

Gabelli 48th Annual Automotive Symposium

11/5/2024

Presentation Transcript

1 I'm Jen Slater, and I'm happy to be here with you today to talk a little bit about Strattec. First, as
2 everyone knows, safe harbor statement, I may say some forward looking statements. And this is just
3 a reminder from a safe harbor standpoint.

4 As Brian mentioned, we are located in Milwaukee. We are an automotive supplier. We spun out as a
5 public company back in 1995 from Briggs and Stratton. And that's when Strattec was created.

6 I really like this slide because it shows the depth of our product portfolio. You can see we provide
7 products all the way from the front of the vehicle for front latches, for Evs to the rear of the vehicle
8 with power access products for power lift gates. And then our legacy business, which is keys and
9 lock sets. We've recently invested in some technology for digital key fobs that's continuing to take
10 that original key and lock set products into the next generation.

11 From a customer standpoint, we're primarily North American based. You can see, the majority of
12 our customers have been the traditional Big 3 with Ford, General Motors and Stellantis, although,
13 although we do have some emerging new customer relationships.

14 We've got a pretty balanced product portfolio. You can see again the growth in our power access
15 products and the part of our traditional key and lock set business.

16 We've got facilities located across North America in Michigan, Milwaukee, Texas, and Mexico.
17 We have capabilities across those locations in design and engineering injection, molding, die cast
18 assembly, stamping and plating.

19 We've had a bit of a busy week. We had our 1st earnings call ever as a company yesterday, and so
20 I'm pleased to announce some of the highlights. From that call we delivered strong cash generation
21 of 11.3 million dollars that contributed to our solid balance sheet with 34.4 million dollars in cash.

22 Our revenue was up 2.7% or 9.1% on adjusted net sales. We had solid position with our power
23 access products on the F-series pickups. We had new products and contents with that with Aston
24 Martin and we launched new content with a leading Ev OEM.

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25 Our gross margin was 13.6% versus 13.8%. Our current year had 190 bps of favorable FX, and our
26 prior year quarter had 470 bps benefits of one time pricing.

27 As I said, I joined the company in July and we've really been working to thoughtfully assess our
28 future path. We've prioritized it really in 3 different areas to better understand the underlying
29 opportunity of the business potential. And I'd like to take a little bit of time to talk about each of
30 those areas.

31 1st is reimagining our product portfolio and defining our strategy. We're starting with an outside in
32 view of the market, understanding what our customers want today and where they're going in the
33 future. And how does our product portfolio align with that? And where do we see the biggest
34 opportunities for profitable growth with our existing products?

35 The second is, there is a lot of underlying opportunity in the business to continue to improve our
36 operational efficiency. We're focusing on supply chain and inventory improvements and our
37 operational process just getting back to the basics.

38 We're also looking at as we define where our product portfolio is going, making sure we've got the
39 right footprint to support that product.

40 And then nothing starts without having the right team and the talent in the organization. We've been
41 really prioritizing accountability and understanding on what each member of the team needs to
42 execute.

43 But we've also recently added a chief people officer, we announced yesterday. It's a critical role for
44 us for our over 3,300 employees across the our organization. And then we've also announced a
45 new chief commercial officer.

46 Again, kind of summarizing our investment rationale. You know we are in the very early stages of
47 transformation.

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48 Our priorities are around setting the strategy, driving operational improvement and making sure we
49 have the right team and talent.

50 And, as Brian said, we have a strong balance sheet that helps support that.

51 And now I'm going to join Brian for some Q&A.

52 Great thank you very much.

53 QUESTION: So, Jen, you joined on July 1st of this year, let's take a step back and understand what
54 drew you to to Strattec in the beginning, and maybe what in your background made you optimally
55 suited to take on this role?

56 Yeah, I shared with a few people yesterday that I think I was born to work in automotive. My maiden
57 name is Ford. No relation - grew up in Detroit as mechanical engineer, and spent my whole career
58 in the automotive industry. So I've got the experience of seeing what has transformed in the
59 industry. What I liked about Strattec is they had a strong history that was transforming with their
60 customer base. And that's something that I've done quite a bit over the last 30 years.

61 QUESTION: So along with that, you and I have spoken in the past about maybe some of the
62 potential that you saw at the company both from an operational perspective, but also from a
63 product perspective. Can you maybe go into a couple of those items?

64 Yeah. And it really is both operationally and strategic where the opportunity is. From an operational
65 standpoint we're just focusing on what are some of the near term KPIs that are going to drive the
66 biggest improvement in the business, you know, one of the things that we've been able to get at
67 already very quickly in the quarter was unlocking some unrecovered customer tooling. And that was
68 really just driven by having the right metrics in front of the team to drive the accountability to deliver
69 that progress in the quarter. Longer term from an operational standpoint, we've got opportunity with
70 inventory. But I see that really is implementing a strong SOP Process, and that will take some time
71 for us to unlock from a strategic perspective. Like I said, we're looking at the market, and what

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72 opportunity we have to continue to grow our products and an expanded customer base. We've got
73 a great power access business, and with our new chief commercial officer she's going to help us
74 spend quite a bit of time to understand where can we leverage that into new customers still in
75 transportation? And then with our lock set and key business that is slowly declining over time.
76 So we're looking at how do we make sure that we've got the right cost and the balance portfolio
77 work to support our customers through that while making sure we also have the right pricing for a
78 product segment that's declining over time.

79 QUESTION: This is a business that has been predominantly a North American customer centric
80 business, and we've talked a little bit about the opportunities potentially, not only with
81 transplant automotive, but also with electric vehicle manufacturers. Can you talk more about that?
82 And with the understanding it's only been 4 months, how you think about strategically expanding
83 that customer base? And what sort of products are going to help you get there?

84 Yeah. So our products are highly engineered products. Which means they're very sticky to our
85 customers. So for the platforms that we're on, we have good market share, and we're looking to
86 continue that as new vehicles and new platforms are released for new customer sets. We haven't
87 spent a lot of time looking at how do we take the products that we have today to serve the
88 customers in North America? And again, the addition of our chief commercial officer, we're looking
89 to leverage her relationships across that customer base to see where we can continue to expand.

90 You talked a bit about electric vehicles. The good thing about our product portfolio is, we are
91 powertrain agnostic. So you know, our products are found on internal combustion engines, hybrid
92 electric vehicles and electric vehicles. And that transition doesn't impact our products.

93 It's important to be on and have relationships with those customers. But we're not impacted by the
94 faster or slower transition there.

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95 QUESTION: One of the home runs for this company has been the power gates and power tailgates,
96 and I'm wondering when you think about that and power access? How critical is that for
97 these new participants, as far as the functionality of their vehicles?

98 Yeah, we continue to see trends on vehicles to get more and more automation and power access.
99 So I think we've got a great foundation to continue to build with our customers as they're looking at,
100 having more power accessibility into the into the vehicles and leveraging our engineering and
101 technical expertise to help them solve problems that they may not even realize exist with their
102 vehicles today.

103 QUESTION: Before we move on to some of the operational items that are on your agenda. Just so
104 you know, I'm very curious if this has been an automotive only company for
105 for its history and are there opportunities that you're thinking about potentially outside of the
106 automotive world?

107 Yeah. I talked a little bit about getting stability in our operations and we really are starting with
108 focusing on making sure we're executing for the customers that we have today. And then the natural
109 next step is where there are opportunities within the transportation business - you know, heavy
110 vehicle and off-road customers. So, continuing to look at transportation longer term. As we get the
111 stability and a strong foundation we'll continue to look at - Are there other markets that make sense
112 where our capabilities meet? A customer need?

113 But we're really focused on 1st executing with our customers, second, looking across transportation
114 and then looking at other markets.

115 QUESTION: Moving on to operations. I was very impressed. The 1st time that you were at a
116 conference and you came out. And really what you were very honest about some of the items that
117 were a work in progress. The company has an opportunity to get so much better at from an
118 operational standpoint, and from a financial reporting standpoint. Can you talk about that?

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119 Let's start operationally with the items that require the more immediate attention. Before you're able
120 to really have that outward focus that we just talked about. Yeah we've done 2 things already to help
121 that. We instituted monthly operating system reviews where our cross functional leadership gets
122 together to look at where the business is, so we can shift into more proactively managing the
123 business. We've also realigned our organization with our program management and our costing
124 team to be structured functionally, the importance of that functional structure for us is we used to be
125 organized by product. And over the past year we've had several impacts of expedited freight with
126 our customers. So focusing on making sure we've got clear execution to drive some of those
127 inefficiencies out of the business was a really good 1st step for us and getting that functional
128 alignment within our organization.

129 QUESTION: With this operational system that you want to implement, financial reporting becomes a
130 major part of that as well. Maybe this is a question for Dennis as well. Where are there opportunities
131 to improve from a from a financial visibility standpoint to help you better manage the business in a
132 more critical timeline?

133 Yeah, if you don't mind, I can do this one, and you can add. So we really looked at where was our
134 historical trends of the business. And then, understanding the financial performance in our monthly
135 operating reviews, as you mentioned and then bringing the team together to talk about it from their
136 perspective and where do they see opportunities in the business?

137 You know, we're early on in this. So I want to make sure that I caveat that correctly. But we are
138 looking at incremental opportunities for pricing freight I already mentioned, trying to mitigate some
139 of the expedited freight that we've had, and opportunities and packaging.

140 QUESTION: When we had spoken, you had talked about a very siloed organization which surprised
141 me, and I'm sure probably surprised you a little bit. Given the size of the overall enterprise. Can you

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142 give some examples about how these obstacles can be addressed and overcome as you as you

143 work through the year?

144 Yeah. The 1st thing that we did is we brought our top 35 leaders from across the organization

145 together in Milwaukee. It's the 1st time that team has been together in in person ever

146 so I think it was a good 1st step. We spent 3 days focusing on the business performance of the

147 year. How do we look at our strategy and then culture, because culture is a very important enabler.

148 We made sure that the objectives across the functions were aligned, so our functions weren't

149 working against each other.

150 And then I already talked about some of the changes we had with our program management and

151 costing organizations.

152 Just as a reminder. By the way, this is an open forum for Q&A. So if anyone wants to ask a question,

153 please don't hesitate. We'll get the microphone to you very quickly.

154 QUESTION: Reasonably speaking, the auto industry is relatively okay on timelines. We've certainly

155 seen some promises out of automakers that haven't come in the appropriate amount of time that

156 they had originally intended. But if you're thinking about how long it's going to take you to implement

157 your plan in a best case scenario. What are we looking at from a timeframe perspective? And I'm

158 not going to hold you to it. I just, I'm curious not judgmental.

159 Okay? Well, I'm going to answer it then, in the way I'd like to answer it, since you won't hold me to it.

160 But I would say that you know we're really working to develop what those milestones are that we're

161 going to measure ourselves against, and, you know, be able to communicate externally on what

162 those critical milestones are. So 4 months in, we're getting our, we're getting our hands wrapped

163 around it. But I think we're making progress.

164 And as we continue to find those milestones. We'll make sure we're communicating.

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165 QUESTION: Going to profitability of this business. You have significant operations in Mexico.
166 Mexican labor rates and peso volatility have been very difficult aspects to for the company to get
167 their hands around taking the 2 separately. How do you work together, or how do you work on those
168 to get greater predictability from a financial perspective? And in the case of your labor volatility, how
169 do you get pricing with automakers to make sure that you're earning an appropriate return.
170 So from a peso standpoint to help us in the near term, we've hedged. We're about 30% hedged. But
171 really to help us in the longer term. We're looking at what we can do with our contracts, both from a
172 customer and a supplier standpoint, to better match our costs with our with our price.
173 That, again will take some time from a pressure with wage inflation. You know I did mention we have
174 operations in Mexico. Everybody has seen significant increases with mandates on labor in Mexico,
175 especially over the past 3 years. So we are working with the operational team to focus on. What are
176 things that we can do from a cost standpoint to help us mitigate that wage inflation
177 from a pricing standpoint most automakers have are past the catch up of inflation. Pricing the team
178 at Strattec did a very nice job last year in getting a catch up pricing.
179 We are continuing to look at pricing as we go forward, but we really expect that to be a fractional
180 amount as what we achieved last year. So it's a more balanced approach on margin between
181 pricing and cost as we go forward and factor in all of those individual contributors.
182 It's worth pointing out again that the comparisons on a year over year basis from an earnings
183 perspective weren't exactly apples to apples. Given the recoveries that you were able to get a year
184 ago that you were owed.
185 QUESTION: I want to go to the product portfolio, as you see it. You know this. This conference has
186 its roots in the automotive aftermarket. And I'm curious how you think about the potential for your
187 business to develop any sort of aftermarket slash potential for subscription business at any point.

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188 Yeah, so our aftermarket part of our business accounts for about 7% of our revenue and is really
189 primarily with our key and lock set business. Our other products in the business are more served
190 through a service model with our original equipment customers and less about aftermarket.
191 We've got some differentiated, I would say delivery service for our Aftermarket customers on key
192 fobs, and I see that as an opportunity, and as we continue to define our strategy, we'll look at it. But
193 really from you know, how do you service or replace these parts?
194 Our aftermarket potential is within our legacy business staying with the product portfolio key fobs
195 have been a bit of a item for discussion in our office.
196 QUESTION: You know, you mentioned some secular decline. What percent, what potential exists for
197 this business to offset some of those declines and talk about? Maybe the existential threat that
198 exists for fobs and for keys in general from phones.
199 So we are seeing most of our customers are continuing to have a fob with a vehicle. Even when
200 your phone has technology, because there are many emergency situations where a key is needed.
201 But the model of how they deliver those key fobs can be different. So there may be more of a dealer
202 delivered model with a key fob. It may not come standard with your vehicle in the future.
203 We have developed some novel technology, both from a software and a hardware standpoint with a
204 digital key that helps communicate with your phone to enable the phone as a key technology. We've
205 made some progress with some customers in winning business with this product. And as we launch
206 those products over the next few years, we're excited about talking about some of that progress
207 we've made with those customers. It's again, any other questions that our out amongst our
208 colleagues want.
209 QUESTION: Could you take just a moment to explain what a power lift gate and power tailgate is.
210 And then I want to get into maybe some of the other areas that we've talked about exploration from
211 an access standpoint for that type of technology. Sure, traditionally, power lift gates are strut driven,

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212 and we haven't had a lot of liftgate business. But from a power access standpoint tailgates power
213 tailgates. You have a motor, a latching mechanism, and it's a very complex engineered product in
214 those vehicles where the customers are looking for package, flexibility, and safety and we've done
215 very well with our technical solutions for those products, as more and more power access is being
216 introduced into the market.

217 QUESTION: You have a unique Jv. 3 partners, including yourself. As I mentioned before, there's
218 about 13 million of Consolidated debt. However, that doesn't exist at the parent. It exists at this joint
219 venture, which is still very well capitalized. Can you talk about the joint venture? And then, as you're
220 thinking about where you're taking Strattec strategically. How does that fit with within? How you're
221 looking at the business?

222 Our joint venture partner is Adac, and very similar to the approach we're taking with our core
223 business about getting stability and the operations and defining the strategy we're working very
224 closely with them to, and they are very aligned again. I think we're a little bit early, and to say, Where
225 is that going to go in in the future right now? It's about continuing to improve the operating
226 performance of that joint venture.

227 QUESTION: And just from a margin standpoint, how does that business compare to the margins at
228 the Consolidated Strattec?

229 So we typically don't call out our joint venture margins but there is some opportunity there to get it
230 to more of one of our growth products.

231 QUESTION: And in the joint venture facility. How do you determine who effectively has operational
232 control? Who has quality control? Who is understanding the KPIs that are important to you. The joint
233 venture is structured where Strattec has operational control and Adac has more of the sales and
234 engineering control. That's traditionally how it's been structured.

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235 QUESTION: Who are your competitors bidding on the business, and I don't understand this. If
236 something goes wrong with my tailgate. You don't sell the parts for replacement.
237 We do sell the parts, but we sell them through the dealers, through the dealers. Yeah. But don't
238 you? Do you consider that a replacement part? Or do you consider an OEM part?
239 So it's a replacement part. But traditionally, our contracts with our customers have had a service
240 component in them which is more standard pricing than an aftermarket component.
241 As we have a new chief commercial officer, I think this is where we have some opportunity on how
242 we look at what that traditional service model is. It would still go through the dealers. But we have
243 some work to do on Jennifer, who competes with you on the liftgate and tailgates.
244 Magna is one of the competitors so it's a pretty vast competitive set, and our competitors are
245 structured a little bit different than us, because they have a wide, wider portfolio where we play, I
246 think, is in the that more technically complicated area. We're not a scaled player. Thank you.
247 At some point we'll ask you to look at your installed base and what you consider sales to the
248 dealers. Thank you. Yep. thank you for the question.
249 Talking about the balance sheet it's pristine. This was a business that was run very conservatively
250 from a leverage perspective for quite some time. Stock has done very well this year, but still on a
251 potential basis, is arguably is arguably undervalued.
252 QUESTION: How do you think about utilizing this balance sheet from a return of
253 cash to shareholders, from an M&A perspective in this journey that you're that you're now starting
254 our focus again is driving operational stability.
255 So any M&A that we would do wouldn't be successful. Right now, we're really focused on delivering
256 on the core business.
257 We're also a highly cyclical business, and we need to have better predictability of what our business
258 is in the future. To make sure we've got the right understanding of what those uses of cash are in

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259 the future. And again, you know, I think it's great that we've got the opportunity with the balance
260 sheet that we have. So we can focus on providing the stability of the business and the strategy of
261 where we're going in the future we've seen, and I think this will probably wrap us up. But we've seen
262 one of your customers. In Stellantis deal with some excess inventory and cut cutting production for
263 the back half of the year. How do you operationally handle? Maybe some of the lack of visibility or
264 predictability that comes with that sort of fairly quick guidance cut or production cut.

265 Yeah this is something that every supplier is struggling with. Obviously right now, and part of that is
266 making sure you've got a robust supply and operational planning methodology, which I said, we're
267 we're focusing on because you want to make sure that you are flexible as far as your material supply
268 your operations, and we've got some work to do there. So I'm taking it back to what I said is kind of
269 prioritizing what those near term opportunities are, because we know that there most likely will be
270 headwinds in the future with some of our customers and softer demand. I appreciate you using the
271 term opportunity. I think a number of us in this room would agree with that. I want to thank you both
272 for making the trip to Las Vegas. We hope to see you here again next year, but it's great to have
273 you, and I wish you the best, as you continue on this journey with Strattec. Thank you very much.

274 Thank you.