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EDITED TRANSCRIPT

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

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PRESENTATION

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

Okay. Why don't we get going? We're very pleased to have with us Sensata, the CEO-elect and current President, Jeff Cote; as well as Joshua Young from Investor Relations. We're going to start with Jeff introducing himself, so recapping Sensata, then I'd like to do half of the ARS questions before going into the topic of the week, which is, of course, the impact of the coronavirus. So Jeff?

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

Great. Thanks, Brian. So just a little bit about Sensata, we are a 100-year plus old company. And although many of you probably have not heard of Sensata if you're not a current investor, which I'm sure we're going to find out in a minute here. I'm sure you use our products every day. And so we focus on mission-critical applications that provide input for our customer systems, helping them serve their most challenging problems, and we serve a variety of end markets, including light vehicle automotive, a variety of heavy vehicle off-road markets, including on-road truck, construction vehicles, agriculture, aerospace. We serve the aerospace market as well as a number of industrial market segments as well. That's a very large fragmented market, but we serve a number of segments into that area of the market as well.

We have a number of megatrends that are impacting our business, which we believe drive the opportunity for growth in the business in terms of our content beyond the end-market growth that we see in that market. And those megatrends include the regulation associated with smart -- regulation associated with clean, efficient, safe operation of equipment and vehicles. Electrification trends that are occurring across all of the end markets that we serve, aspects of autonomy, and also this Internet of Things or Smart & Connected trend in terms of more sensors being implemented to provide more input to make systems and so forth smarter.

We have some core capabilities that we leverage across our business. And through our 100-year legacy as a company, we've really leveraged those capabilities as a company in terms of really being able to serve our customers in their most challenging problems that they face. And so our engagement with our customers is very much an engineer-to-engineer engagement. The type of engagement would be going to them and understanding what their product road map is and how we might be able to help serve them and allow them to achieve their most difficult challenges that they face as a company.

And so we leverage that across all our businesses. And so that's something that might be somewhat unique in terms of our business. We're very much of a holding company model rather than -- or excuse me, an operating company model rather than a holding company model. And those capabilities are shared across all of the end markets and businesses that we have as a company.

We have a tradition of continuous improvement. We have a variable cost structure that allows us to weather the storm through difficult times in terms of still being able to drive a high level of profitability in the business. And if you've looked at the financials, you'll see that we have very differentiated margins in our business. We have low capital requirements in terms of CapEx, but also working capital, which allows us to take that strong earnings, convert it into cash and then redeploy it to create shareholder value, both through accretive and value-creating M&A, but also through buyback of our own stock.

And so that's the quick summary of Sensata.

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QUESTIONS AND ANSWERS

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

Good. With that summary, let's launch into the first half of the ARS questions. Number one, and it's -- you slipped in, you -- just to familiarize yourself. You press the answer here. Do you currently own the stock? You have to see how I do one of them.

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

Do I get to vote, too?

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

You can do, yes, why not.

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

I am a holder of stock, let's say here.

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

You're from Boston, I'm from Chicago. So we should vote...

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

(inaudible)

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

Yes, pass it around. Okay, good. Fair amount of ownership. Question number two, general bias towards the stock. Want to make some more -- there's more than 2 votes in our sample. All right. So there's one more and I shouldn't vote. Okay. And it's actually -- it's interesting. We do compare it to the average. And the sentiment has actually improved. Question number three. This is always a tougher one because we're never quite sure. I would say the multi-industry peer group.

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

Right.

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

That's how people ought to be thinking. Okay. Above, in line, which I'd say for multi-industry implies better than automotive and above. It's actually another improvement in sentiment. Let's focus more on the near term, though, first, which is, whether it's in your automotive operations or in your broader industrial business. Can you give us an update on, first, kind of when you came into the year, what percent of your business was in China sect, to Chinese customers out of Chinese plants? Did you have export flows out of China that -- and then -- we should be thinking about?

And then three, kind of where things stand as of now? You did update your -- you did reflect upon it in your guidance a couple of weeks ago. But...

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

Sure, sure. So you're speaking of the impact of the coronavirus, of course. But just to sort of set the stage. So we're fairly diversified from an end-market exposure as a company. A little less so in Asia than we are in the Americas and in Europe. I think about 25%, 26% of our overall company is out of the Asia region, about 12%, 13% of the total revenue of the company is out of China itself. We've been working very diligently over the last several years to make sure that our manufacturing presence is closely aligned to where demand is. That's not perfectly aligned yet. There's still an export out of China to serve the European and North American market. But we're getting to the point where we're diversified, and we're getting our manufacturing in the locations where our demand, ultimate demand from our customers are.

We do have 2 plants in China. We also have a business center and an engineering center that's based in China. We've been operating in the region for 30-plus years. And so we have a lot of familiarity in terms of how things operate within China, and we have a lot of feedback that we get quite regularly from our teams on the ground and very close relationships with the governments in the regions where we work.

We came out on our earnings call last week. I think we were probably viewed as being a little bit more pessimistic than most when we came out last week with our guide, we had forecasted that the first quarter for Sensata was going to be impacted to the tune of about $40 million on revenue and about $20 million on bottom line. That was more than what our peer group and others in the industry might have been forecasting at the time. We're a little bit late in terms of the earnings cycle. So we had more time to get the feedback and understand what was going on. And we had talked about the fact that the significant drop-through was due to the fact that the government had mandated holiday extension, so we had an obligation to continue to pay our people during this time. So the profitability dropout was more dramatic than what you would normally see in our business as we control cost for varying demands across the business.

We had talked about getting our plants back up and running by the 17th. We're past that date now. Our plants are up and running. We had anticipated that, that would be a little bit bumpy in terms of how that ramping of the capacity and the plants would occur, that's not -- hasn't turned out differently than we would have expected. And just to add a little bit more color on that, if you can imagine, people were away for the Lunar holiday. In many instances, traveling it is. They came back to different jurisdictions within China. There were quarantine requirements and so forth that people needed to go through, depending on where they had been traveling. And so we had anticipated that there would be some disruption during the ramp, but we are up and running, we're able to serve our customers, and we are continuing to see a ramp there.

But I just want to be clear, and I think it's pretty evident that the situation is still quite fluid. We're seeing more of our peers from a competitor standpoint and also peers in the industry share information regarding the impact of the business, but we feel as though we were pretty clear and outlined what the impact would be in the first quarter.

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

Okay. Why don't I pause there, and we'll move on to the core business issues, but see if there's any questions about China from the audience before we move on. Okay. Well, since part of the business in China is automotive, I think one of the issues, and we've talked about for a few years down here, is within light vehicle, there's obviously a shift going on from -- first from diesel to gas, which changed the composition of your business. And now, obviously with Tesla equal to the rest of the market caps combined almost, worry is about how quickly internal combustion engines go away due to regulatory pressures, cost, consumer things. So can you just remind us of your combustion business overall, how it evolved particularly in Europe as diesel went to gas? And then where it's positioned now versus the other things you have in a car that could actually benefit from alternative powertrains?

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

Yes, absolutely. So just to set the context, fourth quarter, about 58%, 60% of the business was light vehicle automotive, global light vehicle automotive. So just to give you a flavor for the exposure that we have to that end market. We've known obviously for some period of time that there was this transition across a couple of topics that Brian mentioned, a conversion from diesel to gasoline engines, given the very well-publicized challenges that one of the larger OEMs had associated with diesel implications. And that's been a trend that we've continued to see. I think in 2019,

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we saw about 36% of the mix of diesel versus gas in Europe, primarily North America is obviously much less. And so that trend has been occurring in the business. I think it went down about 400 basis points from 40% to 36% during 2019. We would expect that trend to continue, and that's baked into our expectation regarding content.

There are a couple of things that I would mention that I think are important. As that trend is occurring, historically, there would be more Sensata content on a diesel vehicle. And that's still the case. But there is a trend towards more of the applications that you would have historically seen in a diesel engine, exhaust gas filtering and so forth that are now being applied in a gasoline engine to clean up the emissions associated with a gas engine.

So we're seeing the content per vehicle get closer together. So as that occurs, the impact to us as a company associated with that trend is lessened. And so that's obviously a very good thing. And we're continuing to see that content per vehicle in a gas environment go up as we see the continued decline in terms of overall diesel. So that's the first thing.

The second big trend, obviously, that we're seeing on a global basis is away from combustion engines altogether and into more electrified environments. And I just want to make sure we, internally to the company, but also, I suspect, externally, tend to forget the fact that by 2030, forecasts are that 70% of vehicles sold in 2030, 10 years from now, will still be combustion engines.

And so there's still a huge need and an investment being made in terms of our customer base to make sure that those engines can continue to be more efficient going forward. And they're rolling out or fanning out applications across that -- their various platforms. So we don't see that going away.

The second thing is when we examined the individual applications and the products that we sell into a combustion engine environment, other than the obvious applications that are engine-related or exhaust stream related, there are a number of others around the cabin, around braking systems and environmental control that will continue.

So we've estimated that about half of the content that we currently have in a combustion engine environment will carry over to an electrified platform. And we're seeing that play out as our customers are looking at their sourcing strategies, and they apply sort of their strategies going forward. We've also made a number of investments organically and inorganically. We've done an acquisition of a high-voltage contactor business that makes us much better prepared, GIGAVAC, exactly. That makes us much better prepared. We can forecast today that the transition for us from a combustion engine to electrified platform is good for us.

So the content we have on an electrified platform, both through the new applications and the carryover applications result in a net -- a good scenario for us. So we feel as though we're continuing to be quite well prepared for that dynamic as it unfolds.

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

So just to do the math in my head, 53% of your business is automotive, of which about half has some combustion content that would imply, as a corporation, only about 25% of your business is combustion engine, which could be replaced over time by GIGAVAC. The other half of automotive is what we might call powertrain neutral, could run on fuel cells, could run on key natural gas, could run on electricity, could run on perpetual motion. And you still need cabin sensors, you still need...

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

That's exactly right. So about 58% of the business, not 53%, but your math was accurate, right, in terms of the trend there. And so the half of that 58% that will go away over time is being replaced with even more content that we have for those electrolyte platforms as...

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

And in terms of just your plant footprint, I mean one of the things -- by no means the same company, but Conti and Bosch we know are struggling with is there -- if you're content -- if you're Bosch, for example, in the diesel, their injectors, you have pressure sensors. They have several factories on what's called diesel (inaudible) which I can guess those factories make diesel, I can guess there have no other products, and I can guess the works council has no intention of having them to go away cheaply. So how does your plant footprint adjust to this shift, whether it's over 10 years or some people would say faster?

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

Yes. It's a great question. And it gets to this notion that I brought up in my introductory comments regarding how we leverage our product families. And so when you think about the product categories that would be -- that would have a high penetration in a diesel environment, it would be certain of our pressure-sensing capabilities around Micro-fused Strain Gage, it would be around our temperature sensing. And we're seeing those applications apply in a gas environment as well. So temperatures...

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

Yes. Pressures go up.

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

Exactly. So we don't feel as though there is a point in time when all of a sudden, there is a massive drop-off that would impact us in a big way in terms of our manufacturing footprint and our capacity. And candidly, we've made some decisions based upon that 5, 10-year look to make sure that we put appropriate capping strategies in place with our capacity for some of these products to make sure that, that doesn't happen to us in the long run.

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

And is the footprint flexible and not dedicated or...

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

The footprint is largely dedicated to a product. And so it's an important note to make that all of our products are designed into an application. And in many instances, we're sole source. And they require qualification with those customers. So we've had instances, for instance, with the most recent challenges in China, where we were making product for our customers out of our China plant, we had to go through accelerated qualification to allow us to be able to make that product in another plant for them. So it's doable, but it takes a very concerted effort on our part as well as our customers' part.

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

And you mentioned EVs, you mentioned to GIGAVAC. Could you maybe recap kind of like EV, say, 2028, if we were to tear down, what would we likely find for Sensata now? And are there inorganic opportunity, either R&D things you're working on? Or inorganic opportunities that may result in additional Sensata content?

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

Yup. So the carryover aspects are everything outside the powertrain. So all of the breaking and environmental applications will continue to apply more of it in the future. There's no question that electric vehicles are more connected and have more sensor content on their platform itself. So obviously, high-voltage contactors, which are a critical application to make sure that you're protecting the most valuable component in that vehicle, the battery and obviously the individual that's applying the charging mechanism for that. That protection is a mission-critical application.

That scenario that we acquired GIGAVAC to make sure that we could serve that. GIGAVAC came to us with capability that was able to serve the very highest voltages. So the premier players, we serve Tesla today for that application. And we have...

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

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

Yes. And we have for some period of time, and it's really a core capability that we have that we're continuing to build out for a wide range of vehicles, not just the premium vehicles, but vehicles across the whole network. We also have position sensors for electric motors. We have sensors that go into battery management systems that we're working on. So there are a number of other applications in an electrified environment that we're working on all around the architecture associated with electrification.

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

Yes. I'm going to move on to HVOR and sensor -- industrial Sensing Solutions, but I want to see if there's any questions really around the automotive half of Sensata first.

Okay. So moving on. We go in-depth into various end markets in HVOR. But I want to kind of back up more to the Sensing Solutions segment. And I think one thing people try to get their handles on when modeling multi-industries. Just what are the 3 or 4 end markets to really pay attention to in that? And given your wide range of products, it's been harder for us to pin down.

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

Yes. So I do appreciate the question. It's a $1 billion piece of our business that often doesn't get a lot of attention. And it's -- the Sensing Solutions business serves the aerospace business, which is about a $200 million business for us. It is the shining star in terms of growth right now. So we saw 9% growth, 9%, 10% growth of that business in 2019. Given the long cycle nature of that business and the 8, 10-year backlog that we see, we have a lot of visibility into it. And it shows very positive signs of continued growth, not only from an end-market standpoint, but also from a content standpoint.

It's also our most profitable business. And it has -- it serves largely the OEM market, but it also has an aftermarket associated with where we provide the original sensor or a circuit breaker content into aircraft, primarily commercial aircraft, but we have some military aspect of that as well. But great business. We love it. It's running quite well and...

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

And just quick question, we'd be getting. 737 MAX exposure in that business?

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

Yup. So we forecasted, assuming that the production level will be about half of what they had originally predicted so it's in line with where Boeing has stated. And for a period of time during '19, they continue to make products. So that impact didn't really -- we didn't feel that as much in 2019, but going into 2020.

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

Right. That's baked into guide.

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

Yes. It's baked into guide, it's -- I think we've said it's a $6 million impact to guide. So it's not huge, given the size of the business. But we have factored that into.

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

And is Airbus a offset?

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

Airbus is an offset for some of that, but depending again on where the direction goes in terms of order book. I think the -- as you know, they're all sold out. So it's hard for them to make more aircraft in the short term.

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

But Airbus is a client?

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

Yes, it is. Absolutely. The other part of the sensing solutions business or the bigger part of that $1 billion business is largely serving industrial. And that's a huge fragmented market, as you all know, about a $700 million, $750 million business for us as a company with some target segments. So we have building solutions, smart factories, some new energy type applications are the sort of segments that we're focused on within that large industrial segment. And then we also have a sort of catchall for diversified industrials, which has some residential applications in terms of major home appliances, lighting fixtures and so forth, which is -- if some of you that have -- know the company with the legacy controls business within the company that basically does self-setting circuit breakers for things that have electricity running through them in a building or residential housing environment.

Again, a very profitable business, has less -- a little bit less content growth. So the opportunity for growth there is really around share gain and expansion into other segments, but it does see a couple, 200, 300 basis points of content growth on a year-over-year basis. And again, a quite profitable business. When you look at each of our business segments and the end markets that we serve, our industrial business would be right behind our aerospace business in terms of overall profitability.

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

And just on HVOR, which is the highway and off-highway. It's about 15% of your revenues. Was that included in that 58% you talked about earlier on light?

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

No, no. So we -- there are 2 segments for reporting, Sensing Solutions and in Performance Sensing. And Performance Sensing is HVOR in auto.

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

And should we be thinking that, that content is similar in autos and with the same kind of

Shift over time. Obviously, gas isn't as big there, but shift over time from diesel to electrical?

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

Yes. So very similar content on the engine side with a kicker, which I'll talk about in a second, that's an area that we're -- we acquired a business that we're selling product into that doesn't exist in the automotive business.

The -- when you look at that business, though, you really need to segment it to understand how the electrification trend is going to recur. In applications where there's a lot of horsepower requirement, that trend is going to recur at a much lower pace. But when we were talking about smaller delivery trucks, buses and so forth, yes, the trend on electrification is actually quite -- is faster than where it has been on light vehicles more broadly.

The kicker that I referred to was, at the core, it's a position sensor that we have in the HVOR market. It's primarily serving construction and agriculture, which translates to a joystick or integrated armrest. So if you were to getting a John Deere farming tractor, the armrest that controls the vehicle would be a product that we would be making. So that's an area where we're extending way beyond just a pure sensor component into really a subsystem in that market. And it's a critically important application, given the safety-related elements of operating a vehicle in that type of environment.

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

Which kind of segues into my last set of questions. So a year ago, Martha began to talk about the evolution from sensing into doing things with the data that your sensors create. Just getting started on that. Could you update us maybe how that's evolved in last year? And also now that you're taking the reins for 7- to 10-year run, we'll miss Martha, but this just seems like the time frame in which that goes from a few things Martha was working on to perhaps a major business for Sensata. So how you're seeing that?

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

Yes. So we are very excited about the opportunity here. And I think you all know that we've talked over the last couple of earnings calls about our desire to and an intent to actually invest more in this area. And so let me give you a little bit of a flavor. We believe that with the fact that we produce about 1.2 billion sensors every year, and as a result of producing those 1.2 billion sensors for applications, mission-critical applications, we know a thing or 2 about what's going on in the application. And so we believe that we can then extend that into providing more insight.

The specific area that we're working on, where we actually have proof-of-concept running today. So we have sensor content on a fleet, collecting data at the vehicle level, collecting data at the vehicle. We've partnered with a telematics provider to get that information into the cloud to provide more insight to fleet owners through their telematic system.

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

Truck fleet owners.

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

Yes. On-road truck, exactly. And so you might say, well, this isn't something new. Telematics has been out for a long period of time, it absolutely has. It's an established ecosystem. But when we went to talk with our fleet customers, they said there were certain applications that they didn't have access to. Clearly, they're getting location of their vehicles, OBD port information. In some instances, they are getting data logging for drivers and so forth, but they were missing tire pressure, wheel end. So they wanted to understand predictive maintenance on a bearing issue with the wheel, and they also want load.

And so we have -- we're piloting some of those applications with those customers, and we're working with them every day on evaluating the value-add that, that has to their fleets. And it's quite compelling. It is reducing cost for them. It is reducing their downtime. And ultimately, we believe, and they believe that it will be a pretty valuable contribution to their overall fleet. So that's where we're starting. We are obviously selling that to our OEM customers as well with the base being really tire pressure monitoring, but we're also selling the vehicle area network to our OEM customers. We won't see first revenue with our OEM customers until the 2021, 2022 time frame. But we would expect a more near-term impact in terms of revenue as we think about the retrofit in the fleet market. So really excited. We're investing in it. And then once we get some traction there, which we're confident we will, we'll figure out how to fan it out perhaps into some other end markets where we might be able to serve.

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

Okay, good. Let's go and wrap it up with the remaining ARS, number four. We'll get through these. I think get some reaction.

So definitely, a lot of comfort with bolt-on M&A, which is the strategy you've been pursuing?

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

Yes. Absolutely.

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

Next, five. I'm sorry. We don't have 133x earnings there. Let me go and take out...

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

Well, the 21 plus is a good category to be in.

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

That's 16, 18. And then that's interesting. So that is definitely a higher center of gravity. And then finally, six. And we ask the same questions to all the companies down here when the analyst remembers.

Oh, great. Very similar to last year. Great. Well, thank you very much, and congratulations.

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

Thank you.

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

Appreciate it, Josh.

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