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EDITED TRANSCRIPT

ST.N - Sensata Technologies Holding PLC Insights Teach-In

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PRESENTATION

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

Good morning, everyone. My name is Jacob Sayer, Vice President of Finance and Investor Relations for Sensata Technologies. I'd like to welcome you to Sensata's Insights Initiative Webcast.

Joining me for today's presentation are Paul Vasington, EVP and CFO of Sensata; and Shawn Aleman, CEO of Xirgo Technologies and General Manager of Sensata's Insights business. Jeff Cote, CEO and President; and George Verras, CTO of Sensata, will join us for Q&A at the end of today's webcast.

We will be referencing a slide presentation during today's event. The PDF of that presentation can be downloaded from Sensata's Investor Relations website. This event is being recorded, and we will post a replay of today's webcast shortly after the conclusion of today's event.

As we begin, I would like to reference Sensata's safe harbor statement on Slide 2. During this webcast, we will be making 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-Q and 10-K as well as other subsequent filings with the SEC.

Paul will begin today's session by sharing some background and key highlights of our Insights Initiative as well as reviewing the Xirgo acquisition and its strategic rationale for Sensata, then he will turn it over to Shawn to provide deeper details into the market, the components of the Insights business, the value we can now bring to our customers and our go-to-market strategy. We'll then take your questions after our prepared remarks.

Now I'd like to turn the presentation over to Paul. Paul?

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

Thank you, Jacob. Businesses of all types and the specialty vehicle fleet managers need real-time data and insights to manage and operate their assets, systems and processes more efficiently and effectively. This is part of the global Internet of Things trend or as Sensata has called it our Smart & Connected megatrend. And this is driving the need for real-time data and connectivity in order to propel business productivity.

According to a report from Impact last year, 83% of organizations that have introduced IoT technology have improved their efficiency as a result. The combination of Sensata's Smart Connected business with Xirgo's leading telematics gateway, cloud platform and high-value sensing parameters offers a unique competitive advantage to serve the growing demand for data insights across a large and expanding marketplace.

Sensata is a leading provider of sensor-rich solutions that provide insights to our customers for their mission-critical applications and systems. Our sensors measure pressure, temperature, speed, position and location as well as provide critical electrical protection. Historically, the data produced by our sensors have been consumed locally by the system to which our sensor is attached to enable that system to operate effectively.

Looking forward, however, data insights created by our sensors will increasingly be utilized off the system or a vehicle by a variety of end users, such as the owner or operator of the equipment by a service technician tasked with keeping the equipment running safely and efficiently; or by a fleet manager, trying to make sure all their assets are in the right place and operating as effectively as possible.

Furthermore, as the cost of data transmission continues to decline, the demand for data insights will likely increase. Xirgo, one of the largest telematics gateway suppliers serves the growing demand for data insights through its leading telematics and asset tracking devices, cloud-based data insight solutions and emerging sensing applications and data services. Combining Xirgo with Sensata will offer the most connected and comprehensive suite of data insight solutions for fleet managers and logistic firms as well as for the OEMs that serve these customers with new equipment.

Third parties forecast the data insights markets. We are looking to address to be approximately $3 billion today and fast growing with an annual growth rate estimated to be approximately 20%.

As shown on Slide 4, the acquisition of Xirgo is a natural fit within Sensata's strategy to extend beyond center-rich solutions to become a comprehensive provider of data insights for a broad ecosystem 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 expanded these capabilities with the formation of our Smart & Connected initiative, building on the need to provide tire pressure data to commercial fleet OEMs and managers operating heavy-duty trucks and trailers in the field.

Sensata's vehicle area network enables the data pairing of trucks and trailers across manufacturers as well as driver access to data from multiple different trailers they might be hauling. Further value can then be created by communicating those data insights beyond the vehicle and making it accessible to the cloud for fleet-wide monitoring to more effectively reduce the cost of operations and maintenance while enhancing safety.

Xirgo adds new long-term growth vectors to Sensata's current capabilities with its leading telematics gateway and cloud platform with multiple high-value sensing parameters and sources of data. Xirgo accelerates our ability to build high-quality recurring revenue streams by partnering with telematics service providers and fleet management solution providers to deliver data insights for OEMs, fleet managers and logistics companies. We closed the acquisition of Xirgo Technologies on April 1, as shown on Slide 5. Xirgo is fast growing, expected to generate over $100 million in annualized revenue in 2021 and grow in excess of 20% per year over the next several years. Xirgo is also very profitable with differentiated margins at or above Sensata's levels.

Combining Xirgo with Sensata's organic, smart connected solutions for commercial fleet managers form Sensata's new insights business with an addressable market of over $15 billion by 2030, including Sensata's strategy to move beyond serving vehicle OEMs and engaging with the broader fleet ecosystem. We welcome Xirgo's 160-plus employees in California, Minnesota, and Lithuania to Sensata.

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I also want to welcome Shawn Aleman to the Sensata team. Shawn is the founder of Xirgo and has been Xirgo's CEO for the past 15 years, leading and growing it into the business it has become today. We are very pleased to have Shawn and the team to lead Sensata's insight business going forward.

Before I turn the presentation over to Sean, let's watch a short video that helps to explain the value customers can realize with Sensata's insights offerings.

(presentation)

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Thank you, Paul. Let me say how pleased I am to be joining Sensata at this exciting time. Bringing together our leading positions in sensing and telematics creates a differentiated market offering and providing data insights to fleet customers, and I'm very excited to be heading up our combined teams in this area.

As shown on Slide 7, the data insights market presents unique challenges and customer needs based upon underlying dynamics. Light-duty fleet managers and insurance companies are looking to deploy new business models, such as usage-based vehicle insurance premium pricing, while navigating multiple telematics service providers and integrating data into a single vehicle.

Heavy-duty fleet and logistic managers face the complexity of working with a diverse mix of trucks and trailers from different manufacturers. They need to have these assets pair data and communicate with each other and then integrate that data into managers' often customized operating systems. They're also seeking to keep track of their assets in the field, predict maintenance needs and monitor vehicles and their cargo, all while trying to maximize efficiency by keeping their trucks moving.

As shown on Slide 8, the end markets we serve include data insights for light-duty vehicles, heavy-duty commercial vehicles and cargo and container management are large and fast growing. From an approximately $3 billion addressable market today, these markets are expected to grow at a 20% CAGR to $15 billion by 2030.

Our combined business, Sensata Insights, is a provider of in-house, modular, full-stack sensor and telematics gateway offering. We extract data at the sensor level, pair assets such as trucks and trailers, communicate valuable data into the cloud and integrate with fleet and telematics service providers' software to provide a unified view of data important to the end customer.

We offer an extensive and flexible sensing portfolio, combined with modular software solutions, to ease integration with service provider or fleet operating software. And we can do it so directly or on a white-labeled basis. As an independent third-party technology provider, we can serve multiple channels to market, including existing telematics service providers, operating software providers as well as direct to fleet.

As shown on Slide 9, Sensata Insights provides a full-stack offering to collect data from vehicles and deliver it into cloud where it can be accessed by fleet customers wherever it has the most value. In addition to providing a full solution on our own, we can work with partners at each step of the process, including integrating with various telematics service providers to provide data generated from our devices in the field. We offer support to service providers and fleets at every step in the process, from installation and provisioning, to remote diagnostics of devices, to updating device configuration to extract additional data from remote assets as customers' needs change over time.

This market approach also makes our offering appealing to other end users, such as insurance companies, health care providers and others, for whom data insight will be increasingly valuable in the future.

As shown on Slide 10, Sensata Insights offers a full-stack solution using a broad portfolio of sensors, telematics and asset tracking devices, a vehicle area network, cloud solutions and valuable data services. The data insights we deliver also enable driver monitoring, accident reconstruction and cargo condition monitoring and control. Unique to Sensata, we can also offer tire pressure monitoring. And thanks to Sensata's wide array of additional available sensors, we can customize data insights based on customers' specific needs.

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These solutions provide much-needed insight into the vehicle and cargo condition as well as the overall productivity of fleet 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 and to customer-specific needs.

Moreover, emerging sensing applications, including trailer cargo monitoring, tracking for supply chain management applications and dashcam video for event analysis for event analysis and cab monitoring can provide valuable additional sensing parameters for fleet managers and enhance our value proposition.

For example, trailer cargo monitoring is used by fleets to measure trailer cargo capacity, determine empty/full status and monitor other events, such as shifting cargo during transit. This valuable data is used by fleets to reduce cost and maximize productivity of fleet operation, by reducing the cost of empty miles driven, improved trailer turns during the unloading and loading process and minimizing manual yard maintenance to check trailer status, to name just a few benefits.

Slide 11 shows an example of Sensata's Insights solution deployed on a heavy-duty truck and trailer that integrates a variety of data sources and shares them with end users. In this example, Sensata's vehicle area network enables a truck-to-trailer link for data transmission to the driver, and it collects high-value data, such as tire pressure and wheel bearing, wear while it also monitors related third-party vehicle systems, such as automatic tire inflation system.

In addition, the truck telematics device collects additional vehicle data from onboard diagnostics, while the trailer telematics device has an integrated cargo capacity sensor and interfaces with the gateway device. All this data is integrated by Sensata and transmitted to the cloud for processing, enabling cloud solutions to distribute meaningful data across the fleet ecosystem through third-party telematics service providers so that fleet managers and their respective users receive real-time actionable data.

Sensata Insights' value proposition is differentiated and difficult to replicate. We have deep system-level knowledge that enables us to bring critical actionable data relevant to the fleet end users. We enable a disparate set of technologies to communicate with each other in this rugged and challenging environment. We integrate with a variety of operating systems at telematics service providers for fleets to provide a single view of data from multiple sources, and we carry through our technological advantage with a strategic go-to-market approach.

Sensata Insights goes to market through multiple channels. Revenue is generated from the sale of hardware as well as from providing data as a service on an ongoing subscription basis. In the case of light-duty vehicles, we also sell directly to insurance carriers today who rely on our telematics devices to develop new ways to estimate risk and price their premiums. From heavy trucks and trailer OEMs, we sell directly to help them meet their upcoming regulatory requirements regarding tire pressure monitoring. For the fleets and logistics managers who purchase and operate equipment, we offer a few alternatives, depending on how those fleets prefer to purchase solutions, selling in tandem with telematics service providers, providing data into their solutions or selling directly to fleet managers themselves.

As shown on Slide 13, we show how our go-to-market approach helps create a strong and diverse customer base, one that we expect to grow substantially. Today, Sensata Insights works with leading telematics service providers and fleet management solution providers in order to provide solutions to leading OEMs, fleet managers and logistic companies in North America and Europe.

We also leveraged Sensata's extensive OEMs and Tier-1 relationships to preinstall equipment specific to the fleet and customer at the point of manufacture, making it easier for fleets to expand the coverage area of their data insights as technology advances and more types of end users find these data insights valuable.

Sensata Insights is a strong and fast-growing business. We have already seen strong customer success with leading fleet and logistic companies. As shown on Slide 14, we are currently engaged with a large global package delivery company to retrofit approximately 85,000 assets with our sensing, gateway and data insights offering. Secondly, a nationwide truck leasing company with more than 50,000 trucks in the field has begun the rollout of our tire pressuring monitoring, asset tracking and cabin monitoring services. Thirdly, a global insurance carrier has recently engaged us to provide vehicle bus data from millions of their customers' vehicles in the field. The pace of adoption for our combined offering underpins the revenue growth acceleration we expect to see this year, and we are very excited about the opportunities ahead.

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Sensata's leading sensor position as well as its wireless data communications capabilities are key building blocks to addressing the opportunities made possible by Internet of Things. Combined with the leading telematics gateway capabilities of Xirgo, Sensata Insights creates compelling competitive advantages for our combined service offerings.

Looking forward, we envision an ever-increasing need for data insights to be consumed by the owners or operators of equipment or fleet, trying to make real-time decisions about their assets and operating them as effectively as possible. And we look forward to serving them and other end users who will find data insights valuable.

In summary, Xirgo accelerates Sensata's journey to become a leading data insights provider across the transportation markets, continuing its progress in the Internet of Things megatrend. This is a key component in our objective to deliver higher growth and long-term shareholder value.

Now I'd like to turn the session back to Jacob for Q&A.

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

Thank you, Shawn. As a reminder, besides our presenters, Paul Vasington and Shawn Aleman, Jeff Cote, our CEO and President; and George Verras, our Chief Technology Officer, are also participating in the Q&A session today.

Let's pause for a moment to allow Maddie to assemble the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Craig Hettenbach from Morgan Stanley.

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

A question for Shawn. Just in terms of Sensata and their relationships and technology, just curious, the strategic direction that Xirgo was under -- to begin with before this deal, like what does this do in terms of combination on your side of things in terms of market opportunity and perhaps advancing some of the things directionally that you would have been working on?

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Craig, that's actually a great question. When you look at Sensata's product portfolio and customer base is very OE-centric and then you look at our product and customer base, which is aftermarket-centric, it's really great complementary product line and customer base. So what we plan here and the goal is to integrate the OE product line with existing Xirgo product line to be able to go after the various different verticals within the IoT.

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

Craig, I think we've touched on this before, but you know that Sensata and Xirgo was -- we were actually working together on a number of customers. And so we had an opportunity to work very closely together and experience the value that can be created associated with these 2 companies being together. And so we have some experience there, and we had a lot of customer feedback on that point, which, obviously, was an important part of the direction that we chose to go as a company as well.

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

Got it. And then if I could just have a quick follow-up for Paul. You guys have been very clear in terms of the investments you're making. And certainly, that's a drag on near-term profitability for future growth. How does the company think about returns on investment, the decisions you're making in terms of -- and where you're investing? And then I guess, importantly, just incremental margins as this business grows, how should we think about incremental margins?

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

Sure, I'll take both questions here. The first is that we're investing in fast-growing differentiated businesses, and Xirgo is a great example of that and so have 2 major growth vectors factors around electrification and Smart & Connected now inside of Insights. And what we're looking for is fast-growing businesses that deliver growth like 20% a year and Xirgo can help deliver for the company. And it's also a very profitable business. It will be accretive. It will be -- both to earnings per share, and it has margins similar to what Sensata enjoys today.

As we go forward, we're going to continue to invest in things like Smart Connected as part of our megatrend initiatives. We've targeted around $50 million to $55 million of spend this year, and that's opportunity driven. The spend is not an entitlement. It is the opportunities that we believe we should be pursuing that can provide significant top line growth, are very scalable and very significant businesses. In all of our transactions that we do, we look at the return on investment, and these are all high-performing, high-return investment opportunities that we're looking to continue to do like the Xirgo.

Operator

The next question comes from the line of Christopher Glynn from Oppenheimer.

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

Looking at Slide 14, just curious if you could kind of turn the upper-left quadrant on the leading global package delivery service into maybe a little bit of a case study. What's the time frame to deploying that model, this service? What's the kind of the hardware and the recurring split? Maybe you want to migrate the answer from this specific example but just curious how that factors into the revenue run rate today. And what's the top 10 customers, maybe 50% of sales, something along those lines, to understand the mix and the scalability?

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

Yes. So Chris, why don't I touch on what I think you already know in terms of how that model works for Sensata in terms of the fan-out of technology, and then Shawn can speak to the specifics in terms of how that works in an aftermarket or with the fleet customers.

So you know that as we serve our customers in the OE environment, as they adopt regulation or they adopt technologies to achieve regulations in their businesses, what we tend to see is that it launches and then it fans out over a period of time within that customer across platforms, across geographies. So when we see the initial revenue being generated on those applications that we choose to serve, we usually see many years of growth associated with that.

It's similar approach in terms of the aftermarket, but perhaps Shawn can speak to how that fan-out occurs, specifically with some of the fleet customers that we're currently serving.

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Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Chris, so to answer your first question in terms of the particular on the aftermarket delivery logistics company, we're actually in a pilot phase with that particular company. And we expect to finalize the plan by the end of this year and first of next year start producing products -- production products and services.

But in general, for aftermarket customers, that's typically multiple phases that we have to go through, POC, proof of concept, pilot and production once we prove that the product and the services were as intended. And a typical time line for something like that is anywhere from 3 months to upwards of 9 months plus.

So -- and we're engaged with multiple different customers, aftermarket customers. We only mentioned 2 on the slide there, but there are multiple other customers that we're engaged with. And we expect a few of those to become production ready by early to -- second quarter of next year.

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

The other really important aspect of that, that we want to make sure is understood is that there's -- there are upgrades along the way. So it's the initial rollout, and then there are several opportunities for incremental upgrades, whether it be expanding the portfolio of sensor data that's being captured but also the upgrade to new technologies as that advances. So it's a sticky level of revenue that occurs over time. Certainly, there's the initial rollout, but then there are different phases of rollouts of new technology as that advances and new abilities roll out technically.

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

Thanks for the question, Chris.

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

Yes. And curious, is this a segment you might break out separately to afford discrete visibility over time?

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

For now, we're going to -- we're not going to break it out in a reporting segment. It's going to be included in the Performance Sensing business within the HVOR business but at some point in time in the future certainly evaluating the separate segmentation. But we'll provide transparency in terms of what we're doing, how much we're investing, the progress we're making vertically provide some visibility to investors regarding the reporting in it.

Operator

The next question comes from the line of Steven Fox from Fox Advisors.

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

I had 2 questions, if I could. First of all, I was wondering if you can maybe talk about what the advent of automation into fleet does for your business model.

And then secondly, I'm trying to understand when you talk about going through the telematics channel, it seems like you do a lot of things that the telematics providers do. Like what's the value to sort of being in that channel as opposed to maybe just intermediating them and going more and more direct to the end user?

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Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Sure. So Steven, just want to clarify something. We're really not a -- we are not a TSP or ASP. We're not a telematics SaaS provider. What we do, we enable our customers, which are typically the SaaS customers or TSPs, to give them additional data so they can upsell to their end users or their fleet managers. So we're not -- this is not a channel conflict. This is more of a channel partner, treating TSPs and ASPs as channel partners in order to be able to provide additional data insight to end users. And in the meantime, while doing that, obviously generating revenue on our side, and we enable our customers, TSP customers to generate higher revenue by providing higher level of data.

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

Okay. Great. I appreciate that, and that clears up my question. And then just on more automation, whether it's autonomous trucking, et cetera, into some of your customers' asset base, what does that mean for your business?

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

Certainly, from an OEM standpoint, we're doing a lot of work with our OEM customers on aspects of autonomy. For instance, many of the applications associated with braking would apply in an autonomous environment. And I think that our investors and analysts know that we acquired a business, PRECO Technologies (sic) [PRECO Electronics], last year that brought radar technology. That's the starting point around object detection that would be beneficial from an autonomous standpoint. We have a number of other investments on that front as well.

There may be a point in time where some of this converges in terms of the OEM plans associated with autonomous features and what happens in the telematics market, but I think we're a ways off from that really coming together. Right now, the focus is on delivering value to our customers in terms of feeding more data and insight to the telematics ecosystem. And there is a strong desire to get more of that information to make fleets more efficient and safe.

Operator

The next question comes from the line of William Stein from Truist Securities.

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

Great. Jeff, perhaps for you. From a very high-level perspective, this is a remarkably different business relative to selling electronic or electromechanical components to OEMs. And often, when companies try to make these sorts of transitions or even additions to their model, they have a difficulty doing that. Can you discuss your assessment of the risks of pursuing this very different business model and what you've done to mitigate the risks and to try to, as much as you can, ensure the successful growth of this operation?

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

Yes. I think you bring up a very important point. It starts with what we shared in some of the video content that -- and the prepared comments that it's around the question of the right to play. So let me address that first, and then I'll address some of the risks that we see and how we're mitigating them.

Given that Sensata today produces over 1 billion components every year that collect insight off of equipment and provide that insight to our customers' control modules to deliver an outcome, we believe that we have extraordinary domain experience in terms of how to extract that data, how to operate in very difficult environments that collect more information to deliver insights to our customers.

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Clearly, as we think about different business models and if you will, going up the stack in terms of providing more than just sensor components, there are complexities associated with that. And that's number one reason why, when we were pursuing this organically, we chose to acquire a leading player in that space so that Shawn and his team can bring that expertise. And we're running that as a separate business unit within Sensata's business so that we make sure that we take all that's good that Sensata can bring to the equation, but we allow the expertise that's allowed the Xirgo business to grow into a $100 million business and thriving to continue to grow.

And so the many aspects of this, the more system-level offering, getting more into software, the channels to market that we go into, there are any different aspects than what Sensata's core business is, but there are many similarities as well in terms of the manufacturing and technology capabilities that we have. So we're going to leverage the good, and we're going to allow Shawn and his team to operate the other aspects of the business to mitigate the risk associated with exactly what you're speaking to.

George Verras - *Sensata Technologies Holding plc - Senior VP & CTO*

Yes. I would just add that to make it very clear, the organic effort that we had around our insights business, what's set up as a separate team within Sensata, understanding that it was a different model that we needed to pursue. So the coming together of the 2 teams that we have is 1 of 2 teams thinking about things the same way and, to your point, very different than the model that we've been in previously at Sensata. So we acknowledged that early on a couple of years ago in our initiative, and now the coming together of the 2 teams is definitely a welcome addition to Sensata.

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

If I can ask one follow-up. It's -- you highlighted in the presentation that there's a split between onetime hardware sales and then sort of service or software-based model going forward. I would imagine today that split is very heavy to the hardware side, but perhaps it's not. So maybe you can describe where you are in that split today and where you expect it to go over time. Does -- do we get to a point where it's more than 50% services at some point in the near term?

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

Yes. So let me touch on what we were observing in our initial organic effort, and then Shawn can speak to what he's seeing from his customers.

Interestingly, as we were launching the organic Smart & Connected initiative within Sensata, the pilot customers that we were working with were choosing to go with a full subscription model. And that's so they had lower upfront capital costs, and they had more of a monthly maintenance fee associated with that. And so there is customer pull there, but the important part here is that we're going to allow that to happen based upon what the customer wants.

And so let me turn it over to Shawn to explain a little bit more detail in terms of what he's seeing in his customer base.

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Yes. So I'll start by saying that our DNA, Sensata and Xirgo, our DNA is in the hardware. But as we see the market change and rate of adoption for IoT services increasing considerably over time, what we -- the way we're looking at this is having the hardware enable services down the road. And so we're going down the path of, in some cases, discounting the hardware with services wrapped around it. And we are seeing quite a bit of increase. Although it's, as you said, it's really -- percentage-wise, it's very low percentage at this point, but we are seeing the adoption rate go up at a considerable rate over time. And our recurring revenue from last year to this year, this is just Xirgo at this point, has actually increased by over 100%. So we expect that to be the case in the foreseeable future also.

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

Thank you, Will.

Operator

The next question comes from the line of Rod Lache with Wolfe Research.

Shreyas Patel

This is Shreyas Patel on for Rod. I just want to clarify a couple of things. So you mentioned that you sell data directly to insurance companies for the light vehicle application. So does that mean that you are able to own the data that's collected off of these the sensors, and then you're able to repackage them? I just want to understand how that works.

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Sorry. Was that a question for me, Shawn?

Shreyas Patel

Yes.

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

So why don't we touch on. So I believe the way that it works in our OEM model is our customer gain all of our data. And I think the same were to buy in this environment, obviously, we're providing that insight. So the insight that's gathered from that data is then I think that's owned by the company, I believe, is essentially how it operates.

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Right. So the handful of insurance companies that we're engaged with today, the data -- they actually own the data. What we do, we provide the APIs to the customer to the insurance carriers to be able to extract what's important to them. So even though they own the data, we're providing the APIs to be -- for them to be able to extract that additional data. And as our products become more complicated, we'll be able to extract additional data, which ultimately help insurance carriers determine the cost of insurance and set the premiums.

Shreyas Patel

Okay, okay. So the recurring revenue opportunities is licensing those -- the APIs and things like that essentially?

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Correct, correct. Yes.

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Shreyas Patel

Okay. And then just quickly, lastly, just touching on the last question. So you mentioned that -- I know, right now, the business is very skewed towards hardware. You do expect software to increase in terms of the revenue mix. So -- and that's part of the 20% market growth that you're factoring in. I guess what I'm trying to get at is should we be thinking about Xirgo growing above that 20% that you see for the addressable market given the software opportunity? Or is that embedded in what you see as the TAM?

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Yes. So currently, that is embedded in the 20% figure that we talked about previously. But again, we're seeing the rate of adoption of services going up at a much faster rate than the hardware itself. So do expect the -- we do expect the current revenue to increase at a higher rate than the hardware.

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

Yes. So just to make sure, we're not providing long-term guidance. We've provided a view that we believe the Xirgo business will grow at that 20% clip for the next couple of years and certainly demonstrating the ability to do that in 2021, but we're going after a market that's growing quite rapidly.

So the concept here is a $3 billion market growing to a $15 billion market, and we believe we have a very differentiated offering to continue to grow at that pace and expand Xirgo over time. More to come on that as we build out the offering and we get more commercial success. I think the key area is it's a large and fast-growing market that will create accretive growth for us as a company in an area that is very differentiated and obviously demonstrated through the margin profile of the current business.

Operator

Your next question comes from the line of David Kelley from Jefferies.

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

Really appreciate all the detail today. Maybe a first question for Jeff and then a follow-up for Shawn. So Jeff, wanted to ask about how you're thinking about engineering resources. I believe you brought onboard 160-or-so Xirgo employees. But given kind of the full-stack portfolio capabilities you laid out today, your growth aspirations, does there need to be heavier investments in areas like software engineering going forward?

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

Yes. There definitely needs to be, and I'm actually in the Xirgo headquarters here in Minneapolis, where they house a lot of the software engineering capability. And we're spending some time with them today. So that's a key investment area for us. The combination of Sensata's hardware expertise with the software and data analytics expertise that Xirgo brings is going to be a very compelling opportunity for us to work together, and so we'll continue to invest there. Sensata had already started to invest organically in that area. But certainly, this brings it to a very different level of scale, which is quite exciting in terms of building out a center of excellence associated with that skill set.

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

Okay. Got it. That's helpful. And then maybe one for Shawn here. Curious as to how we should think about the usage-based insurance opportunity, I believe, maybe even Progressive as a partner here. I guess from our end, UBI seems like a massive growth opportunity, but realizing it seems like it's also been slow to catch on with regard to auto insurance policies outside of a couple of segments in specific markets.

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So maybe you could just talk about how you see UBI developing Sensata's go-to-market strategy there. And then finally, do you expect to be kind of U.S. focused with regard to UBI? I know it's big in markets like Italy but just curious to how you think about kind of the regional allocation of your opportunity.

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Sure. So we have historically been focused on U.S. for all of our products and services. But a couple of years ago, in 2018, after the acquisition of -- or maybe 2019, I believe it was, after the acquisition of BCE out of Lithuania, we started expanding geographically, both again on service side and hardware sale.

UBI, we had an exclusive agreement with Progressive for a very long time, but that exclusivity was over back in 2016. So now it enables us to go after other insurance carriers, again domestically and also internationally. In fact, as recently as last week, we signed an agreement with a UBI integrator that focuses in Europe. So we expect that portion of our business to increase quite a bit.

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

And it's worth noting that the other trends that should drive that market to be bigger, the silver lining of COVID, the eventual hybrid workforce will certainly drive more usage-based insurance models, I would think, in terms of where that would go. And so it is, again, an area that is fast growing, and we have strong capability there.

Operator

Your next question comes from the line of Joe Giordano from Cowen.

Joseph Lima Cardoso - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. So I just want to start with the business model largely being a hardware solution now gravitating more towards SaaS over time. I guess oftentimes, we've just seen teams get kind of surprised by the changes in the growth algorithm as that happens, right? So you're growing a certain percentage for a long time under one model. And then as you switch to SaaS, even though there's clear benefits to doing that, the growth rate changes significantly and maybe catches some people off guard, catches investors off guard. So how are you kind of thinking through what that change in the business mix means on the growth for the company?

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

Yes. So let me touch on it. And I'm sure Shawn can provide some additional color on it, but I want to start with the fact that we're not forcing this model. We've done a lot of work understanding case studies of companies that tried -- have tried to transition to this model during periods of time when their customer base was not prepared to do that transition, and that can be a painful transition. We'll do this as our customers pull us in that direction.

And so we're perfectly comfortable with a hardware-only model, which has a level of recurring revenue, as we've talked about, as fleets roll out solutions, as we expand solutions, as new upgrades occur over time. So there's a very significant recurring revenue model in just the hardware space that we believe is quite compelling.

The added aspect of providing data will likely be -- or the insight associated with that data will likely be some element of all of those offerings, but we'll modulate to full subscription based on insight basis versus hardware based upon how our customers see it and what their preference is in terms of how they would like to buy.

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Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Yes, sure. I will reiterate what Jeff said. Our DNA, as I said earlier, is hardware. So we expect to expand horizontally to different verticals selling hardware. We're not forcing services with any one customer, but we're providing different tools for different customers as it becomes necessary for that particular customer to be able to be successful in their vertical.

So again, our DNA is hardware, and we expect that hardware business to grow also over time, what I call recurring business as technology changes from 3G to 4G and 4G to 5G. We expect to have additional sales of devices that are already in the field that may not be working with new technologies. So again, we will focus on selling hardware, but we will have additional service offerings also to augment the hardware sale.

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

Yes. Just a small nuance on that, that I want to make sure is clear. A lot of our sensor products have an embedded software element as well. So although it's a hardware sale, there's a software element. When we go into this new space, it's dramatically different in terms of the software requirements in the hardware that's embedded in the hardware to do edge computing and do other things that are valuable to customers. So there's a very important software element which drives the value and the differentiation and the margin profile of the business. But actually, the selling of that capability can be in the form of a onetime versus an ongoing fee.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

And then can you guys maybe flesh out the competitive landscape a bit more? I mean I know it's a fragmented market. It's competitive. Can you talk about how you're positioned there now? And what's the risk of a company like a telematics company that you're selling through ultimately trying to disintermediate their own -- those types of suppliers and having their own source of sensing capability to deploy it themselves?

George Verras - *Sensata Technologies Holding plc - Senior VP & CTO*

Sure. So I think what's important -- I mean, Shawn touched on it before. It's a very fragmented market. At the end of the day, we're providing a unique solution, and Shawn and I have actually talked about this, where if you go back a few years ago at Sensata, we were thinking about this from the sensor layer. How do we move up the stack to be able to provide more insight. We have a strong position from a sensor standpoint. And Shawn and his team were doing the same thing from a telematics layer, a cloud layer, how do we go down because we need to provide that more data insight through more sensor content?

So at the end of the day, we have this marriage. I think it's a very strong marriage. There are obviously competitors at the telematics hardware level and at the sensor level. But at the end of the day, we want to have an open ecosystem where we can provide insight to all of our customers and channel partners. And you heard Jeff and Shawn talk about the flexibility in our model.

So by not being a closed ecosystem, by not mandating that everything is a Sensata sensor or Sensata solution and having that flexibility, I think it puts us in a very unique spot against our competition that are really driving close solutions that are, at the end of the day, limiting adoption and limiting the ability to interact with the -- in North America alone, it's over 1,200 TSPs that are out there.

So from that standpoint, of course, there's always going to be competition. But I think we're in a very unique spot, and we're going to have the flexible operating model to enable our customers to succeed and not force a model that limits our growth, it limits their growth. And really, we want to be able to take advantage of that. And we see that as a better model than some of the competition that's out there.

So Shawn, you can expand on that.

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Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

I completely agree. So if you look at any given application in the IoT space, it really boils down -- we talk about data insight, but it really boils down to the output of the sensor. Given the fact that Sensata has a commanding position in that area, it's really beneficial for us and the customers because, again, at the end of the day, it's really data insight sensor output.

And when you go through the stack, the lowest level of stack would be the sensors and then you move through data transmission and then the cloud, which the cloud itself has multiple layers in there. We really are bringing all the pieces together now, right? And in each layer, sure, there are competitors in each layer or each stack, but I'm not aware of anybody that has the entire stack all the way from the sensor to the API. And that really puts us in a really commanding and unique position.

Operator

We have Joseph Spak with RBC Capital Markets.

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

I think vehicle data and the opportunity is very topical right now. So I guess just taking a big step back, one of the things that I'd like to certainly address is it strikes me that there's a big change going on with the vehicle makers as they are now coming out with new architectures that allow for some of these software-enabled features. Oftentimes, it's obviously been done with electrification of their vehicles. But that compares to previously when some of these trucks don't even have modems. So how does that change the Xirgo business and sales channel approach because, look, as the fleet changes over and they can change over every, I think, 7 to 10 years, that aftermarket opportunity seems to go away as newer vehicles get in there.

And then I guess as a follow-on, to the extent they are offering some of these software features as well, and I think Ford, what they're talking about on the Ford Pro side last week at their Analyst Day is an example. And I know that's more on the light vehicle side and the van side, but it stands to reason that could expand to other classes of vehicle as well. If they end up offering that as well, what is your ultimate software opportunity? Are there still -- is there some opportunity to sort of sell pieces of the stack, I guess, to an embedded solution?

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

Yes. So let me touch on an element of this that is really important in terms of the strategic rationale for putting this together and the belief that, long term, it will be competitive. Fleets buy multi-OEM platforms, so they want to be able to integrate the data off of those different OEM platforms to get a one view of their whole fleet. And so clearly, our OEM customers are building out ability to pull data off of that equipment to be able to feed what is essentially the telematics ecosystem. But when you get to the fleet level, the end user level, there needs to be a consolidation there.

Now we also believe this is an advantage for us because as those fleet customers adjust to the new world where more data can be pulled off of this equipment, some of that functionality will be pushed down to the OEM level. So the vehicle when it rolls off the lot will have some of that embedded hardware in it. And Sensata will obviously be there to serve them through our OEM channels, but the ability to aggregate that data and deliver insight is going to be an area that will continue to be quite important.

That's the high-level view. I don't know if Shawn or George would like to add anything to that.

Shawn Aleman - *Xirgo Technologies, LLC - Co-Founder, CEO, CMO & Managing Partner*

Yes. So our experience has been that fleet managers have multiple OEs in their fleet, so it is very daunting to be able to integrate multiple platforms into their IT infrastructure. And hence, the reason for a third party like us to be able to go in there with one product and one set of services that brings all the data, aggregates all the data and provides a common scene, a common platform to the fleet manager.

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So that was one question you had, and I believe you had a second question around the data from the OEs are becoming more and more stricter in terms of trying to keep the data to their -- close to their chest. And we're actually expanding our vehicle bus team to be able to address that moving down the line. In fact, we have a very -- really nice, highly experienced group of engineers that are joining us in July to be able to address that down the line.

Now that's obviously not going to happen overnight, and OEs have been talking about this for several years. So we still have 3 to 4 years before OEs implement what they call data over IP. And that's the reason that we're building that, our team, our vehicle bus team to be able to address that down the road.

George Verras - *Sensata Technologies Holding plc - Senior VP & CTO*

Yes. The only other thing I would add is at the end of the day, Sensata looks to have the right solution for the fleet, and it's not a one-size-fits-all. So you think about the solution for a tractor versus a solution for a trailer versus a solution for a medium-duty truck versus a light vehicle or delivery van, very different needs for each one of those parts of the fleet. So another advantage that we have is that we're serving all those today and know how to deliver the right solution for each. And again, it provides the insight that the customer needs and giving them the right solution at the right cost points to enable that.

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

And maybe you just answered the second question. But what type of, I guess, sort of research or sort of -- have you sort of gotten -- sort of talked to the fleets to see what their needs specifically are, so you're able to offer a solution? It sounds like you were -- that's sort of what you were just addressing that some of that work has been done and likely more to come.

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

Yes, definitely. One of the other aspects that we have common DNA is, at the end of the day, we're helping our customers solve difficult challenges. And so whether it be an OEM customer that we're serving or a fleet manager, we're engaging with them daily, and we're understanding what their needs are. And then we're building solutions to be able to bring an offering to answer the questions that they have. So that's a common theme that we have. It's very much customer driven as opposed to building something, hoping we'll be able to sell it.

Operator

We have no more questions. I would like to turn the call back over to Jacob Sayer, VP of Finance, Investor Relations.

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

Thank you, Maddie. Thank you, everyone, for joining us this morning and for your interest in Sensata and our Sensata Insights endeavor. Maddie, may now end the call.

Operator

This concludes today's conference call. Thank you for participating.

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