Sensata Technologies Holding plc
Form 10-Q
April 24, 2018
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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 March 31, 2018
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 PLC
(Exact Name of Registrant as Specified in Its Charter)

ENGLAND AND WALES	98-1386780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Interface House, Interface Business Park Bincknoll Lane Royal Wootton Bassett Swindon SN4 8SY United Kingdom	+1 (508) 236 3800
(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 April 13, 2018, 171,572,465 ordinary shares were outstanding.

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PART I—FINANCIAL INFORMATION

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

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$828,266	$753,089
Accounts receivable, net of allowances of $13,446 and $12,947 as of March 31, 2018 and December 31, 2017, respectively	627,749	556,541
Inventories	459,699	446,129
Prepaid expenses and other current assets	102,868	92,532
Total current assets	2,018,582	1,848,291
Property, plant and equipment, net	753,965	750,049
Goodwill	3,005,464	3,005,464
Other intangible assets, net of accumulated amortization of $1,802,070 and $1,767,001 as of March 31, 2018 and December 31, 2017, respectively	885,569	920,124
Deferred income tax assets	33,615	33,003
Other assets	85,681	84,594
Total assets	$6,782,876	$6,641,525
Liabilities and shareholders’ equity		
Current liabilities:		
Current portion of long-term debt, capital lease and other financing obligations	$8,178	$15,720
Accounts payable	350,999	322,671
Income taxes payable	22,313	31,544
Accrued expenses and other current liabilities	284,419	259,560
Total current liabilities	665,909	629,495
Deferred income tax liabilities	341,550	338,228
Pension and other post-retirement benefit obligations	40,007	40,055
Capital lease and other financing obligations, less current portion	27,735	28,739
Long-term debt, net	3,221,676	3,225,810
Other long-term liabilities	35,058	33,572
Total liabilities	4,331,935	4,295,899
Commitments and contingencies (Note 10)		
Shareholders’ equity:		
Ordinary shares, €0.01 nominal value per share, 177,069 and 400,000 shares authorized, and 171,419 and 178,437 shares issued, as of March 31, 2018 and December 31, 2017, respectively	2,199	2,289
Treasury shares, at cost, 7,076 shares as of December 31, 2017	—	(288,478)
Additional paid-in capital	1,668,583	1,663,367
Retained earnings	835,807	1,031,612
Accumulated other comprehensive loss	(55,648)	(63,164)
Total shareholders’ equity	2,450,941	2,345,626
Total liabilities and shareholders’ equity	$6,782,876	$6,641,525

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

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

	For the three months ended	
	March 31, 2018	March 31, 2017
Net revenue	$ 886,293	$ 807,271
Operating costs and expenses:		
Cost of revenue	582,457	532,419
Research and development	36,001	31,804
Selling, general and administrative	81,322	70,114
Amortization of intangible assets	35,069	40,258
Restructuring and other charges, net	3,766	11,050
Total operating costs and expenses	738,615	685,645
Profit from operations	147,678	121,626
Interest expense, net	(38,429)	(40,277)
Other, net	(4,633)	4,719
Income before taxes	104,616	86,068
Provision for income taxes	14,126	14,332
Net income	$ 90,490	$ 71,736
Basic net income per share:	$ 0.53	$ 0.42
Diluted net income per share:	$ 0.52	$ 0.42

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

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SENSATA TECHNOLOGIES HOLDING PLC
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(unaudited)

	For the three months ended	
	March 31, 2018	March 31, 2017
Net income	$ 90,490	$ 71,736
Other comprehensive income, net of tax:		
Cash flow hedges	6,539	132
Defined benefit and retiree healthcare plans	977	480
Other comprehensive income	7,516	612
Comprehensive income	$ 98,006	$ 72,348

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

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SENSATA TECHNOLOGIES HOLDING PLC
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	For the three months ended March 31, 2018			March 31, 2017		
Cash flows from operating activities:						
Net income	$	90,490		$	71,736	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation	27,855			28,795		
Amortization of debt issuance costs	1,805			1,857		
Share-based compensation	5,090			3,952		
Loss on debt financing	2,350			—		
Amortization of intangible assets	35,069			40,258		
Deferred income taxes	636			3,400		
Unrealized loss on hedges and other	8,819			2,120		
Changes in operating assets and liabilities:						
Accounts receivable, net	(71,208		)	(32,915		)
Inventories	(13,570		)	(17,354		)
Prepaid expenses and other current assets	(2,147		)	(9,643		)
Accounts payable and accrued expenses	47,780			26,704		
Income taxes payable	(9,231		)	3,099		
Other	(483		)	(2,308		)
Net cash provided by operating activities	123,255			119,701		
Cash flows from investing activities:						
Additions to property, plant and equipment and capitalized software	(30,938		)	(33,059		)
Proceeds from the sale of assets	—			2,937		
Net cash used in investing activities	(30,938		)	(30,122		)
Cash flows from financing activities:						

Proceeds from exercise of stock options and issuance of ordinary shares	2,219			2,450		
Payments on debt	(11,325		)	(11,122		)
Payments to repurchase ordinary shares	—			(498		)
Payments of debt issuance costs	(5,813		)	(137		)
Other	(2,221		)	—		
Net cash used in financing activities	(17,140		)	(9,307		)
Net change in cash and cash equivalents	75,177			80,272		
Cash and cash equivalents, beginning of period	753,089			351,428		
Cash and cash equivalents, end of period	$	828,266		$	431,700	

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

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SENSATA TECHNOLOGIES HOLDING PLC
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 plc ("Sensata plc"), the successor issuer to Sensata Technologies Holding N.V. ("Sensata N.V."), and its wholly-owned subsidiaries, collectively referred to as the "Company," "Sensata," "we," "our," or "us."

On September 28, 2017, the board of directors of Sensata N.V. unanimously approved a plan to change our location of incorporation from the Netherlands to the United Kingdom (the "U.K."). To effect this change, on February 16, 2018, the shareholders of Sensata N.V. approved a cross-border merger between Sensata N.V. and Sensata plc, a newly formed, public limited company incorporated under the laws of England and Wales, with Sensata plc being the surviving entity (the "Merger").

We received approval of the transaction by the U.K. High Court of Justice, and the Merger was completed on March 28, 2018, on which date Sensata plc became the publicly-traded parent of the subsidiary companies that were previously controlled by Sensata N.V., with no changes made to the business being conducted by us prior to the Merger. Due to the fact that the Merger was a business combination between entities under common control in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations, the assets and liabilities exchanged were accounted for at their carrying values.

Sensata plc conducts its operations through subsidiary companies that operate business and product development centers primarily in the United States (the "U.S."), the Netherlands, Belgium, Bulgaria, China, Germany, Japan, South Korea, and the U.K.; and manufacturing operations primarily in China, Malaysia, Mexico, Bulgaria, France, Germany, the U.K., and the U.S. We organize our operations into two segments, 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 the instructions to Form 10-Q. Accordingly, these interim financial statements 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 that are, in the opinion of management, necessary for a fair presentation of the interim period results. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year, nor were the results of operations of the comparable periods in 2017 necessarily representative of those actually experienced for the full year 2017. 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, 2017.

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 the current period

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which modifies how all entities recognize revenue, and consolidates into one ASC Topic (FASB ASC Topic 606, Revenue from Contracts with Customers) the guidance found in FASB ASC Topic 605, Revenue Recognition, and various other revenue accounting standards for specialized transactions and industries. FASB ASC Topic 606 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 at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted FASB ASC Topic 606 on January 1, 2018 using the modified retrospective transition method. Refer to Note 16, "Revenue Recognition," for additional details on this implementation and the required disclosures.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The new recognition and measurement guidance requires entities to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee, and certain other investments) either at fair value, with changes to fair value recognized in net income, or, in certain instances, by use of a measurement alternative. Under the measurement alternative, such investments are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. We adopted this guidance on January 1, 2018, which resulted in no impact on our consolidated financial position or results of operations. Refer to Note 11, "Fair Value Measures," for further detail regarding the application of the measurement alternative to our $50.0 million equity investment in Series B Preferred Stock of Quanergy, Inc ("Quanergy"), which does not have a readily determinable fair value.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires a change in the presentation of net periodic benefit cost on the consolidated statements of operations. Specifically, entities must present the service cost component of net periodic benefit cost in the same financial statement line item(s) as other compensation costs arising from services rendered by the related employees during the period, whereas the non–service components of net periodic benefit cost must be presented separately from the financial statement line item(s) that include service cost and outside of operating income. We adopted this guidance on January 1, 2018 and, as a result, we present the service cost component of net periodic benefit cost in the Cost of revenue, Research and development, and Selling, general, and administrative ("SG&A") expense line items, and we present the non–service components of net periodic benefit cost in Other, net. Refer to Note 13, "Other, net," for the total other components of net periodic benefit cost. All prior period amounts have been recast to reflect the revised presentation, and the adjustments made to revise the presentation of our prior year condensed consolidated statement of operations are presented in Note 8, "Pension and Other Post–Retirement Benefits."

To be adopted in a future period

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which establishes new accounting and disclosure requirements for leases. FASB ASU No. 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 one year 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. At December 31, 2017, we were contractually obligated to make future payments of $68.6 million under our operating lease obligations in existence as of that date, primarily related to long-term facility leases. While we are in the early stages of our implementation process for FASB ASU No. 2016-02 and have not yet determined its impact on our consolidated financial position or results of operations, these leases would potentially be required to be presented on the balance sheet in accordance with the requirements of FASB ASU No. 2016-02, which is effective for annual reporting periods beginning after December 15, 2018, including interim periods therein, with early adoption permitted. FASB ASU No. 2016-02 must be applied using a modified retrospective approach, which requires the recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815), which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results, in order to better align an entity’s risk management activities and financial reporting for hedging relationships. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. FASB ASU No. 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. The adoption of FASB ASU No.

2017-12 will not have a material impact on our consolidated financial position or results of operations.

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3. Inventories

The components of inventories as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Finished goods	$ 192,486	$ 195,089
Work-in-process	94,446	92,678
Raw materials	172,767	158,362
Inventories	$ 459,699	$ 446,129

4. Shareholders' Equity

Prior to the Merger, Sensata NV's articles of association authorized it to issue up to 400.0 million ordinary shares. However, shareholder approval was required to issue any amount of ordinary shares greater than those issued and outstanding or reserved under its equity plans. Entities incorporated under the laws of England and Wales are limited in the number of shares they can issue to those shares that have been authorized for "allotment" by their shareholders. In connection with the Merger, our board of directors did not ask shareholders to approve an allotment of ordinary shares greater than the total ordinary shares issued and outstanding plus ordinary shares available to be issued under our equity plans, which resulted in an allotment of 177.1 million ordinary shares.

Treasury Shares

Prior to the Merger, ordinary shares repurchased by us were recorded at cost, as treasury shares, and resulted in a reduction of shareholders' equity. We reissued treasury shares as part of our share-based compensation programs. The cost of reissued shares was determined using the first-in, first-out method. During the three months ended March 31, 2018, prior to completion of the Merger, we reissued 0.1 million treasury shares, and as a result, we recognized a reduction in Retained earnings of $0.2 million.

In connection with the Merger, and in accordance with U.K. requirements, all then outstanding treasury shares were cancelled. Accordingly, we derecognized the total purchase price of these treasury shares, we recognized a reduction to ordinary shares at an amount equal to the total par value of such shares, and we recognized a reduction to Retained earnings at an amount equal to the excess of the total repurchase price over the total par value of the then outstanding treasury shares, or $286.1 million.

Accumulated Other Comprehensive Loss

The following is a roll forward of the components of Accumulated other comprehensive loss for the three months ended March 31, 2018:

	Cash Flow Hedges	Defined Benefit and Retiree Healthcare Plans	Accumulated Other Comprehensive Loss
Balance as of December 31, 2017	$ (28,179)	$ (34,985)	$ (63,164)
Other comprehensive (loss)/income before reclassifications, net of tax	(3,275)	578	(2,697)
Amounts reclassified from accumulated other comprehensive loss, net of tax	9,814	399	10,213
Other comprehensive income	6,539	977	7,516
Balance as of March 31, 2018	$ (21,640)	$ (34,008)	$ (55,648)

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The details of the amounts reclassified from Accumulated other comprehensive loss for the three months ended March 31, 2018 and 2017 are as follows:

Component	Loss/(Gain) Reclassified from Accumulated Other Comprehensive Loss For the three months ended March 31, 2018	March 31, 2017	Affected Line in Condensed Consolidated Statements of Operations
Derivative instruments designated and qualifying as cash flow hedges:			
Foreign currency forward contracts	$10,884	$(5,385)	Net revenue [(1)]
Foreign currency forward contracts	826	6,568	Cost of revenue [(1)]
Foreign currency forward contracts	1,376	—	Other, net [(1)]
Total, before taxes	13,086	1,183	Income before taxes
Income tax effect	(3,272)	(295)	Provision for income taxes
Total, net of taxes	$9,814	$888	Net income
Defined benefit and retiree healthcare plans	$224	$502	Other, net [(2)]
Income tax effect	175	(22)	Provision for income taxes
Total, net of taxes	$399	$480	Net income

(1) See Note 12, "Derivative Instruments and Hedging Activities," for additional details on amounts to be reclassified in the future from Accumulated other comprehensive loss.

(2) See Note 8, "Pension and Other Post-Retirement Benefits," for additional details of net periodic benefit cost.

5. Restructuring and Other Charges, Net

Restructuring and other charges, net for the three months ended March 31, 2018 and 2017 were $3.8 million and $11.1 million, respectively. Restructuring and other charges, net for the three months ended March 31, 2018 consisted primarily of $3.5 million of severance charges related to limited workforce reductions in manufacturing, engineering, and administrative positions as well as the transfer of certain positions to more cost-effective locations. The expected payback period for these actions is approximately two years, and they are expected to generate incremental pre-tax savings of approximately $3 million on an annual basis once fully implemented