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PRESENTATION

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Good morning, everybody. My name is Joshua Young, and it's my pleasure to invite you to Sensata's 2017 Investor Day. We've got a great day planned for you today. We will have our entire management team go through our strategy, our vision and our opportunities in the future to create shareholder value.

Before we get started, I'd like to just go over a few housekeeping items. First, if everybody could please silence their cell phones during the course of the event. We will be posting PDF presentations from each presenter immediately after each presentation. If you do decide to follow on with the slides in the room on the webcast, we ask that you simply mute your computer.

At the end of today, we also have a gift for you when you turn in your badges, we encourage you to pick up that Sensata gift when you leave.

We have a great demo area across the way, innovation showcase. In addition to that innovation showcase, to the left of the showcase, we'll have additional speakers or members of the management team stationed there if that area gets too busy. So feel free to look at both during the break and also after the event. We just simply ask that when you are in that area, you do not take pictures of any of the products or the demos.

As part of the webcast, what we would ask when we get into the Q&A session, we will have people passing up microphones. If you could please state your name and your firm and also stand up, and given that we have a very crowded room, that will be great, that is part of why we do that. We also ask that you limit yourself to one question, so we can get through the entire list of questions during the event.

Finally, before we begin, I want to also stress at the end of the day, we're going to have a survey, you all will be e-mailed a survey. Your feedback is very important to us as we evaluate the event and also hear from you that we touch upon some of the things that you had hoped to accomplish.

On this slide it shows the agenda, we are going to get started with a group of 3 speakers and we're going to do Q&A. Questions that you might have that will relate to the second portion, whether it would be capital deployment, or further details of guidance. We ask you to save that towards the end of the day. We'll have all 5 speakers up. For the first portion of the question-and-answer session, please direct those to the 3 speakers that we have this morning.

We've got a great group of Sensata management in the audience today. All of them will be wearing blue badges, certainly during the lunch, during the break, seek them out, give yourselves a chance to just better understand how we run the business and better get to know the Sensata management team. You can see their names shown on this slide.

As part of that showcase, we're going to organize our products are on the 4 key drivers that are going to drive Sensata's growth in the future, that's shown on this slide. So a lot of these trends, which are both applying to our next 3 years but also longer term. We really want to make sure that you walk away with a firm understanding of what we have to offer and why we're so excited.

Finally, before I turn the floor over to Martha, I want to pause and we will be making forward-looking statements as part of today's presentation.

Please recognize that and take some time to read the disclaimer. So with that, it is my extreme pleasure to turn the floor over to Martha Sullivan, President and CEO of Sensata.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Good morning. Thanks, Joshua. Welcome, everybody, and thank you so much for being here. It's not an easy time of the year to manage schedules. So we really appreciate it.

A few years back, we laid out a vision to create value for our shareholders, our customers and our team. And as a result, the progress that we've made, we've made some significant changes to the makeup of our business. So we really appreciate the opportunity to ground you in those changes and to give you an understanding of what you can expect from Sensata going forward. As you heard from Joshua, we have a fair number of our management team here today. I will tell you that this is a talented, collaborative group of leaders. And along with the 20,000 employees daily, they're absolutely vital to our success. So I do encourage you to take the time to meet them today if you haven't already.

You're going to hear a lot of color today on what is driving our opportunity and how we are converting success on the marketplace to value for our shareholders.

At the end of the day, this really boils down to 3 things you should take away about Sensata. First, we are a leading provider of a fundamental building block that is essential to a connected, smart, electrified and ultimately autonomous industrial landscape. Second, we are strong operators. We have increased our opportunities, expanded our market opportunities, increased our competitive advantages, accelerated our earnings and strengthened our overall business model. And third, what does this mean to you? We are very well positioned to deliver strong financial performance over the next 3 years and beyond.

So before we get into the outlook for today, and a lot of what we're going to talk about is where we're going and why we're positioned the way we are and what you can expect, before we do that, I think it's really important for us to touch on the highlight of our recent financial performance because they are, after all, the starting point for you to assess our credibility as we go forward.

So let's begin. We delivered strong earnings per share growth. On a constant currency basis, we've delivered 13% combined compounded adjusted earnings per share growth. And we've done this in the face of increased interest expense, some market headwinds and over $50 million of integration expense. That, as a reminder, we do include in the P&L.

We -- as promised, we've grown our EBIT index 100 basis points over the period and we're able to do that because at Sensata, we have multiple ways to deliver earnings growth. We are continuously increasing the efficiency of a highly effective, globally consolidated back end supply chain, and you're going to hear a lot more about that from Charlie later in the day.

At the same time, as we increase the growth of our business, we aggregate volume on large technology platforms. And in doing that, we're able to take top line growth and amplify it to the bottom line. And finally, we're good acquirers and we're really great integrators. We buy profitable businesses, we expand the earnings of those businesses to create great returns for our shareholders and nice earnings growth going forward.

Another area where we have delivered to promise is in fully utilizing our balance sheet and our liquidity. Now, over the past 2 years, we've spent roughly $2 billion on 2 acquisitions -- that's actually over the past 3 years. And when you look at those acquisitions, they are on-track to meet or exceed the returns that we set forth for them and to meet our overall strategic objectives.

We've been through 2 cycles of increasing our leverage and then as promised, restoring our balance sheet to our targeted leverage ratio. So continuing to perform the promise on that front.

And finally, while we expect the profitability of our acquired businesses to continue to improve the period of intense integration spend is now behind us. And we are generating very strong, consistently growing free cash flows. We're able to do that given some of the attributes of the business. We're a high-margin business and we convert that margin to good cash flow.

The way we operate the businesses is not capital-intensive, and so our capital expenditures are a low percentage of our overall revenue and our assets are long-lived. At the same time, we have a sustainably low tax rate. We know you're interested in that, Paul's going to talk a little bit about that more later on. So these attributes combined with many others at Sensata allows us to be consistent and we are on track to deliver 8 consecutive quarters of meeting or exceeding our overall guidance at the end of the year.

So with that background now, let's take a look at what drives Sensata's growth. It starts with where do we play. Sensors are a fundamental building block to a connected, smart and increasingly changing industrial landscape. Our focus is on mission-critical, difficult-to-do sensors and very challenging applications.

And why do we do this? First of all, let me give you a sense on what that means. You'll find our sensors, for example, embedded in a braking system of an automobile, so essential to emergency staffing. You'll find us on the flight controls of an aircraft. We're in a positioning system, on aerial work platforms. These are difficult-to-do applications. And that's why we focus on them, because they're not easy to do and they play very, very well to our strength.

They require deep technology understanding. Spend some time with the team in the other room and I think you'll appreciate that. They require very strong engineer-to-engineer relationships. They require infrastructure and the ability to do very long validation cycles and they require a cost structure that lets you deliver attractive life-of-the-equipment economic. So not easy to do, we do it very well.

Sensors then, are essential to the mega trends that we're seeing in our industry and for that reason, we're playing in an opportunity-rich environment. If you step back, there are 4 things driving our growth at Sensata. Presently and over the long term, the relentless need for clean and efficient equipment in vehicles is an important driver of our overall business. So for example, mandates around onboard diagnostics, entire pressure sensing in both commercial and vehicle is important for us. To move towards a variable output infrastructure in the industrial landscape is now driving the growth of our sensors today and in the content future going forward and you'll find us some things now like clean off-road equipment. So clean and efficient, really important part of our overall business.

Electrification is a great opportunity for Sensata. As the global fleet transitions to hybrids and then plug-in electric vehicles and fully electric vehicle, our content growth and our opportunity accelerates. You're going to hear a lot more color about this throughout the day.

So what we're seeing is the OEMs now are working diligently to develop next-generation EVs that extend the range of a vehicle, improve its charging time and better manage the thermal challenges around that business and that plays really, really well to our overall strength.

Longer term, autonomy is a really exciting opportunity at Sensata but it is longer term. Given our focus on LiDAR and vehicle health monitoring with wireless sensors and more, this is an exciting area for us and we're playing it for the long term. Similarly, we're seeing a great opportunity because fleet managers of commercial fleets are really interested in applying data analytics to the smart connected fleets. And so we're extending our capabilities in wireless to bring solutions to these new exciting trends.

At Sensata, changes in the marketplace are synonymous with growth and opportunity. We build our market position by focusing on emerging applications and getting in there early and growing our share as those applications grow. And we do that by augmenting strong customer relationships with investments in market foresight and technologies to bring solutions to ever-changing challenges for our customers. So in this way, we adapt our portfolio and evolve as the market changes.

So while the prevailing growth drivers in the business will shift over time, our focus on bringing new solutions that thereby grow our business is absolutely constant. I'll give you an example. If you go back to the mid-90s and the decade that began then, you would have seen that safety and the growth of onboard micro-controllers were a really important driver in our business. Those drivers have since played out, they played out at the end of that decade. And since that time and today, this moves towards relentless clean and efficient and the early stages of electrification are driving our growth right now. And you're going to see examples of the differentiated solutions we're bringing to these opportunities when Steve and Jeff present later on the day.

We have expanded our market opportunities and we've increased our technology toolkit. And we've done these with strategic investments and with acquisitions that we've made. Our largest end market, as you know, is automotive. It also happens to be the largest market in the industrial landscape for sensors.

So the scale that we gain, given our leading position in automotive, makes us very competitive and really well placed in these attractive new end markets and positions that we have acquired. And so the proof point on that, that is now 40% of our business and have grown year-to-date 7% organically. So we're really excited about the traction that we're having in this area.

At the same time, we actually reduced our overall automotive exposure. And so what that means is that our exposure to any one end market and its cycles has been reduced and we think that, that strengthens our overall business.

So Sensata is positioned in an opportunity-rich environment and we know how to take advantage of that. Let's take a look at why we win. You're going to see, if you take the time, you're going to see a wide range of products and solutions that we bring to our customers today over in the displays and demos that we have but also in the presentations that you are going to see that follow. And these span a number of end markets many, many, many applications and they range considerably on ASP.

We have sub-dollar products and we have products that we sell for tens of thousands of dollars. So what do they have in common? They all have 3 things in common. First, they provide mission-critical functionality. Again, difficult-to-do products. And this requires deep engineering knowledge across a number of capabilities that includes sensing technology, semiconductor design, software, interconnection and subsystems integration.

And I think that's really important to understand, it's easy to think about these as sort of assembled widgets. Our range in our portfolio sense well beyond that.

The other thing that they all have in common is that they're customized. And by that, I mean, if you look at the tens of thousands of SKUs or part numbers we have in our business, each one of those represents a customer application intersection. But all of that is built on common technology building blocks. So we're able to aggregate volume across this highly customized portfolio, that is not easy to do, and that's one of the things that we think is -- really differentiates us.

And then thirdly, you're going to hear later on today from Charlie, about the highly efficient consolidated globally connected operations upon which we build and modify these products. So while you see some customers -- some companies that focus on mission-critical, others that focus on highly customized portfolios, some that aggregates scale and volume and many that focused on being low-cost producers, we do all of that inside of Sensata, and we think that, that's pretty special and we think that's one of our biggest competitive advantages.

So when you bring in mission-critical solutions to the marketplace, must-work products that has to be extremely reliable across extreme environmental conditions, your customers' needs to trust you and you need to have high credibility with them. We have decades-long relationships with many of our customers and we are often sole-source in the products that we bring them.

At the same time, we are positioned with early-market disruptors that you see listed here on the slide. So for example, one of the largest electric vehicle, all of the electric vehicle manufacturers you see on this list is a really important customer to us and that's BYD in China.

So let me talk to you about how that works. Today, we provide tire pressure sensors to BYD and sensors that go into their climate control system. That gives us the relationship that has allowed us to work more advanced solutions as they work to expand their range and improve their overall charging times, and that's just one of many, many examples.

One of the things that gives our customers confidence is they know that we're bringing proven technologies to them. And that's the theme you're going to hear throughout the day. We have platforms that span across Sensata, across our businesses, our markets and our applications.

And so, for example, as I mentioned, our high volume position in auto gives us really competitive technologies to take into a more fragmented industrial market. At the same time, one of the things that's happening in our business that I think is really exciting is, the technologies that comes to our industrial acquisitions, are finding applications in new emerging areas of electrification. So we're bring it back and forth across the company.

What you see here on the slide are just 2 examples of that in Sensata. In the automotive market, the largest wireless sensors is tire pressure sensing, and we have a leading position in that socket. That gives us capability that we're now extending into things like wear sensing and health monitoring in autonomous vehicles. For example, we're working on wireless hubs [full of] systems that extend well beyond tire pressure sensors to help fleet managers run data analytics opportunities. And then finally, if you spent some time in the other room, you're going to see an example where we're taking wireless capability into battery cell monitoring, to allow the next generations of EV to be much, much more effective.

Similarly, we have a very strong position in capacitive sensing. So today, we are the world leader in providing these sensors into mobile and stationary climate controls. So buildings, cars, trucks, this is a really strong legacy area of strength for Sensata. We've taken that same technology now and we're implying (sic) [applying] it into industrial infrastructure. We're shipping right now into the cold chain. We're shipping right now early revenue into variable control, pumps and boilers that you're going to see in residential buildings as well as commercial buildings, primarily in China, the big driver of our growth in China. And we're using this to also help thermally manage the battery in the motor on electric vehicles. So the ability to extend these technology platforms is really important to us.

And then finally, we take this differentiated product portfolio and we build it in a highly effective, very cost-efficient back end, more on this later when you hear from Charlie.

So with that backdrop, let's take a look at where we're going over the next 3 years. Now before we do that, I'd like to acknowledge that our organic growth over the past few years has not been in line with our expectations and I'd like you to understand why that is, it's a question we get a lot and it's a fair question.

There are 3 primary things that reduce our growth over the past 3 years. And you see here, the dilutive impact of each of these on our overall company growth rate. One of these was expected, 2 of these were not. So first, as expected, we saw near-term dilution of our growth rate, given the 2 large acquisitions that we made. As we announced, when we did the Schrader deal, we expected that, that business would move in line with mature market automotive production. Until such time as China implementation of regulation was in place and when our own low-pressure initiative, one of the synergies we've brought to this business will take effect.

Now I'm very happy to tell you that we are already seeing both of those initiatives in our run rate. You're seeing -- we're right now, we've got about $40 million run rate in our tire pressure sensing business in China. At the same time, we see a new catalyst for growth, one that we did not underwrite in the heavy vehicle and off-road market for tire pressure sensor. And we've made great progress on our overall margin expansion there. So this has been a dilutive impact on our growth, but we are in a great position now to inflect growth in that acquisition.

Similarly in CST, this was a business where the top line growth under previous management was inconsistent. And we knew it would take investment and time for us to inflect growth in that portfolio. I'm happy to say that in 2017, we are already seeing growth in those product lines. And the best proof point on that, I would remind you that most of CST was integrating into our Sensing Solutions business.

On a year-to-date, our organic growth rate in Sensing Solutions has been 5%. Now what we do not see coming was a pretty significant decline on our Heavy Vehicle and off-road end market. And although we had good content growth in that portion of our business, and that mitigated some of that decline, the overall dilutive impact was 2%.

And so, similarly, we saw a contraction for the end demand for our Control Solutions business in China in late 2015. Coming out of that contraction, we recognized that the demand in China for our Control Solutions products had matured, and we now expect, that, that business moves forward with mature market GDP growth as we look ahead. Having said that, I will tell you, our Control Solutions business is a leader in what they do. And as a result, has delivered and continues to deliver earnings and cash flow growth at or above our company level. It also provides very important channels to market for our industrial sensing initiative.

And we see a potential new catalyst for growth in electrification, just given the great capability we have there in contacting systems, motor control and power control.

Now some of you may be surprised as to what you don't see on this list. What you don't see is that, the shift away from diesel engines and the European car market have had a significant headwind to our business, they have not. So while those shifts had happened and while we expect them to accelerate going forward, you're going to hear from Steve later on, that the rapid growth of our content and gasoline engines in Europe is more than offsetting the declines that we see here, and we expect pretty significant declines in the take rates on diesel in Europe, so more on that later on.

More importantly, we expect to accelerate our growth over the next 3 years and beyond, and these are the primary drivers of that growth. I've talked about the drive around clean and efficient. You're seeing that in next-gen gasoline engines, for example. You're seeing it with the deployment of tire pressure sensing. We're seeing it in off-road equipment. You'll get lots of examples of this from Jeff and Steve later in the day.

Electrification is important for us. As we get design in the subsystems that has to be increasingly efficient and systems in braking that have to regenerate energy, we're seeing content growth as a result of electrification. We're also enjoying a shift from mechanical hydraulic controls and off-road operator controls to all electric. So another area of near-term electrification impact.

And all of these is happening right now, simultaneously in China. Our growth in China has been really impressive, and I hope you get the chance to meet Jing Chang, a really important person in the growth of our business here in China. So as national mandates take effect and given the very low penetration of sensors and vehicles today in China and the rapid growth rate that these mandates are bringing, changing pace in consumer, modernization of equipment that's happening there and some end-market growth and some of our end markets. So auto, truck, off-road equipment, we're seeing very, very strong growth in China. We expect that to continue at double-digit rates into the 3 years and beyond.

Now really important point to make here. I talked to you before about how our business is sticky. And once

(technical difficulty)

and the designed in, incumbents hard to displace. What that means is we have very high reliability of carryover business year-to-year. When you take our carryover business and you look at the new wins we've already secured. We have secured 90% of our projected net revenue for 2020. That combined with the margin expansion capabilities we've already demonstrated, give us a lot of confidence around meeting the guide that you are going to see in our 3-year outlook.

And here's a high-level view on what that looks like. We're going to go into this in more detail. Paul is going to help you understand some of the buildup that's going to the 3-year look here. But what you should take away from this slide is that it's very balanced across organic revenue growth, continued expansion of our overall margins and resulting double-digits earnings per share growth. So 4% to 6% overall organic CAGR growth that you see here includes end-market impact. More on that later, but I will tell you, we're not expecting a lot of help from the overall end market.

So given the fact that we have secured again, 90% of our 2020 revenue projections, we feel really great about our ability to deliver this guide. Now one of the things I need to mention here, this is really important, this overall projection is on a constant share count basis and does not incorporate any M&A. And given what will be very strong cash flow, very strong cash generation during the period, that is obviously, a catalyst for further shareholder value creation in the period.

So it's important to understand how we've done as acquirers. We often get the question, "Will you deliver the returns that you expected on your acquisitions?" And so here it is folks. Let's start with Schrader. We are on track to exceed the targeted investment case returns that we have for Schrader. We're beginning to reflect the growth in that business. We expect that it will grow with overall Sensata growth rates and the margin expansion that we're putting in place here is stellar. We've already delivered more than 70% of this margin expansion. So you're looking here at where we began when we acquired and ultimately where we're taking these margins, that's very key to the returns of these businesses.

Similarly with CST, we expect to meet our overall investment targets. Now we thought that Schrader was a more high-risk investment. We had a higher hurdle on the overall investment target. CST, when we look at how we're performing now, the backlog that we have, how we're positioned and the further improvements in margins that we know we will make, we're going to deliver on our investment case and continue to expand margins in this business.

And what's really important to understand is that it doesn't stop there. We're continuing to drive further growth in the long-term future based on the capabilities we've acquired and the market positions we put in place as a result of these acquisitions. So things like, extending our low-pressure capabilities through Schrader, in-house semiconductor design giving us better cost and time to market, wireless capabilities that runs across now our overall business. The customer position that we've got in CST and the industrial technologies we're now finding opportunities for in automotive makes this really, really exciting for Sensata.

Now one thing you should understand is that we are heavy integrators. Okay? We integrate on the front end, we integrate on the back end. What do I mean by that? I'll give you one example. We very recently were awarded a large contract for tire pressure sensing with a European commercial truck maker.

Now this is somebody we did not have a relationship before we acquired CST. And as you know, our tire pressure sensing capability came through our Schrader acquisition. So we don't just integrate into legacy Sensata, we integrate across integrations. And that's really important in the way we extract value, and does that mean that we'll go through periods of heavy integration spend. That period, the temp period of integration spend is behind us for these 2 acquisitions.

As I said, we're going to generate a lot of cash during the period, and we do that given our high margins, our low capital intensity, our sustainably attractive tax rate and that's going to deliver $1.8 billion in cash flows throughout the period. So the way we deploy that capital, we know is really important. And let me really bring that point home.

We think that capital deployment for our shareholders is one of the most important things that we do at Sensata. And we think, having optionality on how we do that is very, very important now and in the long term. We -- as you know, we're in the process of re-domiciling to the U.K., that was an intensive project that took almost a year to put in place. And that's how important we think overall optionality is. Because that's one of the things that, that project did for us.

So we recognized -- we're good acquirers and we create great returns through our acquisitions -- we recognize that there are times when valuations prohibit or challenge, challenge our ability to meet the targeted returns that we have for acquisitions. At the same time, when you look at the acquisitions we've already made, particularly with CST, it's given us a line of sight on more bolt-on type acquisitions. So smaller, more bolt-on acquisitions, and that is the bias that's in our pipeline today.

So given those facts, we think it's important to have alternatives for deploying capital. And we think that share repurchases are another great alternative.

So let me wrap this up. Sensata is very well positioned. We are a leader in a opportunity-rich environment given the mega trends that are underway. As I've said, we're strong operators. We are positioned to accelerate our growth, and that growth is in hand. We've expanded our opportunities. We've increased our competitive abilities and we're very well positioned to deliver strong earnings growth going forward. We expect to augment that strong operational performance with smart deployment of our capital over the next 3 years and beyond.

So thanks. At this point, I'm going to turn it over to Steve Beringhause.

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

Thank you, Martha. I'm Steve Beringhause. And I run our global automotive business and I'm also the Chief Technology Officer for Sensata. And I really appreciate the opportunity to be here with you this morning, and talk to you about a lot of the exciting things that are going on within our automotive business.

There are 3 key points I want to make sure I share with you this morning. The first thing that our automotive business will accelerate our growth over the next few years. The second, that some of the major trends we see in automotive around electrification and autonomy drives significant opportunities for Sensata. And the third one, that we have the market positions, the technology and the competencies already in place to capitalize on these opportunities and turn them into growth for Sensata.

As we look at our market position today, we feel really great about where we are in the automotive market. We've got leading positions, we have mission-critical sensing applications, these are sticky sockets that our customers invest significantly to qualify the system. And any change after that point is risk for our customers. With all of those applications we have leading positions in, we are able to build scale with those applications to get to lower cost, leverage technology across these applications and get great positions with key customers around the world.

Automotive is the largest sensing area and that creates -- that gives us -- provides a lot of opportunities for us. And we've got a history of being able to convert those opportunities into success in driving growth.

Let's go into a little more detail on our market position today. If you look at our revenue, we're relatively balanced from one region to the other around the world. We do see different growth rates in regions at different points and time. Today, China is growing the fastest. We see North America growing the slowest. We are engaged with customers around the world. OEMs, system suppliers, different Tier 1 assembly suppliers. And at all of those customers, we've got deep engineer-to-engineer relationships.

Our largest market segment is the safety and chassis segment. In this segment is where the tire pressure sensing is part of our business sits, it's where our brake pressure sensing is part of advanced braking system sits.

We've also got significant revenue on the powertrain side. And as we look at that revenue, there's a significant portion of that revenue that is in, what we call, electrified-ready powertrain. So these are engines and systems that are already designated by our customers to go into hybrid engines.

As we think about the future and the needs in the future and around the technologies and the competencies, a lot of what we need to have, we already have in place today. Ability to work on systems, electronics expertise, specifically, application-specific integrated circuits. Wireless competencies and software, all things that we do in today in Sensata.

As we think about our growth over the next 3 years, there are 3 major areas that will significantly drive that growth. We expect that growth to be mid-single-digit growth rates. And the assumption behind that is basically 0 market growth if we look globally. The 3 major drivers, clean and efficient, powertrain, gasoline engines, electrification and China. And as Martha talked about in her presentation, as we look specific to the automotive business, we also see that greater than 90% of that revenue in 2020 is already secured.

Let's go a little deeper into each of these trends starting with clean and efficient. There are several opportunities connected to making powertrain systems cleaner and efficient as we move forward and I've highlighted a number of those on this slide.

First starting with onboard diagnostics. Today, requirements in the U.S. to measure any fuel vapor leakage coming out of the gas tank. Those requirements extend as we move forward to also make sure there's no fuel vapor leakage coming out of certain components inside the engine. We're also seeing the expansion of those onboard diagnostics going into China, the same type of regulations come into China.

We see a greater focus around combustion and delivering as efficient a combustion processes as possible. And one of the ways our customers do that is they control the amount of fuel that gets injected into the cylinder for the combustion process. They require pressure sensors to control that injection process. And we have many engagement for customers, where we providing pressure sensors for that function.

Focus on reduced tail pipe emissions and, again, controlling that combustion process, controlling the temperature of that process in order to reduce the emissions that are coming out of the tailpipe of the vehicle. We're also seeing that many of the controls that we put in place initially for diesel engines, to provide better emission for diesel engine are now coming into play on gasoline engines. So, specifically particle filters to reduce the particle count coming out of the tailpipe, we all remember and think of diesel, the old diesels where there is much more smog, particulate filters to control that smog. Now we're seeing the same thing in gasoline engines to reduce that particle number and the same sensors we have developed on the diesel side around differential pressure sensors and high temperature sensors, we can now apply on the gasoline side.

We see higher speed transmissions, 8, 9 even 10-speed transmissions. To drive better fuel economy and in order to have those high speed transmissions for our speed sensors and pressure sensors to control them.

And the last point I want to talk about is our low-pressure focus and we see significant growth coming on the low pressure side. we've been able to take a lot of the technology around MEMS for low pressure that we've got from Schrader, as far as the tire pressure sensing and the scale of that technology, the scale of that volume and apply that on the powertrain side. So what's -- and you could see on the picture on the chart, the top part is -- our previous designs and the complexity of that design and how it's simplified in the lower picture, that simplification gives us a much lower cost point and with that lower cost point, we're much more competitive and we're able to win and drive growth in that space.

Now we've got many questions over time around diesel. And the impact of the share loss in Europe around diesel engines. Now I think this is a really important point, and Martha talked about it in her presentation. As we look at that segment in Europe, that engine exhaust segment, we look at the overall revenue, we look at our trend there, we see that segment growing for Sensata. We see the 4% to 5% compound annual growth rate over the next few years of that segment despite decline in terms of diesel share. So I think that's a really important point.

Just to go into that a little more detail. If you look on the chart on the right, and that shows our assumptions that go into that statement. Our assumptions for what will the mix will be between diesel and gasoline in Europe that you see it declining. In fact, what you see is, our assumption is more conservative than what the third parties are saying, what the decline of diesel will be. If you look at the chart on the left though, you see the mix in terms of what we predict our revenue will be between gasoline engines and diesel engines.

And as you can see, although there is a decline on the diesel side, based on that mix change, there's significant growth on the gasoline side that significantly offsets any of that decline in diesel and drive significant growth for us.

As I talked on the previous slide about many of the different opportunities driving growth, things like adding a particulate filter on the gasoline engine and better combustion and all of those different pieces that's driving significant growth in the engine exhaust segment for Europe, that's where we get the 4% to 5% growth CAGR over time.

As we look out in time, you can also see on that chart, that the difference in revenue for gasoline engines versus diesel engines starts becoming insignificant in terms of that difference. So we get to the point over time, where it won't matter to Sensata whether it's a diesel engine or a gasoline engine because our content will be similar on both those types of engine.

I'm really excited to talk to you today about electrification and some of the things going on electrification. As we think that drives a big opportunity for Sensata both within our core as well as new opportunities.

If you think of electrification today and how that impacts the vehicle, there are a number of areas where it impacts the vehicle. Starting electrical subsystems, where you get to variable speed pumps and electric motors and things like that. The hybrids where you start adding an electric motor is part of the powertrain and, of course, the full-battery electric vehicles. If you look across all of those types of vehicles, we have content on all of them.

In terms of the electrical subsystems, over time, we move from simple on/off devices, to full solid-state sensors to meet the needs of those variable speed devices and better control those devices. As we go into hybrids and the first-generation electric vehicles, what we see is the need for more from the thermal management system. More from the advanced braking systems, which drives increased content as well.

I want to take some time now to go through a couple of case studies to show you some of the opportunities that we do see in the space. But before we get to that, there's even more opportunity as we think longer term in the electric vehicles. The reality of how the electric motor is controlled today is that it's a -- the strategies are just beginning. Think about a conventional vehicle back in the 1970s. How advanced that control strategy around that engine was at that time.

As those control strategies develop, the customers will need to find ways to measure. And when they want to go measure, they need sensors. As shown on this slide, a number of the areas we're already seeing emerging for applications of sensor needs, both on controlling of the battery, think about the battery as the fuel for an electric vehicle and the need to control that fuel, control, charging/discharging of the batteries, important parameter. Of course, the electric motor itself, how you control that electric motor, and things like current sensors or engine positions, things like that.

The first case study is our around more of our core technology today. And what we see in an AC system, where today, an AC system typically has one pressure sensor in that system. As we move in time to future generation electric vehicles, we're going to see that requirement move from 1 sensor up to 5 sensors. Significant increase in that content per vehicle. And what drives that is a change in the function of that AC system. So you look at your AC system today, and what function does that system provides today? Basically, it cools the cabin. It keeps the occupants in the vehicle cool in the summer months.

As we move to hybrid -- plug-in hybrid vehicles, and Gen-1 electric vehicles, that same system also needs to provide heat. You don't get heat automatically from the heating up of a conventional engine, the AC or the HVAC system needs to provide that. So we go from 1 single function sensor, is the pressure sensor to 2 sensors that now perform 2 functions, they measure pressure and they measure temperature. As we get to future generation electric vehicles, we -- they are looking at adding additional loops from that system to do things like keep the batteries cool. Keep the electric motor cool. And as they add those loops, each of those loops requires another sensor to be added.

And proof of this, I can tell you that, just within the last month, we secured business with one of the largest OEMs around the world. For their next generation electric vehicles, for 5 combined pressure and temperature sensors to control that system as they add in these features in that future generation electric vehicles.

Second case study, I want to talk about is where we're applying our wireless technology towards battery management systems. But today, the battery pack, the large portion of an electric vehicle, it's critical obviously, in the function of the electric vehicle as this is the fuel. And monitoring the health of those batteries is essential to know how to control that delivery of power to the vehicle, which all from each individual cell, how you should be doing the charging of those cells, how you should be doing the discharging. And today, how that is done is there's an intricate wiring harness connection to all of the different cells on the battery.

The concept we're bringing is a concept to move to a wireless approach to significantly simplify that wiring harness, and eliminate a significant part of that wiring harness. Once you do that, it simplifies the manufacturing process considerably, improve serviceability of the battery pack and improves the safety of the battery pack. And probably most significantly, it also reduces the size as you don't have all this complicated wiring running across the battery pack, and then the OEM can decide what they want to do with that additional space, they can add additional cells, which could increase range or they can use that space for some other need in the vehicle as the battery pack takes a considerable part of that space on the vehicle.

One thing I also want to highlight, if you haven't been over to the innovation showcase yet, we do have on display some of the work we're doing here to develop this technology and I encourage you to take a look at it.

Next I want to talk about China and the growth opportunities in China. I spent 2 years living in China between 2010 and 2012. And where I was running our Asia part of our sensors business. It was a pretty exciting time. I was able to see firsthand a lot of the -- a lot of what's going on in China, and a lot of -- where the opportunities were coming from. And as we look forward in what's going on in China, as Martha talked about, we see this clean, efficient powertrain coming in very fast in China as regulations are accelerating, as well as the electrification side coming together.

And if you look at our content of vehicle today on a vehicle in China, it's much lower than what we're seeing in mature markets, not because we have a lower market share, our market share is consistent around the world. But because just where that fleet is in terms of the level of content -- sensor content on that fleet.

There's significant modernization occurring today in these areas. And I can tell you that, we expect our content per vehicle in China to grow 50% over the next 3 years. This content per vehicle, so I'm not talking about any market growth. Light markets if you want to assume that, it doesn't matter. Simply content per vehicle, 50% growth over the next 3 years, [full].

In addition to everything going on, on the electrification side and everything on the powertrain side, we also see tire pressure sensing growing in China. So regulations in place today requiring all vehicles starting in 2019, and every vehicle in 2020, to have a tire pressure system on that vehicle. And we've seen many OEMs launching tire pressure systems well in advance in that regulation. And as Martha talked about, we have about $40 million of revenue in tire pressure sensing in China, in our numbers for 2017. We expect that will grow to roughly the range of $90 million to $100 million as the full regulation comes into place and that -- those requirements in tire pressure sensing systems go across the full fleet.

To be successful in China, it's critical that you have a strong local team. And that has been a big focus for us, developing that local team. And we think we have a significant competitive advantage based on the team we have in place in China, and how we're also able to leverage our global team.

So first, when customers interact with us, we look like a local Chinese supplier to our customers. We have local engineers, that understand the products and do the customization and development of those products in -- within China working closely with our customers. We've got management team that's local and has decision-making authority, in order to know what is the best way to support the customers, and of course, we also do local manufacturing in China, to support our customers in China.

So for our customers, this gives them the confidence that Sensata will be there to support them and support their developments. We also leverage the fact that we've developed these products and apply them around the world. So we can take the same technologies and leverage that into the product development in China, and it's the same applications. So the application knowledge and know-how we have from applying those products in those applications around the world, we bring to bear in China. So our customers in China have confidence that our products will work in their applications.

When you take those key points and you add to it a very talented local team and bring those things together, the result is, you get a very high growth rate in China, you can be successful, you're able to get high margins based on what the pricing you can get for your products. As Martha mentioned, Jing Chang is here today, leads our team in China, and I welcome you to spend time with Jing, talking about some of the different things that we see and what's going on in China.

Long term, there's a fourth driver for growth, autonomy. As you think about an autonomous vehicle, and what that means, we talk about and have talked about for years, that sensors become the eyes and ears of the vehicle to help the vehicle see, hear, do the job they're trying to do. When you get to an autonomous vehicle, where you now eliminate the driver, you literally have to replace the eyes and ears of that driver with sensors.

And so if you think about an autonomous vehicle, what autonomous vehicle is trying to do, is from the driving function, the autonomous vehicle needs to understand where is it and what's around it. So that it can navigate that path safely and successfully. But in addition, the driver serves another function. The driver manages to help the vehicle. So if a light comes on, it says, hey, something's wrong, the driver sees that light or maybe the vehicle feels different in driving it today than it felt yesterday. There's no driver input on that. The vehicle needs to diagnose itself. There's significant opportunity we see around vehicle health monitoring, around self-diagnosing the vehicle to know that it is operating properly.

You look across these different areas, all of them require sensors in order to operate, very sensor-rich environment. I want to talk about one area that we're focused on within autonomy, that's around LiDAR. And so what is LiDAR? Why do you need LiDAR sensors? So LiDAR connects back to what's around me. So the vehicle could see what's around me. Today, you have cameras, you have radar. LiDAR adds another technology, both from a safety redundancy standpoint as well as it provide some differentiation in terms of what it can see. It can see greater resolution than radar systems. It can see longer range than a camera system. And those 3 technologies together formed the information that's required for a vehicle to be able to drive autonomously.

We also have out, in the innovation area, a demo on the LiDAR, and I really welcome you to go check that out, because we got a full LiDAR sensor set up. And what you can do is you can actually walk right in front of it. You can raise out your arms. You can dance. Whatever you'd like to do. And you'll be able see on the computer screen, the LiDAR picking up all your different movements, so it's a pretty interesting demo to go see.

We decided to partner with Quanergy on the LiDAR development and the 2 companies working together to develop these products.

Quanergy brings into that great LiDAR technology, one of the leaders in solid-state LiDAR development. The belief is solid state's required because that's what will get you to the reliability needed for automotive and the cost point for automotive. And so if you look at the technology that Quanergy brings, some of the advantage is, no moving parts.

Completely solid state even as it scans, it can scan without any moving parts, again, you can see that in the demo how that scan works. And also, the ability to configure how you scan. So as you're looking out on the scene, as the vehicles are looking out on the scene, maybe there's a pedestrian walking across the street, and maybe there's a car coming from across street. And so maybe you're interested in that section of view and this section of view, and it doesn't matter that much, what may be happening somewhere else, this technology has the ability to -- for the vehicle to decide, do I want to scan more over here, learn more about what's happening here, and I'm going to ignore over here for some period of time. Now I'm going to come back to it versus other technologies need to just completely scan the entire environment. So it gives you that configurability around what's important.

Sensata brings into the relationship of course, our automotive pedigree, our ability to take technology and commercialize it, our manufacturing excellence and our ability to deliver to customers on these really tough mission-critical programs, high reliable, cost-effective products.

We've been working with Quanergy over the last couple of years, partnership is going very well. We're making progress on the development technology. We're engaged with customers directly, demoing the products, sharing hardware, talking through specification requirements as we're off working and continue to develop that product and we get great feedback from customers, both on the partnership of the 2 companies coming together and what that means for them, as well as the advantages of the technology and some of the key aspects that they feel the technology will help them.

In closing, I want to go back to where I started and I laid out at 3 points that I wanted to talk through with you today. And hopefully, I've shown you the evidence and support for those 3 points. That one, our automotive growth is going to accelerate over the next 3 years; that the trends we see in automotive and electrification autonomy drive significant opportunity for Sensata; and that we've had the history of success and we have the competencies and market position, the technologies to turn those opportunities into revenue growth.

Thank you for your time this morning. And let me introduce Jeff Cote to come up next.

Jeffrey J. Cote - *Sensata Technologies Holding N.V. - COO and EVP of Sensing Solutions*

Thank you, Steve, and welcome, everybody, this morning. I'm Jeff Cote, I'm Sensata's Chief Operating Officer. And I have responsibility for the operations for the company as well as the Heavy Vehicle, industrial and aerospace market. So I was formally the CFO of the company. I remember a lot of you. And it's good to be back to speak with our investor constituent to share a little bit about what we have going on in the business, which is a lot of exciting activity that we've been working on over the years.

Charlie's going to speak to the operations a little bit later in the morning. I'm going to focus my time right now on areas associated with the 3 market segments that I've identified around Heavy Vehicle, industrial and also the aerospace side of the world.

Just to start. So we have a very keen focus and goal as an organization to make sure that we continue to focus and invest in the end markets that are very attractive in terms of the applications set that we can serve, to make sure that we can continue to strengthen our business model as a company. And that has led us as a result of scanning the market environment and understanding where those opportunities are to these market segments that I'm going to be speaking to.

As in automotive, in these market segments, we focused on the mission-critical, the hard-to-do applications, where over time, either through organic means or inorganic means, we can gain a leadership market position, and we do that on purpose to make sure that it's a defensible position that generates a margin profile that we want in this business and I know that you want as well.

We do that by leveraging the core capability that we have and the acquired capability that we have, to make sure that we're answering the needs of our customers as those application sets evolve over time. And I hope that, that's been very clear, as Martha and Steve have gone through the presentation. There's a keen focus to make sure that we continually leverage those capabilities in the organization.

I'm going to spend a little bit of time this morning covering a few slides that will familiarize you with the Heavy Vehicle, industrial and aerospace markets. I'm then going to go through a couple of pages that will help you understand the depth and the breadth of the offering that we bring to these markets, and I'll try to bring a couple of examples alive, so that you can have an appreciation for what those applications are. And then I'm going to spend more time on some detail around some of the actual opportunities and the customer engagement that we have ongoing to really give you some confidence that we have in the overall growth and prospects for the business.

But let me start by giving you a little bit of an overview of the businesses. So just as a reminder, this is about -- for these 3 segments make about 40% of the overall company revenue. I'll start with the Heavy Vehicle off-road business, which is about $470 million business for Sensata in 2017. We focus on the segments of on-road, off-road as well as agriculture, and we have a small segment on motorbike segment as well, the motorbike market.

This Heavy Vehicle off-road business, the way that you would see it from an external view of our financials would be in the Performance Sensing business within the company and the other 2 are in the Sensing Solutions business.

As Martha had alluded, in 2017, we're seeing really strong growth in the Heavy Vehicle market, 11% targeted growth in terms of where we've guided for the full year 2017. Some of that is a result of end market recovery, given that the prior 2 years, we've seen some decline in that end market, but there's significant growth associate with content in this business, again associated with the wins that we've had over the last several years that are ultimately coming to fruition in terms of customers-launching platforms and applications that generate revenue for the company.

As we look forward over the next 3 years, we see similar levels of growth in this business. So again, based upon the market indicators and the content that we know we've won already and how our customers intend to roll that out, we would expect high single-digit, low double-digit growth in the Heavy Vehicle off-road market over the next 3 years.

When you go into the industrial market, we serve of a very wide range of segments in the industrial market. Building solutions, which is concentrated largely in the HVAC aspects of buildings. We also serve major home appliance, small appliance, industrial lighting, transportation and variety of diversified industrials including oil and gas and medical. So you can envision that in a very large market we have a number of segments that we've targeted to go after, based upon the characteristics of that individual market in our capabilities.

In the aerospace world, we -- it's about $150 million business. We serve both the commercial, the military as well as an active and highly profitable aftermarket in those 2 segments as well. Across the Sensing Solutions segment or global business unit, which includes industrial and aerospace, in 2017, we're expecting about a 5% growth. So we have some good momentum in terms of the growth prospects in these businesses.

And as we look forward for these 2 market segments, we see low single -- low to mid-single digit growth in this business as well.

We have a significant opportunity for growth. So Martha mentioned the $200 billion market opportunity in terms of overall sensors. If you look at these 3 segments it represents about an $80 billion available market for us as a company. And if you look at the served element, which is defined by us as capabilities that we have, to serve applications in that market, it's about an $8.3 billion served market. It's a sizable market, given the size of this business today.

When you look at the HVOR market and you compare that available to serve markets, it's about 50% penetration in terms of the served market. And then when you look at the $470 million of revenue in that market versus the $2 billion available served market, we've got about a 25% market share. When you go over into the industrial space, it's about a 7% serve market. So lots of opportunity to expand, available into served. And it's about a 12% market share of that 7% market. And similarly, in the aerospace market, it's about a 22% served market. And when you look at market share in that served market, it's similarly about a 12% market.

So hopefully, what you take away from this is that, based upon the target market that we've identified, there's lots of opportunity for us to continue to expand. You might ask, so how do we expand that market over time? What's the methodology that we use? We convert available market to served market by either organically growing new capabilities or by acquiring capabilities that convert available market to served market. Once we have the capability to serve that market, we grow by expanding geographically, by adding new customers, or by expanding our share within that customer base. And we've had some great success. We'll go through some examples of the areas where we've been very successful and being able to accomplish that.

You'll get tired of hearing us saying up this notion of leveraging capabilities, but it's what's we do, it's what generates the great margins in the business. We learn how to do something in one segment. We've become experts at it. We've defined a defensible position then we stand it out across different applications across segments that will allow us to be able to serve them in those segments as well.

And this chart is simply to show you that across the 5 sensing parameters that I've outlined here, we've done a really good job of fanning out that capability. And so there's one area around wireless that really came to us as part of the Schrader acquisition, it lived within the automotive business, but we're fanning that out into the Heavy Vehicle. There are a couple of instances where we're getting some real opportunity to drive growth in our business. And I feel confident over time, we'll be able to fan that capability out across the other market segments that we serve as well.

If you think about the customer base that exist within these businesses, much like the nature of the businesses themselves, when we look at revenue generated from the top 10 customers that we serve in that market, there's some concentration in the HVOR market. There are not thousands of customers to serve in the HVOR market, there are probably not hundreds of customers to serve.

Top 10 represent about 75% of the business. Similarly, in the aerospace side of the world, top 10 customers represent a little over 50% of our business in that market. But again, I think it reflects the consolidated nature of the customer base in those markets.

In the industrial world, obviously, quite different. There are a lot of customers that we can serve in that market and our top 10 customers in the industrial space represent about 25% of our revenue in that market. It's important to really think about how we generate incremental revenue in this business, however. We get the question a lot about how we serve, what could be a much more low-volume, high-mix type of industry versus automotive, which is more high-volume? Then I would argue, there's a lot of high mix, given that everything's designed in an automotive as well.

But the fact is, is that, we have the ability from an operating standpoint, and Charlie will talk a little bit more about this in terms of being able to serve that various mix of business.

It's also important to note that, when you think about the solution set that we bring to this market, they could range from component sensors all the way through subsystems. And what that means is that, the incremental revenue comes in

(technical difficulty)

sure, at the dollar range but also at the $10,000 or more range per component that we sell. So the opportunity for incremental growth in the business even on low volume is significant.

It's also important to note here that, across these 5 sensing parameters that I have outlined here, underpinning them are dozens of technologies. And Steve touched on a little bit of that, Martha touched on a little bit into that. It's not just one technology that we bring to the market to serve the pressure-sensing applications that we bring to our customers. There are dozens of technologies depending on the specific need of that customer. And there's also hundreds of -- literally hundreds of applications. And I'm going to show you a couple of slides that will help sort of bring that to life a little bit in terms of the many types of things that we can do in some of the markets that we serve.

So if we look at the construction and agricultural equipment segment, I'm not going to go through every one of the examples here. It's really just to demonstrate that there are a lot of opportunities. So in this particular market, there are 50 or more sockets, if you will, or applications where we can bring a sensor or -- a component or system to answer a challenge that the customer has in this segment. So let me give you an example of one, the electronic control of equipment. So if you were to envision yourself being an operator of a piece of construction equipment 10, 15 years ago, you would have sat in the cockpit of the vehicle and you would have seen a number of valves that control the apparatus. Those mechanical valves, controlled hydraulics, that ran the equipment.

And today, because of the need for ease of training, higher efficiency, safety-related features, all of that is converting into electronic. And we're on the journey associated with that move from mechanical to electronic control. You have an example in the innovation center today, you can actually get an opportunity if it's on your bucket list to actually give it a whirl and try to navigate a Caterpillar, a piece of equipment, it's really exciting stuff to envision how you can bring electronics to bear to really increase the efficiency of this equipment. And the team can go through some examples, where they have demonstrated capability to do that.

In the heavy-duty and medium-duty truck area, again, lots of opportunity. Over 50 sockets in the on-road truck area, where we can bring our capabilities to bear to applications that our customers need in order to accomplish their objectives. So one example that I will cover here is around tire pressure monitoring, you may be familiar with that in terms of our automotive business, that is happening in a big way in the Heavy Vehicle area ahead of legislation.

And so this is being pulled by the fleet managers because of the fuel efficiency and the safety-related features associated with that. So if you can imagine driving a truck where, by the way, 40% of fatalities in North America are caused by tire failure-related issues. And so OEMs and fleet operators alike are very keen to get capability available to knock down that safety-related risk.

If you think about an operator actually checking the tire pressure on a large rig and you can imagine how frequently, in complex situations, where there are tandem wheels and so forth, how many times they actually check the tire pressure versus just go forward without checking it, this automated system is a real benefit in terms of increasing the overall efficiency and safety associated with these vehicles. So you can understand why there's dramatic pull associated with this particular opportunity.

On the material handling side, again, 35 different sockets. The example I'll give you here is around tilt monitoring. So you're running a forklift in a warehouse environment. Oftentimes that forklift is lifting a material that is quite heavy. Oftentimes that material is stored in a vertical fashion. So as the material is lifted, you want tilt-related sensing capability to provide for higher levels of safety in those applications. So hopefully, those examples provide you a little bit of insight into real life, what we're doing with our sensor capability because it all enables this functionality.

I have a couple of other slides in the appendix that have some other examples. If you have interest, take a peek at them, ask one of our team members as you go through the day, I'm sure they'll be glad to sort of try to bring to life some of these applications.

So let me transition now to some more specific details around our opportunities for growth. And before I dive into these 5 levers. Let me start by saying, that we monitor the metrics that would be indicators of overall market growth in these segments over time. And so we have very good models that we have been able to refine over time. The market expectation, the market growth, not content growth for these business is around 3% to 4% over the next 3 years. So it's not a huge amount, but it's a really good base of growth opportunity for these businesses.

Martha and Steve covered some of these topics in terms of the levers that we have available to us in terms of clean and efficient, the regulation driving that in many instances, not just regulation but customer pull for more efficient equipment. The China growth around the emerging economies in China and in other places around the world where there's more consumer demand and also infrastructure demand. The themes of electrification and autonomy are real. We know they're happening. We can't read the newspaper or pick up a magazine or watch the news without some discussion around this, and we have a significant engagement with our customers on that, and I'll talk a little bit about some of those examples.

But a little more unique to the Heavy Vehicle space, is this notion of smart and connected. And so I'll get into an example of what I mean by this. It's probably a little bit longer term until it's real meaningful revenue for the business. But we have the capability to be able to serve this market and there's a real pull to have us engage with our customers to help enable more smart and connected vehicles to increase efficiency.

So let me talk a little bit about the items around clean and efficient. So tire pressure monitoring, we talked about this when I went through the example. There is no current regulation but there is pull from fleet managers. And so if you own a number of vehicles that are on the road, you know that if you have proper tire inflation, you get better fuel economy, you get much better safety-related features.

The OEMs that we serve are then trying to create the premium brand by implementing this feature set. And so we have many engagements with those customers. Martha mentioned one big win that we got as a result of pulling together capabilities from a couple of different acquired businesses or capability from one business and a customer relationship in another. And this is happening. It's creating an $80 million opportunity for us as a company in terms of market SAM.

I'm not saying our revenue is going to be $80 million in 2020, but the market opportunity. If we're able to be as successful for more than we are in terms of our share in the automotive market, it's a big chunk of revenue opportunity for us. And this will grow, but this is as of 2020, it will grow to we believe over $120 million of market opportunity.

How do we differentiate? So the same feature set that we bring in the automotive world are even more useful and more valued in a Heavy Vehicle off-road market. And so notions of auto location. My example I gave of an operator having go around the vehicle, and just says, tire pressure issue, right? As opposed to which wheel has a tire pressure issue? In an 18-wheel configuration, you can imagine that's the location of which wheel it is that's low, is a very important feature set that our customers want. Tire fill assist, burst notification. These are real capabilities that we've brought to market in the automotive space that our customers are demanding and they are differentiated in the market.

In terms of European regulation. So some of you may be familiar with the EU 20-20-20 directive, which requires higher levels of efficiency, lower emissions. There are a number of examples that our customers are implementing in terms of applications to make their equipment more efficient. Boilers and pumps, Martha mentioned this one earlier, this will represent about a $40 million opportunity for our industrial's business.

And so you might ask, what are we doing to make this equipment more efficient? It's the conversion from switches to sensors to allow those pumps and boilers to run more efficiently. So again, our equipment, our sensors make that or enable that efficiency gain associated within. So you can see that we've forecasted an adoption rate. This would be something that will provide a growth path for us and a platform for us for many years into the future, even by 2022. We expect only about 50% penetration. And so this is a, if you will, a gift that keeps giving. It's every year, as the penetration increases, we have an opportunity that continue to increase our revenue.

We differentiate because we have a small form factor. The configuration of it allows for implementation of this in a very tight environment. And we also have a unique capabilities around configuration and the level of accuracy that our sensors are able to bring to this market.

This is an example where we've converted available market into served market. And so in the material handling world, if you think of Sensata prior to the DeltaTech acquisition and prior to the CST acquisition, we had pressure sensor -- excuse me, pressure, temperature and speed as capabilities that we brought to a market. That allowed us to serve about 22 applications within the material handling market and we had a handful of customers that we are serving in that market. As a result of bringing in the capabilities and customer base of both DeltaTech and CST, you see that we've expanded this into a served market of about $225 million.

So a dramatic shift in the market that we can go address. A dramatic shift in a number of customers. And so now we're positioned to be able to go after this market in a much more meaningful way. And by the way, these are customers that want a consolidated supply chain. So when they have point solutions that they need to go buy from a bunch of different suppliers when we can go to them with a broad suite of offerings that we can provide that serves a lot of their need, that's a real value-add to them.

So a lot of good engagement and opportunity. You can see we have relationships and engagement with all of the leading brands in the market.

Another example where we've transformed the businesses on the aerospace side. So we have a legacy business around aircraft circuit breakers. We've been in that business for decades. You can't get on a plane without having a Sensata, without having Sensata Klixon products in that plane. So we've been protecting current overload in planes for decades. We have a 40%-plus market share in that space. With the addition of the CST business, we brought position sensors that enable flap control or measure flap control, weather control and thrust reversers that also has a very high market share.

Over 40%, #1 position in the market for that product. And so the combination of these 2 products allow us to go to talk with our aerospace customers with a different lens that we bring a broader suite of opportunities. We're not just an aircraft circuit breaker business, but we're also an aircraft sensor business. And by the way, we produce hundreds of millions of pressure and temperature sensors in other end markets that are really hard to do mission-critical, where we can also serve you.

And so, the combination of these 2 product categories to serve our customers along with the core capability that we have within Sensata has opened up a very large served market opportunity from what was a $400 million opportunity to what is a $1.3 billion opportunity in that very large aerospace market.

Let me give you a little bit more specifics associated with that. So I talked about pressure and temperature. So you think you've probably all heard enough to know that Sensata has very strong capability to do mission-critical, really hard applications in the space. And there's probably no harder environment or harsher environment than aerospace.

And so we're taking that capability, the street credibility that we have in the segment now, and we're having a lot of dialogue with customers. We have a small amount of revenue on pressure and temperature in aerospace. It has not a much bigger opportunity to grow. We're looking at cabin, flight controls, and we're also looking at temperature and pressure sensors in engine and braking systems, which by the way, there's a discontinuity occurring there, associated with the temperature level that those sensors need to operate.

Today, most of those applications run at a somewhere, the low 500 degree C range. And in the future, those applications are going to run many of them in over 1,000 degree C. So incredibly harsh conditions. But more importantly, a discontinuity that will allow that opportunity for inflection for growth for Sensata.

A lot of engagement with customers, healthy pipeline of opportunity. It's a long cycle business. So we hope that we'll be able to get some shorter-term wins. And we're developing some unique, more innovative capability that I'll speak to in a little bit around this particular application.

On the China front, the regulation 6 associated with China -- the national 6 (sic) [China VI] regulation is going to drive an enormous amount of content. So there's a requirement around emissions for a Heavy Vehicle off-road. We believe it represent somewhere about $140 million opportunity for us. A lot of that has been awards that have already been granted, based upon the fact that they need to be in market by 2020. This will continue to grow. We think it's over $200 million opportunity for us as a company.

And what it requires in order for these OEMs to be compliant with the regulation is the implementation of exhaust gas recirculation, diesel particulate filter. Applications that may sound familiar to you because we're serving them today in the light vehicle market, but also in the North America and

European market on Heavy Vehicle. So we have scale, we have expertise that we can bring to China, having great success in terms of wins in that market.

Another one, which is a small one, but again, there are many of these, China has goals around their air quality as you can imagine. They have a goal of a reduction of 15% by 2022 in the major cities. There are a dozens of examples that I could bring on this, but one of them is around the conversion of coal heat to electric heat pumps.

In order to enable those electric heat pumps you require -- it require sensors in order to enable those systems to run efficiently, so there's an opportunity there. If we forecast the number of heat pump shipments that will occur over the years, it will -- again, continue to grow. So we have dozens of these smaller projects, could represent about $10 million opportunity and engagement with the customers that are playing in this space and good wins in our past.

Again, differentiated, we do these applications in other markets. We have the scale to be able to serve them. So you sort of keep hearing this theme of how we leverage the capability and what differentiates us in different markets or applications that we serve.

Let me talk a little bit about electrification.

There's a new wave of opportunity here associated with electrification. And within our control solutions business, I think many of you know may know that we have an electric -- electrical protection business. That's a business that we've been in again for decades, much like the aircraft circuit breaker business. And we produce over -- close to 1 billion units a year for electrical protection. We are ubiquitous, when it comes to electrical protection. There's -- just everything around you, appliances, lighting, have our Klixon brand electrical protection devices in them.

So as customers evolve to more electrified items, a couple examples I have here, are gas powered yard equipment to electric. For e-bikes versus the manual peddling I guess, e-bikes, there's not an emissions issue there. But people I guess are getting more lazy, so we need more e-bikes. And so there's a growing trend there. e-bikes is the fastest-growing market segment for EVs. And they all have batteries. They have motors. They have chargers that all require some sort of protection and that's an opportunity for Sensata in their electrical protection business, given that we are a leader in that area to be able to bring something to play on that.

It's important to note that, a lot of these are electronically controlled. So you might say, while they might be -- you might be able to control them electronically rather than having a mechanical protection device in them. Many customers are choosing to implement the mechanical/electrical protection as well as the electronic. So there's lots of opportunity here.

A couple of more items. So on the autonomy front. So autonomy doesn't just relate to the light vehicle automotive area. It relates to across a lot of different segments that we serve. Certainly Heavy Vehicle off-road. Certainly in material handling. And so you -- again, in the innovation center that we have over here, you get the opportunity to see a steer-by-wire application, which is something we're working on to develop for our customers, which is really part of the journey for autonomy, right? So it's going to allow remote control associated with the steering of the vehicle.

And so that early journey is in the early stages, taking out weight, it's taking out cost, and we're certainly engaging to help our customers down that journey associated with autonomy. About $100 million opportunity. What do we bring to this? So you'll see, again, from the demo that we have out there, the feel, the [ethic] feel associated with our equipment that we have, given our very strong market position on joysticks and other armrests-type electronic control, as well as the force feedback. So you can imagine in a steering environment, you want to be able to feel when you run into obstacles in the steering apparatus. And so that feedback that's provided will help to make sure that the operator can be more efficient in terms of how they run their equipment.

Let me hit on smart and connected, incredibly promising area for us. This is coming from dialogue we have a way with our OEMs, with our fleet manager customers, with our telematics customers that we're talking with. They all have a desire for more information to help enable insight.

In a wired configuration environment, oftentimes that can be difficult or costly to gain that knowledge. Now you might say that might not be a real new theme. We have really sophisticated fleet managers today doing route optimization and a variety of different telematics-type solutions.

But as customer think about going from a point solution to a broader solution around more efficient fleets, there is an opportunity for us, given our very strong position with wireless sensors, to enable sensor content, but also the concept of a vehicle area network to collect that information and then produce it for the cloud for generating valuable insight.

A lot of dialogue going on here, a lot of really rich opportunity, and more to come on that in the future.

Before I close, I want to hit on innovation, 2 quick points. I think I've touched on these. There's a shift on pressure and temperature in aerospace that's going to require higher temperatures. We're working on capability that will allow for higher temperatures. It's going to create an opportunity, a discontinuity opportunity for us to enter into this market. And we're really excited about the capability that the new technology has been able to produce.

So again, more to come on that, but aircraft is going to be flying more efficient. It's going run hotter. There's going to be a need for this. And that, by the way, as I've mentioned is a $750 million served market opportunity on pressure and temperature for aerospace.

The other one is around presence detection on handgrips. And so, again, if you could imagine you're in an environment where you're an operator of a piece of equipment, you adjust yourself in your seat. You accidentally engage the equipment, potentially causing damage to what you're working on, or worse, you could injure someone that might be working around it.

We're working on a capability that will actually detect if someone has intent to engage the equipment. So you can't just bump it with your elbow. You have to actually have it engaged with your hand, which is a safety feature which our customers want.

So in closing, I just wanted to share -- I hope that you would see that we're certainly committed to these end markets and that we're incredibly confident in the growth prospects, supported by not only market indications, but real engagement and wins with our customers.

We continue to leverage the capabilities that we have. We'll continue to explore other capabilities that we need to develop or acquire to make sure that we continue to grow that opportunity set with our customers. And we'll also continue to focus on investments and resource allocations around the megatrends that will grow our business.

So with that, I thank you for your time, and I'll turn it over to Joshua. And I guess, Martha and Steve are going to join me for our first break on Q&A.

QUESTIONS AND ANSWERS

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

So before we get started, I'd repeat what I said earlier this morning. We have 3 mic runners in the room. If you have a question, please stand up. State your name and your firm, and please try and limit yourself to one question. So with that, we'll open up for Q&A.

Jim Suva - *Citigroup Inc, Research Division - Director*

It's Jim Suva from Citigroup. Martha, you gave some very good insights about your 3-year road map for revenues, EBIT and adjusted earnings outlook, which is greatly appreciated. I believe you mentioned about 90% of that is already committed or booked, on the books. Is that similar to what it's been in the past or has that changed? Or how should we think about that? Because you were also very open in saying the organic growth rates didn't quite materialize looking back, and the details really support it. It looks like -- it seems like the materialization is pretty much booked and very, very confident of what you're communicating.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. Thanks, Jim. I guess I'd level set you in a couple of ways. This is actually the first time we've ever given a 3-year guide for the overall business. And so when we look at that capture rate as well as, again, the assumptions around carryover business, sticky sockets, it's very much in line with what we're used to seeing in the business. But just as a reminder, our businesses tend to be long cycle. So we're being designed in years in advance. I would say if there's been any shift in some of the new vertical markets that we have, some of those cycles are shorter, for example, on the industrial area, in China in particular. Some of those are longer, if you look at aerospace. So that would be the -- any changes from the past would really relate to these new attractive positions that we have in these new vertical markets.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Okay. Next question.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

It's Matt Sheerin with Stifel. A question for Steve. You talked about the organic opportunities, the content in vehicles of both traditional gas-powered vehicles and hybrid electric vehicles, et cetera. Could you frame that up in terms of what the dollar content is today in each of those vehicles and geos and what it might look like in the next 2 to 3 years?

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

Sure, sure. I think the important -- one of the important pieces as you think about electrification is that it will drive increased content over time. Especially in the near term, we'll see that in hybrids and start to -- so as you think about your content of vehicle going up based on hybrids in the near term. And then longer term, we'll see increased growth from that standpoint as well -- from that standpoint. As you think about the clean and efficient and some of the opportunities there, we're seeing growth there as well in terms of the content for growth. And so consistent with the growth rates of the business, you see that content increase per vehicle.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. So sitting today -- you're familiar, we'll talk about where our content is today in the gasoline powertrain engine.

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

So probably low 30s in a gasoline engine today. And as we go towards, for example, as we go to those hybrids, we'll get probably into the mid-30s.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So the one thing you're not going to hear us say today is what's our content on an all-electric vehicle today, and there's really 2 reasons for that. I think there are less than 1 million EVs sold in the total global worldwide fleet. And our content in those and sensor opportunity in those ranges a lot. So the overall content changes every day, depending on what the take rates are. There's a lot of variability. It's a very small part of the overall fleet and of our overall business, so that number doesn't help you a lot. I hope, Matt, what you did hear is when you look at the content opportunity, even on pure EVs as we go forward, it's very much a tailwind to our overall business.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Okay. Next question.

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

Craig Hettenbach with Morgan Stanley. A question for Jeff. If I look at the HVOR market, high single-digit, low single-digit growth, contrast with industrial and aerospace kind of low to mid-single digit. So on the HVOR side, can you just talk about kind of the visibility into that because it is coming off a period of strength. And then on the industrial side, can you talk about the CST kind of repositioning? Is that a timing thing as you kind of reposition the portfolio? And at some point, would you see some stronger growth in industrial?

Jeffrey J. Cote - *Sensata Technologies Holding N.V. - COO and EVP of Sensing Solutions*

Okay. Great. So on the HVOR side, given that it is an end market that has longer design cycles, there's a very large portion of visibility. There's also an element of HVOR that is an element of market growth, which we watch very closely based upon forecasts to make sure that the expected recovery rate of that market is occurring the way that we would expect. And based upon the trend of the recovery that we've seen thus far, the forecasts that we've seen from third parties and the feedback that we've received from our customers which, obviously, is a major input to our understanding of where that market is going, that looks quite promising. So we feel highly confident in the ability to produce the growth rate in the heavy vehicle off-road market in the range that we've talked about. In terms of the industrial side and the integration, if you will, of the CST business, this is -- I'm sure you've heard us talk about this. This is a business that had really strong capabilities, but it was more of a product-focused business. And so we've gone through a transition over the last several years, or almost 2 years, since the acquisition where we pivoted that to product offerings to serve end markets. We believe that's a better way to engage with our customers, to go to them with a suite of offerings as opposed to individual point solutions. And as Martha had mentioned in her comments, we're seeing now the -- not only the leveling, but also starting to see the growth inflection on those customers that we serve, that we -- that came to us as part of the CST business. So a lot more to do, but the results are good. And we're feeling as though the customers are very receptive to the combined business with that market focus.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Question? Shawn?

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

It's Shawn Harrison, Longbow. Josh, don't kill me. These are clarifications. So just 2 questions. Steve, I think you mentioned Europe exhaust market growing mid-single digits. How big is that market for you in terms of just sizing it? And then secondarily, the 50% growth you expect in China auto, how much of that growth is TPMS versus additional functionality coming to the vehicle?

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

Can you repeat the first part of that question?

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

There was a slide up there that said the European engine exhaust market was going to grow 4% to 5% for the next 3 years. Just wondering what the size of that market is for Sensata right now. And then the second question was just on how much of the China growth is TPMS versus other products?

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

Yes. So the Europe engine segment is one segment of the Europe business. I think the European business, in total, I showed was about 40% of auto, of the auto business. And that segment is part of that Europe business. It's a significant part of that European business, a part of that 40% of auto.

And then the second part was around the content per vehicle in China. And so TPMS, I talked about now we've got about $40 million of revenue in place. And we expect that when that regulation fully comes in, we'll get up to about $90 million to $100 million. So there's another growth of $50 million to $60 million of revenue associated with the -- with specifically around TPMS.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So you can clearly see the 50% more growth in the content is more than just TPMS. And all of the applications that we talked about -- Steve talked about the modernization of the fleet, we talked about same of the exact same mandates hitting -- that have hit mature markets, are now hitting in China, so growth deriving from a number of factors in China.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

But just to be very clear, that slide that Steve showed was not the market. That was Sensata's engine and diesel, gas exhaust revenues that we showed in that slide. Next question, Rich?

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Rich Kwas, Wells Fargo Securities. Martha, just 2 quick questions on the organic growth for auto. The mid-single-digit growth rate is well above what you've been running at over the last couple of years. A lot of these dynamics have been in place for a while in terms of emission, fuel efficiency, electrification and autonomy or emerging. But what's really changing in terms of the content growth? Is it market share? I mean, I assume there's some content growth add here with some emergence of some of the new dynamics. But what's happening in terms of the market share and the trends that's driving that mid-single-digit growth rate? And then the second clarification is does the mid-single-digit growth, does that assume -- include price?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So that's all in organic growth, to answer your second question first. If you look back, one of the things I talked about that's been dilutive to overall growth rate at the Sensata level was near-term dilution that we expected, particularly from Schrader. And so we knew that that business was not going to grow. That was going to be a headwind to our growth rate in auto. The largest market position today, and it has been going back to the time of the acquisition, is in North America and is in auto, so that had a dilutive impact on our overall growth rate. I think the second thing I would say is just timing of some of the design-ins. It's not a linear function, so we've seen that impact as well. I think the biggest thing that should give you confidence as we look ahead is that we've secured the wins. And so, you've never heard us talk about a material impact on Sensata because the loss of running business. We are very, very good at maintaining the positions that we have. So with that carryover, the long cycle, and we're giving you the 90%, Rich, I think that ought to give you a lot of conviction.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question.

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

Chris Glynn from Oppenheimer. Martha, you itemized some of the barriers to having strong organic growth the past few years. What I'm wondering is have you guys related to that or otherwise engaged in greater selectivity of positions that you go after that maybe changed your calculus on what win rates you target and where you target them at all? Any color on that?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. Thanks, Chris. Good question. We are really, really focused on our win rates. I would say the backward look has not changed the way we think about the market. We think about our growth opportunities in the market, they brought us a lot of insight and a lot of reflection on understanding those markets. So, you heard Jeff talk about the analytics that we use to really try to make sure we understand, at least on this 3-year outlook, what is the range of variability, what are the leading indicators. And I would say, primarily in the end markets outside automotive where we have had less presence and less of a track record around calling those markets well. So that has been a change in our overall analytics and our approach to the business. I'd say less so around being less selective. We've had high hit ratios throughout the period. The biggest headwinds to our growth you've seen have been from an end-market perspective.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question.

Steven Bryant Fox - *Cross Research LLC - MD*

Steve Fox with Cross Research. So Martha, the -- you described how you've sort of gotten the acquisitions to where you want to over the last 2 years. It's been a fairly deliberate road getting there. And to your credit, you've run a lot of costs through your non-GAAP numbers, but I think there's been a little bit of source of frustration in terms of the pace of getting the integration done. And I'm just curious if you look going forward, as you do other acquisitions, is there anything you would modify to maybe see a little bit more upfront EPS accretion or to realize growth quicker, things that you've learned from these 2 big deals that maybe could make the next deal you do more palpable to shareholders?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. So I would start by reminding everybody, the integration spend that we do is actually in our P&L. So that's -- we call that out. It's very visible. The balance here is around the ultimate ambition in the margins we're trying to deliver, which require integration heavy, and now you combine that with mission-critical. So it's important for us to be deliberate and careful and do the validations, which take -- which do take time. I would say in terms of anything differently about accelerating those, frankly, not a lot. So I think the 2- to 3-year time frame for integration is the right overall time frame. I think continuing to let investor know how we're doing on that, and I think, really importantly, take away the confidence that we can get it done. So, we've always said these are longer integrations. I think we've proven that in what we've done. I don't see a lot of change to that overall 2 to 3 year piece of it. I would say the one observation, we've been able to get to the growth faster than we thought. And so that piece of it, I think providing more visibility would be useful.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Samik?

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Samik, JPMorgan. I just had a question for Steve. Steve, I imagine with the auto OEMs you're already working on vehicles that will be launched 4 to 5 years from now. What are you hearing from them in terms of whether they prefer a pure electric or a hybrid and where the major push is? And how should we think about Sensata's market share across a pure electric and hybrid? Is there any reason to believe that would be different or it will be consistent across both?

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

Sure. As we -- as we're engaged with the OEMs and talk to OEMs, most of what we hear is a real focus on hybrids in the near term and really trying to bring that choice to customers to choose a hybrid vehicle versus a conventional vehicle. We see more around plug-in hybrids, as well as some more of your standard full hybrid, and that's more of the focus. There's also longer term they talk about electric vehicles and bringing in electric vehicles and I think we'll see some of that as well, but more of the near-term focus is around hybrid.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

If you think about it from a share perspective, some of the longer-term offerings that we talked about, these are new innovations. There is no competitive landscape, and we've done that many times in the past. And so we'll start with very, very strong shares over the first several years. We may see some deterioration, but it's in a low single-digit market share deterioration as others try to do what we're doing. And so that is the way we're innovating and focusing.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question, Joe?

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

Joe Giordano from Cowen. I was curious you guys talked about the electric vehicle battery and sensor, in bringing in wireless capability to simplify the housing and the harness and everything. It's interesting, I was curious on how those discussions went with the OEMs. It seems like, theoretically, it can bring in a new area of risk with -- if that connection gets severed, how does that work versus hardwiring. So just curious how those discussions went and how you kind of avoid that new risk?

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

The discussion with customers is going great. They're pretty interested in the technology that we would bring there. They can see the benefit that that would bring and that's what drives the interest for them. Of course, with any automotive program, it's really important to go through the full development of qualification to make sure that there are no risks brought into it, and we're good at doing that. We've got an expertise and capability of doing that. So as we're engaging customers we're also talking about, okay, how do we have to go through these qualification steps on this to prove that this technology will work and develop the technology to make it work in that application. But in terms of the potential benefit that they're seeing, the feedback we've been getting is very positive.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question from the back.

Joseph O'Dea - *Vertical Research Partners, LLC - VP*

It's Joe O'Dea from Vertical. Just a question on what you're looking at for free cash flow conversion. I think it looks like, based on the outlook over the next few years, you're going to something like 90% conversion from where you have been recently -- around 80%.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. I think that's a good discussion. I think it's probably one we ought to let Paul Vasington address after we get through his part of the presentation that will really focus more on overall cash conversion to capital point.

Joseph O'Dea - *Vertical Research Partners, LLC - VP*

Okay. Maybe a separate one then. China, overall, when you think about over the next few years about $500 million of incremental revenue. Just overall, how much is China as a piece of that when we think about the auto side, the HVOR side, the industrial side?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. I think, look, let's look at the pieces that we've given you. You can see how much overall Sensata is going to grow. We said that China is going to be a double-digit grower for the next -- at least low double-digit grower over the next 3 to 5 years. I think those pieces probably will let you put that together.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question, Will?

William Shalom Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Martha, the question is for you. You explained with some detail the 3 factors that you saw as sort of limiting the organic growth relative to what was presented

(technical difficulty)

Analyst Day. It occurs to me that European automotive, that end market

is undergrowing your customers' production rate these last few quarters. First, can you confirm that I'm right on that and can you let us know, do one of the 3 explanations you offered us address that or is there something (technical difficulty) market?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. I guess, my reflection would be I wouldn't take a lot around the relative growth rates in a single quarter or a couple of quarters. So if you look over that time horizon that we talked about, the backward look on the 3 years, we performed very well in Europe. We've had some of the impact of the dilutive impact of growth rate from Schrader in Europe as well, because that ramped up quickly but then leveled off because there's no addition mandate. There's a little bit of headwind on that one, but overall the region has performed very well for us.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question, please.

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

Chris Glynn, Oppenheimer again. As you talked about the 90% of 2020 planned revenue has been secured, I'm just wondering how has that evolved over time, kind of conceptually your ability to do that. I think you've kind of spoken to the answer at least peripherally. But if you were at 3 or 4 years ago today, could you have rolled that up or is that a new way you have to look into your businesses?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes. I think in terms of the business wins, yes. It's been a long-cycle business. We've talked about some new areas of the business where we're learning about new vertical markets. But if we went back in time, I think if you look at the overall business wins, that would have been similar. What would not have been similar would have been our confidence to understand the volatility of those end market. And so that's where we spent quite a bit of time to make sure that we're giving a guide. And you're going to see later on, in Paul's presentation, exactly what we're assuming about those end markets. So, you get visibility to how we're thinking about the thing that is not inside of our control, and so just doing the work around that piece. I would say it's more highly analyzed if I talk about end markets, in particular. So, in terms of our ability to run the business and to deliver earnings growth, even the disappointment on the organic growth, the disappointment to our expectations has not prevented us from having an incredibly robust, very strong earnings in the overall business. So I think we understand the puts and takes on that. It's making sure that we're setting the right expectations for shareholders.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Are there any additional questions from the audience? So, we structured over an hour of Q&A today. As we get to the back half of the day, we're going to get in to some very important rich content for you. In the interim, we're going to have the innovation showcase ready. We're also going to have executives to the left of the innovation showcase in the lobby. So I encourage you, before it gets too busy, to take advantage of that. We ask that you're back in the room at 11:10 sharp so we can begin the next presentation for purposes of the webcast. So with that, we'll start the break and we look forward to the second half of the day. Thank you.

(Break)

PRESENTATION

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Great. Welcome back, everybody. We're excited to start the next section of the day. It's going to start with a presentation from Head of Global Operations, Charlie Kirol. And then we'll go into a final Q&A with all of our speakers. So with that, it's my pleasure to turn it over to Charlie and Paul.

Charles Kirol - *Sensata Technologies Holding N.V. - SVP of Global Operations*

Thanks, Joshua. Good morning, and welcome back from the innovation showcase. I'm Charlie and I lead Global Operations for Sensata. And I'd like to bring back 3 themes that I'm hoping you took away from the first few presentations this morning, and I like to revisit those right now. The first being Sensata has industry-leading margins. Sensata has created significant value from recently acquired businesses. And Sensata is differentiated from both our peers and our competitors.

Global operations within Sensata has been and continues to be a key part of those achievements. And today, I'd like to share with you how global operations drives value for both our customers as well as our shareholders.

The formula for global operational leverage at Sensata is simple. Creating and maintaining a highly variable cost structure allows us to adapt to rapidly changing market demand and customer preferences. Continuous improvement in operations is a part of our culture. You'll find it in every one of our business units and every one of our functions. You can even say it's a part of our DNA. There's a relentless focus on year-over-year cost and quality improvements.

Each year, within the supply chain, we step back and we challenge ourselves and we critically evaluate where we manufacture, the supply chains that support that manufacturing footprint, what our logistic lines look like and our inventory stocking points look like. And the goal there is clearly just to identify opportunities for better delivered cost.

In concert with this, every one of our make sites is keenly focused on how do they improve yield and throughput so we can lower the cost of capital and we could help maintain that financial model that we have with respect to investment and CapEx being a small percentage of net revenue.

At Sensata, scale is not the only thing that differentiates us. It's the flexibility that we put into our manufacturing sites so that we can support our customers with customized products at global scale and at a cost point, which is difficult for our competitors to compete with.

So you could even say that scale in this flexibility are cornerstones of the Sensata operating model. This year, we're poised to ship to our customers 1.3 billion units. And realize we're shipping that to a customer base that has incredibly stringent quality and on-time delivery requirements. And that's on both sides of our business.

You heard Martha say earlier today, and then Jeff reaffirmed that as one of our key strategies, is to leverage that global scale in support of both our HVOR and industrial businesses. Some of these other numbers on this slide give some context to that.

Customers come to Sensata because they have difficult challenges, challenges in sensing and electrical protection, and they look for us to solve those problems. And in solving those problems, we've identified and created unique engineering solutions. And when you take those engineering solutions and you couple them with the 17,000 unique products that we manufacture, we developed a rich library of manufacturing know-how and expertise.

Many companies that have a similar revenue that we do, you could expect them to have a much bigger manufacturing footprint than we do. We have 12 major manufacturing sites all in cost-advantaged areas around the world. And from those manufacturing sites, we're able to develop tremendous operational leverage.

So how is this Sensata operations formula working out? Well, on this slide, you can see that we're poised to increase EBIT -- excuse me, gross margins by 120 basis points. And we're doing that in the face of some of the headwinds that you see on this page. And it's important to note, for Sensata, what makes us a bit unique in our walk to cost of goods, this year we have $130 million worth of increased engineering costs in order to support new customer design wins.

And even in the face of those increased engineering costs, we're going to increase our gross margins. And then we've taken many actions in 2017 to ensure that this trend stays, including shutting down manufacturing operations in Germany, Poland and Tennessee.

In order to deliver this reliable year-over-year margin expansion, you have to get good at it. And one of the ways we get good at it is we have the ability now to actually take a look at what all the productivity ideas are across the company. And the reason why we have to get good at this is because we compete in fiercely competitive environments and our customers are very good at sourcing and procurement. So we have to be able to generate a reliable, detailed and collaborative plan from across the company in order to deliver those type of productivity.

This is -- what this is, right here, is this is just a snapshot of a live dashboard that we have within Sensata in order for us to prioritize our productivity projects. This dashboard, any senior executive at Sensata can press a button on their smart phone and drill in and actually take a look at this. What this allows us to do is actually be proactive, and we're be able to be disciplined in our approach at identifying both opportunities for additional productivity, as well as opportunities for mitigating risk. It's important that you understand how focused we are on driving year-over-year productivity. And I would say one of the things that distinguishes us from others is our ability to actually face enterprising headwinds and actually increase our margins.

So on this slide, I've talked about a highly variable cost structure. And it's important that folks understand that when you take a look at Sensata, approximately 10% to 15% of our cost structure is fixed. Now if you compare us to the JPMorgan Automotive Supplier Peer Index, you'll see that those folks have 30% to 40% of their margins -- 30% to 40% of their cost of goods fixed. Now why is that important? It's important because Sensata doesn't see the decremental margins that these folks see when there's a market downturn. That was true in 2009 when we saw an automotive downturn, and you will also see evidence of that in our 2017 performance as automotive production numbers were significantly lower.

As a matter of fact, Sensata, we're poised to increase our EBIT margins by 110 basis points this year.

The other thing on the right-hand side of the slide that I'd like to point out is not only do we have cost advantages with respect to where we manufacture, we also have labor rate advantages. And they're both on the direct and indirect side of our cost base, and it's not just on the manufacturing shop floor. We have a lot of those ancillary functions that support the manufacturing operations also in those cost-advantaged areas. They include procurement, customer service, material planning, supplier quality. So there's a keen focus within Sensata to generate this labor rate advantage.

In addition to that within the manufacturing side, each one of those manufacturing sites has to develop a level of flexibility, and they do it in 2 ways. One way is they maintain about 15% of their labor force as contingent, so that if there is a change in market demand or customer preference, they can move very quickly. And then also on the shop floor, they drive flexibility in a couple of different ways.

In Changzhou, China, the way they do it is they have a dedicated team of seasoned operators that moves from line to line and covering down whenever there's a shift change, a break or a mealtime. And the reason why they do that is they want those lines running all the time.

Within Mexico, Aguascalientes, our biggest site in Americas, they have a 3 x 3 flexibility model. And what does that mean for them? Every operator has to be trained and highly proficient in 3 critical operations in their manufacturing area or their manufacturing cell. And in addition to that, there needs to be 3 people on that shift that can do exactly the same thing. So these are some of the ways that we're able to generate and maintain this variable cost structure.

Okay. So I've talked to you about labor, I've talked to you about overhead, but clearly, the biggest component of our variable cost structure is material. So there's 2 strategic capabilities within Sensata that allow us to drive material cost reductions on a reliable basis year after year. I'm going to talk about both of them.

Let's start with the one on the left-hand side of the slide here, best cost sourcing. Yes, it's about negotiating the best piece price or a subcomponent piece price. We do that. But on top of that, we layer on freight and duty, inventory holding requirements, what we expect the warranty to be. And we're constantly competing that to get the best value we possibly can for the company.

On the right-hand side of the chart is what's called design-driven cost reductions. And I think this is where Sensata really differentiates itself. Our ability to connect the operations team with the front end as well as our design teams, it allows us to generate a tremendous amount of results from this. So let me tell you what I'm talking about.

Whenever we start a new product development, often our product teams and our design teams have to operate in very compressed time frames in order to deliver projects -- products to our customers. And in doing that, as they go through that process, they know areas where they could potentially take cost out later on.

Those could be a process change. It could be a material substitution. It could, in fact, be a manufacturing process change or reducing the amount of material, or even just the supplier competitive nature bringing 2 suppliers in to compete. All of those ideas wind up in our productivity pipeline as opportunities for benefit in the future.

But that's just the beginning of the life cycle. So as those products start to ramp up in volume, they are looked at several other times in what we call cost-out workshops. And these cost-out workshops are cross-functional dedicated teams that take a look at how this product has been designed and literally, they'll tear it apart and they'll look for opportunities to improve things. And that happens several times throughout this guidance life cycle.

It's important to note that this just doesn't happen on one side of the business. It happens on both on the Performance Sensing as well as the Sensing Solutions side of the business. And this is an area where I really, really think we differentiate ourselves. And I want to share with you an example of where I think we drive world-class performance, and I'll show you a case study.

So what you have here is a design-driven cost savings case study for an Automotive Pressure Transducer, APT. It's one of our core Performance Sensing products and it's mature. So this team not only set out to improve the cost of this product, but they had some other things that they went after too, and let's focus on what they were able to achieve.

They were able to downsize the sense element, which is incredibly important. They were able to put in a higher-performing ASIC. What is an ASIC? It's an application-specific IC. Think of it as the brains of the sensor. They were able to improve the fault detection.

So from a quality perspective, we can contain any type of issues very quickly. And then there was a 23% decrease in the cycle time to calibrate the sensor. So what does that lead to? That leads to better throughput, better asset utilization and a lower cost of capital per unit, incredibly important results.

And then I draw your attention to the pie chart on the bottom. It's important to note that we don't necessarily redesign the whole thing. This is the fourth generation of this product. And we feel like we've achieved excellence along the way in versions 1, 2 and 3.

So it's very important that we leverage that going forward. And in this case, it's not always 50-50. It just happened to be roughly 50-50 in this case. And then as I wrap this one up, it's important to note that the team did in fact achieve their cost savings here. And when you do this across hundreds of millions of products, it's a tremendous amount of value. And like I said before, this is not just for our Performance Sensing or Sensing Solutions, nor is it just for our core products, it happens on the acquired business products as well.

Okay. This is something I'm really proud to share with you. This is an area where I think we have a very strong appetite for change. What do I mean by that? I mentioned, each year, we step back and we critically look at our supply chain and our manufacturing footprint. And what you've noticed, we've done quite a bit of activity over the few years. And the benefits and margin expansion, we're starting to see those.

Each year, when we step back, we apply these 3 filters as we critically ask ourselves how can we find trapped value within our supply chain. But the key is when we find the trapped value, we have an appetite to go get it. And even if it's in multiple places, we'll launch teams to get it in multiple places.

Over the past 2 years, we've completed or we're very near completing 12 major activities, of which we shut down 3 manufacturing sites like I talked about, we moved 21 manufacturing lines and we qualified or requalified over 200 part numbers.

So why is that a big deal? In order to drive this level of change with our customers, again, on both sides of the business, they have very exacting standards around change management, quality requirements, inventory requirements, et cetera, and we have to meet all of those requirements to drive this level of change. I'm incredibly proud of this feat from us. It doesn't stop here though. We're constantly looking for other ways and better things to do, but this is clearly a huge capability for Sensata that I think differentiates us from others.

Okay. I have mentioned low capital intensity, others have as well. Whether you're talking to Martha out in the hallway or you go to one of our manufacturing sites and you talk to one of my line leaders, every one of us is focused on how do we get more out of the assets and the investments we've already made.

So it's annual throughput and yield improvements, how do we reduce that cost of capital, how do we maintain the financial model that Paul has us onwards 4% to 5% capital investment as a percent of net revenue? it's incredibly important.

So I listed off here on the slide, some of the tools we use in ops. It's a day-to-day event. Every single shop floor leader, every single manufacturing site has a yield and throughput improvement road map. It's part of what they do. It's part of our productivity pipeline. And it doesn't end in '18, it continues on in '19, '20, et cetera.

So as I got close to the conclusion of my side of this presentation, I mentioned before that acquiring businesses and extracting value from them is a core competency. And I wanted to share with you, from an operations perspective, what we've done. So I've pulled up this case study on Schrader or TPMS and I -- there's many levers, but I thought these 3 would be particularly interesting to you.

So the first one, best-cost production. When we met Schrader, they had a manufacturing footprint which include Northern Ireland, Springfield, Tennessee, and a very strong desire to have manufacturing in Asia to support growing Chinese demand. We were very quick to copy the most advanced line that they had in Northern Ireland and paste that in Changzhou, China. And we pasted it in Changzhou, China for 2 reasons. The first reason is its close proximity to our engineering and technical center, which is staffed with 300 outstanding engineers. And number two, that site in particular, has demonstrated, year-over-year, an insatiable appetite for throughput and yield improvements.

This year, in 2017, I mentioned we shut down manufacturing in Springfield, Tennessee. We moved those line to Aguascalientes, Mexico. Those lines are ramping as we speak today. Why is that important? Well, clearly, we're going to get the benefit of those overhead rates and that absorption in those big factories, but we're also going to get that labor arbitrage value, so best-cost production at work right here.

Let's go back to Changzhou for a minute. So through a series of Kaizen or on the shop floor improvement activities, that team was able to improve the throughput of that Chinese line by 21%. In addition to that, they were able to improve the yield beyond what was being achieved before by 0.5%. You cascade those values across hundreds of thousand, millions of units and it's real value.

And then finally, on this slide -- on the bottom of this slide, we have a pretty good procurement sourcing team too. I know them pretty well. And as soon as they have the opportunity to take a look at this finished good and get in there, they were very quickly able to use both localization as well as introducing second sources for competition to drive significant material cost reductions at the subcomponent level. They've done a super job. But are we done? We're not done. We're not done.

There's a continuous year-over-year effort to do these type of activities. There's more to do here, and we're not going to stop here. In 2018, you'll see this as a common theme for us.

So as I wrap up here, there's a couple key messages that I really would appreciate you walk away with. First, the global operations team within Sensata is integrated, and it helps differentiate us from our peers and our competitors. Number two, the focus that we have on continuous improvement, both in quality and cost, allows us to expand margins in our core portfolio. In addition to that, this operating model we have is highly successful when we acquire a new business. Thank you very much for listening.

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

There's one thing I've got to clarify. Listen, Charlie. I think Charlie said that we're going to increase our engineering cost to $130 million, I assure you that's not the case. What I think he meant to say that the $130 million of engineering cost is in our cost of revenue, that is there to support new product launches and clearly around our engineering operations. So I just wanted to make that point of clarity.

So you've heard Martha, Jeff, Steve, Charlie talk about all the great things we're doing in Sensata to drive great value for shareholders. I'm going to wrap all that up today, and I'm going to cover this in 3 sections. The first section is I'm going to talk about is why Sensata is a compelling investment. The second is going to be the financial outlook, and I'm sure all of you would just like me to accelerate to that point of the presentation, but you have to bear with me. And the third part is going to be around capital deployment. And then we'll have Q&A. And I'll ask Martha to come back to wrap up, and then we'll do Q&A.

So the first thing that I want to convey to you, that I firmly believe -- we firmly believe as a the management team that if we consistently deliver mid-single-digit revenue growth, double-digit earnings growth, expanding margins and highly effective capital deployment, we create a compelling argument for significant value creation. And that's what we're -- that's our objective. That's what we're attempting and driving in the business today.

So as I look at 2018 and beyond in the next 3 years, we are well positioned to do those things. We're well positioned to drive our margins up. We're well positioned to deliver double-digit earnings growth. We're well positioned to grow. And you heard the compelling stories from Steve and Jeff and how we're going to do that. And we're also with significant free cash flow, in a great position to deploy capital in a way that optimizes value for shareholders.

From the first part here, I just want to talk about some of the proof points of why I think Sensata is a compelling investment. So we are an industry leader. We have significant global scale, a highly efficient operation, a strong balance sheet and great people. We have industry-leading margins and significant cash generation and there's room for that to expand. We have delivered 10% EPS growth over the last 5 years, and we believe that trend will continue over the next 3.

We can grow above our markets in many of the markets that we serve, and we have done a good job in deploying capital of high-return acquisitions. And Martha showed 2 important proof points around Schrader with 20% internal rate return; and CST, which is still in integration, now at the 13% to 15% that we thought it would be doing when we acquired the business back in 2015.

So another proof point of why I think we're a compelling investment is that we have a very balanced portfolio. Our revenue is well balanced in both end market and also in geography. So 60% of our business is automotive. And within that, 19% is North America. 40% of our business is in heavy vehicle and off-road, industrial and aerospace, so really well balanced.

It's also balanced well in terms of geographies, with 58% of our business outside the Americas. And then when you think about Europe and Asia, pretty well balanced. And Asia being our fastest growing region. So a balanced portfolio that helps drive consistent revenue growth for the company.

The other proof point is the fact that we have very high margins, and our margins continue to grow. And they continue to grow from all the work that Charlie and his team are doing to drive costs out of the business. We're capturing the synergies from the acquisition as we integrate them, and we also generate significant operating leverage on our cost base. All these things are driving significant margin expansion in an already highly -- margin profile business.

Another proof point here is that 2017, we're going to grow organic earnings per share double digits. And this will be the third straight year that we've accomplished that feat, despite the fact that we had very low organic revenue growth during this time period. So again, it shows the earnings potential that Sensata can bring.

Another proof point in why we're a compelling investment, we've leveraged our balance sheet, our very strong balance sheet to invest in high-return acquisitions. So again, going back to 20% returns on Schrader. When we acquired CST back in the end of 2015, we levered up. Since that time, we have been deleveraging. We've been using our strong cash flow to drive our leverage ratio down 1.3x to 3.3x at the end of September 2017. And we'll be at about 3x when we close out the year.

And in that time, we've continued to maintain a strong credit rating. So as a BB credit rated company from S&P, that has enabled us to have very good access to debt capital markets at very attractive pricing. And recently, we repriced our $900 million term loan at LIBOR plus 175 basis points, one of the best deals you can see in the market for many, many years. We continue to be able to access the markets we want at the cost level that we think we deserve, and that's helping to fuel the future capital allocation strategy that we have.

So we think our performance has been very strong, but what we wanted to do is we wanted to make sure we were benchmarking ourselves against an appropriate group of companies. And so in 2017, with Josh's help, we developed a new peer group and we selected a number of high-performing companies in industries that were very similar to Sensata. So together, it was a good comparison for Sensata in terms of its financial performance and as a value creation opportunity.

So as you can see on the screen, this is our new peer group. And the question is, well, how are we performing against that peer group. So if you look at 2017, our results stack up pretty well. As it relates to our EBIT margins, we're above the peer median.

If you look to how much our margins have expanded, we've expanded our either margins faster than the peer median. And if you look to the lower left, adjusted EPS growth, it's pretty much in line with the peer median. So the performance has been strong, but we haven't yet seen it in the valuation. And so we continue to trade below that peer median on a PE basis.

So I wanted to just cover broadly where is the growth coming from, and I'm just recapping a lot of what Steve and Jeff talked about. But you can see that our growth is going to cut across all the major markets for Sensata. And I'm not going to get into the specifics, but the things that are really important, I just want to reiterate: 90%, as Martha said, of our 2020 revenue, estimated revenue is secured; that our HVOR business is now our fastest-growing business; that most of the growth that we're going to see in the next 3 years is going to come from content. So the market, and I [think they're] dying, I know, to hear this because they were after me in the hallway, our market is probably going to grow 1% to 1.5%, and the rest of that is going to come from content.

The other thing that's helping is China as -- there's a couple of proof points that were made clear in Steve and Jeff's presentation. Is it going to be a significant growth market for Sensata? We've talked about content per vehicle. In the past, the vehicle market is going 50%. We've talked about how regulation will help the truck market in China grow significantly. So a significant growth opportunity and growth driver for Sensata over the next 3 years and beyond.

So this slide, we wanted to show because we wanted to provide transparency and how we thought about content growth. This is constantly coming up, what's your content growth, what part of your businesses grow with content, which don't.

So in our analysis of the portfolio, of the business we have, about 70% of the business sustainably outgrow the end market that it serve, and about 30% grows in line with the market. So again, this is just information to help be more transparent about where you can expect our growth to come from and how much of that business should be growing more than the markets that they're serving today.

So I'm going to take a second here, just a sip of water, make you guys all wait a little. For the financial outlook, this is going to be comprised of us providing you with a 3-year outlook, what you've seen a little bit from Martha, but also 2018. So it's very helpful to give you that information. I knew you're going to ask for it anyway, so we figured we might as well give it to you.

And so if we move into the financial outlook section, first thing I want to do is confirm our guidance for 2017, which is the baseline of our 3-year plan going forward. And so at the midpoint of our guidance range, we're confirming that organic revenue will grow 3.5%, EBIT margins will expand 110 basis points, adjusted EPS will grow -- organic will grow 10% and free cash flow still is in the $400 million to $425 million free cash flow range for 2017.

2018 looks better. Our growth will be better. So we're now targeting about 4% organic revenue growth in 2018 at the midpoint of the guide. And I will say in the appendix, there will be -- there's a slide that provides the guidance range so you'll be able to see the range that these midpoints reflect.

So we'll have another year of great margin expansion, our operating margins, our EBIT margins. So another 110 basis points of margin expansion coming from the continued effort of the ops team to continue to drive cost out of the business and realizing more synergies, which I'll share with you in a minute, and also the lower integration spend year-over-year. And our adjusted organic EPS growth will be 11% in 2018.

And our free cash flow goes up significantly to $533 million at the midpoint of the guidance. So a significant increase in free cash flow, which will continue to fuel our capital deployment approach.

One thing I -- it comes up in every earnings call and is important in terms of the earnings performance of Sensata is foreign exchange and how that impacts our financials. And in the last 2 years -- last 3 years, we've had a $0.30 headwind from foreign exchange rates. So going into 2018, the trend is reversing. And so for 2013 (sic) [2018], foreign exchange rates and the favorable movements on this rates would drive a $36 million increase in revenue year-over-year, so that's incremental, $18 million of incremental EBIT and $0.08 to $0.12 of incremental EPS.

So the first row are, obviously, ranges. Again, you can derive those from the appendix slides. We wanted to give the range of EPS that we are expecting.

And a few things I have to bring up that is important and everyone needs to understand. So Sensata is a U.S. dollar functional company globally. So what does that mean? That means all the currency movements are running through the P&L. It means that every time we do a transaction and the currency is not U.S. dollars, that transaction and that foreign currency is being remeasured into dollars at that prevailing rate at that moment.

So all the gains and losses from currency are flowing through the P&L, and that creates volatility or potential volatility. So what do we do mitigate that? We hedge. And we hedge our major currencies, the ones that we're long and short. Long being net inflows. Short being net outflows. We hedge those every month on a rolling basis over an 18- to 24-month period, to smooth out the volatility that, that remeasuring process creates.

The other thing that's very important is that we enter -- when we enter the next fiscal year by January 1, we want to be 80% and 90% hedged on our major currencies. And those major currencies are the euro, the Chinese renminbi, the Korean won. And we're long those currencies, which means they're net inflows to Sensata. And we're short, the peso and the pound. And our largest currency exposure is the euro, and it's a $400 million annual net inflow, okay.

Now in the -- we put a slide in the appendix that helps you look at, by currency, how much the exposure is, what's the average rate that we're are exposed to. Now some people say, well, "God, Sensata is forecasting $1.13 to euro. That's crazy. I mean, recently, $1.18, $1.19." That's because we've been hedging for a long time and building up that position.

So we're -- of that $400 million, 90% is locked in at $1.13. So what we're exposed to is the remaining 10%, so we move with the market. So that's important to understand when you think of that. We also will provide where that impacts us in the P&L. So where does the euro hedge end up? It's in revenue. And also, the EPS impact by each one of those currencies.

Hopefully, this is useful information. I know I get a lot of questions. We're trying to be transparent. We're trying to share with you as much as we can to help you understand how currency impacts our financials.

Okay. So now we're looking at the 3-year outlook. Martha shared a bunch of this in -- most of this in her section of the presentation. So again, a combination of strong revenue growth, margin expansion, EPS growth. 4% to 6% revenue growth on a compound annual growth rate based over the next 3 years. 250 basis points of EBIT margin expansion, bringing us to 25.3% EBIT margin, so a really strong -- really, really strong margin profile. And our organic EPS growth of 10% to 13%. And a little bit better when you include the foreign currency impact, foreign currency tailwind that we're going to expect for the next 3 years. And just for clarity, we -- in this guide, there's only the 1 year of EPS benefit from currency. We just assumed the rates would stay consistent from there forward, just to make it simple because we're only 25% to 30% hedged for '19, so it'd be difficult to try though. You can make an assumption but it's not going to be -- unlikely that will be the outcome.

Okay. So where is the growth coming from? What I'm trying to display here is of the key drivers of growth where is it coming from and then provide some key assumptions. The content, what we're doing as a business, the underlying trends, the secular trends that we're going after covered in Steve and Jeff's sections, I don't want to repeat that. But what's important here is that volume is the biggest driver of our growth over the next 3 years. And of that volume 5% to 6% is content growth, coming from that 70% that I showed you in that pie chart. But that's the total company content growing 5% to 6%.

Price. Every year, we have price down, runs at around 1.5% to 2%, so this is consistent, pretty well understood. We understand what we're doing with our customers in terms of contracting with the productivity prudence need to be there.

So in terms of the market, I said 1% to 1.5%. That's about what we think the total global market will contribute for Sensata in total. For the automotive market, we're assuming that there is no growth over the next 3 years. And what's underpinning that also is an assumption around the European diesel production share being 39%, I think we shared in Steve's presentation so reiterating that here. And that our HVOR market, the production demand growth over the next 3 years is going to be about 3%. Those are the 2 big markets and so from there we kind of derive what the rest will probably be on. And again, 90% of the $3.9 billion, 90% of that is secured. Based on carryover business and what we've already won, and expect to service over the next 3 years.

Okay. So here, I want to just again highlight the improvement in EBITDA margins that we expect over the next 3 years. And again, 250 basis points and where is that coming from? Again, it's the lower integration spend, it's capturing higher synergies, it's the operational improvements that Charlie's supply chain organization is driving everything today. And it's the operating leverage that we have and the cost base that we have today. And that margin's proven to drive significant higher income, which is fueling our free cash flow that's fueling our capital deployment strategy.

I want to come back to synergies. We started -- when we acquired CST and Schrader, we were expecting to generate around $35 million of synergies for those 2 transactions. As of the end of 2017, we're already there, already realized $35 million. Based on the integration plans that are substantially complete at this point, we see another $20 million of synergies to be realized in both of those acquisitions.

You can see in the bar chart with $35 million through '17, another $12 million in '18 and that's driving some of that EBIT margin expansion, another $8 million in 2019, and of that $20 million, I would say 2/3 is related to CST. Even if they still have more integration work to do and the balance will be realized a little bit later.

And then the last thing I just want to comment on is that next year, we expect another $5 million of integration expense to pretty much close out all of this work. So we have $19 million in 2017, $5 million in

(technical difficulty)

and so an improvement of $14 million if you're thinking about the year-over-year financial growth. I'll pause there just for a second. You guys all absorb that, take it in.

Okay. So let's take a look at where does the EPS growth coming from. So we built a bridge, how to explain, where the primary growth drivers are for earnings per share over the next 3 years and then some comments about -- some assumptions that underpin this projection. So again, the biggest driver of our earnings per share growth over the next 3 years is going to be the volume growth, that 4% to 6% organic top line growth that's going to convert the significant volume growth.

It's going to be the net productivity gains, our ability to drive cost out of the business and the operating leverage that we have can more than offset price headwinds that have been consistently impacting the business in that 1.5% to 2%. It's the lower integration cost and it's the higher synergies so those are the big drivers. And also I want to highlight that we expect to have a significant amount of growth investment in over the next 3 years. And that growth investment is the investment needed to continue to support the new product design wins that we have. With the [launchpad], we continue to design those and get those into the market, as well as investment necessary to intersect the emerging trends of electrification in a smart connected world. So all the great work that we're doing, we're going to build investments that we think is necessary to be able to deliver that and that's in this P&L in these results.

A couple of other things. We talked about the share count being flat. There's no new M&A activity in these projections. We have about 10 questions on the tax rate between -- in the last hour. This -- I will just -- maybe I'll just short-circuit this a bit. In this projection, we're assuming our cash tax rate to grow 50 basis points a year over the next 3 years. Under what's being proposed in the U.S., this outcome would be the same.

So largely, our tax -- cash tax rate over the next 3 years is not going to change given what's being proposed by the House or the Senate as it relates to tax reform. And in the long term, a 20% tax rate in the U.S. is more beneficial than -- is, obviously, significantly beneficial than the 35% that was under the current law but that 50% difference is -- will ultimately be more valuable than any of the changes that are occurring in terms of the deductibility or any of the other nuances that are in the tax code that would eliminate some of the benefits that we enjoyed in the past. So net-net, it's a benefit for some solid cash tax position over the long haul. So there'll be more questions about that.

Talked about the investment for growth and then also this plan ultimately by 2020 gets us into the low end of the range of our long-term adjusted net income target of 20% to 23% by 2020.

Okay. So the next hot topic here would be capital deployment. Lots of questions, it's got a little cash flow, what are you going to do? And I think Martha covered it very well in her section. So largely, this will be the same. It first starts with significant free cash flow. And so over -- in the last 3 years, we generated $1.2 billion of free cash flow and that cash flow available for distribution to shareholders, to buying businesses because we've already invested for growth in the business. So this is after we've invested for growth in the business. So over the last 3 years, we generated $1.2 billion. It's increasing as a percentage of revenue. We're being more efficient with how we're deploying -- generating free cash flow.

And then if you look to the next 3 years, we go from $1.2 billion to $1.8 billion. There was a question, what's the conversion rate? Well, the conversion rate here is between 85% and 90%, in any of the 3 given years so check that question off. What's driving the better cash flow? It's the higher income, higher operating income, it's improved working capital management and that's because the integration themselves required us to build a lot of buffer stock to transition from the existing sites to new sites. So we had to build inventory to enable that to happen. As we get done with all of that, our working capital will decline. So that buffer stock won't be needed and we will be running at a more normalized working capital levels.

We're going to maintain that attractive tax position. Like I said, even the new tax reform isn't going to change the outlook for the next 3 years and long term, it's actually a net benefit for Sensata. And as Charlie said, capital intensity will be 4% to 5% of our net revenue deployed to CapEx to grow the business. So that's the range.

The next thing that we need to do after generating all that great cash flow is we need to be able to position that we can distribute capital to shareholders or in a more flexible, cost-effective way and so redomiciling to the U.K. enables that to happen. It allows us to scale up. It allow -- it provides tax-free benefits that are more favorable than they were between the U.S. and Netherlands now with the U.S. and the U.K., it provides some administrative efficiencies and it's generally a friendlier corporate governance of ours. And it's an important next step to give with the capability to scale based on the options that we want to use in terms of how we deploy our capital.

So we are going to have a balanced and disciplined returns approach to deploying capital, and Martha covered it. Three key things for us. We're going to be delivering that $1.8 billion of free cash flow, maintaining a very healthy balance sheet because I still want to be able to have access to the debt capital markets. I want to be able to go out and borrow money at a very cheap rate. So I want to make sure that I have access to the level of capital funding and capital structure that I need. I'm never really left with options. And what are the options? The options are going to be most likely M&A or share repurchase. And for M&A, we expect M&A to deliver the highest rate of return. It's got the highest risk but we have a proven track record of doing that.

It's also going to be slightly different M&A in terms of what we see in the last couple of deals where we think it's -- again, as Martha talked about, bolt-on acquisitions that are likely smaller in size than CST and Schrader. So that then leaves us with a lot of additional capital to deploy and based on what time is the market, share repurchase could actually provide superior returns to M&A and so we'll consider that and we want to have that optionality to make the best choice based on the situation we're in, that's going to drive the greatest return for all of you.

A return on invested capital is probably important to Sensata, as well as any of the other financial metrics that we drive. And return on invested capital is part of management's incentive program, make sure that we're investing wisely. And over the last couple of years, our return of invested capital has declined and that is driven by the fact that we spent $2 billion to acquire CST and Schrader. And as we went through that -- these are businesses with lower-margin profile than the company that was acquiring them. Now as those earnings are coming up and those margins are improving, you're starting to see an expansion of our returns, that's the capital metrics. And so when we get out to 2020, we're at about 13.5%.

And so -- and this doesn't -- this plan doesn't assume a lot that we're going to do with that $1.8 billion so there's really a lot of opportunity to drive this up based on the decisions that we make.

So I guess 3.5 minutes left here. I'm going to wrap up. So Sensata, is a very attractive investment. I think again, repeating our ability to deliver consistent revenue growth mid-single digits, double-digit EPS growth to expand our already very high margins, leading margins, deploy capital in a very effective way. So it's compelling item for value creation. And this plan with the metrics here that I'm showing around that 4% to 6% growth, 250 basis points margin expansions, 11% organic EPS growth, significant free cash flow deployed very, very effectively can create significant value for everyone -- for every shareholder here today.

So I'm going to wrap it, hand it back to Martha. So thank you very much for your attendance and your interest and time.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So end of our prepared remarks. A lot of material. You folks have been really engaged and we appreciate that. There's a lot to work through here. We'll have a little more time for Q&A. Just want to leave you with a few parting thoughts before we get into the Q&A.

Sensata is a leader in an area that is really important to the world. So we are operating in an opportunity-rich environment and we know how to take advantage of that opportunity. We are accelerating our growth, and that growth is in hand and that's due to the fact that we've made important new investments, and we're operating in a world that is influenced by some important megatrends.

You've heard a lot about the overall cash generation that we've already delivered and that we're going to continue to deliver. We are highly committed to deploying capital for our shareholders to create high returns.

It's a good time at Sensata. One of the things that we talk about inside the company is the notion of one Sensata. And what we mean by that is the power of a highly connected, high-performing team focused on a single compelling mission. Given where we sit in the marketplace, given our ability to create value and the opportunities we have in the long term, that mission has never been more compelling than it is today.

So thanks for listening. I think at this point, we're going to turn it over to some Q&A.

QUESTIONS AND ANSWERS

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Okay. We have a half hour of Q&A scheduled. And so we'll start with Rich, please?

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

On the content growth, so when we look at that, how much would you estimate will come from CST and Schrader in terms of technology, deploying the technology? How do we think about that? What's augmented that? It's pretty clear, margins are up on the cost side, just (inaudible).

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

So I'm going to be really straightforward with the answer here, Rich. One of the things I talked about is that we are really heavy integrators. And so we're at the point now where we see capabilities that have come from those businesses. And we don't run them as stand-alone businesses, let's start there. So they're highly integrated. We've got the capabilities now seeping across businesses, different regions, different applications. It isn't something that we're tracking in terms of content growth from those core technologies. And in some cases, we're not even including those in the way we look at the overall returns on investment. So a very difficult question to ask -- to answer. Some of the big things that are quite related to the acquisitions we've already talked about were the catalyst for growth in heavy vehicle and off-road. And Jeff actually showed you what that opportunity looks like in the 3-year horizon. We're seeing the growth in tire pressure sensing in China and Steve shared with you the fact that we think that that's in the 3-year at $90 million. We've got $40 million in our run rate today. Some other areas inside of CST, for example, we've got that growing, we're staying close to the company's overall targeted growth rates. So that ought to give you a sense for how those -- that part of the business is doing.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question?

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

It's Shawn Harrison, Longbow, again. Paul, you mentioned that you've got safety stock because of the M&A integration. How much trapped cash is in inventory right now? And kind of what is the normalized inventory turns number as you look out 2 years because $150 million increase in free cash flow year-over-year is a big number. So what frees up in 2018? And maybe over the next 2 years beyond that?

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

So maybe a lot more income in '18. But there's still probably $25 million -- $20 million, $25 million that's hung up in transitioning from, whether it's the CST side, sort of the Schrader side, that is in the buffer, that will get worked over the next year. I think that's a good question. I think what we're pushing back towards is something in the mid-60s, may be low 60s but it's going to take some time to get back to that.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question, Samik?

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Samik, JPMorgan. You mentioned bolt-on M&A as one of the sort of near-term opportunities. Just wondering when we look at the megatrends within the automotive sector, how should we think about bolt-on M&A as to which megatrend you would be more sort of looking for opportunities, which megatrend do you want to align yourselves to?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes, look I'll say, we talked about 4 or actually talked about 5 across the landscape that ones that are more near term are around this clean and efficient and electrification piece. If you look at the M&A pipeline, it's not categorized by the megatrends; it's really categorized by what's the growth that we see in those targets and how does that augment our overall market position in the verticals. And so it isn't really categorized that way. I would say more of that pipeline is biased ex auto. And so this notion of us diluting the auto exposure will probably continue over the next few years, just given that the organic growth rates of both businesses now are at pretty much at parity. And so the swing factor then is really the activity in the M&A pipeline. And we see things there that relate to all of the trends that we talked about.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question. Yes?

Jim Suva - *Citigroup Inc, Research Division - Director*

It's Jim Suva here from Citigroup. Probably a question for Paul. While I'm actually a licensed CPA, it's been a long time since I did heavy financials like you. Can you help us a little bit understand the dynamics about the reincorporation? If I understand correctly, there's a penalty when you buy back stock in the Netherlands and this kind of opens it up to buy back stock. Am I correct with that? And are you basically kind of signaling to us down the road that a more aggressive stock buyback will likely be in the works? And then my second follow-up is on your peer comp that you gave for the valuations. It is worth noting many of them also do pay a dividend, yes -- yet Sensata does not. And many of them are also very acquisitive for their use of capital. How should we think about you and Martha balancing those dynamics?

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

Okay. So I will take the first one. In the Netherlands, the distribution of capital to shareholders, generally speaking, has a withholding tax of 15%. It's well understood, something we had established early on when Sensata went public. So that tax is a shareholder tax and it's the company's responsibility to distribute that tax to the government. Now the exception to that is when you're buying in shares to fund your employee incentive awards. To date, we've never had that issue because we've been buying in shares that support the dilutive impact. And employee awards has not been an issue. But in terms of scaling up beyond that, there would be a tax cost and you do not have that tax cost in U.K. And so it just -- it makes the playing field different and it makes it easier to scale up your distribution back to shareholders in the form of a share repurchase when you're in the U.K. versus what would have been if you were in the Netherlands.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

And just a reminder, that process is not complete, so it does require a special meeting, a shareholder vote, which requires a 2/3 of votes for us to exceed. We're very confident that that's going to happen. We're working with the SEC right now, who's reviewing our S-4 but that process has to complete.

And let's make sure we'll just try to deal with the balance of that particular question. I think there was a question about, does that mean you're going to start buying back shares. That's the way I heard that. So, the one thing I would really hope that you will take away from what you heard and we'll say it again as clearly as we can. We think the optionality in capital deployment is very, very important. The project for us to redomicile was almost a year-long project, and it was intensive, and it was with some costs as well. And we did that because that's how committed we are to get to optionality. We did not do that because there was a point in time where we had to buyback our shares. And so this is an important point and making sure we have the structure that, over the long run, allows us to look at on an ongoing basis what is the best way for us to create returns for our shareholders. We expect with that balance that over time, you're going to see some share repurchases. I think the question about dividends, Jim, when we look at the range of options, we think that, that's the one that's the least efficient for our shareholders so that's a very distant third for us.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Okay. Next question, Joe?

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

Joe Giordano from Cowen. One for Martha, one for Paul. Martha, can you talk about -- a little bit about the trends in the industrial side with some of your, I guess, customers now assumingly buying a lot of sensing capabilities themselves, either at the automation players or the equipment manufacturers themselves. So now maybe, are you competing against some of your customers in certain applications there? And Paul on tax, sorry, I keep bringing these up but wasn't it a 50 basis point kind of annual increase the expectation just before tax reform became a thing? I get -- I fully get the 20% long term being better than 35% but with maybe losing some interest deductibility and losing the ability to grow the NOL in the U.S. each year, is that -- why isn't it more of a burden near term?

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

Yes, so let me start with the first one and I'm actually going to turn it over to Jeff because he sees the competition and he knows the customers in that business very, very well. In general, the trend has been towards less vertical integration with our customers, and that has a lot to do what they're having to deal with, when you think about some of the megatrends. And you think about the new levels of integration and systems that they have to offer. I think I shared during the break, one of our customers was sharing that they're now hiring 15 software engineers for any one hardware engineer. So we actually see that going the opposite way. You can probably bring some more color to that, Jeff?

Jeffrey J. Cote - *Sensata Technologies Holding N.V. - COO and EVP of Sensing Solutions*

Yes, I think that the key here is that our customers will invest in things that they feel they need to invest in to further their agenda. If they can get viable sources and partners to work with them to enable what their agenda is, then they'll certainly engage. And I think that the material that Steve and I both went through in terms of the customer engagement that we have across those megatrends, I think should be evidence that they're seeing us as a potential, really credible sustainable partner to work with on these areas. And we're engaging with them to understand what areas are most important for us to be investing and to allow that partnership to continue to flourish.

Martha N. Sullivan - *Sensata Technologies Holding N.V. - CEO, President and Executive Director*

I'll just go back to Jeff's slide where he was showing the concentration in some of those end markets. I think it's pretty fair to say that we're not competing with our customers in any of those end markets with any of those large customers.

Paul S. Vasington - *Sensata Technologies Holding N.V. - CFO, CAO and EVP*

So on taxes, the simple answer is we have $1 billion of tax benefit, tax assets, tax benefits that we can use to offset taxable income in the U.S. That's where we are today. The question is how much of the new tax reform eats into that? And today, based on our review of both the House and the Senate proposals, we believe we can use -- still use quite a bit of that $1 billion to offset income and so for the next 3 or 4 years, nothing much will change. Where things will change will be in the year 5 through 7 or 8, where our tax rate may go up from where the normal trajectory would have been. But longer term, over a 10 or 12-year period, Sensata's cash tax rate will be lower, likely lower than what would have been originally because of that 20% tax rate. So net-net, it's going to be a positive for us in the long term. We're not -- we shouldn't see much of an issue in the next 3 or 4. It's just going to be in that interim period where the rate may go up a bit, more than we would have normally expected, okay?

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question.

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

Chris Glynn, Oppenheimer. Just a question on LiDAR. I think it doesn't really factor into your 2020 plan outlook. But just wondering how you're thinking currently about the visibility and time line to secured commercial wins, however you want to frame that?

Steven Beringhause - *Sensata Technologies Holding N.V. - CTO and EVP of Performance Sensing*

As I talked about, we're engaged with customers today and sampling and demoing with customers and showing our capability to work with them our requirements, but there are deep engagements with customers today that will develop over time. We think revenue will be beyond 2020, and it's a little hard to see exactly where that will come in as there are other pieces that need to come together around autonomy, but it is further out. It's more of a longer-term growth driver for us.

Joshua S. Young - *Sensata Technologies Holding N.V. - VP of IR*

Next question? Okay. I don't see any additional questions at this time from the audience. You will have another hour of the innovation showcase, as well as lunch. We really appreciate all the time that you've invested to come to listen to us speak today. This will conclude the formal webcast portion of the event. Thank you, again, for coming to our Investor Day. Looking forward to talking to you in the future.