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ST.N - Q1 2024 Sensata Technologies Holding PLC Earnings Call

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Alexia Taxiarchos *Sensata Technologies Holding plc - Head of Media Relations & VP of Global Communications*

Brian K. Roberts *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

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

CONFERENCE CALL PARTICIPANTS

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

Irvin Liu

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

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

Manmohanpreet Singh *JPMorgan Chase & Co, Research Division - 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*

Shreyas Patil *Wolfe Research, LLC - Research Analyst*

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

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

PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies First Quarter 2024 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Ms. Alexia Taxiarchos, Vice President, Corporate Communications. Please go ahead.

Alexia Taxiarchos - *Sensata Technologies Holding plc - Head of Media Relations & VP of Global Communications*

Thank you, Betsy, and good afternoon, everyone.

I'm Alexia Taxiarchos, Vice President of Corporate Communications, and I would like to welcome you to Sensata's first quarter 2024 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 would like to reference Sensata's safe harbor statement on Slide 2. During this conference call, we will be making 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

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limited to, those discussed in our Forms 10-Q and 10-K 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 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 our presentation materials.

Jeff will begin today with comments on our overall business. Brian will cover our detailed financials for the first quarter of 2024, including our financial guidance for the second quarter of 2024. Jeff will then return for some closing remarks. We will then take your questions.

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, Alexia, and welcome, everyone.

Upon being named CEO of Sensata in the first quarter of 2020, I set as a main priority to ensure that Sensata was prepared to partner with our customers to solve the complex engineering and operational challenges of the next 10 years and beyond. Our ability to help our customers solve these very demanding problems is core to our DNA and underscores why Sensata has achieved success for more than 100 years.

With more change expected over the next decade that has been seen in the last 50 years, it was critical to equip Sensata with the required capabilities to remain a trusted, relevant player in the markets we serve. And we did just that. We are at the early stages of a transformation to an electrified world, and Sensata is well positioned to capitalize on the opportunities that these new capabilities and our core broad sensing capabilities provide. We have invested in markets, including high voltage contactors, Performance Sensing, isolation monitoring, battery management systems and power conversion systems, that allows us to participate in the unprecedented opportunity across the end markets we serve from light vehicle and heavy vehicles to broad industrial markets including the infrastructure needed to enable all this electrified equipment.

The results to date have been impressive as electrification revenue increased from less than 3% of total Sensata revenue in 2019 to more than 17% of revenue in 2023. Further, we are poised for continued future growth, recording over $2.3 billion in new business with $1.3 billion of that new business in the area of electrification during the last 3 years.

However, as we know, transformational change like we are seeing, for example, in the automotive industry is not linear in nature, consumer preferences, global economic trends and regulations are among the very many variables that can create short-term ebbs and flows in demand. The good news for Sensata is that while we do not control demand, we are well hedged against these fluctuations with our core safe and efficient business, which includes vital sensing products that have endured decades and will, without question, continue to be highly relevant to our customers, providing Sensata lasting durability.

While our automotive customers may not be developing the next-generation internal combustion engine, they will continue to produce ICE vehicles for years to come, and the Sensata content is on a great majority of these vehicles. This positions us very well to manage through the volatility associated with this transformation. For example, in the [fourth] quarter, we noted in certain markets such as North America and Europe, the lower-than-forecasted levels of EVs was offset by higher-than-forecasted ICE production. Given our broad share position across ICE vehicles, this EV slowdown did not negatively impact our revenue nor our ability to outgrow our end markets.

In addition, we generated significant growth from new content both from new business wins on EV platforms while ramping production as well as on ICE vehicles, where we have taken share resulting in year-over-year net revenue growth of more than 6% as compared to the IHS stated market that was down 1%.as we know, market outgrowth can vary from quarter-to-quarter due to mix and launch schedules, but we were certainly pleased to deliver approximately 700 basis points of market outgrowth in our automotive business in the first quarter of this year.

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We may debate the rate of change as the market fluctuates over time, but the number of plug-in hybrid and battery electric vehicles will only continue to increase. In 2023, EV penetration rates were 10% in North America, 15% in Europe and 36% in China. In 2026, IHS forecast the penetration rate to almost double in all 3 of these regions with penetration rates of 24%, 31% and 60% for North America, Europe and China, respectively.

Our first quarter automotive business results underscores that Sensata is well prepared for both the coming wave of plug-in hybrid and battery electric vehicles as well as the continued production of ICE vehicles to deliver for our customers and for our shareholders.

Let me take a moment to discuss the rest of our business portfolio, which represents nearly half of our revenue and continues to drive solid results against challenging market conditions. Our heavy vehicle and off-road business is starting to benefit from new European regulations around tire pressure monitoring. Demand continues to increase, providing confidence that we will outgrow a market that is expected to decline in the mid-single digits due to North American weakness, partially offset by improving production in China.

Our Industrials business, which includes HVAC appliance and General Industrial continues to see inventory destocking and slow construction markets, impacting overall sales expectations. While this industrial down cycle will likely continue to pressure results throughout much of 2024, our A2L leak detection sensor, which we launched late last year, has been well received in the marketplace and is delivering above expectations.

Finally, our aerospace business continues to deliver solid results with single-digit year-over-year growth.

In summary, against an overall market backdrop for 2024, which will likely be down 1% to 2% this year, we are confident in our ability to deliver outgrowth of approximately 300 to 400 basis points. While Brian will take you through the first quarter results in a moment, let me add that our first quarter performance is an important proof point as to the durability of the Sensata business as we delivered revenue and adjusted operating margins at the high end of our guidance range provided in the fourth quarter call in early February.

With that, let me turn the call over to Brian, who will take you through the first quarter results in greater detail and provide guidance for the second quarter.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

Thank you, Jeff. Good afternoon, everyone.

Let me start on Slide 6. As Jeff noted, we had a solid first quarter with revenue and adjusted operating margins towards the high end of our guidance ranges. We reported revenue of approximately $1.007 billion as compared to revenue of about $998 million in the first quarter of 2023. This represents a 1% increase year-over-year. Organic revenue growth of 2.3% was partially offset by 140 basis points of unfavorable foreign exchange rates.

Sequentially, revenue increased by 1.4% from the fourth quarter of 2023. Adjusted operating income was $188.5 million or a margin of 18.7%. This represents a 20 basis point improvement from 18.5% for the fourth quarter of 2023. Foreign exchange rates proved to be a significant headwind to our adjusted operating margins with a 70 basis point impact in the first quarter of 2024.

On a constant currency basis, adjusted operating income margin was 19.4% compared to 19.3% in the first quarter of last year. Adjusted earnings per share was $0.89 for the first quarter of 2024. This represents a $0.03 decrease from the first quarter of 2023. Adjusted earnings per share exceeded our guidance by $0.01. On a constant currency basis, earnings per share would have been $0.93 in the first quarter of 2024.

Moving to Slide 7. A key driver of margin tailwind or headwind in a given period is the revenue mix of our business units. This slide helps to demonstrate this point. On the left is a graphical representation of our highest-margin business, Aerospace, down to our large -- lowest margin business, auto. While we continue to enjoy differentiated margins as compared to many in the automobile space, we do know that a point of share that shifts from industrial to auto results in about a 25-basis point headwind to Sensata. Year-over-year, we experienced a 3-point shift to auto from our higher-margin businesses.

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On a constant currency basis, our year-over-year adjusted operating margins increased in Q1 2024 despite this mix shift, demonstrating productivity improvements across the organization.

Turning to Slide 8 on segment performance. To better reflect how we are managing and operating the business as well as to acknowledge the ongoing strategic review of our Insights business, we have reclassified Insights from Performance Sensing, creating another operating segment, which is reported in Other.

Prior periods have also been adjusted for purposes of comparability. On this adjusted basis, our Performance Sensing revenue increased in the first quarter of 2024 by approximately 7% year-over-year to approximately $713 million. Growth was primarily driven by strength in Europe due to higher-than-forecast ICE production, coupled with strong results in both Japan and Korea. Performance Sensing operating income was approximately $185 million or 26% of performance sensing revenue.

Operating margins increased by 70 basis points year-over-year, driven by revenue outgrowth and productivity. Sensing Solutions revenue decreased by 9% year-over-year to approximately $258 million, primarily due to the continued destocking challenges in the industrial business. While we expect these market pressures to continue throughout much of the year, the launch of our new A2L leak detection business will partially offset some of the drop in the second half of 2024.

Sensing Solutions operating income was $72.5 million with operating margins of 28.1%. This decrease of approximately 150 basis points is primarily due to that lower industrial revenue.

Turning to capital allocation on Slide 9. Our priority remains to drive our net leverage down to under 3x by the end of this year. In addition, we announced last week our Q2 quarterly dividend of $0.12 per share, payable to shareholders of record as of May 8th, and we repurchased approximately $10 million of Sensata shares in the first quarter of 2024. We are focused on improving our free cash flow conversion in 2024 to approximately 65% to 70% of adjusted net income. Part of that effort, we expect to keep our 2024 capital expenditures flat with 2023 and about 4% of revenue and to reduce our inventory days on hand by approximately 10% this year.

As shown on Slide 10, we are providing financial guidance for the second quarter of 2024 as follows. We expect revenue of $1.025 billion to $1.055 billion. As expected, this represents a slight top line decrease from the second quarter of 2023. You'll recall that Q2 2023 benefited from approximately $25 million in low-margin onetime revenue. At the midpoint of the revenue guidance range, we expect adjusted operating margin of approximately 18.9% and adjusted earnings per share of $0.92. We expect foreign currency to negatively impact our second quarter results by 50 basis points compared to prior year.

Looking ahead to the back half of the year, we note that continued industrial destocking and unfavorable foreign exchange rates will likely continue to pressure revenue. That said, we continue to expect revenue growth of approximately 2% for the full year 2024.

Finally, within our peer group, we know that Sensata continues to deliver top quartile adjusted operating margins. Despite pricing pressure as we return to a more normalized environment, our team continues to drive productivity through operational improvements. We remain committed to delivering adjusted operating margin improvement of 20 to 30 basis points per quarter for the remainder of the year.

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

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

Thank you, Brian. Alongside our earnings release today, we issued a separate release announcing my retirement from Sensata. Martha Sullivan, who will step into the role on an interim basis while the company undertakes a search process. I know many of you are familiar with Martha, given her 35-year history with Sensata, including her time as CEO from 2013 to 2020 and her tenure on the Board of Directors.

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It has been a great honor to be the CEO of Sensata over the last 4 years and a member of the management team since 2006. And I am proud of the progress we have made, enabling our customers to solve their most challenging engineering and operational issues by developing a broad set of capabilities that is not only helping to transform our end markets, but also has transformed Sensata.

As recently as 2017, IHS predicted that electric vehicles would comprise approximately 9% of the market in 2026. Now that forecast is 26%. And Companies such as BYD and Tesla have become the largest EV manufacturers globally. Since 2019, the Sensata has grown revenue by 17% to just over $4 billion in 2023. Basically, all of that growth has been in electrification. While this significant opportunity has emerged, we continue to navigate through an unprecedented micro environment, commencing with the pandemic, followed by massive supply chain disruptions and an inflationary cycle.

We did our best to navigate through these choppy waters and are now poised to grow our top line and bottom line and improve our financial predictability. I know that Martha, Brian and the whole team will continue to work tirelessly to deliver on Sensata's promising future. As our first quarter results and second quarter guidance indicates, we are on the right path. We achieved revenue and adjusted operating margin results for the first quarter at the high end of our guidance range, and we are on track to deliver margin expansion in the second quarter. We continue to reduce net leverage, and we expect to be under 3x by the end of 2024.

I want to thank our investors for your support through the good and challenging times. I want to thank our Board for giving me a great privilege to serve as CEO for these past 4 years. And most importantly, I want to thank our customers, and the more than 21,000 Sensata teammates that I've had the honor of working alongside for the last 18 years to deliver innovative solutions for our customers each and every day.

I'll now turn the call back to Alexia.

Alexia Taxiarchos - *Sensata Technologies Holding plc - Head of Media Relations & VP of Global Communications*

Thank you, Jeff. We'll now move to Q&A. (Operator Instructions)

QUESTIONS AND ANSWERS

Operator

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

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

Jeff, it's been great working with you over the years, so we'll all miss you. If I step back a little bit here, can you talk about the expectation for outgrowth this year in automotive? And how are you now thinking about the overall production and the EV mix, it feels like the EV mix kind of slowed in some areas. Just curious, as you think about the progression through the course of the year, how we should think about that?

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

Yes, Wamsi, thank you. It's been a pleasure working with you as well. From an outgrowth standpoint, obviously, for the first quarter, automotive was quite strong at 700 basis points. Total company was about 300 basis points of outgrowth. That's not within the 400 to 600 basis point range we have historically targeted, but it's a significant improvement from where we were last year, where we saw mix really impact the overall outgrowth where there were quarters, where we were growing slower than the IHS forecasted rate.

So we feel really good about that. The continued NBOs that we've won and the forecast that we see with customers would suggest that we'll continue to see in that range of 300 to 400 for the year. And again, hopefully, as those NBOs take hold over time, and if the mix goes in our way in

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terms of the mix of the automotive market, we'll continue to see that. So it's off to a good start here, Wamsi and we're pleased with the outcome in terms of the overall growth rate.

Operator

The next question comes from Matt Sheerin with Stifel.

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

So Jeff, I guess one important question here from investors is why the change here in terms of the management change. I also noticed that there's some new board representation from an investment fund. So could you talk about maybe some of the reasons for the change, and what we should expect in terms of new management as we go forward here?

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

Yes, I'd be glad to address that. So let me start with what I stated in my opening comments that leading this company for the last 4 years as the CEO and being a part of the management team for the last 17, 18 years has been a huge honor. And I thank everyone for that honor.

Based upon the capabilities that we see that we've developed, the new business wins that we've actually achieved, we feel as though we've gone through a real significant transformation here. Personally, I've never been a huge fan of long good guys, to be honest with you, and we're very fortunate that we have Martha Sullivan on the board, we're also very fortunate that she was willing to step into the role on an interim basis as we perform a search.

You can certainly understand that given that Martha has been a part of the board, she's been very involved in the strategy I think that still continue to look at the strategy, and how we focus and what we need to make sure that we execute on. And when we hire a new CEO, I'm sure that individual will do the same. But the progress that we've made and the success that we've achieved should speak for itself. I'm sure there'll be some tweaks along the way, but we feel as though we're executing well, and we're on a real nice glide path here in terms of continued progress in terms of executing on the strategy. Appreciate the question.

Operator

The next question comes from Mark Delaney with Goldman Sachs.

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

Jeff, let me also thank you for all your help over the last many years and wish you the best in the future. I was wanting to get an update on how Sensata thinks is tracking to the 2026 target financial model, which from your Investor Day, I think, called for $5 million to $5.3 million of revenue and $550 million to $630 million of earnings.

Maybe talk about how you see the automotive part of that shaping up, especially as it relates to EV. And you alluded to some shifts in how some of the OEMs are developing their EVs. And to the extent the EV business is somewhat slower. Are there other businesses that maybe offset that perhaps some with higher margins?

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

Yes, absolutely. So there's certainly a lot of change that's going on in the markets. We spoke to some of that in the first quarter of this year where you saw EV production rates dropped from the fourth quarter of last year, still up considerably from the first quarter of 2023, still a 20%-plus growth rate, but fourth quarter EV production was about $3.5 million and in first quarter was about $3.1 million. So there was a mix shift there that was quite favorable and Sensata benefits because of the hedge that we have, the natural hedge that we have.

Speaking specifically to the electrification business, what we've consistently talked about is 2026 having a $2 billion electrification business. We left '23 with a $700 million business, that's 17% of the company. And in '23, it grew by over 50%. Obviously, we don't need to grow that business at 50% to get to the $2 billion by '26. But we feel really good about the wins that we have in our long-cycle business. So remember, a very big portion of our business is long cycle. So we have a lot of visibility to that. We quote new business wins as the indicator for that. And we've said that we have 90% plus of the [1.2] automotive sold with our customers. So that's a very high fill rate in terms of visibility to that outcome.

Obviously, where EVs go will impact that outcome. But as was demonstrated in the first quarter of this year, when there is a pivot toward more ICE, we benefit from that as well. So it's not lost revenue if EV penetration doesn't grow at the same rate. So we feel good about it in terms of where things are going, Mark, and we'll continue to monitor it and obviously make sure that we're pivoting our engineering investments to where our customers have long-term commitment regarding the direction that their businesses will go, which will obviously drive the direction of our business.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

And Mark, I'd just add a couple of quick additional comments to what Jeff said, specifically within auto. For example, certainly, over the next couple of years, move back to ICE, for example, in Europe helps us. As we've talked about, we have approximately 2x the content on an ICE vehicle in Europe as compared to an EV vehicle. I'd also point out that if you think about kind of our safe-and-efficient business, while the revenue number may be a little bit lower.

Due to the timing around EV, our profit profile is quite good there. And so it's what we do. We have lean manufacturing. We have a lot of volume there, and we'll continue to. So it can help us certainly from a profitability side. And then outside of auto, I would just point to, although this industrial down cycle seems to be lingering longer than any of us would have planned or like, at some point, it's going to start to turn. And that turn in '25 or '26, again, should certainly benefit the company.

Operator

The next question comes from Christopher Glynn with Oppenheimer

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

Thanks Jeff, thanks for the partnership working alongside us for many years, all the best. I wanted to ask about the comment about taking share in the ICE vehicle market, if you could describe that dynamic in a little bit more detail. And also, does the standard historical price down dynamic, does that change at all for your ICE focused sales given the transition away from that technology?

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

Yes. So it's been a pleasure working with you as well, Chris. On the share question, I can tell you with a high level of confidence that every one of our customers wants to make sure that they're working with a partner that's going to be there for the whole time that they're producing internal combustion engines. And they want to make sure that, that partner is working right alongside them to be there as long as they need them to be there. And that's been an enormous benefit to us because we're such a critical supplier in the internal combustion side.

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Now that we have the capability to serve them on the EV platforms, it creates an advantage for us to be able to serve them on that side. And so as our customers look to narrow their supply base, where they're a key supplier for their legacy ICE engines and as other suppliers drop off, we'll naturally get more of that share. That's very profitable business, as Brian had mentioned, and then it will provide us that advantage as well to be successful on the new platform. So as this transition occurs, we're going to win on both sides of that equation, and we'll just work to make sure that we serve our customers and we're there for them to be able to balance this as they move forward.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

Yes. And on your price down question, we certainly expect that as we talked about last quarter, that we're moving back to that kind of normalized productivity needs to offset a price reduction type environment. This year here, we've seen pricing changes mostly in our -- last year being able to get additional price that would not repeat in 2024 not necessarily price downs per se this year, but just a year-over-year change.

But we certainly expect as we move into '25 and '26 that we'll get back to that normalized environment, we're certainly taking the steps necessary to make sure we can -- we'll be prepared for that.

Operator

The next question comes from Shreyas Patil with Wolf Research.

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

I wanted to dig in a little bit more into the ICE to BEV transition. I think you've talked in the past about the odd content opportunity on BEVs being about 2x that on ICE vehicles. And gross margins are pretty similar between the 2 product categories. But I do believe you have a lot of engineering spending on the EV side. So is there an opportunity for you to flex down that engineering spending if we are going to be in a period where EV adoption is slowing? Or is that more of a sticky cost? And then maybe just also thinking about the EV opportunity more broadly, can you talk a little bit about Dynapower, what you're seeing from a growth perspective there and how we should think about that as well.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

Yes. So it's Brian. Let me start with kind of the first part, and then I'll turn it over to Jeff to speak about Dynapower.

Keep in mind, again, a lot of these new business wins that we wind up receiving are long cycles, right? So we're typically doing -- we're helping them build the product that's going to be unique to whatever the platform is. And we typically start that 3 to 5 years in advance of when the actual launch of the product is going to happen. So much of the engineering costs that we have today is going to support those new business launches that happen in '25, '26 and beyond.

So for example, as we quote new business opportunities today, many times those are planned for launch in 2028 at this point. So I don't expect a real change in our engineering spend. Certainly, as the company grows and the electrification business does continue to grow, we will be able to kind of spread that cost out over a bigger base and, therefore, gain more efficiency there. But we certainly think the resources that we have are needed to place to help us serve the opportunities that we won as well as the ones that we hope to win here in the coming future.

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

And Patil, let me speak to the Dynapower piece. And it's important, I apologize for a little bit of a wind up on this, but it's important to understand what that business is doing. They're developing industrial-grade power inversion so that whenever grid-related or PV or alternative energy-related installations require a step up or step down of DC to DC or AC to DC, there's Dynapower equipment in between that.

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And so if you think of the trend towards more renewable energy, if you look at the need for grid balancing on a global basis so that you're not having production of gas turbines or other generation capabilities for peak capacity, you need to have distributed generation and distributed storage globally in order to be able to manage that process. And Dynapower is at the sweet spot of making that happen.

They also have some very important inverter products in the military area, which are doing very well, and there are also areas around electrolysis for hydrogen in terms of that process, so making green hydrogen. And so there's lots of opportunity there. It's a project-based business in the sense that it's a very complex ecosystem in terms of what's going on because we're part of a major investment in energy infrastructure. And so you'll see a little bit of lumpiness associated with this business, but we're very confident in this long-term potential.

Operator

The next question comes from William Stein with Truist Securities.

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

Great. I'm hoping you can elaborate on the low-margin onetime revenue that you had. And I'd also ask if you could comment on booking trends in the quarter?

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

So the low-margin onetime revenue is effectively within the Industrials business, we wound up leveraging our supply chain to effectively buy some onetime product on behalf of a customer, which was associated with an installation that we were doing. So it's really almost -- think of it as almost like pass-through revenue that was kind of onetime in nature. So that was the revenue back in Q2 of '23, and again, it was around $25 million in total.

Operator

The next question comes from Samik Chatterjee with JPMorgan

Manmohanpreet Singh - *JPMorgan Chase & Co, Research Division - Analyst*

This is MP on Samik Chattterjee. Can you please highlight the key audit matters, which you touched upon the recent 10-K filing.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

Sorry, Samik, could you repeat that on the 10-K filing?

Manmohanpreet Singh - *JPMorgan Chase & Co, Research Division - Analyst*

Certain key audit matters that were highlighted by the auditors in the 10K filing.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

So yes, so with the different acquisitions that were completed, we effectively have to go through goodwill and impairment analysis for each of those different acquisitions, basically looking at purchase price versus the fair value of the assets as described by us and then audited through the

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firm. And ultimately, that test is done on a routine basis, and they look at each of the different reporting units, that's effectively that led to last year, the change that we made with the Insights business. I'm not sure if you're speaking specifically to that or if there was another piece that you're referring to. The other one may be around our internal controls, and I'll just head on.

Certainly, within our regions, as we went through our internal control kind of testing and environment here in 2023, we found some different issues, specifically in the Americas and our Mexico make sites. A lot of it around inventory and some of our account reconciliation work that was done by our shared services team that we felt needed to be upgraded. And so we're working through the process along side Deloitte as well as leveraging third-party advisers such as Pricewaterhouse for us to be able to go through and make sure that internal control environment, the testing, the actual documentation of all those controls and the actions are up to the standards that we certainly set for ourselves, and we're working hard to make sure that we can attempt to remediate that by the end of this calendar year.

Operator

The next question comes from Luke Junk with Baird.

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

Jeff, hoping you could maybe expand on what you're seeing in industrial and HVAC right now just in terms of current dynamics working through the channel and whether you're seeing any light at the end of the tunnel sitting here in late April, just given that's such an important piece to the bottom line outlook.

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

Yes. So when you think of things that have changed since February, the outlook for Industrial is an area that's a little bit more negative than historically was in February. That foreign exchange are both going in the wrong way, mix is going to positive way, offsetting the impact associated with both of those. You follow some of the others that have shared their results prior to us you know that the industrial business is now expected to go through a down cycle for the balance of 2024, and so we'll monitor that closely. It's a complex supply chain in terms of all the distributors and others that are there. But we are working very closely with our customers because as Brian had mentioned, when that business snaps back not only do you have to deliver what the market is, then you start to replenish the supply chain as well. So it snaps back pretty strong when it does. So we'll keep a close eye on it.

On the positive side of the industrial business, as Brian also mentioned, I think everyone knows that there is new regulation associated with refrigerants and HVAC systems. We have, for the last 2 or 3 years, developed A2L leak sensor, and we're engaged very closely with our customers as they're launching that and 2024 has a meaningful portion of revenue associated with that. Just to be clear, that has -- when it's fully panned out, it has a $80 million to $100 million revenue opportunity for Sensata. So we feel really good about that piece of the industrial business. Hopefully, that helps, Luke.

Operator

The next question comes from Joe Giordano with TD Cowen.

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

I'll just echo everyone's comments, Jeff. Thanks for everything along the way, and I wish you the best for whatever is next for you. I just had a question on the corporate expense. It was decently lower than when we were modeling. I'm just curious, is this like a sustainable lower run rate now that some of this megatrend spend is either being 1 like moved into the segments and has true revenue associated with it or just kind of minimized and kind of rationalized out of the organization from now?

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Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

Yes. No, it's -- we think this is probably a relatively consistent run rate. We do have an uptick that happens in the second quarter as merits go in as of April 1. So that's a little bit of a negative headwind when you think about corporate expenses for Q2. But overall, we've really tried to rationalize, I would say the megatrend spend as electrification became the opportunity for us to focus. And more and more of those resources are ultimately being serving new business opportunities now within typically the Performance Sensing units. So I think it's probably a relatively consistent run rate going forward, maybe a slight uptick, like I said, in Q2, just given some normal kind of timing of expense.

Operator

(Operator Instructions) The next question comes from Amit Daryanani with Evercore ISI.

Irvin Liu

This is Irvin Liu on for Amit. Jeff, we wish you all the best. Not to be nitpicky, but Brian, if I heard correctly, you mentioned that 2024 revenue growth is expected to be 2% versus 2% to 3% last quarter. Just can you give us any color on why you expect 2024 growth could be at the lower end of your prior range. Is this mostly a function of FX or what you're seeing in the industrial end markets?

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

I think you're spot on. I mean, obviously, still within the range that we were talking about last quarter. So I would say this is kind of a minor -- I wouldn't call it a tweak peak, I think it's still within the range. The 2 things that are really driving it, though, you hit them both. One is, we had modeled our expected foreign exchange to be relatively kind of net 0 or so in the back half of the year. Originally, it looks like we're going to have about 40 to 50 basis points of margin headwind in the back half of the year, kind of consistent with what we're expecting in Q2 right now.

And then second, we were hoping that industrial destocking would kind of end this down cycle by midyear or so, and that was pretty consistent with I think all the commentary we were hearing at year-end as well as what we were seeing. Certainly, it looks like that that's going to linger a little bit longer. And so we've tried to take both of those things into consideration as we looked at the guidance range for full year '24.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Brian Roberts for any closing remarks.

Brian K. Roberts - *Sensata Technologies Holding plc - Executive VP, Principal Accounting Officer & CFO*

Thank you, Betsy, and thank you, everyone, for joining today's call. I want to just say -- I want to wish Jeff all the best for his retirement. He's a great leader, mentor and friend. It's been a privilege to work with them again these past 6 months and societal mission. I also look forward to seeing many of you at various investor events this quarter including the Oppenheimer Virtual Investor Conference on May 7, the TD Cowen Annual Technology, Media & Telecom Conference in New York on May 30 and the Bank of America Global Technology Conference in San Francisco on June 4. That concludes our first quarter 2024 earnings conference call.

Operator, you may now end the call. Thanks, everyone.

Operator

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

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