



Strattec Security Corporation (STRT)

As Expected, STRT's 1Q:F22 Results Were Hurt By Supply Chain Disruptions In The Auto Market; Indications Are The Market Is Reopening; Maintain \$65 Price Target

| | F2020 | F2021 | F2022E | | F2023E | |
|------------|-----------------|---------------|---------------|---------------|---------------|---------------|
| | | | OLD | NEW | OLD | NEW |
| Sep. | \$0.79 | \$2.11 | \$0.70 | \$0.03A | \$1.79 | \$1.74 |
| Dec. | 0.10 | 1.85 | 0.74 | 0.76 | 1.52 | 1.51 |
| Mar. | 0.79 | 1.15 | 1.55 | 1.38 | 1.60 | 1.69 |
| June | (2.59) | 0.77 | 1.70 | 1.79 | 1.56 | 1.57 |
| EPS (FY) | (\$2.04) | \$5.85 | \$4.59 | \$3.95 | \$6.47 | \$6.52 |
| EPS (Cal.) | \$2.16 | \$2.71 | \$6.56 | \$6.42 | | |
| P/E (FY) | | | | 9.8x | | 6.0x |
| P/E (Cal.) | | 14.3x | | 6.0x | | |

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 | \$478.4 | \$525.0 |
| GAAP EPS | \$4.68 | \$5.73 | \$2.51 | \$1.96 | \$3.32 | (\$4.53) | (\$2.04) | \$5.85 | \$3.95 | \$6.52 |

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.

- **Last night, STRT reported 1Q:F22 EPS of \$0.03, well below both our \$0.70 estimate and \$2.11 a year ago.**
- **The lower-than-expected 1Q:F22 results were largely due to supply-chain shortages that resulted in customers lowering production levels and thereby hurting STRT's sales.**
- **In addition, higher costs hurt the gross margin by an estimated 300 basis points.**
- **Indications are that production is resuming in the automotive sector, we expect gradual improvement through C2021, before a more pronounced rebound in F2023.**
- **We reset our revenue and earnings estimates and now look for EPS of \$3.95 (from \$4.59) and \$6.52 (from \$6.47) in F2022 and F2023, respectively.**
- **The weak quarter resulted in net debt being added to the balance sheet, likely tempering the company's enthusiasm to restore the dividend until a market recovery is more firmly in place.**
- **Our \$65 price target remains unchanged. Our price target is based on 10x our revised F2023 EPS estimate of \$6.52 (was \$6.47). 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.**

STRATTEC's 1Q:F22 results reflect supply-chain disruptions that have tempered the once stalwart recovery in automotive production. STRATTEC's revenue is largely tied to North American vehicle production trends, as the company makes automotive locks and keys, steering column and ignition locks, latches, sliding doors, door handles and power liftgates that are sold to auto OEMs and their suppliers. The COVID-19 pandemic nearly shuttered automotive production worldwide. As production eventually reopened, inventory levels for customers were well below anticipated demand needs, resulting in a massive restocking phase. In addition, the company has also benefitted from product new models including the Kia Carnival (formerly the Sedona) and redesigned Ford F-150. As a result, 1H:F21 revenue rose sharply. However, component shortages, in a just-in-time industry environment, coupled with customers that were forced to unexpectedly shutter production in September (particularly

NR

Price Target: \$65

Price: \$38.80

Risk Rating: M

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Key Statistics

| | |
|-------------------------------|--------|
| Analysts Covering | 1 |
| Market Cap (Mil) | \$150 |
| Enterprise Value | \$185 |
| 52-Week Range (NASDAQ) | 67-23 |
| 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) | \$4.97 |
| FCF Yield (F2023E) | 12.8% |
| Net Cash Per Share (F2023E) | \$8.53 |
| 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 | 2,296 |
| Russell 2000 - Last 12 Months | 41.5% |
| STRT - Last 12 Months | 77.4% |



surprising regarding profitable pick-up truck lines). resulted in tempered revenue in the 1Q:F22. Comparatively, industry-wide automotive sales were down sharply compared to a year ago (off by about 14%). Some of the hardest hit companies included key clients for STRATTEC, including General Motors (NYSE:GM, NC) and Ford (NYSE:F, NC) which collectively accounted for 45% of F2021 revenue. For STRATEC sales slid about 9% sequentially and 21% year over year to \$100.3 million (we projected \$108.0 million). The company was hurt by lower sales on platforms adopting power liftgates (also higher margin), but this was more than offset by lower volumes of other platforms that faced temporary closures. Lower volumes coupled with higher costs hurt profitability as the 12.5% gross margin was off 530 basis points (we estimated 14.2%). We estimate that currency, raw material and transportation costs hurt the gross margin by an estimated 300 basis points in the quarter. Net-net, result, the operating margin approached break even on the lower volume and higher costs. Earnings contribution was also lower than projected in the company's VAST joint venture. In all, STRT reported 1Q:F22 of \$0.03, below our \$0.70 estimate.

Exhibit 1.

| STRATTEC Quarterly Earnings Comparison | | | | | | | |
|--|---------------------|------------------------|-----------|--------------|----------------------|--------------|----------|
| | <u>1Q:22 Actual</u> | <u>1Q:F22 Estimate</u> | Variance | % Difference | <u>1Q:F21 Actual</u> | Y-O-Y Change | % Change |
| Revenue (Thousands) | \$100,341 | \$108,039 | (\$7,698) | -7.1% | \$126,234 | (\$25,893) | -20.5% |
| Gross Profit | 12,549 | 15,666 | (3,117) | -19.9% | 22,511 | (9,962) | -44.3% |
| Gross Margin | 12.5% | 14.5% | | | 17.8% | | |
| Operating Income | 428 | 4,214 | (3,786) | -89.8% | 11,197 | (10,769) | -96.2% |
| Operating Margin | 0.4% | 3.9% | | | 8.9% | | |
| Pretax Income | 259 | 4,704 | (4,445) | -94.5% | 11,650 | (11,391) | -97.8% |
| Pretax Margin | 0.3% | 4.4% | | | 9.2% | | |
| Tax Rate | 61.0% | 42.0% | | | 31.3% | | |
| Net Income | 101 | 2,728 | (2,627) | -96.3% | 8,008 | (7,907) | -98.7% |
| Net Margin | 0.1% | 2.5% | | | 6.3% | | |
| Diluted EPS | \$0.03 | \$0.70 | (\$0.67) | -95.7% | \$2.11 | (\$2.08) | -98.6% |

Source: Sidoti & Co. estimates and company reports

We adjust our estimates to reflect an anticipated uneven automotive recovery near term but project a more normalized operating environment emerging in C2023. Following this catch-up phase, we allow for a continued, albeit less disruptive production environment in 2Q:F22. Management has indicated that shipping trends are improved in October. We think there is ample pent-up demand which will eventually allow for a robust recovery that may last 12-18 months until we reach equilibrium. As such, we have reset our revenue expectations to \$478.5 million (from \$488.4 million) and \$525.0 million (from \$525.8 million) in F2022 and F2023, respectively. As a result, we reset our earnings estimates and now look for EPS of EPS of \$3.95 (from \$4.59) and \$6.52 (from \$6.47) in F2022 and F2023, respectively.

Deleveraging stalled in the quarter. STRATTEC had put a premium on debt repayment in recent years. 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. However, this quarter, the company added net \$5 million in debt. A vast majority of this debt is associated with its JVs. As such repayment may be stalled until global conditions improve. All told, we model STRATTEC builds cash resulting in projected net cash position of \$33.2 million (\$8.53 per share) by the end of F2023. At that rate, we expect the company to be able to reinstate the dividend by early F20223. Further cautionary prolonging the restart in the dividend may result in a one-time special dividend (which similarly occurred 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 \$6.52 (was \$6.47). 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)

| | <u>F2020A</u> | <u>Sept.A</u> | <u>Dec.A</u> | <u>Mar.A</u> | <u>JuneA</u> | <u>F2021A</u> | <u>Sept.A</u> | <u>Dec.</u> | <u>Mar.</u> | <u>June</u> | <u>F2022E</u> | <u>Sept.</u> | <u>Dec.</u> | <u>Mar.</u> | <u>June</u> | <u>F2023E</u> |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Keys & Locksets | \$101,666 | \$34,091 | \$30,136 | \$28,616 | \$23,729 | \$116,572 | \$22,159 | \$24,109 | \$31,478 | \$32,998 | \$110,743 | \$33,239 | \$28,931 | \$33,051 | \$28,812 | \$124,033 |
| Door Handles & Trim | 98,168 | 32,736 | 34,813 | 29,790 | 28,879 | 126,218 | 24,552 | 29,591 | 31,577 | 34,187 | 119,907 | 34,373 | 32,550 | 32,840 | 33,333 | 133,097 |
| Power Access | 63,829 | 20,620 | 25,210 | 26,209 | 23,206 | 95,245 | 22,342 | 25,462 | 26,471 | 26,685 | 100,960 | 27,927 | 28,008 | 27,795 | 28,335 | 112,065 |
| Latches | 45,295 | 13,835 | 14,343 | 13,125 | 9,908 | 51,211 | 11,068 | 12,909 | 13,256 | 13,466 | 50,699 | 13,282 | 13,038 | 14,317 | 14,119 | 54,755 |
| Aftermarket & OE Service | 40,742 | 13,137 | 9,971 | 10,969 | 13,061 | 47,138 | 9,853 | 10,569 | 11,847 | 14,398 | 46,667 | 11,823 | 11,626 | 12,676 | 13,108 | 49,233 |
| Drive Controls | 29,649 | 9,787 | 10,535 | 10,822 | 8,887 | 40,031 | 8,319 | 8,955 | 11,796 | 11,762 | 40,832 | 10,399 | 10,298 | 11,914 | 10,058 | 42,669 |
| 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 | \$100,341 | \$113,923 | \$128,432 | \$135,814 | \$478,510 | \$133,111 | \$126,803 | \$134,500 | \$130,576 | \$524,989 |
| Cost of sales | 346,897 | 103,723 | 105,119 | 102,990 | 94,805 | 406,637 | 87,792 | 97,689 | 108,204 | 113,048 | 406,733 | 111,414 | 106,514 | 112,980 | 109,558 | 440,466 |
| Gross profit | \$38,403 | 22,511 | 22,241 | 18,654 | 15,252 | \$78,658 | 12,549 | 16,234 | 20,228 | 22,765 | \$71,776 | 21,697 | 20,288 | 21,520 | 21,018 | \$84,523 |
| Selling, dev. & admin. | 42,241 | 11,314 | 10,302 | 11,927 | 11,200 | 44,743 | 12,121 | 11,620 | 11,559 | 11,594 | 46,894 | 11,980 | 11,919 | 12,105 | 12,295 | 48,299 |
| Operating income | (3,838) | 11,197 | 11,939 | 6,727 | 4,052 | 33,915 | 428 | 4,614 | 8,669 | 11,172 | 24,883 | 9,717 | 8,369 | 9,415 | 8,723 | 28,423 |
| Depr. & amort. | 19,250 | 4,885 | 4,912 | 4,933 | 5,056 | 19,786 | 5,057 | 4,875 | 4,875 | 4,693 | 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 | 9,489 | 13,544 | 15,865 | 44,383 | 14,592 | 13,244 | 14,290 | 13,598 | 55,724 |
| Joint Venture earnings/other | 206 | 565 | (291) | 399 | 722 | 1,395 | (121) | 570 | 642 | 823 | 1,914 | 998 | 951 | 1,009 | 979 | 3,937 |
| Interest expense | (920) | (112) | (84) | (63) | (43) | (302) | (48) | (40) | (60) | (67) | (215) | (124) | (124) | (124) | (124) | (495) |
| Other income | 1,253 | - | - | - | 75 | - | - | - | - | - | - | - | - | - | - | - |
| Income (Loss) before taxes | (3,299) | 11,650 | 11,564 | 7,063 | 4,806 | 35,008 | 259 | 5,144 | 9,251 | 11,928 | 26,582 | 10,592 | 9,196 | 10,300 | 9,579 | 39,667 |
| Provision (Benefit) for taxes | (1,642) | 1,577 | 1,991 | 1,153 | 390 | 5,111 | 37 | 926 | 1,665 | 2,157 | 4,785 | 1,907 | 1,655 | 1,854 | 1,724 | 7,140 |
| Net inc. (cont. ops) | (1,657) | 10,073 | 9,573 | 5,910 | 4,416 | 29,897 | 222 | 4,218 | 7,586 | 9,771 | 21,797 | 8,685 | 7,541 | 8,446 | 7,855 | 32,527 |
| Minority interest | 1,748 | 2,065 | 2,460 | 1,425 | 1,415 | 7,365 | 121 | 1,234 | 2,220 | 2,804 | 6,380 | 1,907 | 1,655 | 1,854 | 1,724 | 7,140 |
| Net inc., shareholders | (3,405) | 8,008 | 7,113 | 4,485 | 3,001 | 22,532 | 101 | 2,983 | 5,366 | 6,967 | 15,417 | 6,779 | 5,886 | 6,592 | 6,130 | 25,387 |
| 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 | \$0.03 | \$0.76 | \$1.38 | \$1.79 | \$3.95 | \$1.74 | \$1.51 | \$1.69 | \$1.57 | \$6.51 |
| Adjusted EPS (Loss) | (\$0.91) | \$2.11 | \$1.85 | \$1.15 | \$0.77 | \$5.85 | \$0.03 | \$0.76 | \$1.38 | \$1.79 | \$3.95 | \$1.74 | \$1.51 | \$1.69 | \$1.57 | \$6.51 |
| <u>Yr.-to-vr. rate of change</u> | | | | | | | | | | | | | | | | |
| Total revenue | -20.9% | 5.2% | 19.8% | 4.0% | 161.3% | 26.0% | -20.5% | -10.6% | 5.6% | 23.4% | -1.4% | 32.7% | 11.3% | 4.7% | -3.9% | 9.7% |
| Gross profit | -36.3% | 30.5% | 89.9% | 9.7% | NM | 104.8% | -44.3% | -27.0% | 8.4% | 49.3% | -8.7% | 72.9% | 25.0% | 6.4% | -7.7% | 17.8% |
| Operating income | -125.9% | NM | NM | 7.1% | NM | -983.7% | -96.2% | -61.4% | 28.9% | 175.7% | -26.6% | NM | 81.4% | 8.6% | -21.9% | 45.6% |
| EBITDA | -51.8% | 62.6% | 216.1% | 4.0% | NM | 248.4% | -100.0% | -43.7% | 16.2% | 74.2% | -17.4% | NM | 39.6% | 5.5% | -14.3% | 25.6% |
| Net income | -111.1% | NM | NM | 20.3% | NM | -1904.3% | -97.8% | -55.9% | 28.4% | 121.3% | -27.1% | NM | 78.8% | 11.3% | -19.6% | 49.2% |
| EPS | -132.1% | NM | NM | 45.3% | NM | -742.0% | -98.8% | -58.7% | 19.2% | 131.6% | -32.4% | NM | 97.3% | 22.9% | -12.0% | 64.7% |
| <u>Margin analysis</u> | | | | | | | | | | | | | | | | |
| Gross profit | 10.0% | 17.8% | 17.5% | 15.3% | 13.9% | 16.2% | 12.5% | 14.3% | 15.8% | 16.8% | 15.0% | 16.3% | 16.0% | 16.0% | 16.1% | 16.1% |
| SG&A | 11.0% | 9.0% | 8.1% | 9.8% | 10.2% | 9.2% | 12.1% | 10.2% | 9.0% | 8.5% | 9.8% | 9.0% | 9.4% | 9.0% | 9.4% | 9.2% |
| Operating margin | -1.0% | 8.9% | 9.4% | 5.5% | 3.7% | 7.0% | 0.4% | 4.1% | 6.8% | 8.2% | 5.2% | 7.3% | 6.6% | 7.0% | 6.7% | 5.4% |
| EBITDA margin | 4.0% | 12.7% | 13.2% | 9.6% | 8.3% | 11.1% | 0.0% | 8.3% | 10.5% | 11.7% | 9.3% | 11.0% | 10.4% | 10.6% | 10.4% | 10.6% |
| Pretax margin | -0.9% | 9.2% | 9.1% | 5.8% | 4.4% | 7.2% | 0.3% | 4.5% | 7.2% | 8.8% | 5.6% | 8.0% | 7.3% | 7.7% | 7.3% | 7.6% |
| Effective tax rate | 49.8% | 13.5% | 17.2% | 16.3% | 8.1% | 14.6% | 14.3% | 18.0% | 18.0% | 18.1% | 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% | 0.1% | 2.6% | 4.2% | 5.1% | 3.2% | 5.1% | 4.6% | 4.9% | 4.7% | 4.8% |

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

STRATTEC SECURITY CORPORATION

Table 2. STRATTEC Security Corp. Cash Flow Statement (\$ in thousands, except per shar 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>Sept.A</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 | \$222 | \$21,797 | \$32,527 |
| Depreciation & amortization | 4,733 | 4,847 | 4,769 | 4,980 | 19,329 | 4,885 | 4,912 | 4,933 | 19,786 | 5,057 | 19,500 | 19,500 |
| Other | 1,718 | 1,819 | (381) | (1,849) | 1,307 | (553) | 2,493 | (174) | 3,028 | 606 | (2,000) | (2,000) |
| Total | 9,131 | 5,571 | 9,301 | (9,224) | 14,779 | 14,405 | 16,978 | 10,669 | 52,711 | 5,885 | 39,297 | 50,027 |
| Operating uses | | | | | | | | | | | | |
| Accounts receivable | 4,952 | 13,435 | (7,373) | 30,976 | 41,990 | (37,796) | (5,844) | 4,464 | (27,744) | (15,659) | (4,148) | (10,824) |
| Inventory | (4,238) | (1,011) | (5,837) | 3,948 | (7,138) | 2,727 | (4,660) | (1,997) | (16,460) | 127 | (8,886) | (5,128) |
| Other current assets | 3,240 | (1,843) | 401 | (1,827) | (29) | (288) | 4,025 | (4,856) | (2,435) | - | (829) | (386) |
| Non-debt current liabilities | 1,923 | (10,552) | 12,834 | (28,383) | (24,178) | 28,252 | (743) | 60 | 29,078 | - | (1,545) | (1,314) |
| Total | 5,877 | 29 | 25 | 4,714 | 10,645 | (7,105) | (7,222) | (2,329) | (17,561) | (15,532) | (15,409) | (17,652) |
| Operating cash flow | 15,008 | 5,600 | 9,326 | (4,510) | 25,424 | 7,300 | 9,756 | 8,340 | 35,150 | (9,647) | 23,888 | 32,375 |
| YTD cash operating activity | 15,008 | 20,608 | 29,934 | 25,424 | | 7,300 | 17,056 | 25,396 | | (9,647) | | |
| Investing activities | | | | | | | | | | | | |
| Capital expenditures | (4,298) | (3,086) | (2,923) | (2,074) | (12,381) | (1,514) | (3,079) | (1,808) | (8,929) | (2,789) | (11,000) | (13,000) |
| Asset sales | 15 | - | 14 | 3 | 32 | 3 | - | 5 | - | - | - | - |
| Other | - | - | - | - | - | - | (100) | - | (92) | - | - | - |
| Total | (4,283) | (3,086) | (2,909) | (2,071) | (12,349) | (1,511) | (3,179) | (1,803) | (9,021) | (2,789) | (11,000) | (13,000) |
| YTD Investing | (4,283) | (7,369) | (10,278) | (12,349) | (12,349) | (1,511) | (4,690) | (6,493) | (9,021) | (2,789) | (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) | 5,000 | (2,500) | (2,500) |
| Proceeds from common financing, net | 239 | 280 | 24 | 17 | 560 | 19 | 21 | 545 | 604 | 619 | - | - |
| Other | (980) | - | - | - | (980) | (490) | - | - | (490) | - | - | - |
| Dividends paid | (522) | (525) | (525) | - | (1,572) | - | - | - | - | (600) | - | (1,480) |
| | (7,263) | (4,245) | (5,501) | 8,017 | (8,992) | (5,471) | (7,979) | (5,455) | (22,886) | 5,019 | (2,500) | (3,980) |
| YTD Financing | (7,263) | (11,508) | (17,009) | (8,992) | (8,992) | (5,471) | (13,450) | (18,905) | (22,886) | 5,019 | (2,500) | (3,980) |
| Exchange rate | (30) | (225) | (28) | 165 | (118) | (109) | (149) | (179) | (552) | (24) | - | - |
| Beginning cash & equivalents | \$7,809 | 11,241 | 9,285 | 10,173 | 7,809 | \$11,774 | 11,983 | 10,432 | 11,774 | \$14,465 | 14,465 | 24,853 |
| Cash flow | 3,432 | (1,956) | 888 | 1,601 | 3,965 | 209 | (1,551) | 903 | 2,691 | (7,441) | 10,388 | 15,395 |
| Ending cash & equivalents | 11,241 | 9,285 | 10,173 | 11,774 | \$11,774 | 11,983 | 10,432 | 11,335 | \$14,465 | 7,024 | \$24,853 | \$40,248 |
| GAAP free cash flow | \$10,710 | \$2,514 | \$6,403 | (\$6,584) | \$13,043 | \$5,786 | \$6,677 | \$6,532 | \$26,221 | (\$12,436) | \$12,888 | \$19,375 |
| Free cash flow margin | 8.9% | 2.4% | 5.5% | -1.5% | 3.4% | 4.6% | 5.2% | 5.4% | 5.4% | -3.2% | 2.7% | 3.7% |
| GAAP free cash flow/share | \$2.87 | \$0.67 | \$1.70 | (\$1.78) | \$3.49 | \$1.53 | \$1.74 | \$1.68 | \$6.81 | (\$3.32) | \$3.30 | \$4.97 |

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>Sept.A</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 | \$7,024 | \$24,853 | \$40,248 |
| 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 | 66,614 | 74,050 | 84,874 |
| 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 | 77,707 | 79,746 | 84,874 |
| 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 | 24,295 | 20,506 | 20,892 |
| 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 | 175,640 | 199,156 | 230,889 |
| 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 | 94,213 | 85,023 | 77,702 |
| 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 | 26,617 | 17,088 | 16,322 |
| 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 | 11,874 | 7,975 | 6,006 |
| 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 | \$308,344 | \$309,242 | \$330,919 |
| 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 | 34,533 | 35,316 | 39,173 |
| 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 | 13,058 |
| 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 | 35,901 | 18,228 | 13,058 |
| 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 | 70,434 | 64,936 | 65,288 |
| 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 | 17,000 | 9,500 | 7,000 |
| 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 | 2,923 | 2,278 | 2,612 |
| 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 | 4,548 | 4,557 | 5,223 |
| 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 | 31,158 | 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 | 182,281 | 227,970 | 250,797 |
| 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 | \$308,344 | \$309,242 | \$330,919 |
| 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 | 2.5 | 3.1 | 3.5 |
| 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% | 8.5% | 4.0% | 2.7% |
| 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 | \$46.74 | \$58.45 | \$64.31 |
| 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 | \$39.91 | \$48.20 | \$54.56 |
| 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% | 2.5% | 9.9% | 10.0% |
| 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% | -3.1% | 7.0% | 7.4% |
| 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 | 1.1x | 1.8x | 1.6x |
| Receivable turnover (days) | 50 | 81 | 60 | 59 | 59 | 59 | 60 | 58 | 60 | 60 | 62 | 63 | 42 | 80 | 47 | 55 |
| Inventory days | 51 | 41 | 44 | 38 | 40 | 46 | 51 | 53 | 53 | 127 | 137 | 143 | 56 | 20 | 68 | 68 |
| 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 | (\$9,976) | \$15,353 | \$33,248 |
| 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 | (\$2.56) | \$3.94 | \$8.53 |

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

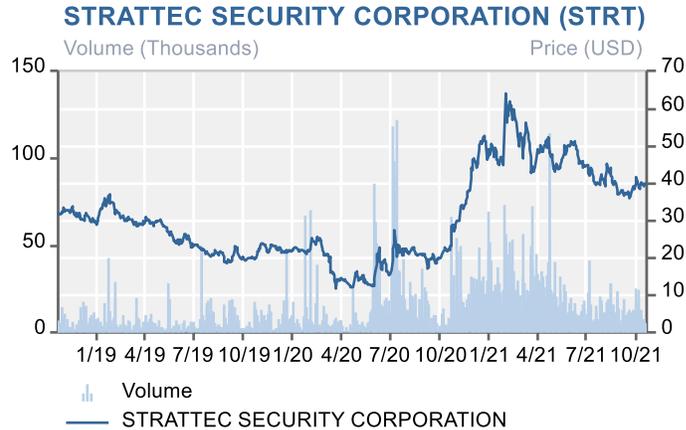
Appendix
Required Disclosures

Required Disclosures

Strattec Security Corporation (STRT-\$38.80) 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 | |
| PT | 10/19/21 | 39.9 | | 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 \$6.52 (was \$6.47). 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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