an increase of 9.1% as compared to the same quarter last year. This increase was driven by strong outgrowth, including higher pricing and the launch of new industrial electrification applications and acquisitions, somewhat offset by unfavorable foreign currency.

Sensing Solutions operating income was $79.5 million, with operating margins of 29%. The decrease in segment operating margin was primarily due to dilution from acquisitions and inflationary impact on input costs for components, which were more than offset by higher customer pricing with both partially offset by the favorable impact of higher volumes.

On Slide 9, corporate and other operating expenses not included in segment operating income were $76.4 million in the second quarter of 2022. Adjusted for charges excluded from our non-GAAP results, corporate and other costs were $69.4 million, a small increase from the prior year quarter, primarily reflecting higher research and development and business development spend to support our Megatrend growth initiatives.

We now expect between $65 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 this increased investment is the right long-term trade-off and supported by record new business wins and the rapid revenue growth we are already experiencing in these areas. We continue to expect over 50% growth in our Electrification revenue this year and over 100% revenue growth in Insights.

Moving to Slide 10. We generated $56 million of free cash flow during the second quarter and $273 million of free cash flow over the last 12 months. Free cash flow in the quarter was impacted by the timing of interest and tax payments, our decision to increase inventory to ensure continuity of supply, and acquisition-related compensation payments.

For the full year 2022, we expect free cash flow conversion to be approximately 75% of adjusted net income, and capital expenditures to be in the range of $135 million to $145 million. Sensata's net debt-to-EBITDA ratio was 3x at the end of June, within our target range. Pro forma for the acquisition of Dynapower and divestiture of Qinex, Sensata's net debt-to-EBITDA ratio at that date would have been 3.4x.

Sensata's primary use of cash on hand is to acquire businesses while we extend our position within our key growth vectors of Electrification and Insights. Our balance sheet is strong with over $1.5 billion of cash, no debt maturing before October 2023, and a recently expanded line of credit with $750 million of capacity. Given this financial strength and expected future free cash flows, we also look to return capital to shareholders.

Consequently, we repurchased 77 million of our shares in the second quarter, and recently announced a quarterly dividend of $0.11 per share that is expected to be paid on August 24 to shareholders of record on August 10. We are providing financial guidance for the third quarter of 2022, as shown on Slide 11.

Our expectations are based upon the end market growth outlook as shown on the right side of the page. We remain more conservative than IHS on automotive production estimates for both the quarter and full year because of extended macroeconomic risks. We do not expect supply chain inventory to unwind during the quarter, but would remind investors that approximately $70 million of inventory was built by automotive customers in the third quarter of 2021, increasing revenue in that period well above production and complicating the year-on-year comparison.

Our current flow rate is approximately 95% of the revenue guidance midpoint for the third quarter. At the midpoint, adjusted operating income margin is expected to be 19.3%, which includes the inflationary impacts on input costs for components, which are more than offset by higher

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

customer pricing, supply chain challenges that continue to impact volumes and productivity, and investments for growth and Megatrend-related areas including acquisitions as we rapidly scale these growth vectors.

We are updating our financial guidance for the full year 2022 as shown on Slide 12. Our end market expectations continue to decline, while the unfavorable impact from foreign currency exchange rate has grown. And we are adjusting our financial guidance to reflect this as well as the completion of our Dynapower acquisition and the Qinex divestiture.

Revenue growth between 4% and 6% includes the impact of markets down about 1% to 2%, customer inventory built last year outgrowth above our long-term target range, completed acquisitions and divestitures, and the impact of unfavorable foreign currency. We do not expect a roughly $110 million inventory built by automotive customers during 2021 to reoccur in 2022.

At the midpoint, adjusted operating income margin is expected to be 19.2%, which is below our target range of 21% due to supply chain challenges impacting volumes and productivity. Inflationary pressures on input costs were strong despite higher customer pricing and the impact of investments, including acquisitions in our Megatrend growth areas.

On Slide 13, we provide an adjusted operating margin walk to show the expected sequential margin improvement as supply chain conditions and productivity begin to improve and from higher customer pricing, which more than offsets the inflationary impact on input costs for components. We updated our estimates for OEMs production growth in 2022 as compared to 2021. We currently expect automotive production to increase approximately 2% this year, which is more aligned to the IHS' pessimistic automotive production case with declines in North America and Europe from our prior expectations.

The heavy vehicle off-road market is now expected to contract by 9% this year as China shutdowns, and electronics and auto parts shortages curtail production of machinery. We are also decreasing our growth assumption in Aerospace from 6% to 1%, and increasing the industrial market contraction from down 1% to down 3%. Now let me turn it back over to Jeff for closing comments.

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

Thanks, Paul. Let me wrap up with a few key messages as we outlined on Slide 14 of the presentation. Sensata's business organizational model and growth strategy are strong, resilient and reliable, as we deliver mission-critical, highly engineered solutions required by our customers. While we expect end markets to be volatile in the near term due to inflation, rising interest rates, geopolitical events and further COVID responses, we have a strong management team experienced at navigating choppy markets. We are confident in our ability to sustain attractive end market outgrowth based on our record levels of new business awards, our diversifying customer base, and our large and expanding pipeline of new opportunities. We continue to invest in our Megatrend-driven growth initiatives as we transform the business to focus on these rapid growing opportunities 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. Whatever market volatility we experienced in the coming quarters, we are confident Sensata will emerge stronger and better positioned in these fast-growing markets because of these investments.

And importantly, we are maintaining our long-term target of 21% adjusted operating margins, which we believe these investments will help us attain. We continue to innovate on behalf of our customers, solving their hard-to-do engineering challenges and providing differentiated solutions to an ever broader array of customers. Solving mission-critical challenges enables Sensata to deliver industry-leading margins for our shareholders, while also increasing investments in our growth opportunities and in our people.

And finally, I'm pleased about our progress in delivering on 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 making progress to achieve the targets laid out last year and updated in our recently published sustainability report, bolstering the long-term sustainability and success of the company for all of its stakeholders. Now I'd like to turn the call back to Jacob.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thank you, Jeff. We'll now move on to Q&A. (Operator Instructions) Cole, go ahead and assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today will come from Wamsi Mohan with Bank of America.

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

I was wondering if you could share some color on where we stand with supply chain bottlenecks? And is your weaker end market assumption related to weaker demand or supply constraints? And for clarification, can you just help us think through your implied guide at the midpoint for fiscal fourth quarter EPS, it's about $1.14, which is in line with The Street, but it's a somewhat large step up from the $0.85 midpoint in the September quarter, but the revenue levels are not materially different. And can you help us think through what are the drivers that are accounting for that increase? I know you mentioned pricing, but just curious if you could bridge that.

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

Yes. So Wamsi, let me hit on the supply chain question that you mentioned. Then I'll let Paul address the guide point. So on the supply chain, it's been a long haul here, right? We've been through a lot over the last 18 to 24 months. My sense is the bottlenecks are moving around a little bit, but there I'd say that things are abating a little bit in terms of ability to get raw material from our suppliers. In terms of the impact on demand, we clearly are still seeing instances where our demand is being limited by supply chain challenges. But the ultimate raw demand from our customers is getting closer to that demand. And hence, the caution that we're expressing in the guide today.

We're starting to see things tighten up in terms of overall ultimate demand for our customers and we want to reflect that. But certainly, from a supply chain standpoint, we have a complex business, a global business, and we see that moving around. But I feel as though it is getting a little bit better in terms of the overall impact. Obviously, this is tied to the material inflation side of things as well. And although that's not completely behind us, I feel as though it's mitigated considerably versus where we were in the fourth quarter of last year and the first half of 2022. Hopefully, that provides some color for you.

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

Wamsi, in the fourth quarter, our operating income was about $201 million. That's about $7 million increase from the Q3. And the EPS, you quoted $1.14, but we're -- midpoint would be at $0.91. So I'm not sure what the disconnect is there. But when we go sequentially from Q3 to Q4, so Q3 is informed, the revenue based on our current fill, we're 95%. We do expect better pricing from Q2 to Q3, better cost management from Q2 to Q3. So that despite the lower revenue from Q2, Q3, we're holding profit basically flat.

And then from Q3 to Q4, we're up about $7.5 million, $8 million. That's partly due to higher volumes sequentially and higher pricing and a little better again on the productivity side. So that translates into $0.91 of EPS in Q4. So taxes are running around about 9% -- about 9.5% of operating income. So hopefully that triangulates and helps clarify the sequential expectations. I guess the only other thing I would say on the top line, the improvement in Q4 is largely in automotive from Q3 to Q4. It largely comes from China production improvements. Our heavy vehicle business stays pretty flat across the second half and our Industrial business comes down in its normal seasonal pattern where the second half is weak than the first half.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thanks for the question, Wamsi.

Operator

And our next question will come from Mark Delaney with Goldman Sachs.

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

Questions on the inventory that you spoke to, let's say, your customers. I understand you're not expecting any further increase in inventory in your guidance relative to the $110 million that was built last year. But can you talk about -- do you expect customers to be reducing inventory, in particular as you're now thinking production might be lower. I'm wondering if you're trying to bake in any inventory reduction? And if not, maybe you can talk about why you don't think customers will take inventory down?

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

We did change in the second quarter, Mark. We ran a model, which has informed us about high market share parts, were they in line with production, and they were. So we didn't see any inventory contraction. We don't believe there'll be any inventory build, which we called out in the narrative. And as we go forward, given we didn't see any inventory contraction so far this year, we're not baking anything into the second half.

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

Thanks, Mark, for the question.

Operator

Our next question will come from Samik Chatterjee with JPMorgan.

Unidentified Analyst

This is MP on for Samik Chatterjee from JPMorgan. I just wanted to ask regarding the operating margin walk for the full year. Like relative to your prior guidance and prior walk, you had mentioned tailwinds from volumes, which obviously you're not now expecting given the lower estimates for full year auto production. But I see a new supply chain headwinds impact of negative 0.6%, which were not available prior. So can you please help me understand like are these additional supply chain headwinds that you are facing right now? Or what's the case here?

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

So it's Paul. I mean, in terms of the -- if you want to talk about the change in the last guide to this guide, the second half is down because of volume. That and currency elements are the 2 biggest drivers for the change in both revenue and operating income. The supply chain is still challenging, still short on parts. There's still demand out there we can't serve. And so it continues to be an ongoing problem, particularly in our heavy vehicle business in China, where COVID continues to impact our customers and their factory production. So we continue to see that as a disruption in terms of being able to serve those customers as they're not producing product. So it continues to be an issue. We're calling it out as not something that's dramatically improving. We expect it to slightly improve, but it's still holding us back.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thanks for the question.

Operator

And our next question will come from Luke Junk with Baird.

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

Just maybe a bigger picture question given the economic backdrop. Jeff, you mentioned in your prepared remarks that you're preparing the organization for this uncertain market dynamic. And just be curious, any specific steps that you're taking to bend down the hatches a little bit on a go-forward basis?

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

Yes. Look, I'd be glad to address that. So let me frame the broader picture and then I'll address how we're preparing for that outcome. So I don't think it's any surprise to anybody that the markets are fairly choppy right now. But I believe we're managing very well in that environment. And we've been there before. So we know how to do this, whether it be supply chain impact or inflation, fears of recession around the world, lockdowns in China, monetary policy that's impacting interest rates pretty rapidly.

With that backdrop, which is driving an expectation for the full year market down about 1% across all our markets, foreign exchange down 2% across all our currencies, an inventory headwind of 3% because the inventory that was built last year won't repeat. So that's starting 6% down. Despite that, we're forecasting 5% up as a company. And that's due to the model. It's acquired revenue and it's outgrown 2 markets that's driving that. And so the focus is there. We're going to respond to what the market indicates. We started the year expecting 10% to 12% growth. We were building for that. We want to make sure that we're continuing to invest in long-term growth of the business, and we are a long-cycle business. So we have to keep an eye on that to invest now for revenue that will be generated 2, 3, 5 years from now.

But what we mean by managing is just keeping a very close eye on those indicators, doubling down on our understanding of current pipeline, having more conversations with customers regarding what they're seeing in the market, and making sure that we keep a close eye on our cost structure to be able to respond to that. As opposed to jerking around in any dramatic fashion, we want to prepare for all ranges of outcomes.

Now we want to be prepared to respond to a positive surprise in terms of market outlook as well. So again, as a management team, we're capable of doing that. We have intent to make sure that we manage that. But it's really around making sure we get the pricing, understanding the ultimate demand, managing our cost structure, and planning the parts and inventory to deliver on whatever customer demand is thrown at us. And so it's not new territory. It's probably not a surprise to folks, but we're good at it and we're going to manage through this. Hope that helps. Thanks, Luke.

Operator

And your next question will come from Nik Todorov with Longbow.

Nikolay Todorov - *Longbow Research LLC - Analyst*

Jeff, I want to ask a question about the big win you talked about. So can you please first share if this is on the light vehicle side or on the heavy vehicle off-road, which end market it is? And also related to that, how should we think about the potential size of future battery disconnect unit wins given the size of this one is pretty meaningful?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. So given the magnitude, I don't think it's a surprise that it's in the light vehicle market to get to this level of inventory. This is an over $1 billion total contract value opportunity. So it is in light vehicle, but it's not applicable only to light vehicle. It really is a solution set that we can bring across all of our markets. And again, not just in transport. So think of a bunch of other end markets where Electrification infrastructure and build-out needs to occur.

So the size of the market is enormous, right? This is 1 opportunity that's over $1 billion contract value for a couple of platforms with one customer. So the ASP on this is hundreds of dollars, not $1 or $5 or $10. So the opportunity gets big very quick. And we've outlined on the slide some of the other opportunities that we've announced and we've won already that give you a feel for the magnitude of this. And so it's an extension of all the capabilities that we've built up organically. As you look at the product category, a very large portion of what goes into these devices, into these systems are products that Sensata has differentiated itself. And so we feel really well positioned. Thanks for the question.

Operator

And our next question will come from Chris Snyder with UBS.

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

So the past (inaudible) guidance for margins in the [low 19% range for Q2 and high 19% for Q3, if that is correct]? (inaudible) good benchmark to run into 2023, or is there opportunity or scope for positive incremental tailwinds next year, whether it's just catching up (inaudible). Any thoughts on that would be appreciated.

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

You're incredibly broken out. So I think we got every other word here. But I think the question is the margin profile going forward. So in the prepared remarks, we're targeting 21% kind of where we think we should be performing in the current market environment and investments we need to make to continue to grow into the future. We're obviously not there right now. We understand the drivers. And so we're going to continue to work to that 21%. The improvement sequentially is about 30 basis points from Q2 to Q3, so 19.3% (inaudible) and then 50, going from 19.3% to 19.8%. That, again, is a combination of continued better pricing and some better cost management. We're not getting the benefit of volume leverage. So as volumes move up, we would expect significant contribution to the bottom line from that higher volume. But unfortunately, in the current environment we're operating, we're not seeing significant improvement as we move from the first half to the second half overall for the company.

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

Thanks, Chris, for that question.

Operator

And our next question will come from David Kelley with Jefferies.

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

Wanted to dig into the auto end market assumptions, as you know, the more negative outlook for Europe and North America. I guess, is this simply a function of supply chain disruptions continuing to limit production ramp? Or are you also seeing signs of kind of lower customer demand? And

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

just curious, the incremental weakness relative to your regional assumptions last quarter, is it more pronounced in Europe or North America at this point?

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

Yes. So let's start with sort of some of the facts we're looking at. The IHS' pessimistic view for the third quarter is around 19.6%. We're around 18.9%. That's a little bit lower than them. And then for the full year, that 700,000 turns to about 1 million unit gap, largely North American based, but some Europe as well, a little bit. We're a little more positive on the recovery in China. So of the 1 million gap for the full year to IHS, 1.6 million is in U.S. and Europe, and then some recovery in some of the other markets.

I think that I would say that it's largely production constrained at this point, right? So there's more demand for vehicles than our customers can produce. But there's a lot of uncertainty, not only regarding supply chain, but energy issues in Europe, risk of potential industrial shutdown in your food and energy shortages. And so we're just making sure that we're being very mindful of what the outcomes could be. All forecasts have come down a little bit. We're a little bit lower than where IHS is. But as we always have been, if demand gets to be higher, we'll respond to it.

In North American market, it's interesting to note that cars on watch is still at a historically low level. I think it ended June at 28 days of inventory. In March the low point, I think, was 24 or 26. Historically, that's 60. So at some point -- and I think we've seen it a lot higher than 60, but on average, 60. So there's a month of inventory rebuild at some point that will impact production above where ultimate demand is. And I think that we'll be there to respond to it. So that's a little bit more color on the auto market. I don't know if...

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

No, I just think the other thing would be that we use our order book and the fill as a way to triangulate what we think the quarter is going to be in the next quarter. And so at 95% still on the $1 billion revenue midpoint. I mean, that's consistent with what we've delivered -- we've had over the last number of quarters. It will come down to the end of the quarter. We've seen our customers drop orders. That trend has continued. So we're trying to factor that in as a variable in all of this. But just given the fill as we think, $1 billion in Q3 makes sense. And then looking forward to Q4, given the end market conditions, the supply chain condition, we think it's a sensible projection for the fourth quarter. And to Jeff's point, if there's more demand, we'll serve it.

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

Thanks for the question, David.

Operator

And our next question will come from Joe Giordano with Cowen.

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

You guys have done a lot on the M&A side, obviously, to build out the Electrification portfolio, again. I'm just curious how integrated are some of these businesses now? How integrated do you see them being in the future? Like is there a little digestion that needs to happen just operationally to get kind of like a singular Sensata profile there? Or are they still operating somewhat as the businesses they were before you bought them?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. Joe, great question. You know, historically, we've integrated acquired businesses to the point where essentially they have become product families within our company. That's not the level of integration we're talking about with some of these acquired businesses. Now they're not stand-alone entities either. There's obviously certain integration around financial and legal control that we always do. And we would describe it as more an integration based upon what the individual business leader needs to achieve the investment case and the underlying opportunity.

And so they run, they serve different markets. And what I'm talking about here is the Insights business and the Clean Energy Solutions business, not the Electrification component businesses, because they integrate as becoming product families. And so we want to make sure that we optimize the outcome, leveraging Sensata's global workforce, our global footprint of suppliers, our infrastructure, but really the go-to-market and the engineering capability is quite unique to these businesses. And so we want them to run fairly independently, but with a framework of approach and control and management that Sensata would relate to that. So it's a little bit of a combination.

So the point is the integration goes a little faster with that. So you don't have to fully integrate these businesses there, and so we can do more of these acquisitions without a fear of we have to go through a major period of digestion. Hopefully, that helps.

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

Thanks, Joe, for the question.

Operator

Next question will come from Matt Sheerin with Stifel.

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

Yes, just in terms of the forward guidance. One thing regarding the divestiture. Could you tell us what the revenue run rate of that company was? I think it's Qinex.

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

It would have had about $40 million of revenue in the second half, and it's a 30% op income business, so very profitable, but it does not align with the strategy, benefiting from the semi cycle right now, but it's a very lumpy business. But in our second half, $40 million and about 30%. Dynapower gives you about $50 million of revenue at 20%. So they're almost offsetting.

Operator

And our next question will come from Jim Suva with Citi.

Hearing no response from Jim's line. This will conclude the question-and-answer session. I'd like to turn the conference back over to Jacob Sayer for any closing remarks.

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

Thanks, Cole. I'd like to thank everyone for joining us this morning. We'll be participating in a few upcoming investor conferences sponsored by Jefferies, Goldman Sachs, and RBC during the third quarter. We look forward to seeing you at one of those events or on our third quarter earnings call in late October. Thank you all for joining us this morning and for your interest in Sensata. Cole, you may now end the call.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thank you. And the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.

DISCLAIMER

Refinitiv 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 REFINITIV 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.

©2022, Refinitiv. All Rights Reserved.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV