Sensata Technologies Holding N.V.
Form 10-Q
October 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-34652

SENSATA TECHNOLOGIES HOLDING N.V.
(Exact Name of Registrant as Specified in Its Charter)

THE NETHERLANDS (State or other jurisdiction of incorporation or organization)	98-0641254 (I.R.S. Employer Identification No.)
Kolthofsingel 8, 7602 EM Almelo The Netherlands	31-546-879-555
(Address of Principal Executive Offices, including Zip Code)	(Registrant’s Telephone Number, Including Area Code)

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No ý
As of October 14, 2016, 170,860,233 ordinary shares were outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.
SENSATA TECHNOLOGIES HOLDING N.V.
Condensed Consolidated Balance Sheets
(In thousands, except per share amounts)
(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 299,887	$ 342,263
Accounts receivable, net of allowances of $11,256 and $9,535 as of September 30, 2016 and December 31, 2015, respectively	532,571	467,567
Inventories	372,968	358,701
Prepaid expenses and other current assets	90,901	109,392
Total current assets	1,296,327	1,277,923
Property, plant and equipment, net	722,429	694,155
Goodwill	3,008,894	3,019,743
Other intangible assets, net of accumulated amortization of $1,564,503 and $1,412,931 as of September 30, 2016 and December 31, 2015, respectively	1,118,861	1,262,572
Deferred income tax assets	34,102	26,417
Other assets	70,380	18,100
Total assets	$ 6,250,993	$ 6,298,910
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, capital lease and other financing obligations	$ 14,475	$ 300,439
Accounts payable	324,273	290,779
Income taxes payable	17,566	21,968
Accrued expenses and other current liabilities	265,631	251,989
Total current liabilities	621,945	865,175
Deferred income tax liabilities	410,019	390,490
Pension and other post-retirement benefit obligations	34,518	34,314
Capital lease and other financing obligations, less current portion	33,255	36,219
Long-term debt, net of discount and deferred financing costs, less current portion	3,262,409	3,264,333
Other long-term liabilities	34,610	39,803
Total liabilities	4,396,756	4,630,334
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ordinary shares, €0.01 nominal value per share, 400,000 shares authorized; 178,437 shares issued as of September 30, 2016 and December 31, 2015	2,289	2,289
Treasury shares, at cost, 7,577 and 8,038 shares as of September 30, 2016 and December 31, 2015, respectively	(307,272)	(324,994)
Additional paid-in capital	1,639,303	1,626,024
Retained earnings	570,626	391,247
Accumulated other comprehensive loss	(50,709)	(25,990)
Total shareholders' equity	1,854,237	1,668,576
Total liabilities and shareholders' equity	$ 6,250,993	$ 6,298,910

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SENSATA TECHNOLOGIES HOLDING N.V.
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net revenue	$ 789,798	$ 727,360	$ 2,413,892	$ 2,248,490
Operating costs and expenses:				
Cost of revenue	508,944	476,634	1,574,763	1,501,142
Research and development	31,601	30,816	95,240	92,794
Selling, general and administrative	75,046	66,233	224,637	203,637
Amortization of intangible assets	50,562	45,184	151,572	136,068
Restructuring and special charges	837	1,615	3,167	12,424
Total operating costs and expenses	666,990	620,482	2,049,379	1,946,065
Profit from operations	122,808	106,878	364,513	302,425
Interest expense, net	(41,176)	(29,706)	(125,201)	(96,029)
Other, net	(726)	(10,805)	4,892	(44,647)
Income before taxes	80,906	66,367	244,204	161,749
Provision for income taxes	11,121	13,215	48,297	32,342
Net income	$ 69,785	$ 53,152	$ 195,907	$ 129,407
Basic net income per share	$ 0.41	$ 0.31	$ 1.15	$ 0.76
Diluted net income per share	$ 0.41	$ 0.31	$ 1.14	$ 0.75

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SENSATA TECHNOLOGIES HOLDING N.V.
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	$ 69,785	$ 53,152	$ 195,907	$ 129,407
Other comprehensive loss, net of tax:				
Deferred loss on derivative instruments, net of reclassifications	(8,485)	(17,430)	(25,010)	(13,058)
Defined benefit and retiree healthcare plans	24	742	291	760
Other comprehensive loss	(8,461)	(16,688)	(24,719)	(12,298)
Comprehensive income	$ 61,324	$ 36,464	$ 171,188	$ 117,109

The accompanying notes are an integral part of these condensed consolidated financial statements.

SENSATA TECHNOLOGIES HOLDING N.V.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	For the nine months ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities:		
Net income	$195,907	$ 129,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	77,649	71,162
Amortization of deferred financing costs and original issue discounts	5,501	4,755
Currency remeasurement gain on debt	(66)	(2,082)
Share-based compensation	13,279	11,093
Loss on debt financing	—	25,538
Amortization of inventory step-up to fair value	2,319	—
Amortization of intangible assets	151,572	136,068
Deferred income taxes	15,706	11,237
Unrealized loss on hedges and other non-cash items	726	13,541
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(65,373)	(37,021)
Inventories	(20,624)	14,969
Prepaid expenses and other current assets	2,320	(22,483)
Accounts payable and accrued expenses	33,371	8,840
Income taxes payable	(6,361)	7,090
Other	(9,575)	(8,401)
Net cash provided by operating activities	396,351	363,713
Cash flows from investing activities:		
Acquisition of CST, net of cash received	4,688	—
Acquisition of Schrader, net of cash received	—	(958)
Other acquisitions, net of cash received	—	3,881
Additions to property, plant and equipment and capitalized software	(94,584)	(130,243)
Investment in equity securities	(50,000)	—
Proceeds from the sale of assets	751	102
Net cash used in investing activities	(139,145)	(127,218)
Cash flows from financing activities:		
Proceeds from exercise of stock options and issuance of ordinary shares	3,306	15,361
Proceeds from issuance of debt	—	1,795,120
Payments on debt	(297,698)	(1,970,685)
Payments to repurchase ordinary shares	(4,672)	(50)
Payments of debt issuance costs	(518)	(29,361)
Net cash used in financing activities	(299,582)	(189,615)
Net change in cash and cash equivalents	(42,376)	46,880
Cash and cash equivalents, beginning of period	342,263	211,329
Cash and cash equivalents, end of period	$299,887	$ 258,209

The accompanying notes are an integral part of these condensed consolidated financial statements.

SENSATA TECHNOLOGIES HOLDING N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts, or unless otherwise noted)
(unaudited)

1. Business Description and Basis of Presentation

Description of Business

The accompanying unaudited condensed consolidated financial statements reflect the financial position, results of operations, comprehensive income, and cash flows of Sensata Technologies Holding N.V. ("Sensata Technologies Holding") and its wholly-owned subsidiaries, collectively referred to as the "Company," "Sensata," "we," "our," or "us."

Sensata Technologies Holding is incorporated under the laws of the Netherlands and conducts its operations through subsidiary companies that operate business and product development centers primarily in the United States (the "U.S."), the Netherlands, Belgium, China, Germany, Japan, South Korea, and the United Kingdom (the "U.K."); and manufacturing operations primarily in China, Malaysia, Mexico, Bulgaria, Poland, France, Germany, the U.K., and the U.S. We organize our operations into two businesses, Performance Sensing and Sensing Solutions.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q, and therefore do not include all of the information and note disclosures required by U.S. GAAP for complete financial statements. The accompanying financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the interim period results. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year, nor were those of the comparable periods in 2015 necessarily representative of those actually experienced for the full year 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

All intercompany balances and transactions have been eliminated.

All U.S. dollar and share amounts presented, except per share amounts, are stated in thousands, unless otherwise indicated.

Certain reclassifications have been made to prior periods to conform to current period presentation.

2. New Accounting Standards

Adopted in fiscal year 2016:

In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) ("ASU 2015-03"), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 was effective for annual reporting periods beginning after December 15, 2015, including interim periods within those annual reporting periods. We adopted ASU 2015-03 on January 1, 2016, and as a result, as of September 30, 2016 and December 31, 2015, $34.7 million and $38.3 million, respectively, of deferred financing costs were classified as a reduction of long-term debt on our condensed consolidated balance sheets. The adoption of ASU 2015-03 did not have any impact on our statements of operations. Refer to Note 6, "Debt," for a reconciliation of the various components of long-term debt to the condensed consolidated balance sheets.

To be adopted in a future period:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which modifies how all entities recognize revenue, and consolidates into one Accounting Standards Codification ("ASC") Topic (ASC Topic 606, Revenue from Contracts with Customers) the current guidance found in ASC Topic 605 and various other revenue accounting standards for specialized transactions and industries. ASU 2014-09 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective approach, under which all

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years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual reporting periods. We will adopt ASU 2014-09 on January 1, 2018, and are currently evaluating the impact that this adoption will have on our consolidated financial statements. At this time, we have not determined the transition method that will be used.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which establishes new accounting and disclosure requirements for leases. ASU 2016-02 requires lessees to classify most leases as either finance or operating leases and to initially recognize a lease liability and right-of-use asset. Entities may elect to account for certain short-term leases (with a term of 12 months or less) using a method similar to the current operating lease model. The statements of operations will include, for finance leases, separate recognition of interest on the lease liability and amortization of the right-of-use asset and for operating leases, a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. ASU 2016-02 must be applied using a modified retrospective approach, which requires recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available. We are currently evaluating when to adopt ASU 2016-02 and the impact that this adoption will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") as part of its simplification initiative. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions. The provisions of ASU 2016-09 that will impact us are as follows: (1) an accounting policy election may be made to account for forfeitures as they occur, rather than based on an estimate of future forfeitures, and (2) companies will be allowed to withhold shares, upon either the exercise of options or vesting of restricted securities, with an aggregate fair value in excess of the minimum statutory withholding requirement and still qualify for the exception to liability classification. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, with early adoption permitted. Amendments related to the provisions that are applicable to Sensata must be applied using a modified retrospective approach by means of a cumulative-effect adjustment to equity as of the beginning of the period in which ASU 2016-09 is adopted. We are currently evaluating when to adopt ASU 2016-09 and the impact that this adoption will have on our consolidated financial statements.

3. Inventories

The components of inventories as of September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
Finished goods	$ 150,894	$ 154,827
Work-in-process	71,147	62,084
Raw materials	150,927	141,790
Inventories	$ 372,968	$ 358,701

4. Shareholders' Equity

Treasury Shares

We have a $250.0 million share repurchase program in place. Under this program, we may repurchase ordinary shares from time to time, at such times and in amounts to be determined by our management, based on market conditions, legal requirements, and other corporate considerations, on the open market or in privately negotiated transactions. The share repurchase program may be modified or terminated by our Board of Directors at any time. At September 30, 2016, $250.0 million remained available for the repurchase of shares under this program.

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We did not repurchase any ordinary shares under this program during the nine months ended September 30, 2016 or September 30, 2015.

Ordinary shares repurchased by us are recorded at cost as treasury shares and result in a reduction of shareholders' equity. We reissue treasury shares as part of our share-based compensation programs. When shares are reissued, we determine the cost using the first-in, first-out method. During the nine months ended September 30, 2016 and September 30, 2015, we reissued 0.5 million and 0.9 million treasury shares, respectively. During the nine months ended September 30, 2016, in connection with our treasury share reissuances, we recognized a reduction in Retained earnings of $16.5 million.

Accumulated Other Comprehensive Loss

The following is a roll forward of the components of Accumulated other comprehensive loss, net of tax, for the nine months ended September 30, 2016:

	Deferred Gain/(Loss) on Derivative Instruments, Net of Reclassifications	Defined Benefit and Retiree Healthcare Plans	Accumulated Other Comprehensive Loss
Balance as of December 31, 2015	$ 3,852	$ (29,842)	$ (25,990)
Other comprehensive loss before reclassifications	(24,847)	—	(24,847)
Amounts reclassified from accumulated other comprehensive loss	(163)	291	128