Siena Market Line
2nd week of March 2015

Strattec Security Corporation
NASDAQ: STRT

Analyst: Kevin Akbaraly
Sector: Consumer Discretionary

BUY

Price Target: $97.50

Key Statistics as of 3/10/2015

Market Price:	$68.79
Industry:	Auto Components
Market Cap:	$246.8 M
52-Week Range:	$59.16 - $110.96
Beta:	1.11

Thesis Points:

- The automotive industry outlook is expected to be strong over the next 5 years
- The company is focused on business expansion and productivity
- VAST is expected to help Strattec capitalize on European and Asian automotive markets
- NextLock LLC will help the company diversify in the new and fast growing biometric market
- The company's stock price is undervalued at current level

Company Description:

Strattec Security Corporation is a company that results from 1995's spin-off from Briggs & Stratton through a tax-free distribution and is headquartered in Milwaukee, Wisconsin. Strattec operates as an automotive locks producer since 1920, and currently provides mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings latches, power sliding door systems, power lift gate systems, power deck lid systems, door handles and other related products to worldwide automotive customers. In 2000, the company entered into a global alliance with WITTE Automotive of Velbert based in Germany, and in 2006 with ADAC Automotive of Grand Rapids based in Michigan to form VAST. Strattec also entered into a joint venture in late 2013 with Actuator Systems LLC to form NextLock LLC.

Thesis

Strattec operates within the Automotive Components industry. The Automotive industry is expected to be favorable to expansion over the next five years, specifically in North America and Asia. Following the operating strategies the company is undertaking, Strattec is expected to take advantage of this growth and increase its productivity. Also, the company invested into two joint ventures: VAST and NextLock; VAST is expected to help the company expand geographically in Europe and Asia, but also diversify into new product lines that are developed along with its partners. NextLock on the other hand will help Strattec diversify into the biometric market, which is expected to grow fast over the next 5 years. Based on current stock price, the company is considered undervalued. A BUY is therefore recommended with a 1-year target price of $97.50, representing an upside potential of 42.4%.

Macro Outlook

Since the financial crisis, the auto industry has recently shown a strong recovery and is expected to strengthen over the next five to seven years. Led by low interest rates and eased financing opportunities, new vehicle sales in the U.S. increased by 6% to 16.4 million units in 2014, the highest level since 2006. Automotive News forecasts another 6% increase during 2015, leading to higher production levels over the year. Asia is showing high growth opportunities over the next five years, specifically in China and India. The Chinese Association of Automobile is expecting an increase of 6.8% for the number of new vehicles sold during 2015, which is leading major players to shift their strategy in order to benefit from this growth. Ford, for example, has planned to triple its line-up in China and has benefited from a 49% and 45% growth during 2013 and 2014 respectively. Additionally, General Motors plans to launch 60 new and refreshed vehicles in addition of 11 new utility vehicles between 2014 and 2018. The company also invested in 4 new plants around the region, and is expecting to sell 33-35 million units by the end of the decade.

The median household income in the U.S. surpassed $54,000 in 2014, the highest level since 2010 according to Sentier Research and the last Consumer Confidence report published in February 2015 has reached 96.40, the highest level since late 2007.

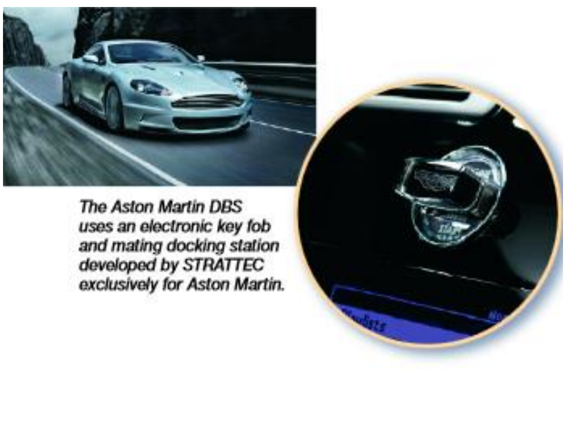
On the other hand, there are rising concerns among U.S. residents regarding a possible increase in interest rates during the year. Based on January's average transaction price of $32,159, it has been estimated that for every 100 basis points increase in interest rates, 5-year loan payments will increase by $13 per month. However, the EPA estimated that current gasoline prices are expected to benefit drivers by $51 per month on average, which in turn can offset a potential increase in interest rates if oil prices remain stable.

Company's Operations

Strattec Security Corporation operates as a lock sets supplier since 1920. Historically, the company focuses on the production of locks and keys for the automotive industry and has continuously developed new product lines over time. Strattec added sophisticated radio frequency identification technology in most of its current products to increase security and prevent theft risks. The company also developed keys with remote entry devices, which is considered as one of the most popular products sold nowadays. In an attempt to diversify its business, Strattec has also developed latches for trunks, lift-gates, tailgates, hoods and side doors. The company acquired Delphi Corporation during 2009 enabling it to diversify in power access devices for sliding doors, lift-gate and trunk lids. The company has also recently launched a Lock Housings segment. Finally, the company formed a legal entity with Adac called Adac-Strattec, which enables the company produce door handles.

The majority of Strattec's revenues are generated through North America with modest exports within South-America, Europe and Asia. Strattec reported record profits for its 2014 fiscal year, resulting from a recovering economic environment. The company's main customers are OEM automotive and light truck manufacturers representing 74% of revenues, with Chrysler Group LLC, General Motors Company and Ford Motor Company accounting for the largest customers in term of revenues. The company reported that Lock Sets for automotive manufacturers represented the largest segment of the company, followed by Power Access, Lock Housings, and finally Door Handles & Latches. The remaining 26% of revenues represents sales through OEM service channels, after-market, Tier 1 automotive supplier and other non-automotive commercial suppliers. Strattec has started to sell its products to authorized wholesalers as well, with an increasing number of units gaining the retail industry.

Strattec shows a strong commitment regarding the quality of products supplied to clients. The company counts 6 engineer teams, each responsible for one particular segment. Strattec believes that both specialization and division helps the company gain in efficiency, and build stronger client relationships. This relationship will help the company work closely with customers' teams in order to provide high quality products in "the shortest possible time". Strattec has spent $1.2M, $1.3M and $700k in R&D in 2012, 2013 and 2014 respectively, representing only 0.2% to 0.4% of company's revenues. The company plans to continue its investments in R&D and patent issuance in order to gain technologic competitive advantage within the industry. One of the most recent rewards the company received is the tittle of Supplier of the year 2014 in Electrical Products from Chrysler.



The Aston Martin DBS uses an electronic key fob and mating docking station developed by STRATTEC exclusively for Aston Martin.

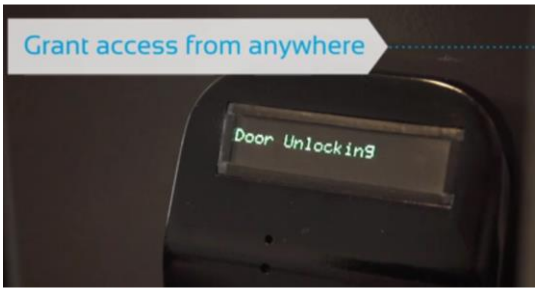
Strattec's headquarter is located in Milwaukee, Wisconsin, and is responsible for the production of most of the components used by the company's products. The facility produces zinc die cast components, stamping and milled key blades. The company counts also 2 facilities in Juarez, Mexico, where it outsources assembly and finishing operations. Finally, the R&D division is located in Michigan, which is called the "Advanced Development Group" and is responsible for the development of new product lines. The company plans to increase capital expenditures to $21M in 2015 (5.3% of projected revenues) compared to $12.8M in 2014 (3.7% of revenues) for the purchase of two buildings in order to replace two leased ones. The first one will be in Michigan where the R&D division, the Sales, and VAST headquarter will be located "all under one roof". The management stated that this change will help the company reduce its costs and gain in productivity due to an economy of scale. The second one will be in Juarez, Mexico, and will be located in front of an existing facility in order to use existing management resources, and gain in economy of scale. SG&A expenses accounted for 11.7% of revenues in 2012, 11.3% in 2013, and 11.1% in 2014 and are expected to decrease further accordingly. Strattec is a "just-in-Time" supplier to the automotive industry, which help customers reduce costs associated with inventory management and adding value to company's services. The company received the Melvin Lurie Labor-Management Cooperation Prize in 2013.

Vehicle Access System Technology – VAST

Strattec entered into a global alliance with Witte in 2000 and Adac in 2006 to form Vehicle Access System Technology (VAST). Both companies are operating within the Automotive Components industry. The role of the joint venture is to promote complementary products from all partners and develop new product lines in order to gain recognition and expand geographically by limiting costs incurred by each member. Combined sales were $1.3 billion as of 2014, with only $112 attributable to the joint venture, representing a 21.1% growth compared to 2013. This is the first time the joint venture turn to be profitable with $4M of Net Income after initial expenses have been incurred in previous years. This represented an additional $1.3M of net revenue for Strattec for the fiscal year 2014. The joint venture has been expanding globally over time, specifically in Asia with new facilities and offices in China, Japan, Korea, and Brazil. This global expansion seems to be in line with expected market conditions around Asia, and Strattec is therefore expected to benefit from this high growth over the next years. As it has been discussed in the Macro Outlook, Ford and General Motors, two key customers for Strattec and VAST, are experiencing high growth by expanding in Asia, leading to an increase in investments to develop new facilities and product lines. It is very likely that direct competitors follow the trend, which would lead to an increase in the number of new vehicles designed, increasing the chance for the joint venture to benefit from these investments. Three companies have been rewarded during 2014 as "Supplier of the Year": Strattec by Chrysler, Witte by Volkswagen and Adac by General Motors. The relationship the joint venture has built with its customers could therefore help the group increase substantially its revenues. Even though the amount of Net Revenue allocated to Strattec accounts for only 1/3 of the joint venture's Net Income, the company can still enjoy other advantages. First, costs related to the expansion of VAST are also incurred by each member, diminishing capital expenditure requirements for Strattec. Also, the joint venture allows Strattec expand its sales globally by selling its products to VAST and other customers.

NextLock LLC

NextLock LLC has been formed following a joint venture with Actuator Systems LLC during the fourth quarter of 2013. The company is currently designing biometric security products based on Actuator Systems' design for residential use. Strattec has acquired 51% of the newly formed company for an initial investment of $1.5M. Strattec incurred an additional $153k and $70k related to engineering and SG&A expenses in 2013 and 2014 respectively. NextLock is expecting to initiate the sale of its products during the second half of 2015, which could lead Strattec to additional SG&A expenses during the year for launch purposes. BCC Research has estimated that the biometric market generated $11.2 billion in 2014 and is expected to reach $27.5 billion by 2019, representing a compounded annual growth rate of 19.8% over the next five years. This market would offer Strattec additional revenue opportunities in coming years and lower the company's risks regarding the seasonal nature of the automotive industry. NextLock could turn into profit by 2016-2017 and show high growth potential over the next years. The company has also launched SmartKit IPK (Instant Prototyping Kit), which has been designed for people wanting to help the company develop new smart home devices for the future. The idea is to use public's ideas in order to develop new product lines for residential use. This initiative could help NextLock develop innovative products by using an unlimited amount of ideas coming from the public, and also reduce substantially costs related to R&D expenses. The company's vision is to provide its customers high-tech products to facilitate the use of daily-life appliances such as residential access and security, coffee machines, Hi-Fi systems, panes and others by the use of one single remote device. Additionally, this investment can help Strattec strategically position itself for the development of biometric security components for the automotive industry in the future.



The competition within this segment is still considered limited, and NextLock could develop a competitive advantage thanks to Strattec's expertise in security, which would help the company gain market shares in coming years.

Management and Strategy

Frank J Krejci has been elected CEO in 2012. Mr Krejci joined the company in 2010 as President and COO. Prior to Strattec, he was President at Wisconsin Furniture LLC from 1996 to 2009.

Patrick J Hansen is the CFO, Treasurer, Secretary and VP of Strattec since 1999. Mr Hansen joined the company in 1995 as Controller.

The management wants to focus on the following strategies for the future:

- Increase productivity in order to increase margins.
- Keep a "Disciplined and flexible cost structure to leverage scale and optimize asset utilization".
- Continued investments for future growth and productivity improvement.
- Leverage the VAST brand.
- Focus on clients' needs and monitor potential changes in demand.
- Monitor acquisition opportunities to drive shareholders' value.

On March 12, 2014, Strattec announced its first distribution of quarterly dividend with $0.11 per share, which increased to $0.12 in September 2014. This could signal investors a positive signal regarding the company's financial strength coupled with investments that are currently undertaken. As of June 29, 2014, the company repurchased 3.6M shares out of 3.8M shares authorized under its share repurchase program. Following its current expansion and past investments, the company is not expected to repurchase additional shares during 2015.

Key Statistics

Strattec's revenues have been growing by 7.0%, 6.8% and 16.8% in 2012, 2013 and 2014 respectively. The company reported record profits over the last 12 months with $411.6M helped by an unusual order from Chrysler following a positive market environment. However, Chrysler also announced a possible slowdown in production from January to May 2015 due to a changeover for the production of its MiniVan, with an estimated impact of $15-17M on Strattec's sales. Strattec's stock price dropped by more than 25% to a range of $75-80 in January 2015 from $100-108 in December 2014 following the announcement. Nevertheless, analysts still expect a 14.7% growth in revenues during FY2015 compared to FY2014.

Cost of Goods Sold represented 82% of revenues in 2012, 81.9% in 2013 and 81.1% in 2014. Following Chrysler's unusual demand, the company's reported COGS of 80.1% during the last 12 months ending December 2014, resulting from increased productivity and more efficient asset utilization.
SG&A expenses also decreased from 11.7% of revenues in 2012, 11.3% in 2013 to 11.1% in 2014.
R&D expenses are ranging 0.2% to 0.6% of revenues only and are not expected to increase substantially.
Finally, the company announced an increase in Capital Expenditures to $21M in 2015 and $18M in 2016, representing 5.3% and 4.3% of expected revenues respectively compared to 3.6% in 2014. This will finance

new product programs, the upgrade and replacement of existing equipment and the purchase of two buildings.

Strattec's Gross Margins increased to 18.9% in 2014 compared to 18% in 2012. Operating Margins increase to 7.6% in 2014 compared to 5.8% in 2012 and EBITDA Margins increased to 10% in 2014 compared to 8.3% in 2012. As discussed above, the company is currently investing in new facilities to increase productivity by using existing management resources, which would help the company increase its margins even further in the future.

The company was debt free until 2013 when it issued $1.7M of long-term debt, rising to $2.5M in 2014 in support of Working Capital requirements and future expansion. Total debts represented only 1.3% and 1.2% of total assets in 2013 and 2014 respectively. The company has $30M available under its line of credit and had a TIE ratio of 590x during FY2014.

The Cash Conversion Cycle of the company increased to 57.3 days in 2014 compared to 53.5 days in 2013 and 51.8 days in 2012. This is the result of an increase in the Receivable Period from 54.8 days in 2012 to 60.8 days in 2014. Accounts receivable increased to 32.3% of total assets in 2014 compared to 26.8% in 2012, while accounts payable decreased to 26.3% in 2014 compared to 28.8% in 2012, and inventory to 14.3% compared to 12.8%. These changes might be related to the development of new product lines, but the company has to make sure it converts its inventory into cash effectively to limit additional Working Capital financing.

Despite this slight increase in CCC period, Strattec still shows a strong balance sheet with a current ratio of 2.1 in 2014 compared to 1.8 in 2012 and a quick ratio of 1.4 compared to 1.1.

Valuation

The valuation of Strattec has been made using a proforma that is presented on the last page of this report.

Revenue growth for FY2015 has been estimated at 14.7%, in line with consensus estimations, and rapidly decremented by 2% year after year to a long-term growth of 3.2% This growth is considered conservative regarding the company's growth potential over next years and according to its business expansion and investments in new businesses.

Operating costs over revenues have been increased from 90% for FY2014 to 92% by 0.5% increments. This increase is also conservative regarding the company's initiatives put in place to gain in productivity and economy of scale, but also takes into account the fact that margins have been recently increased following Chrysler's unusual demand, and due to upcoming product launches that may need additional expenses. The 10-year median for the company is 91.8%.

The unlevered beta has been set at 1.1 in order to do not underestimate the weighted average cost of capital even though the company's 10-year median is only 0.91 and total debt accounts for only 1.2% of total assets.

Return on Invested Capital is expected to be 18.1% during FY 2015 compared to a Weighted Average Cost of Capital of 9% leading to an Economic Value Added spread of 9.1%. ROIC is expected to slightly decrease year after year to a long-term ROIC of 10.5% compared to a long-term WACC of 10%.

All these assumptions are considered conservative regarding company's potential and leads to a 1-year target price of $97.5, representing an upside potential of 42.4% based on current market price.

Conclusion

The automotive industry shows a promising market environment over the next 5 years, specifically around the U.S. and Asia. Strattec's operations have been set in order for them to produce high quality products in an efficient manner. The company will continue to expand its business by increasing productivity, which would lead to increased margins. The management's strategy, along with the company's diversification into new product lines, new businesses, but also geographically could help Strattec capitalize on new markets and therefore create value for shareholders over the long term. Also, the joint ventures undertaken by the company through VAST and NextLock LLC are expected to grow rapidly in the future, which would add additional incomes as well. As a result, a BUY is recommended on Strattec Security Corpation with a 1-year price target of $97.5, representing an upside potential of 42.4% based on current price.

CENTER FOR GLOBAL FINANCIAL STUDIES

STRATTEC Security Corporation	STRT	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Kevin Akbaraly	$68.79	$90.86	$97.47	1%	42.38%	

General Info		Peers	Market Cap.
Sector	Consumer Discretionary		
Industry	Auto Components		
Last Guidance	(Invalid Identifier)	Intevac Inc.	$155.41
Next earnings date	4/23/2015		
Market Data			
Enterprise value	$240.86		
Market Capitalization	$246.75		
Daily volume	0.05		
Shares outstanding	3.59		
Diluted shares outstanding	3.58	Landi Renzo S.p.A.	$110.87
% shares held by institutions	89.95%	**Current Capital Structure**	
% shares held by insiders	2.89%	Total debt/market cap	1.45%
Short interest	7.47%	Cost of Borrowing	1.17%
Days to cover short interest	7.36	Interest Coverage	98994.74%
52 week high	$110.96	Altman Z	6.00
52-week low	$59.16	Debt Rating	AAA
5y Beta	1.11	Levered Beta	1.13
6-month volatility	47.98%	WACC (based on market value weights)	8.86%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Krejci, Frank	Chief Executive Officer, Presiden	$ 725,146.00	$ 875,071.00	$ 1,537,604.00
Hansen, Patrick	Chief Financial Officer, Principal .	$ 680,858.00	$ 570,964.00	$ 736,866.00
Messina, Richard	Vice President of Global Sales &	$ 309,002.00	$ 389,323.00	$ 466,338.00
Guillot, Rolando	Vice President of Mexican Operat	$ 496,584.00	$ 390,395.00	$ 557,078.00
Reetz, Brian	Vice President of Security Produc	$ -	$ -	$ -
Matoska, Diane	Director of Financial Reporting	$ -	$ -	$ -

Historical Performance

	STRT	Peers	Industry	All U.S. firms
Growth	5.0%	8.5%	6.4%	6.0%
Retention Ratio	22.1%	17.9%	43.8%	61.6%
ROIC		15.8%	15.6%	11.8%
EBITA Margin	4.9%	14.4%	8.8%	13.7%
Revenues/Invested capital	297.6%	91.8%	233.4%	202.3%
Excess Cash/Revenue	10.5%	26.6%	9.2%	18.5%
Unlevered Beta	0.91	0.96	1.20	0.95
TEV/REV	0.4x	1.6x	1.0x	2.4x
TEV/EBITDA	5.2x	16.0x	8.7x	11.3x
TEV/EBITA	8.3x	22.9x	11.7x	15.4x
TEV/UFCF	10.2x	27.0x	27.1x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.7%	-16.7%	1.3%
Last Quarter-1	25.7%	63.6%	82.1%
Last Quarter -2	13.8%	32.0%	36.2%
Last Quarter -3	3.7%	-12.2%	-7.4%
Last Quarter -4	4.7%	23.6%	19.8%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions / **Forecasted Profitability**

		Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
Operating. Cash/Cash	0.0%	LTM	22%	89%	$411.57	$23.96	$128.94	$9.42
Unlevered Beta	1.10	LTM+1Y	14%	90%	$468.42	$23.49	$135.16	$10.91
Rev/Invested Capital	233.0%	LTM+2Y	11%	90%	$519.68	$24.77	$143.33	$16.59
Continuing Period Revenue Growth	3.2%	LTM+3Y	9%	91%	$566.20	$25.49	$150.34	$18.49
Long Term ROIC	10.5%	LTM+4Y	7%	91%	$605.62	$25.56	$156.17	$19.73
Invested Capital Growth	Equals to Maintenance	LTM+5Y	5%	92%	$638.84	$26.09	$161.97	$20.28
Justified TEV/REV	1.0x	LTM+6Y	4%	92%	$667.51	$27.30	$167.14	$22.13
Justified TEV/EBITDA	8.7x	LTM+7Y	4%	92%	$691.49	$28.30	$170.78	$24.66
Justified TEV/EBITA	11.7x	LTM+8Y	3%	92%	$713.62	$29.20	$174.10	$25.88
Justified TEV/UFCF	27.1x	LTM+9Y	3%	92%	$736.45	$30.11	$178.03	$26.18

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	20.9%	8.9%	$13.46	$319.71	$3.50	-$7.77	$323.98	$91.55
LTM+1Y	18.1%	9.0%	$12.29	$327.63	$3.50	-$21.59	$345.72	$98.19
LTM+2Y	18.3%	9.1%	$13.20	$339.23	$3.50	-$37.26	$372.99	$105.51
LTM+3Y	17.8%	9.2%	$12.88	$349.01	$3.50	-$54.92	$400.43	$113.22
LTM+4Y	17.0%	9.3%	$12.01	$358.33	$3.50	-$74.03	$428.86	$121.27
LTM+5Y	16.7%	9.4%	$11.81	$369.09	$3.50	-$93.91	$459.49	$130.29
LTM+6Y	16.9%	9.5%	$12.27	$380.03	$3.50	-$115.95	$492.49	$139.26
LTM+7Y	16.9%	9.6%	$12.49	$390.79	$3.50	-$140.88	$528.17	$149.23
LTM+8Y	17.1%	9.7%	$12.85	$400.42	$3.50	-$167.30	$564.22	$159.27
LTM+9Y	17.3%	9.8%	$13.32	$409.74	$3.50	-$193.84	$600.09	$167.29

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**3%**	**N/A**	**3%**	**8%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$91.55	$98.19
σ(ε)	$0.23	$0.24
3 σ(ε) adjusted price	$90.86	$97.47
Current Price	$68.79	
Analysts' median est.		$97.50