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# EDITED TRANSCRIPT

ST.N - Q1 2026 Sensata Technologies Holding PLC Earnings Call

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## OVERVIEW:

Company Summary

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

## CONFERENCE CALL PARTICIPANTS

**Mark Delaney** *Goldman Sachs Group Inc - Analyst*

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

**Joseph Giordano** *JPMorgan Chase & Co - Analyst*

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## PRESENTATION

### Operator

Good afternoon, everyone, and welcome to the Sensata Technologies Q1 2026 earnings call. (Operator Instructions) Please also note, today's event is being recorded.

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

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

Thank you, operator, and good afternoon, everyone. I'm James Entwistle, Senior Director of Investor Relations for Sensata, and I'd like to welcome you to Sensata's first-quarter 2026 earnings conference call.

Joining me on today's call are Stephan Von Schuckmann, Sensata's Chief Executive Officer; and Andrew Lynch, 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. A 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 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 might 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. Much of the information that we will discuss during today's earnings call will relate to non-GAAP financial measures. Our GAAP and non-GAAP financials, including reconciliations are included in our earnings release, in the appendices of our presentation materials and in our SEC filings. Stephan will begin the call today

with comments on the overall business. Andrew will then cover our detailed results for the first quarter of 2026 and our financial outlook for the second quarter of 2026. Stephan will then return for closing remarks.

After that, we will take your questions. Now I would like to turn the call over to Sensata's Chief Executive Officer, Stephan Von Schuckmann.

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Thank you, James, and good afternoon, everyone. Let's begin on slide 3. As I typically do at the start of our earnings calls, I'd like to begin today with an update on Sensata's transformation journey. When we talk about transformation at Sensata, what we mean is that we have embarked on a journey to unlock untapped potential across our organization. We are encouraged that the market has taken notice of the progress we're making.

However, what I find even more exciting is the vast opportunity ahead of us. Tapping into that opportunity means maximizing value for our shareholders, sustainably over the short and long term. We'd like to think of this as a pursuit of excellence over multiple phases, and that we are still early in this journey. The initial phase which we completed last year was to define what exit looks like and systematically build into the foundation of our business.

Our next phase is one of acceleration, expanding on the foundation by delivering incrementally better performance and increasing focus on strategic initiatives in pursuit of our aspiration to be best-in-class. And finally, transformation maturity means achieving and sustaining best-in-class performance and market leadership.

Last year, as we embarked on the first phase of our journey, we defined what exit looks like for us. And we deployed a key pillars framework designed to maximize value creation. As we built up a systematic around those pillars, we focused on consistency of execution, sequentially improving each quarter and creating value for our shareholders. When updated during February on our year-end call, I shared that this framework is now foundational to everything that we do and is deeply ingrained in our business.

As we advance to the next phase of our journey, our priorities framework is, first, to retain the consistency of execution and margin resilience that we installed in the business over the past year. Second, to continuously compound value by delivering year over year growth and margin expansion, not only in aggregate but now also at segment level. And third, to fulfill our growth mandate by delivering on our near-term growth targets while also importantly, prior our future growth engine as we work on the strategic growth initiatives we laid out for each of our segments.

In this phase of our transformation, these priorities are all equally important. Balancing strategy, growth, and executing effectively is the standard to which we hold ourselves. Just as we did last year, each quarter, we will update you with proof points of our progress.

Before we get to the first quarter proof points, allow me to set the stage but where we have made progress these last few months. Our new leadership team is gaining meaningful momentum in their respective areas. Nicolas and our operations team, are making progress on inventory reduction and supplier payment terms optimization, which is evident in our first quarter cash conversion. Similarly, with improved focus on factory performance, productivity is accelerating, which is demonstrated in our first quarter margin expansion.

Marcus, Elis, and Brian have hit the ground running in their respective roles, and I will share more color on this as I provide segment updates in just a few moments. Before we get to the segments, let's turn to slide 4, and I will briefly cover our strong first quarter results, which clearly demonstrate the continued and consistent progress that we are making.

We delivered revenue and adjusted operating income at the high end of our guidance range, and we exceeded our expectations on adjusted EPS and free cash flow. Free cash flow of \$105 million was again a bright spot and this represented 83% conversion, outpacing the first quarter of 2025, which is particularly noteworthy as 2025 was a record year for Sensata. With our improved free cash flow, we progressed further on our deleveraging journey.

The results of the quarter are indicative of the progress we are making on our transformation journey and demonstrate that our strategy is creating value for shareholders. This is evident, not only in the quarterly results, but also in the sustained improvement in return on invested capital, which has continuously increased and now stands at 10.8%.

Last year, I spoke a lot about margin resilience, which requires operating our business with an inherent understanding that headwinds will arise. To prepare for this, we continuously make structural improvements, which increase our underlying earnings power. [Biogen] resilience, not only positions us to manage through headwinds, it also ensures we maximize the benefit from tailwinds.

Our Q1 results are an example of margin resilience in action. Despite multiple headwinds, including precious metal and inflation of over 100%, our first quarter adjusted operating margins improved by 30 basis points year over year to 18.6%. The stand in sharp contrast to the first quarter of 2025 when our results decreased 40 basis points from the prior year.

While I'm pleased with our consolidated results for the first quarter, I'm even more excited by the performance we are seeing in our segments with our reorganized business. Growth in our clear strategic focus and our Q1 results are indicative of the progress that we are making as we delivered organic growth in each of our segments.

Let's turn to slide 5, and I will take you through a few highlights for each of our segments. In our Automotive business, we again delivered market outgrowth, demonstrating our ability to grow regardless of powertrain mix. As you may recall, we returned to market outgrowth in the back half of 2025 after several challenging quarters. Our growth accelerated to 4% in the first quarter as we are gaining traction on multiple fronts.

For example, in Europe, we are outgrowing production as our content per EV continues to improve. In the US, we're outgrowing production as our portfolio benefits from the resurgence of truck and SUV production. We're also securing future growth stacking electrification wins with innovative new products, such as our high-efficiency contactor, or HEC; and our FaultBreak contactor where we have secured meaningful new business wins in both Europe and the US.

For example, in Europe, we secured a design win on an EV platform at a large German automotive OEM leveraging our heck to enable switching between 400 and 800-volt charging architectures. In China, our local contactor volume continues to ramp as we expand our business with key local OEMs, and we are now gaining traction with battery and battery systems manufacturers.

Japan and Korea continue to be growth accelerators for us as we enjoy our highest content per vehicle in Korea, and we continue to grow our market share with leading OEMs in Japan. We're also seeing green shoots of our next wave of growth in automotive with our performance in India. We are significantly outgrowing production in this fast-growing market, and our revenue with a key OEM more than doubled year over year.

Andrew will cover our detailed Q2 guidance and the full year outlook in these remarks. But as I speak about Automotive, I want to take the opportunity to assure you that while we are thrilled with our first quarter results and excited about our second quarter outlook, we are also clearly aware of some of the end market demand risks that are posed by geopolitical events and the effect on oil prices. In the spirit of margin resilience, we have developed plans for a number of scenarios and we are prepared to act swiftly to preserve our margins in event that automotive end markets deteriorate.

Our Aerospace, Defense, and Commercial Equipment segment was a star performer in the quarter with double-digit organic growth. Our truck production remains soft, particularly in North America, we're seeing an increased demand for build slots in the back half of the year. Given the longer lead times for these vehicles, we're now entering replenishment cycle. We also observed an increase in demand from our diesel engine and power generation customers as they are benefiting from the demand for generator sets tied to data center construction.

Aerospace and Defense continues to experience steady mid-single-digit growth driven by both strong commercial backlog and increased military spending. In addition to ramping up to supply the market-driven growth, we are focused on securing our share of well-time near-term

content growth opportunities in defense applications. We recently secured a circuit breaker win from a German manufacturer of armored ground transport vehicles for a defense application in Europe, and we have similar opportunities in Europe in our pipeline.

We're also closely monitoring recently publicized developments around the US government asking traditional automotive OEMs to support defense production. It's still too early to quantify any impact, but we will update you should opportunities materialize. Our industrials business continues to experience end market softness particularly in HVAC, for unit shipments in the North America market decreased in the first quarter. Nonetheless, we delivered modest organic growth primarily through share gain.

We booked two additional HL leak detection wins in the first quarter, further expanding our market leadership position as this product line continues to be a growth accelerator in North America. We remain focused on expanding this product offering into Europe and Asia. In the near term, European heat pump demand has returned to growth, supported by innovated fossil fuel prices alongside policy incentives, energy security concerns and improving cost economics. We expect this combination to be a positive demand driver for us over time.

Let's turn to slide 6. As I'd like to elaborate on the data center opportunities in our industrial business. We have increased conviction around our right to win in data centers, building on our existing data center business. I'd like to provide more color on the opportunity and general time frame for growth acceleration. Inside the data center, electrical protection sockets and power distribution units and sensing sockets in quant distribution units create demand for our products. Outside the data center, there are meaningful opportunities for our Dynapower product in uninterrupted power supply, or UPS systems, and HVAC demand grows with recruiting needs for each data center.

We are incumbent in data centers today with both low voltage AC electrical protection as well as with sensing and HVAC applications. With this incumbency, we are already benefiting from secular growth.

As we look at the technological road map for data centers, we see a major inflection point in the data center ecosystem. The opportunity for Sensata is significant and our right to win is compelling. This inflection point is driven by the rapid evolution of GPU platforms and the associated changes in power and thermal management requirements.

Allow me to elaborate. Today, most deployed data centers rely on low voltage AC electrical architectures where air cooling meets current thermo requirements. Industry road maps from leading GPU manufacturers point towards higher Baltic DC power systems, including 800-volt DC, which drives substantially higher reg densities and accelerate the need for liquid cooling solutions. These transitions increased demand for high-voltage contactors and for pressure, temperature, and flow sensors. These application areas are closely in line with our portfolio where our performance, reliability, and application expertise supports a strong competitive position.

In parallel with our EPC and distribution partnerships, we're engaging earlier in the design cycle with hyperscalers and ODMs to support upfront specifications. This approach strengthens downstream pull-through by enabling EPC's internal partners to deliver against predefined customer requirements. Since our last update, the strategy has resulted in our products being specked by two hyperscalers and our new flow center product has advanced from development to customer validation.

From a timing perspective, industry road maps indicate that adoption of liquid cooling is expected to accelerate beginning around mid-2027, particularly in high density, AI, and high-performance computing deployments. As this system scale, leading GPU and infrastructure suppliers anticipate a subsequent shift towards higher voltage power architectures.

While the revenue opportunity is medium term, the time to get spec-ed in is not, and that's exactly where our focus is. This is what -- as well, and it is the call to our automotive legacy. In parallel, our diner power business is actively bidding on several lot programs with an extensive opportunity pipeline for UPS projects. The highlights I just shared are just a peak into the growth engine that we are priming at Sensata. I have even more conviction in our growth prospects than I did just a quarter ago.

With our new segmentation, Marcus, Alice and Brian each have clear growth mandates for their respective businesses. They, along with their strong teams, are bringing the end market focus that is required to deliver on a growth mandate. With that, I would like to extend my gratitude to teams -- for their collective commitment to our transformation and consistency of execution.

Now let me turn the call over to Andrew to provide greater detail on the first quarter and our thoughts around the second quarter and full year.

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

Thank you, Stephan. Let's turn to slide 8. For clarity, unless otherwise specified, amongst are referenced in millions of US dollars and growth percentages are approximate. We delivered first quarter revenue, adjusted operating income, and adjusted earnings per share at or above the high end of our expectations despite volatility in our end markets.

As Stephan noted, this demonstrates a continuation of the momentum and consistency of execution that we achieved last year. We reported first quarter revenue of \$935 million, an increase of \$24 million or 3% from \$911 million in the first quarter prior year.

On an organic basis, revenue grew 4% year over year as we had a \$34 million inorganic revenue headwind from divestitures, which was partially offset by a \$20 million revenue tailwind from FX. This was the final quarter of meaningful revenue impacts from the initiatives we began in 2024 to exit \$200 million of annual revenues related to underperforming products.

Adjusted operating income was \$174 million and adjusted operating margin was 18.6%, compared with \$167 million and a margin of 18.3% in the prior year quarter. This year-over-year improvement of 30 basis points was attributable to stronger revenues and improved productivity. Margin benefits from the divestiture of underperforming products approximately offset headwinds for tariffs on a year over year basis.

Adjusted earnings per share was \$0.86, an increase of \$0.08 year over year, exceeding the high end of our first quarter guidance range by \$0.01.

We delivered \$105 million of free cash flow in the quarter, which was an increase of \$18 million or 21% year over year. Our free cash flow conversion rate was 83% of adjusted net income an increase of 9 percentage points compared to 74% in the prior year period. This was an encouraging start to the year in what is typically our most challenging quarter for free cash flow as we have timing-related headwinds attributable to interest and variable compensation payments the latter of which was a \$20 million headwind year over year.

Let's move to slide 9 to unpack this further. Free cash flow of \$105 million, not only exceeded our expectations, it was a record first quarter result for Sensata. This outperformance was driven by the momentum we are gaining on working capital efficiency with our initiatives to reduce inventory and optimize supplier payment terms. We are thrilled to have such a strong start to the year particularly after the record full year results that we delivered last year.

As we move to slide 10, I will discuss capital deployment. We returned \$43 million of capital to shareholders in the quarter. In addition to our quarterly dividend, we repurchased \$25 million of shares to offset the impact of share-based compensation.

Our net leverage ratio at the end of the first quarter was 2.65x trailing 12 months adjusted EBITDA compared to 3.06x for the prior year quarter. Deleveraging will continue to be our capital allocation priority. We have conviction in this approach, and we are pleased with the improvements we are delivering in return on invested capital, which improved by 70 basis points to 10.8% for the 12 months ended March 31, 2026, compared to 10.1% for the 12 months ended March 31, 2025.

Earlier this month, we announced our second quarter dividend of \$0.12 per share payable on May 27 to shareholders of record as of May 13.

Now let's turn to slide 11 to discuss our segments. All three of our segments delivered organic revenue growth and operating margin expansion in the first quarter. We see this as an encouraging proof point for the traction we are gaining from our reorganization.

Our Automotive segment delivered \$525 million of revenue in the quarter, a decrease of 1% year over year on a reported basis. On an organic basis, we delivered 1% growth year over year and 4% outgrowth against the market that decreased by 3%. Our market outgrowth

was driven by both content gains and production mix as our versatile portfolio of ICE, EV, and powertrain agnostic products continues to perform in a market with uneven powertrain adoption rates. Automotive segment operating margin was 23.5% in the quarter, a year over year increase of 70 basis points from 22.8% driven by both productivity and portfolio optimization measures.

Our Industrial segment delivered \$184 million of revenue in the quarter, which was a year over year decrease of approximately 1% on a reported basis and a year over year increase of 1% on an organic basis. Organic growth was enabled by share gains despite ongoing softness in US residential and construction markets. Industrial's operating margin was 27.1% in the first quarter, a year over year increase of 100 basis points from 26.1%, primarily due to productivity gains.

The Aerospace, Defense and Commercial Equipment segment delivered \$226 million of revenue in the quarter, an increase of 15% year over year or approximately 17% on an organic basis. We had revenue growth across every market vertical, including aerospace, defense, on-road trucks, and off-highway equipment. Segment operating margin was 28.1%, a year over year increase of 260 basis points from 25.5% as we gained operating leverage from strong volume growth.

Adjusted corporate operating expenses were \$63 million, an increase of \$10 million year over year primarily due to higher variable compensation expense, which was supported by stronger underlying performance.

Now let's turn to slide 12 to discuss what we are seeing in our end markets. Global auto production decreased by approximately 3% in the first quarter. For the full year, third-party forecasters are expecting a production decrease of approximately 2%. Recent downward revisions to third-party forecasts are primarily attributable to China and the Middle East and we do not expect these revisions to have a meaningful impact on our business.

In our industrial end markets, US residential and construction markets remained soft in the first quarter, which was evident in the year-over-year decrease in US residential HVAC shipments. We expect HVAC shipments to stabilize in the second quarter and returned to growth in the second half of 2026.

In aerospace, defense and commercial equipment, commercial aircraft backlogs are strong, Defense spending is accelerating and on-highway trucks are starting to show signs of recovery. In the first quarter, although North American truck build rates did not improve, our order book increased. We are optimistic that this is a leading indicator for a replenishment cycle in the second half of 2026 as lead times generally result in our revenue growth preceding truck build rates.

With that backdrop, let's move to slide 13, and I will share our guidance for the second quarter of 2026 and some color on our outlook for the year. For the second quarter, we expect revenue of \$950 million to \$980 million, adjusted operating income of \$182 million to \$190 million, adjusted operating margin of 19.2% to 19.4%; adjusted net income of \$131 million to \$139 million, and adjusted earnings per share of \$0.89 to \$0.95.

Our second quarter guidance includes approximately \$8 million in tariff costs and associated pass-through revenues. This is approximately \$4 million lower than our prior run rate due to recent changes in US tariff rates. Our tariff expectations are based on trade policies in effect as of April 27, 2026. Our second quarter guidance does not include any potential tariff refunds related to the recent EPA tariff ruling, nor does it reflect any possible pass-through of such refunds.

Due to geopolitical uncertainty and end market volatility, we are continuing our practice of providing guidance one quarter at a time. That said, we do want to share our view that current consensus estimates for adjusted operating margin expansion of approximately 30 basis points per quarter in the back half are consistent with our view, provided that end market demand holds up. Should end market demand deteriorate materially, we are prepared to take reasonable measures to defend the 19% annual margin floor that we committed to last year.

Now I'd like to turn the call back to Stephan for closing remarks.

**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Thank you, Andrew. Before we move to Q&A, I would like to leave you with some closing thoughts. As we progress through 2026, we do not expect our path ahead to be free of challenges, it really is. Sensata's prepared. The operational principles we brought into the organization have proven effective over the last 5 quarters.

Just as we did last year, we will operate our business in a manner to overcome challenges and perform line with the expectations we set and to deliver margin expansion for the year. And do so, the underlying earnings power in our business will continue to strengthen, and we are primed for accelerated earnings expansion as market cycles turn more favorable. We are proud of what we have accomplished so far, and I have conviction that our business is primed for excellence. We have an outstanding leadership team and a committed organization that is running behind them. We have achieved organization-wide operational discipline, our productivity engine is delivering.

Our strategic initiatives are accelerating and our growth opportunities are robust. I will now turn the call back over to James.

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

Thank you, Stephan and Andrew. We will now begin Q&A. Operator, please introduce the first question.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Wamsi Mohan, Bank of America.

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**Unidentified Participant**

Hey, guys. Thanks for taking the questions. This is Ryan showing on for Wamsi. Two questions for me. One, on auto content outgrowth of 4% in the quarter. Stephan, I know you gave some details earlier in the call, but can you share any further color about the region? And as our production declines 2% year over year, is that the right outgrowth to think about?

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

So thanks for the question. Let me start a bit broader. By starting with the IHS prediction or forecast, which is roughly 91 million vehicles for the year of 2026. That's around 2% down from what we saw in 2025. I think it's important to mention there are two factors that need to be considered that can substantially influence the IHS forecast.

The first one geopolitical tensions, and obviously, they're being related to the oil price. And the second factor that's important are test car subsidies in China. And as we know, these were in place in quarter three, quarter four of 2025, which led to a strong demand. But since quarter one of 2026, subsidy policies have changed and this has obviously resulted in a weak demand.

Nevertheless, the Automotive segment and the segment leads around Marcus and the team, and also our China President, Jackie, they have a very clear and accountable growth mandate. And to get to your question around regions, they are winning meaningful business in each and every region. So in China, with contactors in Southeast Asia, for example, in Japan, we made good progress on winning new business, as we've mentioned in the call. And so we're in South Korea.

We've been winning in all types of powertrain platforms from ICE to battery electric vehicles. And I think it's also important to mention that -- we've been winning in the regions, and we've been making good progress.

But we've also been winning in automotive with new products. The two products that I mentioned in the call, the high efficiency contactor which was the fifth win for this new product with a German OEM and also the business mentioned around the full break contactor. And then there's additional opportunities in China with battery system manufacturers that I feel we're gaining good momentum and making good progress.

So overall, I'd say we've got strong conviction that the team will outgrow the market in 2026. So I hope that fully answers your question around automotive.

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**Unidentified Participant**

Got it. Yes, very helpful. And last question for me. The 60 to 80 bps of operating margin expansion sequentially seems pretty high than prior quarters. Can you give us a bridge of the drivers that's leading this?

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

Yeah. So operating margins did not expand sequentially. They contract sequentially on typical Q4 to Q1 timing-related items, but we've seen less contraction than what we've typically seen in past years, as we've gotten a head start on productivity compared to compared to what we've seen in past years.

So a stronger start to the year and really encouraged by that and certainly a head start on our targets for the year. If your questions relating to Q2, step-up in margins from Q1 to Q2, it is again the same themes. It's that the head start on the year, stronger productivity earlier in the year gives us a stronger lift as we move into the second quarter and volume certainly helping.

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**Unidentified Participant**

Got it. Thanks so much.

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**Operator**

Mark Delaney, Goldman Sachs.

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**Mark Delaney** - *Goldman Sachs Group Inc - Analyst*

Yes, good afternoon. Thanks for taking the questions. I had one to start also on the margin topic. The company mentioned that it expects margin improvement of about 30 bps year over year in the back half provided that market conditions don't meaningfully deteriorate.

Given all the supply chain and geopolitical volatility that's occurred over the last 90 days and pressure on input costs, can you speak more on the actions that Sensata is already taking to navigate this environment and the company and our extension to expand margins in the back half?

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

So let me start with that, Mark. And I think it's important to say that despite all challenges that we have, we have a clear playbook to respond, and we've been working through that pay book throughout 2025 and we use that same playbook for 2026. So what I'm saying is Sensata is prepared.

What we do is we think in scenarios and that prepares us for current or existing but also future headwinds like material inflation, tariffs and everything else. Equally important to mention is that we are designed into mission-critical application, which obviously gives us a position of leverage. And that -- saying that society can -- defend its margins. And I think that pretty much differentiates us from us. I don't know, Andrew, if you want to add something to that, but.

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

Yeah. I think thematically, those are exactly the factors that give us leverage and confidence in our ability to execute. And then I would say it's the same margin cadence that we observed last year, where we see sequential improvement each quarter. Q2 tends to normalize to where we exited the back half of the prior year, and then we see sequential improvement each quarter thereafter as our productivity engine kicks in.

And certainly, there's headwinds and challenges associated with input costs, but that's no different than the headwinds or challenges we saw last year on tariffs and the playbook around offsetting those is exactly the same.

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**Mark Delaney** - *Goldman Sachs Group Inc - Analyst*

That's helpful context. Thanks. And then, Stephan, you spoke about a number of areas where you're seeing some progress in the data center market. And based on all these engagements that are underway, are you able to give more context of how much incremental revenue this market could add in 2027 and the types of margins investors can anticipate as that center revenue grows?

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Allow me to answer that question a little bit broader. So look, I think you're probably all aware of that, but I still want to mention this. I lead -- to more data processing and demand for high-performance computing. And this will lead to a change in Rec architecture to high-voltage 800-volt with liquid cooling. And that obviously means that Sensata has sensing and electrical sensing and electrical protection portfolio to serve these do mining application.

And this shift purposes the industry right into the center of Sensata's expertise, which is serving these mission-critical applications with automotive-grade reliability. We're meeting robust performance specification harsh environment really matters. So I really feel we have the right to win here, and we'll share more progress once we go through the individual earnings calls going forward.

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

And Mark, I would maybe just add to that. Although we're not at a point where we're providing a dollar revenue forecast or specific timing, the other side of that is that we're not seeing a significant need to invest to intersect this trend. So if you look at a typical automotive product portfolio and design cycle, we're often designing to a customer specification. And so that requires investing in the program ahead of revenue.

With the data center pole, what we're expecting is to get spec-ed in with products that we have today and technologies that we have today. And so the growth is real, and we're excited about it. But the other side of that is that we're not finding ourselves having to invest significantly to pursue and win these applications. And so with that frame what's important to us is the demand is there and that the revenue will come, but less concern over the precise timing of when.

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**Operator**

Christopher Glynn, Oppenheimer.

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

Just wanted to follow up on that in terms of the timing of you being able to speak with a lot more specificity about some of the data center opportunities in cooling and UPS. There is an element of the next-gen architecture is playing more tubes also an element of -- the timing of your posture to be more purposeful about what your going after. So I'm wondering how much of this is kind of catch-up versus maybe in the current gen data center architectures, it's just not as much opportunity.

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

Well, as we just -- as I explained, in air-cooled data center concepts, the opportunities not as strong or somewhat limited in comparison to liquid-cooled data center concepts. And break that down into a product level and we can also maybe add a bit to timing.

On the air-cooled data center concept, it's about temperature sensors and circuit breakers, where we're gaining momentum. But as soon as we go to the high-voltage liquid-cooled data center concepts around 800 volts that expands our product portfolio to pressure sensors, flow sensors, temperature sensors, circuit breakers, and contactors. And that is basically the add-on opportunity if you compare the two concepts to each other.

And what we're seeing out there in the market is, first of all, the concept being placed into the market and our task the last couple of months has been to get specked into these concepts. And our expectation is that these data centers or these new data centers that are based on high-voltage 800-volt architectures will be we'll start showing revenue growth for Sensata around mid-2027, so just over a year from now from a timing point of view.

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

Appreciate the deeper dive. And to what extent did the products get represented as an integrated solution or a co-package solution for you guys for independent design wins into the liquid cooling and other targeted applications?

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

Yeah. It's more technology oriented. So the wins on the electrical protection products will tend to be grouped in the wins on the thermal management products. We'll tend to be driven by different decision makers and in different applications. But I would expect that those will scale at relatively the same rate because they're interconnected.

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

Thanks. Thank you.

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**Operator**

Joe Giordano, TD Cowen.

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**Joseph Giordano** - *JPMorgan Chase & Co - Analyst*

Hey, guys. Thanks for taking my question. I want to start on China automotive. I'm just curious, just given like the improvements you've made on the ground in terms of getting your content with local large players and -- if I think about the comps over the last couple of years, right, like you had dramatic mix shift away from like incumbents multinational incumbents.

So what's the like the opportunity set for you as you add first time ever content on these new customers, like what magnitude should you be outgrowing that market? It seems like it should be like very large just given where you're coming from and adding for the first time.

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

First of all, let me frame what the business opportunity looks like and then we can speak about growth numbers. So as you know, Joe, we were focused a lot on international OEMs in the past and basically pretty much strongly shifted away from international OEMs more to local OEMs. And we've won a lot of business with them, be it on the contactor side, but also about our classic applications and products that we've been offering in the market.

But predominantly, it's been on electrification and on the contactor side. that's the one side of it. And actually, it was just in our factory in a couple of weeks ago, and we're busy wrapping up this contacted business, and it's quite a significant volume that will place us to be in a good third position within the market in China.

The second thing is, and this is something that's starting to grow, is that we're seeing opportunities with battery with factory systems. So we're seeing further opportunities. It's also related to contactors. And this is business slowly, but certainly emerging, and we're gaining traction with them. That's the next level of opportunity that we see.

So yes, we have a strong base business with legacy products and incumbent, and that's pretty much stable, I would say, but we're very much growing on or strongly growing on the electrification side of the business where we've gained a lot of traction.

And maybe one last word to that, there are not that many suppliers on contactors that can deliver at scale but can also deliver it on a high-quality level. And that's where Sensata comes in. We know how to deliver at scale, and we know how to deliver it on a high-quality level, and that has sort of allowed us to position ourselves within that market in China with growth.

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

Yeah. And then, Joe, on the outgrowth question. So if you think about our bodies on a global basis first, you're typically looking at a price down framework of low-single digits, kind of 1% to 2% a year depending on the year, which means that to deliver low single digits outgrowth requires underlying content growth more in the mid-single digits range. And so that's what we expect on a global basis.

If you do that same math in China, the pricing pressure is higher price tends to be mid-single digits in price downs year on year. And so to outgrow that market requires underlying content growth in the high-single-digit range. That's exactly what we saw last year, and we expect to continue to outgrow that market. But with where the pricing dynamic is right now, I wouldn't expect the net out growth to be materially different to what it is for our global business. The underlying content growth, I would expect to be stronger to your point.

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**Joseph Giordano** - *JPMorgan Chase & Co - Analyst*

Last quarter, you started talking about drones a little bit. Just curious, you saw the aerospace business grew significantly over market here. I'm just curious how much of that was attributable to some of those faster growing, newer areas for you?

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

Yeah. I'd say the growth that we're seeing right now is primarily attributable to our core business. and just acceleration of defense demand and consistent with what we were seeing in our order book as we put out our guide earlier this year. the opportunity beyond that is probably more medium term, but we're seeing traction on that in terms of opportunity to bid on and that type of business.

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

I mean, we've been active, Joe, as I mentioned in the call, we just had a recent doing with circuit breakers for German manufacturer of armed ground transportation vehicles, which is, I think, an important one with the product in that case in Germany or in Europe, which is not as strong as our defense business that we have in North America. And we see similar opportunities in the pipeline. So we're gaining traction there and starting to build our order book, which is -- looks promising.

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**Operator**

Guy Hardwick, Barclays.

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**Guy Hardwick** - *Barclays Services Corp - Analyst*

Question on the HVAC side. I think you said in your prepared remarks that your HVAC revenues are down, but obviously, the market expect was down double digits in Q1. And I think it's expected to be down double digits again in Q2. And then I think you said it should return to growth in the second half. And I think that's kind of consistent with the sell-side AHRI forecast.

So just the question is, how much do you think you outperformed in Q1? And is that kind of -- I imagine it was a considerable margin. And is that something we could extrapolate through the sector Q2 or was implicit in Q2 guidance? And what about outperformance continue when the market kind of stabilizes in the second half?

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Yeah. So the HVAC business is about 25% or so of our overall industrial business. And so with one-fourth of our business down, the end market demand down double digits and the net organic growth of 1%. There was certainly some outgrowth there. That was primarily driven by the new content that we launched last year with our AI product. But moving forward, we expect to continue to outgrow the market with our new content and then participate in market growth as the market recovers.

And so certainly, if we get recovery in the back half, that would be a growth accelerator for us. At the same time, as we communicated at the start of the year, we recognize and understand the risk in this market. And so we built an operating plan that was -- that does not rely on market growth for us to deliver on our margin expansion aspirations.

So we'd be encouraged to see it. The channel has been soft for some time, and it looks like there will be a replenishment cycle in the back half, but we're not super dependent on it either.

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**Guy Hardwick** - *Barclays Services Corp - Analyst*

And just my follow-up question is, hopefully, incremental margins sort of were excellent in DC&E and margins moved up in industrial quite nicely even though revenues were flattish. So was there any positive mix effects in those two segments, which could have led to that those margins?

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Yeah. Well, so on Aerospace, Defense, and Commercial equipment, with the growth that we're seeing in Aero, which is our highest margin end market, there's meaningful variable contribution margin from that. And then just more broadly, when we see that level of growth, 15%

year on year, the operating leverage that we get from that is sharper than what you get from low- or mid-single digits growth. And so that was certainly a contributor as well.

And then -- sorry, I may have missed the second part of your question there?

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**Guy Hardwick** - *Barclays Services Corp - Analyst*

I think your answer is stretch ready is that were there any businesses, I mean you partly answered that, which had positive mix other than arrow.

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Got it. No, the mix was generally consistent across most of the commercial equipment space. And so again, just the growth in this business, and particularly at these high growth rates tends to come with a higher variable contribution margin, and we benefit from that.

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**Operator**

Amit Daryani, Evercore ISI.

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**Irvin Liu** - *Evercore Inc - Equity Analyst*

Hi, thanks for the question. This is Irvin Liu on for Amit. I had a financial question for Andrew. It's good to see free cash flow conversion higher than what we have seen historically for Q1 is at 83%. Though CapEx was lower than what we've seen historically. Can you just give us a sense on how CapEx should trend through the year, especially given the lower-than-expected CapEx in Q1?

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

Yeah. We're still targeting CapEx in the 3% to 3.5% range. That's the general framework for where we think we need to operate our business. The demands have been lower, largely because of acceleration of factory automation that we worked on last year, and more flexible line concepts. And so as a result of that, we're seeing just a little bit softer need for capital in the short term, but we still expect it will normalize to that 3% to 3.5% range. And to the extent that we run lower, that will continue to benefit free cash flow. But we don't expect it to be structurally below 3%.

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

And let me add to that. We've been systematically working on optimizing our CapEx. And let me give you two examples where we've been doing that. So on optimization is around CapEx that used for machine and equipment, where we've started to expand our focus around purchasing machines and equipment out of Southeast Asia or even China, which is substantially cheaper than equipment brought from Europe or North America, and that has allowed us to optimize our CapEx on the one hand.

And then everything that's required around CapEx to maintain our factories around the world. What we call called CapEx to keep the life side, we've been optimizing that as well. So those have been two opportunities where we've reduced CapEx, and that has helped us in the end to reduce it overall. And to be able to deploy it for other topics like small automation.

**Irvin Liu** - *Evercore Inc - Equity Analyst*

Got it. If I can tack on another data center related question. It's great to see products specked by two hyperscalers. But can you give us a sense on what the total TAM or perhaps what per megawatt TAM could look like for you all across electrical and sensing products that you're selling into for data centers and center adjacent opportunities?

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Look, I think that's a question we'll take with us for the next call.

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**Operator**

Joseph Spak, UBS.

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**Joseph Spak** - *UBS AG - Analyst*

Andrew, just a couple questions on tariffs. I guess two flavors. One is, I know in the past, you said you source 70% from Mexico, I think 80% of that was USMCA compliant. There was a change on Section 232 metal tariffs, wondering if there's any impact you there.

And then EPA, I know you said the guidance doesn't include any repayments, but have you filed for any reimbursements? Or do you plan for any? And like, can you give us a sense as to how big that can be, if it is true.

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

Yeah. So on the first part of the question, so we're not seeing any meaningful direct impact from the changes in metal tariffs. Obviously, we're monitoring the impact on end market demand, but it's not directly impacting us in any material way in terms of the metals or commodities that we source. And we expect that with the current tariff rates in place and with the cancellation of the EPA tariffs, that our run rate moving forward would be approximately \$8 million per quarter, which is about one-third lower than the \$12 million-ish run rate that we had previously. On the question of refunds.

So we're certainly following the government prescribed process and when we have more to share we'll share that. But at this time, we're not going to speculate on the size or magnitude of potential recovery.

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**Joseph Spak** - *UBS AG - Analyst*

Okay. Can you -- can you remind us how much do you think you paid last year?

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

Yeah. We paid a little over \$40 million in tariffs last year and the vast majority of that was EPA more than 2/3.

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**Joseph Spak** - *UBS AG - Analyst*

Perfect. I just wanted to back on the business head turn our attention back to CE because the market, you said it was down one, you were up 16. And I know you sort of talked about some potential improvement and more order books being filled there.

But I guess, I just want to understand whether you're lining up with that future builds, and like maybe there's some inventory being built, or like there's something else going on that's really causing that strong outperformance that we saw this quarter. And I guess, as we see builds improve over the course of the year, would you then expect that outgrowth to come in a little bit? Or is there something sustainable what we saw this quarter?

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

Yeah. So let me just start with -- so when we talk about that segment in aggregate, aerospace, defense and commercial equipment, about one-fourth of it is in the aerospace end market. and about 3/4 of it is in the commercial equipment end markets. So the growth rate that we shared, the 15% or 17% organic is for the total segment. And certainly, there was market growth in aerospace.

On the commercial equipment side, yes. We believe the market in total down about 1%, and we saw outgrowth to that market, primarily driven by what we believe was an inventory replenishment ahead of an expected production acceleration in the back half. We do not expect that, that is indicative of what the go-forward growth or outgrowth would be if this end market actually recover as production normalizes in the back half.

There's always an inventory build that happens as you get into a replenishment cycle, especially with the production having been significantly suppressed for the last eight quarters. So I'd expect to continue to grow and to outgrow, but likely not at that same clip.

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**Joseph Spak** - UBS AG - Analyst

Okay. Sorry. Just one quick clarification. Just I was just looking at the 16% commercial equipment in the back of your slide, I think, on '19, but you're saying that's not just truck, that's not just truck. Is that what you're looking at?

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

Yeah, that's right. If you're looking at that end market at the back end of the slide then, yes, that is the growth that we experienced in the end market as well.

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**Joseph Spak** - UBS AG - Analyst

Okay. So it was strong, but some of that was also construction and --

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

For example, we're seeing pull-through in diesel demand related to generator sets for data center. So there's more than just the truck replenishment cycle.

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**Operator**

Kosta Tasoulis, Wells Fargo.

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**Kosta Tasoulis** - Wells Fargo Securities LLC - Analyst

Hey, guys. Thanks for taking the question. I want to ask about the 100% precious metal inflation you saw in the quarter. You're still able to get 30 basis points of margin expansion. Can you maybe frame the puts and takes of that impact, like what the headwind was and what the offsets were?

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

So lots of challenges we worked through in the first quarter. Let me just start with not only did we have a significant precious metal challenge. We also had about a 40 basis point headwind from from FX. We had about \$20 million of lift on FX on the top line and effectively drop through on the bottom line. So we were really pleased with the margin expansion we were able to deliver year on year with those two challenges. And I think that points to just the continued improvement in underlying earnings power in the business, independent of these challenges.

With respect to metals, so we have roughly \$40 million of annual precious metals buy. And on those precious metals in the first quarter from a year-on-year perspective, rates are up approximately 100%. We have, through the first half of the year, about 80% hedge coverage on these metals which gives us some mitigation. But more importantly, it gives us time to execute the more permanent and structural mitigation that we're working through in our business.

So with that, maybe I'll turn it over to Stephan and let him share a little color on how we're thinking about structurally mitigating this.

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**Stephan von Schuckmann** - Sensata Technologies Holding PLC - Chief Executive Officer, Director

Thanks, Andrew, let me add to that. So basically, how we manage the impact, especially on metals inflation is very different when you look at the different types of businesses we have. So I think overall, in the commonality of businesses is that we're in strong negotiations with our supply base when it gets to pushing on metal inflation impacts towards Sensata, equally important, but that differs depending on the product that we have and which metals are designed into the individual products, what we're doing our VAV activities, the so-called design activities, too, I think it designed the metal content of the product.

In our industrial business, that's quite a big task to design, for example, silver out of our products, which is deep content the product of silver, so that once the hedging period runs out, that we have limited impact or literally no impact with our products going forward related to metals.

And then, of course, I think the last lever is to discuss any impact directly with our customers and speak about compensation, which we're in continuous discussions with them, and we see our openness for that as well.

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**Kosta Tasoulis** - Wells Fargo Securities LLC - Analyst

Okay. And then let me just talk about winning business. I mean, I think with the drones. I think a lot of that is just customer access, right? It's like an emerging technology, you get customer access. You're in the designing phase with them, you can grow that business. How can you apply maybe some of those learnings to getting more business in the data center opportunity?

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**Stephan von Schuckmann** - Sensata Technologies Holding PLC - Chief Executive Officer, Director

Okay. First of all, if I think you got a bit more depth on the drone business of the support APs. We see overall, we see a double-digit CAGR, which is I think there's a lot of opportunity there, especially around military drones. On the other hand, we're designing with different applications and products, is -- position sensing, all different types of products. We presented that in the last earnings call. Can you just repeat your question related to data centers?

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**Kosta Tasoulis** - Wells Fargo Securities LLC - Analyst

Yeah. So you guys were able to get in on those design-ins with the drones. That's quite spectacular. What, I guess, strategy can you use from getting on those business to getting on more data center business? Any learnings from that, that you can apply to any data center business?

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**Stephan von Schuckmann** - Sensata Technologies Holding PLC - Chief Executive Officer, Director

Well, look, it's pretty similar in and like I say, if you take products that the existing products that we got designed in the drone business like temperature centers, precious sensors, worth coal actuators, high-efficiency motors. Those products were ultimately not designed for drone applications. But because of the fast design cycles of drones, we've managed to get designed into these applications. And eventually, we'll be delivering for these drones.

On the data center, it's pretty similar. So we're in -- the products that we've carried over from our automotive business, be it from electrical protection be it sensing products, those are products that we've carried over and designed into data centers now, as mentioned, into hyperscaler concepts. So very similar in the style of business and how we manage our business -- existing products that we provide into those applications.

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**Operator**

Luke Junk, Baird.

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

Appreciate you taking the question. So maybe I'll just ask one, and it's a little bigger picture. Stephan, just would be great to get your perspective on market structure within the data center business, specifically. How do you think about the need to take share in data center with these reference designs and if you're doing so, do you think you're taking share from? And just market share is factor in this data center story? How important is it? Or are these more jump-ball dynamics, especially thinking about the 800-volt opportunity that you?

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

Well, thanks for the question. Maybe I'll start and let Stephan chime in here. I think the beauty with some of the new content opportunity that we've laid out in data center, particularly with the architecture change, is that it's not shared that we need to take or win. It's fundamentally new sockets. So today, you're dealing with AC power architecture, moving towards high-voltage DC, and that creates a fundamentally different electrical protection design, moving from fuses and circuit breakers towards high-voltage contactors.

And so it's not that we need to take share. It's that we need to have a product that meets the spec and then go and get specked in, and that's exactly what we're focused on. And that's part of the reason why we have so much conviction in our right to win in this space is that as Stephan mentioned on the call, as the architectures change, it's moving right into our wheelhouse in terms of our technology set, the products we offer, our ability to meet the spec and perform in robust high-performance applications.

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**Stephan von Schuckmann** - Sensata Technologies Holding PLC - Chief Executive Officer, Director

I think they may add some technical aspects to that. So if you look at the data center concepts today, I think I mentioned it earlier, they're based on their airport. And the products that we deliver into those concepts today are basically temperature sensors and circuit breakers.

And then these new concepts coming on, so it's not basically -- it's not taking market share from in the new -- they have a whole different product range because of the liquid cooling that they required because of the increased computing power.

And that obviously gives us the opportunities, again, to take existing products like pressure sensors, flow sensors, temperature centers, existing circuit breakers and contactors and designing those into the data center concept together with hyperscalers and then giving us potential revenue, as I stated, from mid-2027 onwards. So not taking share from any one away, it's getting into those hyperscaler concept designs and placing our products in there, that is the task.

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**Operator**

Shreyas Patil, Wolfe Research.

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

Hey, thanks so much. Just one question for me as well. Just wondering if you could provide some color on the segment outgrowth expectations. I guess if you're doing on the core point -- state double-digit organic in aero and commercial I guess, shouldn't organic growth in Q2 be above that 1% to 4% that you're guiding?

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

So look, I think, let me frame that generally. And I think it's important to mention with all the examples that we've given that Sensata has multiple growth factors. And I've mentioned many examples where we've won business and where we're in. And I think it's equally important that our segment leaders around Ellis, Marcus, and Brian, they're very clear and accountable growth mandates as well.

And as you can recall, we've returned some fiber back to growth, and that's not so long ago, and that's in the second half of and we've actually accelerated that growth in the quarter one of 2026. So of course, one question is is that growth momentum is enough, but we always need to see where we come from.

And I think we've -- the team has done a fantastic job in accelerating that growth. And we're not even showing growth over all segments in all areas with all different types of products, be new products and so on. So I feel -- we've made good progress.

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**Stephan von Schuckmann** - *Sensata Technologies Holding PLC - Chief Executive Officer, Director*

Yeah. And just to maybe hone in on the outgrowth topics. So Third-party forecasters are projecting auto production down a couple percent again in the second quarter. And so if we were to deliver similar outgrowth, that would put out on an absolute basis, organic growth in the kind of 1% to 2% range for the quarter.

And then if you look at the other two segments, we certainly don't expect that we're going to grow at 15% in Aerospace, Defense, and Commercial equipment, that likely moderates to sort of mid- to high single digits. And then industrial is not going to get back into a growth cycle until the back half of the year. So with that trend, I think that puts us squarely in the 1% to 4% revenue growth guide for the second quarter.

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**Operator**

And with that, we'll be concluding today's question-and-answer session. I'd like to turn the floor back over to James Entwistle for closing remarks.

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

Thanks, Jamie, and thanks to everyone who joined us on today's call. Before we conclude, I'd just like to announce some upcoming conferences that we'll be attending during the second quarter. We will be at the Oppenheimer Industrial Growth Conference on Tuesday, May 5, which is virtual. The TD Cowen Technology, Media and Telecom Conference on Wednesday, May 27 in New York City. And the Wells Fargo Industrials Conference on Wednesday, June 10 in Chicago. We look forward to connecting with many of you at those conferences in the coming months. Jamie, you may now conclude the call.

**Operator**

And with that, ladies and gentlemen, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.

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