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ST.N - Q2 2024 Sensata Technologies Holding PLC Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies Q2 2024 earnings call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Mr. Andrew Lynch, VP of Finance. Please go ahead.

Andrew Lynch - *Sensata Technologies Holding PLC - Vice President of Finance and Chief Financial Officer of Global Automotive Business*

Thank you, operator, and good afternoon, everyone. I'm Andrew Lynch, Vice President of Finance for Sensata. And I would like to welcome you to Sensata's second-quarter 2024 earnings conference call.

Joining me on today's call are Martha Sullivan, Sensata's Interim President and CEO; 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 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 make forward-looking statements regarding future events or the financial performance of the company that involve certain risks and uncertainties.

The company's actual results may differ materially from the projections described in such statements. Factors that may cause such differences include but are not 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.

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Most of the information that we will discuss during today's call will relate to non-GAAP financial measures. Our GAAP and non-GAAP financials, including reconciliations are included in our earnings release and the appendices of our presentation materials.

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

Now I would like to turn the call over to Sensata's Interim President and CEO, Martha Sullivan.

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Thank you, Andrew. Good afternoon, everyone. It is a privilege to have the opportunity to speak with you today. Since rejoining Sensata as Interim President and CEO 90 days ago, I have been focused in three key areas.

First, enhancing our overall performance to expand margins and improve our execution. Second, identifying underperforming products and projects within our portfolio that no longer drive value. And third, finding the next CEO for Sensata. Let me take a couple of minutes to discuss each of these in greater detail.

Our long-term strategy has not changed. We are a best-in-class provider and center rich in electrical protection solutions to our customers. Our sensing products are essential for customers to meet increasing mandate for safer, cleaner, and more efficient application. Our electrification solutions support the ongoing conversion across the end markets we serve, including automobile, heavy truck, and industrial infrastructure such as the power grid needed to support in more electrified world.

While our sensing technologies are significant within our electrification portfolio at the center of our strategy, our high-voltage contactors, which are critical electrical protection devices used to switch current. Earlier this year, we augmented our contact to product family with the buyout of the remaining shares of our joint venture in China. And we are well positioned to grow and gain share with a broad set of offerings, including next-generation contactors that provide higher levels of efficiency, greater safety, and multi-coal configurability.

It is clear that the world will continue to be more electrified. And while I closely track our advancements as a Board member, my return to the CEO has given me a broader and deeper appreciation for the significant progress we have made on several key fronts. There are near- and long-term opportunities in key strategic growth that just for Sensata, including many electrification and sensor opportunities that will drive success for years to come.

Market transformations are rarely linear in nature, and we are experiencing that today in electric vehicles, which we define to include both battery, electric vehicles, and plug-in hybrids. While EV production is forecasted by S&P Global and their June 2024 report to grow nearly 18% to $17.9 million units in 2024, this level of production has dropped by 10% as compared to forecast from just five months earlier in January.

Despite this drop and projected EV volume, Sensata remains well positioned to react to short-term shift in consumer preference. Our core suite of vital sensing products remains of critical importance to our customers, allowing us to outgrow the market despite changes in volume mix between combustion engines and EVs. For the second quarter of 2024, our automotive business outgrew the market by more than 700 basis points as we grew 6% year over year compared to an S&P Global defined market, which contracted by approximately 1%.

As we know, market outgrowth can vary from quarter to quarter due to mix and launch schedules, but we are pleased with the second consecutive quarter of strong outgrowth in our auto business. While we are hedged against changes in powertrain mix, we are not immune to impacts from reductions in overall automotive production. And we are taking the necessary steps to prepare for an automotive slowdown in the back half of 2024.

S&P July's report indicated a drop of over 800,000 units as compared to the report of just four weeks prior and a drop of 1.6 million units from their April estimate. In the third quarter, China is now expected to be down nearly 8% year over year, lower by almost 6%, and North America down by 2.5%. We believe there is a possibility that net total production may show further reductions as OEM adjust inventory levels.

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Let me take a moment to discuss the rest of our business portfolio, which represents nearly half of our revenue. From our heavy vehicle and off-road business reported relatively flat year over year top-line results for the second quarter against a market drop, which was down by approximately 7 percentage points. This outgrowth was the result of strong China production levels of on-road truck and new tire pressure monitoring regulation in Europe, offset by continued production weakness primarily in North America. Both agriculture and construction were weak in the quarter, consistent with expectations.

While destocking and slow housing construction markets continue to impact our industrial business, which has significant exposure to housing through HVAC and appliance, we are encouraged with the continued growth of our new A2L leak detection sensor. This product has been well received in the market, and we have quickly become the leader in this exciting growth segment. Finally, aerospace continues to deliver solid results, is on pace to deliver mid-single-digit revenue growth in 2024.

I am encouraged by our execution to date as we return to a more normalized operating environment. And I remain confident in our ability to improve our margins in the second half of 2024 despite the macro headwinds that exist.

Increasing my confidence in our ability to improve margins is the work we have begun to identify and take action on underperforming products. Early in my tenure, we began a review of various components families across our business to effectively [prune the tree] of product, which may be mature in cycle, slow growing and as substandard margins. This exercise identified approximately $200 million of annual revenue falling into this low growth, low margin category with the majority of these products and our performance sensing segment. Actions to eliminate these products started in June with the goal of more than half eliminating in Q3 and the remainder by the end of the year.

Finally, regarding our CEO search, our Board search committee and I are committed to finding the right next leader of Sensata. We are continuing to source and meet with highly qualified candidates who are attracted to our differentiated business, and I am encouraged by our progress today. Searches such as these do take time, but I expect that we will have identified a new CEO for Sensata in the coming quarters.

With that, let me turn the call over to Brian.

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Thank you, Martha. Good afternoon, everyone. Let me start on slide 7. We delivered another solid quarter with results in line with expectations across all of our key metrics. We reported second-quarter revenue of approximately $1,036 million as compared to revenue of $1,062 million in the second quarter of 2023.

We eliminate approximately $5 million in revenue in the second quarter related to underperforming products as Martha discussed earlier. Adjusting for this eliminated revenue, we would have delivered a top-line results, slightly ahead of the midpoint of our guidance provided in April. Adjusted operating income was $196.7 million or a margin of 19%. This represents a 30 basis point improvement from 18.7% for the first quarter of 2024 and is consistent with our goal of delivering 20 to 30 basis points of improvement each quarter this year.

On a constant currency basis, adjusted operating margin was 19.2% compared to 19.4% in the second quarter of last year. Adjusted earnings per share of $0.93 in the second quarter of 2024 represents an increase of $0.04 sequentially from the first quarter and a decrease of $0.04 as compared to the second quarter of 2023.

Turning to slide 8 on segment performance. As a reminder, we recast our segments starting Q1 to better align to how we're managing and operating the business. We also created in other segments that currently houses our results related to the insights business. As we previously announced, insight is currently under strategic review, and we expect to update you on the progress of that review in the coming months. Prior periods have also been adjusted for purposes of comparability.

Performance sensing revenue in the second quarter of 2024 was approximately $724 million, an increase of approximately 4% year over year, with both automotive and heavy vehicle and off-road businesses outgrowing their markets. Automotive outgrowth of approximately 700 basis points

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was driven in part by significant share gains on internal combustion engine vehicles in Europe. This outgrowth was amplified by outgrowth in Korea and Japan where we continue to gain traction.

HVOR was approximately flat in the quarter compared to a market estimated to be down 7%. As Martha noted, this outgrowth was the result of strong China production levels of on-road trucks and new tire pressure monitoring regulations in Europe, offset by continued production weakness primarily in North America. Performance sensing adjusted operating income was approximately $177 million or 24.5% of performance sensing revenue.

Sensing solutions revenue in the second quarter of 2024 was approximately $268 million, a decrease of approximately 19% year over year. The significant year-over-year decrease was a result of continued destocking and a slow housing construction market continuing to pressure our industrial business and due to $26 million of one-time pass-through revenue in the second quarter of 2023 related to our Dynapower business.

Adjusting for the one-time Dynapower revenue, sensing solution revenue would have been down 12% in the second quarter of 2024 as compared to the prior year. Sensing solutions adjusted operating income was approximately $80 million or 29.8% of sensing solutions revenue.

Moving on to slide 9. We remain focused on prudently reducing our leverage on the balance sheet with a goal of net leverage under 3 times by the end of the calendar year. We successfully completed a bond offering in June, raising $500 million of proceeds. The proceeds from the new notes, which mature in 2032 at an interest rate of 6.625%, were coupled earlier this month with approximately $200 million of corporate cash to retire $700 million in bonds that would have matured in October of 2025.

In addition, we announced last week our Q3 quarterly dividend of $0.12 per share, payable to shareholders of record as of August 14. We remain focused on improving free cash flow conversion in 2024 to approximately 65% to 70% of adjusted net income, a level that we achieved in the second quarter of 2024. Over the back half of 2024, we will continue to focus on reducing inventory levels and maintain and capital expenditure spending at approximately 4% of revenue.

As shown on slide 10, let me take a minute to walk you through our expectations for the third and fourth quarters of 2024. These guidance ranges reflect two significant adjustments to the revenue line. First, as Martha has described, we are actively exiting underperforming products totaling about $50 million per quarter of revenue or $200 million annually. As I noted earlier, we removed about $5 million of this revenue in Q2. We expect to eliminate approximately $30 million in Q3 and most of the remainder in Q4.

Second, given the lower production forecast from S&P Global, including an 800,000 unit decrease over the last four weeks, we've reduced our second-half auto expectations within performance sensing by approximately $10 million per quarter. With these adjustments, we expect third-quarter revenue of $970 million to $1 billion. At the midpoint of the revenue range, we would expect an adjusted operating margin of 19.2%, consistent with our expectations of 20 to 30 basis points of leverage each quarter and earnings per share of $0.85. We do not expect foreign currency to have a significant impact on our third quarter adjusted operating margins on a year-over-year basis.

Revenue for the fourth quarter is currently anticipated to be in the same range as the third quarter as the further downward adjustment caused by exiting underperforming products is offset by seasonal end of year growth. We would expect incremental adjusted operating margin improvements in Q4 of approximately 20 to 30 basis points.

Let me summarize this revenue guidance for the full year 2024. Before the impact of approximately $85 million of revenue in underperforming products that we have decided to exit, our updated guidance for the full year would be revenue of flat to up 2 percentage points. Given the download revisions by S&P Global for auto and KGP for HVOR, we now expect our end markets to be down by 2 to 3 percentage points this year. This would equate to Sensata outgrowth of approximately 300 to 400 basis points in 2024, unchanged with what we had stated back in April.

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

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Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Thank you, Brian. In summary, let me leave you with a few key messages as we reflect our second quarter and look forward to the remainder of 2024. We have a winning strategy focused on high value sensing and electrical protection. This winning strategy is demonstrated our second consecutive quarter of strong outgrowth in key auto in HVOR market.

While much work has to be done to advance our overall performance through expanding margins, reducing leverage, and improving execution, we are taking active steps such as exiting $200 million of annual low margin revenue, the net reduction of $200 million in long-term debt, and the ongoing insights strategic review to ensure that we enter 2025 with a solid foundation.

Finally, I want to thank my colleagues from Sensata for welcoming me back. We have an exceptional cohesive team that is committed to driving shareholder value by executing for our customers and delivering on our purpose. And it is a pleasure to be working with them again.

I will now turn the call back to Andrew.

Andrew Lynch - *Sensata Technologies Holding PLC - Vice President of Finance and Chief Financial Officer of Global Automotive Business*

Thank you, Martha. We will now move to Q&A. To all of those who wish to ask a question, may have the opportunity to do so. We will limit each participant to one question. Operator, please introduce the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Wamsi Mohan, Bank of America.

Joseph Leeman - *BofA Global Research - Analyst*

Hi, this is Joseph Leeman on for Wamsi. My question is --

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Hey, Joseph.

Joseph Leeman - *BofA Global Research - Analyst*

Can you expand on the new business wins in Japan and Korea?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes, a couple of things worth mentioning there. We're really excited about the traction that we're getting, particularly with Toyota who were starting to show up now in our content growth. And that's in active safety systems. So that's been a nice growth area for us.

Joseph Leeman - *BofA Global Research - Analyst*

Okay. Thank you.

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Operator

Amit Daryanani, Evercore.

Amit Daryanani - *Evercore ISI - Analyst*

Thanks for taking my question. I guess, Brian, Martha, when you talk about exiting this $200 million of mobile growth, low margin business in the back of this year, can you just talk about what benefit does it have into your operating margin or cost structure?

And then just broadly, as you look at your entire portfolio with a fresh set of eyes, beyond this $200 million of loan growth, low margin as you called out, are there other assets that are potentially non-core that you could look to divest as well that would probably help you delever a lot quicker? Or is this the extent of exits of divesture you're going to do?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes, Amit, the way I would describe it is this is really catching up on normal product line management hygiene that's been a practice within Sensata. Given all the other challenges in recent years, we have the opportunity to catch up on that.

So it's described as really low or no growth product set and very substandard margins for Sensata. And it's one of many tools that we're focused on to ensure that we can demonstrate our commitment to 20 to 30 basis points of margin improvement each quarter. And that really is the focus here at Sensata. It's back on operational excellence. It's looking at our margins and recognizing those that have a hallmark of a differentiated business. And we have strong underpinnings to deliver that at Sensata as you've seen in the past.

Amit Daryanani - *Evercore ISI - Analyst*

Got it. If I could just ask you to clarify this, what are you expecting from an auto production bases for the back half of the year? And are you embedding any further cost reduction initiatives beyond what you've talked about to ensure that the margins are defended in this 20, 30 basis points expansion zone? Thank you.

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes. Second half of the year, we're looking at auto being down 5%, HVOR similarly 4% to 4.5%. And for that reason, it becomes that much more important to be looking at cost reduction and accelerating those efforts, and we are doing that. And as you heard in Brian's comments, continuing to commit to delivering the increase in our overall margin performance.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Yes. Martha, good to have you on the call again. I had a question on how Sensata sees itself getting to the 21% to 23% EBIT margin targeted that articulated at the last Investor Day and certainly understand the $200 million of product exits is a good step toward achieving that. But are there other pricing actions or restructuring activities you think you may need? And maybe just talk a little bit more on the broader price cost trends in the business.

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Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

So specific to the margin piece, and then I'll let Martha talk about the trends that she's seeing in the business being back here for a quarter. As I've said, I think pretty consistently, since I started here, I really look at a lot of these 26 targets at the moment is directional in nature. What we're trying to do and make sure that we are instilling back here, as Martha noted, is this certain focus around operational performance and excellence and making sure that we can continue to take steps in the right direction.

I think part of the way that we achieve credibility back with all of you is by setting in some cases, shorter-term goals and then continuing to hit those shorter-term goals, hopefully, each and every quarter. We absolutely see a path for margins to get back into the 20s. I think we've been consistent about that as well. But we'll continue to provide future guidance as we go on exactly what that trend is and how quickly we will hopefully get there.

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

I think there's no question that this business has the chops and the potential to deliver margins with a two handle, and we've done that consistently in the past. If you look at some of the challenges that have faced the business over the past few years, we saw a pretty hefty run-up as many did during 2022 and into 2023. I think we've done a good job of taking pricing actions across the business.

We've been able to maintain margins more consistently on the industrial side of our business. And we are now really aggressively attacking our input cost to ensure that we restore our margins across the business. And there's lots of opportunity to do that.

Mark Delaney - *Goldman Sachs - Analyst*

Thanks, Martha. Thank you.

Operator

Matt Sheerin, Stifel.

Matthew Sheerin - *Stifel Nicolaus and Company, Incorporated - Analyst*

Yes, thanks. I've just a couple of clarification questions. Regarding the discontinued products, is that within performance sensing, is that coming out of both the auto and the HVOR segments? And then in terms of your guidance for Q4, you talked about a seasonal uptick offsetting some of the discontinued products. Is that uptick expected both in the performance sensing and the solutions business as well?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes. Let me speak to how the discontinued products or prudent products cut across the business. But by our nature, we tend to develop products where we leverage technologies into multiple end markets. And for that reason, the products that we're pruning in performance sensing do cut across both the auto and commercial truck side of our business. In terms of the fourth quarter piece, we would expect that that offset is -- the seasonal piece of that is primarily in what we call the performance sensing part of our business.

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Right. So I think we'll see some uptick in growth in both business units spent in Q4. So that's a little bit more across the board, typical with what we've seen historically.

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Matthew Sheerin - *Stifel Nicolaus and Company, Incorporated - Analyst*

Okay. Thanks very much.

Operator

Next question comes from Christopher Glynn with Oppenheimer. Please go ahead.

Christopher Glynn - *Oppenheimer & Co., Inc. - Analyst*

Yes, thanks. Good afternoon. Just wanted to go into a little bit of some of the allocations of margin. It looks like the performance sensing margins were a little light, down sequentially in the adjusted corporate line was a little on the lean side. So just wondering, in particular, what's going on with that performance sensing margin going backward a little sequentially? And how we should plug however you answer into our thoughts about the second half progression?

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Sure. No. So yes, performance sensing margin did come down a little bit. I would say they'll probably normalize a little bit in Q2. It had a little bit of pricing benefit in the first quarter.

What was really impacting it in Q2, though, is this mix. So as we mentioned, Europe is really leading outgrowth at the moment with the pushback towards some combustion engine vehicles versus EV. That said, Europe margins still tend to be one of our lower regions within the auto business. So that has a good Nevada effect for us. Better margins than what we would see on the EV side however, lower margins as compared to combustion engines maybe in other parts of the world. And so that attributed to why the -- from a mix perspective, why the margin came down slightly.

On the sensing solutions side, we saw the margin uptick. A lot of that is just good strong performance management by the team and making sure that we're being as efficient as we possibly can and hoping to continue to see that trend going forward. And on the corporate line, as we've talked about, we're continuing to manage the corporate SG&A side pretty hard and making sure that before we add costs that we see the revenue and other reasons to be able to add it before we do so. So I would call that in the prudent management category as well.

Christopher Glynn - *Oppenheimer & Co., Inc. - Analyst*

Okay. Thanks, Brian. And just to clarify, I think you said you expect performance sensing to directionally track the margin guidance for the company in the second half?

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Yes, that's correct.

Christopher Glynn - *Oppenheimer & Co., Inc. - Analyst*

Okay, thank you.

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Operator

Luke Junk, Baird.

Luke Junk - *Robert W. Baird & Co., Inc. - Analyst*

Good afternoon. Thanks for taking the question. Maybe continuing on that China thoughts, Brian, just wondering what's obviously become a choppier auto backdrop looking into the back half. Maybe if you could discuss some of the specific shock absorbers, if you will, that you'll be leaning into to help drive that margin progress in performance sensing? And maybe we could also square that just with the mechanical impact of these products in how much that's worth sequentially in the walk as well?

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

So yes, thanks Luke, appreciate the question. Yes, I mean, I think Martha really started to hit on this, right? I mean this is part of the whole idea of making sure that we're really looking at all of our different products or assets and figuring out where we want to make sure we're investing our dollars most appropriately. And so by finding some of these different assets or products that we say maybe these aren't the right growth areas for us. They're not really growing.

They're substandard margins and being very active in trying to prune those out. That's how we're thinking we're freeing up investment dollars to be able to put into other portions of the business that we think have more growth expectations. And so some of that is balancing against the volume drop and ultimately turning it to the bottom line. Some of that is investing in what we think are higher opportunities going forward.

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

There's also an ROIC element of this, and that is just using our assets to deliver the highest value that we can for both our customers and our shareholders. So it's pretty normal process. We're playing a bit of catch-up at this moment.

Operator

Shreyas Patil, Wolfe Research.

Shreyas Patil - *Wolfe Research - Analyst*

Hey, thanks for taking my question. Just first off, wondering if you could just help dimension the margins that these assets that you're looking to divest, just to give us some context on the improvement that we could be thinking about?

And then maybe secondly, on that theme, just curious how you're thinking about other possible areas of low-hanging fruit in an effort to improve margin? For example, we have seen corporate costs increase by $45 million from 2019 to 2023. It looks like the corporate costs could be flat to down this year. And you've previously talked about megatrend R&D spending that has also increased by about $45 million over that same period. So do you see opportunities to rationalize in those areas as well?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes. Short answer, yes. So I think relative to the margin improvement you can expect, we've talked about 20 to 30 basis points, all of what you mentioned is in the mix on that. And in particular, we went through a strategic review and looked very deliberately in a granular way, but what's the return that we're getting on that R&D investment, and we have made some changes. And I want to be really clear about this.

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We are still very much tracking on our strategy within electrification. There's lots of room for optimization across the customer base if you look at customers that have become less reliable and delivering on new launches. It involves regions around the world and involves the portfolio mix and the degree of customization that we're willing to do. So in many ways, it's just getting back to the basics of Sensata, and as I said, there's a lot of opportunity to improve that margin.

Operator

Joe Giordano, Cowen.

Joseph Giordano - *TD Cowen - Analyst*

Hi, guys. Good afternoon. Maybe I'll follow-up on, Martha, what you just mentioned there with the optimization of the customers. So like when you go through your electrification backlogs and your wins that you have, in U.S. EVs into the next couple of years, it's obviously a big number. Like when you stress test that, how has that changed over the last call it, six months with changing tastes and production mix? And how comfortable are you with that backlog right now?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes. I would say we're comfortable with the backlog. There is not a month that goes by that we're not going out to customers that have contracted us on a launch and talking about when is it going to launch if there's a push out, we're being paid for that effort and getting recovery against that. But we're recognizing that there have been delays in electrification, and what we've been able to do is pivot that to wins on IC engines. And we are very uniquely positioned to do that.

And so I give the team great credit for building the electrification portfolio. At the same time, we have a highly relevant product offering when it comes to vehicles across the spectrum. So it's making sure that we're agile that we know what's coming, and we know what's being pushed out that we slow our engineering investments where there have been pushouts, and we make sure we have a relevant product portfolio across an entire production landscape.

Joseph Giordano - *TD Cowen - Analyst*

Just to clarify that point on compensation. Is there like a way to -- I'm sure the contract vary significantly. But is there a way to think about like the amount of coverage you have from these customers? Like if you're really going out and creating new products for specific applications that ultimately don't materialize for the customer or get pushed significantly. Like how should we think about their liability to you in a scenario like that?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes, that's a fair question. But keep in mind, the way we develop our products and the way we go to market, with very few exceptions, the technologies that we're bringing to market cut across customers. And so we'll be allocating capital for our customer depending on how much volume they're going to bring. It's unusual that we wouldn't be able to find reuse over time.

And so we're not trying to punish people, but we do make sure that our capital that's been on reserve is going to be put to work, and we have those discussions very regularly if we find that somebody is underperforming to their volume commitments.

Joseph Giordano - *TD Cowen - Analyst*

Thanks guys.

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Operator

(Operator Instructions) William Stein, Truist Securities.

William Stein - *Truist Securities - Analyst*

Great. Thanks for taking my question. I'm trying to make sure I understand to what I thought were two different moving parts, but maybe it's part of the same thing. I think at least for the last quarter, you've talked about 20 to 30 basis points of op margin improvement through the year. Today, you're announcing that you are exiting certain products, and it's unclear to me whether that's a requirement in order to achieve the 20 to 30 bps of improvement per quarter? Or if that is a separate endeavor that adds to that savings? Can you maybe clarify that for me?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

Yes. I think it's a near-term, long-term question. It's one of the -- again, one of the levers that allow us to continue on a regular basis to deliver the 20 to 30 basis points of margin. And so in the same way, we didn't talk about an auto market being down 5% in the second half of the year. We're now talking about product portfolio pruning that began quite frankly under my watch, and we weren't in a position to discuss it at our last earnings call.

So we're finding ways regardless of the market environment to ensure that we deliver on that overall commitment. And I'll say it again, the product pruning is only one of many things that are implying.

William Stein - *Truist Securities - Analyst*

So it looks to me, assuming -- because I think one of you said earlier, low to no profitability. So if I were to assume about 10% operating profit, it looks like about half of the savings is coming from product pruning. Is that about the right way to think about this?

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Well, keep in mind, I mean, it's not -- this doesn't happen overnight, right? So there's still incremental expense that ultimately, as you prune out $200 million of revenue, you still have to rationalize through some expenses, right? So it doesn't just happen with the flip of the switch.

And so as Martha pointed out, it's a combination of short term, long term where we will get a little bit of benefit from that in 2024 to help us make sure we hit our targets. That will help balance off if we do see a little bit of volume deterioration coming from auto or from other end markets.

But it also starts to set up a foundation for us in 2025 when we all know there's different pressures on margin that come from statutory cost increase and pricing and other things that happen to make sure that we're able to continue to hopefully drive margins northward in 2025. So a lot of this doesn't happen overnight, but it sets the foundation for how we continue to improve our operational performance for not just the next two quarters, but for quarters to come beyond that.

William Stein - *Truist Securities - Analyst*

Great. That helps. Thanks, guys.

Operator

Joe Spak, UBS.

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Joseph Spak - *UBS Equities - Analyst*

Thank you and good afternoon.Martha, I wanted to go back to your comment about being well positioned on the ICE side in the event of slower EV. And I'm just curious, are you actually seeing new programs, new awards? Or is this more of a case of maybe some programs that were expected to roll off and hence be a headwind to your midterm targets that are now just being extended? And if it's the latter and that contract was expected to be over by now, do you have an opportunity to go back in and reprice that contract?

Martha Sullivan - *Sensata Technologies Holding PLC - Interim President and Chief Executive Officer, Director*

The answer to your first question is yes. We are winning new awards, and we're doing it with a lot of intentionality. And so we've really looked very closely and segmented the market and recognized. And I think we recognize this early on that it wasn't going to be an all or nothing situation that there were customers well positioned on the ICE side who would be around for a long time.

We're also seeing with the move to more plug-in hybrids that there is interest in making the engine on a plug-in hybrid more efficient. So the answer is yes. We are winning new business.

The answer to your second question is yes. There are contracts that rolled off. And yes, we are repricing those. So good instincts. You have good insight as to what's happening at Sensata.

Joseph Spak - *UBS Equities - Analyst*

Thank you.

Operator

Samik Chatterjee, JPMorgan.

Samik, your line is live. Samik, we are unable to hear you. It appears we are having difficulty with Samik's line.

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

No problem. Any other questions in the queue, operator?

Operator

No, sir. Would you like me to end it?

Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Yes. I think we're all set. Thank you.

Operator

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

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Brian Roberts - *Sensata Technologies Holding PLC - Chief Financial Officer, Executive Vice President*

Thank you. We look forward to seeing you at various investor events later this quarter. Sensata is expecting to participate in the following: the Evercore ISI Semiconductor IT Hardware and Networking Conference in Chicago on August 27, and Goldman Sachs Communacopia and Technology Conference in San Francisco on September 10. I'm sure I'll have the opportunity to chat with many of you over the course of the coming weeks.

Appreciate everybody taking the time today for joining today's presentation. And we look forward to speaking with you again in a few months. Take care. Thank you. Operator, you may now end the call.

Operator

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

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