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ST.N - Q3 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 third quarter 2024 earnings call. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Mr. James Entwistle, Senior Director of Investor Relations. Please go ahead.

James Entwistle - *Sensata Technologies Holding PLC - Senior Director - Investor Relations*

Thank you, Betsy and, and good afternoon, everyone. I'm James Entwistle, Senior Director of Investor Relations for Sensata, and I would like to welcome you to Sensata's third 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 conference call is being recorded and we will post a replay on our investor relations website shortly after the conclusion of the 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 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. Most of the information that we will discuss during today's call will relate to non-GAAP financial measures.

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Our GAAP and non-GAAP financials including reconciliations are included in our earnings release and in the appendices of our presentation materials. Martha will begin today with comments on our overall business. Brian will cover our detailed results for the third quarter of 2024 and our financial guidance for the fourth 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*

Thank you, James, and good afternoon, everyone. Let me welcome James Entwistle as our new Senior Director of Investor Relations. James joined us in September after spending the last 11 years at Stellantis including the last three years as their Investor Relations Manager.

Now turning to slide 3. Our third quarter core operating results were in line with expectations and demonstrate positive early returns from our efforts to improve operational efficiency, drive execution and expand margins. For example, during the quarter, there were three key developments.

First, we completed the sale of the insights business to a subsidiary of Balmoral Funds. Second, we eliminated low growth, low-margin products of approximately $30 million of quarterly revenue. As expected, we were about 60% completed on our product life cycle management initiatives as of September 30, and expect to be nearly finished by year-end. As a reminder, in total, we had identified approximately $200 million of annualized revenue in connection with these efforts.

Third, we commenced several operational improvement initiatives focused on streamlining process, increasing automation, reducing overhead expense, and aligning capital expenditures to a lower market reality. These steps will prove critical as we return in 2025 to a more normalized environment of operating productivity offsetting price downs with our OEM customers.

I am encouraged by our team's progress over the last 90 days and I'm confident that these ongoing initiatives will provide additional benefit as we continue to navigate a difficult end market environment, especially in our performance sensing segment.

As we turn to slide 4. For the third quarter, both automotive and heavy vehicle off-road markets decreased by approximately 5% year-over-year with further erosion likely in the fourth quarter. During my long tenure with Sensata, we have weathered many challenging auto cycles, and we have a track record of performing through periods of end market volatility. We are taking actions to align our business to the demand environment as needed. Outgrowth in our performance sensing segment was flat in the third quarter as an approximate percentage point of decline in automotive, primarily due to OEM share shipped in China was offset by outgrowth within HVOR, most notably in North American and European on-road trucks.

Let me take a minute to walk through some of the trends we are experiencing in each of our key regions. The market in China continues to evolve with the large multinational players losing share to local OEMs. By the end of the year, it is expected that nearly two-third of market share will be held by local OEMs. In comparison, that number was around 55% last year.

Today, this is a headwind for us. As our content per vehicle on local OEM is approximately half of our content per vehicle on a multinational. While we continue to win new business with key local OEMs, especially those with aspirations outside of China, this headwind will likely impede our ability to outgrow the market in China for what we expect to be the next 12 to 18 months.

Excluding China, our automotive business fared better in Q3 despite weakening markets as we recorded approximately 400 basis points of outgrowth mix in Europe was favorable as ICE vehicle production remains more robust than originally forecasted. Strong content per vehicle in North America driven by positive platform mix contributed to solid market outgrowth and other Asian markets such as Korea continue to perform and outperform.

Looking ahead to Q4, based on our fill rates, discussions with customers and current inventory levels on hand at OEM and on dealer lots, we believe it to be highly likely that third-party forecasters will make further in-quarter downward revisions to production forecast. And we have taken this incremental downside risk into account and our updated fourth quarter guide.

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Within our heavy vehicle and off-road business, we have also seen significant revisions downward in the fourth quarter outlook for on-road truck in both North America and Europe as KGP updated their forecast to be down approximately 20% year-over-year for both markets.

This growth rate expectation is approximately 25% lower in their July report. New regulations in Europe, which require tire pressure sensing will help offset some of the market softness. However, the lower production levels, coupled with continued sluggish construction and agricultural demand has caused us to temper expectations for this segment in the near term.

Now let me turn to Sensing Solutions. First, I will speak to our industrial business. While our expectations remain muted in industrial overall, given continued inventory destocking and a slow housing market, we are encouraged by our third quarter results, which showed the business stabilize on a year-over-year basis and deliver approximately 2% growth sequentially. We remain excited about the opportunity for our new A2L leak detection sensor as we continue to win incremental share in this new space. This product will ramp in Q4 and and into 2025.

Additionally, as announced in September, our Dynapower business gained approval for its new fifth generation compact power systems family of power conversion technology, offering dual-purpose performance for both hydrogen production and fuel cells. We expect this system as well as Dynapower's family of power conversion, energy storage and Rectifier products to continue to drive growth across several important verticals such as hydrogen and renewables, industrials and e-mobility.

While our expectations remain high for Dynapower, this business has not been immune from the overall slowdown in clean energy and electrification initiatives over the last 12 months. As such, the change in timing for these projects resulted in a non-cash goodwill impairment charge of $150 million recorded in the quarter. We remain committed to the Dynapower business and its clean energy initiatives and its role as an important growth engine for Sensata over the coming years.

Next, speaking to our aerospace business within Sensing Solutions. This business continues to perform well. However, we are closely monitoring any exposures related to the ongoing labor and quality issues impacting our key customers.

Before turning the call over to Brian, let me take a moment to update you on our CEO search. Our Board and I have spent significant time over the last six months to find the right next leader of Sensata. We have been fortunate to meet highly qualified candidates who recognize the value of Sensata to our customers, to our shareholders and to our team. I am pleased to report that we are in the final stages of the search. And we expect to continue to land in the time frame that we had guided.

I will now turn the call over to Brian, who will discuss our third quarter results in more detail as we provide guidance for the fourth quarter of 2024.

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

Thank you, Martha. Good afternoon, everyone. Just a reminder for clarity that unless noted, all amounts are denominated in US dollars. Let me start on slide 6. As Martha stated, we delivered another solid quarter with results in line with expectations across our key core operating metrics. We reported revenue of approximately $983 million for the third quarter of 2024 as compared to revenue of $1 billion in the third quarter of 2023 and a decrease of about 2%.

Adjusting for approximately $30 million of revenue exited in Q3 2024 related to our product life cycle management efforts, revenue year-over-year would have been up 1%. Adjusted operating income was $188 million, representing a margin of 19.2%, which was an improvement of 20 basis points sequentially and from the second quarter of 2024. This is our third consecutive quarter of delivering adjusted operating margin expansion and is in line with our expectations to deliver margin expansion each quarter this year.

Adjusted earnings per share of $0.86 in the third quarter was in line with expectations. Adjusted earnings per share were $0.91 in the third quarter of 2023. The year-over-year change was primarily driven by lower revenue and foreign currency fluctuation. Our Q3 2024 GAAP results include impacts from several discrete events which have been excluded from our adjusted results. Let me take a moment to walk you through these items.

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First, as Martha noted, we recorded a non-cash charge of approximately $150 million to write down goodwill related to the Dynapower acquisition from 2022. While we remain excited for the future of Dynapower, the business experienced project delays as time lines related to clean energy and electrification shift. The resulting delayed growth and cash flow expectations for the business necessitated the impairment of goodwill.

Second, we completed the sale of our insights business to a subsidiary of Balmoral Funds for $165 million. As a result of the transaction, we recorded a loss on the sale of approximately $110 million. Third, last quarter, we commenced a series of actions to exit $200 million in annualized revenue comprised of products, which may be maturing cycle, slow growing and at substandard margins.

Approximately 80% to 85% of this revenue is in our performance sensing segment with the remainder in Sensing Solutions. Consistent with expectations, we eliminated approximately 60% of these products in the third quarter with the remainder expected to be substantially completed by year-end.

As a result of this product life cycle management effort, we recorded a charge of approximately $58 million, $31 million of which is recorded in restructuring and $27 million, which is recorded within cost of sales. Finally, as part of our broader tax mitigation strategy, we released a valuation allowance related to certain intellectual property assets resulting in a discrete tax benefit of approximately $258 million. This tax benefit will amortize over 15-years and should help us keep our tax rate stable over the next few years.

Turning to slide 7, on segment performance. Performance sensing revenue in the third quarter of 2024 was approximately $660 million, a decrease of approximately 5% year-over-year. The decrease is attributable to our product life cycle management actions as well as the slowing automotive market.

Adjusted operating margin for the segment of 24.5% was unchanged sequentially and down 1 percentage point year-over-year due primarily to regional share mix within auto. Sensing solutions revenue in the third quarter of 2024 of approximately $274 million was flat with the prior year. While not yet returning to growth, our industrial business appears to have stabilized as continued destocking has been offset by the launch of our A2L leak detection center.

Adjusted operating expenses of $65.2 million included within our corporate and other segment was down 3% sequentially from the second quarter and approximately flat year-over-year. We continue to actively manage our operating expenses and expect further reductions in upcoming quarters as we normalize corporate costs on a revenue base, which excludes both insights and the $200 million of annualized revenue related to our product life cycle management actions.

Moving ahead to slide 9. I'm pleased to note that our net leverage ratio dropped to 3 times trailing 12 months EBITDA as of September 30, 2024, a drop from 3.2 times net leverage as of June 30, and consistent with our goal to drop below 3 times by year-end. Additionally, we repurchased slightly over 1 million shares in the third quarter, totaling approximately $37 million use of cash.

In July 2024, we redeemed $700 million in bonds that would have matured in October 2025. The repayment was funded by a combination of proceeds from our $500 million bond offering completed in June, along with approximately $200 million of cash on hand. Free cash flow conversion as a percentage of adjusted net income continues to show improvement as we achieved a level of 70% for the second consecutive quarter. This is a result of our renewed focus on working capital, including management of both inventory levels and spend on capital expenditures.

We remain confident that we will see our conversion rate finish 2024 in the range of 65% to 70%, consistent with expectations. These many steps are translating to an improved return on invested capital, which increased to 9.9% in the third quarter as compared to 9.8% in the prior quarter and in the prior year.

Finally, we announced last week our quarterly Q4 dividend of $0.12 per share, payable to shareholders of record as of November 13. Let me now update you on our expectations for the fourth quarter of 2024, as shown on slide 10.

We expect revenue to be in the range of $870 million to $900 million in the fourth quarter. At the midpoint, this represents approximately a $100 million decrease sequentially from our third quarter revenue. The change is primarily attributable to three items. One, a $50 million decrease due

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to the sale of the insights business, which closed on September 30. Two, a $20 million decrease related to the ongoing efforts to exit underperforming products. And three, a $30 million decrease due to lower market expectations for our performance sensing segment in North America and Europe, primarily driven by lower vehicle production as OEMs address rising inventories.

Despite the lower level of revenue, we continue to drive towards improved operational efficiency and believe that we will expand margins by approximately 20 basis points to 19.4% in the fourth quarter consistent with our goal to deliver quarterly operating margin improvement each quarter this year. We continue to proactively adjust our business to the current demand environment.

With that, let me turn the call back to Martha.

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

Thank you, Brian. In summary, let me leave you with a few key messages as we reflect on the third quarter and look ahead to the fourth quarter and 2025. First, it's clear today we are faced with challenging market conditions across the sectors we serve. Volatility has been amplified, especially in auto over the past several months, and it is likely to persist to Q4 and into early 2025 as OEMs modify production levels to adjust for inventory held by them or on dealer lots.

We have been through many of these cycles over the years and are actively taking the necessary steps to respond to the current demand environment with a focus on improved execution and better operational efficiency. Second, we are building a solid foundation for 2025 and the future. I am more confident than ever that Sensata has a winning long-term strategy built on high-value sensing, and electrical protection solutions, allowing us to continue to win in a safer, cleaner and more electrified world.

As regulations increase and our customers look for help to solve comp plus new challenges, we are well positioned as the partner of choice in this period of transformational change. Third, we have an exceptional team in place globally that is committed to driving shareholder value executing for our customers and delivering on our mission. It has been a tremendous opportunity and privilege to connect with colleagues, new and old, who share our goal of developing best-in-class content enabling our customers to lead in their respective markets.

I will now turn the call back to James.

James Entwistle - *Sensata Technologies Holding PLC - Senior Director - Investor Relations*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Wamsi Mohan, Bank of America.

Wamsi Mohan - *Bank of America - Analyst*

Thank you so much. Martha, you mentioned that you're baking in more downside to third-party estimates and expecting those to come down. Can you just talk about some magnitude? What are you thinking is ultimately going to transpire from a production assumption standpoint? Or what's baked into your guidance? And given this weak exit rate in 2024, how should we think about 1Q seasonality as well, that would be helpful. Thank you.

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

Sure. Hi, Martha. Yeah, the way we're thinking about this is particularly North America and Europe. And so we are somewhere between 200,000 to 300,000 vehicle units below third-party forecasts at this point. as we look ahead to the fourth quarter. And we're not expecting a lot of help beyond that as we move into the first quarter. So in terms of normal seasonality, we would expect normal sort of cost seasonality inside of Sensata, we expect the market is going to not give us a whole lot of help in the first quarter.

Wamsi Mohan - *Bank of America - Analyst*

Okay. Thank you so much.

Operator

Joe Giordano, TD Cowen.

Joseph Giordano - *TD Cowen - Analyst*

Hey guys. I have one question on China and then one more high level for Martha, if I could. On China, just to your point of the share change and the significant shifts and where your content sits with the locals, like how do you balance what you want to keep investing in that region? Or like what's the -- how does the strategy evolve, given like the structural changing dynamics for you?

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

Yes. It's an important question. So the way we're looking at the market is recognizing that there will be consolidation, certainly at the local OEM level. We're focused particularly on locals that have aspirations outside of China, and we're our global position and our innovations are valued. And as we look at that opportunity, it's quite significant. And we continue to add content even on ICE engines. So the market opportunity and the market position is still strong. and the investments make sense, given that we are really leveraging technologies across Sensata, and we're not making unique technology investments inside of China. So we feel good about that investment and the returns that it brings.

Joseph Giordano - *TD Cowen - Analyst*

Martha, if I could just follow up, since you we're away from the CEO role, and I know you're still very involved with the company, but having like that time away and now coming back, like how has it changed like your ability to kind of see things differently now that you were out of that seat for a bit here. And like does it give you that distance that time? Did it give you kind of a different perspective into some of the things that you were seeing years ago?

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

It did give me a different perspective. And let's recognize that the world is not what it was almost five years ago when I retired. Having said that, I would say that there is clarity that comes with knowing the strength of Sensata and a sense of urgency to make sure that we're performing as well as we can for shareholders. I would also say it's been great. We've got a lot of really strong new talent on the team, including Brian, who's brought, I think, a really good cadence of improvement for our shareholders.

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Joseph Giordano - *TD Cowen - Analyst*

Thank you.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Good afternoon. Thanks for taking my question. With all the product exits and also the Insights divestiture, I'm hoping to better understand what the full magnitude of EBIT margin improvement, those various efforts may bring and how much more there may be off of the 19.2% to 19.5% EBIT margin guidance in the fourth quarter. Maybe it's the full run rate already, but if there's more to come, I'm hoping to understand the magnitude. And on the self-help margin topic, Brian, I think you said you expect to size OpEx appropriately to revenue in 2025. I don't know if you could be more specific around what level to sales you think is appropriate? And if you think you'll be at that ratio next year even if end markets are cyclically soft? Thanks.

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

Sure, Mark. Thanks for the question. So just to run through the pieces, we've talked about that if the margin completely fell to the bottom line immediately upon the exit of the $200 million of annualized products, you would see roughly about a 30 basis point improvement. The challenge with that is it doesn't just fall in back into the bottom. And you can see through our efforts that we do have expenses in the operating expenses SG&A expenses then has to be rationalized to be able to drive towards that lower revenue base, and that's what we're in the process of doing now. In the fourth quarter, we previously said that this could contribute a couple of basis points to the overall fourth quarter benefit.

And so that's factored into the range that we provided, which is roughly about 20 basis points of improvement, which is consistent with the 20 to 30 basis points of quarterly improvement we've been talking about all year.

So we're working through that now. We do expect some of those cost initiatives to continue as we're moving forward and trying to adjust to what we think market environment may be. I'm not sure that there's incremental to be seen, as Martha mentioned, typically seasonal -- seasonality in Q1 is a challenging quarter for Sensata as we do move back towards the historical price down environment. And we do offset that with productivity, but productivity comes in over time. So the work to do still in our planning efforts to be able to get more clarity for both Q1 and 2025, and I'm sure we'll update you on that on next quarter's call.

Mark Delaney - *Goldman Sachs - Analyst*

And just on the Insight piece with the exit, just help us to understand the effect of that on EBIT margin, please?

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

Yes. I mean in is actually a little -- believe it or not, it was a little bit accretive this year, just given some of the cleanup that happened with that business and preparing it for sale. So there's really no incremental benefit this year for. But again, overall, if you look at the level of operating and G&A expenses that came with that business, the level of investment that would continue to be required for us was just too high. Ultimately, it was one of the main drivers for us to decide to move on from them.

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Mark Delaney - *Goldman Sachs - Analyst*

Thank you.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co - Analyst*

Thanks, good afternoon. And was curious talked about operating efficiencies and driving execution, expanding margins. I was wondering if you could discuss some specifics obviously, you have the product line exits. But I mean around how you manage internal accounts, internal reporting channels, any production line changes, examples of that. What's going on to -- behind the headlines that you're highlighting?

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

Yeah. Honestly, it's getting back on track to a lot of blocking and tackling that have been part of Sensata for quite a while. And then just recognizing the disruptions that we went through as many companies did around inflation, around COVID, around supply chain, it's really important that we get back on track with those processes. So lots of examples things like smart automation, given that we've seen labor rates increase from where they've been even two or three years ago, and we get a really nice return on that investment. And those things can happen quickly inside of a year.

We've done things like lean reimplementation in some of our production sites to ensure that we're looking at process mapping and eliminating process steps that we don't need to do that makes everybody more efficient and makes them more cost effective and it makes their jobs easier.

So there's a lot of goodness that comes with this renewed focus. Another area I would talk about is design-driven cost reduction. So if you look at our core sensing business, some of those technologies have been around now for decades, and they're still very high-margin products. And they stay that way because we invest in delivering design changes that reduce cost, make them competitive and also ensure that we enhance our margins. So those are just some of the examples.

Christopher Glynn - *Oppenheimer & Co - Analyst*

Okay, thanks. And then on the exits, I was curious, are there any interesting cases where you've tested price on the way out and found that those products are -- will stay?

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

Well, we were with you until you made the last comment. So some of the exits do include just pricing our way out of the market. That's a smaller piece of the overall. But the reality is these are -- when products get to this point in their life cycle, they're really beyond sort of investment or go-to-market strategies that are going to change because many of those things would have been exercised over the years.

Christopher Glynn - *Oppenheimer & Co - Analyst*

Okay. Thank you.

Operator

Shreyas Patil, Wolfe Research.

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Shreyas Patil - *Wolfe Research - Analyst*

Thanks. Maybe following up on some of the earlier questions, it looks like you're doing a really good job of reducing cost, and that's helping reduce the decremental margin impact even as revenue is under pressure. I'm curious if you can unpack some of the measures that you're taking? And how much runway do you have to further reduce cost from here? And I believe you mentioned price downs potentially normalizing more going forward. So how should we think about that maybe slowing the pace of which you can continue to improve margin, assuming the end markets remain weak? Thanks.

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

Thanks Absolutely. So again, -- this business, and we've openly talked about is notoriously hard to grow margins in the first quarter. So sequentially, Q4 to Q1 is always a challenge in this business. And quite candidly, I expect it will be a challenge for this business in 2025.

As we get back to that more normalized environment. Productivity efforts, many of which Martha just pointed to as examples have been underway, and a lot of that will help offset some of those cost -- or costs that will come into the our market, if you will, or in our business, but they take time. And so some of those layer in over a little bit of time, and we have to adjust to those. And so we're always looking for different ways to be able to get more efficient I think additionally to what Martha mentioned before, we looked very hard before we're adding costs.

I think that's a level of discipline that we brought to the company this year that has served us well, especially in a market environment that has certainly softened over here over the back half of the year. I think, again, for a ['25] planning perspective, we've got a lot of work to do in our plan. So it'll probably become a little bit clearer how we're thinking about margins as we get into next year. I will say and what we have said is our goal for 2025 is to be able to expand margins from where we are in 2024.

Operator

Samik Chatterjee, JPMorgan.

Unidentified Participant

This is [MP] on for Samik Chatterjee. So I have a question around the electrification programs. So you mentioned that some of the delays related to electrification programs. Can you please expand on that? And also, how does this impact your ability to hit the electrician target of $2 billion by 2026. And I have a follow-up.

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

Yeah. So the areas in the marketplace where we've seen the greatest delays are in North America and also in Europe. One of the great things about our business model is that we are well hedged against those delays when you look at the position that we have on ICE vehicles and all plug-in hybrids. So we do expect that the platforms will come back and electrification will continue to happen in automotive and actually in the HVOR market as well. We have some commercial truck applications that we're focused on.

So we expect this to be an important growth driver in automotive and commercial truck also quite frankly, in parts of our industrial end markets as well, where we are engaged with a similar technologies and meeting similar needs for efficiencies, whether they be heat pumps or infrastructure around charging stations, or power conditioning units that we provide via our Dynapower business. So we're still quite bullish on the opportunity, but we're making sure that our burn rate is aligned to the market timing.

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Unidentified Participant

Okay. Got it. And the follow-up here I have is like any early thoughts into 2025, how you're thinking about the business? And like what are your assumptions about the end markets, like which are expected to be positive, which are expected to be negative and something around that?

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

Yeah. I would say at this point, certainly through the first half of 2025, we're not expecting any help from the market. So as we have in the fourth quarter here, we've taken some judgment against third-party forecasters. And we're looking at those forecasts very critically as we roll into 2025. So we're not expecting help from any particular end market, at least through the first half of the year.

Unidentified Participant

Okay. Thank you.

Operator

Luke Junk, Baird.

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

Thank you. I wanted to ask a big picture question in kind of bridging on the electrification question we just had. And just wondering is the CEO search process now used its conclusion, just wanted to reveal to you about the strategic direction of the company from here? Does it inform reemphasizing auto and electrification, does it maybe push towards diversifying the company and pushing more on some of the market opportunities within Sensing Solutions? Just any insights from the search process would be helpful. Thank you.

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

Yeah. I think what I would reiterate are some of the characteristics that we've talked about that we believe are important in the next CEO of Sensata. And those are certainly the ability to drive technology road map, the ability to enhance innovation. Also, automotive experience, we think, is important given the profile of our business. I think any changes to the strategy will come from the new CEO, and it's important that, that person has the time to lay that out.

Operator

William Stein, Truist Securities.

William Stein - *Truist Securities - Analyst*

Great. Thank you for taking my questions. First, Martha, I think you said that you're expecting to fill that role in the same time frame that you outlined earlier. Can you remind us what you've said in the past about that was that by the end of this year or a different time frame?

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

Yes. When I came into the role in -- on May 1, of this year, we spent some time looking at how long does it actually take on average to fill CEO roles when you're searching on the outside and that ranges from 6 months to 12 months. So that's the time line. We're very confident of landing squarely in that time frame.

William Stein - *Truist Securities - Analyst*

Okay. Thank you. And you clearly don't sound too optimistic about the markets, even if you're doing a great job on cost cutting at least through the first half of the year. I wonder if you might give us sort of your early views as to production -- auto production growth for 2025 and maybe remind us of the outgrowth algorithm that you believe you can achieve on the top line. Thank you.

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

So I think it's really early for us to be talking probably from a market perspective of what we think is going to happen in auto. I mean as we've all seen, it's continued to change not even month-to-month, but in some cases, day by day. And so certainly a few more months worth of data will help us solve as I think we get a better picture on '25 for what our growth looks like. I think, again, what we're doing on our side is trying to make sure that we take action. We're trying to make sure that we're controlling what we can control and it's as Martha has pointed out, really focusing on execution and efficiency. We'll continue to react to whatever the market drives.

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

I think the only other thing I would add is that there are important product launches that are planned in 2025 that will bring value for our customers and for us. What we have seen in down markets and even in the volatility of the market, given mix changes across ICE, plug-in hybrids, changes on the commercial truck side. We have in the past seen that while they are planned early in the year, these things can push out. So that's one of the reasons we're taking the time to really understand what our outgrowth can be and what that end market will be.

William Stein - *Truist Securities - Analyst*

Thank you.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors - Analyst*

Hi, good afternoon. For my one question, I was just hoping we could dig a little bit more into the HVOR market. You mentioned that there was another cut in terms of market forecast. I know it's been under pressure for a while now. I was just wondering if you could sort of describe where we're at versus a potential bottom, how this cycle is differing from prior cycles, et cetera. Thanks very much.

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

Yes. We began to see on the commercial truck side of the business, we began to see a slowdown in that market in the second half of 2024 and have seen that accelerate a bit, really in line in this case with what we're hearing from third-party forecasts, and we use KGB in particular. So not a mystery when you look at where those production forecasts are.

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

Yeah. I mean on-road China was a little bit stronger in the first half of the year. And I think our expectation was that, that was going to normalize a little bit in the back half, which seems to be I think the piece that we wrote, I don't want to say surprised by, but certainly have seen kind of come to fruition, is that North America and Europe haven't had the rebound that people were expecting. And so that the negative year-over-year declines in both of those markets according to KGP as a third-party sources, down 20%. So it's a significant drop in volume from what where they were a year ago. And so hopefully, we're nearing the bottom of that cycle and hopefully that will start to turn, but we're not sure exactly when.

Steven Fox - *Fox Advisors - Analyst*

Great that's helpful.

Operator

(Operator Instructions)

Joseph Spak, UBS.

Unidentified Participant

Hi, [Zack Wild] on for Joe back today. Thinking about Europe next year and the CO2 regulations going on there. Like any early thoughts about like either be potentially going higher or less ICE vehicles be produced? Like, how do you think Sensata is positioned for that development? Kind of any puts or takes with that?

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

I think we're positioned quite well, frankly, just given our content on ICE engines and given the growing content that we have on BEV. So Today, we are still slightly less content on a BEV, so full electric vehicle in Europe. And so that slowdown has actually, in some cases, been a positive for us. Difficult to know where the next year. A big piece of that is what does the consumer wants, and that's been part of the slowdown. So we're paying attention, but we haven't completely developed our projections for 2025.

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

Thank you, Betsy, and thank you, everyone, for joining the call today. We do look forward to seeing you with various investor events this quarter. We have a pretty full agenda. At the moment, we're planning to participate in the following events, November 12, next Tuesday at the RW Barrier 2024 Global Industrial Conference in Chicago. Next Wednesday, the 13th of the JPMorgan Equity Opportunities Forum in Miami. On December 3, we'll be at the UBS Global Industrial and Transportation Conference in West Palm Beach. December 12 in New York City at the Melius Research Industrial Forum. And finally, I'll be participating virtually with both Evercore for a fireside chat on December 10. And with Chris and the Oppenheimer team on December 11. So pretty full agenda coming up.

I appreciate everybody joining today, and we look forward to speaking with you again over the conferences in the next quarter. That concludes the third quarter earnings conference call. Operator, you may now end it.

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Operator

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

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