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EDITED TRANSCRIPT

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PRESENTATION

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Thank you, Charles. Good morning, everybody. I'm Chris Glynn with Oppenheimer, the analyst covering Sensata. And happy to have CEO, Jeff Cote, with us today. And Jacob Sayer, Vice President, Investor Relations, is also standing by.

We're going to conduct the fireside format today. But before jumping into that, Jeff is going to start with a brief overview of the company, and then we'll join the interactive part. And as I get a little deeper into the fireside style, we'll also queue up for any questions from the audience, type them into the function that allows that, and I should see that in my interface and ask any questions on your behalf.

So Jeff, why don't you get us started, please?

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

Great. Thank you, Chris. Thanks for having us here, and I appreciate all of your support over the years. I know that you and many of the investors on the call may be familiar with Sensata, but let me provide just a brief overview of the company just in case some of you are new to the business.

Sensata went public in 2010, but it's over 100-year-old business. Actually, we're just celebrating our 115th anniversary -- 106th anniversary, excuse me. It's an industrial technology company. You may not know the name, but I can guarantee you use our products every day in your homes, in your cars, in your places of work and your other modes of transportation and other equipment.

In 2020, we were just over $3 billion in revenue. We employed about 19,000 people, and we operate globally. As of our most recent earnings call as of the 27th, we guided 2021 to $3.75 billion. That's about a 23% growth. That's the midpoint of our guide. And $3.35 of adjusted earnings per share, which is 51% growth off of last year at the midpoint of our guide.

We have a very strong legacy as a company in designing and manufacturing, very hard-to-do, mission-critical sensors and electrical protection, which essentially help our customers solve their most difficult challenges. More and more we're getting called from just components to subsystems and other data insight, and we'll speak -- I'm sure we'll speak about that when we go through some of the Q&A. We focus on the very high-value, high-growth market segments, and we have a low and variable cost model to manage through a tough market situations.

Because we focus on mission-critical sensors, we have a differentiated margin as well. In the first quarter, we had 21% operating income margins. and we're very low from a capital-intensive standpoint. So we're able to convert a lot of those great earnings into cash, which then we can deploy in value-creating M&A and other capital deployment strategies to increase shareholder value.

We serve a variety of OEMs, tiers and aftermarket customers in automotive; HVOR, heavy vehicle off-road; agriculture; and other recreational vehicles. We also serve the aerospace and industrial, diversified industrial markets. And there's no one single application that makes up a significant concentration of our revenue. So we have 47,000 individual product SKUs that we've developed specifically for our customers for the applications that they're targeting.

We benefit from a number of trends in the marketplace, the core trend being Clean & Efficient and safe systems. But clearly, the trend toward more electrified equipment benefits us in a meaningful way as well as broader IoT or Smart & Connected trends, which drive secular growth. And speaking

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of that secular growth, we target 400 to 600 basis points of secular growth on auto and 600 to 800 basis points of secular growth in HVOR. The last 3 years, we've been at the high end of that range. And in the first quarter, we exceeded that range. The first quarter of 2021, we exceeded that range.

We look at new business wins, which propel that because we are a long-cycle business. So the wins that we are able to achieve with our customers this year in many cases won't generate revenue for 3, 5 years. That creates a significant amount of visibility into that long-term growth -- long-term secular growth in our business.

We continue to invest in Electrification and Smart & Connected trends, and we'll continue to further diversify our end market exposure, and that will impact our long-term growth rate overall.

Some of the key takeaways are that -- we believe we're really well positioned here given that we are a long-cycle business and we're in a secular trend toward growth in the end markets that we serve. So the end market growth, coupled with our outgrowth that we have locked and loaded from our NBO standpoint and also our serial M&A strategy, really positions us quite well to be able to see a trend towards some strong growth, good margins, generation of cash flow and then reinvesting that in additional growth for the business.

So that's a very quick summary, but hopefully helpful to sort of set the stage for your understanding of Sensata.

QUESTIONS AND ANSWERS

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great, Jeff. Thank you, and thanks for being here. I think my first question was how content growth trended in the last couple of years, and you covered that so I will just move right down my queue.

I was curious, first on the core sensors business, definitely want to get into Smart & Connected and such a little down the line. But how would you describe the broader high-level competitive landscape in automotive sensors? And any interesting changes or developments from indirect competition over the last couple of years? It's a concern people raise from time to time, but it seems to be more theoretical than practical. So curious.

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

Yes, absolutely. So given the mission-critical nature and the hard to do nature of the solutions that we provide to our customers, and just as an example, our products enable electronic stability control for instance. So they must work, and they must work for the life of the equipment that they go into.

Because of that, there tends to be only a handful of competitors in any of the application spaces that we compete. But the competitors are different depending on the end market and the sensing parameter that we're talking about, and it hasn't changed a lot. The only change is because we're entering other sensing parameters or other markets.

So for instance, in pressure and temperature sensing, the typical competitors are companies like Bosch, DENSO and Continental. Interestingly, those are also customers of ours, so we're very accustomed to working in this environment where we're competitors, but also working with these customers. In newer dimensions areas that were working like high-voltage contactors, for instance, the competitor set is different.

But again, it's only a handful, Panasonic, Hongfa, TE Connectivity, and so you wouldn't see some of the traditional pressure and temperature competitors in that space. And then when you start to go into areas like Smart & Connected in the logistics and transport area, you start to see companies like RoadReady that would be companies that we would see -- that would be engaging in this -- the telematics ecosystem, and I'm sure

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we'll talk more about that because it's a very large space and there are a lot of players in it, very complicated, but we believe we have a meaningful value proposition to bring to that market to feed that ecosystem.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Great. Yes, we'll certainly get into that. You also referred to the contactor space. So wondering if you could review the GIGAVAC acquisition, how that's playing out relative to the deal case and the centrality of that to your kind of EV initiative and that transition from ICE over time.

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

Yes, absolutely. So this is a transaction -- GIGAVAC was a company that we acquired at the end of 2018. So it's been part of our portfolio for a bit of time now, but it is very important to the overall portfolio. We timed it quite well in terms of getting into that space as all of our customers. And by the way, it's not just light passenger vehicles, it's more broadly into infrastructure as well when you think of grid upgrading and proliferation of charging stations to enable more and more electrified world.

And the trend is toward higher voltages, and GIGAVAC had a very strong portfolio of products that we're able to serve the most difficult applications. And so what I mean by that is if you think about one of the key challenges of getting passenger vehicles from a battery electric standpoint to proliferate more, it's to get longer ranges in shorter charge times of those vehicles. And so the only way to effectively do that is to increase the voltages of the -- of this -- of the equipment.

And that trundles down through the infrastructure side of it as well. It's more efficient to transfer energy, DC fast chargers to the vehicles, and so those have a lot of high-voltage contactors and other electrical protection equipment on board there. So we've been focused on that.

In addition to GIGAVAC, we've done some other interesting inorganic plays as well. Lithium Balance is a wired battery management business that is focused on the heavy vehicle market and also the energy storage market. So that was a small but interesting acquisition. Very recently, we announced the Churod technologies JV to broaden our high-voltage contactor portfolio to bring it to other market segments. And we have a number of organic efforts around e-motor precision, battery pressure to serve this broad and very fast-growing Electrification market.

And today, we believe just in the passenger vehicle environment, there's about a 20% uplift from an internal combustion engine platform, Sensata content, about $40 on average in North America and Europe to about $50 of content. And we're not done yet, we'll continue to focus on it from an organic and inorganic standpoint.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. And then the 16% to a 21% organic growth outlook for this year, wondering if you could just briefly disaggregate the key drivers to get a sense of -- it's a unique comp with the auto production activity levels last year, but your content has been running well, and there's various cycles in the heavy vehicle off-road market. And I think you have particular strength to start the year in the controls business, which is beyond transportation markets.

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

Yes, absolutely. And so it's -- there's a lot of tailwind associated with growth right now coming off a tough year in 2020 for all companies. And the components of the growth really -- the organic growth is really around the market, right? So it's on an average about 11% overall. Auto is about 12% growth. HVOR, we're calling to be a faster grower, about 17% growth this year. Industrial, we're calling it about 4% up growth. And then aero is the only outlier in terms of down 4%. So that's the sort of layout of how we see the markets we serve and what's going to happen in those end markets from a market growth standpoint only.

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Complementing that is the outgrowth, right, which is there regardless of end market, and it's a real focus area for us. And we -- I spoke about the fact that in heavy vehicle off-road in the first quarter, we had over 1,000 basis points of outgrowth. And in the automotive market, we had 900 basis points.

In addition to the organic, which was the point of your question, there is the inorganic side as well. And so we've been acquisitive in the past, but it's been more targeted toward a little bit larger businesses, and we've done transactions and then digested them over a period of time, and we've pivoted to more of a serial M&A strategy, where our goal is to do several smaller ones every year. And obviously, the Xirgo transaction, which we announced earlier in the year, but we closed on April 1, will provide some inorganic growth as well. So that will become a more important part of our annual strategy and our annual growth in the business.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. That's a good transition to my next topic, Jeff. And so I guess before getting into Xirgo, I was curious about your organic strategy and performance to date in Smart & Connected focused on the commercial vehicle OEMs and the fleet side also picking up some activity a little bit. So give us the story there, please.

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

Yes. So from an organic standpoint, we're starting a new business, and so there's no question that the telematics ecosystem is a big one and a fast-growing one as capabilities are expanding and as fleets demand a safer fleet and a more efficient fleet. And so if you think about what we and Xirgo were trying to accomplish or are trying to accomplish, it's around feeding insight to this telematics ecosystem. We would size that market at about $15 billion by 2030, let's call it, $2.5 billion today, so very fast-growing as well.

The organic effort is essentially a start-up effort, and it's thinking about things from sensors up. That's what Sensata is really good at, understanding how to collect data off of equipment and then sending it to some other device to interpret that information. The vast majority of our business today is sending that information to control modules that our OEM customers then use that data that our sensors collect to enable systems, closed-loop systems, safer systems.

Xirgo is looking at this from the cloud down, and so that's why it's such a complementary opportunity for us to work together. And so we've developed a full stack solution from sensors all the way up to be able to serve and feed information into the fleet management systems of our customers, whether that be third-party systems or internally-developed systems, and we're really excited about the opportunity.

The organic effort that we had was focused on about 8 or 10 of the top 25 North American fleets. We've got 2 trials underway. These are large fleets with lots of equipment, but they're trials is to start. So we're seeing some momentum on that, and we're also seeing it trend more toward a data-as-a-service or device as a service as opposed to just selling hardware and then walking away. But we're really excited about it. Jacob had mentioned in our recent call that we're going to have a teach-in in the next 6 or 8 weeks on this particular topic to share more about what we see in the market with our investor base and analysts.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. We look forward to that. And speaking of Xirgo, you're talking about a $2.5 billion market going to $15 billion market. Xirgo's technology is kind of square in that ramp curve for the end market. What was the process of getting to know and acquire Xirgo? And why did Sensata win the deal?

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

Yes. So we were brought together by a customer, so that's always really interesting. And so we were dealing with similar customers, and the customer said, "Hey, why don't you 2 work together? Because I think I see this -- the 2 of you working together will be a bigger benefit to us as a customer of both of yours." And so that's how we got to know them about 1.5 years ago. And as we continue to build out this opportunity, Xirgo was private equity-owned.

So we knew at some point, it would trade. And so we preempted that process, spoke with the management team and with the owners of Xirgo, and we're able to convince them that we were the right partner for them to go forward and really continue to build on the aspirations that the management team have in terms of where they'd like to take this business. So it was a proprietary deal. We valued it right, I think. So we gave the sellers a fair price for this because we have a lot of conviction regarding where this market is going and how we'll be able to take advantage of that.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. And what is -- was the management supplied by private equity? Or are they kind of owner/founders?

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

They're owner founders and Shawn Aleman, who was -- is the CEO that built this business will be continuing with us running this business. It rolls up under our Performance Sensing segment, but it's a stand-alone business given that it's a very different offering and a very different market segment that we're going after.

So it's a unit, if you will, under the HVOR business that we have in the company, and so it's a different operating model than we would typically see. And Shawn and his team are leading that.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. And I think in Smart & Connected, you've also sort of quantified some win rates to date or some dollar value of programs that you've been on, which I think is important because you did qualify it as a start-up initiative, but it's got a little more to it than that might suggest.

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

Yes, absolutely. So as a combined business, this is a 100 -- we're expecting 2021 to be about $100 million. We're only going observe when our P&L for 3 quarters. So call it $75 million, but it's growing 20% a year. And Xirgo, obviously, given that they've been in business for 10 years, they have more traction on revenue growth than our organic effort. But for us, it's a combined effort now, right? It's not our Smart & Connected initiative and the Xirgo initiative.

They have a combined strategy, combined view as to which markets they want to go after, a combined view as to what the product and solution portfolio needs to look like. And it has good revenue growth but also attractive margins, 50% gross margins, 25% EBITDA margins. It's got a very rich pipeline of opportunity. The combined businesses have over $200 million of opportunity to be able to pursue.

Obviously, not all of that is going to convert to revenue, but it's a very rich pipeline of opportunity and some great customers that we're working with that we'll be able to expand the solution set to be able to be a success for us as a company, but also help our customers become more efficient and safe in terms of how they operate their fleets.

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Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. What do you anticipate for the landscape for 5 years out? Maybe there might be dozens of companies angling towards that market today, maybe half a dozen truly credible. I speculate in your sensors business, the dynamics, which we touched on earlier are very mature, and you pointed out, which I concur that they haven't really changed even since I've been following you.

Since it became public in 2010 that I can tell. So yes, that kind of winner versus loser, right to win? What happens to the peripherals? I know it's a speculative question, but please opine.

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

Yes. Listen, it's a fairly fragmented market right now, but it's a very fast-growing market, but there's a common unmet need for more data. Every single fleet customer that we talk to says they -- there are very interesting software companies that are being developed around fleet management, but they're all wanting more data to drive the fleet and telematics ecosystem.

More data allows for more efficiency and safer fleets, and that's where Sensata comes in because we know how to get that data to that ecosystem. And that's why the combination of Xirgo and Sensata makes such great sense because Xirgo is coming at it from the cloud down, and so there will be some consolidation.

We'll continue to look for M&A in this space as well as investing organically in this area. But at the end of the day, as long as we focus on giving our customers what they want, those fleet customers what they want, whether it's directly to them or through a fleet management system to bring more value to that ecosystem, we're very confident that we're going to continue to gain market share and grow in this particular space.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Right. And as you mentioned, Xirgo is 10 years old, it's already kind of on the winning track. And what proportion of its revenue is to fleet managers?

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

Yes. To directly to fleet managers is probably somewhere in the neighborhood of 70%. There is some insurance, light vehicle insurance element of the business as well with some -- an insurance company, but the vast majority of the business is with fleet managers, and fleet broadly defined as on-road truck but also with cargo in that category as well. They've had a very important customer in that space as well.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Great. Skipping back to sensors for a minute. I think one important point is some dual source but a lot of single source, and I believe your OEM agnostic for the most part, maybe one exception. But maybe if you could just hit those points from a bookkeeping perspective.

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

Yes. So given that all of our products need to be -- they are designed in and they need to tested to make sure they work in the system, a large portion of them are sole-sourced. There are occasions where a customer will have a dual source. And certainly, when there are situations around stressed supply chains, that question comes up more frequently. But we're doing, I think, a great job in serving our customers, which really sets us apart from a reliability standpoint.

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Our customers rely on us to be there for them when they need us, and that's during difficult times and also during times in periods of growth. And so for the most part, given that the -- there is a significant amount of engineering effort associated with getting our products to work with our customers' products, sole-sourced is the primary mechanism and path that we go to market with our customers.

And I would tell you, it's not very different in the Smart & Connected area because once you get to the point where you're knitting that information in the cloud to a fleet management provider or to a -- directly to a fleet that has their own system, there's a lot of build-out of that infrastructure that creates a fair amount of stickiness associated with the offering that's out -- that we would bring to market as well.

So it's a key element of what we focus on in terms of market segments that we look at. Again, it's driven by the mission-critical, hard-to-do nature of the product categories that we develop.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. Interesting point about the dynamic also being present in the in the S&C space. Given that you're speaking in 6 to 8 weeks, I don't know if you want to entertain any questions about how you think that business could be sized organically with Sensata legacy and Xirgo in a 5-year time frame or if that's something you're working towards communicating in 6 to 8 weeks.

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

Yes. We'll provide more detail, but what we have said is it's a very large market, right? It's a $2.5 billion market going to $15 billion over the next 9 years. So it's fast-growing in terms of the opportunity set. We've stated that, we expect Xirgo to grow 20% plus. So accretive growth to Sensata in the medium to long term here.

That was the attractive element of what we -- we're pursuing. And we've also said that it's not only going to be organic. Certainly, it will be success if that business continues to grow 20% over the next 5 years, but we see 1 of the 2 major focus areas for us for our M&A activity is this area of Smart & Connected that associated with logistics and transport. The other is obviously Electrification. So those are the 2 target areas for M&A for us.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. You recently had a $1 billion bond deal, and that actually had the effect of raising your cash balance. I think Xirgo may have closed since the quarter end, but you ended first quarter, $1.9 billion cash on hand. Net debt didn't move, but gross leverage is in the neighborhood of 5x. Why consider that size offering, given the size of the cash balance and the ongoing cash generation?

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

At the core, it was an opportunistic fund raise, given the historically low interest rates. And both to deploy, to execute against our strategy, but also because we have some elements of our capital structure in terms of the debt that's coming due in the next couple of years that we'll have cash available to deal with that. But the primary reason is its historically low interest rates, and we have a very clear, targeted strategy in terms of where we want to go from an M&A standpoint.

I want to emphasize that the M&A strategy is a serial bolt-on though, right, not large transformational. We'll keep our eyes open if we see something that happens to be larger that would transform the business more quickly, but the focus for us is around serial bolt-ons. And so that's a key element of our capital deployment strategy, which we want to make clear.

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Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. And we're coming up to about 5 minutes remaining. So I just wanted to query for any questions should be submitted. I'd also like to make sure my interface for viewing questions work. So anyone maybe type in, hi, Chris, if anyone cares to.

And so Jeff, you've had -- you're kind of Mr. Sensata. You were the CFO when I began. There has been 2 CEOs in the interim I believe you were a COO and now you're CEO. Maybe just talk about your kind of walls around the C-suite there a little bit.

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

I've really been blessed to have an opportunity to work with such a great company and with such great people. And you're right, I came in, in 2006 as the CFO. I've worked with 2 extraordinary CEOs over the last 14 years that have taught me enormous amounts about the business, but also just around how to run a company into continue to be successful. So I feel very fortunate to be in that position.

The sort of CEO transition from an internal standpoint sometimes can be interpreted as just an extension of the strategy that the prior CEOs had. And although the -- a vast majority of what I intend to execute against with the management team is similar to what Martha and Tom executed, the one thing they taught me that's most important is that you need to adapt to the environment around you.

And the environment today requires a different strategy, a different mode of execution than it did 15 years ago when I started with the company. And Tom is still on the Board, Martha is still on the Board. They're -- they provide me guidance and encouragement about where we need to go, but I feel great about it. It's been a very -- a wonderful opportunity to continue to grow within the company.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. It'll be an interesting few years as EV accelerates. How would you kind of characterize the broad forecast for EV penetration over the next 3 to 5 years? What third parties are kind of saying in your bias relative to that?

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

It's transitioning faster than anybody would have expected, right? So some data points. Our customers are investing heavily here. We have some players in the marketplace that are disrupting the market very quickly, Teslas of the world. We are doing a partnership, and we've recently won business with a major disruptor in the heavy vehicle market with Hyliion.

So the market is trending this way. The thing though that I believe has been missing, which is there now, which will further accelerate this trend, is consumer acceptance and consumer desire for a more environmentally-friendly mode of transportation. And infrastructure build-out to support it. And with the -- at least in the United States now, there is an administration that we'll be investing heavily in that.

Clearly, they've been investing in that in other markets like China and Europe. But the infrastructure is going to be there, consumer sentiment is there, a desire is there, and the technology is advanced to the point where it's a trend that's not going to turn around. And it's only going to accelerate rather than decline. And that's why having this position where we say it's a tailwind for us from a content standpoint is so important and why we're investing so heavily in that trend right now.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Thanks for that. And last minute, we did have one question come in. Brief comments on supply chain or commodity environment.

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

Sure. So we've talked a fair amount on this. We're not immune to the electronic shortages. But because we have more customized ASICs rather than standard ASICs, we're probably less impacted by some that are more in the standard ASIC environment. But we talked about the impact to our P&L this year associated with the supply chain shortage.

Full year, about 100 basis points of cost associated with logistics cost. Primarily about 2/3 of that 100 basis points is incremental logistics costs to expedite inbound and outbound associated with our raw material and finished goods, and then the other 1/3 is just inflation on the side of the electronics themselves.

So we're not immune to it, but I'll tell you, I'll spend that 100 basis points every day to make sure that we can continue to deliver for our customers and see the kind of growth that we're seeing in the business. We don't want to be the bottleneck in that process.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. Jeff, great speaking with you. Thanks for joining our conference.

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

Great. Thanks, Chris. Appreciate it.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Talk to you later.

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

Okay.

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