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EDITED TRANSCRIPT

ST.N - Q1 2023 Sensata Technologies Holding PLC Earnings Call

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OVERVIEW:

Co. reported 1Q23 revenue of $998m, adjusted net income of $141m and adjusted EPS of $0.92.

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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

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

Joseph Craig Giordano *TD Cowen, 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*

Shreyas Patil *Wolfe Research, LLC - Research Analyst*

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

PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies First Quarter 2023 Earnings Call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Mr. Jacob Sayer, Vice President of Finance. Please go ahead.

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

Thank you, Jason, and good morning, everyone. I'd like to welcome you to Sensata's First Quarter 2023 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. We will post a replay of our webcast on today's -- 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 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 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 the appendices of our presentation materials. The company provides details of its segment operating income on Slides 9 and 10 of the presentation, which are the primary measures management uses to evaluate the performance of its business. Jeff will begin today with highlights of our business results during the first quarter. He will then provide a few updates on key growth areas. Paul will cover our detailed financials for the first quarter, and he will discuss our financial guidance for the second quarter of 2023.

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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'll start today with some summary thoughts on our performance during the first quarter, which is outlined on Slide 3. We began the year on strong footing. During the first quarter, we produced $998 million in revenue, up 2.3% from the prior year period and above the midpoint of our guidance range despite a 230 basis point headwind from foreign currency.

Adjusted operating income of $193 million was also above the midpoint of our guidance range. Adjusted operating margins moved higher by 60 basis points from the prior year period as we continue to focus on improving our margins to our target level of 21%. Adjusted net income moved higher by 14% to $141 million, and adjusted earnings per share grew 17.9% from the prior year period to $0.92.

Market outgrowth for the quarter was disappointing at only 20 basis points. However, outgrowth for the fourth quarter of 2022 was 1,180 basis points. And for the last 12 months, outgrowth remained above our expected range at 630 basis points. As we have said, outgrowth can be lumpy in any quarter and the first quarter was impacted by region and platform mix, several launch pushouts by our customers and some production estimate and channel inventory complexities. We continue to have confidence in our long-term range, given past business wins and new product development activities and launch schedules.

I'm also pleased to share that we remain on track to achieve our long-term goal of $2 billion in electrification revenue across the company by 2026, with revenue growing strongly in the quarter. We also remain on track to reach our goal of twice the content per vehicle on battery electric vehicles by 2026 as compared to internal combustion engine vehicles. Last quarter, we outlined a shift in our capital deployment strategy based upon our confidence in our capabilities to effectively intersect the growth vectors of electrification and insights and deliver innovative solutions to our customers.

We've executed a portion of that strategy during the first quarter. Paul will share more details shortly. As I've said before, we anticipate a great deal of change in the end markets, Sensata serves over the next 10 years, reflecting all the ways our customers are transforming their businesses and product portfolios to adjust to decarbonization trends.

Electrification is coming to equipment categories beyond vehicles and is leading to significant investment in global infrastructure.

As shown on Slide 4, I'd like to highlight areas of growth for Sensata that will help drive our electrification revenue. In renewable power generation, solar developers and others are poised to benefit from last year's Inflation Reduction Act, which provides significant long-term funding to this industry. Dynapower's line of inverters and converters help solar power producers condition the energy produced by the sun, either for battery storage or to be transmitted to the grid. We're seeing increasing interest for new solar and other renewable energy installations and these represent a $2.5 billion addressable market for Dynapower growing more than 15% per year.

We are also seeing increased interest in electromechanical braking for electric vehicles. These braking systems remove heavy hydraulics and replace them with more efficient brake-by-wire solutions that require force and pressure sensors, doubling the sensor content as compared to existing solutions. This is a rapidly growing application with market estimates of $250 million of sensor content by 2027. It is an area where we have developed an early lead by collaborating closely with customers in addressing their needs.

In addition to the innovation we are driving in the broad areas of electrification, on Slide 5, I want to highlight yet another new market that we've identified and are pursuing. Recent government regulations meant to reduce greenhouse gases and improve the environment require HVAC manufacturers to switch to new coolants with lower global warming impact known as A2L or A3 refrigerants.

Sensata has leveraged its leadership position in HVAC pressure sensing to create a new category of gas detection sensors that are required by these systems to detect refrigerant leaks.

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We have already won the $40 million in annual revenue from 2 of the largest HVAC manufacturers, and we expect this solution to be adopted on a widespread basis, creating a very fast-growing sensor category with a $500 million addressable market in the next 5 years.

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

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

Thank you, Jeff. Key highlights for the first quarter, as shown on Slide 7 include revenue of $998 million, an increase of 2.3% from the first quarter of 2022. Revenue growth reflected market and market outgrowth in the quarter, partially offset by foreign currency headwinds and the net impact of acquisitions and divestitures. Adjusted operating income was $193 million, an increase of 5.7% compared to the first quarter of 2022. This increase was primarily due to higher volume, pricing and productivity improvements, partially offset by the impact from acquisitions and divestitures last year and movements in foreign currency.

Adjusted operating margins improved 60 basis points from the prior year period to 19.3%. Adjusted earnings per share in the first quarter grew 17.9% from the prior year quarter, faster than adjusted operating income due to lower interest expense, lower cash tax rate and a lower share count.

Turning to Slide 8. As a reminder, we entered 2022, inflation significantly impacted our components and logistics costs at a time when we were also increasing investments in our growth vectors. This impacted adjusted operating margin significantly, reducing that from the 21% level that we delivered during 2021.

Substantial improvements in pricing to offset increased costs, better material availability and supply chains have slowly improved productivity improvements and cost control drove adjusted operating margin steadily higher through last year.

Our financial guidance for the second quarter includes a year-over-year improvement in adjusted operating margin to 19.4%. We intend to continue efforts to return to our target margin rate of 21%, while executing on our significant growth opportunities in Electrification and Sensata Insights. Now I'd like to comment on the performance of our two business segments in the first quarter of 2023, starting with Performance Sensing on Slide 9.

Our Performance Sensing business reported revenues of $751.5 million, an increase of 4.7% compared to the same quarter last year. Automotive revenue increased from market growth and higher pricing, partially offset by unfavorable revenue mix, new product launch delays and foreign currency. Growth in heavy vehicle off-road revenue reflects strong outgrowth and the impact of acquisitions in Insights, partially offset by unfavorable foreign currency.

Performance Sensing operating income was $188.4 million, with operating margins of 25.1%. Segment operating margins declined slightly year-over-year, largely due to unfavorable foreign currency.

As shown on Slide 10. Sensing Solutions reported revenues of $246.7 million in the first quarter, a decrease of 4.4% as compared to the same quarter last year. Industrial revenue decreased due to weaker markets, especially in HVAC and appliance and unfavorable foreign currency. Aerospace revenue increased strongly in the quarter due to market pricing and content growth. Sensing Solutions operating income was $69.7 million, with operating margins of 28.3%. The increase in segment operating margin was primarily due to higher pricing, largely offset by the impact of acquisitions and divestitures.

Effective April 1, 2023, Sensata created a new Insights reporting segment to provide transparency into the revenue growth and margin progress of this business as well as to align with new management reporting lines. Insight's financial results have previously been reported as part of Performance Sensing. Beginning with the second quarter of 2023, Sensata will report the financial results of 3 segments: Performance Sensing, Sensing Solutions and insights.

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On Slide 11, corporate and other operating expenses not included in segment operating income were $62.4 million in the first quarter of 2023. Adjusted for amounts excluded from our non-GAAP results, corporate and other costs were $63.4 million, a decrease from the prior year quarter as well as sequentially, primarily reflecting cost controls, timing and Megatrend spend, lower incentive compensation and favorable foreign exchange impacts.

We expect to invest $60 million to $70 million in Megatrend-related research and development this year to design and develop differentiated solutions for the fast-growing trends impacting our customers' businesses. The record new business wins of more than $640 million in 2021 and more than $1 billion last year, along with our rapid revenue growth in our growth sectors clearly demonstrate that Sensata's expanded capabilities are appealing to our customers.

Moving to Slide 12. We generated $60 million in free cash flow during the first quarter and $359 million in free cash flow over the last 12 months. Free cash flow in the first quarter was tempered by the timing of incentive compensation payments and higher working capital. For the full year 2023, we expect free cash flow conversion to be approximately 75% of adjusted net income, consistent with Sensata's long-term average.

Capital expenditures are expected to be in the range of $170 million to $180 million in 2023. We paid down $250 million of our outstanding variable rate term loan during the first quarter, which is currently the most expensive debt in our capital structure. We intend to repay the remaining balance of approximately $200 million this quarter. Our net leverage ratio was 3.3x at the end of March 2023. We expect this to decline to 1.5x to 2.5x over the next 2 to 3 years, as a result of strong free cash flow generation.

In addition, we recently announced an increase in our quarterly dividend to $0.12 per share and is expected to be paid on May 24 to shareholders of record on May 10. We are providing financial guidance for the second quarter of 2023, as shown on Slide 13.

Our expectations are based upon the end market growth outlook shown on the right side of the page. We remain more conservative in IHS on automotive production estimates for the quarter because of broad macroeconomic and China-related risks. Foreign exchange represents an expected $12 million headwind to revenue and a $0.01 headwind to EPS in the second quarter. Our current fill rate is approximately 93% of the revenue guidance midpoint for the second quarter. At the midpoint, adjusted operating income margin is expected to be 19.4%, a 40 basis point year-over-year improvement from the second quarter of 2022, primarily due to improved productivity and pricing offsetting the dilution from acquisitions and divestitures and foreign exchange.

Looking to the full year 2023, we now expect foreign exchange to be 0.7% (sic) [0.6%] headwind to revenue and an $0.08 headwind to earnings per share given the current exchange rates. 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 a few key messages as outlined on Slide 14. 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 end markets are expected to remain volatile, due to inflation, high interest rates, the risk of recession in various geographies and other geopolitical events.

Sensata's strong management team brings proven experience in navigating choppy markets. We continue to execute on our growth initiatives as we transform the business to focus on these rapid growth opportunities across all the end markets we serve. We are making excellent progress in Electrification and Insights as demonstrated by strong new business wins and significant revenue growth. This success allows us to focus now on strengthening our financial returns through improved margins, stronger free cash flow and higher return on invested capital.

As seen in some of the examples I discussed today, we continue to innovate for our customers, solving their difficult engineering challenges and providing differentiated solutions to a widening array of customers while specifically leveraging our expanded product set and capabilities, solving mission-critical challenges enable Sensata to earn long-term customer trust and deliver industry-leading margins for our shareholders.

And finally, I'm pleased about our results in delivering on Sensata's long-standing vision to help create a cleaner, safer, more electrified and connected world, not just for our customers' products, but also through our own operations, we strive to meaningfully contribute to a better world. We are

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making good progress on achieving our ESG targets, and we'll update our latest results in our upcoming sustainability report, bolstering the long-term sustainability and success of the company for all of its stakeholders. I'll now turn the call back to Jacob.

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 number of listeners and questioners on the call, let's try to please limit ourselves to one question each. Jason, would you please introduce the first speaker?

QUESTIONS AND ANSWERS

Operator

Our first question comes from Wamsi Mohan from Bank of America.

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

Jeff, I was wondering if you could comment about the trends you're seeing in China, particularly in terms of demand, both in auto and industrial markets in 2023? And do you get the sense that the end markets there are improving or stable or getting worse? Any color from your perspective would be helpful. And if I could, Paul, you are guiding 2Q up quarter-on-quarter for revenue and also expecting much better price productivity, especially on a year-on-year basis what is giving you the confidence in better price productivity in 2Q relative to 1Q? And maybe you can comment on why we're not seeing more operating leverage in 2Q, particularly on a sequential basis.

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

Great. Wamsi, let me touch on the China topic, and it's one of great importance given the investments we've made in that region and the magnitude of the financial impact it has on the company. So when you look at the performance regionally of Sensata during the first quarter, the North American and European markets were up. China -- more broadly Asia, but mostly driven by China, was down dramatically, first quarter to first quarter. So down 17% first quarter of '22 to first quarter of '23.

And candidly, the market in China, we've been observing for the last several quarters as COVID restrictions have lessened, anticipating that consumers would come back that there would be government stimulus and it just has not happened. And so we're keeping a very close eye on it. Broadly speaking, there are some other dynamics that are occurring in China as well. And I'll speak to this more directly when I talk to some of the elements of outgrowth in the business. But there is a shift occurring from multinational suppliers in the automotive market to local.

So there is a meaningful change in terms of the multinational sales quarter-over-quarter that are down more than the market. And so there is a shift toward local brands, largely driven by the move towards electrification, which is happening most aggressively in that market, but it is an important element to watch because for Sensata's business as that shift occurs, there is content loss. We have lower content on the Chinese local brands than we do multinational.

So we're watching that quite closely as well. Now we do expect it to come around, right? So it's been a pretty long period of time in terms of the decline in the market. The opportunity to go to China has just opened. Myself and the management team will be going there in the next couple of weeks to get a better feel for what's going on, on the ground. And then we'll keep you updated in terms of what we see and what we're experiencing in the market. Thanks for the question, Wamsi.

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

Wamsi, it's Paul. On the second part of your question. We continue to see very good pricing execution. It's definitely driving the margin expansion that you're seeing in Q1, we're up 60 basis points quarter-over-quarter, and it's an important part of that. We continue to drive pricing in the market that we're in with the inflationary pressure that we still see. So that will continue into Q2. Q2 is up 40 basis points quarter-over-quarter.

Sequentially, it's only up 10. A couple of things to keep in mind. So our compensation cycle is such that we have rising compensation costs from Q1 to Q2 and that eats up a fair amount of the volume contribution you would see from the [hyper] revenue. Nothing unusual. It's our normal cadence, and we typically see this trend every year between Q1 and Q2. FX is also a little bit unfavorable going from Q1 to Q2. So that's a bit also a margin headwind.

Operator

Our next question comes from Samik Chatterjee from JPMorgan.

Unidentified Analyst

This is Adeleke McMillan on behalf of Samik Chatterjee. I'm kind of adding on to a question that was previously asked, but just wondering, so you guys previously stated plans to hit a 21% adjusted operating margin this year. Now I was just wondering, like, given your results this quarter, this implies a much bigger jump in the second half of 2023 versus from 1Q to 2Q to hit that 21% target. So can you give us an insight into what exactly is driving the confidence in that jump in the second half of the year? Is that revenue or other actions?

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

A couple of things. So the 21% is our target margin that we expect to achieve over time. And we've said many times that volume is going to be the biggest contributor to that. So we're not giving guidance for the full year, but that is a target that we believe we have confidence of achieving at some point, but it largely be driven by much better volumes in the business.

As I said in prior calls, it wouldn't surprise me with the right volume we would get to 21% in a quarter in the second half. But as we're seeing, I mean, end markets still remain challenging. And so we will continue to work towards that goal, but it will take some time to get there.

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

So to be clear, Emily, we have not provided financial guidance for the full year and 21% is not a financial guide that we have given for the full year margin.

Operator

The next question comes from Mark Delaney from Goldman Sachs.

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

Can you speak a little bit more on order trends that the company saw in the first quarter in the book-to-bill and any end markets that you'd call out as either more positively or negatively in terms of the book-to-bill trends?

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

Yes. So across the end markets in the first quarter, we saw a better outcome. We had guided to $975 million of revenue. We ended higher than that. We saw a better outcome in automotive. We saw a better outcome in our heavy vehicle, off-road, better at aero. The only end market that was a little bit worse than we anticipated is our global industrial market, which is largely impacted by some concentration around housing, commercial real estate with our major home appliance, HVAC and industrial lighting business, which is a big part of that business. So that's the only one that's down compared to what we had originally expected.

I had mentioned earlier, from a regional standpoint, North America and Europe has been quite resilient. China has been a disappointment, and we'll continue to monitor that as we look forward to the balance of the year here. Going into the second quarter, the auto market, we would expect all of our markets to be down about 1.5%. That's what's baked into the guide. As well, we have FX impacting us second quarter of last year this year about 1.5%, 1.2%. So we're guiding to a 2% growth despite market decline and foreign exchange headwind.

And across those markets, we would expect auto to grow about 4%, growing in all markets, most prominently in Europe and China off the second quarter of last year HVOR will be down again second quarter versus second quarter this year, aero up and then industrial down again. So that's a little bit of color in terms of what we're seeing across those markets.

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

That's all very helpful. And just any clarity on the book-to-bill level. I think a number of companies have seen book-to-bill sub-1 as lead times are coming in, but if you could just clarify on the book-to-bill.

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

Yes. So there's been -- with the supply chain challenges, the normal order patterns of our customers over the last several years have been a little bit hard to read but they do appear to be normalizing a little bit. For the second quarter, we are about 93%, which is pretty consistent with where we historically are on a bookings level or order intake level against the revenue guide that we provided.

But I would say that and we've always said that order patterns would normalize as our customers gain more confidence that when they place an order, we're going to deliver it, it's not going to be challenged with raw material availability. And clearly, that is happening and we're seeing more stabilization. It does bring in the broader question regarding inventory levels as well because you may remember that we ended last year with a belief that we still had $40 million of inventory in the channel on the automotive market.

I'd tell you that's becoming a lot harder to sort of estimate what's happening in terms of the channels. I suspect that that's an element of what's impacting our outgrowth in the current quarter because we did not call out any inventory contraction in the channel. But it's getting to the point where it's smaller numbers, and we're going to focus on overall growth in the business. Thanks for the question, Mark.

Operator

(Operator Instructions)

The next question comes from Luke Junk from Baird.

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

Just wondering regarding the margin drivers on Slide 8 and the 21% target for the business, should we view those as being in rank order? And within that, I'm just hoping you could put a finer point on what is in your control or how much you can lean into certain drivers versus just what the market is giving you.

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And on the pricing that's within your control, has your thinking changed at all, it still seems pretty volume dependent. Am I reading that right?

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

It is still very volume dependent. I think we're doing a really good job on the pricing side. We're driving better productivity in the business. You can see that in the margin improvement, the way we laid out the chart, the headwinds are around the investments we're making for growth in our future. The acquisitions are not at the Sensata level margins. And so as we're growing that's having an impact on the margin rate and that's been consistently laid out for everyone to see and then currency.

And we also divested a business last year that was at the height of its revenue and profit given the semiconductor cycle, and that business wasn't strategically aligned with where we're going directionally. And so we've divested that business, and it's going to have a dilutive impact year-over-year in the first half. And then in the second half, there will be apples-to-apples. And yes, volume is going to be -- is a great contributor to our margin expansion, just given the structure of our business and the ability to drive operating leverage off that volume as markets continue to start to improve hopefully in the next 12 to 18 months.

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

And Luke, I just want to also emphasize that although we haven't provided guidance, we believe that the quality of this business is such that getting to 21% over time is very achievable with those investments. And we saw some good uplift in margin profile first quarter to first quarter on 2% higher revenue in the first quarter of this year, 60 basis points improvement and we're guiding to 40 basis points improvement on flat revenue. And so that's a result of doing it the hard way, right, managing the profile to get to better margins, not getting lift on margin associated with volume on a flat market, but it will take more time to get back to that 21%, but there's management conviction to do that over time. And we'll continue to keep you updated and work hard to get there.

Operator

The next question comes from Joe Giordano from TD Cowen.

Joseph Craig Giordano - *TD Cowen, Research Division - MD & Senior Analyst*

Yes. So just curious on the auto growth that you're using for 2Q at 4%. Like last I saw third-party estimates were like double digits. So I'm just curious like what the gap is there. And then if you could just touch on, and maybe you're not seeing it quite yet but any potential behavioral changes that like maybe like even as you get down to the dealership level, given like the banking tightening in regional banks and smaller banks.

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

Yes. So you're absolutely right. IHS would have the second quarter at about 21.5 million units. That would suggest a 13% growth year-over-year. We're calling it at about 20 million, 20.2 million, so only about a 6% growth. It's broad-based. So we're calling Europe 500,000 units off. We're calling North America, another 300,000 off what IHS estimates are.

And so it's based really on what we're seeing from order pattern is what we hear from our customers. And it could prove to be wrong, right? In the first quarter, it turned out to be a little bit better than we had called it, and the revenue came through. But based upon what we're seeing, we're calling it a little bit more conservative versus the IHS estimate.

In terms of the macro, our view, we're still quite positive in terms of the overall automotive market, the age of the fleet is growing, although the vehicle inventory is improving and the lead times are shortening. There still seems to be very strong raw demand for vehicles. It is surprising with

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rising interest rates, that there's a desire to continue to do this. We would expect over time that there may be other moves on the part of the OEM customers to help alleviate some of that challenge, but we're not seeing that yet in terms of incentives and other financing mechanisms.

So there are many levers still available to build the demand for vehicles. So I think although we're cautious about the market, we're quite optimistic regarding the next several years in terms of automotive growth given where we are relative to historical reference points.

Operator

The next question comes from Shreyas Patil from Wolfe Research.

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

I just wanted to maybe come back to the automotive guidance for end markets. So obviously, with the 93% fill rate, there would seem to be a pretty high visibility for most of the quarter as it relates to what you're expecting for orders. So is the gap between what you're expecting for the end market versus IHS. Is that a case of you believe IHS as being too optimistic? Or is there some element of OEM sourcing, particularly some of those higher market share sensors from other vendors or from existing inventory.

And then you mentioned the content differential between Chinese locals and multinationals for Sensata. I was hoping you can maybe give us a little more context around that.

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

Sure. So I think it does boil down to expectations regarding overall demand for vehicles as opposed to our belief that there's going to be more bottlenecks in terms of ability to produce vehicles. I think the industry has proven they can deliver on the IHS estimates of around the 21 million, 21.5 million units. So I don't think it's bottlenecked from an ability to produce. I think it's just a question of ultimately what the raw demand will be.

And again, if you want to emphasize, we're basing our estimate, which is more conservative based upon conversations with the customers the order rates, we could see orders pick up. We could see orders drop out. We have, for the most part, with our automotive customers, a 4-week order fence. So there is still time for them to place more orders if they see strong demand as the quarter progresses. But as we've seen in the past, there's also an opportunity for them to drop out some of those orders. So we try to read the tea leaves the best we can to give you a read as to how things are looking.

But again, it's in-quarter estimate, we continue to be quite optimistic regarding the longer term, not only on overall automotive but the transition to electric vehicles, which we believe is a long-term benefit to the company.

And then on the other point on the China. So it's directionally half, but it really does depend on the platform that we're talking about. And the additional color I would provide on that is that China was among the earliest adopters for electric vehicles. And there -- many of the vehicles are shorter range, and so they have less content -- Sensata content from an electrification standpoint. Certainly, many of our other applications, tire pressure and braking and air conditioning, environmental controlling just on those but we're actively engaging with all global OEMs, including local Chinese producers on opportunities to serve their next-generation electric vehicles. So there -- but direct -- to your question it is about half the content on a local Chinese brand versus a multinational.

Operator

(Operator Instructions)

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Our next question comes from Amit Daryanani from Evercore.

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

I guess, Jeff, I was hoping you talk about how do you think about inventory levels at the OEM side right now. And do you think that perhaps on more excess sensor inventory potentially, which is why your guide and your order trends are somewhat below what IHS talking about. I'm wondering if that's a part of it, maybe you can just touch on inventory at the OEM level, that's a bit of a headwind to the content number for the rest of the year.

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

Yes, it absolutely could be and as I mentioned, we have a pretty good read in the North American market in terms of vehicle lot inventory, which has been inching up. I think it's 38 days of inventory at the end of the first quarter. So that's off the bottom level. It's nowhere near what the normal range is, right? And so we could have a long discussion regarding whether or not OEMs are going to go back to sort of the deal or lot inventory in the 60 or 70 days that you'd historically see.

If they do, then clearly, there is going to be an increase in production above sales level that will benefit from over time. The other part of the channel, that's our question is around our parts that exist in our customers' warehouses or parts that exist in vehicles that are partially produced. That's harder to get to, and we've used the model around some of our parts that we have a pretty high market share as a proxy for production versus shipment rates. In the first quarter, we did not see any meaningful inventory variation there, but we're going to continue to watch it closely.

And I would expect that we're going to normalize on this because our on-time delivery for customers is increasing. They're gaining confidence that there's not going to be a bottleneck in the revision or the move back to more of a just-in-time inventory from a raw material standpoint with our customers will inevitably happen and the ultimate proxy that we have for understanding what's in the channel, Amit, is the call we wanted a delivery on Friday, it didn't come, right? And we have to expedite the shipment, and we're starting to see more dialogue from our customers to make sure that they know when the shipment is going to arrive, which suggests they're normalizing in terms of their inventory models.

Operator

This concludes our 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*

Thank you, Jason. I'd like to thank everyone for joining us this morning. Sensata will be participating in several investor conferences this quarter, including Oppenheimer's Industrial Conference in early May and all of the JPMorgan, RW Baird and the Bank of America Technology Conferences in late May and early June. We look forward to seeing you at one of those events or on our second quarter earnings call in late July. Thank you again for joining us this morning and for your interest in Sensata. Jason, you can now end the call.

Operator

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

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