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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Sensata Technologies Q1 2019 Earnings Call. (Operator Instructions)

Please note that this event is being recorded. At this time, I would like to turn the conference over to Mr. Joshua Young, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Denise, and good morning, everybody. I'd like to welcome you to Sensata's First Quarter 2019 Earnings Conference Call. Joining me on today's call are Martha Sullivan, Sensata's CEO; and Paul Vasington, Sensata's Chief Financial Officer.

In addition to the earnings release we issued earlier today, we will also be referencing a slide presentation during today's conference call. The PDF of this presentation can be downloaded from Sensata's Investor Relations website, and we will post a replay of today's webcast shortly at the conclusion of today's call.

Before we begin, I'd like to reference Sensata's safe harbor statement on Slide #2. During the course of this conference call, we will make forward-looking statements regarding future events or the financial performance of the company that involve risks and uncertainties. Company's actual results may differ materially from the projections described in such statements. Factors that might cause such differences include but are not limited to those discussed in our forms 10-Q and 10-K as well as other subsequent filings with the SEC.

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On Slide #3, we show Sensata's GAAP results for the first quarter of 2019. We encourage you to review our GAAP financial statement in addition to today's presentation.

Most of the subsequent information that we will discuss during today's call will be related to non-GAAP financial measures. Reconciliations of our GAAP to non-GAAP financial measures are included in our earnings release and in the back of our webcast presentation.

The company provides details of its segment performance on slides 10 and 11 which are the primary measures management uses to evaluate the business.

Martha will begin today's call with an overall business summary. Paul will then cover our financials for the first quarter of 2019 and provide guidance for the second quarter as well as update full year 2019 guidance. We will then take your questions after our prepared remarks.

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

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

Thank you, Joshua, and thanks to everyone on the call for joining us this morning.

We continue to significantly outgrow our end markets in the first quarter while advancing important megatrend initiatives that will benefit our long-term growth.

On Slide 4, I list some of the key highlights of the first quarter. For the first quarter, we reported revenues of $870.5 million, which exceeded the high end of our revenue guidance and represented organic revenue growth of approximately 1%. We delivered adjusted EPS of $0.85, which is in line with the midpoint of our guidance for the quarter.

Our revenue performance reflected a meaningful decline or slowdown in most of the end markets we serve. The most notable declines in the first quarter were our China auto end market, which was down 17%, and our European auto end market, which was down 5%.

Despite this difficult end market environment, we continue to deliver strong secular growth. We outgrew our HVOR end market by 850 basis points, while our auto business outgrew underlying production by 490 basis points.

Much of our revenue outperformance in the first quarter was driven by new products which initially have higher costs and margins that are below our company average initially. As a result of the rapid growth of these new products, our adjusted operating margins in Q1 were below our guidance. We expect that our operating margins will improve as new products scale and as new productivity initiatives gain traction during the remainder of the year and into 2020.

Next, we closed 2 important agreements for our Electrification and Smart & Connected megatrend initiatives. In Electrification, we signed an agreement with a large Chinese auto manufacturer to develop our Wireless Battery Management solution. In Smart & Connected, a major global truck OEM has selected Sensata as the supplier of a Wireless Gateway solution to establish a vehicle area network on their trucks. These are important milestones for Sensata, and I will talk in more detail about the potential of these initiatives later in the call.

Finally, we continue to be active buyers of Sensata stock. We repurchased $150 million of Sensata shares in the first quarter of 2019. Over the past 10 months, we have repurchased $550 million of our shares, reflecting our belief that repurchasing our stock is an attractive use of our capital to create long-term returns.

Slide 5 shows organic revenue growth by end market in the first quarter. I'll begin with HVOR, which posted 11% organic revenue growth. This was 850 basis points above market growth of 2.5% in the first quarter. Our North American on-road truck and agricultural businesses both delivered healthy, double-digit organic revenue growth in the quarter. While we continue to post good organic revenue growth in HVOR, we believe that the HVOR end market will decline close to 2%, which is at the high end of our previous guidance for the market to decline 1% to 2%.

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A key highlight in the quarter is that we secured an agreement for GIGAVAC's high-voltage contactors to be used in the production of electric buses in Europe. These buses are part of the Paris public transport's effort to reduce emissions in the city. This win positions us well to continue to grow in the electric bus market in Europe and is a great example of how Electrification is driving our business outside of auto.

Next, our automotive business posted an organic revenue decline of 1.1%, which was 490 basis points above end market production, which declined 6% in the first quarter. Solid overall content growth offset meaningful end market declines in Europe and China.

From a geographic perspective, our European auto business posted a solid quarter of content growth in the face of a weaker-than-expected market. As we look ahead for the remainder of 2019, we expect global automotive production to be weaker than our previous guidance as a result of incremental end market weakness in Europe and China.

Finally, I want to turn to industrial, aerospace and other end markets, which are served by our Sensing Solutions segment. For the first quarter of 2019, we posted a 1% organic revenue decline due to weak demand for our control products sold into industrial customers, particularly in China. This was partially offset by growth in our aerospace business and growth for our sensor products sold into industrial customers. In addition to weakness in China, lower housing starts in North America, a sharp decline in European PMI, particularly in Germany, and a softer semiconductor market are all pressuring growth in Sensing Solutions. As a result of a weakening market, we expect Sensing Solutions will report flat organic revenue growth for the full year compared to our previous expectations for low, single-digit organic growth.

Despite challenging end markets, we continue to make significant progress in advancing our megatrend initiatives and investing for future growth.

On Slide 6, I show some of this progress for our Electrification and Smart & Connected megatrends. I'm going to start with an update in Electrification for our Wireless Battery Management solution, or BMS, which we first introduced to you at our Investor Day.

BMS has the potential to help electric vehicle manufacturers increase the range and safety of electric vehicles. We are working with customers to improve battery pack energy density, increase reliability and reduce the design and manufacturing costs of battery electric vehicles. As a result of this compelling value proposition, we believe our BMS solution has the potential to add a few hundred dollars of content per electric vehicle for Sensata.

During the first quarter, we signed an agreement with [S Volt Energy Technology Company], part of the Great Wall Motor group in China, to further develop and commercialize our wireless BMS technology. This is an important validation of our technology and the value customers see in the solution. Longer term, we believe that wireless BMS represents a $2.5 billion market opportunity for Sensata, and we anticipate an acceleration of new business wins in 2020. We expect to generate our first revenues from BMS sometime in the next 3 years. In addition to S Volt, we will continue to work broadly with other auto OEMs and other battery pack makers who are also interested in using wireless BMS with their battery pack platforms.

During the quarter, we also received an award from the Electric Vehicle Forum (sic) [New Energy Vehicle Forum] in China as one of the top component suppliers for charging stations. This award relates to our GIGAVAC high-voltage contactors, and we believe we can be a significant player in the charging station market.

One of the key value drivers of the GIGAVAC acquisition was based on our ability to further scale their high-voltage contactors in the auto industry. Historically, GIGAVAC's presence in auto was small due to their lack of global scale and infrastructure. And in the short time since we closed the deal, we are already seeing that value potential reflected in the rapid growth of our sales pipeline. The strong, positive response from our customer base has already resulted in a sales pipeline that is $300 million in automotive alone. This speaks to the tremendous potential that Sensata has in Electrification.

Turning to our HVOR business. We recently delivered a major milestone for our Smart & Connected megatrend. Sensata is the largest supplier of wireless sensors in the transportation market. We are leveraging the strong position in tire pressure monitoring systems to bring an integrated solution to the market that creates digital insights for commercial on-road trucks and trailers. When combined with various wireless sensors, our Wireless Gateway will enable fleet operators to better manage the condition of their trucks and trailers, increase utilization and safety and uptime for their fleet.

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A major global truck OEM has selected Sensata as their supplier of the Wireless Gateway to establish a vehicle area network, which includes a truck-to-trailer link and the ability to host both Sensata and third-party sensor applications. This win provides Sensata with first-to-market advantage to drive the vehicle area network standard for connecting trucks and trailers and also positions our Wireless Gateway as a platform for managing wireless sensors that deliver actionable insights for fleet operators. This solution has tremendous value for the industry, and we believe Wireless Gateway will be added to most new trucks produced by this leading OEM in just a few years' time.

In addition to new trucks, we believe that the Wireless Gateway will be retrofitted to trucks and trailers already on the market. Combined, the OEM and retrofit market create a large $7 billion market opportunity for Sensata to pursue, and we are excited about the potential for this market to drive our long-term growth.

On Slide 7, I show more details about our outgrowth in HVOR. Over the past 8 quarters, we have averaged 880 basis points of outgrowth in our HVOR business compared to end market production. And while the HVOR end market growth slowed in the first quarter of 2019 compared to full year 2018, we are still delivering double-digit organic revenue growth in the first quarter due to the strong underlying content growth in the business.

While the level of our outgrowth can vary quarter-to-quarter, this slide demonstrates that we have sustained attractive secular growth over the past 2 years, and our content growth will help to offset any future slowdown of end market production.

The drivers of the strong content performance have included the electrification of cabins in off-road equipment, which relates to our operator sensing technologies; the need for cleaner and more efficient powertrains, much of which is being driven by legislation; and the electrification of medium-duty trucks and buses. A few years ago, we made the strategic decision to invest in the attractive opportunities offered by the HVOR market, and this investment is paying off with the strong content gains we show on the slide.

On Slide 8, I show our key priorities for the remainder of 2019. First, we will continue to execute our secular growth opportunities and outgrow our end markets. At our Investor Day, we committed for our automotive business to outgrow its end market by 400 to 500 basis points, and we are delivering on that promise.

Second, we are aligning our cost base with the lower volumes we are seeing in the business and executing initiatives to further streamline our operations.

Finally, we will continue to actively deploy capital towards M&A and share repurchases. We are off to a great start with GIGAVAC, and we believe buying back our stock will provide a good long-term return for our shareholders.

I'd now like to turn the call over to Paul to review our first quarter results in more detail and to provide financial guidance for the second quarter and an update guidance for the full year 2019. Paul?

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

Thank you, Martha. Key highlights for the first quarter, as shown on Slide 9, include revenue of $870.5 million in the quarter, a decrease of 1.8% from the first quarter of 2018. Changes in foreign currency exchange rates decreased revenues by 1.2%. The net effect of our valves divestiture and the acquisition of GIGAVAC decreased revenues by 1.4%. The net result was 0.8% organic revenue growth in the quarter.

Adjusted operating income was $188.6 million in the quarter and declined 3.2% compared to the first quarter of 2018 or a decrease of 5% on a constant currency basis due to the effects of customer price changes that occurred at the beginning of the year, the net effect of acquisitions and divestitures and new product launches. This was partially offset by lower operating expenses.

Adjusted net income was $139.3 million in the quarter and declined 5.2% compared to the first quarter of 2018.

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Adjusted EPS was $0.85 in the first quarter, flat compared to the prior year quarter, which reflects a $0.04 decline in operational performance, a $0.03 decline from the net effect of acquisitions and divestitures, a $0.03 increase from foreign currency and a $0.04 increase from share repurchases.

Now I'd like to comment on our 2 business segments in the first quarter of 2019. I will start with Performance Sensing on Slide 10.

Our Performance Sensing business reported revenues of $640 million for the first quarter, a decrease of 3.4% compared to the same quarter last year, reflecting both the negative impact from foreign exchange of 1.2% and the net effect of acquisitions and divestitures which reduced revenue by 3.6%. Excluding these factors, we generated 1.4% organic revenue growth in the first quarter compared to the same period last year.

The heavy vehicle and off-road business, which reported organic revenue growth of 11% in the first quarter, once again had the strongest revenue growth in this segment and outpaced its every end market by 850 basis points due to the strong underlying content growth in the business.

Our automotive business reported an organic revenue decline of 1.1% in the first quarter but outpaced the end market by 490 basis points. Our automotive performance was in line with expectations as the markets in China and Europe remain weak.

Looking ahead, we expect global automotive production to be down about 3% to 4% for the year compared to our previous guidance for the auto end market to be down 1% to 2%.

Performance Sensing profit was $150.5 million, a decline of 11.2% as compared to the same quarter last year. Excluding the impact of foreign currency, Performance Sensing profit as a percentage of revenue was 22.4% in the first quarter, a decline of 320 basis points from the same quarter last year. The decline in segment operating income was primarily driven by customer price changes that go into effect at the beginning of the year, the divestiture of our valves business last year, new product launches and higher R&D investment related to emerging megatrends.

As shown on Slide 11, Sensing Solutions reported revenue of $230.5 million in the first quarter, an increase of 3.1% as compared to the same quarter last year. On an organic basis, factoring in a negative impact from foreign exchange rates of 0.9% and a positive contribution from the acquisition of GIGAVAC of 4.9%, we reported an organic revenue decline of 0.9%. This decline was primarily due to a slowdown in global industrial demand, particularly in China. This was partially offset by growth in aerospace and from our sensing products sold into the industrial markets, such as HVAC, that benefit from increasing content growth.

Sensing Solutions profit was $75 million in the first quarter, an increase of 4.3% from the same quarter last year. Excluding the impact of foreign currency, Sensing Solutions profit as a percent of revenue was 33.6% in the first quarter, up 140 basis points when compared to the prior year due to strong productivity gains.

Corporate and other costs not included in segment operating income were $41.4 million in the first quarter, down approximately $13.4 million year-over-year due primarily to lower variable compensation expense and cost controls and onetime costs included in the prior year related to our successful efforts to redomicile to the U.K.

Excluding charges added back to our non-GAAP results, corporate and other costs were $34.6 million in the first quarter of 2019.

Slide 12 shows Sensata's first quarter 2019 non-GAAP results. Adjusted gross profit declined 4.9% year-over-year to $294.5 million primarily due to the net effect from acquisitions and divestitures, customer price changes that take effect at the beginning of the year and new product launches.

R&D costs were favorable year-over-year primarily due to foreign currency.

SG&A costs were $8 million favorable year-over-year primarily as a result of lower variable compensation costs, productivity improvements and a positive effect from foreign currency.

As a result, adjusted operating income was down 3.2% compared to the prior year quarter.

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Finally, adjusted EPS was flat as compared to the first quarter of 2018, including the benefit of share repurchases.

As we've communicated previously, we have transitioned to showing our cash tax rate as a percent of adjusted profit before tax as compared to our previous practice of showing our cash tax rate as a percent of adjusted EBIT. For comparison purposes, we show our cash tax rate based on our old methodology in the footnote below our P&L.

Our cash tax rate was up year-over-year but in line with our guidance for the first quarter of 2019.

Now let me turn to our guidance for the full year 2019 shown on Slide 13. At the midpoint of our new guidance, we are reducing net -- we're reducing our revenue guidance by $40 million for the full year 2019 compared to our previous expectations.

We expect automotive end market production to decline 3% to 4% compared to our previous expectation for the automotive end market to decline 1% to 2%. The lower outlook in auto is driven by weaker-than-expected end markets in Europe and China.

We expect the HVOR end market to decline 2%, at the high end of our previous guidance of a 1% to 2% decline.

We also expect weaker production in our industrial end market, particularly in China.

As a result, we expect revenue between $3.54 billion to $3.64 billion for the full year 2019, representing growth of 1% to 3%. We expect foreign currency exchange rates to decrease revenues by 0% to 1%. And the net effect of our acquisition of GIGAVAC and our divestiture of valve will reduce revenues by approximately $6 million. We expect organic revenue growth between 1% and 4% for the full year. We expect adjusted operating income between $846 million and $874 million, which would represent growth of 2% to 5% (corrected by company after the call).

On the bottom line, we expect adjusted net income between $632 million and $658 million and adjusted earnings per share between $3.87 and $4.03 for the full year 2019, which would represent growth between 6% and 10%.

We expect to generate free cash flow of approximately $510 million to $550 million. This free cash flow guidance assumes annual capital expenditures of approximately $155 million to $175 million for the full year 2019, which is $10 million lower at the midpoint than we previously guided.

On Slide 14, I show our financial guidance for the second quarter of 2019. Overall, we expect to report revenues between $890 million and $914 million, representing a reported revenue decline of 3% to flat growth.

At the midpoint of our guidance, we expect that foreign exchange rates will reduce revenues year-over-year by approximately $9 million in the second quarter of 2019. And the net effect of acquisitions and divestitures will reduce -- further reduce net revenues by approximately $6 million.

Excluding the impact of foreign exchange and the net effect of acquisitions and divestitures, we expect to report organic revenues between a decline of 1% and growth of 2% in the second quarter.

Our current fill rate is approximately 88% of the revenue guidance midpoint for the second quarter.

We expect to report adjusted operating income between $205 million and $211 million.

On the bottom line, we expect to report adjusted net income between $150 million and $156 million, which would represent a decline of 5% at the midpoint of our guidance.

We expect to report adjusted EPS between $0.92 and $0.96, which would represent a decline of 1% to growth of 3%.

So I'd like to conclude my comments with the following key points. Sensata is delivering strong secular growth despite a meaningful decline in most of our end markets. And while we expect underlying production in our end markets to be weaker than previously expected for the balance

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of 2019, we expect to deliver another strong year of margin expansion and solid adjusted EPS growth. We're executing initiatives to drive greater productivity and align our costs to the lower market demand we are experiencing. Finally, in terms of capital deployment, we will continue to take a balanced, returns-driven approach to create the most value for our shareholders.

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

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

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

QUESTIONS AND ANSWERS

Operator

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

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

Sorry if there's some background noise here at the airport this morning. Martha and Paul, it's nice to see the free cash flow performance here largely unchanged here despite this significant deterioration in the end market. So great job on that. So clearly, China is weak in 1Q. But Martha, can you give us some sense of whether you saw any incremental improvement over the course of this past quarter that things get better or -- in March at all? And so far this month, is the stimulus helping at all? Any color there would be helpful. And I have a quick follow-up.

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

Sure, Wamsi. And thanks for the observation on the cash flow. We've seen a number of elements of working capital improve.

Relative to the end markets, let me just make it really clear that I -- if we had to look at one end market that's probably changed our perspective going forward from prior call, it would be Europe, particularly Europe auto.

But turning back to China. The leading indicator that we are watching really carefully is overall inventories. And so while we recognized an improved end demand rate in March, incrementally improved, we look at that overall inventory where it's sitting at about 4.6 months, which is very high for China. In our view of end market, our production rates because that's what impacts our overall revenue, Wamsi. So that's a -- that 4.6 sitting where they're sitting today has us incrementally and I'd say marginally worse than China. It's not a huge overall correction, but something that we continue to watch really closely.

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

Okay. That's helpful. And as you look at sort of the macro environment, clearly the 2-point worse auto assumption that you have made over here, do you think that, that's sort of the worst of it? I know it's hard to handicap sort of this early on in the year. But as we think about our models and about the risk that's embedded or captured within your assumptions, would you say that the potential for this number to down-take as we go through the course of the year is relatively low given sort of the very weak fourth quarter of last year and first quarter of this year?

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

Sure. What we try to do in providing guidance and an outlook is to look at a realistic base case. Having said that, I would say we recognize that with down markets, there is more -- there is momentum, and we followed that momentum into the guide. But I would be -- I think it's important to recognize we're trying to be as middle-of-the-road in our outlook and our guide using just objective analytics. So I think things could get better if the overall China incentives are more impactful. There's no question that when markets are volatile, they can also go the other way. So just trying to be very balanced in our overall perspective.

Operator

The next question will be from Deepa Raghavan of Wells Fargo.

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Martha, I had 2 questions to you. Any update on your underlying European production, I mean, especially as it fits to your 1% to 4% core revenue growth? What's the underlying production assumption at the low end and high end? And just curious on the overall Europe market there. How much of this weakness is still from WLTP lingering versus newer macro headwinds? And just curious if you're expecting any recovery into next year at all. That's my first, and I have a follow-up.

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

Yes. So when we just look at it quantitatively, Europe we're expecting to be close to 4% down for the overall year, and that is incrementally down from our previous guide.

As it relates to WLTP, we believe that, that has been pretty much stabilized now as we exit from first to second quarter. And now we're seeing the impacts of overall end market dynamics. Keep in mind that some of our customers in Europe are also exporting to China. And so we'll measure that impact in Europe, where the demand takes place, but there is a knock-on effect in Europe as well. So those are the 2 things that we're looking at closely: the dynamics of the European end market, and then what happens to European suppliers when overall China continues to move.

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Got it. My follow-up is on China automotive. Are -- what are you hearing about any potential automotive stimulus at this time? Is this still on the table? And if -- we have other credit measures. But is there a direct automotive stimulus we should be expecting if things get weaker? And what kind of rebound should we expect from Sensata if that were to happen?

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

There have been measures that have now been enacted. And so one in particular is around incentives to take sort of low -- older, more polluting vehicles and upgrade those to NEVs. We know that, that has been enacted. We know more broadly there have been VAT incentives that have been in place in China. We're counting on those to have an impact, although we expect the impact will be late in the year, so not tremendous overall impact.

As it relates to Sensata, keep in mind that our year-over-year comps, particularly as it relates to China, become much easier in the second half. So we saw very large contraction in the end market in China in the fourth quarter of last year, and that began actually in the third quarter. So much of our improvement comes from continued execution on our part, secular growth but also easier comps, quite frankly, as we get into the second half of the year.

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Operator

The next question will be from David Kelley of Jefferies.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

A couple from me. Just looking at Slide 10 of the Performance Sensing segment margin, could you give us a bit more color on the impacts of the higher R&D investment and then some of the product launches that are taking place right now?

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

From an R&D perspective, there's a couple of million dollars increase year-over-year as it relates to investment in some of these emerging trends that we've mentioned around Smart & Connected and some of the electrification issues that we have ongoing.

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

I think relative to the new product launches, keep in mind it is very typical for us when we're launching brand-new products on brand-new processes and equipment, those will generally launch at margins that are lower than our company average. And that's because the yields are lower. That's because these are mission-critical products. So there is a lot of redundancy to ensure that our quality levels are where they need to be. And that's not the way we operate once we get to stabilization of the overall new products. So those margins will improve. What's a little bit unusual in the first quarter is that we have so much of that activity early in the year in our first quarter, which is usually our down quarter. So typically, it's in terms of margin. So the lowest-margin quarter for Sensata is always in our first quarter. It's not generally the quarter of the most intense new product launch. The good news is the new product launch is the proof point in -- on -- which underlines our secular growth performance. So it's great to be having that early in the year, and it will serve us very well as we go forward through the balance of the year. But that is an element of what's driving the lower operating margin in the Performance Sensing.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Great. That's helpful. And just a quick follow-up on an earlier point. You mentioned Europe auto end market weakness has kind of been the biggest surprise to the downside. It seems to be a recurring theme from the rest of the auto space this quarter, and I think you referenced general end market weakness. How much do you think is tied to the next round of emissions testing that kicks off, I believe, in Q3 of this year? And are there any end markets and -- specifically to call out where you're seeing broader weakness? And I guess as we think more broadly some of your content expansion opportunities and some of the recent product launches, anything specific to call out as it relates to Europe in the back half that might be a nice offset?

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

Good question. So there is another round of emissions testing. I believe it happens in September, and it's related to evaporative emissions. And we've been watching that one very, very closely. And looking at what the actual protocols are, we don't expect that we're going to see another bottleneck in the overall supply chain in getting vehicles to market given that new protocol. I think that the industry has learned from the first round, so we're not expecting that to be what's driving the incremental downside that we're seeing. It really does come down to what's happening in specific geographies in Europe. Germany in particular has not been a strong country. We look at the impacts of Turkey, for example. We're mindful about Brexit being potential overhang and continuing to monitor that as well. But it's much more around the economic conditions in some of the countries in Europe that's driving our incremental downside.

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As it relates to new product launches, we are very active in Europe with content growth, and that's important. Those are legislatively mandated applications that are driving our overall growth. And our launches are very much in line with expectations, very much helping us to offset that overall end market decline.

Operator

The next question will be from Jed Dorsheimer of Canaccord Genuity.

Jonathan Edward Dorsheimer - *Canaccord Genuity Limited, Research Division - MD & Analyst*

I guess my first question, Martha, is you mentioned inventory levels in -- of autos in particular. And so if we look at the current levels, we have to go back to, I believe, 2007 precrisis to kind of get to these same bloated levels in terms of inventory in the markets. And so if we look at what happened from '08 to '09, we saw about a 13% reduction in production levels, and you've done a nice job of kind of framing and -- or shifting the business, talking about how you've gone from fixed costs to more variable costs. So if I look at the new guide of $50 million lower, which is about 5 million auto units from a production just in percentages, I was wondering if you could help frame -- and we remove FX and the share buyback, it looks like you're flat in EPS. So on $50 million lower, you're able to manage a flat EPS for the year. So I was wondering if you could frame whether or not there would be a waterfall if we see greater auto production cuts than what you're forecasting right now. Maybe for every 5 million units, what we should expect.

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

Jed, that's a good analytical question which I would expect from you. The -- I think a couple of things to keep in mind. The $50 million that's coming out of our overall view isn't all auto. It's a big piece of it when you look at Europe and -- particularly, little incrementally worse than China. But we're now biased towards the sort of worse end of our expectation in the HVOR market as well. And we're seeing some softness in our industrial business, which makes it challenging to tie all of the downside and the overall dropout.

Also recognize that while we have been growing really well in China, our content per vehicle in China is still lower than a mature market content per vehicle. So it matters a lot where that overall dropout is in the end market. So we'll try to think of ways to be helpful to make sure folks understand where further changes in the end market may impact our overall top line.

I think the key thing to recognize is we are very deliberate about ensuring that our costs are aligned with where the market is going. And so it's not simply an independent top line call. There are cost actions that come with that. We are continuing to reposition our costs in some locations given what we see coming in terms of overall end market softness. So that's the piece you can be very, very confident of in terms of preserving our margins and minimizing any fall-through that comes out of revenue declines.

Jonathan Edward Dorsheimer - *Canaccord Genuity Limited, Research Division - MD & Analyst*

That's helpful. Just as a follow-up, Martha, and just shifting gears over to the win that you got in the trucking with the gateway, I was wondering if you could provide any additional color with respect to content on that as it seems like clearly, it's a content growth story for both auto as well as HVOR, and I just -- maybe a little bit of color would be helpful.

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

Sure. We're really excited about this one. The -- I think the way to think about it is that there -- as we talked about, we're very strong in wireless sensors. That has given us an ability to take a look at the consolidation of input of sensors across the commercial truck and quite frankly the trailer information as well. So you can think of it as an area network that we're providing on that commercial truck trailer. What that allows us to do is really enhance our overall sensor content. But frankly, much more importantly, we're bringing brand-new content to the vehicle. The gateway

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itself, the range of that ASP, there can be quite a range on that given what the overall optionality of function the OEM or the fleet manager chooses. Keep in mind there's a retrofit piece of this. But we're talking about ranging from, I would say very high double-digit ASPs for this kind of added functionality. And then as we look ahead, there are opportunities to move beyond just the hardware piece of that but also look at the service and even Software-as-a-Service element that comes with owning that particular gateway. So we're really, really excited about it.

Operator

The next question will be from Steven Fox of Cross Research.

Steven Bryant Fox - *Cross Research LLC - MD*

First question, just on some of the margin pressures related to the new product ramps. I'm just trying to understand the math there a little bit more. I mean is it basically the quantity of ramps? Or was there any specific ramps in there that put more pressure than others on the margin? Or was it the percentage relative to sort of a slower overall Q1? And how that -- how -- can you just sort of describe how those ramp from here and whether we see more margin pressures in the next quarter or 2?

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

Yes. It's really the latter 2 factors that you cited. It's the quantity of ramp. Again, that is the expected consequence of stronger overall secular growth and wins in the marketplace. And it's the fact that it's happening at a time where overall volumes are down in the product areas that are moving more with market. So it's a combination of the overall mix impact of those 2 things: quantity of ramps and lower overall rate at large in the business. And then as we look ahead, the remedy for that is quite straightforward and very familiar to Sensata. We have to do 2 things. We have to quickly get the overall margins of those new products up to their designed margins, and that is a task that is part of our overall launch strategy. This is not unusual, that challenge. And then secondly, we have to make sure that we are constantly repositioning the cost where we see volume down, also not an unusual challenge for Sensata, and we've got a great track record of doing that effectively.

Steven Bryant Fox - *Cross Research LLC - MD*

Great. That's very helpful. And then just as a follow-up, could you -- given sort of the incremental down cuts to your end markets expectations, how does that affect what type of slope we should be thinking about for the second half of the year? Obviously, the comparisons get easier. But in aggregate, do you think it's -- your sales are a little bit more back-end loaded based on what you're now seeing in the end markets?

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

Yes, they're -- I'd say they're somewhat back-end loaded, again, just given the way we see the overall end market dynamics playing out. couple of things to keep in mind. So we move from a really down quarter, for example, in China in the fourth quarter. That end market moved sideways into the first quarter. So we are expecting that market to get better from a year-over-year perspective. And -- but it doesn't have to get a lot better for us to achieve our overall second half. Paul, do you have anything to add to that (inaudible)?

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

Yes, I would say we expect to see the improvement in organic growth improve from Q3 to Q4. So we -- somewhere in the low single-digit organic growth in Q3 and then improving in Q4 to get to the full year guide. So gradual improvement. And that's also benefiting from the lower -- from the favorable comps year-over-year given how low last year's Q4 was in many of our end markets beyond just China auto.

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Operator

(Operator Instructions) The next question will be from Shawn Harrison of Longbow Research.

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

Martha, I was hoping you could give us a sense on inventory in the Sensing Solutions business, particularly just your -- the inventory of your product or final product within China in the industrial and kind of HVAC and appliance markets and how much of an overhang that is right now if at all.

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

Yes. That's -- keep in mind that's a really diversified end market space for us. We do keep our eye on indicators. For example, industry online information that we can get in that overall market. We recognize that inventories were high coming into the year. We've seen some improvement on that, so we expect to see that overall inventory rate come down and some production levels then come down with that as we move through the balance of the year. And that's part of what's informed our guide as we look to the second half of the year.

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

And as a brief follow-up, gross margin that everyone's touched on was down 110 basis points year-over-year. Is there a way to bucket how much of that was because of lower volume on legacy products versus the valves business sales/the GIGAVAC acquisition versus the cost from launching new products just to have an idea of, as you get those new products back to the corporate average, kind of the bounce back we should expect?

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

I think the 2 big drivers would be the change in customer pricing that happens every year at the beginning of the year. That's probably half of that. And then the new product launches make up the rest.

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

Yes. The -- one thing to keep in mind, too, as we get into the second half of the year, that, that acquisitions headwind also diminishes because we divested the valves in the third quarter. So that's been a piece of it. That diminishes as we move through the year.

Operator

And the next question will be from Christopher Glynn of Oppenheimer.

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

I had a question about new product launches by automotive OEM customers. And curious how you think about the impact of trade and tariff uncertainty because the major OEMs have global production, some local for local, some not, and they have to decide how to allocate production. So wondering if you could comment on that dynamic if you think it exists.

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

Well, from -- the way that dynamic would impact Sensata, if at all, would be whether those customers end up seeing their overall demand come down. We are -- we have positioned pretty effectively to be region for region. So our -- in Europe, we're providing from Bulgaria. In North America,

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it's from Mexico. China for China. So that has less direct impact on our overall supply chain movement. What we're keeping an eye on are -- is if, for example, it becomes more difficult to bring a vehicle produced in Europe into North America, how then will OEM share shift change. We're generally agnostic to overall OEM mix inside the region because we're pretty well represented across that OEM space. I think the one customer we've always been really transparent about that we don't have great position on is Toyota. So we look to see whether or not they're advantaged given any of these changes. But I'd say to respond to that, Chris, it's really more what the overall impact it has on demand in the end markets.

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

So you don't see that trade uncertainty causing any deferrals or pushouts in new platform launch cadence?

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

We have not seen that. No, absolutely not.

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

Okay. And then a question on GIGAVAC. You talked about a $300 million sales pipeline. Just to put that into context, wondering how you're thinking about prospective capture rates competitively.

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

Yes. We're very encouraged. It's early days. But when we look at our hit ratios or our win ratios, they're high, in line with overall Sensata's and, I would say, even above what our expectations had been when we did our diligence. And that's a function really of strong technology that comes from GIGAVAC as well as a great position that we have in the overall market. So feeling really good about our success rate in the market.

Operator

And the next question will be from Brian Johnson of Barclays.

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

Yes, Martha. Several questions. First, just touching upon the share repurchase plan. You mentioned pulling $150 million to it. But can -- you -- $550 million over 10 months. I know last May you did a $400 million authorization. So there must have been some remaining. How are you thinking about the pace going forward and what you as a Board might be bringing to shareholders or have already presented to shareholders, but I haven't seen it, for the upcoming year?

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

It's Paul. So we come back to our strategy around balanced capital deployment, weighing the benefit of M&A and share repurchases. So since we redomiciled to the U.K. back in the end -- middle of last year, springtime, we bought back $550 million of shares, we've acquired GIGAVAC. And so as we go forward, we have $100 million left on our authorization to the Board who we interact with fairly regularly around capital deployment. And it's likely we're going to spend $100 million over the next 6 to 9 months and complete the authorization. Depending on what other opportunities are in front of us, we may go back to the Board for increase, but we're going to continue to look at that in a balanced way that drives the greatest returns for the company and for shareholders.

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

Okay. And second question -- a second, more housekeeping question and a more strategic one. The housekeeping question: anything unusual or -- in terms of greater pressures this year in the annual price downs that you mentioned at calendar first quarter? I'm thinking in particular the automotive side given the pressure on margins across the OEM industry.

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

No. Nothing unusual. And in fact, when we look at our overall price downs, we're running at less price giveaway than we have historically. So when volume's down, it's an opportunity to revisit the conversation, where volumes were expected to increase at a particular level, and renegotiate price downs given less volume being delivered, quite frankly.

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

Okay. And final question, more strategic. This overall secular shift of wireless sensing, both in regular automotive, future automotive and probably your industrial and HVOR end markets as well, is that something that will help -- it's certainly your growth platform. But how do you think about it in terms of margins and ROIC both in the growth phase and then when -- as the market gets more substantial and more mature?

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

At a gross margin perspective, we would expect that to be accretive to our overall growth margins. It's an area where we're investing heavily in R&D. So I would think about -- probably at about company average when it comes to PFO or EBIT but accretive on the gross margin line.

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

The next question will be from Matthew Sheerin of Stifel.

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

This is Alvin Park on behalf of Matt Sheerin. Could we -- could you elaborate a little bit more on what you're seeing -- what your expectation is for auto production demand? I believe global auto production was 3% to 4% decline with China at 5% to 6% and Europe at 4%. So what's a gauge of how you're seeing North America markets and the cadence of it, especially in the second half, in relation to prior year comps?

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

Yes. North America is playing out in line with our overall expectations coming into the year. And then we -- again, we expected it to be a down market. I think we called it around overall 1%. When we look at what's happening in the customer base, it's behaving in line with our expectations.

Operator

The next question will be from Joseph Giordano of Cowen.

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Robert G. Jamieson - *Cowen and Company, LLC, Research Division - Research Associate*

This is Rob in for Joe. I just had a quick follow-up to the question asked earlier. But the Wireless Battery Management agreement that you mentioned, I just wonder if you could give us some color on what kind of content that would be. And then also, just like how discussions have gone in the industry regarding technologies like that, how much excitement there is around that? Just anything you could provide would be helpful.

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

Sure. When we look at the content, again given these are much more complex products, mission critical, and they have optionality in terms of what we can deliver to the customer. So the ASPs move around a bit. But we're talking about ASPs here that are in the hundreds of dollars. So significant adder. I think at one point, we provided in an earnings call the trajectory of our content per EV, and our base case on that was something like $175, probably up to a couple hundred, per vehicle. So it's quite significant, well, because really important is to make sure that we're doing 2 things. First of all, providing at or better performance from the current wired solutions that are in place. And then secondly, delivering on incremental benefits to our customers, and they're really seeing those. So this notion of being able to increase overall energy density is a big one. The ability now to actually monitor battery cell information throughout the manufacturing process as well as through the life of the overall vehicle, a lot of excitement around that as well. So I -- we consider it's still early days, but the engagements now are significant enough and developed enough where we're able to say we see a line of sight to overall first revenue.

Operator

The next question will be from Mark Delaney of Goldman Sachs.

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

Yes. I was hoping you can talk more on the HVOR market. Martha, you highlighted the content gains the company has seen in that market. I was hoping you can elaborate a bit more on maybe what specific products are helping with that content gain. And you talked about the variability quarter-to-quarter. Were you trying to signal anything about the rate of content growth investors should be expecting for the balance of this year? Or is that just talking about the normal cyclicality and lumpiness that can occur with content in general?

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

It's really the latter, the -- just recognizing that the content piece moves around quarter-to-quarter. We expect that we'll see strong overall content growth in HVOR when we look back on 2019. So really happy about the overall performance there. And it's driven by the -- many of the things we've talked about. We continue to see a move towards electrifying the cabin of off-road equipment. So we're moving from mechanical, hydraulic controls into electric, electronic solutions. What we bring to that challenge continues to increase in terms of the overall subsystem and their functionality. We see lots of opportunity to continue to add content per cabin as we work that opportunity. We're now seeing very early days on bringing Electrification products to that overall segment. So very, very early in the process. But when you look at medium-duty trucks and commercial buses, that's our focus. So we're engaged closely with customers, beginning to respond to some overall RFPs for those solutions. And then finally, we continue to see the need for cleaner overall conventional powertrains when you look broadly at the commercial truck market, and we're helping our customers solve those problems as well.

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

And so a follow-up along those same lines. I think it was last summer you highlighted some initial wins with steer-by-wire. Can you remind us when those start to go into production and what the content per truck opportunity is from steer-by-wire?

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

Yes. Steer-by-wire is a ways out. The -- and my recollection is that we're in the 3- to 4-year horizon when we see as a meaningful revenue on that. Content can be quite high. Our overall content on those subsystems tends to be high anyway, triple digits when you look at what that overall functionality is.

One other thing I should mention in HVOR really I forgot to mention is we are launching in TPMS as well, and we're using the TPMS opportunity as the basis for upselling to this overall gateway, and we're having success in doing that.

Operator

The next question will be from Jim Suva of Citi.

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

And Martha, you gave a lot of details on all that thus far. Setting aside the kind of near-term auto headwinds, looking at some of your recent announcements of the battery optimization and benefits from that and steer-by-wire, so it sounds like we're setting up for maybe -- and maybe my time line, you can correct me, in like 2-ish or 3-ish years, a potential meaningful step-up in your content. Is that the way to think about it, about the design cycle happening now and getting the wins and the production in a few years? So that could be a meaningful step-up. And if you can clarify if that's the time line we should think of.

And then my second point is more near term. The fluctuations in raw materials, aluminum, copper, plastics, oil, resins, are you guys hedged? How should we think about the fluctuations in the raw materials?

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

Yes. Let me address your first question, Jim. I'll let Paul chime in on what's going on in commodities in the business.

We are certainly very much focused on continuing to extend our overall secular growth and, quite frankly, inflect it. And so when you look at the overall value of the new solutions we're bringing, much higher ASPs, that's an important element of it, is positioning to be able to inflect the overall growth.

Having said that, I would say it's still early days. And in things like our Wireless Battery Management, sensing, it's really going to happen also at the rate of electric vehicle growth per penetration in the fleet. So there are some externalities that will impact how these play out and impact Sensata's overall growth. But the intention is very much to inflect from what is, I think, a strong secular growth rate today to one that's even stronger.

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

On the currency -- sorry, on the commodity piece, we hedge our commodities the way that we do currencies. So we hedge out forward about 18 months. And so it doesn't have a meaningful impact on our financials in 2019, and our commodity spend is probably around $65 million, $70 million per year.

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

So they -- it may -- the true commodity piece of what we procure is pretty small, Jim.

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Operator

The next question will be from Craig Hettenbach of Morgan Stanley.

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

Yes. Just a follow-up question on the gross margin and understanding it's expected to improve through the course of the year. Is there a level you think you would settle out, how long a term, how to think about what the range of gross margin is for your mix of business?

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

Longer term, okay, we continue to work the productivity side to more than offset the contractual price downs that we see in the automotive business, and we've had a rich history of doing that, whether it's reducing material costs through working with suppliers or design-driven cost savings or increasing the productivity or managing our network to be the most optimized, efficient it can be. All those activities go into driving costs out of the product every year, and we look for that to be more than the price that comes down, which is the long-term nature of our business, particularly on the auto side. So we expect gross margins to continue to grow year-over-year. We've seen that trend over the last few. The launch of the new products certainly has created some challenges in terms of margin profile in the first quarter, but we expect that to improve, as we continue to do -- we always do every year, day in and day out. And if you look at our trends in the past, you'll see gross margins continue to grow quarter-to-quarter. So I feel confident that we'll be able to achieve the expectations that we have for the year and going forward.

Operator

And ladies and gentlemen, that's all the time allotted for the call today. I would like to turn the conference back over to Josh Young for his closing remarks.

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

Thank you. I'd like to thank everybody for joining the call this morning. Sensata will be attending the following investor conferences in the next 2 months: the JPMorgan technology conference, the Melius industrials conference, the Robert Baird tech conference and the Stifel Cross Sector Insight Conference. We hope to see you at these conferences, and we invite you to visit us at our headquarters in Attleboro, Massachusetts. We appreciate your interest in Sensata. Thank you, and good day.

Operator

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

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