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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC at RBC Capital Markets Technology, Internet, Media and Telecommunications Conference

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PRESENTATION

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

Delighted to have with us, Martha Sullivan, CEO of Sensata Technologies; and Joshua Young, Investor Relations from Sensata Technologies. It's a 25-minute fireside chat. I'm going to kick it off with 10, 15 minutes of questions, open it up to the audience for questions from there. Hopefully, it will be a fairly interactive session.

Well, thanks for being here Martha.

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

Welcome.

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

Before we kick into it, maybe you want to spend a couple of minutes just talking about Sensata Technologies. What the investment proposition is for the company? What your priorities are? Just simply something from a revenue margin EPS perspective? Maybe we'll start with that, and we'll dig into questions from there.

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

Sounds good. Just a baseline, those of you, who may not know us that well, we are an industrial technology company. Our focus is on sensor-rich solutions. And we're really focusing on mission-critical sensor-rich solutions, that will come out, I think, in the decision. Sensors are a fundamental building block to a smart, connected and increasingly -- and electrified industrial landscape. They offer a lot of opportunities for secular growth. And we've been able to deliver the secular growth above the end-unit production of our end markets. So for example, year-to-date, we're running about 7% organic growth, where most of our end markets are flat to slightly down. This focus on mission-critical, by definition, it's things that are difficult to do, that really matter to our customers, and for that reason, we are able to deliver differentiated margins. We do that on a highly efficient supply chain, so back-end supply chain that is global in nature, highly sufficient and region to region as we move forward. We've delivered 160 basis of margin expansion over the past 7 quarters. And we have margin expansion going forward. We've delivered year-to-date about 70 basis points. And really importantly, that's translated to 14% earnings per share growth year-to-date. So when we think about our financial framework, we've provided long-term guidance at the end of 2017 for 4% to 6% organic growth on the top line. We're running well ahead of that; 250 basis points of EBIT margin expansion, we're on our way to deliver that. And very consistent 10% to 13% EPS growth.

At the same time, we're highly cash-generative. We expect to generate $1.8 billion in cash from the end of 2017 through 2020. I think the last thing I would say about that overall framework, the nature of our business is that we are in long design cycles. And so we're shipping into airplanes and commercial trucks and vehicles and forklifts. So our longer-term visibility on what we've captured is quite good. Our customers actually contract with us well ahead of production. And for that reason 90% of our 2020 revenue guide is either in the form of carryover business that we have today,

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and we're mission-critical, so our sockets are sticky, or business that we've already captured. That combination has a securing 90% of our 2020 guide. So very high confidence.

QUESTIONS AND ANSWERS

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

Perfect. Thank you for that overview. Maybe, I guess -- maybe we'll -- 2 different parts of your business, I'll start with the Performance Sensing, we'll start with the automotive for a sec there, that's a large part of the revenue stream right now, I think. 2018, so far, you've been running at like 6%, 7% organic growth in your automotive business, just tell about what is enabling that for you guys? And importantly, talking about what's changed in the last few year, because the risk, the last 2, 3 years, was your automotive growth was essentially around, what, order production used to be. This year, so far, it seems to be 400, 500 basis points better than that, what's changed? Is that sustainable based on the backlog you guys see?

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

Yes, I mean, I think, to be clear, we've been accelerating organic growth on auto for the past 2 years. What's driving that? Just to characterize it, about 58% of our revenues go into auto. Of that 58%, 50%, subtract, leave 8%, is really exposed to these technology transitions that are happening in automotive, and we're benefiting. So it's a form of what we call clean and efficient. Increasingly, engines are getting readied for a more electrified world. I don't know if you saw recently there have been new announcements around tightening of NOx emissions, again, on the commercial truck market. We've seen wave after wave of the need to tighten the emissions and improve fuel efficiency and now ready these engines for electrification.

And that's driving a lot of growth for us. Some examples. Today, in North America, you can drive a full-size pickup on 2 cylinders of an 8-cylinder engine. So we're actually deactivating those cylinders and providing fuel economy. That -- our sensors enable that kind of application. We're shipping into gas particulate filter applications now for Euro 6 in China and in Europe now, so -- where emissions is tightening. The second thing I would talk about is electrification more broadly. We're now -- with our content, we have a tailwind as electrification happens in auto. You will find us in very efficient subsystems like braking systems that are regenerating energy and extending the range of the battery in an EV. We're enjoying that content growth now. And then thirdly, it's China, China, China for Sensata. So our content in China sits at about $11 per vehicle versus mature market, where we're in the $30 per vehicle. That $11 is just going to grow by 50% from the end of 2017 in -- past 2020. And it's been driven by mandates for tire pressure sensing, we're the largest provider of tire pressure sensing. All of the emissions and efficiency things that I talked about that are happening at the same time in China in an overall modernization of the fleet. So that's some of the high-level things that are driving Sensata.

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

Perfect. And then you said China 3x in that answer by the way. Maybe to round this out, there's a lot of anxiety around what's going on with global auto production exiting '18, as we get into '19? What do you see from, I don't want you give an explicit guide, but what are you seeing on the ground from a global order production basis across different geographies? And what are the ramifications of the trade war, the trade tensions for you guys in China, specially?

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

Yes, it's a very different landscape, geography to geography. There is a lot of concern around China. So I'll speak to it. As we came into the year, our guide included an expectation that China vehicle production would be down. And the reason we have that perspective is, we were coming off of a year where there were pretty strong incentives in the China market. And so as we came into the year, we didn't see that drop off in the first half of the year. Our expectation is that it would come down in the second half and it has. So behaving, I think, similarly, may be a little more compressed in the back half of the year but not a surprise to what we anticipate into the market. When we move to other geographies, everybody has expected that the North Americans SAAR would drop off. We had that same expectation, and yet again, we're delivering 7% organic growth on that kind of an overall market.

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

Perfect. And maybe, I guess, just moving to the other part of Performance Sensing, HVOR market. Growth has been exceptionally robust, I think, it was like 20% in that range for a few quarters now. Just talk about how much of that is production unit kind of growth versus content? And is there any, sort of, geographic nuance that 20% growth you guys are seeing there?

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

Yes, I think, to break it down little perspective, we've been delivering mid-teens to close to 20% growth in our Heavy Vehicle & Off-road segment now for well onto 8 quarters. When you look at what the makeup of that business is about half of that is on highway, half is off-road construction equipment. And so we're in ag equipment, we're in construction, pretty diversified set of off-road applications. When you look at what's actually delivering that kind of growth, we're outperforming the end market by about 900 to 1000 basis points, pretty consistently. But it's been a very strong end market to your point. And that's really what's making up the rest. The strongest part of the end market has been on-highway in North America, clearly, Class 8. When we gave our long-term guide, our expectation is that overall market would grow about 3% in that 3-year time horizon. So it is not our expectation that it's going to sustain -- the end market will not sustain, our secular growth, we're very confident in that kind of performance.

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

Perfect. Industrials actually is a reasonable part of your portfolio, so about 19% or so of revenues. I think it's amongst (inaudible) gets lost a lot in the automotive discussions we all have. Can you just talk about what are you guys providing in the industrial markets? And what is sort of the long-term growth trends that the Sensata is benefiting from there?

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

Yes. So if you are in industrial business, if you go back, I don't know 3 or 4 years ago, before our last large acquisition, it have been growing at GDP-ish rates. We made an acquisition at the end of 2015. And I'd love the custom-sensing technologies. And that was to give us a broader footprint in industrial and a platform for growth there. So most of that acquisition actually went into industrials. And we've moved from GDP-ish growth to 4% to 6% growth in that segment of our business. And the drive there is very similar to what we see in auto and in Heavy Vehicle & Off-road, it's efficiency. We're seeing opportunities for electrification, if you think about forklifts and commercial buses. The trend there is now moving to lithium ion battery sources that's providing opportunity for us. You'll find us on HVAC systems, on commercial buildings, where the need to do things much more efficiently is driving variable control and the need for more sensors. So very similar themes taking a different form, but the overall growth driver is similar to what we see elsewhere.

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

Got it. And I guess, biggest thing to industrial is the -- visibly the backlog that you guys have comparable to what you have in your automotive-centric markets?

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

It's a really diversified set of end market. So one market that we included in industrial business is aerospace. So on that case, the cycles are even longer, that's about $170 million, $180 million of our revenue. When we look at things like the commercial construction or commercial HVAC side, I would say, fairly long, probably more in the 24-month cycles. The diversified piece tends to be shorter cycle.

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

Got it. What are the discussions or concerns you always end up with investors when you talk about Sensata is, it's auto-heavy stock. Or I think that's a perception and auto-heavy stock inevitably being cyclical stock to people. What do you think is the way to the more optimal end market mix of Sensata versus where you are today, do you look at it that way? And from everything you've said, the growth rates are actually better on the automotive-centric versus not auto-centric markets, and so to the extent you want to battle these things out, how do you go about doing that?

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

Yes, I really appreciate the question, Amit. I think the first thing I would say is, we are not a conventional automotive supplier and I think it's important to know that about Sensata. And let me give you a couple of dimensions on that.

First off, we're exposed and delivering strong secular growth. So despite what happens in geographies, in automotive, we have the ability to outperform that end market. Secondly, we have a very strong margin profile including in the automotive business. And we have very high variable costs. So when you think about the concerns of what happens in a down cycle, our ability to really control our cost right in line with what's happening demand -- with demand is quite strong. As a proof point, in 2015, in the first half of '16, we didn't grow much in auto. We done a large acquisition, it was slow to grow, we needed to turn that around and we delivered double-digit earnings per share growth with no share buybacks. So the margin profile is very different. Our ability to control and protect and grow margins despite what's happening in the end market, I think, is quite a differentiator for Sensata. And we have very high cash flows. So we're not an asset-intensive business. So just keep that in mind when you think about auto. When we look at the profile of the business, we have deliberately diversified the business, because we see the same growth opportunities outside auto. When we look at our M&A pipeline, and we've been fairly acquisitive, it's much more biased outside of auto, because there are more fragmented opportunities there, we have more headroom in our overall vertical markets and outside of auto, so I think more of an acquisition play by us towards ex auto that will probably bring some parity over time.

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

Got it. So it's 50-50, sort of, the right way to think about this is -- in an ideal world?

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

Well, I think, you made a great point. We grow really, really well in auto. If electric vehicles take off much more quickly than folks expect, it's going to be difficult to keep up with that kind of growth on the other side of the market. And so the way I think about it is 50% of the 58% is highly exposed to strong technological transformation that's happening in auto. And that's what's right inside of our business.

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

All right. When we think about the content growth in -- across the spectrum of everything you guys do, how much of that do you think is just driven by mandates, by different countries, by different geographies, right, versus in auto, may be, infotainment would be the other side of it. But how much of this mandate-driven versus not mandate-driven for you guys, I think?

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

Yes. It's interesting. A lot of what brings our content into the market can be evolving mandates, there is no question about it. So even in areas like electric vehicles, everybody is responding to new energy vehicle mandates. There is no question. It's really interesting how many times content that will bring as a mandated solution will turn into a consumer feature, the example I'll give you is China. So China passed a mandate that by the end of 2019, vehicles will have to have tire pressure monitoring from a safety and energy efficiency standpoint. We're delivering well ahead of that mandate right now, because our Chinese customers are learning that being able to provide information, connectivity into the driver is really

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important to their market. So we do see that the same thing that drives regulation will actually drive some consumer demand as well. Having said that, things like Euro 6 right now and emissions are driving growth for us in Europe. Even CAFE requirements in North America, we're shipping into high-speed transmissions that are very efficient, I talked about the cylinder deactivation, that's all around fuel economy. Consumers now care around fuel economy, so there is, kind of, a synergistic effect that happens with regulation and then the play that it turns to consumers.

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

Perfect. We'll just stop there to see if there are any questions in the audience that you can address. It's one over there. This man is waiting for the mic to get to you and...

Unidentified Analyst

So particularly, we're talking about TE Connectivity want to get bigger in the sensor market, what do you think about that? Are there any concern about them developing strong relationship?

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

Some being your clients.

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

The sensor market is about a $200 billion market. It's a very large market. When we look at folks like TE, we compete with them today, because TE acquired a business called Measurement Specialties. And where we compete is in the industrial landscape. When you look at other sensors that are available across the landscape and some of their more recent acquisitions, they're not in parameters that we are interested in. So we're not actually going head to head. So we're actually -- they're a supplier of ours, I have a lot of respect for their connector expertise. But it's not -- when we look at our largest competitors, it's not TE or the connector companies.

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

Perfect. All right. I guess, maybe, on a -- maybe, to extend that further out, what someone like TE or Amphenol would say is customers want a subsystem, they want an end-to-end solution with everything kind of blended together. Are you seeing that from your customers asking for those solutions? Or they just want the best part for that product and build the solution themselves?

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

Very end market dependent. So I'll give you an example of where we provide full-up subsystems. The first thing I would tell you is, a full-up subsystem is a lot more than a sensor or a connector. So we have -- yet to have had a customers say to us, "Hey, we'd love to use your sensor, but you have to give us a connector that goes with it." Again, if you look at a sensor itself, it actually has connectors in it, interconnectivity in it. The subsystems that we provide, for example, in our Heavy Vehicle & Off-road business, one of the reasons we're growing that 15% to 20% is, we are really leveraging a trend from mechanical hydraulic controls in the cabin of a piece of construction equipment for example. These are moving to electronic electric controls. We provide something that's called Haptic sensing. So we own, like, the hands of the operator. And we provide a full-up subsystem that has embedded sensors, that has Haptic controls, that has wiring where that makes sense. More importantly, it has software and a controller. So when our customers decide to buy a system, it's much more around the self-contained information that that system provides than a conduit for connectors, that's not really enough of a subsystem from our perspective.

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

That's very helpful. I guess, maybe, just move away from the revenue discussions that we've had, you mentioned operating margin targets initially, I think, last quarter you guys did 23.5% or so operating margins, if I'm not mistaken, the target that you guys have laid out was, maybe, around 26% (inaudible). Maybe walk me through, how do we get to that 250 basis point delta from your -- to your target? What are the 2, 3 buckets that, kind of, gets you there? Maybe just walk us through that.

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

Yes, maybe, I think, if you look at math, it's closer to 25%, but it -- that's just a continuum. So again, the thing to know about Sensata is, we have a strong track record of expanding margins. And again, whether it's an up market or a flat market, it's a strong ethic that we have on the business. In more recent years, that 160 basis points of expansion that I talked about, we made some large acquisitions and critical to getting the return on those investments was -- were synergies that we're invested in. So about -- I think it's about half of that particular expansion has been tied to cost synergies identified in our acquisition strategy. We have a tail on that still for -- to complete. But it's not the only thing that drives the margin expansion. Given the overall differentiated nature of the product portfolio, as we launch new products and they get to volume, we actually are growing the margins along with that growth. So its volume leverage and its productivity associated with that growth, that's a key piece of what we do. When we have a long-term contracts with customers, we have designed different costs reductions that are part of that. If they can improve pricing, we actually get improved margins. So it's just a part of the operating ethic that we use.

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

Got it. Maybe you can spend a little bit of time just talking about your EV narrative? And I thought, at the last earnings call, you actually had some really good data points and datasets around what that means to you guys? Maybe just just talk about that? And maybe weave into that, the GIGAVAC acquisition, because, I think, it plays a reasonable part in that story? So what does GIGAVAC bring? What's Sensata's EV story?

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

Sure. We'll talk about Sensata before GIGAVAC, where we are, sort of, post that acquisition and where we're going? We've been seeing really nice pull for our, kind of, core sensing capabilities associated with electrification. And it's in the area of very efficient subsystem. So we've a long history of being in climate control systems on vehicles and also in housing and in homes. As electric vehicles come into the market, whether they be plug-in hybrids or full electric vehicles the subsystems in them have to be really efficient. So we're moving from -- anywhere from one sensor, conventionally, in climate control to 2 to 4 sensors. And we are now contracting some of these 4-sensor applications in electrification. And they're turning to be dual-function sensing. So where we would've had a pressure or temperature, now we're doing a combination. At the same time we are regenerating energy in a braking system, that's something else you'll see in electrified vehicle that's really important. So we we were sitting at about $20 of vehicle content, if you include China, pretty much in line with our mature non-electrified vehicle content. With GIGAVAC, we acquired a business that does high-voltage contactors. So think about the need to switch high-power across the vehicle and in electric vehicle for lots of different reasons. At the same time, voltages are increasing in EVs, because we're trying to get charge times down. So this business, while its revenue today is primarily industrial and lots of great growth opportunities in industrial, it's got the perfect portfolio for what's happening in an electric vehicle. And actually comes with design wins in current business, for example, at Tesla. So we're really excited about what that brings. It actually doubles our content per vehicle in electric vehicles. And then from there, we expect to get to well over an additional $100 of content given what we're doing in wireless battery management sensing and embedded position sensors that go into electric motors. That's a little further out on the horizon. But we really like the tailwind that electrification provides Sensata.

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

Perfect. And when you think of this, the electrification tailwinds and the markets that you guys are playing in, is the market share much richer in these spaces for Sensata versus the traditional automotive in the traditional industrial markets? Do you have a higher market share? Because I

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imagine these problems are more complicated if you want to be a global EV car manufacturer, you're more likely to partner with Sensata versus a smaller -- mom and pop or a smaller company?

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

Yes. I think the interesting thing is our market shares in our core, both commercial truck industrial and auto are quite high. We said, it's largely around a 30% global share. And the reason is, we're selective about what we do. We do things that we do well. We expect to have, I think, over time that same kind of position. You're right, early on, when it's a fragmented small market, shares are a little bit higher. I think what's much more important is being in the applications that are growing quickly. And that's the way we grow our share over time.

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

Got it. You guys recently domicile to U.K. And that brought along some capital allocation decisions from the company, more specifically, around buyback that you guys have done so far. But just walk me through how does Sensata think about capital allocation buybacks, dividends, M&A?

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

I'm going to let my colleague talk about that. I'm happy to talk about it all day long. But I don't want you to get sleepy.

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

Yes -- no -- I mean, you've seen us talk about adding a lot of balance to the capital deployment, we're in the Netherlands, because of that 15% withholding tax. It was difficult for us to buy back the shares. So we went through a 1.5 years process to re-domicile to the U.K. In the first 5 months after re-domicile, we bought back $400 million of stock. We've also announced a $250 million additional authorization in the last another 18 months. In addition to that because of the proceeds we got from a balanced divestment, the balance sheet is going to be in a very similar shape at the end of year. So we expect to be around 2.7x net debt-to-EBITDA, despite buying a business, GIGAVAC, for $233 million and doing the share buyback. So look for that balance going forward. We have talked about 25% to 50% of free cash flow being used for share buyback as a general proxy moving ahead.

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

Perfect, thank you. I guess, if I just, maybe, go back to the M&A discussion where you talked about M&A ideally somewhat more non-automotive all things equal. How do you guys think about M&A broadly though? In terms of deal size, Joshua, you mentioned leverage there, I mean, I remember one of the concerns 2 years ago was good -- there's a lot of leverage on this balance sheet, not a concern today, obviously, but how do you guys think about deal sizes, leverage in the balance sheet? And how do you think -- how do you go forward with those?

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

When we had a large acquisition at the end of 2015, just about $1 billion and we did that because we really wanted more exposure in the industrial market. Given the fragmented nature of that market, it was important to have critical mass in some select vertical markets. So having done that, we now have this line of sight to a much more fragmented market, some really interesting targets, they are more right-sized in nature. And so the pipeline is much more bias towards right-sized opportunities, smaller opportunities, GIGAVAC was a little over $200 million acquisition. And again, more of that being outside auto. When we look at other ways, we would use M&A, we've made investments or strategic partnerships. Again, these are not large capital outlays. But I think, in summary, we do think acquisitions are really important to our overall strategy. We've delivered terrific returns, so mid- to high-teens and higher returns on our acquisitions. When we think about capital allocation, we are very returns-minded, and so

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that's both where they were buying back shares or doing an acquisition and we'll look at those alternatives against each other. So that capital deployment is an important element of delivering returns to our shareholders.

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

Perfect. I'm down to last 50 seconds there. So I want to throw it back to you, if you have any closing comments or there's something item-touch on that you want to make sure people are aware about. I'll turn it back to you.

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

Yes, I think, we know that right now, there's -- seems to be a lot of concern and a little bit of hand-wringing around end markets, and what's happening in the end markets, what's happening in the cycles. And this is not to be complacent at all. Just the things to know about Sensata is that, except for the times we've been through a really severe downturn, the designing and the product launches will prevail throughout a correction in the marketplace and, therefore, the secular growth is really important. I think, secondly, we've a very strong track record of protecting margins and delivering earnings growth despite what's happening in the overall end market. So, I think, that's important to think about. And the cash flow and the ability to do self-help with capital allocation, as you talked about.

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

Perfect. Thank you very much for the time, Martha and Joshua. I appreciate you guys being here.

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

Thank you.

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

Thank you.

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