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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC at Barclays Industrial Select Conference

EVENT DATE/TIME: FEBRUARY 20, 2019 / 6:15PM GMT

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PRESENTATION

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

Okay. Why don't we get going? We're delighted to have with us today Martha Sullivan, CEO of Sensata Technologies; and Joshua Young, Vice President of Investor Relations.

Many of you may know Sensata. It is an industrial technology company with exposure across auto -- hence, the coverage that I have -- heavy vehicle offroad and then diversified industrial end markets. The expertise is in mission-critical sensor-rich solutions, which is -- creates attractive content growth, which really kind of showed through in Q4. You were -- China was down as we all know both industrial and in automotive, yet you still grew -- delivered positive growth in China, outgrew the market by 15%. You also closed on an acquisition I want to get to called GIGAVAC, which fits into your growth story.

So maybe, Martha, if you could give us -- because I probably didn't do it justice -- just a quick introduction of Sensata and then want to dive into a bunch of questions.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. I think you hit the most important elements, Brian.

Our focus is on our mission-critical sensors, electrical protection and increasingly sensor solutions that embed full-up subsets and software is really what we bring to the market. We're a high-margin, high-cash-flow business. We focus on differentiated solutions for our customers that we build on a consolidated, highly efficient back end on the business supply chain network that's primarily in low-cost country, very global, diversified -- increasingly diversified among end markets, and even in those end markets, pretty fragmented across customers, tiers and OEMs to the point where our largest customer represents no more than about 7.5% to 8% of our revenues.

QUESTIONS AND ANSWERS

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

Okay. You have exposure to a wide variety of end markets. I wanted to talk about China, both on the auto, industrial side in some detail. But maybe setting China aside, are there any other end markets that kind of keep you up at night in terms of what you're worried about for 2019?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. Our focus on our end markets is to ensure that the secular growth we have been consistently delivering is intact. And you talked about the proof point in the fourth quarter, where we saw China, which represents 16% of our revenues, contract substantially. So auto production down 15%. PMI going negative. And we grew 4.3% in China. That's a proof point, one of many, for the underlying secular growth in the business. That is the focus in the end markets, and we've been able to outgrow end markets by 850 basis points in HVOR, by 530 basis points in auto in 2018. Having

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said that, as we move into 2019, it's going to be a tougher end market. Our secular dimension is intact. We know what we're launching. We know what's already on the equipment that we've been shipping into and where we get a full year impact on that. But we're expecting China to be a tough market throughout 2019, not baking in any incentives to bring that market back. So we're assuming auto production in China down 3% to 4%. Similarly, we've seen the benefits of end market expansion in heavy vehicle and offroad. We've outgrown that expansion by 2x, but we don't expect that to continue in 2019. So heavy vehicle and offroad market is one we're predicting to be down 1% to 2% in 2019. So really not looking for a lot of help from the end market in 2019. I think we're on the right side of calling those and are staying really vigilant to make sure we understand if it moves up or down from those assumptions.

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

And how about Europe on a macro basis, either in autos or in the heavy equipment or the industrial sector?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. From a macro perspective, again, production we're expecting to be down in Europe, not a lot, in about the 1% range. PMI is still in positive territory but not a lot of strength in the end market, again, continues to be a really strong content grower for us, particularly in heavy vehicle and offroad in Europe, and we expect that to continue.

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

So let's go into the content growth in automotive and maybe just start in China, given it's particularly impressive there. What are the types of sensor applications that you're seeing the most uptake for?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

In China, our solutions that are driving content growth are the widest ranging of any in the business, and there are really 3 reasons for that. First of all, we're seeing early days of electrification in China, and we're at the point now where the transition to a full-up battery electric vehicle is a nice tailwind for Sensata. So there have been government mandates around new energy vehicles. There are now applications where we're seeing energy regeneration out of braking systems, better climate control systems, driving our content around the world, including China. Secondly, the mandates in China, the regulation is in place and is being enforced, and we're seeing that impact our growth right now, and we saw it all throughout 2018. And we see ongoing mandates that will continue to extend that growth. So those that have been following Sensata are aware of a tire pressure sensing mandate that we're shipping into now that becomes fully into effect by the end of 2019. But there's also China national VI standards around emissions. They're developing standards around safety and electrical architecture as well. So all 3 of those growth vectors are driving us in China right now.

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

And on the industrial side?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

On the industrial side, efficiency, efficiency and efficiency. So the focus on energy consumption in China is really important. So we're shipping into new applications, for example, like water pumps, where they're moving to variable output to serve high-rise residential and commercial buildings but to do that with much less power consumption, same thing in boilers, same things in other parts of the overall infrastructure in China.

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

And if we think of that, the key content growth drivers outside of China, what would you point to in each of your 3 main segments?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. I think in the case of China, we're still seeing modernization of cars. So in some cases, we're seeing applications like vehicle stability control systems that are still less than 50% of what we see in mature rates. So we don't see that driving growth outside of China. What is driving growth outside of China are the 2 other elements I talked about, particularly electrification. So as these subsystems on vehicles and recognize more of what we put on a vehicle is outside the powertrain than on the powertrain. So you find us on climate control and tires. You'll find us in parts of the cabin, for example. These subsystems need to get much more efficient as things electrify, and we need to get broader range. That's driving our growth rate now. At the same time, there are mandates in Europe around Euro 6 emissions requirements, where we're shipping in exhaust sensors to detect and regenerate particulate filters on gas engines. Similar mandates on the truck side of our business. And then, finally, on the offroad piece, there is a very prevalent move underway to move from mechanical hydraulic controls in the cabin of a piece of equipment to electrical -- electronic controls to -- that incorporate sensors around that piece of equipment and makes the operator themselves much more efficient and provide data into an analytics layer. So all of that happening realtime on the HVOR market.

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

So content growth above market, end market growth is clearly one driver to offset cyclicality. The other part of the strategy you've talked about is the variable cost structure. Can you both give us an overall view of the variable cost structure but then maybe drill down into the regions and maybe some of the markets, in particular, autos and HVOR in particular, subject to very wide swings, how your variable cost position is in those subsegments? And as well your ability to switch between applications out of the same plant or capital footprint.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes, great question. I think the first thing to recognize, our business model is fundamentally developing very differentiated mission-critical, hard-to-do products on the front end of our business and putting those into a consolidated low-cost, low-cost country, very efficient supply chain that's global in all around the world. Increasingly, that supply chain is region for region. So we ship to China from China. We ship to Europe from Bulgaria. In all cases, we're doing that with a configuration that drives much more variable costs. So across the business, if you look inside our COGS, about 15% of our cost of goods sold is actually fixed. And so, we have mandates around capital intensity, around make versus buy to ensure that we maintain a pretty high degree of flexibility and variable cost. And we do that really in all categories of our spending. So it does not differ from geography or from end market. We think that that's important. The fact that we build for multiple end markets in a single location also allows us to take advantage of cyclical swings in any one market.

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

And this is a subject that came up in the Aptiv discussion as well, which is to the extent you have high single and low double-digit content growth, any of your end markets slowing high single or low multiple? Is there a difference since you've run these factories for a while between managing a factory that is flat instead of up for the year versus managing a factory that has to go down -- and a footprint and supply chain that has to go down 10%? Trying to think of how the content growth and the variable cost strategy kind of fit together.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. So the short answer is no, and let me tell you why. Now when you get to extremes, there are some differences. But the way we run our factories and actually our whole operation, we're a long-cycle business. And when we enter a quarter, we have pretty good visibility to our backlog in the quarter. That information isn't just something we provide investors. We actually use a weekly update of what we will be shipping to drive the

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expense runs inside of our manufacturing plant. So those move around and are expected to be variable every single week. That's how we run the business. And so, we're doing that regardless of whether revenue is on the upside or whether or not we see a downturn. The cadence and frequency, if we feel that markets are moving either way, will increase. So we're at a pretty high cadence right now to make sure that we move quickly to anything that looks like it may be a surprise. On the real extremes, if you think about things like the global downturn in 2008 and 2009, probably the only time in our history where we actually saw content growth slow as well as end markets slow. And at that point, we were somewhat underutilized, and we were able to consolidate in 9 months about 3 years worth of network pipeline optimization that had been in our plan.

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

And speaking of content growth, then I'll move on, any evidence anywhere that slowdown in end markets, whether it's flat end markets here, down slightly Europe, China downturn, is it all slowing the content growth story?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Absolutely not. And that's really visible if you look at our financial performance in the third quarter and in the fourth quarter, where there was some very well-publicized movements down in end markets. And you can see what we were doing in those regions. China very notable. We talked about that one in particular. Similarly down market in North America. We grew 5 points -- 5% organically in North America. And that has not changed as we've gone through the end of the year in some tougher cycles.

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

And maybe the answer is you're so diversified, it doesn't matter. But other -- and I know you're only (inaudible) under 50% auto. Other automotive suppliers are often hit by delays in launches. We hear from board in this earnings season that 1Q because of China will be a slow launch season. How much of your content growth over market is roughly tied to program launches versus it's going to happen because of take rates and various other, if you will, more recurring factors?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Much of it is definitely tied to platforms, but it's tied to regulated content also. And so, there is not an option at this point to really pull back on delivering a mandate. So that's one of the things that's attractive to us. In China, we're in applications that are what you would call body in white. So when you're refreshing a platform, they don't get touched. And it takes years to launch a new braking system or to implement the first half level of electrification. So that train is really, really hard to delay once it's on the track.

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

Why don't we pause, see if there's any questions in the audience? If we could get a microphone to the front table.

Unidentified Analyst

Two questions. One is on what do you see as potential downside or inefficiencies that comes with the highly variable cost structure besides obviously lack of operating leverage? And then the second question is on industrial IoT and the need for sensor. Yet your sensor -- industrial content growth seems to be a bit subdued, so just wanted to figure out what the -- I guess the -- what am I -- what -- is it due to your product mix or application, knowhow, distribution, anything you can help us on that front?

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Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. On the variable cost side, don't see inefficiencies. We see a lot of efficiencies by having the overall variable cost structure. We will often look at make versus buy decisions to see where we actually end up with the best return over time. And that flexibility is one I think that makes us much more efficient. It does require a really robust distribution and logistics back end to support it, but we have that in place so not an area where we see meaningful inefficiencies. We see a lot of efficiency. Relative to the IoT question, I would point to a few areas where we are really accelerating our IoT efforts. And I think, for us, the more useful word is providing digital insights. So an example of that. We're the largest supplier of a wireless sensor on an automotive platform with our tire pressure sensor. That wireless capability now we have configured into an on-vehicle network for commercial trucks. And by doing that, we're bringing more insights from around the platform and actually bringing those into an analytics layer. So we think it's a great application. It's very early days. That level of sophistication is not yet in the marketplace. The other place you'll see us doing that is in the material handling space. So as those particular markets get more sophisticated in what they want to look at and what we can provide, we're seeing lots more opportunity ahead. We're actually in the quote process on those projects today.

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

I want to get back to that, but, first, I want to go to a couple of the ARS questions. Can we start? ARS question number one. Get a sense now that the room is filled in. I wanted to wait a bit. Do you currently own the stock? Start the clock.

(Voting)

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

Yes, overweight. You can see we compare them to both the prior year. So a little bit less ownership than last year. Question number two, general bias.

(Voting)

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

Interesting. Fewer own it but more are positive than last year, although the negatives, that's up. Let's go into the Internet of Things and I also want to talk about the growth trend. So one of the comments made by one of the lunch guests ahead of industrial -- [McKenzie] comes from a tech background -- is just the whole push in industrial tech companies for recurring revenue streams, and he cited in particular preventative maintenance with other sensor data coming into the cloud. And it's a great question from the audience, but could you maybe elaborate on how you see that as an overall opportunity? And is it something you're going to participate in by enabling your customers or the customers of your customers to the extent you might be providing industrial equipment but someone else is selling to customer versus where can Sensata actually build a recurring revenue business?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

So we'll just start with our business is highly recurring today. When we think about what we can provide against that opportunity, it's very much focused on recurring revenue. It's an exciting opportunity. So let me break down again a little bit of what I was sharing. We have a wireless capability inside the business that is very, very strong. And why does that matter? Well, we see a big gap when we talk to telematics suppliers, when we talk to fleet managers, when we talk to service managers. What we're finding is the ability to get insights off the equipment is not as high as you might expect. So today, if you're doing a commercial truck fleet, you know what the duty cycle of the driver is. You know what the gas intake is. You know where they are buying gas. These are pretty trivial applications. And by the way, they're mandated. When you start to look at what really drives preventative maintenance, think about things like tire pressure sensing, we've got very active programs. We've actually secured business now that allows not just the vehicle to know what's happening with TPMS but to let a fleet manager know by beaming that information from sensor or from a vehicle area solution right into that analytics layer. What everybody needs are more insights, though. Don't just send us data. Send us the insight.

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When you're operating at the sensor layer, we make applications by understanding what is the larger problem that's being solved on that truck for the fleet manager. So we think it's really exciting. We're definitely investing in it. Expected to actually drive another wave of growth beyond the growth that we're seeing over the next 2 years.

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

So I know, back to when you bought Schrader, is it really the wireless sensing capability that sets you up for that Internet of Things? And is it -- you said at the time, but now do we have other proof points that it's not just tires, it's a bigger opportunity? Can you actually point to a couple of business wins outside of tires with wireless that would support that?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. I mean, that is exactly what we're talking about, and it isn't just the wireless capability. It's also the insights that we have with sensors. We're in the process -- we've won a platform right now that actually provides a hub -- we call it a smart hub -- that enables more than just the tire pressure sensing. That -- so it's early days. There's a lot more opportunity for us beyond that first win. But we're in the quote process, and I would expect in 2019 we'll continue to talk about wins against that opportunity. I think what's exciting is those are not applications that exist today. We're not out there trying to take somebody's share. We're actually creating value that doesn't exist today for fleet managers and telematics providers that are desperate to find value in the platforms that they have today.

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

So IoT, obviously, a big megatrend, and it comes into connected car on that car side. The other big megatrend, at least in automotive, is electrification. So you put out a number of about 17% traditional powertrain revenues for 2017. Can you go back -- and there certainly was an impression at some point that your -- at least your auto HVOR business was heavily dependent on pressure sensing and engine chain works. But was there a point in time where that was actually true? Or is that a misconception? And then how has that pie slice evolved? And where would it be now in 2018 after some of the moves you made?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

So let's take those one by one. The first thing to recognize it's -- about 10% of Sensata's revenue ship into powertrains that we think will not be relevant as you get into an electrified world. So that's about the exposure. Most of what we ship in auto is not in any powertrain. It's actually outside the powertrain. So we talked about tires and chassis and braking and climate control and the like. On our heavy vehicle and offroad piece, at least, again, less than half of that business actually goes on to a diesel engine. If we get more specifically in what's going to happen, we think, in the commercial truck market, we expect to see the medium-duty slice of that become more electrified potentially all electric over time. We think that would be wonderful. We would move from $250 of content today to $450 of content. So all of that ends up being a really nice tailwind for Sensata. Some of that is acceleration that came with the GIGAVAC acquisition. A lot of that is organic development that we've done to position ourselves for that transition.

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

Let's talk about GIGAVAC. One, I have the Wikipedia, but can you explain what a contactor is?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Sure.

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

And then two, what are its current applications? And then where does that go in this electrified world?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

So just, very briefly, we're -- contactor gives you the ability to switch at a very high rate, very high-power current, and so high rate instantaneously. And that's really important if you think about what's happening on electric vehicle. One of the things we really liked about GIGAVAC is the high-voltage element of that. The point being voltages all over the industrial landscape, all over automotive are getting higher because that's where they need to be to reduce charging time. And that's a really important parameter if this phenomenon is going to take off. The technology that we found with the acquisition -- and, again, this is a team we were engaged with for the better part of a year, very deep knowledge, deep understanding, difficult to do, found those -- have a nice industrial footprint, about 60% of the business industrial, but a small group that just wasn't getting beyond Tesla and a handful of others in a meaningful way. So that's what we're doing with GIGAVAC.

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

And so you see that broadly across both light vehicles and HVOR as well as industrial?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

We think the first wave is absolutely passenger car. That's where the mandates are. There is now probably not a place in the world that doesn't have a new energy vehicle mandate of some type. So right now, it's definitely the mandates that are driving the market. At some point, that has to flip and become attractive to consumers. We look at the leading indicators to make sure that's happening. We're not seeing the mandates yet on the commercial side. They're probably going to happen. There is the spring work regulation in California, for example. So when you just look at the viability of doing that in that segment of HVOR, we think that makes the most sense.

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

Right. Let's go through a few more ARS questions. We're up to number three now. Through-cycle EPS growth above peers. We'll call it industrial peers, like to benchmark myself, yourself, the rest of my coverage? Joshua reminds me of that every now and then.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Good job.

(Voting)

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

So actually a solid result even thinking of that broader peer group. Question number four. What should Sensata do with excess cash? You can start the clock.

(Voting)

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

It's interesting. We had another company earlier today where the appetite for M&A and dividend switched from last year. People feeling like the stock was cheaper than what they could buy. For you, it's actually increased. Which kind of gets to a question of can you kind of update us on -- you talked about when you acquired CST and Schrader the cost takeout, not just the strategic things, the project. How do you track for that? And then I assume GIGAVAC thing is so small it isn't really a cost takeout focus but maybe I'm wrong.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes. I think the way we think about bringing value to acquisitions, it's three or fourfold playbook to -- the one that we have the greatest level of control around and has the most willingness to underwrite is to take our back end highly efficient low-cost country supply chain and consolidate into that back end. And we did a fair amount of that with Schrader and with CST. We also see logistics and opportunities. The second piece of the cost playbook is on material spend. So when we acquired Schrader, for example, we acquired 70 million units of MEMS sensing, and we had 10 million units of MEMS sensing inside Sensata. So that consolidation gave us really nice purchasing leverage, and that's also helped with the overall cost play. The other 2 pieces sound more like revenue, but there's a cost element that's really important. Geographic expansion. We have never acquired a business that has the same geographic exposure and opportunity that we have at Sensata. China was important in Schrader and in CST. It will be important in GIGAVAC as well. But when we go into that expansion, we do that in an extremely efficient way. So we end up with margins in the expanded part of the market that are much higher than the margins that were in the original business. And then, finally, sometimes we see businesses that have just been underinvested in for growth. That's the case for GIGAVAC. We intend to apply most of the earnings from that business right back into the business to keep the 30% growth trajectory going.

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

One of the answers was also around level of leverage. So at 2.7 leverage, you're a little bit at the high end of both auto and the industrial space. Is that something -- yet if we think of debt-to-total capital, given how strong your shares are, it's not -- looks different. But how are you thinking about the leverage ratio, especially quoted at this point in the industrial and auto cycles?

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Whenever we make a decision to do anything with excess capital, we start with a fan of outcomes. So we're looking at what would a downside case look like post this decision? We'll look at an upside case as well. What kind of internal capital needs would we have before we make those decisions? So we're really comfortable, certainly, with where we're sitting even now with leverage, and we've done a $250 million reup on the share buyback authorization. And we have a pipeline of bolt-on acquisitions that's fairly active. We would expect to be just over 2x, about 2.1, 2.2 by the time we get to the end of 2019, absent any new acquisitions, even with the buyback cadence in place.

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

ARS number five, please, swap multiple.

(Voting)

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

I mean, it reflects the broader valuation trends in the market, moving from 16.8 to kind of most popular choice, but still pretty popular, the 13 and 15. Any reaction? Looking at Josh.

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

We're a great buy.

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

ARS number six. Most significant investment issue.

(Voting)

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

Interesting. Much less concerned about the margin performance this year, a little bit higher in capital deployment and similar programs. Well, thank you very much, Martha, Joshua.

Martha N. Sullivan - *Sensata Technologies Holding plc - CEO & Executive Director*

Yes, great. Thanks.

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

Thank you.

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