

STRATTEC SECURITY CORP
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended April 1, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number 0-25150

STRATTEC SECURITY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Wisconsin 39-1804239
(State of Incorporation) (I.R.S. Employer Identification No.)

3333 West Good Hope Road, Milwaukee, WI 53209

(Address of Principal Executive Offices)

(414) 247-3333

(Registrant's Telephone Number, Including Area Code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date.

Common stock, par value \$0.01 per share: 3,703,991 shares outstanding as of April 2, 2018 (which number includes all restricted shares previously awarded that have not vested as of such date).

STRATTEC SECURITY CORPORATION

FORM 10-Q

April 1, 2018

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A number of the matters and subject areas discussed in this Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "would," "expect," "intend," "may," "planned," "potential," "will," and "could," or the negative of these terms or words of similar meaning. These include statements regarding expected future financial results, product offerings, global expansion, liquidity needs, financing ability, planned capital expenditures, management's or the Company's expectations and beliefs, and similar matters discussed in this Form 10-Q. The discussion of such matters and subject areas contained herein is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience.

The Company's business, operations and financial performance are subject to certain risks and uncertainties, which could result in material differences in actual results from the Company's current expectations. These risks and uncertainties include, but are not limited to, general economic conditions, in particular relating to the automotive industry, consumer demand for the Company's and its customers' products, competitive and technological developments, customer purchasing actions, changes in warranty provisions and customers' product recall policies, foreign currency fluctuations, costs of operations, the volume and scope of product returns and warranty claims and other matters described in the section titled "Risk Factors" in the Company's Form 10-K report filed on September 7, 2017 with the Securities and Exchange Commission for the year ended July 2, 2017.

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Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this Form 10-Q and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this Form 10-Q.

Item 1 Financial Statements

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 1,	April 2,	April 1,	April 2,
	2018	2017	2018	2017
Net sales	\$116,823	\$109,706	\$322,465	\$308,895
Cost of goods sold	101,626	92,105	281,159	262,797
Gross profit	15,197	17,601	41,306	46,098
Engineering, selling and administrative expenses	10,839	11,782	31,033	34,308
Income from operations	4,358	5,819	10,273	11,790
Interest income	1	52	8	132
Equity earnings (loss) of joint ventures	619	(163)	3,118	128
Interest expense	(305)	(100)	(761)	(276)
Other income, net	158	1,192	354	1,376
Income before provision for income taxes and				
non-controlling interest	4,831	6,800	12,992	13,150
Provision for income taxes	899	1,752	1,956	4,060
Net income	3,932	5,048	11,036	9,090
Net income attributable to non-controlling				
Interest	963	1,566	2,729	3,668
Net income attributable to STRATTEC SECURITY				
CORPORATION	\$2,969	\$3,482	\$8,307	\$5,422
Comprehensive Income:				
Net income	\$3,932	\$5,048	\$11,036	\$9,090
Pension and postretirement plans, net of tax	338	475	893	1,424
Currency translation adjustments	3,487	3,357	1,193	(1,674)
Other comprehensive loss, net of tax	3,825	3,832	2,086	(250)
Comprehensive income	7,757	8,880	13,122	8,840
Comprehensive income attributable to non-				
controlling interest	1,894	2,638	2,709	3,737
Comprehensive income attributable to STRATTEC				
SECURITY CORPORATION	\$5,863	\$6,242	\$10,413	\$5,103

Earnings per share attributable to STRATTEC

SECURITY CORPORATION:				
Basic	\$0.82	\$0.97	\$2.29	\$1.51
Diluted	\$0.80	\$0.95	\$2.24	\$1.48
Average shares outstanding:				
Basic	3,634	3,592	3,625	3,586
Diluted	3,708	3,671	3,702	3,666
Cash dividends declared per share	\$0.14	\$0.14	\$0.42	\$0.42

The accompanying notes are an integral part of these Condensed Consolidated Statements of Income and Comprehensive Income.

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	April 1, 2018 (Unaudited)	July 2, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,037	\$8,361
Receivables, net	70,527	64,933
Inventories:		
Finished products	9,665	9,976
Work in process	9,655	9,328
Purchased materials	28,339	20,682
Excess and obsolete reserve	(4,678)	(4,510)
Inventories, net	42,981	35,476
Other current assets	27,401	20,235
Total current assets	147,946	129,005
Investment in joint ventures	21,367	16,840
Deferred income taxes	1,620	256
Other long-term assets	17,598	16,022
Property, plant and equipment	268,246	251,519
Less: accumulated depreciation	(149,697)	(139,928)
Net property, plant and equipment	118,549	111,591
	\$ 307,080	\$ 273,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 44,268	\$ 39,679
Accrued Liabilities:		
Payroll and benefits	12,371	13,055
Environmental	1,295	1,308
Warranty	6,297	5,550
Other	7,498	8,303
Total current liabilities	71,729	67,895
Borrowings under credit facility	48,000	30,000
Accrued pension obligations	1,580	1,492
Accrued postretirement obligations	802	1,003
Other long-term liabilities	1,787	610
Shareholders' Equity:		
Common stock, authorized 12,000,000 shares, \$.01 par value, 7,251,937	72	72

issued shares at April 1, 2018 and 7,216,103 issued shares at

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July 2, 2017		
Capital in excess of par value	94,869	93,813
Retained earnings	232,695	225,913
Accumulated other comprehensive loss	(30,782)	(32,888)
Less: treasury stock, at cost (3,617,471 shares at April 1, 2018 and		
3,619,487 shares at July 2, 2017)	(135,790)	(135,822)
Total STRATTEC SECURITY CORPORATION shareholders' equity	161,064	151,088
Non-controlling interest	22,118	21,626
Total shareholders' equity	183,182	172,714
	\$ 307,080	\$ 273,714

The accompanying notes are an integral part of these Condensed Consolidated Balance Sheets.

STRATTEC SECURITY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended	
	April 1,	April 2,
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$11,036	\$9,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,551	8,454
Foreign currency transaction loss (gain)	173	(1,775)
Unrealized loss (gain) on peso forward contracts	687	(1,147)
Stock based compensation expense	871	1,154
Equity earnings of joint ventures	(3,118)	(128)
Deferred income taxes	(1,710)	—
Change in operating assets and liabilities:		
Receivables	(5,206)	(6,978)
Inventories	(7,505)	473
Other assets	(8,277)	(4,674)
Accounts payable and accrued liabilities	6,244	7,831
Other, net	(44)	(143)
Net cash provided by operating activities	3,702	12,157
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(125)	(250)
Loan to joint ventures	—	(1,925)
Repayment from loan to joint ventures	300	75
Purchase of property, plant and equipment	(19,382)	(26,642)
Proceeds received on sale of property, plant, and equipment	12	—
Net cash used in investing activities	(19,195)	(28,742)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility		