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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC Signs Definitive Agreement to Acquire Xirgo® Technologies Intermediate Holdings LLC - M&A Call

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PRESENTATION

Operator

Good day and welcome to Sensata's acquisition of Xirgo Technologies conference call.

(Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Mr. Jacob Sayer, VP Finance. Please go ahead.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Thank you, Rocco, and good morning, everyone. I'd like you to welcome you to Sensata's conference call announcing the acquisition of Xirgo Technologies. Joining me on today's call are Jeff Cote, Sensata's CEO and President; and Paul Vasington, Sensata's Chief Financial Officer.

In addition to the acquisition press release that we issued earlier today, we're going to be referencing a slide presentation during today's conference call. And the PDF of that presentation can be downloaded from Sensata's Investor Relations website, and we'll post a replay of today's webcast shortly after the conclusion of today's call.

As we begin, I would like to reference Sensata's safe harbor statement on Slide 2. During the course of today's conference call, we will make forward-looking statements regarding future events or the financial performance of the company that involve certain risks and uncertainties. Actual results may differ materially from the projections described in such statements. Factors that might cause such differences include, but are not limited to, those discussed in our forms 10-K and 10-Q as well as other subsequent filings with the SEC.

Jeff will begin today with key highlights of the Xirgo acquisition and its strategic rationale for Sensata. We'll then take your questions after our prepared remarks.

Now I'd like to turn the call over to Sensata's CEO and President, Jeff Cote.

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

Thank you, Jacob, and welcome, everyone, and we really appreciate everybody joining on such short notice. We are very pleased to announce that we've reached an agreement to acquire Xirgo Technologies for $400 million, as shown on Slide 3. Xirgo is a leading telematics and data insight provider for fleet management across the transportation and logistics segments. They bring a comprehensive suite of telematics and asset tracking devices, cloud-based data insight solutions as well as emerging sensing applications and data services.

Xirgo meaningfully extends Sensata's organic Smart & Connected solution for commercial fleet managers, expands our addressable market and is consistent with Sensata's strategy to move beyond serving vehicle OEMs and engaging with the broader fleet ecosystem. Sensata's Smart & Connected effort has focused -- has been focused on the $1 billion OEM and $6 billion heavy vehicle fleet market. Xirgo expands these addressable markets to $15 billion by 2030, by adding cargo, container and light vehicle fleet management.

Xirgo is a fast-growing business. It is expected to generate over $100 million in annual revenue in 2021 and grow in excess of 20% per year over the next several years. Xirgo is also very profitable with approximately 50% gross margins and 25% EBITDA margins. We look forward to welcoming Xirgo's 160-plus employees in California, Minnesota and Lithuania to the Sensata team.

As shown on Slide 4, Xirgo is a natural extension of Sensata's strategy to migrate from being a sensor component company to a provider of data insight solutions to the broader fleet ecosystem across a range of heavy and light duty vehicles as well as cargo and containers. This journey began in 2014 with the acquisition of Schrader Electronics, which added wireless system capabilities for tire pressure monitoring. We extended these capabilities with the formation of our Smart & Connected initiatives, building on the need for tire pressure data to be provided to commercial fleet managers of heavy-duty trucks and trailers. We are extending that data insight beyond the vehicle and making it accessible through the cloud for fleet-wide monitoring in order to reduce the cost of operations and maintenance while enhancing safety.

Xirgo enables multiple new long-term growth vectors for Sensata within the Smart & Connected mega trends. It brings a telematics and cloud platform with multiple value -- high-value sensing parameters, and sources of data that complement Sensata's initial offering and accelerates our ability to build high-quality recurring revenue streams by providing data insight for various players across the fleet ecosystem.

As shown on Slide 5, Xirgo expands our Smart & Connected solution, bringing a broad portfolio of telematics and asset-tracking devices, cloud solutions and valuable data services, that can leverage Sensata's vehicle area network and portfolio of sensing applications. These solutions provide much-needed insight into the vehicle and cargo condition as well as the overall productivity of fleets' daily operations. These highly customized solutions are modular but tightly integrated across the end-to-end offering, depending on how ecosystem partners want to deploy their respective solutions.

That makes Xirgo's offering sticky as demonstrated by Xirgo's long tenure with key customers and partners, such as Verizon, AT&T, Amazon and Maersk. Moreover, Xirgo brings emerging sensing applications that include trailer cargo monitoring and tracking for supply chain management applications, and dash cam video for event analysis and cab monitoring. These sensing applications target high-value use cases for fleet managers and enhanced Xirgo's value proposition beyond its telematics and cloud offering. For example, trailer cargo monitoring is used by fleets to measure trailer load capacity, determine empty/full status and monitor other events such as cargo shifting during transit. This valuable data is used by fleets to reduce costs and maximize productivity by reducing the cost of empty miles driven, improving trailer turns and minimizing maintenance walks in the yard, to name a few examples.

On Slide 6, we show an example of how Xirgo and Sensata's solutions fit together in a complementary manner, as illustrated in a heavy-duty truck and trailer use case. Sensata's vehicle area network enables a truck-to-trailer link for data transmission to the driver and collect high-value data such as tire pressure and wheel bearing wear and monitors related third-party vehicle systems, such as an automatic tire inflation system. Xirgo's telematics device on the truck collects additional vehicle data from onboard diagnostics, while the trailer telematics device has an integrated cargo capacity sensor and interfaces with the Sensata gateway device. The Xirgo telematics devices transmit data to the cloud for processing, and the Xirgo cloud distributes meaningful data to various partners across the fleet ecosystem so that fleet managers and their respective users receive actionable data at the right time and at the right place.

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Xirgo increases the potential addressable markets for Sensata, expanding the end markets we serve from heavy-duty commercial vehicles to include cargo and container management and light-duty vehicle fleet management. Xirgo increases the $1 billion OEM and 6 million heavy vehicle fleet market that Sensata's Smart & Connected initiative has been pursuing to $15 billion overall by 2030 across these various end markets. This represents market growth of over 20% CAGR from 2020 to 2030.

As shown on Slide 8, Xirgo principally goes to market via leading telematic service providers and fleet management solution providers. They also sell directly to leading fleet managers in North America and Europe, depending on how these fleet managers prefer to purchase solutions. Xirgo expands Sensata's reach beyond vehicle OEM and tier 1s to include premier fleet and telematics customers, as shown on this slide.

Xirgo significantly expands Sensata's ability to engage with the broader fleet ecosystem to deliver an enhanced value proposition across more activities with the transportation and logistics value chain.

As shown on Slide 9, we agreed to acquire Xirgo for $400 million from private equity firm, HKW, and other shareholders. And the transaction will be funded using cash on hand. The acquisition purchase price represents approximately 16x expected 2021 EBITDA. Xirgo is an attractive acquisition for Sensata and will be accretive to adjusted earnings per share immediately.

Pending regulatory approvals and customary closing conditions, we expect to close the acquisition by mid-March. In summary, Xirgo accelerates Sensata's journey to become a leading data insight provider across transportation and logistics markets, continuing our progress in the Smart & Connected megatrend. This is a key component of our strategy to deliver higher growth and long-term shareholder value.

I'd now like to turn the call back to Jacob.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Thank you, Jeff. We'll now look to address folks' questions with regard to the Xirgo acquisition. Operator, Rocco, would you please assemble the Q&A roster?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Today's first question comes from Craig Hettenbach with Morgan Stanley.

Craig Matthew Hettenbach - *Morgan Stanley, Research Division - VP*

Jeff, just a question. I mean this isn't new. I mean the company has been talking about Smart & Connected for some time. So it looks like you're executing on this acquisition and internal kind of organic growth. But just in the context of as you pursue this acquisition, can you talk about why this makes sense as you evaluate it versus relative to traditional sensor-type assets out there?

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

Yes. Craig, I'd be glad to address that. So just a little bit of context, we've been working with Xirgo to bring a joint solution to market with one of our joint customers over the last -- little over a year. We've been pursuing our organic efforts. So we know them fairly well, and obviously have done a bunch of diligence on them.

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I think, to summarize, why Xirgo? I think there are 4 key elements of this. The first is extremely strong talent. Mentioned the 160 people globally, very talented sales channel managers, engineers across the company, great talent of people with similar culture to Sensata. They also bring a number of leading fleet customers and a revenue base of what's expected to be a little over $100 million this year. And they also complementary match our solution set. Maybe on Page 5 of the presentation, we outlined the examples how it fits together very nicely. A little bit of overlap, but not a lot. It's very complementary. And then it opens up these additional markets for us.

We've been very clear over the past several years since we started our initiative that we believe that there's opportunity for Sensata to expand beyond sensor components into this area of data insight. How far up that stack, if you will, or to that fully integrated solution we go, will depend on the partner that we're working with. And if it's just sensor components or stops at the vehicle area network or if they want to buy just telematics devices. We'll be there to serve them. We're going to have a broad offering, and we'll serve the ecosystem based upon what their interests are.

Operator

And our next question today comes from Steven Fox with Fox Advisors.

Steven Bryant Fox - *Fox Advisors LLC - Founder & CEO*

Jeff, I was wondering if you could dig in a little bit further into Slide 5, from the aspect of their competitive advantages versus, say, other peer companies you might have looked at. And then secondly, from the standpoint of interoperability. In other words, can you sell the cloud platform and insight services stand-alone, and that it can mix and match with other people's components pretty freely? Or does it have to come as a set?

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

Yes. Good -- great question. And it's intended to be agnostic. We want to have a broad solution, both Sensata did, Xirgo did. And together, we will. But we're going to sell what works. In that application. So it can work very well as an integrated solution, but it also works extraordinarily well, engaging with other ecosystem players. And so that has always been a key element. Clearly, we want to continue to build out the data services and the information that we can provide to create more sticky revenue. And to that point, of differentiation. To me, the proof is in the pudding. Long-term customer relationships, recurring revenue streams is always a very good indication as well as a clearly profitable business, demonstrated what they bring to market is solving critical customer problems and is valued by them, and therefore, differentiate it.

There are a number of technical issues associated with the differentiation as well in terms of being able to communicate all this information right up to the cloud, analyze it, be able to serve up meaningful data that they do extraordinarily well in addition to that. But there are a lot of things to like about what they bring to market and serve their customers. Appreciate the question.

Operator

And our next question today comes from Wamsi Mohan with Bank of America Merrill Lynch.

Wamsi Mohan - *BofA Securities, Research Division - Director*

And congrats on the deal. Jeff, I was wondering how you think about sort of these assets fitting in Sensata's strategy fitting with the longer-term aspirations of going autonomous. So within some of the fleet operators, they're looking to start to -- right in a very small fashion still, but in sort of 3, 4, 5 years, possibly go some routes, autonomous. And those are using, whether it be Waymo or Navistar trucks like retrofitted with a lot of equipment. I'm trying to understand like where your strategy sort of either intersects, overlaps or competes with sort of the broader picture of what might happen over the next decade? And how you think about having -- addressing sort of those opportunities in the context of both Xirgo as well as the broader Sensata Smart & Connected strategy?

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

Yes, Wamsi, great question. I appreciate that. So you know that we have an investment. We bought a company preco that does rate our solutions in the on-road truck environment as well as other HVOR applications. And so that is a play that's more connected to the autonomous side. But I would also say that the Smart & Connected effort that we have underway here, in terms of understanding vehicle readiness or road readiness in an automated way to reduce the cost of operations personnel to ensure that the truck and trailer are ready to be on the road, definitely is a precursor to autonomous.

So we'll actually connect to that, but this is about equipment readiness and efficiency and safety of the equipment rather than the autonomous side. Aside from that, within the HVOR business, at Sensata, we do have our radar application. That's certainly identifying object detection to meet vulnerable road user applications and so forth, which will, without question, have a play in terms of ultimately driving more autonomous features in the heavy vehicle and off road.

Operator

And our next question today comes from Michael Filatov with Berenberg Capital Markets.

Michael R. Filatov - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Just on Slide 5, maybe I'm not understanding this completely right, but if you could maybe touch on sort of what the existing overlap is between your product portfolio. I know you guys -- I think you had talked about having software before. So really, what's the differentiator in what Xirgo offers? And does that mean you're going to maybe rationalizing some of the offerings that you currently provide for what Xirgo offers?

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

Yes, absolutely. So I'd actually turn your attention to Slide 6 because in an on-road truck or heavy-duty truck trailer applications, I think it does a better job of that use case and where we are complementary. And I guess the way I would describe it is that given Sensata's heritage, we're coming at this from components on the vehicle up. And we naturally got pulled there as tire pressure monitoring needed to be implemented, and there was a need for methodology to collect that information on the vehicle and to allow the truck to trailer link. Xirgo is coming at it from a different place. They're coming at it from, okay, we're experts at getting information off the vehicle, into the cloud. And they're coming down the stack into other apps and devices to enhance the value proposition of that equipment that gets information into the cloud.

So it's very complementary. There's not a lot of overlap at all. And again, I'll bring back to the point that we're working jointly with Xirgo on a particular customer. And that was a really good relationship because we were able to enhance the value proposition to that customer and engage with them in a very different way with that joint portfolio. Where we go from here? We'll continue to build out that portfolio. We're -- there's no expected synergy, if you will, because this is about growth of this opportunity against this very fast-growing market. But we will continue to expand elements of the offering as well as potentially other segments of the market that we could pursue with this offer.

Operator

Our next question today comes from Samik Chatterjee with JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

Jeff, I just wanted to clarify a couple of things. Firstly, I think you talked about $100 million of revenue this year, which can -- which of the opportunities is that largely being driven by? Which is the more near term opportunity? Or it sounds like heavy duty vehicles, but just wanted to confirm how

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you're thinking about kind of near-term and then more longer-term opportunities for Xirgo? And the other question I had is, how much of this is driven by the acquisition is driven by also the channel that was more appropriate to go towards and migrate towards fleet managers and the decision-making there, where you've been traditionally a Sensata strong with the OEMs, but the fleet managers were probably being targeted to a different channel, which Xirgo had access to. Those were the 2 questions.

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

Great. Thank you. So on the opportunity set, clearly, today, Xirgo serves not only the heavy vehicle on-road truck market and trailer market, but also light vehicle, in usage-based insurance and a variety of other applications. So they have a broader end market focus. It's a business with a revenue today. So I want to make sure that we're clear. This isn't going from $0 to $100 million in 2021. It's going to grow 20% this year or more office space in 2020. So it has meaningful customers in this space. And again, that's how we've met them. I think you're bringing up -- on the second part of the question, you're bringing up a very important observation. Sensata has decades of experience of working with OEMs. We do have some aftermarket distribution-related business, but that is not our 4K. Candidly, where we really focus is on OEM understanding, and that's where the bulk of our business is. And this channel ability to go-to-market with different channels is something that Xirgo is very good at. And we're going to leverage that as we continue to pursue this opportunity as a joint company. These 2 initiatives will come together within Sensata. And they'll -- because they're a different business model, will leverage the positive of Sensata in terms of the infrastructure and the other things that we have as an organization, but we're going to run this as a stand-alone business unit, not as a segment. It will roll off within Performance Sensing and HVOR, but we'll run it as a business unit with the current CEO of the company, operating this business given his and his team's experience in terms of going to market in these new channels for Sensata.

Operator

Our next question today comes from David Kelley at Jefferies.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

I believe Xirgo has been making a push to expand into Europe in the last couple of years. I guess could you talk about how you think about the regional mix today? And then maybe if there's any low-hanging fruit to build the business or expand the business outside of their core markets. That would be great.

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

Yes. It's a great point. I think both Sensata and Xirgo have been primarily focused on the North American market. More recently, Xirgo has expanded into the European market. Obviously, a very large market there as well. And it's our interest to stay focused enough to make sure that we see success in terms of the growth that we're targeting, and we're relevant in that end market, but also expand into some of these other markets to provide opportunities for growth. And so I would guess I would say more to come on that because as we build out that joint strategy with these 2 businesses, we'll get more clear regarding some of the markets that we'll be pursuing. But we've talked about where we are today, on-road truck. So heavy-duty fleet management, Xirgo does have some light-duty fleet management applications as well as cargo with Maersk and other container applications. So those are the primary focus areas now. But certainly, we'll continue -- as we grow this opportunity organically and through other potential M&A-related activity, we'll pursue other end markets that would be attractive for consistent growth and differentiated solution.

Operator

And our next question today comes from Joseph Spak with RBC Capital Markets.

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Joseph Robert Spak - *RBC Capital Markets, Research Division - Autos and Leisure Analyst*

Congratulations on the deal. The question I have is really when you talk about the opportunity and some of the TAMs that the Xirgo acquisition brings you. Is that I guess, aftermarket and OE new trucks? And the reason I ask is you sort of got a discussion about channels, fleet versus new OE trucks. And I understand that the opportunity today is probably to retrofit a lot of existing fleets. But when you look at the new trucks that OEMs are coming out with and even some of the start-ups, it seems like they increasingly have a lot more embedded telematic features. So do you need to evolve the business over time, towards more OE?

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

Yes. It's good. So we talked about $1 billion market opportunity for our Smart & Connected offering within Sensata in the OEM market. So you're right. Today, it's much larger in the aftermarket or fleet area. But you're also right that it's getting pushed into the OEMs and in fact, many fleets today, when they buy vehicles, will state this is the equipment that I want on the vehicle when it rolls off the lot. So they buy equipment. They want it to be able to integrate and talk with their broader fleet management system, and the OEMs will implement the solutions there. And in fact, we have some situations where that's occurring. And I would expect over time that more of that will get pushed on to vehicles as they roll off the lot. And we're -- I think we're very well positioned to be able to do that because we're engaged with all of those OEMs, already. And we'll be talking with them about how they can enhance their value proposition by allowing their vehicles to have a competitive advantage in terms of delivering on what those users of those vehicles want once they hit the market. So again, I see this as very complementary. We have different focuses in terms of where we've been. And together, I think that will develop a very strong value proposition and business approach to engaging with both end markets that we've spoken about.

Operator

And our next question today comes from William Stein with Truist.

William Stein - *Truist Securities, Inc., Research Division - MD*

And then I'll add my congratulations in really expanding an important part of your business. Jeff, you highlighted rapid growth in this business. Can you perhaps quantify what the recent growth has been or what your expectations are over the next few years? And at the same time, can you talk about how prominent this makes you in this market? For those of us who aren't as familiar with this part of the market, it's really not historically a big part of Sensata's business, been a new and growing part. Can you talk about competition and industry fragmentation there and whether this acquisition gives you enough size to sort of hold yourself out as a leader in that market.

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

Yes. So the market today across fleet, aftermarket OEM, we believe it's about $2 billion. So with, call it, $100 million of revenue. We're not a tiny player, but we have lots of opportunity to continue to grow. It's a fairly fragmented market. But it will -- we feel strongly it will grow pretty dramatically over the next 10 years, at that 20% rate. In terms of the competition, it varies by end market and by solution set that you're bringing. So if we're talking about smart trailers, likely competition would be Philips Connect, RoadReady. If we're talking about supply chain, Powerfleet, ORBCOMM. So there are a number of players that are serving different market segments. Some bear quite well, some not as well, like in any environment. But there tends to be across each of these markets -- smaller market segments. There tends to be 3 or 4 players that serve that individual market, and not many that serve all of them. And so I suspect that the competitive dynamic will be quite different than when we're engaging with an OEM. But again, I think that the team at Xirgo has demonstrated the ability to continue to grow this business. They've grown well over the last several years. And they demonstrated in terms of what their bookings look like into 2021 and the diligence that we've done that gives us confidence that, that growth will be accelerating as we move forward into '21 and beyond.

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Operator

And our next question today comes from David Williams at Luke Capital.

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

I guess if you could maybe break down the revenue stream between maybe the hardware side and the cloud or the recurring revenue side. Just kind of what do you expect that to grow over time?

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

Yes. It's largely hardware today. There is a small piece of revenue that's more toward just subscription-based. So more -- I'd say more than 90% is hardware based, but there is a trend that they're observing just like the trends that Sensata is observing toward more subscription-based models. And that naturally happens as the offering that you're providing broadens, right? So as the apps and other content that you can bring to the solution, it's a menu of options that they can pick across the devices that they want to implement based upon what their objectives are. And they can start small and add to it over time. The modularity of this is the exciting part that we can add other aspects of it. And we both have really strong experience in terms of implementing those solutions in the field and managing those processes. So it's large -- to answer the question directly, it's largely hardware today, but we see a line of sight for it to be more subscription-based as we go forward.

Operator

Our next question is a follow-up from Wamsi Mohan with Bank of America Merrill Lynch.

Wamsi Mohan - *BofA Securities, Research Division - Director*

Jeff, just looking at Slide 7, where you sort of not how it enhances your total addressable market. How should we think about both the current revenue split as well as sort of the growth trajectory between these categories or whether it's cargo or heavy-duty versus light duty?

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

Yes. Higher growth in -- so the revenue split would be, let's say, probably more heavily weighted towards light vehicle and heavy duty than cargo and container. And in terms of the growth rate, pretty similar. Light vehicle probably has the -- light vehicle and medium-class vehicles have a little bit faster growth rate, but all of them are above mid-teens going as high as 30% across the different subsegments of the market that I've quoted here. So good growth on each of them. And obviously, the growth rate, but also the value proposition that we're able to bring to each of them will drive where we focus our energy on. There are no laggards in terms of segments here. The lowest growth category that we see is around that 15%, 16%.

Operator

And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Jacob Sayer for final remarks.

Jacob A. Sayer - *Sensata Technologies Holding plc - VP of Finance & CFO of Performance Sensing Gbu*

Thank you, Rocco. I'd like to thank everyone for joining us this morning. And title will be participating in several upcoming virtual investor conferences during the balance of the quarter, including those sponsored by Barclays, Wolfe, Berenberg, Morgan Stanley and Truist capital.

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We look forward to seeing you at one of those events or on our first quarter earnings call in late April. Thank you for joining us this morning and for your interest in Sensata. Operator, you may now end the call.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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