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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC at JPMorgan Global Technology, Media and Communications Conference

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PRESENTATION

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

I'm Samik Chatterjee, the networking and IT hardware analyst. The next company for the fireside chat is Sensata Technologies. So with us, we have Martha, the CEO as well as Joshua, the Head of Investor Relations.

So Martha, thanks for taking the time to come here and answer questions.

QUESTIONS AND ANSWERS

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

If I can kind of start off with primarily, I would say, a nonconventional question in that regard. When I talk to investors, I talk to a group of industrial kind of buy-side clients as well as a group of clients who look at technology companies. And how would you kind of classify Sensata and kind of help us understand what makes Sensata a technology company because it seems like there are a group of investors, who would classify it either as a industrial company and a group that would classify it as a technology. So just because we're at a technology conference, help us understand what makes Sensata a technology company?

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

Thanks. And I appreciate the question. I'll just start with some fundamental things about our culture, our makeup, very engineering organization, very engineering-driven, at the heart of all of what we do is technology and innovation. Mostly people know us for our focus on mission-critical sensors. And so for those of you that may not be familiar with sensors, we're talking about active, highly customized, assembled, products that's at the component level. Increasingly, we're moving towards wireless sensing and with that move, we're moving from the sensor layer into the ability to now bring digital insights into our industrial customers as well.

So now you can think about things like wireless protocols. We just announced a production contract for our first-ever wireless gateway. So you can think of that as a vehicle area network on a commercial truck that provides information to a fleet manager. And so I'm trying to give you a range for what is in the portfolio and why we're not confused about being a technology company.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Thanks. Let's dig into some of the technology trends that Sensata is levered to and focusing more on kind of the core business here. Autonomous driving obviously has gained a lot of interest with investors. We often associate kind of radars, image processing at the component level with autonomous driving. Just walk us through kind of sensors, how important it is to autonomous driving? And what's the role that Sensata can play in this?

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

Yes, I'll back out just a bit. There are really 3 primary megatrends that are driving the growth and the investment in our business.

One is electrification, which is now quite a tailwind to our overall growth. The second is in the area of connected smart insights, so bringing information into the analytics layer and the third is autonomous that being I'd say the farthest out on the horizon for Sensata. When we think about autonomy, we think about it well beyond the automotive opportunities. Inside of automotive, our focus is on Level 4, Level 5 driving. LiDAR is an important feature that we want to bring to the market, but we're making investments in other technologies as well and just given what it will take to actually get to that level of autonomy.

Our view is that autonomy is very much a use case-oriented opportunity. And some of those use cases consolidate across the end markets. And so one of the things that we've done over time at Sensata is take technology and lever it across different end markets. We see the opportunity to do that in autonomous opportunities as well.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. So I understand autonomous driving is kind of the farthest out. We'll kind of bring it back near term as we go along the discussion. Let's just stay on autonomous driving for a bit here. Can you give us an update on the relationship with Quanergy? How much progress it has been because I think you're the exclusive manufacturer for the only -- in the transportation market for that product? And kind of what we've seen from other companies in this space like if I compare to somebody like, Aptiv, for example, a company like Aptiv, they have multiple bets on LiDARs. They've kind of taken the approach that let's invest in 3 or 4 companies and see which one wins. We don't want to kind of have opening bet or kind of make a winning bet here. How are you thinking about it? Are you looking at more opportunities beyond kind of your relationship with Quanergy?

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

We are, and we have to put it in perspective. Quanergy is the only public announcement that we've made. Again, getting back to the notion of use cases, we think the Quanergy technology is very appropriate for some of the high-volume use cases, but the solutions that the market needs are not going to be served by a single solid-state technology relative to LiDAR, and we think its really sensor fusion. So it's more than just LiDAR to make that opportunity come to life. And so our interest in our investments go beyond the Quanergy, LiDAR investment.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

And -- is there an update to the -- where Quanergy is in terms of commercializing the LiDAR?

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

We are really careful to let Quanergy speak for themselves. So as a public company that perspective should probably come from them. Our focus on their technology is more in the Level 4, Level 5 driving, which I've said is further out in the horizon.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Sure. So just bring it more near term, I think most reasonable auto analyst would agree that electrification is kind of more near term as a driver than autonomous driving itself. Just take us through what the content per vehicle for Sensata looks like on a electric vehicle? I've seen at least kind of a lot of progress from Sensata on that front over the last 3, 4 years. So just maybe dial back a bit where you were 3, 4 years ago and kind of help us with the progress you've made on that front?

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

Yes. Thanks, Samik. I think the biggest factor in driving more content for Sensata into electric vehicles and let's think of those as new energy vehicles, and whether that's a plug-in hybrid or a full battery electric vehicle. The major driving forces that were now on generation 2, generation 3 of vehicles, where we're trying to help customers solve for a greater range, greater energy density, lower cost, faster charging times that's driven a lot of our opportunities. So if you go back to a Gen 1 EV, our content there would have been really what's outside the power trains, stronger tire pressure sensing, climate control systems, regenerative braking systems, even on those vehicles But we were sitting at below our company average, which across the fleet is about $20 or so. We made an acquisition in 2018 of a high-voltage contactor company that doubled our content in all-electric vehicles. So we set it about $40 of content today. You compare that to mid-$30 on a traditional gasoline powertrain vehicle. So we're now at the point where we're very much rooting for electrification to take off. It's a terrific tailwind. I'd also like to mention that beyond the contactors and beyond auto, we have a really strong play on our wireless battery management system. We just announced a strategic engagement with a major Chinese player in the electric vehicle market and that came after a couple of years of validation now where we're able to prove that our wireless system actually is more reliable than the wire product today, so we're really excited about that.

All of that translates beyond auto into commercial truck, into charging stations, into industrial infrastructure. So our investments in these areas have been to look at more ubiquitous technology plays across end markets and again, that's where we view ourselves as a technology company.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

And just to clarify the acquisition you mentioned was GIGAVAC?

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

Thank you. Yes. The company was GIGAVAC, primarily an industrial base business, about 60% of their revenue are industrial base, had a designing position at Tesla. We've seen lots of opportunities to take that beyond Tesla into other global players. We're sitting with a pipeline right now of sales opportunity about $300 million on a business that was just over $100 million just given the interest and the portfolio that we have.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Right. No. That's a great progress. I still get questions surprisingly on what's the downside to Sensata on diesel moving down in Europe. So just give us the -- what are you seeing in that landscape? Is there still further downside in Europe on diesel? Are you seeing hybridization pick up there, and how do you quantify the impact to Sensata overall?

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

Yes. That's really surprising that you'll still be getting those observations. So a little bit of history. We've seen about 15 percentage points of drop already over the past few years on take rates of diesels in Europe, which is really the passenger car market for that. It comes with the observation that we've traditionally had higher content on diesels at about $38 or so. We had gas content now in the mid-30s and moving up quickly. The point of all that being is with 15 percentage points of drop, we've grown very nicely in the automotive business. We've shown about 5% to 6% secular growth independent of the end market, so clearly, not a [headwind] (corrected by company after the call) for Sensata.

We're getting to the point now where that gap in content closes by the time we get into early next year. So not only has it not impacted our overall growth, it's getting to the point where it's really immaterial in terms of the discussion.

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Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

All right. One of the things that was probably an eye-opener for me couple of years back is that you as a company tend to have the best technology in the automotive group and over time migrate those best practices from the automotive group into the other segments. Can you kind of talk about the technology that you're working on to address some of these automotive megatrends and how that would be relevant to some of the other end markets that you're in like industrial, for example, as a big one, heavy truck as well, how you kind of move in those technologies across and kind of gaining content in those areas end markets?

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

Sure. I think the thing that might be helpful for investors to think about is, when you think about the sensor landscape, it's very large and it's fragmented. The largest end market is the automotive market. So if you've got a strong position in auto, you end up with really nice scale advantages and very often technology use that happens there for the first time and then emanates out as regulation catches up in other end markets and applications do as well. The other thing I would say is we actually see it go the other way, where now when you look at the challenges automotive players have, we see great opportunity to take some of our industrial technologies like electrical protection and contactors from industrial over back into auto, and we like that play a lot.

Examples I would give you though to the point that you're making. This area of wireless sensing really great opportunity. Sensata has the biggest, strongest position in onboard wireless sensing than anybody in the industrial landscape. And so we're using that not just to do more pressure sensing because that's been the sort of the core business, but to take that those protocols and use them now, for example, on the wireless gateway that I mentioned on the commercial truck side, where we're serving as a platform not just for our wireless, but we're helping other sensor suppliers actually bring wireless capability to use this platform on the commercial truck. So just another, and there are many, many, many other examples of actually using technology from one end market across the landscape.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Let me kind of just change gears here a bit and if I go back to the Investor Day in 2017 that you hosted, at that point the expectation was that sensor content on a vehicle in China would probably expand by around 50% over the next 3 years. Where are we relative to kind of those expectations? Are we tracking ahead or kind of inline? How you expected things to go? And we've seen pressures in the China market on automotive production, so has that resulted in any of the OEMs pushing out their plans to have more sensor content, what are you seeing there?

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

Again, a bit of perspective. So we've been in China as a wholly owned business now going back to the early 90s. In China, Sensata is very self-contained. So what we build largely stays in China. Our engineering that we do is in China. I mentioned those things because I do think given sort of the trade environment, it's important to understand both our opportunity in China and how we go-to-market there, which really limits some of the trade exposures that I know folks are concerned about. But to your question, Samik, when we had our Investor Day, we pointed to the fact that we had about $11 of content per vehicle in China at the time and said that, that would increase to $16 by 2020. Some proof points along the way. In the fourth quarter of 2018, the China market contracted about 17%, 17% or 18%, and we grew our automotive business in China. So we are well on our way to achieve and exceeding that overall content objective that we have.

If you look at what drives growth in China, it's really all of the applications that we talk about in a mature market and then some need to modernize their fleet, which is not yet, in many cases, where the mature markets standards are.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. If I go back to the discussion around your positioning on the EV hybrid and then diesel or the internal combustion engine vehicles all together, one of the frequent pushbacks that investors have is that Sensata has a great position when it comes to internal combustion engine vehicles and

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sensor content there? How do you translate that into a solid position or a market-leading position on the new energy vehicles and that's often I think seen as entry point for new competitors to come in. So how do you translate that without losing out on your leadership position there?

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

Right. A couple of things to note. Our -- in our automotive business, which is 60% of our revenue, so 40% is not auto. 60% of the business is auto revenue and more than half of that does not sit in the powertrain. So the conversation we're having is around the piece that's in the powertrain. If I went back to the early 2000s, we had no powertrain position. When we look at how we built that position, and how we're building an electrification it's the same playbook. We sought for mission-critical, very difficult to do applications. So we don't try to do all sensors or all subsystems across the fleet. We engage very early because given that they're mission-critical, the switching costs are high. So we've made these investment and we've had these engagements now that have gotten us into an incumbent position, and we think that, that's going to serve us well. I mentioned the $300 million pipeline, which is an annualized pipeline, just on our high-voltage contactors alone and that really speaks to the pull that we're getting from customers and the value for that particular application.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

So just comparing the organic growth guidance that you have for 2019 and we're talking about this outside as well. Like when I compare to some of the growthiest auto suppliers that we've tracked in the past like BorgWarner, it kind of exceeds the organic growth that some of the auto suppliers are going to deliver next in 2019. As we look at that organic growth guidance, I think you've revised to 1% to 4% recently. That's since -- so just kind of mid-single-digit content growth over end market that's probably declining modestly this year, what are the primary content drivers this year in 2019? And is that kind of a sustainable level of content growth as we go into 2020?

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

Yes. The content drivers will shift from, I would say, over 2- to 3-year time horizon, and so we can talk about what's driving us now, we can talk about what was driving us 6 years ago. The general themes are the same. So if you think about clean -- need for clean and efficient cars and equipment, big driver, electrification a driver right now as well. In China, mandates around tire pressure sensing also driving us. I'd say the things that sort of order of magnitude driving content in auto are really the growth and applications that are driving more efficiency and cleaner. So expansion of gas direct injection, expansion of the use of regenerative braking systems where we move from 1 sensor to average between 2 and sometimes more on that particular application.

More sensors in the exhaust systems of both hybrid and full gas engines. Right now, we're really driving a lot of growth and a lot of new product launch around that opportunity as well. On the commercial truck side of things, on the off-road part of what we're doing, really consistent growth around the move from hydraulic, mechanical use in the cabin to electronic, electrical controls that are now closed loop inside of a combine or piece of construction equipment.

So those are sort of the near-term things right now. Frankly, most of our focus is on the design ins that are going to drive applications that grow 3 to 4 years given the design cycle in our business.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

One of the opportunities and that's benefiting content growth right now is the China TPMS implementation. I don't know if you'll quantify this, but how much is that, that in terms of part of the content growth this year? And once that starts to roll off because we're used to seeing regulations and kind of mandatory and option around that and then the business TPMS goes into more of kind of a flat trajectory from there onwards till you get the next geographic kind of making it mandatory. So once we look at that dynamic like once that rolls off, how do you start to backfill that? How much content growth is it contributing today and how do you backfill that?

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

Yes. I would say even today it's a nice driver. It's not the largest driver of our content growth in China. And one of the things that's happening now is the deployment of what's called National VI in China. And those are mandates around tailpipe emissions and there are standards around fuel economy as well, and that's really driving not just growth now but extending growth as that rolls out across China in the auto fleet. We're still dealing with increasing take rates on things like vehicle stability control systems that sit at almost 100% use in mature markets. It sit well below 50% in China.

When we look at things like automatic air conditioning, that's not as pervasive in that market as you'd see elsewhere. So TPMS is important, it is not the largest driver in China. It does have a tail that takes us out into 2020 as well and then the only other thing I think I would want to correct in terms of perception on tire pressure sensing, we're looking at very early days of use of tire pressure sensing full-up systems now that we provide on commercial trucks as well, and we're doing that around the globe. So we see another wave of growth just associated with TPMS.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

So is that like competing with companies like Dana who provide that full system for heavy trucks as well?

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

Dana is not a direct competitor if you look at where they're sourcing some of the components that go into that. We do have a different set of competitors. Walco is somebody that we've competed with against on that system. It's not a large number of players.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Before I move into Sensing Solutions and kind of the rest of the business, why don't we check if there's any questions in the audience? Okay. Let me just continue. So let's just move to the Sensing Solutions piece, we've been discussing kind of Performance Sensing right now.

Just in terms of Sensing Solutions, can you help us understand the core technology capability there and what are the opportunities like how do you get that business to have stronger content growth as you progress?

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

Yes. So inside of Sensing Solutions, it's all the technologies that are available on the auto side because we very deliberately look for industrial opportunities to extend that technology so very strong pressure, wireless, high-temperature sensing, position sensing. And then there are some that are unique to the industrial landscape. So we're very strong in electrical protection. That has positioned us very well when we combine it with the high-voltage contactor acquisition that we made with GIGAVAC. We're seeing growth right now in things like charging stations, for example. We've seen growth driven by the conversion to lawn tools and small appliances that are moving full electric that were not electric in the past. It is a portion of the business that's highly, highly fragmented. You can think of it as almost an analog semiconductor play so that the portfolio itself ends up having really nice sticking power just given what the nature of that customer is and what they need.

I would say a little longer term, but we're starting to get traction right now. We're very focused on warehouses and material handling, so equipment in warehouses and material handling. That equipment has to get much more precise. It has to get autonomous and it has to get safer if you think about the integration between people and machines in that environment, so seeing really nice opportunity for growth for our Sensing Solutions side there.

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Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

And when we look at Sensing Solutions, obviously, industrial has a big end market overall. But they're certain other smaller end markets when you look at aerospace, et cetera. Investors often struggle with kind of the smaller end markets and how to track them. So if you had to kind of outline which are the major end markets investors should track and keep a watch for and kind of what are the trends, latest trends there you're seeing in those smaller end markets that you sell into from Sensing Solutions that will be helpful?

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

Yes. Good question. I think industrial is really the sundry category because it is a combination of many, many different end markets. What we look at, I would say, near term if you look at the profile on our revenue there, aerospace is an important market. We've got just under $200 million in revenue there and growing. The HVAC, so commercial HVAC market is one that we're fairly well represented, although it's small relative to overall Sensata. What drives growth there, again, more efficiency, the move to variable flow refrigerants, for example, the movement now from many split systems from Asia into the U.S. is a growing trend and one that serves us well. We have more sensors on that content.

And then this whole material handling space as it relates to warehousing, those are some of the areas where we focus pretty strongly.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Let me ask you for your views on China, what we've seen early on this year in terms of share price reactions with most of the auto companies is definitely optimism that once the trade deal gets done there'll be a recovery in automotive production in China. When you think about kind of the possibility of outcomes here if a trade deal does get done, do you see recovery in the China market? What's your view on kind of the production in that market, what a trade deal we're getting on?

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

When we last gave guide on the balance of the year, when we look at all of our end markets, we've tended to be under -- a bit under third-party forecasts.

When we thought about the China auto piece I think more important than trade, when we look at the dynamics in our customer base, is what happens to incentives in China and how much traction do they get and when do they get that. So we're counting on a little bit of help on that, but not a lot of help And just to put our perspective on China auto into play here. First quarter, end production was down 17%, and we're guiding for overall, down I think around 4%...

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

5% to 6%.

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

Okay. 5% to 6% now. So down from there, which means it's not going to be down 17% every quarter. If you look at the comps in the second half of the year and one that China end markets started to correct that's a primary driver of the change in the sort of growth rate first half to second half for Sensata.

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Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

And when you refer to incentives, are you referring to kind of the VAT reductions? And what are you seeing on the NAV incentives? Are those gaining traction? Is that driving more of an acceleration in the new energy vehicle space in that region?

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

It is driving it, but it's still a small market. It's also things like scrapping incentives now that have been inactive, particularly in the Tier 2 through Tier 6 cities. If you look at the vehicle content there, it tends to be older and sort of higher remitting. So there's incentives to upgrade and that would be a very nice play for Sensata if that gets strong traction.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Couple of questions on guidance. So first the longer term, again at the Investor Day you had 3-year targets that you issued, 4% to 6% organic revenue growth, 250 basis points of margin expansion and 10% to 13% EPS guide were the targets. Where are you in terms of delivering on those targets, like we know the organic growth guidance for this year, but help us think about on a 3-year trajectory if we take it over the 3 years, so how do you feel about delivering to those targets over the 3 years?

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

Yes. If we go sort of top line to bottom line, our organic growth guide of 4% to 6% assumes no help from the market, and we actually were very transparent about what our global end market assumptions were. We're at -- we've been performing at the high end than of this content growth, so if you think about getting no help from the market, it's really the secular dimension. We've been delivering at or above 6%. We feel really strongly about our content performance and very confident about sustaining that. The put and take on that is end market volatility and so less confident about what end markets are actually going to do over time. If you look at all of our quarterly earnings calls, we've spelled out how we've performed versus how those end markets have performed. And I think that's the thing that's probably the most helpful to investors. All of whom are going to have their own perspective on what end markets do.

In terms of the growth in EPS, highly confident again, for a number of reasons: One, just given the secular piece and then the leverage we're able to get on volume growth to expand the bottom line. We've been able to deliver already 140 basis points between our guide this year and our performance last year. So lots of leverage out of our earnings. The place where we have made some trades in the interim is when we've had the opportunity to accelerate top line growth, meaning more OpEx to do new product launches, knowing that it's going to actually accelerate EPS we've made that trade. It has resulted in the short term with a little less margin expansion, but we will make the trade to make sure that we're maximizing EPS growth, double-digit EPS growth.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

If I go in terms of these key metrics, organic revenue growth, margin expansion, EPS, CAGR, how would you rank kind of your confidence in delivering to these targets over a 3 year, even if the end markets doing very soft in 2020? Is it still kind of the margin expansion is the highest confidence and the EPS, CAGR is the highest confidence and the revenue growth probably below that?

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

Yes. Look, I think -- I would think of it in terms of what do we have control over. And so if organic growth is lower, markets get tougher that's going to allow us to actually focus all in on the margin side, as we've done in the past because there are fewer new product launches. So there are some dependencies between those 2 things. I think the major message here is, our ability to control our destiny on double-digit EPS growth is very high. And -- so the other thing I would add to that and maybe we will get to it, Samik, is -- it isn't just what we do on the expense, on the growth, it's also

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the options we have on capital allocation. Now we've got a balance sheet that's in great shape. We've restored optionality to our capital allocation and we have very, very high cash flow, so those are other areas that help.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Let me ask you the guidance question, but more on the near term know. As I look at 2019 to your guidance of 1% to 4% organic growth, one of the concerns I had when I looked at kind of the first quarter performance and then the first half kind of implied guidance there, is that you're kind of assuming a pickup in the back half in terms of growth and some of that might be just the industry estimates overall for automotive production are a bit more quite a bit easier going into the back half in terms of tough comps as well. Easier comps as you kind of roll -- move into the back half? How reliable do you think those industry estimates are at this point? And I mean, how confident are you of that back half recovery because that seems to be kind of what's predicating, kind of helping you drive to that organic growth guidance for the full year?

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

Yes. I think the first thing I would say is, we're not counting on a recovery. So if you look at actual production rates, you take commercial truck production, we're counting on that going down in the second half from where it is in the first half, for example. When we look at things like new product launches that we know are coming in the second half that's a factor as well. Really important to recognize though, our call on the end markets is more conservative than third-party calls. So you asked how confident are we in their calls, the answer is not very because the tracker, it's not good. So we have our own use of analytics that we look at.

Will there be volatility on that? Sure, it's very possible that there will be. To the point you made though, if you look at how far down the production rates would have to be in the second half versus what we saw in the second half of '18, for example, in China and in Europe, you would be calling for levels that are way below what we're currently running now.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Any questions in the audience?

Unidentified Analyst

(inaudible) announced.

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

Incentives haven't announced, so the ones that we talked about VAT is very well known at this point, the scrapping incentives have been announced. Our experience is that those take time to hit the market and then often how they're actually enacted can have an impact as well.

Unidentified Analyst

If I hear you correctly, it sounds like you like to work in complex applications. The second thing is that the marketplace is kind of giving you a ceiling that you're going to be working within. Does it tell you that you have to start thinking about less complex applications to scale the return on the investment from your R&D and the available technology portfolio?

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

Not at all. If you look at the return on investment, that we get, it's really, really high. And so I'm glad you asked the question because you can get the impression that if they're complex, there's an R&D intensity to them that is difficult to get a volume return on. The way we configure our portfolio and go after opportunities, it's the notion that we're going to leverage technologies across not just a specific end market, but across customers within that end market. So like, for example, we've got a really strong position in capacitive sensing. And the original development of that position was somewhat intensive, it goes back years ago. Now if you look at the volume base on that technology, we're talking about hundreds of millions of units on an annual basis that go across end markets. So we developed building blocks and then we configured those in a sort of semi-custom way to get leverage on those.

So I think what you can take a look at is look at what the R&D intensity in the business has been. We measure that both in terms of R&D and then an engineering investment that we measure at the COGS line that runs at about 7% to 8%. 8% would be high, runs about 7% and has been really consistent. And we think we're going to see -- we have delivered great growth with that investment and we'll continue to do so.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Well, let me squeeze in a last question here, M&A. We haven't seen you do one for a while. But that's been kind of the -- I guess the DNA of the company in terms of finding new areas for growth and finding complex technologies that you can move into. So how is the pipeline? What are the opportunities you might be looking at?

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

The last one we did was actually in the third or fourth quarter of last year, so it hasn't been that long. To give you a sense of it though, our pipeline, it tends to be more biased outside auto because we've got a very strong portfolio already in auto. We are in very fragmented vertical markets in industrial. And what we see there are bite-sized opportunity, so more along the GIGAVAC, for example, where we're in the couple hundred million down to $50 million purchase price opportunity. Great ways to bring technology and some channels into market. That's the nature of the pipeline.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Right. Thank you. Thanks for the time.

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

Thank you.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Thank you, Martha.

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