



# STRATTEC SECURITY CORPORATION (STRT)

## COVID Resurgence And Ongoing Supply Chain Constraints Temper Our Profit Expectations; Maintain \$65 Price Target

|            | F2020           | F2021         | F2022E        |               | F2023E        |               |
|------------|-----------------|---------------|---------------|---------------|---------------|---------------|
|            |                 |               | OLD           | NEW           | OLD           | NEW           |
| Sep.       | \$0.79          | \$2.11        | \$0.03A       |               | \$1.74        | \$1.71        |
| Dec.       | 0.10            | 1.85          | 0.76          | 0.66          | 1.51          | 1.52          |
| Mar.       | 0.79            | 1.15          | 1.38          | 1.25          | 1.69          | 1.65          |
| June       | (2.59)          | 0.77          | 1.79          | 1.76          | 1.57          | 1.62          |
| EPS (FY)   | <b>(\$2.04)</b> | <b>\$5.85</b> | <b>\$3.95</b> | <b>\$3.70</b> | <b>\$6.52</b> | <b>\$6.49</b> |
| EPS (Cal.) | \$2.16          | \$2.71        | \$6.42        | \$6.24        |               |               |
| P/E (FY)   |                 |               |               | 10.1x         |               | 5.7x          |
| P/E (Cal.) |                 |               |               | 6.0x          |               |               |

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2021 excludes \$1.12 in one-time charges. F2020-F2023E 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 | \$468.7 | \$523.6 |
| GAAP EPS   | \$4.68  | \$5.73  | \$2.51  | \$1.96  | \$3.32  | (\$4.53) | (\$2.04) | \$5.85  | \$3.70  | \$6.49  |

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.

- While indications are that production is resuming in the automotive sector, we have tempered the slope of STRATTEC's recovery due to ongoing supply-chain issues and a resurgence of a COVID-19 variant.
- We reset our revenue and earnings estimates and now look for EPS of \$3.70 (from \$3.95) and \$6.49 (from \$6.52) in F2022 and F2023, respectively.
- 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.
- The ongoing weak environment has also resulted in net debt being added to the balance sheet in 1Q:F22 but we look for debt repayment to resume, resulting in net cash of \$33.2 million (\$8.26 per share) by the end of F2023.
- We maintain our \$65 price target, which is based on 10x our revised F2023 EPS estimate of \$6.49 (was \$6.52). Our Moderately Risk rating reflects STRATTEC's cyclicality and small float, offset by its well-established operating history, solid balance sheet and good cash flow.

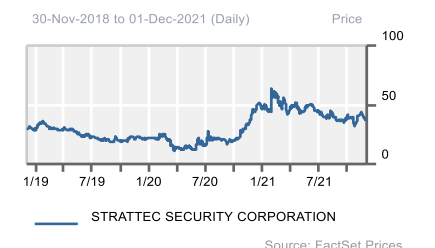
STRATTEC's revenue profile is largely predicated on the gyrations of the ground vehicle market. The company makes door locks, keys and handles (52% of F2020 revenue). Keys have evolved from single-sided ignition keys to remote entry to remote start products. This evolution was spurred, in part, to circumvent 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 (about 17% of revenue). The company also makes latches (12%) and drive controls (7%). Replacement sales (about 11% of revenue) generate the highest margins.

We adjust our estimates to reflect an anticipated uneven automotive recovery in the near term but project a more normalized operating environment emerging in F2023. Following this catch-up phase, we allow for a continued, albeit less disruptive production environment by 4Q:F22. Management has indicated that shipping trends are improved in

**NR**  
Price Target: \$65  
Price: \$37.30  
Risk Rating: M

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| Key Statistics                |        |
|-------------------------------|--------|
| Analysts Covering             | 1      |
| Market Cap (Mil)              | \$150  |
| Enterprise Value              | \$187  |
| 52-Week Range (NASDAQ)        | 67-32  |
| 5-Year EPS CAGR               | 15%    |
| Avg. Daily Trading Volume     | 15,000 |
| Shares Out (Mil)              | 3.954  |
| Float Shares (Mil)            | 3.708  |
| Insider Ownership             | 5%     |
| Institutional Holdings        | 95%    |
| Annualized Dividend           | Nil    |
| Dividend Yield                | N/A    |
| FCF Per Share (F2023E)        | \$4.62 |
| FCF Yield (F2023E)            | 12.4%  |
| Net Cash Per Share (F2023E)   | \$8.26 |
| Price to Book Value           | 0.8x   |
| Return on Equity (F2023E)     | 10.6%  |
| Total Debt to Capital         | 10%    |
| Interest Coverage Ratio       | 8.9x   |
| Short Interest %              | 0.5%   |
| Short Interest Days To Cover  | 0.8    |
| Russell 2000                  | 2,206  |
| Russell 2000 - Last 12 Months | 17.0%  |
| STRT - Last 12 Months         | -16.0% |



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 \$468.7 million (from \$478.5 million) and to \$523 million (from \$525.0 million) in F2022 and F2023, respectively. As a result, we reset our earnings estimates and now look for EPS of EPS of \$3.70 (from \$3.95) and \$6.49 (from \$6.52) in F2022 and F2023, respectively.

**Deleveraging stalled in the most recent 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 2020. 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. However, as we opened F2022, 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 \$32.3 million (\$8.26 per share) by the end of F2023. At that rate, we expect the company to be able to reinstate the dividend by early F2023. Any further prolonging of normalized global auto production may push this process, while better conditions could result in a one-time special dividend (which similarly occurred in 2008).

|                  |   |                       |                                   |
|------------------|---|-----------------------|-----------------------------------|
| <b>Valuation</b> | <b>We maintain our \$65 price target on STRT shares.</b> 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 and is based on 10x our revised F2023 EPS estimate of \$6.49 (was \$6.52). 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. |                       |                                   |
| <b>Key Risks</b> | 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.A           | Dec.             | Mar.             | June             | F2022E           | Sept.            | Dec.             | Mar.             | June             | F2023E           |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Keys & Locksets                         | \$101,666        | \$34,091         | \$30,136         | \$28,616         | \$23,729         | \$116,572        | \$22,159         | \$23,506         | \$30,047         | \$32,700         | \$108,412        | \$32,131         | \$29,383         | \$31,549         | \$30,527         | \$123,590        |
| Door Handles & Trim                     | 98,168           | 32,736           | 34,813           | 29,790           | 28,879           | 126,218          | 24,552           | 28,547           | 30,982           | 33,302           | 117,383          | 33,145           | 32,829           | 32,221           | 34,448           | 132,642          |
| Power Access                            | 63,829           | 20,620           | 25,210           | 26,209           | 23,206           | 95,245           | 22,342           | 25,462           | 26,471           | 23,827           | 98,102           | 27,927           | 28,008           | 27,795           | 28,107           | 111,837          |
| Latches                                 | 45,295           | 13,835           | 14,343           | 13,125           | 9,908            | 51,211           | 11,068           | 12,909           | 13,256           | 11,418           | 48,650           | 13,282           | 13,038           | 14,317           | 13,852           | 54,489           |
| Aftermarket & OE Service                | 40,742           | 13,137           | 9,971            | 10,969           | 13,061           | 47,138           | 9,853            | 10,569           | 11,517           | 14,727           | 46,667           | 11,823           | 11,626           | 12,324           | 13,460           | 49,233           |
| Drive Controls                          | 29,649           | 9,787            | 10,535           | 10,822           | 8,887            | 40,031           | 8,319            | 8,955            | 11,147           | 12,411           | 40,832           | 10,399           | 10,298           | 11,258           | 10,714           | 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            |
| <b>Net sales</b>                        | <b>\$385,300</b> | <b>\$126,234</b> | <b>\$127,360</b> | <b>\$121,644</b> | <b>\$110,057</b> | <b>\$485,295</b> | <b>\$100,341</b> | <b>\$112,276</b> | <b>\$125,427</b> | <b>\$130,704</b> | <b>\$468,748</b> | <b>\$130,776</b> | <b>\$127,533</b> | <b>\$131,370</b> | <b>\$133,918</b> | <b>\$523,597</b> |
| Cost of sales                           | 346,897          | 103,723          | 105,119          | 102,990          | 94,805           | 406,637          | 87,792           | 96,557           | 105,672          | 109,586          | 399,608          | 109,459          | 107,128          | 110,351          | 112,360          | 439,298          |
| <b>Gross profit</b>                     | <b>\$38,403</b>  | <b>22,511</b>    | <b>22,241</b>    | <b>18,654</b>    | <b>15,252</b>    | <b>\$78,658</b>  | <b>12,549</b>    | <b>15,719</b>    | <b>19,755</b>    | <b>21,118</b>    | <b>\$69,140</b>  | <b>21,316</b>    | <b>20,405</b>    | <b>21,019</b>    | <b>21,558</b>    | <b>\$84,299</b>  |
| Selling, dev. & admin.                  | 42,241           | 11,314           | 10,302           | 11,927           | 11,200           | 44,743           | 12,121           | 11,789           | 11,916           | 10,112           | 45,937           | 11,770           | 11,988           | 11,823           | 12,590           | 48,171           |
| <b>Operating income</b>                 | <b>(3,838)</b>   | <b>11,197</b>    | <b>11,939</b>    | <b>6,727</b>     | <b>4,052</b>     | <b>33,915</b>    | <b>428</b>       | <b>3,930</b>     | <b>7,839</b>     | <b>11,006</b>    | <b>23,203</b>    | <b>9,547</b>     | <b>8,417</b>     | <b>9,196</b>     | <b>8,968</b>     | <b>28,347</b>    |
| 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           | 8,805            | 12,714           | 15,699           | 42,703           | 14,422           | 13,292           | 14,071           | 13,843           | 55,628           |
| Joint Venture earnings/other            | 206              | 565              | (291)            | 399              | 722              | 1,395            | (121)            | 561              | 627              | 807              | 1,875            | 981              | 956              | 985              | 1,004            | 3,927            |
| Interest expense                        | (920)            | (112)            | (84)             | (63)             | (43)             | (302)            | (48)             | (40)             | (60)             | (67)             | (215)            | (124)            | (124)            | (124)            | (124)            | (495)            |
| Other income                            | 1,253            | -                | -                | -                | 75               | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>Income (Loss) before taxes</b>       | <b>(3,299)</b>   | <b>11,650</b>    | <b>11,564</b>    | <b>7,063</b>     | <b>4,806</b>     | <b>35,008</b>    | <b>259</b>       | <b>4,451</b>     | <b>8,406</b>     | <b>11,747</b>    | <b>24,863</b>    | <b>10,404</b>    | <b>9,250</b>     | <b>10,057</b>    | <b>9,849</b>     | <b>39,560</b>    |
| Provision (Benefit) for taxes           | (1,642)          | 1,577            | 1,991            | 1,153            | 390              | 5,111            | 37               | 801              | 1,513            | 2,124            | 4,475            | 1,873            | 1,665            | 1,810            | 1,773            | 7,121            |
| <b>Net inc. (cont. ops)</b>             | <b>(1,657)</b>   | <b>10,073</b>    | <b>9,573</b>     | <b>5,910</b>     | <b>4,416</b>     | <b>29,897</b>    | <b>222</b>       | <b>3,650</b>     | <b>6,893</b>     | <b>9,623</b>     | <b>20,388</b>    | <b>8,531</b>     | <b>7,585</b>     | <b>8,247</b>     | <b>8,076</b>     | <b>32,439</b>    |
| Minority interest                       | 1,748            | 2,065            | 2,460            | 1,425            | 1,415            | 7,365            | 121              | 1,068            | 2,018            | 2,760            | 5,967            | 1,873            | 1,665            | 1,810            | 1,773            | 7,121            |
| <b>Net inc., shareholders</b>           | <b>(3,405)</b>   | <b>8,008</b>     | <b>7,113</b>     | <b>4,485</b>     | <b>3,001</b>     | <b>22,532</b>    | <b>101</b>       | <b>2,582</b>     | <b>4,876</b>     | <b>6,862</b>     | <b>14,421</b>    | <b>6,658</b>     | <b>5,920</b>     | <b>6,437</b>     | <b>6,303</b>     | <b>25,319</b>    |
| 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)           | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>GAAP EPS (Loss)</b>                  | <b>(\$2.04)</b>  | <b>\$2.11</b>    | <b>\$1.85</b>    | <b>\$1.15</b>    | <b>\$0.77</b>    | <b>\$5.85</b>    | <b>\$0.03</b>    | <b>\$0.66</b>    | <b>\$1.25</b>    | <b>\$1.76</b>    | <b>\$3.70</b>    | <b>\$1.71</b>    | <b>\$1.52</b>    | <b>\$1.65</b>    | <b>\$1.62</b>    | <b>\$6.49</b>    |
| <b>Adjusted EPS (Loss)</b>              | <b>(\$0.91)</b>  | <b>\$2.11</b>    | <b>\$1.85</b>    | <b>\$1.15</b>    | <b>\$0.77</b>    | <b>\$5.85</b>    | <b>\$0.03</b>    | <b>\$0.66</b>    | <b>\$1.25</b>    | <b>\$1.76</b>    | <b>\$3.70</b>    | <b>\$1.71</b>    | <b>\$1.52</b>    | <b>\$1.65</b>    | <b>\$1.62</b>    | <b>\$6.49</b>    |
| <b><u>Yr.-to-vr. rate of change</u></b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Total revenue                           | -20.9%           | 5.2%             | 19.8%            | 4.0%             | 161.3%           | 26.0%            | -20.5%           | -11.8%           | 3.1%             | 18.8%            | -3.4%            | 30.3%            | 13.6%            | 4.7%             | 2.5%             | 11.7%            |
| Gross profit                            | -36.3%           | 30.5%            | 89.9%            | 9.7%             | NM               | 104.8%           | -44.3%           | -29.3%           | 5.9%             | 38.5%            | -12.1%           | 69.9%            | 29.8%            | 6.4%             | 2.1%             | 21.9%            |
| Operating income                        | -125.9%          | NM               | NM               | 7.1%             | NM               | -983.7%          | -96.2%           | -67.1%           | 16.5%            | 171.6%           | -31.6%           | NM               | 114.2%           | 17.3%            | -18.5%           | 55.7%            |
| EBITDA                                  | -51.8%           | 62.6%            | 216.1%           | 4.0%             | NM               | 248.4%           | -100.0%          | -47.7%           | 9.0%             | 72.4%            | -20.5%           | NM               | 51.0%            | 10.7%            | -11.8%           | 30.3%            |
| Net income                              | -111.1%          | NM               | NM               | 20.3%            | NM               | -1904.3%         | -97.8%           | -61.9%           | 16.6%            | 117.9%           | -31.8%           | NM               | 107.8%           | 19.6%            | -16.1%           | 59.1%            |
| EPS                                     | -132.1%          | NM               | NM               | 45.3%            | NM               | -742.0%          | -98.8%           | -64.2%           | 8.3%             | 128.1%           | -36.8%           | NM               | 129.3%           | 32.0%            | -8.1%            | 75.6%            |
| <b><u>Margin analysis</u></b>           |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Gross profit                            | 10.0%            | 17.8%            | 17.5%            | 15.3%            | 13.9%            | 16.2%            | 12.5%            | 14.0%            | 15.8%            | 16.2%            | 14.8%            | 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%            | 10.5%            | 9.5%             | 7.7%             | 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%             | 3.5%             | 6.3%             | 8.4%             | 4.9%             | 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%             | 7.8%             | 10.1%            | 12.0%            | 9.1%             | 11.0%            | 10.4%            | 10.7%            | 10.3%            | 10.6%            |
| Pretax margin                           | -0.9%            | 9.2%             | 9.1%             | 5.8%             | 4.4%             | 7.2%             | 0.3%             | 4.0%             | 6.7%             | 9.0%             | 5.3%             | 8.0%             | 7.3%             | 7.7%             | 7.4%             | 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%             | 2.3%             | 3.9%             | 5.3%             | 3.1%             | 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>   |
|-------------------------------------|---------------|-----------------|---------------|-----------------|------------------|---------------|----------------|--------------|-----------------|----------------|-----------------|-----------------|
| <b>Operating sources</b>            |               |                 |               |                 |                  |               |                |              |                 |                |                 |                 |
| Net income                          | \$2,680       | (\$1,095)       | \$4,913       | (\$12,355)      | <b>(\$5,857)</b> | \$10,073      | \$9,573        | \$5,910      | <b>\$29,897</b> | \$222          | <b>\$20,388</b> | <b>\$32,439</b> |
| Depreciation & amortization         | 4,733         | 4,847           | 4,769         | 4,980           | <b>19,329</b>    | 4,885         | 4,912          | 4,933        | <b>19,786</b>   | 5,057          | <b>19,500</b>   | <b>19,500</b>   |
| 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>606</u>     | <u>(2,000)</u>  | <u>(2,000)</u>  |
| Total                               | 9,131         | 5,571           | 9,301         | (9,224)         | <b>14,779</b>    | 14,405        | 16,978         | 10,669       | <b>52,711</b>   | 5,885          | <b>37,888</b>   | <b>49,939</b>   |
| <b>Operating uses</b>               |               |                 |               |                 |                  |               |                |              |                 |                |                 |                 |
| Accounts receivable                 | 4,952         | 13,435          | (7,373)       | 30,976          | <b>41,990</b>    | (37,796)      | (5,844)        | 4,464        | <b>(27,744)</b> | (15,659)       | <b>(3,077)</b>  | <b>(11,389)</b> |
| Inventory                           | (4,238)       | (1,011)         | (5,837)       | 3,948           | <b>(7,138)</b>   | 2,727         | (4,660)        | (1,997)      | <b>(16,460)</b> | 127            | <b>(7,733)</b>  | <b>(8,454)</b>  |
| Other current assets                | 3,240         | (1,843)         | 401           | (1,827)         | <b>(29)</b>      | (288)         | 4,025          | (4,856)      | <b>(2,435)</b>  | -              | <b>(533)</b>    | <b>(1,217)</b>  |
| 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>-</u>       | <u>(2,319)</u>  | <u>2,137</u>    |
| Total                               | 5,877         | 29              | 25            | 4,714           | <b>10,645</b>    | (7,105)       | (7,222)        | (2,329)      | <b>(17,561)</b> | (15,532)       | <b>(13,663)</b> | <b>(18,923)</b> |
| <b>Operating cash flow</b>          |               |                 |               |                 |                  |               |                |              |                 |                |                 |                 |
|                                     | 15,008        | 5,600           | 9,326         | (4,510)         | <b>25,424</b>    | 7,300         | 9,756          | 8,340        | <b>35,150</b>   | (9,647)        | <b>24,225</b>   | <b>31,016</b>   |
| <b>YTD cash operating activity</b>  | 15,008        | 20,608          | 29,934        | 25,424          |                  | 7,300         | 17,056         | 25,396       |                 | (9,647)        |                 |                 |
| <b>Investing activities</b>         |               |                 |               |                 |                  |               |                |              |                 |                |                 |                 |
| Capital expenditures                | (4,298)       | (3,086)         | (2,923)       | (2,074)         | <b>(12,381)</b>  | (1,514)       | (3,079)        | (1,808)      | <b>(8,929)</b>  | (2,789)        | <b>(11,000)</b> | <b>(13,000)</b> |
| Asset sales                         | 15            | -               | 14            | 3               | <b>32</b>        | 3             | -              | 5            | <b>-</b>        | -              | -               | -               |
| 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>        | <u>-</u>        |
| Total                               | (4,283)       | (3,086)         | (2,909)       | (2,071)         | <b>(12,349)</b>  | (1,511)       | (3,179)        | (1,803)      | <b>(9,021)</b>  | (2,789)        | <b>(11,000)</b> | <b>(13,000)</b> |
| <b>YTD Investing</b>                | (4,283)       | (7,369)         | (10,278)      | (12,349)        | (12,349)         | (1,511)       | (4,690)        | (6,493)      | (9,021)         | (2,789)        | (11,000)        | (13,000)        |
| <b>Financing activities</b>         |               |                 |               |                 |                  |               |                |              |                 |                |                 |                 |
| Proceeds from S-T debt, net         | -             | -               | -             | -               | <b>-</b>         | -             | -              | -            | <b>-</b>        | -              | -               | -               |
| Proceeds from L-T debt, net         | (6,000)       | (4,000)         | (5,000)       | 8,000           | <b>(7,000)</b>   | (5,000)       | (8,000)        | (6,000)      | <b>(23,000)</b> | 5,000          | <b>(2,500)</b>  | <b>(2,500)</b>  |
| Proceeds from common financing, net | 239           | 280             | 24            | 17              | <b>560</b>       | 19            | 21             | 545          | <b>604</b>      | 619            | -               | -               |
| Other                               | (980)         | -               | -             | -               | <b>(980)</b>     | (490)         | -              | -            | <b>(490)</b>    | -              | -               | -               |
| 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>(600)</u>   | <u>-</u>        | <u>(1,480)</u>  |
|                                     | (7,263)       | (4,245)         | (5,501)       | 8,017           | <b>(8,992)</b>   | (5,471)       | (7,979)        | (5,455)      | <b>(22,886)</b> | 5,019          | <b>(2,500)</b>  | <b>(3,980)</b>  |
| <b>YTD Financing</b>                | (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             | <b>(118)</b>     | (109)         | (149)          | (179)        | <b>(552)</b>    | (24)           | -               | -               |
| Beginning cash & equivalents        | \$7,809       | 11,241          | 9,285         | 10,173          | <b>7,809</b>     | \$11,774      | 11,983         | 10,432       | <b>11,774</b>   | \$14,465       | <b>14,465</b>   | <b>25,190</b>   |
| <b>Cash flow</b>                    | <b>3,432</b>  | <b>(1,956)</b>  | <b>888</b>    | <b>1,601</b>    | <b>3,965</b>     | <b>209</b>    | <b>(1,551)</b> | <b>903</b>   | <b>2,691</b>    | <b>(7,441)</b> | <b>10,725</b>   | <b>14,036</b>   |
| Ending cash & equivalents           | 11,241        | 9,285           | 10,173        | 11,774          | <b>\$11,774</b>  | 11,983        | 10,432         | 11,335       | <b>\$14,465</b> | 7,024          | <b>\$25,190</b> | <b>\$39,226</b> |
| <b>GAAP free cash flow</b>          |               |                 |               |                 |                  |               |                |              |                 |                |                 |                 |
|                                     | \$10,710      | \$2,514         | \$6,403       | (\$6,584)       | <b>\$13,043</b>  | \$5,786       | \$6,677        | \$6,532      | <b>\$26,221</b> | (\$12,436)     | <b>\$13,225</b> | <b>\$18,016</b> |
| <b>Free cash flow margin</b>        | 8.9%          | 2.4%            | 5.5%          | -1.5%           | <b>3.4%</b>      | 4.6%          | 5.2%           | 5.4%         | <b>5.4%</b>     | -3.2%          | <b>2.8%</b>     | <b>3.4%</b>     |
| <b>GAAP free cash flow/share</b>    | \$2.87        | \$0.67          | \$1.70        | (\$1.78)        | <b>\$3.49</b>    | \$1.53        | \$1.74         | \$1.68       | <b>\$6.81</b>   | (\$3.32)       | <b>\$3.39</b>   | <b>\$4.62</b>   |

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

STRATTEC SECURITY CORPORATION

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

|  | <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>         |
|--|------------------|------------------|------------------|-----------------------|------------------|------------------|------------------|-----------------------|------------------|-----------------------|-----------------------|
| <b>Assets</b>                                |                  |                  |                  |                       |                  |                  |                  |                       |                  |                       |                       |
| <b>Current Assets:</b>                       |                  |                  |                  |                       |                  |                  |                  |                       |                  |                       |                       |
| Cash and equivalents                         | \$11,241         | \$9,285          | \$10,173         | <b>\$11,774</b>       | \$11,983         | \$10,432         | \$11,335         | <b>\$14,465</b>       | \$7,024          | <b>\$25,190</b>       | <b>\$39,226</b>       |
| Receivables                                  | 78,932           | 65,893           | 72,805           | <b>41,955</b>         | 79,764           | 85,796           | 81,304           | <b>69,902</b>         | 66,614           | <b>72,979</b>         | <b>84,368</b>         |
| Inventory                                    | 51,500           | 52,511           | 58,348           | <b>54,400</b>         | 51,673           | 56,333           | 58,330           | <b>70,860</b>         | 77,707           | <b>78,593</b>         | <b>87,047</b>         |
| Other current assets                         | <u>14,024</u>    | <u>15,789</u>    | <u>15,216</u>    | <u><b>17,239</b></u>  | <u>17,527</u>    | <u>13,348</u>    | <u>18,051</u>    | <u><b>19,677</b></u>  | <u>24,295</u>    | <u><b>20,210</b></u>  | <u><b>21,427</b></u>  |
| Total current assets                         | 155,697          | 143,478          | 156,542          | <b>125,368</b>        | 160,947          | 165,909          | 169,020          | <b>174,904</b>        | 175,640          | <b>196,972</b>        | <b>232,068</b>        |
| Equipment, net                               | 115,978          | 115,040          | 107,416          | <b>105,148</b>        | 102,610          | 101,819          | 97,263           | <b>96,401</b>         | 94,213           | <b>85,534</b>         | <b>78,097</b>         |
| Investment in Joint Ventures                 | 23,216           | 24,058           | 23,190           | <b>22,068</b>         | 23,723           | 25,759           | 26,051           | <b>27,224</b>         | 26,617           | <b>16,841</b>         | <b>16,740</b>         |
| Other  | <u>18,908</u>    | <u>11,003</u>    | <u>10,363</u>    | <u><b>12,961</b></u>  | <u>12,949</u>    | <u>13,482</u>    | <u>13,390</u>    | <u><b>12,034</b></u>  | <u>11,874</u>    | <u><b>7,859</b></u>   | <u><b>6,160</b></u>   |
| <b>Total Assets</b>                          | <b>\$313,799</b> | <b>\$293,579</b> | <b>\$297,511</b> | <b>\$265,545</b>      | <b>\$300,229</b> | <b>\$306,969</b> | <b>\$305,724</b> | <b>\$310,563</b>      | <b>\$308,344</b> | <b>\$307,207</b>      | <b>\$333,065</b>      |
| <b>Liabilities &amp; Shareholders Equity</b> |                  |                  |                  |                       |                  |                  |                  |                       |                  |                       |                       |
| <b>Current Liabilities</b>                   |                  |                  |                  |                       |                  |                  |                  |                       |                  |                       |                       |
| Current port. L-T Debt                       | -                | -                | -                | -                     | -                | -                | -                | -                     | -                | -                     | -                     |
| Accounts payable                             | 43,996           | 31,693           | 43,104           | <b>18,549</b>         | 40,809           | 39,148           | 36,250           | <b>36,727</b>         | 34,533           | <b>34,806</b>         | <b>41,515</b>         |
| Payroll and benefits                         | 20,366           | 15,624           | 13,549           | <b>13,498</b>         | 16,314           | 19,169           | 21,474           | <b>22,483</b>         |                  | <b>11,228</b>         | <b>13,392</b>         |
| Accrued expenses                             | <u>17,821</u>    | <u>18,116</u>    | <u>19,419</u>    | <u><b>16,093</b></u>  | <u>19,180</u>    | <u>18,338</u>    | <u>17,774</u>    | <u><b>18,362</b></u>  | <u>35,901</u>    | <u><b>17,964</b></u>  | <u><b>13,392</b></u>  |
| Total current liabilities                    | 82,183           | 65,433           | 76,072           | <b>48,140</b>         | 76,303           | 76,655           | 75,498           | <b>77,572</b>         | 70,434           | <b>63,997</b>         | <b>68,298</b>         |
| Long-term debt                               | 36,000           | 32,000           | 27,000           | <b>35,000</b>         | 30,000           | 22,000           | 16,000           | <b>12,000</b>         | 17,000           | <b>9,500</b>          | <b>7,000</b>          |
| Accrued pension liability                    | 1,693            | 1,723            | 1,754            | <b>1,956</b>          | 1,961            | 1,980            | 1,944            | <b>2,933</b>          | 2,923            | <b>2,246</b>          | <b>2,678</b>          |
| Other  | 5,652            | 5,574            | 5,430            | <b>5,008</b>          | 4,945            | 4,861            | 4,788            | <b>4,625</b>          | 4,548            | <b>4,491</b>          | <b>5,357</b>          |
| Minority int.                                | 24,632           | 25,380           | 24,912           | <b>23,319</b>         | 25,115           | 28,888           | 29,904           | <b>31,787</b>         | 31,158           | <b>32,000</b>         | <b>32,000</b>         |
| <b>Shareholders' Equity</b>                  | <u>188,271</u>   | <u>188,849</u>   | <u>187,255</u>   | <u><b>175,441</b></u> | <u>187,020</u>   | <u>201,473</u>   | <u>207,494</u>   | <u><b>213,433</b></u> | <u>182,281</u>   | <u><b>226,974</b></u> | <u><b>249,732</b></u> |
| <b>Total Liab. &amp; Sh. Eq.</b>             | <b>\$313,799</b> | <b>\$293,579</b> | <b>\$297,511</b> | <b>\$265,545</b>      | <b>\$300,229</b> | <b>\$306,969</b> | <b>\$305,724</b> | <b>\$310,563</b>      | <b>\$308,344</b> | <b>\$307,207</b>      | <b>\$333,065</b>      |
| Current ratio                                | 1.9              | 2.2              | 2.1              | <b>2.6</b>            | 2.1              | 2.2              | 2.2              | <b>2.3</b>            | 2.5              | <b>3.1</b>            | <b>3.4</b>            |
| Total debt to capital                        | 16.1%            | 14.5%            | 12.6%            | <b>16.6%</b>          | 13.8%            | 9.8%             | 7.2%             | <b>5.3%</b>           | 8.5%             | <b>4.0%</b>           | <b>2.7%</b>           |
| Book value / share                           | \$50.50          | \$50.48          | \$49.70          | <b>\$46.80</b>        | \$49.37          | \$52.44          | \$53.40          | <b>\$54.87</b>        | \$46.74          | <b>\$58.20</b>        | <b>\$64.03</b>        |
| Tangible BV / share                          | \$38.82          | \$40.76          | \$40.33          | <b>\$37.12</b>        | \$39.32          | \$41.41          | \$42.25          | <b>\$43.60</b>        | \$39.91          | <b>\$47.98</b>        | <b>\$54.25</b>        |
| Return on average equity                     | 8.0%             | 6.5%             | 7.5%             | <b>-0.9%</b>          | -0.8%            | 6.9%             | 7.2%             | <b>15.4%</b>          | 2.5%             | <b>9.3%</b>           | <b>10.0%</b>          |
| Return on average. assets                    | 4.8%             | 4.0%             | 4.6%             | <b>-0.6%</b>          | 1.2%             | 4.4%             | 4.7%             | <b>10.4%</b>          | -3.1%            | <b>6.6%</b>           | <b>7.4%</b>           |
| Asset turnover                               | 1.6x             | 1.6x             | 1.6x             | <b>1.3x</b>           | 1.4x             | 1.4x             | 1.4x             | <b>1.7x</b>           | 1.1x             | <b>1.8x</b>           | <b>1.6x</b>           |
| Receivable turnover (days)                   | 59               | 60               | 58               | <b>60</b>             | 60               | 62               | 63               | <b>42</b>             | 80               | <b>47</b>             | <b>55</b>             |
| Inventory days                               | 46               | 51               | 53               | <b>53</b>             | 127              | 137              | 143              | <b>56</b>             | 20               | <b>68</b>             | <b>69</b>             |
| Net cash                                     | (\$24,759)       | (\$22,715)       | (\$16,827)       | <b>(\$23,226)</b>     | (\$18,017)       | (\$11,568)       | (\$4,665)        | <b>\$2,465</b>        | (\$9,976)        | <b>\$15,690</b>       | <b>\$32,226</b>       |
| Net cash/debt share                          | (\$6.64)         | (\$6.07)         | (\$4.47)         | <b>(\$6.20)</b>       | (\$4.76)         | (\$3.01)         | (\$1.20)         | <b>\$0.63</b>         | (\$2.56)         | <b>\$4.02</b>         | <b>\$8.26</b>         |

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

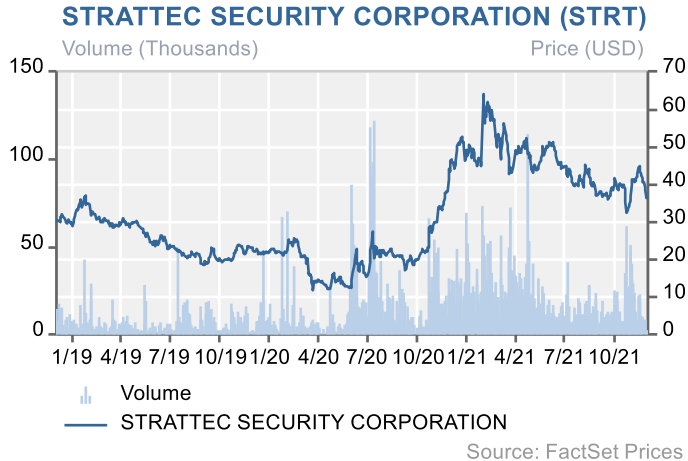
**Appendix**  
Required Disclosures

**Required Disclosures**

**STRATTEC SECURITY CORPORATION (STRT-\$37.30) 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 |             |
| PT         | 10/22/21 | 38.8 |           | 65 |             |



|                  |  |                       |                                   |
|------------------|--|-----------------------|-----------------------------------|
| <b>Valuation</b> | 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 and is based on 10x our revised F2023 EPS estimate of \$6.49 (was \$6.52). 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. |                       |                                   |
| <b>Key Risks</b> | Cyclical nature of automotive market   | Pricing of new awards | Post-recession consumer sentiment |

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