Kimball Electronics, Inc.
First Quarter Fiscal Year 2027 Financial Results
November 5, 2026

Presenters
Andrew Regrut, VP of Investor Relations & Strategic Development and Treasurer
Ric Phillips, CEO
Jana Croom, CFO

Q&A Participants
Mike Crawford - B. Riley
Brett Fishbin - KeyBanc Capital Markets
Luke Fingerson - Lake Street Capital

Operator
Good morning, ladies and gentlemen, and welcome to the Kimball Electronics First Quarter Fiscal 2027 Earnings Conference Call. My name is Ina, and I will be the facilitator for today's call. All lines have been placed in listen only mode to prevent any background noise. After the completion of the prepared remarks from the Kimball Electronics' leadership team, there will be question-and-answer period. To ask a question, simply press star then the number one on your telephone keypad. Today's call, November 5, 2026, is being recorded. A replay of the call will be available on the Investor Relations page of the Kimball Electronics website.

At this time, I would like to turn the call over to Mr. Andrew Regrut, Vice President, Investor Relations, Strategic Development and Treasurer. Mr. Regrut, you may begin.

Andrew Regrut
Thank you, and good morning, everyone. Welcome to our first quarter conference call. With me here today is Ric Phillips, our Chief Executive Officer, and Jana Croom, Chief Financial Officer. We issued a press release yesterday afternoon with our results for the first quarter of fiscal 2027 ended September 30, 2026. To accompany today's call, a presentation has been posted to the Investor Relations page on our company website.

Before we get started, I'd like to remind you that we will be making forward-looking statements that involve risk and uncertainty and are subject to our safe harbor provisions as stated in our press release and SEC filings and that actual results can differ materially from the forward-looking statements. Our commentary today will be focused on adjusted non-GAAP results. Reconciliations of GAAP to non-GAAP amounts are available in our press release. This morning, Ric will start the call with a few opening comments, Jana will review the financial results for the quarter and guidance for fiscal 2027, and Ric will complete our prepared remarks before taking your questions. I will now turn the call over to Ric.

Ric Phillips
Thank you, Andy, and good morning, everyone. I'm encouraged by our first quarter results and solid start to fiscal 2027. Sales increased both sequentially and year-over-year, margins were healthy, and cash conversion days were once again at a multiyear low. The top line benefited from organic sales growth and the contribution from Helvoet Polymer Technologies, our recent tuck-in acquisition in the medical CDMO. The organic growth was in line with expectations and driven by a high single-digit increase in medical sales. This growth aligns with our strategic focus to balance the portfolio across the verticals. Our excitement for the overall fit and growth opportunities of Helvoet are higher now than ever. With the backdrop of a strong balance sheet, we're investing in medical growth by integrating Helvoet, ramping operations in Indianapolis, leveraging our capabilities as a full-service provider, and unlocking synergies across the global footprint. Fiscal 2027 marks an important milestone in our journey, and we are reiterating our guidance for the year with sales expected at the high end of the range driven by continued strength in medical.

Turning now to first quarter results. Net sales for the total company were $391 million, a 5% increase on a sequential basis and up 7% when compared to Q1 of fiscal 2026. The year-over-year increase occurred in all verticals with approximately 40% of total sales in North America and the remainder roughly split between Asia and Europe. Starting with medical. Sales in Q1 totaled $116 million, a 14% increase compared to the same period a year ago and 29% of the total company. Broad-based organic growth drove a 9% increase in the quarter with the strength across multiple product categories including drug delivery devices, respiratory care products, patient monitoring systems, single-use surgical instruments, and imaging systems.

Industrial reported sales of $105 million, 5% higher than a year ago and 27% of total company. Similar to medical, the organic growth accounted for a meaningful portion of the increase, over one third of it, with strength in most of the product categories including off-highway equipment, factory automation, public safety, and smart metering. Climate control was down again this quarter, driven by lower demand for HVAC systems primarily in North America. We're seeing new and interesting opportunities in this vertical, which could leverage our expertise in electronics manufacturing and higher level of assemblies and drive future growth.

Finally, sales in automotive were $171 million, a 4% increase year-over-year and 44% of the company. Steering drove the organic growth for us in this business, accounting for over 70% of automotive in Q1 with the ramp-up of a new program in Poland and early preparations for a transfer of production in China boosting the results. North America was sluggish once again this quarter largely due to lower EV demand. Overall, I'm very pleased to see a return to growth and full year sales trending to the top end of our guidance range. I'll now turn the call over to Jana for more details on the financials. Jana?

Jana Croom
Thank you and good morning, everyone. As Ric highlighted, net sales in Q1 were $390.8 million, up 7% compared to last year with 3% organic growth and $12.4 million of revenue from

Helvoet, which was very close to our expectations. We expect the top line of Helvoet to ramp over the course of the fiscal year. Foreign exchange had a 1% favorable impact on consolidated sales. The gross margin rate was 7.9%, flat to last year, with favorable mix offset by higher material component costs and the ramp of our medical CDMO facility in Indianapolis. As we have called out in previous quarters, we expect this investment to continue to weigh on margins in the near term but will improve as production increases and revenue builds.

Adjusted selling and administrative expenses were $13.9 million, a $2.6 million increase year-over-year. We continue to make investments in future growth initiatives, which include personnel costs, IT infrastructure, and the addition of Helvoet. As a reminder, in Q1 last year, we had a onetime $2 million cost recovery from a customer associated with the termination of a program. When measured as a percentage of sales, this year's rate was 3.6% versus 3.1% in Q1 fiscal '26. Adjusted earnings before interest, taxes, depreciation, and amortization totaled $27.6 million in Q1 versus $26.7 million a year ago, and adjusted operating income was $17 million or 4.3% of net sales, which compares to last year's adjusted operating income of $17.5 million or 4.8% of net sales. Other income and expense was expense of $4.6 million compared to $3.5 million last year. The increase this quarter was driven by higher interest as borrowing levels were elevated due to the Helvoet acquisition, which closed on the first day of the fiscal year.

The effective tax rate in Q1 was 66.1% compared to 8.3% in the first quarter of last year. This year's rate was elevated by withholding taxes on cash repatriation to partially fund the acquisition of Helvoet. Last year, the Q1 rate was unusually low due to tax benefits associated with OBBA. For the full fiscal year, we're expecting the rate to be in the low 30s when excluding the impact of the withholding taxes. Adjusted net income in the first quarter was $6.1 million or $0.25 per diluted share compared to $12.3 million or $0.49 a year ago. The difference in the effective tax rate between the two periods accounted for 50% of the variance, approximately $0.12 per share.

Turning now to the balance sheet. Cash and cash equivalents at September 30, 2026, were $72.8 million. Cash used for operating activities in the quarter was $19.3 million with the usage driven by an inventory build needed to support future production. This was expected as we return to growth after several quarters of declining revenue. Cash conversion days were 82 days equaling our multiyear best from last quarter and a one-day improvement from the first quarter of fiscal '26. Inventory ended the quarter at $312.1 million compared to $271.9 million last quarter and $272.7 million a year ago. So, this quarter was approximately $40 million higher than both periods. Inventory, which is classified as long term, is not included in these totals, but it's part of the PDSOH calculation. It decreased $13.6 million in Q1. Combined, they represented a net increase of $26.7 million, but PDSOH remained at a respectable 88 days in the quarter.

Capital expenditures in Q1 were $9 million, spread fairly evenly across our footprint to support future growth. Borrowings at September 30, 2026, were $235.7 million, an increase versus Q4

driven by the acquisition. Short-term liquidity available represented as cash and cash equivalents plus the unused portion of our credit facilities totaled $270.8 million. We invested $3.1 million in Q1 to repurchase 127,000 shares. Since October 2015, under our Board-authorized share repurchase program, a total of $118.6 million has been returned to our Share Owners by purchasing 7.2 million shares of common stock.

As Ric highlighted, we are reiterating our guidance for fiscal 2027 with sales expected at the high end of the range of $1.535 billion to $1.560 billion. Adjusted operating income is expected to be 4.4% to 4.7% of net sales, and capital expenditures should be in the range of $50 million to $60 million. I'll now turn the call back over to Ric.

Ric Phillips
Thanks, Jana. Before we open the lines for questions, I'd like to share a few thoughts in closing. Q1 was our first quarter with Helvoet included in consolidated results, and as I mentioned in my opening remarks, our excitement for the overall strategic fit and growth opportunities of this new partnership are higher now than ever. Integration is progressing on plan and on budget as we focus on top line synergies as a first priority. The interest levels from customers, both new and existing, are rising particularly as the complementary capabilities of Tilburg, Pune, Indianapolis, and the broader Kimball footprint are better understood.

Our enhanced medical CDMO platform is elevating our prominence in the industry as a medical device manufacturer with available capacity to support the fast-paced growth in a variety of end market applications. We've recently taken steps to sharpen our business development efforts in this area by expanding the responsibilities of Eveline Hogenkamp, the CEO of Helvoet, and her team and arming them with new AI-driven data mining tools that identify real-time opportunities in the medical market where our capabilities can provide immediate assistance with a near-term solution. I continue to be impressed with the talent, industry knowledge, and passion of this team, and I'm excited for their contributions to our CDMO strategy. The transfer of operations in Indianapolis also remains on schedule and on budget with the movement, installation, and qualification of equipment and manufacturing lines occurring in a manner to ensure uninterrupted customer support. We expect production will start in December. It is all exciting progress, but we know that growing the medical CDMO takes time.

Finally, next week, we will be holding our Annual Meeting of Share Owners, which once again this year will be in Indianapolis. A very important element is shareholder support for rebranding the entire company to Kimball Solutions. If approved, it will occur at the end of the fiscal year and complete the phased rollout that started at individual locations across our footprint this past July. The rebrand demonstrates our commitment to innovation and the vision to deliver comprehensive solutions beyond traditional electronics manufacturing services with an expanded portfolio of capabilities that includes design and engineering support, supply chain management, precision molded plastics, and high-level product assemblies. Our recent investments in Indianapolis and Helvoet have positioned the medical CDMO for growth, and we

are now seeing new opportunities to leverage our unique set of capabilities in the marketplace. I thank you for your support. Operator, we would now like to open the lines for questions.

Operator
Thank you. Ladies and gentlemen, we will now start the question-and-answer session. Should you have a question, please press star followed by the one on your telephone keypad. You will hear a three-tone prompt acknowledging request. And should you wish to cancel your request, please press star followed by the two. If you are using a speaker phone, please lift the handset before pressing any keys. One moment, please, for your first question. Thank you. And your first question comes from the line of Mike Crawford from B. Riley. Please go ahead.

Mike Crawford
Thank you. Maybe, Ric, could we just start with what makes you more excited now than ever with Helvoet versus what you knew previously?

Ric Phillips
Well, I think -- and Mike, thanks for joining the call. There's a number of, I think, aspects to that. And obviously, you get to know your partner better after you close the transaction. The talent is very impressive. So, as we're getting to know the leaders of Helvoet, that's why on the call I mentioned we've made a change in business development to even better leverage their capabilities and activity and just the set of daily opportunities that we're talking about for synergies across the companies are at a high level. And of course, they take time to execute. But as we're communicating our now combined capabilities in the medical CDMO, I think the talent, the level of customer interest, and the momentum that I think is starting in those customer conversations are what really shapes that thinking for us.

Mike Crawford
Okay. Thank you. And then as you grow the CDMO business, I know margins are going to increase, but are there any particular supply chain components that are tight, that are constraining growth or impacting margin more than others?

Jana Croom
Yeah, Mike. This is Jana. It's a great question. So, memory is affecting all of us, and electronic components are also tight. And so, we're seeing much more on autos and industrial where we don't have as much higher level of full assembly, right, where it's just PCBA, that tightness in terms of components for sure and cost pressures. But in medical where we do more full and final assembly and we have more injected plastic molding, there is inflation, but it's not like what you're seeing with the memory market where you're competing with the data centers and AI providers.

Mike Crawford
And Jana, would you attribute much of your inventory build to those factors? Or is that just more a factor of your business is now once again on a growth trajectory?

Jana Croom
No, the business is on a growth trajectory. So, you'll see some inventory and inflation pricing, but it's more longer lead times, higher costs, but it's the growth. I mean, we -- the 9% in medical, we were very excited about. It's driven by some new launches that we have, and it was across the geographies. So, not specific to any customer or any program and not driven by inflationary pressures on electronics components.

Mike Crawford
Thank you. And then just the last one for me. Could you, Jana, go into the tax rate for GAAP and pro forma and with the repatriation, all of that, and what do you -- I think -- is it like 25% like for the rest of the year or? Anyway. Thank you.

Jana Croom
Yeah. So, we anticipate low 30s for the rest of the year. And even that, we acknowledge is too high, and we are working aggressively on bringing our consolidated tax rate down. So, I just want to start by saying that. We acknowledge that. What we did in Q1 of '27 is we repatriated global cash of about $30 million, and we paid the tax withholding dividend associated with bringing that cash back to relieve some pressure off of our balance sheet in terms of the cost of making the acquisition.

And so, that was always the game plan, and we could sit here and debate whether or not we should have done that or just placed it completely on our revolver. But strategically, it made sense to us given some of the other support that we need in terms of CapEx and dry powder for future activities to grow this business. And so, that impact made our tax rate basically twice what it would have been under normal circumstances. And so, the year-over-year impact -- and remember, Q1 of FY '26 was artificially low because of the Big Beautiful Bill and the way we were able to take advantage of that. So, it's about a $0.12 impact to EPS when you compare the two just due to the cash repatriation.

Mike Crawford
Okay. Thank you very much.

Jana Croom
Yeah.

Operator
Thank you. And your next question comes from the line of Brett Fishbin from KeyBanc Capital Markets. Please go ahead.

Brett Fishbin
Hey, guys. Good morning. Thanks so much for taking the questions. I wanted to just ask again about the new U.S. medical facility. It sounds like production may start pretty soon. But I was

just curious if you could discuss how the efforts towards filling some of the capacity with existing and new programs is going? And if there's any just general metrics or data points that could help us think about like the pacing to fill that capacity.

Ric Phillips
Yeah. Thanks, Brett, and I appreciate you joining the call today and a good question. Obviously, a big focus for us. We're excited, as I mentioned on the call, to expect production to start here before the end of the calendar year. I can tell you the level of activity in terms of taking customers through the facility, new and existing, the efforts with Helvoet in terms of revenue synergies that will leverage that facility are really exciting. And we know it takes time. When you win a program in that space, it takes a while to ramp. But we're obviously going to have some immediate production in there because we'll be moving over what's in our current Indianapolis facility. But the focus is really on driving incremental growth from new and existing customers and leveraging that space. And we feel good about that. We'll be continuing to report on it and feel like we have some good momentum, but we do recognize, as I said on the call, that it will take time to ramp.

Brett Fishbin
All right. Great. And then maybe just more broadly for FY '27, you maintained most of the key guidance metrics but are pointing to the higher end of the sales range from last quarter. So, maybe if you could just touch on what modestly improved incrementally relative to the initial guidance that gives more confidence in the high end this year. Thank you so much.

Jana Croom
Hey, Brett. That was a great question. So, what is improving for us is clearly -- core medical is coming in really strong. So, in terms of the acquisition, Helvoet is tracking pretty much as we expect it to, right? So, in terms of that $60 million of revenue and contribution range. Core medical is coming in stronger. Automotive is coming in a little bit stronger, but some of that is inflationary pressure as we look at the forecast. And so, the challenge, higher revenue, we're still working through margin because, as you know, we'll get revenue that won't have margin associated with it on the autos and industrial side if inflation progresses and continues to be aggressive. Right now, we're still monitoring that, and so we're not ready to give an update on adjusted OI margin. Right now, we're just saying we expect it to hold. And when we give Q2 update, that's typically when we update all of our guidance ranges, and we'll do that at that time because we'll have a better understanding of the impact it's going to have on the full fiscal year.

Brett Fishbin
All right. Perfect. Thanks again.

Operator

Thank you. Once again, should you have a question, please press star followed by the one on your telephone keypad. And your next question comes from the line of Luke Fingerson from Lake Street Capital. Please go ahead.

Luke Fingerson
Hey, guys. Luke Fingerson on for Max Michaelis. Just one question from me. Open orders grew 16% year-over-year to 690 million. Can you give any color on the growth from medical?

Jana Croom
So, what I will say and reiterate, and thanks for the question, Luke, is the growth is across all geographies and all programs. And so, it is North America, Europe, and Asia focused and not specific to any program or any single customer. And so, that 9% in growth may actually be the lowest in terms of core medical growth that we see over the course of the fiscal year. We're looking at double-digit growth just really driving it. You're starting to see it in terms of the open orders numbers. Again, we're monitoring automotive and industrial. But what we have been saying for the last 1.5 years, 2 years is that we were focusing on balancing the portfolio thoughtfully over time with a focus on growing medical, and you're really seeing that come to fruition now represented in the growth numbers and in the, as you indicated, the open order numbers for future.

Luke Fingerson
Thank you.

Operator
Thank you. There are no further questions at this time. This concludes today's conference call. A replay will be available. You can also dial in at 877-660-6853 or 201-612-7415. Again, you can dial 877-660-6853 or 201-612-7415. The access ID is 13763075. Thank you for participating. You may all disconnect.