

STRATTEC SECURITY CORPORATION

LD MICRO INVITATIONAL XV WEBCAST TRANSCRIPT

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Table of Contents

Presenters and Participants	2
Presentation	3
Question and Answer	5

Presenters and Participants

PRESENTERS

Jennifer Slater

President and Chief Executive Officer

Matthew Pauli

Senior Vice President and Chief Financial Officer

Presentation

Jennifer Slater

President and Chief Executive Officer

Thank you so much. I'm excited to be here. I'm going to tell you a little bit about STRATTEC. We also will mention tariffs, because I know not anybody has talked about that enough over the last couple of days. So, we'll touch on that as well.

I joined as CEO in July of last year, and it has been a really exciting nine months. So, while I want to talk about the business, I also want to talk about the transformation that we've been under over the last nine months.

Starting with our products, we have a large product portfolio that is found across the vehicle, all the way from the front of the vehicle to the rear of the vehicle. Our products really are in three product segments.

The history of our company was founded in the lock and key business traditionally, and that's where we spent quite a bit of our focus. Then, we acquired a company that did power access components, so you can think of power liftgates, power tailgates and power sliding doors. What we've done from there is we've taken the capabilities we have in our lock and key business and our power access business and we looked for areas where we can expand those capabilities, most recently into user interface controls, such as steering wheel switches and paddle shifters. We've also looked for ways where we can continue to increase our core platforms, our lock and key business, in taking those core fundamentals of system integration from mechanical components to software and looking at ways to expand into digital key technology. That's really a key fob that works with your phone and allows consumers to use both their phone and their key fob to access their vehicles.

We have a relatively balanced product portfolio across all of those product segments that I talked about. We've, historically, primarily served what was traditionally called the Big Three: Ford, GM and Stellantis. We have been expanding our customer base in recent years and we continue to see an opportunity to take our strong engineering capabilities, customer relationships and automotive knowledge to expand and diversify our customer base.

We have both U.S. and Mexico manufacturing. Our headquarters is in Milwaukee, Wisconsin, and we have a customer site in Auburn Hills. It's important for us to be close to the day-to-day operations of our customers. We have strong testing, engineering and prototype capability, and our manufacturing goes from die cast injection mold to light assembly. We do printed circuit board assembly as well as diecast and stampings.

Now, let's talk a little bit about the transformation that we've been under in the last nine months. You know, for me, it all starts with having the right team, so we're impacting the pace of change and impacting the culture for delivering results and driving accountability. There's a lot of underlying opportunities within the business and, for us, it's about getting the team together to make sure we're prioritizing on the right things that drive the biggest improvement to the business while we're stabilizing the fundamentals of the business. As I said, we have a strong foundation, so we have good products, good engineering capabilities, and good customer relationships. As we work on identifying what those underlying opportunities are and prioritizing, we're also building on that strong foundation as we continue to determine where we want to grow in our product portfolio. Again, it's all about prioritization. There is a lot of opportunity in this business, and that's what I'm most excited about. It's just making sure that we're driving the team to work on the critical things and, when Matt gets to the financials, I think you'll see some of the progress that we've already made in accountability with driving better cash management, unlocking some pricing and restructuring activities.

Speaking of the team, I'm really privileged and excited to be here, joined by Matt Pauli, our CFO who joined in November and has made a tremendous impact on the business. He didn't pay me to say that, like I don't need more work from him. He really has been a great add to the team. We also added a Chief Commercial Officer and a Chief People Officer. We're a company of over 3000 employees that had never had a head of H.R. before, and so much of what we need to do really starts with our team and our people. So, these three individuals really have made a big change in the business and have helped us continue the pace of change that we have in the prioritization process.

I'm going to talk a little bit more about the progress that we've made. Again, it's been nine months And we've made a ton of progress in a short period of time. I'm not going to say that the tariff situation hasn't been a distraction for us. During the last two months, we spent a lot of time on understanding how the tariff situation may impact us and getting to the fundamentals on how do we put in mitigation strategies. That slowed our trajectory down a little bit, but I am excited that there's still a lot of opportunity and we can hit the ground running as we've identified where we really need to prioritize. Again, I can't emphasize enough how it starts with a team. We've also added a Vice President of Supply Chain to help us get at our working capital, our inventory, our transportation and logistics. She's been key in helping us to better understand the tariff environment.

From an operational standpoint, we've looked at our footprint. We started pretty easy in our US manufacturing in Milwaukee. We were oversized for our volume and our operational needs, so we reduced a shift, saving \$1.2 million a year. Shay, who is our commercial leader, hit the ground running and in Q3, we unlocked some pretty significant pricing opportunities, about \$8 million annually worth of pricing that's already effective in Q3. We also then spent a lot of time on modernization.

So, having an efficient operational cadence and the business processes and the systems that support that allow the leadership team to have the granularity on the data to help us make sure we are prioritizing. Not only are we looking at opportunities, but we're really balancing those priorities with how do we stabilize and better operationalize the business.

And with that, I'm going to hand it over to Matt.

Matthew Pauli

Senior Vice President and Chief Financial Officer

Thanks, Jen. Maybe I'll just start out with some financial priorities. For our organization, we really grounded our team in two key financial metrics. the first being cash flow from operations and the second being profitability, or, as we measure it, in EBITDA. Historically, there hasn't been a strong focus on cash flow management and managing our inventory and our working capital, so we see a big opportunity to unlock value from a cash flow perspective. Those two metrics also align with our annual incentive for our employees, so those are the two key drivers for our annual bonus program.

When I joined the organization in November, I knew it was a business transformation. It was also a transformation for the finance and for the IT organizations as well. A lot of our historical processes, from a finance perspective, were very manual in nature, so we're working to improve those to be much more proactive in providing data to our supply chain, our operations and our commercial team. So, focusing on customer and product line profitability, focusing on financial planning and analysis. From an IT perspective, we are in the process of upgrading our IT infrastructure and our network, and we'll also look at our applications to see if there's an opportunity to modernize our applications. Overall, our focus is really on just prioritizing all the value creation opportunities and the transformational opportunities for the organization, but, in the short term, as Jen mentioned, our number one priority is the tariffs.

We start each day with a one-hour meeting on tariffs with the top leaders across the organization cross-functionally, so supply chain and commercial, to understand what the customers are saying, what we can do differently operationally and, also, just understanding the daily changes with the various tariffs. The tariffs do have an impact on our business. We do source components globally and a lot of our final assembly happens in Mexico, so the deferral of tariffs for USMCA-compliant items is significant. It's a big benefit for us, because the majority of our items that are assembled in Mexico are USMCA compliant.

With that backdrop, I just wanted to summarize our financial results. As a reminder, we're a June 30th fiscal year end, so these results are for our most recently-completed quarter, which was December 31st. From a highlight perspective, we generated about \$9 million of cash in our second quarter. Our revenue was up about \$11 million to \$129 million on a market that was relatively flat during that period. Our revenue growth was primarily driven by new program launches that happened in the second half of fiscal '24, so our revenue growth in the second quarter was about 9%. I'd expect that to moderate a bit here in the back half of the year as we anniversary some of those new program launches. From a profitability standpoint, we generated about \$8 million of EBITDA in our second quarter.

This next slide just summarizes our sales in the quarter. As Jen touched on, our key customers, which are our relationships measured in decades, are on the left-hand side of the slide. About 70% of our sales are to a U.S. production facility and the other 30% are to an international location, primarily Mexico, Canada, Korea and some European countries. On the right-hand side of the slide, you can see our five key product categories. We provide these products to both OEM and aftermarket customers. Our aftermarket business is about 10% of our sales.

Next, just looking at our gross profit, in our second quarter, we generated \$17.2 million of gross profit, which is about a 13% gross profit margin. With our operations in Mexico, obviously, the recent strengthening of the U.S. dollar has had a benefit on our financial results of about three and a half million dollars. On the flip side, being in Mexico, we also see the downside of higher labor costs in Mexico recently, with just government-mandated wage increases. When I look at our gross profit, if I exclude some one-time pricing recoveries in the prior year and the impact of the currency, we improved our gross profit margin by about 100 basis points in the quarter, which was largely driven by additional volume.

Next, if we just look at our SAE, which is sales, admin and engineering...

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Question and Answer

Jennifer Slater

...really only focused on, like I said, traditionally the big three. That's what we're doing. Our partner always asks us, What inning are you in, Jen? I'm a hockey fan, so that's hard for me to translate, but bottom of the second I think is what we aligned on. It's been around stabilizing the business, and then, once we have a stable foundation, it's how do we continue to grow? The easy answer is, we have an addressable market with customers that we haven't actually addressed; and then, you add on heavy vehicle off road markets; and then, making sure we understand what we're good at first before we would go look at what other adjacent markets we could address.

Question:

Can you talk about your portfolio from the standpoint of where the growth came from most recently in the quarter?

Jennifer Slater

So, the question was, where do we think our opportunity is for our product portfolio to grow and where do we think we may be falling off in our product portfolio?

Some of our recent growth has been in our power access products with launches on power liftgates and tailgates, and we've had growth in power sliding doors. In our traditional lock and key business, I would say there's been a lot of theory that, over time, that's going to decline as technology continues to increase in vehicles. While we have seen some decline, I would say that decline isn't moving as fast as initially anticipated. It's hard to tell a consumer you can't have a key fob if you need to hand it to your son or a valet or something else, so we still see a strong market for plenty of years in our traditional business as well.

Matthew Pauli

Other than that mature market we saw in our first half of the year, we did see growth across all of our product lines and it's diverse across the customer base as well, so it's not concentrated on a particular customer.

Question:

I would assume that your wins are locked in for the next two years or three years, start of production, certainly, so what's flowing out of production and what does that scenario look like for '27?

Jennifer Slater

So, the question is, what does it look like through '27 because it's a long cycle business.

We haven't given any kind of guidance on what the future will look like, but what I'd say fundamentally is, the programs that we're on today are the programs that will continue to be on, because we're in a long cycle business. So, those platforms, generally, last in the near term. When I talked about taking the engineering capabilities, leveraging and looking for opportunities for growth, that's why it's important for us to do it today, because what we're working on today won't launch for 3 to 5 years.

Matthew Pauli

I'd also say that the program life is a little bit longer than that, so it's probably 5 to 10 years for the program life and then the 3 to 5.

Question:

What's your ultimate goal for the EBITDA margin? That's up to 6.3. What's a respectable, achievable level

Jennifer Slater

So, the question is, what's the ultimate goal for our EBITDA margin?

What I would say is, Matt's and my focus has been on this. We've demonstrated a certain level of EBITDA margin in the past and our starting point is how do we get back to that?

Matthew Pauli

I think it's definitely a double-digit EBITDA margin. You know, we've made some improvements here in the first half of the year, but we haven't gotten to all the improvement opportunities that we've identified. I think the opportunities for us are both on the operations and supply chain, so a cost management perspective, as well as on a growth additional

volume in our facilities, and also on the pricing front. So, I think there are lots of different levers that we can pull to improve our profitability.

Jennifer Slater

And, I think, for me, the exciting part of that is, in nine months, we have already been able to show some of that, where's the right place at the right price to source those for ourselves and our customers.

Matthew Pauli

Yeah, I'd say that the tariff situation, while it's been taking time away from the business transformation, it has also shined a light on other areas where we can improve the business. So, we have a distribution center in El Paso, so the customers pick it up in El Paso, which is obviously in the U.S., but... could they pick it up directly from our facility in Juarez or Leone, Mexico? It also has made us relook at our global supply chain. Right. So, how much do we want to source from China and other countries? I think those are those are opportunities as well for us.

Jennifer Slater

If we're making it in Mexico and we're shipping it to Europe, there's no reason to go from Mexico, to the U.S., to Europe. We can just go to our customers and this work has really helped us to better understand the granularity of our supply chain mechanisms.

All right. Thank you.

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) LD Micro Invitational XV webcast 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.