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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC at Stifel Cross Sector Insight Conference

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PRESENTATION

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Happy to have with us Sensata Technologies, which is one of the largest sensor suppliers in the world, and representing the company is Jeff Cote, President and COO, and we've also got Joshua Young, VP of IR. Welcome. This is Q&A session. So I'll start with a bunch of questions, and hopefully you'll have some from the audience as well.

But to start, I've asked Jeff to give us some quick introductions the company for those not as familiar, and then we can get started.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. Thanks, Matt. I appreciate it, and I appreciate everybody joining us this afternoon here at the location and also on the webcast.

Just in order of quick introduction, so I'm Jeff Cote, I've been with the company for 12 years, I joined in 2006 as the Chief Financial Officer, and I've been in a number of different roles over the last 12 years within the company.

Sensata is a 100-plus year old industrial technology company that -- although you may not be familiar with the name, I can almost guarantee you that you interact with Sensata products on a daily basis, whether it be in your home, in your vehicle, in your other transportation modes such as rail or bus or aircraft. And we aim to serve a wide range of customers, OEMs, tiers and after-market customers in a number of end markets, including automotive, heavy vehicle, construction, agriculture, a variety of industrial end markets as well as aerospace.

We have a number of themes or trends that allow our business to grow faster than the end markets that we serve, and those trends are regulatory aspects of safety and efficiency that enable the amount of content or the number of sensors in the systems that we're serving to actually perform their functions. We have a strong legacy associated with continuous improvement in terms of what it is that we do for our customers. So we have very strong differentiated margins in our business that we've been able to maintain over a very long period of time. And we also have a strong legacy in terms of engineered and engineering engagement where we select opportunities to serve our customers in very difficult, hard-to-do applications.

The combination of secular growth, good margins allows us to generate a lot of cash flow in the business as well, so we're very high from a cash generative standpoint, low capital spend in our business, 3%, 4% of revenue and that leaves us with a lot of flexibility in terms of capital allocation, which historically has been on both M&A -- value creating M&A and also share buyback.

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QUESTIONS AND ANSWERS

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Great. That's a great place to start. Let's talk, you talked about the growth opportunities, regulatory issues, safety, et cetera, starting with auto, the big mega trends are Electrification, connected IoT, autonomous driving. So talk about your content? Where you are in the vehicle today? And as you look forward, particularly with recent acquisition of GIGAVAC, what should we think about in terms of content in cars going forward?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Sure. So if I may just step back a little bit from the content question because given the end markets that we serve, we could have content of dollar per unit when we're talking about a refrigerator or an appliance that would go in your home, and we would have tens of thousands of dollars of content in an aerospace application. Specific to the question around the light-vehicle environment, we would have anywhere in the range of mid-$30 to $40 of content in a traditional combustion engine, whether that be gas or diesel combustion engine. We have a little bit more than that today in an EV platform because more than half of the content in a combustion engine transfers over into an EV platform. And over the last 2 or 3 years, we've had a very concerted effort around internal development as well as a number of acquisitions that will allow us to have sockets and content opportunity as the fleet of vehicles transitions over time, which it will inevitably do, into more of an EV platform. And so we have, as I mentioned, a number of opportunities that will allow us to convert that trend that will occur from combustion engine to EV as a tailwind for the company as opposed to a risk to the business.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. And then -- so just drilling down there, the content in -- relative to the drivetrain versus other parts of the vehicle, and when EV replacing some of that, I mean, you've got other things around cooling systems, et cetera. So maybe elaborate on that.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So that's where I come up with the 50% that transfers over. So if you assume that the drivetrain in a combustion engine environment goes away, so a transmission, exhaust stream and the engine goes away and is replaced by an electrified platform, about $20 of content today is outside of that environment. So assuming that when you convert to an EV platform, you continue to have a hydraulic braking system, you continue to have air conditioning, electric windows and other applications that have our content in them, that's about $20 of content.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

And TPMS.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Exactly. TPMS would continue to exist. So there are number of things that we do today, applications that we serve in the light-vehicle market that will continue in an electrified platform as well as the other things that we've been investing in. We acquired the leader in high-voltage contactors, GIGAVAC, last October that represents opportunity in electrified platform. We have a number of organic efforts around battery pressure monitoring for monitoring of potential issues with thermal runaway. And so there are items such as that e-motor position sensors as well as a very large opportunity that we've been investing in, and we announced I think a quarter ago that we won our first opportunity around Wireless Battery Management. So that type of combination of opportunities could propel us to multiples of what our content is today in the future in electrified area.

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Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

So you've talked -- I mean how does that tie to your long-term organic revenue target? At your Analyst Day a couple of years ago, you talked about 4% to 6% CAGR. So little bit slower because of some end-market issues. But is that still in that range or with these additions, that's going to be better than that?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Both for -- are we speaking about for '19 or longer term?

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Longer term.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So I think that the -- some of the areas that I've identified really solidify our view that the company will continue to see secular growth way beyond what the end market growth will look like. We've talked about 500 basis points of automotive growth beyond market growth. I think that some of the things that I've mentioned such as the contactor strategy and also Battery Management could propel that to a faster pace. Also mentioned we've had one success with a customer in China around that, will give updates in terms of how that proliferates more broadly into our customer base. But it certainly would represent an opportunity for an acceleration beyond that 500 basis point content growth.

We do serve other markets that have an experience base of higher content growth. For instance, the heavy vehicle market that we serve has experienced 800 to 900 basis points of revenue growth beyond the end market itself. And so there are number of other areas that we're investing in that we've been able to see penetration that has seen that kind of secular growth in that market as well. And the idea here is to take these areas that we've invested in and fan them across all of the other end markets that we serve.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. And then with the GIGAVAC acquisition, I would imagine it's going to take a couple of years to get design wins before you actually see real cross-selling opportunities there? Or is that -- would it be sooner than that?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Well, so I think there are 90-plus EV platforms that we'll be launching in 2019. GIGAVAC today did serve, and Sensata does serve some automotive OEM. So we have positions with companies like Tesla and Porsche and Daimler already. As those platforms continue to migrate toward higher volumes and as those -- more of those platforms come out, we will have opportunities to continue to grow this businesses. What we've talked about is this about an $80 million business that we acquired back in October. We paid $220 million for the business -- $230 million for the business. In the very short period of time, since October, we've been able to construct an order book, or an opportunity to work with customers, of over $300 million on an annual basis that's not in 2019 or 2020. But when you fast forward 3, 5 years from now, there's a typical sales year opportunity of over $300 million just in light vehicle, and there's more in other markets. Electrification is a theme that is clearly impacting beyond light-vehicle automotive. It's well penetrated in bus, it's well penetrated in other logistics-type vehicles for short-route delivery services and in material handling and others. So we see it as an opportunity to bring it to those markets as well, and there is -- today, there is customer engagement on all of those fronts.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Great. And then beyond the engine, we've got, obviously, autonomous and LiDAR. You've got a relationship with Quanergy.

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Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

What's your strategy around ADAS, LiDAR, assisted driving going forward? Is Quanergy one relationship or one bed? Or are you looking at other opportunities as well?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So we -- I think 2 or 3 years ago, we announced the partnership with Quanergy. That is the only partnership that we have ongoing that we have publicly announced. But we do have a number of other engagements ongoing with technology partners both in the LiDAR and Radar and other technology-sensing areas. It's our belief, as a company, that autonomous is a question of when that's going to happen rather than if it is going to happen. It's just a time-based and technology-based question, and we believe that there will be a need for a number of different technologies to enable that. We also believe that there will be opportunities, although we don't serve that market directly today, there will be opportunity way before Level 5 autonomy. And so keeping a lot of options open in terms of partners that we would work with to be able to bring their technology and package it to bring it to OEMs and customers across end markets is an important thing that we've been working on for a couple of years now...

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

With the time frame to actually see, you've monetized those investments.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So lots of customer engagement, customer -- some of our customers are launching some version of camera, Radar, mechanical LiDAR applications in the market today. But we're working with customers around quoting in the 2023, 2024 time range.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Great. And then just sticking with automotive, you've -- I think Sensata's been one of the more conservative companies in terms of your outlook for production growth relative to competitors and everyone's been bringing down the numbers. What's your take -- but you're also expecting somewhat of a bounce back, at least some growth in the second half and obviously against easier comps. So what are you thinking about in terms of production growth either globally or by region?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So what we've talked about is we have seen a decline in the markets in China specifically for automotive and in Europe. We haven't seen much of an impact in North America. So no new news really to report on that front right now. From a -- expectation for the balance of the year, we have actually factored in that kind of decline in our expectations. The growth is really a year-over-year comp question. So we're not expecting some snapback in terms of overall end market in automotive or other end markets for that matter. And the growth is really a result of the year-over-year comparison rather than expectation that things are going to recover.

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Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Are you seeing signs of stabilization in China? Or is there still a lot of uncertainty just around tariffs and...

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So I think from an order standpoint, things seem to be pretty stable. But we're watching indications like tariffs and what that impact might be on the end-market demand. We're looking at other things such as incentives that the government may put in place to help the overall demand profile as well. But we're not seeing any shift in terms of spread of the softness that we saw on the markets other than what we've talked about.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. And what about Europe, which went through a lot of regulatory and compliance issues last year, any signs of stabilization there?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So that was a market that has actually seen about an 8% decline from where it historically was, and we're seeing it sort of stabilize around that range right now. So no incremental decline.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Yes. But -- so in that environment, excluding FX headwinds, you're still looking at organic growth in the low single digit?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. I think we adjusted in our last earning call, our relook is to where we thought growth was going to be for the balance of the year, and what we see is consistent with that.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Yes. Okay. And then moving to your Sensing Solutions business, which is industrial, aerospace and defense, HVAC, a market where you've actually seen some really strong turnaround both on margins and growth in the last few years. Talk about what you're seeing in those markets and the growth opportunity and technology and any cross-selling opportunities with the technology from the auto side?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So this is obviously a very large market, depending on how you define the industrial market, including aerospace, it can be a $70 billion to $80 billion total market. The way that we would look at the size of that market relative to what our capabilities are and where we can serve that market, you'd call it somewhere around a $7 billion Sensata opportunity. Put that up against Sensing Solutions, which includes our industrial base as well as our aerospace of about a $900 million business, you get the market share. So it's, call it, little more than 10%. We've made a real concerted effort over the last 3 to 5 years to do exactly what you say, which is cross-sell the capabilities and the scale and the credibility that we have in our Performance Sensing business, which includes the automotive and heavy vehicle off-road markets and take that capability and bridge it over into the industrial markets. And we've seen some really good success in terms of being able to do that.

Certainly, that scale and capability brings us a cost competitive advantage, given the scale we have in automotive to be able to take it to industrial markets, and we look at the capability and the value that we're bringing to the customers, and we've seen some good opportunities to bring it over. Different applications, obviously, but porting over technology that we use in that space into the industrial market.

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Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

And you see similar secular growth content trends relative to the cyclicality of those -- traditionally those industrial markets?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So not quite to the extent that we would see an HVOR of 900 basis points, but 200 or 300 basis points of secular growth in that market. So I think if you look over the past several years in time, that's been a market that's been growing 2% or 3%, and we've been able to grow faster than that. But not quite to the extent that we've seen in the automotive and HVOR side of the business.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Any questions from the audience? Yes?

Unidentified Analyst

So could you share, I mean, there are lots of estimates, forecast from various source about the sort of the pace of adoption of EV -- full EV technology. So with many assuming that hybridization is going to proliferate this, too. But how do you think about sort of the adoption or the growth of EV over -- sort of the full EV when it gets from a 10% or 15% penetration (inaudible)

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So that's a great question because often when we talk with investors about the applications we serve in a combustion-engine environment, there's sort of this natural tendency to assume that's all going away. Our forecast pulling from a lot of different data sources would suggest that 60% to 70% of the fleet in 2023 is still going to have some sort of combustion engine involved. And so when you think about how that impacts us as a supplier to that industry, it says that all of that capability that we have, the know-how, the sockets that we have that are in an internal combustion engine, if you're talking about a vehicle that has a hybrid type of approach, you're still going to have an element of combustion engine. And so this is going to be a long term -- it is transitioning, it will happen. But I think that if you were to rewind the clock 5 years, I think a 30% penetration of battery electric vehicle would have been. There's no way we're going to get to that by 2023 -- excuse me, 2030. And I think folks are feeling more confident about that's the kind of trend that's happening. There's obviously a lot of other things that need to come into play here. The requirement on the part of Volkswagen as part of the Dieselgate challenge associated with building out infrastructure in the United States is a big factor that's allowing more penetration of electric vehicles. But I would say, more important than that is the technology advancement in terms of range that's available on our electric vehicles to drive down the range anxiety associated with it and the reducing cost of the battery as a part of the system is really been some of the factors that have driven this.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Let's turn to your -- the P&L. 1.5 year ago, you set targets for operating margin, EPS growth, revenues come down a little bit obviously because of some of the headwinds that you talked about. You've also seen very nice leverage in your business in the last couple of years, partly with integrating 2 big acquisitions from a few years ago, taking cost out, and then also gross margin. So what should we think about the margin leverage going forward?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Sure. I'm going to let Josh cover this.

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

Yes. So if you look at the top line targets we set, we set 4% to 6% over the 3-year period. If we deliver our 2019 guidance, we'll be at 4%. So really the question is going to be what kind of volume are we looking at in 2020? From a margin perspective, we stand at 23.3% operating margins. That's about a 230 basis point expansion over the last 3 years. The guidance for this year calls for another 40 basis points, getting us to about 23.7%. And so as you think about the 25%, it really is going to be a matter of volume and what productivity we can get on that volume. The one thing I would point out is we've used capital deployment and bought back our shares to make up for some of the slower volumes. So if you look at in the last 3 quarters, we've bought back $550 million worth of stock. And that should help to bridge us to deliver on the bottom line EPS target. So ultimately where we end up, margin will come from volume and then decisions we need to make about investing for the future or cutting additional cost in the business.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Yes. Well, I think it's a good point, Joshua, where I think the company has changed the strategy in terms of capital allocation in the last 5 years, right? From really focusing on acquisitions, bigger acquisitions, changing that to do more tuck-in niche acquisitions that really are far more strategic and then focusing on using the cash flow for buybacks. And is that something that we should continue to, particularly I guess where the stock is.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. So we've made some changes in terms of our capital structure and where we're domiciled to create more flexibility because we believe it is incredibly important given the cash generation that we see in the business to have a very high level of flexibility around determining how to do that capital allocation. And I think that as you look forward, we'll continue to maintain that flexibility and look for the areas that would represent the greatest long-term return for shareholders across those 2 categories.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

And what -- and in terms of M&A, the GIGAVAC, I guess being a good example of good technology, good cross-selling opportunities, are you still looking at those areas? Is it EV? Is it in the industrial sectors?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes. Absolutely. So there are really 2 or 3 primary areas that we're looking at for M&A, and they're all focused on areas that we've identified through our review of our strategic intent that are attractive in terms of secular growth or differentiated type of opportunities. And they relate to 3 areas, bolt-ons to create more diversification in the business. So translate that into potentially bolt-ons around nonautomotive-type investments where we can take the margin profile of those acquired businesses to a very different level than where they are today using our sort of foundation of supply chains and back-office functions. So that would be the first. The second would be around the 3 mega trends that we've identified. So across Electrification, Smart & Connected and autonomy, there are number of areas that we've identified that might be attractive areas for us to do acquisition to further expand the penetration of our business.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. So question from the audience.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Yes?

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Unidentified Analyst

Yes. Just related to that previous topic on the shift to M&A strategy, and there's something -- do you think change also remains -- (inaudible) target, what you're sort of rewarded on in the long term?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

So there's been no change in terms of the compensation strategy that would cause us to do M&A more. We've been pretty consistent in terms of our overall M&A strategy. Last 12 years, I think we've done 12 acquisitions. They don't come every single year. But it's been a pretty balanced approach on that. Our last acquisition was October of last year, it was a smaller one, about 2 -- a little over $200 million of acquired but with great promise in terms of where we can take that. And there are number of acquisitions in the pipeline today that we're considering as well.

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

You mean, the long-term incentive for the management team? About 3 years ago, we put in place some incentive around return on invested capital, which influences -- that captures that type of return.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Thank you. Any other questions? One area of growth within the Performance Sensing is the HVOR market, right? You said you're growing well in excess of the end market. We've also seen a sort of an upgrade refresh cycle in that market. Are there signs of that slowing? Are you going to continue to be able to grow faster than that market?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

On the secular side, we're a long cycle business, so we have a very high level of visibility 4, 5 years out in terms of business that we've won that will translate the revenue in that time frame. So we feel very confident in the secular growth, in the content growth story. The only time in our history that we've been a public company where we've seen any disruption associated with that was actually prior to us being a public company. We saw some disruption in terms of launches in the '08, '09 time frame. But we see no indication that any of our customers are thinking about deferring platform launches that are connected to that.

But the market side is another question, right? We had predicted in the third parties we're forecasting that the heavy vehicle market would start to see a decline in the second half and into 2020. I think we're seeing that a little earlier than we had originally anticipated. But again, fortunately, we have the high levels of visibility and confidence in that content piece.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Great. And we have a couple of minutes left, maybe for the last question, your stock is trading at relatively low multiple compared to your peers, compared to your growth rate, your EPS growth, your cash flows. What is it that you think investors are missing about the Sensata story?

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

I think if you look at the auto business, in particular, there's been a lot of negative sentiment around auto. But if you look at what we've done at Sensata, we've created a very compelling content story with -- through our investments in Electrification, some of the investments we're making across the board on vehicle health monitoring and autonomy. So I think that's one aspect of it is that we can grow in auto independent of what ultimately happens to some of the volume growth. I think the other is just the sustainability of the cash flow. We turn 15% of our revenues into

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free cash flow. We are reinvesting that now in a way that we think is going to create a lot of value through bolt-on M&A as well as share buybacks. So if you look at over the last 3 years, we cleaned up the balance sheet, we're growing faster, we've expanded our margins, and we've got a pretty compelling story around capital deployment. Over time that should result in better stock price performance, and we think deserves a better multiple, given the quality of the business.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Anything to add there, Jeff?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

I think that's right on. Josh obviously is spending more time with investors than I am as of late. But we -- I focus a lot of my energy, Matt, on just making sure we serve our customers have greater growth opportunities, and we have differentiated offerings that should generate very strong margins and cash flow in the business. And I'm a big believer that over time you get rewarded for doing exactly that by your shareholders, and we'll keep focused on making sure that we deliver on that.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Fair enough. Thank you very much.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President & COO*

Great. Thank you.

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

Thank you.

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