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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC at Robert W Baird Global Industrial Conference

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Unidentified Analyst

Good afternoon. Thanks for staying with us. Our next presentation here is from Sensata. Company's headquartered in Massachusetts. It was founded in 2006, but as many of its pieces have tails, they go back a lot longer than that. Company is a leader supply -- leading supplier of sensors, controls, including those that go into automotive braking systems and a lot of other industrial type products.

Joining us -- well, revenues are about $10 billion?

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

$3.5 billion.

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

$3.5 billion.

Unidentified Analyst

$3.5 billion, okay. I thought I had a bad number there. $3.5 billion. That's why I asked the questions. Joining us from Sensata today are Jeff Cote, President and COO; and Joshua Young, Vice President of Investor Relations. Jeff is going to start with some comments, and we'll go to questions. My iPad's not working, so if you have any questions, use your hand.

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

Use the old-fashioned way. I like it. Well, David, thank you very much and thank you for having us at this conference. It's been a really great day in terms of number of opportunities to meet with investors, and it's something that Josh and I like to do in terms of speaking about what's going on in the company. So I've prepared a couple of thoughts. I know David will have a couple of intriguing questions like how we're going to get to $10 billion in revenue but...

Unidentified Analyst

I just raised my estimate and we don't follow you.

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

Yes. But I appreciate everybody showing up and hope that we can have a little bit of interactive discussion regarding some questions that you might have as well.

So just to start, Sensata is a business that's been around for over 100 years. We spun out of Texas Instruments in 2006 and went public in 2010. And although I suspect that many of you have not heard of Sensata, I can assure you that you interact with the products that we make on a daily basis.

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As David mentioned, we're a designer and manufacturer of customized sensors and electrical protection that really enable our customers to achieve some of their most difficult challenges in terms of their road maps around creating more efficient and safe equipment.

We serve a number of end markets. We do have some concentration in the automotive market. About 58% of our revenue is out of the automotive market, but we also serve the heavy vehicle off-road market, many aspects of the industrial landscape as well as the aerospace market. So -- and we do have a goal, over time, to continue to diversify our business not only from a standpoint of the end markets that we serve but also the sensing parameters that we bring to bear to solve our customer problems and also to go beyond sensor components over time to become, over time, a much more data insight delivery type of business.

There are a number of significant trends that impact our business that allow us as a company to grow faster than the end markets that we serve, and there's never a time that, that's not more relevant than in a time when we're seeing disruption in some of the end markets that we serve. We refer to that as outgrowth or content growth in our business, and the trends that drive that are trends around regulation associated with our customers requiring that their equipment, over time, become more efficient or safe. There are other trends associated with electrification that drives opportunities for more content for us as a company as well as trends associated with broad smart connected or Internet of Things types of trends as well as autonomy-related features. And so the focus of those really 4 megatrend areas are key to us in terms of where we choose to organically invest to grow the business but also and very importantly, to invest through inorganic means in terms of our M&A strategy. And I can go into more detail on that in a bit.

We have a strong historical reference point in terms of being able to serve customers' needs on very mission-critical and hard-to-do applications. So we are an engineering culture that really drives to make sure that we can do the most difficult applications. My boss, Martha Sullivan, is very fond of saying that we do not make toys. We make very difficult sensors, and we demand a high premium in terms of the price point and therefore, the margin profile that we generate as a business as a result of being able to achieve those rigorous standards in terms of what our customers want.

And we also have a very low capital intensity, so we're able to convert those earnings into a very strong cash flow stream that allows us to reinvest in the business, whether it be through capital allocation associated with buying back stock to allow us to increase their earnings potential of the business but also to deploy that in M&A-related activity.

We've been a stand-alone company for 13 years, so we're not an incredibly inquisitive business. It's more of an amplifier to our growth because we have many opportunities for organic growth, but we've done 12 or 15 acquisitions over that time frame. So it's a very deliberate approach and a disciplined approach associated with M&A.

And with that, I'll see if you have any questions.

QUESTIONS AND ANSWERS

Unidentified Analyst

Great. Okay. Let's start with a little bit about the structure of the business because you have different products that you make, you have different end markets you go into, and you have different secular themes that maybe cut across all of those. What's the easiest way for people to kind of look at your business and try and tackle it to understand what it is that you're doing and where you're going to market?

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

Right. So I think that the simplest way is around the end markets that we serve because, from an operating standpoint, we are structured in terms of our product families. And so we're very much an operating company. We're not a holding company in terms of how we operate as a business. And so there are many aspects of each of those end markets that we serve that we share across those end markets.

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That's a very important differentiator for us in terms of taking what is a very strong capability and high scale out of the automotive business, and we take that capability and we apply it across all of the end markets that we serve, which allows us to be able to bring products to market in the industrial, HVOR and aerospace markets that have a lower cost point because of the scale and capability that we have within the automotive market. But certainly, end market focus is sort of the way to think about it, and the notion of these opportunities for outgrowth that are affecting all of those end markets is, I would say, the way that you should think about our business.

Unidentified Analyst

Okay. Great. Before we start digging through that, there are a couple of questions we're asking at the conference. One is on trade conflict over the last 18 months. How have you changed or adjusted your process for making decisions as you look at investments, hiring capacity and footprint?

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

Yes. So it's an important question, hence, why you're asking all the participants. In -- the global environment's becoming more complex, and we are a global business. We're not a large business for a global company, but we serve markets across the world. For a number of years, actually, before trade tensions and other things became a more popular theme, we've had a very focused effort to make sure that we're building capability within each of the regions of the world that we serve to make sure that they can be standalone.

We're well along our way on that path. And so when I say standalone, from a manufacturing standpoint, to be able to serve that geographic region; from an engineering capability standpoint, to be able to serve that region and having local talent in that region to be able to serve the customers with the language skills and the other cultural elements of being able to serve that market.

Today, we stand, as it relates to the question or specifically around trade challenges, we stand with somewhere in the neighborhood of 70% to 80% of our manufacturing for the region that it's serving. More so in China, almost everything that we serve into the China or Asia region is manufactured in that region, primarily in China. The U.S. and Europe receive some exports out of China into those markets, but they are largely served out of our concentrated manufacturing footprint in Mexico to serve the Americas and out of Bulgaria and Northern Ireland in order to serve Europe.

Unidentified Analyst

Okay. And then the second question, if we look at the trend line of your end markets, how they're trending right now, where do you see areas that there's heightened risk or opportunities for upside as you look into 2020?

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

Yes. So it's a pretty -- as I think you can tell from the discussion we've been having thus far, we have a number of different end markets and geographies that we're serving, and the geography is an important element of that. So for instance, if I were to look at the automotive -- the global automotive market, we serve all of the geographies. We've seen more of a decline, and we've continued to see that decline over the last year in China automotive for instance. And so in 2019, we've seen about a 10% or 11% decline in the number of vehicles that are sold into China.

So when I think of the risk going forward or the opportunities going forward, we're getting to the point where we're, number one, lapping an easier comparable in terms of fourth quarter to fourth quarter for the China automotive market, and you're starting to see more stability there. Europe has been a down year as well. I wouldn't be necessarily at the point where I'd call stable -- or stability in Europe. But the market that would cause me the most concern in terms of where it's going, going forward would be the North American automotive market. And so as we scan across the geographies and the end markets that we serve, each of those would represent different opportunities.

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I think from an opportunity standpoint, China, I think in general, not only in automotive, would represent the potential most upside. I think the industrial markets globally have seen a pretty big decline in inventory contraction, so they might represent more upside. Our aerospace market continues to be quite strong and resilient. And then some of the other markets we serve, including HVOR, on-road HVOR but also ag, construction and the North American auto market, I think, represent the more on the risk side.

And that's, I think, pretty consistent with what people are seeing based upon what third parties are representing right now and what we've had dialogue with as we've talked with people today. Obviously, as we get more data, we'll refine that in terms of our outlook for a guide for 2020.

Unidentified Analyst

Great. And any questions from the audience? iPad's still not working. So on automotive, one of the things that a lot of investors do when they look at a supplier into the automotive space is looking at content per vehicle and what the opportunity is for that content per vehicle to grow over time and to grow faster than the end markets. Do you have any particular targets for that? And how do you drive that content higher?

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

Yes, absolutely, we do because it's such an important part of our growth strategy. So I guess I would start with just some basic facts around where content per vehicle is today. And there's a lot of different reference points here, but let me just sort of rattle some of these off.

Content per vehicle in China automotive, for instance, is it runs around $18 per vehicle right now in terms of Sensata content on those vehicles. When you move to the North American and Europe market, it's more in the $37 to $38 range. So when you think about the applications that are being served in the North America and Europe market, as they fan out in China, there's a lot of content opportunity for China growth as those applications fan out.

And that's being seen in the current year. Even with a down market, we've been able to grow that business because content's growing more rapidly. When we look at that from a company standpoint, we tend to talk about outgrowth, the percentage outgrowth across the market. The automotive market, we see as somewhere between a 400 to 600 basis point outgrowth potential, and we played -- that's played out in terms of our historical performance. In 2015 -- excuse me, 2019, we're actually seeing that kind of outgrow to market. So despite a down market, we're seeing outgrowth that allows us to grow faster than those markets.

When you look at our other end market that we tend to track the content growth or outgrowth, the heavy vehicle market. So over the last 3 years, we've seen an average of 700 basis points of outgrowth to market in the HVOR area. So that's our highest content growth end market that we serve. 2019 is down some, so we're forecasting somewhere around a 300 to 400 basis point content outgrowth in 2019, but as we look forward, we see the potential for recovery to get to more normalized.

It's important to note that the nature of the business, because it's a long-cycle business, we get a lot of visibility to this content growth. So with every customer, we know what we've sold. We know what new product development we're working on that will launch at a point in time. The details around when it will launch and the volume that it will launch at will vary a little bit, but we have a significant amount of visibility into this outgrowth that we talk about.

Unidentified Analyst

Where do you come into the development process from the initiation of a technology to hitting the assembly plant and being part of that supply chain? When do you get involved in that development cycle?

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

Very, very early, so at the time when it's a concept. So it starts with what are our OEM customers doing to meet regulation and to build their product strategy in terms of being a more competitive product and to meet regulation. And so it's at that concept level where they're thinking about things that they will do in terms of their product strategy to be able to get there. And we engage with them to talk about how we can be helpful to make that happen.

So in many instances, from the time we engage with a customer, we win business and we start to develop product, it could be a 3- to 5-year time horizon. In some of the industries we serve, like aerospace, it can be even longer than that. But in our major segments of automotive and HVOR, it tends to be a 3- to 5-year time horizon. In the industrial space, it's shorter than that.

Unidentified Analyst

Sure. Questions? And again, so if you look at the products you're going to market with today that are revenues 3 or 4 years in the future, where are you finding your customers have the most excitement of what you're bringing to market?

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

So there are a number of different areas on the core platform and it's -- the applications are numerous, right? So in terms of fan out of the applications associated with things that are pretty common in developed markets associated with electronic stability control, antilock braking, gasoline direct injection, a number of particular filters to allow more clean exhaust, in some markets, they're more penetrated. In markets like China, they have a long way to go.

I think personally, the more exciting areas are around the new platforms that are being developed. And so when you start to talk about what will be more proliferation of electric vehicles, we've made some very focused effort around investing in capability to be able to serve that market as it expands in terms of the amount of the fleet, and we've done some very strategic acquisitions as well.

Some of the more exciting ones are around wireless battery management. So if you can envision in an environment where you have a wire harness associated with a battery packet in electric vehicle or, for that matter, in a material handling platform or other electrified vehicles or equipment, replacing that harness, which can be very complicated and costly and it takes up a lot of space, with a wireless capability to do that, that's an area that's particularly interesting.

Another example would be around what we're referring to as our Smart & Connected initiatives specifically designed for the on-road truck market, where as we've sold to our OEM customers the opportunity to implement tire pressure monitoring in an on-road truck environment, there's been the need for a mechanism to collect that wireless sensor data on the truck. And we've created a vehicle area network solution that not only allows us to collect the wireless sensor data for the tire pressure but also for other sensor elements, which could really feed telematics mission for our OEM customers but also for telematics and fleet companies.

Unidentified Analyst

Anything -- go ahead.

Unidentified Analyst

Can you give any content per vehicle on electric vehicles?

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Unidentified Analyst

That was my next question. On electric...

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

He must have your iPad.

Unidentified Analyst

On an electric vehicle, how much content do you have?

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

So today, on a battery electric vehicle, so I said on a combustion engine in Europe or U.S., it's $37, $38 and a battery electric in that same market is about $40. So it's more content today on a battery electric vehicle. It's more on a plug-in hybrid. So it's more like a $60 per content on a plug-in hybrid. And that's, to me, really the starting point. I think as we start to venture into selling in more of the high-voltage contactors that we acquired about a year ago from a company called GIGAVAC in California, that's going to present an opportunity to drive that content per vehicle higher as well as some of these other things that we're developing, e-motor position, battery pressure for monitoring for thermal runaway. There are a number of applications we're working with our customers on that will drive that content higher.

Unidentified Analyst

So with a lot of the suppliers that we pay attention to, we find double or triple of a content on an EV than an internal combustion engine. Your numbers don't quite follow that scale. Is that the product portfolio there needs to get fleshed out more? Is that what we're looking at?

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

They need -- well, they need to -- we need to sell in more of that content. So when we think about what it -- the content per vehicle could be based upon the capabilities we have and the engagement we have with customers, it could be multiples of our current content. But what I quoted was what the content is today. So as there's a migration today on a vehicle platform from a combustion into an electrified, it goes from $37 to $40. But in the future, we agree that it would represent much more content on it.

Unidentified Analyst

Yes. So that doesn't include all of your products.

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

That's right.

Unidentified Analyst

Yes, along the lines.

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

It's what's sold today in terms of -- that's designed into product.

Unidentified Analyst

Okay. Any questions? We'll ask my next one. I want to back up on something as you said on HVOR and the tire pressure and if I recall correctly, some opportunities to get into fleet management along the way. How extensive is that for you? I mean where do you want to go in there? Some of it's collecting data. Some of it's analyzing that data. Some of it is cloud-based analytical element of that. Where do you want to play in that?

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

Yes. So I think, honestly, it will evolve over time. We're starting with what we are really good at, and that is designing sensors to collect data on a vehicle, bring it to a higher level in the vehicle but still on the vehicle to feed a telematics system. I think that, over time, as we collect more sensor data in that vehicle area network, we will naturally find opportunities to develop more insight associated with that collection of information there. And that value proposition will evolve over time.

But as a company, we tend to want to, and I think it's the right thing to do, to stay core to what it is that we do and think about the next step that we could go from there. Ultimately, we want to be very careful to make sure that we don't get into a channel conflict in terms of who we're serving. At the end of the day, what we're venturing to do here is to provide more valuable insight to what is a very well-established telematics ecosystem that is starving for more relevant data.

And so that relevant data is areas like tire pressure. It's around load. It's wheel end. We announced recently that we're working with a partner, Hendrickson. They've developed a wheel-end sensor that can help predict when a wheel bearing is going to fail. And they're going to power that by going through our vehicle area network in order to notify the fleet managers or drivers of the vehicle that, that event could occur. So it's an exciting area. We think there's a lot of value, and we want to make sure that we monitor it as we -- as that opportunity evolves.

Unidentified Analyst

Within the auto supplier world, we have suppliers that supply components. Some supply modules. Some supply fleet assembly to the assembly plant. Where does Sensata sit in that chain?

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

So in automotive?

Unidentified Analyst

And where do you want to be? Automotive, commercial vehicle maybe, that's the same, but not quite as evolved.

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

Yes. So in automotive, it's largely a component play today. And we kind of like playing there because we're a little bit below the radar screen given that the price point of our product is quite low relative to the bill of materials in our vehicle. And also, there are well-established players in the subsystem level that are being served quite well.

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I think that we see more of the opportunity to go up the stack, if you will, more broadly in other end markets that we serve, specifically in the HVOR. We have gone up the stack a little bit more in the off-road and construction markets, so we'll provide not a sensor but an integrated armrest as there's been a transition from hydraulic controls of implements in agriculture and construction applications to electronic control. So we'll provide an integrated armrest. That obviously is a very different place than just a component play. And so we'll play where we have the right to play and where there's customer pull and we have a value proposition.

Unidentified Analyst

And then for the last minute or so that we have left, can we talk a little bit about the cash flow, the capital deployment for that, the balance sheet and what your thoughts are that, that all looks like going through a downturn?

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

Yes. So we -- I've mentioned we have low capital intensity. We spend about 4%, 4.5% on capital every year, so that results in us having a fairly flexible cost structure, which allows us to manage our margin profile through cycles in the business at a pretty good rate. But I've been with the company 13 years. I've played a number of different roles. I was the CFO of the company during '08 and '09, and we were able to manage through that when we were more heavily leveraged that time prior to being a public company.

So we feel really good about the margin profile, the cash flow dynamics of the business in terms of being able to then take that and invest that cash flow in really value-creating opportunities, primarily focused on share buyback and M&A-related activity.

Unidentified Analyst

Okay. The one last one from the audience? Go ahead.

Unidentified Analyst

A couple of the connector companies have done (inaudible)

Unidentified Analyst

So the question is a couple of the -- a couple of connector companies have gotten into sensors. Do you have any need that you feel you need to get into connector business?

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

I don't think -- we have a desire to expand the addressable market that we have, much like they do. But when we look at the universe of opportunity that we see, we see that we would go more into subsystems rather than vertically integrating into components that we would already use. So I know some of those companies. I think that they've got very good business models, but from our standpoint, we would rather go into the more of a subsystem up the value chain rather than into more components that we would purchase.

Unidentified Analyst

Okay. We're going to have to hold off there. Please join me in thanking Jeff and Josh for their time. They'll be available for a breakout on 7. And that concludes the meetings for today. We'd be in the Marriott sharp -- early and sharp at 7:30.

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