

# STRATTEC SECURITY CORPORATION

## SIDOTI SMALL CAP VIRTUAL INVESTOR CONFERENCE

### TRANSCRIPT

### SEPTEMBER 18, 2024

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# Presenters and Participants

## PRESENTERS

**Jennifer Slater**  
*Chief Executive Officer*

**Dennis Bowe**  
*Chief Financial Officer*

**Deborah Pawlowski**  
*Investor Relations*

## HOST

**John Franzreb**  
*Senior Equity Analyst, Sidoti & Company*

# Presentation

## HOST

### **John Franzreb**

*Senior Equity Analyst, Sidoti & Company*

Good morning, everyone, we are going to allow a few seconds to let the room populate. Our next presentation of the day is STRATTEC Security Corp. Ticker STRT. For those who are not familiar, with the name STRATTEC is manufacturer of products and solutions, largely for the ground vehicle market. We are fortunate to have with us today CEO Jennifer Slater and CFO Dennis Bowe.

They will have a presentation following the presentation there'll be time for Q&A. Should you have a question, you can put it in the Q&A box and are presented to management. With that said, thank you for being with us this morning. The floor is yours.

### **Jennifer Slater**

*Chief Executive Officer*

Thank you, John. Before we begin, as you are aware, we may make some forward-looking statements during this presentation as well as during the Q&A. As noted here, these statements are covered under a safe harbor.

I'm really excited to be here today and appreciate everyone's interest in STRATTEC. As John mentioned, I joined the company in July and are as new to this story as many of you may be. We have a lot happening in the company and I hope you find our evolving story of interest. To begin, I thought it would be helpful to reflect on some of the key changes that have occurred at STRATTEC over the past year.

These changes include the restructuring of our equity ownership in the vast partnership in 2023. This provided both a cash infusion of 28 million and also simplified our business, allowing us to better focus on our core capabilities. October 2023 was pivotal for the company, with the addition of Bruce Lisman and Jack Liebau, Jr to our board.

With their addition and with Jack being elected as board chair, a significant focus on governance improvements began. A number of changes have been implemented. As noted on this slide, and recently the board adopted proxy access provisions. We also will be asking our shareholders to approve a proposal to declassify the board at our annual meeting in October. We believe that for a company of our size, we are moving quickly to best in class governance.

So, you may be asking why I came to STRATTEC. In doing my due diligence, I found a recently refreshed and engaged board who saw opportunity in the underlying business. The Board and I believe there is inherent value within the business that has yet to be untapped.

In fact, this is why they made senior leadership changes that brought me into the company. We expect that uncovering these opportunities will provide stronger earnings, power potential and a long-term strategy for growth. Supporting that potential, we have a strong balance sheet with the financial flexibility to execute on change. STRATTEC has a strong legacy in the automotive industry, which I spent my entire career supporting, a

solid business across the board, broad customer base and a strong reputation of innovation. I believe this provides the foundation from which we can grow and evolve.

During my first 75 days, or about the last 11 weeks, I have visited our sites in Wisconsin, Michigan, Texas and Mexico. What I found validates my expectations. We have opportunities to raise the sophistication of the business and modernize how this company operates.

There is a lot of change to be made to extract this value. In fact, I see this as a self-help story. We need to improve how we operate, which includes establishing a management operating system to break down the existing silos and focus on delivering results. We expect to upgrade our IT systems and improve accessibility to data.

As we advance through these improvements. We are also going to be developing a strategy to help drive sustainable growth. Based on these opportunities, my near near-term priorities revolve around three main pillars. First, ensuring we have the right organizational capability.

Second, stabilizing the business to help lead to more predictable results. And finally, developing a robust strategy. The key focus items to enable this are making sure we have a culture for the organization around accountability and delivering results to drive predictable performance. We also will look across our product portfolio to ensure we have the right resources focused on high value, sustainable products while deemphasizing those that are not contributing as profitably.

We will continue to make sure our cost structure is aligned to our current and future earnings potential, while uncovering what our key competencies are that can drive future organic growth. Once we identify the right products for our future, we need to align our resources to drive consistent profitability. For those of you who may not know STRATTEC, I'd like to provide you a good baseline of what the company is today.

First of all, we have a broad and balanced product portfolio. I will go into that in more detail on subsequent slides. While most of our products are served directly to our original equipment customers, we do have about 7% of our business that is sold into the aftermarket. Our customer mix is heavily concentrated across General Motors, Ford Motor Company and Stellantis. But we have built new customer relationships over recent years.

One example of this is Tesla. While currently small in revenue, given the early stages of that product line, we believe that doing business with this customer is a testament to the innovative products that the team has created and the potential that we have. Our footprint is concentrated in North America with our headquarters in Milwaukee, Wisconsin, a customer center in Michigan, and the majority of manufacturing in Mexico. Our core capabilities across these sites support our highly technical and differentiated products and include design and engineering, injection molding, zinc, diecast stamping, plating and assembly capabilities.

STRATTEC has a significant history in automotive, serving the industry for over 100 years. This slide depicts the breadth of our portfolio and the significant number of places you can find our products across the vehicle. From the front of the car with Brunk latches to the rear of the car with power liftgate and tailgate products to key fobs and steering wheel switches. The company has continually evolved our product offerings with the advancement of technologies. How we excel with leading technology was validated by STRATTEC as we were awarded the

Automotive News Pace Award for Excellence and Innovation for our Power Liftgate System in 2018. This technology has continued to advance as automated vehicle access is becoming more common.

Another great feature of our products is that they are agnostic to the powertrain and can be found in internal combustion engines, hybrid and electric vehicles. Our products have continued to evolve as the automotive industry transformed. You can see our products are categorized across three main platforms. Our history is rooted in the security and authorization business with Keys, Locksets and Key Fob. In 2008, we were we acquired a division of Delphi which gave us leading edge capability in power access solutions and latches. We have taken our knowhow across these two platforms to build out a user interface control platform that covers steering wheel switches, electronic shifter modules and transmission paddle shifters. Across all of these segments, we have built platform and system competencies, including software.

We have taken our key fab business to the next level, enabling our phone as a key access technology for our power access solutions. We leverage system and software technology along with a platform approach. The platform approach helps us move with speed for our customers, provides better package flexibility and coupled with our software technology, provides technical differentiated products for our customers. I should add as well that we have a joint venture that focuses on door handles, **chassis** and soft touch access features.

With that introduction, I would like to pass it over to Dennis to go through our financials.

**Dennis Bowe**  
*Chief Financial Officer*

Good morning, everyone. We ended fiscal 24 on a strong note with fourth quarter sales up \$11 million. The increase was driven by approximately \$7 million of pricing improvement, with the remainder reflecting higher sales driven by the launch of new programs.

It's worth noting that our second quarter sales historically tend to be low as seasonally low, but we're also further impacted last year by production volumes softening at a major customer. From a full year perspective, customer pricing increased revenue by approximately \$33 million, of which 9.7 was one-time retroactive price recoveries for prior year sales. The remaining growth was primarily driven by the launch of new programs, which included the power and gate content and new tailgate latch for Ford F-Series pickups. Higher revenue from the fourth quarter translated to solid growth in gross profit. Gross margin expanded by 370 basis points, driven by improved pricing and higher sales volume.

This improvement helped to offset the headwinds associated with the mandatory wage increases in Mexico, higher freight costs and unfavorable foreign exchange. It's worth noting that the Mexican government has been raising the mandatory minimum wage aggressively for the last several years, and we anticipate this annual increase will continue. Looking to gross margins by year, fiscal '23 would have had a higher margin profile. Had it had the benefit of the 130 basis points of retroactive pricing we captured in the first half of fiscal '24.

Excluding the one time retroactive pricing benefits, our present margin profile is representative of the current customer contracts and our cost structure. As Jen discussed, we are looking across our product portfolio to ensure we have the right focus on high value sustainable products. Through improvement in both our product portfolio

and our operational effectiveness, we aim to improve our margin profile too. Q4 engineering sales, and admin expenses improved by 220 basis points due to a \$3.2 million higher engineering reimbursement. I should point out that in Q2, expenses were elevated due to \$900,000 of CEO transition costs. Typically, engineering sales and admin expenses range between nine and 10% annually. We finished fiscal '24 with a solid Q4 net income of \$9.6 million, which benefited from 2.5 million in non-recurring engineering reimbursement and \$2 million improvement in other income driven by FX gains. From a full year perspective fiscal '24 delivered \$16.3 million of net income, with approximately half of the earnings related to one time pricing and non-recurring engineering reimbursement. We finished fiscal 24 with a very strong balance sheet with \$25 million in cash and no borrowings and STRACTTEC, \$40 million credit facility. Our joint venture, ADAC STRATTEC LLC, which produces door handles and trim, had \$13 million drawn on a \$20 million credit facility at the end of fiscal 24. Strong earnings in the year led to higher cash generation.

For fiscal 25, we anticipate capital spending of approximately \$15 million. Typically, new product program spending comprises between 50 to 70% of our capital spending, with the remainder associated with maintenance related investment. So, with that, John, we can open up to questions.

## Question and Answer

### John Franzreb

[Host Instructions] I'd like to kick it off with a little bit, maybe a background on some price negotiations. You mentioned in your prepared remarks that you start to realize them. Can you talk a little bit about that process? We stand as a fully completed. Maybe some background for people who aren't familiar with you've gone on what's gone on in the past year and a half or so.

### Jennifer Slater

Yeah, John, I'll take that. And Dennis, you can add on if you want to. So, with the inflation that the market has experienced over the past couple of years, many suppliers have entered into discussions with automotive customers on inflationary pricing. STRATTEC did a nice job last year in leveling up pricing for that inflation. A part of that was one time and a part of that was into the run rate. They were a little late on that happening, but they did do a nice job at getting that pricing. Last year.

### John Franzreb

And are you completed the process or is there still more to get the get back?

### Jennifer Slater

Part of what I talked about is a focus on our operational stability and predictability and really getting our hands wrapped around the data, the business and understanding do we still have opportunities at a product level and a customer level? And what does our margin look like?

### John Franzreb

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That's pretty much my next question, Jennifer. It sounds like you can take a hard look at the product portfolio. I guess that suggests that some are really below margin contribution where you want to be.

Do you think the resolution areas are really organizing of the of the products or do you think it's maybe just divesting some of those underperforming assets?

**Jennifer Slater**

Yeah, one of the things that I talked about is instilling a management operating system and really getting more access to data. The technology systems right now are pretty disparate and antiquated. And so, when you have a starting point that way, this business hasn't historically looked at profitability at a granular enough level. So, step one is getting at the data to determine how we look at data at a product level.

**John Franzreb**

Okay, let's go to the audience. Just for your large engineering reimbursement, the fourth quarter operating margin was 4.5%. Is that a good level of operating margin to think about on a go forward basis? And on a gross margin basis, what kind of target are you thinking about?

**Jennifer Slater**

Do you want to take the first part of that, Dennis?

**Dennis Bowe-**

Yeah. So, from the first question. Yeah, we did have a large one-time \$3.2 million engineering reimbursement. You know, I think it's fair that we put that out there so people could understand where we would have been without it. We're not necessarily saying that is the forward expectation for where our net income per quarter. We just think it was a relevant point on Q4.

**John Franzreb**

Okay. You touched on this in your prepared remarks. The Mexican peso has been something of an issue over the past five or six years now. Can you talk a little bit about the hedge you put in place? Does that hedge your exposure fully for the next year?

**Dennis Bowe**

You know, we never fully like historically, we've never fully hedged against the peso. And one of the one of the key reasons are our ADAC STRATTEC joint venture, which does have similar peso exposure. It does have local revenue received, although it's a U.S. dollar based pricing. But the customers are in Mexico. Major, major big three customers in Mexico.

And therefore, we do have currency that's paid in pesos. So, we do have some limitations to how much of our foreign exchange we can hedge. So, we hedge a safe amount that we feel is commensurate with the business. But it's not fully hedged, it's less than half.

**John Franzreb**

Okay. I guess we can sort of tie these two questions together. Talk a little bit about what you see as growth opportunities for the company. Remember, the audience has narrowed in on the new phone as a key program. What's the pipeline product opportunity for this product?

**Jennifer Slater**

Thanks for the question. As I talked about, we are spending some time in developing our go forward strategy and part of that is enabled by understanding our profitability and our value that we offer to our customers today with our current product segments. As we have a better understanding of that, we can understand where our real opportunities for growth are by product segment.

**John Franzreb**

Question about the IT upgrades, you know, you mentioned that it's something of an issue. How big of an issue do you think of it is? How much spend you think is going to be needed in IT?

**Jennifer Slater**

I'd say as we develop our strategy, IT will be an enabler of how do we think about, you know, the affordability of the IT and the benefit that it's going to give us to the business to continue to drive growth. You can always get at Data and good old Excel. And so that's not preventing us from getting the information to look for where the opportunities are today and building in the future. But I do see it as a big enabler for how we get access to the data and how we make decisions quicker going forward.

**John Franzreb**

Maybe if we step back a level here. Question from the audience about who's your competition? Who do you consider your competition and how do you gain share?

**Jennifer Slater**

Yeah, so great question. You know, reflecting back on the slides that I showed on all the places where our products are available in the vehicle today and the product segments that we operate in, our competition varies. But the key to our products really is the technology and the innovation we bring to our customers through solid customer relationships. And that's what drives our value and our differentiation against our competition.

**John Franzreb**

Good question here from your audience about the balance sheet, how do you look to maximize your balance sheet strength?

**Dennis Bowe**

I'll talk to that. One of the areas of opportunity is just the working capital. Whether that be inventory turns, or high levels of customer tooling and some outstanding Mexican value added taxes that are kind of there were a one timer that went out that we're expecting to work back. So, there's a lot of opportunity for us to tighten up our working capital.



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Inventory will take us longer to get to find and I think it's through the strategy and operational model work that we find the right inventory turn that but that will most likely take... that that's the longer term of the three.

**John Franzreb**

Question about where the stock is trading below tangible book value you have strong free cash flows, you have a reconstituted board of directors. What are your thoughts about repurchasing stock? Capital allocation for that? Free cash flow? I know you've got money allocated to the stock, you know, systems improvements or what do you think? What are the thoughts about, you know, buying back stock at this level?

**Jennifer Slater**

Yeah, we get it. We have to get our hands wrapped around the business today and our operations today. And the usages of cash we need. As we further develop our strategy will continue to have a better understanding of, where we should prioritize our cash.

**John Franzreb**

Got it. And what are your thoughts about car production estimates, maybe for the balance of this year and maybe looking forward into next year? What do you how do you see that playing out the near term?

**Dennis Bowe**

We did put in the 10-K in the executive outlook. Based on July, IHS July are forecasting, you know the forecasting source for North American production; that the overall industry looks to be relatively stable over the next 12 months, our fiscal 25. Although, slightly softer on Ford General Motors and Stellantis. It's worth noting that we went through the same exercise as on our preliminary view of our budget back in February and where there was growth in February from IHS forecast within four months, by July they were projecting something more stable. So as far as we know, there could be further softness and maybe IHS is catching up, we don't know. But right now, we're projecting relative stability with a slight softness in the Big Three.

**John Franzreb**

Jennifer, you mentioned that your agnostic to the platforms, but is the dollar content the same in ice versus hybrid versus full EV?

**Jennifer Slater**

Yeah, it's a great question, John. And again, I don't want to sound like a broken record here, but it is an area to get the granularity at a platform level on what our content looks like. And you know, because we are in automotive and Dennis just talked about overall vehicle production, the platform production and what platforms are winning also matters. So, as we continue to build out our strategy, we'll look at our growth products on those key platforms and prioritize both our customers and our platforms. But the benefit to me coming from the automotive industry and electrification for a very long period of time is, we don't have to worry about different products and different technologies as the shift is happening from internal combustion engine to EVs.

**John Franzreb**

Fair enough. Questions from the audience about again, cash flow generation. How much cash flow generation you expect from inventory levels. Customers Toolings and the Mexican value added tax receivables over the next 12 months? It sounds like you did actually.

**Dennis Bowe**

As I mentioned earlier, of the three, the inventory levels is the one that requires the most study. What is the right inventory turn? So that is and once we determine that, how quickly can we get to that point? But I think optimizing our inventory turn has been and will continue to be a focus. It was a focus before Jen got here, but I don't think it was it was sufficient enough.

So, I think we'll get that right and we'll determine how long that is. The other two items are elevated balances, like the customer tooling. Historically was closer to \$10 million and ballooned with the launch of so many new programs, it ballooned up to, it peaked at around \$25 million. We finished the year fiscal year '24 at around 22.

And that's work in progress to get recovery for that. Those tools will be owned by our customers, and they will pay us the cash for it. Now, the exercise is how quickly we get that cash, but we anticipate getting that cash. Same with the Mexican VAT receivables.

There was about eight and a half million dollars that in a one timer that the Mexican IRS has. And as we can all imagine, you know, trying to predict what the IRS is going to do, especially a foreign one and when you're going to get your money back, is highly unpredictable. But it is something we anticipate to get back.

**John Franzreb**

All right. I see. No questions remaining. Any final thoughts, Jennifer?

**Jennifer Slater**

Now the slide that's up here really covers the key points. You know, we really are focused on getting to a more predictable and stable business and developing a strategy. And I'm excited about the opportunity here.

**John Franzreb**

All right. Well, thank you for attending the conference today. I know you have a full schedule ahead of you, so I appreciate you being with us. Sidoti and Company. Everybody, have a great day.

**Jennifer Slater**

You, too.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the STRATTEC Security Corporation (STRT) Sidoti presentation that occurred on the date noted. Please refer to the webcast version of the presentation, which is available on the Company's website ([strattec.com](http://strattec.com)) as well as to information available on the SEC's website ([www.sec.gov](http://www.sec.gov)) before making an investment decision. Please also refer to the opening remarks of this webcast for STRT's announcement concerning forward-looking statements that were made during this presentation.