Sensata Technologies Holding N.V.
Form 10-K
February 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-34652

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

THE NETHERLANDS	98-0641254
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Jan Tinbergenstraat 80, 7559 SP Hengelo The Netherlands	31-74-357-8000
(Address of Principal Executive Offices, including Zip Code)	(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares—nominal value €0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by a 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 x 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 x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 “small reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
(Do not check if a 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 x

The aggregate market value of the registrant’s ordinary shares held by non-affiliates at June 30, 2016 was approximately $5.9 billion based on the New York Stock Exchange closing price for such shares on that date.

As of January 13, 2017, 170,879,763 ordinary shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Report incorporates information from certain portions of the registrant’s Definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 18, 2017. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2016.

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Cautionary Statements Concerning Forward-Looking Statements

In addition to historical facts, this Annual Report on Form 10-K, including any documents incorporated by reference herein, includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements also relate to our future prospects, developments, and business strategies. These forward-looking statements may be identified by terminology such as “may,” “will,” “could,” “should,” “expect,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “forecast,” “contin and similar terms or phrases, or the negative of such terminology, including references to assumptions. However, these terms are not the exclusive means of identifying such statements.

Forward-looking statements contained herein, or in other statements made by us, are made based on management’s expectations and beliefs concerning future events impacting us, and are subject to uncertainties and other important factors relating to our operations and business environment, all of which are difficult to predict, and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurances that any of the events anticipated by these forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.

We believe that the following important factors, among others (including those described in Item 1A, “Risk Factors,” included elsewhere in this Annual Report on Form 10-K), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf:

- risks associated with changes to current policies by the U.S. government;
- adverse conditions in the automotive industry have had, and may in the future have, adverse effects on our businesses;
- competitive pressures could require us to lower our prices or result in reduced demand for our products;
- integration of acquired companies, including the acquisitions of August Cayman Company, Inc. ("Schrader") and certain subsidiaries of Custom Sensors & Technologies Ltd. in the U.S., the U.K., and France, as well as certain assets in China (collectively, "CST"), and any future acquisitions and joint ventures or dispositions, may require significant resources and/or result in significant unanticipated losses, costs, or liabilities, and we may not realize all of the anticipated operating synergies and cost savings from acquisitions;
- risks associated with our non-U.S. operations, including compliance with export control regulations, foreign currency risks, and the potential for changes in socio-economic conditions and/or monetary and fiscal policies, including as a result of the impending exit of the U.K. from the European Union;
- we may incur material losses and costs as a result of intellectual property, product liability, warranty, and recall claims that may be brought against us;
- taxing authorities could challenge our historical and future tax positions or our allocation of taxable income among our subsidiaries, or tax laws to which we are subject could change in a manner adverse to us;
- labor disruptions or increased labor costs could adversely affect our business;
- our level of indebtedness could adversely affect our financial condition and our ability to operate our business, and we may not be able to generate sufficient cash flows to meet our debt service obligations or comply with the covenants contained in the credit agreements;
- risks associated with security breaches and other disruptions to our information technology infrastructure; and
- the other risks set forth in Item 1A, “Risk Factors,” included elsewhere in this Annual Report on Form 10-K.

All forward-looking statements attributable to us or persons acting on our behalf speak only as of the date of this Annual Report on Form 10-K and are expressly qualified in their entirety by the cautionary statements contained in this Annual Report on Form 10-K. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events. We urge readers to review carefully the risk factors described in this Annual Report on Form 10-K and in the other documents that we file with the U.S. Securities and Exchange Commission. You can read these documents at www.sec.gov or on our website at www.sensata.com.

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PART I

ITEM 1. BUSINESS

The Company

The reporting company is Sensata Technologies Holding N.V. (“Sensata Technologies Holding”) and its wholly-owned subsidiaries, collectively referred to as the “Company,” “Sensata,” “we,” “our,” and “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.

Overview

Sensata, a global industrial technology company, engages in the development, manufacture, and sale of sensors and controls. We produce a wide range of sensors and controls for applications such as pressure sensors in automotive systems, thermal circuit breakers in aircraft, and bimetal current and temperature control devices in electric motors. We can trace our origins back to entities that have been engaged in the sensors and controls business since 1916.

Our sensors are customized devices that translate a physical phenomenon, such as pressure or position, into electronic signals that microprocessors or computer-based control systems can act upon. Our controls are customized devices embedded within systems to protect them from excessive heat or current. Underlying these sensors and controls are core technology platforms—thermal and magnetic-hydraulic circuit protection, micro electromechanical systems, ceramic capacitance, and monosilicon strain gage—that we leverage across multiple products and applications, enabling us to optimize our research, development, and engineering investments and achieve economies of scale.

Our primary products include low-, medium-, and high-pressure sensors, speed and position sensors, bimetal electromechanical controls, temperature sensors, power conversion and control products, thermal and magnetic-hydraulic circuit breakers, pressure switches, and interconnection products. We develop customized, innovative solutions for specific customer requirements or applications across a variety of end-markets, including automotive, heavy vehicle off-road ("HVOR"), appliance, heating, ventilation, and air conditioning (“HVAC”), industrial, aerospace, data/telecom, semiconductor, and mobile power, among others. We have long-standing relationships with a geographically diverse base of leading global original equipment manufacturers (“OEMs”) and other multinational companies.

We develop products that address increasingly complex engineering requirements by investing substantially in research, development, and application engineering. By locating our global engineering team in close proximity to key customers in regional business centers, we are exposed to many development opportunities at an early stage and work closely with our customers to deliver solutions that meet their needs. As a result of the long development lead times and embedded nature of our products, we collaborate closely with our customers throughout the design and development phase of their products. Systems development by our customers typically requires significant multi-year investment for certification and qualification, which are often government or customer mandated. We believe the capital commitment and time required for this process significantly increases the switching costs once a customer has designed and installed a particular sensor or control into a system.

We are a global business, with significant operations around the world. As of December 31, 2016, 37%, 36%, and 27% of our fixed assets were located in the Americas, Asia, and Europe, respectively. We have a diverse revenue mix by geography, customer, and end-market. We generated 43%, 25%, and 32% of our net revenue in the Americas, Asia, and Europe, respectively, for the year ended December 31, 2016. Our largest customer accounted for approximately 9% of our net revenue for the year ended December 31, 2016. Our net revenue for the year ended December 31, 2016 was derived from the following end-markets: 25.2% from European automotive, 20.1% from North American automotive, 17.8% from Asia and rest of world automotive, 12.8% from HVOR, 9.0% from industrial, 5.9% from appliance and HVAC, 4.7% from aerospace, and 4.5% from all other end-markets. Within many of our end-markets, we are a significant supplier to multiple OEMs, reducing our exposure to fluctuations in market share within individual end-markets.

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Acquisition History

Over the past ten years, we completed the following significant acquisitions:

Date	Acquired Entity	Segment		Purchase Price (in Millions)
		Performance Sensing	Sensing Solutions	
July 27, 2007	Airpax Holdings, Inc. ("Airpax")		X	$ 277.3
January 28, 2011	Automotive on Board ("MSP")	X		$ 152.5
August 1, 2011	Sensor-NITE Group Companies ("HTS")	X		$ 324.0
January 2, 2014	Wabash Worldwide Holding Corp. ("Wabash")	X		$ 59.6
May 29, 2014	Magnum Energy Incorporated ("Magnum")		X	$ 60.6
August 4, 2014	CoActive U.S. Holdings Inc. ("DeltaTech Controls")	X		$ 177.8
October 14, 2014	August Cayman Company, Inc. ("Schrader")	X		$ 1,004.7
December 1, 2015	Custom Sensors & Technologies ("CST") (1)	X	X	$ 1,000.8

(1) Includes the acquisition of all of the outstanding shares of certain subsidiaries of Custom Sensors & Technologies Ltd. in the U.S., the U.K., and France, as well as certain assets in China.

Performance Sensing Business

Overview

Our Performance Sensing business is a leading supplier of automotive and HVOR sensors, including pressure sensors, speed and position sensors, temperature sensors, operator controls, and pressure switches. Our Performance Sensing business accounted for approximately 74% of our 2016 net revenue. Products manufactured by our Performance Sensing business are used in a wide variety of applications, including automotive and HVOR air conditioning, braking, exhaust, fuel oil, tire, and transmission applications. We believe that we are one of the largest suppliers of pressure and high temperature sensors in the majority of the key applications in which we compete. Our customers consist primarily of leading global automotive and HVOR OEMs and their Tier 1 suppliers. Our products are ultimately used by the majority of global automotive OEMs, providing us with a balanced customer portfolio, which, we believe, helps to protect us against shifts in market share between different OEMs.

Refer to Note 18, "Segment Reporting," of our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K for details of the Performance Sensing segment operating income for the years ended December 31, 2016, 2015, and 2014 and total assets as of December 31, 2016 and 2015.

Performance Sensing Business Markets

Sensors are customized devices that translate a physical phenomenon, such as pressure or position, into electronic signals that microprocessors or computer-based control systems can act upon. The market is characterized by a broad range of products and applications across a diverse set of end-markets. We believe large OEMs and other multinational companies are increasingly demanding a global presence to supply sensors for their key global platforms.

Automotive and HVOR sensors are included in the Performance Sensing business results, while industrial and aerospace sensors are included in the Sensing Solutions business results. Refer to the Sensing Solutions Business Markets section for discussion of industrial and aerospace sensors.

Automotive and HVOR Sensors

Revenue growth from the global automotive and HVOR sensor end-markets, which include applications in powertrain, tire, air conditioning, and chassis control, is driven, we believe, by three principal trends. First, global automotive vehicle unit sales have demonstrated moderate but consistent annual growth since the global recession in 2008 and 2009 and are expected to continue to increase over the long-term due to population growth and increased usage of cars in emerging markets. Second, the number of sensors used per vehicle has expanded, driven by a combination of factors including government regulation of safety, emissions, and greater fuel efficiency, consumer demand for new applications, and productivity for HVOR applications. For example, fuel economy standards such as

the Corporate Average Fuel Economy ("CAFE") requirements in the U.S. and emissions requirements such as "Euro VI" in Europe lead to sensor-rich automobile powertrain strategies. Finally, revenue

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growth has been augmented by a continuing shift away from legacy electromechanical products towards higher-value electronic solid-state sensors.

According to the LMC Automotive "Global Car & Truck Forecast" for the fourth quarter 2016, the production of global light vehicles in 2016 was approximately 92.4 million units, an increase of 3.9% from 2015.

The automotive and HVOR sensor markets are characterized by high switching costs and barriers to entry, benefiting incumbent market leaders. Sensors are critical components that enable a wide variety of applications, many of which are essential to the proper functioning of the product in which they are incorporated. Sensor application-specific products require close engineering collaboration between the sensor supplier and the OEM or the Tier 1 supplier. As a result, OEMs and Tier 1 suppliers make significant investments in selecting, integrating, and testing sensors as part of their product development. Switching to a different sensor results in considerable additional work, both in terms of sensor customization and extensive platform/product retesting. This results in high switching costs for automotive and HVOR manufacturers once a sensor is designed-in, and we believe is one of the reasons that sensors are rarely changed during a platform life-cycle, which in the case of the automotive end-market typically lasts five to seven years. Given the importance of reliability and the fact that the sensors have to be supported through the length of a product life, our experience has been that OEMs and Tier 1 suppliers tend to work with suppliers that have a long track record of quality and on-time delivery and the scale and resources to meet their needs as the car platform evolves and grows. In addition, the automotive segment is one of the largest markets for sensors, giving participants with a presence in this end-market significant scale advantages over those participating only in smaller, more niche industrial and medical markets.

According to an October 2016 report prepared by Strategy Analytics, Inc., the global automotive sensor market was $21.2 billion in 2016, compared to $20.1 billion in 2015. We believe the increase in the number of sensors per vehicle and the level of global vehicle sales are the primary drivers of the increase in the global automotive sensor market. We believe that the increasing installation in vehicles of safety, emissions, efficiency, and comfort-related features that depend on sensors for proper functioning, such as electronic stability control, TPMS, advanced driver assistance, and advanced combustion and exhaust after-treatment, will continue to drive increased sensor usage and content growth.

Performance Sensing Products

We offer the following significant products in the Performance Sensing business:

Product Categories	Key Applications/Solutions	Key End-Markets
Pressure sensors	Air conditioning systems Transmission Engine oil Suspension Fuel rail Braking Tire pressure monitoring Exhaust after treatment	Automotive HVOR Motorcycle
Speed and position sensors	Transmission Braking Engine	Automotive HVOR
Temperature sensors	Exhaust after-treatment	Automotive HVOR
Pressure switches	Air conditioning systems Power steering Transmission	Automotive HVOR

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The table below sets forth the amount of net revenue we generated from each of these product categories in each of the last three fiscal years:

Product Category	For the year ended December 31,		
(Amounts in thousands)	2016	2015	2014
Pressure sensors	$1,724,677	$	