



STRATTEC SECURITY CORPORATION (STRT)

Look For STRATTEC To Open F2022 On A Challenging Note Due To Supply Chain Disruptions; View Sustainability And Slope Of Recovery As Likely Investor Focus; Maintain \$65 Price Target

| | F2020 | | F2021 | | F2022E | | F2023E | |
|------------|-----------------|---------------|-------|---------------|---------------|---------------|---------------|--|
| | | OLD | NEW | OLD | NEW | OLD | NEW | |
| Sep. | \$0.79 | \$2.11 | | \$0.70 | | \$1.79 | | |
| Dec. | 0.10 | 1.85 | | 1.34 | 0.74 | 1.67 | 1.52 | |
| Mar. | 0.79 | 1.15 | | 1.55 | | 1.60 | | |
| June | (2.59) | 0.77 | | 1.75 | 1.70 | 1.47 | 1.56 | |
| EPS (FY) | (\$2.04) | \$5.85 | | \$5.34 | \$4.59 | \$6.54 | \$6.47 | |
| EPS (Cal.) | \$2.16 | \$3.36 | | \$6.76 | \$6.56 | | | |
| P/E (FY) | | | | | 8.7x | | 6.2x | |
| P/E (Cal.) | | 11.9x | | | 6.1x | | | |

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2019 and F2020 exclude a respective \$7.47 and \$0.92 in one-time expense, associated with a pension settlement. F2019-F2022E include \$0.27 in annual stock-based compensation. Sum of quarterly data may not equal full-year total due to rounding and/or changes in share count. NC = Not covered by Sidoti & Company, LLC.

| Year | F2014 | F2015 | F2016 | F2017 | F2018 | F2019 | F2020 | F2021 | F2022E | F2023E |
|------------|---------|---------|---------|---------|---------|----------|----------|---------|---------|---------|
| Rev.(Mil.) | \$348.4 | \$411.5 | \$401.4 | \$417.3 | \$439.2 | \$487.0 | \$385.3 | \$485.3 | \$488.4 | \$525.8 |
| GAAP EPS | \$4.68 | \$5.73 | \$2.51 | \$1.96 | \$3.32 | (\$4.53) | (\$2.04) | \$5.85 | \$4.59 | \$6.47 |

Description: STRATTEC Security Corporation (www.strattec.com) designs, develops and manufactures automotive locks and keys, steering column and ignition locks, latches, sliding doors, door handles and power liftgates sold auto OEMs and their suppliers. The company was founded in 1908 and headquarters are in Milwaukee, WI.

| Release Date | Conference Call | Time (Eastern) | Contact | Co. Guidance | Consensus |
|--------------|-----------------|----------------|---------|--------------|-----------|
| October 21 | NA | NA | NA | NA | NA |

- Evidence continues to build that supply chain issues for STRT will persist through the balance of C2021.
- Already, in 1Q:F22, we anticipate a sequential drop in revenue and earnings as we allow that supply chain disruptions temper the pace of recovery in the automotive market.
- To what extent these issues will linger into 2H:F22 remains to be seen, but we still allow for revenue and profit growth next fiscal year.
- As such, we have also elected to reduce our F2022 EPS estimate to \$4.59 (from \$5.34) and our F2023 estimate to \$6.47 (from \$6.54).
- In F2021, the company repaid \$23 million in debt, putting net cash at \$2.5 million (or \$0.63 per share) at the end of 4Q:21, from a high of \$42.9 million in net debt (\$11.58 per share) at the close of F2018.
- In our view, the current climate may temper enthusiasm to reinstate the dividend until there is better clarity as to the operating environment. Still, we project the company will reinstate the dividend (was \$0.56 per share annually) by early F2023.
- We maintain our \$65 price target, which is based on 10x our revised F2023 EPS estimate of \$6.47 (was \$6.54).

We already have a tempered 1Q:F22 profit outlook for STRATTEC. The company makes door locks, keys and handles (50% of F2021 revenue) and latches (30%) and drive controls (8%) for the automotive market. Replacement sales (about 10% of revenue) generate the highest margins. Keys have evolved from single-sided ignition keys to remote entry to remote start products. This evolution was spurred, in part, to circumvent car theft and provide convenience to the vehicle owner. STRATTEC has led the technological change from keys to imbedded chips, to electric boards in key fob transponders and maintained a 40% North American market share in keys and locks. Moreover, other advancements in technology led to power access systems for sliding doors and lift gates. Unsurprisingly, results follow trends in

NR

Price Target: \$65

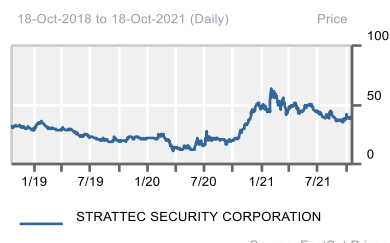
Price: \$39.94

Risk Rating: M

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Key Statistics

| | |
|-------------------------------|--------|
| Analysts Covering | 1 |
| Market Cap (Mil) | \$160 |
| Enterprise Value | \$187 |
| 52-Week Range (NASDAQ) | 67-22 |
| 5-Year EPS CAGR | 15% |
| Avg. Daily Trading Volume | 12,000 |
| Shares Out (Mil) | 3.940 |
| Float Shares (Mil) | 3.704 |
| Insider Ownership | 5% |
| Institutional Holdings | 95% |
| Annualized Dividend | Nil |
| Dividend Yield | N/A |
| FCF Per Share (F2023E) | \$4.33 |
| FCF Yield (F2023E) | 10.8% |
| Net Cash Per Share (F2023E) | \$8.06 |
| Price to Book Value | 0.8x |
| Return on Equity (F2023E) | 10.6% |
| Total Debt to Capital | 8% |
| Interest Coverage Ratio | 94.2x |
| Short Interest % | 0.2% |
| Short Interest Days To Cover | 0.8 |
| Russell 2000 | 2,268 |
| Russell 2000 – Last 12 Months | 38.8% |
| STRT – Last 12 Months | 77.0% |



the vehicle market. Following the catch-up phase exhibited in 1H:F21, where pent-up demand was somewhat addressed following industry-wide production closures, the customer base has been plagued by supply-chain disruptions that have led to unexpected shutdowns of industry production. As a result, we project a sequential drop in sales in 1Q:F22 to \$108.0 million versus \$110.1 million in 4Q:F21 and \$126.2 million (pandemic rebound) a year ago. The company has been cautious in adding overhead, awaiting better visibility in the marketplace. As a result, we think that despite lower volume, 1Q:F21 operating earnings will show only modest sequential degradation (7.4% compared to 8.0% in 4Q:F21), putting EPS at \$0.70 compared to \$0.77 in 4Q:F21 and \$2.11 per share a year ago. Investors should note there is a fair amount of earnings sensitivity at STRATTEC – every \$1 million in incremental/decremental operating profits can change EPS by an estimated \$0.15.

Exhibit 1.

| Earnings Preview | | | | |
|----------------------------|------------------|------------------|--------------|----------|
| | 1Q:F22 Estimate | 1Q:F21 Actual | Y-O-Y Change | % Change |
| Revenue (Thousands) | \$108,039 | \$126,234 | (\$18,195) | -14.4% |
| Gross Profit | 15,666 | 22,511 | (6,845) | -30.4% |
| Margin | 14.5% | 17.8% | | |
| Operating Income | 4,214 | 11,197 | (6,983) | -62.4% |
| Margin | 3.9% | 8.9% | | |
| Pretax Income | 4,704 | 11,650 | (6,946) | -59.6% |
| Margin | 4.4% | 9.2% | | |
| Tax rate | 42.0% | 31.3% | | |
| Net Income | 2,728 | 8,008 | (5,280) | -65.9% |
| Margin | 2.5% | 6.3% | | |
| Diluted EPS | \$0.70 | \$2.11 | (\$1.41) | -66.9% |

Source: Sidoti & Co. estimates and company reports

We lower our estimates. We think it is worth noting that General Motors (NYSE:GM, NC) and Ford (NYSE:F, NC) collectively account for roughly 45% of STRATEC's revenue. At this point, there is no certainty on when these supply-chain disruptions will end, but current consensus is a wide range of anywhere between six and 12 months before conditions normalize. Last week, Ford announced another strategic closure. As such, we have also elected to reduce our EPS estimate to \$4.59 (from \$5.34) and \$6.47 (from \$6.54) in F2022 and F2023, respectively. Given the fluid nature of the chip-supply issue, we will likely be reassessing our estimates on a regular basis until better clarity emerges.

The company has actively reduced debt. Facility expansion put net debt at a high of \$42.9 million (\$11.58 per share) at the close of F2018; since then, excess cash has been used to reduce debt. At the end of 3Q:F20, STRT held just \$16.8 million (\$4.47 per share) in net debt. However, because of the pandemic, STRT borrowed from credit facilities to fund operations and suspended its dividend in May. In F2021, the company repaid \$23 million in debt, putting net cash at an estimated \$2.5 million (or \$0.63 per share) at the end of 4Q:21. All told, we estimate STRATTEC will build cash, resulting in a projected net cash position of \$31.4 million (\$8.06 per share) by the end of F2023. In our view, the current climate may temper enthusiasm to reinstate the dividend until there is better clarity as to the operating environment. Still, at that rate, we expect the company to be able to reinstate the dividend by early F20223. Further cautionary prolonging of a restart in the dividend may result in a one-time special dividend (which similarly occurred at STRT in 2008).

| | | | |
|------------------|--|-----------------------|-----------------------------------|
| Valuation | We maintain our \$65 price target on STRT shares. STRT has a limited trading history with forward estimates. The stock traded at about 10.7x forward EPS in the last ten years, when such estimates were available. We project a sharp profit recovery as pent-up demand is addressed and the company benefits from better utilization and product mix. Our main concerns are uneven production schedules and the slope of the recovery beyond customer restocking. We maintain a valuation multiple of 10x on the shares (modestly below its 10-year historical average). Our \$65 price target remains unchanged. Our price target is based on 10x our revised F2023 EPS estimate of \$6.47 (was \$6.54). Our Moderately Risky rating reflects STRATTEC's cyclicality and small float, offset by its well-established operating history, solid balance sheet and good cash flow | | |
| Key Risks | Cyclicality of automotive market | Pricing of new awards | Post-recession consumer sentiment |

STRATTEC SECURITY CORPORATION

Table 1. STRATTEC Security Corp. Income Statement (\$ in thousands, except per share data)

| | F2020A | Sept.A | Dec.A | Mar.A | JuneA | F2021A | Sept. | Dec. | Mar. | June | F2022E | Sept. | Dec. | Mar. | June | F2023E |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Keys & Locksets | \$101,666 | \$34,091 | \$30,136 | \$28,616 | \$23,729 | \$116,572 | \$23,864 | \$24,109 | \$33,767 | \$35,998 | \$117,738 | \$34,602 | \$27,484 | \$31,066 | \$35,182 | \$128,334 |
| Door Handles & Trim | 98,168 | 32,736 | 34,813 | 29,790 | 28,879 | 126,218 | 27,826 | 29,591 | 31,577 | 34,700 | 123,694 | 36,173 | 30,479 | 31,893 | 35,044 | 133,589 |
| Power Access | 63,829 | 20,620 | 25,210 | 26,209 | 23,206 | 95,245 | 23,713 | 25,462 | 26,471 | 23,409 | 99,055 | 25,847 | 26,990 | 27,795 | 27,338 | 107,970 |
| Latches | 45,295 | 13,835 | 14,343 | 13,125 | 9,908 | 51,211 | 11,760 | 12,909 | 13,256 | 13,798 | 51,723 | 13,524 | 13,038 | 14,317 | 14,465 | 55,344 |
| Aftermarket & OE Service | 40,742 | 13,137 | 9,971 | 10,969 | 13,061 | 47,138 | 10,510 | 10,569 | 11,847 | 13,741 | 46,667 | 12,086 | 11,415 | 12,676 | 12,823 | 49,000 |
| Drive Controls | 29,649 | 9,787 | 10,535 | 10,822 | 8,887 | 40,031 | 8,319 | 8,955 | 11,796 | 11,762 | 40,832 | 9,983 | 9,671 | 11,914 | 10,897 | 42,465 |
| Other | 5,951 | 2,028 | 2,352 | 2,113 | 2,387 | 8,880 | 2,048 | 2,328 | 2,007 | 2,318 | 8,702 | 2,069 | 2,352 | 1,907 | 2,810 | 9,138 |
| Net sales | \$385,300 | \$126,234 | \$127,360 | \$121,644 | \$110,057 | \$485,295 | \$108,039 | \$113,923 | \$130,721 | \$135,726 | \$488,410 | \$134,284 | \$121,428 | \$131,567 | \$138,560 | \$525,839 |
| Cost of sales | 346,897 | 103,723 | 105,119 | 102,990 | 94,805 | 406,637 | 92,373 | 97,404 | 109,152 | 112,555 | 411,485 | 112,396 | 102,000 | 110,516 | 116,793 | 441,705 |
| Gross profit | \$38,403 | 22,511 | 22,241 | 18,654 | 15,252 | \$78,658 | 15,666 | 16,519 | 21,569 | 23,171 | \$76,925 | 21,888 | 19,428 | 21,051 | 21,767 | \$84,134 |
| Selling, dev. & admin. | 42,241 | 11,314 | 10,302 | 11,927 | 11,200 | 44,743 | 11,452 | 12,076 | 11,765 | 12,327 | 47,620 | 11,951 | 11,050 | 12,236 | 13,140 | 48,377 |
| Operating income | (3,838) | 11,197 | 11,939 | 6,727 | 4,052 | 33,915 | 4,214 | 4,443 | 9,804 | 10,844 | 29,305 | 9,937 | 8,379 | 8,815 | 8,627 | 28,485 |
| Depr. & amort. | 19,250 | 4,885 | 4,912 | 4,933 | 5,056 | 19,786 | 4,875 | 4,875 | 4,875 | 4,875 | 19,500 | 4,875 | 4,875 | 4,875 | 4,875 | 19,500 |
| EBITDA | 15,412 | 16,082 | 16,851 | 11,660 | 9,108 | 53,701 | \$0.70 | 9,318 | 14,679 | 15,719 | 48,805 | 14,812 | 13,254 | 13,690 | 13,502 | 55,257 |
| Joint Venture earnings/other | 206 | 565 | (291) | 399 | 722 | 1,395 | 540 | 570 | 654 | 679 | 2,442 | 1,074 | 911 | 987 | 972 | 3,944 |
| Interest expense | (920) | (112) | (84) | (63) | (43) | (302) | (50) | (40) | (10) | (80) | (180) | (75) | (50) | (50) | (110) | (285) |
| Other income | 1,253 | - | - | - | 75 | - | - | - | - | - | - | - | - | - | - | - |
| Income (Loss) before taxes | (3,299) | 11,650 | 11,564 | 7,063 | 4,806 | 35,008 | 4,704 | 4,973 | 10,448 | 11,443 | 31,567 | 10,936 | 9,239 | 9,752 | 9,489 | 39,416 |
| Provision (Benefit) for taxes | (1,642) | 1,577 | 1,991 | 1,153 | 390 | 5,111 | 847 | 895 | 1,881 | 2,060 | 5,682 | 1,969 | 1,663 | 1,755 | 1,708 | 7,095 |
| Net inc. (cont. ops) | (1,657) | 10,073 | 9,573 | 5,910 | 4,416 | 29,897 | 3,857 | 4,078 | 8,567 | 9,383 | 25,885 | 8,968 | 7,576 | 7,996 | 7,781 | 32,321 |
| Minority interest | 1,748 | 2,065 | 2,460 | 1,425 | 1,415 | 7,365 | 1,129 | 1,193 | 2,507 | 2,746 | 7,576 | 1,969 | 1,663 | 1,755 | 1,708 | 7,095 |
| Net inc., shareholders | (3,405) | 8,008 | 7,113 | 4,485 | 3,001 | 22,532 | 2,728 | 2,884 | 6,060 | 6,637 | 18,309 | 6,999 | 5,913 | 6,241 | 6,073 | 25,226 |
| Nonrecurring items | (4,200) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Diluted shares (thou) | 3,737 | 3,788 | 3,842 | 3,886 | 3,890 | 3,852 | 3,900 | 3,900 | 3,900 | 3,900 | 3,900 | 3,900 | 3,900 | 3,900 | 3,900 | 3,900 |
| Nonrecurring items per share | (1.12) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| GAAP EPS (Loss) | (\$2.04) | \$2.11 | \$1.85 | \$1.15 | \$0.77 | \$5.85 | \$0.70 | \$0.74 | \$1.55 | \$1.70 | \$4.69 | \$1.79 | \$1.52 | \$1.60 | \$1.56 | \$6.47 |
| Adjusted EPS (Loss) | (\$0.91) | \$2.11 | \$1.85 | \$1.15 | \$0.77 | \$5.85 | \$0.70 | \$0.74 | \$1.55 | \$1.70 | \$4.69 | \$1.79 | \$1.52 | \$1.60 | \$1.56 | \$6.47 |
| Yr.-to-yr. rate of change | | | | | | | | | | | | | | | | |
| Total revenue | -20.9% | 5.2% | 19.8% | 4.0% | 161.3% | 26.0% | -14.4% | -10.6% | 7.5% | 23.3% | 0.6% | 24.3% | 6.6% | 0.6% | 2.1% | 7.7% |
| Gross profit | -36.3% | 30.5% | 89.9% | 9.7% | NM | 104.8% | -30.4% | -25.7% | 15.6% | 51.9% | -2.2% | 39.7% | 17.6% | -2.4% | -6.1% | 9.4% |
| Operating income | -125.9% | NM | NM | 7.1% | NM | -983.7% | -62.4% | -62.8% | 45.7% | 167.6% | -13.6% | 135.8% | 88.6% | -10.1% | -20.4% | 22.0% |
| EBITDA | -51.8% | 62.6% | 216.1% | 4.0% | NM | 248.4% | -100.0% | -44.7% | 25.9% | 72.6% | -9.1% | 2115903.0% | 42.2% | -6.7% | -14.1% | 13.2% |
| Net income | -111.1% | NM | NM | 20.3% | NM | -1904.3% | -61.7% | -57.4% | 45.0% | 112.5% | -13.4% | 132.5% | 85.8% | -6.7% | -17.1% | 24.9% |
| EPS | -132.1% | NM | NM | 45.3% | NM | -742.0% | -66.9% | -60.1% | 34.6% | 120.6% | -19.7% | 156.6% | 105.0% | 3.0% | -8.5% | 37.8% |
| Margin analysis | | | | | | | | | | | | | | | | |
| Gross profit | 10.0% | 17.8% | 17.5% | 15.3% | 13.9% | 16.2% | 14.5% | 14.5% | 16.5% | 17.1% | 15.8% | 16.3% | 16.0% | 16.0% | 15.7% | 16.0% |
| SG&A | 11.0% | 9.0% | 8.1% | 9.8% | 10.2% | 9.2% | 10.6% | 10.6% | 9.0% | 9.1% | 9.8% | 8.9% | 9.1% | 9.3% | 9.5% | 9.2% |
| Operating margin | -1.0% | 8.9% | 9.4% | 5.5% | 3.7% | 7.0% | 3.9% | 3.9% | 7.5% | 8.0% | 6.0% | 7.4% | 6.9% | 6.7% | 6.2% | 5.4% |
| EBITDA margin | 4.0% | 12.7% | 13.2% | 9.6% | 8.3% | 11.1% | 0.0% | 8.2% | 11.2% | 11.6% | 10.0% | 11.0% | 10.9% | 10.4% | 9.7% | 10.5% |
| Pretax margin | -0.9% | 9.2% | 9.1% | 5.8% | 4.4% | 7.2% | 4.4% | 4.4% | 8.0% | 8.4% | 6.5% | 8.1% | 7.6% | 7.4% | 6.8% | 7.5% |
| Effective tax rate | 49.8% | 13.5% | 17.2% | 16.3% | 8.1% | 14.6% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% |
| Net margin | -0.9% | 6.3% | 5.6% | 3.7% | 2.7% | 4.6% | 2.5% | 2.5% | 4.6% | 4.9% | 3.7% | 5.2% | 4.9% | 4.7% | 4.4% | 4.8% |

Sources: Company data; Sidoti & Company, LLC estimates.

STRATTEC SECURITY CORPORATION

Table 2. STRATTEC Security Corp. Cash Flow Statement (\$ in thousands, except per share data)

| | <u>Sept.A</u> | <u>Dec.A</u> | <u>Mar.A</u> | <u>JuneA</u> | <u>F2020A</u> | <u>Sept.A</u> | <u>Dec.A</u> | <u>Mar.A</u> | <u>F2021A</u> | <u>F2022E</u> | <u>F2023E</u> |
|-------------------------------------|---------------------|-----------------------|-------------------|---------------------|------------------------|-------------------|-----------------------|-------------------|----------------------|-----------------------|-----------------------|
| Operating sources | | | | | | | | | | | |
| Net income | \$2,680 | (\$1,095) | \$4,913 | (\$12,355) | (\$5,857) | \$10,073 | \$9,573 | \$5,910 | \$29,897 | \$25,885 | \$32,321 |
| Depreciation & amortization | 4,733 | 4,847 | 4,769 | 4,980 | 19,329 | 4,885 | 4,912 | 4,933 | 19,786 | 19,500 | 19,500 |
| Other | <u>1,718</u> | <u>1,819</u> | <u>(381)</u> | <u>(1,849)</u> | <u>1,307</u> | <u>(553)</u> | <u>2,493</u> | <u>(174)</u> | <u>3,028</u> | <u>(2,000)</u> | <u>(2,000)</u> |
| Total | 9,131 | 5,571 | 9,301 | (9,224) | 14,779 | 14,405 | 16,978 | 10,669 | 52,711 | 43,385 | 49,821 |
| Operating uses | | | | | | | | | | | |
| Accounts receivable | 4,952 | 13,435 | (7,373) | 30,976 | 41,990 | (37,796) | (5,844) | 4,464 | (27,744) | (1,870) | (15,521) |
| Inventory | (4,238) | (1,011) | (5,837) | 3,948 | (7,138) | 2,727 | (4,660) | (1,997) | (16,460) | (14,582) | (4,622) |
| Other current assets | 3,240 | (1,843) | 401 | (1,827) | (29) | (288) | 4,025 | (4,856) | (2,435) | (829) | (1,663) |
| Non-debt current liabilities | <u>1,923</u> | <u>(10,552)</u> | <u>12,834</u> | <u>(28,383)</u> | <u>(24,178)</u> | <u>28,252</u> | <u>(743)</u> | <u>60</u> | <u>29,078</u> | <u>(1,545)</u> | <u>1,880</u> |
| Total | 5,877 | 29 | 25 | 4,714 | 10,645 | (7,105) | (7,222) | (2,329) | (17,561) | (18,826) | (19,926) |
| Operating cash flow | | | | | | | | | | | |
| | 15,008 | 5,600 | 9,326 | (4,510) | 25,424 | 7,300 | 9,756 | 8,340 | 35,150 | 24,558 | 29,895 |
| YTD cash operating activity | | | | | | | | | | | |
| | 15,008 | 20,608 | 29,934 | 25,424 | | 7,300 | 17,056 | 25,396 | | | |
| Investing activities | | | | | | | | | | | |
| Capital expenditures | (4,298) | (3,086) | (2,923) | (2,074) | (12,381) | (1,514) | (3,079) | (1,808) | (8,929) | (11,000) | (13,000) |
| Asset sales | 15 | - | 14 | 3 | 32 | 3 | - | 5 | - | - | - |
| Other | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(100)</u> | <u>-</u> | <u>(92)</u> | <u>-</u> | <u>-</u> |
| Total | (4,283) | (3,086) | (2,909) | (2,071) | (12,349) | (1,511) | (3,179) | (1,803) | (9,021) | (11,000) | (13,000) |
| YTD Investing | | | | | | | | | | | |
| | (4,283) | (7,369) | (10,278) | (12,349) | (12,349) | (1,511) | (4,690) | (6,493) | (9,021) | (11,000) | (13,000) |
| Financing activities | | | | | | | | | | | |
| Proceeds from S-T debt, net | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds from L-T debt, net | (6,000) | (4,000) | (5,000) | 8,000 | (7,000) | (5,000) | (8,000) | (6,000) | (23,000) | (6,000) | (2,500) |
| Proceeds from common financing, net | 239 | 280 | 24 | 17 | 560 | 19 | 21 | 545 | 604 | - | - |
| Other | (980) | - | - | - | (980) | (490) | - | - | (490) | - | - |
| Dividends paid | <u>(522)</u> | <u>(525)</u> | <u>(525)</u> | <u>-</u> | <u>(1,572)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,480)</u> |
| Total | (7,263) | (4,245) | (5,501) | 8,017 | (8,992) | (5,471) | (7,979) | (5,455) | (22,886) | (6,000) | (3,980) |
| YTD Financing | | | | | | | | | | | |
| | (7,263) | (11,508) | (17,009) | (8,992) | (8,992) | (5,471) | (13,450) | (18,905) | (22,886) | (6,000) | (3,980) |
| Exchange rate | | | | | | | | | | | |
| | (30) | (225) | (28) | 165 | (118) | (109) | (149) | (179) | (552) | - | - |
| Beginning cash & equivalents | \$7,809 | 11,241 | 9,285 | 10,173 | 7,809 | \$11,774 | 11,983 | 10,432 | 11,774 | 14,465 | 22,023 |
| Cash flow | <u>3,432</u> | <u>(1,956)</u> | <u>888</u> | <u>1,601</u> | <u>3,965</u> | <u>209</u> | <u>(1,551)</u> | <u>903</u> | <u>2,691</u> | <u>7,558</u> | <u>12,915</u> |
| Ending cash & equivalents | 11,241 | 9,285 | 10,173 | 11,774 | \$11,774 | 11,983 | 10,432 | 11,335 | \$14,465 | \$22,023 | \$34,938 |
| GAAP free cash flow | | | | | | | | | | | |
| | \$10,710 | \$2,514 | \$6,403 | (\$6,584) | \$13,043 | \$5,786 | \$6,677 | \$6,532 | \$26,221 | \$13,558 | \$16,895 |
| Free cash flow margin | 8.9% | 2.4% | 5.5% | -1.5% | 3.4% | 4.6% | 5.2% | 5.4% | 5.4% | 2.8% | 3.2% |
| GAAP free cash flow/share | \$2.87 | \$0.67 | \$1.70 | (\$1.78) | \$3.49 | \$1.53 | \$1.74 | \$1.68 | \$6.81 | \$3.48 | \$4.33 |

Sources: Company data; Sidoti & Company, LLC estimates.

STRATTEC SECURITY CORPORATION

Table 3. STRATTEC Security Corp. Balance Sheet (\$ in thousands, except per share data)

| | <u>F2018</u> | <u>Sept.</u> | <u>Dec.</u> | <u>Mar.</u> | <u>F2019</u> | <u>Sept.A</u> | <u>Dec.A</u> | <u>Mar.A</u> | <u>F2020A</u> | <u>Sept.A</u> | <u>Dec.A</u> | <u>Mar.A</u> | <u>F2021A</u> | <u>F2022E</u> | <u>F2023E</u> |
|--|--------------|--------------|-------------|-------------|--------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|
| Assets | | | | | | | | | | | | | | | |
| Current Assets: | | | | | | | | | | | | | | | |
| Cash and equivalents | \$8,090 | \$10,345 | \$11,373 | \$9,202 | \$7,809 | \$11,241 | \$9,285 | \$10,173 | \$11,774 | \$11,983 | \$10,432 | \$11,335 | \$14,465 | \$22,023 | \$34,938 |
| Receivables | 73,832 | 78,525 | 67,256 | 87,847 | 84,230 | 78,932 | 65,893 | 72,805 | 41,955 | 79,764 | 85,796 | 81,304 | 69,902 | 71,772 | 87,293 |
| Inventory | 46,654 | 46,279 | 47,988 | 46,822 | 47,262 | 51,500 | 52,511 | 58,348 | 54,400 | 51,673 | 56,333 | 58,330 | 70,860 | 85,442 | 90,064 |
| Other current assets | 22,527 | 20,469 | 19,707 | 15,609 | 17,331 | 14,024 | 15,789 | 15,216 | 17,239 | 17,527 | 13,348 | 18,051 | 19,677 | 20,506 | 22,170 |
| Total current assets | 151,103 | 155,618 | 146,324 | 159,480 | 156,632 | 155,697 | 143,478 | 156,542 | 125,368 | 160,947 | 165,909 | 169,020 | 174,904 | 199,744 | 234,465 |
| Equipment, net | 116,542 | 118,001 | 117,793 | 117,841 | 118,120 | 115,978 | 115,040 | 107,416 | 105,148 | 102,610 | 101,819 | 97,263 | 96,401 | 83,826 | 76,463 |
| Investment in Joint Ventures | 22,192 | 21,787 | 22,989 | 23,876 | 23,528 | 23,216 | 24,058 | 23,190 | 22,068 | 23,723 | 25,759 | 26,051 | 27,224 | 17,088 | 17,320 |
| Other | 17,338 | 17,542 | 11,732 | 12,087 | 14,456 | 18,908 | 11,003 | 10,363 | 12,961 | 12,949 | 13,482 | 13,390 | 12,034 | 7,975 | 6,374 |
| Total Assets | \$307,175 | \$312,948 | \$298,838 | \$313,284 | \$312,736 | \$313,799 | \$293,579 | \$297,511 | \$265,545 | \$300,229 | \$306,969 | \$305,724 | \$310,563 | \$308,633 | \$334,621 |
| Liabilities & Shareholders Equity | | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | | |
| Current port. L-T Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Accounts payable | 38,439 | 39,010 | 35,652 | 46,207 | 41,889 | 43,996 | 31,693 | 43,104 | 18,549 | 40,809 | 39,148 | 36,250 | 36,727 | 35,316 | 41,568 |
| Payroll and benefits | 13,393 | 12,895 | 12,482 | 12,761 | 17,339 | 20,366 | 15,624 | 13,549 | 13,498 | 16,314 | 19,169 | 21,474 | 22,483 | 11,392 | 13,856 |
| Accrued expenses | 16,961 | 20,564 | 17,790 | 19,837 | 20,035 | 17,821 | 18,116 | 19,419 | 16,093 | 19,180 | 18,338 | 17,774 | 18,362 | 18,228 | 13,856 |
| Total current liabilities | 68,793 | 72,469 | 65,924 | 78,805 | 79,263 | 82,183 | 65,433 | 76,072 | 48,140 | 76,303 | 76,655 | 75,498 | 77,572 | 64,936 | 69,280 |
| Long-term debt | 51,000 | 49,000 | 46,000 | 44,000 | 42,000 | 36,000 | 32,000 | 27,000 | 35,000 | 30,000 | 22,000 | 16,000 | 12,000 | 6,000 | 3,500 |
| Accrued pension liability | 1,553 | 1,584 | 1,615 | 1,645 | 1,663 | 1,693 | 1,723 | 1,754 | 1,956 | 1,961 | 1,980 | 1,944 | 2,933 | 2,278 | 2,771 |
| Other | 2,583 | 1,963 | 1,542 | 1,508 | 1,994 | 5,652 | 5,574 | 5,430 | 5,008 | 4,945 | 4,861 | 4,788 | 4,625 | 4,557 | 5,542 |
| Minority int. | 21,088 | 21,920 | 21,789 | 22,821 | 24,428 | 24,632 | 25,380 | 24,912 | 23,319 | 25,115 | 28,888 | 29,904 | 31,787 | 32,000 | 32,000 |
| Shareholders' Equity | 183,246 | 187,932 | 183,757 | 187,326 | 187,816 | 188,271 | 188,849 | 187,255 | 175,441 | 187,020 | 201,473 | 207,494 | 213,433 | 230,862 | 253,528 |
| Total Liab. & Sh. Eq. | \$307,175 | \$312,948 | \$298,838 | \$313,284 | \$312,736 | \$313,799 | \$293,579 | \$297,511 | \$265,545 | \$300,229 | \$306,969 | \$305,724 | \$310,563 | \$308,633 | \$334,621 |
| Current ratio | 2.2 | 2.1 | 2.2 | 2.0 | 2.0 | 1.9 | 2.2 | 2.1 | 2.6 | 2.1 | 2.2 | 2.2 | 2.3 | 3.1 | 3.4 |
| Total debt to capital | 21.8% | 20.7% | 20.0% | 19.0% | 18.3% | 16.1% | 14.5% | 12.6% | 16.6% | 13.8% | 9.8% | 7.2% | 5.3% | 2.5% | 1.4% |
| Book value / share | \$49.46 | \$50.64 | \$49.42 | \$50.25 | \$50.29 | \$50.50 | \$50.48 | \$49.70 | \$46.80 | \$49.37 | \$52.44 | \$53.40 | \$54.87 | \$59.20 | \$65.01 |
| Tangible BV / share | \$39.09 | \$40.01 | \$40.41 | \$40.88 | \$39.87 | \$38.82 | \$40.76 | \$40.33 | \$37.12 | \$39.32 | \$41.41 | \$42.25 | \$43.60 | \$48.95 | \$55.17 |
| Return on average equity | 8.3% | NM | NM | 2.2% | 8.0% | 8.0% | 6.5% | 7.5% | -0.9% | -0.8% | 6.9% | 7.2% | 15.4% | 11.7% | 9.9% |
| Return on average. assets | 5.7% | NM | NM | 1.3% | 4.8% | 4.8% | 4.0% | 4.6% | -0.6% | 1.2% | 4.4% | 4.7% | 10.4% | 8.4% | 7.5% |
| Asset turnover | 1.6x | 1.0x | 1.5x | 1.5x | 1.6x | 1.6x | 1.6x | 1.6x | 1.3x | 1.4x | 1.4x | 1.4x | 1.7x | 1.8x | 1.6x |
| Receivable turnover (days) | 50 | 81 | 60 | 59 | 59 | 59 | 60 | 58 | 60 | 60 | 62 | 63 | 42 | 46 | 55 |
| Inventory days | 51 | 41 | 44 | 38 | 40 | 46 | 51 | 53 | 53 | 127 | 137 | 143 | 56 | 69 | 73 |
| Net cash | (\$42,910) | (\$38,655) | (\$34,627) | (\$34,798) | (\$34,191) | (\$24,759) | (\$22,715) | (\$16,827) | (\$23,226) | (\$18,017) | (\$11,568) | (\$4,665) | \$2,465 | \$16,023 | \$31,438 |
| Net cash/debt share | (\$11.58) | (\$10.42) | (\$9.31) | (\$9.33) | (\$9.15) | (\$6.64) | (\$6.07) | (\$4.47) | (\$6.20) | (\$4.76) | (\$3.01) | (\$1.20) | \$0.63 | \$4.11 | \$8.06 |

Sources: Company data; Sidoti & Company, LLC estimates.

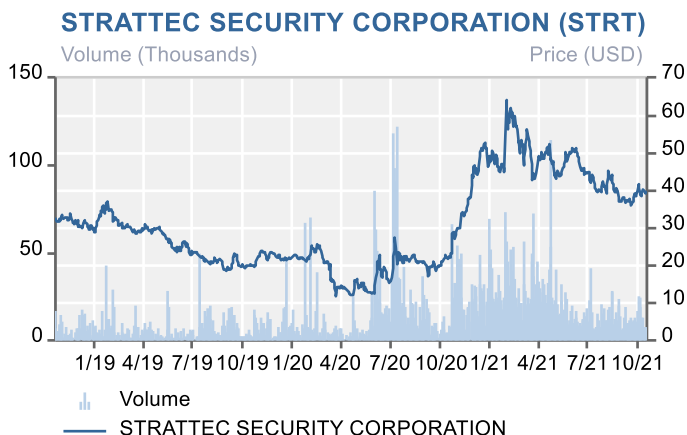
Appendix
Required Disclosures

Required Disclosures

STRATTEC SECURITY CORPORATION (STRT-\$39.94) NR Price Target: \$65 Risk Rating: M

Rating and Price Target History Table

| Action | Date | Px | Rating | PT | Risk Rating |
|------------|----------|------|-----------|----|-------------|
| Initiation | 1/30/20 | 22.1 | NR | 38 | M |
| PT | 3/12/20 | 20.4 | | 35 | |
| PT | 4/1/20 | 14.5 | | 32 | |
| Rating | 5/22/20 | 22.1 | Suspended | 32 | |
| Initiation | 6/25/20 | 16 | NR | 42 | M |
| PT | 11/24/20 | 37.9 | | 53 | |
| PT | 1/26/21 | 47.1 | | 53 | |
| PT | 1/29/21 | 45 | | 67 | |
| PT | 3/30/21 | 44.6 | | 67 | |
| PT | 4/19/21 | 51.4 | | 67 | |
| PT | 4/23/21 | 52.6 | | 71 | |
| PT | 5/20/21 | 47.6 | | 71 | |
| PT | 8/3/21 | 41.3 | | 71 | |
| PT | 8/6/21 | 39.1 | | 68 | |
| PT | 9/8/21 | 38.1 | | 65 | |



Source: FactSet Prices

| | | | |
|------------------|---|-----------------------|-----------------------------------|
| Valuation | We maintain our \$65 price target on STRT shares. STRT has a limited trading history with forward estimates. The stock traded at about 10.7x forward EPS in the last ten years, when such estimates were available. We project a sharp profit recovery as pent-up demand is addressed and the company benefits from better utilization and product mix. Our main concerns are uneven production schedules and the slope of the recovery beyond customer restocking. We maintain a valuation multiple of 10x on the shares (modestly below its 10-year historical average). Our \$65 price target remains unchanged. Our price target is based on 10x our revised F2023 EPS estimate of \$6.47 (was \$6.54). Our Moderately Risky rating reflects STRATTEC's cyclical nature and small float, offset by its well-established operating history, solid balance sheet and good cash flow | | |
| Key Risks | Cyclical nature of automotive market | Pricing of new awards | Post-recession consumer sentiment |

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