

STRATTEC SECURITY CORPORATION

FIRST QUARTER FISCAL YEAR 2026

EARNINGS RESULTS CONFERENCE CALL TRANSCRIPT

OCTOBER 31, 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
Sidoti & Company

Ethan Starr
Private Investor

Presentation

Operator

Greetings and welcome to the Strattec Security Corporation First Quarter Fiscal Year 2026 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Strattec. Thank you. You may begin.

Deborah K. Pawlowski

Investor Relations

Thank you, and good morning, everyone. We greatly appreciate you joining us for Strattec's first quarter fiscal 2026 financial results conference call. Joining me on the call this morning are Jennifer Slater, President and CEO, and Matthew Pauli, Vice President and Chief Financial Officer.

Jen and Matt will review our financial results; the progress being made to transform Strattec and our outlook. You can find a copy of the news 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 forward-looking statements on this call during the formal discussion as well as during the Q&A. 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 as well.

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, let me turn it over to Jen who will be referencing slides 3 through 5.

Jennifer Slater

President and Chief Executive Officer

Thank you, Deb, and welcome everyone.

We started fiscal 2026 in a solid position, and our financial results are a direct testament to the actions we have been taking to transform the underlying operations of Strattec to improve our earnings profile. The progress reflects the significant effort by our team and the magnitude of change we have been implementing.

Revenue grew nearly 10% in the quarter while gross profit margin expanded 370 basis points and EBITDA margin expanded 310 basis points to 10.2%. Margin improvements are a result of higher sales, pricing actions and cost reduction activities.

We continued to actively manage our cost structure and implemented an additional restructuring action during the quarter that is expected to provide approximately one million in annualized savings that will be fully realized in the third quarter of this fiscal year.

We also had solid cash generation of \$11 million dollars and ended the quarter with just over \$90 million of cash on the balance sheet. We believe this provides us the capital to continue to execute on our transformation plans while providing a cushion during these rather turbulent times for the automotive industry.

I'll talk more about the short-term automotive industry headwinds that have been layered on top of the impact of tariffs after Matt covers the details of the quarter results.

Matthew Pauli

Senior Vice President, Chief Financial Officer

Thanks, Jen, and good morning, everyone. Let's begin with **Slide 6**.

First quarter gross profit increased \$7.4 million, or approximately 40%, on 10% sales growth while gross margin expanded by 370 basis points to 17.3%.

Gross profit improvement was the result of strategic pricing actions, higher production volumes, some modest contributions from tooling and \$1.3 million of restructuring savings. These gains more than offset five hundred thousand in unfavorable FX, two hundred thousand of net tariff expenses and a \$1.1 million increase in statutory labor rates in Mexico.

Sequentially, gross margin improved 60 basis points on relatively similar revenue, as bonus accruals normalized and tariff recoveries helped to offset the unfavorable impact of FX and higher warranty reserves.

Selling, Administrative and Engineering expenses, or SAE, were \$15.9 million, a \$2 million increase year-over-year reflecting the investments in the business transformation. As a percentage of sales, SAE was 10.4% somewhat similar to the prior year and within our expected long-term range of 10% to 11%.

Let's move to **Slide 7**, where we summarize our profitability.

Net income attributable to Strattec for the quarter on both a GAAP and adjusted basis was up meaningfully year-over-year reflecting the progress we have been making with the transformation even as we invest to drive the progress.

Adjusted EBITDA was \$15.6 million, representing an adjusted EBITDA margin of 10.2%. Our results reflect the team's commitment to delivering sustainable margin improvement. As I have noted before, over the long-term, we believe the business model would suggest low teen EBITDA margins. Reaching the double-digit level we believe demonstrates the validity of this expectation.

Now turning to **Slide 8**, which highlights our cash flow, balance sheet, and capital priorities.

Operating cash flow was a more normalized \$11.3 million for the quarter, coincidentally similar to the first quarter of the prior year.

We had capital expenditures of \$1.5 million in the quarter, or about 1% of sales. While we are investing in the business, we tend to not be capital intensive. We expect capex to be higher over the next several quarters as we advance our plans to accommodate the changes we are making to modernize the business.

We now have \$90 million of cash and approximately \$53 million available under our revolving credit facilities. Subsequent to the end of the first quarter we did enter into an amended and restated \$40 million revolving credit facility which extended the maturity until October 2028.

We believe we are in a secure position with our cash balance to continue to advance our transformation plans as well as begin to investigate what M&A may look like for us. I'll caution that we are in the very early stages of this discussion internally about what that scenario could be. Right now, we won't have much more to add to the conversation but we believe acquisitions could be a part of our longer term, future growth.

If you turn to **Slide 9**, I'll hand it back to Jen to review the conditions in the automotive industry and the actions we are taking.

Jennifer Slater

President and Chief Executive Officer

Thanks, Matt. As you know, we are heavily dependent on volume to deliver profits.

I am sure you are all aware of two significant events that have impacted auto production. First, an aluminum supplier had a fire in its facility which will impact production levels for some of our major customers during our second quarter and potentially into our third fiscal quarter. The return to full production and restocking dealer inventory levels for our customers can take months to make up for lost time.

The second major event is the result of international trade restrictions on a chip supplier that has caused shortages of semiconductor chips to the automotive industry. At this time, we do not know the full impact to how our OEM customers will respond as the industry looks for alternative sources.

We will use this time to build finished good inventories to be able to better serve our OEM and aftermarket customers, reduce expedite costs and be prepared for anticipated demand rebound as OEM customers catch up for lost production time.

Importantly, we will continue to monitor demand signals and take appropriate actions to align our cost structure as needed.

Despite these constant industry macros that disrupt progress, we are in a better position to manage the current issues facing our major customers than we would have been last year.

Let me update you on our transformation plans. We have started modernizing our operations with automation. While some of the improvements we are making may seem menial – each one makes a difference. For example, we are starting to automate certain manual assembly stations in our Mexico operations. These relatively simple automation projects have been validated, and we are applying this automation process to other production lines.

Our commercial efforts are centered on gaining new customers as well as capturing future vehicle platforms with existing customers. To do this well requires a deep understanding of our products, cost structure and where our value add is generated. We still have more work to do on this front, but we are continually assessing our operations and product portfolio to drive value.

Regarding the sale of our Milwaukee facility and the modernization program – we have come to the conclusion that our best route is a sale leaseback. This should provide us a better return on the building, reduce the challenges of moving production operations, allow us to right-size our floor space requirement, and redesign production flow.

In conjunction with this decision, we will be consolidating our test lab to Auburn Hills, Michigan. This will put it closer to the customer and the commercial team for greater collaboration and oversight.

We also plan to move the corporate offices to a more modernized facility to continue to advance our culture and enable better productivity.

We have been producing results that demonstrate the effectiveness of our efforts to drive profitability and we believe we have a great foundation upon which to grow. I'd be remiss not to thank the team that has made this happen.

With that, Operator, we're ready to open the line for questions.

Question and Answer

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of John Franzreb with Sidoti & Company. Please proceed with your question.

John Franzreb

Good morning, everyone. Congratulations. Another good quarter and thanks for taking the questions.

Jen, I'd like to start with your ongoing review of operations. What can you share with us that's new compared to what we discussed in fourth quarter results?

Jennifer Slater

Hi, John. Good morning. Thanks for your question.

I touched a bit on some of the automation work we're doing and I think, you know, as we go through this transformation and we really started with the basics, we're now moving on to where there are simple processes that we can leverage automation and then for new for future products, we'll look at, you know, are there more transformational ways to automate our manufacturing?

So, it's really just progression of our thinking as we're stabilizing the underlying operations and moving to the next phase of modernization.

John Franzreb

And how should we think about the change in CapEx as you start to automate? What is the CapEx budget, say, for 2026, look like versus 2025?

Matthew Pauli

It's hey, John, it's Matt.

You know, on a full year basis, our CapEx budget is about \$12.5 million, so it's about 2% of our sales. But the cost of automation has come down over the years.

So, it's not a significant investment from a from a CapEx standpoint.

Jennifer Slater

And I'll maybe just add on to that, John, just to give you an example, there's really simple automation processes that we're starting with. Where you're manually putting a screw into a part, we've proven that that's an easy thing to automate.

Automation costs really have come down, and so they're quick payback to look at those simple ways to automate our processes.

Deborah Pawlowski

You may want to talk on the Mexico restructuring too, the most recent.

Jennifer Slater

Yeah, I think we also talked about that.

We continue to look at our cost structure, John, and so we have done another look at our Mexico operations. We continue to drive efficiency in Mexico, and so we will see in our Q3 a more favorability from further restructuring that we've done in Mexico.

John Franzreb

Actually, that kind of dovetails nicely into maybe you looking at the footprint of the company, relocating the labs, changing of corporate offices, and now going to a sale leaseback on the Milwaukee facility. Just talk about your thought process and some of the moves you are making here. Is that maybe optimize what you think the manufacturing and the corporate footprint should look like on a go-forward basis?

Jennifer Slater

Yeah, I think it gives us flexibility. We're optimizing for what we have today, making sure we're utilizing the space, getting a better process flow, moving the things and consolidating where we're closer to the customer, like the test lab and then driving our continued culture change.

So, it's an ongoing process, John, to make sure that we're leveraging the footprint that we have to where our business is today, but where we think we're going to be in the future, along with providing ourselves flexibility.

John Franzreb

Okay. In slide number 9, you're signaling a cautionary outlook certainly in the next quarter and change.

Can you talk about the potential impact to the company on the fire and the semiconductor production disruption? Can you kind of quantify what you are thinking and the timing of all this become now normalizing again?

Jennifer Slater

When we started the year, John, we said that, you know, we would really be in line with North America production because we would be lapping some of our launches and the pricing actions that we had last fiscal year.

With that in line, we thought we would be modestly flat, or flat to modestly down. That didn't anticipate the supplier issue or the chip shortage. We do see that will be an impact here in the quarter because our customers have already announced some time out.

I know our customers will work like they always do to make as much of that up as they can. It will be a timing issue. But right now, there's too much uncertainty to say what the full impact of those will be for the full year for us.

John Franzreb

Okay, with that, I've taken enough time. I'll get back in queue.

Operator

Our next question is from Ethan Starr, a private investor. Please proceed with your question.

Ethan Starr

Thank you. Great quarter. My question is regarding the automation products that you do to further improve gross margins, what types of return on investments do you expect from those, and when might such returns show up in quarterly results?

Matthew Pauli

Yes, well, it's less than a one-year payback, Ethan, and I think we'll start to see some of those results in the second half of this fiscal year.

Ethan Starr

Okay, great. And then on page 4 of the slide deck, it says that Strattec is developing relationships, with other North American vehicle manufacturers. Are you able to tell us anything about this at present?

Jennifer Slater

No, not specifics, Ethan, but we have talked about that. We've had a pretty limited customer reach with the North American Oes. Our products add value to other customers in the region.

As we start thinking about where do we have opportunity with our power access products and our digital key, we're looking to support the customers we have today, but also expand our customer base.

Ethan Starr

Okay, great. Thank you very much.

Operator

We have no further questions at this time. I'd like to turn the floor back over to management for closing comments.

Deborah Pawlowski

Thank you very much, everybody, for joining us here today.

We will be presenting Monday at the Gabelli Automotive Symposium in Las Vegas. We will be posting the presentation associated with that on our website Monday. In the meantime, if you have any questions, my contact information is on the website, and I look forward to talking with you.

Have a great day. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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.