

# STRATTEC SECURITY CORPORATION

## SECOND QUARTER FISCAL YEAR 2025

## EARNINGS RESULTS CONFERENCE CALL TRANSCRIPT

### FEBRUARY 7, 2025

#### Table of Contents

Presenters and Participants .....	2
Presentation .....	3
Question and Answer .....	7

## 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*

**Guy Baron**  
*Springview Capital*

**Brian Sponheimer**  
*Gabelli Funds*

## Presentation

### Operator

Greetings and welcome to the STRATTEC Security Corporation Second Quarter of Fiscal Year 2025 Financial Results. At this time, all participants are in listen-only mode. A question and answer session will follow the formal presentation. As a reminder, this conference is being recorded. It's now my pleasure at this time 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 second 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. For those of you who may be newer to the story, Matt joined us as CFO in mid-November last year.

Jen and Matt are going to review our second quarter 2025 financial results and provide an update on the progress being made to transform SRATTEC. 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 some 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 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 am encouraged with the progress we are making to transform STRATTEC into a stronger, sustainable business with improved earnings power. I appreciate your time today to learn more about this progress.

Let me first touch on some highlights of our second quarter results. We had another solid quarter of performance and generated \$9.4 million in cash from operations in the quarter bringing us to about \$21 million in the first half of our fiscal year. This is much improved over the use of cash for the first half of fiscal 24.

Revenue grew almost 10% despite last year's second quarter benefitting from \$4 million in retroactive pricing. Margins also improved, with adjusted EBTIDA margin expanding 180 basis points. Of note, we continue to execute on our strategic priorities of stabilizing the business, optimizing costs and evaluating our product portfolio to advance our transformation. I'll address this more fully if you would turn to **slide 4**.

Our focus on operational excellence and optimizing our cost structure, resulted in the elimination of one shift in our Milwaukee operations. This change will provide \$1.2 million in annualized savings that will be partially recognized beginning in the third quarter, or the quarter we are operating in now. We recognized \$300 thousand of restructuring costs resulting in a very quick payback.

We also identified that our Milwaukee facility, which is 350,000 square feet, is roughly twice as much manufacturing space that we require for the stamping, die casting, plating and other operations we have in the facility. The building has been listed for sale, and the results of the process will help inform our next steps.

We are continuing to review our manufacturing operations to identify more ways to reduce costs in the business. And, yes, the elephant in the room is tariffs. While this continues to be a fluid situation, our ongoing efforts to optimize our costs will help in some respects along with our strong balance sheet. Regardless, we are being pro-active in conversation with our customers and suppliers to better understand the implications and develop any necessary countermeasures.

Chey Varto, our new Chief Commercial Officer, has hit the ground running and our commercial team recently captured about \$8 million in new annualized pricing. Of course, the pricing gains are dependent on customer demand and the volume of related products being shipped, but we expect that we should begin to realize the improved pricing in the third quarter.

We continue to improve our working capital, specifically by working down our pre-production tooling cost balances. The strong effort of the team has reduced the balance by \$10.5 million, or nearly 50%, since the start of this fiscal year.

Importantly, I believe the investments we are making in upgrading and enabling our talent pool is resulting in accelerating the pace of change here at STRATTEC. Much of what we are discussing on the call today, such as right sizing our operations, the pricing gains and the metrics to better understand our underlying performance, are direct outcomes of our investment in our team.

Let me talk to the drivers behind our revenue growth on **slide 5**.

Second quarter sales increased \$11 million dollars as a result of new product launches and higher demand for our products that more than offset end of life programs. Much of this growth is higher value content in power access and latches. In addition, we have customers that are building inventory to address their production plans.

Sales of power access products were up 27% year over year on new programs, higher value content and volume. Engineered latches grew 20% over last year's second quarter for the same reasons. This more than offset the continued decline in our mature product line of keys and locksets.

Let me turn it over to Matt now to cover our financial results in more detail.

**Matthew Pauli**

*Chief Financial Officer*

Thanks, Jen, and good morning, everyone. Moving to **Slide 6**, gross profit was up \$3.7 million to \$17.2 million, a 27% increase compared with the second quarter last year. The \$3.5 million benefit of favorable FX and higher production volumes more than offset headwinds from the prior year one-time net pricing recovery of \$2.9 million and increased labor costs. Labor costs were up \$1.4 million reflecting the 20% government mandated wage increase in Mexico. We also accrued \$600 thousand for bonuses this year.

Gross margin expanded to 13.2%, with a 270 basis point benefit of favorable foreign exchange. Excluding the impact of currency and the prior year one-time pricing recoveries, we delivered about 100 basis points of margin expansion.

I should touch on tariffs here a little. As is true with the majority of the automotive industry, we are heavily reliant on our assembly operations in Mexico and our global supply chain to provide product to our customers. Approximately 70% of sales are shipped to the US or picked up by a customer at our distribution center in El Paso. The remaining 30% are sold to OEMs globally. We have certain actions we can take and a few levers to pull. Where the tariff situation lands will also feed into the strategic evaluation of our footprint, from a longer-term perspective.

Moving to **Slide 7**, Engineering, selling, and administrative expenses, or ES&A, totaled \$15.0 million, a \$1.6 million increase compared with last year's second quarter. Half of the increase was related to an \$800 thousand annual bonus provision. Of note, no bonus provision was taken in the comparator period. We also had \$300 thousand of incremental non-cash stock-based compensation expense, \$300 thousand of restructuring costs and \$200 thousand in costs related to the transformation of STRATTEC. We are investing in people and processes to drive greater predictability and a stronger earnings profile.

On **Slide 8**, net income for the second quarter was up 29% to \$1.3 million, or \$0.32 per diluted share. Offsetting the benefit of higher operating income and a \$300 thousand increase in investment income was a \$1.5 million increase in other expenses related to gains and losses on our FX hedging activity.

As you will notice in the news release, we are now presenting two non-GAAP measures of Adjusted EBITDA and adjusted net income. Given the investments being made to turn STRATTEC into a more predictable and better performing business, we believe these metrics will help you understand the underlying performance of the business. We are also using these metrics internally as well to measure our performance. We have provided the reconciliation tables for each period and the full year of fiscal 2024 for your information.

Adjusted EBITDA for the quarter was \$8.0 million, up 60% compared with the same period last year. Adjusted EBITDA margin expanded 180 basis points to 6.1% due to higher sales volume, favorable changes in FX rates and cost management initiatives.

On an adjusted non-GAAP basis, net income for the second quarter was \$2.6 million, or \$0.65 per diluted share. This was up 81% from the prior year second quarter.

Lastly, **Slide 9** highlights our solid balance sheet, financial flexibility and capital priorities.

Free cash flow increased by \$12.5 million versus last year's second quarter due to improved operating performance and reduced net working capital. Most of the working capital decline was related to the continued effort to recover preproduction costs from our customers. We ended the quarter with \$42.6 million in cash.

I am reevaluating the capital expenditures for the year and expect to have a better understanding of our needs when we report the third quarter. In the meantime, capex of just under \$1 million in the second quarter and

\$3 million for the first half of the year was primarily related to new product programs and equipment upgrades.

Our capital priorities as we advance through the transformation of the business are internally focused on operational efficiencies, productivity tools and organic growth initiatives.

While the current tariff situation creates a potential challenge in the near term, we are encouraged with the actions we are taking to advance STRATTEC through operational excellence, strengthening our commercial initiatives, capturing the value of our innovation and creating an energized and experienced team.

With that Operator, we can open the line for questions.

## Question and Answer

Operator:

Thank you. We will now begin the question-and-answer session. Your first question comes from John Franzreb with Sidoti & Company. Please proceed with your question.

John Franzreb:

Good morning, everyone, and thanks for taking the questions. Congratulations on a strong quarter. Jen, I'd like to start by asking for your assessment of the progress you've made in evaluating the company. In your opinion, how far along are you, and when do you think the process will be initially completed?

Jennifer Slater:

Hi, John. Thanks for the question. I feel really positive about the progress we're making, but I still think we're early in the process. I'm seven months in, and I'd say we're making good progress. We're proud of some of the things we've accomplished, but there's still a lot more work to do.

John Franzreb:

Okay, fair enough. In your prepared remarks, you mentioned the benefit of higher-value products, particularly benefiting the margin profile. Can you give us some examples of those products and explain why they are doing better now than, say, a year ago?

Jennifer Slater:

Yes. In our power access products, such as our power sliding doors and power liftgates, we've seen solid growth and increased demand from customers, as well as new program launches.

John Franzreb:

Understood. You mentioned about \$8 million in new pricing starting in the third quarter. Could you provide some background on how you were able to achieve that level of pricing after recognizing a significant amount last year?

Jennifer Slater:

Yes, as you know, we enter into longer-term agreements with our automotive customers. One of the things Chey Vardo has done is work closely with our customers to understand where we are in our contract life and how they want us to continue supporting them as they extend programs. This pricing reflects some of the work she's done with the team and the customers' program extensions or agreements outside of the original contract life. We are recognizing near-term economic benefits.

Matthew Pauli:

This is Matt. I'd just add that the pricing we've achieved spans multiple product categories and OEMs.

John Franzreb:

That's good to hear. It's great to see the balance. Regarding tooling, should we view this as a stable level going forward, or do you think there's still more to be achieved in terms of tooling benefits?

Jennifer Slater:

We've made significant progress on the tooling balance in the first half of the year. There's still a little more work to do, but the pace of change or reduction will level out in the second half of the year.

John Franzreb:

All right. Well, I'll end it there and let someone else ask questions. Thanks for answering mine, everyone.

Jennifer Slater:

Thank you, John.

Operator:

Thank you. Our next question is from Guy Baron with Springview Capital. Please proceed with your question.

Guy Baron:

A follow-up on the \$8 million in annualized pricing—Is that a midpoint of a range? You mentioned that it depends on customer demand, so is that \$8 million a midpoint, or is there a range associated with that expected pricing?

Jennifer Slater:

Yes, it's the projected annualized impact based on our projected sales. There is some upside and some potential downside, depending on customer production.

Guy Baron:

Got it. When do you expect to cycle the 20% wage increases in Mexico?

Jennifer Slater:

We saw the last impact of that in our second quarter. The 20% increase was the mandated increase from last January. This January, the merit increase was much smaller—around 12%.

Guy Baron:

So, the impact of that will diminish over the next quarters?

Jennifer Slater:

You'll still see the impact of the 12% merit increase as we go through the remainder of the year.

Guy Baron:

Okay. Regarding the real estate, I noticed you listed the headquarters for \$17 million. How has the market received that so far? What are you seeing in terms of interest?

Jennifer Slater:

We just listed the facility in January, so we're still early in the process. But the brokers are happy with the activity and interest we've received so far.

Guy Baron:

How long do you think the process will take?

Jennifer Slater:

It's hard to anticipate, but it will take some time to go through the full process.

Guy Baron:

Okay. A high-level question regarding your run rate EBITDA—You reported an adjusted EBITDA of \$18 million or \$19 million in the first half of this year. Based on typical seasonality, where you generate about 30% to 35% of your annual EBITDA in the first half and 70% in the second half, that implies a full-year EBITDA range of \$50 million to \$55 million, based on this performance. Does that sound like a good run rate? That would be a great number.

Jennifer Slater:

No, I don't think that's necessarily the run rate. If you look at it, our sales are slightly higher in the second half of the year than in the first half. Keep in mind, there was a significant amount of one-time retroactive pricing last year, which makes this comparison a bit challenging going forward.

Operator:

Our next question is from Brian Sponheimer with Gabelli Funds. Please proceed with your question.

Brian Sponheimer:

Hi, good morning, Jen, Matt, and Deb. Thanks for taking my question. I have a couple of quick ones regarding the balance sheet. You have quite a bit of cash now, and while you may have some needs related to improving the footprint, assuming the Milwaukee headquarters sale is successful and continues to progress, how are you thinking about the financial structure of the business going forward?

Jennifer Slater:

Thanks for that question, Brian. The cash is important for us as we navigate potential tariff impacts. As we think about cash needs, we're focused on realizing operational efficiencies and ensuring we have the right processes and technologies in place. We're also looking at our product portfolio and where we may need to invest organically to continue customer growth. Longer-term, we'll look at additional financial strategies.

Brian Sponheimer:

On the balance sheet, I noticed an accrual for post-retirement benefits that wasn't there last quarter. Could you explain this? It seems a bit larger than usual.

Jennifer Slater:

In this quarter, we made a reclassification on the balance sheet. It was a shift from current liabilities to long-term liabilities, associated with our Mexican post-retirement benefits. Previously, the balance was reported as short-term, but it should have been classified as long-term. It's just a classification change, and the liability and expense were properly recorded in prior periods.

Brian Sponheimer:

Got it. Thinking about your product portfolio, we've seen strong performance in power access, but you're facing some headwinds on the lock and key set side. As you continue to establish your presence, Jen, are there any areas—outside of power access—where you see significant opportunities to grow the production base from a customer standpoint?

Jennifer Slater:

As we focus internally on operational improvements, we're also developing our strategic work on our product portfolio and customer base. We're looking at how we can expand the reach of our power access products to more transportation customers. Beyond that, we're exploring organic opportunities with our existing products and capabilities to grow further with current customers.

Operator:

Thank you. Our next question is from Guy Baron with Springview Capital. Please proceed with your question.

Guy Baron:

Just a quick follow-up. On the customer side, you mentioned good progress with Ford and GM, but others have faced challenges. Are you still seeing this trend? How has this impacted your business over the last few quarters?

Jennifer Slater:

A lot of our sales depend on the platforms we're on. While we've been managing inventory, we haven't seen significant changes with the platforms we're on with Stellantis or the products we provide.

Guy Baron:

Okay. How did your sales with Stellantis perform year over year in the quarter?

Jennifer Slater:

They were down about 10% year over year in the quarter.

Operator:

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

Operator:

Thank you. This concludes today's question-and-answer session and teleconference. We appreciate your participation. You may now disconnect your lines, 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) Q2 2025 Earnings Teleconference 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](http://strattec.com)) as well as to information available on the SEC's website ([www.sec.gov](http://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.