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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Brian Arthur Johnson *Barclays PLC, Research Division - MD and Senior Equity Analyst*

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

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

Jim Suva *Citigroup Inc, Research Division - Director*

Joseph Craig Giordano *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

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

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

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

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

Steven Bryant Fox *Cross Research LLC - MD*

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

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

PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies Q2 2017 Earnings Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Mr. Joshua Young, Vice President of Investor Relations. Please go ahead.

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

Thank you, Allison, and good morning, everybody. I'd like to welcome you to Sensata's Second 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. We will also post a replay of today's webcast shortly at the conclusion of the 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 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 filings with the SEC.

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On Slide 3, we show Sensata's GAAP results for the second quarter of 2017. We encourage you to review our GAAP financial statements in addition to today's presentation. Most of the subsequent information that we will discuss 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 second quarter of 2017 and provide guidance for the full year and third 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*

Thanks, Joshua, and thank you all for joining us this morning. I'm delighted to report that Sensata continued to deliver strong results in Q2, reporting improved year-over-year operational performance in all segments of our business. This performance reflects continued execution of our strategy to win in sensing, which is helping us to deliver revenue growth, margin expansion and attractive earnings growth.

I will begin on Slide 4. We generated solid organic revenue growth and robust margin expansion, both year-over-year and sequentially. On the top line, we reported revenues of $840 million and organic revenue growth of 3.6%, both of which were at the high end of our guidance. This growth was balanced nicely between our Performance Sensing business, which posted 3.5% organic revenue growth, and our Sensing Solutions business, which reported 3.9% organic revenue growth in the second quarter of 2017.

Double-digit organic revenue growth in Asia and the HVOR market drove our performance in the quarter. Our auto business outgrew a softer auto production market in the second quarter due to good content growth. We continued our recent pattern of robust margin expansion in the second quarter of 2017, with adjusted EBIT margins expanding by 140 basis points and adjusted net income margins expanding by 160 basis points compared to the second quarter of 2016.

On the bottom line, we delivered another quarter of double-digit organic earnings growth, posting organic adjusted EPS growth of 12.3% in the second quarter of 2017. This performance was driven by core productivity initiatives as well as improvements in the profitability of our acquired businesses. I have mentioned in previous quarters that Sensata has built-in earnings power in our business model due to M&A cost synergies. Our earnings performance in Q2 in the first half of 2017 is evidence of this operational lever.

I'd also note that our strong EPS growth should help to assuage concerns about our ability to grow earnings during a period of slowing global auto production. The last point I would make on this slide is that we had another strong quarter of new design wins. We continue to have strong wins in our auto, HVOR and industrial businesses. These wins are driven by evolving regulations and demand for improved safety, efficiency and a cleaner environment.

Slide 5 shows our year-over-year organic revenue growth in Asia for the second quarter. Asia represents approximately 26% of our total revenues, and we have been performing very well in the region, generating 12.2% organic revenue growth in the second quarter. The primary driver of this performance has been China, which will represent approximately 14% of our total revenues in 2017.

After a strong 2016, our China businesses have continued to perform well in the first half of 2017, particularly within the auto, HVAC, appliance and industrial end markets. Our significant growth in China is being driven by content growth, which enables us to outgrow strong underlying markets. As we look ahead, we expect China will continue to be a long-term growth engine for Sensata.

In addition to growing end market demand, we will also benefit from incremental catalysts, as our customers and the Chinese government continue to focus on safety, efficiency and a cleaner environment.

Our other geographies performed in line with our expectations in the second quarter. Europe remained solid, posting 3.7% organic revenue growth in the second quarter, reflecting better performance from industrial and HVOR customers.

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In the Americas, we experienced a slight decline in organic revenues in the second quarter. This was expected due to lower North American auto production.

Slide 6 shows our organic revenue growth by end market, starting with the fastest growing end market at the top of the slide. HVOR was the clear highlight of the second quarter, producing organic revenue growth of 12.5%.

Within HVOR, both our on-road and off-road businesses grew in the double digits in the second quarter. This performance is being driven by strong content growth and higher unit volume production as several HVOR markets continue to recover after a difficult 2-year period. HVOR represents approximately 15% of Sensata's total revenues and is poised for a strong year of organic revenue growth in 2017 and beyond.

Next I want to turn to our industrial, aerospace, HVAC, appliance industries, which reside in our Sensing Solutions segment and represent 25% of Sensata's total revenues.

In the second quarter of 2017, we generated 3.9% organic revenue growth in Sensing Solutions. One of the key drivers of this growth was our industrial sensing business, which posted 9% organic revenue growth in the second quarter due to strong content growth and strong end market dynamics, particularly in the HVAC and appliance markets.

On our last earnings call, I provided an example of where we are seeing content growth opportunities within the industrial landscape. And our growth in the second quarter is good evidence that this trend should continue in the long term.

Finally, our controls portfolio of products, which represents about 14% of total Sensata's revenues and is the balance of the Sensing Solutions segment, continues to report steady growth and good profitability as it benefits from a leadership position in industrial markets.

In our automotive business, we generated organic revenue growth of 1.4% in the second quarter. Overall, the auto market continues to be stable and we are outgrowing the market due to solid content growth.

We reported strong organic revenue growth in China during the second quarter while auto production was down in North America and Europe. We continue to expect that global auto production will be flat for the full year. As we look ahead, we have good momentum with new design wins, and this should benefit our auto revenue growth in the long term.

Our year-over-year margin improvement was impressive in the second quarter and built off our strong performance in the first quarter. This improvement is reflected on Slide 7. We increased our adjusted EBIT margins by 140 basis points and our adjusted net income margins by 160 basis points compared to the second quarter of 2016. The margin improvement was driven by both productivity improvements in our core business and higher profitability from our acquired businesses. This margin expansion shows clearly the value we are creating from previous acquisitions, and I would expect continued margin expansion in the back half of the year.

Let me wrap up my commentary with a few closing thoughts. The second quarter represented another quarter of Sensata performing to promise and was the sixth straight quarter of delivering results in line with or above our guidance.

Looking at the first half of 2017, we are off to a strong start to the year, generating a nice combination of organic revenue growth, margin expansion and double-digit organic earnings growth. We are benefiting from strong content growth in both of our segments.

Through our acquisitions and our strategy to win in sensing, we have improved the overall balance of our end market exposures and now have 40% of our revenues in nonautomotive markets. Our CST acquisition in particular enabled us to expand our presence in the industrial, HVOR and aerospace markets, and the benefits of the strategy can be seen in our results in 2017. These markets are delivering strong top line performance and offsetting slowing global auto production. Our auto business continues to outgrow underlying production while posting positive organic revenue growth.

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The overall net result for Sensata is that we are less impacted by the cyclical impacts of any single end market. As we move forward to the second half of 2017, we expect that we will continue to deliver a nice combination of organic revenue growth, margin expansion and EPS growth. We believe we are in a good position to deliver on our full year 2017 guidance and our confidence in this outlook is reflected in our decision to raise the midpoint of our revenue and earnings guidance.

We are delivering on key integration milestones. We closed our Springfield, Tennessee, plant earlier this year, and we are on track to close our site in Minden, Germany, in the second half of the year.

We continue to find opportunities for additional cost synergies and ways to improve the profitability of our acquired businesses. It has been nearly 3 years since we acquired Schrader, and we continue to find new synergies that are helping to drive our margin improvement and EPS growth.

While CST is early in integration, we are also finding similar opportunities within that business as well. In the meantime, we will continue to strengthen our balance sheet and improve our net leverage ratio. At the end of the second quarter, our net leverage ratio was 3.4x, and we are maintaining our goal to get to 3x by the end of 2017.

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 for the third 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 second quarter, as shown on Slide 9, include revenue of $840 million in the quarter, an increase of 1.5% from the second quarter of 2016. Of this growth, changes in foreign exchange rates, primarily the euro and the Chinese renminbi, represented a net revenue headwind of 2.1%. Excluding foreign exchange, organic revenue growth was 3.6% in the second quarter of 2017.

Adjusted EBIT grew by 8.2% and adjusted EBIT margins increased by 140 basis points compared to the second quarter of 2016. On an organic basis, adjusted EBIT grew by 8.8% in the quarter. Adjusted net income was $139 million or 16.6% of revenue, a margin increase of 160 basis points compared to the second quarter of 2016.

Adjusted EPS was $0.81 in the second quarter of 2017, an $0.08 increase from the prior year quarter. Excluding a $0.01 headwind from foreign exchange rates, adjusted EPS grew 12.3% organically, due to core productivity gains, higher profitability from acquired businesses and higher volume.

Now I'd like to comment on our 2 business segments. I will start with Performance Sensing on Slide 10. Our Performance Sensing business reported revenues of $621.8 million for the second quarter of 2017, an increase of 1% compared to the second quarter of 2016. Excluding a 2.5% headwind from changes in foreign exchange rates, Performance Sensing generated 3.5% organic revenue growth, driven largely, as Martha mentioned earlier, by HVOR and the strong performance of our automotive business in China.

Performance Sensing profit was $169.1 million or 27.2% of revenue. Excluding the effects of foreign exchange rates, Performance Sensing profit as a percentage of revenue was 27.4%, up 260 basis points from the year-ago quarter. This improvement from the prior year reflects net productivity gains driven by cost-reduction programs and operating efficiencies as well as lower integration spend and increasing synergies.

On Slide 11, Sensing Solutions reported revenues of $218 million in the second quarter of 2017, up 2.9% from the prior year. Sensing Solutions reported organic revenue growth of 3.9%, reflecting continued momentum in the industrial and HVAC appliance markets. Through the first half of 2017, Sensing Solutions has posted 4.4% organic revenue growth, well above its performance from last year. This growth was broad-based across the Sensing Solutions portfolio and was particularly strong in China.

Sensing Solutions profit was $70.1 million, an increase of 2.8% from the same quarter last year. Excluding foreign exchange rates, Sensing Solutions profit as a percentage of revenue was 32%, a 20-basis-point decline, year-over-year.

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As Martha indicated earlier, Sensing Solutions margins should improve as we capture additional M&A cost synergies from the CST acquisition, particularly related to the closure of our Minden, Germany facility.

GAAP corporate and other costs not included in segment operating income were $52.6 million in the second quarter of 2017, up approximately 20 -- $12 million year-over-year, due primarily to higher compensation costs as well as onetime expenses incurred to further optimize manufacturing and logistics operations.

Slide 12 shows Sensata's second quarter 2017 non-GAAP results. The strong margin improvement we referenced earlier is primarily driven by higher gross margins. Our adjusted gross margins were up approximately 70 basis points as a result of lower material and logistics costs, higher operating efficiency and cost synergies.

Excluding foreign exchange rate differences, our gross margins were up 90 basis points year-over-year. Operating expenses in the second quarter of 2017 were up slightly year-over-year due to higher employee costs. On the bottom line, adjusted net income margins improved by 160 basis points, despite foreign exchange headwinds and slightly higher integration costs.

Sensata continues to deliver on our commitment to strengthen our balance sheet. Slide 13 shows that since the start of 2016, our net debt position has declined by approximately $515 million, and our net leverage ratio has declined from 4.6x to 3.4x as of the end of the second quarter of 2017. Further 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 are on track to reduce our net leverage to approximately 3x by the end of 2017.

Now let me turn to our guidance for the full year 2017, shown on Slide 14. We are pleased with our progress in the first half of the year, which provides a strong foundation for achieving our annual targets. Based upon our results thus far, we have raised the low end and the midpoint of the guidance that we previously provided.

As a result, we are now forecasting revenues in a range of $3.214 billion to $3.29 billion for the full year 2017. On a reported basis, we expect that revenues will range between 0% and 3% growth.

We expect foreign exchange rates to reduce our revenues by approximately $32 million year-over-year, which is $20 million less than we guided to in April 2017. The effect of foreign exchange rates on adjusted earnings per share remains unchanged as we continue to expect a $0.02 to $0.03 EPS headwind, year-over-year. Excluding the impact of foreign exchange rates, we now expect organic revenue growth of 2% to 3% in 2017, up from the previous guidance of 1% to 3%.

For adjusted EBIT, we have slightly narrowed the range and now expect between $741 million and $755 million, which would represent organic growth of 7% to 9%. On the bottom line, we again slightly narrowed our guidance, and now expect adjusted net income between $537 million and $551 million.

On adjusted earnings per share, we raised the mid-point by $0.02 and now expect to be between $3.12 and $3.20 for the full year 2017, which will represent organic growth of 9% to 12%.

We currently expect to incur approximately $19 million to $20 million of integration costs in 2017. And finally, we expect to generate free cash flow between $425 million and $450 million in 2017, which assumes capital expenditures of approximately $130 million to $150 million.

On Slide 15, I show our financial guidance for the third quarter of 2017. We expect to report revenues between $781 million and $817 million, representing a range of a 1% revenue decline and 3% revenue growth. We expect that foreign exchange rates will lower revenues by approximately 1% in the third quarter of 2017. Excluding foreign exchange rates, we expect to report organic revenue growth of 0% to 3% in the third quarter of 2017.

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Our current fill rate is approximately 87% of the revenue guidance midpoint. We expect to report adjusted EBIT between $185 million and $191 million, which would represent organic growth of 4% to 8%. On the bottom line, we expect adjusted net income between $133 million and $139 million, and adjusted EPS between $0.77 and $0.81, which would represent organic growth of 3% to 8%.

I will conclude my remarks with Sensata's investment summary on Slide 16. Sensata is focused on delivering profitability improvements to drive double-digit earnings per share growth. We expect to sustain our industry-leading high 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 this strong cash flow generation and 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. Allison, please assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Wamsi Mohan from Bank of America Merrill Lynch.

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

Martha, you've called out China as a key area of strength, both in autos and non-autos for you. Second-half trajectory for China autos is weakening somewhat, as you had called out before. Are you expecting the strength in industrial and HVAC to persist for a few quarters? Or was there something cyclical, including any restocking in the channel that you see as more of a near-term step-up? And I have a follow up.

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

Yes. I would just start by saying that there really is not a lot new from the outlook that we provided when we guided. So we see the year playing out roughly in line with the way we had anticipated. So expected, as you pointed out, expected the softening in production in China. The content growth that we're seeing in China is really important. And we expect that, that will continue as well as the great performance we're seeing in markets outside of auto.

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

And within that specifically, Martha, are you expecting -- was there any inventory restock that you saw within industrial and HVAC? And do you think that, that is transitory? Or do you think the content growth there sort of continues to persist?

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

We've been looking at inventories across those end markets. We saw some healthy reduction in the China vehicle inventory. Outside of autos, the inventory levels that we're looking at are not out of line at all with where they have been seasonally around this time.

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

Martha, as a follow up, this quarter you saw auto revenues grow organically despite production decline, given the content increases. But given the expected headwinds, sort of more broadly, going into the back half, any early thoughts into 2018 on both auto production and revenue growth?

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

Yes. I guess the comment I would make is we continue to believe that the overall content development in our business is more important as we look ahead than end markets, which are not going to be big drivers of the overall growth, probably with the exception of HVOR where we've seen some recovery. So we remain really confident in the momentum that we're building on content growth. And as you point out, you can see that now in our numbers.

Operator

And our next question will come from Amit Daryanani of RBC Capital Markets.

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

I have a question and a follow-up as well. I guess, Martha, just to start off on the China discussion, you talked a fair amount, I think, on the opportunities there, specifically in China. Can you just help us understand, what's your market share in China with local OEMs, specially, versus what's your global share broadly? And is the margin profile for Sensata any different in China versus your corporate averages right now?

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

Yes. I'll take the second first. The margin is not different than the corporate average. In many of those businesses, it's actually above the corporate average. When we look at local producers, our share is similar. The content opportunity today with those local producers is less but growing more quickly. So more of an acceleration in growth going forward. We've got strong overall market positions.

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

Got it. And then I guess just from a capital allocation perspective. I think you're well on track to get to the sub-3x leverage as you guys have talked about by end of this year. Can you just talk about, where is the desire higher? Is it more to have a more rounded up capital allocation as you head into '18 with buybacks and dividends? Or you prefer one versus the other? Or you'd like to build up your balance sheet for a deal down the road? Just help us understand what happens once you get to this target leverage ratio.

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

Yes, I would just start with the overall ethic, which is putting cash to work for our shareholders. We believe this is really important, and it is an ongoing part of our strategy and an ongoing part of our discipline. We think it's important to have optionality on how we use that cash. So we've created, I think, terrific value in M&A. We expect to do that as we go forward. We also recognize that there's times when valuations are -- suggest it's not the right time to buy or that projects within our pipeline, there needs to be parties on both sides of that. So just having the optionality, we think, is really important. I think we would put dividends as a very distant third option, just given its overall tax efficiency for our shareholders.

Operator

And our next question will come from Samik Chatterjee of JPMorgan.

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

Wanted to check with the firstly on your thoughts on North America production. As I understand, (inaudible) on inventories on second-half production are quite high. What are you seeing from automakers in terms of summer shutdowns from them in Q3 here? And are you expecting more production cuts as we go into the second half?

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

So our assumption coming into the year was overall production down in North America, about 2%. And that outlook has not changed. And you begin to start to see that year-over-year in the second quarter. Right now, when we look at our backlog, and its backlog right in line with our expectations. So we've called this as a down year for production. And do keep in mind, it is production that drives our revenue, so that's where we focus. So not a lot of surprises there. The overall decline we see in Sensata's revenue going from second to third quarter are very much in line with our normal seasonality, which includes the impact of summer shutdowns and the model year changeovers. So at this point, we believe those are well comprehended and driving the guide in the second half of the year.

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

Got it, got it. And just want to get your help on how to best think about margins in the out-year? Because it looks like most of the integration spend is done in the first half, so the second half sort of gives us a clean base to work off. And from the guidance, it looks like you'll exit sort of around the 23%, 24% range, 23% or 24% for EBIT margin. So how should we think about the levels for EBIT margin improvement from the second half levels into the out-years?

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

I guess the one comment I would make is that we are extending some of that spend, or I should say delaying some of that integration spend. It was delayed from the second quarter into the third quarter. So while most of that is in the first half of the year, as you point out, there is some of the spend coming into the third quarter as well. I think relative to our ongoing margin levers, the actual realization of the synergies and the full-year impact of that is not something that you will have seen. We're still going to be working off high cost inventory well into the fourth quarter of this year. So we expect the margin expansion to continue well into 2018.

Operator

Our next question will come from Christopher Glynn of Oppenheimer.

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

So the Performance Sensing margin was really strong, nice step-up in the second quarter, sequentially and year-over-year. Just wondering about the normal cadence where that improves each quarter through the year in a typical year. Is that cadence intact or did the 2Q outperformance have some influence on the linearity?

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

So Chris, I would say that the strong performance there, probably about 1/3 of that margin expansion came from a combination of synergies that are growing within the Performance Sensing segment and a reduction in integration costs. The other 2/3 is just really good blocking and tackling around cost reduction activities, managing the P&L very effectively and getting some decent growth. And you can also see, within Performance Sensing, the strength in the Heavy vehicle and off-road business is also reflected there in the volume leverage that's being created from their

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growth. So a really good strong Q2. The 27% plus margin is where we would expect that business to be, and we expect that business to continue to grow its margins based on the cost reduction initiatives and the continued completion of the integration of the acquisitions.

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

Okay, sounds good. On the Schrader business, just wondering how you're seeing the development of the aftermarket potential sort of emerge and play out there?

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

Yes, it continues to develop. It's lumpy, so different than the overall production business. What's really interesting there is the growing base in the automotive carpark in Europe now, since that only became a mandate in 2014. So that is the biggest driver of aftermarket, which is what's happening in the park. We're encouraged by the growth of TPMS in the overall park in Europe and beginning to see that play out in our numbers.

Operator

(Operator Instructions) Our next question will come from Shawn Harrison of Longbow Research.

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

First a clarification and then a follow-up, if I may. I think last quarter you said something around 60% of your synergies were still to be realized from CST and Schrader; wondering if that's still the key number to use. And what were the exact integration expenses this quarter? Sorry if I missed that.

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

Integration this quarter was 7 -- I think about $7 million, a little bit more than $7 million. That was the absolute spend. And yes, we're still on track. The 40% was at the end of last year. We're still on track in terms of the synergy opportunity in front of us and the pace at which we're going.

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

Okay. Martha, if I may as a follow up, I get a lot of questions on just your diesel exposure and just the headwinds there. If I look at the LCM data for the first half of the year, it states that diesel market share in Europe was down about 500 basis points year-over-year, which I think is greater than maybe what you had highlighted historically. So if you could maybe bridge the gap between the data we're seeing out of industry forecasters versus what you're seeing, and just an updated diesel content per vehicle. I don't know if it's just a basic arithmetic mean that you're using or if there's higher content in certain vehicles versus other, that gives the disparity in terms of the headwind you're facing.

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

Sure, Shawn. So the first thing I'd point out is that we look at diesel production in Europe, so that's the baseline that we use. I would also point out that diesel penetration has been dropping for the past 5 years. It's actually dropped 10 points of market share, if you go back 5 years. And during that period, we've grown our European revenues really, really well and continue to do so. So what we're looking at is an overall expectation for continued decline in diesel as the share of production in Europe. And we talked about that extensively on our last call, as you pointed out. We are increasingly, though, agnostic about what happens in the powertrain. So our content wins and the manifestation of those in our revenue are coming very strongly from gasoline-based engines and from electrification. So think hybrids. So getting to the point, now, where we're soon to be agnostic on that. And you're seeing that in the numbers, as you don't see that overall decline you pointed out having a strong impact on Europe. So slight headwind to the business but overwhelmingly offset by strong content growth in other parts of the business.

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Operator

And our next question will come from Rich Kwas of Wells Fargo Securities.

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

Just a quick update on -- you've given some auto production outlook for the balance of the year for the full year. What's the updated view on HVOR? I think the assumption for the market was to be flat for the year. It seems like that's trending ahead of expectation. What's the update there? And what's embedded in the outlook?

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

About -- market growth of about 2% for the broad HVOR business, which has many verticals within it.

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

And that is an improvement in our outlook, as you point out.

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

And any split between off- and on-road? Within the...

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

Ah, no.

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

No, I think at this point just given now we've got geographic balance more in the business. So you start to deal with a level of granularity that it's probably not helpful to speak to.

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

Okay. And then just as a follow up, on Q3, as we -- the revenue guide at least is a bit better than where expectations were, and the EPS guide a little bit lighter. So it seems like, from a margin standpoint, a little more modest view on margin. I know the integration costs are -- most of them are largely passed. I guess trying to figure out, what's -- within that, it seems like there's some conservatism in there around margin. But if you could maybe talk to some of the risks out there as it relates to specific -- specifically on the margin side as we think about near term, the next quarter or so.

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

Rich, I don't know if I would call it conservative, when you think about what we just printed for Q2. We have $840 million of revenue going to $799 million at the midpoint, so we're giving [up] $40 million of volume. And we've got favorable exchange rate, so it's even more than that. So we're covering through less integration, increased synergies, really strong cost management, a pretty big sequential volume decline, which would be

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normal, all right? These are just -- we're exiting the high seasons for many of our businesses. So I wouldn't call it conservative. I would call it, again, another quarter of strong execution, strong margin performance and continued control over the cost and the bottom line.

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

I think relative to your -- you may be asking about revenue up but EBIT not as up. Keep in mind that we do not hedge the top line on revenue, so the currency impacts that are positive there, since we hedge on the bottom line, don't drop through incrementally.

Operator

And our next question will come from William Stein of SunTrust.

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

Paul, can you remind us, after this year, by the end of the year, what will be left from a cost savings perspective on the acquisitions where you're still sort of ramping savings?

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

So Will, as we've completed the Springfield move as well as the Germany move, I mean we have inventory that we're going to work off. So we haven't really started to see the significant synergies that will come from those actions. And those are the 2 we talk about. There's other things, obviously, that we're doing to drive synergies. So there's going to be a lot more synergy savings to come at least on those 2 announced events, in '18 versus '17, so a lot of runway there. We are getting synergies this year, it's just through different actions that we've taken in previous periods. So the pipeline is there and the continued growth in synergies have been happening in '17 and will continue into '18.

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

And then as a follow up, Martha, can you talk about your expectations for China to, I think they're already adopting, but perhaps a mandate for TPMS?

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

Yes, the mandate development is very much on track, to the point where we are enjoying design-in wins right now in TPMS against that time frame. So the thesis holds and we're excited about the opportunity in China. And that is one of several mandates that are playing out for us, by the way. Do when we look at what's happening across the commercial truck fleet in China, when we look at mandates around efficiency, when we look at mandates in the HVAC market around efficiency, we're seeing a lot of that play into the revenue growth that we're enjoying now.

Operator

And our next question will come from Brian Johnson of Barclays.

Brian Arthur Johnson - *Barclays PLC, Research Division - MD and Senior Equity Analyst*

Yes, I want to ask 2 questions. First, just the organic growth guide for Q3, it seems like HVOR is developing well. Auto production is a bit more favorable, yet you're in the 0 to 3% range. Is that some of the inventory effects that you talked about earlier or just some dose of conservatism?

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

I think it's more our -- make sure you're looking at overall seasonality. It's looking at our expectation that the production assumptions we use in our guide don't change. So some of that reduction is going to be coming into the second half of the year if you look at where production landed in the first half of the year.

Brian Arthur Johnson - *Barclays PLC, Research Division - MD and Senior Equity Analyst*

Okay. And as you roll forward to 2018, given where you came out on organic growth here, given HVOR accelerating, do you have any preliminary indications on where you could think of organic growth in 2018?

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

No, not at this point. We've talked about the fact that we expect us to stay on our cadence of improvement, which you've seen if you look at -- from '15 to '16 to '17. So at this point, that's sort of the level of guide that we talk about. More to come as we get closer to the year and understand what's happening in the overall end markets.

Operator

Our next question will come from Craig Hettenbach of Morgan Stanley.

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

I wanted to follow-up on the topic of automotive content. And if I look at kind of the 1.4%, given this lackluster production environment, just, Martha, if you were to look at just kind of a flat, environment, kind of remind us just in the intermediate to longer term, what do you think your content growth would be over time?

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

Yes, again, I think that's a perspective that we should provide when we begin to give guidance into next year. We've been pleased with our overall content performance. You can certainly see where we're performing in our end markets and what those production rates are doing, and that will give you a good sense for where we're actually performing. But when we talk about improvement, a cadence of improvement year-over-year, that really is with the notion that our content growth continues to build.

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

Okay. And then as my follow-up, just on the target net leverage of 3x by the end of this year. Can you talk about kind of the puts and takes to capital allocation as you move forward in terms of what some of your priorities are, whether it's further deleveraging versus M&A growth opportunities?

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

Yes. As we mentioned, when you look at what's driving the net leverage ratio, at this point, it's much more about cash accumulation and keeping our options open as we get to the overall net 3x. It's really important for us to have optionality on capital allocation, and that's the way we think about it. We've been good acquirers. You're seeing that play out on the synergies that we're delivering. M&A will continue to be a very important part of our overall playbook. Given the acquisition that we made, particularly in CST that opened up a number of industrial vertical markets for us.

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What we see in those vertical markets are very interesting, I would say, bite-size type opportunities that are filling the pipeline. At the same time, thinking about this in the longer term, there are times where valuations are -- indicate it's not the time to buy. And we want the option of being able to put cash to work for our shareholders when we think about buybacks. So we think about that in a very balanced way of having the option to continue to put cash to work for our shareholders.

Operator

Our next question will come from Mark Delaney of Goldman Sachs.

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

The first question was a follow up on China. There was a comment in the prepared remarks and the slides about seeing better enforcement of some of the regulations. Was this just sort of alluding to the future opportunities with TPMS? Or are you guys seeing better enforcement in China more broadly? And if so, can you elaborate on what you're seeing there and the benefit to Sensata?

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

Yes, I would say that, that commentary comes out of the adherence to regulations that have been previously passed. So particularly in the commercial truck market, particularly in efficiency standards inside of the automotive market. So we see customers across the board bringing more discipline to the adherence of that regulation, whether those are local producers or the multinationals.

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

Okay, that's helpful. And then a follow up on the margin improvement opportunity. You were talking about the opportunity from the Minden shutdown later this year. Is there any way you can kind of help quantify how much savings that could potentially bring once it's fully complete? And how should we think about the cadence for integration costs associated with that shut down?

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

So on the second one, the integration, there's still more integration costs to be incurred in the third quarter. And we expect to complete the closure of that plant in the third quarter. So there is a little bit more spend there. As it relates to the synergies, what I can say is we've told you the kind of pace we're on, what's been complete, what's still to go. For CST alone, there's about $15 million of synergies that we identified in the investment case. We see more opportunity there than the $15 million. And there'll be more to come on that when we talk about 2018 later in the year. But certainly, we're progressing ahead of what we expected when we originally put the case together.

Operator

And our next question will come from Joe Giordano of Cowen.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

I had a question on EV and kind of related with hybrid. What are you guys doing now on EV, specifically, that you're not doing on a regular car? And if there are things that are available there that you're not doing, what's your kind of view on those products relative to your current portfolio?

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

Yes. It's sort of important to set a baseline on what's an EV. So when you think about electrification generally, we see growing content across that fleet. So in those platforms, energy regeneration is a really important element. We move from sensors and advanced breaking system of 1 per system to anywhere from 2 to 4 per system. So a natural content grower for us on that front. We see lots of opportunity in thermal management that we're engaged in as well. Our tire pressure sensing portfolio becomes even more important to those producers because tire pressure and maintaining that inflation is a big driver of fuel economy. So when you think about how important it is to extend the range, that's where we're finding more demand for our higher end -- the higher end of that particular portfolio. When we look at climate control systems, the need for increased efficiency has platform players in electrification really doubling down on the content that you'd find inside of a climate control system. So lots of great opportunities, both currently that we're shipping into and as we look ahead.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

So is it fair to say that a lot of the content growth that you guys can see from those kinds of dynamics, it's outside of the powertrain itself? So that's fair?

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

No, I wouldn't say that. So we can debate whether or not helping to manage the thermal challenges in battery is outside the powertrain or not. That's content that you would not see in a conventional ICE engine, for example.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

That's fair. And then just maybe one quick one for Paul. With the integration spend and the savings you saw this quarter, was it more levered towards Performance Sensing, more than it maybe has been in other quarters? There seemed to just be -- or at least versus where we were kind of modeling, more of a discrepancy there.

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

Yes, I would say, it's more of the Performance Sensing side. I mean realize that Sensing Solutions, more of that is related to the CST business. And as we've talked about, that's still early in the integration process. We have seen synergies related to CST, but not as much as you would have expected from, say, Schrader.

Operator

And our next question come from Jim Suva of Citi.

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

I have 2 questions, and I'll ask them at the same time. While it's great to see the company raise the lower end of the EPS guide, what was the reason for not raising the higher end of the EPS guide? And then my second question is regarding the leverage ratio. When you get down to 3x, which cash flow visibility is pretty solid with the company, should we expect then the M&A to pick up? Or do you actually have to hit the 3x? Or if you have the foresight now, could you actually start the M&A pipeline for accretive acquisitions sooner than expected?

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

So Jim, on the, I guess, on the guide, so as we have it now, we're looking at 2.5% organic growth and 10%-plus earnings growth. So 4x the earnings growth pace to revenue. So I think that's pretty tremendous work and results. The higher end of the guide -- we achieve the higher of the guide with better top line. So if the organic growth is in the higher end -- reaches the high end of our range with a little better performance around integration so a little bit lower cost. That narrows the possibility for us getting to the higher end of that range. And that's how we constructed the guide itself.

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

I think relative to the leverage ratio, we've talked about really the desire for optionality on how we allocate capital, Jim. When you look at us moving towards the 3x net leverage, it really is net. We're using the cash balance to do that. You've certainly seen Sensata be willing to extend our leverage ratio in the past for the right opportunity when we -- in M&A. You've also seen Sensata put cash to work in the form of buybacks in the past. When we look at the cadence that we're on and the very near term time frame, most likely we'll end up at that net leverage ratio of 3x, just given what time it is.

Operator

And our next question will come from Steven Fox of Cross Research.

Steven Bryant Fox - *Cross Research LLC - MD*

Just one question, on the HVOR market growth, you talked about 2%. I guess I was curious. It sounds like you're assuming a heavy vehicle recovery that's pretty muted relative to historical patterns. Can you talk about why that would be the case? And maybe the upside versus that, that is different? And any specific content within heavy truck that maybe is going to differentiate you?

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

We're just seeing -- we're seeing better markets across the entire HVOR business. So like I said, there's many verticals. There's trucking. There's construction, there's Ag, it's North America, it's Europe. And so it's a combination of the performance we've seen, what we're seeing from third-party data, what we're seeing, hearing from our customers, trying to understand what macroeconomic factors drive demand. And based on all that work and based on all the verticals, we've come up with an average growth rate of about 2% for the year. We think that's reasonable. It's certainly better than when we started the year. We're probably 3%, 4% better than when we started the year. And we think it's appropriate given what time it is in that business and that end market.

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

There are a number of content drivers for us in the HVOR market, and some very familiar ones when you think about what's driven Sensata's growth in the past. So from a powertrain efficiency standpoint, we have sensor content opportunities. Our operator sensor controls that came with the DeltaTech acquisition we made a few years back as our -- we're really enjoying some great content growth there. We see folks moving from -- to a steer by wire, electrified cabin, if you will, driving great content on that front. And we're beginning to get our early design wins on tire pressure sensing in the truck market as well. So lots of good opportunity, revenue -- content revenue now and great opportunity as we look ahead.

Operator

Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Joshua Young for any closing remarks.

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

Thank you, Allison. I'd like to thank everyone for joining us this morning. We appreciate your continued interest in Sensata. Sensata will be attending the following investor conferences in the third quarter: the JP Morgan Auto Conference in New York on August 9; the Citi Tech Conference in New York on September 7. 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.

Operator

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

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