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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC at Bank of America Merrill Lynch 2018 Global Technology Conference

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

PRESENTATION

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

Thank you for joining us here today at the second day of our Global Tech Conference. I'm Wamsi Mohan. I'm the IT, hardware and tech supply chain analyst here at Bank of America Merrill Lynch. I'm delighted to welcome Sensata again to our conference. We've been privileged to have Martha at our conference now consistently for several years, and delighted -- Martha. Martha is President and CEO of Sensata. And we also have Director of Investor Relations, Joshua Young, with us here today. So thank you, both, for joining us.

So we've covered Sensata for a long time. You have a very long tenure, and seen ups and downs and sort of seen several cycles of the company. You seem to have reached a really strong position in changing the portfolio of the company. You've had some significant announcements here in the past week that you've announced. So Martha, do you want to just start off by talking about your decision to re-domicile the company and what that is doing to create shareholder value?

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

Sure. Look, I would back up and just say, if we go back 5 years ago, some of the things we were doing to actually add to the strength of a very strong business model, we're realizing that we could be more assertive on our capital deployment process. And in doing so, we wanted to be good acquirers and, ultimately, wanted to have optionality in our capital deployment. Our M&A strategy has proven to be very high returns, very disciplined, but also strengthened our business model by exposing us to end markets beyond auto. So we actually reduced the auto exposure during that overall period.

When we look at the balancing act around capital deployment, though, we were encumbered in our past domicile in such a way as to make share repurchases not very efficient for shareholders. So we went through almost a yearlong effort to re-domicile to add share repurchases to make sure we now have optionality in capital deployment. And that's important, because M&A is an important playbook at Sensata where we're in a period where evaluations are high. And we want to be able, on an ongoing, continuous basis, to put capital to work to redistribute to our shareholders, and that was the whole point of actually that yearlong exercise.

QUESTIONS AND ANSWERS

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

Yes. No, it's interesting to see what a great free cash flow profile you guys have had and how you're choosing to deploy it. I'm sure the shareholders appreciate that. There are a lot of concerns in the broader industry around sort of how late cycle are we. I mean, some numbers, when you look at distribution book-to-bills, which are extremely high, and at the same time, it's almost the economic indicators look like they could be slowing down marginally in certain areas. So how do you think about sort of where we are in the cycle as it pertains to maybe a couple of different end markets, if not the broader economic cycle?

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

Yes. For those of you who that may now not know, we provided a 3-year guide at the end of last year that really called for 4% to 6% overall organic growth, double-digit earnings growth consistently and about 250 basis points of margin expansion. Inside of that build and the confidence to do that really came by looking at a number of things. We looked at end markets and said we will get no help from the automotive market. So we assume no growth in the overall automotive market. Understanding in that 3-year period, we're going to have geographies that cycle down, we're going to have some that grow continuously. But at the end of the day, we don't think we're going to get a lot of help there. Also in the Heavy Vehicle and Off-Road business, about 15% of our overall business now, we've seen strong end market growth in North America on Class 8 trucks. That's 15% of the 15%. So we're global, we're diversified, and we're expecting no more than 3% help from the market over the 3-year time horizon. And we are delivering right now at a much higher organic growth rate in Heavy Vehicle and Off-Road. We delivered 970 basis points above the end market growth last quarter. And we've done that growth consistently looking back in time. We think HVOR continues to be a high single-digit grower in the business. I think in terms of the overall industrial markets, it's a global story for Sensata. And we're not expecting again help from an end market perspective. We're not expecting a large cross, round world contraction in the economies. That is not part of our thinking in the 3 year. So end markets are not going to help us meet that overall guide, but we also have not layered in something that says we're going to go through a convergent retraction around the world.

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

So you mentioned being a global international company. As you look at some of the noise that's being generated because of tariffs, and particularly with steel and aluminum sort of as a starting point here, how do you handicap the risk associated with some of these trade issues that are ongoing right now?

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

Yes. I think the first thing to understand about Sensata, we've got a really efficient overall supply chain and a really strong footprint that's quite global. That's what is allowing us, helping us to deliver the 250 basis points of expansion. And increasingly, we've moved towards a region-for-region supply chain footprint. So Bulgaria largely supports Europe. China largely supports China. Mexico is the primary producing site for North America. So when we look at some of these puts and takes, the first thing I can tell you, the steel and aluminum tariffs have no direct input on Sensata. And we're watching the end markets to understand how that could influence things, but it is not material at all to our overall supply purchases. When we think about things like China, again, much of what we do -- most of what we do in China is for China. We do some exports from China to the U.S. Given the mission-critical nature of our products, we have redundant capacity around the world. So if this really became something that was an issue for the business, we would exercise those redundancies. So challenging, like it is for everybody. I think that we're not unusual in terms of our exposures and where we actually supply from.

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

So I remember, in the last downturn, back in '08, I guess, you guys were -- you had significant leverage, maybe 7x, or maybe you can correct me on that, but you were significantly levered. You generated positive free cash flow through a pretty dire environment. But since then, you've done several changes to the portfolio, and your M&A has sort of shifted the mix of the business. If there were to be another downturn, how's the company positioned differently than how it was back then when you and them actually did pretty well.

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

Yes, we did extremely well. So again, we're not calling for a retraction, but we saw a decline in the top line that was in the toughest quarter, over 30%. We were performing at high 20s EBITDA, and we saw about a 400 basis points decline in the year, which we recovered in the following year. And what is the same from where we were at that point in time, the acquisitions that we've made have been very heavily integrated into our back end. And that structure is one that has a variable cost structure. We have a cadence around the way we look at our demand on near and long-term horizon and can very quickly then size our expenses to that demand. I think most importantly, we're at a period where we've got really strong

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secular growth. And so when end markets are declining or are contracting, unless you're in a very, very heavy recession, the secular dimension doesn't go away. And again, we've guided just on the 3-year horizon to about a 4% to 6%. That is predominantly the secular growth in the business.

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

And that secular growth, Martha, is, like, the underpinnings of that, right, you guys have announced very strong design wins over the last several years. Can you talk about which areas in the business those design wins are really going to start showing up in revenue growth?

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

They are showing up today. So if you look at delivering over 6% organic growth in the most recent quarters, they're showing up in the run rate, for example, in China, which continues to be our strongest geography and has been for a while, where we're growing well beyond double digits in China. Most of that is auto, but it also includes the truck market in China and the industrial market in China performing very well. Our Heavy Vehicle and Off-Road end segment is the strongest end segment of growth inside Sensata. We are enjoying the benefits of shipping into a transition in the cabins of off-road vehicles, where we're moving from old electric -- mechanical, hydraulic controls into much more modernized, HMI interfaces that use our sensors and electronics and our software to deliver that functionality. On the auto side of the business, it's a number of applications. They all come under the heading of clean and efficient. So to meet mandates now post Dieselgate around real driving emissions, there are requirements to make sure that your vehicle is complying realtime. That's adding sensors into the exhaust systems. It's adding gas particulate filters into the exhaust systems as well. We're enjoying the benefits of electrification right now. So as vehicles become more hybridized, the subsystems on those vehicles must be much more efficient. So we're moving from one sensor, for example, in a stability control or braking system, into multiple sensors to do energy regeneration. So that's been a nice driver to the business. Climate control systems move from single sensors to multiple sensors; again, to make it much more efficient and increase the range, for example, on electrified vehicles. So those are some of the examples.

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

On HVOR, you know that, that was extremely strong in China. When you look at dollar content maybe, is there a way to think about what the dollar content is today versus where it can go in the future...

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

Yes. I think on the auto side, it's pretty straightforward. We expect that to grow by 50% over the next 3 years, and we're starting at around $10 to $11 on auto. On the truck market, your -- if you look across the fleet in China, these are not modernized equipment that are on the roads. So you're moving from a very, very low base. It's probably less helpful to talk about a content per truck just given the nature of that. But we're looking at much more around regulation for things like national 6 mandates on emissions. It's the move of tire pressure sensing now also into commercial truck, and that's happening on a worldwide basis. It's also in that cabin side, some of the modernization that I talked about on the off-road piece. So those are the drivers.

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

You brought up sort of regulations a few times. What do you think is the risk of regulatory pushouts. I mean, we have these CAFE standard timings 2025. Do you think that with the new administration, there could be significant changes to the timing or adoption of these standards or not?

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

Look, I think the EPA-based standards, I think that there is risk of that. But if you look at what's really been driving vehicle architecture, it's much more around CARB, California Air Resources Board. You now have, I think, it's something like 15 states that line up with CARB. So I think the question

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is whether or not the national government will try to take away some of the autonomy on that state regulation, because that really is what's been driving mandates around fuel economy in particular. And it's also what drives mandates around new energy vehicles, so think electric vehicles in California, for example. So when we look at some of the more conventional things we're doing to drive efficiency, gas direct injection, turbochargers, subsystems that are efficient. Those are very long -- very well along the way. I think the thing everybody's going to have to ask us, what happens to the EV play if there is more -- less autonomy with folks like CARB? And that, I think, could have an impact. When we look globally, we think the most important market that's driving electrification is China. So you see a lot of announcements in North America. They're interesting. You've got strong players. But when you look at the global players, they're really developing those platforms for China, the largest and fastest-growing EV market.

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

How does -- how is Sensata positioned to take advantage of that?

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

Yes, thanks for the question. We are really, really well-positioned. First off, we're already doubling and we're improving by 50%, the content that we have in China. And we're doing that, because if you go to see Sensata in China, we're a very local player. So our leadership are Chinese; our engineering staff, our labs. We've got 2 large manufacturing centers. We've been wholly-owned in China since 1995. And it's the fastest-growing, and now, second-largest region for us from an automotive standpoint. So extremely well-positioned both with multinational players and local players, so we're excited about the dynamic in China.

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

Yes. And I mean, that's been the case for several years when I last visited your sites out there, and you guys have done an amazing job in China. When you think about the role of autonomous, what does Sensata bring to the table in the broader autonomous discussion?

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

I think where we're focused, I think, longer term, is that Level 4 and Level 5-type vehicles. And when you look at the challenge of actually bringing those vehicles to market, you're talking about extremely complicated sensor solutions. We're focused on bringing solid-state LiDAR to that market. It's a longer-term play. We think Level 4 and Level 5 is a longer-term play, gated by a number of things, including the AI challenge that comes with that. But ultimately, a really exciting market and a very large opportunity. One that's, again, beyond the 3 to 4-year time horizon. I think the other thing I would say, though is beyond LiDAR, when you look at what happens in a vehicle, when you take the driver out of the driver's seat or you let the driver be not very attentive, you have to start think about things like, "How do you monitor the health of the vehicle?" So you can't rely on check engine lights. You can't rely on a number things that count on the driver to help diagnose. And so we're seeing really nice opportunity around vehicle health monitoring, for example, and prognostics, where we can use our wireless sensing capability to help solve that particular problem.

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

You guys have historically done a great job at sort of talking about market dynamics in terms of growth rates by region for autos. And I'm curious to get your take on, A, if you sort of look at a lot of third party forecast, they project EVs to be maybe 5% of the fleet in 10 years or so, somewhere around there. What is Sensata's view on how the mix changes towards EV or the pace of changing towards EV across total global auto volumes on an annual basis?

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

Our focus is almost always in the 3 to 10-year time horizon given the long cycle nature of the business. So some of the time horizons you're talking about at Sensata are today. So having said that, I think that -- we think that there's an inflection point that's in the 20 -- probably '23, '24 time horizon for NEVs, so new energy vehicles, and that's a combination of full electric vehicles and plug-in hybrids. When we look at all of the leading indicators that have to be in place for that to happen, they're moving. And we think they're important. It's a great tailwind for our business, but we're trying to be quite analytical in what time it is and what will be the winning solutions in the marketplace.

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

How do you think about -- there's been concern in the past anywhere around the mix shift away from diesel? And so how should investors think about Sensata as like maybe overexposed. At one point in time, I know you've done a lot of design wins, particularly on the gasoline side that sort of have offset that. But how should we think about what the -- how the diesel mix is impacting your business, particularly in Europe?

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

Yes. I think the first thing shareholders should take comfort in is it's not a new phenomena. So we've seen decline in Europe on the diesel take rates of double digits at this point. I'm trying to remember what it was last year, but it was quite high. So that's been in the run rate of the business. It's in the run rate right now. When we look at the fact that we're going to double our gas engine content in Europe, again, over the next 3 years, that's more than offsetting any decline that we're seeing from diesel take rate in Europe. Where -- the way we monitor this is actually diesel production in Europe. So Europe is a net -- is an exporter of diesel engines. And so when you look at sort of the take rates that you see outside of Europe being much more stable, and the combination of growing content for us on that gas engine, which is the alternative, we'd love for those to be hybrid electric vehicles that are the alternatives, because they would drive the content even more, or even EVs. We don't see this as a headwind to the business at all. We've actually put some content out on our website that might be helpful for folks to take a look at.

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

Great. When you think about like longer-term for the portfolio of the business, right. So auto is a much larger chunk of the business several years ago. We got much more broader industrial exposure over time. What do you think is the ideal split? And as you look out several years, where do you think the growth really is going to come from?

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

Yes. Interestingly, I think it's actually outside auto, we're actually growing a little more strongly right now, and expect that to be the case certainly in HVOR market, and pockets of the industrial market will grow faster than auto. If we looked at the normal evolution of that over time, absent any acquisitions or absent a big inflection of growth in auto due to things like autonomous driving or electrification, you'd actually end up at parity. And so -- and we think that's a fine place to be. However, we've biased much more of our M&A to be ex auto. So we think we'll probably get to that parity and perhaps below over time. Having said that, I want to be really clear. The first thing we look at when we think about making investments are making sure that they get great returns, that they're high margin, that they've got a secular growth aspect to them. And so we're not walking away from those kinds of opportunities inside auto. They've been compelling, and we've performed well there.

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

You mentioned earlier that you're a little more bias towards returning capital to shareholders at the moment and doing buybacks as opposed to maybe larger-scale M&A where valuations have sort of crept up over the last several years. How rich is the M&A pipeline today? And are you just going to be very opportunistic about the time frame of when you want to do incremental M&A?

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

The pipeline is quite rich. So it's active, as it has been in the past. It's much more private. Conversations that we have, we don't generally get involved in options. And we have done it, but that's not a big part of the pipeline. When we look at the nature of those opportunities, given that we now have visibility on the industrial side to a much more fragmented sensor world, we expect that those are going to be smaller and more frequent in nature than some of the large deals you've seen us do in the past. That's not to say that there are not large-scale opportunities. There are. They take quite a long time horizon to make actionable. So they -- the pipeline is -- it's active. We're going to remain very disciplined in the way we think about returns. And so just given where valuations are, you may see that, that's not a linear function as it hasn't been in the past.

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

You guys have done an amazing job with integrating some of your M&A that you've done in the past. As you look to the future now maybe at a slower pace of M&A, what are the key drivers of driving margin improvement in the business?

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

Yes. So we do continue to have a tail on the synergies of the businesses that we have acquired. And we've got an integration spend that's tailing down, so that's part of what underpins the guide for 250 basis points of margin expansion over the next 3 years. There's an important element of that though that really is just ongoing cost and productivity initiatives. They're part of the DNA of the business at Sensata. When we look at the overall material spend that we have as a business and how much that has increased given the acquisitions we've done, there is opportunity to get more from combining that overall spend. So that's part of the playbook as well.

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

When you look at input cost, have they meaningfully changed for you over the last several months in particular as you've seen some of the commodities move higher? What sort of leverage do you have to that?

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

Not so much. So it's a small part of our overall spend. So less than $90 million in spend. Where we have those kinds of exposures, we do hedge. So we haven't seen the spot rates moving away that's particularly meaningful or impactful to Sensata.

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

Martha, you were talking about sort of like maybe you'll be at parity with industrial. Industrial is so diverse. What are the opportunities within industrial? Like what actually is happening underlying in that portfolio that you are most excited about?

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

I think one of the things we're really excited about, when we look at a section of our HVOR market, it's this movement I talked about from mechanical hydraulic to subsystems, quite frankly. And so when we look at the subsystem capability that we have, we look at a world that is moving much more towards getting data into the hands of fleet managers, whether they're commercial fleets and trucks, whether they're worksite managers. We look at our wireless capability. That's a really interesting combination of competencies that we have that we're bringing to the market real time. It allows us to have higher ASPs in a market that has lower volumes. And so that's part of why you're seeing the cadence of our growth on the industrial side actually outpace a bit on the auto side. So really exciting. There's trends in, for example, in China towards things like moving from heating homes with coal to introducing heat pumps. We're seeing this heat pump play really all around the world. We're seeing variable flow

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refrigerants systems in HVAC. We're seeing an emerging opportunity for us in robotics with some of the portfolio that we have in position sensing. So it's a rich suite, and it's as diversified as the industrial market is, but one that I think that's really exciting for Sensata.

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

Is there way to think about content growth in the context of industrial, and it's so wearied that you sort of think maybe -- I don't know. Is there a way to, underlying, think about a market plus content growth in the industrial world?

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

We've been trying to provide that. We're -- there's definitely third-party data that folks can sort of go off and look at. So for example, on the Heavy Vehicle and Off-Road market, we're talking about a 3% end market growth rate and high single digits growth for Sensata. When you start to look at the other areas, it's sort of so bespoke, both in terms of the equipment we're going after and the nature of the solutions that, that content per thing is a little bit less easy to track. We're probably better off continuing to talk about the growth rates at some of those end markets.

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

When you think about free cash flow generation at Sensata, if you compare the non-GAAP net income, there is always a delta with respect to that. A, why is that the case? And B, do you expect to grow your free cash flow consistently at the same rate as net income growth?

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

Yes. The answer to the second one is yes. So if you look at last year, we delivered just under 80% of that conversion. We're tracking about getting to the high 80s as we go through this 3-year time horizon. So what is it that influenced the cash flow separately from net income? Growth is one. We are a manufacturing concern. So as we grow, we increase our capacity in a very efficient way. So that tends to be 4.5% to maybe a size 5% of our revenue on capital, with 90% of that going to capacity expansion or growth. We're able to do that in a bite-sized way, that when we've secured a business, we can put it in place so it's not capital that's at risk. At the same time, given the integrations that we put in place, the way we've been able to significantly raise margins has been through moving the back end of acquired businesses into our back end. That requires us to build up inventory and spend working capital in order to make that move, which can take 2.5 to 3 years to complete, and then draw down that inventory. So that's part of what's been weighing on us in the past in terms of overall cash flow. But frankly, performing at pretty strong levels of cash flow.

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

When do you see a reversal of that working cap sort of buildup?

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

You're beginning to see it now. If you actually look at our inventory levels coming out of the first quarter, and we expect to see that continue to improve throughout the year and extend it to 2019.

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

What are you most excited about in terms of design win prospects, like as you look out over the next several years? And as you track your pace of design wins, can you give us some color on incrementally how much of new design win opportunities you're able to sort of capitalize on each year?

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

Yes. Look, it's -- I think we're excited just about the overall breadth of what's available to us and the fact that we hold ourselves to very high hit ratios. So in some of our segments, think auto, we're at 80% hit ratios. In some of the industrial markets where we're playing for the first time, we're at 30% to 50% hit ratios. So we're really excited about the win rates that we see. The opportunities themselves, the fact that they are all underpinned by things like the need for clean and efficient equipment, that, that is such a pervasive trend in the business. The move towards electrification is a big one. And we see it in not -- interestingly, not just in auto, which everybody thinks about, but we're seeing a really exciting move towards electrified tools, lawn tools, hand tools, things that in the past were propelled with combustion moving into an electrified space, and that's creating opportunity for us. So just the whole worldwide movement around these things has been really compelling for Sensata.

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

Joshua, you probably get this question a lot from investors in general, like looking at Sensata versus maybe TE or other -- some of the other companies. And just comparing sort of growth rates across these different companies. I think there are some maybe confusion amongst investors in terms of maybe just the relative growth rates, and also about -- are these connector companies truly doing something different that's impacting your business in terms of bundling sensor and connector content? Do you -- could you take a minute to address that?

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

Yes, so I think the first thing to realize is the portfolios are so much different. You look at TE or Amphenol, there are some trends around connectors, which is the vast majority of their portfolio, which are different than what we're exposed to. TE, as an example, has talked about a $200 million auto sensor business versus our $2 billion. I think the other thing is there is a margin differential between our business and their business. And also, if you look over the last 2 years, we clearly have expanded EBIT margins at a much faster rate, which I think speaks to the quality of growth that we're pursuing as well. So that's how I would address it. It's important to understand that the sensor market's very broad, and that Sensata plays in mission-critical, hard-to-do sensors. So there are going to be sensor opportunities that some of the connector companies go after where we don't play.

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

Are there any questions in the audience? Well, let's start back there. Do you have a mic?

Unidentified Analyst

Many times, China is an important driver of the business growing at double-digit, and part of that is driven by the electrification and the new emission rules. So how do you deal with the regulatory uncertainties in there? For example, they're talking about national 5 enrollment. But they've been in talks for many years, and it's been partial implementation within the country. And how do you factor that into the projection of your overall business?

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

Well, one of the things we do, we've been through many different ways of regulation in China. So we'll actually backcast and say, "Okay. What is really the typical time between standards-making, the adoption of the rule and the enforcement?" So we'll actually model in that way. One great example is tire pressure sensing mandate. So there is now a mandate that says, at the end of 2019, on new platforms, this needs to be in place; and in '20, on all new vehicles. Today, we're sitting at a $40 million run rate on tire pressure sensing. So that's the second thing we look at is, "How can you use the mandate to actually look at the consumer aspects of that, that make it interesting?" And we're having success with Chinese OEMs and actually adopting tire pressure sensings now ahead of the mandate because they know ultimately it's going to get there. But to answer your question, we actually do backcast model to look at those changes. You can actually see the growth rate -- our growth rate in China and our business

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right now. So it's not hypothetical. We're enjoying those -- that level of growth today. Some of it around regulated content. Some of it just around the modernization of the fleet. So for example, if you look at automatic climate control systems in China, that's still less than a 50% penetration rate versus mature market. And so there's a lot of drive to make vehicles much more consumer-interesting and we're seeing sensors come into those subsystems as well.

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

One more question upfront over here.

Unidentified Analyst

Martha, really quick. On R&D, going -- looking forward over the next 2, 3 years, how do you see the split between your 2 segments, performance sensing and Sensing Solutions? Is it -- is there more benefit to investing in one versus the other? And maybe the second question is, when investors look at Sensata, what metric should we look at to judge the health of your business? Like, we used to look at European car registrations. Do you think that is still a relevant metric to look at? And what all do you internally look at to judge how the business is running?

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

So I'll start with the second question first. And I talked about the fact that we have deliberately strengthened the model of the business by increasing the overall end market exposure. So that actually makes a stronger overall business that extends our secular growth on to the industrial side. And in some of those verticals, we're spending at rates that are above the spend on the auto side, just given what the opportunity is. But to answer your question about what is the metric, I think looking at a global production metric now for auto is probably the right way to think about us. We're less than 18% of our business in North America in auto. So a little bit to challenge, and by design, is that with more end market exposure, it is not one single end market thing that I would encourage shareholders to look at. If you do, you're going to miss the secular opportunity and the secular performance that we're delivering on right now. And so I think continuing to look at what we're providing that shows how we're outpacing end market growth, and we're doing that on every earnings call, is a good way to look at the overall health of the Sensata business.

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

Then on R&D?

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

And so as I mentioned, I think there are pockets on the industrial side. So certainly, in our Heavy Vehicle and Off-Road business, that's -- we're spending as a percentage of revenue more there than we're spending on the overall auto side. And you can see that in the overall growth rate. There are areas in industrial sensing where it's also the same. We have a portion of our industrial business. It's our kind of legacy Control Solutions business, which is a great high-margin business, provides channels for industrial sensors, but does not grow in a secular way. So you'll see much less R&D investment on that side.

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

We're just about out of time. Maybe, Martha, if you just want to take like a minute to just wrap up and tell investors why Sensata is the right place to invest right now. That would be great.

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

Yes. Okay. Thank you for the opportunity. I think we've talked about the secular growth. We've had 9 consistent quarters of doing exactly what we said we would do, or doing better. We've talked about the expansion from a margin index perspective and how that then delivers double-digit earnings growth very, very consistently. And on top of all that, we're a really good deal. I mean, if you look at the discount to our peers, quite frankly, there is just no rationale for where that is. We've talked about the fact that we want to have capital available to buy back one of the investments that we think is the most attractive, which is Sensata. So I would encourage you to look at us that way and think about it.

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

Martha, thank you, as always.

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

My pleasure.

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

Joshua, thank you. Thank you so much for being here today.

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

Thanks, Wamsi..

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