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EDITED TRANSCRIPT

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

PRESENTATION

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

Thanks, everybody, for joining us. My name is Mark Delaney, and I cover the auto and industrial tech sector for Goldman Sachs. I'm very pleased to have with us today, from Sensata, the CEO, Jeff Cote; and the CFO, Paul Vasington.

As many of you know, Sensata is a leading provider of sensors and electrical protection products, and they sell primarily into the automotive, heavy vehicle and off-road, industrial and aerospace end markets with about $3 billion in annual revenue. Jeff, Paul, thanks for joining us.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Thanks for having us.

QUESTIONS AND ANSWERS

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

We will be taking questions via the webcast page later in the session. So please go ahead and submit those, and we'll get to as many as we can.

Jumping into it, Jeff, I wanted to start with a question for you. It's been about a year now that you've been the CEO of Sensata. Maybe you can speak to what you're most proud of having achieved so far and what your key objectives are going forward.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. I'd be glad to. So I think most of you know that I've been at Sensata for 14 years. So this is a new role-free, but certainly not a -- I'm not new to the company. I've held a variety of roles including -- I came in as the Chief Financial Officer back in 2006, but I've held the role of Chief Operating Officer and President running both business segments. And now I've been fortunate enough to be given the opportunity to lead the company as the new CEO. Timing, of course, is everything. So I took over last year right around the time when the pandemic started.

And in terms of what I'm most proud of, Mark, I think I'd start with how we managed through that time. I've always known that Sensata is a very resilient organization. But we, very early on, established a very clear mission for ourselves, and that was to take care of our people, keeping our people safe and serving our customers. And through what was a very volatile year, a steep drop in Q2 or a fast recovery in Q3 and what was basically a record quarter in terms of revenue in Q4, I'm really proud of how the team managed through that.

And while we were going through all that, we had record cash generation. We also took action around managing the cost structure of the business. You know that we implemented a restructuring program in the second quarter. We tapped into historically low debt markets in terms of interest rates. We then announced the takeout of a more costly tranche in our debt, 6.25 tranche of our debt. So a lot of great accomplishment in what was a challenging year, to say the least.

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In addition, I think we made some great strides on our strategy as well in terms of where we're going looking forward, not just managing the business in the near term. We had very strong outgrowth in 2020, above our target ranges in many of our market segments. We closed $465 million of new business wins in a period of time when our customers were delaying some of those. We did a small acquisition of PRECO for radar solutions and Lithium Balance on battery management, both of which we believe will further our strategy.

And we also made some good -- really good progress against the megatrends that we talk about. So it was a very busy year. I'm proud of all of that, but I'm very excited about what the future holds for us and the progress that we're making that will continue to make Sensata a great company for the many years to come.

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

That's a great introduction and I think dovetails to what I was hoping to speak on next, which is electrification and EVs, which is a big focus for the whole automotive, electronic component industries, including for Sensata. Let's talk a little bit about the content step-up that Sensata has. We were speaking on the last earnings call. It's about a 20% step-up on average. Of course, every vehicle is going to be a bit different. But what drives that content step-up for an EV compared to a traditional internal combustion engine or ICE vehicle?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. I'd be glad to address it. So again, we are trying to be extremely transparent regarding what we're seeing. We spent a fair amount of time in past earnings calls and in investor discussions demonstrating the uplift. We're excited about the fact that the transition from combustion engines to electric vehicles will represent a tailwind for us, 20% tailwind.

I think that a lot of investors may misunderstand or we're not communicating as clearly as we should about the fact that a lot of content on the combustion engines applies in an EV platform. And so our estimates are better than 50% of what we serve in current vehicle -- the light vehicle market carries over. So braking systems, tire pressure sensors, pressure sensors for air conditioning and environmental control, so there's a lot of content that applies in the new environment as well as the organic activity that we have around e-motor position, battery management from a monitoring for thermal runaway in a battery system. The acquisitions that we've done on in terms of high-voltage contactors, which is a great opportunity for us to be able to serve the market and what are really hard to do mission-critical applications.

So we're excited about that. But we look for proof points, right? So that's -- those are all words, but we look for proof points. And the fact that in 2020, about 5% of our automotive revenue was from electric vehicles when only about 3% of the market was electric vehicles should be a demonstration in support of the fact that it creates a tailwind for us. The last thing I would say is we're not done, right? So that's what we see line of sight to right now. We're going to continue to go after winning new business. We're going to be very clear about what we win that are indicators in terms of our progress on that.

And we're looking very holistically at the trend associated with electrification way beyond light vehicle, way beyond on-vehicle on-equipment. And so some of the things that we've talked about in terms of lithium balance and the battery management, and the opportunity that opens up in heavy vehicle and industrial on equipment, but also the broader ecosystem around charging infrastructure, grid management, it opens up big opportunities. And I think everyone knows, those will be very growthful markets, and they have a lot of mission-critical applications that we can serve as a company. So we're excited about that trend.

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

Yes. No, it's very interesting. So some of the contents coming from your existing portfolio, you're winning business at some of the big important EV OEMs, but you've also done some M&A. GIGAVAC, in particular, comes to mind as one of the more important acquisitions the company did, I think, about 3 years ago now that helped to augment the portfolio. You touched on this already. You're not done. So are there other types of products like high-voltage contactor with GIGAVAC, that sort of a thing where you say, hey, there's still a piece of our portfolio that we need to go at?

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Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes, there absolutely is. And so there's a lot of discontinuity in the end markets that we serve, right? We -- I -- we -- many people have talked about the fact that there will be more change in the automotive end market over the next 10 years than there has been over the last 50 years. So that discontinuity creates some risk, but it certainly creates opportunity as well.

And so we've done a very extensive job of understanding what that shift means to us. We've engaged deeply with our customers regarding their road maps and what most challenging problems they have that they're trying to solve that we might be able to burn to bear. And we'll look at that from both a standpoint of what could we do organically. And when you talk about that as our megatrend initiatives, and we're investing a lot more there, as everyone knows. We're targeting about $55 million investment in developing those new products to serve that market that we know that, that comes at a price in terms of lower margin profile that investors are funding. But we believe it's a worthy investment, given the opportunity that we see going forward. As well as we will look at inorganic opportunities like the GIGAVAC, like Lithium Balance. Some will be smaller. Some will be a little bigger. But they'll be bite size, and they'll be specifically focused on those megatrend areas associated with electrification and Smart & Connected as we build that pipeline to grow the content in the markets that we serve.

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

Paul, maybe I can ask you this next question and how you're thinking about being efficient with your capital allocation and approaching some of these companies in the EV space. There were some EV company logos you were able to disclose in the last earnings call, a company like Rivian and Lucid motors, right? And there's a number of these pre-revenue EV startups. And so it represents a lot of growth potential. But I would think a company like Sensata has to be thoughtful about where it goes in terms of allocating resources to help some of these customers. How do you think about going after that type of a customer set, but also still being efficient with your operating expenses?

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

Thanks for the question. So capital allocation, we continue to look at our ability to deploy capital quite favorably. So we're at 3.2x net leverage now. We have a range -- target range of 2.5% to 3.5%, so inside that range as our earnings continue to grow. Coming out of the pandemic, the leverage -- the net leverage will come down.

And we've talked about these transformational growth factors that we're focused on around electrification and also Smart & Connected. Don't want to not give a (inaudible) to that. And so our M&A bias and focus, inorganic growth is in those 2 growth vectors. And so we're looking for high-value, high-growth targets that are strategically aligned to those growth factors. And we'll continue to pursue opportunities there and deploy capital in that area, because we see that as a tremendous growth opportunity for Sensata.

We have tremendous free cash flow. We will continue to invest in the business. We'll continue to invest in capital expansion to support the demand and the growth that we're seeing. And that's part of our everyday business that we run and that we think we do very, very well. Free cash flow this year was extraordinarily strong, given the earnings. So we are at 130% conversion. Next year, we think we'll be around 85% conversion, so still very strong conversion.

This year, we saw the benefit of lower CapEx, because we knew that the economic conditions were weak. And so we knowingly deferred up a bunch of projects into '21. We also started tremendous improvement around inventory. So we reduced our inventory levels. It was a concerted by a dedicated team to drive much better inventory management. So going forward, free cash flow will continue to be strength for the company significantly. It'll give us the fuel to go and deploy capital, both internally and externally and also to fund our megatrend initiatives. And we talk about the megatrends as being a significant investment in our future. We isolate it for investors to see what it is. That is not a foregone conclusion.

Obviously, that spend needs to support very small effective investments in future business models that we think will be -- will scale quickly, grow quickly and be very differentiated in the markets that they serve. We're targeting $50 million to $55 million in 2021. That's the plan. That will -- that

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spend will be deployed based on the merits of the investments in products. A large product spend is related to our Smart & Connected initiative, which we feel -- we're very excited about. We think that's a great market to enter.

We're making a lot of progress over the last couple of years. So we've only been in for a couple of years, but we're making great progress. I'm sure Jeff will want to talk about it more. But that's how we see the capital deployment landscape based on the opportunities in front us and the strength of our financials and the strength of our cash flows.

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

Okay. Yes, that makes sense. I have a few questions later on in the session around Smart & Connected and the efforts there. So I absolutely want to get into that in a little bit. Maybe if we could stick to EVs, Jeff, you and I have talked before about the wireless battery management system opportunity that the company has been pursuing for a few years now. You mentioned you have -- an acquisition you did recently, Lithium Balance, I think it's a little bit more geared toward heavy vehicles. But for light vehicles, I think the company has been working toward a wireless BMS product. It's still prerevenue. Can you give us an update on that?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes, I'd be glad to. So we continue to believe that we've got some interesting technology in terms of being able to do wireless battery management. And really that stems from the fact that we probably are among the leaders of wireless sensors, given our position in tire pressure monitoring. And so we have a strong capability there in terms of being able to transmit data wirelessly. And so it continues to be an area of focus for us. But certainly, with the investment in Lithium Balance, which is a small company, but an important one because of the size of markets that it opens up, their focus was on wired battery management. And what they brought is the software side of that battery management functionality.

So it very much complemented our, if you will, hardware and wireless communication protocol expertise with the software side of what they're doing in terms of managing the charging and discharging process itself. Right now, the wired battery management market is well served in light vehicle. And we see some opportunities in both industrial applications associated with grid management and also with more medium-duty or heavy-duty vehicles as that transition occurs as well. It opens up large markets, right, the industrial, HVOR, on-equipment market, it opens up another $500 million market for us. When you think about going into broader energy storage, that's a much larger market. That is inevitable as well.

And so we're excited about that. We continue to invest on the wireless side, but we believe, right now, the more near-term opportunities will be on the wired. And over time, we'll be able to complement that with our wireless capability as well. So more to come on that, but we're engaging with customers, but it's just it's a slower take rate, and we're seeing more on the wired side currently.

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

Okay. That's helpful. Charging infrastructure is one of the big investment opportunities when we think about what's going to need to happen in order to enable the transition to electric vehicles. Is that an area that Sensata can participate in?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes, absolutely. So it's inevitable, right? With the increase in EVS, thinking about the charging infrastructure and broader grid management to have distributed generation and storage will be necessary. And so that is an area where we can focus not only on the content side, because we provide contactors into charging stations and other applications in energy storage today. But the battery management aspects allows us to go further up the stack. So it's an area that we're focused. It's a pretty hot area right now. But it's something that we believe we have a right to play. And we'll continue to serve these markets, and they represent some meaningful growth opportunities for us, both organically and through potential add-on acquisitions like the Lithium Balance or maybe a little bit bigger in terms of where we might go.

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

Okay. That's helpful and certainly something we'll keep an eye on going forward. Maybe we can transition into the Smart & Connected opportunity. We've touched on it a little bit, but I'd like to discuss it in more depth if we could. I think the company said on the most recent earnings call, it's now recorded about $100 million of business wins in Smart & Connected. You're engaged with some heavy fleet customers for that product and potentially could be getting some revenue sometime soon. So maybe talk a little bit more what that product is, what the revenue opportunity is and when you expect to start reporting revenue.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So the $100 million relates to the sold business on the OEM side. So in addition to that, which will convert into revenue as those products launch, we've taken this offering to the fleet market or the retrofit market as well. And on that side of the house, we have about $145 million of quotes outstanding, total contract value quotes, which translates to about $45 million of annualized revenue. Now we're not going to realize all of that, but it's just to show the magnitude of the momentum that we have on that side. That's with 5 fleet managers, 5 large fleets.

So let me talk a little bit about that some of the quantification of the opportunity -- let me talk about what the opportunity is. So if you think about on the OEM side of the world, on-road trucks for North America and Europe are required legislatively through regulation to implement tire pressure monitoring. I think it's late this year for Europe and 2022 for North America. We're an expert, and we have a leading position in tire pressure monitoring. But there are some unique requirements associated with an on-road truck because of the distance between the sensors and also because of the need to have a seamless truck-to-trailer link.

So when a tractor backs up to a trailer and you want to be able to link all of the tire pressure monitor sensors to that system, so you understand what's going on there. And so we developed what was the vehicle -- what is now the vehicle area network, WiFi for the vehicle that would collect that information and feed that tire pressure monitoring system. As we developed that for OEMS, we realized and started to get pull from fleets that said, okay, if you have this WiFi network, if you will, or vehicle area network on a truck or on a trailer, you could now start collecting other sensor information to feed a broader fleet management system.

And fleets are are really looking for more data to make their fleets safer and more efficient. And so there's a pain point there for them in terms of improving how they operate, both from a safety and efficiency standpoint. And so that's what led to the opportunity there. Now it's a complicated ecosystem, right, because you have telematics companies, you have fleet management offerings, you have some fleets that have their own fleet management software. But we believe that we have a developing offering that will be able to provide sensor content, if they want, vehicle area network content. We have a cloud that we've stood up to serve those fleets. So if we can pull that information to the cloud and provide more data insight, to the fleet, we can do that.

So we've got what is a, I think, a really exciting and compelling offering to be able to drive more efficiency in this ecosystem. So more to come, but it's an area that we're investing and we are quite excited about.

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

Yes. It makes a lot of sense. And I think the business model is a little bit more of a subscription one. Maybe talk about how you think about pricing that. Any other implications around the business model and how that's different than your current approach?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes, absolutely. The first fleet that we've engaged with, where we're rolling this out right now, they've opted for full subscription. So we'll pay for the equipment. We'll share the cost of installing it. And then it will be pure subscription-based going forward. That might not be how everybody

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choose to do it, and we're comfortable with that. Some may be more hardware or partial subscription. But our belief is that there's always going to be an element of subscription, because part of the offering we bring is the insight. It doesn't end with the installation of the equipment.

It's really about being able to say, I've got 1,000 vehicles in my fleet at my depot, which one has a low tire, which one is not loaded properly, right? And so there's data insight that we believe we can bring to the equation beyond just the hardware that we typically would.

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

We spoke a little bit already about the margin profile of the company. And perhaps it's a little bit different with some of these new types of products. It's just one of the main things I talk about with investors or get a lot of questions on with investors when they look at gross margins, we're running 35%, 36% or, some years, even a little bit higher than that. EBIT margins, at one point, the company had a 25% EBIT margin target. And now we're talking about more in the low 20s.

Makes a lot of sense to invest in the business to grow on the R&D coming up. But there's still some other things that I think are perhaps going on that are at least temporarily weighing on margins. So can we talk a little bit more about what perhaps is having a little bit lower of a margin percentage profile at least over the intermediate term?

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

Sure, I'm happy to take that. So in our last earnings call, we did lay out what we thought were the drivers or the key drivers of the margin reduction from the 2019 period of time when we had similar revenue levels. Some of the things that are weighing on the margin rate would be, we still have a fair amount of COVID-related costs in the P&L. And that will continue for this year and possibly into '22. Hopefully by '22, it's back to normal. We have some small costs related to some of the chip shortage issues that we're seeing around higher costs for materials. We are investing in maintenance. Again, $50 million to $55 million of spend is in the estimate for 2021. That's a significant investment. But we believe -- deeply believe that those are the right investments to drive outside growth into the future.

If you adjust for those types of things, and we're back to where we were when we exited '19 at similar revenue levels. You're right, in our Investor Day in 2017, we thought we'd get to 25%, but that was a much bigger business at the end of 2020. It was probably closer to $4 billion of revenue. So volume does matter for Sensata. We're a very profitable business. We have very good gross margins. When we see volume increase. We don't need a tremendous amount of capital in infrastructure expansion to achieve those growth levels. So we do get very good volume leverage on the growth. And that didn't happen as what we expected as the markets have completely underperformed what we thought they would have done back in the 2017 time frame.

So there's some margin runway as volumes grow. We continue to drive improvements in our business systems and our operating costs every year, and that helps drive incremental margin improvement. And we're going to reserve the right to invest in these new megatrends, as we see them as incredibly important to our future growth. And they're not foregone investments. As I said, they have to earn the right, if you will. They have to show that they can develop into very large scale businesses with differentiated business models and margins. Otherwise, we won't make the investment, we'll stop the investment, and we manage it very closely.

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

Yes. And is there something about selling into an EV that's going to have structurally lower margins compared to internal combustion engine products?

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

As Jeff said, half of the content is the same kind of products and solutions we're offering today. And we expect to maintain those differentiated margins, given that they are able to serve mission-critical applications and systems. So we feel very good about that.

As it relates to new visits such as contactors, that business has room to grow in terms of the margin profile as we continue to integrate (inaudible) global manufacturing footprint. So we see those as being differentiated margins in the markets that they're in and very much like the Sensata margins we see today in many of our products. So very, very growthful, very profitable, differentiated and focused on the right parts of the market where it's needed to drive greater ranges and faster charging times and which is where you think ultimately most of the market will trend. So we think we're in the right space with a very differentiated product that will be very consistent with what you see in many of our sensing products in terms of market profile.

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

That's very helpful. You talked about the semi shortage, Paul. Jeff, I know you and I spoke about this on the earnings call. And so maybe I can direct this one toward you. Semi shortages is something that's impacting global electronics markets, global industrial and automotive markets. And so a number of the auto OEMs have had to temporarily limit production in some of the factories.

What is Sensata hearing around the semiconductor shortage? To what extent is it impacting your ability to sell product to your customers. Also, there are some chips that go into certain sensor solutions that Sensata does, so there's also a cost element here too. So if you could talk a little bit more on what the company has seen. And perhaps more importantly, what are you expecting and hearing from suppliers and customers about when this is hopefully going to get better?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. So that's the million dollar question, right? So I guess I'd start with, obviously, this is a big industry challenge, right? This isn't unique to Sensata. Every company is experiencing this. And it is real. The shortage is real, and it's impacting our customers' ability to deliver to their customers, right? I would say that it's pretty evident, given where, for instance, in the automotive market -- North American automotive inventory levels are at a 9-year low. That would suggest that, that's not a choice to lower inventory, right? That's an inability to keep up more broadly in the supply chain.

We're -- I think we're boding quite well there. We're not representing the bottleneck in that process. You know that we're designed into product. So share shift can't happen very naturally when a particular supplier can't keep up, but it does impact our ability to win new business in our -- the fact that we have delivered for our customers is evidenced in our NBO hit rate, right, because we would be on blacklist if we weren't delivering for our customers.

So I feel good about that. In terms of how long it's going to last and what we're doing about it, we're doing some things that are very different. We've locked in firm full year orders, both to get ahead of the line, but also to try to mitigate the cost impact associated with price increases. We've had active engagement with our customers to manage through that process so that they understand that we're doing that. And we're expanding capacity wherever possible to make sure that we manage through this.

Expectations are that this is going to be pretty tight for the first half of the year and that once we pass over through the summer months, which usually result in some cooling off in terms of periods of manufacturing shutdowns and so forth, that at the second half of the year, we'll start to see this start to mitigate a little bit. But we've managed through it, and it's been tough, but I feel good about the success that we've experienced.

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

That's helpful. Maybe we can stay on the supply chain topics. And actually, let me pause here. I'd just remind people, if you have questions, please go ahead and submit those. I'll try to get to a few of them. We have 5 to 10 minutes left. And so while people are thinking about their questions

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and getting those submitted to the webcast, Jeff, one more for you on supply chain, which is something you know quite well as your prior role or one of the prior roles was as Chief Operating Officer.

Maybe speak a little bit about what Sensata is doing to better manage their supply chain. I know we just touched on semiconductors. But in terms of the resiliency of the supply chain, where you have your manufacturing set up in terms of geographic location and inventory management? And any changes you may want to make, especially with what we've seen with COVID and some of the geopolitical tensions around tariffs, is that causing the company to rethink how it's trying to structure its operations?

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Yes. Our global low-cost consolidated -- fairly consolidated relative to companies our size supply chain is a huge competitive advantage to us. Also because we serve the automotive market, the capabilities that, that brings and the scale that, that brings creates enormous competitive advantage in leverage as we bring similar products to other end markets that don't naturally have that scale. And we're going to leverage that to the maximum.

I've been with the company 14 years, but the company has been around for a lot longer. I think we've demonstrated the ability to continuously improve our business and our operations and maintain differentiated margins over decades. In a mark -- in a primary market, that's notorious for cost competitiveness, right?

So I believe the track record stands for itself, right? And we're going to keep doing that. We've got -- with my move into other roles in the company, we backfilled with very strong talent in that area. And we're excited about the continued progress in terms of how we continue to learn and grow and make sure that we have a sustainable, competitive back-end, if you will, from a supply chain standpoint. That will allow us to continue to grow. And so many areas that we'll continue to focus that we've always focused on that I think will continue to drive good advantage and leverage for us as an organization.

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

Okay. One came in. And Paul, I think this one is best for you. It came in on free cash flow conversion. I think the company is guiding to about 85% for this year. But the question is, how should investors think about free cash flow conversion? Anything unusual about this year? And where do you think free cash flow conversion relative to non-GAAP net income can trend over time?

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

This year was -- had some unusual attributes that drove the better free cash flow -- great cash flow actually. The first that comes to mind is the lower CapEx. We spent $107 million this year, which is much lower than what we anticipated when we entered the year. And that was due to focus on financial flexibility. We're in very unprecedented time with COVID-19 and the first and second quarter really becoming very, very dramatic in driving down revenue. And so we've really pulled back on spend, including CapEx. And we deferred a number of projects in 2021. This year, we're expecting $160 million, $170 million of CapEx. CapEx is primarily related to growth and productivity initiatives. So it delivers great value. And so we think it's a great spend. But that's going to be a large difference year-over-year.

The second thing that happened was at the beginning of the year, we kicked off a dedicated effort to significantly reduce our inventory levels, not necessarily to reduce it, but to drive greater management and efficiency in how we manage our inventory. And that generates a significant amount of inventory reduction during the year. So inventory coming out, getting some more appropriate levels to go forward. So that was 16 days of inventory that came out this year. We were not expecting that kind of improvement in '21. So that benefit comes through this year in the free cash flow. Doesn't repeat. And our business is now starting to grow again in 2021. So we expect higher CapEx and a little bit more investment in working capital to support that growth. That's what's going to -- that's the major changes between the 2 years.

85% conversion is a very good conversion based on historical performance. But the historical performance was definitely weighed down by rising inventory levels where we just were building inventory levels in our supply chain and it wasn't quite as efficient as it should be. And I think we

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definitely now have a much better process going forward. And so I think 85% is about right. It's the right level of CapEx to support future growth for business that we've largely won, and it's appropriate amount of working capital to support the growth to manage very efficiently as we go forward.

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

Got it. That's great. And then we had a question come in from the audience. A follow-up on the margin discussion we were having. And again, I think from my multiple conversations with investors, people are very supportive of the company investing for growth and realize the absolute margins are good. It's just trying to understand how this may evolve as EVs become a bigger percentage of your business. And just trying to think about the longer-term margin potential for the company.

So with that, preamble, the question is about margins when you're saying more of a system type of a sale. And I think the company said on the most recent earnings call that these more system types of sales have a little bit of a lower EBIT margin. And so the question from the investor is, can you be more specific? What type of EBIT margin do those sorts of sales have?

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

Yes. I guess, Jeff and I can tag team this. But a lot of what we're doing in the Smart & Connected area is, I guess, we view it as a -- it's an integrated vertical solution. Jeff described all the different working of that solution. But with that said, we expect that to be a very differentiated business model and not going to be dilutive to the symbolic margins as it eventually scales up. For today, it is, because we're building our business model and concepts. There's not a lot of actual revenue coming out of that. But over time, it grows. I actually think that's going to be very positive for Sensata from a margin perspective.

Given the differentiated value it brings. It brings more than just components, the network, the data insight and much greater use for the owner/operator. So I think one of the consistent issue may come in as you start looking out at stack and electrification, and we looked at that in terms of wireless battery management and said, well, there's a lot of products back they're having in the supply chain. So maybe that's one that if we really want to pursue it, there'll be some potential headwind, maybe marginal. But most of what we're doing is still really component development, a lot of electrification work (inaudible) energy management, the things with Lithium Balance. You're now getting possibly into more of a system.

But at the end of the day, we're only going to invest in that if it's differentiated in the market it serves so that it's going to be (inaudible) whatever that market is going to deliver in terms of margin. But the larger (inaudible) components and electrified platforms. It's the Smart & Connected initiative. It could be around things like PRECO, which is actually radar, which, again, very differentiated business model, high margins, high gross margins. So I think we're just trying to be open about, as you move out the stack, the margin becomes more difficult to obtain. But I think most of what we're doing still looks very differentiated, very much like what we've seen in traditional Sensata business. Jeff, if you want to add in there.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

I think you covered it well, Paul. Thanks.

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

Great. Well, I would love to keep discussing in more detail on a number of factors. But unfortunately, we are out of time. So Jeff, Paul, really appreciate you guys joining us this morning and answering our questions. And we're all looking forward to following Sensata in the months and years ahead.

Jeffrey J. Cote - *Sensata Technologies Holding plc - President, CEO & Director*

Great. Thanks.

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