

Dear STRATTEC Shareholders,

This has been a challenging year with two major events affecting our operations. First, a six week UAW strike at General Motors, one of largest customers, reduced our sales by \$10 million during the first half of the fiscal year. Then, the ancillary effects of the COVID-19 pandemic reduced sales by \$78 million during the second half of the fiscal year and over 60% in our fourth quarter.

### **COVID-19 IMPACT**

At the beginning of February when we in the United States were just beginning to hear about the disease in China, our joint venture operations there were totally shut down by government order. It took them until late March to allow business operations to bring most personnel back to work.

In late March, our customers in North America stopped ordering product as they were forced to close their plants to protect their workers. However, they told us that we needed to be in a position to ramp up quickly in early April. Rather than force an immediate short term layoff of our production associates, we continued to build inventory. Unfortunately, the much anticipated industry ramp up was delayed by another two months. In hindsight, the build-up of finished goods during this period turned out to be a smart decision as we were ready and able to fill the pipeline when our customers began to aggressively re-start their production in June.

The Mexican government shut down our operations and other automotive suppliers for the entire months of April and May. They allowed us to bring back only 30% of our people in June. Subsequently, we were allowed to bring back 50% in July and 60% in mid-August.

With such an uncertain future in April, we chose to aggressively protect our operating cash. We terminated 10% of our salaried workforce. The remaining salaried Associates were given a temporary 10% wage cut, officers took a 15% wage cut, your Board of Directors committed to lower fees and as President, I took a 25% wage cut. In addition to reductions in compensation, we aggressively cut and/or delayed operating expenses and we prudently assessed capital expenditure decisions. At the same time, your Board of Directors also took the action of suspending dividend payments. All of these actions were intended to be temporary, but continue in place until we have a clearer path forward.

I am very proud of how well our Team at STRATTEC performed. Whether they were on site or working remotely, they demonstrated a level of commitment and a sense of responsibility of getting the job done. It is in challenging times that we see how well our team works together. Just as important was their willingness to quickly adapt and change priorities as our circumstances frequently changed. I am grateful for their efforts and for the things that they are doing now to impact our future.

### **OPERATIONS**

After winning much new business over the last few years, we have invested large amounts of money getting ready to deliver product to market. Our capital expenditures for new plants and equipment were very high by our historical standards, driving up our debt and depreciation charges. Engineering and product development costs

were charged against earnings as incurred, but will be recovered along with production profitability as new programs are kicked off.

It is nice to be recognized by our customers, who are the people who know us best. During fiscal 2020, two of our facilities were given Supplier Excellence Awards by General Motors and another Supplier Excellence Award was presented to us by Honda.

During the first nine months of the fiscal year ending in March, we were showing good improvement in many areas of the business. In our last quarter, we were basically in shut down mode for much of it. The United States declared automotive to be an essential industry, unlike the Mexican government. Therefore, we had more flexibility with our operations in Milwaukee. While most of our production people were on voluntary layoff, we chose to stay open with a minimal crew. By re-balancing inventories and implementing continuous improvement projects without the normal pressures of daily production, we were able to accelerate efficiency improvements that will be beneficial in fiscal 2021 and beyond.

## **INNOVATION**

Last year, I was pleased to report that we had won an Automotive News PACE Award for product innovation in the auto industry for two years in a row. Since only about a dozen awards are given out each year, winning PACE Awards in back to back years is quite an accomplishment that has been matched by very few others. It is a tangible indication of the talented people at STRATTEC.

This year, we received another prestigious award. The "General Motors Innovation of the Year Award" was given to only four suppliers out of the thousands of companies in their global supply chain. It was given for our Power Endgate system called InvisiRise on their Chevrolet Silverado pick-up truck. We were featured in their award presentation where the product was described as "wildly successful."

We are also now very excited to be introducing a similar Power Endgate system for another customer. This should provide significant growth for STRATTEC especially if customer demand for the product exceeds expectations, as it did with GM's Silverado.

These awards have proven to strengthen our customer relations plus build confidence and respect in the eyes of other customers. We believe that it may already have opened up opportunities for additional growth.

## **VAST**

VAST's largest global investment is VAST China, where a ribbon cutting celebration for our new plant was to have happened in March. The COVID-19 situation in China precluded that celebration from happening, profits were reduced due to the previously mentioned production shut-down and slowing market demand. Nevertheless, as China began to open up, so did the new plant which features an expanded automated painting capacity. The start-up expenses of opening this new plant also impacted VAST China's profitability.

The automotive industry in India is also being hit hard by COVID-19. The timing is unfortunate since we just completed installation of an automated paint system which will create long term efficiencies and opportunities for additional new business for Minda VAST.

We are celebrating our 20<sup>th</sup> anniversary of creating VAST, which is a unique partnership with two privately held companies, WITTE Automotive of Germany and ADAC Automotive of Michigan. It has proved to be very beneficial to all of the partners. We continue to make progress and stay on a continuing journey of how to better work together to advance technology, improve speed to market, lower development costs and strengthen our competitive position to service customers globally. This was another year where we have made significant advancements in the ways that we are collaboratively working together.

## **RISK REDUCTION**

After a few years of heavily investing in our future through engineering expense and capital expenditures, our debt levels reached \$51 million in June of 2018. At the end of June 2019, we ended that fiscal year with \$42 million in debt and \$9.8 million in cash, giving us a debt to equity ratio of 21%. We ended this current fiscal year 2020 with \$35 million in debt and \$2 million more in cash, improving our ratio to 15%. It is likely that the ratio would have been even better had it not been for the significant 4<sup>th</sup> quarter losses due to COVID-19.

In addition to debt reduction, another significant financial risk was also eliminated. We completed a multi-year process to eliminate our pension fund responsibilities by negotiating a transfer of our pension liabilities and assets to an insurance company. Many companies and governments today have huge unfunded pension liabilities on their books. We can now distinguish ourselves as a Company in a better financial position which will not have to face any long term unfunded pension obligations in the future.

While the termination of our pension plan was a very good thing for the Company, there were US GAAP required non-cash accounting charges resulting from the termination which added some confusion to our overall earnings picture. The accounting rules resulted in earnings swings which made it more challenging to understand our underlying business performance. A superficial look may have caused some people to think that we were losing large amounts of money and may have caused them to ignore investigating STRATTEC as a potential investment. That communication risk regarding pension liabilities is now behind us.

## **SUMMARY**

Our business roots go back to 1908. Twenty-five years ago we were spun off to shareholders as a separate publicly traded company under the name STRATTEC. Our original plans were to celebrate the anniversary this year and the progress that has been made with a team focused on the automotive business in a global market. Unfortunately, that celebration has been postponed due to the pandemic.

Since the pandemic abruptly changed our world in March, we have used the time to implement actions for improvement which would have taken much longer to do while we were dealing with a daily shipment schedule. During this difficult time, we chose to continue to prudently invest in certain improvements which will benefit us in the future.

Despite the impact of COVID-19, this year we were able to strengthen our balance sheet, improve our operations and expand our sales potential. Whatever the underlying consumer demand, we expect that our new fiscal year will benefit from pipeline filling of depleted inventories at auto dealerships. In addition, after a few years of having no analyst coverage, we are now being covered by Sidoti & Company, LLC to help deliver our story to a broader audience.

I thank our shareholders, directors, customers, VAST partners, and suppliers. I am especially proud of our employees for their efforts to keep many business initiatives on track during these unusual and difficult times. I therefore feel that we are ready to take advantage of opportunities that are a result of the progress we have made both before and during the pandemic and look forward to the year ahead of us.

Frank Krejci

President & CEO

STRATTEC SECURITY CORPORATION