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PRESENTATION

Operator

Hello, and welcome to Sensata Technologies Q1 2017 Earnings Call. (Operator Instructions) Please note this conference is being recorded. I'd now like to turn the conference over to Joshua Young, Vice President, Investor Relations. Please go ahead.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Thank you very much, Keith, and good morning, everybody. I'd like to welcome you to Sensata's First Quarter 2017 Earnings Conference Call.

Joining me on today's call are 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. And we 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 #2. During the course of this conference call, we will make forward-looking statements regarding future events or the financial performance of the company that involve certain risks and uncertainties. The company's actual results may differ materially from the projections described in such statements. Factors that might cause such differences include, but are not limited to, those discussed in our forms 10-Q and 10-K as well as other subsequent SEC filings.

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On Slide #3, we show Sensata's GAAP P&L for the first quarter 2017. We encourage you to review our GAAP financial statements in addition to today's presentation. Most of the subsequent information that we will be discussing during today's call will be related to non-GAAP financial measures. Reconciliations of our GAAP to non-GAAP financial measures are included in our earnings release and in our webcast presentation.

Martha will begin today's call with an overall business summary. Paul will then cover our financials for the first quarter of 2017 in more detail and provide guidance for the full year and second quarter of 2017. 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 N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Thank you, Joshua, and thank you, all, for joining us this morning. I'm pleased to report that Sensata got off to a strong start to the year, reporting another quarter of solid operational performance in all segments of our business. I will begin our presentation on Slide 4. We delivered solid organic revenue growth, margin expansion and double-digit organic earnings growth in the first quarter of 2017 despite facing foreign exchange headwinds and higher integration spending.

On the top line, we reported revenues of $807.3 million and organic revenue growth of 3.5%, both of which were above the high end of our previous guidance for the quarter. Our Performance Sensing business posted 3.1% organic growth, while our Sensing Solutions business reported 4.9% organic revenue growth due to improving demand from HVAC appliance and industrial customers. We saw strong organic margin expansion in the first quarter of 2017 with adjusted EBIT margins expanding by 90 basis points and adjusted net income margins expanding by 130 basis points compared to the first quarter of 2016.

On the bottom line, we continue to sustain double-digit organic growth in adjusted earnings per share, posting adjusted EPS organic growth of 12% in the first quarter of 2017. This performance was driven by cost synergies in our acquired business as well as higher productivity in our core business. For the fifth consecutive quarter, we met or exceeded our guidance, which demonstrates our continued ability to execute and respond efficiently to changing market conditions.

Finally, we laid the foundation for continued long-term opportunities for growth by securing important new NBO wins in auto, HVOR, and aerospace. As a result, we believe we are well positioned to exceed our 2016 NBO performance, which is the direct result of growth investments we have made in previous quarters and excellent execution by our commercial and engineering organizations.

On Slide 5, I show our year-over-year margin expansion in the first quarter for both adjusted EBIT and adjusted net income margins. Excluding the effects of currency, we increased our adjusted EBIT margins by 90 basis points organically and our adjusted net income margins by 130 basis points organically compared to the first quarter of 2016.

As I mentioned before, on previous calls, our strategy is to win in sensing and part of that strategy is to acquire companies that have a strategic fit with Sensata, and where we can significantly enhance the value of acquired assets to create significant returns for shareholders.

As we achieve integration milestones and extend Sensata's continuous improvement practices to our acquired businesses, we are able to grow earnings, expand margins and create shareholder value. The margin expansion shown on this slide is clear evidence of the value we are creating. And I would expect a similar trend throughout the remainder of this year. We are excited about the potential for our acquisitions, and the cost synergies we are generating in these businesses are an important driver of margin expansion and earnings growth over the next 3 years.

On Slide 6, we show you the percentage of the total cost savings that we have already achieved from our CST and Schrader acquisitions, as well as the potential savings that we believe we can capture over the next 3 years. As a result, despite the improvements we have already delivered, the majority of the benefits from M&A cost synergies are still in front of us. And we expect to capture the remaining 60% as we complete our integration plan over the next few years.

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We are capturing these savings in a number of ways, including consolidating our footprint for manufacturing and related support functions. For example, we have previously announced the closures of our plants in Springfield, Tennessee and Minden, Germany and the savings from these actions will start to positively impact our P&L in the second half of this year. Deploying best cost sourcing by leveraging our greater scale and working with our suppliers to reduce the cost of raw materials; implementing next-generation designs and production processes to drive better product performance at a lower cost; integrating back-office functions and reducing redundancies in SG&A; integrating and optimizing engineering resources to drive innovation and greater effectiveness and efficiency in our engineering design effort.

Utilizing these and other initiatives to extend Sensata's continuous improvement practices, we expect to continue to close the profitability gap between the acquired companies and our core operations. Furthermore, the savings generated from completing these integrations and ongoing productivity improvements will allow us to drive margin improvement and earnings growth independent of volume growth in the business.

On Slide 7, I provide a market update for our Performance Sensing segment. I will begin with our auto business. During the first quarter of 2017, global auto markets were slightly better than we expected. But for the full year, we continue to expect that markets will be in line with the initial guidance we provided at the beginning of the year.

Our China auto business generated robust year-over-year growth in the first quarter due to strong content growth and higher production. We expect our growth rate in China to be strong again in the second quarter, but we expect the growth rate to be reduced in the second half of 2017 due to tougher comparisons and rising inventory levels.

Overall, for the year 2017, we expect China auto production to be down 2%, which is in line with our original guidance. Our performance in North America also came in line with our expectations for the quarter -- for the first quarter. While production grew in the first quarter, we continue to expect that North American auto production will decline between 1% and 2% for the full year due to elevated vehicle inventory levels as we exited the first quarter of 2017.

Our European auto revenues were also in line with our expectations in the quarter, and we continue to expand our content within diesel vehicles due to market share gains and the need for European OEMs to comply with legislative mandates around a cleaner environment and fuel efficiency.

I want to spend a minute reminding investors of Sensata's view of diesel vehicles. It is very likely that the production of diesel vehicles will not keep up with global auto growth over the next 5 years. And diesel vehicles will most likely lose market share to gas, hybrid and electric vehicles. On previous earnings calls, we have communicated that we expect that the share of diesel vehicles in Europe will fall from 48% today to 43% by 2022, which impacts about 10% of Sensata's revenues today. However, this trend is not new and has been part of our business since 2011, when diesel market share in Europe peaked at 55%.

Additionally, we are growing our content in all nondiesel powertrains, and this should more than offset the expected decline in Europe diesel share over the next 5 years. In particular, our content in gas vehicles in Europe could more than double over the next 5 years. An example of this new content growth is the gas particulate filters we spoke about on our last earnings conference call.

Finally, to wrap up auto, we secured strong design wins for low pressure and tire pressure sensors for the first quarter. Our NBO performance was strong in 2016, and we have sustained this momentum into the first quarter of 2017.

Turning to the vehicle -- heavy vehicle and off-road market, we have clearly seen several positive data points since last quarter. We believe that the North American Class A Truck market has bottomed and is slowly starting to recover. We have also seen improving demand from our off-road customers, particularly in the construction and agricultural markets. After 4 straight quarters of organic revenue declines, HVOR has posted back-to-back quarters of organic revenue growth due to strong content gains.

Additionally, during the first quarter, we secured several large wins with large customers, including wins for engines and TPMS trucks. While some HVOR markets are still declining, we are becoming more positive about the outlook for the business.

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Moving to our Sensing Solutions business segment. With the addition of CST, we have expanded the number of content growth opportunities that we can pursue within Sensing Solutions. On Slide 8, I show 2 examples of these sensor growth opportunities, both within our core Sensata portfolio as well as our expanded portfolio from CST.

On the left-hand side of the slide, I show an example of sensor growth in the HVAC market. HVAC represents approximately 5% of Sensata's revenues. A newer application in HVAC is known as Variable Refrigerant Flow Technology or VRF. VRF saves energy by moving refrigerant around the building rather than heated or cooled air. VRF systems are more -- much more efficient than traditional systems and as a result, they have seen rapid growth, particularly in China. VRF systems are expected to grow approximately 12% globally over the next 5 years. These systems require approximately 2x more sensors per ton of cooling due to the long length of refrigerant piping installed. Sensata enables these systems by providing high-performing pressure sensors that are used with variable compressors to improve efficiency and reduce the risk of refrigerant waste which causes safety issues.

And with the content growth associated with these applications, we expect VRF to be an important driver of our future growth in the HVAC market. On the right-hand side of the slide, I show an example of our content growth and opportunities in the aerospace industry, where we have nearly doubled our revenues over the past 2 years as a result of our CST acquisition. As aerospace manufacturers work to develop more powerful engines with smaller and smaller footprints, additional sensors are needed due to engines running hotter and creating increased pressure within the engine. Sensata's core competency and pressure and temperature enables us to provide high-performing pressure and temperature sensors that uniquely meet the needs of these customers. This is a great example of our strategy to capitalize on our scale and core compensate in providing mission-critical sensors by expanding it to new markets such as the aerospace industry.

Let me wrap up my commentary with a few closing thoughts. The first quarter for Sensata's fifth straight quarter of delivering operational performance was in line or above our guidance. We are off to a strong start in 2017 and have set guidance that is achievable and at a level that we believe is highly aligned to creating significant value for our shareholders. We are delivering a strong combination of organic revenue growth, margin expansion and double-digit organic EPS growth that we expect to sustain through the course of 2017.

Our markets remain stable and in line with our expectations. Our industrial and HVOR markets continue to improve. Both Chinese and North American auto markets are expected to decline year-over-year in the second half of 2017 as expected.

Finally, we remain focused on delivering integration milestones and operational targets for the remainder of the year. We are poised to continue to deliver double-digit organic EPS growth as we capture additional synergies in our acquired business.

I'd now like to turn the call over to Paul to review our first quarter results in more detail and to provide financial guidance for the second quarter and full year 2017. Paul?

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

Thank you, Martha. Key highlights for the first quarter as shown on Slide 10 include revenue of $807.3 million in the quarter, an increase of 1.3% from the first quarter of 2016. Of this growth, changes in foreign exchange rates, primarily the Euro and Chinese yuan represent a net revenue headwind of 2.2%. Excluding foreign exchange, organic revenue growth was 3.5% in the first quarter of 2017.

I would note it is the first quarter in 2 years, we have not had any revenue impact as a result of acquisitions completed in the previous 12 months. Both our segments reported strong top line growth in the first quarter of 2017. Performance Sensing reported organic revenue growth of 3.1%. Sensing Solutions reported organic revenue growth of 4.9%.

Constant growth from design wins, strong execution from recovery end markets, fueled our revenue growth compared to the prior year quarter. From a geographic perspective, Asia continued to drive most of our organic revenue growth, primarily due to strength in China. Adjusted EBIT grew by 4% and adjusted EBIT margins increased by 50 basis points compared to the first quarter of 2016.

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Adjusted net income was $121.5 million or 15% of revenue, a margin increase of 80 basis points compared to the first quarter of 2016. Organic adjusted net income margin, which excludes the impact of foreign exchange rates, 15.5% in the first quarter of 2017, which was 130 basis points higher year-over-year. Adjusted earnings per share was $0.71 in the first quarter of 2017, a $0.05 increase from the prior year quarter.

Organic adjusted earnings per share grew by 12% in the first quarter of 2017 and the details of this improvement are illustrated on the bottom half of this slide. Higher volume and net productivity improvements add approximately $0.08 to organic earnings growth, offset by a $0.03 EPS headwind from foreign exchange.

Now I'd like to comment on the performance of our 2 business segments. I will start with Performance Sensing on Slide 11. The Performance Sensing business reported revenues of $600.1 million for the first quarter of 2017, representing growth of 0.5% compared to the first quarter of 2016. Excluding the impact of foreign exchange, Performance Sensing generated 3.1% organic revenue growth in the first quarter of 2017, which was driven by strong performance of our automotive business in China. Heavy Vehicle and Off-road business reported organic revenue growth of 2.9% in the quarter, which is the second straight quarter of organic revenue growth due to strong content gains by the business.

Overall, the HVOR market was down 2% in the first quarter of 2017 in continued weakness in the North American Class A truck markets. Performance Sensing profit from operations was $151.7 million, 25.3% of revenue, up 90 basis points from the year-ago quarter. Excluding the impact of foreign exchange, profit from operations would have been 25.7%, 130 basis point improvement from the prior year due to net productivity gains driven by cost-reduction programs and operating efficiencies.

Next, I will turn to our Sensing Solutions performance on Slide 12. Sensing Solutions reported revenues of $207.1 million in the first quarter of 2017, up 3.9% from the year-ago quarter. Sensing Solutions reported organic revenue growth of 4.9%, reflecting strength across the segment's key product lines and geographies of the HVAC appliance and industrial markets continued to demonstrate the recovery that we saw in the second half of last year.

Geographically, China drove most of the organic growth for Sensing Solutions in the first quarter. Sensing Solutions profit from operations was $67.4 million, an increase of 6.6% from the same quarter last year. As a percentage of revenue, Sensing Solutions profit from operations improved by 90 basis points year-over-year despite higher integration costs in the current year quarter.

Excluding the impact of foreign exchange, cost from operations would have been 32.3%, a 50 basis point improvement from the prior year due to cost-reduction programs and operational efficiencies.

Foreign exchange drove 30 basis points of favorable margin improvement for Sensing Solutions in the quarter. Corporate and other costs not included in segment operating income were $46.7 million in the first quarter of 2017.

On Slide 13, we show Sensata's first quarter 2017 non-GAAP P&L. Revenues of $807.3 million grew approximately 1.3% compared to the same quarter in the prior year. As Martha stated, we're off to a strong start in 2017 as we again generated good earnings growth and margin expansion through cost synergies as well as net productivity gains from robust cost-reduction programs, operating efficiency and operating leverage.

And as a result, we delivered 12% organic growth and adjusted earnings per share on only 3.5% organic revenue growth.

Moving down the P&L, adjusted gross margins were up approximately 60 basis points as a result of net productivity gains, cost-reduction programs that reduce materials and logistic costs, higher operating efficiencies, as well as cost synergies.

Adjusted net income margins improved by 80 basis points and our organic adjusted net income margin, which excludes the impact of foreign exchange, increased by 130 basis points despite higher year-over-year integration costs of $5.4 million. The product continues to deliver on our commitment strength and our balance sheet. Slide 14 shows the improvement of our net debt position by approximately $435 million and net leverage declined from 4.6 to 3.6x since the start of 2016. Improvement of our net leverage ratio in 2017 will most likely be driven by increasing cash balances rather than a significant reduction of debt. Assuming we don't close any new acquisitions or repurchase Sensata shares, we would expect our net leverage to be approximately 3x by the end of 2017.

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Now let me turn to our guidance for the full year 2017 shown on Slide 15. While we're off to a strong start to the year, we are leading our organic growth guidance for revenue, adjusted EBIT and adjusted EPS unchanged. We're updating our revenue guidance only for FX rates. Higher customer inventories, particularly automotive inventories in China and North America, will gradually offset the outperformance we delivered in the first quarter of 2017.

For the full year, we expect organic revenue to be in line with our original guidance, and we expect to report strong earnings growth both sequentially and year-over-year. As a result, we are forecasting revenues in the range of $3.165 billion, $3.265 billion for the full year 2017. On a reported basis, revenues to range between a 1% decline and 2% growth. We expect foreign exchange rates to reduce our revenues by approximately $52 million. We're $15 million better than the annual guidance we provided last quarter. But the effective foreign exchange on adjusted EPS remains unchanged as we continue to expect the $0.02 to $0.03 EPS headwind.

Including the impact of foreign exchange, we expect organic revenue growth of 1% to 3% in 2017. We expect adjusted EBIT between $734 million, $756 million to represent organic growth of 6% to 10%. On the bottom line, we expect adjusted net income between $528 million, $550 million. The adjusted earnings per share between $3.08, $3.20 for the full year 2017. It will represent organic growth of 8% to 12%. We expect that we incur approximately $19 million to $20 million of integration costs in 2017, which is about $3 million higher than we previously forecasted due to our efforts to accelerate the closure of our plant in Minden, Germany. We expect to generate free cash flow between $425 million and $450 million in 2017, which assumes capital expenditure of approximately $130 million to $150 million.

On Slide 16, I show our financial guidance for the second quarter of 2017. We expect to report revenues between $820 million and $844 million, representing a range of a 1% decline and 2% growth. We expect that foreign exchange will lower revenues by approximately $14 million to $22 million in the second quarter. Excluding foreign exchange, we expect to report organic revenue growth of 2% to 4% in the second quarter of 2017.

Our current fill rate stands at approximately 86% of the revenue guidance midpoint. We expect to report adjusted EBIT between $182 million and $188 million, which will represent organic growth of 4% to 8%. On the bottom line, we expect adjusted net income between $131 million and $137 million and adjusted EPS between $0.76 and $0.80, which would represent organic growth of 5% to 10%. We expect the impact of foreign exchange rates to reduce our adjusted net income by approximately $1 million in the second quarter of 2017.

I will conclude my remarks with Sensata's investment summary on Slide 17. Sensata is focused on delivering profitability improvements that will drive double-digit organic earnings per share growth. We expect to sustain our industry-leading profitability while increasing the margins of the businesses we acquire. We have leading and expanding positions in markets with attractive long-term growth opportunities. And finally, Sensata is a high cash generation business. We are focused on sustaining the strong cash flow generation, deploying capital appropriately to create long-term value for our shareholders.

Now I'd like to turn the call back over to Joshua.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Thank you very much. Keith, please assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Samik Chatterjee with JPMorgan.

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Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

On Slide 8, thanks for discussing the content growth opportunities that you have in HVAC. So I was wondering like when you look at this Variable Refrigerant Flow Technology, can you help us with what is the penetration of this technology today? And what are your expectations for penetration of this 5 years down the line and so that we can sort of size what the content growth could be in terms of -- quantify that a bit better?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. The penetration rate across the industry is still quite low, heavier in Asia, some opportunity as you get to North America as well. And our expectation is that this application for us grows at about 12%. So we think nice content growth associated with that application.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Good. And just a clarification. Do you think you can pursue this content growth opportunity entirely organically? Or do you need to acquire any particular technologies to help with that?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

No. We've got a really nice portfolio today aligned to this particular opportunity. So we'll get there organically.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. Got it. And a quick second one from me just in terms of your diesel revenues, which are still growing even as that market is declining. Could you -- I know you mentioned content gains as well as market share gains that's driving it. Could you share some more details on that as to what's driving both the content gain as well as market share? Who are you really gaining share from?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Let me make sure I understand the question. Are we talking about the automotive market?

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Yes.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Okay. And so your question was related to vehicle inventories that are growing and we see that in China and in North America. Most of our growth that's independent of end market is really coming from our position in applications that grow more quickly than the production of the overall market. And so this is, for the most part, not about us taking away sockets that belong to somebody else, but disproportionately growing in high-growth applications. We've talked about things like gas direct injections. We've talked about gas particulate filter sensing. We've talked about other new exhaust sensors that are coming into play in engines outside of diesel. So those are examples. Tire pressure sensing is a really important growth driver for us in the future, and that's where some of the design wins are coming into play.

Operator

And the next question comes from Wamsi Mohan with Merrill Lynch.

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Wamsi Mohan - *BofA Merrill Lynch, Research Division - Director*

So Martha, when you look at organic revenue in the quarter, 2.5%, your guide reflects sort of 2% to 4% next quarter. Your full year guide implies couple of points of deceleration from here, which I don't think is very different from prior expectations. I was wondering if you could frame that in the context of how much of that delta is just sort of the expected auto market weakness first half versus second half versus any other changes to expectation in other areas? And I have a follow-up.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

That really is -- you nailed it right there. That's the primary view that we have looking at what's happening in both China and in North America. So not a lot of change beyond just the first half to second half timing there.

Wamsi Mohan - *BofA Merrill Lynch, Research Division - Director*

Okay. Great. And as a follow-up, when I look at the European auto revenues that declined $10 million year-on-year. Can you talk about some puts and takes there in terms of FX, production, diesel? What were the main puts and takes? And should we expect that magnitude of revenue decline to persist through the rest of the year?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. So FX is certainly a piece of it, and we'll see that headwind and we spell those out for you. Most of the FX movement you see is from the euro and from the Chinese yuan. In terms of organic growth, we had a strong organic quarter in Europe auto in the fourth quarter of 2016 and saw some component level inventory dislocations that impacted the first quarter. That's not our expectation as we go forward.

Operator

And the next question comes from Amit Daryanani with RBC.

Amit Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

Two questions for me as well. Martha, you talked about the shift from diesel to gasoline. I'm wondering, do you see that accelerating in the near term, in 2017 specifically? And how do you think of your content per vehicle and profit pool in diesel versus gasoline?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. We don't see that deteriorating in 2017. We see those penetration rates very close to where we've called them, maybe slightly more positive than we had expected. So just keep in mind, we expect about a 5% share loss of diesels. Their loss in the European market over the next 5 years. When we think about the content opportunity difference for Sensata between diesel and gasoline engines, today, that sits at about $5 to $10 depending on the OEM. And we see that diminishing as we've been winning new business much more strongly on the gas and hybrid side and then on the digital side. So the content opportunity is really catching up quickly on the gas and hybrid side of the business.

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Amit Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

That's really helpful. And I guess, maybe just a follow-up on Slide 6, where you talk about 60% of deal-centric savings that still lie ahead for you over the next 2 years, I think. Could you talk about what is that 60%? What does that equate to in terms of the dollar amount or the dollar potential for your P&L? And what sort of deal integration charges should we expect over the next 3 years to achieve those savings?

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

So I'll take that one, Amit. The first comment is that when you go back to what we said when we first acquired the businesses, we said about $20 million of synergies for Schrader, $15 million for CST. As we stand here today, we see the opportunity being significantly higher. And so there's quite a bit of synergies in front of us and higher than what we expected when we originally did the deals. Most of that synergy is going to come from the actions that we're taking now, which is moving manufacturing from high cost to low cost, locations such as Springfield to our -- to a lower-cost location as well as the closure of the Minden, Germany plant. There is more work to be done. There are more synergies to be gained. And they start to come into the P&L here in the second half of 2017 and then even greater in '18. So a lot of opportunity in front of us. We're executing most of that today. We can see those actions in front of us. I'm really excited about the opportunity.

Operator

And the next question comes from Shawn Harrison with Longbow Research.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

Just following up a bit on Amit's question. As I think about previous acquisitions, I know that there was a drag because of HVOR weakness. Is there any way you can quantify maybe what that weakness has had on the contribution of be it DeltaTech or Wabash or CST? And then maybe what a turnaround in that HVOR market could represent over the next year or 2 for you? And I have a follow-up.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So yes, I think the way you think about those past acquisitions, let's first recognize that those are now completely integrated into the core. And so when we talk about our overall core margins, those are included in Sensata's core business. Given that their exposure was primarily HVOR, the trends on the top line have been aligned with production in HVOR with significant outperformance by DeltaTech, where we've seen very strong content growth. So when you look at the fact that our HVOR business in '15 and '16 were down much, much less than the overall end market, DeltaTech was a good contributor to that on an organic basis. We're now seeing for the first time, organic growth in that business even though end markets are declining. So I think great contributors. So -- let me make sure that answers the question, but to just to put that all in perspective.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

I think that's helpful. I guess, just following on to that. Are you expecting positive organic growth then from the market in the second half of the year because that's what it seems like the industry is now forecasting.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

No. We're still relying in our content growth. So we have -- our assumption is on overall HVOR. And I think, global HVOR is roughly flat. And so we expect to grow against that flat production, and we still expect parts of that market to be down year-over-year as the year concludes.

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Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

Okay. As a brief follow-up just on auto production globally. I know you haven't changed your expectations for the year, but have you seen any signs in terms of -- coming from customers that production will be starting to come off-line in the second quarter? Or anything substantially different than 90 days ago?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Nothing that -- there have been some announcements around production cuts and model year changeovers. Again, those are lining up with our expectations for what end markets would do.

Operator

(Operator Instructions) And the next question comes from Rich Kwas with Wells Fargo Securities.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Just a couple of questions here on the accretion Slide 8. I guess, where you have -- sorry, Slide 6, with regards to the synergies when you look at Schrader and CST. Do we take 40% of the original savings, which I think was, when you combine them, $0.73 to $0.81 when they were first initially announced. Do we say that, that's the right number in terms of what's been achieved and the rest that's left to be achieved? Or is there new benchmark we should think about in terms of the contribution just so that we have something to gear off of here going forward?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So Rich, we're outperforming our original assumptions on cost synergy. So doing better than where we had called those going forward. At the same time, if you go back, I think it's our last earning calls, we actually showed you where the EBIT performance of these businesses were and our intention to get them up to the segment margins of Sensata. So I think as you triangulate across those inputs, you'll get a sense for what's in front of us.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Okay. All right. And then -- and just on the first quarter performance in auto. Martha, I think you talked about some inventory destocking in Europe in the first quarter after, I guess, some payback after a strong fourth quarter. But it does look like relative to overall light vehicle production, that the organic revenue growth for auto was more or less in line. Apart from the inventory destock in Europe, anything that you would note as it relates to North America because it seems like China maybe came in better than expected?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

No. I think commentary in line with what we said before, keeping in mind that the inventory shift from fourth quarter '16 in Europe was component level inventory. So that had an impact on that overall business and on our overall organic rate, which by the way was quite positive for the quarter.

Operator

And the next question comes from Matt Sheerin with Stifel.

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Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Just another question on the HVOR market, which in your commentary certainly sounds encouraging. But could you just talk about the content opportunity today versus 2 years ago? And as we see -- so if we begin to see an up cycle in terms of reinvestments there from customers, are you seeing a radical change in terms of technologies that will benefit you?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

HVOR continues to be a good content growth performer inside of Sensata. We don't see radical changes. I would say, there are some added opportunities. Tire pressure sensing in that market being one that we wouldn't have been talking about 2 years ago. So all-in-all, an attractive market for Sensata.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And could you just update us on your thoughts regarding M&A? As Paul pointed out that first quarter in a long time, where you haven't seen any year-over-year impact from acquisitions. So it's been 15 or 17 months or so since your last acquisition. Just any thoughts there in terms of your strategy? Any change in plans?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

M&A continues to be an important opportunity for us to create value for our shareholders. In the intermediate term, getting our balance sheet in line with the expectations of a capital market is important, and you've seen the improvements that we've made in our net leverage ratio. I would also share with you that the acquisitions that we've done in the past, particularly CST, have really expanded our footprint into adjacent markets. And that was one of the strategic objectives we had going back a few years ago. Having accomplished that, now we see the opportunity to add bite-sized businesses into that new footprint. And so we're seeing much more of a pipeline of opportunities and lots of different options. But in the near term, getting our leverage ratio to the objective of 2.7 to 3.0 is what we're focused on.

Operator

And the next question comes from Christopher Glynn with Oppenheimer.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

I think the 40% penetration of the cost synergy pie chart is tied to the first quarter run rate. Just wondering what your target for the exit rate out of the year?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

We don't. I mean, to be perfectly honest, we have a lot of different options on integration. We know that, that's part of our overall playbook to get to the double-digit earnings that we're delivering to shareholders. So we are not that granular in our guide on specifically what the level will be on every component of that margin contribution.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. Sounds smart and flexible. On the TPMS auto wins, just wondering how that comment ties into China? And how the visibility is shaping into the kind of 2019 time line that's approaching?

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Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. Good wins in China and our overall investment thesis on track, given the engagements that we have with customers as well as the way the regulation is developing.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And do you sort of expect some more share that you'd had in the other major markets?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. We do. So our strongest share market for TPMS is North America. Below that in Europe, we think China lands somewhere in between, but really good market share overall.

Operator

And the next question comes from William Stein with SunTrust.

William Shalom Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

I actually have 2. First, Martha, you've been very clear about your expectation for roughly 0% unit growth this year in automotive globally and that seems to be playing out with positive growth in the first half and sounds like that's going to go negative in the back half of the year. Is the development of inventories in North America and China a sign that perhaps your Tier 1 or OEM customers weren't as accurate at forecasting this decline in demand at the customer level as your view was?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

I would say not. Mostly, where we see the inventory is vehicle inventory. So we're not seeing a lot of component level inventory build. We saw some of that in Europe at the end of the year, but that was much more a one-off with a particular large customer. So I wouldn't make the claim that you called out there.

William Shalom Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. So -- but the OEMs, there's inventory there. Okay, that helps. So the other question I had is about reconciling 2 things that were just a little confusing to me in the presentation. I think it was Slide 6 that shows that you've got -- you've done quite a bit of cost savings with regard to the recent acquisitions, but there's still quite a bit left. And another slide, I think it's Slide 24, later that suggests M&A is delivering 0 to the earnings growth that you saw in the quarter. Is the reconciling factor either charges related to integrating the acquisitions? Or is there -- were there business exists? Or is it a piece of both? Or is there something else I'm missing?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

No, you got it. It's integration spend in the first quarter, which is much stronger in the first half of 2017 for us. So when we talk about the synergies we're delivering and the EBIT improvement in those acquired businesses, that's ex the overall integration spend. We're now calling out that integration spend to be $19 million to $20 million for the year.

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Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

Yes. And the other thing -- this -- the line item that you've been talking about I think on 24. That would be when we would have a year-over-year impact at acquisitions. As I said, this year, we're going to have a full year of the acquisitions in '16 and '17. So you're not going to see any impact there as it relates to the -- I mean, acquired business.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So that's more the way we categorize organic growth. Once we lap a business in the year, that's now categorized into organic growth.

Operator

And the next question comes from Mark Delaney with Goldman Sachs.

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

First question is about the outlook for the EPS trajectory in the second half of '17. I think using the midpoint of guidance for 2Q '17 and also the full year '17 in the first half, I thought it will have done 51% of revenue and 47% of EPS. I know you talked about some savings coming through from site consolidations. So if you could help us quantify how much of a benefit you expect in 2H '17? And are there other factors that are helping get the EPS improvement in 2H that you're guiding for even on lower revenue?

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

Sure. I'll take that one, Mark. And the first one is integration expense, we're talking about $19 million to $20 million. And majority of that's going to be in the first half. So you're going to have that sequential benefit in the second half just for lower integration. Here we're starting to see some of these synergies from the large moves that we've had in terms of closure of Springfield and Minden start to finally play into the P&L, later part of the second half. You're going to see productivity gains continue to ramp up in the core business as normally do and then just general, good strong cost management that we typically do here. So I think it's a pattern that you would expect, given the underlying economic factors that we're dealing with.

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's very helpful. And then for a follow-up question, I mean, to get a little bit more color on the commentary about China auto. I think somebody said it was very strong in the first quarter, I think still looking for good trends in the June quarter, but then down 2% in terms of production for the full year. So if you could just give us a bit more sense about how much you think China was growing in 1Q and 2Q for the market and potentially also Sensata, so we can help to better gauge how much of a year-over-year decline there may be in the second half?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

And again, so let's recognize, we don't expect our revenue to decline year-over-year. We're expecting that there will be production declines year-over-year. We don't have that completely framed out here. That's probably something we can share with you off-line. Our views there are now not different from third-party forecasters. I think they were coming into the year, but we've seen updates now that are more in line with our expectations for the year.

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Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's helpful. Just one last one if I could. You talked about some inventory of cars now in China, North America building. Do you have any quantification about where those inventories are? And what you'd consider normal inventory levels?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

We're just -- really is vehicle inventories that's published data. And I would say that they're not outside the range where we've seen customers operate over time. But given that they're both to the high side and given that for example, the U.S. SAAR in March was significantly declined over the previous year, those things line up and have us believing that we should not be expecting more robust production than our original forecast.

Operator

And the next question comes from Jim Suva with Citi.

Jim Suva - *Citigroup Inc, Research Division - Director*

You just beat, which was great, and that's pretty much across both segments. But I believe you mentioned you're not increasing due to your view on the auto sector. Have you actually seen production order revisions downward yet? Or is that just your internal adjustments? And why wouldn't the strength in the nonauto segment allow you to raise your full year guidance?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So Jim, recall that our visibility is pretty strong a quarter out. We're about 86% filled for the second quarter right now. So order rates would not extend into the second half. We wouldn't see any evidence of that from customers at this time. And again, it's a combination of looking at where vehicle inventories are, looking at other third-party forecasters and not expecting that, that's going to be different from our original view coming into the year. I think as it relates to the nonauto parts of the business, keep in mind that we have fairly easy comps in the Sensing Solutions business in the first half of the year and that changes as we get to the second half of the year. So again, being careful to take a look at what's happening in a large number of very granular vertical markets, which is what Sensing Solutions is at this point. So not enough outperformance there for us to decide that there's a real change in the overall end market.

Operator

And the next question comes from Craig Hettenbach with Morgan Stanley.

Craig Matthew Hettenbach - *Morgan Stanley, Research Division - VP*

Just a question on the China auto market, and I think it's been widely telegraphed in terms of the expected slowdown. But just any color you're seeing from customers in terms of how they manage that slowdown? Is this something that's kind of gradual as you go through the year? Or is there anything more abrupt in terms of how they're changing build plans?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

No. We haven't seen anything dramatic. We have seen the order patterns in the second quarter come in line with our thesis, so enhanced the guide for the second quarter. So nothing dramatic at this point, but definitely in line with a slowing growth rate year-over-year. And probably a production decline in the second half of the year.

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Craig Matthew Hettenbach - *Morgan Stanley, Research Division - VP*

Got it. And then as my follow-up for the broader business outside of auto, there's been some enthusiasm in terms of some macro pickup. So any particular indicators that you guys are watching in terms of the polls you're seeing on that nonautomotive business in kind of Q2?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

And so we'll continue to watch the China PMI closely, and that's trended nicely again, in line with expectations. We're encouraged at what feels like now a slight bottoming and slightly improving pattern in the heavy vehicle and off-road market. So that's one that we're watching very carefully as well.

Operator

And the next question comes from Joe Giordano with Cowen and Company.

Tristan Margot - *Cowen and Company, LLC, Research Division - Associate*

This is Tristan in for Joe this morning. Could you just update us on the Quanergy partnership? Maybe some of the things you're presenting at the Auto Shanghai?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. So the partnership continues to evolve very productively, working very closely with our partner, quite focused on getting production-like samples into the hands of our customers later in the year, strong customer engagement. A great deal of conviction in the marketplace that LiDAR is a must-have technology when we start to talk about Level 3 and above autonomous. So we're quite encouraged about the partnership and it's developing well.

Tristan Margot - *Cowen and Company, LLC, Research Division - Associate*

Okay. And then I have just a quick one. On Slide 16, your FX assumption for euro are, I think, 1.12. I'm just trying to reconcile this with the spot rate, where they are now, about 1.09, I believe?

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

That's because we've been hedging in the euro over a long period of time. So as the hedges -- hedges we were putting on, the euro rate was higher. And so what you're looking as is an average rate of hedges over a period of time and the spot rate for the small portion that's not hedged.

Operator

Thank you. And that is all the time we have allotted for questions this morning, so that does conclude our question-and-answer session. I would like to turn the conference back over to Joshua Young for any closing remarks.

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Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Thank you, Keith. I'd like to thank everyone for joining us this morning. We appreciate your continued support in Sensata. Sensata will be attending the following investor conferences in the second quarter: The Oppenheimer Industrial Growth Conference and the Wells Fargo Industrial Conferences in New York, and the Bank of America Merrill Lynch Technology Conference in San Francisco. We encourage you to meet with us at these conferences or visit us at our headquarters in Attleboro, Massachusetts. Thank you, and have a good day. Goodbye.

Operator

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

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