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ST.N - Q2 2026 Sensata Technologies Holding PLC Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Wamsi Mohan *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Mark Delaney *Goldman Sachs Group Inc - Analyst*

William Stein *Truist Securities - Analyst*

Joseph Spak *UBS AG - Analyst*

Joseph Giordano *JPMorgan Chase & Co - Analyst*

Christopher Glynn *Oppenheimer & Co Inc - Analyst*

Guy Hardwick *Barclays Services Corp - Analyst*

Shreyas Patil *Wolfe Research LLC - Equity Analyst*

PRESENTATION

Operator

Good afternoon. and welcome to the Sensata Technologies second-quarter 2026 earnings call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Mr. James Entwistle, of Investor Relations.

Please go ahead.

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 would like to welcome you to Sensata's second-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 reference the 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 this call concludes.

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 those 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 call will relate to non-GAAP financial measures. Our GAAP and non-GAAP financials, including reconciliations are included in our earnings release and the appendices of our presentation materials and in our SEC filings.

Stephan will begin today's call with comments on the overall business. Andrew will then cover our detailed results for the second quarter of 2026 and financial outlook for the third quarter. Stephane 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.

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

Thank you, James, and good afternoon, everyone. Let's begin on slide 3, and I'll share a few highlights from the quarter. We are pleased to report exceptionally strong Q2 results with each of our key metrics exceeding expectations and demonstrating accelerating financial performance, both sequentially and year-over-year.

Revenue grew 5% or 4.4% organically with organic growth in all three segments. Q2 is the fourth consecutive quarter of organic growth. Adjusted operating margin expanded 50 basis points year-over-year to 19.5% and adjusted earnings per share came in at $0.98, a year-over-year increase of over 12%.

Free cash flow continues to strengthen as our structural improvements in working capital take hold in our business. In the second quarter, we delivered free cash flow of $186 million our year-to-date conversion is 108%. The strong cash flow enabled us to continue deleveraging the company with net leverage now at 2.4 times trailing 12 months adjusted EBITDA, and we retired $406 million of debt in the quarter.

Our second quarter results demonstrate that we continue to make efficiency gains in our business. As we become more efficient, we are systematically strengthening our balance sheet and our disciplined growth framework is working and growth is inflecting upwards.

Let's turn to slide 4 and take a closer look at these trends and what they mean as we look ahead. Since we laid out our key pillars and our associated performance metrics, we have demonstrated not only an ability to deliver on our commitments but to compound gains and accelerate progress. Adjusted operating margins have consistently expanded and the magnitude of these margin gains is increasing.

On a trailing 12-month basis, Free cash flow conversion has accelerated every quarter since we made this a priority. Similarly, in the second quarter last year, we committed that we would deleverage the company with urgency, with a target of getting below 2.5 times net leverage in 2026 and we delivered the two quarters ahead of schedule.

Additionally, we indicated that we would strengthen our balance sheet by reducing gross debt, which improves our earnings resilience through market cycles. We have now executed two debt retirement transactions and reduced gross indebtedness by more than $760 million. We also laid out a disciplined framework for how we would return Sensata to growth over time. This framework meant being patient and deliberate in the opportunities we pursue to ensure that we are delivering high-quality, sustainable growth that will compound value for our shareholders over time.

We are pleased to report that a trend has emerged. In each of the last four quarters, year-over-year growth accelerated. And for the last two quarters, we have been in mid-single-digit territory. Importantly, earnings are growing faster than revenue, and we now have three consecutive quarters of double-digit year-over-year adjusted EPS growth. Simply put, there is a clear momentum in our business across every metric that we identified and our progress on growth as the organization increasingly energized.

Each site visit, I see examples of our team proactively identifying emerging or unmet needs for sensing and electrical protection, engaging with customers and rapidly bringing products to market. There are conscious examples of this across our business and in each of our segments.

So with that, let's turn to slide 5 and we can take a closer look at how our reorganized business is enabling growth, starting with automotive. In our Automotive business, three key factors enable us to deliver market outgrowth. First, our diversified portfolio provides balanced exposure across ICE, EV and powertrain agnostic applications, enabling growth across regions regardless of varying EV adoption trends.

Second, product innovation allows us to adapt to evolving EV architectures, which create demand for customized solutions where we have developed differentiated products and won significant business with global OEMs.

And third, localization. Our in region for region strategy aligns with customer demand for local content, supporting conquest wins. In the second quarter, these factors enabled us to deliver market outgrowth of 2% and further reinforce our ability to grow across regions with different powertrain adoption trends. In fact, we outgrew both ICE and EV production in both North America and Europe. In North America, our EV revenues were approximately flat in a market where EV production decreased by more than 30% year-over-year.

We expect electrification revenue to continue outperforming EV production in North America, supported by the new FaultBreak contactor, which launched in the second quarter and will ramp in future quarters. Our growth in North America was not limited to the EV category. We also outgrew ICE production with ICE revenue growth of approximately 14% against the market and increased 2% year-over-year. In aggregate, this represented double-digit net outgrowth in North America.

In Europe, recent electrification wins have narrowed the content gap between ICE vehicles and EVs and we outgrew EV production by 20%, delivering 30% growth in EV revenues against the market, which grew 10%. New business wins on ICE platforms enabled 5% ICE outgrowth in Europe and mid-single-digit net outgrowth for the region.

In China, while the domestic market has softened, we continue to win local business that supports future growth. This quarter, more than 90% of our NBOs were again with local OEMs, helping offset mix headwinds from the share shift towards local Chinese OEMs.

We're also gaining traction with Tier 1 battery manufacturers by integrating into their system designs, giving us broader access to multiple OEMs. Over time, we expect this to create a flywheel effect as our business ramps and OEMs converge around fewer battery supplier defined architectures. Performance across the rest of Asia was exceptionally strong, with broad growth supporting by increasing content with Japanese OEMs and a rapidly expanding presence in India. In fact, we saw over 40% revenue growth in India in the second quarter and over 50% revenue growth year-to-date.

Earlier this quarter, I traveled to India, along with most of our senior leadership team. We visited our engineering center in Pune, where we announced that we would be opening a new manufacturing facility in Chennai as we begin to localize production for this fast-growing market.

Now let's turn to slide 6. Our Aerospace, Defense and Commercial Equipment segment delivered exceptional performance in the quarter with double-digit growth for the second consecutive quarter. We're encouraged by the near-term momentum across this business and are continuing to invest in the medium- and long-term growth opportunities that can sustain that performance.

In Aerospace and Defense, for example, we recently showcased a broad range of our high-power density motors at the Farnborough Air Show, and we're very encouraged by the customer response. We expect our expanded portfolio of Motors, Actuators and Cockpit Controls, including our Digital Inceptor to support continued growth and further strengthen our position against a favorable market backdrop for commercial and defense production over the next several years. Commercial Equipment, robust North American on-road truck orders and our strong second quarter results reinforce our expectation for a second half recovery.

We also saw sensors supporting on-site power generation for data centers contribute nearly 1 point of growth in the quarter, and we expect that contribution to continue in the second half and accelerate in 2027. As on-site power becomes more common in new data center builds, it is creating attractive demand for our diesel engine solutions, including cylinder pressure and high temperature sensing.

Next, let's turn to slide 7 to discuss industrials. In our Industrials business, we continue to navigate mixed end market conditions while building conviction around several attractive growth opportunities. We secured another HL gas leak detection win in North America, supporting our line of sight to more than $100 million of annual HL revenue.

Internationally, we see a similar structural opportunity developing, particularly in Europe, but rising temperatures and low historical air conditioned penetration by increasing demand for efficient heating and cooling solutions. At the same time, Europe's transition to next-generation refrigerants increases the need for reliable leak detection and safety-critical HVAC sensing.

Together, these trends create a meaningful long-term growth opportunity across our HVAC portfolio. Beyond HVAC, we are gaining traction in our data center business with a growing base of revenue in 2026, meaningfully contributing to organic growth in the year. With that growth comes increased conviction in our right to win future business. In fact during the second quarter, we were specified into three additional new hyperscaler concepts for a total of five platform concept wins year-to-date.

Additionally, we were named a preferred vetted vendor to a major hyperscaler. Each incremental specification win increases our credibility and improves our reach among hyperscalers, OEMs and EPCs and expanding our ability to win new business. This quarter, one hyperscaler spec in led to a significant award with an ODM for pressure and temperature sensors in our cooler distribution units with shipments expected to begin the first quarter of 2027.

With that, let's turn to slide 8 as I would like to elaborate on these data center opportunities and where we are gaining traction. We frame our data center opportunity in three categories. First is electrical protection inside the data center, including circuit breakers and high-voltage contactors that protect and control power across PDUs, sidecars, power conversion systems and next-generation racks.

As architectures move towards 400 and 800-volt systems demand for reliable switching interruption and protection increases. Our solutions are well positioned where the higher voltage DC is converted back to AC and side cars or brought directly into server racks. Second is thermal management, including air and liquid cooling applications that use pressure, temperature, leak and flow sensors, along with protection components to operate safely and reliably.

As rec power density rises, liquid cooling and cooler distribution units are becoming more common, increasing demand for precision sensing and protection higher-density data centers. The interdependency of liquid cooling systems and high voltage goes beyond each enabling the other. The presence of liquid and high-voltage architecture raises the stakes regarding electrical protection requirements and plays further into Sensata's credibility as a supplier into safety critical and mission-critical automotive applications.

Third is power and peak management. As AI workloads drive larger and faster swings in power demand, operators need resilient solutions to manage peak loads and use grid and on-site power more efficiently. Dynapower's converters, inverters and related technologies are well positioned for UPS systems, battery storage, peak shaving and on-site generation helping data centers support high-intensity compute loads and deployed faster where grid interconnections are constrained.

As our data center opportunities convert into design wins, we recognize the focus on the potential scale of this opportunity for Sensata. Ultimately, that scale will depend on both the size of our addressable market and our participation rate. While we are still early in the hyperscaler design in process and are not yet prepared to disclose expected market share or content per megawatt, we are increasingly confident in the opportunity.

Let's turn to slide 9, and I will elaborate on how we see this opportunity developing. As data center architecture shift towards higher voltage, liquid cooling and more on-site power generation, we expect our addressable market to expand by 1.5 times to 2.5 times. This expectation for SAM expansion is on a per megawatt basis, and is in addition to the expected market growth from capacity deployments. In addition to market growth and SAM expansion, we see the potential for higher participation as our differentiated sensing, protection and power conversion technologies become more relevant.

This is clearly an exciting high-growth opportunity; however, as we have seen with EVs, the pace of change and market adoption can vary. We are focused on what we can control: securing design wins with high-quality hyperscalers and making use of our existing product portfolio and capacity to minimize at risk investments. The ability to participate in this growth factor without significant investment is a distinct advantage for Sensata.

Our data center strategy does not require capital deployment for inorganic growth, capital-intense launches nor lengthy development cycles. We see ample opportunity to grow by leveraging existing products and developing derivative solutions from our core technology platforms. Data center architectures are evolving rapidly and the opportunity to secure specifications is unfolding in real time. Our recent wins demonstrate that our team is moving with urgency to accelerate development and sample delivery well ahead of the longer cycle time lines we see in other areas of the business.

Now let me turn the call over to Andrew to provide greater detail on the second quarter and our guidance for the third quarter.

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

Thank you, Stephane. Let's turn to slide 11. For clarity, unless otherwise specified, amounts are referenced in millions of US dollars and growth percentages are approximate. We delivered outstanding results in the second quarter with revenue adjusted operating income and adjusted earnings per share, all above our expectations. We reported second quarter revenue of $991 million, an increase of $47 million or 5% and from $943 million in the second quarter of 2025.

On an organic basis, revenue grew 4% year-over-year as we had a 1% inorganic tailwind from foreign exchange. Adjusted operating income was $193 million and adjusted operating margin was 19.5% compared with $179 million and a margin of 19.0%, in the prior year quarter. This year-over-year improvement of 50 basis points was attributable to stronger revenues and improved productivity. Adjusted earnings per share was $0.98, an increase of $0.11 or 12.6% year-over-year, which exceeded the high end of our second quarter guidance range by $0.03.

Free cash flow was $186 million, an increase of $71 million or 61% year-over-year. Our free cash flow conversion rate was 130% of adjusted net income, an increase of 39-percentage-points compared with 91% in the prior year period.

Let's turn to slide 12 to review our free cash flow journey over the past few years and to discuss the structural enhancements we have made that are driving sustainable improvements. Prior to 2025, 80% free cash flow conversion would have constituted a historically strong result for Sensata. In 2025, we redefined the cash generation power of our business and delivered 97% free cash flow conversion.

Halfway through 2026, our year-to-date free cash flow conversion stands at 108%, putting us on track for a conversion rate, which meets or exceeds that which we delivered in 2025. Over the past 18 months, we have improved our cash conversion cycle by approximately 15 days, primarily through inventory reduction and supplier payment term optimization. We have also reduced capital intensity by better utilizing existing capacity, adding automation and deploying more flexible line concepts.

As a result, capital expenditures decreased from a historical run rate above 4% of revenue to 3.5% last year. This year, Capital expenditures are just over 2% of revenue year-to-date, and we expect capital spending to normalize to prior year run rates in the second half.

Now, let's briefly turn to slide 13 to review capital allocation. In the second quarter, we deployed $400 million of cash to retire $406 million of long-term debt. We recorded a gain of approximately $4 million net of transaction fees. We excluded this gain from our non-GAAP results. We closed the quarter with $403 million of cash on hand and $650 million of capacity on our undrawn revolving credit facility.

Our net leverage now stands at 2.4 times trailing 12 months adjusted EBITDA compared with 3.0 times in the prior year quarter. Gross leverage now stands at 2.9 times trailing 12 months adjusted EBITDA and gross indebtedness is approximately $2.5 billion, a decrease of $762 million compared to June 30, 2025.

In addition to retiring debt, we returned $18 million of capital to shareholders in the quarter through our quarterly dividend. Earlier this month, we announced our third quarter dividend of $0.12 per share, payable on August 26 to shareholders of record as of August 12.

Our capital allocation strategy continues to improve return on invested capital. For the 12 months ended June 30, 2026, ROIC increased by 120 basis points to 11.3% and compared with 10.1% for the 12 months ended June 30, 2025.

Now let's turn to slide 14 to discuss our segments. All three segments delivered organic revenue growth in the second quarter, which is a testament to our new operating structure and each segment's commitment to delivering profitable growth through its respective mandate.

Our Automotive segment delivered $545 million of revenue in the quarter, an increase of 3.3% year-over-year on a reported basis. Organic growth was 1.8% year-over-year resulting in approximately 2% outgrowth compared with flat global auto production. We achieved broad market outgrowth through content gains and production mix as our diversified portfolio of ICE, EV and powertrain agnostic products is well positioned regardless of regional powertrain adoption trends.

Automotive segment operating margin was 24.2%, a year-over-year increase of 120 basis points, driven by revenue growth and productivity. Our Industrial segment delivered $212 million of revenue in the quarter, a year-over-year increase of 2.9% on a reported basis and 4.2% on an organic basis. Organic growth was enabled by share gains and supported by stabilization in US HVAC production. Industrial's operating margin was 27.1% and a year-over-year decrease of 100 basis points as we are reinvesting productivity from our automotive segment to fund Industrial's growth investment.

Our Aerospace, Defense and Commercial Equipment segment delivered $234 million of revenue in the quarter, an increase of 11.5% year-over-year or 10.9% on an organic basis. This was the segment's second consecutive quarter of double-digit growth, and we once again delivered revenue growth across every market vertical, including aerospace, defense, on-road trucks and off-highway equipment. Segment operating margin was 27.8%, a year-over-year increase of 340 basis points as we gained operating leverage from strong volume growth.

Adjusted corporate operating expenses were $61 million, an increase of approximately $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 15 to discuss what we are seeing in our end markets. Global auto production was approximately flat in the second quarter. For the full year, third-party forecasters expect production to decrease by approximately 2%. Despite these downward revisions, we remain optimistic on our ability to outgrow production and deliver modest organic growth for the year.

In aerospace, defense and commercial equipment, multiyear commercial backlogs and higher defense spending continued to support our positive outlook for aerospace and defense. In North American on-road trucks, robust orders and third-party build projections support our view that a recovery begins in the second half despite the lower build rates in Q2. Our on-road truck orders grew double digits in the quarter reinforcing that outlook given that our revenue typically leads truck builds.

Off-road markets appear stable overall with construction strength from data center build-outs roughly offsetting softer agriculture conditions. In our industrial end market, US residential HVAC shipments recovered modestly on a year-over-year basis and we expect this to continue in the second half of 2026. US.PMI has been an expansion territory for several months, further pointing stabilization.

With that backdrop, let's move to slide 16, and I will share our guidance for the third quarter of 2026. Currently, we expect third quarter revenue of $957 million to $987 million, adjusted operating income of $186 million to $193 million, adjusted operating margin of 19.4% to 19.6%, adjusted net income of $137 million to $142 million, and adjusted earnings per share of $0.93 to $0.97.

Our third quarter guidance includes approximately $10 million in tariff costs and associated pass-through revenues. This is approximately similar to the level of tariffs we experienced in the second quarter as recently announced changes to global tariff rates are not expected to have a significant impact on our business. Our tariff expectations are based on trade policies in effect as of July 28, 2026. Our third quarter guidance does not include any potential tariff refunds related to the recent AIBA tariff rulings nor does it reflect any possible pass-through of such refunds.

With that, I would like to turn the call back to Stephane 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 a few closing thoughts. Our second quarter results demonstrate that the successful execution of our strategy is creating clear momentum across the business. Our expanding margins give us greater flexibility to invest in the highest return growth opportunities. Our operational initiatives, dramatically improved cash generation, which in turn allowed us to strengthen our balance sheet and improve resilience in our business.

And most importantly, growth is now taking hold across all three segments supported by disciplined execution, market outgrowth in automotive, continued strength in aerospace, defense and commercial equipment, and improving conviction around key industrials opportunities. Our data center strategy is maturing quickly with early specification wins and customer engagement, reinforcing our confidence that this end market can become one of several meaningful long-term growth platforms for Sensata.

Thank you for your time today. I will now turn the call back over to James for Q&A.

QUESTIONS AND ANSWERS

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

(Operator Instructions) Operator, please introduce the first question.

Operator

(Operator Instructions) Wamsi Mohan, Bank of America.

Wamsi Mohan - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

It's nice to see the consistency in your results here and consistent improvement. Stephane, you spent a decent amount of time on this data center portfolio and the opportunity here. As we think about -- it's good to see the quantification in terms of conceptually where the SAM is going. But as you look at your product portfolio, can you help us think through when these products get qualified?

And from a revenue standpoint, I think you mentioned that one of the hyperscaler opportunity could start to ramp, if I heard right, in Q1 of 27%. So -- any parameters you can share with us that can give us some sense of materiality, whether it's '27 or '28 and overall, from your progression standpoint, like how much more work needs to be done regarding qualification at a broader set of customers?

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

Thanks, Wamsi. That's a good question. And -- just give me a moment to elaborate that, and I'll explain our position. So we're continuing to see very good progress with our hyperscaler customers. But at the same time, customer designs are still maturing and the deployment time lines continue to evolve. Because of that, -- we don't think it's the right time to put a revenue or CAGR framework around the business.

As those designs mature and time lines become clearer, we expect to provide more detail over the coming months. What I can say today, one is that our confidence in the long-term opportunity has only increased. That's really driven by three things. And allow me to explain that once more in a bit more detail. The market is growing. We have a 14% CAGR and of deployed capacity through 2029.

SAM is growing from 1.5 times to 2.5 times, that predominantly through high-voltage architectures and that resulting in liquid cooling requirements. And then there's our participation at right to play, which is increasing. This is, again, a result of a shift to high voltage data centers in liquid cooling. And then one of the additional to that, and I think these are also really important points.

During quarter two, we've been specked into 3 additional hyperscaler concepts with a platform of -- with five platform concept wins year-to-date. And these five concepts, and this is also important, there's been a big progress and a fantastic result of the team. They span over four major brand name hyperscalers. And then to give you a bit of an orientation around revenue, our industrial components have approximately doubled in revenue in the first half of 2026 compared to first half of 2025.

So ultimately, that means we're moving from a component supplier to a system participant. That's how I'd sum it up. So just ask for a little bit more patient. And over the next couple of months, we'll be giving you more information. But it's just a little bit too early for that.

Operator

(Operator Instructions) Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs Group Inc - Analyst*

Which is on the margin outlook for the second half of the year. margin guidance is flattish sequentially, but that's coming off of a better-than-expected 2Q results. So maybe you can talk about what led to the strength in margins in the second quarter and key puts and takes as you look into 3Q and do you still think the 4Q margin can expand by the 30 bps you've previously been expecting?

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

Yes. Thanks for the question, Mark. We were definitely pleased with the margin result in the second quarter. And I'd categorize it as primarily driven by two factors, a little bit stronger volume than what we were expecting as the market came in a little stronger and then a head start on productivity. And so because part of it's a head start on productivity, I don't expect it to just represent a higher jump-off point off of which we would sequentially expand -- if you look at the midpoint of our Q3 guide, it's basically the same level of year-on-year margin expansion is what we communicated last quarter as a framework for the back half.

And then I'd say on Q4, we didn't guide the fourth quarter. We still expect margin expansion year-on-year, and we still expect margin expansion in the fourth quarter from a revenue standpoint, probably sequentially flattish from the third quarter and then margins expanding.

Operator

William Stein, Truist Securities.

William Stein - *Truist Securities - Analyst*

Perhaps even more nascent than your data center AI exposure, I wonder if you've begun to develop products or repurpose products and develop customer relationships and perhaps even design wins in physical AI, things like humanoid robotics and such?

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

Also great questions. Let me answer that question like that. So what we're kind of doing is obviously monitoring the potentially evolving humanoid market and where this could take us. And yes, it's clear humanoid are pack full of sensors, and that could evolve into a nice opportunity for Sensata. So we're very well aware of that.

And yes, we're focused, and we'll see where it takes us. And I'll maybe elaborate more on that in the upcoming earnings calls. But definitely, if the market develops and the and I'm focusing on is, then it could be a nice opportunity for Sensata.

Operator

Joseph Spak, UBS.

Joseph Spak - *UBS AG - Analyst*

Thanks. Good afternoon. So Andrew , the leverage targets ahead of schedule. I remember when you sort of communicated to the market on sort of getting the leverage down your view was that, that would sort of help the multiple and the valuation. And the multiple has expanded, but I'm curious sort of now how you sort of view future uses of cash and whether share repos are back on the table because as you just highlighted, I mean, the cash conversion is quite strong. So it looks like 2.4 times now by our math, could be around two by the end of the year, so below your target. So how are you sort of thinking about that going forward?

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

I'd sum it up like this, So first of all, for the company for Sensata itself, it's important that we continuously focus on improving our operations. And yes, cash generation and cash conversion is good. But there is still an opportunity to improve. We've got programs and initiatives running around reducing or further reducing our inventory levels, I feel we've made fantastic progress with the team has made fantastic progress around supplier payment terms and other opportunities within working capital to improve our overall cash performance. So there is a next level that we're working on.

And to your question, further -- I think the direction of the company related to how we use that cash is to continuously to deleverage the company and strengthen the balance sheet going forward. There is no change in strategy related to that from last.

Operator

Joe Giordano, TD Cowen.

Joseph Giordano - *JPMorgan Chase & Co - Analyst*

I mean, I guess it's probably a sign of where you're going -- no one's asked a question on automotive yet. So I think that's interesting. I'll jump there. You mentioned India. Just curious as to like sizing of that business and how large do you think it can get?

And I'm curious, when you say India, is this like India local? Or is this India demand satisfied out of China exports? How should we think about that market? And then just a just follow-up. Just curious what your outperformance was in China. I didn't catch that on the prepared remarks. .

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

I'll Andrew will answer the question, Joe, to the outperformance in China. But let me start with India. So first of all, -- we're building a new facility there and deploying roughly $30 million of capital or capital expenditure. And the good thing about that is, and I'll get to the customers or the good thing about that is that it's mainly covered by -- offset by incentives. So nearly 100% of that is offset by incentives.

And why are we building it there? Well, it's pretty simple. We've won a lot of business in the past with local Indian manufacturers and OEMs. And, there's an expectation from the local guys to produce locally, and that's one of the reasons why we've decided to localize within India. So it's all local business. But there's a further opportunity, obviously at a later stage. As I'm speaking about automotive OEMs a as a first step. And there's obviously a further opportunity then to use that site for export, but that's the plan for now. It's predominantly local.

And then the other thing is that we want to leverage the opportunity of the broad market of suppliers in India, which could strengthen our competitiveness overall. There's excellent -- an excellent supply base there, and that will also be using going forward. So I think it's a good next step in the region there for Sensata.

And Andrew?

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

Yes. And Joe, in terms of sizing, so a little bit over $20 million of revenue in the quarter from India auto. Certainly, at the pace of growth that we're seeing and the growth rate in the quarter, it's getting to be sizable quickly here. It's still about 5% of our overall auto business. but growing rapidly.

And it's a market that we think there's significant growth opportunity looking well out into the future. So not going to provide sort of long-term outlook on the size of the business there, but definitely growthful and one that we're excited about. And I think embedded in your question, if I heard you correctly, was a question on China. Could you maybe just repeat that part?

Joseph Giordano - *JPMorgan Chase & Co - Analyst*

Just curious what the outgrowth was there in the quarter. I'm just -- I'm trying to understand like with all these new customers and new wins with locals, like I'd expect you're probably doing pretty good there versus an overall market that's been sluggish.

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

Yes. The China market has been pretty nascent and sort of production mix varying from quarter-to-quarter based on changing OEM market share, et cetera. So we didn't outgrow in China this quarter. We've been outgrowing, we outgrew in total on our global auto business, and we expect to continue to gain share in China with local EVs and certainly, the supplier defined battery architectures is a big part of that strategy moving forward. So we're still pretty optimistic on the market and our position in it, but production is varying from quarter-to-quarter.

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

Joe, one more point I'd forgotten to add to the automotive content in India, that's the first step. So we obviously want to use that plant or that facility as well for commercial equipment business and also potentially for industrial business that we might want to localize there as the next step.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Yes. So just want to go a layer deeper on the margin expansion consistency that you're putting up. you gave sort of a state of play in the improvement pace for free cash flow. I wonder if we could do that on operations in terms of where are you with square footage plans various processes and best practices sharing from some of your better facilities to some of the -- those with room for improvement.

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

Thanks for that question. I think we -- overall, in these last quarters, we've made great progress. We've got a -- so first of all, -- with Nicolas, I announced that we've got a very strong COO with us, who's driving the change throughout Sensata's got a great team below him in operations. We've got clear initiatives, so when it gets to optimizing our footprint, which is as an example, is one initiative that we're currently working on, where we go through our entire Sensata production footprint and question, the size of our plant, questions the location of our plant and rechallenge ourselves in the end if we can improve that footprint. That's one area that we're working on. So I would say great progress done in that respect, but maybe not quite finished yet. There's still a level of improvement.

Then let me give you another example. So each plant has the overall challenge to reduce costs per product. And we benchmark them against each other, especially plants that have similar products produced in different areas of the world.

And also there, I think we've done great progress. And part of the result of that is what you see in our financials. But I wouldn't say that every plant is on benchmark have that. We still have a level of improvement to go. So just based on those two examples, there's obviously a lot a lot more happening in the operations function. Good solid progress, but still a way to go.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

And the other one was just curious about overall book-to-bill trends. It may be more or less meaningful by segment, maybe not too meaningful in auto, for instance. But with the overall global cycle starting to improve, and we're seeing that so far across the earnings reports in many cases. Just wondering even if you're not going to give a book-to-bill in the quarter, maybe how that book to bell trends have been developing?

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

Yes, Chris, thanks for the question. Book-to-bill is not a metric that we track across most of our business, just given the way our order book dynamics are, potentially relevant in the Dynapower business, which is a little more project-based, and we do look at it there. But -- that's just not a metric that we track broadly across our business.

Operator

Guy Hardwick, Barclays.

Guy Hardwick - *Barclays Services Corp - Analyst*

Just wonder if you guys could give us a bit of an update on the overall content per vehicle trends, particularly as we go into the second half, it looks like global water production could be down sort of 4% to 5% year-on-year in the second half. And in particular, China is expected to be down worse than that. So just a number of things happening in terms of mix, but also the benefit of some of the contract wins that you've won. So -- just wondering how the content per vehicle is going to look in the second half potentially after have had a nice outperformance by a couple of points in the first half?

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

Yes. Thanks for the question. So certainly, we're seeing content per vehicle growth and particularly in North America and Europe, where we shared we outgrew grow both production categories in both markets, ICE and EV. That's a function of content per vehicle growth. So to give you kind of the state of play of where we are on CPV right now, at least across the major regions. So we're mid-30s in terms of content per vehicle in North America, high 30s in Europe and then just under 20% in China.

Operator

Amit Daryanani, Evercore ISI.

Unidentified Participant

This is Kevin all on for Amit. Yes. The Industrial segment delivered 4.2% organic growth, but segment operating margin declined 100 basis points. I guess -- could you maybe just explain what specifically was causing that contraction? Was it more mix or pricing centric? And then when should the market margins for that segment start to improve a little bit?

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

Yes. Thanks for the question. So we invested about $1.5 million or so of operating expenses incrementally year-on-year in that business, primarily tied to the data center opportunity and the growth that we see longer term there. We've been very deliberate about how we do that and investing for growth, and we're only doing it as we generate productivity in other areas of our business to pay for it.

And so while it shows up as margin contraction in industrials, it's not driving margin headwinds at a company level. And we've been systematic and deliberate about funding that. In terms of margin expansion, so look, I think as revenue growth comes from our Industrials business, it should have a variable contribution margin in the in the high 20s and approaching 30%. And so as we get revenue growth, we'll have affordability to invest and still see margin growth. But for the near term here, we're making sure that we're making the right investments to secure that growth opportunity.

Operator

Shreyas Patil, Wolfe Research.

Shreyas Patil - *Wolfe Research LLC - Equity Analyst*

Maybe turning to the revenue guidance for Q3. It looked like sequentially, you've got revenues down about 2.5% versus Q2. And I'm curious if you can expand on that. I know auto production's is down seasonally, I think maybe that's down 2% to 3% weighted by your geographic mix. But given the acceleration in HVOR and maybe even HVAC, I wondering if you can help us with some of the puts and takes there?

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

Yes, happy to. I mean that's fairly typical seasonality in our business, and it's primarily driven by auto, as you know. In the auto segment, we basically have all of our major regions producing at normal rates in the second quarter. As we enter the third quarter, we've got summer shutdowns in Europe. And then in the fourth quarter, typically holiday shutdowns in the US. And so that drives the seasonality in our auto business.

To your point around aerospace, defense and commercial equipment, yes, that market is quite strong, and we're expecting production to be up in the back half. But we've actually seen orders ahead of production, just given where we sit in the cycle for that segment. So Typically, what we're seeing is if there's demand for truck builds in the third and fourth quarter, that's driving demand for sensors and components in the first half. And so we've been outgrowing production early in the year, and then we expect to basically grow in line with production through the cycle here.

Operator

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

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

Thanks, operator, and thank you to everyone who joined today's call. Before we conclude, I'd like to announce that we'll be attending the Goldman Sachs Technology Conference on Wednesday, September 9 in San Francisco. We look forward to connecting with many of you there.

Operator, you may now conclude the call.

Operator

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