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PRESENTATION

Operator

Good day, and welcome to the Sensata Technologies First Quarter 2018 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, Investor Relations. Please go ahead.

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

Thank you very much, Andrew, and good morning, everybody. I'd like to welcome you to Sensata's First Quarter 2018 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 newly redesigned Investor Relations website. We will also post a replay of today's webcast shortly after 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 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 results for the first quarter of 2018. We encourage you to review our GAAP financial statements in addition to today's presentation. Most of the subsequent information we will discuss during today's call will be related to non-GAAP financial measures. Reconciliation of our GAAP to our non-GAAP financial measures are included in our earnings release and in our webcast presentation. Additionally, the company provides details of its segment performance on Slides 10 and 11, which are the primary measures management uses to evaluate the business.

Martha will begin today's call with an overall business summary. Paul will then cover our financials for the first quarter of 2018 and provide guidance for the second quarter as well as update full year 2018 guidance. We will then take your questions after our prepared remarks.

Now I'd like to turn the call over to Sensata's President and CEO, Martha Sullivan.

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Thank you, Joshua, and thanks to everyone for joining us this morning. Sensata had a great start to 2018. We extended our momentum from last year by generating a strong combination of top line organic revenue growth, margin expansion and earnings growth in the first quarter.

Our 15.5% organic growth in adjusted earnings per share was one of the strongest quarters of organic EPS growth Sensata has delivered over the past few years. For the first quarter, we reported revenues of $886.3 million, representing organic revenue growth of 6.4%, exceeding the high end of our guidance. We expanded our adjusted EBIT margins by 110 basis points year-over-year and delivered adjusted EPS of $0.85, which was above the midpoint of our guidance.

On Slide 4, I list some of the key highlights of the first quarter. First, we continued to accelerate our organic revenue growth rate. Our organic revenue growth rate was up nearly 300 basis points year-over-year, totaling 6.4% in the first quarter of 2018.

Our auto, HVOR and industrial businesses all had strong performances in the first quarter. In auto, our organic growth rate accelerated to 4.5% and outgrew end market production by 560 basis points in the quarter. Meanwhile, our HVOR business posted its fourth straight quarter of healthy double-digit growth, delivering organic revenue growth of 14.2%, which was approximately 970 basis points above our end market production.

Finally, our Sensing Solutions business generated organic revenue growth of 6.3% on the strength of healthy demand from industrial and aerospace customers as well as continued content growth in our industrial sensing business.

Next, we are generating robust adjusted EBIT margin expansion. We expanded our adjusted EBIT margins by 110 basis points in the first quarter of 2018. On an organic basis, adjusted EBIT margins expanded by 130 basis points. This strong margin expansion was the result of productivity on higher volume, lower integration costs and M&A cost synergies.

On the bottom line, we continued to deliver double-digit EPS growth. We reported 19.7% growth in adjusted earnings per share, 15.5% on an organic basis. During the quarter, we also secured shareholder approval for our redomicile to the United Kingdom. As a reminder, this was an intensive year-long project to improve administrative efficiencies and ensure that share repurchases are part of our capital deployment strategy.

While the redomicile transaction is now complete and we trade as a PLC company, there are 2 key steps remaining before we are able to repurchase Sensata shares. These steps include getting approval from the U.K. High Court regarding the amount of our distributable reserves and getting authorization from shareholders to repurchase shares as part of our Annual General Meeting, which is scheduled for May 31. With a healthy balance sheet and our strong free cash flow, we fully expect capital deployment in 2018 to include share repurchases.

Slide 5 shows organic revenue growth by end market, beginning with HVOR, which, as a result of our solid market performance and strong content growth, continues to lead the way in terms of organic revenue growth. Our on-road truck business, which represents just under 50% of HVOR revenues, was strong in both North America and Europe due to significant content growth in both regions and very strong market growth in North America.

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Within HVOR's off-road business, construction continued to be the strongest market. As we look forward to the remainder of the year, we expect that HVOR will sustain healthy growth rates.

Next, I want to turn to industrial and other end markets, which are served by our Sensing Solutions segment and represent approximately 25% of Sensata's total revenues. For the first quarter of 2018, we generated 6.3% organic revenue growth in this segment of our business.

From a geographic perspective, our North American and Asian businesses were the strongest performers. In addition, we generated solid growth in our aerospace business as industry fundamentals of this long-cycle business remain healthy. Going forward, we believe global industrial demand will remain in line with our original expectations for the full year.

Finally, our automotive business accelerated its growth rate for the second quarter in a row, posting 4.5% organic revenue growth in Q1 on a market that declined 1.1%. We shared with you at Investor Day that we expect the growth of our automotive business to steadily increase due to growing new design wins, and you are seeing this growth in our numbers.

Our automotive business was primarily driven by strength in China as content per vehicle continues to rise rapidly as a result of fleet modernization and new legislation. North America also had a solid quarter of growth as a result of growing content on vehicles with more efficient powertrains. Finally, our European auto business continues to outperform the market and offset diesel declines.

On Slide 6, I show content that we first shared with you at our Investor Day in December. We expect our markets to be driven by 5 key drivers over the next decade: first, the constant need for cleaner and more efficient transportation and equipment; secondly, in China, we are seeing growth driven by the modernization of consumer offerings and industrial equipment as well as new regulation; third, there are growing mandates for electrified products in auto as well as other end markets; fourth, we are enabling autonomy for everything from Level 4, 5 autonomous passenger vehicles to automated off-road and material equipment; and finally, smart and connected, which is all about making equipment more connected and using that information to take actions based on new insights gained from that data.

While autonomy and smart and connected are trends that will impact our revenues beyond the next 3 years, clean and efficient, China and electrification are more immediate-term drivers of our growth opportunities. We are actively pursuing and closing new business wins related to these 3 drivers, which I will discuss in more detail on Slide 7.

Let me start with clean and efficient. We are seeing robust demand from customers in Europe and China for our sensors used on gasoline exhaust systems. We shared with you that we expect our content on gas vehicles to rise in Europe and China over the next few years, and we are seeing this trend play out even faster than we initially expected. Keep in mind that these next-gen clean and efficient engines are often being deployed into hybrid and plug-in hybrid vehicles. We are rapidly closing new business, and we expect to see incremental revenue from some of these wins as early as 2019.

In our aerospace business, we secured a win for pressure sensors with one of the Big Three engine manufacturers as they seek to improve the power density of their engines and drive higher efficiency. This win is a good proof point of our strategy to leverage our strong sensing portfolio into our larger aerospace position and expand the use of our sensor in new engines.

In HVOR, we are emerging as the clear leader in tire pressure sensing systems. We have a differentiated, competitive position in this market, and customers are committing to our solution as it clearly improves the fuel efficiency of their global fleets and extends the life of their tires.

We continue to benefit from the overall modernization of China. In our automotive business, we are seeing strong content growth in advance of mandates for cleaner and more efficient vehicles. For example, we are gaining share with local Chinese OEMs as they prepare to comply with the new TPMS legislation scheduled to initially take effect in 2019. We are also seeing legislation drive demand for our sensors as a result of China VI legislation. Furthermore, we continue to see content growth in our industrial sensing business as China transitions from coal to electric heat.

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Within electrification, we secured a large win in the quarter for a next-generation braking system that is used on electrified vehicles. Many of our customers are focused on how to regenerate energy within their vehicles to extend vehicle range, and regenerative braking is one of the key ways they are looking to accomplish this.

We also won business with several customers for highly efficient thermal management systems. Thermal systems are a large drag on the batteries of hybrid and electric vehicles, and customers are increasing sensor content to significantly improve energy efficiency. It is exciting that we are seeing this growth for our core portfolio before factoring in new opportunities for additional electrical subsystems such as battery management and e-motor sensing. So while the 5 drivers highlighted on the previous slide will fuel our growth over the next decade, I want to stress to you that we are winning business today with our core portfolio, whether it be for clean and efficient engines used in hybrids and plug-in hybrid vehicles, TPMS and industrial sensing products that will further the ongoing modernization of China and our core sensing products that address customer and consumer needs to recover and regenerate energy in electrified vehicles.

So to wrap it up, Sensata posted another strong quarter of financial performance. We are closing business in exciting areas of the market, and we are on the verge of having the ability to deploy capital in a balanced, returns-driven approach that will include share repurchases.

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 update guidance for the full year 2018. Paul?

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

Thank you, Martha. Key highlights for the first quarter, as shown on Slide 8, include revenue of $886.3 million in the quarter, an increase of 9.8% from the first quarter of 2017. Of this growth, changes in foreign exchange rates increased revenue by 3.4%. The net result was 6.4% organic revenue growth in the quarter.

Adjusted EBIT was $197.1 million in the quarter and grew 15.5% compared to the first quarter of 2017 or 12.8% on an organic basis. Adjusted EBIT margins were 22.2% of revenue in the quarter and increased 110 basis points compared to the first quarter of 2017 or 130 basis points on an organic basis.

Adjusted net income was $147 million in the quarter and grew 21% compared to the first quarter of 2017 or 17.3% on an organic basis. Adjusted net income margins were 16.6% of revenue or an increase of 160 basis points compared to the first quarter of 2017.

Adjusted EPS was $0.85 in the first quarter of 2018, a $0.14 increase from the prior year quarter. Of this increase, $0.03 reflects tailwinds from foreign exchange rates. Excluding the impact of foreign exchange rates, adjusted EPS grew 15.5% on an organic basis, primarily due to productivity on higher volume, lower integration spend and acquisition cost synergies.

Turning to Slide 9. Sensata generated strong operational leverage on organic revenue growth in the first quarter of 2018 and slightly above our initial expectations. On the right-hand side of the slide, I show how we grew adjusted EBIT by 12.8% organically, which was double our 6.4% organic revenue growth rate in the quarter.

You can see in the middle of the slide that while FX contributed $6.1 million more of revenue than our previous guidance, we delivered $19.2 million more of organic revenue versus the midpoint of our guidance. Our increase in organic revenue resulted in $5.3 million of incremental adjusted EBIT, which was a strong pull-through of profit. Also, when compared to our original guidance for the first quarter of 2018, unfavorable movements in foreign exchange rates lowered adjusted EPS by about $0.01 and adjusted EBIT margins by 40 basis points, while higher organic revenue and adjusted EBIT added about $0.03 to adjusted EPS and increased adjusted EBIT margins by 10 basis points.

Now I'd like to comment on our 2 business segments, and I will start with Performance Sensing on Slide 10. Our Performance Sensing business reported revenues of $662.8 million for the first quarter of 2018, an increase of 10.4% compared to the first quarter of 2017 or 6.4% organic revenue growth in the same period. HVOR, which reported organic revenue growth of 14.2% in the first quarter of 2018, continues to have the strongest revenue growth in the segment, with both the North America Class 8 truck and construction markets remaining very strong. Our automotive

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business reported organic revenue growth of 4.5% in the first quarter of 2018, led by China, which posted another quarter of strong double-digit organic revenue growth despite a year-over-year decline in production.

Performance Sensing profit was $169.4 million or 25.6% of revenue for the first quarter of 2018. Excluding the effects of foreign exchange rates, Performance Sensing profit as a percentage of revenue was 26%, up 70 basis points from the year-ago quarter. This improvement from the prior year reflects the benefit of increasing acquisition synergies and productivity gains.

As shown on Slide 11, Sensing Solutions reported revenues of $223.5 million in the first quarter of 2018, up 7.9% from the prior year quarter. Sensing Solutions reported organic revenue growth of 6.3%, reflecting continued positive momentum in many of the end markets we serve as well as continued above-market growth in industrial sensing. Sensing Solutions profit was $71.9 million in the first quarter of 2018, an increase of 6.6% from the same quarter last year. Excluding foreign exchange rates, Sensing Solutions profit as a percentage of revenue was 32.4%, a 20 basis point decrease year-over-year as a result of higher investment in sales and marketing capabilities as well as design and development resources to support growth initiatives.

Corporate and other costs not included in segment operating income were $54.8 million in the first quarter of 2018, up approximately $8.5 million year-over-year due primarily to unfavorable movements in foreign exchange rates, higher compensation and employee benefit costs and expenses related to the redomicile transaction. Excluding charges added back to our non-GAAP results, corporate and other costs were $46.2 million in the first quarter of 2018.

Slide 12 shows Sensata's first quarter 2018 non-GAAP results. Adjusted gross profit margins were 34.8%, up slightly versus the same period in the prior year. The higher R&D spending this quarter reflects increased design and development efforts to support new design wins and unfavorable movements in foreign exchange rates. The higher SG&A spending this quarter reflects higher compensation and benefit expenses, unfavorable movements in foreign exchange rates and increased growth investments in sales and marketing. Restructuring and amortization expenses reflect lower year-over-year integration costs in Q1 2018. Our higher tax rate of 50 basis points in the first quarter of 2018 compared to the prior year is in line with our expectation.

And on the bottom line, adjusted net income margins improved by 160 basis points and adjusted EPS increased by 19.7% in the first quarter of 2018 compared to the year-ago quarter. Organically, adjusted EPS increased by 15.5% in the first quarter of 2018.

So the purpose of Slide 13 is to compare changes in our adjusted gross margin in a way that provides a more useful measure of our underlying operating performance. To make this comparison, we have normalized adjusted gross margins in both the first quarter of 2018 and the same period last year for changes in foreign exchange rates and integration costs, and we have included the impact of commodity and financial hedges that ordinarily appear in our other income and expense line. After making these adjustments, the pro forma adjusted gross margin index on the right-hand side of Slide 13 increased 70 basis points in the first quarter of 2018 as compared to the 10 basis point improvement shown on our first quarter 2018 non-GAAP income statement.

Changes in prices for commodities used in production are reflected in adjusted gross margin. However, the offsetting impact of commodity hedges are not reflected in adjusted gross margin. We use commodity hedge arrangements to reduce commodity risk and related earnings volatility. So to better understand and evaluate our ongoing operations, we consider trends in our adjusted gross margins inclusive of the effects of these commodity hedges.

On Slide 14, I show our financial guidance for the second quarter of 2018. Overall, we expect to report revenues between $891 million and $915 million, representing reported revenue growth of 6% to 9%. At the midpoint of our guidance, we expect that foreign exchange rates will increase revenues year-over-year by approximately 7 -- $27 million in the second quarter of 2018. Excluding the effect of foreign exchange rate differences, we expect to report organic revenue growth of 3% to 5% in the second quarter of 2018. Our current fill rate is approximately 86% of the revenue guidance midpoint for the second quarter of 2018.

We expect to report adjusted EBIT between $207 million and $213 million, which would represent organic growth of 4% to 8%. This would represent a $13 million sequential increase of adjusted EBIT from the first quarter of 2018 on $17 million of sequentially higher revenues.

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On the bottom line, we expect to report adjusted net income between $156 million and $162 million and adjusted EPS between $0.90 and $0.94, which would represent organic growth of 5% to 10%. Changes in foreign exchange rates are expected to increase adjusted EPS by approximately $0.05.

Now let me turn to our guidance for the full year 2018 shown on Slide 15. Besides updating FX rates for the revenue impact, we are not making any changes to the full year guidance that we initially shared with you in February. We expect revenues to be in a range of $3.475 billion to $3.575 billion for the full year 2018, a 5% to 8% increase on a reported basis.

We expect foreign exchange rates to increase our revenues by 2% to 3%. Excluding foreign exchange, we expect organic revenue growth of 3% to 5% in 2018. We expect adjusted EBIT between $818 million and $846 million, which would represent organic growth of 7% to 10%.

On the bottom line, we expect adjusted net income between $617 million and $645 million and adjusted earnings per share between $3.57 and $3.73 for the full year 2018, which would represent organic growth of 9% to 13%.

We expect to generate free cash flow between $519 million and $547 million in 2018, which assumes capital expenditures of approximately $150 million to $160 million. I would note that our guidance assumes no M&A and a diluted share count of approximately 172.8 million shares.

I will conclude my remarks with Sensata's investment summary on Slide 16. Sensata is a leader in the opportunity-rich sensing market, where we provide differentiated sensing solutions for mission-critical applications. When we combine these solutions with our low-cost global supply chain, we deliver industry-leading margins, strong free cash flow and consistent double-digit adjusted earnings per share growth. Our revenue growth is accelerating, and we are well positioned to benefit from growing industry mega trends.

Additionally, we are in the final steps of establishing greater flexibility and optionality for future capital deployment. With a strong balance sheet and our expectations to grow our free cash flow nearly 30% in 2018, we are in an excellent position to provide attractive returns for our shareholders. This is an exciting time for Sensata, and we believe we are offering a compelling investment opportunity for investors.

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

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Amit Daryanani of RBC Capital Markets.

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

I guess to start with, maybe -- can you maybe walk me -- walk us through -- you had a really good Q1. Organic growth was 6.5%. But for the June quarter and for calendar '18, you guys are still talking about 3% to 5% organic growth. Can you just help us connect the dots? What do you see as decelerating, if you may, from a strong Q1 for the rest of the year? Or are you just being conservative at this point?

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Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Amit, yes. So I think the thing to recognize here is, we've talked about this on past calls, if you look at our content growth and also look at our initiatives around productivity, these don't play out in a linear way throughout the year. So we took a really big step forward in the first quarter with some very strong content growth. Content growth will continue throughout the year, and we're then moving sequentially up from there when we look at overall earnings improvement. So I would just remind you of the way our secular growth plays out. I think the thing that should be really encouraging to investors is you're seeing now very, very strong evidence of our content growth relative to end market movement, and we expect that to continue through the year.

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

Got it. And I guess, Martha, could you just touch on -- maybe I missed this part, but how long does the process for the U.K. High Court approval take for capital allocation to get approved? It sounds like your shareholder meeting is on May 31 -- or the board meeting's on May 31, but how long is the time line for the U.K. High Court process? And any sense of how do we put dimensions around what the buyback could look like for you guys?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Yes. So the one pull for us now really is the shareholder approval, which happens on May 31. So there can be puts and takes at the High Court, but we don't expect that decision timing to extend beyond this shareholder meeting. I think relative to how will capital get deployed in 2018, as you can see, we have had a very intensive effort to get back to optionality on capital deployment. Those decisions will be quarter-to-quarter and economically driven, Amit. So at this point, we would expect to see share repurchases. We've talked about having full optionality around bolt-on acquisitions. More of our pipeline is bite-sized and smaller scale. And as a result then, we expect to see balance in that capital deployment in 2018.

Operator

The next question comes from Wamsi Mohan of Bank of America Merrill Lynch.

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

Yes. So if I go back 90 days and look at your revenue guide for Q1 of 3% to 5% and adjusted EBIT growth of 8% to 11%, you've obviously done better than that. But as we look out into the June quarter, the same sort of organic revenue growth of 3% to 5% is translating to 4% to 8% adjusted EBIT growth. I'm just wondering, could you help dimensionalize what some of the puts and takes are for that little bit lower operating leverage here in Q2? And obviously, your full year guide is implying a reacceleration in the back half. So what is it in particular that's going to drive that reacceleration? And I have a follow-up.

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

Sure, Wamsi. It's Paul. A couple of things to take note of. So we talked about the very strong sequential performance, the $13 million of profit on $17 million of revenue. Martha talked about cost reduction and new product launches. They are not linear. They can be lumpy. So we're expecting much stronger cost-reduction activities and savings in the second half. I think Q2 is a strong quarter. It reflects a continuation of the strong performance in Q1, so we feel very good about it.

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

Okay. And Martha, could you maybe address where we are with China TPMS early adoption at this point? You cited some market share gains. Are you seeing any increased competitive activity as well? We're hearing of some domestic players that seem to be showing some wins not just in local but also in the JV auto brands.

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

The competitive dynamic in China is unchanged from where it's been in the past, and we do have local competition in that particular application. So that's not a new phenomena. And our win rate in China on TPMS is consistent with how we perform outside of China. It's a very high hit ratio. We're really encouraged by the pace at which customers are designing in and now actually taking demand on tire pressure sensors in China. I think we'd mentioned, Wamsi, when we left 2017, we were at about a $40 million run rate on that opportunity alone, which we would expect to more than double by the time we get to full implementation.

Operator

The next question comes from Shawn Harrison of Longbow Research.

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

The investments made in R&D and SG&A this quarter, would you expect that, I guess, on a sequential basis, beyond kind of the flow-through of the incremental revenues, to level off? Are we going to see incremental increases on a dollar basis in both functions as you progress throughout the year?

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

So Shawn, it's Paul. I would say that for R&D, we would expect to continue to see some ongoing continued investment there, so the dollars will move up a little bit slightly. And if you think about from an index perspective, by the time we get to the end of the year versus Q1, we're probably up 20, 30 basis points exiting out of Q1. As it relates to SG&A, it's going to be relatively flat, up or down $1 million depending on the quarter, and a slight, maybe 10 basis point increase in the index from where we are here in Q1 to the end of the year. So slight increases but very manageable.

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

Okay. And then as a follow-up, cash cycle days were up a little bit year-over-year. Inventory velocity was down a little bit. Was that related to timing in the quarter? And maybe if you could just -- is there a goal to where you think the cash cycle should be on a days basis exiting 2018?

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

I think the biggest driver, if you look at the cash flows, you're going to see is going to be receivables. We don't see a collection issue. We see a very strong quarter of revenue. We see a little bit linearity working against us, and the banking holidays at the end of the quarter certainly pushed some of the receipts into Q2. So in all, I feel good about it. It was a good cash flow quarter, and I think that it's just timing more than anything else.

Operator

The next question comes from Christopher Glynn of Oppenheimer.

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

Just harkening back to December for a second. You highlighted in North America the 9- and 10-speed transmissions. Just wondering how that fits into the multiyear plan and the customers' platform successions. Does that dynamic accelerate nicely over the planning horizon in the context of your expectation that overall content in auto growth continues to move upward?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Chris, that is one of the dimensions that's helping to propel our content growth in 2018. And just given the pace of the adoption of those highly efficient transmissions, that will be a steady cadence of content improvement for us. There are other areas as well, though. So we're seeing growing adoption of GDI. GDI engines are really attractive for Sensata, not just today, where they drive content growth and as they extend content growth over the 3-year time horizon, but they are a feature that now is being adopted for highly efficient plug-in hybrid-type vehicles, hybridization as well. So that's a really nice phenomena happening in North America and Europe, early days in China, and that's going to continue to propel content growth.

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

Great. And then just on the supply chain initiatives. I think, typically, you get an upward slope of benefits on the supply chain through the year against the Jan 1 price-downs. Is that expected to be a normal cadence on upward pressure on the Performance Sensing margin through the year out of 1Q?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

That is the way, typically, our initiatives roll out, Chris. So you have that right. I think the one thing I would make the observation on is the second half comps for Sensing Solutions are more challenging than the first half comps. So that's part of how we think about the year playing out as well.

Operator

(Operator Instructions) The next question comes from Rich Kwas of Wells Fargo Securities.

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

On the auto side, so it looks like China was contributing, rough estimate, somewhere around a little over half of the growth on a year-over-year basis for the quarter. It seems like there's a little more contribution coming from the developed markets, and I know you cited it in the presentation. How do we think about, a, I guess one question, still low to mid-single-digit growth for auto on an organic basis for the year -- for the full year? And then within that, is there more contribution than expected coming out of the developed markets, North America, Europe, versus your initial expectations?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Yes. Look, I think organic -- the organic performance in auto is going to align very much with our overall company performance. And we're seeing broad-based organic growth, Rich, so outpacing end markets, clearly, in North America, which is a down market. China remains a strong part of our overall drive. It's still not a huge part of the overall business. So growth is strong there, but it's been very helpful to see broad-based organic growth return across our auto business.

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

And it sounds like there's more out of China other than discretionary TPMS, correct?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

The things that are propelling China, we talked about the fact that our content per vehicle in China will [increase by 50%] (corrected by company after the call) over the next 3 years. We're on that track.

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

Okay. And then, Paul, on corporate real quick. How should we think about that modeling as we go forward here of up $8 million, $9 million? And then in terms of the onetime cost related to the redomicile, is there a number we could put on that for the year?

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

We are pretty much done with the redomicile, other than whatever additional legal fees we'll have in Q2. So what you've seen through Q1 is pretty much it. The -- we gave you the number of $46.2 million versus the higher number just to get you to a run rate for the business at corporate and other, excluding any add-backs that we have. So as I've said many times, $44 million to $45 million to $46 million, that's pretty much the range that we expect to see. It's a little lumpy quarter-to-quarter, but on average, if you take that and apply that for the year, you'll -- 4 quarters, you'll get the -- a pretty good number for the full year.

Operator

The next question comes from Brian Johnson of Barclays.

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

Yes. Within the organic growth in the automotive portion of [competitive] sensing, I want to drill down on what you were seeing in Europe, specifically, with you guiding for diesel fall-off greater than IHS. Did that play out within that as well? Did you have the offset from gas in there? Or frankly, is the organic -- strong organic growth in automotive driven by the other regions like China?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Yes. We've been able to offset end market movement as well as the diesel decline. And you're right, we did call for a more dramatic drop-off on diesel share than third party, IHS for example. And we are seeing that play out the way we expected it to, so really developing very much in line with our guide.

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

So how does your European organic growth look if you just look at that geography?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Look, as we've talked about at the end of the year, our focus is on overall end market production, and we're providing you how that's worked globally and where we're performing in total. I mentioned the fact that we're growing organically in a broad-based way, and that includes Europe.

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And there, we're having to deal with the overall offset of the diesel decline, so not our strongest grower but performing well given the challenges that we're facing on diesel.

Operator

The next question comes from Joe Giordano of Cowen.

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

This is Tristan in for Joe. Martha, I'm interested in what your view is on the change in Chinese law regarding the phasing out of ownership car -- ownership caps for car companies and how this affects you.

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

I'm not really sure I understand the question. So you're asking about ownership -- what did you say, caps?

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

Yes. I believe the caps on ownership in JVs has been reduced. I believe the current limit was 50%. Now it's going to be lower.

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Yes. So that's correct. We're really well represented in both multinational and in local China OEMs. So while that is interesting and it may bring some players into China, with the exception of Toyota where we're not well represented, we're very well content-ed across automotive OEMs. So it's interesting, but we're somewhat agnostic about who benefits from greater presence in China.

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

Got it. And then you mentioned new sensor wins for thermal management in EVs and hybrids. Can you elaborate on this? Are you taking share? Is this part of like new applications? In which market are you seeing this?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

This is much more increasing content in those systems, and we're taking disproportionate share of new applications or new sensor content, which, by the way, has always been part of our playbook. So the way we take share in auto, where incumbency matters, is to make sure we're positioned where sensor content is growing. And in that system, we're seeing much more sophistication, much greater use of overall sensors, dual-function sensors, higher ASPs, so really interesting. The challenging point is that that's still a pretty small overall end market today, but this is really important work as we look forward.

Operator

The next question comes from Matthew Sheerin of Stifel.

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Alvin J. Park - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

This is Alvin Park filling in for Matt Sheerin. You mentioned a 560 bp spread in your organic growth rate for auto compared to end market production and a 970 bp spread for HVOR with end market production, which I assume is content gains, market share gains, offset by ASP erosion. Could you just give some color on where you -- what kind of -- where you see the spread continuing for the remainder of the fiscal year and beyond?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Well, we expect content growth to continue in both of those end markets. As we mentioned, the way our content grows -- so first of all, your assumption is exactly correct. That is what's driving our outperformance on the market. The way that takes form is as new engines get launched, new platforms get launched, greater adoption rate happens on applications that were launched in previous years, our content grows. It does not grow in a linear way every quarter, but it is a really important part of our overall organic growth projection for 2018, which is included in our guide.

Alvin J. Park - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

And another question. In terms of your Quanergy investment in the LiDAR, especially given the fatality from the Uber incident and concentration on LiDAR, have you seen any significant traction in terms of design wins? And do you have any updates in terms of what type of sales expectations you might see generated from this investment?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

What we are seeing is the -- I'd say, a double-down perspective on how important that sensing function is and what the limitation of LiDAR sensors that are out on vehicles are today. So there's been a lot of attention and focus on that. There are other elements of functionality in Level 5, Level 4 driving that need to evolve along with the LiDAR sensor, including AI. It's a big piece of it. So a lot of engagement on those issues. We've always had the perspective that this is well beyond 2020 in terms of early revenue, but the opportunity is large. So we're still very much looking at, conservatively, a $1 billion end market for that sensing function. But we think the time horizon is still a ways off, and things like the fatalities just bring home the case that, that development work has to be in a measured, careful and validated way.

Operator

The next question comes from Mark Delaney of Goldman Sachs.

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

Yes. I think the company talked about a goal to expand EBIT margins from 2017 to 2020 by about 250 basis points. And if my math's right, guidance for this year implies about 100 basis points, and obviously, some nice progress this quarter on that effort. Of the remaining roughly 150 basis points beyond 2018, does that split out pretty linearly between 2019 and 2020? Is it more weighted to one year or the other?

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

Mark, you are correct on the 250 basis points. What's going to drive that in a large way will be the continued improvement in terms of driving integration synergies. So less integration costs, more cost synergies. As we laid out at the Investor Day, that has a big impact. The remaining part of that is going to be our normal cadence around driving productivity within the business and getting leverage on the growing volumes.

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

And productivity tends to be more evenly spread out.

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Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

So just given the integration synergies being so strong in '18, '19, I would say the margin expansion is a little bit probably closer in the -- higher in the first 2 years than the third year, but relatively consistent, not a big change.

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

Okay, that's helpful. And then, just with the increasing commodity costs, I know there's some discussion on hedging in the prepared remarks. I mean, have any of these commodity prices been locked in for 2019 that we need to be mindful of for next year? Or is that still [excluding]...

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

So we do hedge commodity exposures, similar to FX exposures, where we hedge out over an 18-, 24-month horizon. And so what we were trying to show you there was that when you look at some of the onetime things or abnormal things in last year and this year's gross margin, we tried to normalize for that to give you a better indication of gross margin improvement and how we look at it. And commodity gains and losses from hedging, which reside in our other net line item in our P&L, we bring those up into gross margin to show you the real economic impact that commodities have on our financials.

Operator

The next question comes from Jim Suva of Citi.

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

How should we think about your tax rate? And then secondarily, on that balanced capital, is the plan to decrease the outstanding shares or kind of keep them float with management's stock options vesting?

Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

Jim, the tax rate was up 50 basis points year-over-year in the first quarter, and that's about what the increase will be for the full year. So we were around 6.5% last year, and we will end up around 7%, so cash taxes as a percentage of adjusted EBIT. As it relates to share -- managing the share count, Martha, I think, made comments on what we're thinking about in terms of share repurchase, how we want to be balanced and how we want to look at that relative to the M&A pipeline opportunities that are in front of us. So those will be the drivers of how many shares are actually acquired as we go forward.

Operator

The next question comes from Craig Hettenbach of Morgan Stanley.

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

Yes. A question on the industrial business. Certainly, the macro backdrop helps, but you also mentioned kind of aerospace seeing solid growth. So any company-specific or end market segments that you feel strongest about some of the growth drivers for you in industrial?

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Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

It's a very diversified portfolio, which is really the strength of the business as well. And yes, we do see strong PMI indices in a number of our geographies and regions. Having said that, we're benefiting from a lot of the same themes that we've talked about in Heavy Vehicle & Off-Road and in auto around the drive towards efficiency. So we're seeing nice content growth in things like variable-refrigerant-flow air-conditioning systems, and we're seeing that expand from Asia now and becoming important in the U.S. as well. Yes, the design in on the new compact engines that are going into aerospace, a really nice drive for us. It's going to play out over the long term, so those are very long-cycle opportunities. The other thing I would mention is that we are investing in the front end of that business, so investing in our channels, investing in our digital presence, and that's just helping us get to a much more fragmented overall market and helping to drive our overall growth.

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

Got it. Just as a follow-up on just traction, EVs. I know it's a small part of the market today but expected to grow over the coming years. So any other color in terms of what you're seeing from a design pipeline perspective on the EV front?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

Yes. So a couple of those we mentioned. So very specifically, we're getting design wins into thermal management systems that are highly content-ed parts of that subsystem. With this quarter, we won a really notable win on a very large regenerative braking system specifically configured for hybrids and electric vehicles. So that's happening today. We're seeing that -- those opportunities. The size of those is really going to be based on how much of the overall market will plug-in hybrids and EVs ultimately see.

Operator

(Operator Instructions) The next question comes from William Stein of SunTrust.

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

Great. I have 2, one about HVOR and one about margins. HVOR delivered really strong results in the quarter. Historically though, this has been very cyclical. Am I right in saying growth in that market peaked in fourth quarter for you? And right or wrong, how do you expect the shape of that growth to look as we progress through the year?

Martha N. Sullivan - *Sensata Technologies Holding PLC - CEO, President & Executive Director*

So I'm not sure about the peaking piece. I don't think it's hugely different from where we are right now. I think the -- probably the area of that market that we're all really paying attention to is the Class 8 trucks. So if we back up and just look at what makes up our Heavy Vehicle & Off-Road business, it's made up of construction and ag and European on-road and North American on-road and Class 8 and Class 5. So Class 8 only represents about 15% of our total Heavy Vehicle & Off-Road revenues. So we're mindful that it is a cyclical business. I think we can all have our points of view as to what time it is in the cycle. We're quite mindful of that when we look at our projections for the year and holding the guide.

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

That's helpful. Appreciate it. One on the profitability metrics, if I can. The company talks a lot about the organic change in profitability. I think at this point, because you haven't done an acquisition last year, the only thing you're stripping out or the only thing you're adjusting for is FX. But I just want to make sure, you're still experiencing savings that relate to the Schrader and CST acquisitions. And assuming that's correct, can you remind us of the size -- sort of what's left in those acquisitions to remove from costs?

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Paul S. Vasington - *Sensata Technologies Holding PLC - CFO, CAO & Executive VP*

So -- well, if we go back to Investor Day, we had a chart in there that showed we've generated $35 million of synergies through the end of '17. There was another $20 million to go. And I think we've generated just about $12 million, 12-ish in 2018, and then the remainder is mostly in '19. So that would be the expectation, and I would say we're on track to delivering that.

Operator

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

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

Thank you, Andrew. I'd like to thank everybody for joining us this morning. Sensata will be attending the following investor conferences in the second quarter: the Wells Fargo Industrials and the Oppenheimer Industrial Growth Conferences in New York, the JPMorgan Technology Conference in Boston and the Bank of America Merrill Lynch Global Tech Conference in San Francisco. We hope to see you at these conferences, and we invite you to visit us at our headquarters in Attleboro, Massachusetts.

We appreciate your continued interest in Sensata. Thank you, and good day.

Operator

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

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