

STRATTEC SECURITY CORPORATION

MIDWEST IDEAS CONFERENCE

WEBCAST PRESENTATION TRANSCRIPT

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Presenters

Jennifer Slater

President and Chief Executive Officer

Matthew Pauli

Senior Vice President, Chief Financial Officer

Presentation

Erke Girgin

Three Part Advisors

Good morning. Welcome to the 16th Annual IDEAS Conference. My name is Erke Girgin, Assistant Account Manager with Three Part Advisors. Today, we have STRATTEC Security Corporation. Here we have Matthew Pauli, Senior VP and CFO, and President and CEO, Jennifer Slater. Thank you.

Jennifer Slater

President and Chief Executive Officer

Thank you. Good morning, everybody. First, I'd like to start with our Safe Harbor Statement.

Slide 2. I think everybody's familiar with this, just on any forward-looking statements that Matt or I may make during our presentation.

I'm really excited to be here today to talk about STRATTEC. STRATTEC became a public company in 1995. I joined as President and CEO last July. It's been a super exciting year. I was explaining to someone it doesn't seem like it's been a whole year, but what I want to talk about is some of the progress that we've made and an overall update on the business.

Slide 3. We have a very diverse product portfolio, all the way from the front of the vehicle to the rear of the vehicle, with our power access products like power liftgates, tailgates, power sliding doors, as well as lock and key and key fobs. Our products really are powertrain agnostic, so what that means is, we don't have specific product lines for electric vehicles or internal combustion engines, which helps us keep a good balance product as our industry is transforming quite a bit.

Slide 4. From a customer standpoint, we primarily traditionally have served Ford, General Motors and Stellantis. We have a well-balanced product portfolio, with manufacturing locations both in the United States and in Mexico. Our headquarters is in Milwaukee, Wisconsin. We have an engineering and sales center in Auburn Hills, Michigan, that helps keep us close to our customers. Our manufacturing capabilities are around diecast, stamping, printed circuit board, injection molding and assembly capabilities.

Slide 5. This talks a little bit about the transformation progress that we've been under over the last year, and we really had four priorities. First has been about the team, making sure we have the right team to unlock the opportunities in the business. I am a hockey fan, not a baseball fan, but I have been told that, to explain this in innings, we still are in the early innings of our transformation. We've made a ton of progress, but we really still have a lot to go.

From a team perspective, we have a refreshed executive team. We're continuing to focus on capability for operations and supply chain. As we think about our operational excellence, we've continued to focus on making sure we have the right cost structure for our business.

From a revenue standpoint, we've unlocked \$8 million in annual pricing already in fiscal year 2025, and we've continued to focus on making sure we have the right products for our customers in the right space.

And then, there's been a lot of modernization of the business as processes, systems and tools are extremely outdated. And so, to make sure that we have a sustainable business moving forward, not only have we looked at the opportunities, but we've looked to make sure that we have a modernized business to be able to continue to drive the progress that we've seen in fiscal year 2025.

Slide 6. Getting into the value creation a little bit more, what we've been able to unlock in the business is, again, from an operational excellence standpoint, we've been able to reduce our head count by 15% in the fiscal year. We haven't had any impact to our customers through the cost initiatives that we've put into the business. We've looked at, as I talked about, implementing best in class systems and driving an operating

cadence for the business. Why that's so important for us is, there is a lot of opportunity here, and making sure we have the team aligned around the right priorities so that we're making good progress is a critical part as we think through this transformation.

As I said, we've invested in talent. So, I'm joined here by Matt Pauli, who is a great CFO partner. I'm lucky that he joined the business in November. We also added a Chief Commercial Officer in November of last year, and a Chief People Officer, which this business, for more than 3,000 employees, never had historically. And then, we've recently added talent from a Vice President of Operations and Vice President of Supply Chain. That's really going to be critical as we continue to unlock the opportunities in the business.

As we look at our product portfolio, we've looked at making sure that, again, under the prioritization theme, we're focused on growing the business where we think we have the most opportunity from a profitability standpoint and a differentiation standpoint for our customers. What I'm really proud of as I talk about making sure we have the team prioritized and the accountability of the team is, we've been able to unlock tremendous cash generation in fiscal year 2025. That really was a cleanup of our working capital but also taking the margin improvements in from driving cash performance on our margin improvements of the business.

Slide 7. We think about our products in three segments. The first is security and authorization. This is where we have our traditional lock and key business. We're focused on growing our digital key fob. The digital key fob really works seamlessly with consumer phones to give an experience. As you think about going to a valet or giving your car to a family member, the key fob still is a critical part of your accessibility into your vehicle.

From a vehicle access standpoint, this is where our power liftgates, power sliding doors are, where we think we have continued opportunity across our customers. Prior to me joining, the team took their outstanding engineering capability and actually demonstrated a new product segment user interface that's around steering wheel switches and electronic shifter modules. What that demonstrated was our ability to take our software, our mechanical, our electrical expertise, and create a new product segment for a new customer set, which really is hard in this industry and demonstrates the capability of the team.

As we've looked at that market, as there's less and less switches going into vehicles and it's already a crowded space, we want to continue to serve our customers in that segment, but we're really going to focus our priorities around the growth areas of opportunity in our power access business and our digital key business.

Slide 8. Before I hand it over to Matt, again, to highlight some of the great progress that our employees at STRATTEC delivered in fiscal year 2025, we generated, as I talked about, a tremendous amount of cash, \$71 million of cash flow from operations. We delivered 5% revenue growth. That was both from pricing and some new customer launches that we experienced in fiscal year 2025. Our profitability increased by 280 basis points, and that's from the work that we've done on the underlying cost structure of the business; and our adjusted EBITDA margin of 7.7% expanded 220 basis points. So, I'm really proud of the work that the team has done. As I said, we're in early innings, so there's more work to do here.

I'm going to hand it over to Matt to go through some of the financials.

Matthew Pauli
Senior Vice President, Chief Financial Officer

Thanks, Jen. I'll walk everyone through our financial results. As a reminder, we are a June 30 fiscal year end, so we just recently completed our fourth quarter and our fiscal 2025.

Slide 10. Starting off with sales, on the left-hand side, you can see our sales for the fourth quarter. We delivered \$152 million of sales, up a little over 6% on a year-over-year basis. 60% of the increase in sales was driven by volume, both on existing platforms and new program launches, and the other 40% related to

margin accretive pricing as we implemented new pricing in January that we saw being realized here in our fourth quarter.

On the right-hand side, you can see our sales over the last five years. On average, it's a 4% annual growth rate. Since 2022, which had the industry wide electronic shortage, you see a steady improvement in our sales, both from pricing as we recovered some of the inflation, albeit on a delayed basis, plus program launches in 2024 and in 2025.

Slide 11. Those additional sales plus some of the actions that we've taken to address our cost structure, and the pricing have helped us from a gross profit perspective. So, we finished our fourth quarter at 16.7% from a gross profit margin and our full year was 15%. As Jen mentioned, we do have manufacturing operations in both Milwaukee and in Mexico, and, with Mexico, the peso does impact our results. It was a benefit in our results, both in the fiscal year and on a quarterly basis. If I exclude the benefit of currency in the current year and some prior year one time pricing, we still improved our margins by over 180 basis points. How did we do that? Part of that is the pricing that I mentioned earlier, but we also did some restructuring to eliminate roles, which we saw the savings in the fourth quarter.

Our margins are 15%. Longer term, we'd expect our gross profit to be in the 18% to 20% zip code. We have demonstrated the ability to be at that level in the past and we have line of sight to that.

Slide 12. Next, if we look at our selling admin and engineering costs, the comparison is a little bit challenging on a year-over-year basis, both in the fourth quarter and from a full year basis. Part of that is because, last year, we received a one-time recovery of about \$4.7 million of an engineering reimbursement; and then, in the current year, we have higher bonus expense.

Our bonus program, which covers about a third of our employees, is focused on two financial metrics, that being EBITDA and cash flow from operation. Given the financial performance of the company, we had higher incremental bonus expense in the current year. I think the key takeaway, though, from an SAE perspective is, it's 11% of our sales and, on a longer-term basis, I'd expect it to be in the 11% to 12% range as we continue to make investments in the business.

Slide 13. From a total net income perspective and EBITDA perspective, the top half of the slide here shows our results for the fourth quarter and on the bottom is the full year. For fiscal 2025, we generated \$21 million of adjusted net income, or \$5.38 a share, and our EBITDA was \$43.7 million, up about 220 basis points on a year-over-year basis.

Slide 14. If we look at our liquidity, balance sheet and cash flow, at the end of the year, we had \$84 million of cash on the balance sheet and only \$8 million outstanding of debt. The \$8 million relates to our 51% owned joint venture where we have a separate revolving credit facility.

During the year, we generated \$71 million of cash from operations, and we invested a little over \$7 million in CapEx. The cash flow from operations was really driven by our cash earnings as well as a significant reduction in our working capital and our pre-production balances.

From a CapEx perspective, I would think about our CapEx on an ongoing basis of kind of 2% to 2.5% of our sales, so closer to \$12 million to \$13 million. From a capital priorities perspective, as Jen mentioned, our capital priorities in the short-term are really focused internally on how do we transform the business. We're cognizant that we're a cyclical business. There's a lot of uncertainty around tariffs and demand. So, we're comfortable operating with the cash we have on the balance sheet. Longer-term, we'll look at other shareholder value creation opportunities, including M&A, but we have to work on the transformation internally first.

Slide 15. That wraps up 2025 for us. If we think about 2026 and going forward, for 2026, we expect revenues to be modestly down to flat. I think if you look at S&P global data for North American Automotive, which is kind of the industry projections for production volumes, it would suggest that we'd be down 6%. We don't necessarily see that here in the short-term based on our EDI from our customers, but we have a lull in new program launches in fiscal 2026.

Despite the top line headwinds in 2026, our focus is really around two areas. One is continuing to improve our margins. We did take some actions this past year, but we've added additional resources around manufacturing and supply chain to help us accelerate some of the operational improvements that we know exist in the business. And then, the other piece is around cash generation. As I mentioned earlier, we generated \$71 million of cash this past year. That's not the normal. I would expect it to be half of that. Half of it was cleanup of historical working capital balances and the other half was the normal cash flow that you should expect on a go forward basis.

Slide 16. Lastly, just to summarize the points that Jen and I discussed today, kind of the STRATTEC investment rationale. The STRATTEC story is a transformational story. We're in the early innings of the transformation of the business. We do have a new commercial team that's re-looking at our product portfolio.

So, how do we expand within our core market of North American Automotive? How do we expand geographies or how do we think about our products as it relates to the broader transportation market? We definitely have an opportunity in front of us around operational efficiencies and how we improve our gross profit and our profitability, but we have a brand-new leadership team and talent within the organization to help facilitate that. And lastly, we have a strong balance sheet to support those transformational efforts. We're excited about the opportunity at STRATTEC, and we appreciate your interest today.

Any questions?

Question and Answer

Question

In the back end here. So, when you look at your business mix, it's kind of mainly Big Three auto. One, how has that shifted one over time? And two, it sounds like a lot of your production is going into US based vehicles. As you look at opportunities like you sell abroad or how much is the exposure there in terms of being able to sell into other global areas?

Jennifer Slater

So, the question was, traditionally, we've really primarily served the traditional Ford, GM and Stellantis, the Big Three; and so, how are we thinking about our customers, both from outside of the US standpoint in North America and outside of that customer base? I would say that's where we really see a big opportunity. We've demonstrated our product capability with those customers and there's a certain level of capability you have to have to serve kind of transportation market. We've demonstrated that, but we haven't necessarily engaged with that broader customer set. So, our focus right now is, one, with a lot of things going on in the tariff environment, how do we serve the customers that are in North America where we have our footprint today outside of our traditional customers? Then we can look at expanding our geographic reach. And then, there are other transportation providers where we think our product has relevance, in, you know, heavy vehicle off road customers; and so, we can also look at expanding our customer set.

As I talked about, we've added talent in our commercial organization, and while their near-term in 2025 was, okay, what are the pricing opportunities that we were able to capture early in the year to help our profitability, they're also now laying that foundation for where do we have growth. But, with the work that we're doing today, because it's a long cycle business, we won't see that revenue generation until 2028 and beyond from a fiscal year standpoint.

Question

Are you employing any sort of ways to hedge against any volatility to do with the peso versus the dollar?

Matthew Pauli

The question is, are we employing any hedge activity to hedge against the peso exposure? We are entering into hedges today. Roughly about \$60 million of our spend is in peso and we are entering into hedges to offset the impact. To think about it, a 5% strengthening of the dollar is roughly \$4 million to \$5 million on an annualized basis.

Question

So, your gross margin, you want to get to where, 18%, and you're at 16% or something like that?

Matthew Pauli

So, the question is, what's the target from a gross margin perspective? We wrapped up the year at 15%. If you look at our fourth quarter, it was 16%, which had the benefit of some of the pricing and some of the cost takeout actions. Longer term, we'd like to get closer to 18% to 20% from a gross margin perspective.

Question

Longer-term, five years?

Matthew Pauli

I would say nearer in than five years. In the next three years, we think we can get there, but it'll take some automation. We can look at some of our operational improvements, and I think we have a big opportunity on the supply chain side as well.

Jennifer Slater

I would say that a lot of that was low hanging fruit for us to capture in year one and we're really excited that there continues to be opportunity, but some of that will require investment to understand some of that opportunity.

Question

On the investment side, it seems like you talked about your processes and some of your manufacturing capabilities are maybe a little bit behind based on the legacy of the company. What's it going to take to modernize the production facilities and get some more of that automation to unlock the gross margin? From a longer-term perspective, you mentioned 18% and 20% is what we're comfortable with within the three years, but there are other auto parts manufacturers that have more than the three year margin than that. Could you go higher overtime if you invested in these types of automated facilities?

Jennifer Slater

So, I'm going to do my best to repeat the question. I think your question really was, how are we approaching modernizing our manufacturing facilities? And then what are our expectations longer-term from a margin perspective if we did that?

So, when we talk about modernization, it really is two-fold. One, it's kind of the business processes that drive the business. For example, we've installed a robust operating cadence that helps us look at the opportunities for the business, so that's one area of modernization.

The second area of what you talked about is what levels of automation can we put in and how long does that take? What I would say is, the hardest part of this challenge or this transformation over the past year has been about prioritization. There is so much opportunity; and so, making sure we're keeping the team focused on those opportunities has been a big part of how we've been able to accomplish what we've accomplished in year one. I would translate that to, as I think about modernization, a lot of our focus has to be where do we

get the biggest opportunity. For products that were in production today, there may be areas of opportunity where we can continue to invest in automation to become more efficient. Longer-term, it may be a completely different type of automation that allows us to have more flexibility. So, we're kind of staging our modernization thinking as far as how do we capture some of the quick wins to keep the team excited and engaged about the opportunity in the business; and then, how do we lay that foundation for unlocking some of that longer-term automation.

Your other question was, where do we think the opportunity, longer-term, of the business is? Matt and I are still learning every day. I think we're comfortable in saying where we think the opportunity is, because that's what the business demonstrated before and that's what we have line of sight to, but we'll continue to understand what the longer-term opportunity is. I don't know if you want to add.

Matthew Pauli

No, I think you hit it. We have the footprint that we need. We have excess capacity as well, so there's not an investment needed there. Is there an opportunity to go north of 20%? Yes, but I think that's a little bit longer-term; and there are obviously investments that are required and potentially looking at our footprint as well.

Question

So how important is M&A?

Jennifer Slater

The question is, how important is M&A? In my experience, if you try to bolt-on something when the foundation is still unstable, neither one of those things is successful. So, our focus really is about stabilizing our business while we start thinking about what our core competencies are and what would be complementary. I think, from a longer-term growth standpoint, it will be an important part of our story, but it's not anything that we would be able to manage while we're continuing to fix the underlying business.

Thank you very much, everybody.

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.