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ST.N - Q4 2023 Sensata Technologies Holding PLC Earnings Call

EVENT DATE/TIME: FEBRUARY 06, 2024 / 1:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies Fourth 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, VP Finance. Please go ahead.

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

Thank you, Drew, and good morning, everyone. I'd like to welcome you to Sensata's Fourth Quarter and Full Year 2023 Earnings Conference Call. Joining me on today's call are Jeff Cote, Sensata's CEO and President; and Brian Roberts, 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 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 of 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-K and 10-Q as well as other 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'll 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 the presentation materials. Jeff will begin today with highlights of our business results during 2023. I'll then provide a few thoughts on our end markets and overall expectations about our financial performance for 2024, Brian will cover our detailed financials for

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the fourth quarter and full year 2023, updates on capital deployment, and he will discuss our financial guidance for the first quarter of 2024. 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. On our Fourth Quarter 2022 Earnings Call 12 months ago, we discussed 3 key themes that would shape our future performance. Those key themes were an unprecedented opportunity in electrification and an updated capital allocation strategy focused on reducing gross and net leverage while deemphasizing M&A, a focus on our financial performance to drive top and bottom line improvement against a challenging market backdrop.

Let me take a minute to provide some thoughts on our progress against these 3 drivers of our success. As you can see on Slide 3, our conviction that electrification is a key component of our future continues to rise. Electrification revenue grew approximately 50% year-over-year to $700 million or about 17% of total revenue in 2023. For comparison, electrification revenue was less than 3% of our total business in 2019.

Between 2021 and 2023, we secured more than $1.3 billion in electrification new business wins. The development cycle of programs typically include launch time lines of 3 to 4 years after the award. These wins give me great confidence that electrification is an increasingly important driver of our growth. While adoption of electrification technology, especially in automotive, may fluctuate from period to period, this overall trend will only increase. Sensata is well positioned to capture a meaningful share of the electrification market, not only in light vehicles but also in heavy vehicles and in the industrial infrastructure needed to enable increased electrification.

That said, our safe and efficient business continues to deliver significant value to our customers and our company. It provides Sensata with meaningful scale and efficiency and it is attractive revenue generator that offsets the fluctuations we may experience. The second key theme was around capital allocation. We made key strategic investments over the past couple of years and based on careful evaluation of where we are seeing the most success, we determined that our best use of capital is to invest in electrification.

With a full set of leading-edge capabilities now in-house, we shifted away from M&A towards organic growth and reducing our net leverage. I'm pleased that we made good progress this year already as gross and net leverage dropped to 3.8 and 3.2x down from 4.7 and 3.4x, respectively.

In 2023, we paid down approximately $850 million of higher interest rate debt by eliminating our term loan in the first half of 2023 and retiring our 2024 bonds last December. We also bought back $88 million of stock in the open market and paid shareholders $72 million in dividends. We remain committed to deleveraging the balance sheet going forward while also opportunistically undertaking share repurchases.

Prioritizing our investments is a core component of our overall capital allocation strategy. With electrification is the clear future for our company and the best area of focus for our team, we have narrowed our investments in insights, focusing our efforts there on profitability. We are exploring strategic alternatives for the Insights business as we continue to hone our strategic focus and investment priorities.

Finally, while Brian will take you through the numbers, let me discuss the third theme around financial performance more broadly. The last several years brought unprecedented change to the end markets that we serve, including the impact of the pandemic, material supply chain disruptions, extraordinary inflation and end market transformation. Throughout this period, we partnered effectively with our customers, helping them to solve their increasingly complex engineering and operational challenges. However, our business was not immune to these market pressures.

And while we have worked to navigate these challenges, there has been a short-term impact to our business, in the form of lower-than-expected revenue and adjusted operating margins. This has been disappointing. Specifically, revenue in our automotive business was negatively impacted by region mix, especially in China, where local OEMs have taken share from multinationals.

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In Europe, where we have less content per vehicle on EVs given our lower market share as compared to diesel or gas vehicles and in North America from softening EV ramp-ups and the UAW strike. We have also experienced market declines in inventory destocking in our heavy vehicle off-road and industrial end markets, adding to the pressure on growth.

Our team did an excellent job in recovering inflationary costs through increased pricing, but these efforts did not fully offset increased expenses. In addition, business mix has changed, resulting in a decline in our higher-margin industrial business. These factors, along with the effect of exchange rates has led to a decline in adjusted operating margins.

Despite these headwinds, we have taken actions within our control to help offset these end market and macro challenges. As we turn to 2024 on Slide 4, we believe our cumulative end markets will basically be flat to slightly down this year, but we expect our -- to outperform those markets. In automotive, the most recent IHS forecast indicate that 2024 vehicle production is expected to be down 50 basis points year-on-year.

Additional evidence suggests the automotive end market is returning to pre-pandemic market dynamics, including contractual price reductions. In heavy vehicle and off-road third-party forecast indicate that strength in heavy vehicle on-road in China will be offset by weaknesses in North America and Europe, as well as off-road markets, resulting in low single-digit market declines in that market segment for us.

Our industrial business, which includes HVAC, appliance and General Industrial continues to see inventory destocking and a slow global construction market, impacting overall sales expectations. We expect these trends to continue in the first half of the year and begin to subside in the second half of 2024.

Finally, our aerospace business, albeit a smaller percentage of our overall business continues to see strong growth and is expected to be up year-over-year. Take into consideration this anticipated flat to slightly down year-over-year market backdrop, we expect revenue growth of approximately 2% to 3% in 2024.

This outlook is based upon continued launches and ramps of certain light vehicle platforms, the launch of new tire pressure sensors on heavy vehicles, the launch of new A2L leak detection sensors in HVAC and continued growth of our aerospace and Dynapower inverter and converter business units. Regarding our adjusted operating margin, structural changes in our business around pricing, revenue mix, and exchange rates have caused short-term margin erosion. We expect margins to increase slightly in the first quarter of 2024 sequentially from the fourth quarter of '23, and then continue to grow sequentially each quarter of 2024 by about 20 to 30 basis points per quarter.

We remain firmly committed and confident in reaching 21% or greater adjusted operating margins in 2026, despite these near-term headwinds. As shown on Slide 5, let me address the impact of mix on our overall business. Mix matters to margins across our business units and product lines. It's noteworthy that even with our recent adjusted operating margin challenges and automotive exposure, Sensata continues to deliver top quartile margins as compared to our peers. As the charts demonstrate, our automotive business concentration increased by 2 percentage points in 2023, while our higher-margin industrial business decreased by a similar amount.

This end market and product mix shift reduced operating margins by 40 basis points in 2023 compared to 2022. With an exception that destocking -- with the expectation that destocking will end, our industrial end markets will begin to grow again, reversing some of this trend later in '24. In addition, given our long exposures to euro and yuan, ensured exposures to the pound and peso, currency rates also impacted our margins meaningfully by 60 basis points in 2023.

On Slide 6, I want to provide color into our automotive business. In auto, we are currently balancing 2 key trends to move to EV from ICE platforms and mix shifts across regions. Further within China, we saw the added impact of share shift to more local OEMs from multinational players. In North America, EVs are 50% ahead of ICE vehicles in terms of average content given our higher market share among EVs. While in Europe, we are behind at only half the average content on EVs due to lower market penetration on the current generation of EV platforms.

We believe new product launch is anticipated in 2025 and '26 should close this gap in Europe. In China, today, our average content on EVs is slightly higher than on ICE engines or ICE vehicles, but we are behind with local brands compared to multinationals. In 2023, locally produced automobiles comprised approximately 55% of the total market, an increase from the prior year. We work with many local Chinese OEMs today and our pace of

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new business wins has accelerated across many product categories, including the development of country-specific contactors which should help offset this trend. Now let me turn the call over to Brian.

Brian K. Roberts - *Sensata Technologies Holding plc - CFO*

Thank you, Jeff. Good morning, everyone. Key highlights for the fourth quarter of 2023, as shown on Slide 8, include revenue of $992.5 million, a decrease of 2.2% from the fourth quarter of 2022. Revenue was higher than the midpoint of our October guidance, reflecting favorable timing of the UAW strike settling in November. Adjusted operating income was $184 million or 18.5%. In the fourth quarter, adjusted operating margin was negatively impacted by both revenue mix and by $5 million of onetime adjustments related to year-end inventory procedures.

Adjusted earnings per share of $0.81 in the fourth quarter decreased $0.15 from the prior year quarter. On a constant currency basis, adjusted earnings per share decreased 4% from the prior year period. During the fourth quarter the company took a noncash impairment charge to goodwill of approximately $322 million related to revised financial expectations for our Insight business unit.

Key highlights for the full year 2023, as shown on Slide 9, include record annual revenue of $4.54 billion an increase of approximately 1% from 2022 or 2% on a constant currency basis. Adjusted operating income was $774 million or 19.1% and a slight decrease from $778 million, 19.3% in 2022. This was primarily due to rate of exchange, inflationary costs and business unit mix partially offset by operational improvements.

Adjusted earnings per share of $3.61 in 2023 grew 6% from the prior year, driven by our focus on debt reduction, and return of capital to shareholders. On a constant currency basis, adjusted earnings per share grew 14% from the prior year.

Now I'd like to comment on the results of our 2 business segments in the fourth quarter of 2023, starting with Performance Sensing on Slide 10. Our Performance Sensing business reported revenues of $753 million, an increase of approximately 1% compared to the same quarter last year. Both automotive and heavy vehicle off-road increased slightly primarily due to market growth and content launches, partially offset by revenue mix, pricing and foreign currency.

Performance Sensing operating income was $184.4 million, with operating margins of 24.5%. Segment operating margins decreased year-over-year, largely due to negative pricing not fully offset by productivity, product line mix and rate of exchange. On a constant currency basis, Performance Sensing operating margin was 25.1%.

As shown on Slide 11, Sensing Solutions reported revenues of $239.5 million in the fourth quarter, a decrease of 11% as compared to the same quarter last year. Continued destocking in Industrials was the driver of the revenue decline, partially offset by continued growth in our aerospace business. Sensing Solutions operating income was $68.2 million, with operating margins of 28.5%. The decline in margins year-over-year is primarily due to the lower industrial revenue.

As shown on Slide 12, corporate and other operating expenses not included in segment operating income were $414.2 million in the fourth quarter of 2023 and including the noncash impairment accounting charge to goodwill of approximately $322 million related to the revised financial expectations for our Insights business. The impairment was the result of moderated growth and cash flow projections compared to earlier business outlooks.

While we are confident in Insight's future and believe in its market opportunity, we have narrowed our investments focus on electrification initiatives resulting in the review of strategic alternatives for this business. Excluding the impairment charge and other charges excluded from non-GAAP results, Corporate and other expense increased by 3% compared to the prior year quarter due to higher employee costs.

Moving to Slide 13. Our capital allocation strategy is demonstrating excellent results as our return on invested capital increased by 40 basis points to 9.7% in 2023. We generated $57 million in free cash flow during the fourth quarter and $272 million in free cattle over the full year. That represents approximately 50% conversion of adjusted net income. To increase our conversion rate in 2024, we have renewed our focus to improve working capital with work streams focused on reducing inventory and receivables as well as maintaining control over our CapEx spending.

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Capital expenditures this year are expected to be flat with 2023 at approximately $175 million. Our net leverage ratio was 3.2x at the end of December, and we expect this metric to further improve to below 3x by the end of 2024 and below 2x by the end of 2026. We bought back $28 million of stock in the fourth quarter and $88 million for the full year. In addition, we recently announced our Q1 quarterly dividend of $0.12 per share that will be paid on February 28, to shareholders of record as of February 14.

We are providing financial guidance for the first quarter of 2024, as shown on Slide 14. For the first quarter of 2024, we expect revenue of $970 million to $1.01 billion. At the midpoint of the revenue guidance range, we would expect adjusted operating margin of approximately 18.6% and adjusted earnings per share of $0.85. While the impact on margins from the rate of exchange is slowing, we expect it to negatively impact our first quarter results with an expected headwind of $7 million to revenue, 60 basis points to adjusted operating margin and $0.05 to adjusted earnings per share.

We anticipate full year revenue growth in the range of 2% to 3%. Revenue will likely be flat to slightly down year-over-year in the first and second Quarters as our industrial markets continued to see destocking pressure. The second half of the year should rebound with revenues increasing in the range of 3% to 5% year-over-year with new launches and ramping products driving growth.

Within our peer group, Sensata continues to deliver top quartile adjusted operating margins, and we expect to sustain that performance. We remain confident in our 2026 margin targets of 21% based upon expected volume increases and productivity gains. However, with the structural differences in the business since 2021, gaining significant adjusted operating margin leverage in 2024 will be difficult. Specifically, compared to 2021, as Jeff noted, we have experienced material impacts to margins from foreign currency exchange rates, high inflation and negative mix between our product families and business units.

As we return to a price-down environment with our OEM customers, we will seek to improve productivity in our manufacturing facilities and supply chains to offset this trend. However, productivity benefits will ramp slowly this year as we navigate through higher cost inventory on hand to negotiate material cost reductions with suppliers and improve our yields through automation and efficiency. Further, certain statutory cost increases effective January 1, add pressure to first quarter adjusted operating margins. From the first quarter levels, we would expect to see 20 to 30 basis points of sequential margin each quarter throughout 2024. Now I'd like to turn the call back to Jeff for closing comments.

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

Thanks, Brian. Let me wrap up with a few key messages as outlined on Slide 15. First, I want to thank you, our investors, for your support as we work through this extraordinary transformation with our strategic focus now keenly directed on electrification.

As I mentioned earlier, electrification revenue, which was less than 3% in 2019 is now 17% of our total business. We have won more than $1.3 billion in electrification opportunities over the past 3 years, and that will fuel our longer-term growth. Second, I'm confident of brighter days ahead. We know that our markets will improve, and our safe and efficient business provides a natural hedge for volatility that may occur with EV adoption rates. Our adjusted operating margins will take longer to recover than we initially expected, but we are prepared and continue to perform well compared to our peers and expect to see sequential quarterly margin improvement this year.

Third, our capital allocation strategy is already showing good results as the increase in adjusted earnings per share outpaced revenue growth in 2023. We will continue to prioritize delevering while being opportunistic with share repurchases to further improve earnings per share and returns on invested capital. And fourth, last year, we made dramatic progress addressing Scope 1 and 2 market-based greenhouse gas emissions, meeting our 2026 reduction targets early.

Consequently, we have raised our target reduction goal for 2030 to 45% from our 2021 baseline emissions level. In closing, I'll note that when I was named CEO in March of 2020, little did I know what the immediate future held, a worldwide pandemic massive supply chain disruption and the highest inflation we've seen in 40 years. However, we now see a return to a more normal environment. I am more excited than ever about the opportunities ahead.

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We are poised to deliver to our customers what we do best, helping them solve their most challenging engineering and operational challenges. We have a focused strategy a committed management team and more than 20,000 Sensata teammates across the globe driving execution. I look forward to updating you on our progress. Now I'd like to turn the call back to Jacob.

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

Thank you, Jeff. Now we'll move on to Q&A. Drew, would you please introduce the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Wamsi Mohan with Bank of America.

Unidentified Analyst

It's [Ruplu] filling in for Wamsi today. Looks like your implied op margin guidance for fiscal '24 is 19.2% to 19.5% based on 20 to 30 bps improvement every quarter. That compares to the prior guidance of 20% to 21%. So I think you said FX is a 30 bps year-on-year headwind. Can you help us parse the remaining 80 bps year-on-year into impact from pricing, mix, restructuring, just so that we can size those impacts and then what is giving you confidence in op margin can really grow 20, 30 bps quarter-on-quarter, every quarter?

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

Yes. So we spoke about really the 3 items that are impacting the margin profile. We did not speak to the benefit associated with the restructuring that we did in the third quarter of last year, but obviously, that is helping mitigate and offset some of the impact of the headwinds that we're experiencing. But it's really coming from the 3 areas that we've outlined. It's the mix of the business which is really a mix around the end markets we're serving.

So industrial, as an example, versus automotive, which is a higher-margin business relative to our automotive business. So as industrial goes down, that impacts the business negatively, and also across regions and product families. And as we outlined in fourth quarter, that was a 40 basis point or 2023, that was a 40 basis point impact to us. The other is around foreign exchange. That's going to impact more in the first quarter than the full year. I think for the full year, we're thinking it's a modest amount of impact in terms of the rate of exchange, obviously, we don't control that depending on where the rate of exchange goes.

But as we entered the year, we believe for the full year, that's going to be maybe 10 basis points or flat to last year. So that's starting to mitigate, which is which is very good news. And then obviously, there's the aspect of the volume in the business as well that's impacting our ability to gain some leverage in terms of margin profile.

Unidentified Analyst

I just want to add real quick. I mean, obviously, one of the things that I spent a lot of time on my first quarter here, I've been doing this deep dive around our planning as we go through the budget cycle. And one of the things that became clear as part of that is, especially in the first half of the year, we have a lot of room for productivity improvement as the conditions normalize. But we do need to work through kind of higher levels of inventory. And so that's one of the things that will impact margins a little bit, especially in the first half of the year, and then as productivity gains kick in, we should be able to see that improving throughout the year, which gives us a lot of confidence to the 20 to 30 basis points improvement per quarter sequentially going forward.

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Operator

The next question comes from Mark Delaney with Goldman Sachs.

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

Given slower auto OEM plans around the pace of their EV ramps and also considering the strong bookings the company had in recent years, including what you reported today for 2023. Is the target for $1.2 billion of automotive electrification revenue in 2026 achievable?

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

Yes. It is based upon the expectation of EV penetration over time, and we know that can move around a little bit. We've talked about the fact that we have about 90% of that booked as of the end of 2023. So we see a real strong line of sight to that $1.2 billion. We also have a fairly good line of sight to the other $800 million of electrification revenue in the other business based upon market growth expectations in those areas. So listen, with the $2 billion, it might be $100 million or so off in either direction will depend on market penetration rates and the development of those markets. But the movement toward electrification is real. That business grew 50% last year. It's now 17% of our overall company.

That trend is going to continue. To the extent there's puts and takes in terms of the migration toward electrification, we have that natural hedge in the business. And we've talked about the fact that if EV penetration slows down, it may impact the overall growth rate of the business, but it would be positive to the margin profile in the business. So we feel well positioned in terms of what we've won and what our capabilities are, and we'll watch closely how the market evolves.

Operator

The next question comes from Matt Sheerin with Stifel.

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

I wanted to just ask around your guidance for the year, the 2% to 3% growth. I guess question 1 is, what kind of confidence and visibility that you have given that a lot of your peers and suppliers are actually not giving any guidance for the year due to the lack of visibility and also just concerns that this inventory correction could take longer. So could you just walk us through your thought process by sector in growth rates by sector for the year?

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

Yes, I'd be glad to. So we're -- in 2024, we are being much more conscious to follow IHS forecast, right? In the past, we have done adjustments based upon our weighted impact in the business and so forth in terms of where we have content on various platforms and different OEMs. We believe it's better for us to focus on the IHS forecast and then share with you how we believe that is going to impact our company growth in the automotive business. So we're following IHS forecast.

Right now, the fourth -- the latest forecast from IHS for the full year is down, call it, 50 basis points. We believe that our auto market based upon launches that we have engaged with customers to understand what is going to happen this year in terms of their product launches and some of those were carryover from '23 that were delayed into '24, we feel good about where that automotive business is. We're giving you a view into the full year but we're guiding specifically to the first quarter.

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So we would call the automotive market up a couple 100 basis points in -- excuse me, our business up a couple of 100 basis points in a market that's down, call it, 1%. In the HVOR market, we believe that the third parties are forecasting somewhere around 4% down. As I had mentioned in my prepared comments, that's a result of strength in China on-road truck but weakness in North America and Europe on road also in construction. So that would be the market expectation that we have baked into our view for the heavy vehicle market.

And then in Industrial, the first half is going to be a little bit more tough sledding with some continued destocking, but we do expect that to recover to get back to single-digit growth for the full year, but the first half of the year will be down a little bit. Aerospace, the shining star really in terms of market dynamics, we would continue to expect that market to be up high single digits in 2024.

Operator

The next question comes from Christopher Glynn with Oppenheimer.

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

Brian, I wanted to ask you a question about free cash flow. I know you're kind of new to the role here, but conversion missed and was light in the year, after a soft '22 and then your '24 guidance at 65% to 70% compares to, I think, 75% to 80% long-term outlook. So curious where your thoughts are on where the gates are and ability to lean working capital flows and maybe some of the operating disciplines that should drive better free cash flow conversion.

Brian K. Roberts - *Sensata Technologies Holding plc - CFO*

Yes, no, great question. I mean as we've looked at the last couple of years to try to account for timing, you're right. We've been basically kind of converting half or slightly over half of our adjusted net income and free cash flow. I can sum it up in 1 word, it's inventory, right? And ultimately, that's the main -- a big piece for us and a lot of focus. Obviously, over the last couple of years, there was a different prioritization where we needed to make sure the supply chain had enough redundancy in it or enough quantity in it, if you will, to be able to make sure we could meet customers' demands that was really important to the company.

Now in a more normalized environment, we're working hard to start taking down those inventory balances. That said, it's going to take a little bit of time, and it's why we've talked about higher cost of inventory that will impact adjusted operating margins in the first half of the year, as well as we just work through kind of that overall normalization.

Certainly, receivable management, the company does a good job there, but we can do better. And one of the reasons for -- as we look at the end of this year, end of '23 and beginning of '24, you'll look at the balance sheet, no, we really we didn't try to manage payables, right? So we let that kind of naturally flow as it should, which is why we got the result for '23 and where we think we get the improvement for '24. And then to your point on the longer term, again, I'll come back to inventory. I mean that's going to be a key piece for us.

Operator

The next question comes from Samik Chatterjee with JPMorgan.

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

Jeff, I guess I had 1 for you. It's a bit more on the strategic front. I mean, I think out of today's earnings report, one of the investor sentiments that I think we'll hear is that the strategy that you've laid out in terms of the transformation, that continues to be sort of fluid and sort of change over time not in relation to electrification, but the adjacencies of it, including sort of you did an Investor Day in September, and now you're restructuring insights, and some of those adjacencies continue to sort of be fluid.

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Any thoughts around when you can sort of more get to a more stable state in terms of strategy in relation to tracking execution relative to it because I think the bigger challenge here seems to be in terms of just the macro developments that are happening, but you're changing your strategy in response to that as well.

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

Yes, it's a great question. And we talked a little bit about this at Investor Day about the fact that several years ago, as we -- when I took over in March of 2020, we realized there was going to be significant amounts of change in the end markets that we serve. And I've been known to say there's going to be more change in the next 10 years than there has been in the last 50. And I think we all agree with that. That resulted that in us needing to really look at what those changes were going to be and where we needed to invest to make sure that we stayed highly relevant in the end markets that we serve. And what we had identified early on was 3 areas around autonomy, around insights or IoT connectivity, if you will, and electrification, and we cast the net very wide, to make sure that we had enough lines in the water, if you will, to incubate the growth that we wanted to experience long term.

I will say it very, very confidently, I'm certain now, electrification is that future, and we are narrowing our investments to that. Now we're very fortunate that 2 of those 3 opportunities we pursued were meaningful opportunities in terms of the development of the market. But when you look at the fact that in 2023, $700 million of our business or 17% was electrification the success we're achieving has really dictated the direction of the strategy. We have the capabilities to serve our customers there. They need our help and that is the future for the company.

Now the core business will continue to be very relevant, but we need to focus the strategy in that area around electrification. And you can see it in the revenue growth and the new business wins that we're experiencing. It's painful to manage through our restructuring of businesses that are seeing very significant opportunity, but that is what strategy is all about. It's picking and choosing where we need to invest. We'll continue to be very committed until we find out where we want to go with the insights business, but our investments need to go toward strategy -- toward the electrification area. Thanks for the question.

Operator

The next question comes from Steven Fox with Fox Advisors.

Steven Bryant Fox - *Fox Advisors LLC - Founder & CEO*

Jeff, I was wondering if you could just delve in on your expectations for electrification for 2024. Your thinking on growth versus what kind of market expansion you're expecting? And also how those margins within that pool of products is advancing this year and its influence on the overall margin?

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

Yes. So let me start with the last part of that question, which is around the product development. We have a very strong portfolio of opportunities to go to our customers and contact -- high-voltage contactors are the core of that, but it's much broader. It's current sensing, it's isolation monitoring, it's other aspects of sensing, if you will, or electrical protection that is necessary in order for our customers to go through this transformation. And by the way, there's an accumulation of all those components in the form of battery distribution units and other subsystems that we're getting pulled into that are very meaningful from an average selling price standpoint that is propelling the growth as well. But it's at that core component level where we have the expertise.

And we continue to build on that organically with the joint venture with our partner in China around Schrader technology. So there's different types of technology and product capabilities that are necessary in the different markets around the world. So we've built out a really nice portfolio to be able to serve that market. And again, it's demonstrated in the form of the magnitude of the new business wins that we've experienced over the last several years, and that's been growing during that period of time.

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In terms of the overall development of the market, if we go back 5 years, I think with penetration rates that we've experienced in 2023, of around 10% penetration in North America, somewhere around 16% in Europe and in China, around 30%, 35%. Those are meaningful penetration rates of electric vehicles. Today, there are over 230 models in China of electric vehicles. And that's the reason why there's higher penetration there because they've invested ahead of the curve and they have so many different options.

So the penetration may ebb and flow a little bit with regulation and different things that happen. Consumer acceptance of it, but the ship has sailed on this. This is happening. And so that's why we've really double down not only in the area of electrication for light vehicle, but it's happening in heavy vehicle and the infrastructure that's necessary to support it. So we feel good about it, but we're going to watch closely as our customers make choices in terms of where they allocate investment dollars.

And if some of our customers decide that they want to slow things down and spend money on a new combustion engine that's more efficient, then we'll follow suit and continue to serve them in that market that we do extraordinarily well.

Operator

The next question comes from Luke Junk with Baird.

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

The question on the outlook for the back half of the year, specifically your expectation for revenue growth to rebound in the second half based on new and ramping product launches. I'm just wondering to what extent you've injected any conservatism or haircut your assumptions relative to moderating EV growth and changing geographic mix relative to the auto piece of that ramp be also curious if you could just parse out what is auto and non-auto related in that ramp? I know you have some things in HVAC and whatnot that are contributing as well.

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

Yes, sure. So let me touch on the auto piece, given that's a big portion of the business. Yes, we're looking at IHS numbers, right? So first quarter of '24 is expected to be about 21 million, 21.5 million units. Second quarter is expected to be up a little bit by 22 million. And then in the third quarter, there's a natural dip. It's the fourth quarter for the automotive market, that's up to almost $24 million units in the fourth quarter. So that's the data we're looking at that would drive net down 0.5 percentage point or down 1 percentage point in terms of overall production. And then we layer on top of that all of the details associated with the new launches that are happening that we're building capacity, we're bringing raw material on.

So there's been extensive dialogue with customers, and we learned a lot last year in terms of some of the delays that occurred to make sure that we're really engaging much more closely with customers to understand what's happening. And so 2% to 3% growth isn't spectacular growth, to be honest, right? And that does not drive outgrowth that we're normally accustomed to in the business. But it's the market reality is based upon the end markets, the market itself and so the content growth that we'll experience based upon launch schedules.

Brian K. Roberts - *Sensata Technologies Holding plc - CFO*

And I'll just add that in the second half of the year look to your question, we do have the product launches coming up for TPMS within HVOR. That's driven by regulation in Europe. So that one makes us feel a little bit better about that one. The leak detection in HVAC we expect to see continuing to see ramp up given where we are and what demand looks like there. So as we've gone through this process, I mean, we've certainly -- and Jeff mentioned it in his in his remarks, it's important that we make sure that we're executing well against what we're saying. And so I think it's fair to say that we've tried to build in a level of conservatism into the forecasting, obviously, we'll continue to watch third-party data as it goes and just if required, but we feel pretty good about it today.

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Operator

The next question comes from as Shreyas Patil with Wolfe Research.

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

I wondered if you could talk a little bit more about the productivity actions that you're looking to take this year. And how to think about that relative to the impact of contractual price reductions. You mentioned those are starting to come back. I believe they're typically around 1% to 2% annually. So just trying to think about how the 2 -- will you be looking to offset those price reductions through productivity this year?

Brian K. Roberts - *Sensata Technologies Holding plc - CFO*

Sure. No, great question. Thank you. So I mean, the first I would say is we have been investing continuously over the last couple of years in capital expenditures driven around customer needs for our lines and facilities but also to be able to gain efficiencies and improve audition levels. And so that's certainly an area that we think is going to help us kicking in here in the second half of the year to be able to find those gains and find productivity.

Again, certainly in an environment that's more normalizing to a kind of an OEM price down environment. We're working with our suppliers already, what that means around material costs. Again, it's going to take us a little bit of time to work through higher cost capitalized inventory. So that's a little bit more of a headwind than the beginning of the year. But again, as we talk about the sequential margin improvement in the back half of the year, we think that's certainly a helper for us. And as Jeff noted also, we think exchange rates normalizing gives us a little bit more benefit there as we're continuing the purchase.

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

Yes. The only other thing I would mention is on the pricing side. So we talked about a return to a more normal environment. We're not expecting 1.5% price down in 2024. But the trend is going in a direction from where we were seeing significant price up to more neutral on pricing. So we don't have to bend the cost curve completely, but we are try to get ahead of the curve in terms of bending the overall COGS cost line to be prepared for that transition back to the normal environment where we would see that 1%, 1.5% price down and productivity to offset it.

Operator

The next question comes from Amit Daryanani with Evercore.

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

I have two as well. I guess the first one, Jeff, I'm hoping you can just talk about what do you think the path to 21% operating margin looks like today? And is there a revenue run rate or a combination of that and cost reduction that you need to get there? And just what the contribution of those 2 buckets would look like?

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

Yes. So there's not -- volume helps us tremendously. There is no question about that. But with 2%, 3% expected revenue growth, we can't count on that right now. So we're going to do all of the other productivity measures that Brian talked about to try to get more productivity to offset the pricing impact at some point and things are starting to turn a little bit in terms of the strength of the U.S. dollar versus those loan currencies.

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So the fact that we're -- for the full year, not going to have a big impact or a headwind associated with what's going on there is going to be extraordinarily helpful in terms of the overall benefit that we experience. But it's the combination of those things that are going to allow us to do that. Longer-term aspects of the profitability of the business mix, but we do that really well. We have a dozen or so very large product families where we have product road maps that we've built that are multiyear road maps that will get us to better profitability in the mix of business.

We've talked pretty extensively on prior calls regarding the fact that our electrification business is lower margin at the net margin level, but at the gross margin level, it's more comparable to the company margin. And so as that investment profile reaches equilibrium, we'll start to see a better drop-through in terms of overall margin profile.

Operator

The next question comes from Joe Giordano with Cowen.

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

I just want to keep following up on the margin here. So I mean, I think having all the mix issues and pricing, I think competitors struggled with this as well for over this kind of cycle here. But when I look at some -- Performance Sensing was like almost a 30% margin business at one point, right? And we're still pretty far below that. And I think everyone is -- I think others maybe are getting closer to where they were pre-COVID and pre supply chain disruption. I'm just curious if maybe -- is there a more aggressive kind of restructuring effort needed from a footprint standpoint or from a facility? Is there more you could do in the absence of favorable volumes to kind of push margins back up to kind of historical levels?

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

Yes. So I think we demonstrated in the third quarter that we're not bashful about doing -- making really tough decisions regarding restructuring, but we also clearly want to make sure that we have the team in place to deliver on the future. And in a long-cycle business, as you can imagine, that's a very delicate balance because we have a very large portion of new business wins. The $1.3 billion of new business wins over the last 3 years was just electrification. It was more like $2.5 billion of new business wins that we need to deliver on, that will provide the growth going forward.

And so it is [a doubt] that short and long term is a delicate balance. We're trying to thread the needle on that. We're taking what we believe are appropriate measures associated with restructuring the business focusing the strategy in areas that are around the future, difficult decisions regarding insights. So we believe we're making the right decisions. We'll continue to look at it, that's our commitment to continue to look at what else we can be doing to accelerate that pace of change. And so we're sharing with you what we've acted on and what we believe the opportunities are right now.

From a footprint standpoint, we're fairly consolidated. I mean, for 4-plus billion business. We have 15 sites around the world, we don't have 50, right? So we're already -- and that's what drives the 18%, 19% margins in our business, which is comparable to some of our peers with much larger organizations. But we recognize we need to keep working on it to get back to a higher level of margin, and we're not backing off the '21. It's just going to take us a little bit more time to get there, and it's a balance of short and long-term investment for the growth of the business long term.

Brian K. Roberts - *Sensata Technologies Holding plc - CFO*

Yes. And to your point on the Performance Sensing margin again, keep in mind that as electrification does continue to grow for us and gain scale, that helps. We see similar levels of gross margin today in the safe and efficient side versus the electrification side. But we're not yet at the EBIT margins, if you will, in electrification. And that will improve with more scale.

As Jeff noted several times, a lot of these new business wins, especially over the last couple of years really start to kick in, in the '25 and '26 cycles, which is part of the reason why we're investing today, and we're ultimately going to hopefully see that growth tomorrow. So those are 2 big drivers

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of where it is. And so again, I agree with Jeff. I think we need to always be prudent and smart around the cost structure, but ultimately growth is going to be an important aspect, and we have the fuel in new business wins to do it. So now we have to execute against them.

Operator

The next question comes from Chris Snyder with UBS.

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

I wanted to follow up on the Insights business. And I understand that electrification is a bigger opportunity and probably maybe more worthy of investment dollars. But it's only been 2 or 3 years since the company bought Xirgo and SmartWitness. And the investment was already substantial at $600 million. And I thought at the time, at least Xirgo was neutral to maybe even accretive margins. So I guess my question is has something changed in new businesses over the last 2, 3 years? Are they more competitive than you thought? Did something happen?

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

Yes, it's a great question. So if you look at the most notable public comp to our Insights business, it's a company called [Samsara], you may or may not know them. But their model is very different, and they're investing heavily in the growth rate that they're experiencing in that business. So it does require a very different business model in terms of investment in gaining market share and getting equipment out there to then have a revenue stream associated with the software.

The opportunity is real. But it's tough to operate that model in Sensata's business when, number one, we can't run at a loss. And number two, we have other areas that are more meaningful for us where we can be investing in. And so listen, I think we don't like a write-off on this business. We don't like changing our perspective on it, but I think that we have to make the tough decisions based upon the investments that we've made, the lines we put in the water and where that future holds. And we're going to work to optimize that business to allow it to achieve its full potential.

Operator

And we have a follow-up from Christopher Glynn with Oppenheimer.

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

Just wanted to clarify on the 50% electrification revenue. I don't think Dynapower was a huge part of that. Wondering if you could comment on what the organic was and what your outlook is for the 2024 backdrop for new business wins?

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

Yes. So trying to think back in time here is in the summer of '22. So we had half of 2023 that was the portion from Dynapower that was inorganic, but it's still sizable 30% plus growth that we're experiencing in the electrification business, Chris.

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

'24, anything on '24 MBOs?

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

The MBOs will continue to be meaningful. 2022 was a peak year in terms of sourcing opportunities. We ended up at [$660] in 2023. And we think in around that target is what we would expect for 2024 as well. So a heightened level off of 4 or 5 years ago is disproportionate in the area of electrification.

Operator

This concludes our question-and-answer session. I would 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, Drew. I'd like to thank everyone for joining us this morning. Sensata will be participating in the AllianceBernstein Tech Investor Conference in New York on February 29 and the Morgan Stanley Tech Investor Conference in San Francisco on March 4. We look forward to seeing you at one of those events or on our first quarter earnings call, which will be in late April 2024. Thank you for joining us this morning and for your interest in Sensata. Drew, you may 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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