THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ST - Q2 2016 Sensata Technologies Holding NV Earnings Call

EVENT DATE/TIME: JULY 26, 2016 / 12:00PM GMT

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Joshua Young *Sensata Technologies Holding NV - VP of IR*

Martha Sullivan *Sensata Technologies Holding NV - President and CEO*

Paul Vasington *Sensata Technologies Holding NV - CFO*

CONFERENCE CALL PARTICIPANTS

Wamsi Mohan *Bank of America Merrill Lynch - Analyst*

Christopher Glynn *Oppenheimer & Co. - Analyst*

Shawn Harrison *Longbow Research - Analyst*

Craig Hettenbach *Morgan Stanley - Analyst*

Steven Fox *Cross Research - Analyst*

Amit Daryanani *RBC Capital Markets - Analyst*

William Stein *SunTrust Robinson Humphrey - Analyst*

Deepa Raghavan *Wells Fargo Securities - Analyst*

Mark Delaney *Goldman Sachs - Analyst*

Ryan Brinkman *JP Morgan - Analyst*

Jim Suva *Citigroup - Analyst*

Jeremy Ketron *CLSA - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Sensata Technologies second-quarter 2016 earnings conference call. At this time I would like to inform you that this call is being recorded. For opening remarks and introductions, I'd like to turn the call over to Joshua Young, Vice President of Investor Relations. Mr. Young, you may begin.

Joshua Young - *Sensata Technologies Holding NV - VP of IR*

Thank you very much, Lauren. Thank you and good morning to everybody. I'd like to welcome you to Sensata's second-quarter 2016 earnings conference call.

Joining me on today's call our Martha Sullivan, Sensata's President and CEO, and Paul Vasington, Sensata's Chief Financial Officer. In addition to the earnings release we issued earlier today, we will be referencing a slide presentation during today's conference call. The PDF of this presentation can be downloaded from Sensata's investor relations website. We will also post a replay of today's webcast shortly at the conclusion of today's call.

Before we begin I'd like to reference Sensata's Safe Harbor statement on slide number 2. During the course of this conference call we will make forward-looking statements regarding future events for the financial performance of the Company that involve 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 subsequent SEC filings.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

On slide number 3 I show Sensata's GAAP P&L for the second quarter of 2016. We encourage you to review our GAAP financial statements as part of today's presentation. Most of the subsequent information we will discuss during today's call will be related to non-GAAP financial measures. A reconciliation for each of our GAAP to non-GAAP financial measures is included in our earnings release and in our webcast presentation.

On slide 4 and 5 I show a definition for each of the non-GAAP financial measures that Sensata's Management uses internally to make operating and strategic decisions including the preparation of our annual operating plan, evaluation of our performance and it's used as a factor in determining compensation for certain employees. As a result, we believe it is appropriate to focus our earnings discussions on these non-GAAP financial measures.

Martha will begin today's call with an overall business summary. Paul will then cover our financials for the second quarter of 2016 in more detail and provide third-quarter and full-year guidance. We will then take your questions after our prepared remarks. Now I'd like to turn the call over to Sensata's President and CEO, Martha Sullivan.

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Thank you, Joshua, and thank you all for joining us this morning. Sensata's strategic goal is to win in sensing and by doing so to continue to create long-term value for our shareholders. During today's call we will highlight several examples of how we make this happen.

I'd like to start by highlighting our financial performance for the quarter. Sensata delivered another solid quarter of organic margin improvement and strong cash flow generation. We reported quarterly revenues of $827.5 million, which represented growth of 7.4% year-over-year and was above the midpoint of guidance we provided for the quarter.

We generated flat organic revenue growth in the second quarter of 2016 as content growth in our automotive sensing business was offset by expected revenue declines in the industrial heavy vehicle, HVAC and appliance end markets. In addition to content growth in our automotive sensing business we also delivered content growth in HVOR. Our adjusted earnings per share were $0.73, which was above the midpoint of our guidance.

While this was flat on a reported-basis from the second quarter of 2015, on an organic-basis our earnings per share grew by approximately 9% year-on-year. Our adjusted net income margins of 15% expanded sequentially by 80 basis points compared to the first quarter of 2016. Our core adjusted net income margins, which adjust for the DeltaTech, Schrader and CST acquisitions, were 20% in the quarter, an improvement of 70 basis points compared to the prior year.

The core business operated within Sensata's long-term ANI margin target range of 20% to 23% in the second quarter. Expanding margins is an important focus for the entire Sensata Management Team and it is one of the key ways we create value for our shareholders. Another way we create value is to repeatedly identify, close and integrate acquisitions aligned with our strategy to win in sensing.

We remain on track with integrating our recent acquisitions and are well-positioned to create long-term value from DeltaTech, Schrader and CST. We hit a key milestone in the quarter by successfully transitioning the Schrader operation onto our Oracle ERP system. While this generated higher integration spend in the quarter, we expect to see long-term operational efficiencies now that this work has been completed.

Our free cash flow increased 33% year-over-year to $80 million in the second quarter, improving our net leverage. We used this strong free cash generation to reduce our revolver debt by $125 million. Slide 7 shows how Sensata has steadily improved our adjusted earnings per share over the past four years.

A key part of this improvement has come from acquiring companies that are highly aligned with our strategy to win in sensing and in executing our integration play book. We look to acquire companies where we can extend our product reach, globally expand into new markets and create cost synergies by combining manufacturing, supply chains and back-office functions. We rarely find acquisition targets that operate at the same margin levels as Sensata.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

As a result, acquisitions initially reduce our margins due to their lower profitability in upfront integration investment. Although our reported ANI margins are diluted in the short-term from acquisitions, margins grow to the target range over time as we complete integration activities, add scale and operating efficiency to acquired assets and as we use free cash flow to repay the debt incurred to finance acquisitions. This is one way Sensata is able to increase margins even in the face of challenging markets.

We are coming off of a time of active M&A where we acquired DeltaTech, Schrader and CST. As we achieve costs and revenue synergies and as integration expenses wind down, we have a clear path for higher margins. This quarter our ANI margin was 15%, up 80 basis points from the last quarter.

We expect our ANI margins to continue to increase sequentially in the third and fourth quarters. Excluding these acquisitions, our core ANI margin of 20% was already within Sensata's long-term target range. Sensor-NITE is a great example of an acquisition were Sensata created value for shareholders.

The acquisition expanded our served, addressable market and we leveraged Sensata's global operating framework to integrate the business and drive returns on capital. Slide 8 shows the value we created for shareholders with the Sensor-NITE transaction, which we completed in late 2011. Sensor-NITE was a leader in highly differentiated, high temperature sensors used in exhaust after-treatment systems.

However, they had a narrow geographic focus with nearly all of their sales confined to Europe. Sensata leveraged this global footprint, local engineering talent and deep customer relationships to extend the geographic reach of Sensor-NITE to North America and to China, growing net revenue at a 7% compound average rate from 2012 to the first half of this year or 13% excluding the impact of foreign currency exchange rates. Sensor-NITE already benefited from a low-cost manufacturing model in Bulgaria, which Sensata has leveraged to the benefit of our overall business.

We've extended our presence in this area, expanded manufacturing to include pressure sensors, creating an engineering center of excellence including full technical capabilities and creating a back-office, shared services center to serve the needs of the global organization. An additional benefit comes from the increase in our euro cost-base helping to hedge our euro net revenue exposure naturally. The returns from this transaction have been very attractive.

On the bottom line, we have expanded Sensor-NITE's adjusted earnings before interest and tax by 15% compounded annually and increased adjusted earnings before interest and tax margins for the product line by 500 basis points. We are on track to achieve an internal rate of return in the high-teens on the capital we deployed to purchase Sensor-NITE. I also want to stress that Sensata continues to create value after these integrations are completed.

On slide 9 I provide a sense to why high temperature sensors will remain an attractive growth area for Sensata in the future. We recently closed on a new design win with a leading European OEM to provide temperature sensors for their next generation exhaust systems that are being designed in response to Euro 6e and expected Real Driving Emissions requirements. Additionally, we are designing temperature sensors for a number of OEMs for particulate filters in gas exhaust systems, Something we introduced at our investor analyst day last year. And finally, in an exciting development, we are beginning to leverage Schrader's aftermarket capabilities to tap into the replacement market for temperature sensors.

An update on Sensata's market and business trends are summarized on slide 10. On balance, we are performing in line with our expectations to the first six months of the year. Automotive production appears roughly on track with our expectations for 2016 with some incremental strength in China offset by uncertainty created by the Brexit vote as well as overall uncertainty in the general market.

The heavy vehicle off-road market remains weak. In particular, the Class A truck market in North America is expected to be down approximately 25% in 2016. Our own performance in the heavy vehicle and off-road market was better than expected in the first half thanks to content growth. We do expect the second half to be weaker, however, as Class A production further declines and as we see incremental weakness in the global agricultural and construction equipment market.

Sensing Solutions performed slightly better than we expected in the first half of 2016 with sequential improvements coming from China in particular. Recent trends support our outlook for growth in the second half of the year compared to last year reflecting continued high inventory levels in the

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

supply chain. The impact from foreign currency exchange rates on our revenues was not as negative as we expected in the first half of 2016 due primarily to a stronger euro.

Although we are expecting a stronger revenue headwind in the second half of 2016, it won't have a material EPS impact since we hedged 80% to 90% of our net earnings denominated in foreign currencies. On balance, we're performing much as we expected earlier in the year. I just mentioned that Sensata is outperforming the HVOR market and on slide 11 I provide more detail on this content growth which is helping to offset much of the severe market declines in HVOR.

Expanding on this for future periods, we had several important new business wins in the second quarter. Notably, in our heavy vehicle business, we were awarded new TPMS designs with leading truck OEMs even though tire pressure is not yet a requirement of heavy truck regulations. This is another great example of where our integration strategy creates value for shareholders.

Sensata has strong customer relationships in the heavy vehicle industry where Schrader historically had little or no presence. We are able to leverage our global footprint to bring value of TPMS into a market that had not previously adopted the technology and this is one of the key ways that we outperform the market over time.

So to summarize my comments on slide 12, we are making good progress in expanding our adjusted net income margins and we expect this to continue for the remainder of 2016. We continue to see good content growth in our business, with [HGF] and HVOR being two clear examples of where we are winning in sensing. The integration activities of recent acquisitions are on track and creating value for shareholders.

We're generating good, year-over-year free cash flow growth and are delivering on our promise to pay down debt and improve our net leverage ratio. Finally, after the first six months of the year, Sensata is on track to deliver on the guidance we provided back in February. Nearly all of our operational metrics are tracking toward the midpoint of our guidance.

I'd now like to turn the call over to Paul to review our second-quarter results in more detail and to provide financial guidance from the third-quarter and full-year 2016. Paul?

Paul Vasington - *Sensata Technologies Holding NV - CFO*

Thank you, Martha. Key highlights for the second quarter, as shown on slide 13, include net revenues of $827.5 million in the quarter, an increase of 7.4% from the second quarter of 2015. Of this growth, acquisitions less exited business contributed 8.5%.

Organic revenue was flat and changes in foreign currency exchange rates, primarily the euro, represented a net revenue headwind of 1.2%. Adjusted net income was $124.3 million or $0.73 per share, slightly better than the midpoint of our guidance. When compared to the prior year, adjusted net income and adjusted EPS were flat.

Adjusted net income margins of 15% in the second quarter declined 120 basis points year-over-year due to the impact of foreign exchange, higher integration activities and interest expense from the acquisition of CST. However, ANI margins were up 80 basis points sequentially.

Organic adjusted net income, which excludes the impact of foreign currency, CST and exited business, grew 9% in the second quarter. Organic adjusted net income margin was 17.7% in the quarter. We made good progress in improving our core ANI margin to 20% in the second quarter.

This is now within Sensata's long-term target range. Excluding the impact of foreign currency exchange rates, core ANI margin was up 190 basis points from the prior year due to improved operating efficiencies and net productivity gains as well as lower interest expense. Research, development and engineering expenses were $64.5 million in the second quarter or 7.8% of net revenue and adjusted taxes were 6.3% of adjusted earnings before interest and tax. Integration costs were $6.5 million in the quarter. Restructuring and special charges of $3.2 million, added back to our non-GAAP results in the second quarter, were primarily related to optimizing our global manufacturing network.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Now I'd like to comment on the performance of our two business segments. I will start with Performance Sensing and slide 14. Our Performance Sensing business reported revenues of $615.6 million for the second quarter of 2016, representing growth for approximately 2% compared to the second quarter of 2015.

Excluding foreign exchange and acquisitions, less exited business, Performance Sensing generated 1% organic revenue growth in the quarter. This was primarily driven by continued content growth in Europe and China automotive. Heavy vehicle off-road organic revenue declined 4% in the quarter on continued end market weakness most notably in Class A trucks, somewhat offset the content growth. Overall, HVOR revenue was better than expected.

Performance Sensing profit from operations was $152.5 million or 24.8% of revenue. This performance was roughly flat with the year ago quarter due primarily to the effects of foreign currency exchange rates and CST. Excluding the impact of foreign currency and CST, profit from operations would've been 26%, an 80 basis point improvement from the prior year due to overall improved operating efficiencies and net productivity gains. This improvement was somewhat tempered by higher integration costs related to bringing Schrader onto our Oracle ERP platform during the quarter.

Now I will turn to our Sensing Solutions performance on slide 15. Sensing Solutions reported revenues of $212 million in the second quarter of 2016, up 29% for the year ago quarter due primarily to the impact of acquired revenue from CST. The business unit reported an organic revenue decline of 2%, which was an improvement from the 7% organic revenue decline that we reported in the first quarter of 2016. This performance was slightly better than our expectations but still reflects broadly weaker end markets when compared to the prior-year quarter. China improved in the quarter where revenues grew organically and we expect to see ongoing improvement in Sensing Solutions year-on-year growth in the second half of the year.

Sensing Solutions profit from operations was $68.2 million, an increase of 31% for the same quarter last year due to favorable effects from CST and productivity gains. As a percentage of revenue, Sensing Solutions profit from operations increased by 40 basis points to 32.2%. Excluding the impact of foreign currency and CST, profit from operations would've been 33%, a 120 basis point improvement from the prior-year primarily due to improved operating efficiencies and productivity. Corporate and other costs not included in segment operating income was $40.5 million in the second quarter.

Turning to slide 16, a key area of focus for Sensata has been to generate strong free cash flow, reduce debt and improve our net leverage. Slide 16 shows progression of our free cash flow in net leverage over the past five quarters. We've made good progress in both generating cash and improving our leverage since this CST acquisition in the fourth quarter of 2015. During the quarter we generated $80 million of free cash flow an increase of 33% year-over-year, primarily due to higher income and lower capital expenditures. And we are on track to our guidance to generate $350 million to $400 million of free cash flow in 2016.

Also during the quarter, we paid down $125 million of our revolving credit facilities. We expect that most of our incremental free cash flow generated during the remainder of the year will be used to further pay down debt and that our net leverage ratio will be between 3.7 and 3.9 times by the end of 2016. Assuming we don't close further acquisition, we'd expect our net leverage ratio to be about 3 times by the end of 2017.

Now let me turn to our financial outlook for the third quarter and slide 17. We expect to generate revenues between $770 million and $810 million. The midpoint of this guidance represents revenue growth for approximately 9% and organic revenue growth for approximately 2% compared to the third quarter of 2015.

Our current fuel rate stands at approximately 82% of the midpoint of this guidance. On the bottom line we expect to report between $120 million and $130 million of adjusted net income and to report adjusted earnings per share between $0.70 and $0.76 based on a fully diluted share count of 171.6 million. The midpoint of our EPS guidance represents approximately 1% reported earnings growth and 8% organic earnings growth.

We expect foreign exchange rates will lower our revenues by approximately 2% in the third quarter compared to 2015 and lower our adjusted EPS by $0.04 to $0.05. The midpoint of our third quarter 2016 guidance assumes that we achieve an adjusted net income margin of 15.8%, which

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

demonstrates continued sequential improvement reflecting margin expansion both the core and the combination of DeltaTech, Schrader and CST. This graph illustrates the point that Martha made earlier regarding Management's focus on steadily improving margins.

Our financial guidance for the full-year 2016 is shown on slide 18. With two quarters behind us we are nearing the range of financial guidance for the full year. We expect to report revenues between $3.17 [billion] and $3.25 [billion] for the full-year 2016.

The midpoint of this guidance assumes reported revenue growth for approximately 8% and organic revenue growth of approximately 1%, in line with our original guidance. We expect to generate adjusted net income between $480 million and $505 million and adjusted EPS between $2.80 and $2.94. The midpoint of our adjusted EPS guidance represents approximately 4% reported earnings growth and approximately 9% organic earnings growth.

Let me conclude by summarizing Sensata's investment summary on slide 19. Sensata wins in sensing, outperforming markets with leading margins. The sensing market is attractive and growing. We have been a leader in this space for over 25 years and we're well-positioned for success. Increasing sensor content drives secular growth and enables us to grow faster than our end markets. Further, M&A is a strategic pillar of our growth strategy enabled by strong cash generation and a disciplined acquisition and integration process to ensure strong financial returns.

Finally, Sensata is a high margin, high cash generation business. Sensata's margins are born out of long cycle revenue, highly differentiated products and extremely cost-effective manufacturing operations. Strong margins, coupled with a low cash tax rate drives strong free flows which allow Management to generate strong returns for investors. Now I would like to turn the call back over to Joshua.

Joshua Young - *Sensata Technologies Holding NV - VP of IR*

Thank you, operator, please assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Wamsi Mohan, Bank of America Merrill Lynch.

Wamsi Mohan - *Bank of America Merrill Lynch - Analyst*

Yes, thank you, good morning. In your guidance, your range for organic growth for the third quarter from negative 1% to negative 3%, can you help us think through what assumptions get you to the higher end of that range and same for the full-year? And I will follow up.

Paul Vasington - *Sensata Technologies Holding NV - CFO*

I can start with Q3 with the guidance that we provided, Wamsi. As we said, we're looking at about 2% organic growth in Q3 from Performance Sensing. We're expecting normal seasonality.

We talked about the strength in China. Particularly year-over-year, China will be very strong in the third quarter. HVOR, we mentioned had a good first half. We think the second half will be down year-over-year to a greater extent given the fact that Class 8 production continues to decline.

As we look at Sensing Solutions, that business will be roughly between 0% and 1% growth and that just reflects the strong trend that we're seeing in the order book that we have that gives us confidence that's very achievable.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Wamsi Mohan - *Bank of America Merrill Lynch - Analyst*

Okay. Thank you. And, Martha, in your prepared remarks you mentioned you are coming off a time of active M&A. How should we think about the pace of M&A versus reducing leverage here? Clearly you articulated how M&A benefited you guys quite strongly here in the past? As we look at sort of current leverage levels in your targets, how do you prioritize between the two here?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

It was a really intensive period for us if you go back 18 to 24 months. M&A will be a really important value driver for Sensata on an ongoing basis. As you know, it's not a linear function so it's subject to attractive targets, their availability.

When we look at the pipeline, which is active and attractive, and we look at the fact that most of those transactions have been born of private discussions so we have some ability to impact the cadence of deals as they get done. Look at the balance between that and what we do think is important in terms of our balance sheet and demonstrating the return to a leverage ratio that's attractive to a capital market, we think that we are well-balanced between those two things.

If we were to do no more acquisitions we would get to the three leverage ratio, probably toward the end of 2017. We're balancing that against a number of attractive opportunities we see in the pipeline.

Wamsi Mohan - *Bank of America Merrill Lynch - Analyst*

Thanks, Martha.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Good morning. I was wondering, one of the multi-industrial companies talking more and more about industrial IoT and their own operating systems, things like that. Wondering if you are seeing specification processes in that area accelerate and if that's an area of focus for the acquisition pipeline?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

So one of the reasons -- there are many reasons we've looked at expanding into adjacent markets for sensor secular growth beyond automotive and that is one of the reasons. We increasing we see our industrial customers developing digital platforms. It's early days in terms of them deciding where they want to take that.

We think a particularly relevant area for Sensata is prognostics and we are having discussions with customers about what's the right way for us to bring the sensing solutions into that particular opportunity. But it is one of the reasons we felt it was important for us to expand into the industrial landscape. CST was a big step forward in getting that done.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay. And as you look at the pipeline beyond CST in this area, is it more of kind of technology R&D-type bolt-ons or more established type players?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

What we are generally looking for is a combination of things. So existing running business to demonstrate the viability of technology that we might be acquiring, channels is an important piece of it as well. Making sure that it's aligned with our strategy.

It really does evolve into winning in sensing, very, very key for us. And then being able to use the leverage that we used to drive additional value. So whether that's our extremely efficient supply chain footprint or our global reach or even existing internal technology that we marry up with the acquisitions, that's all a piece of it, Chris.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Thanks a lot and follow-up is on the integration spend. I missed if there was color, but any detail on the first half spend versus the second half and if the Oracle piece could be sized? If that runs off post the second quarter?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

So the overall spend was $650 million. Most of that was actually on the Schrader acquisition. The Oracle piece was an important element of that. Not a lot of ongoing spend relative to putting the Schrader operations on Oracle. But that is just one of the many, many activities we're focused on in the integration spend.

Christopher Glynn - *Oppenheimer & Co. - Analyst*

Okay. Thanks.

Operator

Shawn Harrison, Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

Hey, everyone. Martha, just a couple quarters in a row now where you are still internally forecasting growth below global auto production. I guess my question is how much more conservative are you relative to global auto production? And is it solely Brexit that concerns you right now? Because at some point in time, if your-- the numbers have to meet and so wondering just what the biggest disconnect is right now in your forecast?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

You know I would say that the two areas we depart from HIS, if that's what you're looking at, one is North America, where we tend to align more with the LMC view of the world, production growing at about 2%. The other is in China where we came into the year recognizing there would be decent retail growth at about 4% but China market coming in with heavy vehicle inventory so we corrected on that front. I think those are the two primary areas where we probably depart from HIS, if that's what you're referring to.

Shawn Harrison - *Longbow Research - Analyst*

Yes, I guess how much are you still below HIS, if you think that's the appropriate order? Any of the industry forecasters right now?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Paul Vasington - *Sensata Technologies Holding NV - CFO*

We're still holding to about a 2% on a global auto production increase for the year. So it's different markets, different growth that's been unbalanced, on total it's about two. And that's consistent with our original feeling when we entered the year.

Operator

Craig Hettenbach, Morgan Stanley.

Craig Hettenbach - *Morgan Stanley - Analyst*

Yes, thanks. Just following up on the comments in the presentation in terms of China strengthening into the back half. Can you just talk about your sense in terms of follow-through or visibility to that? And, if there's any kind of pull forward because of some of the things they've done?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

So China for us is primarily the automotive business. When we look at the demand rate in China and really everything that's attached to consumer there is actually doing well. So relative to the correction that we saw in 2015 in the second half, we've been seeing, I think, healthy demand rate in auto in China.

In terms of the industrial market there, the PMI is not been strong it's actually been performing below 50 for several months. We think that the market has been adjusted to that level of activity and that's what we see in our backlog as well. On the Sensing Solutions side, the primary thing to recognize in the second half of the year here is that we are dealing with weak comps from the second half of 2015.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got you. And then if I could ask, just on the core adjusted net margins, when you think about that longer-term range of 20% to 23%, what gets you to the high-end in terms of puts and takes? Is it a revenue? Is it efficiencies? Or from 20% how do you see the longer-term expansion? What are the key factors that will drive that?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

It's really a combination of the two. Given that we have very high variable costs in our business, it's one of the things that makes us quite robust if you're considering down cycles. On the flip side, we don't get a ton of leverage from higher revenue in the COGS so there are lots and lots of initiatives that have brought us to the performance level where we are today and will continue to do so.

When you look at manufacturing efficiencies, what we call our best cost sourcing initiatives, we are a lean operator and continue to drive improvement there and we're constantly optimizing our overall network. We do get leverage from revenue on the SG&A line going forward and so that's part of what will help to drive us to the higher end of the 20% to 22% ANI margin.

Operator

Steven Fox, Cross Research.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Steven Fox - *Cross Research - Analyst*

Hi, good morning. A couple questions on some of your comments from earlier in the call. On the off-road market you mentioned content growth was helping in the first half. I was wondering if you could talk about how content growth looks second half versus first half and maybe some examples of where you're having most success?

And then with regard to the markets on the HVOR, how are we looking, say half-over-half on Class 8 trucks and [HAG] and construction? Are you seeing things bottoming out for getting worse as you go through the rest of the calendar year? Thanks.

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

To the market question, we think it gets worse in the second half of the year and so it was tough in the first half and we outperformed by a lot but we think the overall market is -- continues to decline in the second half of 2016. Some of what we focused on in the slides this time around, we're giving you a sense of the content wins in HVOR. So we talked about things like high temperature sensing where we're growing our content in commercial trucks.

We're also doing quite well in operator sensing and so this is a technology that came to us through the DeltaTech acquisition. And that's helping us in particular in the off-road side of the business where we are outperforming the overall end market. So we will continue to do better in a market that's doing very poorly.

Steven Fox - *Cross Research - Analyst*

Great, and then just a quick clarification on your comments about acquisitions. Are you guys ruling out acquisitions between now and the end of the year to focus on debt reduction or is it still possible that we could see a deal but maybe small? I just wanted to make sure I understood that. Thank you very much.

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

We are careful really when it comes to third party and M&A to not get into the forecasting business or to not get highly granular. I will tell you that the bar on acquisitions in that time period that you mentioned is higher so the threshold for getting anything done would be a higher overall bar.

Steven Fox - *Cross Research - Analyst*

Great, thanks again.

Operator

(Operator Instructions)

Amit Daryanani, RBC.

Amit Daryanani - *RBC Capital Markets - Analyst*

Thanks a lot. Good morning, guys, and thanks for taking the questions. First when, Martha, you talked about seeing strength in China on the automotive side in the back end of year. I'm curious, how does the China tax incentive that should start to -- we should start to act on later this year, laying these hot processes and using this suite as a headwind actually, at least with the end of this year from a unit perspective?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Yes, I think it is interesting. I spent some time in China just to see on the ground, to see what's happening versus what are some of things that you read about and it is very interesting to note some of the segments that are growing in China rapidly.

So you look at SUVs, you look at higher-end vehicles. They're doing quite well in China so this is more than the tax incentives that have us feeling confident that we will continue to see about a 4% overall retail growth in China.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. And then if I just look at the gross margin performance you guys had this quarter, it was up fairly impressively on a sequential basis at least 180 basis points or so. The volume leverage wasn't a whole lot on the sequential basis, I'm wondering what drove that up? Was there anything other than the deal integration that you had called out? How do you think about gross margins for the back half of the year from here?

Paul Vasington - *Sensata Technologies Holding NV - CFO*

I think -- consistent with what we said in the first half, the gross margins continue to improve quarter-after-quarter, each quarter, sequentially throughout the year. We continue to do a great job in driving material costs out either through working with suppliers or redesigning parts or increasing the operating efficiency and the throughput in our plans.

We feel that we are exceptional at that and the results show that they work. So we expect gross margins to continue to improve throughout 2016.

Operator

William Stein, SunTrust Robinson Humphrey.

William Stein - *SunTrust Robinson Humphrey - Analyst*

-- taking my question. Martha, you just spoke a moment ago about the benefit that you are seeing from the China stimulus now, I'm wondering when you think about the quarters after this analyzes? So after September? Do expect this to cause sort of a year-over-year drag on production in China?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Our perspective is a little longer view than what happened sequentially in every quarter. So one of the things that we recognize about China is that we are still dealing with a fairly low penetration rate among driving age population and middle income in China. So we continue to expect to see reasonable end market demand in automotive beyond 2016.

William Stein - *SunTrust Robinson Humphrey - Analyst*

And maybe if I can, for a follow-up, can you remind us of the Company's partnership with Quanergy when we might see revenue materialize for that? Whether there's anything else in ADAS? And then also the other big trend in automotive is electric and hybrid electric. Can you remind us of your exposure to that category?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

We're covering a lot of ground there so I will talk very briefly that Quanergy. That's a partnership that we finalized earlier in the year. It's focused in solid-state LiDAR for the automotive market.

We have the exclusive rights to bring that technology into the transportation market. There is a lot of work to be done, both inside Quanergy, Sensata and in the customer base, to get us to truly autonomous vehicles. And you can see some of the recent developments that make it clear that, that needs to be done carefully and with regard to a safety critical operation. Our overall investment thesis has us expecting to see meaningful momentum in the timeframe of 2020 to 2025. And so at this point that's what we are focused on.

In terms of other advantages that Sensata has in ADAS, given that we have sensors embedded in vehicle stability control systems and the increasing use of sensors there as they move into things like active breaking, that's an indirect benefit since we've been in that system for a while. So we see some growth from single sensor per system to two to three sensors per system. On the electric vehicle front, if we go back to our call -- our fourth-quarter call, we actually provided some information in our deck there that shows you what our overall average content per electric vehicle is. It gets difficult to talk about averages because it's still quite a small universe and there's not a lot of models that are out there.

The important thing to recognize is that these are platforms in OEMs that are willing to spend a lot of money to increase the overall range of the vehicle. And in doing that they are putting multiple sensors into subsystems like climate control, like breaking where we are regenerating energy, and that requires much more sensor content than you would see in a conventional vehicle. So at this point we are about an average of $30 to $40 per EV.

That's slightly below what you would see in a conventional vehicle. We're quickly converging to a content level where we will be indifferent about whether the world goes all EV or not.

William Stein - *SunTrust Robinson Humphrey - Analyst*

That's helpful. Thank you.

Operator

Rich Kwas, Wells Fargo.

Deepa Raghavan - *Wells Fargo Securities - Analyst*

Good morning. This is Deepa Raghavan for Rich Kwas. This is where -- please correct as needed. Your automotive organic growth, this quarter came in at 2%, appears to be lighter than the global light vehicle production growth in the quarter.

You did talk about content being good in China and Europe, we understand your TPM is distracted, but your Europe light vehicle production was up high single digits per IHS. Just curious if you could help us bridge some of the puts and takes to your 2% organic growth performance in the quarter?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Yes, again, so the two 2% includes TPMS which is not seeing the secular growth. When we look at how we performed in overall Europe, I believe we performed at about 3% to 4% organic rate absent TPMS.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Looking at the fact that IHS has gone back to correct past forecasts we continue to do our homework where inventory levels reside, where exports resides and what we see actually coming from the OEMs and their platforms. So again, we are not necessarily aligning with IHS on all the production information.

Deepa Raghavan - *Wells Fargo Securities - Analyst*

Okay. Fair enough. North America HVAC shipments, they have been weak in the quarter. You're a supplier to this end market. Just perhaps you can see some pickup near term or not, but curious what you are seeing in these end markets and how that's been tracking versus your expectations? And what's the forward outlook for the segment for this year?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Yes, I would say it's tracking as expected. We didn't expect to see a lot of growth. Again an area where we pay a lot of attention to inventory. Think the inventory levels are somewhat high right now. It's become a very small part of our overall market so it's not an area where we are spending a ton of time doing the forensics on that.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Yes, good morning and thanks very much for taking the questions. First question is about margins and some of the acquired companies such as Schrader and DeltaTech. Can you help us understand where those margins are running at in the acquired companies currently and what type of improvement you can maybe see as we look out into 2017?

Paul Vasington - *Sensata Technologies Holding NV - CFO*

Mark, as it relates to Schrader we continue to see improvement in their margins. We've been seeing it since the time we acquired them so as we've gone through integration we are creating the synergy that we expected. We are spending on integration so this quarter we had a lot more integrations, and to bring Schrader onto Oracle, so that ate into the margin improvement that you would normally see.

CST is still early days. We've seen lots of opportunities in terms of cost synergies and we're very excited -- still very excited about the deal. And DeltaTech continues to come along very well on the operations side. Just to remind you that DeltaTech does participate -- compete in the off-road market, primarily agriculture which has been depressed, so that's been a bit of a headwind for that business. But all-in-all I think we're really pleased with the margin improvement, the integration and synergies that we are realizing.

Mark Delaney - *Goldman Sachs - Analyst*

Okay. A follow-up was on some of the revenue by end market. I think the quote other category revenue was up about $14 million from the March quarter to the June quarter.

It was about, I think, 45% of the -- it accounted for about 45% of the total sequential revenue increase that the Company saw from Q1 to Q2. Wouldn't normally focus on other but since it was a sizable piece of the increase, maybe can you just help us understand what's happening on the other segment to drive that increase?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Yes, I can tell you what's in some of the other segment. Aerospace is one of our others. We also have exposure to the semiconductor manufacturing end market. We saw some improvement in that particular business. And then it is a long, long list beyond that.

Mark Delaney - *Goldman Sachs - Analyst*

Thank you very much.

Operator

Sumit Chatterjee, JPMorgan.

Ryan Brinkman - *JP Morgan - Analyst*

This is Ryan Brinkman for Sumit Chatterjee. Good morning. Thanks for the update on the integration of the recent acquisitions including ERP systems. Do have any thoughts as to when you might no longer have any integration inefficiencies impacting the financials?

Paul Vasington - *Sensata Technologies Holding NV - CFO*

The integrations for CST and Schrader, in each of those cases we said the integration would be about three years. And so with CST we're just getting started. We are probably about halfway through on Schrader so we have a lot of work still to do.

We have made a lot of progress and I think we highlight Oracle because that is a significant milestone, getting the business on our Oracle platform. It makes the business easier to operate.

Ryan Brinkman - *JP Morgan - Analyst*

Okay. Thanks, that's helpful. And last quarter you had talked about higher than usual inventory of things like HVAC compressors in China. Can you give us an update there? Is that still a concern or are there any other errors in the industrial or automotive businesses that you think might be at risk for any sort of inventory correction?

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

On the HVAC it continues to run high from historicals, although not growing and so our current perspective is that it seems to be adjusting to a new normal in terms of how much compressor inventory is sitting inside of China. So not growing, still at high levels from historical, but we're at the point now where those high levels are becoming the historical so doesn't seem to be changing a lot.

Ryan Brinkman - *JP Morgan - Analyst*

Okay. That's helpful. I'm just curious with one more quarter now of association with Quanergy, are you able to share any more details relative to any sort of progress in getting toward a commercial launch of inexpensive LiDAR? Or there any updates or thoughts relative to timing of any sort of eventual manufacturing or realization of revenue?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

This is a long play for us so on a quarter-to-quarter basis, I wouldn't expect to be announcing a lot of things in that timeframe. But very, very focused on getting the technology ready, engaged across the marketplace, a lot of interest. And so this point it's just making sure we are executing on the technology roadmap with our partner.

Operator

Jim Suva, Citi.

Jim Suva - *Citigroup - Analyst*

Thank you very much and I have two questions so I'll ask them at the same time. Martha, in your prepared comments at the beginning, you spoke extensively about Sensata's acquisition strategy and the progress you've made. I just wanted to ask, why spend such a significant amount of time on that?

Have you been giving a lot of pushback from it or frustration? Or are you gearing us up for next year turning on the M&A spigot a lot? Or just why spend so much time on that, which most of us on this call are very familiar with? And then my second question is, I believe there's a comment made about Brexit, a little bit too early to know the impact.

There's been some companies who've said there's absolutely no impact, other companies have said, yes, they've seen an impact, and you kind of straddle both sides. Is that because you're picking up at least a little bit of talk or discussion on it? Or is it your just hedging because you don't know? And is it more on the auto side or the heavy vehicle side? Thank you.

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

Jim, I really appreciate the first question. One of the reasons we're spending time on this is, while folks generally understand that acquisitions are part of value creation, we are not sure of the fact that we have the ability to, very near-term, control our destiny on the margin index is appreciated. And so we're trying to make that very clear.

We're trying to make sure you see examples of it inside of the quarter. So the fact that we very knowingly reduced our margins when we made the acquisitions, we want to make sure folks understand that was a knowing decision. We don't find companies that operate at our margins and a big part of our value creation in the near-term is getting the Company back to overall Sensata margin. So we felt it was important to bring that message back home and be very clear about how that happens.

Relative to Brexit, look, the way we are thinking about, we have not seen anything in the overall backlog at this point. We're getting -- having lots of discussions with customers to see what they might see. In terms of the impact on Sensata, it's not a UK issue.

It really is a question of what happens to the overall euro zone economies and I don't think anybody has seen that play out at this point.

Jim Suva - *Citigroup - Analyst*

Great. Thanks so much for your details.

Operator

Jeremy Ketron, CLSA.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jeremy Ketron - *CLSA - Analyst*

Thanks, good morning. Question on forex, we're still seeing a lot of volatility in currency markets. Can you help us understand what the impact of your hedging strategy is going to be going into next year? And I know you've done some capacity expansion in Eastern Europe and is this changing your thinking around hedging at all?

Paul Vasington - *Sensata Technologies Holding NV - CFO*

No, it doesn't change our thinking. We continue to apply the same hedging program where we hedge over 18 to 24 month period. We hedge forward. We do it in monthly strips so that we average in over time. We continue to hedge about the same level, so to the extent where the euro, we are looking to be 80% to 90% hedged by the end of this year 2017. Similar approach for other currencies that were longer assured so the process remains the same.

As it relates to 2017, still too early to call what that will be, but generally speaking we think that 2017's FX impact year-over-year, which will be unfavorable. It will be down, it will be similar to what we saw 2015. So call it $0.03 to $0.05, maybe $0.06 in 2017, down from 2016. But that's very early, very preliminary as we haven't completed all of the hedging that we need to do.

Martha Sullivan - *Sensata Technologies Holding NV - President and CEO*

We do expect though, that as we continue to load production into Bulgaria where we launched a second site, that over time that will reduce our exposure but it won't eliminate it.

Jeremy Ketron - *CLSA - Analyst*

I see. And I'm trying to reconcile your adjusted net income guidance of $480 million to $505 million with the free cash flow guidance of $400 million to $450 million. What prevents you from converting into free cash flow at a higher rate?

Paul Vasington - *Sensata Technologies Holding NV - CFO*

Our free cash flow guide is $350 million to $400 million. I think you said $400 million to $450 million. I just want to make sure --

Jeremy Ketron - *CLSA - Analyst*

That's what I mean.

Paul Vasington - *Sensata Technologies Holding NV - CFO*

The big difference is, between income and free cash flow, is going to be the capital that we've been expanding over the last couple years. That's probably the biggest difference. And then obviously working capital has an impact but we've been doing a much better job on working capital and driving efficiency working capital over the last 12 to 18 months.

Jeremy Ketron - *CLSA - Analyst*

Thank you.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

We have reached the end of our allotted time for the Q&A session. I'd like to turn the conference call back over to Mr. Young for closing remarks. Mr. Young?

Joshua Young - *Sensata Technologies Holding NV - VP of IR*

Think very much, Lauren. I'd like to thank everyone for joining us this morning. We appreciate your continued interest in Sensata and encourage you to visit us at our headquarters in Attleboro, Mass, during the third quarter. Thank you and good day.

Operator

This concludes the call for today. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS