

STRATTEC SECURITY CORPORATION

THIRD QUARTER FISCAL YEAR 2025

EARNINGS RESULTS CONFERENCE CALL TRANSCRIPT

MAY 9, 2025

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Presenters and Participants

PRESENTERS

Jennifer Slater

President and Chief Executive Officer

Matthew Pauli

Senior Vice President, Chief Financial Officer

Deborah Pawlowski

Investor Relations

PARTICIPANTS

John Franzreb

Senior Equity Analyst, Sidoti & Company

Ethan Starr

Private Investor

Presentation

Operator

Greetings and welcome to the STRATTEC Third Quarter Fiscal Year 2025 Financial Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce Deborah Pawlowski, Investor Relations for STRATTEC. Please go ahead.

Deborah Pawlowski

Investor Relations

Thank you, and good morning, everyone. We greatly appreciate you joining us for STRATTEC's third quarter fiscal 25 financial results conference call. With me on the call are Jennifer Slater, President and CEO, and Matthew Pauli, Vice President and Chief Financial Officer.

Jen and Matt are going to review our third quarter 2025 financial results and provide an update on the progress being made to transform STRATTEC. You can find a copy of the press release and the slides that accompany our conversation today on the investor relations section of the Company's website.

If you are reviewing those slides, please turn to **Slide 2** for the safe harbor statement. As you are aware, we may make some forward-looking statements on this call during the formal discussion as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks, uncertainties and other factors are discussed in the earnings release as well as with other documents filed by the company with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I want to also point out that, during today's call, we will discuss some non-GAAP measures, which we believe will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP to comparable GAAP measures in the tables accompanying the earnings release and slides.

With that, if you would please turn to **Slide 3**, I will turn it over to Jen to begin.

Jennifer Slater

Chief Executive Officer

Thank you, Deb, and welcome everyone. I'm pleased to share our third quarter fiscal 25 results and provide an update on the transformation of STRATTEC. Once again, we delivered solid performance with meaningful progress on both financial and strategic fronts.

Let me begin with a few highlights from the quarter.

We generated nearly \$21 million in cash from operations in the third quarter, bringing our year-to-date total to \$41 and a half million dollars. This strong cash generation reflects the significantly improved earnings power of the business and our disciplined approach to working capital management. With over \$60 million in cash and limited borrowings on our revolver, we're operating from a position of strength — one that gives us considerable flexibility to navigate today's increasingly dynamic market conditions while executing on our long-term strategic priorities.

The actions we have been taking to improve the business, including taking out costs and capturing price, were demonstrated by meaningful margin expansion. Year over year gross margin expanded 560 basis points and sequentially, margin expanded 280 basis points. This improvement more than covered the investments we are making in talent within the organization and, as a result, we posted net income of \$1.32 per diluted share — a more than threefold increase from last year's third quarter. Adjusted EBITDA was \$12.9 million, or 9% of sales, up from 4.4% in the prior year period. This continued margin expansion gives us confidence that Strattec is on the right path, but we believe there is more work to be done.

Turning to our strategic transformation efforts — please turn to **Slide 4**.

Our teams remain focused on strengthening STRATTEC's operational and financial position. We took another step forward by implementing a restructuring of our Mexico operations in March. Combined with earlier actions in Milwaukee, total annualized savings from fiscal 2025 restructuring activities now total approximately \$5 million. Importantly, these actions reflect a broader cultural shift — one where cost optimization and margin expansion are priorities for the organization.

We are also taking proactive steps to manage through the evolving tariff risk. While the situation remains fluid, it's also important to note that over 90% of our U.S. sales volume is USMCA-compliant and, therefore, should not have any impact to our business. We estimate the annualized impact of recently announced U.S. tariffs to be \$9 to \$12 million in added costs before mitigation. That said, we've moved quickly. We're actively adjusting logistics routes, engaging in pricing discussions with customers, and shifting sources in our supply chain. Matt will cover this topic in more detail during his section of the presentation.

Our strong balance sheet and internal momentum give us confidence that we can absorb and adapt to these changes while continuing to drive performance.

Let's turn to **Slide 5** to discuss our sales results.

The modest improvement in sales year over year was the result of favorable pricing actions, improved product mix, and net new program launches. I'm especially pleased with the continued success we're seeing in placing higher-value content on existing customer programs — a clear indication that our commercial and engineering investments are paying off.

In summary, the work we began early in fiscal 2025 is now showing up clearly in our results — in margins, in cash flow, and in our ability to control our destiny. While macro uncertainty remains — including tariffs and industry volume pressures — we've built a more agile, focused organization that is positioned to deliver through cycles.

With that, I'll turn it over to Matt to walk through the financials in more detail.

Matthew Pauli
Chief Financial Officer

Thanks, Jen, and good morning, everyone. Let's begin with **Slide 6**. Our gross profit for the quarter rose significantly to \$23.1 million, up from \$14.7 million in the prior-year period. Gross margin expanded by 560 basis points to 16.0%, driven by a \$4.4 million benefit from a stronger U.S. dollar, strategic pricing actions, and continued operational improvements in material and labor cost efficiencies. These gains more than offset \$800,000 of additional tariff expenses stemming from recent changes in U.S. trade policy.

Given the timing of the restructuring actions that Jen explained earlier, our quarterly results included a partial period benefit from the restructuring actions of about \$200,000. We anticipate these actions to be completed in the fourth quarter. The savings will phase in and be at full run rate in the first quarter of fiscal 2026.

Year-to-date, gross margin improved by 240 basis points, reflecting these same drivers, pricing discipline, cost optimization, and FX, partially offset by elevated labor costs in Mexico and ongoing tariff headwinds.

Let's turn to **Slide 7** and delve a little more into the tariff situation, and why we think we are in a fairly good position. Our current tariff exposure remains manageable. Approximately 65% of our products are imported into the U.S. from our Mexico assembly operations, and of that volume, over 90% is USMCA-compliant.

Therefore, only about 6% of consolidated sales...or \$30 million...is currently subject to the recent tariffs. As Jen mentioned, we estimate that the potential tariff-related costs are \$9 to \$12 million annually, before any mitigation actions. We have currently mitigated about 30% of the tariff impact and are in the process of pursuing commercial recovery for the balance. While confident in the recovery of the remainder, we are working through the process and timing with our customers.

We've taken swift and coordinated steps to manage this additional cost. Internally, we've launched a dedicated Tariff Task Force, added trade compliance expertise, and are reassessing our global supply chain and current logistics processes.

Turning to **Slide 8**. Engineering, Selling, and Administrative expenses were \$16.0 million, up \$3.3 million from the prior year, representing 11.1% of sales. This increase reflects deliberate investments in our transformation initiatives, including an \$800,000 restructuring charge, and \$400,000 of additional salaries as we add talent to our organization.

The quarter and year-to-date comparisons are also impacted by higher incentive and bonus expense of \$1.2 million and \$2.8 million, respectively. This is a result of our improved year-over-year financial results.

In addition, on a year-to-date basis, our administrative expenses include \$2.1 million in executive transition costs, up from \$1.1 million a year ago, as we realign our leadership structure.

Let's move to **Slide 9**, where we summarize our profitability.

Net income attributable to STRATTEC was \$5.4 million for the quarter, or \$1.32 per diluted share, compared with \$1.5 million, or \$0.37 per share, in the third quarter last year. On an adjusted basis, earnings per share increased 305% to \$1.50.

Adjusted EBITDA rose sharply to \$12.9 million, representing an adjusted EBITDA margin of 8.9%, up 450 basis points. Our results demonstrate the team's commitment to delivering sustainable margin improvement.

Now turning to **Slide 10**, which highlights our cash flow, balance sheet, and capital priorities.

Operating cash flow was strong at \$20.7 million, a meaningful turnaround from a use of cash in the same period last year. This improvement reflects enhanced profitability and disciplined working capital management. During the quarter we saw a \$6 million reduction in inventory levels and also extended our accounts payable to more closely align with our customer payment terms.

Year-to-date operating cash flow reached \$41.5 million. Our cash position at the end of the quarter was \$62.1 million, with approximately \$47 million available under our revolving credit facilities. We believe we have ample liquidity and financial flexibility to invest in organic initiatives and manage the current market conditions.

Year-to-date capital expenditures totaled \$4.2 million, consistent with our focus on new product programs, productivity enhancements, and IT infrastructure upgrades.

Our capital priorities as we advance through the transformation of the business are internally focused on operational efficiencies, leveraging productivity tools and IT investments, and driving organic growth through better market positioning, branding, and commercial processes. We are also being conservative with our cash through these rather uncertain times.

In summary, we are pleased with the solid financial progress this quarter and the momentum we are building through our strategic execution. With that, Operator, we're ready to open the line for questions.

Question and Answer

Operator:

Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] One moment please while we poll for questions. Our first question is from John Franzreb with Sidoti.

John Franzreb:

Good morning, everyone, and congratulations on a great quarter. Jen, I think I've got a model that shows how well you've negotiated this tariff environment. I'm kind of curious on two things. One, what was the absolute number of the impact of tariffs in the third quarter? And two, when you talk about the moves that you're making to mitigate some of your remaining exposure, that \$9 to \$12 million, how much do you think you could bring that down through logistics with suppliers and things like that?

Jennifer Slater:

Thanks, John. It's a great question. I'll talk a little bit about how we manage the process. I'll let Matt give you the exact number in Q3. We really started with what we could control quickest. We implemented some kind of no regrets move on logistics, where we were shipping across the border to the U.S. just to ship back into other countries. So, we've changed our logistics routes to ship direct to the customers. The second thing, obviously, we've continued to talk to our customers on commercial recovery. Then what takes a little bit longer is on the supply chain and moves from a procurement standpoint for sourcing. We feel confident that we can mitigate the full tariff exposure through all three of those things. We're working with our customers now on the process of recovery, which we expect to get full recovery.

Matthew Pauli:

From a financial perspective, from a financial perspective, in the third quarter, it was an incremental \$800,000 of tariffs, which is primarily all the month of March.

John Franzreb:

Got it. What kind of operating environment actually, assuming your customer base for the balance of the year, any kind of material changes than you were thinking about, say, three months ago ?

Jennifer Slater:

I think we're continuing to monitor automotive production and impacts of what tariff exposure has on our customers that will impact sales. We're making sure that we're prepared for any material impacts on production and getting our cost structure right.

John Franzreb:

Okay. Speaking of the cost structure, the \$4 million benefit from price and labor. What's the mix of price that you're able to realize versus the labor cost savings from the headcount reduction?

Matthew Pauli:

Yeah, it's about two and a half million dollars of price in the quarter. So, I think we talked about it last quarter where we had a customer extend program, a program and we were able to go in and kind of requote and get the pricing there. So, the pricing benefited us both on the key and lockset product line, as well as our power access product line.

Jennifer Slater:

Then on the restructuring savings, John, we haven't seen the full value of that yet in our results. We expect to see that as we go forward.

John Franzreb:

Any sense how much focus in head count reduction comes in on an annualized basis in savings?

Matthew Pauli:

Well, for the full restructuring for both Milwaukee and Mexico is about \$5 million on an annual basis. We only saw about \$200,000 in the current quarter and a lot of the actions in Mexico were at the end of the quarter. So, we'll see that ramp up and be at the full run rate in the first quarter of 2026.

John Franzreb:

And I guess one last question. Cash is building, you know, two parts to that. One, what's the CapEx budget going to look like for the balance of this year and maybe some thoughts into next year? It seems like there's an equipment upgrade going on. Secondly, it's been a while, any thoughts about reinstating the dividend?

Jennifer Slater:

Yeah, I think first, I'll just answer that. We feel fortunate that we've had the cash balance as we continue to navigate through the tariff environment and any near-term production challenges. Our efforts really have been internally focused as we look at modernizing our operations and looking for where we have organic growth opportunities. I'll let Matt talk through where we are from a rest-of-the-year projections.

Matthew Pauli:

Yeah, from a CapEx standpoint, on a go forward basis, think about it, around \$10 million. It will be definitely less than that this fiscal year, probably maybe \$2 to \$3 million here in the back half or the last quarter of the year. You know, we will be making some equipment upgrades there. Also, the last bit of IT infrastructure upgrades. But that's how I think about CapEx, roughly around \$7.5 million this year for the full year.

John Franzreb:

And thoughts on the dividend?

Jennifer Slater:

Yeah, I think we're just managing through near term first, but we are always considering our internal and external capital allocation. We're just not there with some of the uncertainty in the environment.

John Franzreb:

Okay, fair enough. I'll get back into queue. Thank you.

Operator:

[Operator Instructions] Our next question is from Ethan Starr, private investor.

Ethan Starr:

Good morning and congratulations on a great quarter. I'm wondering if you have any comments at this juncture on the potential or possible sale of your Milwaukee building facility?

Jennifer Slater:

Good morning, Ethan. Thanks for the question. We're really pleased with the progress that we're making on the potential sale of the facility. We're not yet ready to make any announcements on where we are, but we are really pleased with the progress.

Ethan Starr:

Okay, great. I know I know you're really focused internally and stuff, but I'm wondering if you're perhaps looking into ways that STRATTEC can expand its offerings to embrace to potentially adjacent industries other than automotive?

Jennifer Slater:

That's a great question, Ethan. I think we have a lot of opportunities still within automotive and transportation. So, our first focus is understanding what addressable opportunities we have in the markets we serve today. Once we get through that, we'll look at what other opportunities do we have in adjacent markets.

Ethan Starr:

Okay. Thank you very much.

Operator:

Our next question is from John Franzreb with Sidoti.

John Franzreb:

Just two questions. I guess one, I'm curious if you saw any pull forward in demand as maybe some of the customers wanted to get ahead of tariffs. And two, can you just kind of share with us how April and May are proceeding relative to what you saw in the first quarter?

Jennifer Slater:

Sure. We have seen some inventory buildup, you know, in the past from our customers. But what I would tell you is that our customers have done a really nice job to make sure that they're giving us some stable demand signals. So, we don't see any major fluctuations up and down from what we're planning through the through the quarter.

John Franzreb:

Okay. Fair enough. Thank you for taking the follow up.

Operator:

Thank you. I would now like to turn the floor over to Deb Pawlowski for closing remarks.

Deborah Pawlowski:

Thank you. And thank you, everyone, for joining us today. If you have any questions or need any follow up, I can be reached at (716) 843-3908 and my email is on the news release. Have a great day.

Operator:

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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) event 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) as well as to information available on the SEC's website (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.