STRATTEC SECURITY CORPORATION

FIRST QUARTER FISCAL YEAR 2025
EARNINGS RESULTS CONFERENCE CALL TRANSCRIPT

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Presenters and Participants

PRESENTERS

Jennifer Slater
Chief Executive Officer

Dennis Bowe
Chief Financial Officer

Deborah Pawlowski
Investor Relations

PARTICIPANTS

John Franzreb
Senior Equity Analyst, Sidoti & Company

Ethan Star
Investor

Presentation

Operator

Greetings and welcome to the STRATTEC Security Corporation First Quarter Fiscal Year 2025 Financial Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce Deborah Pawlowski, Investor Relations. Please go ahead.

Deborah Pawlowski
Investor Relations

Thank you, and good morning, everyone. We greatly appreciate your joining us for Strattec's first financial results conference call. With me on the call are Jennifer Slater, our President and CEO, and Dennis Bowe, our Vice President and Chief Financial Officer. Jennifer and Dennis are going to review our first quarter 2025 financial results and provide an update on the Company's priorities. You can find a copy of the press release and the slides accompanying our discussion today on the investor relations section of the company's website: www.strattec.com.

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 or at sec.gov.

I want to point out as well 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'm excited to start hosting these quarterly calls so we can keep our investors up to date on the changes we are making here at STRATTEC. While still in the early stages, I am encouraged by the efforts of our team as we work to uncover potential operating efficiencies, identify an optimal cost structure and lay the foundation needed to strengthen profitability and drive sustainable growth. We are in the process of doing deep dives across all areas of the business to better understand why we have historically had so much variability in our performance and what systems, tools and operating model we need to provide more consistent, profitable results.

Let me start by reviewing some key highlights of our first quarter results. We generated $11.3 million dollars in cash from operations, a substantial increase from last year, raising our cash balance to $34 million dollars at the end of the quarter. Revenue increased 2.7% year-over year.

When you exclude the impact of the one-time retroactive pricing from last year's first quarter, net sales increased 9.1%. Growth was primarily driven by ongoing pricing benefits, our solid market position on the F-Series pickups and some new programs growing through their launch.

Our gross margin for the quarter was 13.6% which had the benefit of ongoing price improvement as well as more favorable mix. The quarter also benefitted from 190 basis points in favorable FX while last year's first quarter had a 470 basis point benefit related to one-time pricing. These two elements make the year-over-year comparison a little challenging.

We are encouraged with our results amid the automotive industry headwinds which reflect broader macroeconomic conditions. Demand for our products is driven by long-cycle sourcing and heavily influenced by the production rates of the automotive industry. We aim to address these headwinds with an improved operating model, innovative products and winning positions on new platforms. As we look ahead and develop our strategy, we will focus on our future pipeline to increase profitable content on the next generation of platforms.

Turning to **Slide 4**, as I stated earlier, we are thoughtfully assessing our strategy and the future path of Strattec. As there is much to do to uncover the underlying potential of the organization, we have prioritized our efforts into developing a winning product portfolio, driving operational efficiencies and developing our team and talent base.

Let me talk you through the work we are doing in each of these areas.

First on our product portfolio: We are taking a market-driven approach to define our future product roadmap. This starts with an understanding of our addressable markets given our technologies and products and how the industry is evolving. We will focus where we can add value to our customers and where we have differentiators to create a defensible position. Once that is defined, we plan to prioritize products and investments based on profitability, returns on investment, and growth.

This work will also inform our efforts to drive operational efficiencies. We are evaluating our supply chain, inventory and operational processes all of which need modernization. STRATTEC has not made much change in how it operates in well over the last decade and we have the opportunity in front of us to make meaningful change.

We are in the early stages of rethinking our operational footprint. This encompasses our capacity utilization, our sourcing and supply chain and manufacturing footprint for the future. The fundamentals on our business processes, tools and visibility into the data will help identify opportunities and provide stability in the business performance. I look forward to continuing to provide updates on progress in this area as our assessment evolves and matures.

Finally, but as much a priority, we consider our team to be a fundamental strength of Strattec, making talent development and acquisition key to our future success.

Starting with accountability and responsibility. By simply providing expectations and holding people accountable to them we can drive improvement. The reduction in our pre-production tooling balance is a prime example of this at work. Identifying for the team what is key to our financial performance and what is expected of them drives the right behaviours. I am proud of the work the team has done in this area of the business.

We also need the right people in the right roles. Today, we announced the appointment of Linda Redmann as our Chief People Officer, a new role focused on overseeing talent management and employee engagement for our organization of over 3,300 employees. Linda has been helping us since not long after I joined STRATTEC and we are excited that she has accepted a full time role as we undergo this transformation. Her experience spans people leadership roles across world-class, high-growth, strong operational organizations and we believe her contributions will be invaluable to our efforts.

We also welcome Chey Becker-Varto as our new Chief Commercial Officer. Chey is an accomplished leader with diverse experience driving revenue growth and resolving complex issues across multiple industries. Her knowledge in customer relationship management systems, prescriptive revenue forecasting models and product portfolio management will fill a vacuum in our current information systems, processes and deliver bottom line improvements.

I am thrilled to have these accomplished women join our team on November 11, 2024.

We have a lot of work in front of us and as I mentioned we will be providing progress updates as we advance our transformation. We will establish milestones for you to measure our progress as we define them and share a vision of our future as our strategy is developed.

Let me now shift gears to **Slide 5**, so we can focus on our sales in the quarter.

Total net sales for the first quarter reached $139.1 million dollars, an increase of $3.6 million dollars, or 2.7%. Last year's first quarter had the benefit of price of $8 million dollars in one-time retroactive pricing. Excluding this pricing impact, underlying sales rose by $11.6 million, or 9.1%.

The improvement in sales was primarily due to the effects of $2.2 million dollars in ongoing price increases and customer demand for existing products, new offerings, and content on new platforms. Notably, we experienced increased sales of our power door products to Hyundai/Kia which we believe was demand driven by inventory stocking to meet their production build rates. We had a 19% increase in sales to Ford, attributed to new latch content on all F-Series pickups.

From a product perspective, growth is primarily in power access, door handles and latches. We continued to see a decline in sales of legacy keys and locksets during the quarter. We are however, investing in new technology including a digital keyfob that integrates its technology with your phone.

I would like to now hand it over to Dennis who will continue to discuss our financial results in the quarter.

Dennis Bowe
Chief Financial Officer

Thanks, Jen, and good afternoon, everyone. Moving to **Slide 6**, gross profit rose slightly to $18.9 million dollars , up from $18.7 million dollars in Q1 2024. Gross Margin during the quarter was 13.6%. This quarter's gross profit and gross margin benefited from $2.7 million, or 190 basis points, of favorable foreign exchange. At current rates, we would expect similar favourability for the December quarter. However, I should point out that we have seen significant volatility in the U.S. dollar to Peso exchange rate over the last six months.

As Jen mentioned earlier, we also had on-going price contribution of $2.2 million dollars that flowed through to gross profit in the quarter. We will lap that improvement in the second quarter and the rest of the fiscal year based on the timing that new pricing had taken effect last fiscal year. Gross profit and margin also benefited from improved sales mix, specifically the Hyundai/Kia sales that Jen mentioned. There also was a

$1.3 million dollars reduction in raw material and purchased component costs. We have had five continuous quarters now of lower material costs and expect that comparative improvements will begin to diminish within the next quarter.

Benefits to gross profit were partially offset by higher manufacturing costs in Mexico, which were primarily driven by a 20% government mandated minimum wage increase. This is the third consecutive year that we have seen the wage increase at these levels.

We had about $400 thousand dollars in elevated freight costs related to expediting shipments. We expect to have better control of unexpected operational costs as we implement improved processes and controls in our supply chain and production planning.

Adjusted Gross Margin, which excludes the one-time retroactive pricing benefit from Q1 of the previous year, expanded 450 basis points. But again, 190 basis points, or about 40% of that margin expansion, was related to favorable foreign exchange. The remaining margin expansion was due to the benefits I already discussed.

As you can see on **Slide 7**, Engineering, selling, and administrative expenses, or ES&A, totaled $13.9 million dollars, which was up $1.3 million compared with last year's first quarter. The increase was primarily due to $800 thousand dollars in costs associated with accruing for our short-term incentive plan for which there was none last year. We also had about $600 thousand dollars in non-recurring executive transition expenses in the quarter. As a percentage of sales, ES&A expanded by 70 basis points to 10%. Our ES&A expenses are primarily people costs and are relatively fixed. As we work on our transformation, we are expecting to make investments both short term and long term while identifying the opportunities for streamlining and simplifying the organization. The ultimate goal is to get to a better business model that drives improved profitability.

Moving to **Slide 8**, net income for the first quarter was $3.7 million dollars, or $0.92 per diluted share. This was down from last year on a GAAP basis, but improved when excluding adjustments related to the one-time retroactive pricing benefit from Q1 2024. Without the retroactive pricing, last year's first quarter would have been a loss.

Next, **Slide 9** highlights our solid balance sheet and financial position. Operating cash flow increased by $15.2 million dollars versus last year's first quarter due to improved operating performance and reduced net working capital. We ended the quarter with $34.4 million in cash.

We anticipate capital expenditures of approximately $15 million in fiscal 25, focused on supporting new product initiatives, productivity improvements and general maintenance.

In closing, we were pleased with our financial performance this quarter. We are excited about the changes happening in the organization to enhance our strategic focus, rethink our product portfolio and identify opportunities to optimize our operational footprint and improve profitability.

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

Question and Answer

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Your first question comes from John Franzreb with Sidoti & Company. Please go ahead.

John Franzreb

Hello, everyone, and congratulations on a good start to fiscal 2025. Jennifer, I'd like to start with you. You've been on board for a couple of months now. I'm wondering what your impressions are at the company relative to your expectations going in.

Jennifer Slater

Hi, John. Thanks for the question. The reason I came to the company was it had a strong history in the automotive industry, a good solid product portfolio and good people. And my impression of the business is those three things still hold true. And what I'm working on now with the team is how do we build upon those things to continue to drive improvement for the business.

John Franzreb

All right. Fair enough. Going into the quarter, the 13.6% gross margin in your prepared remarks seem to suggest that it's sustainable absent the variability of the 190 basis point impact of FX. Is that how we should be thinking about the business model on a go forward basis, or is there any of the puts and takes we should be cognizant of?

Jennifer Slater

Thanks, John, for the question. So when we look at our profitability, we have a large part that's subject to variability in volume and sales. We're a seasonal business, typical automotive, so you've got lower volume and production when you get around the holiday periods. We do have variability in our customer and our product mix so some of our products have higher margin. We've also got FX variability and I think an example of our mix is we talked a bit about Hyundai/Kia that's a good product for us. We know that was probably more of an inventory build than it was ongoing higher production and that shows the sensitivity of our business through customer and volume mix.

John Franzreb

Interesting. That's actually very helpful. When you think about 2025 versus 2024, are you thinking you're going to be in an operating environment with higher unit volumes or flat unit volumes or when you see things like what we're seeing on the electric side can you address if you might be looking at diminishing volumes in 2025 versus 2024?

Jennifer Slater

Thanks for that question, John. There is a lot of variability, but it all starts with the industry and the automotive production. Also, a layer underneath that is what platforms we're on. You specifically called out, out electric. I think one benefit of our business is we are powertrain agnostic. So the platform matters, but not necessarily the difference between an internal combustion engine and an electric vehicle.

John Franzreb

And one last question and I'll get back into queue. You mentioned in your prepared remarks about reducing the pre-tooling balance. Can you kind of walk us through that process? It seems like you were encouraged by it. And how is that going to kind of look on a go forward basis?

Jennifer Slater

Thanks for that one, too, John. I talked a lot about aligning the organization and breaking down silos and defining accountability. I think that's a great example of where we aligned on what was important to the business to recover our tooling for our customers and made sure we understood the accountability and the goal and how to cadence with the team, making sure we were making progress. And that is the highlight that I'm excited by that we were able to show the progress there and it's just identifying further opportunities of the business that we can drive performance improvement.

John Franzreb

All right. Well, welcome aboard and congratulations on a good start.

Jennifer Slater

Thanks, John.

Operator

[Operator Instructions] Next question comes from Ethan Star. Please go ahead.

Ethan Star

Welcome to the company and thanks for a great first quarter. I'm curious to know, has your pricing caught up with the inflation in costs in your inputs?

Jennifer Slater

Hi, Ethan. Thank you for that question. We did make good progress in our pricing last year. What we are seeing as the industry is getting back to more normalized view of pricing is we are still looking for opportunities where there's price, but it would be a fraction of what we were able to recover last year.

Ethan Star

Okay. Thanks. And then, what growth opportunities do you see in power tailgates or pickup trucks, both in terms of adding new mix of trucks and increased popularity among retail purchasers?

Jennifer Slater

Thank you for that question. You know, one of the things that we're doing is we're continuing to define our strategy as looking for the areas of opportunity within our product portfolio where we have opportunity to grow with the customer base that we have today, as well as new customers within the transportation and automotive market. And I'm excited about having Chey join the team to leverage her knowledge and experience in the space to continue to look for opportunities for those products that have been good growth products for us.

Ethan Star

Okay. Thank you. And then, what are the prospects for either a small stock buyback and/or reinstating the dividend? I mean, you have plenty of cash on the balance sheet right now. So I'm curious.

Jennifer Slater

Thank you for that question, too, Ethan. So for us right now, it's about making sure that we've got a stable business. We are in a cyclical industry and we want to make sure that as we're looking at our long term strategy and that unfolds and we have a better understanding of the cash generating potential of the business and the best uses of the cash in the future.

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

Deborah Pawlowski

Thank you, everybody. We appreciate you joining us here today. My contact information is available on the materials that we published. Let me know if you have any more questions or would like some follow-ups. Have a good day.

Operator

This concludes today's teleconference. We thank you for your participation. You may now disconnect.